Telecom retail & consumer protection

Just a compliance challenge, or a differentiation opportunity?

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Content

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Executive Summary

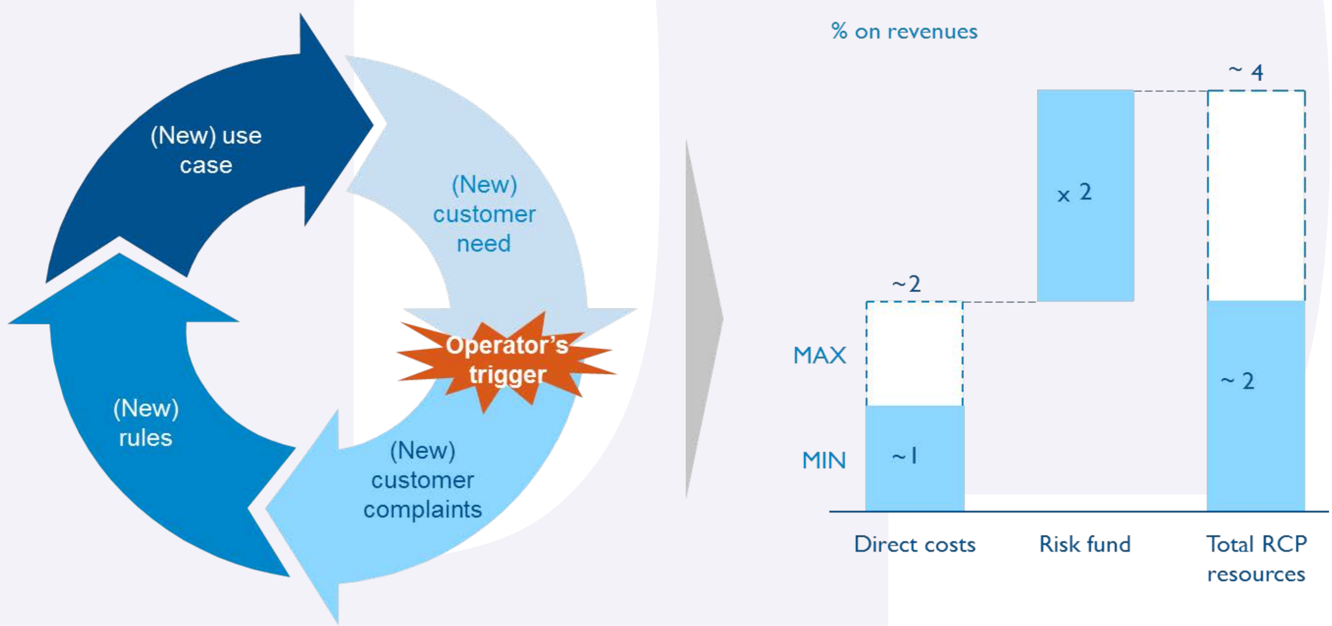
Telecom players dedicate significant resources to complying with retail & consumer protection (RCP) regulation, having created complex horizontal processes and tools spanning several departments. Despite this, the complexity of the subject and the continuous flow of new rules often translate into unwise actions (eventually punished by regulatory institutions).

With the support of some of the most important telecom groups, Arthur D. Little has developed a unique framework for a holistic understanding of such regulation. Our analysis revealed that:

Retail and consumer protection is vast: Our Global Framework identifies five common policy objectives, 12 regulatory areas, 36 measures and about 144 rules, which are often the result of an endless cycle: new uses cases generating new consumer needs, eventually leading to new customer complaints.

Dedicated resources are sizable and growing: Telecom operators dedicate up to 2% of their revenues to complying with RCP regulation, and often are forced to reserve similar amounts as risk funds. These resources are frequently allocated as a reaction to, rather than a driver for, a consistent approach to RCP regulation, and managed as a compliance challenge rather than a differentiation lever.

Figure 1: RCP regulation cycle & costs



Complying with RCP regulation is a critical organizational challenge: Complying with RCP regulation implies overseeing all phases of the customer's journey. Consequently, all functional departments within telecom operators' organizations are involved, with knowledge/resources often dispersed across them, and in some cases, without a comprehensive understanding of the multiple activity streams.

