Review of consumer mobile bills

Response | Commerce Commission

30 November 2020

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Executive summary

Thank you for your letter of 17 September 2020 regarding mobile consumer billing, which raised the possibility that some customers may not be on the right plan for their needs.

It goes without saying that we want to ensure that our customers are on the right service for their needs. We already have a range of measures in place to provide customers with meaningful information to enable them to make the right choices and we are always looking for ways to improve outcomes for our customers. So we have accepted the Commission's challenge to mobile operators to step back and consider what more we can do to ensure our customers have the right information about their usage and spending at the right times.

We will provide further usage and spend information to our customers along the lines set out in your letter. We will continue to migrate customers off high-cost legacy plans onto newer plans that provide greater value, and we will support the TCF in investigating and establishing a Consumer Data Right for the telecommunications industry in New Zealand.

Proposals to extend the information available to consumers

In particular, Spark will:

- Extend the usage information we provide to customers in the MySpark app and web portal. In particular, we will provide **[ ]SPKCI**
- Provide an **[ ]SPKCI**
- **[ ]SPKCI**
- **[ ]SPKCI**

As soon as we have completed detailed implementation planning we will advise the Commission of when these changes will take effect.

In parallel, we have given our support to the TCF commencing work on the possibility of a telecommunications consumer data right for New Zealand.

These initiatives will apply to both Spark and Skinny customers. Overall, we believe this package puts our customers in a very good position relative to electricity consumers.

Further investigation into right-planning tools

At this stage, we continue to further investigate what measures might be effective to solve for suspected "high expenditure" customers identified by the Commission.

Aaron Schiff's report to the Commission highlights that the mobile market is functioning well: operators are responding to customers differing preferences, consumers appear ready and able to assess and change plans to maximise the value they get from mobile services[1] and the very large majority of customers appear to be getting good value for money[2].

However, Schiff's report further identified that there may be 'pockets' of residential mobile customers who may be able to save money by changing their purchasing behaviour, while also recognising that his report only represented a snapshot of consumers' spending, usage, and plan inclusions. In particular Schiff's report estimated that 25% of postpaid customers could save money by changing plan – while noting that some of those customers may be receiving additional value through plan

[1] Schiff Consulting *Analysis of Mobile Bills*, 17 September 2020 at page 11
[2] Schiff Consulting at page 14

inclusions not considered by the report (such as free or subsidised Spotify or Netflix) or through price certainty such that they were in fact on the best plan for their needs.

In order to better understand what is driving the apparent high expenditure so that we can design initiatives that will solve for those customers, we asked NERA to provide feedback on the Schiff analysis. If there were indeed 25% of postpaid customers that were on the wrong plan for their usage, for example, we want to be sure that any initiatives we introduce to address this group of customers actually solves for their issues, and does so without disadvantaging the other 75% of customers.

NERA's analysis has identified a methodological mistake in Schiff's report which results in the analysis vastly overstating the number of customers who are consistently under their quota and could save money. Schiff calculates the price of plans which customers can switch to by calculating the average that appears on customer bills and, because customer bills contain partial charges and reversals, this average is in some cases materially below the actual retail price of the plans. This results in the perverse result that Schiff's analysis concludes that a customer can "switch" to the plan they are already on and save money:

Customer spend and characteristics	
Customer's current monthly average expenditure	$59.99
Customer's monthly average usage	3.9GB
"Alternative" plan characteristics	
SC assumed plan cost for $59.99 plan	$55.04
Data allowance for $59.99 plan	4GB
Actual plan cost for $59.99 plan	$59.99
Savings calculation	
SC analysis calculation of savings from "switching" to $59.99 plan	$4.95
Actual cost-savings available to customer	$0

NERA advises that when they adjust for this and other errors (for example "switching" customers to grandfathered plans that are not available to them), the proportion of post-paid customers that are consistently under their quota and could save money by shifting plans reduces from 25% of post-paid customers to 7% of post-paid customers. Further adjusting for customers who switched plans through the period and likely right planned themselves results in only 2.5% of post-paid customers actually being able to save by buying a cheaper plan.

Even at these levels, though, we still want to understand what the key drivers for this 2.5% of postpaid customers being on the wrong plan are. But this requires a much more comprehensive review of customer bills and behaviour than if we were attempting to spot trends that affected 25% of postpaid customers.

When we further analysed the customers identified by the Commission as being high expenditure, we found that **[ ]SPKCI**

[ ]SPKCI

Our initial focus is to ensure that customers have the usage and plan information they need so that they can ensure they are on the right plan for them. However, **[ ]SPKCI**

Introduction

1. The Commission wrote to the industry on 17 September 2020 setting out its concerns that some customers may be on plans unsuited to their usage and highlighted issues relating to transparency and consumer inertia in the residential mobile market.

2. The Commission concludes that these issues appear to have resulted in significant overspending by some consumers and suggest that action is required to improve consumer outcomes.

