



Brotherhood
of St Laurence

Working for an Australia free of poverty

Reconnecting the customer

Response to the Australian Communications
and Media Authority's
draft public inquiry report

Brotherhood of St Laurence

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1 Background to the Brotherhood of St Laurence's interest in the consultation

The Brotherhood of St Laurence is an independent non-government organisation with strong community links that has been working to reduce poverty in Australia since the 1930s. Based in Melbourne, but with a national profile, the Brotherhood continues to fight for an Australia free of poverty, guided by principles of advocacy, innovation and sustainability. Our work includes direct service provision to people in need, the development of social enterprises to address inequality, research to better understand the causes and effects of poverty in Australia, and the development of policy solutions at both national and local levels.

As part of our wider efforts to promote social inclusion, the Brotherhood is committed to developing and demonstrating effective programs for disadvantaged people to address financial exclusion. Financial exclusion involves being denied access to affordable, appropriate and fair financial products and services, with the result that people's ability to participate fully in social and economic activities is reduced, financial hardship is increased, and poverty (measured by income, debt and assets) is exacerbated.

Australians experience financial exclusion to varying degrees and in a varying ways. Financial exclusion has many causes: some of the main contributory factors include low income and high expenses (debt repayments or dependants), low levels of financial literacy limiting choice or ability to implement effective financial management, and life events resulting in unexpected expenses (medical expenses, car breakdowns etc). The solutions, too, are numerous. The Brotherhood believes that through assistance to better manage income and expenditure, to improve financial literacy, and to enhance their ability to handle unexpected expenses, individuals may dramatically improve their financial outlook and their financial inclusion. Appropriate and affordable financial and consumer services, including telecommunications services, are also significant in addressing financial exclusion.

The Brotherhood works with many Australians to help reduce financial exclusion, and in doing so, gains an insight into their experiences. Many of our clients' experiences match issues that have emerged through the Reconnecting the Customer consultation.

Purpose of Brotherhood response to the *Draft Report*

In commenting on the *Draft Report*, the Brotherhood aims to:

- indicate its strong support for measures outlined in the *Draft Report*
- highlight that dissatisfaction in the telecommunications sector is not limited to concerns about customer service
- reinforce the need for significant change in the telecommunications sector
- provide insight into why outlined proposals do not go far enough to fix underlying issues that affect lower-income-earners and the disadvantaged
- recommend further measures ACMA may take to benefit both providers and customers, and ensure effective competition in the telecommunications sector.

2 Strong support for ACMA findings and action

The Brotherhood of St Laurence acknowledges the extensive work of ACMA in its consultations and research conducted as part of its Reconnecting the Customer Inquiry. The Brotherhood welcomes the opportunity to provide comments on *Reconnecting the Customer* Draft Public Inquiry Report (hereafter referred to as the “*Draft Report*”), and recommendations based on the experiences of low income earners with the telecommunications sector.

While the *Reconnecting the Customer Inquiry* focused on customer service, the Brotherhood would strongly encourage regulation to address the underlying causes of poor customer service such as conflicts of interest outlined in section 3, as well as the establishment of proposed standards for customer service itself.

The Brotherhood supports ACMA in its work regarding telecommunications services and supports strongly the proposals contained in the *Draft Report*. Through its experiences with families living on low incomes, people facing barriers to employment, older adults and other disadvantaged Australians, the Brotherhood is able to gain a unique perspective on how telecommunications services affect these groups, and to suggest measures which could be taken to ensure fair, affordable and appropriate products are available to them.

A key area of interest to the Brotherhood in the *Draft Report* was the research conducted in the area of behavioural economics. Findings indicated that incentives for telecommunications providers to provide adequate customer service were often weak. Among the findings were:

- the problems of asymmetric information and quality uncertainty outlined in Akerlof's *Market for Lemons*, which, by analogy, apply to the markets for telecommunications services, and mean that customers are naturally impeded from differentiating between providers based on their varying levels of customer service levels and thus from making purchase decisions that reflect their preferences and expectations around customer service.
- the inability of customers to, at the time of purchase, place accurate weight on the importance of various product attributes (namely customer service), that may not become relevant until some time after purchase (hyperbolic discounting). This feature of the market results in only weak incentives for providers to offer adequate customer service.

