PSA

Phone-paid Services Authority

Annual Report

2017/18

Phone-paid Services Authority
The UK regulator for content, goods and services charged to a phone bill

020 7940 7474
psauthority.org.uk

Contents

PSA overview

Who we are

The Phone-paid Services Authority (PSA) regulates content, goods and services charged to a phone bill. Phone-paid services include TV voting lines, charity text giving, competitions, directory enquiries and game downloads charged to a phone bill.

We are designated by Ofcom as the body responsible for regulating (Controlled) Premium Rate Services (PRS) in the UK. Ofcom is responsible for approving our Code of Practice.

We act independently of Government and commercial interests and operate as an arm's-length body of Department for Digital, Culture, Media and Sport (DCMS).

Vision

Our vision is a healthy and innovative market in which consumers can charge content, goods and services to their phone bill with confidence.

Mission

Our mission is twofold:

- To protect consumers from harm in the market, including where necessary through robust enforcement of our Code of Practice
- To further consumers' interests through encouraging competition, innovation and growth in the market.

We seek to do this by:

- Providing clarity about the market for content, goods and services charged to a phone bill
- Applying an outcomes-based Code of Practice
- Delivering a balanced approach to regulation
- Working in partnership with Government and other regulators.

As a public body, we will underpin the delivery of our mission through:

- Delivering high standards of organisational support.

Chairman’s message

David Edmonds CBE
Chairman, PSA

2017/18 was another year of evolution in the phone-paid services market. For every person in the UK, there are 1.4 mobile phone contracts. Take out those 10 years old and under, and that figure rises to 1.6 contracts per capita.

Changes in consumer behaviour have had a profound effect on the phone-paid services market. Mobile-based services now account for around three-quarters of the market. And that element of the market is growing strongly. Services like Spotify, Google Play, charity text giving and Tastecard all use mobile billing effectively.

Perhaps unsurprisingly, the fixed line element of the market we regulate continues to decline, as consumers continue to seek free or lower-cost alternatives, often delivered online via a mobile.

Our efforts focus on making this market work for consumers. We do this through protecting consumers from harm, but also furthering their interests by encouraging competition, growth and innovation.

We know that there are small pockets of non-compliance that pollute the market. Over the last two years, we’ve taken firm enforcement action, issuing over £9 million worth of fines. This year we fined two companies a total of nearly £1.5 million who provided third-party connection services to well-known organisations. The independently functioning Tribunal found that these companies misled consumers into engaging in their third-party service.

We also acted against a string of ‘glamour’ service providers whose actions had scant regard for the consumer. The message is clear: if you break the rules, we will act.

Protecting consumers is not just about enforcement. The team in Canary Wharf are constantly assessing whether our rules and expectations meet consumers’ needs. In January 2017, we introduced new requirements for services that were confusing consumers and leading to inadvertent sign-ups. Since the introduction of Special conditions for online adult and online competition services, complaints to us have come down significantly.

By taking robust action against those that cause consumer harm and ensuring our rules are fit for purpose, we intend to support the great majority of industry who are compliant and offer consumers services that they enjoy. It also supports growth and innovation. Whether it be society lotteries, mobile tickets or music streaming, consumers will engage with phone-paid services if they have confidence in the market.

And we will continue to support new services coming to market in a sensible, compliant way. This year, for example, we worked with the Financial Conduct Authority to ensure the phone-paid services market can make the most of the opportunities presented by the new Payment Services Directive.

As we are conscious that we have to deliver all this economically and efficiently. Over the past three years, we’ve brought the cost of regulation down by 20% in real terms. We managed to deliver our 2017/18 business plan alongside a 5% real terms cut in our budget. Our budget for 2018/19 represents a further 4% cut in real terms on the previous year.

We are also conscious that stakeholders benefit from regulatory certainty. We've committed to holding the amount of our budget to be funded by the industry levy at a maximum of £1.875 million per year until 2020/21. We have also committed to keeping the Code of Practice as is until 2020; we believe our current regulatory framework is fit for purpose and offers the appropriate balance between delivering consumer protection and the flexibility for industry to develop services with confidence.

Over the course of the year, we said goodbye to Ruth Sawtell whose term as Senior Independent Director came to an end. I want to thank her for her significant contribution to this organisation both on the Board and on the Code Compliance Panel. Kevin Brown has taken on the role of Senior Independent Director.

The contents of this report set out much of the work we've done over the last 12 months to further our mission. With this in mind, I would like to thank the Board, Jo Prowse, the Chief Executive, and the whole team who have contributed to another highly effective year at the PSA.

CEO report

Jo Prowse
Chief Executive, PSA

This is my third report as Chief Executive of the Phone-paid Services Authority. Throughout my tenure, my focus has been on making us a highly effective and respected regulator that is determined and decisive in our actions, outcomes-focused, open and collaborative. As this report sets out, our mission is a simple one: to protect consumers from harm and to further their interests in the phone-paid services market. In other words, we exist to make a difference for consumers. And we do this by ensuring compliance with the rules, ensuring those rules and expectations remain fit for purpose and being flexible where we can to allow good services to come to market.

2017/18 was a successful year in this regard. First, our action on online competition and adult services has seen complaints significantly drop this year. At roughly 1,250 per month, consumer complaints to the PSA have dropped a long way from the peak of nearly 4,000 per month we witnessed in 2016. It's a good sign that consumer detriment has been reduced because of action we have taken alongside the mobile network operators.

As complaints have come down, we have continued to act against those that break the rules. Stakeholders, from consumers through to industry, tell us that robust but fair enforcement is essential in a healthy market. Indeed, we are determined that providers do not benefit from bad practice. In this financial year, we barred 9 companies and individuals from the market. We also revised our Supporting procedures to ensure the application of our sanctions are an effective deterrent to malpractice.

As a regulator, we are decisive and efficient in what we do. If we can resolve an issue with a service provider quickly, without the need to revert to a lengthy, technical investigation, then we will continue to look to do so. In our view, it's an efficient and effective way of working, addressing potential sources of consumer harm before they escalate. This year, we resolved over 4 in 5 investigation cases in this way.

We also seek to be open and collaborative in our approach. This year we worked with Google and members of the industry to reduce the instances of phone-paid services adverts appearing in places that were likely to be seen by minors. We did this by working with stakeholders rather than reverting to enforcement action, ensuring our response was timely, fair and proportionate. Our offices in Canary Wharf play host to a wide programme of meetings, workshops, and forums – keeping the communication channels open with all our stakeholders.

Where rules need to be tightened, we will do so. But equally, if we can be flexible and reduce the regulatory burden or barriers to enter the market, we will look to do so as well. We constantly look ahead to understand how and where we should adapt our rules to facilitate good services coming to market. This year, we piloted a Level 2 registration exemption that makes it easier for Level 1s to 'on-board' clients that may want to use operator billing as a payment option. We also consulted on a new regulatory regime for society lotteries who seek to benefit from phone payment. The intention behind both was to support new services coming to market that consumers will enjoy. We believe it is consistent with our outcomes-based approach to regulation.

