

## Consultation on Ofcom review of additional charges

### *Overview*

I am writing in response to Ofcom's consultation on its review of additional charges in the Telcoms area. In particular, the level of charges set by the companies for Non-Direct Debit payments. For statistical purposes, I am responding as an individual and not as part of any campaign or organisation.

My view is that the current proposed guidance for the level of fees for Non-Direct Debit payments will not produce any reduction in the level of these fees and will still leave millions of customers paying outrageous and unjustified costs. In addition, it will allow the telcoms companies to use these as penalty payments to push customers into methods of payments that suit them, and which reduce the element of competition.

Ofcom need to enhance their guidance to make clear that the levels of these charges need to be a fair and accurate reflection of the additional administrative costs inherent in the alternative payment method. They should not be a source of revenue, nor a means of recovering other costs, such as costs of defaulting customers. Ofcom also need to have a target and time-scale to review the level of these charges to ensure that they are being reduced to a reasonable level.

### *The problem*

As the regulatory body responsible for the users interests, Ofcom cannot accept a situation where over 5 million BT customers are paying charges that Trading Standards have described as 'outrageous' and 'unjustified'.

Previously BT charged £1 per Non-Direct Debit payment, but in May 2007 raised this to £4.50. This means that in the last year, BT alone, has taken around £100 million from customers in these fees.

I have not been able to get BT to account for the level of these payments, either directly, or through the Alternative Dispute Resolution process run by Otelo. Ofcom could identify how much more Non-Direct Debit payments cost to process than Direct Debit payments: it is clearly much less than £4.50. Sandra Quinn, the director of communications for Apacs (Association of Payment Clearing Services), talking about on-line payment, has said that 'it should not cost more for bills to be processed through this method than it would to process through direct debit' (<http://tinyurl.com/5gxqkd>).

This is not just about customers paying excessive fees, it also affects competition. By using penalty fees to push customers towards paying by Direct Debit, BT will make it less likely that their customers will subsequently move to another company, because it increases the work involved.

This is an area that requires intervention to prevent exploitation. A significant proportion of BT's customers will not feel confident about identifying alternative suppliers with lower charges, and arranging a move to that provider. For most people, the technical complexity of installing new equipment, the connection costs and the time to cover visits from installers all mean that they cannot easily move to other suppliers with lower fees. In addition, many alternatives require the customer to have a BT line.

### *Ofcom's proposal*

Ofcoms proposal is essentially to use market forces to reduce these fees by raising their prominence. Only if telecoms companies fail to indicate any additional cost for non-direct debit payments would any tests be applied.

#### *Alternative proposal*

Ensuring that customers are aware of any additional cost for Non-Direct debit methods is important but not sufficient. BT made its customers aware of its intention to raise their fee in 2007 ahead of the event, and there was extensive media coverage (and criticism) at that time. But still almost half of its customers are paying by non-direct debit methods. Ofcom provide no evidence that a strategy of relying on informing customers will be any more effective in the future. What there is evidence for, is that when regulators have taken a firm stand over unfair fees, they do make progress. Ofcom is capable of indicating when charges are excessive in other areas, for example in the prices of 0870 numbers. It should do so in this area, which is not a core element of the pricing for telecoms services.

Ofcom should state, in its guidance on additional charges, that in all cases the levels of fees for Non-Direct Debit payments should be reasonable and only cover the additional direct administrative costs of taking payments by these other means. Whether this difference is reflected as a discount for customers paying by Direct Debit, or a fee for non-Direct Debit payments is immaterial.

To ensure that this situation is improving, Ofcom needs to commit to a review of the level of these charges after a suitable period, say 6 months.

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