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for everyone

Consultation response form

Question 1: Do you agree with the concerns we have identified in relation to bundled mobile airtime and handset contracts?

As per our response to the previous consultation on end-of-contract notifications, we agree that some customers who take bundled propositions don't re-engage immediately at the end of their minimum term, and that this can result in customers continuing to pay the original monthly charge while being eligible for cheaper airtime-only alternatives.

However, we see this issue as just one of many resulting from customers not re-engaging in the market at the end of their minimum term. Customers' needs change considerably over-time, as do the propositions in the market – customers that don't re-engage can find themselves on tariffs which are no longer fit for their needs or economically competitive versus the current equivalents. Customer's needs around value-add services (such as Netflix, Spotify or Apple Music) may also have changed - customers wanting these services may be able to access them as a free inclusion with some propositions that could save them considerable sums of money (c.£100 per year). Customers with value add services may no longer require them, opening up a wider array of potential offers, some of which may be cheaper. Customers who have moved home or job over the last 24 months may have different coverage requirements compared to when they signed up, for which their current network may be less optimal. Customers may be eligible for promotions and discounts from other operators that would give them a considerable saving on their current bill.

Our view is that to ensure customers 'get the most out of their mobile' at the most competitive price they need to regularly re-assess their needs and fully re-engage in the market. This is also important to ensure customers continue to actively exert pressure on all providers and retailers to continue to offer competitive and innovative above-the-line propositions. We're keen to find a solution that reduces/removes the risk of handset repayments beyond the minimum term, but solutions that effectively discourage the customer from regularly engaging in the market (e.g. by inadvertently reducing the benefits of doing so) could be extremely harmful both to customers and the market.

Question 2: Do you agree with the options we have outlined as potential remedies for the concerns identified?

<u>Option 1: "Mandating further transparency measures" (showing a breakdown of the monthly charge into handset repayments and airtime)</u>

Our understanding is that this solution is intended to offer customers greater clarity over how much of their monthly bill comprises handset repayments, allowing the customer to more tangibly calculate the cost/waste of continuing a bundled offer beyond the minimum period (and therefore creating more impetus for the customer to move to an alternative). However, we're not convinced that this will significantly enhance the call to action, or necessarily result in the desired outcome.

We suspect the complexity and arbitrariness of how monthly cost is allocated to the component parts of the bundle will mean customers in practice won't have a simple and consistent measure of the potential waste resulting through inaction. A bundled offer is exactly that i.e. a bundle of airtime services, value-add/content services, handset repayment costs etc. The "cost" prices of each of these (to the provider) may be relatively clear, but the how the "retail" price is apportioned among these different elements may be quite arbitrary and at the provider's discretion. Some may show a "low" handset repayment price with a higher airtime cost; some may show "higher" handset repayments prices with airtime pricing more in-line with SIMO pricing; some may show "low" handset and airtime pricing, with "high" attributed value-add service fees. It's difficult to see how all this makes billing "more transparent" for customers, and ultimately the customer will need to compare the total cost of their current package to the total cost of alternatives to get a meaningful estimate of the potential savings (which they can do today without apportioning out the bundled monthly charges).

Furthermore, making customers aware at the point of sale on the composition of their monthly spend is unlikely to have an impact 24 months later – customers are likely to need a more contemporary reminder. Including this information on the customer's monthly invoices may have an impact on those customers who regularly look at their monthly bill, but we suspect this doesn't apply to the majority of customers. We think this solution would need to be used in conjunction with a contact strategy as the customer approaches the end of their minimum term e.g. as an enhancement to the previous end-of-contract notifications proposal (customers might receive an end of contract notification that reminds them how much of their existing bundle comprises handset repayments and may be unnecessary spend if the customer does nothing.)

However, while this might increase the customer's motivation to take action, the challenge is deciding what action the customer should be recommended to take. As per our response to the previous consultation on end of contract notifications, limiting the recommendation to their current provider's offers is unlikely to result in the best outcome for the customer. Providers are only likely to recommend their own products and services that may or may not be the best fit for the customer's needs or offer the best value. A marginally cheaper deal may, however, remove the economic impetus for the customer returning to the market, reassessing their needs more fully and finding the best outcome for them.

