

Fair, transparent and proportionate: supporting consumers and innovation

ANNUAL REPORT 2014/15

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PhonepayPlus is the UK's independent regulator of premium rate services (PRS)

Premium rate services (PRS) are the goods and services that you can buy by charging the cost to your phone bill or pre-pay account.

They include directory enquiries, voting on TV talent shows, donating to charity by text or downloading apps on your mobile phone.

Our regulation is open, fair, and robust, underpinned by a Code of Practice approved by Ofcom.

As the telecoms, internet and payments sectors continue to experience an unprecedented rate of change and innovation, PhonepayPlus takes positive action to safeguard consumers and help cutting-edge providers of digital content and services to thrive.

Our vision is that anyone can use premium rate services with absolute confidence in a healthy and innovative market. Within our remit and expertise, we seek a more consistent approach to regulating micropayments that are like PRS.



Andrew Pinder
Chairman

“Since I became Chairman of PhonepayPlus in 2012 the premium rate service (PRS) market has experienced a period of rapid change. We have seen a shift in the types of services consumers engage with as technology has evolved.”

The rapid growth in smartphone ownership aligned with increased access to the mobile internet has resulted in new forms of consumer behaviour, new digital goods and services and convergence in payment systems. Regulators increasingly must work together and share information on issues that span across their remits, and this has informed our strategic thinking and our regulatory framework.

Last autumn, we published a new Strategic Plan for PhonepayPlus, outlining our vision, mission and key objectives for 2014/2017, in order to support a healthy and innovative market in which anyone can use premium rate services with confidence.

A key focus over this year has been the development and introduction of our new 13th edition of the Code of Practice, which sets out the regulatory framework for premium rate service providers. In updating the Code, we have prioritised consumer protection alongside regulation's role as an enabler of market innovation. We are also making changes to ensure the Code remains effective following the implementation of Ofcom's review of Non-Geographic Call Services.

PhonepayPlus will continue to work closely with Ofcom and to support their work to promote innovation across the telecoms sector. Within PRS, developments in mobile technology are providing new opportunities in

digital content and services. In the last year we have seen a number of new entrants to the market and increased growth in operator billing, in which app store purchases are charged to a phone bill, and SMS charitable giving. Our 2014/15 Annual Market Review shows a 19% increase in revenues from games or apps charged to phone bills and revenue from charitable donations is up by 8% in the same period.

As the accessibility of a wider selection of premium rate services and digital content increases, and as payment methods converge, it is important that regulation keeps pace with these developments. It is several years since the Communications Act 2003 created the regulatory systems of which PhonepayPlus is a part. To ensure that PhonepayPlus remains at the forefront in understanding the significant changes in technology and business models in the market we are proactive in our monitoring of market developments, emerging issues and future trends. Our ability to do so has been enhanced by the appointment of new Board members who bring a wealth of experience in payment services and mobile strategy.

Under the chairmanship of Mohammed Khamisa QC the Code Compliance Panel, the independent body that rules on the PhonepayPlus Code of Practice, has made a number of improvements to its processes and its working.

Protecting vulnerable consumers remains an important focus. This year, through our app store pilot we have worked with industry to reduce the numbers of consumers affected by billshock and particularly cases affecting children.

On a personal note, this is my last annual report as Chairman of PhonepayPlus as I will be stepping down from my role this year. I would like to take this opportunity to thank the PhonepayPlus Board, Ofcom and our other partners, the PRS industry and the Executive for their support during my time in office. In particular I would like to thank departing Board members Hugh Griffiths and Howard Webber for their contribution to PhonepayPlus. Their knowledge and input over the last few years have been integral in the development of our strategic direction as a regulator. I wish the PhonepayPlus Board and the Executive every success in the future.

The report sets out in detail PhonepayPlus' work over the last twelve months and looks ahead to the coming year. I hope you find it useful and informative.



Jo Prowse
Acting Chief Executive

“PhonepayPlus' values and our vision are constant, but with a new strategic framework and a new Code of Practice the way we apply them is changing.”

This is my second Annual Report after a year heading the Executive, a year that has seen change, challenge and opportunities for the market and our regulation. PhonepayPlus' values and our vision are constant, but with a new strategic framework and a new Code of Practice the way we apply them is changing. Our approach is guided by a focus on outcomes, proportionality, and working for consumers in partnership with the industry we regulate.

It is paying off – against a backdrop of decline in revenues for traditional PRS, 2014/15 saw significant growth in new areas of premium rate services. PhonepayPlus has played its part, supporting innovative payment options such as operator billing on app stores, through dialogue and guidance on compliance and carefully targeted exemptions from the Registration Scheme for app developers. The new Code of Practice provides scope for further initiatives such as these to support evolving business models with an outcomes-based framework providing flexibility for providers to run compliant services. This freedom is balanced by a greater responsibility upon providers to deliver good outcomes for consumers.

Amongst the PRS industry, there is a clear commitment to improving consumers' experiences. This is particularly important in a year where we have seen over 35,000 consumers contacting us about premium rate services. We have engaged successfully with initiatives such as AIME's Early Warning System to identify market issues before they develop into problems for consumers. Other providers have worked with us to co-produce consumer advice. You can read

more detail of this on page 8. In the area of consumer education, this year for our PhoneBrain campaign we have joined together with the e-safety charity Childnet, challenging schools to put together advice videos on app stores and PRS. We will continue to explore the best ways of engaging with young people and other consumers as technology evolves.

Our enforcement policy too has been guided by the principle of proportionality. I aim to create a sharper divide in our approach between those that are responsible businesses who work with us to put things right when they make a mistake, and the small minority who are reckless or even deliberate in breaching the Code. When necessary, we have used our enforcement powers to protect the integrity of the PRS industry and the rights of its consumers. An example of this was in December when we issued fines of £330,000 in a case involving, amongst other issues, mobile malware, effectively stamping out unacceptable practice for the benefit of consumers and the reputation of the market.

As a responsible regulator, PhonepayPlus works with businesses to resolve issues before they escalate and to help services operate compliantly. This year over 70% of cases were resolved in this way, benefiting consumers, the providers and the market through fair, swift and co-operative action with only the most serious breaches of our Code leading to formal enforcement procedures.

We strive continually to improve and learn lessons for the future, and we are now reviewing PhonepayPlus' investigations and sanctions procedures. This 'Part 4' review is intended to ensure that any enforcement action PhonepayPlus takes is fair, transparent, proportionate, and that the Code Compliance Panel's independence is clear. We are making changes in our other work too – strengthening our partnerships with other regulators, bearing down on costs, and looking forward to the phone-paid services of the future. You can read the highlights of our research into the future of the market on page 18.

After a period of change, there is clear potential for innovation and growth in phone-paid services. I believe that collaboration is key to realising that potential and I would like to thank the many industry providers and bodies, consumer groups and other regulators who have engaged so cooperatively with us over the last twelve months to make a real and positive difference to the effectiveness of our regulation. In the coming year, PhonepayPlus will work to enable innovation, promote good business, and support consumers, so that anyone can use phone-paid services with absolute confidence.

Our work: regulating the market and supporting consumers

PhonepayPlus is the UK's independent regulator of premium rate services.

Premium rate services are the goods, content and services that you can buy by charging the cost to your phone bill or pre-pay account. They include directory enquiries, voting on TV talent shows, donating to charity by text or downloading apps on your mobile phone.

PhonepayPlus is recognised by Ofcom under the Communications Act as the regulator of controlled premium rate services, a role we have played since 1986. Our regulation is open, fair and robust, underpinned by an outcomes-based Code of Practice (more information on our 13th Code or Practice can be found on page 6). As the telecoms, internet and payments sectors continue to experience an unprecedented rate of change and innovation, PhonepayPlus takes positive action to safeguard consumers and help the PRS industry to thrive.

The Code Compliance Panel, whose adjudicatory processes are independent of PhonepayPlus, rules on potential breaches of the Code. It is chaired by Mohammed Khamisa QC and draws on a wide range of experience and expertise in making its decisions.

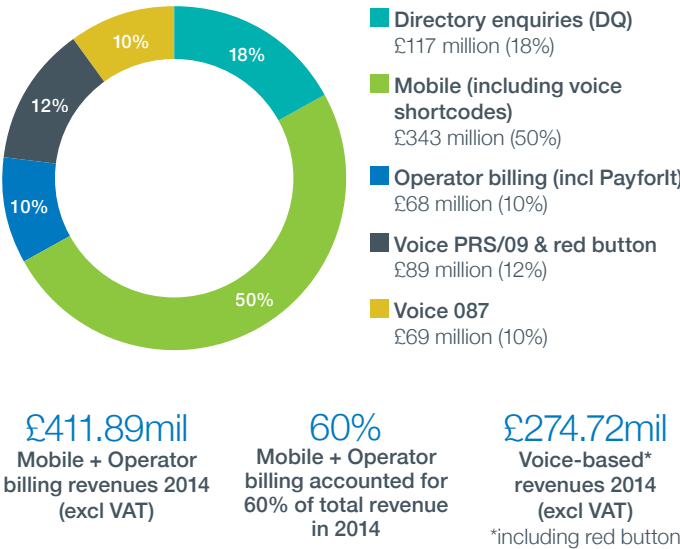
Our approach puts the consumer at the heart of everything we do and involves working collaboratively with industry to allow businesses to flourish and to build a healthy market with high standards of compliance.