3. This is a highly competitive market with consumers well equipped to consider their usage and plans. The Commission's expert further advised the Commission that consumers are well equipped to consider their needs. We see customers rapidly moving to new plans and other providers.

4. Nonetheless, while we already work hard to ensure customers are best matched to an appropriate plan, we plan to introduce a range of additional measures increasing the amount of information available to consumers. These are summarised below.

5. We asked NERA to provide feedback on the Schiff analysis and their report is attached.

The Commission proposals

6. The Commission asked Aaron Schiff to address a number of questions in order to better understand mobile consumer behaviour and identify potential consumer savings[3]. Schiff identified a number of positive market indicators: consumers were generally well armed to compare plans, there are relatively high rates of switching plans among customers which is a sign that many customers actively try to maximise the value that they get from mobile services, and the bulk of customers are on the right plan for them.

7. However, while the overall picture was positive, there appeared to be "pockets" of consumers that appeared to be paying too much for their usage. Schiff further advised that there can be a number of factors at play in the purchasing decision and the Commission should do more analysis and evidence before intervening.

8. The Commission has asked that mobile operators consider the concerns outlined in Schiff's report that pockets of customers are paying more than their usage suggests, share with the Commission their plans for addressing these issues. In particular, the Commission expectation is that operators take steps:

    a. **To make better data available to their customers.** Easy to access and understand at a glance information in any app or bill should display[4]:

        i. At least 12 months of mobile data, voice and SMS usage, including actual usage for each month so the customer can see how their usage varies;

        ii. At least 12 months of carry-over or rollover balances, so the customer can assess how their rollover has changed over time and what might be an appropriate level of allowance for their needs; and

[3] Schiff Consulting at page section 11
[4] Commerce Commission 17 September 2020 letter at paragraph 22

iii. At least 12 months of consumer spend, clearly showing the amounts spent each month using casual rates, buying add-ons and for base plan purchases.

The Commission asked that operators should initially focus on the information available on their apps, and then address their physical bills to their customers.

b. **To address customer inertia.** The Commission would like to see operators more proactively managing the best interests of their own customers, including by monitoring usage against spend and helping to keep customers on plans that best reflect their actual requirements[5] by, for example, putting in place "right-sizing" or "right-planning" measures to guard against overspending[6].

9. The Commission has also asked that the TCF engage with the Commission on its plans for initiating a longer-term programme of work on a consumer data right for New Zealand[7].

Proposals to extend the information available to consumers

10. We want to ensure that our customers are on the right service for their needs. The right service will depend on a range of factors relating to usage, value-added services, cost certainty, and the reputation of the provider.

11. Operators further have a strong commercial driver to ensure that customers are on the right plan for their needs as this helps to acquire and retain customers and minimise customer support costs. Therefore, we work hard to provide meaningful information to our customers.

12. Accordingly, we have a range of measures in place to ensure customers have the information they need to make the right choices. For example, our customers can currently access at least 12 months of detailed billing information and actual data usage through their Myspark app and their online Spark bill.

13. Nonetheless, we are always looking for ways to improve outcomes for our customers and accept the Commission's challenge to mobile operators to step back and consider what more we can do to ensure our customers have the right information about their usage and spending at the right times.

14. The Commission has identified that further information could be made available to consumers and we plan to extend the information available to our customers. Accordingly, we plan to take further steps along the lines set out in your letter to:

a. Extend the usage information we provide to customers in the MySpark app and web portal. In particular we will provide **[ ]SPKCI**

b. Provide an **[ ]SPKCI**

c. **[ ]SPKCI**

15. It is unclear what specific system and billing changes are required to implement these changes and, as soon as we have completed detailed implementation planning, we will advise the Commission of when these changes will take effect.

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[5] Commerce Commission at 29
[6] Commerce Commission at 28
[7] Commerce Commission at 38

16. **[ ]SPKCI**

17. These initiatives will apply to both Spark and Skinny customers.

Where this places our sector relative to electricity

18. Overall, we believe this package puts our customers in a very good position relative to electricity consumers.

19. Care should be taken in drawing comparisons across sectors with significantly different characteristics. For example, we operate in a highly competitive sector with customer switching almost double that observed in the electricity retail sector[8], and providers offering a range of plans with differing caps and value-added services (**VAS**). While electricity providers bundling of consumer electronics, energy and communications services is starting to emerge, energy is still predominantly provided on a per unit basis.

20. Nonetheless, as set out in Table 1, our proposed initiatives compare well against obligations faced by electricity retailers.

Table 1: comparison to electricity retail disclosure

information	Electricity retailers to provide[9]	Spark
Available plans	Their generally available pricing plans to anyone who asks for them[10]. Information when requested within 5 business days.	Readily available online in real time and through catalogues supporting marketing activity.
Usage information	Electricity usage information for no charge, up to four times a year[11] A detailed report into how much power used over the past 24 months (to consumer or authorised agent). Information when requested within 5 business days[12].	At least 12-month data, **[ ]SPKCI** Annual information summary of usage and spending. At least 12-month detailed billing information available via app and online.
Low use tariff	Notice setting out 12mth usage and whether customer may be better off on a specific low use tariff[13]. NB: the Government has agreed to phase our low use tariff obligations[14].	A range of offers suitable for low use customers.

