

## **Low income consumers and the future of communications regulation**

### **Summary**

1. A seminar to examine the regulatory environment for low income consumers in the changing communications environment was held at Ofcom on 28 March 2006, hosted by the Ofcom Consumer Panel's Deputy Chairman Ruth Evans and Professor Peter Golding of Loughborough University's Communications Research Centre. Ed Richards, Ofcom's Chief Operating Officer, was present to welcome participants to the event.
2. The seminar brought together regulators, government policy makers, academics and consumer groups in one room to discuss two main themes:
  - to assess the impact of developments in communications policy over the past two years on low income consumers in light of the latest academic research findings;
  - how best an inclusive communications agenda could be set for the future, which takes into account the needs of those on low incomes. People on low incomes will often need specific regulatory policies to ensure a socially equitable outcome in the communications marketplace.
3. This was the second such seminar. The first, in November 2004, is reported on the Panel website.
4. The seminar was organised around three short presentations by academic researchers. These were:
  - Promoting digital engagement
  - How does the Universal Service Obligation need to evolve?
  - Detriment, empowerment and protection: the role of Public Service Broadcasting
5. The slides used by the three presenters can be found on the Panel website.
6. Each presentation was followed by a response from Ofcom. Colleagues from the Department of Trade and Industry (DTI) and the European Commission also responded, to the first and second presentations respectively. There was then discussion and debate amongst members of the Consumer Panel and colleagues from Ofcom, industry, government, consumer and disability organisations and other academics.
7. This document reports on the three presentations, with their respective responses and discussion, followed by a section on the key themes from the day. Those interested in understanding more about research with low income consumers experiences of communications markets could look at the Consumer Panel's research reports on the Panel's website and

publications on the Ofcom website, namely its Media Literacy publications and research at

[http://www.ofcom.org.uk/advice/media\\_literacy/medlitpub/medlitpubrssi/](http://www.ofcom.org.uk/advice/media_literacy/medlitpub/medlitpubrssi/)

and its Nations and Regions Audit at

<http://www.ofcom.org.uk/research/cm/nations/>.

8. The key themes that emerged from the seminar were:
  - Regulation is the link between the state and the market, or between consumers and producers.
  - Policy was about social factors such as income distribution but also about institutions, such as the BBC. It functioned at a national level, locally, regionally, and internationally.
  - We need to be clearer about the purposes of telecommunications and broadcasting to assess the purpose of regulation and how to protect or empower low income consumers.
  - The 'digital divide' continues to capture some fundamental features of the emerging digital environment.

### **Promoting digital engagement**

**Graham Murdock, Communications Research Centre, Loughborough University**

#### **Digital engagement as a digital right**

9. Graham Murdock argued for a broad concept of 'digital engagement' as a criterion for people's encounters with new technologies, suggesting that we need to think beyond mere access to how people actively use, understand, and interact with such technologies. There was a call to use the term engagement rather than inclusion because inclusion was not enough. And if people were disengaged they were disenfranchised due to the rise of services on-line. People were also being excluded from the social participation and creativity that the always on on-line world has brought about. It was argued that citizens have a 'digital right' and for full digital engagement to be achieved access must be home based, always available, and at full capacity. The argument that public access to the on-line world was good enough was wrong as this was not how people effectively engaged with the on-line world.

#### **Relationships and technology**

10. It was argued that the research available was about single technologies and what was not commented on and was required was an analysis of the relationships between technology and people. It was important to think of the digital landscape as a technological landscape that incorporated the convergence of technology and media.

## **Gift economies**

11. It was argued that three key trends were occurring, these were: the rapid expansion of digital markets and digital commerce; the digital revivification of public cultural institutions and the growth of digital gift economies, including open source websites and those based on an ethos of reciprocity like Wikipedia (the free on-line encyclopedia). It was important to understand gift economies. Gift economies were about goods that are free at the point of consumption and are provided by people donating time or money to produce these goods. The theory of gift economies was that if you avail yourself of these services you will out of moral obligation return the 'favour'.