Key statistics

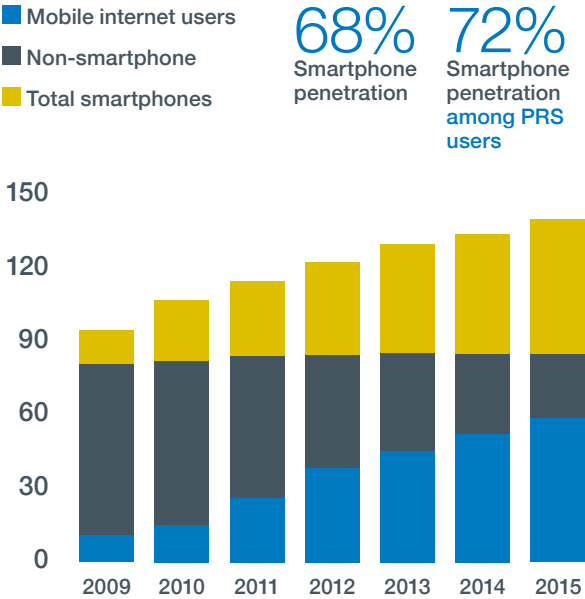
- 2014/15 revenues for the UK PRS market were [£564.3 million](#)
- [2,713 PRS](#) organisations were registered on PhonepayPlus' registration scheme
- [446,086](#) checks were made on PhonepayPlus' online number checker which allows consumers to check PRS service details
- [£1,548,000](#) of fines were invoiced in 2014/2015
- In 2014/15 [70%](#) of cases investigated were resolved informally rather than being taken to a Code Compliance Panel Tribunal
- PhonepayPlus is funded by a levy on the industry so [does not cost the individual taxpayer a penny](#)
- Over the past 5 years PhonepayPlus has reduced its budget by [25%](#) in real terms
- Where the rules of the PhonepayPlus Code of Practice have been broken, PhonepayPlus can fine the company responsible up to [£250,000](#) for each breach, bar access to services and even bar the individual behind the company running the service from running other services under a different company name

Our 2014 Annual Market Review found:

Revenues by payment type
Premium rate channels by payment type, 2014 (£m, excl VAT)



Smartphone impact
UK smartphone & mobile internet penetration (x1 million)



What are premium rate services?

Premium rate services is a generic name for goods, content and services that can be purchased and are charged to your telephone bill or pay as you go credit. The charge itself can be done by one of the following methods.

SMS shortcodes

Shortcode numbers are five or six-digits long and usually begin with 5, 6, 7 or 8. These numbers are often used to pay for new features in apps or games, to donate to charity or to enter competitions.

118 – directory enquiries

These are 6-digit numbers beginning with 118 and are used for directory enquiries services. Most calls include a one-off connection charge and then a charge for every minute the line is used.

0870, 0871, 0872 or 0873

These numbers are normally used for customer service lines, such as technical support lines, chat lines, tarot/horoscope lines and sales/booking lines.

070 numbers

Numbers beginning with 070 are used to divert calls to another phone number. Small businesses and sole traders often use these to avoid giving out their personal phone number. 070 numbers are regulated by Ofcom. PhonepayPlus can investigate services on these numbers if they are found to offer premium rate-style services and/or the number is being misused and if the cost of the call exceeds 10p per minute.

09 numbers

These numbers are mainly used for competitions, TV voting, horoscopes, chat lines, adult lines, recorded information and professional advice services.

Operator billing

Also known as Carrier billing, Direct-to-Bill or Direct Operator billing allows users to make purchases that are charged on their telephone bill without the need to send a text message.

Payfortit is a type of operator billing run by the mobile network operators. It allows users to make purchases that are charged to a telephone bill without needing to send a premium rate text message for the payment to happen. These services are often described differently on a bill and appear on a separate portion containing the name and telephone number of the service provider. Other providers use a code to describe the service.

The new Code of Practice: a framework for innovation and consumer protection

PhonepayPlus' vision is that anyone can use premium rate or equivalent services with absolute confidence. Our Code of Practice sets the appropriate standards and expectations for the operation, content and promotion of premium rate services in the UK.

The premium rate market is constantly evolving in terms of content, products and technology. As the regulator we need to ensure that our Code is able to provide targeted, dynamic and effective regulation now and in the future. This means from time to time revising the Code to ensure it continues to protect consumers and provide a fair and proportionate framework for the market to thrive and innovate.

PhonepayPlus considered that after nearly three years

of applying the 12th Code, there were good reasons to consult on the next edition. The most immediate reason was the need to ensure the Code would align with changes arising from Ofcom's review of Non-Geographic Call Services, which came into effect in July 2015. These changes, implemented by Ofcom, make the cost of calling service numbers clearer and include numbers that fall under PhonepayPlus' regulation.

The previous edition of the Code saw a significant move away from prescriptive rules and towards a focus on consumer outcomes which is continued in the new 13th Code.

Underpinning the 13th edition of the Code are the regulatory principles of:

Proportionality – that PhonepayPlus applies the code in a fair, consistent and equitable way.

Flexibility – that the Code supports innovation and growth in a changing market but places responsibility with organisations to provide compliant services.

Protected consumers – that the Code enables the provision of compliant and value adding content and services providing choice, convenience and confidence to consumers.

Key changes to the 13th edition of the Code, include:

- A new rule requiring providers to possess any qualifications and/or licences necessary in law before operating a PRS
- An updated rule around the requirement not to take advantage of vulnerable consumers - which now covers circumstances where the risk of harm could have been identified with reasonable foresight
- The raising of the “forced release” cap on live chat and sexual entertainment services from £30 to £45 per call – with the introduction of the requirements to clearly inform consumers when they have spent £15 and require them to clearly opt in to continue when they have spent £30
- The raising of the existing single purchase cap, and monthly subscription cap, on Children's Services from £3 to £5 (incl. VAT), and the introduction of a new cumulative purchase cap for Children's Services of £20 (incl. VAT) per service in any given billing cycle
- The removal of a requirement for all PRS to supply and promote a non-PRS UK phone number for consumer enquiries – although a number should still be provided where this is the most appropriate medium for consumer contact
- The introduction of special conditions to apply to defined higher risk service types

The consultation process

The review of the 12th edition of the Code began back in September 2013 with a request for comments on our initial considerations. Feedback was also provided through a number of workshops with industry and consumer groups that were hosted by PhonepayPlus. Following feedback, we reflected on the scope and breadth of our initial proposals, and considered additional revisions to the Code. Throughout the process stakeholders were invited to comment ahead of the final draft Code and accompanying consideration which was released for public consultation in July 2014.

Respondents to the consultation supported most of the proposed changes, additions, or subtractions from the 12th Code in order to form a 13th edition.

Some respondents supplied feedback that went beyond just the specific proposals, and also commented on whether some of the underlying framework could be improved going forward. A number of responses related to proposals to change Part Four of the Code (investigations, procedures and sanctions). As a result of this feedback we decided to remove the majority of these proposals from the 13th edition and instead launch a separate review of Part Four. This review is expected to conclude later in 2015 after which further Code amendments will be considered.

PhonepayPlus is committed to open and transparent consultation on all changes to its regulatory framework and welcomes the input of its stakeholders which helps to help shape and adapt regulation to best meet the needs of consumers and the market.

This review is expected to conclude later in 2015 after which further Code amendments will be considered and consulted upon.

Working with industry to improve Code compliance

At PhonepayPlus we are committed to protecting consumers and to stamping out bad practice in the premium rate service market. There are thousands of good businesses wanting to trade legally and fairly and it is only a small number of bad providers that can give the market a bad name and cause issues for consumers.

As a forward looking regulator, we see the best way of protecting consumers is through a preventative approach and working collaboratively with the industry.

PhonepayPlus has been working alongside the Association for Interactive Media and Entertainment (AIME) and industry members, collaborating on initiatives, sharing information and engaging in constructive dialogue through regular meetings and forums including the Industry Liaison Panel. This has included working together to better educate consumers on how to avoid problems and clearing up some common consumer misunderstandings about PRS. We launched a blog last year which provides news and advice for consumers and industry. The content of the blogs has been shared widely across our stakeholder and industry network to promote key regulatory and wider consumer protection developments.

Our collaborative approach has included the

establishment of an early warning system (EWS) developed alongside AIME and the industry. The EWS shares information across PhonepayPlus and the industry about non-compliant marketing promotions, non-case-sensitive consumer complaints and links to relevant blogs to help mitigate the risk of consumer harm entering or spreading in the market. This year has also seen close working with industry on developing policy solutions and compliance updates and advice. For example, we have seen an increase in the number of consumers contacting us stating they were unaware that they had entered into a chargeable service. We issued an update to industry on all the information to be provided to consumers prior to entering a contract or an obligation to pay in the view that more consistent standards will benefit both consumers and the PRS market.

We have also been piloting in collaboration with AIME and the mobile network operators a rapid response team which can quickly bring together the relevant industry expertise to address emerging issues and develop solutions. With such a rapidly changing market, we see the best way of keeping harm out is through identifying problems early and working with providers of these services to quickly resolve issues.

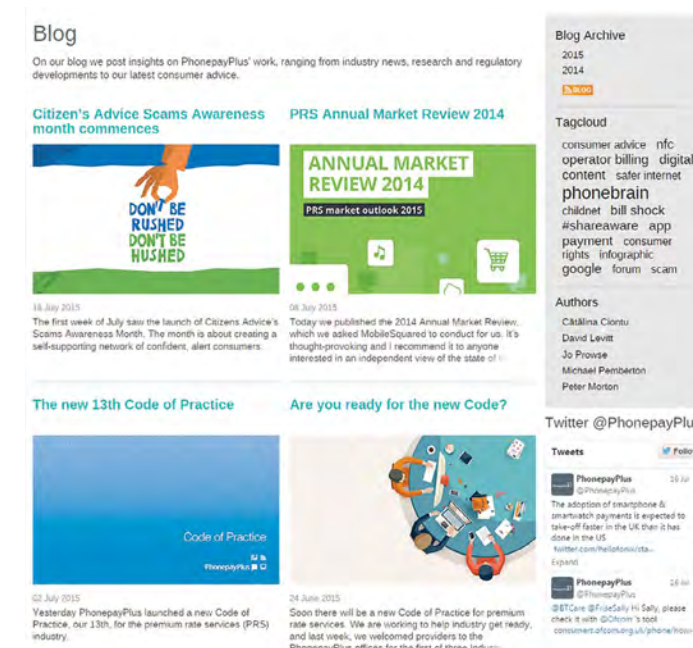
Investigations and the Code Compliance Panel

The majority of PRS providers run compliant services offering good value and services to consumers with only a small minority of companies causing harm. PhonepayPlus has the power to enforce the Code of Practice in a proportionate and responsible manner according to the evidence available and to take appropriate action when necessary.

The majority of cases that PhonepayPlus investigates are resolved informally. In the last financial year over 70% of cases were resolved informally which means working with the industry when we receive consumer complaints to resolve any issues and ensure services are compliant.

When we do investigate formally it is for the most serious of breaches of the Code of Practice. These cases are put before our Code Compliance Panel.