There is space for risk and cost mitigation: A strategic approach linking consumer protection to consumer satisfaction not only can reduce regulatory cost, but mostly should improve competitive positioning. Telecom operators can seek better use of resources, and mitigate related risks, by i) structuring local knowledge, ii) comparing local regulatory situations and commercial practices with common triggers and best practices, as captured by our Global Framework, and iii) fostering industry collaboration as a means to reduce regulatory impact.

1. RCP regulation is vast and sourced by multiple institutional bodies

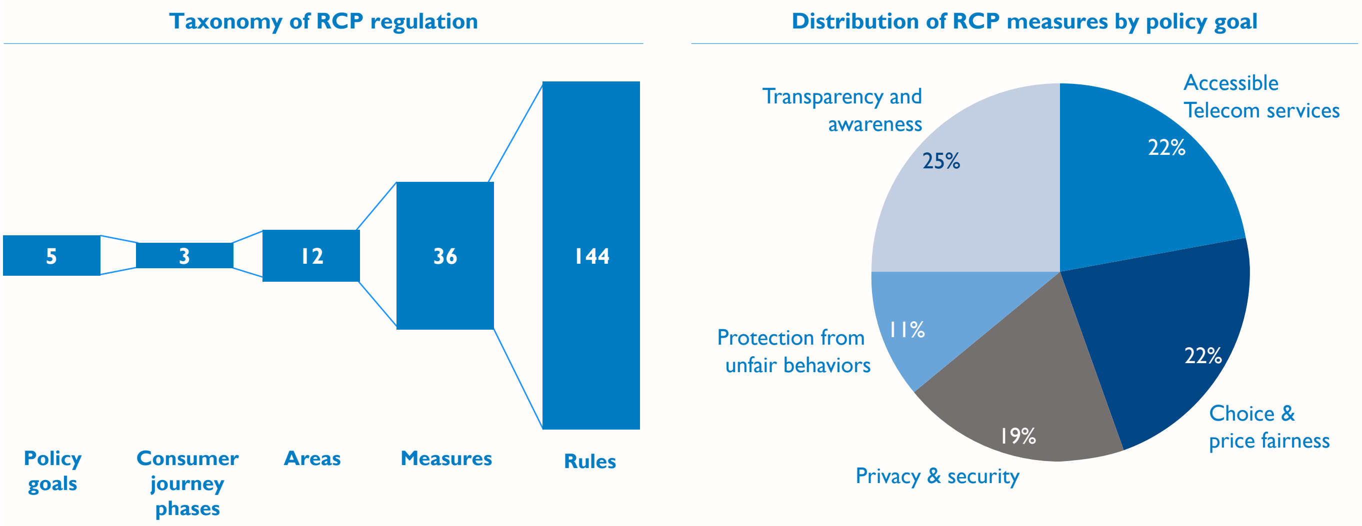
New rules of RCP are continuously introduced by institutional bodies (national regulatory authorities, data protection authorities, competition authorities, governments and even federal/regional entities) to address five common policy goals:

1. Maximize telecom services' accessibility
2. Maximize consumer choice to ensure price fairness
3. Ensure transparency and consumer awareness
4. Ensure consumers' privacy and security
5. Protect customers from possible unfair behavior

Our Global Framework of RCP regulation funnels policy goals and phases of the customer journey into areas of regulatory intervention, regulatory measures and specific rules. The resulting taxonomy comprises 12 regulatory areas, 36 measures and about 144 specific rules impacting all phases of the customer's life cycle.

The analysis of differences and commonalities across geographies reveals that granularity and weight of RCP regulation differs greatly in each country, as both institutional attitude and market players' behavior have influence. However, it is possible to draw some lessons learned, as regulation triggers and worst and best practices tend to have similar patterns, even across different countries.

