ICASA

INDEPENDENT COMMUNICATIONS AUTHORITY OF SOUTH AFRICA

Briefing to Select Committee on Communications and Public Enterprises

Cost to Communicate

28 March 2018

Table of contents

ICT Sector Overview

1. Voice dominant revenue driver but declining due to exponential growth in data
   - Vodacom:
     - Group data revenue increased by 17.9% and Group voice revenue declined by 2.9%
     - Data traffic in South African operation increased by 43.2%
   - MTN:
     - Data revenue increased by 31.4%
   - Cell C:
     - Data revenue increased by 35% and voice revenue declined by 2%
     - Data traffic increased by 67%
2. Voice tariffs have decreased significantly since ICASA's intervention in the WCT market 2010
3. Growth in data usage driven by over the top services and content
4. Smartphone and tablet penetration growing at a rate of ~30% p.a.
5. Out-of-bundle rate per MB still high relative to in-bundle rates
6. Investment in infrastructure >R10bn pa
7. Uncertainty regarding future spectrum assignment to industry poses investment risks

Status Update on Data Tariffs

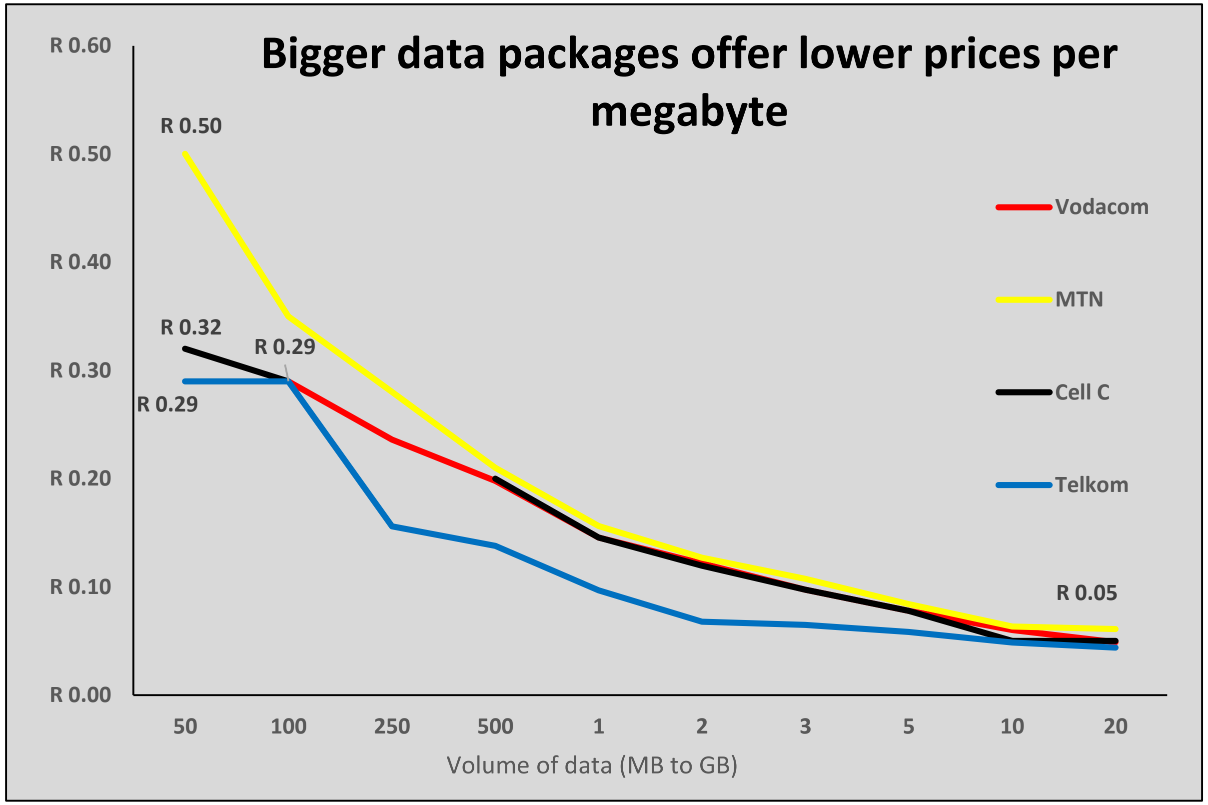
In –bundle rate per megabyte for prepaid data packages

