Learning Lessons from Regulatory Interventions: Mobile Number Portability

Vodafone Group

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1. Introduction

- Mobile Number Portability (MNP) – a regulatory "no brainer?"
- First introduced in 1997 in Singapore. It was later introduced the UK (1998), Hong Kong (1999) and the Netherlands (1999).
- Now all EU countries are required to have MNP under Universal Service Directive.
- Transformed from a regulatory intervention to a user right in EU
  - Why?
  - What can we learn from original expectations of MNP?
  - Were those expectations satisfied?
3. Mobile Number Portability (MNP): Overview

**Competition**
- Expectation that general competition will increase
- Greater freedom, flexibility, and choice for consumers
- Assistance to attract customers to move from larger operators

**Regulatory Policy**
- Extension of existing number portability practices applied to fixed network
- Need for intervention
- User right

**Costs and Consumer Benefits**
- Lower cost or perceived barriers to changing providers for consumers
- High users with need to keep numbers benefit the most (e.g. SMEs)

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3. International Experiences

**Countries with MNP**
- 1997 Singapore
- 1998 UK (delayed until start of 1999)
- 1999 Hong Kong, the Netherlands
- 2000 Spain, Sweden, Switzerland
- 2001 Australia, Denmark, Italy, Norway
- 2002 Belgium, Germany, Portugal
- 2003 France, Ireland, Luxembourg, Austria, Finland, Iceland, Greece
- 2004 USA, Slovakia, Slovenia

**Case Study Countries with MNP**

<table>
<thead>
<tr>
<th>Country</th>
<th>Increase Competition</th>
<th>Avoid Cost of Number Change</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Yes</td>
<td>Yes</td>
<td>CBAs elsewhere</td>
</tr>
<tr>
<td>Germany</td>
<td>Yes</td>
<td>Yes</td>
<td>Positive CBA</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>Yes</td>
<td>Yes</td>
<td>Assist 3rd operator &amp; ‘greenfield’ 3G</td>
</tr>
<tr>
<td>Ireland</td>
<td>Yes</td>
<td>Yes</td>
<td>User right &amp; ‘greenfield’ 3G</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Yes</td>
<td>Yes</td>
<td>User demand</td>
</tr>
<tr>
<td>UK</td>
<td>Yes</td>
<td>Yes</td>
<td>User demand</td>
</tr>
</tbody>
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3. Mobile Number Portability (MNP): Regulatory Perspectives

- Selectively aiding particular competitors (new entrants)
  - Enthusiastic pro-MNP operators tend to be small or new entrants
  - In reality, MNP benefits the networks that people wish to port to

- MNP would not exist without regulatory intervention
  - Issues such as process delays, win-back, etc. indicate need for supervision of implementation

- Importance of Consumer behaviour
  - Impact of MNP depends on consumer response to an option created through intervention
  - Voluntary exercise of the option

3. Mobile Number Portability (MNP): Mobile versus Fixed

- Number Portability more important for stimulating Fixed Network competition
  - Business customers: importance of MNP may vary depending on size of business;
  - Service provider and dealer structures make mobile more complicated than fixed sector

<table>
<thead>
<tr>
<th></th>
<th>MNP</th>
<th>FNP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing competition</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Calling circle</td>
<td>Small</td>
<td>Large</td>
</tr>
<tr>
<td>Customer churn</td>
<td>High</td>
<td>Low</td>
</tr>
</tbody>
</table>

➤ OVUM concluded "the net benefit of Mobile Number Portability will be lower than for Fixed Network Portability" (MNP, OVUM, 2000, p.34-??????)
3. Mobile Number Portability (MNP): Competition Perspectives

- Incremental churn for specific customer groups
  - Intensive users with large calling circles
  - Small businesses

- Unclear how broad benefits of competition would accrue to other groups
  - Retention offers could be easily targeted to these groups

- No evidence of porters being “serial churners”
  - May explain lack of sustained porting rates

3. Mobile Number Portability (MNP): Cost Perspectives

- Different types of costs
  - System set up costs
  - Initial Porting Costs
  - Ongoing incremental call conveyance costs
  - Incremental service development costs

- Large element of fixed costs
  - How does this impact cost/benefit analysis in small markets?

- Different models of who bears costs
  - “Each bears own” dominates for System set up costs
  - Various models exist for initial porting costs and call conveyance
  - Linkage to principles of cost causation and incentives for efficiency
3. Mobile Number Portability (MNP): Small Operators

- Not clear why small operators considered to benefit most
  - Short term release of latent switchers
  - Longer-term would expect to see preferred networks gain

- Evidence from US
  - 12 months after implementation:
    - 7.8 million customers ported (30 million forecasted)
    - Most customers ported to the largest mobile operator (Verizon*: market position #1)
      and one of the smallest mobile operator (T-Mobile: market position #4)
    - Limited fixed to mobile porting (13,000 to 165,000 per month)

4. International Experiences: EU

EU
- “In the European Union MNP has become an absolute user right through Article 30 of the Universal Service Directive of March 2002. It is interesting to follow the evolution of policy here from a position in which MNP is seen as being conditional on the benefits outweighing the costs to one in which MNP is a right to be made available to all irrespective of cost.” (Ovum, Study for Vodafone, 2004)
- Mobile penetration nearing saturation; customer movement became an issue
  - Reduce barriers for new 3G licensees to attract customers

US
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5. Key points

• Retrospective review reveals expectations that were not always realised

• General competition benefits of MNP
  • Only one factor influencing churn
  • Major benefits accrue to subset of consumers

• Cost of MNP implementation contains large fixed element;
  • Cost/benefit linked to size of countries

• Long-term or secondary consequences not always fully considered