# aimm response to the PSA Consultation on Business Plan and Budget 2021/22

**Prepared by Joanna Cox, General Manager, aimm on behalf of the aimm membership**

## Introduction to aimm

The Association for Interactive Media and Micropayments (aimm) is the specialist UK-based trade organisation representing the commercial and regulatory interests of member companies involved in the interactive media and micropayment industries - where consumers interact or engage with services across converged media platforms and may pay for those services or content using a variety of micropayment technologies including premium rate. We are a not for profit organisation, funded by our members, run for our members. We create conditions for growth and protect the regulatory environment in which our members operate.

aimm has a membership that represents the entire value chain – from the providers and promoters of information to the network operators and technical service providers that deliver and bill them to customers. No other organisation has such reach or representation. Members of aimm work collaboratively to address key industry issues and to build a trusted business environment, encouraging investment, creating new opportunities and developing business partnerships.

aimm promotes excellence in the world of interactive media and micropayments. The purpose of aimm is to create an environment of consumer confidence and trust within which our members' commerce can flourish. aimm promotes and abides by the philosophy that consumers who are accurately and openly informed of the nature, content and cost of participation in an interactive service experience should be perfectly placed to exercise their freedom of choice and thereby enjoy the most effective form of consumer protection.

## Membership input

aimm welcomes the opportunity to respond to the Phone-paid Services Authority (PSA) consultation on the Business Plan and Budget for 20/21. To assist aimm in providing a comprehensive input to the Phone-paid Services Authority, aimm communicated with its Members in the following manner;

- Written input from Members
- One-to-one telephone discussions/virtual meetings
- Conference calls/virtual meetings



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Information gathered from all those who attended virtual meetings/calls/submitted feedback in all these ways is presented below.

aimm Members who operate in the Phone Paid Services markets are broadly split into seven categories although there is some overlap inside individual Member businesses.

Fixed Line Networks who are often Fixed line L1

Mobile Networks

Mobile L1 aggregators

L2 providers of traditional PRS services (fixed line, PSMS, and DCB)

Broadcasters (who are often L2 providers)

Charities and Charity enablers (who are often L2 providers)

Industry Support companies

aimm sought responses from Members across the MNOs, L1 community, L2 community and also Industry Support Businesses and in this paper varying views are represented.

Some of aimm's Members may input their response directly to the PSA through their regulatory staff or regulatory representatives. Wherever possible, we ensure that views of members made through independent responses are in synergy with aimm's collective views.

As our response is guided and supported by Members input, some views may be expressed that are not necessarily those of the aimm Executive or aimm's Board of Directors.

## Response to PSA questions

Q1 - Do our plans for 2021/22 sufficiently deliver our role as a regulator? What else do you think we should be doing or not doing?

When this question was answered in last year's consultation, Members agreed on the whole that the proposed plans broadly delivered the role as expected. This year, it is not clear cut. Members consulted generally felt unable to comment on the plans for 21/22 in the light of the unfinished work on Code 15. Those Members feel that the Code 15 work allows for the opportunity to deliver regulation in the UK in an entirely different way, which could impact hugely on the Business Plan and Budget. Whilst the outcome of Code 15 remains unknown, it is impossible to conclude whether the Regulator is delivering as it should or not.

Members consulted feel that, were the PSA to continue regulating in the same vein as has been the case up until this point, they would not be delivering the role of regulator appropriately, as the new costs of this structure will be commercially destructive to the market. Members consulted believe



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that the budget consultation for 21/22 is based on erroneous assumption that PSA need £4 million to maintain the integrity of this marketplace.

To demonstrate that this is not the case, aimm carried out formal research in several other territories which are comparable to the UK. We also sought views from Members who operate in territories included in the research and identified a more commonly used and considerably more cost effective regulatory structure working in real terms at the present time.

These structures share the commonality of a body made up of Operators, Aggregators/Intermediaries and Content Providers, all with a seat at the decision-making table, who self-regulate, albeit with an Ofcom equivalent acting as a back stop for serious, large scale issues should that become necessary. They operate a collaborative value chain, led by operators who micro-regulate with a named government authority for last-line enforcement. These bodies have a very small secretariat, which means that funding by Industry is affordable, achievable and allows for a commercially viable future.

Throughout our response to this question last year, we noted recurring themes around concerns for the year 21/22 and suggestions from Members across the value chain regarding the cutting of costs, efficiency of service and engagement with stakeholders. Members hoped that PSA would consider these points in order to ensure that there would be the opportunity for growth in this industry in the year after next rather than just the burden of a doubling in the cost of doing business. In conjunction with these suggestions and offers of assistance, we also presented the aforementioned formal research paper into successful regulatory models operating at a much smaller budget in territories with parity to the UK. To our knowledge, none of these have been accounted for in this consultation document making it difficult to conclude that the regulation is going to be delivered thoughtfully and effectively.

