Response to Ofcom’s ‘helping consumers to get better deals in communications markets: mobile handsets’ consultation

Note: this is a BT Group response. But as EE has the largest number of mobile customers, we have based our assessment and calculations on EE’s customer base.

13 November 2018
Executive Summary

- We agree with Ofcom that consumers benefit most from competitive markets - where providers invest in networks and services and compete to make innovative offers, and where consumers can make informed choices to get the best deal to suit their needs. The mobile telecoms market is highly competitive, with constant innovation and a very wide range of offers.

- Competition results in a broad range of tariffs and services, allowing customers to choose packages and providers to suit their needs. Taken together, the four mobile network operators (MNOs) and numerous mobile virtual network operators (MVNOs) compete intensely to offer plans that suit a variety of needs and serve customers with a wide range of incomes, ranging from those who spend less than £10 per month to more than £40 a month.

- Pay monthly plans - where the customer pays a minimal upfront cost for a handset, and enters into a 24-month minimum term contract for airtime services - are attractive to customers due to the low upfront cost of devices and the additional benefits these plans offer, such as more generous allowances and features.

- The market continues to develop to meet consumers’ changing needs, and in reflection of the relatively high cost of popular smartphones, this can be seen most recently - through the increase in the size of the SIM Only segment, and the introduction of “split contracts”, that is separate airtime services contracts alongside a consumer credit loan for the purchase of a handset. Several MNOs and MVNOs provide split contracts.

- Engagement in mobile telecoms markets for the vast majority of consumers is straightforward. This active engagement in the mobile market is shown in the number of customers taking action each year. For example, in 2017-18 more than 20 million customers transacted (changed deal or provider) in the market, with almost 9 million changing provider.

- But some customers do go ‘out of contract’, i.e. they stay with their provider on the same terms beyond the minimum contract term. There are a number of very good reasons why customers choose to go out of contract. Some customers may find value in being out of contract (Ofcom’s research showed that this to be the case), whilst others haven’t got around to taking action but are perfectly able to do so when they wish. These customers are suffering no harm and do not need broad brush regulatory protections.

- For EE, our out of contract customers have broadly the same demographic mix as customers within their minimum contract term. However, we recognise that there are likely to be some mobile customers who find difficulties in securing the best deal for them, when they come to the end of their minimum term and so these customer may, within this context, be vulnerable. To ensure all vulnerable consumers benefit, irrespective of their provider, it may be appropriate for Ofcom to require providers to take specific actions for these customers - provided a suitable method of identifying these customers can be found.

- For those customers who can engage with the market if they so wish, Ofcom has already proposed to implement new rules for end of and out of contract notifications. Ofcom should allow time for these requirements to take effect and review the impact before considering further broad interventions in the mobile market but Ofcom could consider requiring certain enhanced information remedies for mobile, over and above those recently proposed.

- There is limited consumer harm, which does not justify broad regulatory intervention given, as Ofcom acknowledges, its proposals carry significant risk for the market and consumers. Ofcom
states that the total ‘overpayment’ by all out of contract handset customers could be £330m per annum. But this figure is based on estimates, rather than actual data from all providers, and on our assessment is highly likely to be overstated.

- Our assessment (based on analysis of EE’s out of contract customers and assuming other providers’ out of contract customer base is similar) is that the total ‘overpayment’ by all out of contract mobile customers is more likely to be around £330m–350m per annum.¹ This is at most just c. 1% of total mobile market revenue, which is insufficient to warrant regulatory intervention, which could lead to market distortions.²

- Ofcom has presented two potential interventions (not mutually exclusive): mandating further transparency measures; and default tariffs that would apply at the end of the minimum contract period – with two versions of this: reducing the price payable by the customer at the end of the minimum term or force migrating customers to the closest matching SIM Only deal.

- Ofcom highlights some of the risks associated with its proposed remedies. We share Ofcom’s concerns that its proposed remedies are likely to drive significant risk into the mobile market and could consequently lead to poorer outcomes for consumers (see Section 7).

- We already make customers aware of the recurring charge for airtime allowances and the minimal upfront fee for the handset, no further information is required to make an informed decision.

- The key risk associated with mandating further transparency measure, is as Ofcom states – that this requirement might cause these contracts to fall under FCA rules, therefore leading to the risk of a forced two-fold increase in regulation: increasing the level of information provision; and risking additional regulation by the FCA. Ofcom also states it has considered and dismissed mandating split contracts because this would reduce customer choice. But Ofcom’s transparency measures may well lead to the de facto mandating of split contracts [9x].

- There are a number of significant risks associated with pricing remedies, many of which Ofcom highlights. We consider the key risks these proposed interventions would drive are:

  - Reduced consumer engagement - Ofcom’s proposed remedies would result in customers having less incentive to engage actively in the market because there would be no “engagement premium” to encourage them to do so. Instead currently engaged customers are likely to rely passively on their providers, dampening competition and leading to poorer outcomes for all customers.

  - Harming, not protecting, vulnerable consumers - engaged consumers also include vulnerable consumers, who shop around for the best deal to suit their needs. These customers would be made worse off by any intervention that results in a negative overall impact on the market, for example if interventions lead to prices increases.

  - Commercial risk leading to poor consumer outcomes – as Ofcom points out, pricing interventions could result in higher prices and/or less choice for customers. There may also be an impact on beneficial early upgrade deals. [9x] of EE’s customers choose to upgrade early.³ The combined value of this benefit for EE customers is c. £330m per annum.

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¹ See para 6.5
² Ofcom’s annual Switching Tracker research highlighted that 6% of UK pay-monthly mobile users with a mobile handset as part of their contract said that they continued to pay their full monthly charge at the end of the minimum contract period

³ At June 2018, [9x]% of EE customers took early upgrades
- Pricing remedies are disproportionate to the issues identified - Ofcom’s analysis indicates that on average out of contract customers could save £8 per month. Additionally, those customers who can save the most each month, in general, stay out of contract the shortest time.

