PSA
Phone-paid Services Authority

Annual Report
2019/20

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PSA overview

Who we are

We are the UK regulator for content, goods and services charged to a phone bill. We act in the interests of consumers.

Phone-paid services are the goods and services that can be bought by charging the cost to a phone bill or pre-pay account. They include charity donations by text, music streaming, broadcast competitions, directory enquiries, voting on TV talent shows and in-app purchases. In law, phone-paid services are referred to as premium rate services (PRS).

We are a non-profit making company limited by guarantee. We carry out the day-to-day regulation of phone-paid services in the UK, primarily through our Code of Practice approved under the Communications Act 2003. Ofcom defines the scope of our regulatory remit and also approves our annual Business Plan and Budget to ensure we are sufficiently resourced to carry out our functions.

We are a designated public body and, as such, an arms-length body of the Department for Digital, Culture, Media and Sport (DCMS). We are audited by the National Audit Office.

Our strategic purpose

We build consumer trust in phone-paid services and ensure they are well-served through supporting a healthy market that is innovative and competitive. We do this by:

- establishing standards for the phone-paid services industry
- verifying and supervising organisations and services operating in the market
- gathering intelligence about the market and individual services
- engaging closely with all stakeholders
- enforcing our Code of Practice
- delivering organisational excellence.

David Edmonds CBE foreword

David Edmonds CBE
Chairman, PSA

Our financial year ended in March with the UK entering lockdown amidst the greatest public health crisis in living memory. Covid-19 has had a considerable impact on the lives of most, if not all, of us.

As most face-to-face interactions stopped overnight, UK adults spent more time online than ever. And more than 60% of our time online is through a smartphone - Ofcom estimates that the average adult spends nearly three hours a day surfing on their smartphone.

With consumers turning to their smartphone more and more, it is essential that they can trust purchases charged to their phone bill. We refocussed the purpose of the PSA in December with the fundamental message of building consumer trust in phone payment. We exist to serve consumers by setting the standards that the industry must adhere to and ensure that only legitimate players operate in the market.

I am pleased to report that the phone-paid services market has had a positive year both in terms of revenues and consumer experience. The market outperformed expectations by growing 2.4% this financial year, with broadcast competitions, games and entertainment performing well. This follows a strong previous year, which saw growth of 17%.

The market continues to make positive strides in delivering services that consumers want. Net Promoter Score – a measure of consumer satisfaction – is up nine points across the market. Some services led the way, including charity text donations and entertainment. Assessed complaints to us have also dropped from nearly 1,400 per month at the start of the financial year to less than 500 per month by the end.

It is clear that our approach of firm enforcement against bad practice, strict rules where necessary and flexibility where possible, is improving the consumer experience of phone payment and allowing good services to flourish. Poor, low-value services and non-compliance should not get in the way of good services coming to the market for consumers to enjoy. I am delighted that our Special conditions protecting consumers from poor practice in subscription services have greatly reduced consumer detriment without having an adverse impact on market revenues.

But we will not rest there. As the market continues to evolve, our regulatory framework must also adapt. We launched the most comprehensive review of our regulation in more than a decade this year to ensure that our regulation is fit for a mature market and meets the needs and expectations of consumers. It is our intention that our next Code of Practice will raise standards in the market, prevent harm, be simpler to implement and comply with and be underpinned by effective enforcement. We are consulting widely in developing this and I look forward to launching our new Code in 2021.

Finally, this year we said goodbye to Steve Ricketts from the Board and welcomed Mark Thomson, who was previously Director General at the UK Passports Office. My thanks to the Board, Jo and her team as well as the Code Adjudication Panel and Consumer Panel for all the work they have done throughout the year to further the interests of consumers.

Stay safe.

CEO report

Jo Prowse
Chief Executive, PSA

It's been an important and productive year for the PSA.

In December, we introduced our new strategic purpose. This replaces our previous vision and mission, by taking a more forward-looking approach that recognises that the phone-paid services market has changed substantially in recent years.

Our new strategic purpose sets out that, as a proactive regulator, we can't sit still or risk becoming out of step with the market. It signals our intention to do things a little differently, focusing on prevention rather than cure by moving away from outcomes towards raising market standards.

Most importantly, the new purpose keeps consumers at its heart, as we continue to exist to ensure consumers are well-served in the market.

This year we introduced more stringent regulation in areas of increased risk to consumers, namely subscription services and Information, Connection and/or Signposting Services (ICSS).

Our Special conditions for subscription services went live in November 2019. Our data and evidence showed that consumers were not always having a positive experience with subscription services, so our new, tighter regulation aims to reduce inadvertent sign-ups and to provide greater regulatory clarity and consistent standards. The major changes included that companies now need to provide a two-stage sign-up process, and that a receipt must be issued after every charge. Since we introduced these new rules, we've seen complaints fall steadily. In all, complaints to us have fallen by 60% since the new conditions were introduced.

Our Special conditions for ICSS were also introduced at the end of 2019, to protect consumers from inadvertently using a call-connection service when they thought they were calling the end organisation they were seeking. They seek to ensure that any ICSS is marketed accurately, clear about the costs involved and distinct in appearance from the organisation being sought by the consumer.

We have demonstrated this year that we will take firm enforcement action against companies that do not follow our regulation. This financial year, we published 18 adjudications of our Code Adjudication Tribunal, which issued fines totalling almost £3 million.

We've also continued this year to take a flexible approach to regulation. We're committed to ensuring our regulation doesn't get in the way of services that consumers want and enjoy, and we therefore worked with networks and providers on requests to be exempted from the Code if it was creating a barrier for them. This year, for example, we worked with Network operators to develop an exemption to enable them to offer Society Lottery services without strict adherence to our requirement that they withhold payment due to any provider for a period of 30 days. We continue to work with all stakeholders – from service providers, to government, to networks – to make sure our regulation supports a healthy and innovative market.

As always, our staff remain a personal priority for me, as does ensuring our fantastic people work in an inclusive environment that champions equality and diversity.

We are totally committed to achieving and respecting equality, diversity and inclusion in everything we do. Our gender pay gap is small: 4.70% mean and -0.12% median. And a third of our staff identify as being from a minority ethnic background. But we're aware that this representation does not spread sufficiently through all levels of our organisation and that there's more we can do as an employer.

This year we made an inclusive employer pledge which includes a review of our approach to recruitment and selection and more extensive training for our leaders and managers to ensure we promote and encourage greater diversity of thought.

We enter the new financial year in times of increased uncertainty, with the Covid-19 pandemic continuing to impact all of our lives. I couldn't be prouder of how PSA staff have adapted to a total overhaul in working arrangements, and in particularly challenging circumstances and at short notice. All of our core functions continue to be effective as we've moved to a remote working model, as have our Board of directors, our Code Adjudication Panel and our Consumer Panel. We'll continue to adapt and develop our approach to remote working in line with official government advice during 2020/21.

One of our most important priorities for the next financial year is the development of our new Code of Practice, Code 15.

This is the biggest review of our regulatory approach in a decade, and it's something we want to work with you very closely on to ensure we get it right. Our intention is to build a Code that is simpler and clearer for industry to comply with, and that builds public trust and confidence in the sector by driving up standards of conduct and boosting consumer protection. It's also key that our regulation is aligned to our new strategic purpose, and that our effectiveness and capability are maintained and enhanced.

We are currently talking to you to help develop our proposals, with our formal consultation document due to be published in 2021. In our next financial year, 2020/21, we look forward to hearing your thoughts on how we can best deliver a Code that keeps consumer protection at its heart while supporting innovative and valuable phone-paid services.

Delivering our strategic purpose

1) Establishing regulatory standards for the phone-paid services industry

We set standards to ensure that consumers who charge a purchase to their phone bill do so knowingly and willingly and receive good customer service. These standards are designed to ensure all consumers have a similar positive experience of phone-paid services, including consumers who may be considered vulnerable.

