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Consultation

PhonepayPlus Business Plan & Budget 2014/15

Submission by

Association for Interactive Media and Entertainment

(AIME)

AIME (www.aimelink.org)

AIME is the UK based trade organisation representing the commercial interests of member companies involved in the interactive media and entertainment Industry - where consumers interact or engage with services across converged media platforms, and pay for those services or content using a variety of micropayment technologies.

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 UK trade association with membership across all elements of the interactive media and entertainment value chain, which is generally supported by Premium Rate Service (PRS) billing facilities, and our membership, represents in excess of 80% of annual industry revenues.

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 consumer protection.

Member Input

AIME welcomes the opportunity to respond to PhonepayPlus Consultation on its budget proposals for the financial year 2014/15.

To assist AIME in providing a comprehensive input to PhonepayPlus, AIME researched its Members in the following manner;

- Written responses
- On-Line Survey
- One-to-one discussions

AIME Members who operate in the PRS markets are broadly split into four categories although there is some overlap inside individual Member businesses.

Fixed Line Networks, Fixed L1 and L2 providers

- Broadcasters
- Mobile Networks, Mobile L1 and L2 providers
- Support companies

AIME received member responses from the Fixed Line and Mobile PRS Industries, Interactive Broadcast Industry and companies that provide support services to Network, L1 and L2 Members. While we expect a relatively low response for a budget consultation, 25% of Member companies responded with a mix that represents a majority of Members.

Some of AIMEs larger Members may also input their response directly to PhonepayPlus through their regulatory staff or regulatory representatives. 100% of Members surveyed asked AIME to represent their interests in solus.

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

AIME members represent approximately 80% of the UK premium rate annual revenue.

Breakdown of AIME member responses:

- Responses from Members totalled represent 25% of Member Companies.
- 59% of responses came from Members who operate in PhonepayPlus L1 category
- 32% of responses came from Members who operate in PhonepayPlus L2 category
- 9% of responses came from Membership who provide services to Network, L1 and L2 parties

General

AIME recognises the difficulties in regulating the UK premium rate market as the technology environment becomes increasingly complex and the understanding of how PRS services are promoted and operated require higher levels of contemporary knowledge. AIME is aware that consumer access to the mobile internet is rapidly increasing and the usage of premium rate services through smart phone technology is bringing new challenges.

There is an increase of internationally based providers, who are marketing via global instead of local channels.

Parents are passing contract mobile phones to their children without any controls or warnings and these children are accessing PRS.

AIME members, in the main are supportive of the sentiments documented in the Budget Consultation and also recognise that any regulator has to adjust its business model swiftly to changes in the operating environment around it. AIME welcomes the planned activities to ensure efficiency and effectiveness contained in the Consultation.

The industry out-payments for 2014/15 are estimated by PhonepayPlus to be near £400m, down on current full year estimate of £460m. AIME forecast of the out-payments using 2012/13 and H1 2013/14 actual data and projecting forward using established mathematical practices shows that the 2014/15 out-payments will be between £286m worst case and £361m best case. Based on PhonepayPlus levy estimate of 0.5%, there may be a funding shortfall of between £2.3m and £2.6m to be sourced from reserves or fines. Additionally, a potential refund of overestimated levy for 2013/14 will be needed due to the steep market downturn over 2013 that will increase the shortfall.

AIME Members have expressed concerns that the regulatory cost to Industry is increasing (by up to 25%) while two of the major revenue areas of the premium rate industry are in sharp decline.

As a result, AIME solicited Member views as to whether AIME should respond to PhonepayPlus expressing concern around areas that PhonepayPlus has detailed as being significant cost drivers (forcing the budget to increase) and for AIME to suggest potential areas where PhonepayPlus could work with Industry to drive its costs down or at least stabilise them.

95% of AIME Members agree that the PhonepayPlus budget increase is of concern particularly with a declining market and support AIME's suggestion that further work is needed to understand the reasons for cost increases and if possible, put short term and long term plans in to reduce these costs.

AIME Members believe that a regulator of a declining market has to take a short term and long term examination of its business and establish if there are opportunities for efficiency improvements and cost savings as well as establishing the factors that are contributing towards the declining market revenues. AIME is ready to support PhonepayPlus with this activity.

AIME asked its members whether we should provide a more detailed response to PhonepayPlus, reviewing areas of concern with increasing costs or to just express concern over budget increase without detail, 95% of responding Members supported a detailed response.

AIME Executive would therefore appreciate a greater degree of discussion between PhonepayPlus and AIME, including other industry representatives, on the proactive steps to be taken by PhonepayPlus management to target the cost drivers, while remaining effective and efficient.