Data	Unit	Vodacom (In-Bundle Rate MB)	MTN (In-Bundle Rate MB)	Cell C (In-Bundle Rate MB	Telkom (In-Bundle Rate MB
50	MB	N/A	R 0.50	R 0.26	R 0.29
100	MB	R 0.29	R 0.35	R 0.29	R 0.29
250	MB	R 0.24	N/A	N/A	R 0.16
500	MB	R 0.20	R 0.05	R 0.20	R 0.14
1	GB	R 0.15	R 0.16	R 0.15	R 0.10
2	GB	R 0.12	R 0.13	R 0.12	R 0.07
3	GB	R 0.10	R 0.11	R 0.10	R 0.06
5	GB	R 0.08	R 0.08	R 0.08	R 0.06
10	GB	R 0.06	R 0.06	R 0.06	R 0.05
20	GB	R 0.05	R 0.06	R 0.04	R 0.04

Out of Bundle per megabyte for prepaid data packages

Out of bundle per MB		R0.99	R 0.99	R 1.10	R 0.29

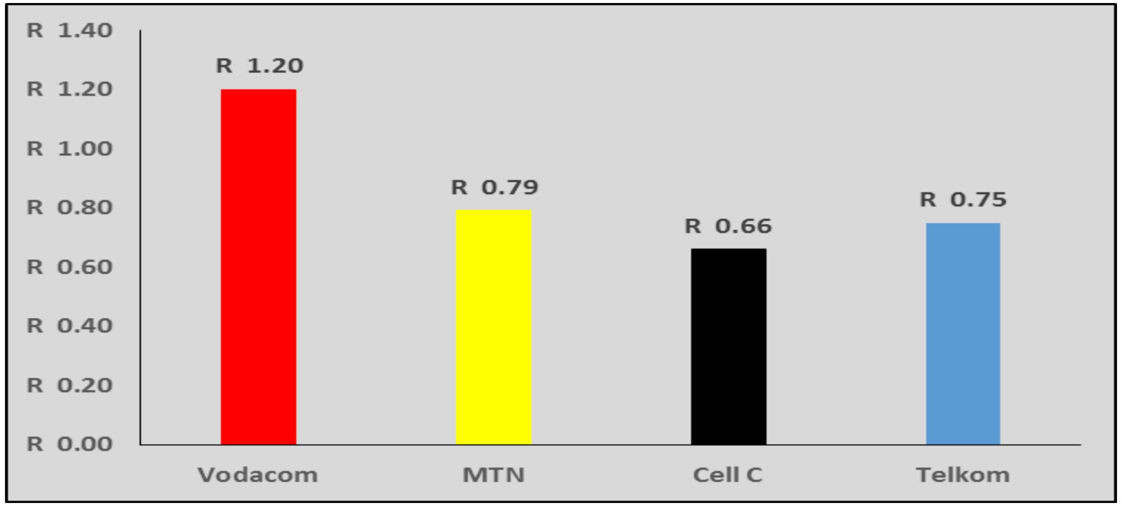
- Consumers buying large volumes of data benefit significantly from low in-bundle rates/MB
- Out-of-bundle rates are substantially higher than in-bundle rates
- Out-of-bundle rates/MB >50% than in-bundle rates/MB



