tuanz

TECH USERS ASSOCIATION

Submission on the Improving Retail Service Quality: Switching Issues Paper

15th May 2025

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Introduction

1. TUANZ is pleased to submit in relation to the Switching Issues Paper released by the Commerce Commission on 20 March 2025 as part of the Improving Retail Service Quality programme of work. This submission is a Public Version and contains no confidential information.

2. Our address is PO Box 65503, Mairangi Bay, Northshore 0754 or Level 7, 62 Victoria Street West, Auckland Central. Our email address is office@tuanz.org.nz and our website can be found at https://www.tuanz.org.nz.

The Technology Uses Association of NZ Inc (TUANZ)

3. TUANZ is the association for the users of digital technology and connectivity which is in its 40th year since incorporation. We are unique - **we believe there is no other group or organisation that is representative of the people and organisations that are the end users of digital technologies in the manner that TUANZ is. We value our independence and will always seek to speak for users without undue influence.**

4. Our members want to see a lift in the digital economy along with the continued development of strong markets across the technology and connectivity sectors providing real choice for end users – whether corporations or consumers. We seek a national drive to leverage the opportunities that we have with our world leading digital networks. **Our vision is that all businesses and individuals in Aotearoa will have unrestricted access to the technology and services needed to thrive; no one misses out on the opportunities in technology and digital engagement is safe and inclusive for all.**

5. TUANZ position is consistent and clear: **The availability of competitively priced, good quality, fast connectivity in all parts of NZ is a critical economic enabler for the future of the NZ economy.**

6. TUANZ is a not-for-profit membership association with over 150 members, predominantly large organisations with a strong dependency on digital technology and connectivity as well as small enterprises and individual members. These small businesses and residential users are the customers of our large corporate members, who are just as focused on the quality of their customers' connectivity as their own.

Introduction

7. TUANZ has been a key advocate over the years on many of the positive changes to the telecommunications market in New Zealand. We participated fully in the most recent review of the Telecommunications Act, with strong advocacy positions around the need to improve the overall service performance at both the wholesale and the retail level.

8. In our submission on the draft bill, we supported the move to require the Commerce Commission to monitor the performance within the telecommunications market and specifically the requirement to hold the industry to account on their report on retail service quality.

9. We also supported granting the Commission the ability to establish regulated codes in the area of service quality. We would strongly suggest that one of the tests that the Commission should use in identifying whether the industry fails to establish codes of sufficient standard is the level of consultation with user groups such as ourselves when developing any such code.

10. The Commission's findings from their research in this area fits with our own research as well as with informal feedback we receive on occasion. Particularly concerning to us is the statistic that 29% of mobile switchers and 27% of broadband switchers said that due to the experience they would hesitate to change providers again.

11. We agree with the Commission's sentiment that "Switching should be a painless experience for consumers." (p.8)

Our Earlier Submission on this topic

12. In an earlier submission (15 October 2021) we outlined our agreement on the list of proposed retail service quality matters that the Commission identified as in need of improvement. We participated in the consumer group workshops and shared that our major issues that we would like to see addressed.

13. Specifically we supported the Commission's intentions to investigate the issues around billing, customer service, product disclosure and switching. In regards to the last issue, switching, we shared that we believed that

there is an element of inertia due to consumers believing it to be difficult and time consuming.

14. As part of our concern over this topic we commissioned the Behavioural Insights Team (BIT) entitled “Addressing inertia and complexity in New Zealand’s telecommunications market”. That report continues to provide relevant information on the topic of switching.

Consultation Questions

1. What are your views on the issues and root causes we have identified?

15. The BIT report addressed the inertia in the NZ market around switching providers. **Inertia describes a person's tendency to stick with the default option by taking no option**. The report indicates that inertia is driven by three main factors: ease, endowment and endorsement. Ease and endowment are the two key factors seen in the telecommunications market. The report finds that endorsement does not typically drive or encourage switching.

16. **Ease** refers to the fact that the default option is often chosen because it requires no action, awareness or attention.

“In New Zealand, surveys suggest 68 percent of consumers ‘rarely’ or ‘never’ compare mobile plans offered by other providers.”[1]

17. The report goes on to suggest:

“The ease channel also means many consumers only switch in response to a triggering event - receiving a bill that is much higher than expected (‘bill shock’) is strongly associated with switching, as are smaller prompts such as notification of changes to a plan.”[2]

18. **Endowment** is where the person believes that the default option reflects the status quo. In BITs previous report they highlighted that consumers who are older and have had a longer tenure with a provider are less likely to switch providers.

[1] P11, BIT Report, referring to ConsumerNZ (2018)
[2] P11, BIT Report

19. The BIT report found that inertia in the NZ market is widespread and we have included for reference the relevant section from the report as Appendix One.

20. We support the paper's discussions around the root causes behind this inertia as being, at least, an initial list that should be addressed.