AIME's detailed areas for review are as follows;

Consumer Support: The quantity of consumer contact with PhonepayPlus is reported by PhonepayPlus to be increasing (32%). The underlying reasons for the increases need to be analysed along with the causing factors. For instance we understand from Member feedback that there appears to have been recent changes in the policy of some networks in how PRS enquires are directed, along with a change in how complaints are classified and dealt with by PhonepayPlus. This has the potential to present an artificial spike in complaint levels, which if realised should be appropriately factored.

AIME has seen parts of the Consumer Journey research, indicating consumer dissatisfaction in resolving queries, but further work is required to establish the root causes behind the dissatisfaction with a target to reduce consumer contact with PhonepayPlus. 91% of responding Members agreed that a specific industry and regulator combined project in this area to improve customer support by both the industry and the regulator is required.

Increasing litigation: PhonepayPlus Budget reports an increase in litigation, which is increasing legal costs. Market complexity may add to these costs, but 100% of responding Members support the view that the root cause of increasing litigation needs to be examined and corrective actions proposed. AIME can provide Members' detailed commentary to assist with this review.

Increasing requests for Oral Hearings: PhonepayPlus Budget reports an increase in requests for an Oral Hearing at Tribunal. An understanding of why providers are increasingly requesting Oral Hearings is necessary. 100% of responding Members support a review and again, Members detailed commentary can assist with this review.

Investigations; PhonepayPlus has proposed 27% (£1.2m) of its budget be spent on Investigations. While AIME understands that the PRS market has become complex, 95% of responding Members believe PhonepayPlus should encourage greater targeting of time on consumer and intelligence reported issues and plan to reduce costs both through greater

industry collaboration and sharing compliance monitoring resources. AIME and its Members would be happy to work with PhonepayPlus on targeting cost reductions in this area.

Legal Costs; PhonepayPlus has proposed an increase of 7% in legal costs. As well as a review of the root causes as suggested above, 95% of responding Members support a proposal where PhonepayPlus works more closely with other relevant consumer protection agencies, financial and trading bodies to reduce costs by sharing investigative and legal resource.

Other regulators; AIME is aware that some of PhonepayPlus role will cross over into the territories of other regulatory bodies and that memorandum of understanding exists with certain other agencies. As part of the review for a potential reduction in costs, PhonepayPlus is encouraged to review the points that it agrees responsibility for a consumer issue and whether it hands over the issue to the relevant agency or delegates the issue to the relevant agency for resolution.

Other cost areas; The PhonepayPlus budget provides for large expenditure in areas that do not have any detail such as "Intelligence" at £180,000 and "Industry Support" at £993,455. AIME members (95%) request further detail on these expenditure items to improve transparency and to target efficiencies.

Earnings Capability; PhonepayPlus has indicated that it provides consultative services and responds to requests for information from other bodies, such as the ASA and Government departments. For instance it is known that the costs of attending international (IARN and other) meetings is borne by PhonepayPlus despite (historically) the majority of market intelligence being passed from PhonepayPlus to other IARN members. AIME suggests that certain consultation services could provide an income to PhonepayPlus instead of a cost.

Registration Scheme; The costs to industry to support the registration database compared with the benefit that is being derived for DDRC requirements and consumer support, require an encompassing review to determine if additional benefit can be achieved without significant cost and / or the cost of support can be significantly reduced. Concern from Members is that the reducing market over the next two years could place an increased financial burden on the industry that remains registered. This review should also examine the funding model to establish if some exempt providers are in a better position to support the registration systems operational costs.

Regulatory Costs Indicator

In previous AIME budget responses we have introduced a proposed Key Performance Indicator, which tracked the annual costs of regulation against the out-payments generated by the PRS industry. We believe that this KPI remains a valid indicator for tracking the trends of the regulatory burden on industry.

We have updated our figures to now reflect the PhonpayPlus financial year and included projected figures for 2013/14 out-payments. Data for 2013/14 has been forecast (best case) based upon trends from the prior 18 months.

Financial Year	Regulatory Cost £m	Industry out-payments £m	Regulatory cost p per £ (out-payments)
2007/08	4.02	840	0.48
2008/09	4.35	567	0.76
2009/10	4.4	560	0.78
2010/11	4.22	574	0.73
2011/12	3.80	525	0.72
2012/13	3.74	490	0.76
2013/14 FC	4.44	441	1.01
2014/15 FC	4.09	361	1.13

PhonepayPlus Questions

Q1: As we commence the review of our next three-year plan, do you have any comments or suggestions about the strategic priorities that PhonepayPlus should focus on over the next three years?

Please refer to our detailed AIME Member feedback above under the category of General. AIME believes that PhonepayPlus priorities are to establish the causes behind the increase in its operational costs and establish how to reshape its budget so that the regulatory costs to the industry will not increase year on year while the industry is in overall decline. Establishing such a high operational budget places increasing reliance on fine revenue to make up the shortfall.