## **Engagement through trusted technology**

12. The resources required for digital engagement were: material and dependent on people's income, free time, and a safe space to work; social, which were dependent on support networks, mentoring; and cultural (eg media literacy, content relevance, and symbolic inclusion). Policy makers had been good at overcoming material barriers (ie price and availability) but not the cultural barriers. Further, current policies looked to making personal computing universal but we had to think wider than this and the personal computer was not the sole tool to connect to the internet. To help people engage with new technology, public broadcasting should be utilised to provide new content. The television is a trusted intermediary, familiar to people and already integrated into society.
13. Graham Murdock concluded that the challenge was to manage the digital environment by balancing the market driven expansion of digital goods and services with the need for digital public provision and to develop convergence with a social purpose.

## **Andy Carter, Head of Broadband Policy, E-business, Broadband and Digital Content Unit, DTI**

14. In response Andy Carter said that for digital inclusion it was key for products to be developed that were easy to use. It was not just about access. This could be seen with the near universality of broadband yet people were not taking up the service. Further there was still a need for a range of different delivery mechanisms to provide services to people. People would want different ways to receive and deal with information. Policy makers had to change their view to ensure that being connected was not solely seen through the prism of the internet and the personal computer. In terms of policy development it was important to remember that there were always cost implications when developing social policy and resources had to be managed. What policy makers had to encourage was a culture of self-help and for people not to rely on state aid and

intervention - an effective partnership with business and the public sector was essential to provide this beneficial outcome.

### **Dougal Scott, Director of Policy Development, Ofcom**

15. Dougal Scott suggested that the change in the way society was now engaging with digital media was profound and exciting. The question that needed to be asked was: what is it about technology that means we should be concerned about those who are excluded? Otherwise it was about low income. But where did the responsibility lie to ensure that all citizens were on-line. The responsibility for such a social policy was not set out in the Communications Act 2003.
16. Government may need to re-evaluate public policy if all government services do end up on-line because citizens would certainly then be excluded from civil society. This was not the case at the moment. Government services were presently accessible in different ways. Further, 70% of the population did not have a broadband service and thus the case could not be made that a lack of broadband meant you were excluded from civil society.
17. Digital exclusion in terms of digital television did not correlate particularly to low income. There was a high take-up of digital television by low income groups that mirrored the rest of society. If the government scheme to help people through the switchover process was to be extended then the case had to be demonstrated. Further, to make any intervention in the market place there must be clear benefits that exceed cost.

### **Discussion**

#### **WiFi technology**

18. Professor Jill Hills, from the University of Westminster, felt WiFi (the popular term for high-frequency wireless local area network technology) was an important technology that needed to be thought about in the public space. It was cited that Indonesia is delivering affordable internet connections to millions of low income people via this technology.
19. Andy Carter of DTI said that WiFi and Wimax (an acronym that stands for Worldwide Interoperability for Microwave Access) technology could help provide access to large areas of the country and particularly help in rural areas where it could prove to be a cost efficient measure in delivering internet access to the area. While there were some pilot projects involving public and private support the government took a technology neutral view as to what should be used to deliver an internet service.
20. Dougal Scott said that WiFi or Wimax was not a technological panacea to resolve the digital divide. It was worth noting that in the US certain municipalities were introducing city wide WiFi networks and there was no reason why local authorities in the UK could not do this.

## **Connectivity**

21. Roger Darlington , Consumer Panel member, said that the market was failing to drive overall levels of Internet take-up and that for people disengaged from the internet there were profound implications. A lot of people have little or no experience of the internet and its benefits and without the experience people would not see the benefits. There needed to be a dedicated resource to help increase take-up and ensure digital inclusion.
22. Andy Carter said that digital inclusion was moving up the government's agenda. The cessation of the Home Computing Initiative was precisely because it was failing to hit the right target. Richard Turl from the Office of the Deputy Prime Minister said that a dedicated team to deal with digital inclusion was being created within the government's Social Exclusion Unit - the issue of digital exclusion was being taken seriously. Further, while internet access had plateaued, policy makers were thinking about how to digitally include people. Rather than solely through the prism of the internet they were also considering the medium of multi-channel television.
23. Graham Murdock said that when people dealt with digital inclusion they had to look at the issue of content. Even if the material questions were resolved older people, for example, did not think the internet was designed for them. There was a need to build in internet access with television. Television was a gateway that was familiar to all people and was in everyone's homes.
24. Andy Carter agreed but said that there was already movement in this area. A Sky box has internet access, the BBC was developing a box which would have internet access and commercial companies were looking at including internet access to a Digital Set Top box, while BT and others were thinking about delivering Internet Protocol Television.
25. It was commented that there was a need to involve other players, including local authorities, in the provision of a Set Top Box targeted at low income groups to provide digital television, email, e-government services and access to services like NHS Direct.

