fair telecoms campaign **news release**

Handset and service contracts must be "unbundled" to properly address the worst aspect of the "loyalty penalty"

The **fair telecoms campaign** welcomes the steps that Ofcom has taken under its '***Fairness for Customers***' programme, albeit that this simply states one of its statutory duties.

Today's announcement - "Ofcom response to the CMA's super-complaint update" fails to acknowledge the shortcomings of **Ofcom**'s approach to the problem of tied handset / service contracts, as reported in the CMA update.

The general issue of "***the loyalty penalty***" is addressed very well by the regulatory measures that Ofcom has introduced. From next month all subscribers will be advised as a contract is coming to an end.

Over-paying for Handsets

The particular, and most serious, issue of concern however is not of a customer failing to get the best deal available to them, but of customers over-paying under the terms of a contract.

It is very common for customers to wish to pay for a handset over a period (typically 24 months) under what is, in effect, a lease-purchase arrangement. To evade **FCA** regulation of such contracts, mobile providers embed this "leasing arrangement" within a service contract - which has a **minimum, NOT fixed, term**. Monthly payments both pay off the lease and cover services.

Customers who fail to switch to another form of arrangement, typically a "***SIM only***" deal, on the day when the term ends are therefore over-paying for their handset.

Un-bundling is required

This particular issue needs special treatment. It is not properly addressed by measures which address the "***loyalty penalty***". When it occurs, this is not a penalty for loyalty; it is a complete and unashamed rip-off.

The **fair telecoms campaign** believes that the sale of a handset and the provision of mobile service are two separate issues. It is perfectly reasonable for a provider to offer some form of discount when multiple items (e.g. a handset and a service contract) are bought together, but that does not justify bundling them together.

We demand that the two be separated. If that requires compliance with **FCA** regulations, intended to protect customers who buy under the terms of a lease, then surely such protection should be in place.

Choice and flexibility for customers

Ofcom has already recognised the need for customers to have greater flexibility in their choice of mobile service contracts, separately from the provider of their handset, as it announced in December - "Ofcom plans ban on mobile firms selling 'locked' phones".

Whilst 24 months (or longer) may be the preferred period over which to pay for a handset, the competitive market for services should allow a customer the opportunity to switch their service contract more frequently.

Un-bundling of handset and service contracts will therefore inject more competition into the market for services, by giving customers greater choice.

David Hickson

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