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**AMTA Submission
to the ACA's Discussion Paper,**

**'Preventing Unexpected High
Bills: Credit Management in the
Telecommunications Industry'**

AMTA Submission to the ACA's Discussion Paper 'Preventing Unexpected High Bills: Credit Management in the Telecommunications Industry'

Introduction

The Australian Mobile Telecommunications Association (AMTA) is the Australian mobile industry peak body. AMTA's members include mobile phone carriers, handset manufacturers, retail outlets, network equipment suppliers and other suppliers to the industry. AMTA's mission is to promote a socially, environmentally and financially responsible and successful mobile telecommunications industry in Australia.

This submission responds to the Australian Communication Authority's discussion paper 'Preventing Unexpected High Bills: Credit Management in the Telecommunications Industry'. AMTA welcomes this opportunity to comment on the discussion paper.

Background

On 13 April 2004 the Minister for Communications, Information Technology and the Arts directed the ACA to investigate (among other issues) the 'credit management measures the telecommunications industry has put in place or is developing to address the issue of unexpected high bills for carriage or content services'.

In its position statement, the ACA states that it considers that 'a multi-pronged industry strategy is required in order to prevent consumers from receiving 'unexpected high bills', which would involve:

- 'More sophisticated and effective credit management tools, which will also be required by industry to better align the management of credit in other market sectors;
- 'More efficient debt management practices;
- 'The provision of instructive, targeted information to consumers on ways to control their expenditure, with a particular focus on the burgeoning youth market for mobile services.'

It is noted that the ACA is interested in exploring issues relating to the 'widespread use of mobiles by young people' and whether this 'is significantly increasing youth phone debt.' It is also noted that although issues of 'hardship' are touched on in the paper in discussing those who might be described as 'vulnerable' to unexpected or excessive high bills, this is not the focus of this inquiry and ACA 'is not seeking comments on hardship issues in submissions'.

AMTA Response

AMTA is keen to help users of all ages enjoy the benefits of mobile phones without running into financial difficulties. Credit management issues are one of a number of consumer-related issues that AMTA has been considering for some time, and AMTA and its members have introduced a number of initiatives to minimise credit management difficulties. AMTA notes that the ACA does not quantify the extent that credit management or unexpected high bills are a problem. AMTA is concerned about any cases of mobile-related financial difficulty, but notes that such problems appear limited as regards both their incidence and size of debt. The continued, and increasing,

popularity of pre-pays, combined with numerous other initiatives to facilitate credit management, indicates that the market is responding to credit management issues.

Industry Code of Credit Management

AMTA's carrier and carriage service provider (CSP) members are party to co-regulatory codes of practice registered by ACIF with the Australian Communications Authority (ACA) and enforceable against all providers. The ACIF C541 Code deals with Credit Management and Credit Assessment of Customers in relation to telecommunication activities. This includes:

- Credit Assessment – encompassing the processes by which a Supplier determines whether a Customer seeking services will be granted the services, the terms of service granted, any restrictions;
- Credit Management – encompassing the activity undertaken by the Supplier relating to payment (including restricting, suspending, disconnecting services and debt collection).

Individual Business Practices Providing Further Protection

In addition to complying with the principles outlined in the ACIF Code, each carrier/CSP deals with credit management issues within its own business. This includes procedures to check the credit rating of each customer on their application for a post-paid account. Procedures vary between companies, but may include the use of an agency to conduct a credit rating check, as well as assessing the information provided by the customer in the application process. This information is then used to consider whether the applicant should be offered a service, and the level of service offered.

Once a customer is accepted, there are various internal company procedures in place, as well as services available to the customer, to reduce the likelihood of credit management problems, or unexpected high bills. These include provisions, for example, to monitor 'unusual expenditure' and advise customers accordingly. Other examples include carriers providing billing information online, and 'spend alerts'.

