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Dear Gavin

### **Strategic review of consumer switching**

SSE welcomes the opportunity to respond to the consultation on the above subject. As you know, SSE provides services in the communications retail markets as a new entrant with, by now, several years of experience in the market. On entering the market, we quickly identified areas of concern with the customer switching arrangements and we have engaged with Ofcom over the years in consultation responses and discussions on this important topic.

We very much support Ofcom's continuing project to develop a uniform approach to switching arrangements affecting the mass market of domestic and small business customers. The evidence that Ofcom has gathered for the consultation supports our intuitive view and experience that gaining provider led processes are better for customers and for competition. If all suppliers know their customers can readily leave them with minimum cost and hassle, they will all strive to keep their customers' loyalty through keen and responsive customer service or risk a dwindling customer base.

Our response to the individual consultation questions is attached as an appendix and provides more detailed commentary on our main themes of:

- Support for gaining provider (GP) led switching processes;
- The need for coordination between all communications providers (CPs) involved in switching to deal with structural and operational issues that arise – and having the obligation to act to sort out those issues for the benefit of individual customers and competition generally;
- The need to map out, from first principles, what data items are actually needed to allow retail switching to happen, together with the fundamental processes that will operate on that data; and



- The benefit of considering the wider context of technology change and relevant product ranges when developing switching principles and processes – though we recognise and support tackling a particular subset of processes in detail initially.

We will provide any further evidence we can separately to this response.

I hope these comments are helpful and we would welcome the opportunity to discuss them with you. Please let me know if you have any immediate queries.

Yours sincerely

Aileen Boyd  
Regulation Manager.

## Consultation Questions

A number of questions seek supporting evidence. We will provide any evidence we can in support of our response in a separate letter.

### Section 4

Question 1: Do you think hassle is a key issue we should tackle in this review? *Please provide an explanation for your answer and any supporting evidence.*

**Yes. Although difficult to define precisely, the more the customer perceives that they will have to undertake themselves in order to effect a change in supplier, the less likely they will be to start or, once started, to complete the process.**

**We have provided evidence on the differential rates of successful sales follow-through for the gaining provider (GP) led switching process for our fixed line telephony products compared with the losing provider (LP) led broadband switching process. The latter process requires the customer, for a broadband transfer, to contact his existing supplier for a MAC code and then provide this to us; we believe the “hassle factor” of this contributes to the lower success rate. See also our response to questions 5 and 6 below.**

**We also know that customers get frustrated when having to deal with two suppliers and can provide further evidence of this in a telephony context.**

**As a result of seeking to deal with new customers’ issues about service and switching that can only be resolved by the supplier they have left, we strongly believe that LPs should be obligated to take responsibility for a leaving customer’s issues. There should be a process in place, supported by elements of a General Condition or Good Practice Guide if necessary, whereby GPs can access operational contacts at the relevant LP’s organisation to present issues that lie only within the capability of the LP to resolve. The LP should recognise and act on his responsibility to resolve the issues for the customer. We note that there is an element of this in the OTA’s recent Working Line Takeover Best Practice Guide but the more general principle in our view needs to be embodied in the regulatory framework around switching. In energy, for example, one of the elements of the Erroneous Transfer Customer Charter is “If a customer believes that they have been erroneously transferred then they can contact either their old or new supplier. The contacted supplier will liaise with the other supplier to resolve the matter.”<sup>1</sup>**

**Consideration of our experience of customer dislike of hassle and of the evidence shown in Ofcom’s consultation document leads to the conclusion that GP led processes, supported by obligations on LPs to cooperate with GPs to resolve issues are preferable for providing a climate where customers perceive that it is easy to switch. In such a climate, suppliers have to strive to provide an excellent level of service to all their customers to keep their loyalty.**

Question 2: Do you agree there is a lack of clarity about the switching processes that consumers need to go through to switch and this may create a barrier to switching? *Please provide an explanation for your answer and any supporting evidence.*

**We have come across a lack of clarity amongst customers about when, for our broadband product, they need to provide a MAC and when they don’t – if taking a broadband service for the first time, for example.**