These findings are core to our clients' complaints about their dealings with telecommunications services. The *Draft Report* also explained how the telecommunications market, if left to its own devices, will suffer from 'productive inefficiency'. The heavy burden of this inefficiency is felt by providers (through higher complaint costs, TIO fines, etc.), but even more-so by customers, and particularly the disadvantaged.

In the presence of such findings, the Brotherhood strongly supports improved regulation in order to foster a “win-win” competitive environment in the telecommunications industry; one where firms are rewarded for providing telecommunications products and services that are appropriate, affordable, fair and accessible, and where customers are much more satisfied with their overall telecommunications services, including the customer service they receive.

Effective telecommunication services are vital to disadvantaged Australians

The Brotherhood strongly supports the ACMA's identification of the need for change, but does not concur with the ACMA's view that customers are generally satisfied with the quality and service reliability of communications services, noting, that when essential services fail Australia's most vulnerable, they further compound the existing woes in the lives of these people, and can cause great distress to our disadvantaged and their families. Further, the Brotherhood's research into the experiences of its clients confirms that telecommunications difficulties are prevalent among, and come at great cost to, disadvantaged Australians, causing serious risks to health and safety, excessive stress which may exacerbate mental and physical illnesses, and unnecessary impediments to job seekers who require reliable telecommunications in their quest to gain employment. Examples of these severe outcomes for Brotherhood clients and lower-income-earners appear in the following table:

Telecommunications-issue	Example	Effect on customer
Network quality causing calls to drop out, voice messages not delivered	A single mother of two had to leave her house late at night to go to a pay phone to return calls from an ill overseas relative. This continued for some time because switching providers took far longer than expected - 8 weeks - despite the issue having her constant ongoing attention.	Customer experiences distress and anxiety, and is placed in a risky situation.
Broadband speed inoperably slow, service not working as stated at time of sale	An unemployed jobseeker had to travel some distance by public transport and pay to use the internet (at an internet cafe) at a rate that was beyond their budget, because their mobile broadband service failed to open standard web pages in under 5 minutes per page, and frequently dropped out altogether. Due to language difficulties, the person was unable to gain a refund on the product that had failed, and was not confident enough to try a second time.	Increased stress, inability to conduct efficient job search, lost time and efficiency, inability to gather information necessary for interviews. Effects may persist for as long as the issue is unresolved. Financial cost of acquiring alternative services.
Unsecured short-term credit issued in conjunction with bill-shock	On return from his first overseas trip with a representative sporting team, a young person was shocked by a bill in excess of \$1000 for minimal use of social media on his mobile phone. He had recently completed year 12 and had not found work, and had no way of paying the debt. Approximately half of the debt was paid by the youth's mother, but because the remaining debt was sold to a debt collection agency, a fee of around \$500 was added to the debt.	Emotional stress, contribution to anxiety, financial stress, uncertainty, fear, financial spill over onto relatives.

While poor customer service is undoubtedly a problem in itself, it is also, in a significant way, a direct outcome of other underlying issues in the telecommunications sector, particularly:

- the lack of effective competition in the markets for home phone, mobile, and wireless and fixed broadband (see section 3, 'Incentive 1')
- various billing errors that are difficult for customers to follow up and resolve (see section 3, 'Incentive 2')
- crippling service quality issues and outages (see section 3, 'Incentive 3').

These factors drive and perpetuate poor customer service in the telecommunications industry, and will continue to do so if not targeted directly.

Strong support for proposals in *Draft Report*

The Brotherhood strongly supports the ACMA's proposals around advertising and marketing, pre-sale information disclosure, improving the transparency of customer service performance and expenditure management tools. Such measures are necessary for effective competition in the telecommunications market. The Brotherhood also stresses that these proposals alone do not go far enough in protecting customers from unsatisfactory services or unaffordable bills leading to financial hardship or in allowing customers and providers to enjoy the benefits of effective competition.

