

# Citizens Advice Scotland

Scottish Association of Citizens Advice Bureaux



## Tackling unexpectedly high bills – the consumer experience

### Response from Citizens Advice Scotland

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Citizens Advice Scotland and its CAB offices form Scotland's largest independent advice network. CAB advice services are delivered through nearly 200 service points throughout Scotland, from the islands to city centres.

The CAB service aims:

to ensure that individuals do not suffer through lack of knowledge of their rights and responsibilities, or of the services available to them, or through an inability to express their need effectively

and equally

to exercise a responsible influence on the development of social policies and services, both locally and nationally.

The CAB service is independent and provides free, confidential and impartial advice to everybody regardless of race, sex, disability or sexuality.

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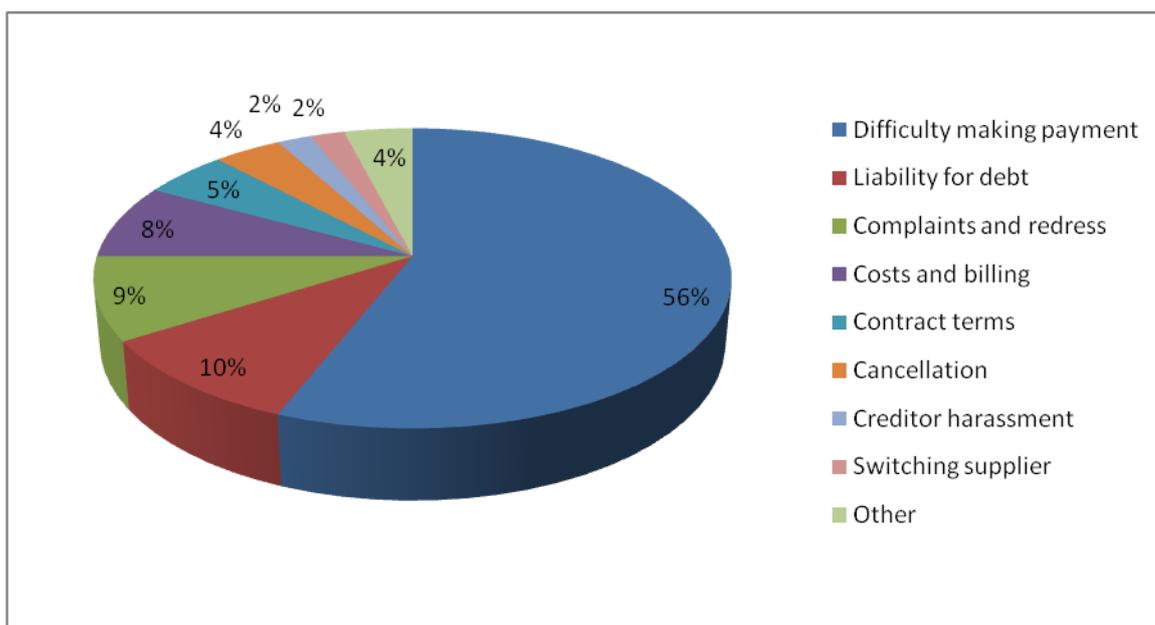
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# Introduction

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1. Citizens Advice Scotland (CAS) is the umbrella organisation for Scotland's network of Citizens Advice Bureau (CAB) offices. These bureaux deliver frontline advice services throughout nearly 200 service points across the country, from the city centres of Glasgow and Edinburgh to the Highlands, Islands and rural Borders communities.
2. In 2009/10, Scottish Citizens Advice Bureaux dealt with over half a million new issues for clients. Over 128,000 of these issues related to consumer issues – over 350 for every day of the year. More than 24,000 of these new problems were issues relating to utilities and communications, and telephone debts is the eighth most common consumer issue brought to bureaux.
3. Figure 1 shows that the majority of landline and mobile phone issues dealt with by the CAB service in Scotland involve difficulty making payments or disputing liability for payments. The types of problems that clients reported varied by communication method. For example, clients with landline problems were more likely to report issues with costs/billing and switching. Clients with mobile phone problems reported more complaints and contractual issues.
4. **Figure 1: Telecommunications issues in 2009/10**



5. CAS welcomes OFCOM's research into the consumer experience of unexpectedly high bills for telecommunications services. An understanding of the causes and impact of unexpectedly high bills, or "bill shock", is important to monitor the service provided by telecommunications providers, and to ensure that consumers are being treated fairly and that their consumer rights are protected.
6. Evidence from citizens advice bureaux across Scotland supports OFCOM's concern that despite research findings showing that this is not a common

occurrence for consumers, these bills can cause significant harm for those who experience it.

