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Consultation

Proposed PhonepayPlus (PP+) Business Plan and Budget 2011/12

AIME Submission

Introduction

AIME is a UK based not for profit trade association that promotes excellence in the Interactive Media and Entertainment industry.

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 are committed to furthering the interests of Interactive Media and Entertainment 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 media.

We are the only trade association with membership across all elements of the interactive media and entertainment industry value chain, much of which is supported by Premium Rate Service (PRS) billing facilities, and our membership represents in excess of 90% of annual PRS industry revenues. These stood at approximately £0.79 bn in 2010 within the UK and we believe there is potential for significant and sustained increase if we can maintain our progress towards a healthy balance of self and formal regulation and that industry is successful in continuing to build consumer trust.

We welcome the opportunity to respond constructively to this Consultation on PP+ proposals for Business Plan and Budget for 2011/12 and look forward to continuing our open and constructive relationship with PP+ through 2011 and beyond.

AIME 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 are perfectly placed to exercise their freedom of choice and thereby enjoy the most effective form of protection from consumer harm.

General

This Plan and Budget is prepared against a backdrop PRS market that has suffered significant revenue reductions over the past three years, coupled with a current economic downturn which has triggered the Government to seek significant cuts in public expenditure. This economic environment will not make it any easier for our industry to maintain its embryonic recovery into 2011 and critical analysis of the regulatory burden will be particularly appropriate at this time.

The statutory regulator Ofcom is charged with achieving cuts of 28% through 2011-14 and this is already triggering significant redundancies and restructuring within their organisation and it would be reasonable to expect this discipline to extend into Ofcom's appointed regulatory agencies. Many of our industry members are experiencing similar problems.

The PRS industry downturn is to some extent being countered, with a degree of success, by an industry determination to encourage the return of consumer confidence and revenue growth and we have seen some encouraging signs of modest recovery in certain sectors.

Important indicators of industry success to date are the significant reduction in damaging complaints and associated consumer harm together with signs of improvement, for example the interactive broadcast services sector where consumers are slowly but steadily returning with welcome confidence to this popular medium.

Industry initiatives and continuing co-operation and constructive engagement with regulators will assist in driving improvements to services quality and compliance throughout 2011 and we expect to maintain and improve the excellent complaints record of our industry and reap the benefits of an increasingly self regulatory environment.

AIME is obliged to once again reflect members' continuing concerns regarding the scale and costs of PRS regulation and we welcome signals from PP+ that they understand these concerns and are proposing costs reductions. We certainly appreciate that the successful introduction of a new Code and Registration scheme during 2011 will consume PP+ resource but we would expect the completion of these tasks, with their resultant benefits, to be reflected in more ambitious cost reductions, with a multi-year cost reduction plan as per Ofcom, with regulatory resource more closely linked to the scale of industry activity and the threat of consumer harm.

1. Activities Costing

With future regulatory emphasis on outcomes AIME offers the following comments on PP+ budgetary plans for 2011 as listed in the Consultation document.

- **Consumer Support**

Stated as the resource to operate the PP+ Control Centre and provision of "Consumer Literacy" we are pleased to see a recognition of the need to separate enquiries (80%) from actual complaints (20%) although it is not clear what proportion of actual complaints involve breaches of the Code of Practice which would therefore justify the involvement of PP+. It is now generally agreed that the first port of call for enquiries or complaints for PRS should lie with the Merchant Promoter (level 2) or the Originating Network Operator (level 1). With a budget of £635K for 2011/12 any effort to redirect initial consumer contact away from PP+ to the correct Merchant or Network support would enable considerable savings in this area. Continuing improvement to the Number Checker facility will be an essential part of this.

Consumer literacy is now overseen by a working group with industry representation and this welcome development should ensure more effective and focussed expenditures in this area. However we would like to restate the AIME position that outside of a tightly controlled Phone Brain programme, the literacy budget should be targeted at developing PRS literacy amongst consumer protection agencies i.e.