3 Market failure – conflicting incentives leading to poor customer service

Telecommunications providers may face a conflict of interest when making business decisions that may impact the level of customer service provided. Some of the main conflicts are explored, and the analysis reveals why further regulatory measures, in addition to those already proposed, to address the underlying issues in the telecommunications market, could improve the effectiveness of competition and bring about enhanced customer service levels.

The following three incentives have been identified as possible reasons as to why a telecommunications provider may have significant incentive to offer 'poor', as opposed to 'adequate', customer service.

Incentive 1: Increased profitability through greater customer retention

Customers who wish to switch provider (for any reason) may find it difficult, and therefore choose to stay with their current provider, despite their dissatisfaction and desire to switch providers. Possible solutions are explored in section 4.

Incentive 2: Increased profitability through fewer customer inquiries into incorrect bills

Whilst it would be unrealistic to expect that billing inaccuracies or errors be mitigated entirely, the complex nature of pricing means that there may be a tendency for unexpected billing amounts to be larger than expected, more often than they are lower than expected. There may also be some tendency for charges in excess of expected billing amounts to be, on average, of a greater magnitude than any amounts by which customers are undercharged. This appears to be common in billing errors, billing inaccuracies and bills of unexpected amounts, and may explain any positive skew in the statistical distribution as well as any long right tail in the distribution. Issues around

bills being slightly or moderately higher than expected may persist, even if instances of 'shockingly' large bills are reduced. This may include instances where unexpected charges are only a few dollars or more above the expected charge. With the deterrence of poor customer service, customers who are bill-shocked or who experience inaccurate billing may find it more difficult to have their billing queries resolved and may therefore be deterred from recovering any money owed.¹ Unfortunately fewer refunds may increase profitability for the provider, and hence undermine incentives for good customer service. Possible solutions are explored in section 5.

Incentive 3: Increased profitability through poor customer service as a deterrent against poor core service levels

Customers suffering from poor network coverage or other service quality- problems who seek fulfilment of the terms of their service contracts with providers, may suffer complaint fatigue more severely the poorer the customer service, reducing the provider's perceived obligations to meet commitments to customers thereby reducing company costs. Possible solutions are explored in section 6.

Taking these business incentives into account, it may be the case that *poor customer service pays*, and that poor customer service may be driven by the three underlying issues outlined above, namely: highly ineffective competition (high switching costs, inability to compare offerings and prices), the potential for an upward-bias in billing errors, and poor core service levels. These potential direct conflicts between providers' financial interests and their provision of adequate customer service might explain why these three underlying issues have come about and hence the prevalence of unsatisfactory levels of customer service.

4 Impact of confusing pricing and other impediments to effective competition

The telecommunications industry suffers from confusing pricing that has become deeply entrenched. The pricing structures and contract conditions of even the most straightforward plans are remarkably difficult to confidently compare with other offerings. Customers also struggle to know that they have taken all relevant variables and contract conditions into account. The difficulty in comparing products may prevent people on limited incomes, or with limited education or English, from choosing the option which best suits their needs and enables them to take advantage of competition.

Confusing pricing is not the only impediment to effective competition, with high switching costs and lengthy contract terms with unreasonable (in terms of financial and time costs) exit fees being among the other major impediments. Without effective competition, customers, and providers of effective telecommunications service (and good customer service) are both disadvantaged. Lower switching costs and shorter contract terms might be expected to help reduce the customer retention issue outlined under 'Incentive 1' (section 3).

¹ ACMA Reconnecting the Customer Draft Public Inquiry Report, p. 49.