Source: ICASA database based on tariff notifications

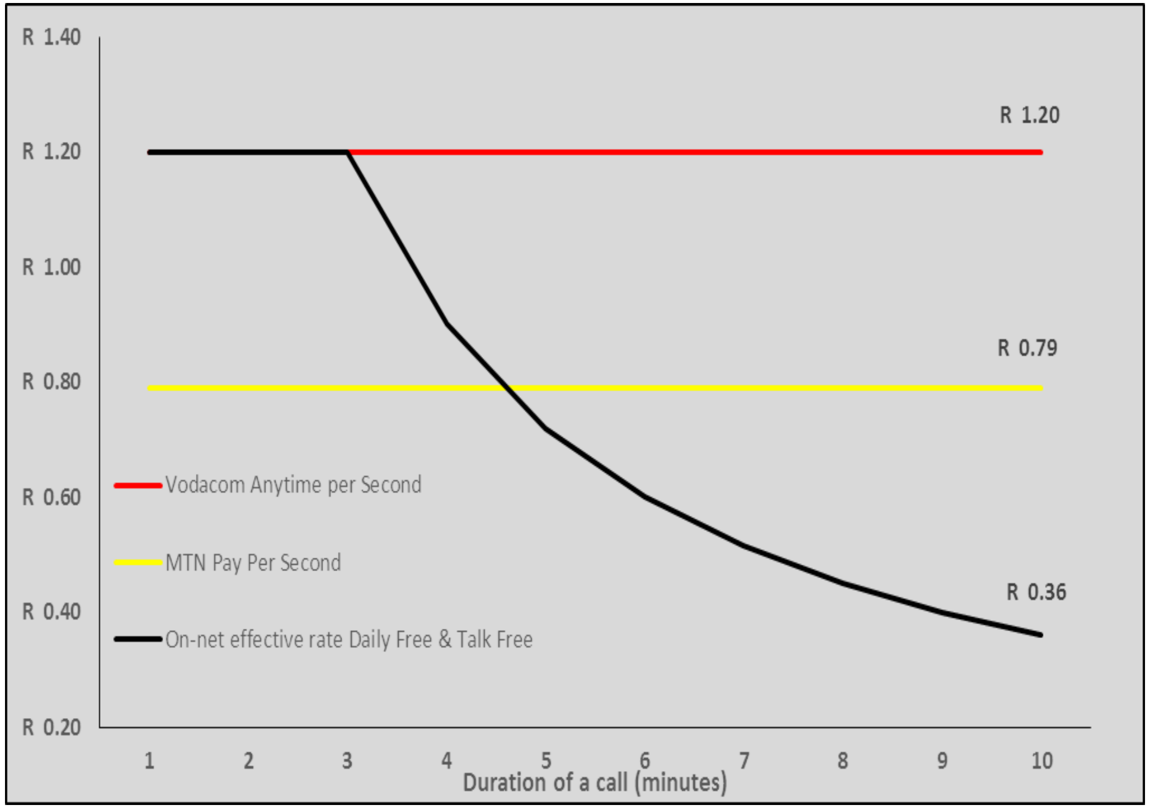
Status Update on Prepaid Voice Tariffs

Flat Rate retail tariffs per network operator (per minute)