Our standards are clearly set out in our Code of Practice. They deliver the necessary technical and operational protections in the market and are aligned with consumer expectations, including those based on experiences with other payment mechanisms. We evolve these standards in response to industry best practice, advances in technology, risk, and consumer behaviour and expectations.

The Code standards are supported by guidance, free compliance advice and examples of best practice.

In 2019/20 we:

Introduced new Special conditions for subscription services

We have introduced new, tighter rules around subscription services – typically our biggest driver of complaints from consumers. We did this in response to clear evidence of poor consumer experience.

Our new rules are intended to raise standards, reduce consumer harm and build people's trust and confidence in the market. Introduced in November 2019 following a full consultation, the new Special conditions require consumers to go through a two-stage sign-up process, where the first requires either a PIN, Mobile Originating SMS, or account and password. Providers also need to be clearer to consumers that they're in a payment environment when they're signing up to a phone-paid subscription, and a receipt must be issued after every charge.

When developing these new Special conditions, we commissioned Jigsaw Research, a leading market research agency, to help us develop greater understanding of consumers' expectations around subscription services. The findings from this research include:

- consumers think phone-paid subscription services should use the norms established from other forms of mobile payments, as these are the cues they have come to expect.
- the way that consumers come across a service has an influence on their expectations and experiences – for example services 'pushed' on them via ads and banners are more likely to result in confusion.

The new Special conditions have had an instant impact. Since our Special conditions on subscription services were introduced, we've seen complaints to us fall sharply.

Assessed complaints about subscriptions averaged 1,100 per month in the year to October 2019, but fell to below 700 upon introduction of the new requirements in November and further to below 400 by the end of the financial year. Overall, assessed complaints about subscriptions in March 2020 were 60% lower than in October 2019.

The proportion of assessed complaints about subscriptions has also fallen. In the year up to June 2019, between 90-98% of all complaints coming to us were about subscriptions. At the end of the financial year they still account for around 77% of assessed complaints, but as a proportion of a much lower overall number. Reports from industry and consumer advocates tell a similar story of fewer complaints.

The new Special conditions have not come at the expense of the market, which grew by 2.4% this financial year. Subscriptions that meet consumer expectations continue to thrive. We'll continue to monitor the impact of the new regulations and expect to see complaints continue to fall.

Tightened our rules on ICSS

As well as new Special conditions on subscription services, we've also strengthened our rules around ICSS to stop consumers from being charged for expensive call-connection services that they didn't mean to use.

ICSS stands for Information, Connection and/or Signposting Service. These are premium rate services which provide – often expensive – telephone numbers to connect people to specific organisations. They can also provide information, advice and/or assistance relating to these specific organisations.

We've seen consumers call these third-party connection services by accident. Typically, a consumer will use an online search engine to find the customer service number of the organisation they're seeking, and then may inadvertently select and call a third party from the search results. ICSS phone numbers can be much more expensive to call than the end organisation's – sometimes in excess of £30 for a ten-minute phone call.

After consulting with stakeholders, Ofcom decided that from 16 January 2019 all ICSS would be subject to regulation by the PSA, regardless of the number range on which they operate – until then 084 ICSS were not subject to our regulation. Following Ofcom's decision to extend the scope of the PRS condition, we consulted on revised ICSS Special conditions. The revised Special conditions extended their reach to all number ranges and strengthened regulation by improving the information consumers see about these services so that it's much clearer to consumers they are a third-party service which may be more expensive than calling a company's number directly.

Assessed complaints to us about subscription services have fallen by

60%

since the new Special conditions were introduced on 1 November 2019

As of December, the new rules ensure that any ICSS must be:

- marketed accurately; any marketing must clearly describe the nature of the service and any identifier, including URLs, must not mislead the consumer into believing the ICSS website is associated with the organisation they are seeking
- clear about the costs involved, including those for onward connection service
- distinct in appearance from the organisation being sought by the consumer.

Since introducing the rules, we have seen a marked improvement in the consumer experience of ICSS on the 084 number range. We will continue to monitor the impact of these changes carefully to ensure they are having the intended effect.

Began the review of our Code of Practice

The phone-paid services market has changed dramatically in recent years, as have consumers' behaviour and expectations. Good regulation doesn't sit still – it's important that we adapt and evolve our approach to ensure we reflect the changing market.

Our new strategic purpose, introduced in December, made clear our intention to take a more proactive approach to regulation, to raise standards in the market and reduce consumer harm. A vital component of this new strategy is to review and develop a new Code of Practice, and this year we began this programme of work.

Our main aims of this review are to develop a new Code that:

- meets consumer expectations and builds public trust and confidence in the sector, by driving up standards of conduct and boosting consumer protection
- supports our shift in regulatory approach to prevent harm in the market before it emerges
- is easy for the industry to understand and comply with and helps support the development and growth of innovative services that provide value to consumers
- is supported by effective enforcement procedures.

This comprehensive review of our regulatory strategy was due: the last time we did it was over ten years ago, with Code 12, and during this time both the market and consumer use of digital services and consumer expectations have changed significantly. We are aiming to regulate more effectively by moving from an outcomes-based Code of Practice to a standards-based Code, clearly setting out for providers an expected level of service quality.

We published our Terms of Reference for the Code review in January 2020 and our Discussion Document in February. At the time of publication we are in a phase of stakeholder engagement – we will be engaging with industry and other stakeholders throughout the review and welcome all input we receive. Our intention is to consult on the draft new Code in 2021.

Strengthened our guidance for industry

We produce guidance to help providers understand what we expect them to do to stay compliant with our regulations. This year, we introduced two pieces of new or revised guidance:

Consent to charge: We put consumers at the heart of everything that we do – and expect providers of phone-paid services to do the same, including when charging consumers. In February 2020, we published revised guidance on consent to charge and platform security. This guidance has two key aims. Firstly, it is intended to make it clear to providers what they need to do to comply with our Code of Practice and obtain robust and informed consent to be charged from consumers and to be able to evidence that consent. Secondly, it sets out the types of technical and security measures that we expect platform providers to have in place, and the types of skills and experience that we would expect staff working in this area to have, to ensure that all platforms are secure and any risks are able to be identified, communicated and controlled.

This guidance is a fundamental component of our regulatory framework. Ensuring consumers are only charged with their consent will support a healthy market by growing consumer trust and confidence in phone-paid services – something that is of significant benefit to industry and consumers alike. Ensuring platforms are secure and that it is clear to providers what methods of consumer consent are robust and represent best practice will ensure high standards of security across the market.

The new guidance reflects best practice in this area and replaces previous guidance that had been in place for a number of years. Our new guidance incorporates recommendations made by an independent security expert, and we have committed to reviewing the technical standards set out within the guidance on an annual basis.

Retention of data: We've also updated our guidance on the retention of data, in response to several questions raised by industry about the introduction of GDPR. We consulted extensively with industry in the drafting of this guidance, which we introduced in September 2019.

This new guidance clarifies our expectations around data retention, particularly on the handling and retention of consumers' personal data and how long this data should be kept for. The guidance – which updates and expands on existing notices which were published following the introduction of GDPR – covers a broad range of data sets, including personal data. Headlines from our updated guidance include a continued expectation that providers should retain all relevant data for two years from the point at which it was first collected, and an expectation that in relation to providers' due diligence, risk assessment and control (DDRAC), relevant data should be retained for three years.

Gave almost 500 pieces of free compliance advice to providers

We give compliance advice to the phone-paid services industry to ensure they remain compliant with our regulation. This year, we handled a total of 485 pieces of compliance advice. This is comparable to the previous financial year, where we handled 474 pieces of advice. We continue to give compliance advice on a broad range of topics, and this year saw a number of requests about ICSS and subscription services.

