Switching Models:

Comments on Stakeholder Responses

Final

Prepared for:

Prepared by:

CSMG
Descartes House
8 Gate Street
London WC2A 3HP
United Kingdom
www.csmg-global.com

17 December 2013

Table of Contents

1. CONTEXT

Introduction

1.1. In August 2013, Ofcom published a statement and consultation on the processes for switching fixed voice and broadband providers on the Openreach copper network.[1]

1.2. In response to the consultation, Ofcom received a number of responses from stakeholders which it published on its website. Several of these responses concerned the assessment of cost conducted by CSMG.

1.3. This report describes comments received from stakeholders on the cost assessment and CSMG's comments on the issues raised by stakeholders to the extent that they related to CSMG's costs analysis of each of the enhancments of the GPL NoT+ process.

2. RECORD OF CONSENT

Introduction

2.1. The proposed GPL NoT+ model requires that CPs obtain and store a record of customer consent to switch a fixed voice or broadband service to protect against slamming. A record of consent would be required for switching orders placed through any channel.

2.2. The cost assessment considered call records (for telesales), a written record of consent (for retail) and online sales records (for online sales). In the stakeholder responses to the consultation, specific comments were received regarding the call recording and the online sales records. These are discussed below.

Call Recording: Stakeholder Comments

2.3. Consultation responses relating to the record of consent were received from BT, EE and Virgin Media.

2.4. EE's response questions whether the cost-benefit analysis fully captures the incremental cost to industry of the Record of Consent.[2] The cost model calculates the costs to industry of Record of Consent to be £9.2m over a 10 year period. EE highlights call recording in particular as an important cost driver.

2.5. Virgin Media, in its response to the statement, considers the call recording implementation costs to be unrealistic.[3] Virgin Media cites its own recent experience in implementing a call recording system as evidence of higher costs.

2.6. BT, EE and Virgin Media all commented on the requirement to store call records for 12 months. These stakeholders believed the 12-month obligation was unnecessarily long.

---

[1] http://stakeholders.ofcom.org.uk/consultations/consumer-switching-review/
[2] Pg. 4, EE's response to Ofcom's Consumer Switching Statement, October 2013
[3] Para. 27, Virgin Media Response to Consumer Switching Statement

2.7. BT state that 12 months data storage will put "undue pressure on already constrained data storage facilities and is likely to make data retrieval more difficult and potentially less successful".[4]

Call Recording: CSMG Comments

2.8. To calculate the cost to industry, the impact assessment segments the CP market into three tiers: Tier A – those with relatively simple operations, which utilise Third Party Integrators (TPIs) to maintain nearly all IT systems; Tier B – larger and more complex CPs which may own and maintain some parts of their IT systems, such as the CRM and Billing systems; and Tier C – the largest CPs which tend to own or operate their own entire IT systems stack. The average costs for a CP in each tier are estimated and then extrapolated to total industry costs based on the number of CPs in each tier.

2.9. The call recording assumptions in the cost model for Tier B and Tier C CPs are based on an underlying assumption that these larger CPs already have call recording systems in place to support telesales. The costs therefore represent the incremental investment required to adapt the existing systems for the new requirements for record of consent. This is significantly less than the investment required to install a new call recording system.

2.10. The model assumes two sources of incremental cost for the call recording systems of the larger CPs. The first, is the cost of systems development to identify and tag records of consent to facilitate retrieval at a later date. The model assumes 50 man-days of development effort for Tier B and 100 man-days for Tier C to configure the existing systems to tag the record by customer account (or some other suitable sales reference).

2.11. The second, is the additional storage costs caused by the obligation to hold records of consent for 12 months. The model assumes a cost of £25,000 for Tier B CPs and £50,000 for Tier C CPs to procure and implement this incremental storage. Based on the switching volumes in the model and average call duration, and assuming the entire sales call is recorded and stored, the 12-month storage requirements for a Tier C CP are less than 2TB and for a Tier B are less than 100GB.[5] In practice, the storage demands can be considered as conservative as these CPs will have existing capacity for storing a proportion of calls for some period of time, and hence not all of the stored call minutes will be incremental.

2.12. The model assumes that enterprise storage within average Tier B and Tier C CPs can be expanded to accommodate this volume of incremental data in a fairly linear fashion without necessitating complex redesign. It is unclear why BT believe this incremental volume will cause "undue pressure" on their facilities.

2.13. In terms of cost, enterprise-quality disk storage at these capacities can be purchased for a few thousand pounds or less. The cost assumptions in the model are therefore also conservative and allow for implementation, associated elements such as the disk array chassis and headroom to cope with additional demand.