In 2014/15 the Code Compliance Panel: adjudicated on 41 cases; levied fines of £1.5 million for breaches of the Code; and, prohibited 19 individuals and companies from operating in the PRS market for a specified period. More details on the panel can be found on page 25.



Our new blog has news for the industry and consumers

Some issues PhonepayPlus has investigated in the last year include:

Parents and billshock

A company operating a voice changer service was ordered to refund consumers after complaints from parents of children who had accidentally dialled the service not realising the costs involved.

The service was promoted through banner ads including promotions in a number of children's apps. When the banner ad was tapped, an 090 premium rate number charging £1.00 per minute was immediately dialled.

Recruitment agencies and PRS

In November 2014, PhonepayPlus fined a recruitment and training and advice service which operated on several 090 numbers.

The majority of consumers who contacted PhonepayPlus said that they had received an email from the company notifying them that they had been selected for a telephone job interview. On calling the number complainants were unaware that they were incurring charges between 61p and £1.53 per minute. A number of complainants also reported being kept on the line for extended periods of time or being asked irrelevant or repetitive questions.

The company was fined £40,000 for a number of breaches of the Code.

Virtual chat service and banner ads

PhonepayPlus received a number of complaints about a virtual text chat service.

The majority of consumers who complained to PhonepayPlus stated that they had received unsolicited chargeable SMS or marketing messages from the service. A number of consumers also complained that the STOP command was not working.

PhonepayPlus fined the company £250,000 and ordered it to refund all consumers.

Here to help: new companies in the market

Premium rate services (PRS) have operated in various forms for more than 30 years. As technology and the market has evolved, the range of PRS has continued to grow and it now encompasses Directory Enquiries, TV voting, charitable donations, and increasingly is a payment option for apps and digital downloads.

PRS have the ability to enrich the lives of millions of consumers of all ages. In ensuring consumers can use

PRS with absolute confidence, we also recognise our role in helping the market innovate in a way which is appealing, but also secure and easy to understand. One of the ways in which we do this is to offer advice and support to new entrants into the market, in order that they can fully understand the requirements and expectations of our Code and how they can provide compliant services to their customers.

Under the Code of Practice, PRS providers have a responsibility to achieve six consumer outcomes.

These outcomes are:

- Legality: PRS cannot break the law or encourage others to do so,
- Transparency: PRS have to clearly inform consumers of the price and all other key information within promotions,
- Fairness: services have to treat consumers fairly – eg deliver the right products in a timely way, and give the consumer a clear way of opting out of further charges when they no longer wish to use the service,
- Privacy: PRS providers can only market to consumers with their provable consent,
- Avoidance of harm: PRS cannot contain illegal material, or incite discrimination or hatred, and lastly,
- Complaint handling: consumers must have a quick and easily accessible method of complaining, and complaints and any refunds must be handled quickly, fairly and transparently.

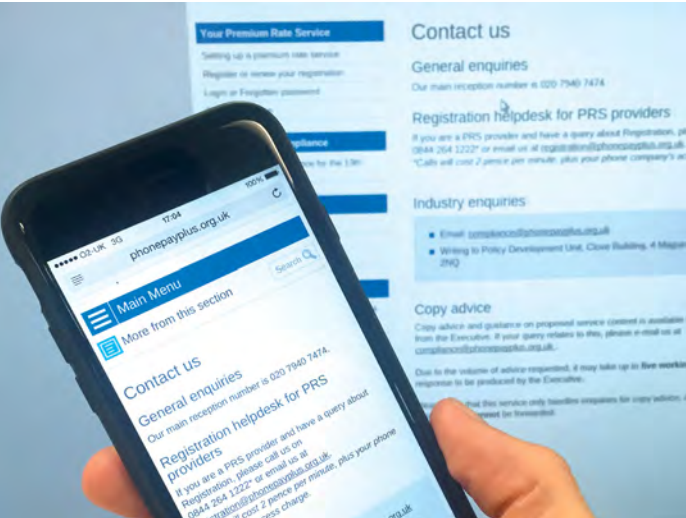
We support PRS companies in meeting these outcomes in a number of ways:

- Twice annual forum with PRS providers, where we discuss regulatory and industry developments
- We have launched a new website that is more accessible with advice for both consumers and PRS providers
- We work with the PRS industry’s representative bodies, including AIME, FCS, and Action4, to share compliance updates and advice with the industry
- This year we restructured the Industry Liaison Panel, which brings together representatives from PhonepayPlus, trade bodies, broadcasters, mobile network operators and PRS providers to ensure effective dialogue between industry and regulator
- We also provide free compliance advice for providers on their services and promotions

This approach enables providers to operate flexibility whilst ensuring their services are compliant and consumers are confident in using them.

Certain types of PRS may need some further protections to manage any risks to consumers such as PRS which offer live chat, remote gambling, and professional advice or counselling. Under our new 13th Code, such service types are also governed by additional “Special Conditions” which are tailored to the risks they carry and provide further assurances to both the industry provider and consumers. PhonepayPlus encourages new entrants to the market to understand and comply with all Special Conditions that are relevant from the outset of operating these services.

We welcome contact from providers entering the market for the first time, or from providers already in the market looking to innovate. We give clear advice to help providers to be both successful and compliant with our expectations around consumer protection.



The new PhonepayPlus website is responsive, meaning easier browsing for smartphone and tablet users and has clearer advice for consumers and businesses

Supporting consumers

In 2014/15 our contact centre received 35,185 contacts from consumers, a 7% increase in comparison with the previous year.

Consumer contacts are broadly divided into two categories, enquiries and complaints. Enquiries can often be dealt with over the phone by our trained consumer services officers and do not require further investigation, whilst complaints may relate to an issue with a service that requires further looking into. To read how our consumer services team deal with consumer contacts see page 15.

We are working with the industry and wider stakeholders to ensure that consumers' complaints are dealt with quickly, easily and fairly. This includes the networks providing clear information to consumers on who to contact regarding a query, service providers having in place robust customer service processes and more widely, that services are operating compliantly. Often consumers can be helped by contacting the service provider themselves before contacting PhonepayPlus.

Our new website, launched earlier this year, has been developed to assist consumers as much as possible. Information has been ordered according to the most common enquiries and allows consumers to find what they are looking for quickly and easily. Updates include tailored advice, as well as a new FAQ section. The website is also mobile accessible allowing for clear viewing of content on handheld devices.

Greater prominence has been given to the number checker tool which can be found on the homepage of our website and continues to be a useful resource for consumers. The number checker allows consumers to enter a number into our website to find out the information we have on a service. Over 446,000 number checks were made through the tool last year.

Last year PhonepayPlus received 22,753 complaints, a 44% increase on 2013/14, of which just under 8% were received from vulnerable consumers.

Case study

Here to help: Consumers

A consumer called PhonepayPlus about a charge on their bill. They had been given a "service ID number" by their network operator but had no further information as to the type of service or who provided it.

Our officer used systems in place by both the Network operator and our own number checker to identify the premium rate shortcode of the service and the company that was providing the service.

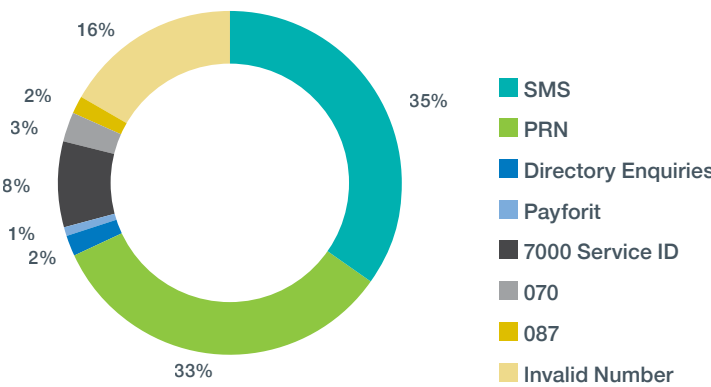
We were able to provide the consumer with the service provider details so they could contact them directly to deal with their enquiry.

The provider promptly assisted the consumer and in this instance decided to refund the consumer.

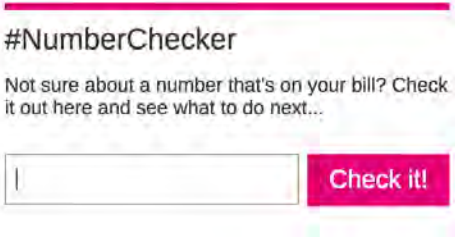
The consumer was extremely happy with the service they had received.

Contacts by sector

Annual view: Number of number checks by sector



Comments
The return rate for valid checks for SMS for the financial year to date is 89%. Fixed-line success rates on valid checks is 85%.

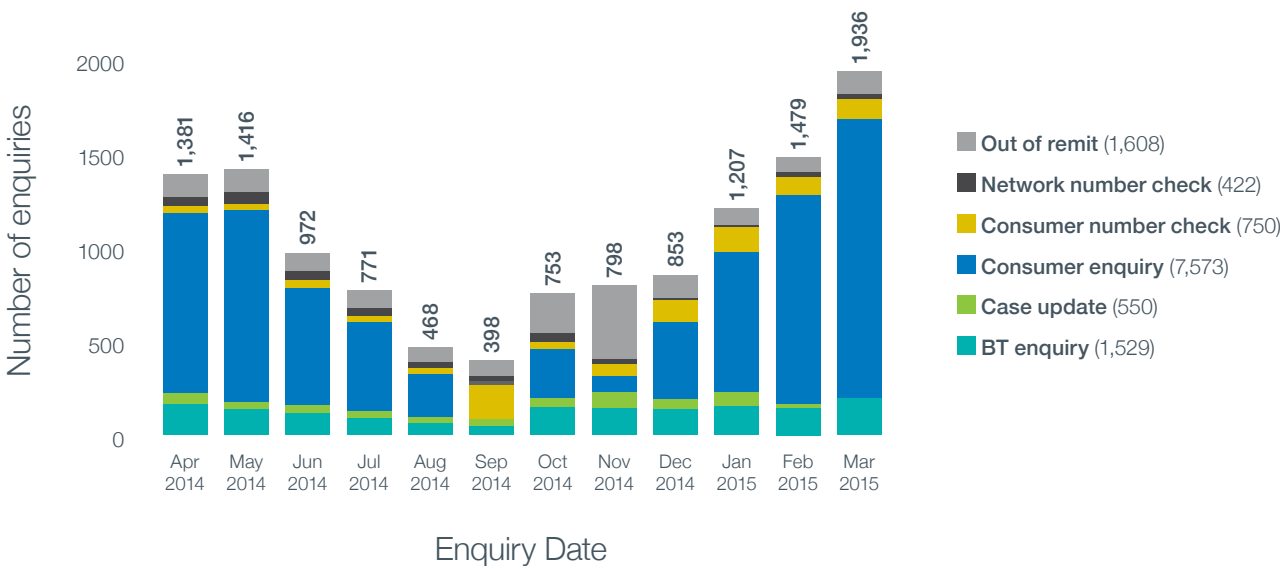


446,086
uses of #NumberChecker
in 2014/15

35,185
consumer contacts in 2014/15

22,753
complaints in 2014/15

Annual view: Number of consumer enquiries per month (by sector)



What consumers say about PhonepayPlus



“Thank you for your efforts in dealing with my issue. The information given to me by PhonepayPlus was not only clear and accurate but also courteous. I have limited computer skills and the information you needed was beyond my abilities to deliver. Your patience was much appreciated.”