Recommendations

Ensuring low switching costs

The Brotherhood would recommend measures to make switching easy, time-efficient and cost-efficient, enabling customers to leave unsatisfactory providers for others without impediment, such as:

- measures that place more/all of the onus on the provider, not the customer, when a customer wishes to switch providers
- measures that establish a reasonable standard for the time costs of switching, noting that switching costs, even disregarding all financial costs such as early exit fees, are often prohibitive due to the excessive time required to make a switch
- measures to ensure that switching providers could occur within 15-20 minutes from a customer making known their desire to do so

Shorter contract terms

The Brotherhood would support shorter contract terms that would allow customers to exercise choice. The Brotherhood notes that in a lease contract with a landlord, someone may enter a contract for a specific term (say 6–12 months) and then, if agreeable by both parties, be allowed to have the contract run on a month-to-month basis, allowing either party to exit the contract within any given one-month period. The telecommunications sector may benefit from this type of contractual arrangement if initial contract terms are limited to a reasonable maximum term, and if the conditions of the contract could not change in ways that would be adverse for the customer (for example, unexpected price increases).

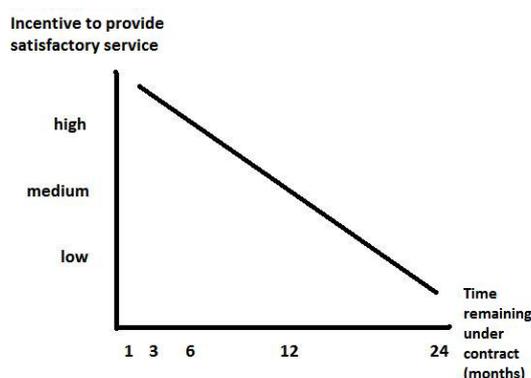


Figure 1: Downward-sloping curve displays how shorter contract terms may help ensure customer satisfaction through higher levels of core service provision and of customer service

Standard industry-wide units of measurement

This could cut through complex pricing structures and aid comparison between services because quantities and speeds would be in the same measurements across all providers. Customers have identified concerns with the measurement of variables in their contracts; particularly the dangers of miscalculating or not understanding data measurements (For example, mistaking megabytes for gigabytes, can result in data usage charges being *one thousand times* larger than expected).

Units of measurement to be used in contracts could be prescribed in a Standard Price Comparison Table (see Appendix). This would aid comparison, help customers to exercise choice, and reduce the risk of customer oversights leading to bill-shock. Appropriate units of measurement would need to be reviewed periodically. Greater measurement units may be more appropriate than lesser units as they may more effectively convey the cost of services (for example, 0.2c/kB may not appear malicious until it is displayed in terms of gigabytes: \$2000/GB), and fractions may, in some instances, be preferred to decimal notation (for example, 1/10GB may be more easily understood than 0.1GB).

One Price/One Measurement (OP/OM) pricing

One Price/One Measurement pricing would require providers of all mobile, home phone and broadband services to display a (concise and genuinely useful) ACMA-prescribed price comparison table on all advertising material (see Appendix for example) and that no price changes of any kind be permitted on contracted services for the duration of the contract term, without the provider gaining the express permission of the customer.

Benefits of OP/OM pricing could include:

- *Allowing customers to easily compare providers' offerings*

Allowing customers to easily compare products encourages effective competition. Behavioural economics finds that customers naturally place heavy weighting on price when making their purchase decisions.

- *Eliminating mid-contract-term price changes and changes in terms of service*

All changes to terms of service and the price of services should be disallowed so as to allow customers certainty that they will receive what they initially signed-up for. Alterations to call rates, data rates and changes in terms of service leading to exclusion of services provided under the initial agreement should not be allowed to occur mid-contract without the customer's explicit agreement.

- *Preventing unexpected, unfair or exploitative price increases (not limited to those resulting in bill-shock)*

If prices (rates) could not increase after a given "trigger" or usage limit, there could no longer be effective price increases of 200 to 900 per cent as may currently be experienced by customers who exceed their 'cap'.

When unexpected life events (e.g. medical emergency, disasters, urgent family needs) occur, users' demand for telecommunications services may become perfectly price-inelastic. The fact that customers are often stuck with one service due to contracts, switching costs or other barriers may mean they cannot realistically switch in a timely fashion, and must incur whatever costs are imposed for their use of mobile phones or internet in times of need. Such life-events leading to unavoidable 'lumpy' usage patterns for an essential service are inevitable, and consumers should be protected, through adequate regulation, from price-exploitation.