Further analysis

21. At this stage, we are still investigating what measures might be effective to solve for the apparent "high expenditure" customers identified by the Commission. We know that we cannot assume that a customer is on the wrong plan for them – we firmly believe that customers are best placed to determine what product or bundle best meets their needs. But if there are indeed

[8] The Commission reports mobile provider switching rates ~ 12% compared to EA reported trader electricity switching rates of ~6%
[9] See https://www.ea.govt.nz/consumers/your-power-data-in-your-hands/
[10] https://www.ea.govt.nz/consumers/your-power-data-in-your-hands/my-plan/
[11] https://www.ea.govt.nz/consumers/your-power-data-in-your-hands/my-usage/
[12] https://www.ea.govt.nz/assets/dms-assets/20/20062Procedures-requests-for-consumer-consumption-information-v1.5.pdf
[13] http://www.legislation.govt.nz/regulation/public/2004/0272/latest/whole.html
[14] See Cabinet paper Progressing the Electricity Price Review's Recommendations, 13 February 2020

pockets of customers on the wrong plan for their needs, we want to understand why that is occurring, and what we can do to address it.

22. However, the Schiff analysis and data doesn't provide a sound basis for identifying customers who might be on the wrong plan for them and implementing specific initiatives.

NERA review

23. In order to better understand what is driving the apparent high expenditure so that we can design initiatives that will solve for those customers, we asked NERA to provide feedback on the Schiff analysis. If there were, as the Schiff analysis suggested, 9.3% of customers that were on the wrong plan for their usage, we want to be sure that any initiatives we introduce to address this group of customers actually solve for their issues and do so without disadvantaging the other 90.7% of customers.

24. NERA's analysis has identified a simple but fundamental mistake in Schiff's report which results in the analysis vastly overstating the number of customers who are consistently under their quota but could save money. Schiff calculates the price of plans which customers can switch to by calculating the average that appears on customer bills and, because customer bills contain partial charges and reversals, this average is in some cases materially below the retail price a customer would pay if they switched plans. This results in the perverse result where a customer can "switch" to the plan they are already on and save money:

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Actual cost-savings available to customer	$0

25. NERA advise that when they adjust for this and other errors, the proportion of post-paid customers that are consistently under their quota and could save reduced from 25% of post-paid customers to 7% of post-paid customers. Further adjusting for customers who switched plans through the period and likely right planning themselves results in only 2.5% of post-paid customers actually being able to save by buying a cheaper plan.

26. NERA further found that:

    a. Schiff's approach estimates savings for customers who switched plans during the period, and therefore are likely to have "right planned" themselves during the period. Given the NZCC is concerned about inertia, including customers who actually switched during the period will overstate the extent of any inertia problem.

    b. The analysis does not take account of value-add services (**VAS**) such as Spotify and handset subsidies and, therefore, it is difficult to be confident that the identified savings are actually savings. The analysis identifies customers that could save money by switching, but by giving up VAS could make them net worse off.

c. That is to say, neither analysis identifies a widespread problem or supports a conclusion that customers could save money by modifying their purchase behaviour.

27. NERA concludes that - given the multi-dimensional nature of telecommunications services - the findings of the Schiff report (particularly as amended for mistakes) suggest that consumers on the whole are doing a very good job of getting value for money.

Detailed analysis of high expenditure customers

28. We have further considered in more detail the customers identified by the Commission as high expenditure customers to see what can be done to help these customers.

29. The results to date do not indicate an easy answer: there are indicators that customers are - in practice - acting on their preferences and multiple reasons why some customers might appear to an outside observer to be paying too much for their usage. For example, when we examine the high expenditure customers identified by Schiff in more detail:

   a. **[ ]SPKCI**

      [ ]SPKCI

   b. **[ ]SPKCI**

   c. **[ ]SPKCI**

   d. **[ ]SPKCI**[15]

30. There appear to be multiple reasons why some customers might appear on the face of it to have been paying too much for their usage, of which customer inertia likely has a minor impact at most. We can't assume customers are on the wrong plan for them, or what measures can solve the issue for our customers.

31. The high observed expenditure for some customers is – in part – inevitable in a dynamic market where operators are constantly releasing innovative services and bundles, and consumers put value in VAS and the certainty of fixed price plans for example. While we should facilitate customers taking the best option for them, we should be careful that in doing that we don't inadvertently undermine the very innovative and dynamic retail market benefits we are seeing for consumers.

32. Therefore, we believe that more work is required to understand the residual concerns and identify measures that are in consumers best interests. **[ ]SPKCI**

33. Our initial focus has been to ensure that customers have the usage and plan information they need so that they can ensure they are on the right plan for them. However, **[ ]SPKCI**

[End]

[15] Schiff notes this is as a limitation of his report.