- In addition to these risk, forced migration to SIM Only would be very likely to lead to a negative customer experience through limiting choice. We agree with Ofcom that either opt-in or opt-out runs the risk of poor customer experience — either because customers are automatically migrated to a new deal or customers do not actively opt-out. In either case customers may find they end up on a deal that isn’t the best one for them, as they lose certain allowances (e.g. roaming to five ‘rest of world’ countries and/or no longer have access to our insurance product etc.) and/or experience bill shock. This proposal would also create significant risks around contracts. It is commercially very difficult for providers to know today what price SIM Only plans will be sold at in 24 months’ time, as the market moves rapidly to meet consumers’ needs. This creates a commercial risk but also the risk that customers are moved onto a contract at the end of their minimum term that is not the best one for them.

- In June this year we discussed with Ofcom EE’s proposals for addressing the issue raised in the handset consultation. As discussed with Ofcom, we were happy to implement our information proposals on a voluntary basis but considered there needed to be an Ofcom lead solution for those vulnerable customers who struggle to effectively engage with the market. While we await Ofcom’s feedback on our proposals, we have been further developing our solutions. We consider these proposals to be proportionate to and effective in addressing Ofcom’s concerns, without potentially negatively impacting the market for all customers.

- To ensure consistency for all consumers, Ofcom could consider requiring providers to implement:
  - An additional standalone service message setting out the full range of options — so that customers are fully informed that at the end of their minimum term that they can take a new handset deal, move to SIM Only or switch provider. The key benefit would be to ensure all customers understand the full range of options available to them.
  - Out of contract messaging at regular intervals until the customer takes action - using more than one medium e.g. outbound calling, SMS, email. The key benefit would be that all out of contract customers will be regularly reminded that they have options to take a new deal.
  - Automatic fixed percentage reduction in price for those customers who genuinely struggle to engage with the market and who, within this context, may be deemed vulnerable when their minimum term comes to an end. The key benefit would be that for those customers who do not have a rational reason for going out of contract and so may suffer harm, there would be targeted protection, but with no risk of reducing overall engagement in the market.

- We would be more than happy to work with Ofcom, and the industry, in developing further each of our proposals.
1. The mobile market is highly competitive, leading to good outcomes for consumers

1.1. We agree with Ofcom that consumers benefit most from competitive markets - where providers invest in networks and services and compete to make innovative offers, and where consumers can make informed choices to get the best deal to suit their needs. The mobile telecoms market is highly competitive, with constant innovation and a very wide range of offers. Consumers are free to exercise choice - which is facilitated by easy access to relevant information, easy switching processes and different ways to access mobile markets e.g. pay-as-you go, pay monthly, SIM Only or airtime.

1.2. The benefits to consumers of competition are widespread, as evidenced by Ofcom monitoring:

- **Since 2014, mobile prices have declined 4% whilst data used has increased 217%**. The UK mobile market continues to be amongst the most competitive in the world. Ofcom notes that “compared to the average of the 28 EU member countries, the UK handset plan prices are between 24%-64% cheaper.” Ofcom goes on to state that “the market is operating well for consumers at present, with strong competition between suppliers, relatively low prices for UK consumers, and continued investment in new services.”

- **4G coverage and speeds have also grown significantly**. Ofcom stated that, “some 92% of UK premises have indoor telephone call coverage from all four mobile networks, up from 89% in June 2017.” EE has the largest 4G footprint, now covering over 90% of UK geography. UK consumers are able to access the fastest average mobile download speeds in the world. In June 2018 EE announced the launch of the UK’s first 5G trial.

- **All mobile operators are investing heavily in improving their networks**. The total capital expenditure of the mobile operators in the last three years averaged c£2.0bn per annum, with the mobile sector’s total capex being approximately 10-11% of revenues (over the last three years). As Ofcom points out, “investment has continued in new services for consumers, with competitive responses to both EE’s early 4G network deployment and O2’s 98% indoor coverage commitment.”

- **Customer satisfaction for mobile is high, higher than in other markets**. The vast majority of mobile customers are satisfied - just over nine in ten customers saying they are satisfied with their service overall. Overall satisfaction among mobile customers is above that for gas or electricity customers, as shown below.

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4 Ofcom (2018), *Pricing Trends for Communications Services in the UK*
5 Ofcom (2016), *Award of the 2.3 and 3.4 GHz spectrum bands*.
6 Ibid.
7 Ofcom (2018), *Connected Nations update, October 2018*
10 Ofcom (2015), *Strategic Review of Digital Communications discussion document*
11 Ibid.
12 Ofcom (2018), *Comparing Service Quality 2017, published May 2018*
Fig 1: Customers’ overall satisfaction with communications providers compared to energy providers\textsuperscript{13}

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<tr>
<th>Mobile</th>
<th>Gas</th>
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<td>91%</td>
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2. The market provides a wide range of options to meet consumers’ needs

2.1. Operators compete across a range of parameters including: price, devices, service, network quality, content and other features, and brand. Strong competition results in a broad range of tariffs and services, allowing customers to choose packages and providers to suit their needs.

2.2. All MNOs offer mobile connectivity on a pay monthly and pay as you go basis. Customers can choose from:

   a) Pay monthly plans where the customer pays a minimal upfront cost for a handset, and enters into a 24 month minimum term contract for airtime services;

   b) Separate airtime services contracts alongside a consumer credit loan for the purchase of the handset (“split contracts”);

   c) SIM only plans where a customer agrees to a minimum term (usually 30 days or 12 months) for ‘no frills’ connectivity services; and

   d) Pay-as-you-go plans, where a customer can choose from monthly packs paid for in advance or traditional pay as you consume options.

2.3. Taken together the four MNOs and numerous MVNOs compete intensely to offer plans that suit a variety of needs and serve customers with a wide range of incomes, ranging from those who spend less than £10 per month to more than £40 a month.

2.4. Pay monthly plans – where a customer pays a minimal upfront cost for a handset, on the promise that they enter into a 24 month minimum term contract for services provided e.g. minutes, texts, data, and additional benefits - are attractive to customers due to the low upfront cost of devices and the additional benefits they offer. For example, customers who take a pay monthly plan with handset from EE, have access to service and advice from nearly 12,000 customer facing staff in EE’s retail stores and call centres across the UK and Ireland. Our advisors offer customers help, advice and technical support with their handset, including settings and applications, as well as handset repair services and handset insurance options. Customers appreciate the fact they only have to deal with one company to resolve any issues relating to either the device or the service received i.e. we are a ‘one-stop shop’ for their needs. Under EE’s standard pay monthly contract model, we already make customers aware of the recurring charge for airtime allowances and the minimal upfront fee they pay for the handset.

