

**A NEED FOR CHANGE IN THE AUSTRALIAN REVERSE CHARGE CALL
INDUSTRY**

Benefiting the safety of young Australians

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In Brief

1. This paper outlines irregularities and inconsistencies existing in the reverse charge call industry that seriously compromise the industry's function in the overall emergency telecommunications framework in Australia. While reverse charge calls are made by a range of different users, with different urgent needs, the most important users of the service are children who need to make calls in situations where they feel their safety is at risk and are anxious for their well being.
2. This paper details recommendations to fix problems in the industry that would result in these serious deficiencies being overcome, and at the same time provide some significant benefits to other important issues in the emergency framework. For example, addressing the problems associated with the declining number of public payphones that have traditionally played a major role in enabling the making of emergency telephone calls.

Introduction

3. The reverse charge call sector is an important part of the Australian telecommunications industry. Although industry revenues are difficult to ascertain, it is estimated that they are in the vicinity of \$30 million dollars per annum and perhaps more.
4. However, what is not difficult to ascertain is the fact that a reverse charge call is an important telecommunications service that many Australians need to use in moments of urgency. In general, a reverse charge call facility is also considered to be a usual characteristic readily available from a telecommunications service. Often, the users of the service are children in urgent need of contact with parents in what can be an emergency situation, but one that is not appropriate for the 000 Emergency Call Service.

5. Reverse charge calls are therefore an important component in the basic framework of emergency communications that the Australian public has to draw on, together with the existence of payphones and the 000 Emergency Call Service.
6. Payphones and 000 calls are subjected to varying degrees of regulatory control, in order to preserve their essential role in the emergency communications framework. Essential factors that characterise and give rise to the benefits in these services are:
 - a) that they are universally available;
 - b) are simple to use; and
 - c) there is an expectation that the costs of using them are reasonable.
7. However, while there are a number of reverse charge call operators, reverse charge call capability is not universally available from all telecommunications services. In addition, the reverse charge call industry has been left to exist without consideration as to whether the open market can ensure that the two important factors of simplicity of use and reasonable costs, are maintained.
8. Without universal application of the service, and with these other two factors absent, the public benefit that is derived from having a reverse charge call service available to Australians, in moments of desperation and emergency, is seriously compromised.
9. This paper seeks to open for public debate and for government consideration, the question as to whether the reverse charge call sector deserves regulatory intervention to ensure that operators involved in the various aspects of providing the service are working in a way that delivers the service in a manner expected by users.
10. To expand briefly on the above three points:
 - a) There should be an expectation that a child (or any other person) can make a reverse charge call from any phone (payphone, mobile phone or fixed line) to any other phone.

- b) In the process of making that reverse charge call neither Party A (the caller) nor Party B (the receiver) should expect or encounter any procedural difficulties in making or receiving the reverse charge call.
- c) The charges levied at the Party B end are reasonable because there is demonstrably sufficient competition in the industry.

The Reverse Charge Call Sector

Some brief history

- 11. Telstra (and its predecessors) was the only reverse charge call operator in Australia up until around 2000. A typical reverse charge call was from a Telstra payphone to a Telstra fixed home phone. This was in keeping with the nature of these calls being by persons in urgent need to contact someone, and not being in a position to pay for a phone call.
- 12. Most people were, and still are aware of the Telstra reverse charge call service, where children and others can avail themselves of a Telstra payphone and call home in an emergency without having to make a payment in a phone booth.
- 13. Telstra is required under its Universal Service Obligation (USO) to maintain a certain number of payphones nationwide. However, due to the high cost of maintenance and the high ownership of mobile phones, Telstra has understandably reduced payphone numbers in past years. Moreover, it can be expected that reductions in numbers will continue for those reasons.
- 14. With regard to the rates charged by Telstra to the calling party for reverse calls, these were uniform and reasonable. The process that the calling party had to follow in making a reverse charge call was also simple to follow.

The Reverse Charge Call Sector Now

- 15. The present day reverse charge call sector is characterised by increasing numbers of users making reverse charge calls from mobile phones; and a number of operators with
 - a) markedly different scales of operation;

- b) different procedures to effect a call, with varying degrees of complexity; and
- c) a wide range of fees to fixed lines that appear to have little to do with costs and reasonable return.