Looking ahead, 2018/19 is likely to be an equally busy year. Our Business Plan sets this out in detail, but I wanted to highlight a few of our areas of work. We recently committed to reviewing our regulation of subscription services. Deloitte have predicted that the number of digital subscriptions that the average consumers engage with will grow from 2 to 4 over the next few years. It's essential therefore that we get our regulatory requirements for phone-paid subscriptions right. That's one that protects consumers, but also gives the market the opportunity to grow and deliver great services that consumers enjoy.

We will be working with Ofcom on their review of Directory Enquiries and considering whether all third-party connection services (ICSS) should be brought under our remit. We are working together with three of the four major Mobile Network Operators to investigate consent to charge standards and billing security in the industry with a view to identifying where standards may need to improve. We will continue to focus on the consumer journey, with a particular emphasis on the post-purchase consumer experience.

All of this sits alongside our day to day operational activities: from handling over 210,000 contacts from members of the public and working on nearly 500 cases over the course of the year, through to delivering sound governance, financial management, monitoring, IT and investing in our fantastic team of people. We do all of this within the context of increasing resource pressures that require us to act smart and make best use of what is available to us.

As always, we welcome your feedback and look forward to working with you to make a difference for consumers.

Delivering on our priorities

Providing clarity about the market for content, goods and services charged to a phone bill

We're committed to ensuring that consumers are well-informed about the phone-paid services market, and to building certainty and trust when buying services. We do this by engaging with consumers when handling their enquiry and advising on how to use services with confidence. We are proactive in providing information to consumers through a range of channels, including through our contact assessment agents, our website and social media networks, and external media. We are clear when we can help, and also point consumers in the right direction to have their problems resolved. This year we continued to handle thousands of contacts from consumers, improve our understanding of their experience of phone-paid services and put their view at the heart of our regulation.

In 2017/18 we:

Handled over 200,000 contacts from consumers
More precisely we handled 213,600 total contacts from consumers, whether online, through social media or over the phone. Over 90% of our contacts were handled as automated enquiries, with consumers getting the information they need to resolve their issues without having to call – a significant saving in time and effort. The total number of contacts handled this year was down from 2016/17 when we handled 471,000.

We received 15,800 complaints from consumers this year, a significant reduction on last year's figure of 33,600. We understand that our experience reflects that of the phone companies; a strong indication that we have genuinely reduced consumer harm. We referred 7,500 of these back to the merchant to resolve in the first instance; our advice to consumers is to always try to contact the service provider directly to give them the opportunity to put the matter right.

The reduction in complaints and contacts is partly a result of new Special conditions we introduced in early 2017 for particular service types - online adult and online competition services - which were driving a disproportionate number of complaints. Complaints from consumers to the PSA about online competition services dropped from 8,590 in 2016/17 to 630 in 2017/18.

We handled
15,800
complaints in 2017/18

Down from
33,600
in 2016/17

Complaints about online competition services are down by
93%

Published and commissioned research into the consumer experience

Our consumer research programme provides us with vital insight into the consumer experience of phone-paid services. Each year, we commission partners to conduct independent research on our behalf. Using a variety of research methodologies, including attitudinal and behavioural research, we monitor consumer attitudes to services and gain a deeper understanding of how consumers engage with them. In 2017/18, we published several important pieces of research:

- In July 2017, we published research into consumers' experience of customer care and complaint handling in the phone-paid services market. Consumers who contact us often complained of a poor experience and so we wanted to get an independent, objective view of the consumer journey. Conducted by Futuresight and using both qualitative and quantitative methodologies, the research painted a mixed picture. Complaint handling varies significantly across the market. Consumer experiences of complaint handling tend to better in the charity and broadcast areas of the market, but certain parts of the digital content market perform poorly. The research suggests that poor complaint handling is an issue for the whole market regardless of its origin; poor experiences have a detrimental impact on consumer trust in the phone-paid services market. We are now following this up through work with industry in the consumer journey, a policy review on refunds, proactive enforcement of our complaint handling rules and our own targeted monitoring programme in this area.

- We issued our Annual Market Review (AMR) in August 2017, examining the market and its various component parts in depth. Our flagship annual piece of research surveys a representative panel of phone-paid service users in the UK to understand their views and experiences of the services they engaged with. This year's AMR suggested that consumer satisfaction with services has improved, although trust in services had declined slightly. Charity text donations, music and video streaming and TV and radio-based services lead the way in providing services that consumers enjoy.

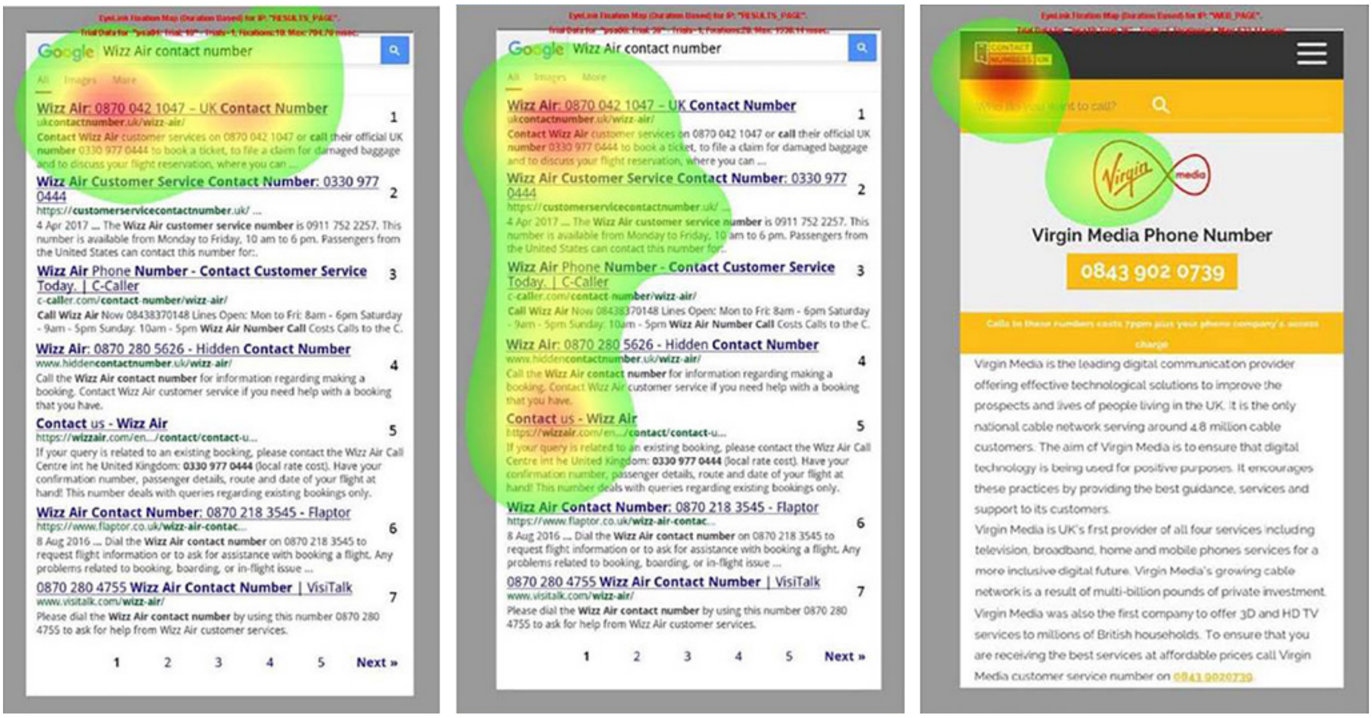
- We also commissioned behavioural research from the University of Nottingham into consumer behaviour when using Information, Connection and Signposting Services (ICSS), which we published in April 2018.

