

Is it time to introduce email portability?

19 April 2017

This week marks ten years since the Commerce Commission (Commission) first introduced regulation of ‘number portability services’ for both local and mobile telephone numbers. This regulation enables customers to keep their phone numbers when they switch providers. This means that if, say, Spark is offering a great deal on a mobile package and, say, a 2degrees customer wants to switch, she doesn’t have to worry about having to change her phone number and all the hassle that involves. The Commission recently decided to extend the regulation of local and mobile number portability (LMNP) services for a further five years on the basis that this would promote competition by:ⁱ

“...enabling end-users to switch service providers, with the costs being absorbed by the service provider that gains the customer, thereby promoting competition for the long-term benefit of endusers. Regulating the LMNP Services removes one of the most significant potential barriers for end-users who wish to switch service providers and enjoy the benefits of competition. It also removes a potential barrier to entry for firms wishing to enter the market or expand their service offering.”

However, even if a customer can retain the same telephone number when switching providers, there’s a chance that she won’t be able to keep the same email address. If she uses an email address provided by her retail service provider (RSP) – say, Spark or Vodafone – as part of a bundle of services (e.g., mobile and broadband) then, if she stops buying the other products, the notionally ‘free’ email services will stop. She’d have to either stop using her existing address and get a new one, or pay her current RSP a fee to keep her existing address as a ‘standalone’ service (assuming that’s even an option).ⁱⁱ Both options might be rather unpalatable, making the customer reluctant to switch.

Is it possible then that the good work being done by the Commission’s number portability regulations is being undermined by the absence of any equivalent regime for *email services*? The New Zealand Productivity Commission raised this possibility recently, when it observed that the absence of email address portability was “a remaining barrier to switching in the telecommunications industry”.ⁱⁱⁱ There’s undoubtedly the potential for a formal email portability regime to promote competition in ways that benefit consumers. However, as with any regulatory intervention, there would also be costs. The ultimate question is: which effect would dominate?

Changing email address can be a barrier to switching

Nowadays, many people will use email addresses provided by ‘over-the-top’ (OTT) providers such as Google or a personalised domain name (hayden.green@axiomeconomics.co.nz being one example). When these customers change their broadband and/or mobile providers they don’t have to worry about changing their email addresses, since they’re not ‘tied’ to any other products. However, a lot of people still use email addresses provided by their RSP – (e.g., hayden.green@xtra.co.nz), often because it was the first one they ever got and have used it



ever since. The prospect of changing this unique identifier to something else can be a bit of nightmare. Just think about it for a moment:

- How many online accounts does a typical customer have linked to her email address, e.g., online banking, insurance, social media, retail sites? Research done last year by Dashlane (see [here](#)) indicates that most consumers have around 100 online accounts linked to their email addresses – and this number is doubling every five years. That’s an awful lot of details to update – potentially hours and hours of work.
- If a customer doesn’t update all her details before changing email addresses, she could be locked out of those online accounts. Most sites send a ‘confirmation email’ to the previous email address before those changes can be made. If that address is no longer accessible, then she won’t be able to ‘click on the link’ to confirm the transfer. The same problem applies to forgotten passwords.^{iv}
- If the customer is a business, considerable time and effort may have been invested in promoting the way that customers can get in touch. There might be significant costs associated with updating your business letterheads and online templates to reflect the new details, reprinting all branded stationery, business cards and so on.
- A typical customer may have hundreds – perhaps even thousands – of contacts in her address book. Quite a lot of them may not bother to update their contact details in response to a ‘new contact details’ email and they might send future messages to the wrong place. One of those messages might contain a potentially lucrative business opportunity that goes amiss.

Many customers may not be prepared to incur the time, expense and risks associated with switching away from their RSP-provided email addresses. If they want to change mobile and/or broadband providers, they’ll therefore have to hope their RSPs provide standalone email services. However, these services are neither ubiquitous nor costless. For example, Spark charges \$5.95/month for standalone email services. Given the number of ‘free’ email services available nowadays (Gmail, Hotmail, etc.) it’s hard to imagine why anyone would be prepared to pay anything at all unless they faced material barriers to switching.

The potential costs to customers associated with moving away from RSP-provided email addresses, or retaining ‘stand-alone’ addresses if they ‘churn’ for other services (broadband and/or mobile) could therefore be serving as an impediment to switching. What’s more, any such problem is only going to get worse as the average number of online accounts linked to each email address increases. This may raise barriers to entry and diminish competition in retail telecommunications markets over the longer-term, increasing prices and reducing the quality of services that customers receive.

It may therefore be worth considering introducing a formal obligation on RSPs to allow churning customers to retain their existing email address. This might look something like the existing arrangements for local and mobile numbers, except for RSP-provided email. But, of course, there’s other factors that would need to be considered before anything like that was done. Most notably, any such arrangement would inevitably result in some new costs – at least in the short-term – and there are some questions surrounding the practicability of such measures. There’s also the question of how many RSP-provided email addresses we’re talking about and, whether it’s enough to be worried about.