Ensured our regulation doesn't get in the way unnecessarily

We don't want our regulation to get in the way of good services that consumer enjoy. That's why we consider exemption requests from providers who can demonstrate that a Code requirement is creating an unnecessary barrier to a service. With any request, we consider how a provider will meet the intended outcome of the Code by another means. This year, we:

- Developed an exemption for society lotteries:
  This financial year we worked with Network operators to develop an exemption to enable them to offer Society Lottery services in compliance with certain Gambling Commission requirements, and our own Code of Practice.

  The exemption means that Network operators can operate without strict adherence to our requirement that they withhold payment due to any provider for a period of 30 days after the use of the phone-paid service to which the payments relate.

  By providing this exemption, we've been able to support potential growth of a service type, in the interests of both consumers and providers. The exemption went live in June 2020 and is in use.

- Updated our registration exemption:
  We also updated our registration exemption which enables Level 2 merchants to operate, through qualifying Level 1 providers, without the need to register with us, to make the requirements of the exemption clearer to providers. Following successful pilot periods, we were able to offer the exemption on a permanent basis (subject to annual review) to two Level 1 providers.

Worked to clarify our expectations on due diligence, risk assessment and control (DDRAC)

DDRAC is essential for all businesses operating in the phone-paid services market. It ensures that providers have confidence that the parties they contract with are operating effectively and supports consumers to have trust in the market.

This year we began a review of our DDRAC guidance, after observing that some practices have not been up to the expected standard and to make sure our DDRAC expectations are clear and understood by all parties.

Through our review, we looked at our own experience of working with previous DDRAC guidance and sought early input from stakeholders, who broadly agreed that:

- DDRAC should take place both before a contract commences, and across the life of the service
- there should be a single point of accountability and sign-off for DDRAC within an organisation
- it is important that information collected is used to support a proper assessment of risk.

In light of the Covid-19 pandemic, we took the decision to incorporate this work into our review of our Code of Practice.

Reviewed our refunds expectations

We know that consumers' experiences of refunds and post-purchase care can be inconsistent across the phone-paid services market. This year, we embarked on a refunds workstream, supported by research and stakeholder engagement, to ensure consumers' experiences of seeking refunds in the market matched their expectations.

We were developing new guidance to support this workstream. We consulted on new proposals in January. However, due to the Covid-19 pandemic, we suspended this workstream. Our work in this area will be incorporated into our Code 15 programme.

Outcomes

- phone-paid subscriptions services meet consumer expectations and mirror other digital purchases
- reduced complaint levels
- consistent and strengthened consumer protection across all ICSS
- clarity for industry through updated guidance and nearly 500 pieces of compliance advice
- unnecessary barriers to growth and services removed for society lotteries and other services
- start of the development of our next regulatory framework.

2) Verifying and supervising organisations and services operating in the market

Consumers should be able to trust that they are dealing with genuine service providers. We require all organisations operating in the phone-paid services market to register comprehensive details about themselves and the services they provide. We support consumers to access this information easily, helping them to have sufficient details to be able to resolve any individual issues.

We require all parties in the phone-paid services industry to check the credentials and behaviour of who they work with, and to have systems in place to identify and deal quickly with issues affecting consumers. We work with networks and intermediaries to ensure they meet our requirements around due diligence, risk assessment and control. We do this by actively monitoring and regularly auditing for compliance with the Code.

In 2019/20 we:

Updated our industry registration requirements

Our Code of Practice makes clear that all providers must register with us before they provide any premium rate service. However, our registration requirements had not been updated since they'd been introduced in 2011. The phone-paid services market has evolved considerably since then, so in September 2019, following a period of system development and implementation workshops with industry, we updated our registration requirements. The reasons behind updating the registration requirements were to:

- increase consumers' confidence in phone-paid services by being able to easily look up all they need to know about the service they used
- run effective analysis of the market, enabling us to regulate effectively. To do that, timely, accurate and detailed market information is essential. For this purpose, we also reviewed the service type categories in our Annual Market Review and aligned them with the new service registration requirements
- support intelligent monitoring; ensuring the effective and efficient targeting of our monitoring resources through establishing a comprehensive database of services in the market
- support an efficient application of Code of Practice processes by enabling the timely and accurate application and enforcement of the Code
- support effective due diligence and the value chain in the consideration of their contractual relationships, and to minimise the participation in the market of non-compliant organisations and individuals.

Providers must now provide more comprehensive information to us at the registration stage, much of which will be made available to the public on our website through our Service checker.

The new registration system helps:

- industry, by supporting and encouraging high standards of due diligence and compliance from the outset. A working group of industry users has been helpful in feeding back on system usability and recommending a road map for system development.
- consumers, who can now find out more accurate and comprehensive information when they use the Service checker to search for a number or other information shown on their phone bill, including what the service is about, how much it costs, how they're being charged and how to contact the provider. This will in turn increase their confidence in phone-paid services.

Upgraded our Service checker

The Service checker is our consumer self-help tool. It allows consumers to query a number on their bill that they do not recognise or understand, providing them with service and customer care information. Each year, Service checker is used nearly a quarter of a million times.

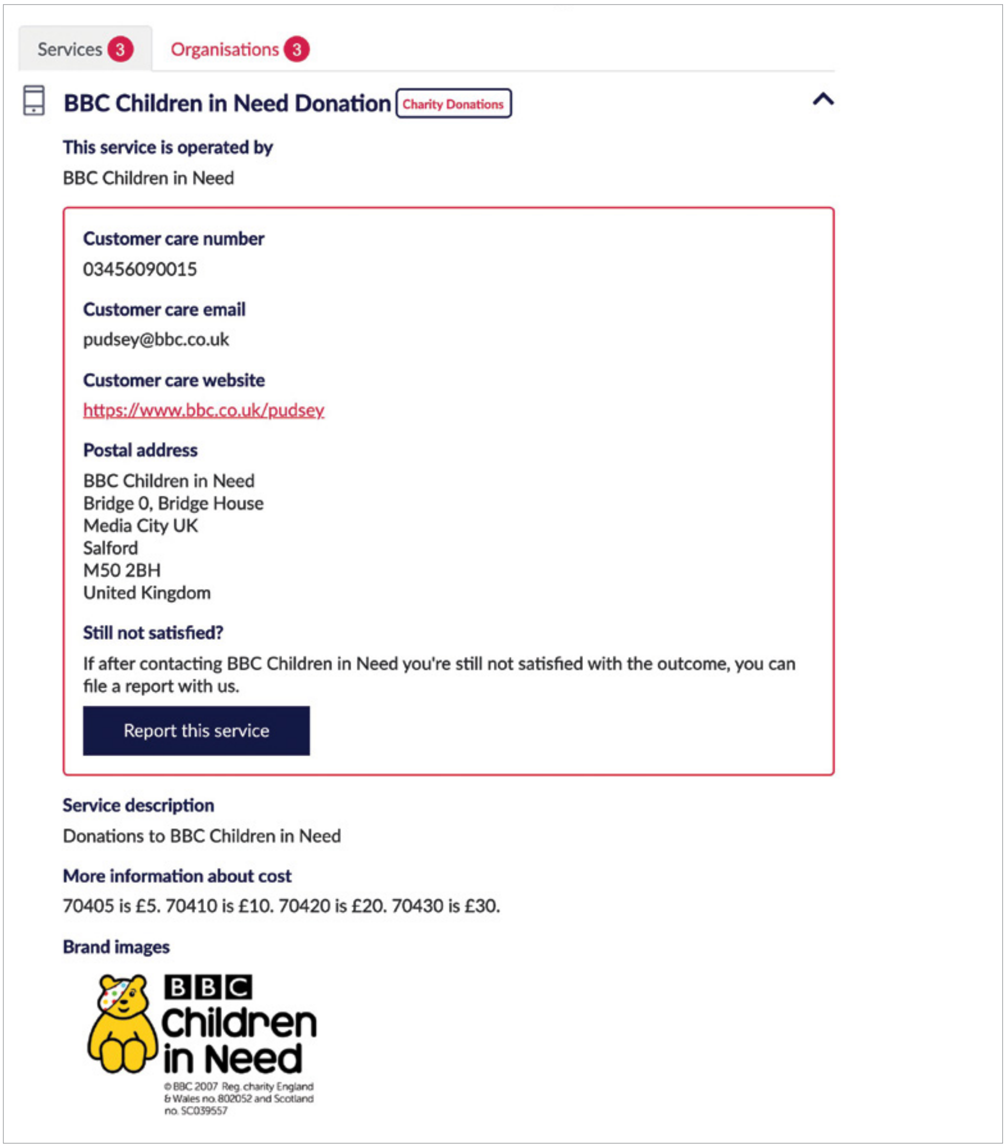
Following the update to our registration requirements, we upgraded the Service checker and its functionality to provide more information to users. Consumers can now access comprehensive, timely and accurate information on the service they used, such as brand name, billing and cost information, service description and service type, which makes it easier for them to self-service through a simple, easy to use, online search.

