

aimm response to the PSA call for inputs review on phone-paid subscription services

Prepared by [REDACTED] 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 are 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.

We uphold our Code of Ethics and Core Values to create an environment of consumer trust and industry confidence within which our members' commerce can grow. We will facilitate communication and engagement throughout the value chain to ensure a coordinated industry approach to excellence and success in interactive services.

We are committed to furthering the interests of Interactive Media and Micropayments through the regular exchange of information and communication throughout the value chain, effective engagement with regulators and legislators and the presentation of a successful industry image to consumer and business media.

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.

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Membership input

aimm welcomes the opportunity to respond to the Phone-paid Services Authority (PSA) call for inputs review of phone paid subscription services.

To assist aimm in providing a comprehensive input to Phone-paid Services Authority, aimm communicated with its Members in the following manner;

- Written input from Members
- One-to-one discussions
- Group discussions

aimm Members who operate in the PRS 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 all of the represented PRS industries and in this paper varying views are represented. The viewpoints that will be reflected in this response have come from some, but not all, mobile network operators, broadcasters, level 1 providers and level 2 providers.

Largely there are **two strands of opinion** that will become apparent throughout this document. These will be labelled as responses from Section A and Section B of the aimm membership. Section A includes some Level 2 and Level 1 providers. Section B includes some mobile network operators and Level 1 providers. General information that crosses both sections of response came from some mobile network operators and broadcasters.

Some of aimms larger Members may input their response directly to PSA through their regulatory staff or regulatory representatives. Wherever possible, we ensure that views of members made through independent responses are in synergy with aimms 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 aimms Board of Directors

General notes

Alongside the five questions posed by the PSA, Members discussed the entire document and had further comment to make on the points listed below.

21. The PSA would welcome any input from providers on the range of subscription models, both those that are already operating and those that are under development, so that the PSA can ensure that its regulatory approach is forward-thinking and supports emerging approaches.

Our membership – being so diverse - has varying responses to point 21, however all Members agreed that subscription services are fast becoming the norm in terms of the way consumers purchase products and services. For example, music, film, tv, wine, coffee, books...the list continues to grow. Whilst some of these product areas are unavailable to obtain via phone paid services, the consensus is that the UK population have an appetite to purchase using a subscription model payment method.

Members that formed a group herein entitled Section A, felt that that the way to ensure that the regulatory approach is forward thinking rather than limiting is to avoid legislation that will stifle growth and/or engagement. These Members unanimously agreed that special conditions would prevent innovation and not support emerging approaches. It was felt that KPI metrics would be a more effective way of approaching regulation universally rather than by brand. The principle metric discussed was around complaint level (subscribers vs complaints) – and that to measure this fairly would be by using percentage rather than actual number in order that it be a “stake in the ground” which everyone can work to. Indeed these Members believe that all PRS services could benefit from clear metrics such as this.

Members that formed a group herein entitled Section B of our Membership were very confident that services which operate behind a pin flow or secure log in are the very best way to support a forward thinking approach to regulation. They believe that these processes protect consumers whilst facilitating consumer trust and engagement and have already seen these methods reduce complaints both in actual numbers and in percentage –these include one off payment services that deliver on a subscription type timescale. These Members acknowledge that an initial revenue impact was felt when these processes were introduced, but believe that this has been partly offset by savings in customer services and that the growth in consumer trust- and hence engagement – that will build in these services will address this shortfall over time and support emerging innovation.

Where Section B Members stated that they are operating low risk services such as Charities subscriptions they were keen that the requirements on them should not change, as they are already restrictive and feel that these should be omitted from any further changes to subscription services.

Members generally were not comfortable in discussing future models or those under development within this call for inputs, in case they were affected before being completed. It was discussed that forward thinking emerging services can get stopped in their tracks by special conditions, as being labelled as high risk can make them an unattractive proposition.

28. The PSA is interested in hearing from providers as to what controls might facilitate greater consumer protection and confidence in phone-paid services and what additional flexibilities might enable new subscription models, services and services types to enter and operate effectively in the phone-paid services market.

aimm members come from the entire supply chain of this market, and as such have varying views.

Section B of the aimm Membership would like to see services that work with a pin flow, or sit behind accounts with secure log ins, become standard. They firmly believe that this would give consumers confidence in signing up for services which they actively want, and are very happy to pay for. They believe that some consumers have had their trust damaged by purchased goods/services that they did not really want, resulting in that consumer being lost to the industry. Section B also believe firmly in the benefit of consumer surveys, to regularly assess the level of satisfaction across the sector and to flag up any early issues before they become established. They believe that further special conditions outside of these improved processes are not necessary.