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<sup>1</sup> Information about the Erroneous Transfer Customer Charter can be found on Ofgem’s website [www.ofgem.gov.uk](http://www.ofgem.gov.uk) – and details of industry processes around this in documentation at [www.mrasco.com/](http://www.mrasco.com/)

We believe a customer's natural inclination and expectation, if they wish to change their supplier of a service, is to contact (or agree to the sales approach of) a prospective new supplier of the service in question. This is the case in most other consumer markets and, in the area of utility service provision, is already well established in the energy markets. In the communications markets, the variety of different processes underpinning switching for the same type of retail service means that it may be difficult for the prospective new supplier to provide definite information to the customer about the next steps – at least until he has been able to check the customer's current supply arrangements. This may put some customers off and thus represent a barrier to switching.

LP led switching processes could continue this lack of clarity as the GP could only advise his prospective customer about his understanding of how the particular LP operates the switching process and this might be subject to change. GP led processes, on the other hand, reduce the customer's need to understand exactly how switching processes work and clarity becomes a matter between suppliers rather than needing to concern customers – thus also contributing to a reduction in perceived “hassle” as discussed above.

Question 3: Do you think clarity is a key issue we should tackle in this review? *Please provide an explanation for your answer and any supporting evidence.*

As discussed in our response to question 2, we consider that clarity for customers is not likely to be a key issue if switching is conducted via a GP led process – the GP will have every incentive to ensure that the customer is well informed (at an appropriate level of detail) and comfortable about the process that is about to take place to effect the switch. Behind the scenes, between suppliers, there should definitely be clarity on process – through transparent governance of the arrangements such that changes and developments can be incorporated in a controlled manner. This should extend to clarity on the resolution and escalation of operational issues affecting the switch as discussed in our response to question 1 above. We perceive that this need for clarity of switching process between suppliers is becoming even more important as the technology change associated with fibre access is planned and implemented – we discuss this in more detail in our response to question 4.

Question 4: Do you think continuity of service (including unwanted breaks and double billing) is a key issue we should tackle in this review? *Please provide an explanation for your answer and any supporting evidence.*

There are several aspects to this question:

- Continuity of service when switching between suppliers of services on the same infrastructure in the current copper technology world;
- Considerations for continuity of service when switching between suppliers of services on “next generation” fibre capacity;
- Considerations when switching between services provided on different infrastructures; and
- Contractual issues.

