

# 2013/14

## Annual Report

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Premium Rate Services (PRS) are the goods and services that you can buy by charging the cost to your phone bill or pre-pay account. They include directory enquiries, voting on TV talent shows, donating to charity by text or downloading apps on your mobile phone.

With more than 27 years’ experience, our regulation is open, fair and robust, underpinned by a Code of Practice approved by Ofcom.

As the telecoms, internet and payments sectors continue to grow globally at an unprecedented rate, PhonepayPlus takes action to safeguard consumers and help cutting-edge providers of digital content and services to thrive.



Andrew Pinder CBE  
Chairman

This has been a particularly busy year for PhonepayPlus and I’d like to start by thanking our staff, Board and Panel members for their hard work. I would like to single out two people for particular mention. The first is David Cockburn, the outgoing chair of our Code Compliance Panel which decides independently on individual enforcement cases. David has been central to the development of this independent Panel and we’re all grateful to him for his efforts. He is replaced by a distinguished QC, Mohammed Khamisa, who I know will play an equally important role as we continue to evolve the work of the Panel.

The second is our departing Chief Executive, Paul Whiteing, who has left for a role at the Financial Ombudsman Service. Paul was with PhonepayPlus for 16 years, more than five of those as Chief Executive, including through some challenging times. He, more than anyone, is responsible for making PhonepayPlus the well regarded regulator that it is today, and we will miss him.

The past year has seen rapid convergence and innovation in digital micropayments. It is important that regulation keeps pace with these changes and provides consistent protection for consumers and a level playing field for providers. Whilst most providers in the market are offering genuine and transparent services for the benefit of consumers, we continue to see a number of challenging issues, such as malware, misleading digital promotions, copy-cat websites and unclear subscription services, which require our keen attention and action.

Protecting vulnerable consumers remains an important focus of our work. We have taken action to protect elderly consumers and children from unexpected high bills. We have also tackled problems in the PRS consumer credit market which have been affecting financially vulnerable people.

Where needed, we take proportionate enforcement

action to protect consumers and our independent Code Compliance Panel levied fines of around £3.5 million and barred 14 companies and individuals from the market in 2013/14. However, we recognise that enforcement is not the only, or the best, tool for ensuring a compliant market. We therefore work proactively with industry to identify and address issues in the market before they become major problems requiring enforcement action.

“This style of collaborative partnership working is essential, and if anything needs to increase.”

A good example is the work we have done to address the problem of misleading digital marketing, which has resulted in guidance and an industry-led Early Warning System, developed by the Association for Interactive Media & Entertainment in collaboration with PhonepayPlus and the mobile network operators. This style of collaborative partnership working is essential, and if anything needs to increase.

We continue to receive a large number of calls from consumers worried about charges on their phone bills. Some of these are genuine complaints about wrongdoing. But many of these calls (and the regulatory cost in dealing with them) could be avoided if phone companies provided a much clearer description of a particular charge on a bill, rather than an unintelligible code, and provided better customer service to callers. It would be good to be able to report next year that there has been significant progress in resolving these issues.

In a rapidly changing PRS market, regulation must support growth and innovation without undermining consumer protection. We have applied regulation flexibly to support the growing use of charitable giving by text. And earlier this year, we launched a pilot to support the introduction of phone operator billing for app store purchases, with Google as the first signatory. This pilot is helping to support market growth and greater consumer choice in how content is paid for and we hope that it will expand as the market continues to develop.

The attached report sets out our work in more detail. I hope you find it both interesting and informative.



Paul Whiteing  
Chief Executive Outgoing

Once again, this has been another year of rapid change in the products and services that are paid for and delivered via a telecoms device, and another busy year of work for PhonepayPlus. Like many other markets, in 2013/14 PRS felt the disruptive effects of mobile internet-based services and

smartphone technology's transformative effect on consumer behaviour and on the content which is paid for and delivered via a phone. Whereas five or six years ago the primary purchase via a mobile were ringtones and games, now those services have been replaced by more sophisticated digital content increasingly being delivered in the form of apps.

These changes bring significant opportunities for PRS providers and consumers alike, but with them come challenges for all of us. Those challenges will only increase as we go forward.

Understanding the consumer journey and the experience they have has never been more important as the technology they use becomes more sophisticated. This was the focus of a major piece of research which PhonepayPlus published in 2013/14, described on p.12. Alongside a number of positive findings for the PRS industry, this research identified consumer concerns surrounding the service given by some PRS providers when something goes wrong. Too often, poor service by a minority of providers has negatively affected the wider industry. PhonepayPlus will therefore continue to work with the PRS industry to help providers address these issues which undermine confidence in the market as a whole.

The Consumer Journey research also involved PhonepayPlus' first study of micropayments, which found some similarities between consumers' experience

of premium rate and these competing micropayment methods. PhonepayPlus has always worked to ensure that anyone can use PRS with absolute confidence. There is a growing case that consumers of other equivalent services should be entitled to the same level of confidence.

September 2014 marks the third anniversary of the introduction of PhonepayPlus' outcomes-based Code of Practice (12th Edition) (the Code). It has proved a great success, and I am more convinced than ever that its focus on outcomes provides the correct framework for regulating a fast-changing digital services market where the speed of innovation gets faster year on year. We are now working with industry and other stakeholders to update the Code and we have identified changes that are required to ensure the Code continues to work effectively for both consumers and industry alike. We will therefore consult on and publish the next edition of the Code in 2014/15.

**“Striking that balance is never easy but the challenge is worthwhile and necessary.”**

Subsequent to the end of the year I have left PhonepayPlus to take up a new role in financial services. I would therefore like to take this opportunity to thank everyone that I have worked with throughout my time at PhonepayPlus and for their unyielding support. Andrew Pinder and Board have provided me with a level of support that exceeded my expectations. The Executive's dedication and professionalism has been a continuing source of real pleasure for me and I will miss them greatly. I have also enjoyed working with industry stakeholders in trying to find ways to develop regulation to ensure that PhonepayPlus provides a level playing field and certainty whilst not compromising on consumer protection. Striking that balance is never easy but the challenge is worthwhile and necessary. I leave PhonepayPlus in extremely capable hands and I look forward to watching PhonepayPlus continue to change, innovate and thrive alongside the market it regulates.



Jo Prowse  
Acting Chief Executive

An Annual Report marks the end of a year's work, but it is also an opportunity to reflect on the principles that guide PhonepayPlus' work and to consider the year ahead.

At PhonepayPlus our vision is that anyone should be able to use premium rate services with absolute

confidence. We believe that preventing problems is the key to long-term consumer protection. And from years of experience we know that the best way of doing this is to work in partnership with the PRS industry to build compliance into the market and to identify and resolve any emerging issues.

**“Preventing problems is the key to long-term consumer protection.”**

This approach, of pre-emptive and proportionate regulation, is at the heart of PhonepayPlus' work. In practice it means listening and working in collaboration with industry and applying the rules reasonably and sensibly in order to protect consumers and build confidence in the market. The Code of Practice enables us to resolve a complaint informally when it is in the best interests of both the consumer and the market, and three quarters of cases were resolved this way in 2013/14. PhonepayPlus will continue to take effective enforcement action to protect consumers where appropriate, and in the most serious of cases, whilst

ensuring that enforcement is proportionate, transparent and supports a healthy market.

PhonepayPlus continually looks for ways to enhance our support for consumers, and we have made improvements to our processes this year in light of the findings of our research into the consumer journey. As smartphones become increasingly the norm, effectively computers in our pockets, we all need to be as informed as possible so that we can continue to use PRS confidently and safely. Our consumer education programme, PhoneBrain, is one way we do this and we are increasingly looking to educate and support consumers through our website and other communications.

We are looking to the future as well as improving our current programmes. Like the PRS industry PhonepayPlus regulates, we too are considering the changes and challenges posed by new technology and digital convergence. As well as our vital relationship with the PRS industry, PhonepayPlus has developed a range of partnerships, with other regulators, digital experts, and consumer groups, which are proving ever more central to our work as a regulator.

As technology continues to evolve, PhonepayPlus will continue to develop. Updating and future proofing PRS regulation to protect consumers and promote a healthy market is our key priority and we will look to ensure that regulation remains fit for purpose and supports the introduction and development of new business models and innovation in the market that will benefit consumers. We will deliver it by sticking to PhonepayPlus's principles of proportionate and pre-emptive regulation, working collaboratively with industry in the best interests of consumers.





# PhonepayPlus is the UK's independent regulator of premium rate services

Our vision is that anyone can use premium rate services (PRS) with absolute confidence, whether they are calling a PRS phone line or buying apps that are charged to their phone bill.

PhonepayPlus does this with an open, fair, and robust approach to regulation, which is set out in our outcomes-based Code of Practice. Our work particularly takes account of the impact of services on those who may be vulnerable, including children and elderly people.

The PRS industry is a diverse market and the communications and payment sectors are developing and converging at an unprecedented rate.

PhonepayPlus works to help innovative businesses to flourish and to protect consumers in these changing times.

