

BGL Group Limited

Ofcom

Response to Call for Inputs: Helping consumers to engage in communications markets

Introduction and Executive Summary

This document sets out some preliminary observations of BGL Group Limited (BGL) in respect of Ofcom's Call for Inputs.

For Ofcom's reference, BGL owns and operates one of the UK's most popular price comparison websites (PCWs), **comparethemarket.com** (CTM). CTM offers comparison services for a range of financial services and other products, including mobile phones, broadband and digital television.

BGL supports Ofcom's aim to identify, develop and implement solutions that enable consumers to engage. The switching process should be made as simple as possible for consumers. Clear communication and transparency are essential in order for the potential simplicity and ease of process benefits of switching to be realised by consumers.

Question 1: Do you agree that we should include SMEs in the scope of our work?

Yes, however, the proportion should be weighted towards residential consumers as they are the most vulnerable and most financially impacted by market practices.

Question 2: What are your views on whether consumers not knowing when to engage is a barrier to their engagement? What impact do you think this has on them and to competition in the various communications markets? Please provide evidence supporting your views, including any research you have conducted or have access to.

For Broadband, Double or Triple-Play Packages:

Recent research commissioned by BGL shows that 33% of customers do not know when their contact expires and 59% of customers have never been told by their provider when their contract expires¹. As a result, BGL believes that consumers not knowing when to engage certainly creates a barrier to engagement. Unlike other markets, there is inconsistency on the length of the discounted extras versus the length of the contracted packages, causing complexity in the time to engage. Consumers are not notified that they are approaching the end of their introductory/contract period (many packages have bills showing discounted rate applied for nine months on the movies/sport extras, whereas the contract is for 12 months). Contracts also vary in length from nine to 24 months, making it difficult to track, while many other markets have a standard contract term of 12 months.

The impact this has on consumers is a surprise price-rise which would only be noticed if direct debits are checked regularly. The consumer's reaction would naturally be an immediate call to the provider regarding the overpayment, giving the existing provider an opportunity to retain the consumer and the consumer being forced into a habit of repeating this process continuously, amending their package rather than proactively comparing with another provider. However, if this is slightly delayed, the existing provider can still charge the consumer at the increased rate even if the consumer secures a new contract. The consumer is at a disadvantage as the current regulatory framework does not require providers to notify customers before a price increase when their contract is expiring, as is the case

¹ Research carried out on BGL's behalf conducted in August 2017, available upon request.

within insurance, for example. Due to the tendency for consumers to react to their price-rise and ultimately stay with the provider, the effect is that the consumer has less time to reflect and research the options available. It's a decision based on the urgency of requiring it solved, rather than the careful consideration of options a longer lead-in time would allow a consumer in other markets. This hinders the consumer, who pays higher costs, and restricts competition between providers.

In some areas, a limited number of providers available locally gives the consumer a lack of choice and makes it impossible to compare across standard PCWs due to the smaller number of companies available in the area. This allows the companies to exploit the consumer base due to the restricted coverage. Consumers in limited coverage areas will also engage less with their contract because they are aware there are fewer options available to them. This applies to both faster broadband (fibre) and network providers.

For Mobile Phones:

Consumers are more aware of their contract period; however, they are less aware of the risks of overpaying due to being out of contract (as handset costs would have now been paid). This leaves the majority of consumers continuing on their existing deal until they need or want to upgrade their phone. The impact this has on consumers is unnecessarily overpaying, because many providers do not clearly communicate the expiry date to consumers. Regulation does not currently force companies to drop handset charges post contract and this results in consumers paying more than they need to. This affects competition because consumers are not aware of this and, as a result, are not comparing the most appropriate deal.

Question 3: What are your views on the suggested possible solutions to help address consumers not knowing when to engage? What could be their positive or negative effects? What other possible solutions might there be?

BGL supports the suggestion of providing prompts when contracts are due to expire or and have expired, highlighted under 3.10 of the call for inputs. BGL also suggests including information about introductory deals, discounts or promotions which are due to expire, or have expired, to allow customers the time to consider their options.

The effects would be:

Positive

- Customers being notified in advance to allow them a reasonable timescale to review their package and consider their options would result in less hasty decisions and help avoid price-hikes;

Negative

- Suppliers providing hand-sets at a lower cost with higher monthly tariff costs impacting customers with higher tariff only when moving to a rolling tariff;
- Providers complicating the information provided and damaging customers' ability to make informed decisions; and
- Requiring existing providers to be clearer in their price increases may result in additional administration costs.