Improving price and service comparison

A requirement to use ACMA-prescribed price comparison tables in printed and online product information might ensure true comparability of available services, thus enabling effective competition and reducing confusion.

5 Unexpected charges through bill-shock and billing errors

The Brotherhood is aware of instances of customers being overcharged, billed for services not provided, or charged incorrectly or for unexpected amounts. Customers working on a low, tight budget may find it extremely difficult to pay even small amounts they believe to be erroneous. Often bills contain inadequate information to allow the customer to ascertain precisely what they have been charged for. Many customer attempts to dispute these charges by contacting the company and pursuing the issue have caused so much inconvenience that customer is altogether deterred from their claim.

This is a cost-transfer to the customer, in that the onus is on the customer to pursue the company to reclaim the money owed. In effect, this is market failure, as customers cannot reliably and reasonably obtain the services they have paid for at the agreed price. To what extent this cost-transfer is intentional is not-known, but the Brotherhood points to evidence in the *Draft Report* indicating that the customer service channels often seemed excessively convoluted, and even “deliberately constructed²” so as to confuse, burden or deter customers from raising issues with providers.

Measures that directly address the issues of unexpected charges could be expected to help address ‘Incentive 2’ (section 3).

Recommendations

The Brotherhood supports regulation to bring about more consistent and accurate pricing practices that help reduce instances of unexpected bills (both small and large).

Financial penalty for overcharging and other billing errors

Financial disincentive for providers to overcharge could encourage accurate billing, as well as go some way in compensating inconvenienced customers who need to follow up billing errors with providers.

One regulatory option could be that customers be refunded the amount of the billing error plus four times the error (minimum of \$2) up to a maximum error value of \$50 per billing period, and a maximum of one claim at any one time. For example, if a customer was charged \$60 and should have been charged \$49, there should be a transfer to the customer, within a reasonable timeframe, of \$11 plus \$44 (total \$55). Such penalties would reinforce the ACMA's expectation that companies invoice customers correctly for services. Such an incentive structure would place increased onus on providers to ensure that customers know what they will be paying for services and to ensure that customers are billed correctly for these services.

Itemised billing

The Brotherhood is aware of billing practices within the industry where bills are not fully itemised, or are not complete within themselves (require information from websites or previous documentation in order to be useful). Regulation that requires providers to provide fully itemised bills (including all services used, times of use, and cost of services), as is standard best practice in billing across other sectors, would be supported by the Brotherhood.

² ACMA Reconnecting the Customer Draft Public Inquiry Report, p. 48.

6 Poor core service quality

The Brotherhood points to reports in mainstream media that customers on all three major mobile networks (Vodafone³, Telstra⁴ and Optus⁵) have in the past 12 months, suffered from outages and network quality issues, which have led to inconvenience and dissatisfaction. Such problems can have serious consequences for people who are most reliant on or less able to substitute for these technologies (for example, those whose only substitute for a home phone is a pay phone located some distance away, or whose only substitute for an internet device is an internet cafe).

Preventing issues around core service quality is crucial to ensuring appropriate telecommunications services for low income Australians and the disadvantaged. Further measures could help reduce the levels of complaints around poor core service quality which may contribute to the problem of poor customer service (see 'Incentive 3', section 3).

Recommendations

Random site quality assurance tests for providers with >30,000 customers

Such tests, in conjunction with financial penalties in the form of automatic⁶ compensation to affected customers for outages or breach of *core* service quality standards beyond a certain acceptable threshold, could provide disincentive to providers for failure to meet advertised and contracted standards.

Such a regulatory regime for an internet service might include, for example, a \$5 fee payable by providers to customers, within a reasonable timeframe, for each hour (or part thereof) during the term of the contract, where speeds were not above a specific minimum, with a limited set of exceptions (for example 4 allowable hours per month of outages outside business hours, 1 allowable hour within business hours, and up to 24 allowable hours where 30 days of advance notification is provided to customers).