CAB, moneysavingexpert, consumer focus, rather than creating general consumer awareness of PP+.

- **Industry Support & Intelligence**

The PPP Compliance Advice facility is proving popular but there is unease that industry players, who are themselves responsible for compliance, may find it too easy to rely too heavily on this “free” service which is funded by all industry players. Those who need third party advice should, at the end of the day, fund it according to their needs and should not be subsidised by others.

An understanding of industry trends and issues is essential to effective regulation and AIME is pleased to see closer liaison on the gathering of such information between PP+ and industry via the ILP together with close budgetary control. The move to outsource activities where economically viable is welcomed but the intended increase in expenditure on “industry support” must not be translated into PP+ duplicating industry responsibilities.

- **Regulatory Enforcement**

The implementation and operation of a radically different approach to the Code of Practice for PRS together with the associated Registration Scheme will challenge PP+ resources throughout 2011 but we would expect the benefits of these changes to be reflected in reduced regulatory costs in 2012 and beyond.

The Fast Track procedure for Code breaches involving minimal consumer harm we see as particularly important since it has the potential to greatly reduce regulatory interference, and associated costs, to responsible business and help restore industry confidence and investment.

As mentioned in the previous sub head it is also an essential part of reducing PP+ costs that the Complaints (Breach) Resolution Team ensure that Merchant Promoters (level 2) and Network Operators (level 1) are encouraged and permitted to carry out their roles of first line contacts for consumer complaints and resolution. The role of PP+ is to process complaints where breaches of the PRS code of Practice are involved. It is a welcome move by PP+ to operate separate cost accounts for formal and informal processes and this will provide valuable management information.

- **Code Compliance and Development**

As previously stated we believe PP+ resources will be challenged by the implementation of the new format Code of Practice during 2011 and we would expect a significant increase in industry liaison both through the ILP and through our regular AIME/PP+ meetings to ensure its success.

- **Governance and Corporate**

We welcome the PP+ intent and practice of constantly challenging corporate costs together with the appreciation of the need for PP+ to demonstrate value for money on behalf of the industry which finances the levy.

2. Registration Scheme

We note that funding of the Registration Scheme does not form part of this Budget Consultation and that the scheme will be separately costed, accounted and budgeted.

3. The Levy Setting Process

We can see that the significant reductions in complaints, Code breaches and subsequent fines will be reflected in reduced fines revenues and also that the reduced revenue base of the PRS industry offers a significantly lower yield from the current levy. These factors combined will generate a shortfall in PP+ funds if PP+ is to basically retain its current structure, which AIME believes on balance to be reasonable for 2011 given the need to manage the new Code and Registration, and it is clear that a higher levy will, in principle, need to be applied for 2011. It is also appreciated that during 20010/11 the levy was heavily subsidised by high fines income accrued during 2009/10 and this will also contribute to the need for an increase to the levy rate for 2011/12.

However, as stated earlier, we would expect to see the benefits of a revised regulatory system contribute to significantly reduced regulatory costs during 2012 and beyond with a corresponding reduction in levy requirements.

4. Regulatory Costs Indicator

In last years budget response AIME introduced a proposed Key Performance Indicator, which tracked the annual costs of regulation against the revenues generated by the PRS industry. We have updated our figures to show projected 2010 and 2011 as forecast.

We can see a modest but welcome trend of reducing costs but it is clear that there remains scope for significant improvement to reflect proportionate regulatory effort and improved efficiencies within PP+.

Year	Regulatory Cost £m	Industry Revenue £bn	Regulatory cost £ per £000 Revenue
2006	3.6	1.6	2.25
2007	3.9	1.2	3.25
2008	4.3	0.9	4.77
2009	4.8	0.81	5.93
2010 FC	4.22	0.79	5.34
2011 FC	3.80	0.8	4.75

* 2009 onwards industry revenue figures include 087

5. Consultation Questions

Q1. What information or evidence do you have about market trends and about the overall size of the phone-paid services market in 2010/11?

