Association for Interactive Media and Micropayments

aimm response to the PSA Consultation on Business Plan and Budget 2024/25

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.

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Membership input

aimm welcomes the opportunity to respond to the Business Plan and Budget Consultation. To assist aimm in providing a comprehensive input to the Phone-paid Services Authority, aimm communicated with its Members in the following manner;

- Online workshop
- Written input from Members
- One-to-one telephone discussions

With the focus on the Ofcom transition consultation, there was less time to meet and gather feedback for this piece of work. Information gathered from all those who attended meetings/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 can be Fixed line Intermediaries
- Mobile Networks
- Mobile Intermediaries
- Merchant providers of traditional PRS services (fixed line, PSMS, and DCB)
- Broadcasters (who are often Merchant providers)
- Charities and Charity enablers (who are often Merchant providers)
- Industry Support companies

aimm sought responses from Members across the Network Operators, Intermediary community, Merchant community, Third Party Verification and Anti-Fraud Specialists, Broadcasters and Charities 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, and where the term "Members" is used this refers to those Members who engaged with us during the consultation process. Some views may be expressed that are not necessarily those of the aimm Executive or aimm's Board of Directors.

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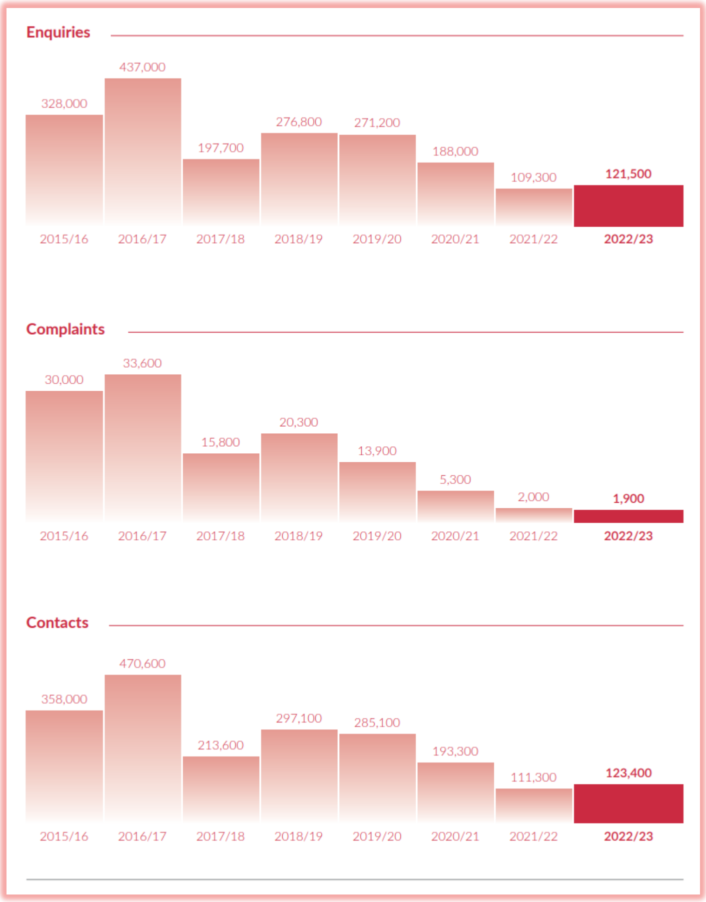
Response to PSA questions

Q1 – Is the activity set out in Section 4 sufficient for the effective and efficient regulation of the market in the period up until the transfer of responsibilities to Ofcom? Please identify any activities you think are missing or are not required.

Members have the following comments to make on Q1.

1) Members are once again concerned about the level of staffing in these plans and associated cost of this. With staffing costs making up 73% of the budget, and no visibility of who those staff are and what they are doing, it is difficult to say whether this is a good use of funds and as such whether this will ensure efficient regulation. With just under £2.8 million allocated to people costs, but with little transparency over what those people are accountable for, delivering or targeted to do, Members are unable to judge whether this business plan is sufficient to effectively deliver the role of regulator. The Annual Report shows activity levels remaining low (below), and as such, visibility over the entire workload, not just enquiries/complaints would be helpful.



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The consultation document states for the second year running that *"We expect to maintain levels of 99% of contacts being handled through either Service Checker, our website, or information on our telephone interactive voice response (IVR) system"* meaning that staff are free to carry out tasks in other areas of regulation and as such, Members would like to know more about the deployment of staff leading up to the transition. Members would be encouraged to see that staffing resource was being directed towards positive consumer education promoting business development in the sector and debt recovery.

In our response to this consultation last year and the previous year, we asked for visibility in this area, which we have not yet received.

2) Members note that at 4.5 Enforcing our Code of Practice includes this statement:

"4.5.4 We will also continue to ensure the long-term effectiveness of enforcement sanctions by remaining committed to pursuing to the extent possible prior to transfer, an exhaustive debt recovery process for unpaid fines and admin 16 charges, so that those adjudicated against fully understand that we will chase down all outstanding debts over a significant period of time".