ICSS are third-party connection services that route consumers via premium rate phone numbers to popular customer helplines. We have strict rules in place to regulate these services on the 09 and 087 number range, but many consumers tell us that they do not realise they are engaging a third-party.

We therefore asked the University of Nottingham to help us understand why consumers may not be fully aware of the services they engage with. The research team used innovative eye-tracking technology to chart how consumers interact with search engine results when looking for customer helplines and other fixed line services. The research sheds light on just how common it is for consumers to miss key information when searching for a number, increasing the risk of engaging a third-party connection service unknowingly. Equally, more than 9 in 10 participants in the research did not read disclaimers or other small-print type information that disclosed crucial details like call tariff rates or notes confirming that a site was for a third-party service. And most consumers were found to identify a company website primarily from its branding and visual identity, rather than written material that might specify otherwise.

In 2018/19, based on the findings of this research we will be:

- Updating and disseminating consumer advice
- Working with Ofcom on considering whether ICSS on the 084 number range should fall within our remit
- Reviewing our regulatory requirements for such services
- Continuing our enforcement work.



Research from the University of Nottingham shows just how little information consumers focus on when deciding on whether to engage with a service.

Put the consumer view at the heart of our regulation

We've taken proactive steps to put the interests and views of consumers of phone-paid services at the heart of our regulation. Our consumer strategy, launched in 2016/17, has three broad areas of activity, firstly on preventing harm in the first instance, secondly by stopping harm from continuing once detected, and thirdly by working to repair harm once it has occurred.

A particular focus for our consumer strategy in 2017/18 has been to ensure that the consumer voice is represented. The PSA is not alone in this regard. Most, if not all, regulators find ensuring a broad range of consumer views are heard and well represented in policy making a challenge. In 2017/18 we improved our engagement with consumer advocates and consumer bodies, including the Communications Consumer Panel, the Essential Services Access Network and Consumer Forum for Communications. We also worked with organisations like the Fair Telecoms Campaign to ensure we understand the viewpoints of consumers.

We recognise that this is an area where more can be done. In 2018/19 we will be piloting a consumer panel to further put the consumer voice at the heart of our regulation. It is intended that the panel will provide advice on and input into our policy and strategic thinking from a consumer perspective. It will also provide input into our policy consultations and act as an informal sounding-board to test our thinking and approach.

Raised the profile of the phone-paid services market and regulation

In 2017/18 we focused on disseminating our consumer advice more effectively to build confidence in the market and services. As well as sharing news and blog posts through our website, we have issued press releases with key information about regulation, enforcement, research into the market and consumer habits. These have received coverage in national media outlets, including the BBC, Radio 4, The Times, The Telegraph, Guardian, Mail on Sunday, The Daily Mirror and others. We've also collaborated with partners in government and elsewhere, including Ofcom, DCMS, the Fair Telecoms Campaign and others to bring consumer protection messages to a larger audience. It's our view that informing the public via the media about the phone-paid services market is a crucial step towards building greater confidence in services and improving consumer satisfaction. We have been able to do this effectively after our successful rebrand in 2016/17, which has had an ongoing positive impact in clarifying our role.

Outcomes

- 53% reduction in consumer complaints
- Over 9 in 10 consumers were able to solve their issue using our automated self-help tools like number checker
- Better understanding of the consumer experience of phone-paid services through our programme of research which will inform our work
- Dedicated work programmes to target areas of consumer confusion and concern identified through our research programme
- Better understanding and representation of consumers' views in our policy and strategic thinking
- Broader reach of consumer protection messages to inform the public.

Applying an outcomes-based Code of Practice

Effective regulation upholds high standards, builds confidence and puts the experience of ordinary consumers front and centre. In our view, this approach is flexible enough to give industry space to develop new content, goods and services that consumers want, while also reducing harm and mitigating against sharper practice which might damage the reputation of phone-paid services. Enforcement remains an important element of this both in terms of protecting consumers from harm but also maintaining a level playing field for compliant members of industry to operate.
This year, we completed a number of projects which help to ensure that when we do resort to enforcement, our investigations and adjudications are fair and proportionate yet robust enough to deter continued malpractice.

In 2017/18 we:

Struck a balance between formal and informal action

We believe it is important that regulation strikes the right balance between formal and informal enforcement. This allows us to be agile at responding to issues as they arise. It also allows us to allocate our investigatory resources to the most serious cases, where there is suspected evidence of serious consumer harm. This year, the majority (83%) of the 346 completed cases were resolved quickly and informally.

Updated our approach to sanctioning

Effective sanctioning supports good regulation and a healthy market. Stakeholders tell us that it's important that sanctions should be sufficient to deter malpractice and encourage compliance. Rules need to be enforced to be effective, and this means exhausting all avenues to collect fines, barring non-compliant operators from the market, and making sure that consumers who've claimed refunds get their money back. In 2016/17, we reviewed our Supporting procedures and recommended changes to ensure sanctioning is as effective as possible.

Having consulted stakeholders, we formally adopted our proposed changes to the Supporting procedures in July 2017. The main changes were:

- Establishing of a revised process for imposing fine sanctions
- Improvement of transparency of generated revenue within Tribunal decisions
- Improvement of clarity and guidance for assessing seriousness levels for Code breaches.

In short, the amendments ensure that we make best use of the powers available to us so that sanctions imposed in a case are sufficient to, where necessary, punish and permanently deter non-compliant behaviour and encourage a culture of compliance by the party in breach and by others.

Enforced in the most serious cases

Enforcement of our rules is vitally important to maintaining a healthy market and a high degree of consumer confidence. When serious breaches of our Code of Practice take place – informed by our targeted monitoring of the market and information received from consumers – we take action. Of the 497 total cases we worked on, 133 were formal enforcement cases, and 74 of these were Track 2 cases, i.e. the most serious in terms of consumer harm.

Three areas stood out in our enforcement work this year. We took specific action against providers of connection services found to be breaching the Code and related Special conditions, we continue to investigate and enforce against providers who are found not to have had robust consent to charge mechanisms and we investigated a number of providers offering directory enquiry services. This year, the independently-functioning Code Adjudication Panel sat 20 times and considered 17 cases. They levied fines totalling £3.8 million and prohibited 9 parties or people from the market.

Here are some examples of our enforcement activity this year:

- DK Call Ltd.
  In the 2016/17 financial year, we noticed a spike in complaints from consumers about a number of ICSS. The spike in complaints was corroborated by our own monitoring, where we saw increased instances of call connection services in the market. We launched investigations into several companies and acted against providers found to breaking the rules. In April 2017, for example, we issued a fine of £645,000 to DK Call Ltd. Consumers wanting to call well-known organisations such as Sky and HMRC, were instead connected via an 09 number at a cost of £3.60 a minute, plus their network's access charge. The service was promoted via adverts on search engines and led some consumers to be charged in excess of

£100 for a single call. The PSA Tribunal found that the company had breached PSA rules, including the Special conditions introduced for ICSS, and ordered refunds to all eligible consumers who claimed one on top of the £645,000 fine.