Source: ICASA database based on tariff notifications

Example of on-net focused tariffs



Source: ICASA database based on tariff notifications

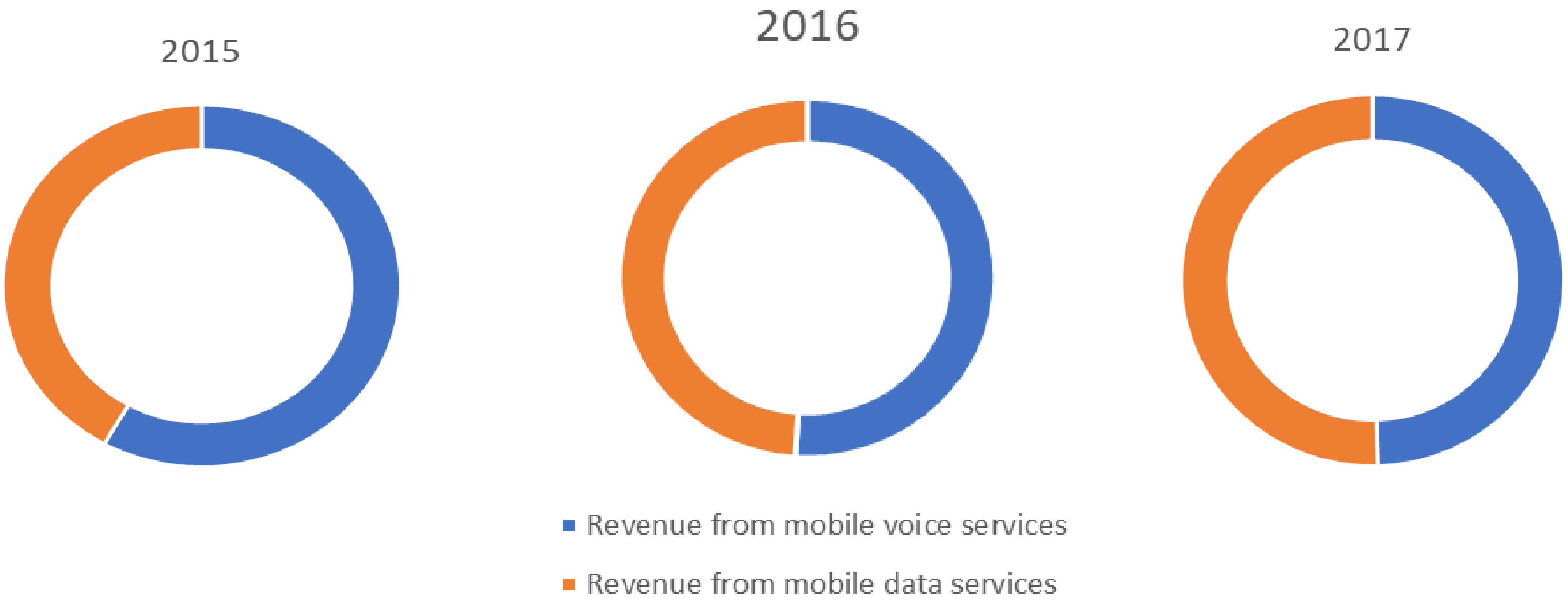
1. Three types of prepaid tariff plans:
   - Flat-rate tariffs
   - On-net focused tariffs
   - Dynamic tariffs
2. No changes in headline tariffs lodged over the period 01 July to 31 December 2017
3. Promotions, bundles and dynamic pricing options reduce the effective tariff paid by subscribers

Mobile Voice vs Mobile Data

Mobile Voice's dominance as revenue driver has steadily declined due to exponential growth in Mobile Data revenue

Growth in data usage driven by over-the-top (OTT) services and content

Smartphone and tablet penetration growing at a rate of ~30% p.a.



Recent Initiatives by Operators

ICASA's recent interventions in the market (around rules for data expiry and priority markets study) has elicited reactions from industry players:

- MTN announced that "..it will be reducing its out-of-bundle (OOB) pricing to stimulate usage.."
- Vodacom reduced its OOB rate from R2/MB to R0.99/MB for prepaid data and R0.89/MB for hybrid (top-up) data bundles
- Cell C reduced its OOB rate for its 66c tariff plan from 0.66c to 0.15c. However this is specifically for this tariff plan and not all prepaid tariff plans
- It has also been reported that Cell C has revised its data expiry rules (e.g. from 20 September 2017 customers were allowed to extend the validity of their data bundles indefinitely by simply purchasing another data bundle before the current one expires)