## Key facts:

- 2013/14 Revenues for the UK PRS market were £593.5 million
- Over 3,000 organisations are registered with PhonepayPlus as PRS providers
- 478,057 checks were made via PhonepayPlus' online NumberChecker, which allows consumers to check PRS services' details
- PhonepayPlus levied £3.5 million in fines in 2013/14
- PhonepayPlus is funded by an industry levy on PRS providers. It does not cost the taxpayer a penny.
- At PhonepayPlus we focus on pre-empting and preventing problems, as the key to effective long-term consumer protection and to ensuring that the action we take is proportionate.
- Where the rules of the PhonepayPlus Code of Practice have been broken, we can fine the company responsible up to £250,000 for each breach, we can bar access to its services and even bar the individual behind the company from running other services under a different company name. Our investigations and adjudications service is free to consumers and fully independent.

## Premium rate services include:

### Short text message numbers

Mobile text shortcode numbers are five or six-digits long and usually begin with 5, 6, 7 or 8. They are often used to vote in television programmes, to donate to charity, to enter competitions and to download games and ringtones.

### 118 – directory enquiries

Numbers beginning with 118 are used for directory enquiries services. Most calls include a charge to connect and then a charge for every minute on the line.

### 0871, 0872 or 0873

These numbers are normally used for technical support lines, chat lines, tarot/horoscope lines and sales/booking lines.

### 070 numbers

Numbers beginning with 070 are used to divert calls to another phone number. Small businesses and sole traders often use these to avoid giving out their personal phone number.

070 numbers are regulated by Ofcom. However, PhonepayPlus can investigate services on these numbers if: they are found to offer premium rate-style services; and/or the number is being misused; and if the cost of the call exceeds 10p per minute.

### 09 numbers

These numbers are mainly used for competitions, TV voting, horoscopes, chat lines, adult lines and professional service lines.

### Direct to bill charges

Goods or services that are purchased and charged directly to the consumer's phone bill or pre-paid phone account – for example, this can include apps downloaded from some leading app stores.

## Report highlights:

### Hidden harm

New technology brings new problems, as well as opportunities, for consumers and business. Some of the key issues are considered on pages 8–9.

### App stores

Over the past year, Google and a number of other major app stores have been rolling out phone billing to their users. PhonepayPlus' pilot scheme for regulating these payments is on page 17.

## STRENGTHENING COMPLIANCE AND ENFORCEMENT

## Consumer education and consumers' experience of PRS

This year PhonepayPlus published the findings of a major piece of research into consumers' experiences of premium rate services, read more on pages 12–13. Our consumer education work is reported on pages 20–21.

## Charity donations via text

PhonepayPlus worked with charities to make the rules for text giving more flexible, following a pilot that increased charity giving by over £2.7 million and helped charities to recruit 150,000 new supporters. See pages 16–17.

## Key partnerships

As the PRS market has changed, PhonepayPlus has developed knowledge and contacts in new areas. Our work with Get Safe Online, Childnet, internet security companies, and other regulators such as the CMA and FCA is covered on pages 18–19.

## Code of Practice

The Code, which was introduced in 2011, focuses on six outcomes rather than detailed rules to provide clarity for consumers and industry alike. They are:

- **Legality:** that PRS services comply with the UK law.
- **Transparency and pricing:** that consumers of PRS are clearly informed of all information likely to influence their decision to buy, including cost.
- **Fairness:** that consumers' of PRS are treated fairly and equitably.
- **Privacy:** that PRS doesn't unreasonably invade consumers' privacy.
- **Avoidance of harm:** that PRS services do not cause unreasonable offence or harm to consumers or the public.
- **Complaint handling:** consumers should expect to have their complaints resolved swiftly and any refund is issued speedily.

# Compliance and Enforcement

PhonepayPlus has a twin-track approach to promoting compliance with the Code of Practice.

We proactively engage with industry to advise them on how to comply with the Code and to discuss how best to tackle emerging issues. This helps to build compliance into how the market operates, to support responsible businesses and to prevent emerging issues from becoming serious problems. But we also take robust enforcement action where things have gone wrong and significant consumer harm has resulted.

## Stakeholder relations

There are over 3,000 PRS providers in the industry. PhonepayPlus works with them to ensure compliance and to support market growth, through the Industry Liaison Panel (ILP), focus groups, workshops and regular engagement.

The ILP is an advisory group consisting of a number of trade bodies and providers which identifies emerging trends and issues, facilitating a two-way communication between the industry and PhonepayPlus.

Our industry services team also meets monthly with PRS providers to identify emerging issues with their services and in the market more broadly. This proactive intelligence sharing helps both PhonepayPlus and the industry as we work to curb potential consumer harm and improve compliance.

## Due diligence

We advise what PRS providers should look for and do when carrying out due diligence, risk assessment and control (DDRAC) on their clients. In the PRS compliance chain, all Network operators and providers have a responsibility to monitor any party they contract with that form part of a value chain delivering premium rate services to consumers and ensure ongoing compliance.

It is important that providers have a genuine commitment to DDRAC, for example through establishing the right culture, resources and processes. We also require providers to be able to evidence what actions they have taken in support of DDRAC. In 2013/14, PRS providers

used the PhonepayPlus Registration Scheme to carry out over 4,000 due diligence reports as a safeguard for consumers.

## Co-operation

We are engaging with PRS industry trade body, the Association for Interactive Media & Entertainment, in their work to develop an Early Warning System to provide industry-wide advice on emerging and current issues.

## Guidance on the Code

Premium rate services are continually developing, and as issues arise we give the industry extra guidance on how to ensure that new services and promotional practices comply with the Code.

Affiliate marketing, in which a PRS or other business hires a digital marketing company to promote their service, was a particular focus this year. Following incidents in which the Code of Practice was breached, PhonepayPlus has engaged in a dialogue with the PRS industry and published new Guidance to make clear where responsibility lies and how to use digital marketing without causing consumer harm.

## Investigation and enforcement

When consumer harm occurs we enforce the Code proportionately and responsibly according to the evidence, facts and circumstances. Where appropriate, we work with both the consumer and the provider to resolve the issue informally. This is known as a 'Track 1' investigation case, 75% of PhonepayPlus' cases were resolved in this way in 2013/14. Track 1 cases do not involve fines, but can enable consumers to get their case resolved more quickly, including access to a refund.

In more serious cases, the 'Track 2' process is used. Our team of investigators examine the case and put it before a Tribunal of the Code Compliance Panel (CCP), a group formed of independent legal and adjudicatory specialists and PhonepayPlus board members. Where the Tribunal finds a provider in breach of the Code it

may order refunds, fine the PRS service and/or prohibit companies or individuals from the market. In 2013/14 the CCP:

- Adjudicated on 63 cases.
- Levied fines of £3.5m for breaches of the Code.
- Barred 14 individuals and companies from operating in the PRS market for a specified period.

## Polluter pays

The vast majority of PRS providers run responsible

businesses that comply with the Code of Practice and offer good value and services to consumers. A small minority of providers cause the majority of consumer harm in the PRS market. In 2013/14, 15 providers were responsible for 40% of PhonepayPlus' investigation cases.

Under our polluter pays strategy, those who don't comply with the Code bear more of the cost of regulation. Fines and administration fees are offset against the levy which funds PhonepayPlus, lowering the cost of regulation for compliant PRS providers.

## 5 key adjudication cases in 2013/14

### £80,000

A directory enquiry provider was ordered to improve pricing information and fined £80,000 after consumers hadn't been properly informed about the true cost of calling.

### £100,000

A voucher service was fined £100,000 for charging people for unwanted vouchers without proof of their consent and giving the impression that the service was free.

### £70,000

A text message service that promised youngsters that it would answer 'any question' was fined £70,000 after children ran up bills of texts that cost parents hundreds of pounds.

### £45,000

A Pac-man style online game marketed on Facebook and Tumblr that charged unwitting customers up to £4.50 a week led to a £45,000 fine for the service provider who was also ordered to issue refunds.

### £120,000

A firm that scammed job seekers and home hunters using 070 numbers was fined £120,000.

## Case Study

A company that charged consumers without proof of their consent and incorrectly gave the impression that its service was free was ordered to refund consumers and fined £100,000 by PhonepayPlus.

The company promised vouchers giving customers items and services like free entry to cinemas or free coffee in coffee shops. But PhonepayPlus found that the service's advertising didn't give consumers the full information that they needed.

The company admitted to PhonepayPlus that as many as 30,000 people had been subscribed (and therefore incurred charges) through opt-in details obtained from a third party. The service's website was unclear about its costs. The first thing that consumers saw on the site was "GET FREE STUFF TO YOUR MOBILE", when in reality consumers were charged £1 for every voucher sent to them.

Complainants to PhonepayPlus said:

"I was completely unaware that I was being charged"  
"I never asked for this service never heard of it and I don't want to be charged for something I didn't ask for"

Result: The company behind the service was fined £100,000 and ordered to refund consumers.



# Hidden Harm

With the increasing changes to the premium rate services landscape, consumers need to be aware of the risks and how to use PRS confidently.



Latest figures reveal 59% of vulnerable consumer complaints in 2013/14 involved a child.

## What is it?

## Typical warning signs

## PhonepayPlus action

## Advice to consumers

### Mobile malware

Mobile malware is a growing threat. It happens when people download an app that has been programmed with malicious software (malware). Result? The consumer's phone is billed with premium rate messages. Rogue programmers are continually evolving techniques.