# Reasons for receiving an unexpectedly high bill

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## Misleading selling practices and unclear terms and conditions

7. Evidence from bureaux across Scotland shows that misleading selling practices, or mis-selling, can cause unexpectedly high bills. The regulations state that providers must ensure that consumers get the information they need at the point of sale. However, bureaux clients report being sold contracts and only discovering on the arrival of their first bill that the tariff they are contracted to is not what they had chosen, and often a lot higher than expected:

**An East of Scotland CAB** reports of a client who regrets moving landline provider. She was telephoned by a provider when she was unwell and was talked into switching. They said they were part of the provider she was already with. She tried to cancel her contract but was not successful. The line rental is £9.99 pm and she pays £7.99 for unlimited calls to local numbers. Calls to mobiles are separately billed and other charges have brought her bill to around £40 pcm. The bills continue to creep up - her last one was £166.70. Despite paying £7.99 for unlimited local calls in her original contract, this latest bill shows £77.26 charges for non itemised local calls and the £7.99 charge against unlimited UK business calls.

**A North of Scotland CAB** reports of a client who signed up for a package from a landline provider but was billed for a different one. She was then charged late fees while awaiting the outcome of her complaint. Eventually the company realised their error and admitted that they were in the wrong and that the client had received the wrong package from the start. They agreed to remove the late payment charges from the bill. The next bill that the client received was still for the wrong package and still had the late payment charges on it.

8. Consumers should be given the opportunity to make an informed decision about the products on offer, and should understand the contract they have signed. Terms and conditions for telecommunications services should be communicated in a clear, comprehensible and accurate manner, whether the sale is made in person or by telephone.
9. Regulations state that when a consumer is entering into, or amending a telecommunications contract, they should receive a full description of the service on offer, including: the key charges, the cancellation procedure and any early termination charges, any minimum period of contract and additional charges, and payment terms.<sup>1</sup> Evidence from bureau clients suggests that in

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<sup>1</sup> General Condition 23 and 24 from OFCOM General Conditions of Entitlement as at 30 July 2010: <http://stakeholders.ofcom.org.uk/binaries/telecoms/ga/cvogc300710.pdf>

some cases this does not happen. Some unexpectedly high bills are a direct result of providers failing to adhere to these regulations:

**A West of Scotland CAB** reports of an elderly client who has been with the same landline provider for a number of years. She was contacted by the company and advised to change her service to save money. She was told that the new plan would cost her just over £10 a month. She was delighted and agreed to the change. She did not receive a bill the following month which she assumed was due to administrative issues, but she then received a quarterly bill for over £60. She was very angry and phoned the company to complain. She recounted what she had been told: her bill could be paid monthly and would be just over £10 a month. The salesperson said this was not possible with the price plan. The client said how unhappy she was and that she wanted to cancel the new contract. The client then got a final bill for £163.53, including a cancellation charge of £99.45. She had not been informed about the early termination charge. She phoned to complain again and the person she spoke to this time informed her that she could have paid monthly but been billed quarterly. The client would not have cancelled her contract if she been told this initially and would not have incurred the high cancellation costs. The client is distraught at her treatment after being a loyal customer for years.

**A North of Scotland CAB** reports of a client who took out a mobile phone contract at £20 per month. A month later her account was debited £41.84. As this was more than she expected she complained and cancelled the contract giving 30 days notice. She was told that the first payment was large because she had been billed for 2 months and that next month's bill would be less. The following month she was billed less but the month after, £101.05 was debited from her account. The client went to the shop for an explanation for the high bill but was told to await her bill. When the bill arrived it showed a final figure of 600 minutes with only 160 minutes being included in the monthly contract and the rest charged - making a total of £101. The client did not understand this as her contract included 600 minutes of free calls. Eventually it was established that because the contract was cancelled part way through a billing period the number of free calls included was pro rata. The client had never been told what her billing period was, but had assumed it would start on the date the contract was signed. When asked why this was not the start date, the sales rep replied "it never is" and explained that there are no free calls at the start of the contract and that these only start when the billing period commences, which is on a date determined by the company and not communicated to the client.

