

## Virtual Universe Comments re PP+ Budget Proposal

1. Virtual Universe fully supports the drive of PP+ to eliminate rogue elements in the PRS market and raise the awareness of the advantages of PRS as a billing mechanism, educating the public in its use. As with all payment mechanisms (including the huge unsustainable borrowing levels entered into by many consumers on their credit cards) PRS telephony is open to abuse, but consumer education needs to be constructive. As a simple payment mechanism, the thrust of the educational campaign should be as banks and financial institutions promote their products, not a public campaign to scare would-be customers.
2. As your evidence shows, the PRS industry is in decline. With such a large proportion of consumers now accessing many PR services via their mobile phones (and where MNOs can charge 8 times the BT rate for a PR call) it is clear that these mechanisms will not continue in their current form. We believe the premiums demanded by MNOs is a major reason for the 8% decline in the overall market to £900m last year and the >40% decline since 2006. Restricting services available to consumers on 0871 has also had a significant impact as consumers were forced to change their access numbers and remained suspicious of 09 numbers. This again exemplifies the care needed in market communications.

Mobile access to PR services suffers from the most confusing and non-transparent of tariffs. As an increasing number of people wish to use these services via their mobile phone, PP+ could support the consumer by promoting with Ofcom network regulations which ensure an open and fair tariff structure. Virtual Universe would support (perhaps using surpluses generated from your increasing fine income) PP+ funding of a public campaign which educated people in this regard. Since the disastrous BBC TV voting episode, the tag line "...calls may be considerably more from mobiles.." does not in our view go far enough in highlighting this huge discrepancy between BT landlines and mobile phones' consumers and the industry are suffering as a result. "Financial transparency" should apply to all market participants, not least the mobile networks. This may help reduce the trend for more complex on phone billing mechanisms (such as credit cards) becoming the alternative to the traditional PRS payment routes.

In addition mobile phone operators typically (eg on a £1.50 tariff) withhold 25% of revenues in calculating SMS outpayments to service providers. This is 20% more than the fixed line networks deduct from their call revenues. This means that MNOs pay PP+ 20% less in levy. It would seem more equitable to calculate the levy based on gross industry revenues and create a more level playing field for all and perhaps address the levy increase which the smaller service providers are suffering.

3. If PRS is to reverse its decline, respect for the consumer and ethical behaviors from the industry's participants continue to be essential. In a declining market some are tempted to move in illegal ways (viz your Daily Mirror example) and countering this has to remain a key focus for PP+. However, in doing so it is vital that the baby is not thrown out with the bath water. If we are to continue to thrive and offer what is a very efficient consumer service; consumers need to be informed, not frightened. They need to be made aware of the advantages of their preferred service as well as their inalienable rights. Credit cards offer the same payment mechanism to consumers for substantially less cost and there is no limitation as to what can be purchased.
4. The increase in more telecoms savvy mobile users, half of whom are pre-paid customers, has meant a reduction in the number of consumers asking for advice. This has been coupled by a positive response from the more professional service providers in the industry to support those consumers who have found themselves in difficulties from

unexpected and unknowing charges. Independent research into the marketing mix and consumer use of these services, including volume data, is always welcome.

5. A smaller market also means that participants need to reduce costs including the cost of regulatory compliance. Notwithstanding the encouraging progress that PP+ has done to improve its efficiency, we believe that in the end regulatory costs should peg the value of the overall market. Furthermore PP+ should have a set target for efficiency improvements such that if and when the market grows, PP+ should be in a position as far as reasonably possible to cap its costs to inflation. Although PP+ costs are down 3% year on year (more in real terms) and the market is down 8%, our levy is still increasing by 23% from 0.39% to 0.48%, which clearly increases the challenge we have in facing such a declining market.
6. On a related point, the fixed networks are claiming that they are seeing an increase in its bad debt levels. Although they have claimed for some time that this is partly due to the growth in PRS services it is also clear that these service have decline by over 40% in the last 3 years since their peak in 2006. The good work that PP+ and the industry have done to improve both quality and ethics of the players must also have reduced bad debts. PP+ should support the industry participants to ensure that bad debts and their calculations are transparent and that bone fide service providers are not penalised. Again credit card companies only charge back when merchants have had customers directly exploiting these services, they don't charge back bad debts generically and they take a much smaller fee.

Finally, we believe PP+ are taking proactive and effective steps to protect consumers, as witnessed by lower queries and increasing fines. Progressive support for the industry service providers to ensure that the market reverses its decline in the future would be welcome.

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