International Benchmarks on Data

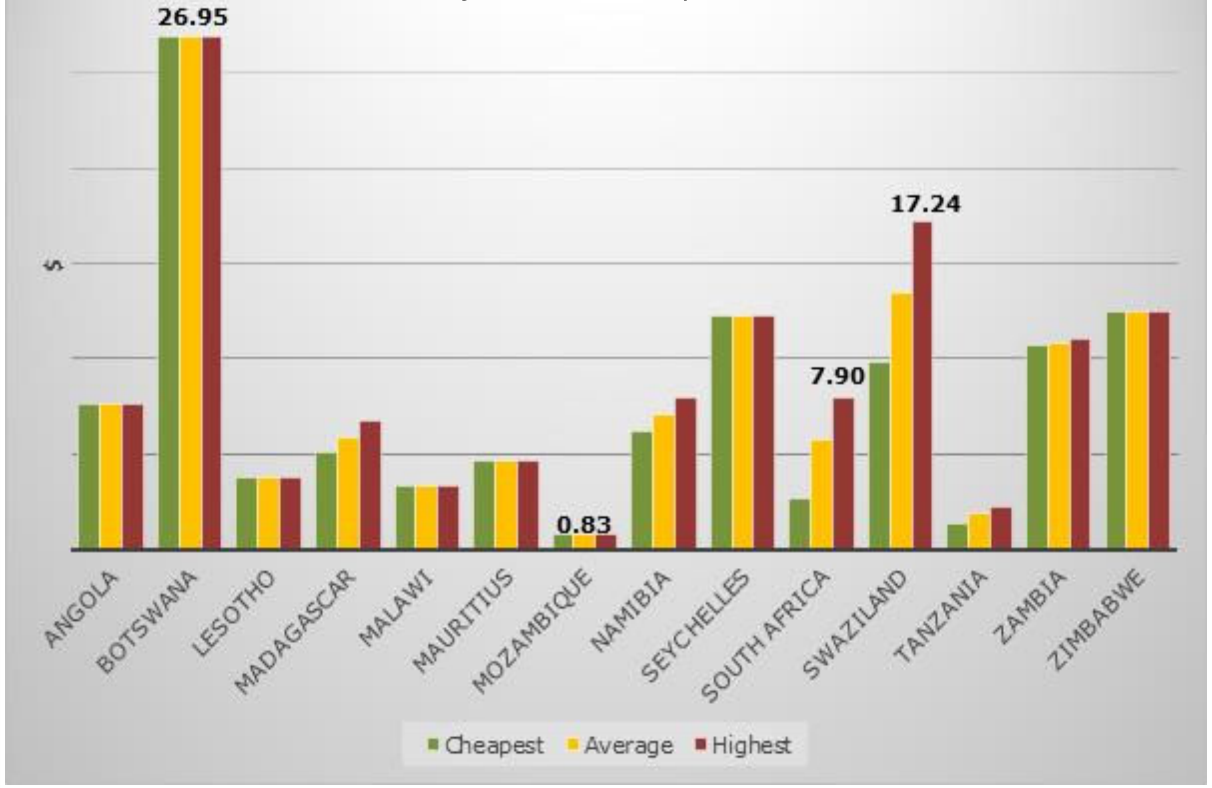
- ICASA conducted a benchmarking exercise on the prices of 500MB, 1GB and 2GB data bundles offered by mobile operators in the Southern African Development Community (“SADC”) region and BRICS countries.

- The benchmark exercise illustrates that on average data prices of the comparator countries are relatively higher than those in South Africa.