– **Gwen**

“Thank you so much for investigating this issue for me and others like myself. I thank you sincerely for putting my mind to rest and for your continued support in putting wrong to right.”

– **Kim**

“Thanks for sorting out my issue with the premium rate overcharge. My query was dealt with effectively, you have explained yourselves and the timescales were communicated clearly and concisely.”

– **Lee**

“I am very pleased with the outcome of my complaint. It did take some time to arrive at this point, however I was kept fully appraised as the process was proceeding. Overall a good service was provided.

“I think you should promote this service more as I have been telling people I complained and although many have had similar experiences, they were unaware of your service. Thank you very much for the assistance provided.

“I am glad you offer this service and was very pleased that some of these less reputable companies are held accountable.”

– **Pauline**

A day in the life of a consumer services officer



A key role of PhonepayPlus is to help consumers use premium rate services with absolute confidence. Our dedicated consumer services team are the first point of contact for consumers. They provide advice, guidance, and when there are concerns, support in protecting the rights of consumers of premium rate services.

A significant number of contacts PhonepayPlus receives are enquiries which are dealt with by the consumer service officers in one call over the phone. The subject matter of the calls varies considerably.

Consumers may see a charge applied to their bill that they do not recognise. We are often able to explain to them which service has charged them, for example they may have voted on a TV competition show.

Alternatively, when a consumer complains about a charge on their bill, the services team contact the provider and request information regarding the consumer's interaction with the service, general information about its operation and copies of all promotional material.

If the service appears to be compliant with our Code we explain this to the consumer and the complaint can be closed. Where aspects of the service's promotion or operation cause concern, we will make further enquiries with the provider.

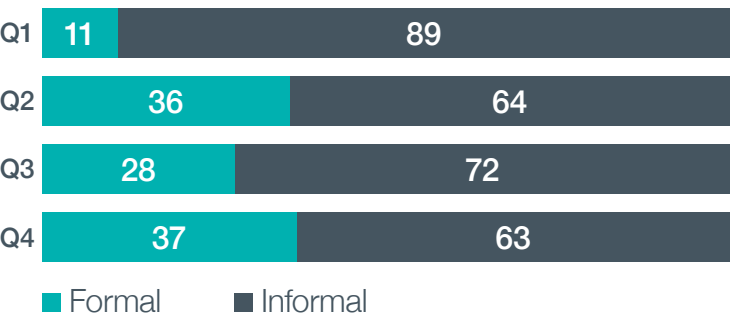
Where a minor breach of the Code is identified, such as a promotion missing a helpline number, we will raise an informal investigation. An informal investigation may require changes to be made to the service or promotion and for the provider to refund eligible complainants. A strong focus of work over the last year has involved engaging with the industry when PhonepayPlus receives consumer complaints to resolve any issues and ensure services are compliant. Over 70% of cases were resolved informally this year. We have developed our preventative approach to enforcement by working closely with the industry through regular meetings and publishing compliance updates and this will continue into the next year.

Nevertheless PhonepayPlus is committed to stamping out bad practice from a minority of providers. Where there may be a more serious breach of the Code, the complaints are passed to the enforcement team who will open a formal investigation. A formal investigation involves detailed questions being asked of the provider and ultimately, where the evidence supports it, the case being presented to the independent Code Compliance Panel. This panel decides whether there have been breaches of the Code and has a number of enforcement powers and sanctions available to it. Throughout this process consumers are updated regularly and are informed of the outcome, including how to obtain a refund from the provider if it has been awarded.

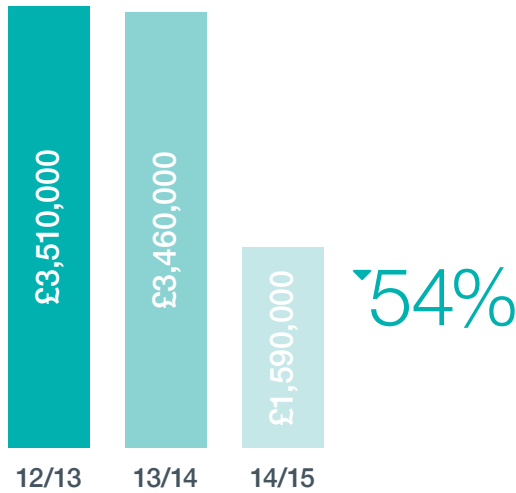
PhonepayPlus and premium rate services at a glance

Proportional approach in investigations

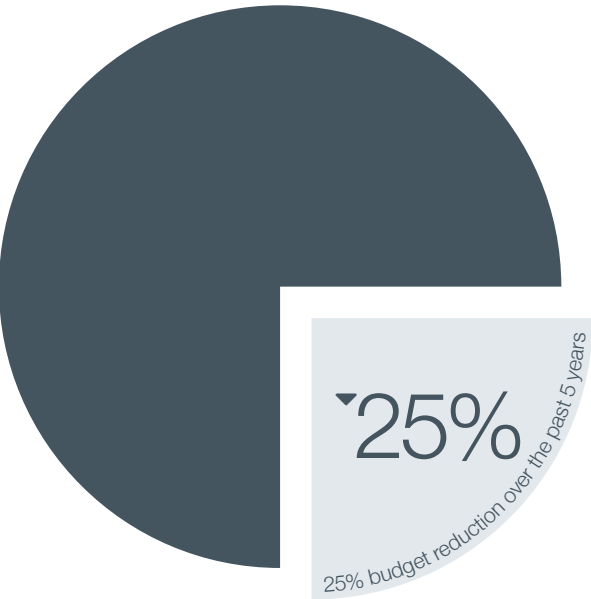
Over 70% of investigations resolved informally



54% less fines invoiced vs previous years



In 2014/15 complaints up 44% on previous year.

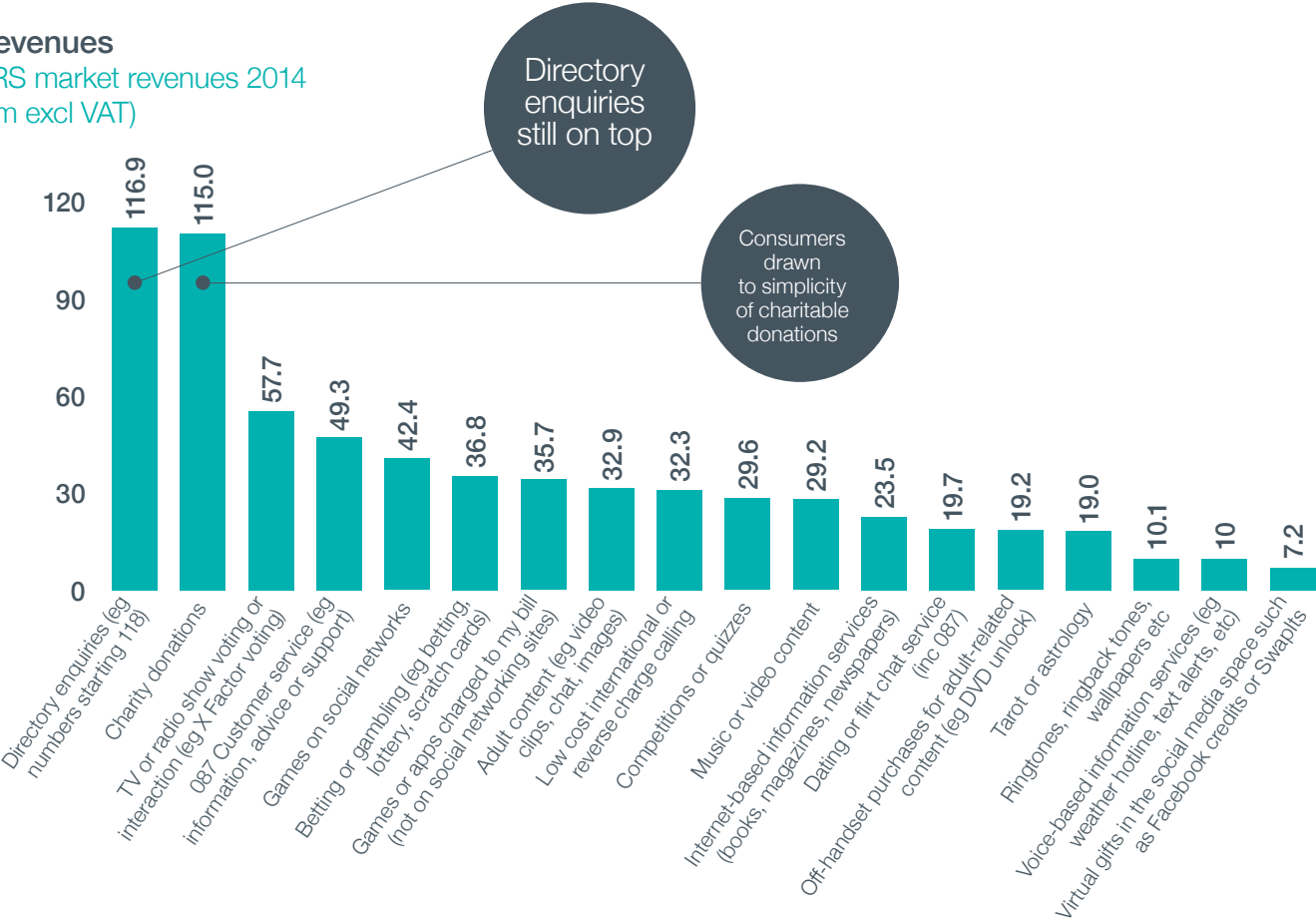


34% Informal resolutions
Directing 34% more resources to informal resolutions

11% Formal investigations
Directing 11% less resources to formal investigations and the Code Compliance Panel