- Pro Money Holdings Ltd.
  Ensuring that service providers properly establish and demonstrate consent to charge has been a focus on our enforcement work in recent years. In March 2018, we took action against Pro Money Holdings Ltd, operating a subscription service called Comphouse Competitions. Pro Money Holdings Ltd. was found to have failed to secure adequate consumer consent for billing, marketed to consumers without consent, failed to provide information to the PSA, provided false or misleading information to the PSA and had inadequately handled consumer complaints. After an adjudication by consent following a PSA investigation, the company agreed to sanctions including a formal reprimand, a five-year prohibition from the market, a refund to all consumers whether they'd requested one or not, and a £50,000 fine.

- Call the 118 113 Helpdesk Ltd.
  In March 2018, we issued a fine of £425,000 against a directory enquiry provider that misled consumers into using its service. The provider advertised the service using a voice recording that claimed that there had been a fault on geographic numbers consumers had originally dialled and advised consumers to call 118 820, which is charged at a premium rate. The Tribunal found that pricing was not sufficiently clear, and that the company had failed to disclose significant information which had impeded the PSA's enquiries into whether the service had been run in a misleading way. In addition to the fine, the company was barred from the market until compliance advice was sought and ordered to pay general refunds to eligible consumers.

Code Adjudication Panel sat **20** times

17 cases considered

£3.8M in levied fines

9 parties or people prohibited from the market

Commissioned an audit of our compliance with Code and enforcement processes

The 14th edition of the Code of Practice came into force in July 2016. The changes introduced by Code 14 were intended to bring greater transparency, increased independence of our decision making and built in fairness, proportionality and additional safeguards for providers under investigation. As part of the process of introducing the new Code, we committed to reviewing its implementation in 2017/18 to ensure it was meeting its objectives.

We commissioned international law firm Fieldfisher LLP to assess whether and how well we follow our Code procedures, Supporting procedures and other established processes in the life-cycle of a case. Their review ranged from complaints or monitoring, through to investigations and enforcement activity. They reviewed a sample of our investigations data, examining how we go about gathering and storing information about services that are under investigation.

Broadly speaking, our Code and the changes we have made are meeting their objectives. In terms of our processes and activity, Fieldfisher reported that: "the PSA was conscious of its obligations under the Code and sought to act proportionately in the context of the apparent risk and seriousness of the case in question." They further considered our overall quality in investigation handling and decision-making to be of a "good standard."

> "the PSA was conscious of its obligations under the Code and sought to act proportionately in the context of the apparent risk and seriousness of the case in question."

Encouraged a culture of due diligence and risk assessment
The Code of Practice sets out clear due diligence expectations on providers. The intention is that all parties in the value chain have a responsibility to ensure that those they contract with are complying with their obligations under the Code. Effective due diligence improves compliance and reduces consumer harm.

That's why we've been working with industry to maintain and improve high standards of due diligence and risk assessment. In 2017/18, we did this in three ways:

- We have been actively engaging with industry representatives to discuss expectations and explore means to improve their due diligence
- We embarked on a policy review in this area that aims to clarify requirements and amend Guidance if necessary
- We have ongoing investigations into providers who we believe have not met our current expectations. This work will continue in 2018/19.

Issued compliance advice
We provide a free compliance advice service for providers of phone-paid services. We want to help companies to meet their regulatory obligations and provide high quality content, goods and services to consumers. Over the year, our team provided 667 separate pieces of bespoke advice via phone and email. We also continue to publish up-to-date advice and recommendations on our website and through our social media channels, to keep service providers informed.

Outcomes

- A balanced and effective approach to enforcement that ensures the most serious cases are prioritised, but is agile enough to puts things right quickly wherever possible
- Effective sanctioning that makes the most of the powers available to us and achieves increased deterrence
- The most egregious cases adjudicated upon and providers found breaching the Code were held to account
- Increased compliance from more effective due diligence and implementation of compliance advice
- Confidence in the fairness, transparency, proportionality of our investigations, adjudications and enforcement processes and decisions.

Our activity in numbers

Contacts

2016/17	471,000	
2017/18	**213,600**	▼ 54.6%

Enquiries

2016/17	437,000	
2017/18	**197,800**	▼ 54.7%

Number checks

2016/17	321,700	
2017/18	**154,600**	▼ 51.9%

Complaints

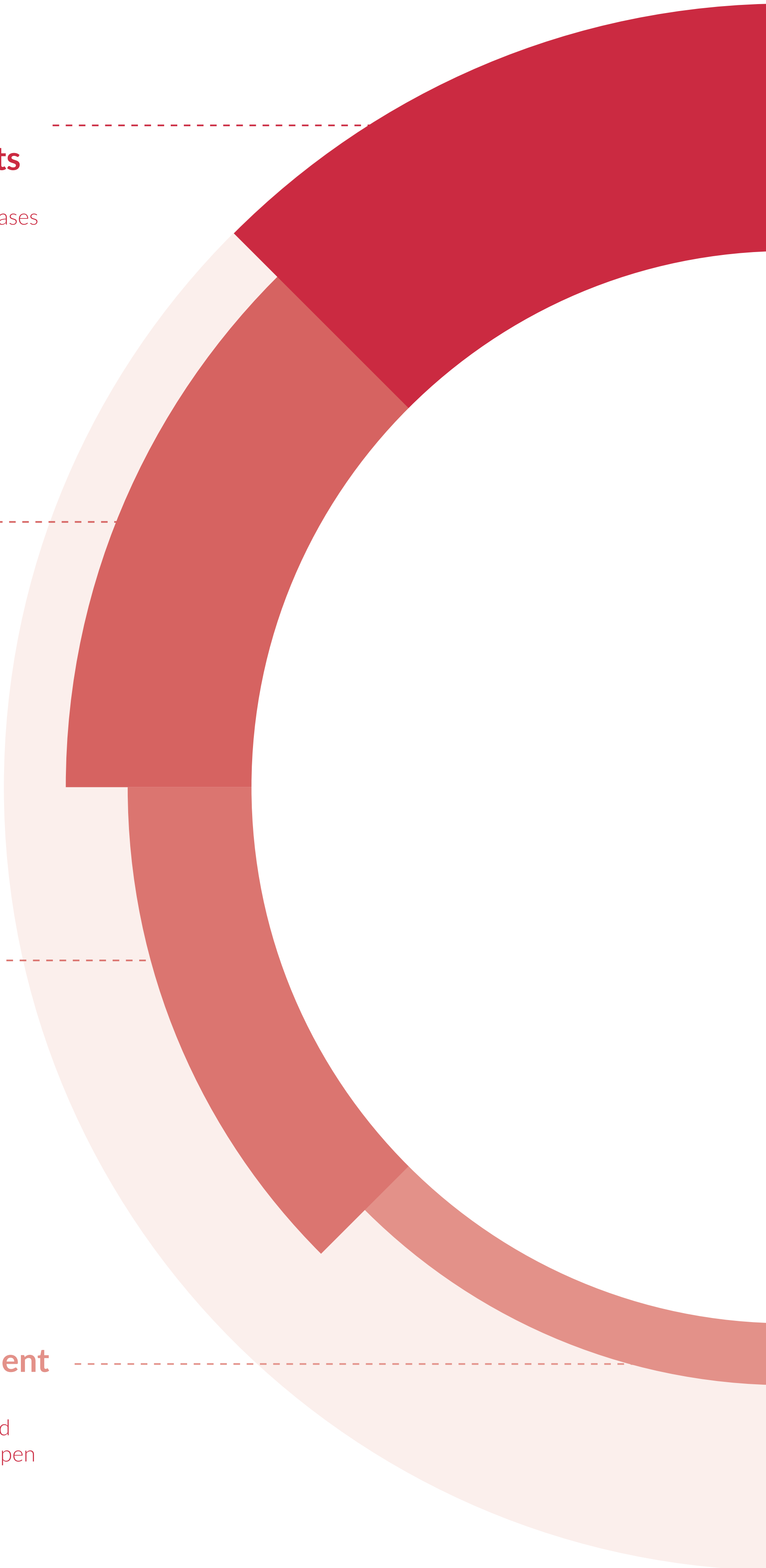
2016/17	33,600	
2017/18	**15,800**	▼ 52.9%