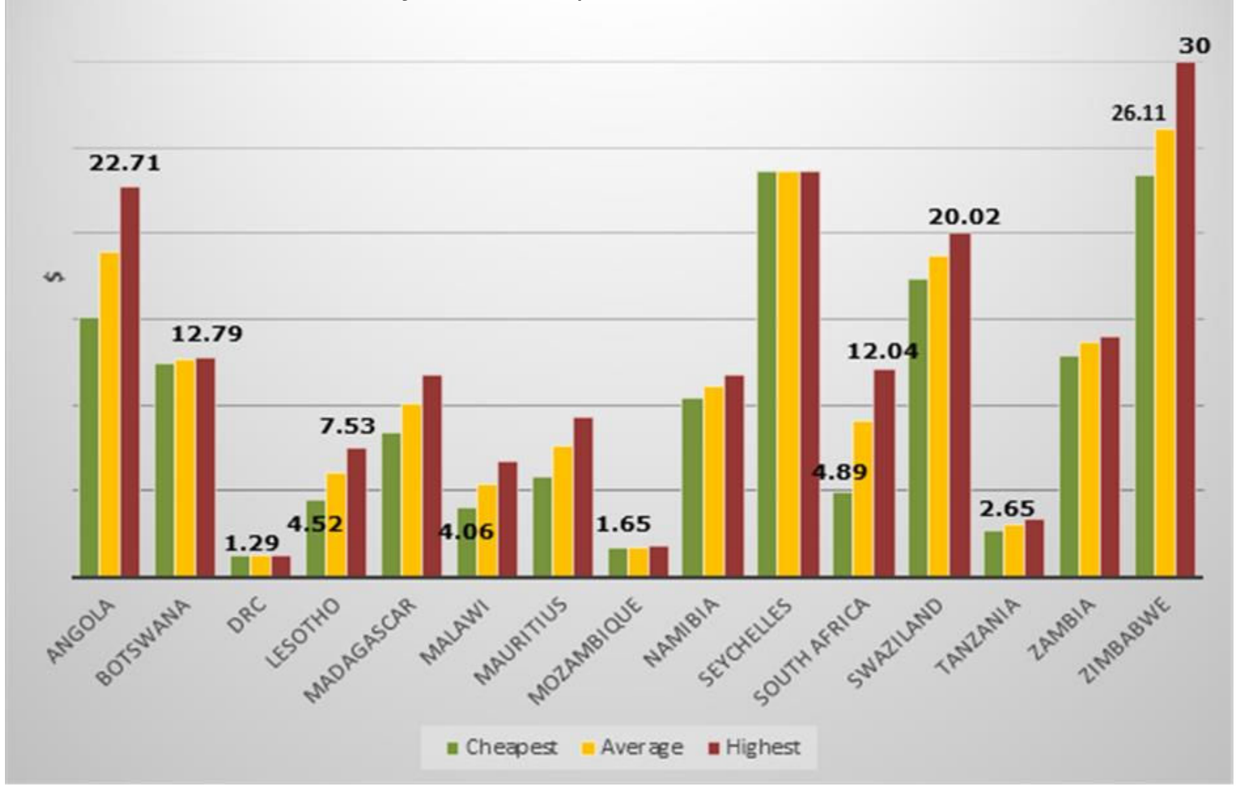
- South African data prices are not the highest in both SADC and BRICS countries.

International Benchmarking SADC Region

SADC Prices for 500MB Prepaid Data Bundle in $



SADC Prices for 1GB Prepaid Data Bundle in $



- Botswana has the highest price for a 500MB data bundle at $26.95
- SA's highest price for 500MB data bundle is $7.90

- SA is in 6th place in terms of the cheapest 1GB data bundle offered in the country ($4.89) among the 15 countries.
- SA's most expensive 1GB bundle (priced at $12.04) is lower than that of its neighbouring countries' Zimbabwe and Swaziland which are $30 and $20.02 respectively.