Additionally, Members question the effective delivery of the regulator in its fine collection - considering the huge increase in the Levy. Retained fines are set at precisely zero for the 21/22 year. We know that many fines (some very sizeable) have been issued over the last year. If these are being issued but not collected then this cannot be considered effective delivery by the regulator. With the Levy uplift being so significant, we would need this to be addressed before Industry can be asked to cover the cost of ineffectual non-collection.

Our Operator Members have led much of the regulatory change that has occurred in the last year, which the PSA have then put into Code, either in Guidance or Special Conditions. These changes look to be set for inclusion in Code 15, but much of this is due to work by those Operators, so cannot all be attributed to effective delivery by the PSA themselves.

Q2 - Do you have any comments on the proposed budget for 2021/22? If you recommend any changes, please clearly identify which areas of activity you expect this to impact upon.

Because of the burden of the increased levy amount, the proposed budget for 21/22 is unworkable for industry. The Code 15 development project gives the PSA a unique opportunity to change the structure of regulation, including the structure of the organisation and its hefty associated costs. The PSA budget for 21/22 is proposed at £4 million. aimm have demonstrated how regulation is being



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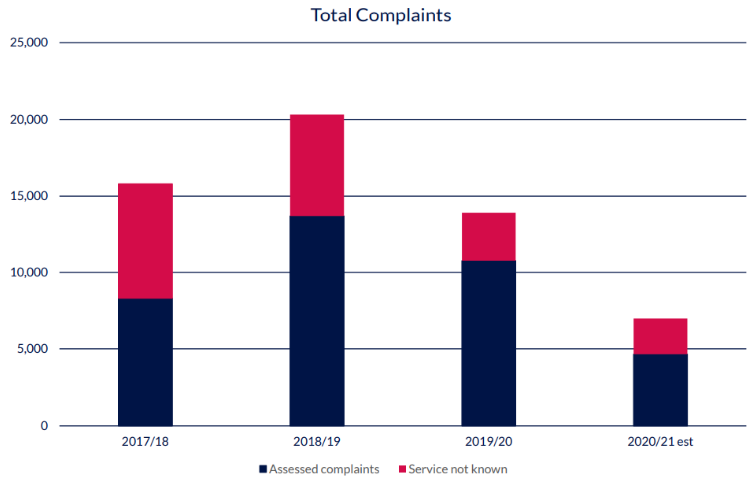
successfully operated for as little as £250,000 per annum in territories that have parity to the UK. It is our view that at a regulatory cost of £4 million per annum, the industry is not sustainable.

In the aimm research presented to the PSA to support our Code 15 submission discussion document, we highlighted 4 territories (and there are others that could also be examined in the same light) that operate successful regulation regimes on much more modest budgets than that which the PSA is proposing.

With the level of complaints from consumers dramatically falling over the last few years, we would regard it as unrealistic that the PSA full operational budget proposed for 21/22 is larger than when total complaints were at their highest in 2018/19 (as shown in the diagram below). The PSA have expressed the view that there is no relationship between the costs of regulation and the number of complaints generated by the market and this is a view that some Members neither understand nor agree with.

## Total complaints for past four years




However, it is not simply a matter of cost; transparency is also crucial. Industry should be fully aware of how people are being deployed if they are to pay their wage bill. The market is aware that the PSA personnel do not just take complaints, but a detailed schedule of how costs are spent would seem to be reasonable. In any business, a request to double costs would be met with a requirement for a solid business case to justify that expense. With an extra £2 million being required from Industry due to a zero balance in retained funds, there needs to be much more transparency in this area if industry is to understand and accept such a large increase.

We note the costs of the premises in Bank Street and question why – when this has not been utilised in nearly a year – there is no mention of a plan to either downsize or consider a move to a premises in a more reasonably priced area. Whilst there is no doubt a tenancy agreement in place, there is no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acknowledgment of the fact that regulation has continued satisfactorily with home working in place – a fact which the PSA are rightly proud of – meaning that a review of premises planning is surely overdue to attempt to reduce the exorbitant budget in this area. The proposed PSA premises budget alone is 25% of the increase in the Levy and is more than the annual regulatory budget of both The Netherlands and Sweden combined.

Q3 – Do you have any comments on the proposed levy for 2021/22?

Within aimm's response to this same question last year we wrote "Members feel that it is important that the PSA take the opportunity now, following the reduction in complaints that will occur after the introduction of Special Conditions, to reduce its cost base significantly, to provide some cushioning in this fee". This exercise does not appear to have been carried out as no cost base reduction has occurred.

Members also offered their services and expertise during last year's consultation to help make cost savings. To our knowledge this offer was not taken up.