Answer 1

For the purpose of this budget exercise and response it is appropriate to refer to Premium Rate Services (PRS), rather than Phone Paid services to coincide with the responsibilities conveyed to PP+ by the Framework Agreement produced by Ofcom.

Anecdotal evidence suggests that the market trend is much as described last year with the only moderate growth areas being the interactive broadcast sector and 087 services. Consequently we believe the likely PRS consumer billings outcome for financial year ending 2011 to be of the order £0.8 bn.

Q2. What information or evidence do you have about any specific segments or content areas and their potential for real growth or decline over 2010/11?

Answer 2

We do not see any specific segments or content areas as having potential for significant real growth or decline during 2010. The threat of BT succeeding in their attempt to increase the PRS Bad Debt surcharge from 3.03% to 9.7% appears to have been successfully challenged and the most recent proposition of 5.24% is still under examination. However, while 5.24% represents a significant reduction over 9.7% any increase to this surcharge will have an adverse effect on the PRS market.

Q3. How do you see the phone-paid services market developing in 2011/12? In particular, do you have any insight into how PRS might develop on social media or smartphones?

Answer 3

We will see micro payments facilities being utilised in support of the emerging applications (Apps) market and PRS will clearly be one of the options but we do not have any specific or formal information to support this view. AIME would expect to share information of this nature with PP+ through our regular meetings forum.

Q4. What comments do you have on the priorities for 2011/12? Are there other projects or issues that you think PhonepayPlus should consider for the coming year?

Answer 4

Clearly the priorities for 2011/12 are the successful implementation of the new Code and associated Registration scheme and AIME will continue to offer its support to achieve this goal.

Q5. Do you support our proposed budget changes for 2011/12, having regard to the activities and strategy that drives the changes? If not, please explain why.

Answer 5

AIME is broadly supportive of the budget proposals subject to the individual concerns raised.

Conclusions

AIME compliments PP+ on maintaining a greatly improved presentation and content style to its budget proposals which sits very well with the present cooperative environment between PP+ and industry through AIME and ILP.

These are obviously difficult times for our industry and we are pleased that this is recognised in a declared PP+ intent to reduce costs in a controlled manner in 2011 and beyond and we believe this intent will be greatly assisted by PP+ confining its activities to its core remit as defined in the Ofcom Framework Agreement. As mentioned in our 2010 submission AIME would like to see continuing emphasis on differentiation between PP+ core remit activities, which are clearly justifiable use of levy and fines revenues, and other activities which can, in a non core manner, demonstrate clear benefits to industry and consumers. The ILP and its associated trade bodies are an ideal source of liaison and monitoring of expenditure for non core projects.

Clearly, 2011 will be a challenging time for PP+ to implement the new Code and Registration both of which will demand procedural and cultural changes within PP+ to ensure success. We do not believe PP+ can do this alone and AIME will continue its policy

of close cooperation with PP+ and, as an example, the recent success of the new AIME training programme bodes well for the future.

Overall, AIME supports this budget proposal for 2011/12 subject to the individual concerns itemised. We appreciate the scale of the challenge to be met in difficult times through 2011 but we do expect to see regulatory costs more closely linked to regulatory needs through 2012 and beyond.

Statement of Representation

AIME confirms that this response has been compiled following a process of circulation of the relevant Consultation documentation to all our members together with appropriate group discussions. A list of our members may be found at <http://www.aimelink.org/home/members.aspx>

The views expressed in this response are a fair representation of the views held by the responding AIME membership. Individual members are actively encouraged to submit their own independent views as they deem fit and at their sole discretion.

We look forward to your response and assure you that, as ever, our comments are made constructively and within our overall aim of achieving an effective, fair and proportionate regulatory regime for the premium telecoms industry.

If any clarification to our response is required, or if we can be of any further assistance, please contact Zoe Patterson +44 (0) 1273 685 328 or zoe@aimelink.org

Sincerely
AIME