More specifically, these new features were added to the improved Service checker:

- core service information
- branding
- service type and payment
- consumer bill details
- service promotion
- service value chain

Outcomes

- accurate and comprehensive registration data from all providers
- better support for providers' due diligence processes
- upgraded, easier to use self-help tools that provide support to users of phone-paid services.



The BBC Children in Need service features the new information for consumers, such as brand logo, service description and cost.

3) Gathering intelligence about consumers, the market and individual services

The phone-paid services market is constantly evolving, growing and innovating. To ensure our regulation remains fit for purpose and reflects the changes happening in the market, it's important that we're always broadening our understanding of the market, including the behaviour and expectations of consumers operating within it.

We invest in research and expert monitoring capabilities to improve our understanding of market trends and consumer experience, using this insight to inform and enforce the standards we set for industry.

We continually receive and assess information about individual services, including complaints from consumers, and we engage directly with consumers to understand the issues they are raising. We actively monitor the wider market to identify potential consumer harm, address issues early and share information. We undertake detailed monitoring of individual services, and we ask service providers for further information when necessary.

In 2019/20 we:

Broadened our understanding of the market by commissioning our Annual Market Review

In a market that's always changing and innovating, it's crucial we continue to gather intelligence about consumer behaviours and expectations, individual services and the market more generally. This helps inform our approach to regulation, to ensure we're providing the best possible outcomes for consumers.

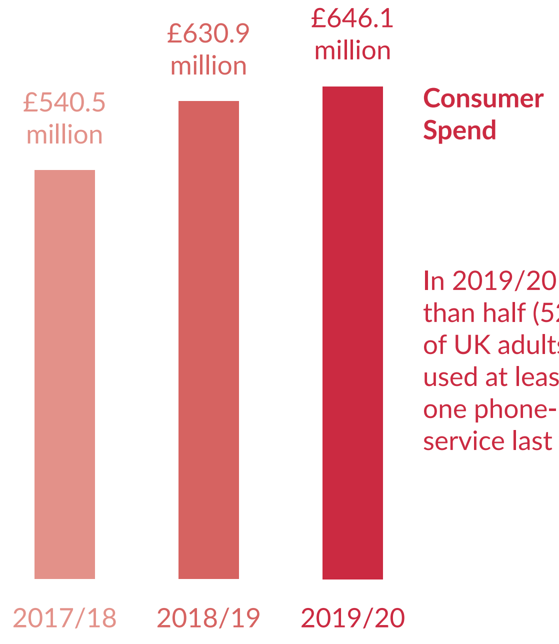
In 2019/20, we worked with global consulting and research firm Analysys Mason to commission a market review, which provides an invaluable, detailed view of the market and its near-term prospects, as well as consumers' experiences and perceptions of specific service types.

Our Annual Market Review covering 2019/20 showed that the phone-paid services market outperformed expectations, growing for a consecutive year and this time by 2.4%. The value of the market therefore currently stands at £646.1 million.

This growth is largely because of an increase in spend on services using premium SMS messages, most significantly because of consumers' engagement with TV and radio. Consumers spent a total of £126.6 million on TV and radio services this year, primarily on entering competitions – an increase of almost half on the previous year. Other areas that saw an increase in spend this year include games and entertainment.

The market looks set to continue to grow. Our review forecasts that phone-paid services will grow slightly in 2020/21, consolidate the year after and then grow to £667.5 million in 2022/23.

Also positive is our Annual Market Review's findings that consumer experience shows signs of improvement. Overall the Net Promoter Score (NPS) – which is used to measure customers' willingness to recommend particular services – for the phone-paid services industry significantly improved from -26 last year to -17 this year. Some services, such as charity donations and entertainment, scored positively. In fact, the NPS for every category improved this year, which shows that while there's still room for improvement, things are moving in the right direction.



In 2019/20 more than half (52%) of UK adults used at least one phone-paid service last year.

Commissioned research to broaden our understanding of how consumers obtain refunds in the market

In mid-2019, we worked with market research agency Futuresight on research into refunds in the phone-paid services market. This research was commissioned to help us understand consumers' expectations and experiences and how these compared to those of consumers seeking refunds for other forms of digital payment.

Findings from the research – which was conducted using a mixture of quantitative and qualitative methods – include that:

- there are marked differences between consumers using phone-paid services and non-phone-paid services in terms of their reasons for seeking a refund
- when a charge is known and expected, phone-paid users' expectations are broadly similar to their non-phone-paid counterparts', but when a charge is unknown and unexpected, phone-paid users' expectations are very different
- expectations are lower among phone-paid users who have charged something to their phone bill unknowingly, and this was particularly the case with subscription services
- many phone-paid service users considered that there were high barriers to obtaining their refund, and that considerable effort and determination was required for them to succeed
- when asked about their method of refund preference, the research found that free choice was important for almost half of phone-paid users, and that just over a third would prefer it credited back using the same payment method.

These findings were presented to our Consumer Panel members in June 2019, who provided their own advice and input. This work was one of the pieces of evidence that informed our development of new guidance on refunds. We consulted on draft guidance at the end of 2019. In light of the Covid-19 pandemic we took the decision to incorporate this work, together with the Futuresight research, into the development of our new Code of Practice.

Handled thousands of consumer complaints and enquiries

One of the ways we monitor and gather valuable market intelligence is by communicating with consumers directly.

This year we received 285,100 contacts from consumers, a decrease of 12,000 or 4% from last year's 297,100.

97% of our contacts were handled via automatic processes, primarily the Service Checker tool on our website.

We also handled a total of 13,900 complaints from consumers. Like total contacts, this number has also fallen - by almost a third from 20,000 last year. While our contact centre agents continue to speak to consumers on a daily basis, more complaints were handled via our new website, with 82% being handled in 2019/20 compared with 71% the year before.

Total complaints to us have fallen during the year too, from around 1,800 per month at the start of the financial year to less than 700 per month by the end. We significantly tightened up our regulation in key areas - subscription services and ICSS - and these falling complaint numbers demonstrate that our actions are having a positive impact for consumers.

As well as this significant decrease in consumer complaints, other indicators suggest consumer satisfaction with phone-paid services is moving in the right direction. Our Annual Market Review notes an increase in consumer satisfaction, with the market's overall NPS moving from -26 last year to -17.

Total complaints down 31% compared to previous financial year

Proactively monitored the phone-paid services market

As well as dealing with thousands of complaints from concerned consumers, we proactively gather intelligence about the market and individual services. We use monitoring technology to scan promotions, recreate consumer journeys and identify areas of potential non-compliance.

During 2019/20 we continued our investment in monitoring automation and trailed through and recorded thousands of adverts through Google AdWords, YouTube, Google and Bing search.