These provisions and services necessarily vary from company-to-company to suit each company's individual business model and different billing systems. All believe, however, that such systems are an essential and necessary part of business; companies do not want bad debt - it simply does not make good business sense. All also recognise that all consumers are not the same, and that targeting certain market segments – and developing and offering new services to meet their needs – will serve to win them customers. As recent offerings illustrate, this includes recognition of a demand from certain market segments for more tools to control personal mobile expenditure.

Choice in a competitive market place is further discussed later in this submission.

Financial Skills – Education and Attitudes

AMTA recognises that enhanced consumer awareness and sensible attitudes to money management can significantly help all consumers, but especially young people, address their financial challenges (as regards all significant expenditure items, not just mobile phone usage). All Australia will benefit from a population of well informed and astute consumers and investors.

There is now a widespread view - with which AMTA agrees - that financial literacy as a whole is problematic in Australia and that financial management skills should be widely taught in schools. Mobile phones potentially represent one - of several –significant expenditure items for many Australian teenagers.

AMTA is therefore actively participating in the Commonwealth's Financial Literacy Task Force, and supports its proposal for a coordinated, nation-wide approach to improved financial awareness for consumers, including that all school-age Australians should receive instruction in how to manage money. Over time this should significantly help teenagers address their financial challenges.

AMTA has taken steps to improve financial knowledge by preparing Consumer Tips: *Tips for Buying Your Mobile* and *Tips for Minding Your Mobile Spend* (attached). Available from AMTA's website – www.amta.com.au - these are intended to help consumers – including parents and young people - select and use a mobile phone plan which is both appropriate for their needs and within their budget. They cover questions to ask, what to do if faced with problems, and how to 'manage your mobile spend' (eg buy pre-paid, consider call-barring, ask about spend alerts). AMTA has distributed these Tips widely through federal and state fair trading and education authorities and consumer organisations.

Other organisations such as the Australian Communications Authority, the Australian Competition and Consumer Commission, the State Offices of Fair Trading, the NSW Commission for Young Persons and the Consumers Telecommunications Network also provide advisory services for consumers, including users of communication services.

It is recognised that existing information may not be the most appropriate and most accessible to younger consumers. AMTA therefore proposes to build on its Consumer Tips, in conjunction with the national body proposed by the Task Force and with education authorities, curriculum experts and the Australian Communications Authority, to produce mobile phone material for inclusion in an appropriate part of the school curriculum.

In addition to financial skills, productive *attitudes* to budgeting, credit, savings and expenditure should also result from such instruction. This recognises that younger persons in this age of electronic funds transfers, credit cards and ATMs, may have little or limited perception of money - because it is largely invisible – and that some consumers (of all ages) are driven by “instant gratification” and peer pressure (irrespective of affordability).

Other Industry Initiatives to Prevent Problems with Credit Management/Unexpected High Bills

AMTA has initiated, and manages, a service for all persons who have lost their phones or had them stolen, which blocks the subsequent use of the phone (on any network) and the incurring of further charges. This follows initiatives by individual carriers to address the problem (on their own networks). The ability to block lost or stolen phones *across* networks a world-first, and represents a significant investment by AMTA and its members. It is especially helpful to younger owners who are more likely to lose their phone/have it stolen.

AMTA has also addressed the issue of potential unexpected expenses relating to mobile phones by including, in its aforementioned Consumer Tips, advice on caring for one's mobile phone and using the available features (such as PINS), thereby minimising the chances of high bills through theft or other unauthorised use. AMTA members also have information on these subjects available.

A Competitive Market Place Offering Choice in Credit Management Solutions

As the ACA recognises in its Discussion Paper, carrier and carriage service providers currently offer a raft of products and services to suit a wide range of users and budgets. Consumers have access to competitively priced pre-paid and post-paid mobile phone services, with a number of tools on offer to enable the consumer to monitor and control their spend. Notably, most of the tools/options to “prevent unexpected high bills” suggested in section 4 of the discussion paper are already available from one or more CSP. Such services are developed through competition: offered by one carrier to attract customers to them over their competitors. A competitive market place will ensure that such services, if popular, will become more widespread and innovative.