Revenues

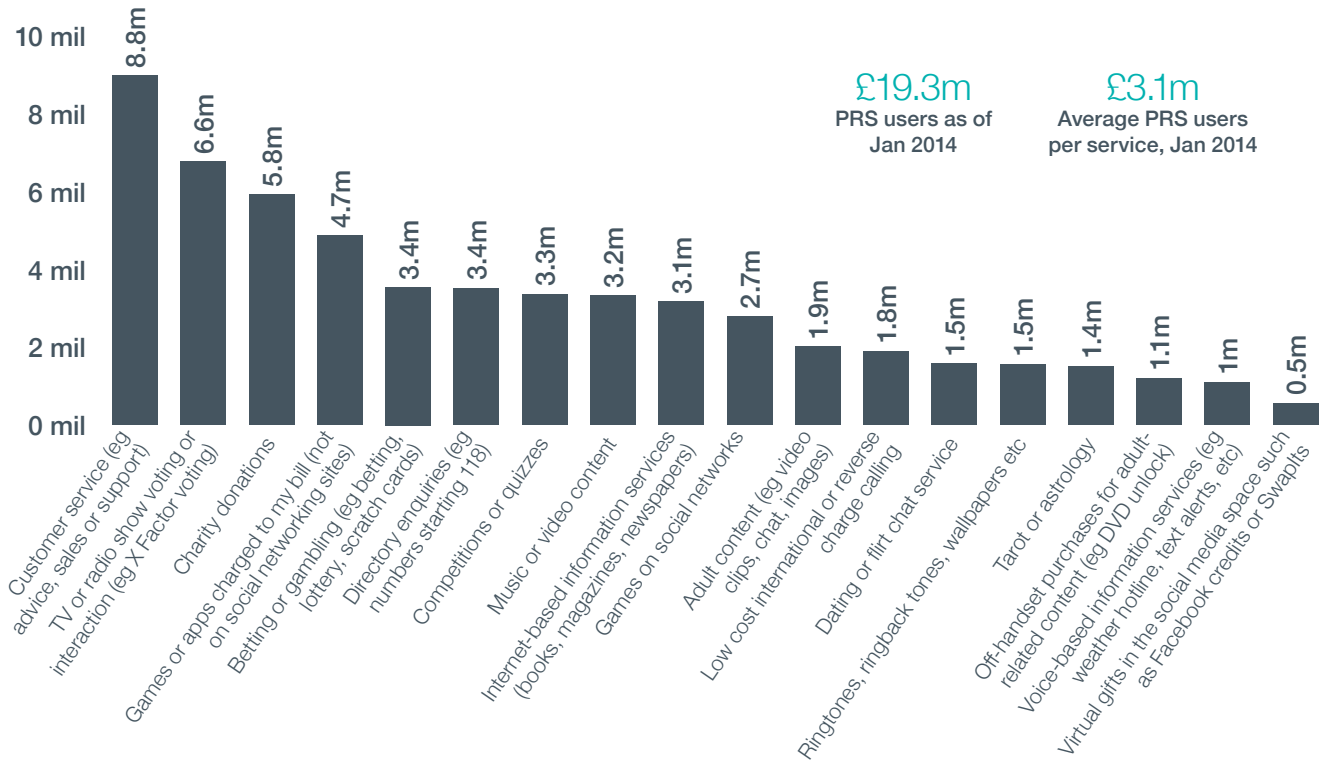
PRS market revenues 2014 (£m excl VAT)



PRS users

PRS users by service (£m excl VAT)

NB. Users by PRS service have been calculated using the weightings for over/understated use applied to the PhonepayPlus market model.



Research and innovation



PhonepayPlus conducts regular research to understand the digital content and services market which we regulate. In particular, we examine how technology, business models and consumer behaviour are changing and how they may develop in the future. Findings from PhonepayPlus research assists in developing regulation that supports a changing market and builds on our preventative approach to stopping harm before it enters the marketplace.

Annual Market Review

The PRS market was £686m in 2014

PhonepayPlus commissioned mobilesquared, an organisation who provide intelligence and insight on the telecommunications and media sectors, to conduct an in depth review of the premium rate market in 2014.

Conclusions from the review show an industry in transition. Charitable giving and new digital content have grown rapidly, demonstrating premium rate services' continuing consumer appeal and diversification. Despite this, more established products like live voice services and Directory Enquiries have suffered as consumer behaviour has changed, and access to information has become more accessible and affordable through online channels.

Future growth in 2015 is predicted to be driven by "the new three G's, giving, gambling and gaming". Mobile is expected to account for two thirds of the premium rate market (up from 60% in 2014), with operator billing again expected to grow as a payment channel.

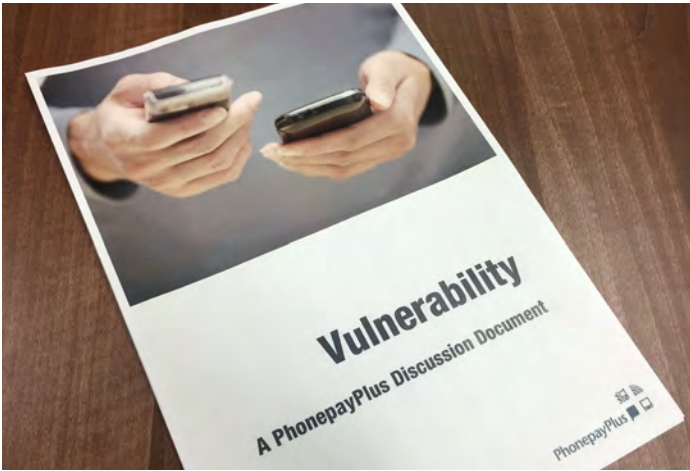
The Future for Phone-Paid Digital Goods and Services

Deloitte predicted UK operator billing could be £500m by 2019

With Deloitte forecasting UK consumers to spend an estimated £14 billion on digital content in 2019, we wanted to understand the possible scope of operator billing and whether there were enablers and barriers to that growth. PhonepayPlus commissioned Deloitte to model the trajectory of the market and to identify whether this provided the potential for growth in premium rate services.

Deloitte identified that the purchase of digital content and services via operator billing offers the main opportunity for market growth in premium rate services. Deloitte's report predicted that operator billing could apportion £500 million of the market in digital content by 2019. Both regulation and commercial factors will play a significant role in facilitating this growth. With operator billing continuing to perform strongly, the premium rate services industry is already exploring opportunities outside of the core market.

Vulnerability research



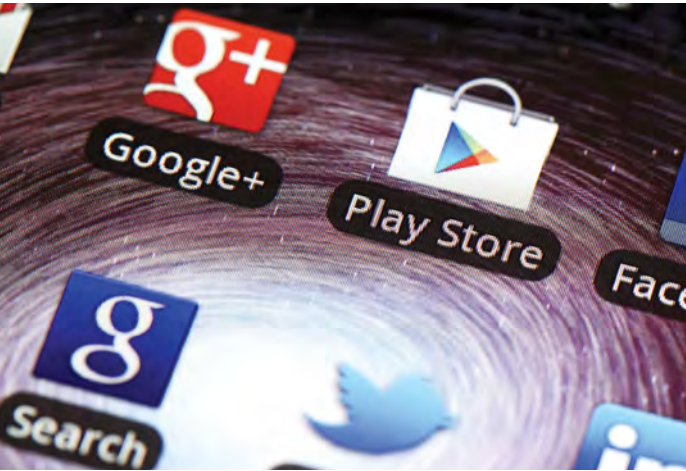
We put consumers at the heart of what we do. Over the course of the last year, we have consulted on changes to the Code to protect vulnerable consumers. The new Code provision now focuses on good outcomes for consumers rather than intent to harm. It also updates the requirement to prevent anyone from taking advantage of vulnerable consumers. Taking steps to protect vulnerable consumers benefits not only those consumers but the wider industry by building consumer trust in the premium rate service market.

Understanding vulnerability, its nature and its definition has been part of this work. Our recently published vulnerability discussion paper outlines how we are moving towards a broader definition of vulnerable consumers recognising that vulnerability is dynamic and not a static characteristic. The broader definition acknowledges that a consumer can be temporarily vulnerable due to their situation or circumstance. For example, a consumer may be temporarily in a position of financial hardship or in a situation of bereavement. While a broader, more comprehensive understanding of vulnerability may be challenging for providers to implement, we believe it is necessary to ensure that all consumers are treated fairly and equitably.

PhonepayPlus dealt with 1,658 complaints involving vulnerable consumers in 2014/15:

- 711 minors
- 603 elderly
- 123 non-English speaking
- 113 disabled
- 108 in financial hardship

App stores pilot



With consumers increasingly able to charge the purchase of digital content to their phone bill, ensuring the industry is able to develop these opportunities whilst ensuring consumers are protected is important. Over the past year, Google and a number of other major app stores have been rolling out phone billing to their customers. In response to this, PhonepayPlus launched a 12 month pilot to facilitate the regulation of operator billing in app stores in May 2014.

Google's Play Store was the first participant in the pilot, which exempted developers in participating app stores from the requirement to register with PhonepayPlus before operating a PRS.

The results were positive; consumer engagement was strong while complaints have remained low. There was minimal incidence of children running up high bills when making in-app payments. As a result of the success of the pilot PhonepayPlus has decided to make the pilot's conditions permanent, allowing consumers to benefit from the convenience of charging app store purchases to their phone bill while being afforded the protections derived from our Code of Practice.

These protections mean that providers and services:

- Must ensure that consumers are fully and clearly informed of key information, such as the price, before purchase
- Must treat customers fairly and equitably
- Must not cause the unreasonable invasion of customers' privacy
- Must not cause harm or unreasonable offence to consumers or the general public
- Must ensure that consumers are able to have complaints resolved and any refunds paid quickly and easily.