The market continues to develop to meet consumers changing needs

\textsuperscript{13} Ofcom (2018), Comparing Service Quality 2017, published May 2018
2.5. Since the first iPhone was launched in 2007, we have seen progressively more expensive handsets and many customers now want to keep their handset for longer. On average customers look to keep their handset for around 29 months. But EU regulation (which came into effect in 2011) sets a maximum contract term of 24 months. The regulation has not kept pace with changing consumer needs, and consequently we have seen two significant recent market developments: a) increase in the size of the SIM Only market, and b) the introduction of separate airtime services contracts alongside a consumer credit loan for the purchase of the handset (“split contracts”).

a) **Increase in the size of the SIM Only market** - Ofcom reports that customers continue to switch between pre-pay and post-pay products mainly due to the increasing popularity of SIM Only deals. Pre-pay customers continued to fall by 3.5m and post-pay customers continued to increase by 3.4m over the same period.

Fig 2: SIM Only market growth over time

This increase in SIM Only shows that customers are choosing to either keep their current handset for longer and switch to a SIM Only deal when their service contract ends or source a handset separately – either buying it outright or through a consumer credit agreement.

b) **Split contract** - recently some providers have begun to offer the option of a separate airtime services contract, alongside a consumer credit loan for the purchase of the handset (“split contracts”). In this model customers can sign-up to a credit agreement for their handset—often for a period of longer than 24 months - so spreading the cost of that handset over a longer period, for example 36 months. They then purchase a separate rolling airtime services contract. As set out in Ofcom’s consultation, O2 (direct channels only), giffgaff, Tesco Mobile, Virgin Mobile and Sky already offer customers split contracts.

3. **The vast majority of consumers are highly engaged in the mobile telecoms markets**

3.1. Engagement in mobile telecoms markets for the vast majority of consumers is straightforward. For example, switching for mobile is easy - with 90% of mobile customers who had switched at least once considering the process to be very or fairly easy. Ofcom research highlights that 85% of mobile customers know when their current contract end date is, with 90% of mobile customers knowing what will happen when their contract ends, including that they could switch provider. 75% of mobile customers are aware that they could move to a SIM Only deal at the end of their contract; this figure will increase when Ofcom’s new rules, to state this option explicitly within end of contract notifications, comes into effect. And as shown below, 90% of mobile customers considered taking action when their last contract came to an end.

Fig 3: Action taken by mobile consumers when contract last ended

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17 CMA, Final Report on the anticipated acquisition by BT Group plc of EE Limited, para 10.73.
19 Ofcom (2015), End of contract notification presentation of research results.
20 Ofcom (2015), End of contract notification presentation of research results.
3.2. Our survey of EE customers shows engagement figures for our mobile services are even higher than those found by Ofcom. A survey\(^\text{21}\) of EE’s post-pay customers found that 90\% said they were aware of when they were eligible to upgrade.

**Fig 4: EE post-pay mobile customer awareness of contract stage\(^\text{22}\)**

3.3. In addition, 90\% of EE customers sought information about plans and services before deciding to upgrade. Customers sought information from a wide range of sources including EE’s website, stores and call centres, as well as price comparison websites. This evidence clearly suggests that EE’s post-pay mobile customers, are nearly all fully aware of when they can upgrade (or switch). Even when they decide not to switch they do shop around for information from a wide range of sources.

3.4. This active engagement in the mobile market is shown in the number of customers taking action each year. For example, in 2017-18 more than 20 million customers transacted in the market, with almost 9 million changing provider, and with 8 million of these customers transacting with EE (that is EE acquired a customer or a customer took a new deal with us - across handset and SIM Only in 2017-18).

4. **Some customers go out of contract for wholly rational reasons. But for those customers who genuinely struggle to engage, targeted intervention may be appropriate**

4.1. We take proactive steps to ensure that our customers know their options when they come to the end of their minimum term, and can make an informed choice when it suits them to do so, therefore getting the best deal for them (see Annex A). Consequently, we see 20\% of our customers taking action before the end of their contract, with another 5\% taking action within 90 days of the end of their minimum term. However, some customers do go out of contract.

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\(^{21}\) EE Insight survey data, July 2017 (3 month rolling).

\(^{22}\) Ibid.
4.2. We have therefore looked at EE’s out of contract mobile handset customers to understand if there is any difference between the in contract and out of contract customers. Our definition of out of contract is that the minimum term of these customers’ contracts (12, 18, 24 months etc.) has expired but their service continues with us until they choose to re-contract or leave.

Some customers choose to go out of contract for reasons that are wholly rational to them

4.3. On average, customers out of contract on EE wait for around [X] months before taking action. [X] For the vast majority of these out of contract customers, they either find value in being out of contract (Ofcom’s research showed that this is the case for up to 19% of all customers) or they haven’t got around to taking action but are perfectly able to do so when they wish. These customers choose to go out of contract knowing they could take a different deal if they wanted. These customers do not need regulatory protections, as for these customers there is no harm. There are a number of very good reasons why customers choose to go out of contract. For example, they may:

- Be benefitting from handset plan features or allowances which they will lose if they move to SIM Only deals (these customers are getting a good deal, as if they wanted to buy all of the included services separately it would cost them an additional c. £[X] per month).
- Not save any money if they switched to the deals currently on offer (for example, c. £[X] legacy Orange and T-Mobile customers are on very favourable plans such as [X] tariffs that EE no longer offers).
- Be waiting for the next handset, and may not want to switch to a SIM Only contract with fewer features for the sake of a few months (an additional [X] customers allowed themselves to go out of contract, in order to take a new contract when the last iPhone launched).

4.4. Some of these reasons can be clearly seen if we look at a breakdown of EE’s out of contract base (see Section 7, Fig. 6). [X] As we set out in our response to Ofcom’s notification consultation, Ofcom must ensure that those companies offering indirect sales channels are engaged in these consultation processes.