21. We would like to make specific reference to a couple of points made in the paper:

    a. Manual Switching - we have received a small number of queries this year in regards to whether consumers are able to port their number when upgrading their device from 3G to 4G due to the closure of the relevant networks. While this is not a large number, it does support the Commission's comment around the lack of awareness of number porting (p.22). It's also concerning that 41% of users were less than satisfied with the duration of any service interruption they suffered.

    b. Losing RSP communication - this has long been an issue that we have flagged and the fact that 66% of those surveyed had to contact their losing provider during the switch is concerning. This not only adds complexity to the process, but offers the losing RSP an opportunity to "win-back" the consumer, something we consider bad practice.

    c. Unclear communication during the process - this covers a multitude of concerns. The comment that consumers often receive a first bill from the gaining provider that is higher than expected is a common piece of feedback and upfront communication to the consumer as part of the sign-up process seems to be at fault. Also the lack of ability to get clear communication during a switch is a well defined core issue.

    d. Notice periods - we have long called attention to how this practice is not only a barrier to switching but can lead to significant unexpected cost issues for consumers. We consider this practice could be anti-competitive, but we do note it is currently quite legal.

2. Are there other issues and / or root causes that we have not identified?

22. We are generally satisfied with the list of issues identified in the paper at this time.

3. What are your views on the possible improvements we have noted?

23. We are of the view that the improvements identified are a good first step in addressing these issues. However, as a general comment, while we understand that this is a paper of proposals, the use of the word “could” would seem to indicate that these could be voluntary undertakings, and we would ask that the Commission considers making these mandatory changes.

24. There are a few specific comments we would like to highlight:

a. Improving communications - this is a critical response to the issues raised. Consumers will “forgive” any number of concerns if communications are full and transparent. It is not however an excuse not to make other improvements but providing better clarity at the beginning of the process and improving the ability for consumers to check on progress in a simple way would go a long way.

b. Improving mobile activation - the suggestion that RSPs should change the switching process to ensure no porting activity takes place until the acknowledged receipt of the new device or SIM seems like an easy to do improvement.

c. Removing notice periods - this is a no brainer and should be progressed.

d. The “One Touch” switching process - this is a valid longer term goal to work towards but end cost to consumers may be a barrier to the implementation.

4. Are there any other possible improvements that could address the issues we have identified?

25. We have no other specific proposals but would like to share again from our research to support this work and point to the future. In the scope for that report we asked BIT to review international experience and provide a range of possible solutions to address the issue of complexity. We asked them to give an indication of the impact of each solution and the feasibility

of implementing these in the New Zealand market. They provided five proposed solutions as follows.

26. **Make small changes to reduce frictions to switching** (Feasibility = high; Impact = low). This includes the idea that comparison tools are helpful in promotion switching, but that they need to be as easy as possible to use. Other changes might include making it as easy as possible for users to access their data and use it in a comparison tool. There is significant promise in the current proposal from the industry based on Commission work around the three MNOs commitment to provide usage data and the prospective consumer data right. Four key principles to maximise the utility of this work are:

    a. Keep it simple and visually attractive

    b. Have a call to action

    c. Minimise the steps to use the CDR and comparison tools

    d. Draw on social norms

27. **Provide the cheapest options directly to consumers** (Feasibility = medium; Impact = medium). This refers to the requirement for an independent third party to provide this information regularly or on request. Because of the need to develop a complete process and the access to customer data, this option has a lower feasibility.

28. **Take extra effort with 'sticky' consumers** (Feasibility = medium; Impact = medium). This might be implemented in the form of a requirement on providers to provide information to long-tenured customers who have had no change to their provider or their plan over that time. The BIT report also includes more radical suggestions around having the opportunity for providers to be able to compete for these long-tenured consumers including the option of a 'reverse auction' although in our view this suggestion has a low level of feasibility of implementation in our market.

29. **Consider automatic switching** (Feasibility = low; Impact = high). This option is the one with the lowest friction where the friction is removed completely in automating switching. There are global examples in the energy industry where the product is relatively homogenous, but has a low feasibility in the telecommunications secretary due to the complexity of the services and products and BIT was unable to find any successful examples of this option. BIT conclude:

"Whilst this is a relatively different approach to market design, it is worth noting that it is under consideration in other markets and jurisdictions, and that it is the closest to a conceptual 'free market', where consumers have perfect information and do not face transaction costs."[3]

30. While we recognise that these options include a number that would be difficult to implement, we have provided them in this report to encourage discussion around what the Commission is proposing and what might be considered in the future.

5. What approach should we take in improving outcomes for consumers in this area?

31. We generally favour the Commission issuing guidelines that enable the industry to develop codes that address these sorts of issues. There is already a Customer Transfer Code but it only covers regulated services, and excludes a number of services that are identified in the paper. There are several other relevant Codes and we would like to see the industry develop a holistic Switching Code to address these issues.