PhoneBrain: our children’s education campaign

PhoneBrain is an education programme that helps young people use their smartphones confidently and safely. It was launched in 2008 to educate children and young people about premium rate services, what they are and the costs involved. Aimed at primary and secondary aged young people, PhoneBrain provides free learning resources and an annual competition.

We believe that a pre-emptive approach is central to empowering young people to engage with these services safely and confidently. We operate an interactive children’s website that provides easy and practical tips on using services safely and being aware of how a phone number can be used to pay for things, as well as videos packed with guidance and advice.

As technology has evolved and the ways in which young people engage with phone-paid services has changed, so has the focus of PhoneBrain. Ofcom’s 2014 report *Children and Parents: Media Use and Attitudes* found 67% of 13 year-olds owning smartphones and 59% of 12-15 year olds going online using a mobile phone. So, this year the PhoneBrain campaign has focused on the issues of billshock and children’s use of mobile apps.

This year we have partnered with the charity Childnet to deliver our annual PhoneBrain competition. Childnet work with children and young people, teachers, parents, carers and a variety of professionals in the area of internet safety. Through schools and youth groups, Childnet engaged with children on their understanding of billing and the mobile internet, and challenged them to create two minute films for the PhoneBrain competition; informing other young people about avoiding billshock and purchasing apps and digital content.

As well as the creation of a film, the young people completed a web survey looking at their own experiences of billshock and app related issues and were supported with learning resources including storyboard, films, and script templates.

The PhoneBrain competition finalists films were screened in an event at the British Film Institute in London and the best films are being used online by PhonepayPlus to educate other young people about the mobile internet, app costs, and premium rate services.

Key info

- In complaints to us that involve a child, the phone bill charged is **£75** on average.
- **12%** of parents have had a child run up an unexpectedly high bill by making in app purchases.
- **711** complaints involving minors experiencing billshock through in app purchases were received during 2014/15.
- PhonepayPlus supports Safer Internet Day, the campaign to promote safer and more responsible use of online technology and mobile phones. This year saw the largest Safer Internet Day to date with #SID2015 trending **number 1 in the UK**.

Advice for consumers

- Be cautious of anything asking for your number – ensure you are confident you know how a website will use your number before entering it online.
- Look for the price – it sounds obvious but it might be hidden in the small print.
- Watch what you click on when browsing on your phone.
- Always download apps from trusted sources – know what you are downloading before you click.



External relationships

PhonepayPlus recognises the growing need to work in collaboration with other regulators and organisations in light of the increasingly convergent market for digital content, services and payments. PRS is one of several payment mechanisms in the digital market, and at PhonepayPlus we work with a number of partners to protect consumers and support a healthy market.

We have worked closely with Ofcom, PRS providers, industry bodies and other regulators such as the Information Commissioner’s Office, the ASA, CMA and FCA for many years. PhonepayPlus also works with industry bodies such as AIME, FCS, Action4 and the Mobile Broadband Group.

As digital markets have evolved we have expanded our partnership working and engaged with a range of organisations, shown opposite.



Competition and Markets Authority (CMA)

The CMA and PhonepayPlus have a shared interest in children’s use of app stores and purchasing.

The Advertising Standards Authority (ASA)

We have a Memorandum of Understanding with the ASA and work together on areas of mutual interest, for example adverts which use PRS as a payment device.

Financial Conduct Authority (FCA) & The Payment Systems Regulator (PSR)

We are working with the FCA and the PSR on areas of digital payments and payment systems where our regulation aligns.

Trading Standards

Our teams work with the national network of local trading standards teams and the Trading Standards Institute in tackling fraud or scams that seek to exploit premium rate services.

Internet security companies

Our research team works closely with a number of internet security firms to deal with mobile malware. This year mobile security provider Lookout’s Mobile Threat Report found significant drops in chware, adware and malware in the UK following work by PhonepayPlus and other regulators.

Which?

We have worked with *Which?* on consumer advice and referring enquiries they receive about PRS to our customer help teams. This year we also contributed to joint work by *Which?* and the government on nuisance calls and texts.

Childnet and the UK Safer Internet Centre

We work with educational charities to extend the reach and effectiveness of our consumer campaigns. As well as our PhoneBrain competition (see page 20) this year we have also worked with the charity Childnet to support UK Safer Internet Day.

Ofcom and government

PhonepayPlus works closely with Ofcom and the Department for Culture Media and Sport. Ofcom has overall responsibility for regulating premium rate services.

PhonepayPlus is appointed by Ofcom to carry out the day-to-day operations of regulating the PRS industry.

The Department for Culture Media and Sport is responsible for the Communications Act 2003 which provides the authority under which Ofcom and PhonepayPlus operate.

The Information Commissioner’s Office (ICO)

This year we joined Operation Linden, the ICO and Ofcom’s joint campaign to combat nuisance calls and texts, and we give advice and support on PRS related calls. We also have a programme of regular information sharing with the ICO.

Our people



PhonepayPlus Board

The Board currently consists of seven remunerated part-time members, and the Chief Executive of PhonepayPlus. Five of the directors have no current connection with the premium rate industry. The two members who are currently active in the premium rate industry take no part in any of the adjudicatory functions administered by PhonepayPlus.

All Board members' conduct is governed by the Board handbook.

All Board members are required to complete declarations of interest.

The full Board meets on a bi-monthly basis to discuss and determine board strategy and policy.

A summary of the Board meeting minutes is available for viewing.



Andrew Pinder CBE
Chairman



Peter Hinchliffe
Deputy Chairman



Kevin Brown



Hugh Griffiths



Steve Ricketts



Ruth Sawtell



Howard Webber



Jo Prowse
Acting Chief Executive

Leadership Team

The Leadership Team comprises Jo Prowse (Acting Chief Executive) and two Executive Directors – Simon Towler (Director of Policy and External Relations) and Ayo Omideyi (General Counsel).

Responsible for the day-to-day Executive function, the Leadership Team ensures that Board approved strategies, plans and policies are implemented efficiently.



Jo Prowse
Acting Chief Executive



Ayo Omideyi
General Counsel



Simon Towler
Director of Policy and External Relations

Code Compliance Panel

The Code Compliance Panel (CCP) is responsible for PhonepayPlus' adjudicatory function. The CCP is made up of nine people from which three members are drawn to form PhonepayPlus' Tribunals, which hear and adjudicate on cases against premium rate providers that PhonepayPlus suspects to be in breach of its Code of Practice. While three PhonepayPlus non-industry Board members sit on the CCP, the CCP's decision-making process is independent of PhonepayPlus, with the other six members (pictured right) being appointed for their specialist legal and adjudicatory experience.



Mohammed Khamisa QC
Chair of the CCP



Linda Lee
Legal Chair



Julian Weinberg
Legal Chair



Louise Povey
Lay Member



Tony Moss
Lay Member



Elisabeth Ribbans
Lay Member

Independent Appeals Body (IAB)

The Independent Appeals Body (IAB) is made up of a Chairman, Robin Callender Smith, and up to four members, currently: Elizabeth Neville, Michel Olszewski and Peter Wrench.

An appeal tribunal will usually consist of three members to deal with the appeal. All members are completely independent of PhonepayPlus and it is their role to hear appeals in the following circumstances:

- if the disputed decision may have been based on error of fact
- if the disputed decision may have been wrong in law, or
- if the Tribunal may have exercised its discretion incorrectly in reaching its decision.

Finance

Income	Notes	2015 £	2014 £
Net Levy on premium rate telephone services	1	2,982,717	1,939,304
Administrative Charges	1	193,379	422,736
Fines	1	1,593,000	3,207,816
Registration Fees	2	261,079	270,595
Other Income		14,330	24,187
Funds Received		5,044,505	5,864,638
Interest Receivable		41,901	43,794
Total Income		5,086,406	5,908,432

Expenditure	Notes	2015 £	2014 £
Staff & Related Costs	3	2,595,350	2,646,310
Premises	4	452,815	340,101
Depreciation		210,029	215,687
Overheads	5	372,117	410,185
External Professional Services	6	551,107	402,758
Other	7	896,160	1,884,632
Total Expenditure		5,077,578	5,899,673
Profit Before Taxation		8,828	8,759
Corporation Tax		(8,828)	(8,759)
Profit After Taxation		0	0

Notes

- 1) The company is non-profit making. A service provider levy is collected via the network operators based on their outpayments in order to cover the proposed expenditure in any year. Any difference between the amount collected and expenditure incurred is taken into account in setting the following year's levy. The company also received fines and administration charges from services that are in breach of its Code
- 2) Registration Scheme
The expenditure detailed for the company includes the following costs relating to the Registration Scheme

	2014/15	2013/14
Staff and Related Costs	£80,321	£112,904
External & Professional Services	£0	£975
Overheads	£89,128	£104,658
Total	£169,449	£218,537

- 3) Staff and related costs include staff remuneration, recruitment, training, temporary staff and fees and expenses for the Board members, Code Compliance Panel, Independent Appeals Body members and the Adjudicator.
- 4) Premises costs include rent, rates, service charge, repairs and maintenance, electricity and cleaning.
- 5) Office overheads includes postage, stationery, equipment and software maintenance, business continuity and offsite backup, insurance, travel and subsistence, entertainment, bank charges and general office expenses.
- 6) External professional services include legal fees, consultancy fees and accounting and audit fees.
- 7) Other costs include telephone, printing, website, events, research and bad debts. The main movement over last year has been £913k on bad debts.