## **Usability and inclusion**

26. Linda Lennard , from the University of Leicester Centre for Utility Consumer Law, referred to the Ofcom Consumer Panel 's research from 2005 which revealed that technology take-up was lowest amongst the low income and older people groups. It was commented that there was a lack of research into why take-up was so low for older people. Was it because there was a problem about dexterity and the lack of usable technology, for example in using remote controls or mobiles? Or was it because there was a lack of useful services provided on-line for people?

27. Alex Pumfrey from Digital UK said that in terms of usability there was a new forum established with manufacturers, it realised that usability was critical for the success of Digital Switchover (DSO). Digital UK and Ofcom were running a tracker survey to establish the level of digital television take-up, to ask people questions about what they knew about DSO; what the barriers to adoption were; and to establish which groups beyond the Government's Targeted Help Scheme might need tailored communications or other assistance with switchover.

### **How does the Universal Service Obligation need to evolve?**

#### **Professor Cosmo Graham, Director of the Centre for Utility Consumer Law, University of Leicester**

28. Cosmo Graham said policy makers had to distinguish between a consumer-focused and a citizen-focused approach to the issue. The consumer-focused approach took the view - let the markets decide. A citizen-centred approach took the view - to be a functioning member of society, people need to be connected. It was argued that Ofcom had placed more stress on the consumer market view. It was noted that there was a concern over the high number of disconnections and that the figures for telephone disconnections were vastly in excess of those for utilities such as energy.
29. In looking to the future of the Universal Service Obligation (USO), Ofcom and others must ask low income users what they actually want from services – this had not been done to date. This was important because policy makers must not lump them together with other consumers - they would have different needs. It was also important to think about whether the near universal use of mobile telephones meant mobiles should be included in the USO because in today's world people without mobile access were disenfranchised from the communications market.

#### **Heinrich Otruba, Adviser, European Commission**

30. Heinrich Otruba said that there was a European framework review of the USO and that no decision had been made about the outcome. At the European level there was a different definition of the USO to that used in the UK . It is an obligation on certain operators to provide a certain range of services to meet reasonable demand at a reasonable price – it was not just about low income consumers. Anything that went beyond this definition was a matter for member states. In the present framework review, the question was asked whether mobile and broadband services should be included within the directive. There was a feeling at European level that they should not. Coverage obligations on network providers and the fact that mobiles were already universal meant there was no market

failure to rectify and the take-up of broadband had yet to reach a point where no access to the service meant exclusion from civil society.

**Alan Pridmore, Manager, Consumer Policy, Ofcom**

31. In response to whether the USO was a citizen or consumer issue, the government had said that it is a citizen issue. Therefore, Ofcom examined at the market to see what it was delivering and where it was failing. Having looked at the market with Ofcom, BT had introduced a special tariff scheme that was targeted at people on benefits. When developing its policy Ofcom looked to the future of the market and unlike the energy market the price of communications services were falling. There were bundled tariffs and there were alternatives to the fixed line, ie mobile phones be it contract or pre-pay. This is unlike the energy or water market where there is no real alternative supplier. Ofcom took disconnections seriously but noted that this year there had been a significant drop in disconnections which was likely to be due to increased competition and the continuing advance of mobile phones, especially the pre-pay variety.

**Discussion**

32. Speaking on behalf of BT, Theresa Brown said that the operator, as the UK 's USO provider, recognised the difference between consumer and citizen interests, hence the need for a USO. It said the new BT social telephony scheme was designed for low income consumers with the intention of not stigmatising the scheme by its targeted nature but there was a need for targeting as previous social tariffs were being enjoyed by second homeowners for example and not by the intended target consumers. Looking to the future, BT believed that there were questions about the future of USO funding. The UK market was one of the most competitive markets in the world and the issue of whether one company should solely fund this obligation or whether it should be a joint obligation between all communications companies should be looked at.