Through automated monitoring of the phone-paid services market we gathered intelligence on:

- the prevalence of ICSS campaigns and worked with Google to enforce their terms and conditions for these services
- the prevalence of phone-paid advertising in children's videos on YouTube and sustained the gains made in collaboration with industry in 2018/19
- compliance with our new Special conditions on subscription services.

In addition to automated monitoring we also manually documented the purchasing experience of phone-paid services using forensic tools to capture data flows. During 2019/20 we reorganised the monitoring team so that they became integrated with our consumer-facing evidence-gathering function. This now ensures that our market intelligence function is informed by both consumer evidence and the direct experience of the team and so is capable of offering unique insights.

Further embedded our Consumer Panel

We piloted a Consumer Panel in 2018 to ensure the consumer perspective is at the heart of everything we do. This financial year we confirmed the establishment of the panel following a successful pilot period; 2019/20 was the first full year of the Consumer Panel in operation. This year, the panel provided informed challenge on a variety of issues that directly influenced our policy, particularly on subscriptions, ICSS and refunds. The panel also helped us to develop a new consumer engagement plan for 2020/21 and provided input into the early development of Code 15.

Consumer Panel report

The Consumer Panel was introduced to provide advice and challenge to the PSA on all elements of its work of interest to consumers. Panellists have a strong sense of duty to ensure the consumer voice is heard – and particularly that the most vulnerable consumers are being considered appropriately through regulation and the work of the PSA.

This year the panel has provided comment and input into a wide range of topics including the subscriptions review, refunds and proposed Special conditions for ICSS. We have also reviewed the PSA website and suggested changes to the language and layout, that we believe will have a positive effect on the consumer journey and the way consumers interact and understand the information that is available.

Several topics have been identified by the panel as requiring specific focus and over the course of 2019/2020 we have highlighted these to the PSA. As a result, the panel was able to give early input into the shaping of the PSA's work on consumer vulnerability and likewise on consumer education. Consumer education has been a recurring theme at our meetings. We are dedicated to working with the PSA to help make sure consumers have the information they need, at the right time, to make well-informed decisions relating to phone-paid services and that when things go wrong they know their rights and who to contact for help. We are keen that the PSA builds partnerships to support its consumer education work and utilises technology to gain wider reach.

Panellists have wide-ranging personal and professional experience of both phone-paid services and of working with and on behalf of consumers. We are all committed to raising the voice of consumers and providing our advice and challenge to the PSA on all aspects of its work. During 2020/2021 we will continue to highlight issues that are of significance to and have an impact on consumers and look to the PSA to respond appropriately. We will continue to provide input into the development of Code 15 on all elements that have a direct or indirect impact on consumers and their interactions with the phone-paid services market. Our desire is for Code 15 to be a catalyst for raising standards and raising consumer confidence in the phone-paid services market, enabling the phone-paid market to innovate and thrive in ways that are beneficial to consumers, and to protect consumers from harm.

I would like to take this opportunity to thank panellists for all their thoughtful contributions and their commitment to ensuring that consumers' interests are at the heart of everything the PSA does.

Rhian Johns
Chair, PSA Consumer Panel

Outcomes

- enhanced market and user data and medium-term forecasting through our Annual Market Review, which shows market growth and an improving consumer experience
- better understanding of consumers' experiences and expectations of seeking refunds in the phone-paid services market
- enhanced monitoring and intelligence capability through our integrated monitoring and contact centre functions ensure our market analysis and understanding is market leading
- significant reductions in both consumer contacts and complaints throughout the year
- consumer views are front and centre through our Consumer Panel.

4) Engaging closely with all stakeholders

To ensure our regulatory approach is fit for purpose and as effective as it can be, we engage with a range of stakeholders to facilitate our approach. These include consumers, industry, government and other regulators.

We support industry to understand what our regulatory approach means for them in practice. This support is driven by our desire for consumers to be able to access services that they want, in a market that competes on price, product innovation, quality and customer service. We work to identify and remedy any instances where our approach may unnecessarily hinder consumers who knowingly and willingly want to charge a purchase to their phone bill from doing so. We promote consumer choice and communicate with consumers to improve understanding and awareness of phone payment, and the various ways consumers that can charge content, goods or services to their phone bill. And we work with DCMS, Ofcom and other regulators to ensure that consumer interests are best served through a co-ordinated approach to regulation.

In 2019/20 we:

Hosted stakeholder events

We work collaboratively with industry to ensure our regulation meets its objectives. Although we were unable to hold our annual forum due to coronavirus, we hosted a number of workshops to support our policy development including:

Subscriptions review implementation workshop: In 2019, we developed and implemented regulatory changes for subscription services. We wanted to ensure that the changes we made would raise standards in the market to meet consumer expectations, deliver a good consumer experience and support growth. As part of our consultation process, we held a number of workshops with industry stakeholders to seek their views and input. These workshops were well-attended across industry, and a range of views were expressed that we were able to consider in developing our final proposals.

Following the consultation period for the proposed changes, we also held two implementation workshops – one for the industry generally, and a targeted one for the charity sector. These workshops provided an opportunity for industry members to ask any practical questions about the implementation of the new requirements, to ensure they were able to comply. These workshops supported a successful implementation process.

Refunds workshop: We hosted a cross-industry workshop in support of our work on improving the consumer experience of refunds. We used these workshops to gain a detailed understanding of current refund capabilities in the market and to present an overview of research findings and our initial policy thinking. These insights were initially used to help us develop our draft guidance to industry on refunds and will now be incorporated into our Code 15 work.

DDRAC workshops with Network operators and Level 1 providers: Effective due diligence is a priority for us. We hosted two workshops to discuss experiences of effective due diligence in the market and where improvements may be necessary.

We had intended to publish updated due diligence, risk assessment and control guidance in 2020. Due to a reprioritisation of work in light of Covid-19, the detailed and helpful feedback provided is now being taken forward to inform our work developing our next Code of Practice, Code 15. Market entry and setting clear and effective requirements and expectations around due diligence, risk assessment and control are key areas to be considered in this work.

Consent to charge: In early 2020, we published updated guidance on consent to charge and platform security to ensure that all Level 1 provider platforms are operated to a high standard. Following an extensive cross-industry project and consultation, we held a workshop as part of the consultation process to obtain input and insights from industry on the draft guidance being consulted on. Areas discussed included:

- expectations around staffing and training
- the technical standards set out in the draft guidance
- the implementation period for the guidance once finalised.

Industry forum: Our flagship stakeholder event is our annual Industry Forum, in March. Unfortunately, due to the escalating Covid-19 pandemic, we were unable to hold the face-to-face event as planned, but in its place hosted five online webinars on Code 15 in April 2020. These webinars enabled industry members and other stakeholders to share their views on our Code 15 project through a series of facilitated discussions.

Introduced a new approach to stakeholder engagement

We introduced a new approach to stakeholder management with some of the largest industry stakeholders in the market.

The relationship with the top 20 stakeholders by revenue is now being managed by a dedicated person within the PSA. Through this change of approach, our intention is to ensure intelligence, market trends and consumer risk are identified and shared in a systematic way.

Since it was introduced in Quarter 4, the new approach has already ensured that emerging areas of consumer risk have been shared and mitigated, barriers to good growth have been addressed collaboratively, industry have clear points of access and support, and our market intelligence has been improved.

Engaged with the press to share our advice with consumers

In 2019/20 we continued to engage with the media, to proactively raise awareness of the phone-paid services market, to keep the public informed about our work as a transparent and proactive regulator, and to share our consumer advice to help people avoid common pitfalls in the market.

This year, we secured over 1,200 pieces of news coverage. Most of these, about three quarters, were in print, where we've received coverage in national newspapers, such as Daily Mirror, Daily Mail, The Sun and The Guardian, and key regional papers including The Scotsman, Liverpool Echo, Yorkshire Post and Eastern Daily Press. The combined reach of these articles is into the millions, which means many consumers have read about our consumer advice, our effective enforcement action and our approach to regulation which puts consumers at its heart.