#### **Copper World: same infrastructure**

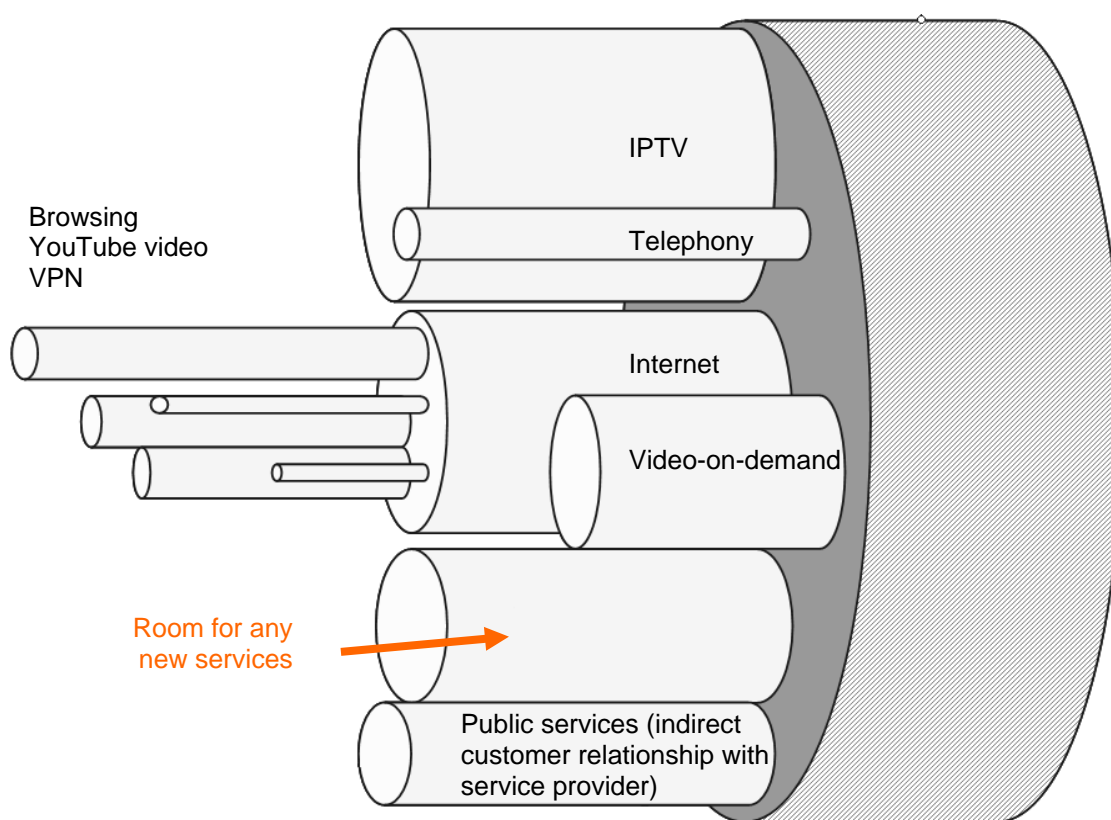
We believe that customers have a right to expect that, if they are switching between services provided over the same communications infrastructure, the switch will work seamlessly with no break in service. It is inconceivable that switching processes in the energy or water markets (choice is available in Scotland for non-domestic customers and technically available for large customers in

England and Wales) would have been designed to tolerate breaks in service. The underlying engineering provision of service should in most cases “stay on” with it being a commercial and contractual matter as to which supplier is legally providing service to the relevant premises at any point in time.

Communications services are becoming an indispensable feature of modern life and government has coined the phrase “digital utility” in relation to broadband services. Universal Service Obligations cover fixed-line telephony and are being contemplated for broadband. Against this background, we would expect Ofcom’s strategic review of switching to maintain an emphasis on continuity of service for at least fixed-line telephony and broadband services. The issue may not currently be so pressing for mobile and television services but as these markets develop, we expect similar considerations might apply.

### Next Generation World

The greatly enhanced communications capacity of fibre links will lead, in our view, to a wide variety of services that could be provided simultaneously to a customer over a fibre access infrastructure. These services should be able to be offered to the customer by different suppliers to allow maximum customer choice. In fact, some services such as tele-medicine and health monitoring might be provided to the customer indirectly by means of Health Authorities, for example, contracting directly with CPs and potentially other service providers for the benefit of the customer. This “multi-channel” model is shown diagrammatically below where the different “sub-pipes” show potentially different contractual relationships.



The relevance of this to considerations of continuity of service is that it would be a necessary condition for successful operation of this model that the different

contracts could operate independently. Those “overlaid” services shown depending on the “internet pipe” in the diagram above, for example, would be lost if the internet service failed or was removed for contractual reasons, whereas the other service pipes should be unaffected. Termination of one service for non-payment should not adversely affect continuity of other services. This could lead to safety of life issues with respect to the health monitoring services mentioned above.

The detail of how this model would operate needs more work to define, in parallel with other aspects of the introduction of next generation technology into the access networks. However, it is clear that the customer’s experience of choosing and using different services over fibre access networks will depend crucially on the design of the processes underpinning the switching arrangements available to him. It would seem sensible to bear in mind how the switching processes will need to evolve with new technology as part of the current project.

#### Different Infrastructures

It is perhaps not as pressing a requirement for customers who understand that they are moving between different underlying infrastructures to have the start and end dates aligned such that there is no break in service. However, the existence of some form of coordination to ensure the alignment of these dates would clearly be a benefit to customers switching between infrastructures.