You may have clicked on promotions that you did not recognise to take you through to the malware. Apps may also have been marketed as free versions of games you would normally pay for. On downloading the app you find that it does not work and you then incur repeat premium rate charges for a service you did not consent to purchase.

PhonepayPlus is working with industry, other regulators and anti-fraud agencies to tackle this problem, including through early identification and take down of malicious apps. We have also taken enforcement action against providers of malicious apps.

Do not download apps unless you are satisfied that they are legitimate. Be particularly wary of apps that are pushed through promotions that you do not recognise or are advertised as free versions of apps that you would normally pay for. Check your phone bill for any unauthorised charges.

### In-app billing

In-app billing is an increasingly popular charging model for many apps, especially for online games. In-app billing occurs when the app can be downloaded for free, but additional features or content within the app cost money.

Your children have been given access to a smartphone or tablet and allowed to download apps and make in-game purchases without any controls. You get phone bills that are much higher than expected and contain repeat charges for in-game content.

We have worked closely with major app stores, mobile phone operators and with the Competition and Markets Authority to address this problem. We are consulting on changes to our Code to strengthen protections for children to guard against bill shock.

Parents should put controls in place to ensure that children can only make in-app purchases with parental approval. They should also make sure that children understand that just because an app is free to download, this does not mean it is free to play.

### Copycat websites

Websites that resemble official providers such as the Driving Standards Agency or the Passport Office and offer services like booking a driving theory test. Typically complaints arise when callers ring the 090 number on the website but don't realise that they are being offered a third party service via a premium rate number.

You are seeking to get through to a Government agency or to a major company, but have clicked on a link that is actually promoting a premium rate intermediary service. The website may look like an official site, but on closer inspection you will be able to tell that it is not (e.g. because the web address is not the correct official one). If using the service, you will incur premium rate phone charges that you may not have expected.

PhonepayPlus requires all premium rate providers offering connection or information relating to official services to obtain approval from us before they can operate. We will only grant permission to operate if we are satisfied that the service is genuine and is not misleading to consumers.

Be careful about which links you click on when using search engines. Do not assume that the first results are necessarily the official site you are seeking. Take care to check the search results carefully to ensure you click on the right links. Then check the website you have landed on carefully. Does it really look official and does it have the correct web address for the official site?

### Misleading marketing practices

Affiliate marketers are used legitimately by industry providers to market their services, earning cash by driving traffic to websites. But a minority of unscrupulous affiliate marketers use a number of techniques to mislead consumers into accessing websites or signing up to services that they did not intend to use.

You have clicked on a link or a promotion that you did not request and which is taking you to a website or service you do not recognise. You may be being offered a prize or a free gift if you just fill in a survey including your phone number. You then incur a premium rate charge or repeat charges and never receive your prize or free gift.

PhonepayPlus has engaged in a dialogue with the PRS industry and published new Guidance to tackle bad practice in affiliate marketing. We have also taken enforcement action in cases where malpractice has been identified.

Do not click on promotions or links you do not recognise and did not request. Do not be misled by offers of prizes or free gifts unless you can be absolutely sure that these are genuine.



Our helpline team are highly experienced at advising consumers

# Handling consumers' enquiries and complaints

More than 33,000 web and phone contacts about premium rate services.

Of the 33,000 calls and web enquiries we get, around 50% of these do not require further action, either because the enquiry relates to an issue that is outside of our remit, or because once the consumer has identified the service they have been billed for, they recognise it as a service they did use.

### Complaint resolution

PhonepayPlus received 15,836 complaints in 2013/14. After carefully assessing these complaints against the Code of Practice, about half (8,250) progressed to enforcement action. For more details of this process see p.6.

In 2013/14 PRS competition services that offered high value prizes like Apple iPhones and were marketed using digital promotions generated the highest level of complaints (30%).

### Vulnerable consumers

People often prone to experiencing 'bill shock' are elderly people, children and those whose vulnerabilities are linked to their circumstances such as being in financial need.

Children and app store purchases were a regular theme

in calls to PhonepayPlus' helpline in 2013. A number of children ran up high bills by downloading a free game app and then making 'in-app' purchases to upgrade games and buy extras without realising the cost of these purchases. Consumer advice groups encourage parents to use the controls on their child's smartphone for app store purchases, but not enough people do so.

Consumers' experiences inform PhonepayPlus' policy-making, as we seek to pre-empt and prevent problems. Research conducted for us this year found that parents overwhelmingly welcome caps on children's services, with 88% of respondents supporting the introduction of monthly spending caps. As part of our review of the Code of Practice, we are consulting on what level the spending cap should be set at.

During 2013/14, PhonepayPlus has also taken action to protect consumers applying for short-term loans via PRS. We are concerned that consumers are being charged upfront to apply for loans, through the premium rate call charge, regardless of whether they are successful in obtaining a loan; and that they may not be fully aware of the cost of the call, the terms and prospects for successfully obtaining the loans they are applying for and their statutory right to a refund.

### Supporting consumers

PhonepayPlus' consumer helpline team are trained to update their skills in customer service, evidence gathering and knowledge of the market, enabling them to deal with 50% of all issues and complaints on the consumer's first call.

Our online NumberChecker empowers consumers, allowing them to search premium rate numbers and get immediate information, costs and contact details for the service they have used.

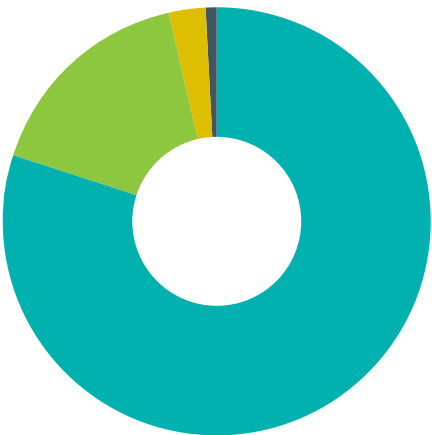
The PhonepayPlus website and our PhoneBrain site for parents and children continue to be an effective source of advice for consumers. Over the last year we have used other channels, including social media and online video, to highlight and add to these resources for consumers.

PhonepayPlus is implementing changes to improve our customer handling processes, following independent research which we commissioned into consumers' experiences of premium rate services, see p.12-13 for more on this research.

80% target

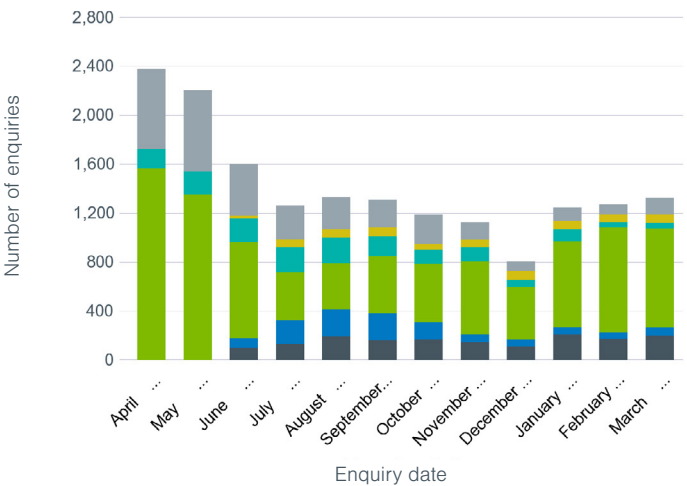
- calls to our contact centre answered within 30 seconds
- informal cases resolved within 30 working days of allocation
- Track 2 cases resolved within 14 weeks of allocation

Complaints by sector



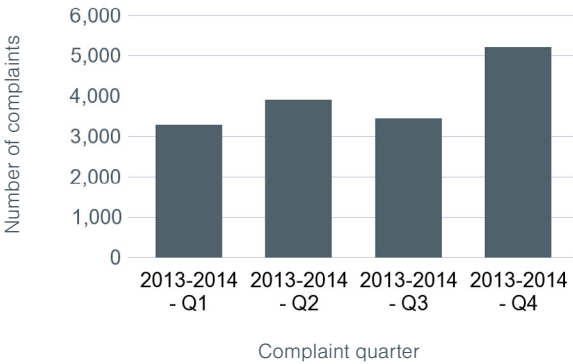
■ SMS – 80.24%    ■ Payforit – 2.89%  
■ Fixed line – 16.24%    ■ Other – 0.63%

Number of consumer enquiries and complaints



Enquiry type (new)

■ BT enquiry    ■ Consumer number check  
■ Case update    ■ Network number check  
■ Consumer enquiry    ■ Out of remit





# Improving the consumer journey

Our research into the changing landscape for consumers in 2013/2014.

In February 2014 PhonepayPlus published a consumer survey: Understanding Consumer Journeys. It polled 4,000 people across the UK as a representative sample of 17.5 million regular premium rate services (PRS) users in order to help the industry and PhonepayPlus improve the handling of consumers' enquiries and complaints.

The headline conclusions from the research were:

**That whilst some improvements have been made to the PRS consumer journey since PhonepayPlus last surveyed it in 2009, further improvements are needed.**

- Over a quarter (26%) of those who contact PhonepayPlus first make seven or more contacts with other organisations (such as the merchant or their phone company) about their issue without resolving it. Another 37% have made contact between three and six times.