International Benchmarking BRICS Countries

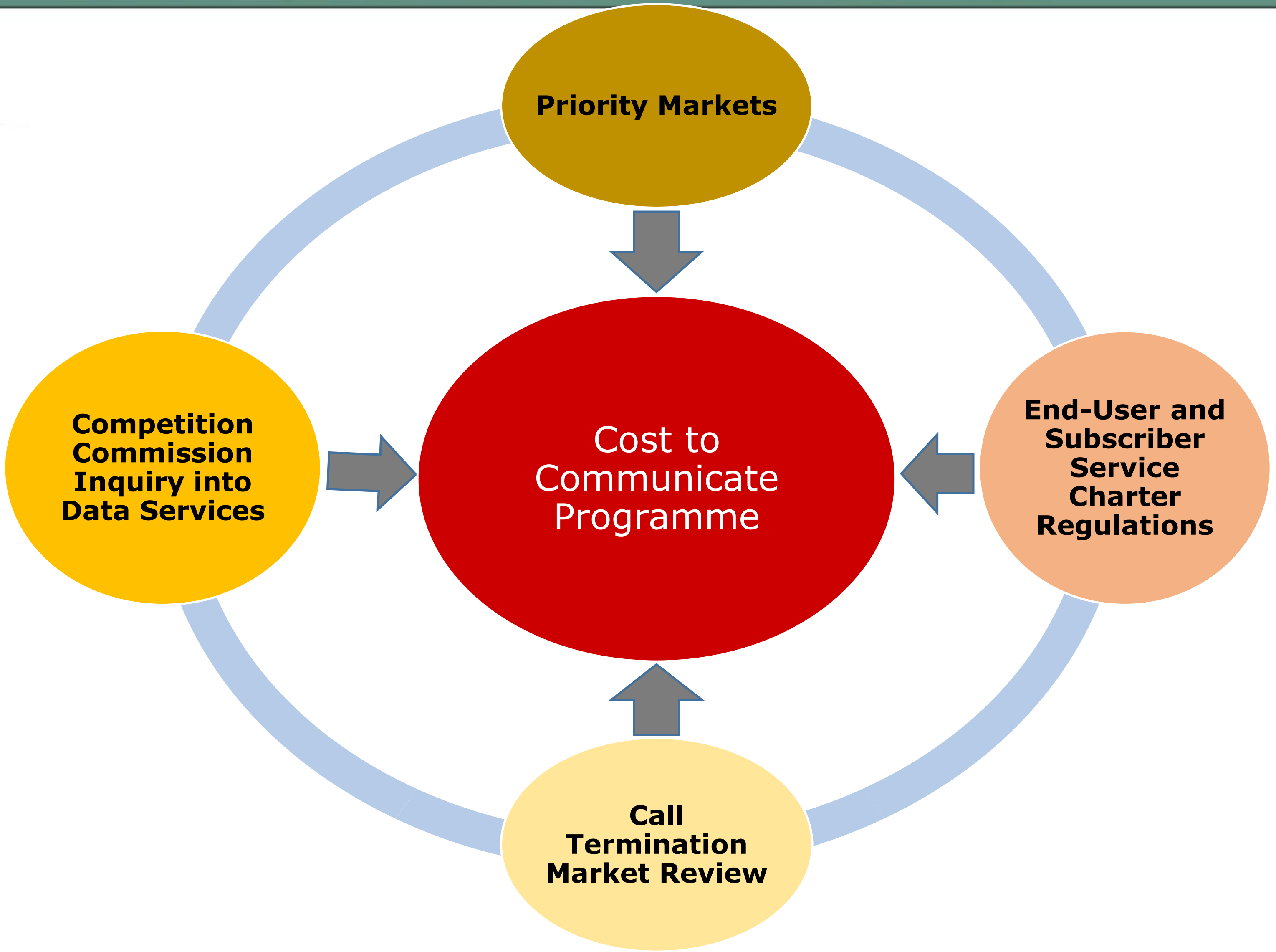
Data Price comparison for BRICS countries in US ($) Dollars

Country	500MB			1GB			2GB		
	Cheapest	Average	Highest	Cheapest	Average	Highest	Cheapest	Average	Highest
Brazil	5.30	6.64	7.98	10.65	10.91	11.18	14.05	14.48	14.90
China	12.50	28.75	45	25	57.50	90	15.21	70.07	160
India	1.90	2.18	2.67	1.03	2.33	2.78	2.72	4.13	4.61
Russia	1.29	1.29	1.29	2.59	2.59	2.59	4.02	4.08	4.14
South Africa	**2.63**	**5.72**	**7.90**	**4.89**	**9.04**	**12.04**	**7.15**	**14.43**	**19.57**

- China's prepaid average prices for 500MB, 1GB and 2GB packages are significantly higher than those in other BRICS countries, followed by Brazil and SA being the third highest.

- Russia and India on average are the cheapest amongst the BRICS countries across all three categories.