We believe that this coordination across different infrastructures could readily be organised by the GP under GP led switching processes, provided that the LP is required to cooperate as discussed in our response to question 1. While it may not be an immediate focus for the switching project, we expect that inclusion of other infrastructures beyond that of BT should be a longer term aim. For fixed line telephony and broadband, for example, the Virgin Media network already exists and, with government plans for broadband roll-out, a “patchwork of new fibre networks” could soon exist. We believe that customer expectations will be that they can readily switch between different suppliers of services when moving to and from premises served by these new infrastructures and also when they wish to change supplier while remaining at premises served by these infrastructures.

#### Contractual Issues

The main contractual issue for customers when switching services, apart from termination charges, is the double-billing that could occur if contractual notice periods are longer than the timeframe for administering the switch. Ofcom has already taken steps, under the additional charges programme, to require retail contractual notice periods to align with switching processes, where these exist, to avoid the customer detriment of double-billing. We believe it would be clearer if such requirements were dealt with under switching requirements, where they could apply to the range of CPs who have a role in resolving an issue rather than only to suppliers providing retail contracts.

By way of illustration, one aspect that could be covered in the switching review is the structure of the underlying wholesale charges for use of the infrastructure and whether this supports flexibility in notice periods. Wholesale line rental charges, for example, are charged by the day, which means that a supplier’s wholesale charges can match those he makes to his customer who moves away from him on a particular day. In contrast, wholesale charges for broadband, including those being considered for fibre access products, are levied for longer periods up to a year, making it very likely that a supplier will incur wholesale costs he cannot pass

on if he agrees to reduce a customer's notice period to match a particular switching date. This situation illustrates the need for management of switching processes to involve infrastructure providers and for them to be required to take steps that facilitate switching arrangements when, amongst other things, they set wholesale charges.

As in our responses above, we believe that in a GP led process, the GP has the incentive to arrange matters so that customers avoid double-billing. But coordination involving the LP and wholesale providers would be needed to manage issues in this area.

#### **Evidence**

**We do not have any particular further evidence to offer in terms of customers' concerns and issues about continuity of service but we believe that Consumer Focus has done some work in this area.**

Question 5: Do you think the ability of providers to frustrate the switching process is a key issue we should tackle in this review? *Please provide an explanation for your answer and any supporting evidence.*

Question 6: Do you think consumers' experience of save activity is a key issue we should tackle in this review? *Please provide an explanation for your answer and any supporting evidence.*

**Yes – these are very important considerations for us, as a smaller new entrant supplier. We have provided evidence on the differential rates of successful sales follow-through for the GP led switching process for our fixed line telephony products compared with the LP led broadband switching process. As discussed in response to question 1 above, the latter process requires the customer, for a broadband transfer, to contact his existing supplier for a MAC code and then provide this to us. We believe that the involvement of the losing provider and their ability to frustrate the process in a variety of ways, including via save activity, contributes to the lower success rate of this type of switching process.**

**We strongly agree with Ofcom's analysis and conclusions in the consultation that allowing the LP to have an integral role in the switching process (in the sense that the losing customer has no choice but to contact his LP) dampens switching activity. This, in turn, deters entry and dampens competition, thus reducing competitive pressures in the market to the detriment of consumers overall.**

**In our experience, once a customer has approached a new supplier (or accepted the sales approach of a new supplier), they are content for that supplier to make all the necessary arrangements. This arrangement is also straightforward to regulate, with the GP's incentives aligning with the interests of his new customer, whereas in an LP led process, the LP's incentives are not aligned with the customer making a smooth, timely and hassle-free transfer to another supplier. If the LP causes issues in the transfer process under the GP led model, the GP, with the benefit of acting on behalf of many gained customers, can raise this in the appropriate regulatory or market fora rather than, under an LP led process, individual customers experiencing the issues directly and not necessarily relaying this to their GP to provide visibility of the issues.**

Question 7: Are there issues specific to either residential or business consumers' experiences of the switching processes that you think we should tackle in this review? *Please provide any evidence you have to support your views.*

We consider that it would be useful for the review to address, in addition to the points already raised in the consultation, the matter of a framework of operational coordination behind the scenes between the GP and LP to resolve customer issues arising from the switch.