We see broadly the same demographic mix for in-contract and out-of-contract customers

4.5. Broadly, EE’s out of contract customers have the same demographic mix as our in contract customers. Although they are on average [X]. But importantly, if we look at the whole out of contract base, those customers who are out of contract, are paying [X].

Figure 5: current out of contract profile for EE mobile handset customers [X]

However, there are likely to be some customers who do genuinely struggle to engage with the market and for these specific actions may be appropriate

4.6. Even though the vast majority of customers are actively engaged in the mobile market and within EE’s out of contract base we see no significant difference in demographic overall, there are likely to be some customers that may find difficulties in securing the best deal for them. We

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23 See para 7.42
24 EE data September / October 2018
25 EE analysis, June 2018. BAU means within minimum term
believe it is appropriate for Ofcom to take proportionate actions targeted at issues identified in relation to these customers when they come to the end of their contracts.

4.7. In June this year, we discussed with Ofcom our proposal for specific actions for those customers who find it difficult to engage with the market. Within this we detailed that work needed to be done to define and identify customers who may be ‘vulnerable’ within this specific context, as not all vulnerable customers are disengaged, and we offered to work with Ofcom on this. We discuss our proposal in more detail in Section 8.

5. **Ofcom is implementing new rules for end of and out of contract notifications; this requirement could be enhanced for mobile customers**

5.1. We consider it important that all consumers have the right information to enable them to get the best deal for them. We are therefore broadly in agreement with Ofcom’s consultation to require all operators to provide end of and out of contract notifications. Ofcom states that it expects its proposals to lead to material benefits for consumers and that their plans will increase competition in the market, and reduce the time and effort required for consumers to monitor and seek out information. Ofcom should allow time for these requirements to take effect and review the impact they have before considering further interventions in the mobile market. This is crucially important given the level of risk to competition, Ofcom itself acknowledges, further broad intervention is likely to involve.

5.2. We agree with Ofcom that in order to make informed choices, consumers need access to information on the key parameters of the service. This may include price, allowances, length of minimum term, coverage, etc. For all post-pay mobile customers, we already make this information readily available. Before a customer joins us, all this information (and more) can be found on our website and in our adverts, and prospective customers are able to seek further information if required from our stores or over the phone. When a customer chooses to join us, the price, allowances and length of minimum term are all made clear as part of the sales journey and are clearly referenced in documentation. In life on EE, the My EE app allows customers to easily see their contract start and end dates, their monthly recurring charge, details of their usage and charges, and their monthly bills.

5.3. When EE customers approach the end of their minimum contract term, we proactively contact them between [X] and [Y] times (depending on their marketing preferences). Customers receive notifications at [Z] (depending on marketing preferences). Since January 2018, EE has been seeking ways to enhance customers’ awareness and have made it even easier for customers to understand and action their end of contract choices. [X] We set out in Annex A, examples of EE customer communications and how customers can access information.

5.4. We already provide a significant amount of information to our customers and Ofcom is implementing new rules for all providers. But Ofcom could consider whether it may be appropriate to require enhanced information remedies for all mobile providers (in addition to those proposed as part of Ofcom’s current end of contract notifications consultation) to ensure a consistent approach, across the sector, for all consumers. It may be appropriate to require all providers to have to set out the full range of options available to customers when they come to the end of their contracts. We also consider it may be appropriate to require providers to contact their mobile out of contract customers more than the one time proposed by Ofcom in its end of contract notifications consultation and using more than one method e.g. SMS, email outbound call etc. See Section 8.
6. Our assessment suggests a much lower level of potential consumer harm than that stated by Ofcom

6.1. Ofcom has two estimates for the number of customers that are currently out of contract. In the mobile handset consultation it states that “approximately 1.5 million people may be paying more than necessary”. But, in its notifications consultation it states that c. 3.7 million handset customers are out of contract. The 1.5 million figure is from survey data. The c. 3.7 million from Ofcom analysis, based on data collected from a subset of providers under formal information powers. Citizens Advice (CAB) quote yet another figure of c. 4 million out of contract customers - for EE, Vodafone, Three and BT only - in its super complaint. This figure is based on survey data and extrapolation by CAB. Based on the number of our EE customers who are out of contract, and assuming a similar level for other providers, we would expect the actual number of out of contract customers to be closer to the c. [3.7] million figure.

6.2. If we then look at how much out of contract customers could save if they were to move to the closest SIM Only deal, again there is a difference between Ofcom’s figure and CAB’s figure. In the recent Pricing Report, Ofcom state that the average out of contract pay monthly price is £25 compared to the average SIM Only in contract monthly price of £17. This would mean customers on average could save £8 per month. Whereas, CAB state a savings figure of £22 per month in the super complaint, based on desktop research. Without taking the additional benefits of handset contracts into consideration, we estimate that EE’s out of contract customers could save on average £[22] per month if they were to move to the closest SIM Only deal. With additional benefits this reduces to just £[22] per month.

6.3. But, only a proportion of our out of contract customers would indeed save this amount. As discussed in Section 7,

- [3.7%
- [3.7%

6.4. This means that there are c. [3.7]k of EE’s out of contract customers (who directly transacted with EE) who could save by moving to the closest SIM Only deal.

6.5. If we assume that all of EE’s indirect customers could save the same amount, this would mean c. [3.7]k of our out of contract customers could save money by moving to the closest SIM Only deal. But if, as is highly likely, we assume a similar number of indirect customers could save, as our direct customers, this would mean a total of c. [3.7]k customers could save. That is, between c. [3.7] and [3.7]% of our out of contract customers could save by moving to the closest SIM Only deal.

6.6. Ofcom states that “Collectively, UK mobile customers could be overpaying by approximately £330m each year”. We are not clear how Ofcom has determined this figure. However, it seems likely that it has used the £8 saving figure from the Pricing Report and the c. 3.7 million figure from the notifications consultation, to arrive at the approximate view of consumer harm.

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29 Ofcom Pricing Report, p.18.
This would mean that Ofcom has assumed that every out of contract customer could save by moving to the closest SIM Only deal. However, as demonstrated above this is not the case.