The PSA Annual Report showed 2023 fine income of £1,960,000 and expenditure of £1,275,679 as bad debt. These statistics still demonstrate a high rate of uncollected fines when there were considerably less fines to collect than in previous years. Members would like clarity on how this will be improved in 23/24 thus demonstrating effective and efficient regulation.

3) The commitment stated above to chase down all outstanding debts is very reassuring and represents effective regulation if it is successful. Members asks for information around how that money (which has historically been hard to recover) will be used – as it would make a large difference to the Levy burden if it were to offset some of that figure.

4) Members note at 6.4 that:

"There are no collected fine charges available to offset the levy requirement from industry. Fines collected during 2021/22 were used to replenish the PSA retained surplus depleted during 2020/21, and any fines collected since then have been added to the retained surplus to ensure that there are sufficient funds for the smooth and orderly winding-up of PSA Limited".

With fine revenue being in the millions, this seems like a very broad statement and as such may or not be efficient regulation. Members would suggest that we are missing transparency over how much of the fine revenue is being collected throughout the year, the cost of winding up the PSA, the amount of funds remaining after the winding up of PSA Limited and if those funds will be used to offset the Levy before the transition of power to Ofcom (where monies must be returned to HM Treasury).

5) Members note at 4.4 that the PSA state that:

"4.4.1. During the year we will continue to build consumer confidence in phone-paid services through:

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• using our communication channels to help consumers best understand what they can expect from their engagement with the phone-paid services market, including the avenues of redress available to them
• responding to media opportunities as they arise to support and inform consumers about their positive use of phone-paid services and how to deal with issues in the market
• working with industry partners to promote advice and educational content to their own audiences."

Members fully support consumer education and agree that positive PR is essential to grow consumer trust and understanding in the market, aid commercial growth and help support effective regulation. As with last year and the previous year, they are keen to gain visibility of the education programme that is intended for this year to see if they can complement this or add resources to the programme. Equally they would like to remind the PSA that the Industry website phonecharges.org is a tool that is built and ready to inform consumers about all aspects of phone-paid services, should they be able to point consumers towards it – with no extra cost or requirement on the budget. Additionally, the Mobile Network operators also have extensive information available to customers on their websites.

In terms of positive PR, Members would again like to gain visibility of the PR that was disseminated in the last year so that they can point towards it if required and are also keen to understand what positive PR is planned for the forthcoming year that they can be involved with (if appropriate).

6) Members note *at* 4.64. in *"Delivering Organisational Excellence"* that the PSA state;

"4.6.4. Preparation for, and implementation of, the regulatory and staff transfer into Ofcom will focus on four main areas:
• continuing to work with Ofcom and DSIT to ensure a smooth and orderly transition of regulatory responsibilities
• providing detailed support and training to our staff as they move into a new organisation
•ensuring that essential systems and data are successfully transferred over, so that seamless regulatory activity can be maintained
• financial and administrative winding up of PSA Limited.

Members would be delighted to help in the training -if beneficial – of PSA/Ofcom staff to assist in their knowledge gathering and understanding of the value chain and its peculiarities in order to help with an efficient handover.

Q2 – Do you have any comments on the proposed budget for 2024/25? If you recommend any changes, please clearly identify which areas of activity you expect this to impact upon.

1) Under the PSA, funding of regulation has always been stuck at what feels like a customary figure of around £3.8 million, a figure which Industry has always felt was high. Whilst there has been potential to reduce the cost to Industry with fine revenue, this has not happened in recent years due to the low rate of fine collection. Members are disappointed again to see that - although the Bank Street premises has now been given up, staff are working from home or in an already utilised office at Ofcom, and there are shared resources such as HR, finance etc that already existed at Ofcom before the physical move to Riverside House – there is seemingly no let-up in the cost of regulation which is again set at what appears

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to be the usual figure. Reduction of cost now is particularly key as members note that future fine collection under Ofcom regulation will not be used to offset the Levy, but will go to HM Treasury. Members seek assurance that a budget of close to £4 million pounds is not allocated simply as it is "the norm" and ask that the PSA look again at cost savings. Members suggest that a significant cost saving could be gained by removing the Supervision model of regulation, which is unnecessary (complaints being at their lowest figure ever) and presumably costly, and instead rely on the comprehensive Due Diligence information that is regularly produced, updated and reviewed.

2) Members assume that the cost for regulation during this budget period and then ongoing will be an apportioned cost of a larger cost base rather than a discrete cost for a discrete organisation. In order to establish whether the proposed approach to the recovery of the cost of regulation is fair and represents value for money to Industry, members request more transparency of how the shared costs for this transition year have been calculated and apportioned, and ask who is responsible for doing this; PSA/Ofcom or the National Audit Office?

3) Although the PSA have described savings in real terms since 2015/16, Members are again concerned that this is not an easily understandable way of explaining the budget as it can depend on the calculation of inflation. Indeed real terms savings can be calculated using varying methods (such as the Bank of England calculator for example) and can conclude with differing results. An indication of how these savings have been calculated would represent more transparency for Industry.