Competitively priced pre-paid mobile phone services, which allow the user to define their expenditure limits and to readily check their expenditure against those limits, are particularly relevant for those for whom ‘unexpected high bills’ would cause credit management problems. Pre-paids are especially relevant for younger people, who may be inexperienced in money management. These young people are strongly encouraged towards pre-paid mobile phones, with AMTA members generally not signing customers to post-paid service contracts unless they are at least 18 years old or show evidence of steady employment. They may choose to have a parent as guarantor, but as noted earlier, there are ACIF Codes that include provisions on credit management, including provisions to ensure that guarantors are advised of their liability *before* agreeing to act as guarantor. As recognised in the discussion paper, pre-paid already effectively provides users with the option to “cap” their spending. ‘Pre-paid’ is a well-promoted option, and is popular. Fifty-five to sixty per cent of new subscribers (all ages) choose pre-paid over contracts. It is estimated that 45 per cent of total mobile subscribers will be pre-paid customers by the end of 2003-04¹. It is worth noting that, contrary to popular belief, pre-paid calls are not always more expensive than post-paid. As a recent PhoneChoice article², illustrates, as with any product or service available in the competitive market place, the consumer who takes the time to assess their needs, and shop around, will likely reap the rewards.

ACA “Options to Prevent Unexpected High Bills”

As the ACA recognises in its paper, reasons for extreme usage are complex, and there is considerable difficulty in defining an ‘unexpected high bill’ and whether it will cause financial difficulties for the recipient. The paper’s terminology reflects this difficulty, with the terms ‘unexpected high bills’ and ‘credit management’ often used interchangeably. This variability and subjectivity illustrates the need for a flexible (rather than prescribed) approach to meet different customer needs.

As outlined in this paper, there are currently both proscribed (in the form of ACIF Codes) and, perhaps more importantly, internal company policies, procedures and offerings addressing credit management issues. AMTA believes these provide excellent protection for consumers in the area of *credit management* while also allowing choice in a competitive market place. While there are individual cases of consumers running up debts beyond their means, it would appear that the vast majority of consumers enjoy the benefits of mobile phones without running into difficulty. Mobile-related problems appear limited as regards both their incidence and size of debt. (Total complaints made to the Telecommunications Industry Ombudsman (TIO) about mobiles have fallen despite

¹ AMTA “Australian Mobile Telecommunications Industry - Economic Significance” Report, September 2004

² PhoneChoice email bulletin, 10/8/04

increase in subscriber numbers³: Complaints decreased 18% from 20,431 in 2001/02, to 16,773 in 2002/03). Subscriber numbers increased 7.4% in same period to 14.5million.) Further, AMTA *does not believe that any additional regulation could be effective* in preventing something as subjective and difficult to define as ‘unexpected high [mobile] bills’.

To illustrate the case, consider the mobile-related case studies in the discussion paper. Of the eleven telecommunication case studies cited, only three concern mobile phones, and it would appear that the suggested ‘options to prevent unexpected high bills’ either already exist or would be ineffective in actually preventing an ‘unexpected high bill’ in the first place.

Case Study 4

The first case study concerning mobiles (case study 4) raises the issue of credit management practices of CSPs, including the systems to monitor unexpected high bills. The ACA suggests that ‘unambiguous warnings of expenditure, as well as set expenditure limits or bill caps be applied.’

AMTA makes the following points:

- **Services are already available which would prevent this problem** – eg pre-paid and spend alerts. Such services are developed as a result of competition, with carriers offering these services to attract customers to them over the competition. A competitive marketplace will ensure that such services become more **widespread and innovative**.
- **Caps**
‘Hard caps’. It is sometimes suggested that legislative mechanisms, such as a legislated ‘hard cap’ might help prevent problems such as those illustrated in the case study. However:
 - As already noted, ‘hard caps’ **are already available** in the form of pre-paid.
 - There are also problems with imposing any cap:
 - **At what level would such a cap be set?** What suits one customer may not suit another. What is a “problem” for one customer may be hundreds of dollars different to a “problem” for another.
 - As noted earlier, although when they do occur the problems may be serious, mobile-related problems appear limited as regards both their incidence and size. It seems likely that imposing a ‘hard cap’ would **inconvenience and discriminate against the majority** for the sake of a minority.
 - It is suggested that ‘hard caps’ might be lifted on a case-by-case basis (should a customer request it). This raises the question of **who takes responsibility** for any problems arising either because a cap is set at a certain level, or because one is changed or lifted.
 - As case study 3 illustrates (in a fixed environment), **caps do not necessarily prevent high bills**.
- ‘Soft caps.’** Similar problems exist if ‘soft caps’ were mandated.
 - Again, there is the issue that **some CSPs currently offer ‘soft cap-type services’** to their customers as a point of competition.