- 39% of consumers were very dissatisfied with how their phone company handled their enquiry and a further 12% were fairly dissatisfied.

**There is a lot of “hidden harm” in digital micropayments as consumers generally don't complain unless they lose significant amounts of money. Because digital micropayments generally involve low-value, high-volume purchases, this means that a substantial amount of aggregate consumer harm goes unreported.**

- Only around 1 in 7 (15%) of those PRS users who had experienced issues in the previous 6 months made a complaint. The main reason for not complaining was that it was “too much hassle” for the amount of money they had lost.

- Consumers lost on average £11.14 before they made a complaint to their phone company or merchant. It took an average loss of £32.14 before they took their complaint to PhonepayPlus.

- The figures were similar for other non-PRS digital micropayments (such as credit/debit card purchases of low-value content) where only around 1 in 8 consumers who had experienced issues made a complaint.

**Consumers were generally satisfied with PhonepayPlus' handling of their complaint, but there is more we can do to improve follow up engagement with consumers.**

- 38% of consumers contacting PhonepayPlus were very satisfied with the way PhonepayPlus handled their complaint, with a further 21% fairly satisfied.
- 69% of complainants felt that PhonepayPlus was good or very good at taking their issues seriously. However, only 46% felt that the clarity of PhonepayPlus' further correspondence was very good or good.

## Action to improve consumers' experiences

We have shared the research with the PRS industry and we are meeting with parties across the value chain to improve the overall consumer experience when handling consumers' enquiries and complaints.

PhonepayPlus has implemented a comprehensive consumer update programme, via email and letters, to ensure that consumers are fully aware of the status of their complaint and any investigation we have initiated. As a result, we have seen a significant reduction in the number of repeat calls to the contact centre by consumers who want an update on their case.

## Case Study

In February 2014 PhonepayPlus ordered refunds to consumers over misleading adverts on Facebook and Tumblr that led to a 'Pac-Man' style game with PRS charges.

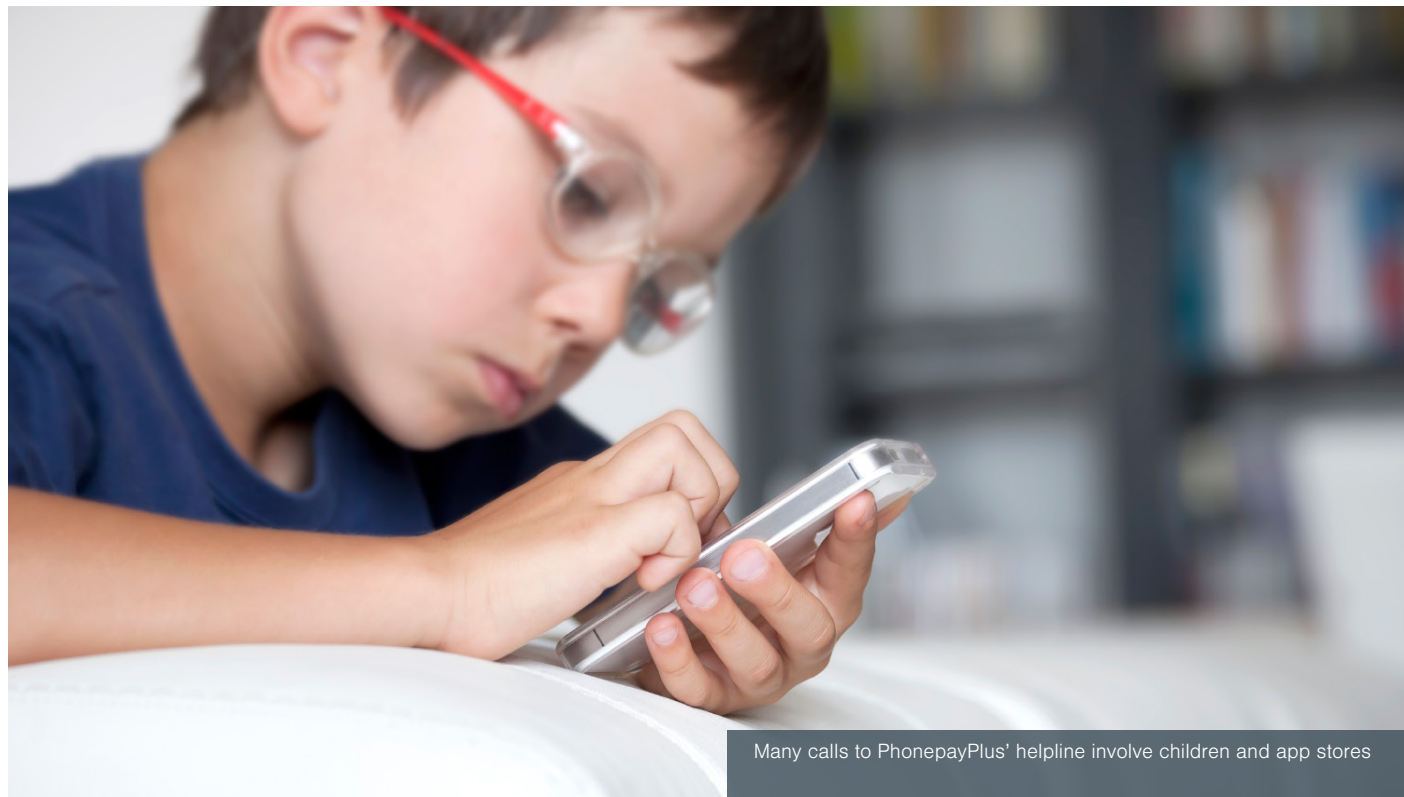
Users of Facebook and Tumblr were misled by adverts promising to reveal who had viewed their profiles. When clicked on, these adverts then re-posted themselves onto the user's own wall and took users to a 'Pac-Man' style game.

Consumers were told that if they obtained the highest score in the game they would be entered into a draw to win high value prizes, including iPads and Playstation 3 consoles.

To enter the game the users were asked to enter their phone numbers but several reported that they hadn't realised they had signed up for a subscription service.

The complaints received by PhonepayPlus included one parent who reported that their 13 year old son was affected and another parent whose 17 year old daughter's phone had been charged.

Result: The Tribunal ordered the PRS firm to refund all complainants and imposed a £45,000 fine. PhonepayPlus issued advice for consumers on using social media and playing online games.



Many calls to PhonepayPlus' helpline involve children and app stores



# Consumers and PhonepayPlus

People come to PhonepayPlus when a company fails to resolve their complaint quickly or if they are unable to find out who runs the service. We offer consumers free advice or look into the problem on their behalf.

**33,000**  
contacts

The PhonepayPlus call centre team handled 33,000 complaints and enquiries in 2013/14. Fifty per cent of callers rang with enquiries such as querying unexpectedly high charges to their phone bill and were provided with information that satisfied their enquiry.

**!** **85%** of people that believe they are out of pocket after using PRS do not come forward. Often because the money involved is relatively small.



Children and the elderly are among those prone to experiencing 'bill shock' at unexpected phone bill charges.



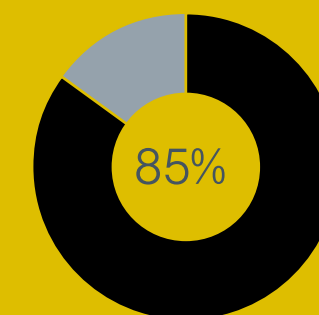
With children, it is often associated with free online or app store games that come with in-game purchases and advertising for premium add-ons, which children sometimes assume are free as part of the game.

**7** telephone calls



Unsurprisingly, there's a proven link between the amount of cash lost and the consumer's reaction. Recent research conducted for PhonepayPlus suggests it takes a charge of £32.14 before the consumer calls in the regulator yet typically, it takes seven phone calls to a variety of organisations (network operators, PRS providers, and others) before the consumer picks up the telephone to PhonepayPlus to report their issue.

When consumers do call PhonepayPlus, we give them **clear advice** on what to do next, confirmed by **85%** of callers surveyed in our recent research.



If their complaint can be resolved straightforwardly, we work with both **consumers** and **provider** to resolve the problem, secure refunds and to help the provider ensure the problem isn't repeated.



If a consumer's issue requires formal investigation into potential breaches of the Code our team of trained investigators will investigate and put their findings before the **Code Compliance Panel Tribunal** for decision.



In 2013/14 **15,836** complaints were received – a rise of **21%** on the previous year (13,021).

# Encouraging market innovation

Our core objective is to protect consumers. This is clear from our vision, which is that “everyone should be able to use premium rate services with absolute confidence”.

Nonetheless, we are mindful that without compromising consumer protection, regulation should also support growth and innovation in the market. This is particularly important in a market like PRS where technology and business models are changing rapidly. There are a number of ways in which regulation can help to support growth and innovation.

## By building consumer trust and confidence

Consumer trust and confidence is key to sustaining market growth and innovation. Consumers will not use services they do not trust, especially as they now have a considerable range of alternatives to PRS for low value content and services. Effective regulation gives consumers confidence that the services they use meet appropriate standards and that if things do go wrong, they have a regulator they can turn to, in order to complain and seek redress. For example, in recent years we have seen an increase in the proportion of consumers who say that pricing on PRS is clear and this can only be good for trust and for business.