Figure 2: Arthur D. Little's RCP Regulation Framework



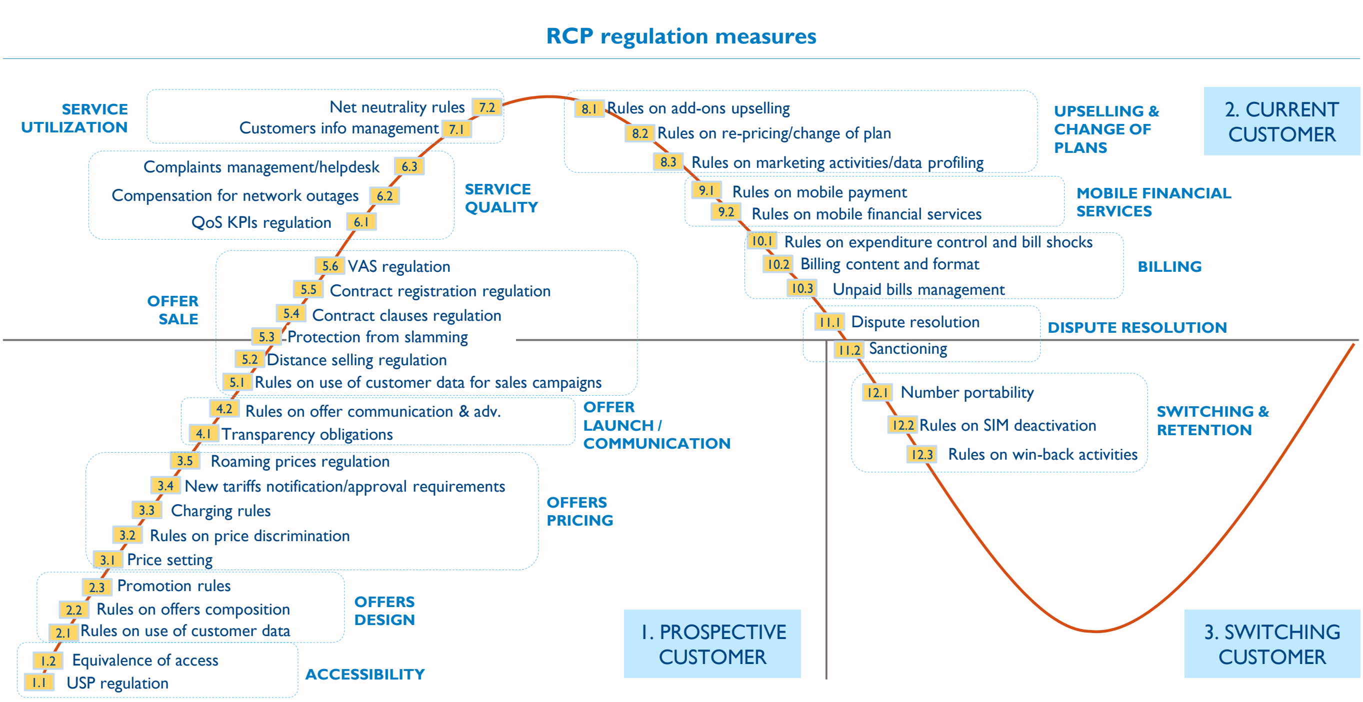
2. Telecom operators invest significant resources in RCP regulation

To comply with RCP regulation, telecom operators have created complex horizontal processes and tools. This translates to 1–2% of revenues as direct compliance costs. Complying with RCP regulation implies overseeing all phases of the customer's journey. Consequently, all functional departments within telecom operators' organizations are involved (mainly sales & marketing, customer care, legal, regulatory and public affairs, networks & IT).

As a common result, knowledge and resources are dispersed across several departments, which tend to be specialized according to the specific customer's journey phase, but miss the big picture and the possibility of elaborate mitigation or advocacy actions. Across the variety of cases, some recurrent situations are found:

- A consistent strategy based on a comprehensive view of existing and potential RCP regulation is key to controlling and minimizing regulatory risk. Such a holistic approach is generally found lacking across large telecom organizations;
- The absence of an effective strategic view and approach to RCP management generally results in a low (or no) perception from customers and public authorities of the amount of resources and effort dedicated to consumer protection;
- Limiting RCP regulation management to a "compliance" task often leads to risky decisions (eventually punished by consumer protection institutions with the introduction of further rules). Similarly, "wait-and-see" approaches hinder the ability of telecom operators to anticipate and/or pre-empt future regulatory risks.

Figure 3: RCP regulation universe along the customer lifecycle



3. RCP regulation is the outcome of an endless cycle – related risk can be only partially mitigated

RCP regulation is the outcome of an "endless" cycle that starts with new uses cases generating new consumer needs, which, if unmet, lead to customer complaints and eventually result in the introduction of new regulation. RCP rules can arise at any moment in this cycle: reactively to complaints, or preventively to pre-empt the rise of new potential unfair cases.