Mobile Phone Usage

16. As the number of prepaid mobile phones increases, the number of reverse charge calls also increase. Children generally own prepaid mobile phones because they do not have credit card facilities and they (or more particularly their parents) can readily monitor the amount being spent. In 2005, of the total number of mobile phones owned in Australia (18.1 million) 47% were prepaid. As a comparison to the mature UK market, of the 57.1 million mobile phones owned, 67% were prepaidⁱ.
17. Keeping in mind that reverse charge calling increases as prepaid ownership increases, there is every reason to conclude that Australia will follow the UK prepaid mobile ownership percentage of 67%. In the UK, mobile originated reverse charge calls went from 0.2 million in 2004, to 4.9 million in 2005, and was forecast to reach 8.9 million in 2006ⁱⁱ.
18. Importantly, it should be noted that in the 8 November, 2005 prospectus of the major reverse charge calling service in Australia, Reverse Corp (1800 REVERSE) it was stated that “Mobile phones, whilst a substitute for reverse charge calling, are also enablers of the serviceⁱⁱⁱ.”
19. Reverse charge call services may be reached through payphones, fixed lines and mobile phones. Some services utilise the 1800 alpha numeric service and make a play on the nature of the call being reversed, to home or to parents. The operators offering reverse charge call services are

Telstra
Optus
1800 REVERSE
1800 PHONEHOME
1800 MUMDAD
1800 NOCREDIT

20. 1800 REVERSE has the highest brand awareness (estimated at 85% to 90%), and with the major market share based on revenue is the most significant service provider in the industry.
21. Having regard to the fact that 1800 REVERSE has a market share that substantially exceeds the market share thresholds that are considered serious enough to warrant competition concerns by competition authorities^{iv}, serious questions must arise as to whether the sector has achieved a healthy state of competition, and met the objectives of deregulation.

Competition in the Sector

22. Important factors that have a considerable bearing on the state of competition in the sector, insofar as making reverse charge calls is concerned, are
- a) brand awareness and easy recall of the number or phonename for a reverse charge call operator; and
 - b) operational ease, including dialling processes.
23. It is the latter factor that is giving rise to some of the problems that are compromising the integrity of the overall framework for urgent telecommunications services.

Universal availability of reverse charge calls

Zero Rating

24. As noted above, reverse charge calls from payphones are a readily available feature of that service. However, for a mobile phone user to make a reverse call, when credit has expired, the service provider must allow 'zero rating' or 'mobile originated calling'. Zero rating is where a mobile phone service provider allows a user with a (prepaid) mobile service, to call a reverse charge call operator and put a call through to their intended target without any cost to Party A. This event occurs mostly when Party A is on a prepaid mobile phone and the credit has expired or been depleted. However, not all mobile phone service providers allow zero rating for calls to reverse charge call operators.
25. The fact that not all service providers allow zero rating means that in urgent situations, when for example, a child needs to make a call home to get picked

up, or something similar that is not appropriate for the 000 Emergency Service, the person is left without any means of readily available or immediate communication. This seriously undermines the role that mobile phones have in playing a part in the overall framework of emergency call services.

26. In particular, because reverse charge calls are generally considered to be a usual characteristic of a telecommunications service and readily available, then any departure from this ready availability could have serious consequences. In particular, when at the moment a reverse charge call is urgently required, the service is found not to be allowed by the mobile phone operator. Ideally then, all mobile phone service providers should allow for zero rating, to preserve the mobile phone's role in the overall framework of emergency call services.

Ability to place a Reverse Charge Call from all Public Payphones

27. It is noted that there is also the additional presence of non Telstra payphone operators that now also provide reverse charge calls from their phone network. For example, Tritel payphones, owned by Reverse Corp Limited. However, these payphones require payment for a freecall number or bar competing reverse charge call operators from their network^v.

Reverse charge calls should be simple to make

28. Simplicity of use is a critical component for any telecommunication service. Making a reverse charge call from a payphone is relatively straight forward, and the directions a user needs to follow are typically provided within the payphone's general instructions. Nevertheless, as noted above, payphone numbers are diminishing, and they are largely being made redundant by increased ownership of mobile phones. In effect, mobile phones could now be described as 'a payphone in your pocket'.