³ TIO Annual Report 2002-03;
http://www.tio.com.au/publications/annual_reports/ar2003/annual_2003download.htm

- Although being able to nominate a cap may help customers manage their credit, it would **not necessarily prevent a customer incurring a 'problem' bill**; just as a user could nominate their initial cap level, they could change it. The failure of a cap to prevent high bills in the case of a landline is illustrated in case study 3.
 - There is often a 'chain' involved in supplying a service to the customer. If a 'soft cap' is imposed, **who would pay** for the 'gap' between the services billed and any services used above the imposed 'limit'?
- To force all carriers to introduce any form of cap would be problematic in that there are **technical and cost barriers associated with building/changing systems to provide caps**. This includes complexities associated with there being a supply chain, and the complexity involved with (for example) real-time billing. **The imposition of excessive costs risks those costs being passed on to consumers**, which would obviously not be welcome.
- **Unambiguous warnings of expenditure.**
AMTA believes that **information provision is very important** to ensure that the customer is clear on the inclusions and costs of any service.
 - Education and information provision will assist raise awareness about such services/options.

Given all these issues, AMTA believes the most appropriate course of action is to let competition continue to address the issue of credit management. As already noted, some companies already offer, or will invest in systems to provide, credit management solutions to customers. This includes various suppliers taking steps to introduce 'across the board' caps. As new services emerge and suppliers in the chain upgrade their systems, individual suppliers will likely be able to provide services to monitor – and provide options to limit - spend in various areas. It is expected that these measures will assist in credit control for both existing and emerging services.

AMTA believes that attempting to impose caps or similar 'solutions' would create a system that is complex and difficult to manage, with no clear indication of responsibility for problems arising. Such action would, moreover, be disproportionate to the problem, and would not necessarily provide the 'fix' sought.

Case Study 7

The second mobile phone case study concerns a young person incurring a large phone debt through unauthorised use of her mobile phone.

AMTA makes the following points:

- **This case essentially illustrates a case of theft.** The girl's flatmate using the phone is basically no different to her flatmate stealing from her purse, refusing to pay his/her fair share of any bills, or borrowing her car without permission (and without paying for petrol). **Except that it is, arguably, easier to prevent unauthorised use of a mobile phone.** In addition to ensuring it is not left lying around (as one would not leave ones purse or car keys lying around), there are well-publicised mechanisms to prevent unauthorised use, such as PINS. These are detailed in AMTA's Tips for Consumers (Manage Your Mobile Spend). Such tips are also available from CSPs.

- Comparisons to a car loan are irrelevant and unhelpful. **A car loan is a line of credit. A post-paid mobile phone bill is not.** Further, how can it be said that the expenditure 'if continued on an on-going basis' is comparable to a \$40,000 car loan? As this case illustrates, *it could not* be continued on an on-going basis. The result was a \$1200 debt, nothing like . a \$40,000 debt!
- It is irrelevant that the girl's boyfriend took out the contract. As noted previously, credit management assessment includes provisions to ensure that the Customer (the 'boyfriend' in this case) would have been made aware of his obligations.
- Arrangements for both credit assessment and debt recovery are detailed in the Industry Code on Credit Management. It is appropriately a commercial decision about collection techniques and speed of debt recovery.

Case Study 9

This case study raises similar issues to case 6 as it too centres around the unauthorised use of a phone (after it was stolen).