**Disconnections**

33. There was concern amongst some of the delegates that the level of disconnections from the telecoms network was too high and that when people were disconnected there should be a life line service. Alan Pridmore said that 75% of those people who were disconnected switched to mobile products.
34. Claire Milne, from the Public Utilities Access Forum, argued that the responses to Ofcom's USO consultation showed there was a broad concern that people should always be able to call the emergency services and that this was also shown by people's concern that the 999 service is not available via Voice over Internet Protocol (VoIP) products. BT said that

it recognised there was an issue with disconnections but research had repeatedly shown that for people in debt, paying their telephone bill was low down the priority list. The numbers of people being disconnected was falling. This was partly due to increasing competition in the market place and the cost of telephony falling and the popularity of the 'pay as you go' mobile product amongst consumers.

### **Mobile telephony**

35. Claire Milne said that there was a view among many consumer groups that mobile service should be included within the EU USO Directive and there was puzzlement about why this was not the case. Heinrich Otruba replied to this point by saying that universal service was already being met by mobile operators due to their roll out/ coverage obligations. What did not exist were specific social tariff schemes for mobile products. But this was being provided by the market in the form of a 'pay as you go' services.

### **Framework review**

36. The Ofcom Consumer Panel said it was worrying that the EU Framework interpreted universal service obligations as being delivered by the dominant communications company when in fact the market was now highly competitive, rapidly evolving and the USO might best be delivered by a number of companies, especially when delivering services to disabled customers. The Consumer Panel had also asked the European Commission to look again at the issue of broadband and whether it should be included within the Universal Service Directive. Heinrich Otruba replied that there were still discussions at EU level about how to ensure access to broadband was widened.

### **Detriment, empowerment and protection: the role of Public Service Broadcasting**

#### **Sylvia Harvey, Professor of Broadcasting Policy, University of Lincoln**

37. Professor Harvey picked up on the key concepts of 'empowerment' and 'protection' as alternative regulatory strategies in addressing the needs of low income consumers. She argued that public service broadcasting ( PSB ) was an exemplary instance of meeting this group's needs, and reminded the audience that consumer detriment was a result of market failure, and could not therefore be met sufficiently by supporting or freeing the market.
38. The positive cultural outcomes of public service broadcasting could be under threat as the 'mixed diet' foreseen by the Peacock Committee became a reality, and many alternative channels became increasingly



- prominent in viewers consumption of television. Further, while the ratings game was important as an indicator of consumer preferences the multi-channel world was an expensive world and assumed continuing increases in leisure spending and this would not be possible for low-income consumers. It was her contention that low income consumers had a particular need for low cost, high quality broadcasting.
39. She argued for a new methodology to analyse the relationships between cost, quality, and affordability to help build an inclusive society in which television and radio play a key part.

### **Khalid Hayat, Senior Manager, Strategy Development, Ofcom**

40. Khalid Hayat strongly agreed with the argument that there is a continuing need for PSB in the digital age – and that intervention remained necessary in support of PSB : even a well-functioning market would not provide sufficient content that met social purposes. Thus Ofcom was committed to securing plurality in the provision of PSB because plurality and competition for quality between suppliers of PSB content was necessary for a successful PSB system. Ofcom did not believe that viewers' interests were met solely through the television services offered by the public service broadcasters – commercial digital channels offered increasing choice and were increasingly commissioning high quality original content.
41. When responding to the challenges that faced the existing PSB model it was important to avoid being complacent about a continuing 'base line' provision. Policy needed to have a new definition when defining the social purposes to which broadcasting could contribute because of today's world of rapid technological change and of changing consumer behaviour and preferences.
42. For Ofcom a new definition of PSB would be: to inform itself and others and to increase our understanding of the world through news, information and analysis of current events and ideas; stimulate our interest in and increase our knowledge of arts, science, history and other topics through content that is accessible and can encourage informal learning and reflect and strengthen our cultural identity through original programming at UK, national and regional level, on occasion bringing audiences together for shared experiences; and make us aware of different cultures and alternative viewpoints, through programmes that reflect the lives of other people and other communities, both within the UK and elsewhere.