Members also warned that – were the Levy to increase as proposed – the entire industry would be put at risk due to the considerable cost of doing business. The financial burden proposed is an increase in cost of well over 100%. With mobile operators taking a share of revenue, and then having to pay the Levy out of that share, once bad debt and refunds are taken into consideration, phone-paid services are on the cusp of profitability. Add in the customer service function that needs to operate in this complex market and the market is now at risk.

Again, in last year's response, with complaints set to fall, Members asked whether more resource could be directed to the area of fine collection. As we have indeed seen complaints fall dramatically for over a year now, and with staff costs actually on the increase, we would expect there to be some fine revenue to smooth out the proposed Levy increase. The PSA have shown no signs of delivering this.

Industry has presented research to propose new ways of regulating at a significantly reduced cost as well as suggesting ways to mitigate the Levy increase, such as pumping all fine revenue back into the pot to offset the amount or allowing the reputationally-excellent players to pay less whilst charging those who have caused harm more (i.e. utilising the old model of polluter pays/a performance related Levy). The PSA show no signs of considering these proposals.

It is inevitable that with the cost of the Levy more than doubling, either this cost will be passed down through the value chain, making already small profit margins nonexistent, or the Operators will have to carry the full burden of the increase, making the market less attractive as a market sector for them.

Operators note that services generating high complaint levels have mainly been eradicated. Services remaining include high quality services that can only operate on higher outpayments. This means that to maintain these types of services, Operators/Industry are left with less revenue. Should the PSA



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persist in asking Operators/Industry for £3.9 million – an increase of over £2million on last year - that profit margin will be so diminished that these services will no longer be sustainable.

**Increasingly, this market has the characteristics of a high-volume, low-margin market and this trend is increasing as more large customers take up the payment method. Because of this attribute, it is not clear whether some Operators -when faced with such a monumental cost increase – will continue to operate in this market.**

Q4 – What is your view on the estimated size of the market for 2021/22?

The market has been hit – like all areas of business – by the unexpected ramifications of the pandemic. As such it has become more difficult to use historical data and predicted trends to estimate the market going forwards.

A few areas of business have flourished due to changes in market conditions but equally some have found the going very tough, and with no current let up in the downturn are struggling to remain commercially viable. It is against this back drop that Members consulted cannot countenance an increased budget and doubling of the Levy, which will make an already harsh landscape considerably worse. Industry as a whole also needs to be mindful of a potential bad debt crisis, with the deferment of bills for those struggling financially due to the pandemic showing no signs of abating. There is no real insight into what scale the levels of bad debt could reach within the market. This is a real concern to those who have already seen large downturns in their revenues.

The consultation document states that the mobile market is dominated by major brands providing quality services with clear consumer demand, however if the opportunity lies in retaining/attracting good quality brands, the increased Levy will place industry in a position where it cannot compete with the likes of Credit and Debit card. The biggest barrier to selling in mobile payments to major brands is already existing outpayments. The increase in the levy would mean an increase in the regulatory cost as a proportion of revenue from 0.3% to 0.8%. We believe that this constitutes an unnecessarily expensive operation which has the potential to significantly disadvantage the development of this payment method and this industry.

Q5 – Do you have any other comments on the Business Plan and Budget 2021/22?

Members' note that in 3.1.4 it is stated that;

*'there is a systemic, coordinated approach to the use of complaint data and other intelligence across all levels of the value chain, in order that higher-risk services can be quickly identified. This work has included the development of a comprehensive data strategy that has been incorporated into draft Code 15 requirements'.*



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Operator and Level 1 Members have been asking for over a year for the resumption of basic data reports (which they have received historically) to assist them in identifying high risk services as described above. This has not happened, so to note it as fact in this consultation is false.

In our response to last year's consultation on this subject, we noted that Members were pleased to see the intent in 3.4.1 to identify "positive stories about phone-paid services and exploring the best ways to communicate them" as they feel this is vital to building consumer trust. In fact there has been little evidence of positive communication from the PSA, or of communication in terms of rebutting negative, damaging and inaccurate stories either.

Instead, aimm and its Members have launched a consumer website to educate and protect the consumer, reduce complaints and resolve queries. This site has been designed and created by Industry. This site has been funded by industry. This Industry is now being asked to pay another two million pounds, this year, to fund its regulator.

Members believe that we are at a crossroads within this industry, and that it is critical now for the PSA to engage with stakeholders and ensure that they make the right decision on the way they intend to regulate, to ensure that the level of budget and Levy allow for a continuing market. We implore the PSA to present an alternative budget to support Industry at this pivotal and troubled time.

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Our response has been made constructively, compiled from member input and with the intent of achieving an effective, fair, economical and proportional regulatory regime for phone paid services in the UK. If any clarification to our response is required or if we can be of any further assistance please contact me personally at joanna@aimm.co

Regards,

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