In addition to the points made above, AMTA notes:

- **Theft/ Unauthorised use**
 - o AMTA and members have spent considerable time and money implementing solutions to address problems associated with lost and stolen mobile phones. (These are detailed earlier in this submission.)
 - o There are also well-publicised ways to prevent unauthorised use of a mobile phone. These include AMTA's Tips for Consumers (attached), as well as various information publicised by CSPs.
- The level at which an **internal high unbilled charges report** is produced, and the consistency of its enforcement, **is a commercial consideration**. Suppliers have various measures in place, but need flexibility to deal with a wide range of customers with varying needs. It is not acceptable to introduce a system to try and prevent problems for a very small minority to the detriment of the majority. Companies will improve their practices where and when possible; they do not want bad debt – it simply does not make good business sense. However, while there is always room for improvement, no system could 'solve' the issue by 'catching' 100 per cent of 'problems'.

Further issues

Post-paid accounts are not analogous to lines of credit

Throughout the paper, post-paid mobile phone charging is compared to lines of credit in the banking sector. AMTA believes such comparisons are erroneous as it does not believe post-paid charging to be a line of credit.

The ACA Paper also refers to post-paid mobile accounts providing 'unlimited' credit. While credit management problems may not be picked up immediately, further 'credit' is *not* available once problems are identified.

Regulatory Forbearance

It is suggested that emerging services, such as M-Commerce, *are likely* to be the source of unexpected high bills. As discussed earlier in this submission, as new services emerge and suppliers in the chain upgrade their systems, individual suppliers will likely be able (and have the incentive to via customer demand) to provide services to monitor

– and provide options to limit - spend in various areas. It is expected that these measures will assist in credit control for both existing and emerging services. AMTA is opposed to the introduction of ‘just in case’ legislation for emerging services. It is too early to assess the impact of such services, and whether existing credit management mechanisms and legislation will adequately cover such services. New regulation should only be introduced if there is clear evidence of market failure.

Conclusions

It would seem that, while there are individual cases of financial hardship caused by unexpected high (mobile) phone bills, the vast majority of consumers enjoy the benefits of mobile phones without running into financial difficulty. Mobile related problems appear limited as regards both their incidence and size of debt. Notwithstanding this, AMTA is concerned about the difficulties encountered by the small minority, and is keen to assist them better manage their mobile phone account. AMTA strongly believes, however, that any initiatives or ‘fixes’ considered must be proportionate to the ‘problem’. They must also be effective. It would appear that many of the options discussed in the discussion paper, if imposed on all CSPs, are not only out of proportion to the problem (they would cause inconvenience to the majority for the sake of a small minority), but would not actually effectively solve the problem – ie., prevent financial hardship arising from unexpected high (mobile) phone bills.

It is notable that nearly every option for credit management outlined in the ACA discussion paper is already deployed by one or other CSP – offered in various forms, in various packages, reflecting both the wide range of customers and their varying needs, and each CSP’s business practices and that of their supply chain partners. These solutions exist because the CSPs offering them see a market advantage in doing so – tools to control mobile expenditure are popular with certain market segments. And the number of credit management solutions available from the various CSPs is quickly increasing, with quite a number of new offers released in recent months. As new services emerge and suppliers upgrade their systems, competition will ensure that further services are offered. Dictating action (imposing hard caps, for example) through ‘black letter law’ will only stifle innovation. *“Catch people doing something right” – make marketplace heroes of performing organisations.*

AMTA does recognise, however, that there is always room for improvement. As it appears that significant mobile debts are most likely associated with unsustainable use of phones for socially-driven reasons, which are most appropriately addressed through financial literacy programs and through provision of information, AMTA believes that it is best to focus efforts in this area. As outlined, AMTA and its members have produced and are distributing information to better educate consumers, and AMTA is working with relevant agencies (including the ACA) to improve and develop its information. AMTA is keen to continue working with the ACA and others to better educate consumers in this way.

AMTA, September 2004

Attachments:

Consumer Tips:

- [Manage Your Mobile Spend](#)
- [Buying Your Mobile](#)