Section A of the aimm Membership are robust in their belief that the consumer needs educating about operator billing and how it works within subscription services. This Member group want the PSA and mobile network operators to fund this education, in the form of a marketing programme. There is a real frustration that operator billing does not yet have a positive brand that consumers understand (such as PayPal for example) and state that the majority of issues in this area are down to ill informed consumers and poor customer services by the mobile network operators.

These Members strongly supported the idea of agreed KPIs to aid the self regulation of the marketplace, and that the principle KPI should assess the ratio of complaints to subscriber database, with numbers certified by the L1s involved in each service. Members felt that anything other than a KPI metric system would be discriminatory against this area of industry and that in an already very regulated space, services should be measured on merit (rather than the size/reach of their brand) allowing those who are doing a good job to grow.

Section A Members believe that where special conditions have been applied, innovation has been stifled and want research to demonstrate the effect that implemented special conditions has had on growth in the sector. These Members suggested that brief satisfaction surveys could instead be added into each service portal for submission to the PSA, to identify emerging issues/levels of consumer trust and called for the PSA to look at investing in this process.

Members across both sections of membership do not want to see special conditions applied to phone paid subscription services, and feel that increased regulation in this area would have a disproportionately negative impact on commercial growth, innovation and would adversely impact new brands thinking of investing in the market.

55. The PSA would also like to understand more about whether the current threshold is preventing innovation. For example, providers focusing on development of new service types or models charged at price points underneath the threshold, or whether providers who do not currently offer phone payment are dissuaded from doing so by the existence of a threshold or the level of the current threshold.

Generally across the aimm membership there was a feeling that providers not currently offering phone payment were more likely to be put off doing so by adverse PR issues or the plethora of different regulations rather than threshold limits. They believed that brands offering subscriptions with higher price points would expect to have more friction in the process. Some Members also believe that the threshold does not cause an issue, but can cause confusion with some businesses still believing they need prior permission to operate at a higher price point.

Members did note that thresholds are not just in place for subscription services and felt that a threshold is no more 'off putting' in this area than with other mobile payment methods.

In general it was felt that the thresholds in place are not blocking innovation.

65. (In relation to the STOP mechanic) Developments in technology may offer other methods by which this could be achieved. The PSA would be interested in hearing from stakeholders about any other mechanisms that could be more effective and which they may be exploring, developing, or be aware of in other jurisdictions.

Section B of the aimm Membership stated that the STOP command is effective, understood and that consumers have a broad understanding of how it works.

Section B Members believe that a platform allowing consumers to search for activity that has appeared on their phone bill (and stop any unwanted subscription services) would be a good thing but only if all L1s integrated with it. However they also stated that this only solves part of the problem, and that there should be enough friction in the process to ensure consumers are definite about their purchase and will therefore recall the transaction.

One of our Members from Section A informed the group that their business had previously completed some research into users exit methods from subscription services over a ten year period (not including adult services). They explained that 7% of people were shown to have removed themselves using an existing method other than the STOP mechanic (such as contacting the operator, completing a web form, contacting the PSA, contacting the merchant directly). This means that 93% of people used STOP successfully. These Members supported the idea of a platform allowing consumers to search for activity that has appeared on their phone bill (and stop any unwanted subscription services) as a further safety blanket to aid consumers looking to exit a service.

Section A Members wanted new research to be conducted by the PSA on the efficacy of the STOP mechanic, and robustly believed that the industry should be consulted on the questions to be included in this research. These Members would like to understand the acceptance ratio that the PSA would deem appropriate to enable the use of a defined KPI for the industry to work to.

Generally, Members felt that with many major digital brands providing weekly/monthly updates on their subscription services and including helplines, links and phone numbers to allow ease of opt out on these updates, it would be counterproductive to make STOP via a shortcode the only mandatory way to opt out. It was felt that in order to future proof this area, there should be a scope for a level of flexibility, depending on the merchants communication channels with their consumers.

Response to PSA questions

Q1: What are your views on the review objectives set out on page 4? Has the PSA got the right scope or are there areas the PSA should include or exclude?

Having assessed the review objectives in the Call for Inputs, Members are satisfied that these objectives are broadly correct, and agree that objective 1 is key.

In objective 5 'there is compliance with the regulatory framework for subscriptions. This means that consumers are protected from harm in the market', Section A Members questioned why the regulatory framework shown in point 36 does not include the mobile network regulations/codes of practice on these services and ask if these rules have been taken into consideration by the PSA?

Some Section A Members were keen to add a further objective. This was suggested as being "complaint levels are determined and assessed in line using a ratio of number of subscribers to number of complaints."