8,300 Assessed complaints
leading to 497 investigation cases

497 Investigation cases
346 cases closed
151 cases still open

83% Cases resolved informally & quickly
out of all 346 cases, 287 were resolved informally and quickly

133 Enforcement cases
59 cases closed
74 cases still open



Delivering a balanced approach to regulation

Regulation is about striking the right balance between robust enforcement of rules, and supporting a healthy and innovative market through appropriate, collaborative measures. It's also about judging how an issue is most effectively resolved. We pride ourselves on working to understand the market in depth, listening to the interests of various parties, and taking a right-touch approach with issues as they arise.

In 2017/18 we:

Acted on inappropriate placement of advertising

In previous years, we have worked with the industry as well as taking robust enforcement action to ensure providers' use of affiliate marketing was safe and compliant. More recently, sectors within the industry have moved towards direct-buy marketing, where providers increasingly purchase advertising space directly from companies like Google.

Through our automated ad-scanning capabilities, we identified a related increase in the number of promotions for phone-paid services on platforms such as YouTube. We were particularly concerned that some adverts were finding their way onto content, including YouTube videos, that were primarily for a younger audience.

Rather than resort to enforcement, we worked with Google and the phone-paid services industry to reduce the risk of adverts being misplaced. Since we started this programme of work, instances of phone-paid services being advertised in videos that are likely to be for a younger audience have more than halved. This has also not only reduced the instances of misplaced adverts but has also helped to reduce the number of people receiving unwanted charges.

> "Instances of misplaced adverts have more than **halved**"

We are now developing guidance on direct-buy marketing to give both industry and consumers the confidence that this form of marketing can be used safely. We plan to consult on this subject in the first half of the 2018/19 financial year.

Consulted on new Special conditions for society lotteries

A number of providers and charities approached us to explore the regulatory requirements that would be necessary to support the development of phone-payment as a mechanism for participating in society lotteries. Society lotteries are lotteries that are run by or on behalf of not-for-profit organisations, like charities and clubs. Traditionally such competitions were run by selling paper tickets, but providers and charities are now seeking to benefit from new ways of delivering these services.

Building on the success of the charity text donations sector, the industry is proposing to reserve a dedicated mobile shortcode range beginning 72xxx for participation in society lotteries. We are keen to support society lotteries through effective and appropriate regulation. That's why we proposed a single set of new Special conditions for these services that are intended to build confidence in the market, back compliant providers, and reduce any risk of consumer harm. The proposed Special conditions are also intended to deliver regulatory clarity by bringing together all the applicable elements of our regulation in one place.

We consulted on our proposals from February to April 2018. Having considered stakeholders' feedback, we aim to publish our response in July 2018 with the new regime to come into force in the autumn of 2018.

Engaged with industry

We are committed to open regulation based on collaborating with all our stakeholders. We regularly engage with the industry through:

- The industry forum. The industry forum is an essential component of our ongoing dialogue with phone-paid service providers. Bringing together more than 100 key figures from service providers, payment platforms, mobile networks, consultants and government, the forums are a highly effective vehicle to share insights, clarify expectations and build relationships.

- The Industry Liaison Panel (ILP) which is our formal mechanism for two-way communication with industry. Meetings are quarterly and chaired by Ann Cook, PSA Board member and Director of Interactive and Managing Director of ITL at ITV. The ILP comprises representatives of industry from across the value chain and trade associations.

- Regular workshops on specific topics, including investigations and enforcement, direct buy advertising and the Payment Services Directive 2. We intend to increase the number of workshops we hold in the 2018/19 financial year.

- Our programme of engagement with Level 1 providers. This rolling programme of engagement helps us keep abreast of emerging market opportunities and risks and understand how we can support growth and innovation in a safe and sustainable manner.

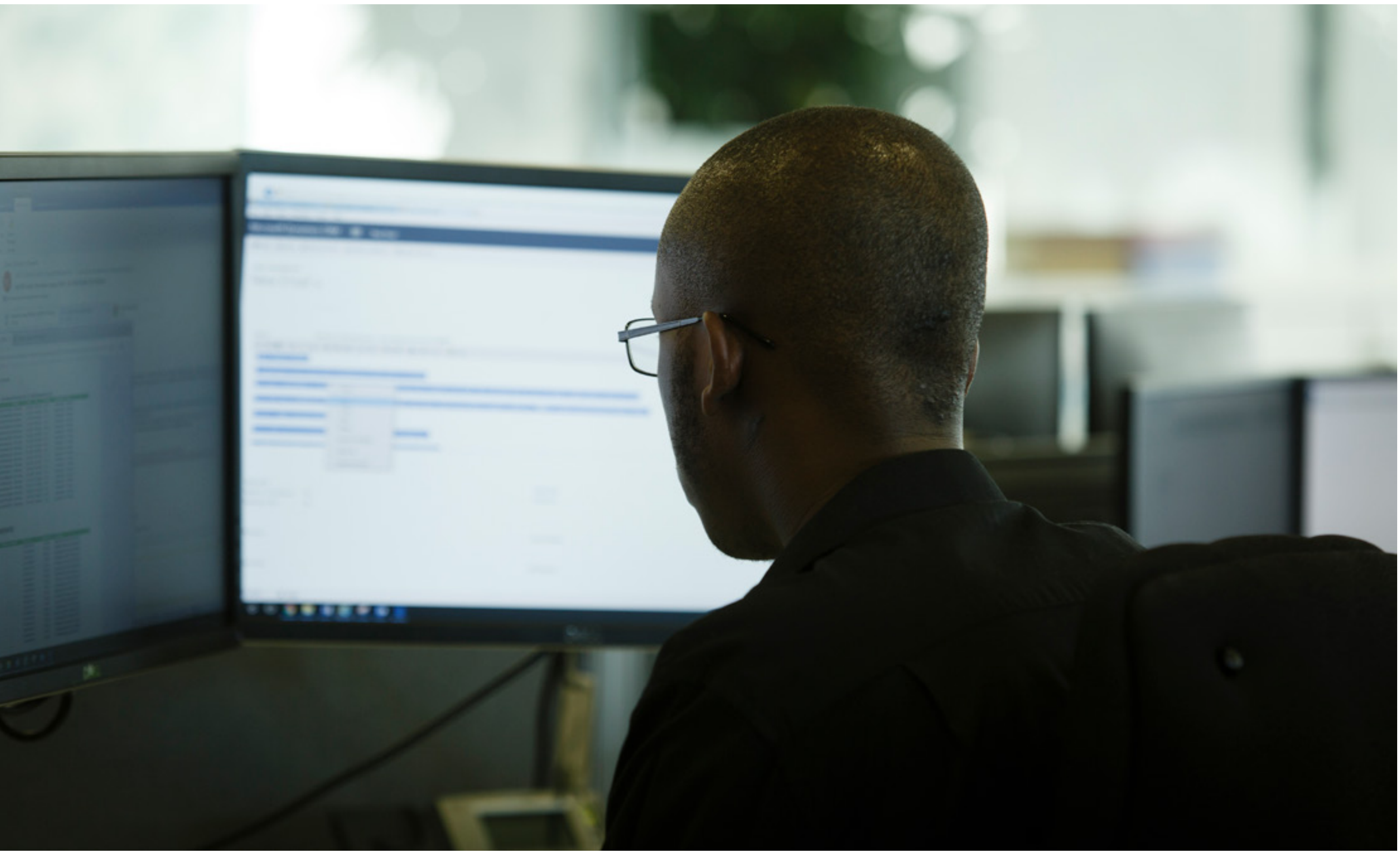
Conducted and published extensive market research