6.7. Using our EE analysis (and assuming EE’s out of contract base is similar to other providers’) around \[3\%-5\%\] of out of contract customers could save by moving to the closest SIM Only. That means that the total ‘overpayment’ by all out of contract mobile customers across the sector would in fact be between c. £\[30m\] - £\[40m\] per annum\(^{30}\) not Ofcom’s £330m per annum. Based on our assessment of ‘overpayment’, that is at most just c. \[3\%-6\%\] of total mobile market revenue (based on Ofcom’s Communications Markets Report 2018\(^{31}\) which puts revenue for retail mobile voice and data at 15.6bn). Ofcom, in its Switching Tracker, assesses that 6% of UK pay-monthly mobile users, with a handset as part of their contract, go outside of their minimum term. This means it is highly likely that the level of impact is insufficient to warrant significant regulatory intervention. We would therefore urge Ofcom to use its information gathering powers to collect accurate data from all providers, to assess the true impact on unengaged customers, before instigating any broad interventions.

7. Ofcom’s proposed remedies are likely to drive significant risk into the mobile market and consequently lead to poorer outcomes for all consumers

7.1. Ofcom has presented two potential interventions (not mutually exclusive):

a) Mandating further transparency measures; and

b) Default tariffs that would apply at the end of the minimum contract period

With two versions of option b):

i. reducing the price payable by the customer at the end of the minimum term or

ii. force migrating customers to the closest matching SIM Only deal

7.2. Ofcom itself sets out some of the risks of these approaches but does not provide any clear way to mitigate those risks for all consumers. We discuss each of Ofcom’s proposals in turn below and the significant risks we consider they present.

**Ofcom option 1: mandating further transparency measures**

7.3. Ofcom is proposing that providers would inform customers when they purchase services (and at the end of the minimum term contract) of the different cost elements of the mobile package - particularly where this includes handset, airtime and any other services. Ofcom also wishes to explore what further information may be appropriate at the end of the minimum contract period e.g. specific potential savings from SIM Only deals.

**Incorrect analysis of contractual model**

7.4. \[3\%\]
7.5. The purchasing decision a customer is making is whether the combination of monthly recurring charge for the allowance e.g. minutes, text, data, roaming, BT Sport etc, for the minimum term, plus minimal upfront fee for the handset, is something which they are willing to pay. We make customers aware of both of these costs as they constitute important information and help customers make informed decisions.

7.6. [Blank]

7.7. Indeed, were we to have to identify to the customer the price of the handset at the point of sale, it is not entirely clear what this price would be. The actual contractual price that the customer is paying is already made clear to the customer. We assume that Ofcom is envisaging something over and above this. However, this could be one of a number of different prices. It could be the manufacturer’s list of recommended prices for the product, the supplier’s acquisition cost for the handset in question or the supplier’s price for the handset to the customer. However, all of these have problems:

(a) The manufacturer’s list of recommended prices for example is not within the supplier’s control, it is set by the manufacturer, and the supplier is free to set its own prices. It would therefore be inappropriate to use the manufacturer’s list of recommended prices as indicative of the handset price. It may also be somewhat artificial to use this amount when this is not in fact the cost that a telecommunications provider is trying to recover. It is unlikely to be appropriate in respect of older model handsets where the realistic market value of the handset may be lower than the manufacturer’s list of recommended prices, and it will also lead to anomalies if the supplier is in fact willing to sell the handset to the customer, without a service contract, for a lower price than the manufacturer’s list of recommended prices.

(b) Our acquisition costs are commercially sensitive information, and we can think of no other retail sector where a supplier is required to divulge this information to a customer. And in any event, using acquisition costs ignores the fact that a supplier should be entitled to make a profit from the goods that they are selling.

(c) Using the supplier’s own standalone sales price ignores the fact that not all telecommunications providers will in fact supply handsets without a service contract. Using this information would also be open to manipulation by telecommunications providers, given that it would be in their control. A supplier may choose to set a lower handset price in order to be able to justify higher out of contract service costs. And using this price may also be misleading or confusing for customers who are trying to compare plans with different suppliers if there is a different price for the handset. Customers may concentrate on the handset price rather than the “combined” price, or may mistakenly believe that one plan is cheaper than the other because of a lower handset price when the reality is that the total monthly cost to the customer is the same.

7.8. We do not think however, that it is essential that customers be made aware of the value of their handset at the moment of buying a standard mobile contract, as that is not directly relevant to the purchasing decision. Neither do we think this information will help customers to get a better deal. We make customers fully aware of 1) the monthly amount to be paid 2) the allowance of services 3) the minimum term, as well as 4) the amount due for the device. These are the key pieces of information needed to make an informed decision. Providing additional and less crucial information is unnecessary and may well be confusing for customers. If a customer wants to know how much they can obtain a handset for without a service plan, this information is readily available in the public domain, for example from manufacturer’s websites.
At para 4.8 of the consultation document, Ofcom states “Consumers are not told and therefore are unaware of how much they are paying for their handset and airtime in a bundled contract. We consider that this is important information that consumers should be aware of in order to make informed decisions about the services they buy. We note that the forthcoming European Electronic Communications Code places particular importance on the provision of information to consumers on the individual elements of bundles which include both services and equipment. It makes clear that this information should be provided before a consumer is bound by a contract.”

We presume Ofcom is referring to Article 95 of the proposed European Electronic Communications Code (‘EECC’), which refers to a list of information (contained in Annex VII bis to Articles 5 & 6 of the Consumer Rights Directive 2011/83/EU) that must be provided to consumers before they are bound by a contract. Part B of Annex VII bis states that consumers must be provided with (emphasis added) “for bundled services and bundles including both services and terminal equipment the price of the individual elements of the bundle to the extent they are also marketed separately”.

Potential risk of disproportionately increasing the regulatory burden on providers

In the Consultation, Ofcom says that current contracts – for which consumers can get a handset at a minimal upfront cost due to the fact they are agreeing to a minimum term airtime contract with the provider – do not fall under the Consumer Credit Act and the Financial Conduct Authority (FCA) does not regulate them.  

But Ofcom goes on to state that its requirements under Option 1 – to force providers to give additional information which splits out the price customers are paying for their handset – might cause these contracts to then fall under FCA rules, “it is possible that providing this information may result in a separate agreement for the handset which could fall within consumer credit agreement rules.”