The speed and span of regulatory decisions on this topic is largely dependent on the regulator's style (reactive vs. proactive) and attitude (liberal vs. conservative).

Nevertheless, our analysis of recurrent triggers, reactions and best practices of over 40 international case studies highlights that telecom operators' behavior and strategies can influence the outcome of local regulation.

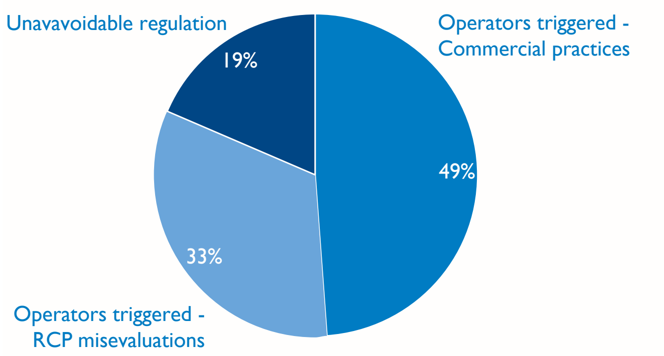
We found some evidence indicating that the intrusiveness and impact of RCP regulation depends greatly on telecom operators' commercial practices and consumer satisfaction strategies. We tested this thesis by comparing countries with similar competitive contexts and regulatory approaches.

According to our analysis, the triggers of RCP regulation can be grouped into three clusters:

1. **Commercial practices** accounted for about 49% of our case studies. In this case, new rules were introduced due to specific conditions, limitations or costs applied to end users.
2. **Unwanted situations impacting customers** accounted for about 33% of our case studies. In this case, new rules were introduced due to misevaluation of potential consequences of specific actions to customers.
3. **Unavoidable regulation** accounted for about 19% of our case studies. In this case, new rules were introduced due to some contingent and nationally relevant requirements (e.g. security, social inclusion) or institutional concerns.

The analysis of triggers highlights that the largest portion of RCP measures in place are somehow the result of telecom operators' actions and/or underestimation of the potential risk of certain decisions (especially regarding commercial practices). The risk of the introduction of such measures could therefore be mitigated by ensuring more effective use of resources through the definition of a company-wide consumer protection strategy.

Figure 4: International case studies by trigger



The necessity to minimize the regulatory risk can come along with the opportunity to leverage RCP compliance as a source for value creation, through differentiation from competitors and improvement of the overall competitive positioning.

We do believe that there is space for telecom operators to improve the management of RCP regulation and reduce its risk and impact, by:

- Managing retail and consumer protection regulation not only as a "compliance" matter, but by considering it a part of the broader customer satisfaction strategy, aligning and maximizing the effectiveness of the company's communication on the topic.
- Carefully assessing the status of local regulation against the global retail and consumer protection framework as well as peer countries, to identify gaps and anticipate possible upcoming regulation.
- Monitoring local and regional commercial practices and assessing them against recurrent triggers and best practices to pre-empt the risk of unwise decisions.
- Developing extensive knowledge of own customers' needs and frequent complaints to optimize customer management processes and ensure timely and proactive identification and resolution of customers' issues.

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4. Telecom operators can better leverage customer protection practices to improve their competitive positioning and image

RCP regulation can have (and, in some cases, has had) disruptive impact on telecom business in terms of revenue losses and/or cost increases. Careful evaluation of the benefits sought through new commercial practices vs. the risk costs associated with new regulation (value at risk) is fundamental: telecom operators should appoint special committees to play a pivotal role in accepting new commercial practices where there is a clear imbalance between risk costs and benefits.

As a matter of fact, timely understanding of customers' needs and local authorities' concerns, coupled with proactive evaluation and proposal of solutions, has allowed some telecom operators to positively influence the outcome of the regulation debate in the own market, eventually avoiding disruptive interventions.

Some telecom operators have successfully turned the RCP challenge into an opportunity, by identifying rising concerns from their customers early and turning them into differentiating actions that helped to improve the company's image.

We found many examples of these approaches that helped to achieve improved competitive positioning and build differentiation strategies:

- Developing internal processes and tools to manage and solve customers' issues on specific hot topics, such as unwanted service activations, slamming and bill shocks;
- Implementing consumers' education campaigns on specific hot issues (e.g. one-off reimbursement of costs due to unexpected roaming traffic at the first bill-shock event, as well as contextual provision of detailed information on how to avoid it in the future);
- Launching new services features and tools to improve customer experience and transparency (e.g. web-based tariff self-configuration tools);
- Introducing rewarding mechanisms for progressive behaviors (e.g. providing a price discount to customers using only digital caring channels instead of charging customers using physical call centers).