Every year, we undertake detailed research into the phone-paid service market. These findings are then published in our AMR, which is disseminated to key stakeholders to keep them informed. The review sheds light on market revenues, trends and service usage.

The AMR outlines a market in continued transition. Traditional fixed line services – the genesis of the phone-paid services market – are in continued decline, now making up around one quarter of the market by revenue. Mobile-based services continue to grow, with operator billed services leading the way. This year we took the opportunity to update our service categories so that the data we collect better supports our market analysis.

Piloted a new registration exemption

In August, we launched a six-month pilot scheme to make it easier for payment platform providers to bring compliant services into the market. The pilot allowed some Level 2 merchants to be exempt from PSA registration requirements, when operating exclusively through approved Level 1 providers. The intention of the pilot was to make it easier for Level 1s to 'on-board' clients that may want to use operator billing as a payment option. In other words, operator billing should be easier to implement, allowing the industry to attract new merchants who may not be familiar with the payment method without jeopardising a safe, compliant consumer experience. The approach builds on insights from our previous app store scheme.



Having assessed the success of this scheme against the stringent criteria we published at the outset, we have now made it permanent. It's another example of us adapting our rules to allow services that consumers enjoy to market. We estimate that nearly 30% of the market (by revenue) benefits from an exemption from the Code of some sort.

Up to

30%

of the market benefits from an exemption from the Code to encourage innovation in the market

Monitored the market

We proactively monitor the market to identify potential consumer issues early. That way we can address potential issues before they cause widespread harm. The team in Canary Wharf use a combination of automated tools and replicated consumer journeys to do this.

Back to contents

This year, the team monitored over 300,000 ads, more than 40,000 of which related to phone-paid services, leading to 250 detailed monitoring reports. Many of these monitoring reports were shared with industry to ensure issues are addressed at the earliest possible point, contribute to our analysis of market issues and support our casework.

Over
300,000
ads scanned

Produced
250
monitoring reports

Consulted on developments to our registration scheme

In 2017/18 we started a project to revise and update our registration requirements. Registration is an important component of our regulation, allowing us to gather detailed market information, assess service types proactively, give information to consumers to contact service providers easily, enable providers to undertake due diligence on those they contract with and generally promote a culture of compliance within the industry.

With this in mind, we consulted on changes to the registration scheme in March. The benefits of the proposed changes include increased consumer confidence, more intelligent monitoring, more effective market analysis, effective application of the Code and an expected reduced regulatory burden for service providers in the long-term. We aim to use the new information to be able to better inform consumers about the services they may have used, with the aim of increasing their understanding and confidence. We're continuing to consult and hold workshops on this in the new financial year to hear the industry's views and ensure everyone is on board with the new requirements.

Examined consent to charge platforms in partnership with mobile network operators

In 2016/17 and 2017/18 we enforced against a number of providers who were found to have breached our consent to charge requirements. As a result of this, we launched a review of our expectations around consent to charge to ensure they offered adequate levels of consumer protection. As mentioned earlier in this annual report, in 2017/18 we agreed to work with three of the four major Mobile Network Operators in commissioning a mobile security consultancy to investigate consent to charge standards and billing security in the industry. This is with a view to identifying where standards may need to improve.

Outcomes

- A more than 50% reduction in the number of phone-paid services adverts in inappropriate places
- Nearly 30% of the market benefits from a Code exemption, demonstrating a flexible approach to regulation and facilitating market growth
- Increased understanding of our market, the providers and services operating to inform our regulatory approach and priorities
- New regulatory regime facilitating phone payment for society lottery services on the horizon
- Early detection of potential consumer issues through effective monitoring before widespread harm can take hold.

Working in partnership with Government and other regulators

We aim to work with all our stakeholders and close collaboration with government, industry, consumer advocates and other regulatory authorities is a vital part of what we do. We co-ordinate and harmonize our efforts when there is regulatory overlap with other public bodies, and to influence policy-making and relevant legislation where it is necessary and appropriate for us to do so.

In 2017/18 we:

Collaborated with Ofcom
We are Ofcom's designated body responsible for regulating the phone-paid services market. We therefore worked closely with Ofcom over the past year to ensure our regulation provides adequate levels of consumer protection. This year we:

- Collaborated on a review of Directory Enquiry services. In May 2017, Ofcom and the PSA started concurrent reviews of the Directory Enquiry market. Our review has focussed on stopping poor practice in the market and was published in June 2018.
- Presented the case on ICSS to Ofcom. We have also worked with Ofcom on another persistent area of concern for consumers and affected companies. Many consumers trying to contact well-known organisations such as banks, HMRC or the Jobcentre use an online search to find a contact number and often end up using an ICSS without knowing that they are doing so. We have had complaints from a number of major organisations that consumers think that it is the organisation they were trying to reach that is responsible for charging them via the ICSS: there is clear consumer harm occurring.

Back to contents

We have strict rules in place for ICSS in the form of Special conditions although our regulation extends only to ICSS on the 09 and 087 number ranges. Evidence suggests that consumer harm is also prevalent on the 084 range, which is not within the PSA's remit. We have presented evidence to Ofcom about this problem – including the Nottingham University research. Ofcom is currently considering whether all ICSS should be subject to PSA regulation regardless of number range.

Worked closely with DCMS

The PSA is an Arm's Length Body (ALB) of the Department for Digital, Culture, Media and Sport (DCMS). We concluded a Framework Agreement with DCMS which describes our relationship with the Department and sets out our respective responsibilities in July 2017. DCMS' enhanced focus on the digital economy – reflected in the Department's change of name in July – has also led to closer working on policy development with DCMS telecoms policy colleagues.