2.14. For Tier A CPs, a different approach was taken as these smaller CPs are less likely to have an existing call recording system in place. The costs for these CPs are built up using commercial

[4] Para 4.4, BT's response to Ofcom's consultation document, 8 October 2013
[5] Based 306,000 calls of 12 minutes each at 64kbps codec rate.

pricing for call recording solutions sourced from vendors which serve small to medium sized contact centres. An average of 5 concurrent user licences per Tier A CP was assumed at a cost of £275 per user. Quotes for professional services fees and hardware costs were also obtained, which add a further £5,000 per CP.

2.15. In all cases, the model assumes that the entire sales call is recorded and stored for 12 months rather than creating a separate record only of consent.

2.16. If the period for retaining records was reduced from 12 months to 6 months, the required storage capacity would reduce *pro rata*. However as explained in paragraph 2.13, the majority of the assumed storage cost is comprised of implementation and housing costs which are fixed. The hard disks themselves account for only a few thousand pounds. Changing the disk specifications would therefore not have a material effect on the cost estimates.

Online Sales Records: Stakeholder Comments

2.17. Several stakeholders sought further clarification on what measures would satisfy the requirement to store a Record of Consent for online orders. BT, Entanet and SSE raised concerns over the specific proposal to capture a screenshot of the transaction.

2.18. Two alternative approaches were proposed by stakeholders. In the first, a check-box would be provided for customers to click to confirm the order. The web server logic would be configured such that the order could not progress without this confirmation.

2.19. The second option would be to create a time-stamped record of the the customer interaction in a database. This record could then be retrieved at a later date.

Online Sales Records: CSMG Comments

2.20. The approaches suggested by the stakeholders appear reasonable and are aligned with common practice for online services.

2.21. Applying both the checkbox logic and the time-stamped record would ensure that (i) customers confirm a conscious decision to switch, and (ii) the CP has an enduring record of this consent. The time-stamped database record could be produced by the CP if later requested by Ofcom and would show the time and date on which the customer consented to the switch.

2.22. The utility of the database records could be increased further with the capture of the IP address of the customer placing the order. The IP address would further support a CP record of consent by identifying which network the customer was using when the order was placed. This additional information could be useful in enforcement investigations. Capturing the IP address in the time-stamped record should not incur material cost.

3. Better Information on the Implications of Switching

Introduction

3.1. All of the switching models considered in Ofcom's consultation require CPs to provide better information on the implications of switching. Specifically, that the LP provides information on Service Implications (SIs) and Early Termination Charges (ETCs).

3.2. Under the proposed GPL NoT+ model, the requirement for better information would be achieved through a modification to General Condition 22. The new text requires the LP to send a letter to the End User setting out in clear, intelligible and neutral terms:

a. the date of the letter;

b. that the End-User is transferring their Communications Service;

c. all Communications Services that will be transferred;

d. where relevant, the Calling Line Identification of all Communications Services that will be transferred;

e. all Communications Services or other types of services provided by the Losing Provider that the Losing Provider reasonably expects to be directly or indirectly affected by the transfer;

f. all Communications Services provided by the Losing Provider that the Losing Provider reasonably expects to remain unaffected by the transfer;

g. a reasonable estimate of the Migration Date (including date and time of the day);

h. an explanation that the transfer will automatically take effect on the Migration Date and that no contact is required with the Losing Provider to cancel their existing service;

i. an explanation that after the transfer, the Customer will receive a final bill including any Early Termination Charge that is due;

j. an explanation of the applicable Early Termination Charge as set out in the contract;

k. the means by which the Early Termination Charge must be paid;

l. the amount of the Early Termination Charge due at the expected Migration Date;

m. where applicable, the impact of the transfer on the prices of all continuing Communications Services; and

n. relevant contact details.

3.3. The cost assessment considered the incremental costs of generating and sending the LP letter. Stakeholder comments were received relating to the complexity of assessing the ETC and SIs at the point of notification and on the practicalities of specifying an ETC which may subsequently change. These are discussed below.

Stakeholder Comments

3.4. Consultation responses relating to the implications of switching were received from EE, TalkTalk Group, UKCTA and Virgin Media.

3.5. Virgin Media, in its response, asserts that CSMG has underestimated the cost of the systems upgrades, training and process changes required to support the enhanced switching information.[6] In the confidential version of its response, Virgin Media provides a higher cost estimate of its own.

3.6. Specifically, Virgin Media questions whether CSMG's estimate is sufficient to cover all the requirements of the LP letter in the proposed GC 22.11, including:

a. Precise information and explanation of the ETC at the date of migration;

b. Information about the impact of the transfer on the prices of all continuing services and those services which remain unaffected; and

c. The migration date of the service.