We have mentioned in our response to question 1, the customer detriment we perceive when there are issues in providing a GP's service that only the LP can resolve. Two or three years ago, there were numerous issues for customers, for example, in moving broadband service, which were tackled at an industry level via the OTA (Office of the Telecommunications Adjudicator).

Coordination in this area could build upon and generalise the work that has been done in the area of Working Line Takeover and, more generally, on dealing with erroneous transfers due, for example, to data problems.

The important point is to establish that those CPs who have the means to solve an issue for the customer should have the obligation to do so.

## **Section 5**

Question 8: Do you agree with our analysis of switching costs? *Please provide any evidence you have to support your views.*

**Ofcom's work presented in this section seems very comprehensive and supports our intuitive view that competition will suffer and so will consumers in the longer term if switching costs are high and dissuade customers from switching.**

We believe that the consumer benefitting from low switching costs is a very important theme for Ofcom to adopt across all of its areas of work – in particular the market reviews that deal with wholesale charging that supports mass retail markets. For example, in a recent review of Openreach charging, the transaction charges for GPs switching a customer increased from £2 to £3. In relation to potential fibre voice access, wholesale charges of more than ten times this amount have been proposed. Through Ofcom's own reasoning, significant transaction charges are against customers' interests through their effect on the competitive landscape and, in our opinion, are likely to lead to suppliers seeking to recover those costs through long term contracts with significant termination charges – which further dampen switching levels.

It is worth noting that in the energy markets, there are no transaction-based charges for customers switching suppliers – the overall cost of supporting this activity is recovered through normal network charges.

Question 9: Do you agree with our analysis of save activity? *Please provide any evidence you have to support your views.*

**Yes, we agree with Ofcom that save activity at time of switching undermines competition. We have discussed evidence on this point in our response to questions 1, 5 and 6 above.**

Question 10: Do you agree with our analysis around the multiplicity of switching processes? *Please provide any evidence you have to support your views.*

**Yes, we agree that multiple switching processes for the same product depending on technology is not clear or helpful for customers and could have the competitive effects described. We have discussed evidence in our response to questions 1, 5 and 6 above on the relative effect of GP and LP led switching processes on ourselves as new entrants.**

## **Section 6**

Question 11: Do you agree with the general switching principles we have identified?

Please provide an explanation for your answer.

Question 12: Do you agree with our proposed tier structure for the general switching principles? Please provide an explanation for your answer.

**Yes, we agree with the range of 7 principles that Ofcom has identified although, as discussed below, we would amend the proposed relative importance of some of them. We would also add a principle or a memorandum point that captures the idea of a necessary degree of coordination between GP and LP – whatever the detail of the process – to ensure that issues affecting a customer's switch are addressed by whichever CP has the means of doing so.**

It is helpful to separate the desired list of principles into a first and second tier in order to concentrate on developing processes which address the main principles since, as Ofcom acknowledges, there are likely to be trade-offs. It is also likely that some principles – such as promoting awareness of the implications of switching – do not actually need to be addressed by the switching processes and could be covered by other means. In this example, for instance, customers could be kept well informed throughout the life of their contract with the LP, about the implications (e.g. termination charges) of switching away from them.

Using Ofcom's numbering of the principles, and numbering our additional point as viii), we propose the following first and second tier set – noting where this differs from Ofcom's proposal.

### **First Tier of desirable switching principles**

i) **Minimises unnecessary switching costs** for both individual services and for bundles – AGREE with Ofcom. In our responses to questions 1 and 8 above, we have agreed with Ofcom about the importance of customers finding the switching process hassle-free and without significant – ideally zero – financial cost. While customers may not see wholesale transaction charges for switching directly, GPs will have to recover these costs from switching customers in some form – probably via significant termination charges, which dampen further switching activity and have the adverse effects on competition that Ofcom has identified. We also agree with Ofcom that, as the trend towards bundling products continues, it will be important to meet customer expectations that the new provider of the bundle can sort out all the switching for them (in a GP led process).