Alongside our print media, we have been mentioned in a number of broadcast media outlets, including BBC Radio 4 and LBC. In October this year we appeared on BBC1's Rip Off Britain, to inform consumers about the new subscription services Special conditions that were shortly to be introduced to improve the consumer experience of phone-paid subscriptions. This was a valuable opportunity for us to demonstrate to consumers that we've taken a range of actions to address the harm that some subscription services cause, and that the new rules that were about to come into effect were designed to stop this harm.

We also continue to engage with trade publications, such as Telecompaper, Telemedia Online and Mobile News, to keep the phone-paid services and wider telecoms industry abreast of key developments in our regulation, research and enforcement action.

Outcomes

- effective regulatory intervention built on extensive engagement with stakeholders
- new approach to stakeholder management resulting in earlier identification of consumer risk and barriers to good growth
- wide communication of key consumer advice through print and broadcast media, both national and local.

5) Enforcing our Code of Practice

Our Code of Practice is underpinned by strong enforcement powers and processes, which enable us to investigate apparent Code breaches and enforce in the most efficient and effective way possible. We aim to eliminate sharp practices, negligent behaviour and the deliberate use of phone payment as a mechanic to exploit consumers.

We ensure we are fair and proportionate, with enforcement delivered through the most appropriate means. We will always be transparent in our decision-making, and our approach to investigations and sanctioning, including fines and ordering consumer redress, is detailed in the Supporting Procedures to the Code of Practice. Where our remit and sanctions are unable to wholly or partially hold to account those providers causing consumer harm, we will refer them to the relevant enforcement authorities as appropriate.

In 2019/20, we:

Undertook fair and proportionate enforcement action to protect consumers

This year, we worked on 377 investigations, 225 of which were informal and 152 of which were subject to formal enforcement cases. The cases that went to Tribunal included cases involving the most serious breaches of the Code and resulted in Tribunals issuing fines totalling almost £3 million

Case studies

Veoo Ltd: This year we undertook a landmark enforcement case against the Level 1 provider Veoo Ltd (Veoo).

The case was brought because Veoo appeared to have breached its due diligence, risk assessment and control (DDRAC) obligations. DDRAC is essential for all businesses operating in the phone-paid services market. It ensures that providers have confidence that the parties they contract with are operating effectively and supports consumers to have trust in the market. DRRAC is an important focus for us, and this significant case sets an important precedent for the market: companies which fail to take their DDRAC responsibilities seriously will face the consequences.

The Tribunal considered the case by way of an oral hearing, in which formal submissions were made by both sides. The Tribunal found that Veoo had committed eight very serious breaches of the required DDRAC standards and had committed three further breaches by submitting false or misleading information to us.

This case resulted in a fine of £600,000 and Veoo being banned from involvement in the market for two years.

MobBill (UK) Ltd: We also took enforcement action this year against MobBill (UK) Ltd (MobBill), which like Veoo was a Level 1 provider that failed to meet its due diligence obligations.

We fined MobBill £400,000 after the Tribunal found that it didn't conduct thorough DDRAC checks on a Level 2 provider that delivered a single click £4.50-a-week subscription gaming service to consumers. As part of this breach, MobBill failed to take sufficient steps to identify, assess and control the risks of inadvertent subscriptions through a low friction flow. The Network operator received 4,712 complaints about the service, and we received 281 complaints.

The second and third breaches concerned the provision of false or misleading information, namely about MobBill's revenue and how many people had complained about the service.

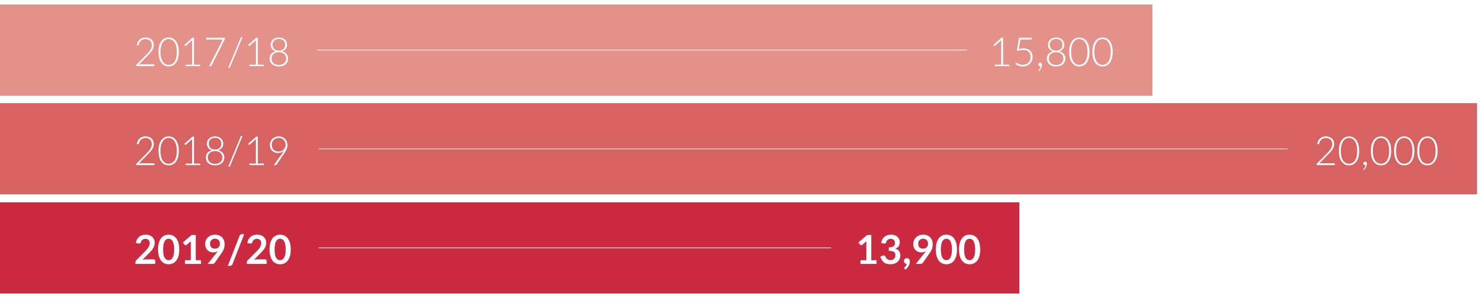
These two adjudications, and the significant sanctions imposed, clearly demonstrate that we're taking providers' DDRAC responsibilities seriously and that we will take enforcement action against companies that do not do the same.

Net Real Solutions SL: Net Real Solutions SL (Net Real Solutions) was fined £200,000 after it didn't secure consumers' proper consent to be charged.

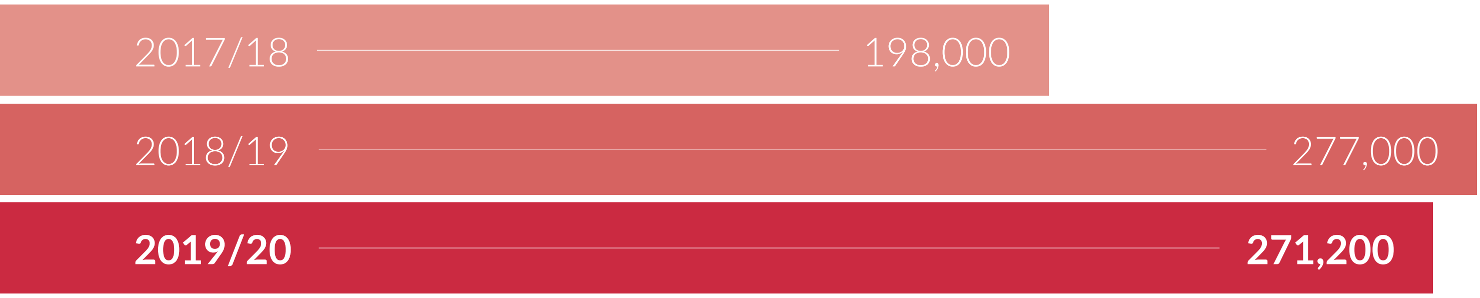
Consumer consent is a key part of our Code of Practice, and is an area we've recently introduced revised guidance to industry on to make absolutely clear to providers what they need to do to obtain robust and informed consent from consumers before they are charged.

Our activity in numbers

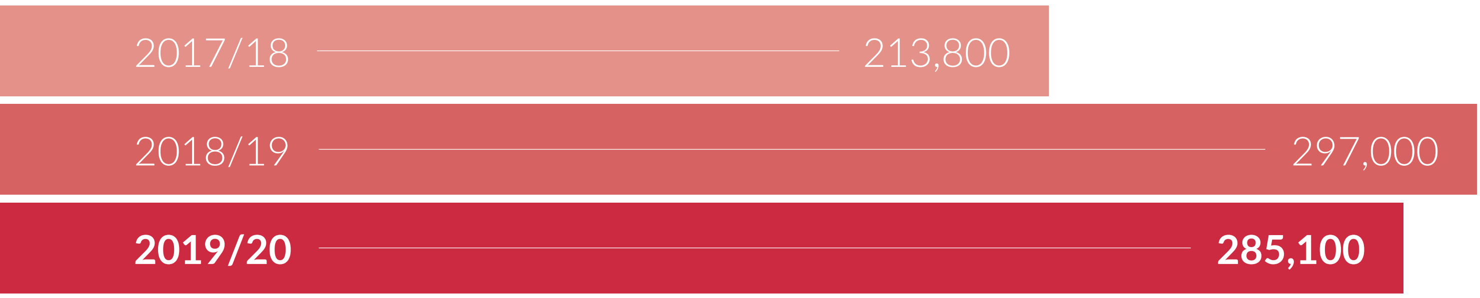
Total Complaints



Enquiries (incl. number checks)



Total Contacts



We will take swift enforcement action against providers who do not obtain proper consumer consent, as this case demonstrates: Net Real Solutions charged consumers £4.50-a-week for access to games, videos, apps and phone wallpapers without getting robust and informed consumer consent to be charged. The company's services were promoted via third-party affiliates which were found to have used content locking and malware to sign up consumers. According to the company that provided their payment platform, over 33,000 consumers were found to have been signed up using malware. We received over 700 complaints about this service.