Q2: Some subscriptions generate high levels of complaints, whereas others with similar numbers of subscribers generate very few. Do you have any views on the regulatory measures that would better support growth and innovation across the subscriptions, whilst ensuring consumers are protected from harm?

Section A of our Member base would like to be in receipt of the research that demonstrates the subscriber/complaint ratio mentioned above, and suggest that this may be based on assumption rather than being evidenced effectively and publicly. These Members would also like each contact to be benchmarked and only counted as a complaint if that is the conclusion of the call – they felt that some calls may be enquiries rather than complaints but are counted as such regardless. There was an agreement amongst these Members that mobile network operators should be consistent in the way that they deal with complaints received on their networks to avoid the unnecessary forwarding of complaints to the PSA.

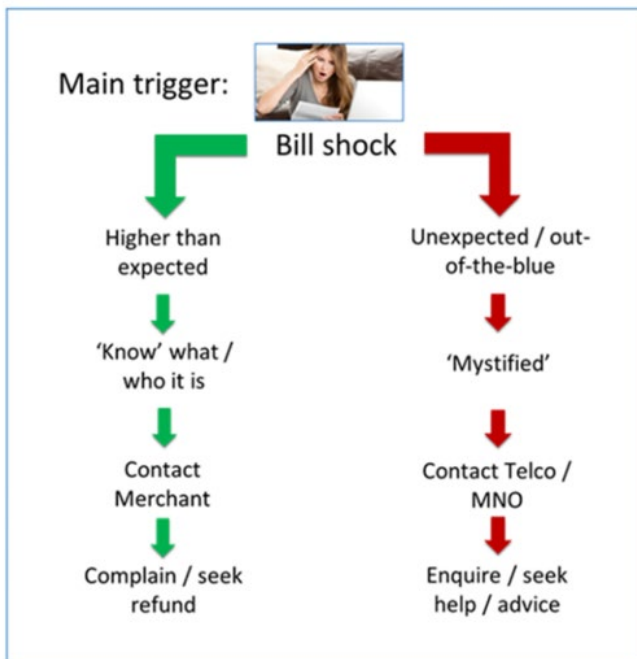
Members held a robust discussion on the psychology of complaining and why some subscription services may generate complaints when others may not. Members agreed that recognised brand name attract a level of trust from consumers which small businesses are unable to enjoy simply due to the size of their business and associated recognition (or lack of). It was felt that larger brands inspire better recall than small or unknown brands.

Members from Section A noted the futuresight Customer Care and Complaint Handling research published in 2017 by the PSA stating that the trigger for 73% complainants the trigger for their complaint is something unexpected on their bill. The report also presents the diagram below showing the flow for consumers who 'know' what/who the charge relates to against those that are 'mystified'. Members feel that this demonstrates

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aptly the disadvantage that small brands/businesses suffer in terms of recognition, which may lead to some of their complaints getting referred to the PSA rather than their own Customer Service teams. Recognised brands do not face this issue.

Figure 10: 'Bill shock': Initial journey start points



This led to an agreement from these Members that the direct carrier billing process also suffers from a similar predicament –in that consumers have less awareness of how it works than with other payment mechanisms. It was also felt that clarity over charging at the time of purchasing is key, and that consumers have a limited understanding of MSISDN pass-through. Consumers may wrongly believe that they can't be charged to their mobile bill as they haven't themselves provided their MSISDN for that billing to take place. As such, Section A Members suggested that a confirmation screen displaying a message such as "you will be billed £XXX per week to mobile number 079** ***401" could make this very clear. Members have urged caution against all subscription services being seen as a problem and would like the PSA to consider what can be put in place to help consumers understand what's on their bill, and help them recall their purchase decision. These Members are absolutely resolute that special conditions are unnecessary and would decimate the existing market as well as further growth in this area. These Members felt that there is further education required to inform consumers as to the mechanics of subscription services particularly within the parameter of operator billing and would like funding from the PSA and mobile network operators to provide this education, in the form of a marketing programme that explains clearly both the process flow of direct carrier billing, and the correct direction in which to raise a complaint.

Members generally agreed that in any other industry, the consumer would contact the merchant with their complaint rather than the regulator, and that in fact – in many areas of business, the regulator or ombudsman

would not deal with any complaint unless it has first been taken to the merchant for resolution, evidenced by a Deadlock Letter in the hands of the consumer. Members suggested that – utilising the registration system - the PSA should state boldly - at all of their consumer touch points - that consumers should contact the merchant with their complaint in the first instance. It was suggested that as part of the registration process, businesses could submit their complaint resolution process to the PSA so that they are satisfied that the requisite level of customer service is in place to ensure that consumer harm is minimised.