We also found that there is scope for self-/co-regulation. A collaborative attitude with the national regulatory authority (NRA) in identifying and solving consumers' needs and issues through self-/co-regulation has, in several cases, pre-empted/anticipated regulatory intervention, helping to control the impact of the introduction of new rules.

Relevant examples of co-/self-regulation practice can be found in the United Kingdom, where, for instance, the Premium Rate Services regulation in place is the result of a joint self-regulation effort by all operators in the market, which is then translated into real regulation by the local regulatory authority. Other successful co-/self-regulation cases include transparency of broadband services, net neutrality and win-back/retention activities. Effective collaboration can also include the support of regulatory authorities in their effort to evaluate costs and benefits related to the introduction of new rules. Finally, collaborative approaches with consumer associations can include proactive communication and discussion of new tariffs before their launch. This has been found effective in identifying and solving concerns that could trigger regulatory intervention.

On a negative note, we found only a few cases in which such constructive approaches were part of holistic and comprehensive strategies aimed at making the RCP a lever to improve overall customer satisfaction and differentiate through better customer management.

5. A management challenge: how to design an RCP regulatory plan

The analysis of international experiences provided us with an insightful view of the best practices and the most successful approaches in tackling consumer protection regulation.

Those operators willing to design a structured approach to RCP regulation management should follow these five key pillars:

1. **Developing awareness and harmonized internal knowledge related to RCP regulation**

Operators will need 360-degree education on consumer protection topics across relevant departments in order to:

- Anticipate unexpected situations, especially regarding inconsistent interpretations or commercial behaviors;
- Identify opportunities to turn customers' complaints or regulatory concerns into competitive strategies and improved positioning vs. competitors.

2. **Continuous analysis of customers' needs and complaints**

The RCP cycle always starts with customer needs, which, if unmet, generate complaints and eventually lead to new rules. Regular analysis of customers' needs and frequent complaints is essential to identify, anticipate and manage issues that, if mismanaged, could otherwise lead to new rules.

3. **Proactiveness and optimization of internal customer management organization and processes**

A proactive approach to consumers' issues helps operators to reduce the risk of new rules and minimize their impact. Internal processes should be designed in order to:

- Ensure timely decision-making processes related to customers' issues (and avoidance of higher impact of ex-post-regulatory interventions);
- Foster frequent interactions between regulatory and public affairs departments and sales, commercial and financial departments, with the aim of intercepting possible unwise commercial behaviors.

4. **Communication and collaboration with external stakeholders**

The relevance of consumer associations is growing in all geographies. Proximity to consumer associations can help the understanding of hot topics, facilitate agreement on solutions, and anticipate complaints and concerns.

On the other hand, communication and collaboration with regulatory authorities and other institutions should be ensured in order to effectively build public authorities' awareness of the costs and benefits of proposed regulation.

5. **Careful assessment of the risk of future regulation**

Careful risk assessment requires a constant, vigilant attitude and monitoring, in particular:

- Identifying upcoming regulatory risks by assessing measures and rules in place in the local market versus what is introduced in peer countries;
- Avoiding traps and being aware of recurrent triggers and commercial practices considered aggressive by NRAs and public authorities;
- Continuous monitoring of public statements and priorities of all competent bodies (national and regional) regarding the potential introduction of new rules and measures.

Conclusion

As RCP regulation may be the result of unwise behaviors or just being unavoidable, telecom operators should carefully understand how it is introduced and applied in their own local markets through good interpretation of local authorities' styles and attitudes. Telecom operators should audit their own organizational implementation of resource allocation for such tasks and try to understand how to leverage such efforts to exceed rather than meet customer expectations.

There are three key lessons for operators to learn from this study:

- Knowledge of regulatory risks, recurrent regulatory triggers, and practices to which customers are most averse is key to preventing future regulation;
- Reviewing consistency of own objectives with the RCP policy goals of RCP regulation is essential to ensuring consistency of own actions and avoiding unintended triggering of new regulation;
- Over-fighting against inevitable regulation may not be as efficient, and could even be counter-productive.

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