Ofcom therefore acknowledges that Option 1 involves the risk of a two-fold increase in regulation, as it would:
  a) increase the level of information required from providers; and
  b) risk additional regulation under the Consumer Credit Act.

We consider such intervention may result in additional financial regulation, beyond the specific issue identified by Ofcom, and therefore is disproportionate and inconsistent with the principles

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of proportionate and targeted regulation set out in section 3(3) of the Communications Act 2003 (the Act).

7.21. Furthermore, Ofcom states that it has considered and dismissed mandating a move to split contracts for all services, highlighting that this would reduce customer choice and lead to less innovation, less competition and ultimately poorer outcomes for consumers. We agree with Ofcom. But, Option 1 of Ofcom’s remedies may have the de facto effect of mandating split contracts. There is also considerable additional cost involved in operating a regulated lending business, and we are concerned that Option 1 may inadvertently lead to this result. In a competitive market, such as mobile, costs incurred across the industry are likely to be passed on to consumers. So, while in the first instance this cost will hit operators, it is likely to ultimately hit consumers.

**Ofcom option 2: Default tariffs – (i) automatic price reduction and/or (ii) forced migration to SIM Only plans**

7.22. Ofcom’s option of requiring providers to automatically reduce the price payable by the customer at the end of the minimum term or force migrate customers to the closest SIM Only deal, risks unintended consequences for the market and more importantly consumers. Indeed, following on from our points at para 7.4 to 7.7 above, there should be no price reduction for the handset if a customer goes outside of their minimum term and furthermore, if Ofcom were to force a reduction, it is far from certain what the value of any price reduction would in fact be.

*Pricing remedies are disproportionate to the level of potential consumer harm*

7.23. Pricing remedies could have a negative impact on all (engaged and unengaged) customers, and be disproportionate to the issue identified. As shown in para 6.5. above the estimated consumer harm from ‘overpayment’ is likely to be at most c. of total market revenue. The total ‘overpayment’ of around £-£m per annum, represents an upper bound on harm because a proportion of this figure will pertain to customers who have chosen not to take action, even though they are fully aware of their options and the potential to spend less each month.

7.24. Ofcom’s analysis shows that on average out of contract customers could save £8 per month or £96 per year (if they were to move to the closest SIM Only deal). If we consider our out of contract EE customers as an example, we see that . Customers that could save, would on average save £ per month.

**Fig 6 – Breakdown of EE’s out of contract customer base**

7.25. But, our EE handset plans have additional benefits such as more generous allowances and features, which our SIM Only plans do not. These additional benefits have a value. Taking these benefits into account, the possible monthly “saving” falls to only £ per month, as shown below.

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34 EE analysis.
Figure 7: Saving for EE's out of contract consumers (excluding indirect customers\textsuperscript{35}) on top 40 plans compared to current 30-day SIM plans\textsuperscript{36}

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\text{[\textsuperscript{35}]}
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7.26. This means that the average out-of-contract EE customer could “save” around £\textsuperscript{37} per year by moving to the closest SIM Only deal.

7.27. Ofcom states that “many [customers] continue with the same service and the same provider for a long period of time” and go on to say that “[the] price is often significantly higher than if they switch to a SIM Only contract”. \textsuperscript{37} But this is not the case. Ofcom’s statement and assessment of potential “savings” overlooks the fact that those customers who can save the most each month, in general, stay out of contract the shortest time. As shown below, almost 2\% of customers who have stayed longest out-of-contract would “save” no money from a “like-for-like” SIM Only plan, based on an analysis of EE’s top 40 plans.

Figure 8: Out of contract mix by “saving”, for the full customer base and for those who are >6 months out of contract, for EE’s top 40 plans\textsuperscript{38}

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\text{[\textsuperscript{38}]}
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\textit{There is a high risk of reduced consumer engagement, leading to poorer outcome for all consumers}

7.28. Overall we agree with Ofcom that the current proposed remedies, “could lead to a reduction in engagement amongst consumers who are currently engaged, who might have less incentive to shop around leading to lower levels of engagement and switching, and less competition or higher prices across the market”.

7.29. Indeed, Ofcom’s proposed remedies would more than likely result in customers having less incentive to engage actively in the market and instead rely passively on their providers, forgoing the opportunity for an even better deal. Price reductions or forced migration to SIM Only deals would lead to welfare losses for engaged consumers that could more than offset any gains in welfare for less engaged consumers. Without the incentive of gains from engagement, fewer consumers will shop around for a better deal when they come to the end of their contract, so we will see an increase in customers going out of contract. This would dampen competition. The consequence of which would be that providers have fewer incentives to drive quality improvements, drive innovation, and compete on keen prices, so disadvantaging all consumers.

\textit{A default tariff proposal may well end up harming, not protecting, vulnerable consumers}

7.30. The consultation ignores the fact that engaged consumers also include vulnerable consumers (e.g. consumers with low financial means). These customers may be made worse off by any intervention that creates a negative overall impact on the market. The consultation makes a misleading simplifying assumption that disengaged consumers equate with consumers requiring protection and engaged consumers with consumers not requiring any protection. However, we do not see any significant difference in demographic overall between EE’s in

\textsuperscript{35} Indirect customers are those that purchase through one of our third-party trading partners such as Carphone Warehouse.
\textsuperscript{36} EE analysis.
\textsuperscript{37} Ofcom (2018) Mobile handsets consultation para 2.3
\textsuperscript{38} EE analysis.
contract and out of contract customers. As most consumers are in contract, it means that any adverse impact on engaged consumers from intervention, will also affect vulnerable consumers.

**Poor consumer outcomes through less generous upgrade deals**

7.31. If remedies create commercial risks providers have to look to off-set, we could see adverse impacts potentially across the whole market, with outcomes such as providers offering less generous early upgrade deals for handset customers.

7.32. Currently many of our customers choose to take action before their contract comes to an end. EE early upgrades are available to all customers from [x] days before contract end date and [y] of all handset customers opt to upgrade before the end of their contract. The combined value of this benefit for EE customers, in terms of not having to pay for the last few months of their contract, is c. £[z]m per annum. Any perceived benefit to EE in its customers going out of contract is off-set by the early upgrade offers. But there is a risk that if regulatory intervention creates a commercial risk (not just through the revenue impact of pricing interventions but also fewer customers bothering to re-contract), we would have to consider if we could continue to provide this benefit.