## By keeping “bad actors” out of the market

In 2011, we introduced a Registration Scheme so that there is clarity about who is operating premium rate services in the UK. This has helped the industry to conduct due diligence, risk assessment and control on the value chain and keep “bad actors” out of the market. Where our Code Compliance Panel (CCP) has found providers to be in serious breach of the Code, they have the power to bar them from the market for a period of time. In 2013/14, the CCP barred 14 companies and individuals from operating PRS in the UK.

## By focusing on outcomes, not prescriptive rules

In 2011, we introduced a new Code of Practice that was based around meeting six key consumer outcomes rather than around prescriptive rules. This was supported by a substantial body of guidance. An outcomes-based approach helps to support innovation because it means that regulation can adjust to changes to technology and business models. It also means that providers have the scope to develop innovative new ways of meeting Code outcomes.

## By ensuring that regulation remains future proofed

Over the past year, we have been reviewing our Code of Practice and have recently consulted on proposals for updating it. Whilst there remains strong industry support for the current structure of regulation, we recognised that there are areas where the Code could be further improved. One example is around complaint handling, where the current Code requires all providers to operate a non-premium rate helpline for consumer complaints and enquiries. However, we recognise that the market has now moved on and that for many online services, email or internet messaging can be an equally good channel for consumer complaints and enquiries. We are therefore proposing to make the Code more flexible to allow for this, whilst ensuring that complaint channels remain accessible for all consumers.

## By applying regulation in a way that is flexible

By adopting an outcomes-based approach, we are able to apply regulation in a flexible way that maintains consumer protection whilst also allowing for innovation. Specific examples of where we have done this are:

- Charitable text giving: Charitable text giving is a significant growth area in the market and one where consumers really value the convenience of being able to make payments by phone. However, a number of leading charities came to us and said that the regulatory requirement to send a monthly “stop” reminder for subscription services was holding back

the market. We conducted an extensive pilot with the charities, whereby charities only had to send a “stop” reminder every three months, as long as every month they sent a “skip” reminder (which reminded donors to text “skip” if they wished to miss a month’s payment but not cease their donations altogether). The pilot demonstrated that the use of the “skip” reminder increased donor retention and engagement without leading to consumer harm and consequently PhonepayPlus has granted charities a permanent exemption to operate the model.

- App stores: The option to pay for digital content on your phone bill has recently been introduced in the UK by a number of leading app stores, such as Google Play and the Windows Phone store. Phone billing is attractive to app stores because it is an easy way to pay and can also be used by people who do not have debit or credit cards. However, we recognised that our requirement that all content providers register with PhonepayPlus might not be appropriate for major app stores, which have their own registration procedures and are dealing with many thousands of often small app developers based all over the world. We have therefore launched a pilot exercise that allows app developers to be exempt from our registration requirement, as long as the app store itself registers with us and meets other conditions. Google has already signed up to the pilot, which has been widely welcomed.

# Planning our Future

Like any regulator, PhonepayPlus needs to plan ahead and ensure that it has the right medium-term focus and capabilities to meet the challenges it faces and to deliver the results the public expects.

PhonepayPlus is therefore in the process of consulting on a three-year strategic plan. The plan sets out our vision, mission, values and objectives for the next three years and sets the strategic context for our annual business plans and budgets. The plan will ensure that consumer protection remains at the heart of what we do, whilst also supporting growth and innovation. The plan

puts a greater focus than we have had in previous years on the following:

- The need to be able to anticipate and respond rapidly to changing technology and business models in our market. This is especially important given that the pace of change is accelerating and creating new risks, as well as opportunities, for consumers.
- The need to ensure our approach to regulation takes account of the fact that PRS is now part of a much bigger, more integrated market for digital micropayments. We will also encourage a wider discussion with Government, other regulators and consumer bodies about the optimum framework for regulating digital micropayments. We believe there is a strong case for a more harmonised approach

to regulation that gives consumers the same rights and protections and providers the same obligations regardless of the payment mechanism used to buy the content or service.

- The need to protect vulnerable consumers. With three in ten children aged 5–15 now owning a smartphone, the risks of children running up unexpectedly high bills on PRS or similar services is ever increasing. Children can also be more exposed to other risks around accessing inappropriate content or sharing data or other information without their informed consent. We will also continue taking action to protect other groups of vulnerable consumers, such as the elderly or the financially vulnerable.
- The need to continue building our capability as an organisation and strengthening our market knowledge and external partnership working skills.





# Partnerships

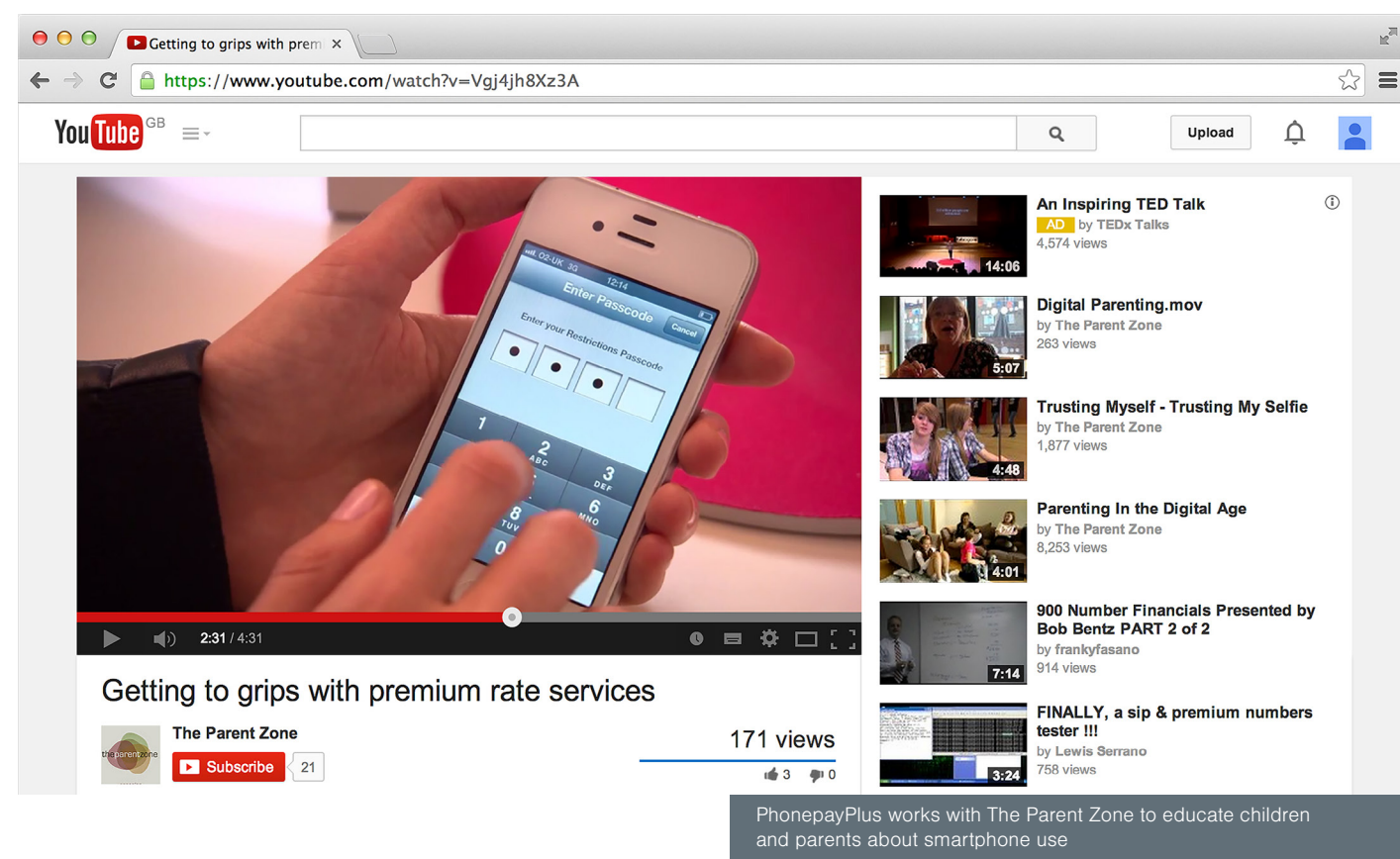
Joining forces with other organisations is hugely important to PhonepayPlus.

As a small regulator overseeing a complex and rapidly-evolving market, we recognise that working with external partners is crucial in enabling us to deliver our objectives. Many of our external relationships, such as with Ofcom, the Advertising Standards Authority (ASA) and the PRS industry in general, are long-standing and continue to be central to our work. However, as the PRS market has changed, we have also had to develop new relationships and partnerships. It is no longer sufficient for us to have expertise and relationships just within the PRS area. Rather we also need to develop new knowledge and contacts in other areas that are important in shaping our market and the consumer experience.

Over the past year we have developed our engagement with a number of organisations including:

## The Financial Conduct Authority (FCA)

We have been working with the FCA on the review of the EU Payment Services Directive and on reviewing the regulation of PRS consumer credit services. As the digital micropayments market converges, the relationship between PhonepayPlus regulation and payments regulation will become increasingly important and will require close working with the FCA.