It is recommended that penalties be:

- of a financial nature, so as to provide meaningful disincentive to providers who fail to avoid overloading the networks that their customers pay to use
- significant so as to oblige telecommunications providers' to take steps to meet contractual obligations with customers and advertised claims around quality, speeds and coverage
- enforceable by the ACMA
- at little or no time cost or burden to the customer.

Although compliance testing is resource-intensive and time-consuming for the ACMA, the significant and necessary relief to customers across the market may justify the expense.

³ <<http://www.zdnet.com.au/vodafone-users-rage-at-ongoing-3g-woes-339307650.htm>>

⁴ <<http://www.zdnet.com.au/is-telstras-customer-grab-hurting-next-g-339317659.htm>>

⁵ <<http://www.zdnet.com.au/network-outages-normal-optus-339292955.htm>>

⁶ At no time cost to customers.

Ensuring that advertising claims are consistent with contract specifications

It is recommended that ACMA establish stricter standards around providers meeting the stated advertising claims, particularly around coverage, network quality and data speeds, so that customers can reliably make purchase decisions based on the information presented to them by providers.

It is also imperative that the high time-costs associated with switching to another provider, in instances where one provider has failed, be reflected in the ACMA's approach to service quality, as it is presently a concern that customers may have to "cycle", at substantial time-cost, through providers, to find one that provides a service as claimed. Customers may also rely on word-of-mouth given their mistrust of telecommunications providers' information.

7 Low awareness of the Telecommunications Industry Ombudsman

Recommendation

Marketing campaign to raise awareness

It is strongly recommended that a public awareness campaign be launched about the role of the Telecommunications Industry Ombudsman, with the aim of improving the level of top-of-mind awareness among low income earners and the disadvantaged (noting general top-of-mind awareness is as low as approximately 11%). An ongoing TV and radio advertising campaign could increase awareness of the TIO.

Although this measure may increase complaints to the TIO in the short to medium term, it could enhance effective competition in the telecommunications market in the long run by improving customer satisfaction and by providing further disincentive to providers who fail to satisfactorily avert or resolve customer complaints.

8 Summary of recommendations

1. That measures are implemented to ensure low switching costs for customers (in terms of both time and financial costs).
2. That measures are implemented to ensure lengthy contract terms do not become barriers to customer choice.
3. That standard industry-wide units of measurement are implemented so that customers can compare between services.
4. That the implementation of 'One Price/One Measurement' (OP/OM) pricing is considered to compare between services, and prevent increases in pricing during a contract.
5. That simple, useful, ACMA-prescribed price comparison tables are included on all mobile, internet and home telephone advertisements.
6. That measures to financially penalise providers who consistently bill customers incorrectly or inaccurately are introduced.
7. That customers should receive complete, comprehensive fully-itemised billing information for all accounts.
8. That random site quality-assurance tests be introduced for providers with >30,000 customers to enable disincentives for any failure to meet advertised and contracted standards.
9. That measures are introduced so that customers affected by service outages can be automatically reimbursed.
10. That measures are introduced to penalise service providers whose advertising claims are not valid.
11. That a marketing campaign be undertaken to boost awareness, especially among low-income people, of the Telecommunications Industry Ombudsman.

9 Appendix

Example of One Price/One Measurement standard comparison tables

Mobile* *costs charged in 1 second increments

Text	Cost (\$)
MMS	Cost (\$)
Mobile-to-mobile per minute	Cost (\$)
Mobile-to-landline per minute	Cost (\$)
Mobile-to-13/1300	Cost of a local call
Mobile-to-1800	Free
GB data	Cost (\$)
Data speed	Speed (MBPS)

Landline* *costs charged in 1 second increments

Landline-to-mobile per minute	Cost (\$)
Landline -to-local landline	Cost (\$)
Landline -to-STD landline per minute	Cost (\$)
Landline -to-13/1300	Cost of a local call
Landline -to-1800	Free

Fixed and wireless broadband

GB data peak	Cost (\$)
GB data off-peak	Cost (\$)
MBPS: data speed	Speed (MBPS)