**Negative impact on SIM Only market, potentially leading to higher prices**

7.33. As Ofcom points out these proposals could impact on the pricing of deals that are currently available, if they lead to a substantial increase in the number of people on SIM Only deals. Ofcom states, “we are also aware that some [solutions] could have an impact on the pricing of deals [...] could lead to higher SIM Only prices.”39

7.34. We agree with Ofcom that this would indeed be the case: an artificially imposed reduction of price differentials would inevitably increase prices for engaged consumers, to compensate for lower prices for unengaged consumers, if operators are to maintain the same level of investment and innovation in new services, so adversely impacting customer choice and outcomes.

7.35. Similarly, if automatic price reductions resulted in airtime contract prices that were very similar to SIM Only prices it is likely that fewer customers would chose SIM Only deals. This would have a negative impact on the growing SIM Only market. If fewer customers took SIM Only deals this would in turn reduce the incentive for providers to differentiate handset contracts and so lead to less choice and higher prices for all customers.

**Automatic forced migration to SIM Only plans creates a number of additional practical difficulties for providers and customers.**

**Negative customer experience - through limiting choice**

7.36. Ofcom states that, “we recognise that if this [switching deal] were to happen automatically, there might be a potential impact on consumer choice. Some may object in principle to having their service contract changed without their explicit consent.”40 We agree that the remedies would limit customer choice as providers rather than customers would decide which deal they were moved to.

7.37. For example, when handset customers move to SIM Only plans [z] of EE customers choose plans with a substantially higher data allowance. [x]

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39 Ofcom (2018) Mobile handsets consultation, para 4.6
40 Mobile handset consultation, para 4.16.
Figure 9: Handset to SIM moves – EE customers chose plans with a substantially higher data allowance

7.38. As Ofcom recognises, any forced migration would be done either through an opt-in method (i.e. the customer proactively agrees to a move) or through an opt-out method (customer will be moved unless they choose not to). Ofcom also identifies that each option may cause concerns. We agree with Ofcom that either option runs the risk of poor customer experience – either because customers are automatically migrated to a new deal or customers do not actively react to an opt-out option and in either case customers find they end up on a deal that isn’t the best one for them: as they lose certain allowances or experience bill shock.

7.39. In both cases the provider would need to give the customer clear details of the plan the customer is to be moved to. EE has a large number of handset plans, across a large number of devices (as shown below) and we do not currently offer SIM Only plans which exactly match the basic allowances (minutes, texts and data) available with pay monthly plans. We would therefore need to make a decision as to whether to move customers to a plan with lower allowances or higher allowances.

Fig 10: Features of EE handset plans amongst out of contract handset subscribers

7.40. In addition, the number of features built into EE’s handset plans makes them difficult to compare with our SIM Only plans. Many features included in EE’s handset plans are available only as add-ons to our SIM Only plans and in some cases are not available at all (for example, inclusive roaming in 5 non-EU destinations). If a customer is force migrated to a SIM Only plan and had to purchase the features included in our handset plans, to continue usage as per during their minimum term period, they would have to pay an additional up to c. £42 per month.

7.41. Often a customer will have chosen a handset plan over a SIM Only plan because of these extra benefits. Therefore, losing services such as extra roaming or BT Sport would have an impact on customer experience and, in all likelihood, mean they are no longer on the best deal for them. We set out below some of the feature available on EE’s handset plans that are not available with SIM Only.

Fig 11: Features which EE’s handset contract customers have had access to within their deals

7.42. Plans and features are constantly evolving, so it is unlikely that a handset deal will have a similar SIM Only deal 24 months after the contract was taken out, making it even more challenging for providers to choose the best deal for their customers’ different needs and preferences.

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41 EE analysis
42 [See]
43 EE analysis. EE analysis. This table combines inclusive features of handset plans and add-on features available only on handset plans.
7.43. [8-4] As of 5th Nov 2018 customers are on EE’s annual upgrade / anytime upgrade which allow them to upgrade their handset more regularly than every 24 months45. Customers pay a ‘premium’ on normal handset plans for this option. The majority of these customers do not go beyond the end of their minimum term. However, in the event these customers do get to the end of their minimum term, we do not think it appropriate to place them on SIM Only plans that no longer have the upgrade feature which most attracted them to the plan.

7.44. For the reasons discussed above customers would more than likely finish up on a worse deal for them if they were force migrated to the closest SIM Only plan at the end of their minimum term. Furthermore, it would be administratively and technically extremely complex to map customers individually to a new plan, i.e. look at each customer on a case-by-case basis. We would therefore have to either decide that all customers were put on plans with lower allowances or all were put on plans with higher allowances, impacting either customer experience or reducing overall revenues.

Impact of other regulation – administrative burden

7.45. Beyond the negative customer experience of being moved to an allowance that does not necessarily fit customer requirements, we are concerned about the regulatory impact of this option. One concern relates to the potential for a customer to be materially impacted by any change to the plan. For example, where a customer had roaming calls from the US included in their plan during the minimum term, but was moved to a SIM Only plan that did not include such calls and which therefore meant a substantial increase in roaming costs post minimum term. In this instance would Ofcom consider this a materially adverse change, which requires notification and potentially a churn right? While customers at this point have no obligation to pay an early termination charge and can give their normal 30 days’ notice, we would still have to determine whether or not a customer fell within General Condition C1.6 to be able to determine whether or not that customer was entitled to receive notice pursuant to C1.6(a) and (c). This would incur additional operational expenses in order to determine whether or not a customer was affected, and additional administrative expenses by virtue of the actual sending of the notification. In reality these costs are likely to be passed on to customers.

7.46. Our second concern is that a move to a SIM Only plan could constitute the entry into of a new contract with the customer and therefore give rise to an obligation to provide both the statutory information and 14 day cooling-off period required by the Consumer Contracts (Information, Cancellation & Additional Charges) Regulations 2013. In the majority of cases, we would anticipate any move to SIM Only would be carried out as a distance contract, and we would indeed have to comply with ss 8, 1317, 29 & 30 of these regulations. As above, this would place an additional administrative burden on us, require yet more communications to be sent to the customer and create additional risk for us, that having gone through a complicated migration process, the consumer leaves within the 14 day cooling-off window. But, more importantly it will potentially be confusing for customers because they have opted in to automatically move to a SIM Only deal but will then be presented with information on a new contract.