After upholding two breaches of the Code of Practice, the Tribunal levied a £200,000 fine against Net Real Solutions. This provider worked closely with us to ensure all sanctions were complied with, including paying the £200,000 fine and issuing affected consumers with refunds.

Established new case prioritisation principles

To help us prioritise this enforcement action, as of July 2019 we established a case prioritisation policy and principles. These principles are intended to ensure we deliver good value for money and the best outcomes for consumers, by focusing our enforcement cases on the services where we can have the most impact.

This prioritisation framework is outcomes-focussed and aims to ensure that our resources and approach is targeted, and that we pursue all cases which satisfy the criteria for investigation and allocation and give them all sufficient priority. Our cases are prioritised under the following principles: *impact*, and *strategic considerations/ enforcement approach* as determined at the relevant time, balanced against the *risks* involved, and the *resources* required.

6) Delivering organisational excellence

We are absolutely committed to acting in a transparent, accountable, proportionate, consistent and targeted manner in everything we do. We uphold high standards in our governance, legal, finance, human resources, information, and customer service functions.

In 2019/20 we:

Continued to deliver value for money

We manage our finances closely to ensure that every pound is effectively and efficiently spent, and since 2015/16 we have delivered over £1 million in real-terms budget savings while continuing to achieve our regulatory remit.

We have also carefully managed the funding call we make on industry and have used accumulated fines to be able to hold the overall amount of levy funding required to a consistent £1.8 million for the third year running. We know that this funding stability has been highly valued by our network funders at a time of significant change in the phone-paid services market.

Owing to the ongoing coronavirus pandemic, our annual audit by the NAO had been delayed. We will be publishing our financial statements for 2019/20 in November, following their laying before Parliament. We are therefore unable to include figures in this Annual Report.

Made an Inclusive Culture Pledge

Our people are the PSA. We take our responsibilities towards our people very seriously, and last year our efforts were acknowledged when we maintained our Silver Investors in People accreditation, despite the framework that we were assessed against becoming more challenging.

But we recognise that there is more that we can do to improve and build an even more inclusive and supportive culture for our staff. We have launched a programme of work to improve equality, diversity and inclusivity at the PSA, and know that there are clear benefits to this for both our employees and the organisation.

Last year we carried out an audit of our current policies and processes, and arranged training for all of our staff and Board. This year, we built on this work by making a pledge of two areas which we will progress to make our culture more inclusive.

We pledge to build an inclusive culture by:

- carrying out training for our leaders and managers to ensure that we promote and encourage greater diversity of thought, input and voices at all our meetings, engagement with others, and in all our work; and
- reviewing our approach to recruitment and selection to ensure we reach and engage with a richly diverse mix of candidates.

We have published our pledge on our website.

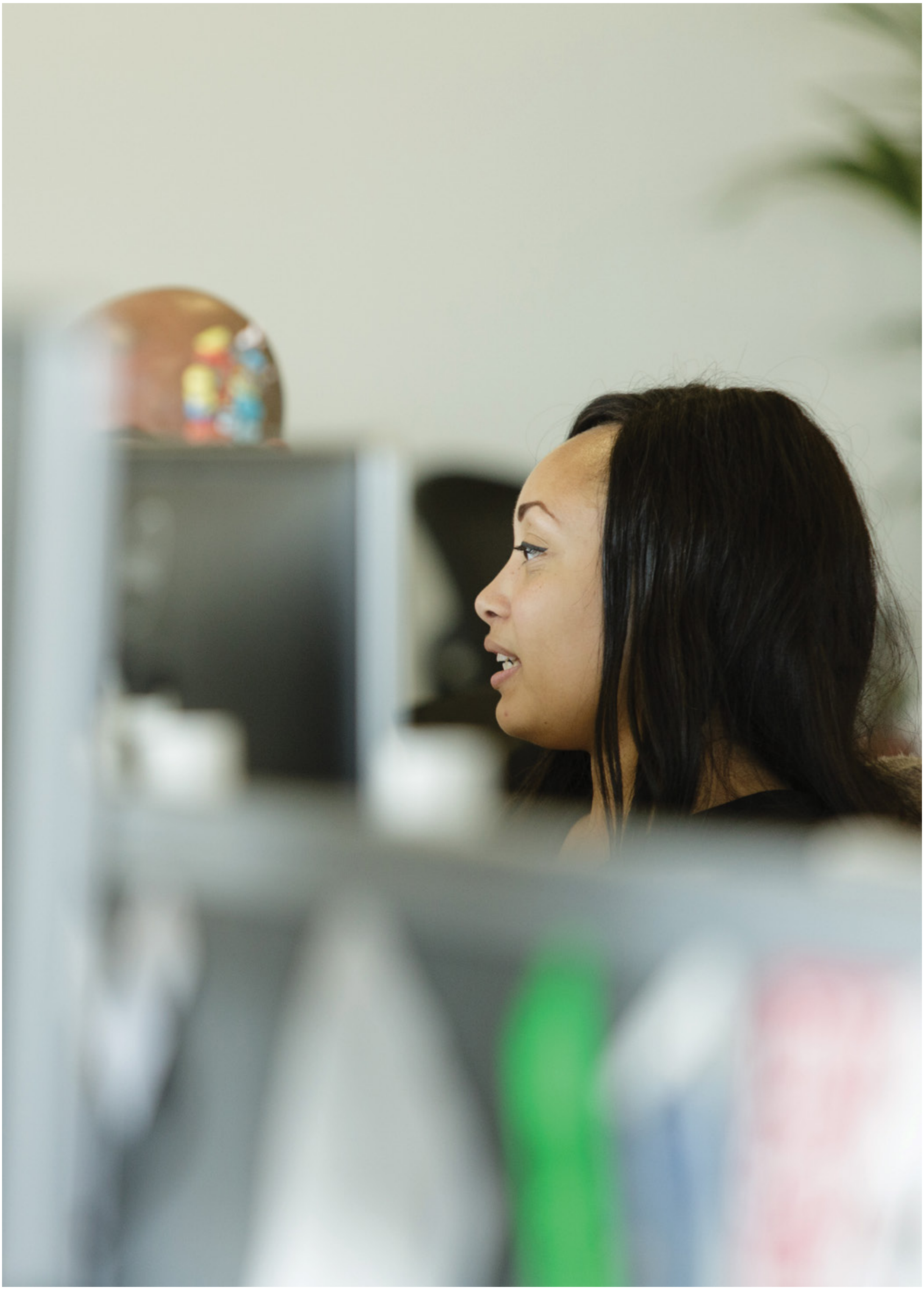
Diversity in numbers

On 31 March 2020, 33% of staff declared themselves as from a black, Asian or other minority ethnic background. At the same time while we have a good representation in the organisation, we are aware that it does not spread sufficiently through all levels of our organisation. This is a key driver for reviewing our recruitment and selection processes. By ensuring our procedures are inclusive at every stage of our selection process, it will ensure equality of opportunity to jobs at all levels of our organisation.