32. However, we also have the concern that voluntary industry codes developed by the Telecommunications Forum (TCF) only apply to those providers who are members of the TCF.

33. Our position is that any code that is developed should apply to all providers in the market. If that requires a Commission code then then that would be our preference.

Final Comments

34. TUANZ welcomes the opportunity to provide the Commission with this submission in regards to the Switching Issues Paper. This paper provides a summary of feedback from our organisation that represents actual users of technology and digital communications. We have attempted to provide a succinct and clear enunciation of the views of our members.

35. We look forward to working further with the Commission on this matter..

[3] P18, BIT Report

Appendix One : The Broadband Market in 2021. BIT Report, pages 12-13

Inertia in New Zealand's telecoms markets is widespread

As highlighted in our 2019 report, in every country in Europe at least a third of consumers have never switched their telecom provider, and the figure is as high as two thirds in some countries.[4] Similarly in New Zealand, surveys from 2018 show that 43% of people had not switched internet providers in the last 5 years and 54% had not switched mobile providers.[5]

The latest 2020 data also suggest switching rates in New Zealand are low. For example, churn[6] for residential broadband connections with a voice plan was 12.9%, while churn for naked broadband connections was 18.8%.[7] Churn for prepaid mobile plans was higher at 54.5%, while churn for on-account residential and business mobile plans was low at 10.3% and 12.8% respectively.[8]

The churn figures above may overstate switching, because they show terminations which do not necessarily imply the user switches to a new provider in New Zealand. Given that most terminations which are not from switching are from people moving overseas, the 2020 churn figures above should give a good picture of switching rates.

Inertia is also higher in the telecom sector than in other similar sectors. For example, 12-month switching between electricity providers was over 20% in April 2021, and has been between 16% and 21% for the last decade.[9] There is evidence that lower inertia in the electricity sector has been boosted by the introduction of a consolidated comparison tool which allows consumers to easily see the potential gains from switching. In 2011 the Electricity Authority introduced the *What's My Number?* website — and boosted the functionality of the *Powerswitch* website which has since merged with *What's My Number?*[10]

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[4] Lunn, P. D., & Lyons, S. (2018). Consumer switching intentions for telecoms services: Evidence from Ireland. Heliyon, 4(5).
[5] Consumer NZ (2018). Telco survey: Mobile and internet service providers
[6] Here churn refers to the number of connections or plans that were terminated as a proportion of the total number of connections or plans.
[7] Commerce Commission (2020). Telecommunications Industry Questionnaire: 2020 aggregate responses. Survey.
[8] Ibid
[9] Electricity Authority (2021). Switching trends. Webpage. Retrieved from https://www.emi.ea.govt.nz/Retail/Reports/R_SwT_C
[10] Consumer (2019). Price comparison websites What's my Number and Powerswitch merge. Webpage.

— to highlight a household's gains from switching electricity providers. The *What's My Number?* and *Powerswitch* initiatives were evaluated in 2013, and were found to: increase residential switching rates from 62,000 to 79,000; increase net welfare by $500,000 over three years (which is low compared with the $15 million cost of the initiatives); and to increase competition between providers.[11] Inertia may also be lower in the electricity sector because the product is relatively homogenous, meaning price is the main factor for consumers to consider across plans. In contrast, different telecommunications plans and products are more complex and can be harder to compare, which is a point we return to in the *Complexity* section.

Some providers make use of inertia with 'inertia selling'

One lesson from our 2019 review was that providers appear aware of consumer biases in telecom markets, and leverage these biases to increase their revenue. One example of this is *inertia selling*, in which a provider offers an unsolicited new product or service, and the consumer has to take action to not receive the new product or service. In 2019 Spark was investigated for contacting customers with a home phone service, encouraging customers to let Spark move them off the copper network and onto Spark's wireless network, and sending customers home phone kits by default which customers were asked to install or return to Spark (at the provider's expense).[12] [13]

Retrieved from https://www.consumer.org.nz/articles/electricity-authority-and-consumer-nz-merge-price-comparison-websites-wh atsmynumber-org-nz-and-powerswitch-org-nz

[11] Prior, M. (2018). Search and Switching Costs in the Services Sector: Literature Review. MBIE Summer Scholarship Research Paper.

[12] Stuff (2019). Commerce Commission assesses Spark 'inertia selling' complaint. Article. Retrieved from https://www.stuff.co.nz/business/113457590/commerce-commission-assesses-spark-inertia-selling-complaint

[13] Stuff (2019). Chorus 'deeply uncomfortable' with Spark home-phone sales move. Article. Retrieved from https://www.stuff.co.nz/business/113418141/chorus-deeply-uncomfortable-with-spark-homephone-sales-move