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Ofcom's Proposals to reform switching of mobile communications service – supplementary response from Three

1. This document and the attached annex (Annex A - Consumer Impacts of Reactive Save - Economic Insight Report) form Three's supplementary submission to Ofcom's consultation: *Consumer Switching - Proposals to Reform Switching of Mobile Communications Services* consultation.

Ofcom's Auto-switch proposals will open the floodgates to nuisance calls

2. Three believes that Ofcom's Auto-Switch proposal will open the floodgates to nuisance calls in UK mobile.¹ An evitable consequence of Ofcom's proposed mobile switching reform is that losing providers will re-direct their reactive save activity to outbound calling customers that have requested their PAC/N-PAC via online or text, rather than wait for those customers to call themselves asking for the code.²
3. This is a serious problem with Ofcom's proposal. Consultation responses from Vodafone, O2 and Virgin explicitly acknowledge their intention to redeploy customer service agents to outbound retention activities under a reformed switching process.³ However, Ofcom's Nuisance Calls Research shows that sales calls relating to phone/broadband services are a source of annoyance and distress to customers.

Existing marketing communications opt-outs do not provide adequate protection for switchers

4. The general ability of customers to opt-out of marketing communications from their current provider does not provide adequate protection for customers during the switching process. This is because customers face a fundamentally different choice when deciding whether to receive information on offers from their ongoing provider versus whether to receive reactive save offers once they have already decided to change provider.

¹ https://www.ofcom.org.uk/data/assets/pdf_file/0018/104751/Three.pdf

³ Paragraph A8.32, Consumer switching: Proposals to reform switching of mobile communications services, Ofcom, May 2017.

³ Paragraph A8.32, Consumer switching: Proposals to reform switching of mobile communications services, Ofcom, May 2017.

5. It is entirely rational and consistent for a consumer to, on the one hand, want to receive emails with information about rewards available through the service offered by their current provider but, on the other hand, choose not to receive invasive marketing calls from their losing provider after they have already started to switch.

Consumers must be given a specific choice on whether they receive reactive save offers

6. Three recognises that many consumers actively seek retention offers and value the opportunity to haggle with their existing provider. Equally, however, consumers wanting to switch without contact from their provider should not have to endure unwanted calls and reactive save offers from the losing provider.
7. Ofcom should therefore give customers the ability, as part of the switching process, to choose whether they want to receive reactive save offers. This option could be given to customers through two mechanisms:

Reactive save ban on certain channels

8. Under a reactive save ban on certain channels, reactive save would be prohibited for customers that request their PAC/N-PAC via automated means (such as SMS, online webform, or IVR phone call). In this situation, a customer is specifically choosing a PAC-request route which avoids contact with the losing provider. This decision should be respected by a prohibition on losing providers outbound calling such customers with reactive save offers.
9. Those customers who wish to access reactive save offers would continue to be able to do so by requesting their PAC/N-PAC via the usual phone route. In this way they can “opt-in” to reactive save and enjoy the same ability to haggle with their losing provider as is currently possible.

Reactive save opt-in during the PAC/N-PAC request process

10. Under a formal opt-in mechanism, a conditional prohibition on reactive save via automated routes would be in place whereby a customer would be given the opportunity to opt-in to reactive save offers at the point of receiving/requesting their PAC/N-PAC (for example as in Figure 1 below). This mechanism would alleviate the harm of reactive save for those customers that find it annoying or distressing, while ensuring that consumers that value reactive save are no worse off.

Figure 1: Example of reactive save opt-in via SMS and webform routes



An opt-in to reactive save delivers substantial benefits to consumers.

11. Three has engaged economic consultancy Economic Insight to develop a framework for evaluating the consumer impacts of reactive save activity, and to provide an empirical quantification of the consumer benefits of a switching process that allows them to choose whether to receive reactive save offers. The conclusions are based on original consumer research in the form an online survey of approx. 4,500 mobile customers. The methodology and results can be found in their report in the attached annex. We provide a summary of the key results below.

Reactive save is harmful to the majority of switchers that have already resolved to leave

12. Of those recent switchers that received a reactive save offer, 61% stated that they had made their final decision and their losing provider could not have “realistically said or done anything” to change their mind. A prohibition on reactive save is therefore unambiguously beneficial to this segment of customers.
13. Those remaining customers that either (i) could have been persuaded to remain had the reactive save deal been better or (ii) started to switch but remained with their existing provider because of the reactive save deal they were offered, will be no worse off under a system which gives them the option to opt-in to receive reactive save offers.

Most customers either do not want to receive reactive save offers, or would prefer the option to decide at the time of switching

14. Of those recent switchers that said they would use Auto-switch, a third stated they would prefer not to be contacted with save deals by their losing provider. A further 37% stated they would prefer to have the option to choose at the time of switching.⁴ This implies that approximately 70% of customers would benefit under an opt-in mechanism. The remaining 30% would still be able to access reactive save deals under an opt-in mechanism, and therefore remain no worse off than they currently are today.

⁴ With regards to customers that had not recently switched, but said they would use Auto-switch in the future, approximately three quarters stated a preference either not to be contacted at all or to have the option to decide at the time of switching.

A mechanism to opt-in/out of reactive save would deliver substantial net benefits to customers

15. Based on willingness to pay evidence consistent with Ofcom's own approach, Economic Insight estimate that a reactive save option mechanism would deliver net benefits to consumers of between £28.50m to £38.04m, on a 10 year NPV basis. Crucially, this estimate does not include the indirect benefits to consumers arising from the competition-enhancing impacts of a restriction on reactive save. As such the total benefits delivered to consumers are likely to be far in excess of the direct benefits quantified above.