Other solutions could be regulatory action to:

- Provide consistent and simple bundle options across the industry and align any 'extras' to the standard contract length by removing any complexity on bundles (Example: Contract is for 12 months, line rental free for six months and movies at a discount for nine months, etc.). This will allow customers to review their entire package at a set time and easily compare between providers without having to engage multiple times.
- Provide clarity on top of the contact requirements suggested in 3.11 of the call for inputs to clearly indicate:
 - What the customer was paying;
 - What the customer will be paying;
 - Breakdown of the new payment amount;
 - Recommendations of removable extras from the new payment; and
 - Options for new contracts or roll-over.
- Remove introductory prices and require clear package price breakdowns. This would still allow promotions in the market for offers, vouchers and trials, but will not impact the customer negatively with a price-hike down the line, removing the need to engage if the customer finds the package suitable. This will also enable 'new customer' deals to be available for existing customers, allowing customers to have complete clarity on PCWs or provider websites of what is available and giving them the ability to easily switch their package or remove what isn't wanted any more without having to be penalised for loyalty/comfort.

Question 4: What are your views on whether consumers not understanding their own needs, or having difficulties navigating available information, is a barrier to their engagement? What impact do you think this has on them and on competition in the various communications markets? Please provide evidence supporting your views, including any research you have conducted or have access to.

Recent research commissioned by BGL shows that more than half of customers (52%) do not know the broadband speed they require and 72% of customers admitted to having either a 'fairly vague' or 'no idea' of their broadband speed requirements, with only 8% saying they had a 'very good idea'². This clearly demonstrates that a significant number of customers do not understand their own needs.

Furthermore, BGL believes there are also customers who understand their needs but struggle to find a package to suit them. There are also customers who prefer certainty and want to be protected from overcharges and will opt for secure packages or all-inclusive options.

The market does not clearly identify what the cost breakdown is for individual services. A customer is forced to pick a bundle that may include more than is necessary to satisfy their particular needs. This causes confusion in comparing, whereas if the cost breakdowns were transparent and the packages could be built by the customer, there would be a better chance for a customer to pick what s/he needs.

The impact of this is:

In Double-Play or Triple-Play options: it is sometimes cheaper to buy broadband packages with a phone line than without, even if the customer only needs broadband. This causes a knowledge gap

² Research carried out on BGL's behalf conducted in August 2017, available upon request.

and some customers will end up paying more for their broadband as they were not aware of this. Similarly, if a customer wants certain elements such as HD, sports or movies, it may be better to subscribe to a bigger package to get value from their bundle, but again, a customer may not be aware of this and will fall into overpaying for services.

When it comes to broadband speeds, for the customer who does not understand their need, they would have to guess suitability based on the recommended speeds for different levels of activity or would opt for the most they could afford for the service to have peace of mind. However, a customer who understands their need and wants to find a package to suit it may find it difficult to navigate, because the information provided is presented as, for example, 'up to 74GB' and if their specific area or home can only receive 40GB they would not be aware of that until after signing up for the package.

Customers who need to know with certainty what they will be paying per month will always make more cautious decisions. These customers are similar to those that are likely to purchase fixed rate mortgages. This segment of customers would not change their buying behaviour because they are driven by their need for certainty. The only way to service these customers would be to allow an automatic adjustment to any overpayment of services as provided by utilities to those paying monthly.

BGL believes customers may have difficulty navigating available information as package information is sometimes displayed in different formats across providers. Most providers do not provide an overall comparison between everything that is offered, which hinders side-by-side comparison.

In Triple-Play services the following example shows how [Virgin](#) displays its packages. If a customer is looking to customise the package to downgrade or upgrade the options it requires significant effort through selections within the package. There is little clarity as to which services are paid for and those that are included at no extra cost.

In Mobile services, this [example](#) (Three UK) shows how one phone would have nine variations of plans. Again, there is no option to clearly show a side-by-side comparison.

Question 5: What are your views on the suggested possible solutions to help consumers understand their own needs, and navigate available information? What could be their positive or negative effects? What other possible solutions might there be, and what might be their effects?