Information overload

7.47. To make sure customers were aware of the choice open to them, providers would likely have to supply a significant amount of information to consumers, such as: new monthly recurring charge (MRC); new allowances; any change to out-of-bundle costs; any change to inclusive
benefits; cost of purchasing previously inclusive benefits; potential change to insurance product, and other changes as may be relevant, depending on the plan. In addition, depending on the method (opt-in or opt-out) customers would need to understand and follow clear instructions about what to do and when to do it by. This is likely to be potential information overload and is unlikely to help people who are already unengaged or who may be vulnerable and less able to understand significant amounts of information.

**Significant commercial risks to contracts**

7.48. Another option to potentially avoid some of the negative customer experience issues highlighted above would be to incorporate the move to SIM Only in the terms from the start of the minimum term. This would only be feasible for new customers. This would mean that a new customer agrees to terms that allow for a 24 month minimum term with X allowance at £Y MRC, followed by a 30 day rolling contract with XX allowance and £YY MRC.

7.49. The difficulty with this would be defining at the start of the plan what allowances and what MRC the customer would be agreeing to in 24 months’ time. It is commercially very difficult for providers to know today what price SIM Only plans will be sold at in 24 months’ time. Whilst we could use the prices for SIM Only plans applicable at the point of sale this may result in customers not in fact getting the best deal, because there may be a cheaper alternative at the time that the minimum term ends. Customers may not appreciate this, but may be less inclined to shop around given that they are already receiving some form of price reduction. For example: our 1GB SIM Only plans are currently £14, whereas in 2016 they were £17 per month. Similarly, our 10GB SIM Only plans are £20 but £25.99 in 2016 per month. In these examples customers would be overpaying by £3 to £5.99 a month if they signed up at the start of their contract to move to a SIM Only deal at the end of their minimum term.

**Insurance is likely be a specifically difficult issue to resolve:**

7.50. EE’s mobile phone insurance is underwritten by Allianz. Although we can offer insurance to SIM Only customers under their rules, this is only available on EE’s 12 month SIM Only plans. If we move customers to SIM Only plans on a 30 day rolling contract at the end of their minimum term that is likely to mean the insurance product customers have bought from us falls away too and they would need to look elsewhere for insurance.

7.51. Based on the above, for practical, legal and commercial reasons, a move to SIM Only, whether forced at end of minimum term, or planned for from the start of the contract, would be extremely difficult to manage. In addition, and crucially, a move to SIM Only would not allow customers to access better deals than currently. In fact, customers may end up paying more for the same bundle of services, or not be able to access the same bundle of services they previously had access to, in effect a worse deal than remaining on their current plan.

8. **Our view on proportionate but effective remedies and next steps**

8.1. In June 2018, as part of our engagement with Ofcom, we discussed EE’s proposal for addressing the issue identified by Ofcom of handset customers who go out-of-contract. While we wait Ofcom’s feedback, we have been further developing our solutions.

8.2. We consider these proposals to be proportionate to the limited potential consumer harm and effective in addressing Ofcom’s concern, without negatively impacting the market for all customers. Ofcom could consider requiring providers to implement:
- An additional standalone service message setting out the full range of options – is sent to customers as they come to the end of their minimum term, so that customers are fully informed that at the end of their minimum term they can take a new handset deal, move to SIM Only or switch provider. The benefits of this are that (i) it will ensure all customers understand the full range of options available to them; (ii) it will be a ‘service’ message and so the benefits will be experienced by all consumers regardless of their marketing preferences.

- Out of contract messaging at regular intervals until the customer takes action - using more than one medium e.g. outbound calling, additional SMS, email. The benefits of this are that (i) customers will be regularly reminded that they have options to take a new deal and (ii) providers will have a requirement to contact customers until they take action.

- Automatic fixed percentage reduction in price for those customers who genuinely struggle to engage with the market and who, within this context, may be deemed vulnerable when their minimum term comes to an end. The benefits of this are that (i) for those customers who do not have a rational reason for going out of contract and so may suffer harm, there would be targeted protection, with no risk of reducing overall engagement in the market.

8.3. We consider these proposals to be appropriate, proportionate remedies and do not consider there is any need for broader interventions. But as discussed in Section 6, Ofcom should use its information gathering powers to ensure there is one accurate view of the number of customers who are out of contract, how many could save by moving to a similar SIM Only deal and on average how much they could save, so that any decisions on interventions that are made, are done so based on robust evidence and not extrapolation or limited research.

8.4. Secondly, Ofcom should augment its consumer research - undertaken as part of its consumer engagement programme - to deep dive into understanding why customers go out of contract. This could be targeted at consumers who are out of contract and could save money by switching to a different plan. It should also identify those customers who genuinely find it difficult to engage with the market and why. This information should then be used, in conjunction with providers’ insight, to agree a definition of ‘vulnerable’ within this specific context.

8.5. Subject to further research as suggested, our initial view is that the following characteristics may be sufficiently general for the purposes of a potential regulatory intervention on the specific issue of mobile handsets, in order to define consumers who may find it difficult to engage with the options available in the market at the end of their minimum term:

- Customers over the age of 80 who go out of contract
- Customers with a feature phone (rather than a smart phone)

8.6. We would be more than happy to work with Ofcom, and the industry, in developing further each of our proposals.
EE end of and out of contract communications

In life, the My EE app allows customers to easily see their contract start and end dates, their monthly recurring charge, details of their usage and charges, and their monthly bills.

When our customers approach the end of their minimum contract term, we proactively contact them between [X] and [Y] times (depending on their marketing preferences). Customers receive notifications at [Z].

Fig 1: EE’s approach to end of contract notifications

Fig 2: EE’s proactive end of contract messages

Since January 2018, (and as discussed with Ofcom) we have been seeking ways to enhance customers’ awareness and have made it even easier for customers to understand and action their end-of-contract choices.

Fig 3: Our static webpage clearly sets out customers options when they come to the end of their contract.