29. However, the means by which a reverse charge call is made to a fixed line from either a mobile phone or a fixed line differs markedly between the operators. There are a number of different scenarios:

- a) If Party A calls 1800 REVERSE from a mobile device (that has credit or is zero rated) or a fixed line, and places a call to a Party B fixed

line, the call can be accepted with the push of a single key on Party B's keypad. (Telstra does the billing for 1800 Reverse).

b) If Party A calls 1800 PHONEHOME from a mobile device (that has credit or is zero rated) or a fixed line, and places a call to a Party B fixed line, the call can only be accepted if Party B calls back on a specified number given to Party B at the time of the call from Party A. The call is connected by the 1800 PHONEHOME management system and billed via the Telstra 190 Premium Service.

c) If Party A calls 1800 NOCREDIT from a mobile device (that has credit or is zero rated) or a fixed line, and places a call to a Party B fixed line, the call can only be accepted if Party B "jumps" the call to Party B's mobile so that billing via premium SMS can occur.

30. In the full sense of the term "reverse charge call", all the three categories above qualify - because simply put, a reverse charge call is where Party B pays the bill. However it can be seen from the above different procedures, which vary in complexity and therefore time, that it can be daunting for both Party A, in terms of having to wait while the more complex procedure is performed by Party B, and for Party B, who is attempting the complex procedure while Party A is waiting. This can result in a distressing situation where the Party A is a young child in need of urgent communication.

31. As can be seen from the above, reverse charge calls placed to fixed lines via 1800 REVERSE follow a less cumbersome path in making a call to a fixed line because 1800 REVERSE is able to effect a bill for payment from the fixed line owner through Telstra's billing system. The reason being that 1800 REVERSE has an arrangement in place whereby Telstra bills to fixed lines for receiving 1800 REVERSE reverse charge calls.

32. Other reverse charge call operators have to devise a procedure for their customers to use that is cumbersome compared to that available to 1800 REVERSE customers; because 1800 REVERSE is able to avail itself of Telstra's billing systems. This can be assumed to result in a high drop out rate for 1800 REVERSE competitors, when their potential customers try and use their services but are put off by the cumbersome procedure to be followed.

33. In effect, Telstra controls the data base detailing all billing names and addresses of fixed line phones, and Telstra controls access to this important facet of building an efficient reverse charge call service. However, despite the fact that it assists its competitor 1800 REVERSE, requests for the same billing service as provided to 1800 REVERSE, with agreement to pay the same fees for access, by another competitor, have been denied.
34. Telstra has taken this position notwithstanding
- a) its continuing investment in the area for its own purposes and for those of at least one competitor;
 - b) the fact that managing a business for the benefit of shareholder value would require it to seek further clients in order to pursue growth and profitability; and
 - c) the fact that it controls an important industry asset, i.e. the fixed line billing system, that is critical to addressing competition concerns in the sector.
35. As Telstra is in a dominant position to control fixed line billing in relation to a reverse charge call, and it has taken the position not to provide other operators (apart from 1800 REVERSE) with access to its fixed line billing, other operators have to contend with their customers (Party A and B) being forced to use a cumbersome method of achieving a reverse charge call to a Party B fixed line.

Reverse Charge Calls should be Affordable

36. . The demand for a reverse charge call is relatively price inelastic^{vi}. Reverse charge calls are typically in response to an urgent need to communicate in what can be an emergency situation. In circumstances where, for example, children are involved, the amount that a parent would be prepared to pay to receive a reverse charge call is incalculable.
37. Given this high degree of price inelasticity, it can be assumed that some reverse charge call operators would base their pricing structures on this factor. The fact that there is a wide disparity in fixed line rates that can be observed in the market reinforces this assumption.