Section B of our Member base strongly believe that subscription services should operate only within the confines a secure account with a log in or with a pin flow, both of which should follow a robust due diligence process. These Members state that this is the only way in which consumers can be protected entirely. These Members agreed that whilst revenues might be impacted initially, the losses would be offset against the customer care costs saved. Members also believe that the extra friction would soon be understood as the norm, and that consumers would quickly become used to the process. Section B Members were resolute that – in making the purchasing process more robust – consumers would be guarded against accidental purchases, and as such – having bought goods/services that they want and are fully informed about – they would be more likely to use a subscription service in the future, hence growing trust and increase engagement.

Members across both sections of membership do not want to see special conditions applied to phone paid subscription services, and feel that increased regulation in this area would have a disproportionately negative impact on commercial growth, innovation and would adversely impact new brands thinking of investing in the market.

Q3: Do you agree that different subscription services may require different regulatory responses? Do you have any thoughts on what this variation could look like?

Members were generally agreed that subscription services of all natures, across all media should be treated in the same way. Section B of Membership felt strongly that this should always exist behind a pin flow or secure account with login. Section A of our Members were equally robust in their belief that services should be measured with a set of determined KPI metrics, agreed between the PSA and industry to create a fair playing field across the board. Metrics agreed should be measured by percentage and would need to be submitted by the L2 and certified (potentially by the L1) to ensure compliance. These Members stated that there is an obsession around engagement level that is both unfair and not reflective of other subscription services in the wider market. They cited various subscription services such as gyms or slimming clubs where refunds are not expected where limited use of the service exists. Members also pointed out that a Spotify subscription involves a lifetime commitment; otherwise the music collection that has been built up is lost.

Section B of the Membership had a concern that the PSA regulations seem out of proportion with FCA regulations, and that compliance should be the same regardless of payment type. For instance, PSMS shouldn't have a lesser compliance framework than operator billing. These Members also noted that a typical subscription model from [REDACTED] demonstrates terms and conditions that are far more obscure than ones that this industry has to display and that the small print is much more confusing. This gives the appearance of over regulation in this area.

Members generally felt that higher cost services which might reach their limits quickly (such as ticketing) are limited in a way that they would not be if they were paid for via credit or debit card and felt that this was limiting growth in these areas.

Q4: Is there any other information or evidence that you would like to provide to PSA to assist it to undertake more detailed analysis of the existing framework, including around where you see subscriptions heading?

Members felt that any review should be completed in light of up to date research, and would also like the opportunity to view independently scrutinised, regulatory impact analysis reports on changes as they are made. Members wanted to make it known that they would be happy to take part in workshops with the PSA in order to assist in further detailed analysis of the existing framework. Members from Section A would also welcome the opportunity to work with the PSA to develop a comprehensive subscription services trial across different payment flows to test customer satisfaction and ease of use.

Q5: Do you have any experience or evidence to share about effective regulatory approaches in the other jurisdictions or methods of digital payment in which you may be operating, that have successfully balanced adequately protecting consumers from harm, as well as supporting innovation and growth?

In Section A of the aimm Membership, regulatory approaches that are used in France were discussed. The regulatory organization in France is AFMM. They were described as being a mix of AIMM and PSA (but are not governmental). In France they keep this market “self-regulated” currently. The process is as follows. As a business, you are allowed to operate MSISDN pass through when your complaints/active-database ratio sits at an agreed % figure (this figure is provided by the mobile network operators). A business may at some point receive an instruction from a mobile network operator, asking them to operate one identified service tipping over the agreed % mark, using pin flow. The month after, the complaints/active database ratio is assessed and if it is again under the agreed %, that service can be operated using the enriched flow again. It was however cautioned that within this scenario, new business or those with new service launches are at risk – having a limited database initially, meaning very few complaints could still flag up a ratio higher than the agreed % quite easily. It is important in this scenario to recognise that not all contacts are complaints, and that only complaints should be counted within this agreed KPI figure.

Section A of the Membership discussed whether services should move to a monthly billing model – as seen with other subscription services such as those offering movies or music. These Members were mindful that a weekly subscription might show up on a phone bill up to five times in one month, and that it is perhaps this frequency that is causing bill shock, rather than the total amount spent. These Members felt that it would be difficult to innovate on pricing in this way unless mobile network operators would allow trials of monthly subscription models to test this theory and also suggested that by creating a threshold the PSA have created an assumption of weekly billing. These members strongly believe that it should be up to provider to decide what is best billing

model for their service and would like to work with the PSA and mobile network operators to establish a test programme of weekly vs monthly subscription services to check engagement, process and trust across the two methods.

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 premium rate charged 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 [REDACTED]

Regards,

[REDACTED]