AIME can provide support to PhonepayPlus in the areas of review detailed above either from Executive staff who can relay the collective view of 80% of the premium rate industry or from individual members with the correct levels of specialisation.

The Budget document does not detail the projected fine collection that will assist in reducing the levy or the reserves that PhonepayPlus currently has. Greater transparency is requested to assure industry that polluter pays principle is resulting in reductions to levy.

Q2: Do you agree with our assessment of the current and future direction of the market?

AIME recognises the difficulties in regulating the UK premium rate market as the technology environment gets increasingly complex and the understanding of how PRS services are promoted and operated require higher levels of contemporary knowledge.

AIME believes that the latest reports suggest that PhonepayPlus may have under estimated the decline in revenues during 2013/14 financial year and the predicted revenues in the 2014/15 financial year and may have a need to call on reserves absent a review of the proposed budget.

Q3: Do you agree with our proposed priorities and work plans for 2014/15? If not, why not?

AIME supports in broad terms the role that PhonepayPlus holds to support consumers as they engage with premium rate services, but is concerned that the costs to do so are increasing while the market (and thus the number of consumers using services) is in steep decline. AIME welcomes the planned activities to ensure efficiency and effectiveness contained in the Consultation but additionally, based on Member input, AIME has suggested a priority examination of these areas;

Consumer Support: Establish the root cause behind increase in contact between PhonepayPlus and consumers and work with industry to reduce drivers and costs as well as improve consumer satisfaction.

Increasing litigation: Establish the root cause behind increase in litigation. AIME Members detailed commentary can assist with this review. Additionally there is an opportunity to examine alternative dispute resolution mechanisms that perhaps are more affordable for both PhonepayPlus and the industry.

Oral Hearings: Establish the root cause behind the increase in requests for an Oral Hearing at Tribunal. AIME Members detailed commentary can assist with this review.

Investigations; Review this cost to establish if this is delivering value to consumers and industry. Additional savings can be made through greater industry collaboration and sharing resources. AIME and its Members can assist PhonepayPlus to target cost reductions.

Legal Costs; PhonepayPlus should review work in conjunction with other relevant consumer protection agencies, financial and trading bodies to reduce costs by sharing investigative and legal burden.

Other regulators; Cross-over of remit is increasing and PhonepayPlus should review how it engages with other agencies to spread costs and activities.

Earnings Capability; PhonepayPlus should review if areas of intelligence sharing and consultative activities could be generating income instead of costs.

Registration Scheme; PhonepayPlus should carry out an encompassing review to determine if additional benefit can be achieved without significant cost and / or the cost of support can be significantly reduced.

Q4: Do you support our proposed resource allocation for 2014/15? If not, why not?

In the short term, increasing expenditure on Customer Service and Complaint Resolution areas to examine and understand the causes behind increasing consumer contact and the skills needed to provide satisfactory resolution for consumers is necessary to project a longer term cost reduction. This in turn will improve consumer satisfaction.

Reviewing removing this funding from Enforcement / Investigations may not have a detrimental effect if savings are targeted correctly.

Please see our detailed commentary above for areas that we believe could be targeted.

As AIME is not conversant with the detail behind the big-ticket items of expenditure, it is difficult to recommend targeted savings.

Q5: Do you agree that the charging model should remain unchanged during 2014/15? If not, why not?

The charging model will always be questioned while it is felt to be disproportionate to the cost drivers, however, there is limited enthusiasm to increase costs by conducting a review at this stage.

Conclusion

As detailed in our section "General" above, AIME has a concern over the long term cost of regulating in the evolving market by increasing the levy from the reducing revenues required to fund it and is keen to discuss how this can be satisfactorily managed. AIME members support a detailed targeting of cost drivers and are willing to assist PhonepayPlus to achieve long term savings.

AIME agrees that the PhonepayPlus research into the customer experience and the causes of consumer concern will be useful in targeting activities to reduce the cost of consumer contacts and is keen to support a more collaborative approach with industry members.

AIME supports the PhonepayPlus objective to build consumer confidence through the use of controlled Affiliate Marketing and is keen to work with PhonepayPlus to achieve this while recognising the nature of the internet when exercising controls and understanding that providers as well as consumers can often become victims.

Some AIME members believe that the investigation and tribunal process can be improved further and more market confidence achieved, which will in turn improve revenues. AIME is keen to work with PhonepayPlus to achieve this.

Statement of Representation

AIME confirms that this response has been compiled following a process of internal discussion and distribution of the relevant Consultation documentation to all AIME members. A list of members can be found at <http://www.aimelink.com/home/members.aspx>

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

Close

We assure you that, as ever, our comments are made constructively and with the intent of achieving an effective, fair and proportional regulatory regime for Premium Interactive Media and Entertainment services in the UK.

If any clarification to our response is required or if we can be of any further assistance please contact David Ashman at +44 (0) 1252 711 443, or davidashman@aimelink.org