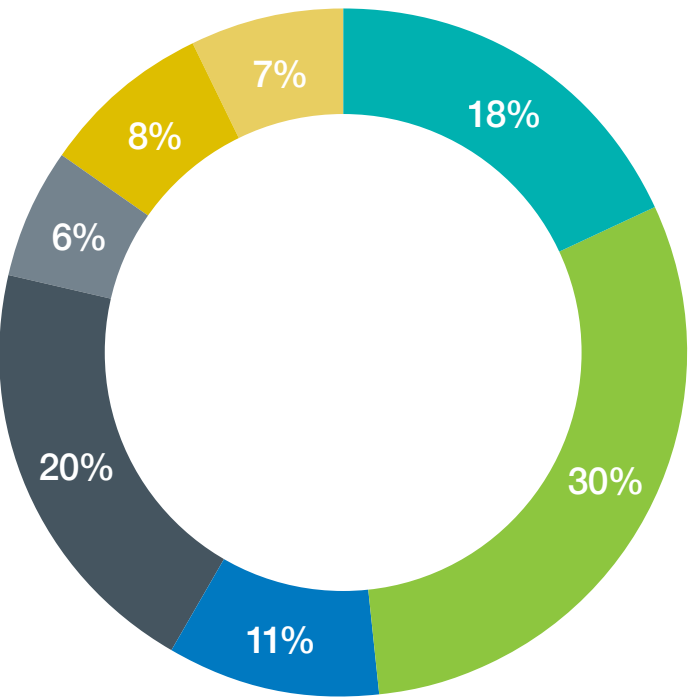
Balance sheet

	Notes	2015 £	2014 £
Fixed Assets	8	289,228	432,141
Current Assets			
Trade Debtors	9	362,629	617,133
Other Debtors		853,166	422,377
Cash at bank and in hand		3,900,307	5,524,204
Total Current Assets		5,116,102	6,563,714
Current Liabilities	10	(2,802,817)	(4,315,260)
Provisions	11	(227,476)	(305,558)
Total Assets less Current Liabilities		2,375,037	2,375,037
Creditors falling due after more than one year –			
Contingency Funds	12	(2,375,037)	(2,375,037)

- 8) Tangible fixed assets include fixtures and fittings, office furniture and equipment, computer equipment and Registration Scheme.
- 9) Trade debtors include amounts due from the network operators for the levy and from service providers for administration charges and fines.
- 10) Current liabilities includes income received in advance, which represents the difference between total income and expenditure incurred, which is used to reduce the levy in future years.
- 11) Provisions reflect the fines that are in dispute and may not be recovered, and for dilapidations on office premises.
- 12) Creditors falling due after more than one year include a contingency fund and will be retained at this level for the foreseeable future.

During 2012/13, PhonepayPlus VAT-able services were subject to a review by HMRC. From the 1 June 2012 the levy and fine charges fell outside the scope of UK VAT, meaning that we can no longer charge VAT on the levy and we are unable to recover the associated input VAT.

Activity Costing: 2014/15 FY Actuals



- **Consumer Support**
£803,805 (18%)
- **Enforcement – Investigations**
£1,352,012 (30%)
- **Enforcement – Complaint Resolution**
£467,389 (11%)
- **Industry Support**
£892,431 (20%)
- **Code Development**
£263,988 (6%)
- **Corporate Governance**
£368,353 (8%)
- **Registration Scheme**
£327,189 (7%)

Key Performance Indicators

As a strategic regulator PhonepayPlus strives to clearly define to its stakeholders the key regulatory outcomes it looks to achieve and commits to report regularly on measures and key performance indicators which best demonstrate PhonepayPlus’ effectiveness in meeting these.

PhonepayPlus looks to achieve the following outcomes:

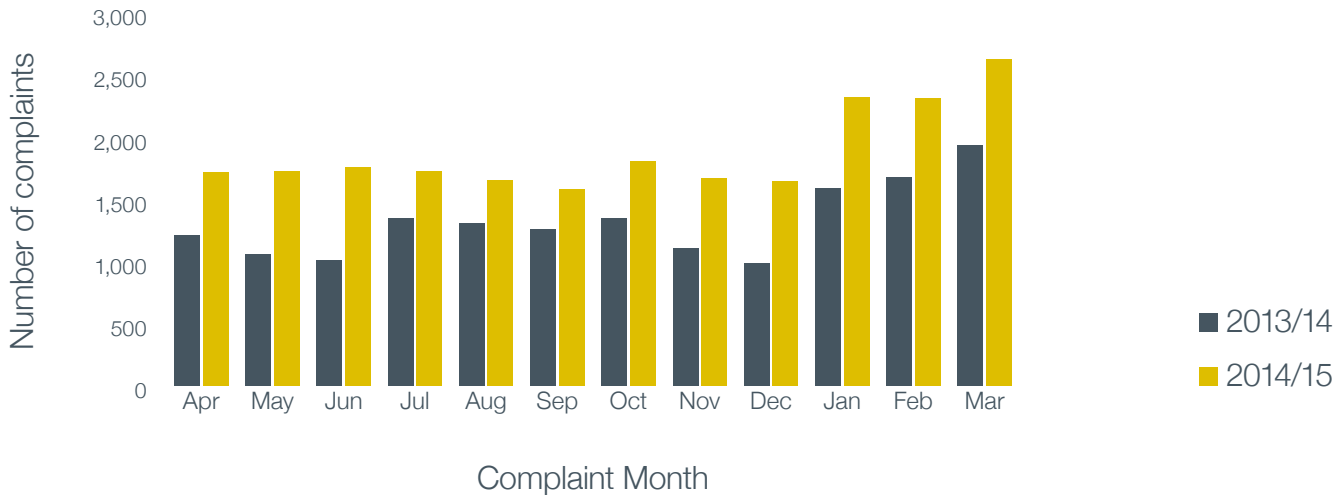
- Healthy market - a trusted and healthy market that can innovate, grow and is compliant with our Code of Practice
- Consumer confidence - a market that informed consumers have trust and confidence in
- Cost effective and proportionate - a regulator that is capable, cost effective and has the confidence of stakeholders

PhonepayPlus reports regularly on information and metrics which look to track our progress and provide measures of success to judge our level of effectiveness in meeting our outcomes. These reports are provided on a quarterly basis and are published on the PhonepayPlus website.

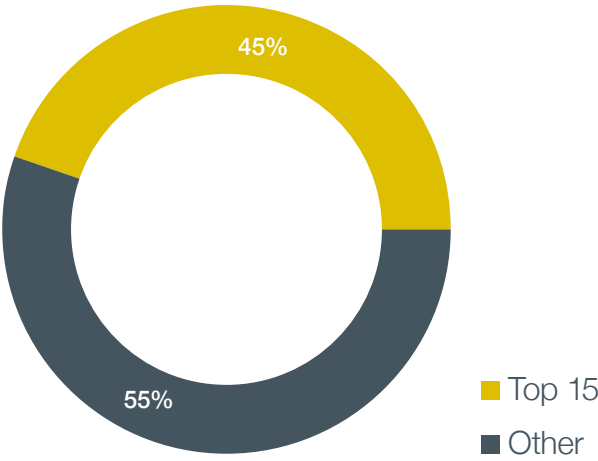
PhonepayPlus also periodically produces independent, external stakeholder and staff satisfaction surveys. The results of these surveys are considered an integral part of our key performance indicators providing a view from our key stakeholders on their satisfaction with the functions and services we provide, and our effectiveness as an employer in the eyes of our staff.

The following data provides a summary of our performance in 2014/15.

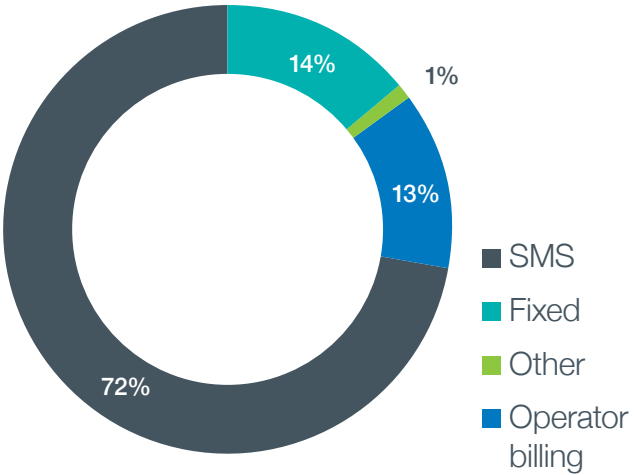
Complaint trends compared to previous financial year



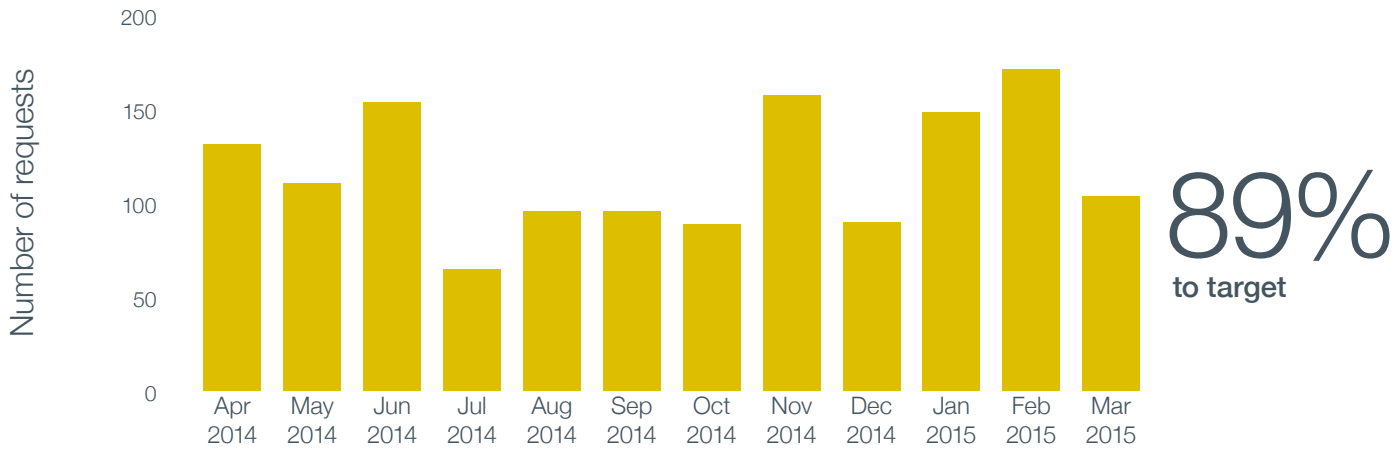
Percentage of cases that the top 15 offenders are responsible for



Complaints by sector as percentage of total



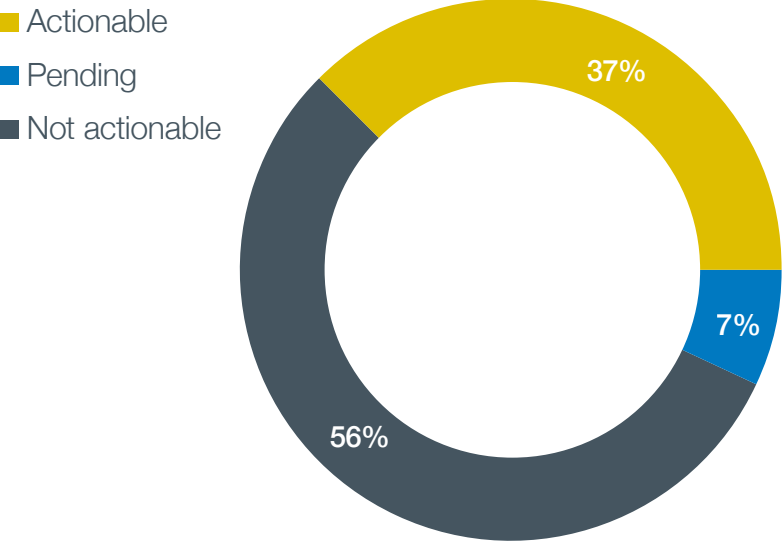
Compliance advice requests per month answered within 5 working days



Key Performance Indicators (continued)

The complexity and volume of consumer enquiries and complaints rose in 2014/15. PhonepayPlus took action to address this spike and to tackle its underlying causes.