Things to consider before taking any action

In theory, a formal email portability arrangement shouldn't be too difficult to design and implement. One approach would be to simply require the RSP losing a customer to forward all emails along to a new destination. But before placing such an obligation on RSPs, there's a series of questions that would need to be explored. Firstly, exactly how many RSP-provided email addresses are out there and being used? This is not a straightforward question to answer, since there's no publicly available data. But there's a good chance that it's a significant number.

The Commission's 2015 *Telecommunications Monitoring Report* indicates that there are around 1.45 million fixed broadband connections in New Zealand. Even if only a relatively small fraction of these connections use an RSP-provided email address (or addresses), then that still amounts to a substantial number, in aggregate. For example, if it's only 20 per cent (which is probably a significant underestimate), that's still nearly 300,000 email addresses. That's a lot of potentially 'sticky' customers. It's natural to expect that most of those addresses would be with the two largest RSPs – namely, Spark and Vodafone.

The next thing to consider is the costs of such reforms. Any increase in the rate of customer switching would give rise to additional retention costs, since customers wouldn't be 'locked-in' to the same extent – indeed, that would be the principal purpose of any such arrangement.^v There would also be costs associated with designing and implementing any framework – and with administering it over time. Unless the additional rivalry created by any reduction in barriers to entry and expansion was strong enough to outweigh those additional costs, customers might be harmed, overall. For example, an RSP might:

- increase retail prices for *all customers* – since it'd be unable to recover those additional costs from only those customers who switched providers;^{vi} and/or
- reduce the quality of the services it offered to all customers, e.g., by reducing mailbox size limits, and so on.

These adverse impacts could be mitigated to some degree through the application of a 'porting' fee. Specifically, if an RSP was permitted to levy a charge on a customer that churned – or on the 'gaining' RSP – that recovered any incremental costs, then this may reduce or eliminate any need to increase prices and/or reduce quality for 'non-churning' customers. Instead, much like with an early termination fee, any such costs would be recovered only from those customers that chose to switch providers. Naturally, this would raise several other issues for consideration, such as:

- what principles – if any – should be used to determine the magnitude of any such fees, e.g., whether they should be required to be 'cost-reflective'; and
- whether they might be permitted to vary across RSPs based on certain factors, or whether there should be the same for all providers in the industry.

Finally, questions surround the workability of any such arrangement. Porting emails via multiple locations would widen the scope for problems to arise 'in transit'. If a customer changes RSP multiple times, it's also possible that email could end up bouncing around multiple addresses – although, presumably, there'd be some way to avoid that scenario, i.e.,



by allowing each new RSP to deal directly with the first. Any email porting arrangement would also lead to an increase in the volume of traffic – including spam – due simply to the ‘multiple-handling’. This also would increase costs.^{vii}

Conclusion

In principle, a formal arrangement allowing greater email portability – perhaps with some form of regulated ‘porting fee’ – might well reduce barriers to entry and expansion, promoting competition in the long-term interests of consumers. It might also be viewed as a logical ‘next step’, given the analogous benefits that have been delivered by number portability. However, much would need to be considered before any such step was taken – including the number of people currently using email addresses provided by their RSPs and the cost and practicability of any such arrangements. That said, it’s certainly possible that email portability could be a good thing for consumers.

Hayden Green | Director, Axiom Economics

T +64 9 974 8056 | M +64 21 2664884

PO Box 5405 Wellesley St, Auckland 1141

E hayden.green@axiomeconomics.co.nz

-
- i Commerce Commission, *Determination for the designated multinet network services of ‘local telephone number portability service’ and ‘cellular telephone number portability service’, Final determination under section 36 of the Telecommunications Act 2001 (‘the Act’)*, 19 December 2016, §39.
 - ii A ‘hybrid’ option would be to obtain a new email address *and* retain the same address (for a fee, if the service was on offer) and arrange for email to be ‘forwarded’ to the new address – perhaps for a ‘transitional’ period
 - iii New Zealand Productivity Commission, *2nd Interim Report Competition and ICT Topics*, January 2014.
 - iv If a customer has forgotten her password, most password recovery functions will send an email to the registered email address – which the customer won’t be able to access any more.
 - v There may also be a reduction in advertising revenue (e.g., from web-based advertising on email homepages) or, at least, in the certainty of that revenue. However, any such reduction could be quite modest. For example, many people would no doubt access their emails from programmes such as Microsoft Outlook, which don’t have advertising content.
 - vi This can be contrasted with, say, an early termination fee which is paid only by those customers that terminate their contracts early, enabling providers to recover any such costs from those parties alone – leaving other ‘non-churning’ customers’ prices untouched. See: Green & Houston, ‘Assessing the Merits of Early Termination Fees’, in *Economics of Antitrust, Complex Issues In a Dynamic Economy*, 2007, p.59.
 - vii There are also a series of important practical questions that would need to be considered, such as whom a customer would – or should – call when problems are encountered and which companies would be responsible for addressing any such issues, how layers of spam filters would be applied, and so on.