## The Internet Advertising Bureau (IAB)

We have been working with the IAB in developing our understanding of affiliate marketing and how to deal with misleading digital marketing. The IAB has been very helpful in sharing expertise, contacts and best practice.

## Which?

When Which? called on the Government to take action on nuisance calls and texts, they approached us for advice on the market. When we launched our app store pilot in May 2014, Which? helped by publicising the pilot on their website and distributing news to their networks. This has helped to raise consumer awareness.

## Internet security companies

We have worked closely with a number of internet security companies, including Kaspersky, to help tackle mobile malware. We exchange expertise and intelligence with internet security companies and their intelligence has helped us in working with the mobile networks and PRS industry to stop malware attacks.

## Research

Every year PhonepayPlus delivers a programme of research to inform our work and to provide interested parties with information and insight on the PRS market. Last year we produced the following pieces of research:

- An annual market report looking at trends in the PRS market with data on overall market and sector size and on consumer usage of PRS.
- A survey of consumer views and usage of live services and of children's services to inform our consideration of spending caps in the Code review.
- A report on consumer views and usage of PRS consumer credit services to inform our review of regulation in this area.
- A substantial report on the consumer journey in PRS and in other digital micropayments.

## Competition and Markets Authority (CMA)

We have worked with the CMA (and their predecessor organisation, the OFT) in helping to tackle the problem of children running up high bills through in-app purchases on app stores. In January 2014, the OFT published guidelines around proper promotion and operation of in-app purchases, and PhonepayPlus has also set out proposals to protect children from bill shock in its review of its Code of Practice.

## Google

We have worked with Google in launching our pilot for phone-billing on app stores. The pilot ensures that consumers buying content on Google Play and charging it to their phone bill receive the full protections under our Code of Practice, whilst also building in appropriate flexibility to support innovation.

## Get Safe Online

We have worked closely with Get Safe Online to communicate key messages to consumers about how to use PRS safely. We participated in Safer Internet Day and announced the winners of PhoneBrain 2014 at that event.

## The Parent Zone and ChildNet

The Parent Zone and ChildNet help us to deliver our PhoneBrain children's education programme. Their advice on how to communicate key messages to children and parents has been important in ensuring the continuing success of PhoneBrain.

## Trading Standards

We work with Trading Standards in tackling scams in PRS and related areas. Trading Standards recently made a number of arrests in relation to people operating copy-cat websites. We have also helped to tackle this problem by implementing new rules so that websites which connect, signpost or provide consumers with information relating to other services are transparent about who they are and what they do.



# PhoneBrain: Our children's education campaign

PhoneBrain is the award-winning education programme to make youngsters savvy in their smartphone use.

PhoneBrain is PhonepayPlus' free national programme aimed at arming primary and secondary pupils with the knowledge and skills to use their smartphones to pay for services confidently and safely, whether it's apps or TV voting.

Launched in 2008, the programme aims to raise awareness among pupils in thousands of schools and youth clubs stretching across the UK.

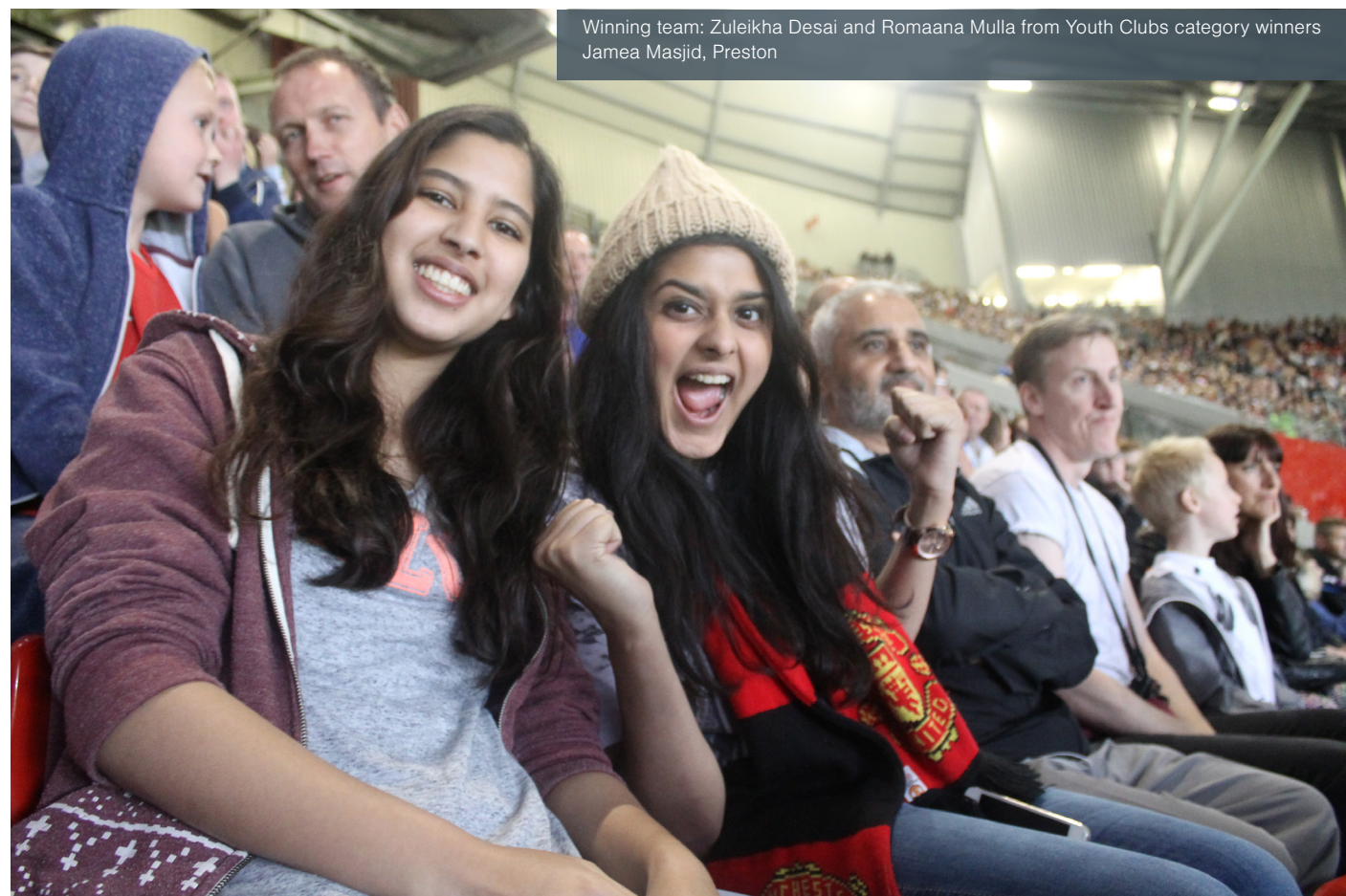
PhonepayPlus invested in the programme to develop and issue downloadable videos packed with guidance to teach ways of buying PRS safely. The consensus was that PhoneBrain would be a useful weapon to fight phone scams and avoid 'bill shock' when youngsters run up eye-wateringly high bills on smart phones and connected devices.

The user-friendly videos drill young people in easy tips

when using a phone. They include no-nonsense logic such as never type your phone number into websites unless you're certain what it's going to be used for, and signposting help from the PhoneBrain website and PhonepayPlus.

To raise awareness, PhonepayPlus launched a competition in schools and youth clubs nationwide to help youngsters understand the costs involved. Between September 2013 and February 2014, almost 3,000 youngsters completed a web quiz before working on their ideas, aimed to get them thinking about how they could be charged for buying digital apps or games or calling up premium rate lines.

The PhoneBrain competition gripped youthful imaginations, and children sent in their bright ideas to create an app or song to help youngsters understand the costs involved in mobile and smartphone use.



Winning team: Zuleikha Desai and Romaana Mulla from Youth Clubs category winners Jamea Masjid, Preston

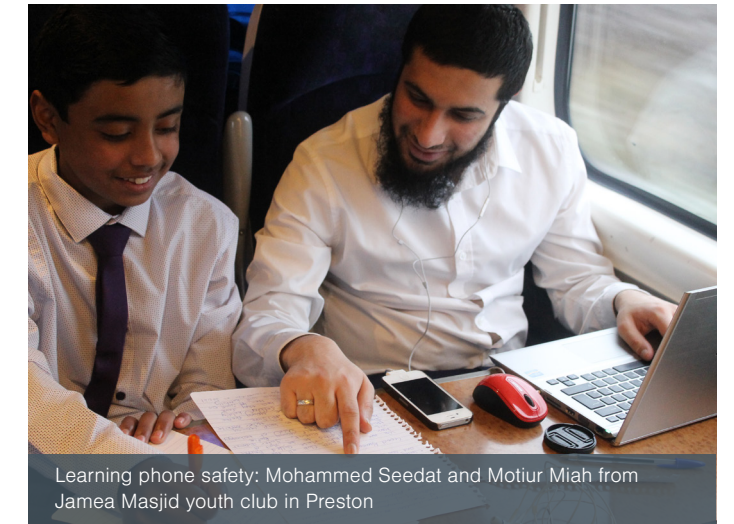
Watford Grammar School for Girls team won both the schools award and overall top prize with their educational game called PhoneVille featuring virtual buildings that children visit to find out more about using phone-paid services safely.