In summary we think apportioning bundled monthly charges introduces significant complexity for operators and retailers, without creating a more effective call to action for the customer or enough of a likelihood that customer behaviour will change in the right way.

<u>Option 2: Fairer default tariffs</u>

We agree that moving customers to a "fairer" default tariff at the end of their minimum term may mean customers don't continue to spend the full "bundled" monthly costs beyond their minimum term, but this solution neither guarantees the customer is on the best value tariff their provider offers, nor that's available in the market. This can be seen in the way some networks already operate this type of solution.

Our concern is that while a 30-day notice period means the customer is free to move to an alternative, the benefit of doing so is reduced so customers are more likely to tolerate spending more than they necessarily need to.

As part of the previous consultation on end-of-contract notifications we have demonstrated how different providers have different suites of tariffs that may not be able to exactly match a customer's needs (forcing customers to either accept more data at higher price, or less data and risk out-of-bundle charges). Even if providers were to price the 'default' tariff in line with their best-value equivalent, this still may not represent the best solution for the customer (while at the same time significantly reducing the benefit of the customer re-engaging with the market).

Question 3: Do you have views on additional solutions we should consider, including on split contracts?

Our view is that split contracts offer the same benefits and challenges as Option 2. That is, at the end of the customer's minimum term, the charges associated with the handset fall away, however the remaining airtime contract neither guarantees the customer the best deal the provider has on offer for the equivalent allowances, nor does it guarantee that the tariff is still the best fit for the customer. At the same time, the reduced bill may give the customer enough of a saving that reduces their incentive to go back to the market and find the best deal for them. We are not opposed to split contracts per-se, just recognise that they potentially dissuade customers from re-engaging in the market and finding the best deal.

We are fundamentally opposed to solutions which undermine or reduce customers' impetus to reengage in the market properly, or threaten to reduce their benefit from doing do – in practice these solutions will not drive the best outcome for the customer and will instead be a compromise where the customer is paying less but not necessarily getting the most out of their mobile at the most competitive price.

Our preferred solution remains based on the principle that a customer's best outcome at the end of their minimum term is to be on the right tariff for their needs at the best price. We believe this can only be achieved if the customer genuinely re-engages in the market i.e. reassesses their needs and what's available in the market, exploring new technology and services, and opting for the solution that gives them the most benefit and best value. This approach also ensures customers continue to exert a positive competitive pressure on the market, encouraging providers to remain innovating and competitive above-the-line (so all customers can benefit).

We are in favour of all customers receiving a suite of up to 3 standardised messages (at 60 days prior to the end of their contract-end-date, at their contract-end-date, and, for those customers not yet having taken action, 30 days after their contract end-date). These messages should advise the customer of their contract end-date; inform customers that there may be better options should they wish to keep their current handset with potential savings of [£20]/mth on average (equivalent to [£240]/year); make customers aware of how needs change over time and remind them of the importance of re-evaluating their requirements; remind the customers that they should consider all proposition types (including but not exclusively SIMO) and should consider options from all providers (including but not exclusively their current provider).

We think this solution effectively triggers the right customer behaviour and a consideration process that leads to the best outcome for the customer.

We think it may be operationally simpler for each provider to send these notifications to their respective customers, but our proposal is that the message content is standardised – this gives all customers an equally effective call to action (i.e. it's fair) and allows best-practice and continuous improvements to benefit all customers.

We also believe this message could be even more effective if it were Ofcom-branded, helping it stand-out from other network communications, clearly signalling that the communication is impartial and in the customer's best interests (and not a provider-led sales message).

We think the cost of this solution is not significantly greater than the end-of-contract notification proposal already issued (the underlying operation is very similar.)

We don’t think this solution prejudices against the customer’s existing provider and if the customer’s current provider offers coverage, service, network quality, or other advantages that make it the best option then this will come out through the customer’s comparison journey.

This solution is also future-proofed in that it doesn’t prejudice the customer to a specific solution, more to the general principle of regularly reassessing options in the market, and it recognises that each customer’s needs are different.