vi) **Supports competition in retail markets** – AGREE with Ofcom. As a new entrant, it is very important to us that the switching processes support new entrants, with no distortion to the competitive process, which we perceive is not the case for LP-led processes – we have provided evidence on this.

v) **Enables continuity of the main service(s) being switched** – MORE IMPORTANT than Ofcom's proposal. We have discussed our thoughts on this in response to question 4. Particularly for the main “utility” communications products of fixed telephony and, increasingly, broadband being switched over the same infrastructure, consumers should be able to expect that the service continues to work through the contractual switch and this should be fundamentally designed into the relevant processes, along with the coordination between the GP and LP necessary to achieve this for each customer.

iv) Ensures a reliable process with speedy restoration if things go wrong – MORE IMPORTANT than Ofcom's proposal. We suggest effectively swapping this principle for the one about preventing slamming in terms of which tier they are in. We believe that deliberate "slamming" is not such a big problem as has been presented in the past and that dealing with the matter practically through "speedy restoration" is a better approach than over-complex validation. Furthermore, from the research data presented by Ofcom at the first Switching Working Group, we understand that genuine, actual GP slams represented only a small proportion of a sample of 800 or so apparent slam complaints received recently by Ofcom's contact centre, with the majority of cases actually resulting from data issues. If this is a valid representation of the relative sizes of the two problems, we suggest that the design principle of "reliable process with speedy restoration" would directly tackle the more frequent data problems, providing a speedy restoration for affected customers but would also thereby provide a practical resolution for the small number of genuine slams. It should also be possible for the "speedy restoration" process to provide Ofcom and the industry with independent data about GPs' use of the process which, if excessive, could indicate underlying selling issues for that GP that might merit further investigation.

viii) Ensures sufficient coordination between GPs, LPs and other parties to resolve any operational issues that occur in switching customers' services – NEW ITEM. We have described the need for this in our earlier responses. In order to develop and maintain industry operated switching processes, there is an inevitable need for relevant infrastructure providers and suppliers to coordinate so that all parties know what is expected of them and how to run the process. The aim of this principle is to seek to ensure that as the model for that coordination is developed, the role of parties other than the GP in resolving issues for customers is not forgotten, as some types of customer detriment already exist which could be addressed in this way.

#### Second Tier of desirable switching principles

vii) Cost efficient to implement and maintain – AGREE with Ofcom. We support the various points that Ofcom make under this heading – particularly the need for a pro-competitive way of recovering costs across providers and suggest this could be accomplished by spreading such costs in relation to retail market share at a particular point in the year. However, we also agree that it is not the highest tier of priority in designing switching processes. Businesses should naturally look for the most efficient way of achieving an outcome they are required to achieve through regulation; proper industry ownership and governance of the switching processes should assist in achieving this outcome.

iii) Promotes awareness of the implications of switching – AGREE with Ofcom. CPs who favour LP-led processes tend to promote this principle as being of over-riding importance. However, we agree with Ofcom that, while it is desirable for customers to be well-informed about the implications of switching, it is of secondary importance to the actual switching process design as there are, in fact, other ways that customers could be informed of implications separately from the actual switching process e.g. on bills. We also believe that the speedy restoration objective would reduce the detriment to customers embarking on a switch without being aware of potential disadvantages to them. Our view is that there are process options to address a customer's awareness of implications – as discussed above – without making this a major principle. We would also comment that, in the fixed-line market, the practice of tying customers into contracts is relatively recent and

has been promoted by market leaders, presumably with the objective of making it less likely that such customers will switch.

ii) Protects against slamming – LESS IMPORTANT than Ofcom's proposal. We favour swapping this principle for the one on speedy restoration, as discussed under iv) above.

Question 13: Do you agree with our proposal that the preferred switching approach assuming a 'greenfield' basis is GPL?