38. The TIO insists that reverse charge call operators provide an "easy path" for anyone interested to determine the rates for a reverse charge call^{vii}. The rates do not need to be issued to either Party A or Party B at the time of the call. Some operators provide Party B with the option to hear the rates before the call is accepted. Some website rates pages of operators are complex and more difficult to find than others.
39. In any event, the urgency of most reverse charge calls usually negates the usual market research that can be undertaken to decide on whether to make a 'purchase', i.e. accepting a reverse charge call.
40. With regard to reverse charge calls terminating on a mobile phone, all operators charge via premium sms. This is deducted from the credit of a prepaid mobile or put on the account of a post paid mobile. The charging by the reverse charge call operators is by and large fairly similar, although not equal. This is because all operators have access to the technology required to charge Party B mobiles via premium SMS.
41. Where the reverse charge call is made to a Party B fixed line, the charges vary considerably, with one operator, i.e. 1800 PHONEHOME, declaring on its website that 1800 PHONEHOME's service to a fixed line is up to 59% cheaper than a competitor. Moreover, the wide disparity in fixed line rates, for example, between 1800 REVERSE and 1800 PHONEHOME, suggests the margins being extracted by some operators over costs are exorbitant.

A Possible Detrimental 'Flow on Effect' to the 000 Emergency Call Service

42. There is some anecdotal evidence that the problems that exist with the reverse charge call sector is having detrimental flow on effects to the 000 Emergency Call Service, due to an increasing number of persons using that service instead of making reverse charge calls^{viii}. Possible reasons for this are:
- a) lack of familiarity with the process of making a reverse charge call;
 - b) being daunted by the procedure involved; and
 - c) a perception that the cost of a reverse charge call will be exorbitant to Party B (the called party).

43. That persons have been turning to the 000 Emergency Call Service instead of making reverse charge calls, and perhaps jeopardising the effectiveness of the service to provide assistance in real emergencies, is another reason to closely examine the introduction of the recommendations below to improve the reverse charge call industry.

Recommendations

Recommendation 1: All mobile phones should have access to reverse charge calls

44. In order to enhance the public service principle that was the initial rationale for having payphones, i.e. a readily available service point for making urgent contact with friends or relatives, all mobile carriers should voluntarily, or through an ACMA industry standard enable the function of zero rating to all reverse charge call service providers. Zero rating the phone number or phonename of the operator will enable children (and others) who have depleted the credit on their prepaid mobile to call the reverse charge call service in urgent and necessary situations

Recommendation 2: The procedure for making reverse charge calls should be simplified

45. In order to both lower the cost of reverse charge calls paid by the receiving party, and to simplify the procedure to be used in effecting a reverse charge call to a fixed line, Telstra should enable fixed line billing for all service providers based on a service fee related to volume of calls.

Recommendation 3: All payphone operators to enable telephone numbers of all reverse charge call service providers

46. In order to enhance the public service principle that was the initial rationale for having payphones, i.e. a readily available service point for making urgent contact with friends or relatives, all payphone owners should voluntarily, or through an ACMA industry standard enable the telephone numbers of all reverse charge call service providers, and allow those providers full access to the network. By providing full access to the private payphone network, the safety of all users (mainly children) of reverse charge call telecommunication facilities will not be compromised in urgent and necessary situations.

Conclusion

47. Reverse charge calls are an important component in the basic framework of emergency communications available to all Australians. In many situations the calls are not discretionary. The calls are often reflective of an urgent need to contact parents, relatives and friends in a situation where the calling party has no money to make a call from a payphone, nor credit on their mobile phone.
48. Consumers of this service expect that the calls can be made from any telecommunications device and that they are simple to make. In addition, called parties would expect that the fees they need to pay are reasonable.
49. We strongly urge the government, and all interested parties involved in the sector to give consideration to the above recommendations. The recommendations are aimed at creating an efficient reverse charge call industry that complements the overall emergency telecommunications framework in Australia, with particular benefit towards assisting in the safety of young Australians.

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ⁱ Reverse Corp Limited Prospectus of 8 November, 2005 Page 26 (figure 3.2)

ⁱⁱ Ibid 27 (figure 3.3)

ⁱⁱⁱ Ibid Page 25 (para.3.2)

^{iv} For example the market share notification thresholds in the 2008 ACCC Merger Guidelines, page 8.

^v The Tritel payphone network was purchased by Reverse Corp. Limited (1800 REVERSE) in May 2007

^{vi} Op Cit Reverse Corp Limited Prospectus page 13 (para.1.2)

^{vii}): <http://www.tio.com.au/POLICIES/Billing/Reverse%20charge%20calls%20-%20ailure%20to%20advertise%20rates.htm>

^{viii}): <http://www.smh.com.au:80/news/national/triple0-cooking-tips-recipe-for-disaster/2008/12/30/1230399166263.html>