## Early Termination Charges (ETC)

10. The client evidence above highlights another factor which contributes to unexpectedly high bills: early termination charges. As stated above, the provider must ensure that the consumer is aware of all key charges at point of sale including ETC. Our evidence shows that many clients are not being made aware of these charges, and experience bill shock when receiving their final bill. It should be noted that our evidence suggests that consumers cancel contracts because they feel they have been mis-sold a contract, and in many cases have had to cancel because the costs are too high and they cannot afford them. The failures of service providers to explain contracts and the associated charges can leave clients in financial difficulty.

**An East of Scotland CAB** reports of a client who purchased a smart phone and contract from a well known provider. She received an unsolicited call from them just after signing the contract selling an upgrade to her existing service. She unwittingly entered into a 24-month contract at £35 pcm. She never received any contract or paperwork from them. Due to a change in her financial circumstances, the client is struggling to make payments and has appealed to the company to cancel the contract. They maintain it will cost in excess of £600 to do this. The client cannot afford this and does not know what to do.

## Exceeding inclusive services

11. OFCOM's research lists 'calls that are not included in bundle', and 'exceeding an inclusive bundle' as common reasons for bill shock. Bureaux evidence supports this, and clients report that despite being aware of their contract and tariff, they still find themselves exceeding their limit.

**A South of Scotland CAB** reports of a client who has a smart phone. Since September she has incurred a bill of £76 when she states she has only used the free texts, etc. Her bill includes calls abroad and picture-texts which she did not use. She is outwith the 14 day cooling-off period and the contract is for 18 months. The client wanted advice on how to get out of the contract as she cannot afford to continue.

**A North of Scotland CAB** reports of a client who had cancelled her mobile phone contract due to her dissatisfaction with the provider and the fact she was charged more for the service than she had expected. When her final bill came, she was surprised to see that the number of minutes she had been charged for did not match up with the information she received from the company the day before she cancelled her contract. When the CAB adviser contacted the company, they stated that the helpline can be 72 hours out of date when it informs a customer of the number of free minutes left, and that in her case she had been wrongly advised by the phone company due to the 72 hours delay.

12. A bureau social policy co-ordinator commented on this procedure:

*"Does it really need 72 hours delay when informing customers of the number of minutes they have left - this seems like deliberate policy to take more money from customers than they expect."*

## Infrequently used services

13. Scottish citizens advice bureaux receive evidence from clients who have experienced bill shock after using services which they would not normally use. These include using mobile services abroad and data-roaming.

**A West of Scotland CAB** reports of a client who works in Malaysia for 6 months of the year. He had a mobile contract but as he was not using it, he phoned his provider and asked to cancel the contract. He was advised that it would be cheaper to keep paying the bills until his contract ended. He removed the sim card from the phone and when the contract ended, he cancelled it and cut up the sim card. On his return to Scotland, he found a direct debit of £5,500 had been taken from his bank account by the provider leaving him in overdraft. His sister's phone has a £200 cut off when roaming and he cannot understand how he has accumulated £5,500 for usage which he could not have made.

**An East of Scotland CAB** reports of a client who had taken out a contract on behalf of her son. This included internet access for an extra fee of £5.99 pcm. Her son was in the USA at the time of the volcanic ash flight disruption and had problems with his return as his phone had been blocked. The client phoned the provider to unblock the phone so as to allow communication during the crisis. It was only then that she discovered her son had run up a bill of just under £2000, almost entirely for internet use while in America. The client is reluctant to pay the bill as she contacted the company before her son's departure to enquire about the tariff whilst in America. As she had the internet extra option as part of her contract, the company should have alerted her to the extra charges for this.

14. The level of the bills in these cases show that whilst this type of bill shock is not as common as that which arises from contract transparency issues, the impact these high charges can have on the consumer is nevertheless great..
15. Currently there are regulations in place to protect consumers from bill shock resulting from service use and data-roaming whilst travelling in the European Union, but no protection outside the EU. Some providers have introduced limits to the amount of data usage whilst roaming worldwide, and will cut off the connection when the consumer reaches this limit. Measures such as these are welcomed but more should be done to educate consumers on the additional charges they may incur whilst travelling, and to protect them from bill shock arising from services used abroad and data-roaming.

## Impact of “Bill Shock”

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16. CAS shares OFCOM’s concerns surrounding the impact of bill shock on consumers.
17. The evidence provided by Scottish bureaux shows that bill shock can occur due to a variety of reasons including mis-selling, unclear terms and conditions, early termination charges, exceeding usage and bundle, and from infrequently used services.
18. The impact that these bills can have on consumers varies depending on the level of the bill, the reason for the bill, and the resolution. Common consequences of bill shock include further charges, debt, creditor harassment, and in some cases disconnection. Clients also report suffering financial hardship as a result of the bill.