4) Personnel costs make up 73% of the budget yet there is very little detail around how these costs are made up within the consultation document and what activity they can be attributed to. As above, Members would like more clarity here. It is not so much about questioning the amount, but whether this represents value for money and adds up to an efficient and effective staffing model. In last year's response – the year before, and the year before - we asked for further information on this. This was not forthcoming in last year's consultation document and has not been forthcoming in this consultation document. More transparency could mean Industry could better comment and suggest more effective ways of working.

5) Members note the Premisses cost which at £246,600 (while reduced) seems high for an existing office that was already being paid for). As this is an apportioned cost of a larger existing cost base, members seek more clarity on how the shared costs have been calculated and apportioned – the impact being an assurance of value for money for Industry.

6) Members ask for more information around the Consumer Panel and whether those costs are included in the staff cost figure. The impact of receiving this information would being an assurance of value for money for Industry.

7) Members would like to see costings for the Annual Market review, as an increase of £19,000 from 2 years ago in the Policy, External Relation and Communications section is very steep. The review itself appears to be £4,000 more than last year despite having a similar format and structure. Whilst Members understand that during last year more resource may have been needed to include work with Ofcom to assist with the consultation drafting, Members are very keen to understand why the cost has increased

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again in the budget for 24/25. The impact of receiving this information would being an assurance of value for money for Industry.

8) As above, members note that it is stated: *"There are no collected fine charges available to offset the levy requirement from industry. Fines collected during 2021/22 were used to replenish the PSA retained surplus depleted during 2020/21, and any fines collected since then have been added to the retained surplus to ensure that there are sufficient funds for the smooth and orderly winding-up of PSA Limited".*

Members would suggest that we are missing transparency over how much of the fine revenue is being collected throughout the year, the amount of funds remaining after the winding up of PSA Limited and if they will be used to offset the Levy before the transition of power to Ofcom (where monies must be returned to HM Treasury).

9) On the same point, members note in the, 31/3/23 accounts, filed on 19th Dec 23, the following:

22. Retained surplus

PSA Ltd continues to operate as a solvent business, with the retained surplus deemed sufficient to effect a smooth and orderly wind-up of the company. This includes meeting all contractual redundancy liabilities, liquidation of any contractual commitments beyond the point of transfer, and provision for run-off insurance.

The remaining net asset balance at wind up will be legally distributed by PSA Ltd according to its Memorandum and Articles of Association i.e.:

"If upon the winding-up or dissolution of the Company there remains, after the satisfaction of all its debts and liabilities, any property whatsoever, the same shall not be paid to or distributed among the members of the Company, but shall be given or transferred to some other institution or institutions having objects similar to the objects of the Company, and which shall prohibit the distribution of its or their income and property among its or their members to an extent at least as great as is imposed on the Company under or by virtue of clause 4 hereof, such institution or institutions to be determined by the members within three months of the members resolution passed initiating the winding-up failing which and if and so far as effect cannot be given to such provision, then to such charitable object as the Directors shall resolve upon."

Members would like more transparency on this which would help assure Industry that any funds of this nature are being used appropriately including a rationale should there be a decision not to use this to offset the Levy/distribute the monies back to the industry (via those that pay the Levy). Members would like clarity over the exact figure, what amount will need to be retained and for how long and how any reserves that have not been used will be distributed.

Q3 – Do you have any comments on the proposal regarding the Registration fee?

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Members ask that whether (for those renewals due in the first quarter of the 2024 calendar year) there will be a reduced Registration fee in place to take into account the removal of the fee entirely from April 1st 2024.

Q4 – Do you have any other comments on the Business Plan and Budget for 2024/25?

Members have the following other comments.

1) Here is no mention of Bond income in the consultation, and members would ask for clarity over such income and how it has been used, distributed or returned.

2) As with last year, and the previous year, Members have a concern about the accuracy of some of the data in the consultation (which has come from the Annual Market Review) which states:

"The AMR is still identifying around 24% of consumers claiming to experience issues with at least one service"

Members note that 8,067 people were surveyed in the Review, and again do not believe that the 24% of those respondents that cited problems with their service is representative of the scale of problems actually being experienced. This is borne out by the complaint numbers being at record lows, as shown in the PSA's own Annual Report. The PSA quote the AMR as stating that: *"the number of consumers estimated to be using a phone-paid service at least once during a year continues to grow, to 62% of the UK adult population (up from 60% in the previous year)"* and if 24% of those are experiencing a problem, then the complaint figures should be enormous.

Therefore, we would urge caution if statistics such as this are being used to inform a wider audience about the true picture of phone-paid services or to shape future regulation.

aimm are grateful to the PSA and Analysis Mason for including differing metrics other than NPS (which has been demonstrated in the AMR to be minimally effective as a measuring tool in this sector). aimm members are hopeful that any further Market Reviews continue to use high quality questions (such as those provided by aimm) to help draw a true picture of consumer views in this area and are very happy to work with the PSA/Ofcom to assist where we can if this would be useful.

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Our response has been 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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