Cost to Communicate Interventions



Priority Markets Study

Phase #	Purpose	Timeline
Phase 1 - Market Study	Obtain information from market participants and stakeholders.	Published a questionnaire on 30 Jun 17. Due date for responses was changed from 4 Sep to 10 Oct 2017
Phase 2 - Discussion Document	List of markets prone to ex ante regulation and recommendations on priority markets. Informed by Phase 1 & International benchmark.	Quarter 4 of 17/18 FY. Published for 45 working days as per Icasa Act
Phase 3 - Public Hearings	If deemed necessary.	Quarter 1 of 18/19 FY
Phase 4 - Findings Document	List of markets prone to ex ante regulation and a list of priority markets to be subjected to s67(4) market reviews process.	Quarter 1 of 18/19 FY

End-user and Subscriber Service Charter Regulations

1. Amendment to EUSSC Regulation first published on 7 Aug 2017 and republished on 17 November 2017
2. Proposed insertion of Regulation 8A, 8B and 8C:

   (a) Regulation 8A – voice and SMS
   - Notifications of service depletion to be sent to the end-user at set intervals
   - provision for end-users on post-paid / hybrid plans to purchase additional services upon depletion of data bundles
   - End-user must be disconnect if h/she does not buy additional bundles

   (b) Regulation 8B – data services
   - The expiry of data bundles has been aligned to section 63 of the National Consumer Act, 2008 (No. 68 of 2008) with a minimum expiry period of not less than 3 years

   (c) Regulation 8C – consumer education and awareness
   - At least 4 educational awareness campaigns, per annum, must be conducted by licensees.
3. Public Hearings were held on 1 – 2 March 2018
4. Final EUSSC Regulation to be published by end of March 2018

Call Termination Market Review

1. ICASA commenced the review of 2014 call termination pro-competitive conditions on 30 January 2017.
2. ICASA finalised the review and made the following findings:
   i. The 2014 definitions of Mobile termination markets and Fixed termination markets remain unchanged with the exception of the exclusion of termination of internationally originated voice calls.
   ii. Competition in the relevant markets still remain ineffective.
   iii. Each licensee that offers wholesale voice call termination services continue to have Significant Market Power in its own network for wholesale voice call termination.
   iv. The four market failures identified in 2014 may exist in the absence of regulation.
   v. The pro-competitive conditions imposed on licensees in 2014 are still relevant.
3. ICASA extended the glide path as set out in the 2014 Call Termination Regulations by 12-months to September 2018 as requested by licensees owing to limited time to determine new termination rates.

Competition Commission Market Inquiry into Data Services

As per the MoU between the two institutions, the Authority is supporting the Competition Commission in respect of the Data Services Market Inquiry

SHAR Project Update

1. Phase I
    - SA fully compliant with tariff transparency guidelines
2. Phase II
    - Calculations have been completed and negotiations to reduce roaming rates which are above the calculated ceilings are underway
        - 53% of actual wholesale tariffs are below ceilings and
        - 49% of actual retail tariffs are below ceilings.
    - SA therefore complies with the SADC ICT Ministerial directive as this is consistent with the approach adopted by countries that have implemented the directive
3. Phase III
    - CRASA has appointed a service provider to develop the SADC Roaming Cost Model
    - The model will be funded from the CRASA budget (USD50,000) and SADC members states contributions (USD70,000)
    - The cost model will be completed in 12 months i.e. 3rd Quarter of 2018

Conclusion & Way forward

1. Average voice tariffs per minute showing a declining trend
2. High out-of-bundle rates/ MB still a concern
3. SA mobile data packages pricing relatively competitive
4. Amendment to EUSSC Regulations will enhance consumer protection and minimise bill shock as a result of high out-of-bundle rates
5. ICASA collaborating with Competition Commission on data market inquiry
6. Regular publication of industry data to empower consumers (e.g. tariffs analysis report)
7. Delays in digital migration and assignment of spectrum remain a challenge to mobile operators

Thank You!!