**Yes, we strongly support Ofcom's analysis and conclusion in this area. We would note that this is becoming a "live" issue as fibre to premises is being rolled out in the BT access networks, leading to a new set of retail products that customers will want to switch. Both the actual wholesale products to be used by BT's competitors (at the active "WLR level" as well as more passive levels such as "VULA") and the switching process need to be developed. As noted in our response to Ofcom's recent consultation on the latest review of the wholesale local analogue exchange line market, there needs to be an industry forum where this is discussed and developed on an inclusive and transparent basis. In our view, this is unlikely to happen voluntarily due to the different commercial incentives of participants. The wholesale local exchange line market review gives Ofcom the opportunity to provide some direction in this area – which would also help with the objectives of the switching project.**

Question 14: Which of the identified GPL switching options do you support? Please provide an explanation for your answer.

**SSE has been represented at the first of Ofcom's Switching Working Groups where the various options in the consultation were discussed, as well as various aspects of switching processes. We support a code on bill approach to the initial stages of a GP-led switching process.**

**We think it might be helpful to break the generic switching process up into 5 stages and then to consider the approach that would work best at each stage. "Code on bill" for example, is one way of establishing the customer / premises / service that requires to be switched. It does not have a bearing on how the rest of the process is carried out and the same could be said for "third party validation".**

**Our straw man describing the different stages and our preferences for how these are carried out is set out below.**

Stage	Stage Description	SSE Comments
	GP sales process resulting in customer wishing to switch	
<b>A</b>	Verification of sale - that customer wishes to switch to new supplier	We consider that this stage should be led by GP, many of whom, including SSE, conduct their own verification to ensure customer intends to switch. We do not support the introduction of third party validation.
<b>B</b>	Verification of switching data (customer, premises, assets and services involved in switch)	We consider that this stage should be led by GP and that a code be readily available to customer on his bill. We do not support the introduction of third party validation.
<b>C</b>	Communication with Customer	All GPs must confirm details with a customer under consumer protection legislation allowing "cooling off" and most would wish to anyway. Although there is no legal requirement for the LP to communicate with the customer, most

		would wish to and a reasonable regulatory requirement here is for neutral confirmation from the LP (according to agreed industry template) that his service will cease at a nominated date – as supplied by the switching processes. This is a part of the current “NoT” process and results in an informed customer, who can still change his mind before the switch takes place
	Cooling Off period	
<b>D</b>	Switch is effected	This can be automated relatively easily when the switch is on a single infrastructure, with governed dataflows, supplier IDs, and “code on bill” information to define what is being switched at what premises. It should not be difficult to bring in other infrastructures if this possibility is clear when processes and datasets are designed. Implicit in this option is coordination between GP and LP to sort out any problems that arise for the customer.
<b>E</b>	Reversal of switch if needed	A further safety net, which reverses stage D if the customer, for whatever reason, is unhappy that the switch has occurred. With the customer waiving the right to “cooling off”, the switch can be completed as swiftly as processes intrinsically allow.

Question 15: Do you have any information or views on the costs of the switching options outlined above? Please provide any supporting evidence.

**We may be able to provide some more information on energy-related switching processes.**

## Section 7

Question 16: Do you agree with our proposals and implementation priorities for taking forward our work in relation to existing switching processes?

**We support appropriate consideration of how the other services such as mobile telephony and pay TV could be brought into the framework as part of a wider assessment of feasibility initially. Ultimately we would hope that all mass market communications products could be brought within the scope of a single switching process for the benefit of customers and competition. In our view, a fundamental part of this general preparatory work is to map out what data items are needed to allow retail switching of different products, with as wide a view as possible initially on the products, technologies (copper, fibre, wireless) and supply arrangements (BT copper, BT fibre, other fibre, cable, wireless network) that are likely to pertain in the foreseeable future. This wider perspective, along with consideration of the high-level processes and dataflows necessary to effect retail switching, should go some way to ensuring that initial implementations can be scaled as necessary.**

**After this initial wider consideration, we agree that the project would best proceed by looking at areas where there would be greatest benefit initially. We agree with Ofcom that the priority for the development of existing switching processes should be fixed line and broadband services.**

**We also support Ofcom’s identification of switching between fibre and copper access as being a “greenfield” setting, where GP led processes should be developed. We set out further comments on this in response to question 13.**