### Further charges and final demands

19. The impact which unexpectedly high bills has on the client starts with the initial shock of receiving the bill, but bureaux evidence shows that sometimes this can be just the beginning of the client’s problems.
20. Evidence from bureaux shows that clients who decide to end a contract due to the higher than expected costs in maintaining the contract, are often hit by further charges they were not expecting when cancelling.

**An East of Scotland CAB** reports of a client who has had issues with her landline provider since the contract started. Her monthly agreement was £20.48, but the first bill was £103. The client states she had never been connected to the internet and only had her telephone for 1 week before cancelling, so cannot understand how the charges are so high. She phoned the company for a breakdown of the charges but no explanation was given. The debt has now been passed to a debt collection agency and the client has received notice that the debt now stands at £210.92. Despite contacting the company continuously to challenge the debt, the client continues to receive letters from 3 separate debt collection agencies.

**A West of Scotland CAB** reports of a client who has had problems with unsolicited premium texts. These were sent every 30-60 seconds constantly for 6 weeks. He has been in contact with his provider and thought that the issue was resolved but he has now started to get letters from debt recovery agencies.

21. Many clients report that whilst disputing a bill or following the complaints procedure, they continue to receive final payment demands and are threatened with debt collections agencies:

**A North of Scotland CAB** report of a client who continues to receive bills from a landline provider she cancelled 5 months ago. She received confirmation at the time of cancellation advising that she was no longer a customer. The client is very distressed and concerned that her credit rating may be affected as the bills threaten her with debt collectors.

## Financial hardship

22. Bureau evidence suggests that clients on low incomes with basic landline packages also experience bill shock. The following cases show that clients can be left in financial hardship after receiving an unexpected bill which they have not budgeted for, and in some cases, are not responsible for.

**A North of Scotland CAB** reports of a client who is a single mother with two children. Her only income is Income Support and other benefits. She had a problem with her phone and believed it to be an issue with the line. She called her provider who sent an engineer who fixed the fault in minutes. The engineer advised that she would not be charged as the fault was with the line. The client subsequently received her phone bill showing the addition of £127.99 for a call-out charge relating to this incident. On phoning the company she was told that she had no option but to pay the full amount as it was her responsibility. She cannot afford to pay the bill and feels that as she pays line rental, the line is the company's responsibility.

**A North of Scotland CAB** reports of a client who has been on a basic landline package which allows incoming calls only for the past 2 years. He pays £10.73 per quarter but he recently received a bill for £38.37 per quarter. The client is on Income Support (IS) and cannot afford this so he returned the bill without payment. He was phoned by his provider to say that £10 has been added to the bill for non-payment. The client has been informed that the package he was on has been discontinued and that the new scheme has a monthly rental of £12.79 plus a £4.50 processing charge as the client does not pay by direct debit. The client cannot afford this increase. The client has been advised of another package for people on IS at £13.50 per month but has been told that the outstanding bill of £48.37 will have to be paid.

## Young people, 'bill shock' and debt

23. CAS is particularly concerned about OFCOM's research findings that younger people (16-34) are more likely to receive an unexpectedly high bill. CAS's 2009 report, *Drowning in Debt*, showed that more than half of young debt

clients held a land line or mobile phone debt, and were almost five times more likely than older clients to hold this type of debt.<sup>2</sup>

24. Over half of the young people in the report attributed their debt problems to money mismanagement. This may be a result of financial inexperience, and for young consumers an unexpectedly high bill may be the catalyst in not being able to manage their finances.

**An East of Scotland** CAB reports of a young client who was contacted by a mobile phone company. The client agreed to the contract over the phone and was advised that the contract would be with another provider for £79.26 per month; however the client would be sent a discount voucher of £50.00 by cheque prior to his monthly bill for the first year of the contract. For the first two months of the contract the client received the vouchers on time but the third was late. He did not receive a voucher at all the following month. The client stopped making payments because of this. He has now received a letter from the contracted provider asking for £2,500 from him in phone costs.

