



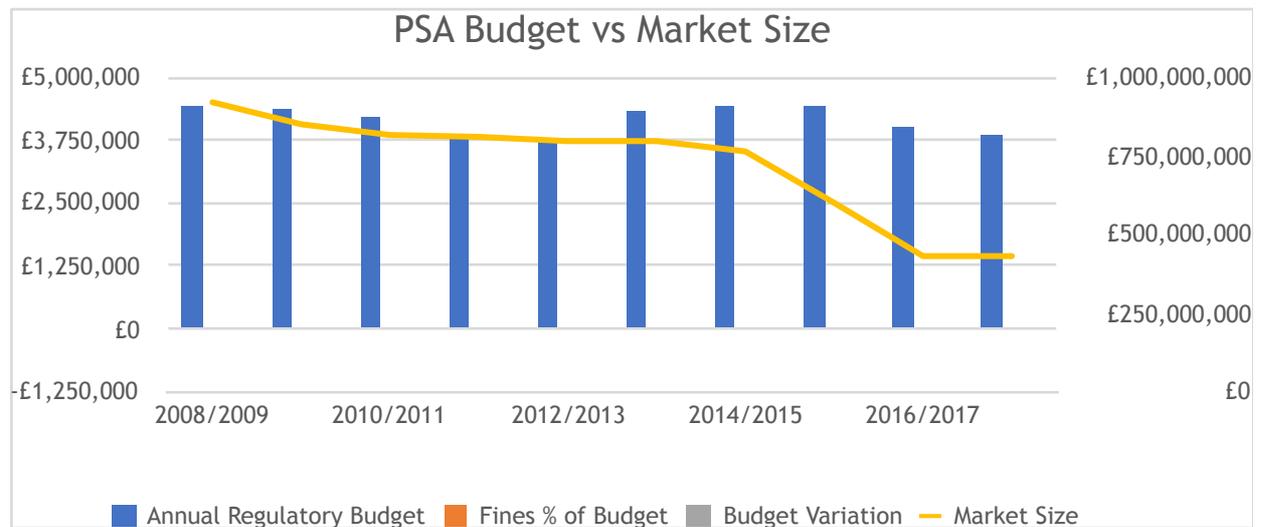
Summary of Regulatory Analysis (2009 to 2017)

Enarpee Services have kept a detailed record of every fine issued by the appointed agency for Regulation of Premium Rate Services (Phone-paid Services Authority), since 2008/2009.

Our latest analysis which includes up to and including April 2017, highlights in detail, the cost of Regulation on the UK Market, and the impact this has had on the Market Size. Whilst the Phone-paid Services Authority is primarily a Consumer Protection Organisation, the data demonstrates in our view there is no evidence of growth encouragement within the industry, and all the time the costs for enforcing regulation are overall, increasing. This analysis is demonstrated by the following figures showing the comparison between the years ending March 2017 and March 2009.

Market 2017 vs 2009	-£489,500,000
PSA Budget 2017 vs 2009	-£550,000
Fines 2017 vs 2009	£1,827,250
Average Fine 2017 vs 2009	£210,089
Alleged Breaches 2017 vs 2009	-431
Complaints/Breach 2017 vs 2009	-1370

The size of the UK Market has decreased by 53%, but the PSA budget has only decreased by 13%. Meanwhile fines have increased by £1.8m (73%) and the average fine issued by the PSA has increased by £210,089 (677%). To compound the impact on the UK market overall, the number of alleged breaches has decreased by 431 (90%) and the volume of consumer complaints which led to a formal breach being raised against a provider has also decreased by 1,370 (32%) compared to 9 years ago.



*Source: PSA Market Data. Fine and Complaint Figures extracted from PSA Web-Site

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The PSA Regulatory budget has not been commensurate with the reduction of the UK Market. As referenced above, it has only reduced by 13% in 9 years. The proposed budget for this Financial Year is only 3% lower than the previous year, and PSA have optimistically forecast no reduction in the overall market size on the previous year of £430.5m. Enarpee does not have any evidence to support this optimism, and indeed from our own research, would consider it to be a success if the figures remained at that level. Our own forecast for 2017/2018 estimates the market value to reduce to £395m, a reduction of 8%. This reduction is due largely to an increased regulatory burden by the introduction of 'special conditions'.

The proportion of the PSA Budget compared to the UK Market size 9 years ago has almost doubled from 0.49% in 2008/2009 to 0.97% in the current year (assuming our market size forecast of £395m is accurate). However, even using the PSA Market Forecast of £430.5m, that budget figure would still be 0.89% which still represents a significant increase in Regulatory Cost.

2016/2017 Fine Analysis

During the last full year, the PSA issued fines of £4,340,000 which is an increase on the previous year of £2,142,000 (49%). This also represents 109% of their annual operating budget. Fines levied and collected by the PSA are used towards reducing the levy on funders in the following year. However, and despite formal requests, the PSA have thus far refused to provide figures on the fine collection rate.

	2015/2016	2016/2017
Market Size	£600,000,000	£430,500,000
Total Fines	£2,198,000	£4,340,000
Average Fine	£109,900	£241,111
No. of Complaints (Breach)	1,653	2,969
% of Breaches Upheld	98.25%	93.75%

The trend for fewer cases but larger fines is invariably to demonstrate its neutrality. However, the subject of neutrality is a complex one, as the CAP are appointed by the PSA Executive Board. Our view is such appointments should be completely independent of the PSA and one for Ofcom, however, that argument is for another time. The trend for a lower volume of cases was forecast by the leading trade association AIME, who applied pressure consistently to treat less serious cases via the informal (Track 1) procedure.

The last year also showed many similar type of cases relating to 'Consent to Charge' issues on Glamour Content Services where there was no independent and robust consent to charge in place.



2017/2018 - Early Indicators

Whilst we are only in May (1 month into the new FY), the PSA has hit the ground running with 1 huge fine resulting from a single case, of £645,000. This may be perfectly justified, but pointless in equal measure should they not benefit from full receipt of the fine itself. However, with increased regulation being introduced by the PSA with the introduction of 'Special Conditions' and the MNO's now being more robust in enforcing their mandate for certain categories of services utilising Payforit (PFI) at the expense of PSMS billing, the market value overall will continue to reduce, and there should be much less formal (Track 2) cases for the PSA to investigate. We are evidencing current investigations focussing on services from 2016 which are no longer being provided or marketed, and once these are concluded, it is hard to see what services there are left which the PSA can focus on. We would hope that 'less serious' cases are always dealt via the least formal process of adjudication by consent via the Informal (Track 1) process.

PSA Accounts

Finally, an overview on the financial health of the PSA.

The PSA's most recent accounts up to and including 31st March 2016 show as follows:

	<u>2016</u>	<u>2015</u>
• Turnover	£4,602,947	£5,044,505
• Pre-Tax Profit	£8,213	£8,828
• Long Term Liabilities	£0	£2,375,038
• Provisions	£1,394,154	£227,476
• Trade Debtors	£1,354,244	£362,629
• Working Capital	£3,359,712	£2,313,285

The next accounts are not due until 31st December 2017. (*source - Experian Business Risk).

It would appear on review; the PSA is making appropriate contingency should they receive notification to cease operations. The PSA have no declared liabilities, but what is of concern of course, is the increase in trade debtors (non-collection of fines?).

For the complete analysis, you can purchase this report from Enarpee. You will also receive each month, the latest analysis and commentary. A copy of the PSA Credit Report and financials can also be provided as part of this report, should you request it.