Worked with the Treasury and the FCA on implementation of the revised Payment Services Directive

The revised EU Payment Services Directive (PSD2) was transposed into UK law through the Payments Services Regulations 2017 which came into force in January. These regulations clarified the exemption from payment regulation for the provision of certain phone-paid services. We worked with both the Financial Conduct Authority (FCA) and HM Treasury to ensure the exemption was understood by the industry, that the government understood the impact of the regulation on the industry and that regulation is applied sensibly. We have also been updating our notice on spending caps in light of the new legislation and will be consulted on the impact of the revised caps in June 2018.

Updated Memorandums of Understanding with other regulators

In the many areas in which our work overlaps with other regulators and public authorities, we formally delineate what our relationship is and how our rules can be enforced in a mutually complementary manner. We have Memorandums of Understanding (MOUs) with many organisations, including Ofcom, ICO (the Information Commissioner's Office), ASA (the Advertising Standards Authority) and the Gambling Commission, all of whom handle regulation which directly affects the operation and promotion of phone-paid services, including society lotteries, for which we are consulting on Special conditions. The MOUs are frameworks for co-operation, allowing us to share relevant information and manage any impact on the phone-paid services market.

Engaged with our international counterparts

We regularly engage with overseas regulators to investigate, and where necessary enforce rules against providers based in the EU but operating in the UK market. We also share insights and useful information with international counterparts, often through the framework of IARN (International Audiotex Regulators Network) to protect UK consumers.

Outcomes

- Increased regulatory clarity and alignment
- Co-ordinated approach to the regulation of Directory Enquiries and ICSS providing greater clarity and consistency
- Effective implementation of the Payment Services Directive 2 in the phone-paid services market.

Delivering high standards of organisational support

Our regulation is underpinned by our commitment to good governance, fit for purpose business systems, prudent financial management, sound legal advice and, of course, a highly motivated workforce. We take pride in our team in Canary Wharf; last year we were awarded Investors in People Silver – an accolade we have sought to build on this year.

In 2017/18 we:

Further reduced costs

Regulation should not be an excessive burden – financial or otherwise. As a not-for-profit company and a public service provider, we aim to deliver efficiency and value for money. This has been a particular focus for us over the last few years. We are also transparent; our budget is subject to public consultation, is approved by Ofcom every year and is subject to audit by the National Audit Office.

Our 2017/18 budget represented a 5% real terms cut on 2016/17, and a 16% real terms reduction since 2015/16. Despite this, we've been able to reduce the cost of regulation without compromising on standards. Indeed, our 2018/19 budget is another 4% real terms cut meaning we will have reduced our budget by 20% over three years.

We've achieved a
20%
reduction in our budget

Equivalent to nearly
£1,000,000
in real terms over three years

Delivered financial certainty

We've also committed to delivering financial certainty. In 2016/17 we announced that we intend to hold the maximum amount of our budget to be funded by industry levy at the current level until 2020/21. In other words, the amount funded by the levy will remain at a maximum of £1.875 million over that period. This should give industry funders greater certainty in their budget planning.

Ensured our approach to governance and risk management remain fit for purpose

The PSA's policy in relation to risk management is to develop a culture that ensures risks are fully identified, analysed and assessed. Our risk management systems are designed to be sufficiently robust and defensible to inform decision taking and business planning, which in turn shape corporate and operational strategies. This year the Board considered our approach to strategic risk management. Having undergone strategic risk management training, the PSA has identified areas to improve in the coming financial year.

Prepared for GDPR

Like many companies and public organisations in the last year, we have been busy ensuring that we are compliant with the incoming EU General Data Protection Regulation (GDPR) and new Data Protection Act 2018.

In 2017/18 we undertook detailed assessment of our data processing activities and executed a comprehensive plan to ensure we achieve compliance with the new data protection laws. We have also been working with industry to ensure they are able to comply with the new data protection laws whilst meeting their regulatory obligations during our formal and informal investigations.

Upgraded our systems

In 2017/18, we completed our Customer Relationship Management database upgrade. This has increased our data and reporting capabilities and enabled us to further automate our processes, leading to operational efficiencies. In June, we conducted penetration testing to ensure our business systems are robust and secure. Following the testing, we took a number of steps to improve our cyber security including software upgrades, real time threat detection and stronger authentication protocols.

Continued to invest in our people

In our previous annual report, we were proud to announce that we'd been awarded a silver Investors in People award. We've continued to honour the commitments that got us that award, and ensure we deliver on our published values and behaviours, with a programme of staff training, engagement, support and benefits.

Again, our key indicators suggest our staff are highly engaged with the work that they do. Our latest staff survey conducted in September suggested that 91% of staff can be described as engaged – a significant increase on 2015 when 64% of staff could be described as engaged. And that 95% of staff also say that they enjoy working at the PSA.

Benchmarked our rewards

We commissioned external Human Resources consultants to undertake a benchmarking project, evaluating how our reward package compares to other, similar organizations. They found that broadly we are offering what would be expected of an organisation of our size, function and type. This suggests we are balancing the need to attract talented and highly motivated people with the need to achieve value for money.

As part of the project, we reviewed all our job descriptions to ensure roles motivate and challenge staff while delivering what we need. This gives greater clarity to staff in what is expected and required, promoting effective performance management.

Outcomes

- Value for money through a further 5% real terms budget cut
- Financial certainty through our commitment to maintain the levy at £1.875 million or less
- Effective approach to governance and risk management
- Operational efficiencies and improved security as part of business systems upgrades
- Highly motivated and engaged team in Canary Wharf.

Governance & accountability

Our people

Board

The Board is accountable for the performance of the PSA and oversees the strategic direction of the organisation.

The Board consists of the Chair and four remunerated non-executive members and the Chief Executive of the PSA. Three of the directors have no connection with the phone-paid services industry whilst two of the directors are appointed based on their knowledge and interests in the industry.

The Chairman is responsible for ensuring the Board holds the organisation to account including directing, supporting and managing the Chief Executive and the PSA Executive.

To assist the Board in carrying out its duties, it has established two sub-committees: the Resources Committee and the Audit, Risk and Corporate Governance Committee.

David Edmonds CBE
Chairman

Kevin Brown
Board Member & Senior Independent Director

Ann Cook
Board Member

Meg Munn
Board Member

Steve Ricketts
Board Member

Jo Prowse
Chief Executive

Leadership Team

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

Jo Prowse
Chief Executive

Peter Barker
Director of Corporate Services & Operations

Ayo Omideyi
General Counsel

Simon Towler
Director of Policy & External Relations

Code Adjudication Panel

The Code Adjudication Panel (CAP) is responsible for the Phone-paid Services Authority's adjudicatory function.

The CAP came into force when we introduced our 14th Code of Practice in July 2016 and ensures that our adjudicatory process is transparent, fair and independent.

The CAP is made up of ten people. Four of the members are appointed for their legal qualifications and experience and six lay people with relevant experience as set out in the Code.

Three members are drawn from the CAP to form the Phone-paid Services Authority's Code Adjudication Tribunals (CAT). Each CAT consists of three people; a legally qualified chair and two lay members. CATs hear and reach decisions on cases against companies suspected of serious breaches of the Code of Practice.

The CAP's decision-making function and process is independent of the PSA.