25. A mobile phone contract is arguably one of the first financial commitments a young person may have, and an unmanageable bill at this age could initiate budgeting difficulties and/or eventually debt as one young man from the *Drowning in Debt* report describes:

*“I got a contract phone when I was about 17 or 18 and that’s following me around...I got a credit card about the same time and that had a £200 limit but that has gone up to £800 with charges and stuff and has been passed to different debt companies.”*

26. Providers should take greater responsibility to ensure that young consumers are informed in line with the regulations surrounding contract transparency and information at point of sale. CAS believes that they should go further to educate young consumers about the service provided and different tariffs and packages to empower them to make informed decisions about what they need and what they can afford. The consequences of non-payment of bills should also be explained to the young consumer at the point of sale.

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<sup>2</sup> Gillespie M, McKendrick J, Dobbie L and McHardy F (2009) *Drowning in Debt: Scottish CAB Clients and Debt*, Citizens Advice Scotland: Edinburgh

## Prevention and recommendations

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27. CAS is concerned that the majority of reasons for bill shock given in this response stem from the provider's failure to communicate important information about the service and product to the consumer.
28. In order to prevent bill shock, providers must adhere to the existing regulations concerning mis-selling, contract transparency, and information at point of sale. CAS is concerned that the guidelines supporting these regulations are vague and as a result, providers may not be following them as stringently as they should. For example, in General Condition 23 it states that the provider must use "reasonable endeavours" to ensure that the consumer is provided with all relevant information at point of sale rather than stating that they must ensure that the provider supplies this information. Regulators should tighten up the general conditions and guidelines to ensure that providers comply with mandatory conditions when selling to consumers.
29. Examples of "best practices" in OFCOM's *Guidance on unfair terms in contracts for communications services* should become compulsory: currently the regulators state it is "very important that suppliers make it clear to consumers the level of the early termination charge at the point at which the consumer is considering cancelling their contract".<sup>3</sup> CAS recommends that this best practice become part of the mandatory general conditions as our evidence shows that bill shock occurs as a direct result of consumers not being aware of ECTs when terminating a contract.
30. Evidence from bureaux shows that some internal complaints and resolution procedures are not effective. Many consumers find it difficult to get an explanation as to why the high bill occurred and report the process to be lengthy and time consuming. Consumers are continuing to receive payment reminder letters and disconnection notices despite disputing liability for the bill. CAS recommends that the complaints procedures should recognise the significant harm that constant letters and creditor harassment can cause consumers, and that processes should be in place to suspend further payment reminders and passing on debts to collection agencies until the complaint has been resolved.
31. In many of the cases provided by bureaux, the consumer is not aware that they have been misled or have not been given information about the contract that the provider is legally obliged to communicate, and that this has caused the high bill rather than an oversight on their part. More should be done to educate and inform consumers of their statutory rights as a consumer. A contract is a legally enforceable agreement between provider and consumer but our evidence suggests that consumers are not being made aware of the provider's obligations to them. CAS recommends that regulators and providers make consumer education and empowerment a priority in order to reduce bill shock and the associated issues.

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<sup>3</sup> OFCOM, *Guidance on unfair terms in contracts for communications services*. Available: <http://stakeholders.ofcom.org.uk/binaries/consultations/addcharges/statement/Guidance.pdf>

32. A particular concern for CAS is that bill shock is twice as common amongst young people compared to other age groups. Previous research shows that unmanageable finances at a young age can lead to continuing debt problems.<sup>4</sup> Providers should take additional measures to ensure that the young consumer is aware of contract terms and conditions and the mutual obligations that exist.
33. Regulators and providers should focus specifically on the young consumer when educating and informing to generate and maintain consumer empowerment.

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<sup>4</sup> Dryburgh K, Hussain A and Lancashire M (2011) *Being Young, Being Heard*, Citizens Advice Scotland: Edinburgh

## Conclusion

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34. CAS welcomes OFCOM's research into bill shock and the consumer experience, and believes that in order to understand the issue and the impact bill shock can have on consumers, it is important to invite consumers to share their experiences.
35. Evidence from across Scottish bureaux shows that bill shock mainly arises from the failure of some telecommunications companies to follow regulations: mis-selling; unclear terms and conditions; and the failure to inform consumers of tariffs and costs, contract lengths, and payment terms are the direct cause of unexpectedly high bills in our case studies.
36. Unexpectedly high bills can cause significant harm to the consumer including debt, creditor harassment, financial hardship, unnecessary stress and in some cases disconnection of a crucial method of communication.
37. In order to prevent consumers experiencing bill shock, more must be done to ensure that providers adhere to regulations; examples of "best practice" in the regulations should become mandatory; and regulators and providers should make consumer education and empowerment a priority with particular emphasis on young consumers.