It's clear that schools, youth clubs and parents have welcomed the scheme. Watford Grammar School for Girls' teacher Jam Nair said of her Year 11 team: "It's immensely important for this generation to be phone-savvy. The girls learned a lot about pricing, and some realised how gullible they are when they sign up with organisations that ask for personal information. We talked about X Factor and asked how much they spent ringing up phone lines voting for their favourites. Some girls were quite clued up and own apps to monitor how much they spend, but others got a nasty surprise. The website was teen-friendly. The girls took part to educate peers and some even went home and taught their parents."

In 2013, **26%** of children aged 12 to 15 owned a tablet, a sharp increase from 2012 when it was just 7%

The Jamea Masjid Preston team topped the Youth Clubs category impressing judges with their plan to run a local campaign teaching youngsters about phone-paid services that included events and videos. Both teams won £500 and as overall winners, the Watford grammar school also won tickets for a gig at O2 Arena.

Mohammed Seedat, a voluntary youth club ambassador at the Jamea Masjid youth club said: "The initiative is a great project. When our youth club found out about PhoneBrain, we were very excited to enter. We held several workshops based on tapping entrepreneurial skills, unclogging creative minds and pitching ideas. The competition developed our young people's confidence, increased self-esteem but mainly armed them with skills to help them become the UK's future entrepreneurs."



Learning phone safety: Mohammed Seedat and Motiur Miah from Jamea Masjid youth club in Preston

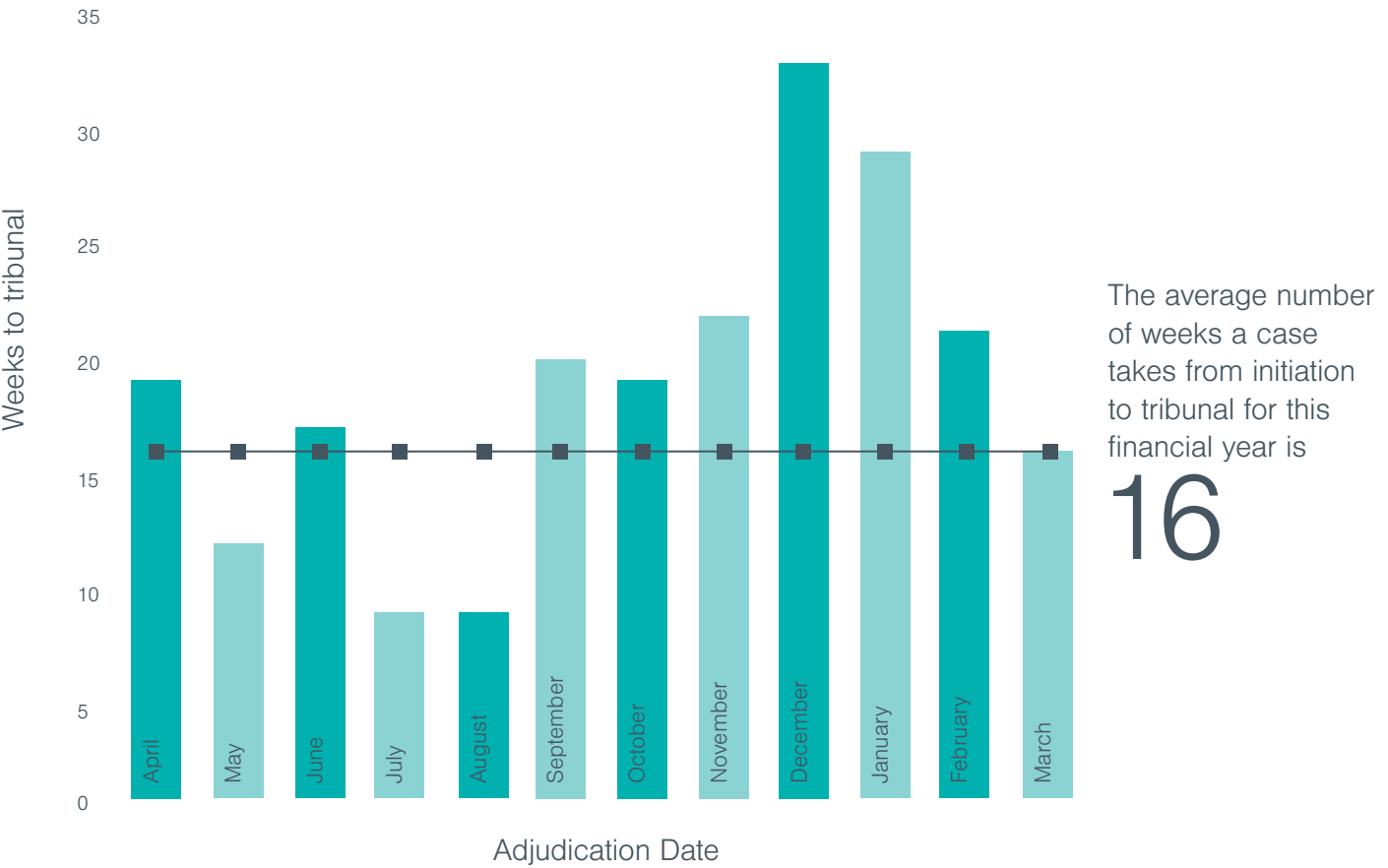
Teenager, Hamza Lanjri, 16, was impressed. "I definitely learned things I didn't know before. Also the video had interesting information and stats, I'm definitely going to be thinking before I surf the web and download apps in future."

## Stay safe on PRS

- **Know your numbers** – some "premium" numbers starting with 118, 09 or 0871 can cost more.
- **Look for the price** – Sounds obvious but it might be hidden in the small print.
- **Watch what you click on** – when browsing on your phone, some clicks cost you money.
- **Don't ignore your phone bill or phone credit** – check with your phone network what you're spending on and on which numbers.



Measure	Target	Q1	Q2	Q3	Q4	Financial Year
Fine collection rate (collection of due fines within the financial year)	80%	31.00%	57.00%	56.00%	61.00%	61.00%
Admin charges collection rate (collection of due administration charges within the financial year)	80%	83.00%	87.00%	83.00%	79.00%	79.00%
Informal cases resolved within 40 working days of allocation	80%	88.73%	61.45%	90.57%	85.71%	79.15%
Responses to compliance advice requests answered within five working days	80%	90.74%	89.55%	87.02%	87.45%	88.99%



Leadership Team

The Leadership Team comprises Jo Prowse (Acting Chief Executive) and two Executive Directors – Patrick Guthrie (Director of Strategy and Communications) and Ayo Omideyi (Interim General Counsel).



Jo Prowse  
Acting Chief Executive



Patrick Guthrie  
Director of Strategy and Communications

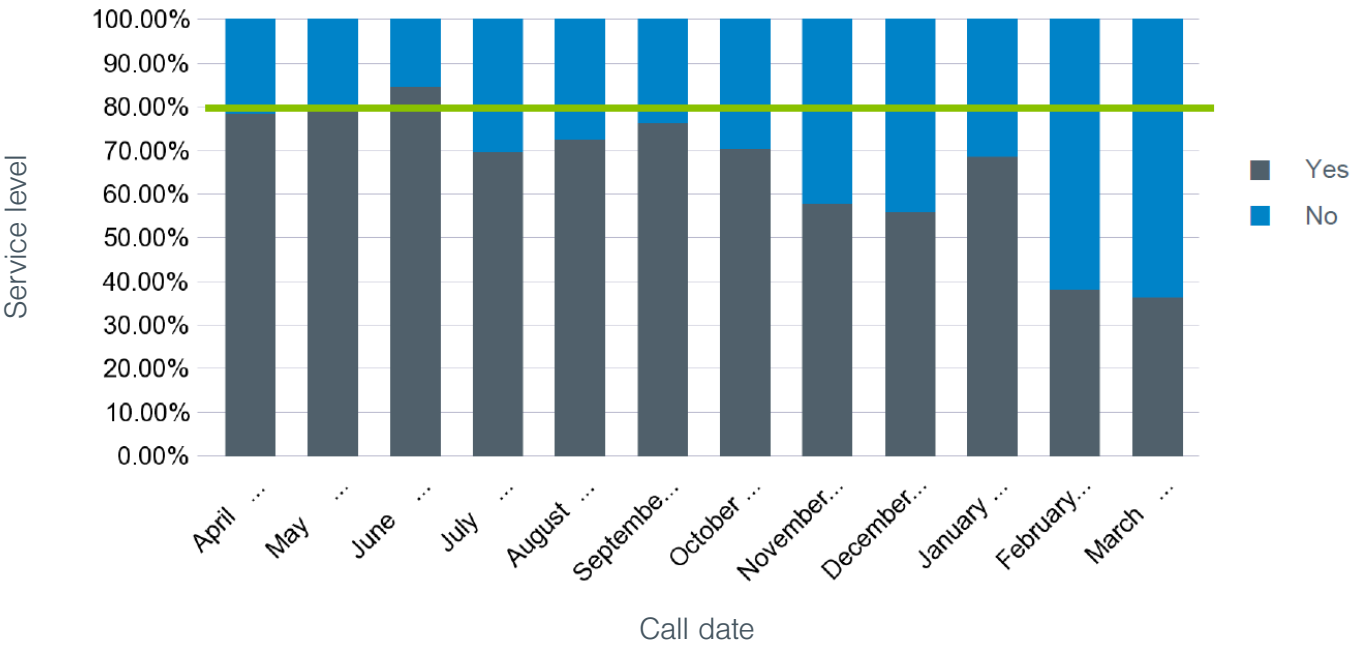


Ayo Omideyi  
Interim General Counsel

Responsible for the day-to-day Executive function, the Leadership Team ensures that Board-approved strategies, plans and policies are implemented efficiently.