Providing customers with data will help them understand their needs but the market would need to provide solutions to meet those needs. This would mean that more providers would need to be available for comparison in restricted areas, as well as the ability to personalise packages across communications. The negative effect would be that it may still not change customer behaviour for certain segments. BGL finds from its mortgage and energy propositions that some customers opt for fixed deals as a preference due to their desire for certainty on the amount they would be paying. This will continue to drive customers to buy more than they need in order to avoid facing 'unforeseeable' events. Some customers may still find it difficult to find the right deal for them based on their usage (as covered previously).

Allowing comparison through PCWs supports customers in making informed decisions. However, as the market has a wide array of packages at different contract lengths and costs after the minimum term, it makes it difficult for customers to compare like for like. BGL believes that aligning packages' complexities in a standard format will help customers compare more effectively. In addition, allowing switching (downgrade/upgrade) between packages with the same provider through a comparison site or online would enable the customer to appropriately compare and switch without facing a disadvantage when trying to secure a similar deal with the provider offline.

BGL also suggests making a better distinction between what is paid for and what is not. All paid-for TV packages should not include what is available as standard across all channels (ie Freeview). They

should only be able to display the number of additional channels and display what those channels are. This will clearly demonstrate to the customer what additional service they are paying for versus what is freely available.

Question 6: What are your views on whether these (or other) particular contract terms and conditions, or industry practices, are a barrier to consumer engagement? What impact do you think this has on them and on competition in the various communications markets? Please provide evidence supporting your views, including any research you have conducted or have access to.

Different contract terms and termination of these contracts: BGL finds this is a barrier to switching since having two unaligned expiry dates means the customer is constantly tied to a contract, unless they are willing not to re-negotiate with their existing provider and to pay higher terms for a period. This keeps the customer at a disadvantage as the provider is aware the customer would have to pay termination fees for early exit. Aligning this would make it easier for customers to track their contract and make it easier for them to switch.

Handsets can be unlocked by contacting the current provider. However, not all providers have this service. This affects customers in the following ways:

- Out of contract customers have to stay with the provider unless they pay to unlock their phone;
- Providers do not reduce customers' cost per month after their contract expires, resulting in non-engaged customers paying higher prices that included the cost of the handset, even after it is paid in full; and
- In-contract customers may be subject to extra charges rather than being able to insert a foreign SIM.

All of the above are barriers to switching.

Question 7: What are your views on the suggested possible solutions to help address the impact on consumer engagement of particular contract terms and conditions, or industry practices? What could be their positive or negative effects? What other possible solutions might there be, and what might be their effects?

The positive effect of fixing contracts would be better customer awareness and easier management of the contractual timings.

The negatives would be that customers would potentially have to engage within a short period if they had recently amended their package. However, this is common practice when amendments are made to a policy mid-term and the end date is unaffected (such as in insurance). An adverse effect could be that companies may end up charging administrative or amendment fees to customers, as some providers already do. This impacts the customer's ability to easily manage their product based on their needs.

Question 8: Are there other barriers to engagement that you think our work should seek to address? What impact do you think these have on consumers and on competition in the various communications markets? What possible solutions might there be to these barriers, and what might be their effects? Please provide evidence supporting your views, including any research you have conducted or have access to.

As previously mentioned, another barrier BGL sees is new customer deals versus existing customers. Sometimes customers are familiar to the experience they have which is through Sky/Virgin/BT, for example. Those customers are less likely to switch to another provider but will face higher package charges because they are existing customers. Existing customers cannot switch to another package

or take advantage of new customer deals/packages, upgrades (such as Sky Q) or downgrades (such as removing a service they do not need) unless they speak to their existing provider or interact with online services that have limited options for amendments and at higher costs than a new customer would face. This leaves customers at a disadvantage as they are not able to switch to different packages at the same price as available on PCWs. If this approach was taken and the packages were aligned for all customers regarding their base service/capabilities, it would mean providers could still run promotions, but they would have to consider the same pricing across all customers for their core service/technology. Allowing the same pricing allows easier comparison across all provider websites and PCWs.

Question 9: What are your views on the need to trial or test potential solutions? To what extent might you be willing and able to participate in or facilitate field trials or other testing of possible solutions?

BGL would be open to trialling concepts aimed at improving customer experience and comparison. BGL encourages suppliers to be actively involved to produce better customer outcomes.