Complaints by status



35,185 contacts to the call centre in 2014/15

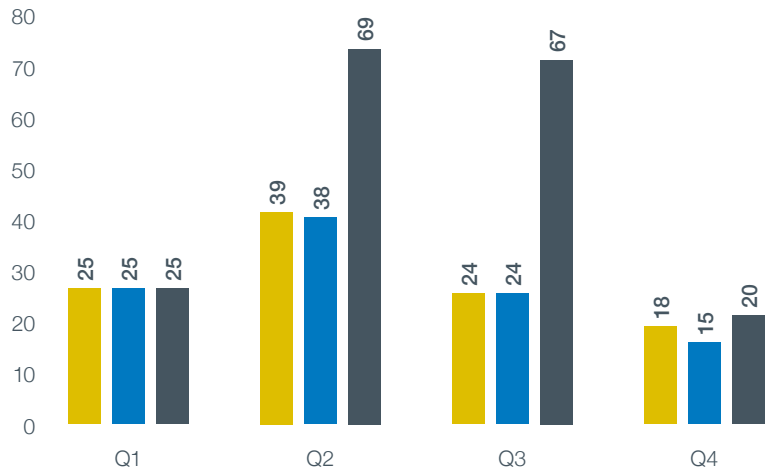
7% rise in consumer contacts on previous year

22,753 consumer complaints

44% rise in consumer complaints on previous year

Informal cases resolved within 42 working days of allocation

- Number of cases
- Cases closed
- Average length (days)



Fine collection rate (collection of due fines within the financial year)

Target: 80% Actual: 67%

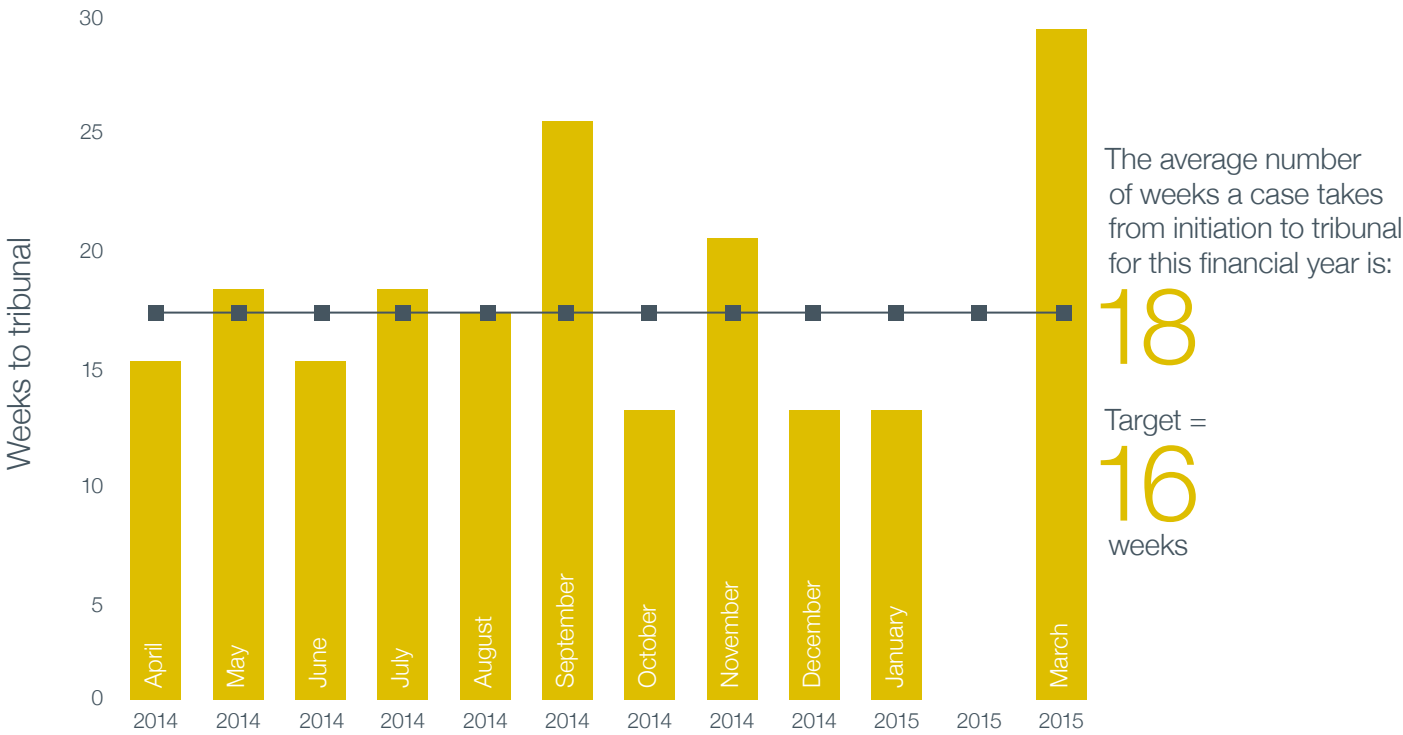
Admin charges collection rate (collection of due administration charges within the financial year)

Target: 80% Actual: 61%

Informal cases resolved within 42 working days of allocation

Target: 80% Actual: 58%

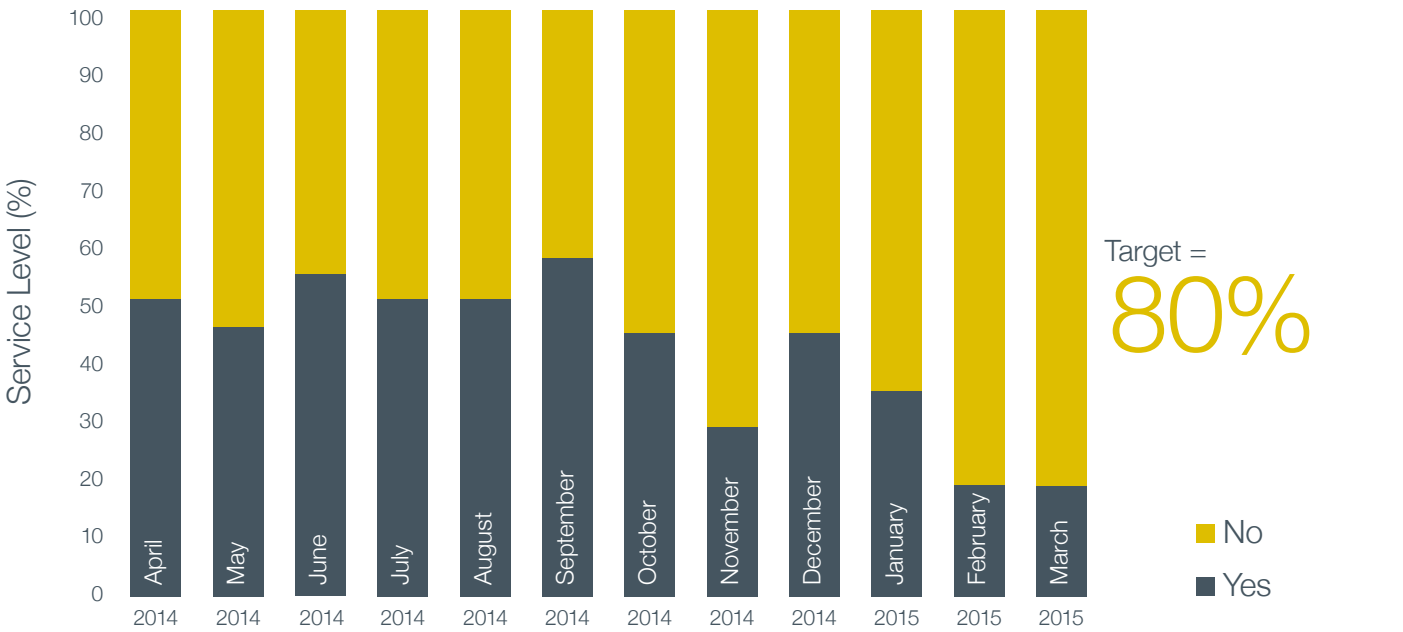
Formal investigations to target per month



Calls to the contact centre

Answered service level per month (served in time / answered)

The number of calls to the contact centre and the complexity of consumers' issues increased significantly this year. PhonepayPlus is taking action to address this rise and its impact.



PhonepayPlus is the UK's independent regulator of premium rate services (PRS)

Premium Rate Services (PRS) are the goods and services that you can buy by charging the cost to your phone bill or pre-pay account.

They include directory enquiries, voting on TV talent shows, donating to charity by text or downloading apps on your mobile phone.

Our regulation is open, fair, and robust, underpinned by a Code of Practice approved by Ofcom.

As the telecoms, internet and payments sectors continue to experience an unprecedented rate of change and innovation, PhonepayPlus takes positive action to safeguard consumers and help cutting-edge providers of digital content and services to thrive.

Our vision is that anyone can use premium rate services with absolute confidence in a healthy and innovative market. Within our remit and expertise, we seek a more consistent approach to regulating micropayments that are like PRS.



PhonepayPlus 

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www.phonepayplus.org.uk