PhonepayPlus has a 47-strong dedicated workforce based at our office in Tower Bridge.

This shows how many calls to our contact centre were answered within 30 seconds.





Patrick Guthrie, Ayo Omideyi, and Jeremy Hallsworth (closest) at a meeting of the PhonepayPlus Board

## PhonepayPlus Board

The PhonepayPlus Board is responsible for developing strategic direction for the organisation and ensuring that the work of the Executive meets that vision.

Currently made up of seven paid, non-Executive part-time members and the acting Chief Executive of PhonepayPlus, five Board members have no current connection with the premium rate industry and the two members who are currently active in the industry – Hugh Griffiths and Jeremy Hallsworth – take no part in PhonepayPlus' adjudicatory function.



Andrew Pinder CBE,  
Chairman



Peter Hinchliffe, Deputy  
Chairman



Jo Prowse,  
Acting Chief Executive



Matti Alderson



Hugh Griffiths



Jeremy Hallsworth



Ruth Sawtell



Howard Webber

## Code Compliance Panel (CCP)

The Code Compliance Panel carries out PhonepayPlus' adjudicatory function.

The CCP is made up of nine people from which three members are drawn to form PhonepayPlus' fortnightly tribunals. The panel hears and adjudicates on cases against premium rate providers that PhonepayPlus suspect to be in breach of its Code of Practice.

While three PhonepayPlus non-industry Board members sit on the CCP (Peter Hinchliffe, Ruth Sawtell and Howard Webber), the CCP's decision-making process in respect of the cases considered is independent of the PhonepayPlus Executive, with the other members (pictured right) appointed for their specialist legal and adjudicatory experience.

Julian Weinberg will be joining the CCP later in 2014.



Mohammed Khamisa  
Chair



Linda Lee



Louise Povey



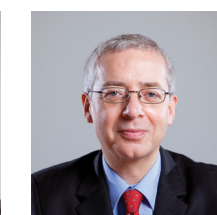
Elisabeth Ribbans



Tony Moss



Ruth Sawtell



Howard Webber



Peter Hinchliffe

## Independent Appeals Body (IAB)

The Independent Appeals Body is made up of a chairman, Robin Callender Smith, and Peter Wrench, Michel Olszewski and Dame Elizabeth Neville.

An appeal tribunal will usually consist of three members. Both the Chairman and all members are completely independent of PhonepayPlus and it is their role to hear appeals by providers or network operators against tribunal decisions and adjudications, following an oral hearing.

We also have an independent Lay Assessor, Hilary Bainbridge. The Lay Assessor independently reviews complaints about PhonepayPlus and its conduct against the published complaints procedure.

## Departing CCP members



David Cockburn



Michelle Peters



David Jessel



Income	Notes	Year end 31.3.14	Year end 31.3.13
		£	£
Net Levy on premium rate telephone services	1	1,939,304	1,755,612
Administrative Charges	1	422,736	332,493
Fines	1	3,207,816	2,711,500
Registration Fees	2	270,595	241,117
Other Income		24,187	36,902
Funds Received		5,864,638	5,077,624
Interest Receivable		43,794	44,879
<b>Total Income</b>		<b>5,908,432</b>	<b>5,122,503</b>

## Expenditure

Staff & Related Costs	3	2,646,310	2,499,536
Premises	4	340,101	335,850
Depreciation		215,687	206,687
Overheads	5	410,185	379,590
External Professional Services	6	402,758	410,242
Other	7	1,884,632	1,281,622
<b>Total Expenditure</b>		<b>5,899,673</b>	<b>5,113,527</b>
Profit Before Taxation		8,759	8,976
Corporation Tax		(8,759)	(8,976)
Profit After Taxation		0	0

## Notes

- 1) The company is non-profit making. A service provider levy is collected via the network operators based on their outpayments in order to cover the proposed expenditure in any year. Any difference between the amount collected and expenditure incurred is taken into account in setting the following year's levy. The company also received fines and administration charges from services that are in breach of its Code
- 2) **Registration Scheme**  
The expenditure detailed for the company includes the following costs relating to the Registration Scheme
- 3) Staff and related costs include staff

	2013/14	2012/13
<b>Staff and Related Costs</b>	<b>£112,904</b>	£113,615
<b>External &amp; Professional Services</b>	<b>£975</b>	£13,675
<b>Overheads</b>	<b>£104,658</b>	£91,694
<b>Total</b>	<b>£218,537</b>	£218,984

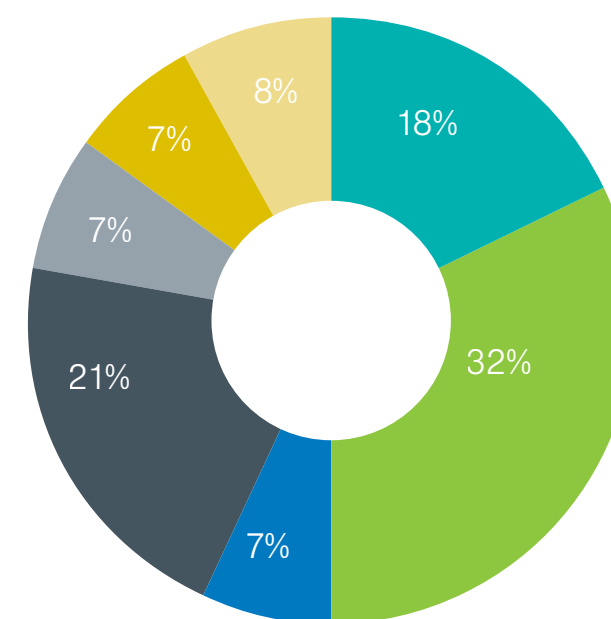
remuneration, recruitment, training, temporary staff and fees and expenses for the Board members, Code Compliance Panel, Independent Appeals Body members and the Lay Assessor.

- 4) Premises costs include rent, rates, service charge, repairs and maintenance, electricity and cleaning.
- 5) Office overheads includes postage, stationery, equipment and software maintenance, business continuity and offsite backup, insurance, travel and subsistence, entertainment, bank charges and general office expenses.
- 6) External professional services include legal fees, consultancy fees and accounting and audit fees.
- 7) Other costs include telephone, printing, website, events, research and bad debts. The main movement over last year has been £747k on bad debts.

Balance Sheet	Notes	Year end 31.3.14	Year end 31.3.13
Fixed Assets	8	432,141	586,680
Current Assets			
Trade Debtors	9	617,133	1,438,413
Other Debtors		422,377	391,961
Cash at bank and in hand		5,524,204	4,893,001
<b>Total Current Assets</b>		<b>6,563,714</b>	<b>6,723,375</b>
Current Liabilities	10	(4,315,260)	(4,565,018)
Provisions	11	(305,558)	(370,000)
<b>Total Assets less Current Liabilities</b>		<b>2,375,037</b>	<b>2,375,037</b>
Creditors falling due after more than one year –			
Contingency Funds	12	(2,375,037)	(2,375,037)

## Activity costing model for year ending 31 March 2014

All figures based on actual results (excluding bad debt provisions, VAT and corporation tax).



- Consumer Support £755,448
- Enforcement – Investigations £1,369,723
- Enforcement – Complaint Resolution £314,093
- Industry Support £912,549
- Code Development £283,583
- Corporate Governance £322,008
- Registration Scheme £341,175

- 8) Tangible fixed assets include fixtures and fittings, office furniture and equipment, computer equipment and Registration Scheme.
- 9) Trade debtors include amounts due from the network operators for the levy and from service providers for administration charges and fines.
- 10) Current liabilities includes income received in advance, which represents the difference between total income and expenditure incurred, which is used to reduce the levy in future years.
- 11) Provisions reflect the fines that are in dispute and may not be recovered, and for dilapidations on office premises.
- 12) Creditors falling due after more than one year include a contingency fund and will be retained at this level for the foreseeable future.

During 2012/13, PhonepayPlus VAT-able services were subject to a review by HMRC. From the 1 June 2012 the levy and fine charges fell outside the scope of UK VAT, meaning that we can no longer charge VAT on the levy and we are unable to recover the associated input VAT.



Premium Rate Services (PRS) are the goods and services that you can buy by charging the cost to your phone bill or pre-pay account. They include directory enquiries, voting on TV talent shows, donating to charity by text or downloading apps on your mobile phone.

With more than 27 years' experience, our regulation is open, fair, and robust, underpinned by a Code of Practice approved by Ofcom.

As the telecoms, internet and payments sectors continue to grow globally at an unprecedented rate, PhonepayPlus takes action to safeguard consumers and help cutting-edge providers of digital content and services to thrive.

PhonepayPlus is the  
UK's independent  
regulator of premium  
rate services (PRS)





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