3.7. In addition, Virgin Media states that considers it impractical to provide exact information on an ETC based on an moveable termination date.

3.8. The consultation response from TalkTalk Group (TTG) questions the need to provide a precise amount of ETC.[7] TTG proposes that a reasonably precise estimate should be sufficient. TTG illustrates this with an example in which the customer receives a letter with an upper limit on the expected ETC.

CSMG Comments

3.9. As explained in paragraph 2.8 above, the industry cost estimates are built up from individual estimates of the average costs for CPs in each of three segments.

3.10. With regard to the upfront IT development cost to support the enhanced switching information, the cost model assumes Tier B CPs will require 60 man-days of development effort and the Tier C CPs will require 120 man-days of effort. These assumptions are based on the incremental effort which would be required to implement the changes within a regular systems release cycle; they should not be interpreted as the cost of a standalone change.

3.11. There are no systems development costs for Tier A CPs in the model as these CPs use the business support systems of TPIs. The TPIs are categorised as Tier B CPs within the model and their costs are accounted for within that tier.

3.12. In assessing the required effort for Tier B and Tier C CPs, the following assumptions were made regarding CPs' existing capabilities:

[6] Para 31-33, Virgin Media Response to Consumer Switching Statement
[7] Pg. 2, Consumer Switching Response by TalkTalk Group, 4 October 2013

i. CPs have the ability to calculate ETC at the time of disconnect in the existing rating and billing architecture. This figure is used as part of the calculation to determine the balance on the final bill.

ii. CPs have the ability to determine the implication of switching a single service on other services. This information is typically configured in either a formal product catalogue application or in a larger customer management system and is used to guide the CSA entering a single service disconnect order to minimise the chance of a customer being left with a bundle of services that the CP does not wish to sell.

iii. CPs have existing automated systems to generate LP letters to a customer and these systems have the ability to support both static text and dynamic elements (such as name, address, disconnect date) passed in by other systems.

3.13. The cost estimates were therefore based on the expected average cost across a tier to a) understand the functionality of existing algorithms, b) implement the same functionality at an earlier stage in the order lifecycle cycle and feed the results to the automated letter generation system and c) test the resulting change to letter formats.

3.14. Re-using the existing information and logic in this way would enable CPs to generate letters that include:

- A list of of services that the LP reasonably expects to be directly or indirectly affected by the transfer;
- A list of of services that the LP reasonably expects to remain unaffected by the transfer;
- Where applicable, the impact of the transfer on the prices of all continuing Communications Services; and
- The amount of the ETC due at the expected Migration Date.

3.15. With regard to stakeholder comments on the precision of the ETC, the proposed GC 22.11 text requires CPs to state the ETC which would be due “at the expected Migration Date”. This is the approach taken in the cost assessment.

3.16. Stakeholders questioned how useful this information is to the End User when the date, and hence ETC, may change. To address this potential variability, stakeholders suggested the ETCs could be specified as a range, either lying between two values or below some maximum “up to” figure.

3.17. However, it does not necessarily follow that supplying a range would be simpler (and less costly) to achieve. The implementation effort will depend upon the *accuracy* of the range.

3.18. In principle, the development effort to determine an accurate range or maximum figure, based on the individual customer’s circumstances, would be expected to be similar to that required to determine the ETC at an assumed migration date. A similar process would be required to interrogate the CP systems and perform the relevant ETC calculation for each switching customer. We therefore believe that supplying an accurate range could be achieved without material change to the costs.

3.19. In theory, the need to look-up individual customer details and calculate bespoke ETC figures could be avoided altogether if a sufficiently broad range or maximum ETC figure was used. In this case, the same figures could be supplied to all switching customers. This would be simpler to achieve and avoid much of the development costs. However this approach was not assessed as it would overstate the potential ETC exposure of most customers and could therefore deter switching.

4. Glossary of Abbreviations

Term or Abbreviation	Description
CP	Communications Provider
CRM	Customer Relationship Management
CSA	Customer Service Representative
ETC	Early Termination Charges
GP	Gaining Provider
GPL	Gaining Provider Led
LP	Losing Provider
LPL	Losing Provider Led
NoT	Notice of Transfer
SI	Service Implications
TPI	Third Party Integrator
TxC	Transfer Code

CONTACT DETAILS

CSMG is a specialist strategic consultancy focused exclusively on the telecoms and digital media sectors. With offices in North America, Europe and Asia, we work for wide range of companies around the globe in these converging industries.

For more information, please contact:

Michael Dargue (Principal) michael.dargue@csmg-global.com

Hsing-Ren Chiam (Manager) hsing-ren.chiam@csmg-global.com

csmg

A TMNG Global Company