## **Discussion**

### **The changing nature of the broadcasting environment**

43. Graham Murdock argued that there needed to be a re-think in how we view broadcasting in general and that the government's White Paper neglected to do this. We need to think about what is on the screen and

- what is behind the screen and to manage the integration of the two. And there were new alliances and mergers being formed in the communications sector. Google, Yahoo, Sky, BT and others were thinking about how to deliver content through the television set. Jo Twist of the Institute for Public Policy Research (IPPR) agreed and noted that students in the Far-East, notably in South Korea, were ahead in terms of services and content. In this country we were still talking about a fixed line while in South Korea they were downloading content to their mobiles.
44. Ofcom said it had acknowledged the fragmentation of broadcasting media in its PSB review. Under the present system there was a scarcity of spectrum which means obligations are placed on broadcasters to deliver services in the public interest. However, due to satellite and cable television and more importantly the ability to deliver programmes over broadband, scarcity of spectrum will not be an issue. Thus the PSB obligations would be left to the BBC alone. Therefore the definition of what public sector broadcasting meant would have to change as would funding and delivery. Thus there was a danger that, in the absence of further intervention, PSB purposes would in future be delivered by the BBC alone. Therefore the definition of what public sector broadcasting meant would have to change as would funding and delivery.
  45. Sylvia Harvey commented that after digital switchover people might begin to question the licence fee. They would have a plethora of channels in the digital world and question why they should fund the BBC when they watched other channels.

### **Empowerment and protection**

46. Claudio Pollack, Director of Consumer Policy at Ofcom, spoke about how Ofcom was looking at issues surrounding empowerment and protection. That while it was keen to promote competition (and noted the integration of services and the advances technology would bring in terms of opportunities and benefits) it was looking at how people would engage with services. What would people need in terms of empowerment and protection? Ofcom had just published its media literacy audit which was one part of work being undertaken to inform it of the issues and what it was consumers required. Ofcom needed to take a step back and review what were the services of key social value? Then it would ask: what is Ofcom's role in this area?
47. Georgia Klein, Consumer Panel Manager, said that it was Ofcom's first and foremost duty to ensure the availability of services but when talking about low income households this was not the answer. It was not Ofcom's duty to resolve the issue of poverty but it did have to think about the price of services and where there were gaps in coverage. If Ofcom did not have the powers to resolve low income issues or digital exclusion it needed to take the issues to those that did.

48. There were comments from delegates that many consumers did not want to be empowered, given choice or want information. What many consumers would like was legislation to provide a reasonable minimum service. And that while it was tempting to think that low income consumers were time rich it was not true. They did not have the time to research what was the best product in the market. For some, market choice could be a burden.

## Themes

49. A number of recurrent themes arose in the day's discussions. These included the following:

- Regulation is the link between the state and the market, or between consumers and producers. People are never either consumers or citizens, but perform both roles variably and intermittently. Communications regulation needed to recognise this.
- Debate inevitably moved to issues such as low income and inequality, or prevailing attitudes to disabilities. In part policy was therefore about social factors such as income distribution. It was also about institutions, such as the BBC. It functioned not only at national level, but also locally and regionally, and indeed increasingly internationally. This prompted suggestions that there were some missing voices at the seminar, including government departments such as the Department of Work and Pensions (DWP), and local government, suggested as being a key innovator in provision and policy.
- The questions asked shape the answers we reach. We need to be clearer about the purposes of telecommunications and broadcasting to assess what the purpose of regulation should be, and also how to protect or empower low income consumers (why do we never use the phrase 'low income citizens'?).
- The 'digital divide', though a concept much questioned and often felt to have become an over-simplified cliché, nonetheless continues to capture some fundamental features of the emerging digital environment. Ofcom research showed that roughly 60 per cent of low income households do not have broadband, and that despite notions of 'trickle down', these ratios were becoming persistent.