



## BT Response to the PhonepayPlus Consultation on its Plan and Budget for 2008/9

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## **Summary**

BT has a few observations and suggestions which are covered in the responses to the questions below but in the main we agree with the key proposals of the plan.

We welcome the fact that the levy remains below 0.4% but would suggest that better accuracy on the levy might be achieved via a year-on-year assessment rather than the current forecast method.

## **Response to Questions**

### **1. The size and the challenges that the 2008/9 market may pose.**

We question the information source that indicates a growth rate as shown in Chart 1 that would lead to a market value of some £1.6b by 2010/11. 10% per year growth appears optimistic in our view. Whilst management of 0871 would be a new area to PhonepayPlus (PPP) for Industry itself that revenue stream already exists and growth rate for 0871 may be minimal as Service Providers (SPs) balance the cost of compliance with the PPP Code of Practice (the Code) against the lower revenue share to be gained from 0871.

We agree that a decline will be experienced in the “traditional” fixed PRS market where payment is made via the phone bill and growth area will be on-line activities and VoiP. For these services there is question of the extent of the PPP remit, however that should be addressed within the forthcoming Ofcom Scope Review and the subsequent Memorandum of Understanding between PPP and Ofcom to be then reflected in a revised PPP Code. PPP needs to be certain that in any given situation it is acting with the support of its devolved powers.

### **2. The expenditure plan, our focus on a pre-empt, prevent and protect agenda, and the allocation of costs within this.**

Prevention is always better than cure, to that end PPP working closely with industry on potential market developments and the likely areas of concern is key.

BT believes an initial outlay for advising 0871 SPs new to regulation will bring dividends; greater understanding by SPs, increases compliance and thus reduces consumer complaints or queries. That additional information could be provided to 0871 SPs via a specific page on the website, inviting them to call and discuss their obligations or even workshops to run through the Code itself. Whilst Network Operators (NOs) will bring the Code to the attention of their contracting SPs it is not appropriate for NOs to actually interpret and advise SPs on compliance. That function might sit within the commercial legal

sector but clearly the Regulator itself must take an advisory role for players within its industry. It is only right that the regulating and adjudicating body provides advice on how to comply in the first instance.

Industry will welcome PPP's review of prior permission in relation to services of a lesser risk, however there is a general issue on the current level of verification and tracking of SP activities by PPP as the Regulator. The placing of a due diligence requirement on NOs should not be any substitute for the Regulator undertaking its own oversight of SPs in the market which it regulates. Close scrutiny and monitoring of SP activity is the only way to ensure compliance; see Q 4 below for further thoughts.

### **3. Our continuing shift towards the 'polluter pays' principle through maximisation of administrative charge income and use of fines.**

We welcome the increase in fine collection as that will contribute significantly to the forthcoming budget and lessen the cost of regulation for the legitimate players. In a similar vein it is only right that administration fees are raised in those cases where a breach is proved.

BT is in full agreement with the "polluter pays" principle, increasing the level of risk for those intent on non-compliance and those collaborating with them should pay dividends.

### **4. Any external commercial, technological, legislative or other development that you feel we have not addressed.**

Whilst the majority of attention is rightly on the consumer issues PPP remit for premium rate services also covers :

*"...their content, promotion, and overall operation."*

To date little attention has been paid to fraud, in the nature of short duration calls and Artificial Inflation of Traffic (AIT) occurring within the industry itself and we feel that would fall within "*the overall operation*" of PRS. Fraud costs industry millions in terms of loss revenue and management costs. It is a reality that some of this cost is picked up by consumers; perhaps PPP might undertake an initial investigation to scope this problem and consequential cost to Industry before it looks to incur costs on subject areas that are not necessarily within its current remit.

It is noted that £145k is being allocated to new phone system; that system ought to include facilities enabling PPP to identify fraudulent activity, certainly those instances where an SP has installed equipment to play out a ring tone to the calling customer instead of answering the phone. In such cases the caller actually pays for a period listening to that artificial ring tone before the recorded message starts. The customer is not aware that they are incurring a call charge at that point.

The new phone system could be configured to detect this sort of fraud via various products solutions, for example BT currently offers Meter Pulse Facility\* or Called Party Answer. We would suggest you discuss what similar facilities are available from your chosen supplier.

#### **5. Our plans for research and for the sharing of our findings.**

£165k is allocated but it is unclear as to what new end-purpose this research would serve as opposed to re-visiting what has gone before. On a practical note it has been known for research contracts to limit the use of the findings, for example they can only be used internally and not published to key stakeholders. Industry would want to ensure that PPP had full rights to any research it commissioned.

BT notes the closer liaison between itself and the Industry Liaison Panel (ILP) this past year and trusts this is mutually beneficial. In terms of further sharing of information it may be worth considering publishing a diary of events on the your website, forthcoming meetings, workshops, Forum etc. That would encourage contact from interested parties and exchange of views even outside the planned event. SPs have long been under-represented and any method to encourage their participation is to be welcomed.

#### **6. Our proposals for additional productivity measures.**

We have to say from this consultation it is not abundantly clear what they are. That said we are aware that PPP are currently seeking audited reports of levy payments but we believe that more could be done with regard to accuracy of levy collection. There would be no issues of commercial confidence if, on its website, PPP published the names of those organisations who had paid a levy. There's no need for the amount to be disclosed, simply the name. As with any PPP activity the focus and benefits to be gained rest on those where doubt exists not the compliant majority.

Another consideration is for PPP to ensure that when they have directed an NO to withhold monies and subsequently when they have directed that it should be released that all parties involved are notified. That would clearly communicate to those involved the current regulatory position on that transaction and create a greater efficiency within Industry for completion of that regulatory action.

#### **7. Ways of assessing the benefits as well as the costs of regulation.**

Tangible actions best provide means of measuring tangible results. Following the DTI recommendations on improvements for PRS Regulation ICSTIS at the time, allocated a budget of £100k for a feasibility study for an SP database, for one reason or another this failed to progress after a few meetings of the implementation team. Without doubt it is our opinion that a database of SPs would reduce operational cost and greatly assist consumers, industry and

PPP alike across a number of fronts.

A relatively simple database could provide basic detail of SP contact details, their UK helpline number and the PRS numbers and services they offered. A more sophisticated version could include on-line registration and application which would reduce the hands-on administration burden.

If NOs didn't activate PRS numbers until the SP was fully registered that would also drive toward a compliant industry. As it is NOs have to check registration and prior permission so it would actually be easier to undertake that via a database than copies of papers going through the post. If Originators also only made payments on the basis that the SP was correctly registered on the database that again would encourage legitimate players into the market and discourage others.

END.