Mohammed Khamisa QC
Chair

Linda Lee
Legally Qualified Member

Professor Ian Walden
Legally Qualified Member

Julian Weinberg
Legally Qualified Member

Andrew Ellam
Lay Member

Tony Moss
Lay Member

Dame Elizabeth Neville
DPE QPM DL, Lay Member

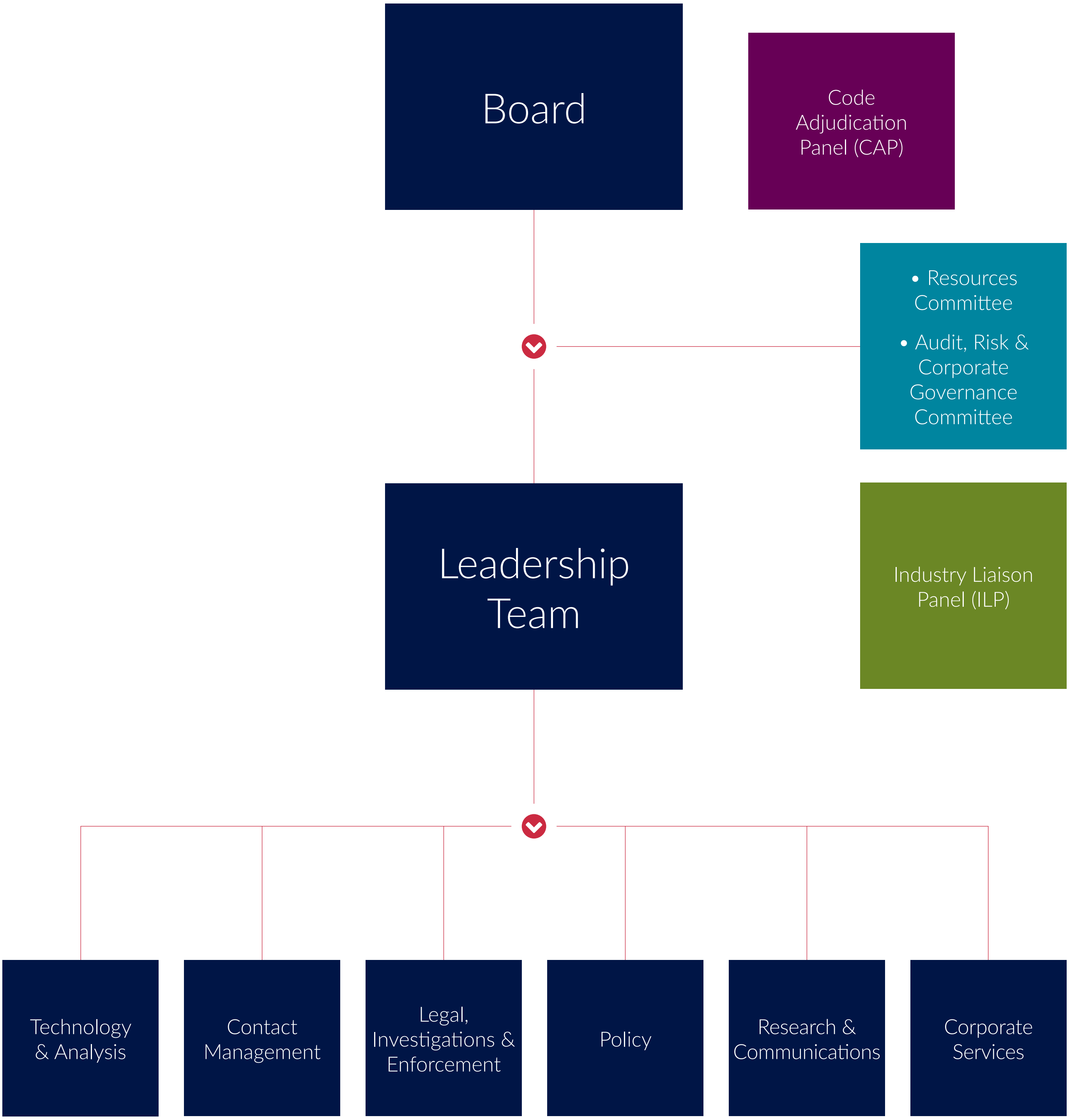
Elisabeth Ribbans
Lay Member

Peter Wrench
Lay Member

Martin Wrigley
Lay Member

Back to contents

PSA organisational structure



Accounts

Income & expenditure

Income	Notes	2018 £	2017 £
Levy on premium rate telephone services	1	1,852,903	3,111,147
Adjustment for accumulated fines (retained funds)	1	628,948	(3,169,876)
Administrative charges	1	149,845	290,602
Fines	1	3,800,000	5,240,000
Registration fees		212,964	241,073
Other income		450	850
Total turnover		6,645,110	5,713,796
Interest receivable		32,772	29,751
Total income		6,677,882	5,743,547

Notes

1. The company is non-profit making. A service provider levy is collected via the network operators based on their outpayments in order to cover the proposed expenditure in any year. Any difference between the amount collected and expenditure incurred is taken into account in setting the following years levy. The company also received fines and administration charges from services that are in breach of its code.

Expenditure

Expenditure	Notes	2018 £	2017 £
Staff and related costs	2	2,594,560	2,637,061
Policy, external relations and communications	3	144,336	165,236
Legal fees		64,856	81,545
IT system costs		296,662	371,040
Telecoms charges		59,008	70,985
Premises costs	4	437,474	419,706
Finance and governance	5	76,938	44,181
Overheads	6	69,843	77,699
Depreciation		100,146	110,317
Bad debts		2,827,505	1,759,828
Total expenditure		6,671,328	5,737,598
Profit before taxation		6,554	5,950
Corporation tax on interest		(6,554)	(5,950)
Profit after taxation		0	0

Balance sheet

Balance sheet	Notes	2018 £	2017 £
Fixed assets	7	334,483	418,615
Current assets			
Trade debtors	8	451,735	1,566,403
Other debtors		321,194	278,743
Cash at bank and in hand		6,878,552	6,439,300
Total current assets		7,651,481	8,284,446
Current liabilities	9	(5,426,283)	(6,143,380)
Provisions	10	(184,644)	(184,644)
Net assets		2,375,037	2,375,037
Capital and resources – retained surplus	11	(2,375,037)	(2,375,037)

2. Staff and related costs include staff remuneration, recruitment, training, and fees for the Board members and Code Adjudication Panel.
3. Policy costs include events, research, policy consultancy, and publication of the Annual Report & Code of Practice.
4. Premises costs include rent, rates, service charge, repairs and maintenance, electricity and cleaning.
5. Finance costs include bank charges, payroll bureau, insurance premiums and external audit fees.
6. Overheads includes postage, stationery, travel and subsistence, entertainment, and general office expenses.
7. Tangible fixed assets include fixtures and fittings, office furniture and equipment, computer equipment and registration database.
8. Trade debtors include amounts due from the network operators for the levy, and from service providers for fines and administration charges.
9. Current liabilities includes income received in advance, which represents the difference between total income and expenditure incurred, which is used to reduce the levy in future years.
10. Provisions reflect the fines that are in dispute and may not be recovered, and for dilapidations on office premises.
11. Creditors falling due after more than one year include a contingency fund and will be retained at this level for the foreseeable future.

Phone-paid Services Authority

The UK regulator for content, goods and services charged to a phone bill

020 7940 7474
psauthority.org.uk