Moved to a remote working model

Like many other organisations across the country (and the world), our usual in-office working model has been greatly impacted by the Covid-19 pandemic. Our office was closed in mid-March, during which time all staff worked from home. During this move to remote working, all of our core functions continue to be effective, including our contact centre and investigations and enforcement activity, with our Code Adjudication Panel sitting as Tribunals and hearing adjudications remotely. Our Board of directors and our Consumer Panel are all operating effectively remotely. We will continue to adapt and develop our working model in line with official government advice.

During this difficult and unprecedented time, the wellbeing of our staff has been and continues to be a priority for the organisation. We have expanded our wellbeing programme of activities to ensure staff feel well-supported and connected.



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.

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 is supported by 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

Mark Thomson
Board Member

Steve Ricketts' term concluded at the end of 2019 and was replaced by Mark Thomson on 1 January 2020

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

Consumer Panel

The Consumer Panel provides advice and challenge on aspects of the PSA's work, to support and enhance the interests of consumers by:

- providing advice and comment from a consumer perspective on the extent to which PSA policies and regulation are aligned with its consumer-focused strategy
- bringing to the attention of the PSA issues that are or are likely to be of significance to or impact on consumers and providing advice and comment on these issues
- commenting on consultations and research undertaken by the PSA.

Rhian Johns
Chair

Louise Baxter MBE
Member

Patrick Bligh-Cheesman
Member

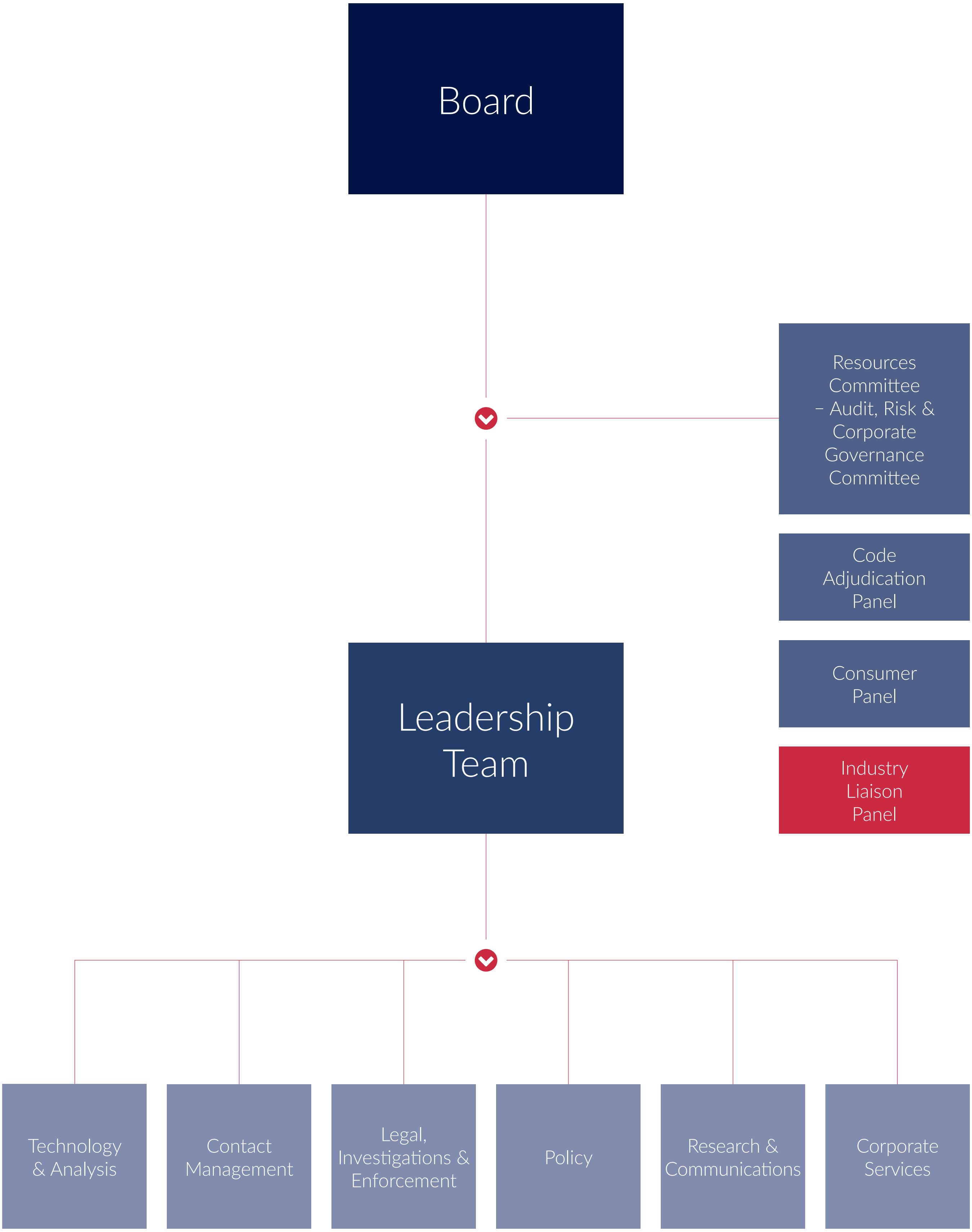
Laura Demorais
Member

Paul Eaves
Member

Nikki Wilson
Member

Laura Demorais stood down midyear

PSA organisational structure



Accounts

Income & expenditure

Income	Notes	2020 £	2019 £
Levy on premium rate telephone services	1	1,916,814	2,043,636
Adjustment to deferred income	1	1,558,395	1,550,991
Administrative charges	1	138,358	91,868
Fines	1	2,870,000	3,380,000
Registration fees		176,437	190,605
Other income		450	550
Total turnover		6,660,453	7,257,650
Interest receivable		59,230	34,377
Total income		6,719,683	7,292,027

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	2020 £	2019 £
Staff and related costs	2	2,892,174	2,696,479
Policy, external relations and communications		112,400	145,872
Legal fees		(13,212)	101,803
IT system costs		304,217	375,784
Telecoms charges		57,882	62,676
Premises costs	4	448,451	426,387
Finance and governance	5	63,773	46,631
Overheads	6	69,968	71,762
Depreciation		89,246	80,881
Bad debts		2,683,530	3,276,565
Interest paid		0	1,027
Total expenditure		6,708,429	7,285,867
Profit before taxation		11,254	6,160
Corporation tax on interest		(11,254)	(6,160)
Profit after taxation		0	0

Balance sheet

Balance sheet	Notes	2020 £	2019 £
Fixed assets	7	245,402	289,074
Current assets			
Trade debtors	8	284,780	307,872
Other debtors	8	658,828	661,842
Cash at bank and in hand		3,456,074	5,399,343
Total current assets		4,399,682	6,369,057
Current liabilities	9	(2,085,402)	(4,098,449)
Provisions	10	(184,644)	(184,644)
Net assets		2,375,038	2,375,038
Capital and resources – retained surplus	11	(2,375,038)	(2,375,038)

1. Staff and related costs include staff remuneration, recruitment, training, and fees for the Board members and Code Adjudication Panel.
2. Policy costs include events, research, policy consultancy, and publication of the Annual Report & Code of Practice.
3. Premises costs include rent, rates, service charge, repairs and maintenance, electricity and cleaning.
4. Finance costs include bank charges, payroll bureau, insurance premiums and external audit fees.
5. Overheads includes postage, stationery, travel and subsistence, entertainment, and general office expenses.
6. Tangible fixed assets include fixtures and fittings, office furniture and equipment, computer equipment and registration database.
7. Debtors include amounts due from the network operators for the levy, and from service providers for fines and administration charges.
8. 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.
9. Provisions reflect the fines that are in dispute and may not be recovered, and for dilapidations on office premises.
10. 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