

PART A – COST TO COMMUNICATE

OVERVIEW OF THE PRESENTATION

The presentation covers initiatives ICASA is doing to reduce the cost to communicate both in the short-term and medium-term. The presentation discusses the current status of the voice and data pricing in South Africa, looking at regional trends and providing a way forward with regards to the ways of reducing the cost to communicate.

ORGANISATIONAL MANDATE

ICASA was established by promulgation of the ICASA Act in the year 2000, ICASA's regulatory mandate is derived from several other Acts but ultimately is to regulate the ICT industry in the public interest, ensuring that all South Africans have access to affordable services.

ICASA regulates the:

1. telecommunications sector in terms of the Electronic Communications Act, 2005 and Electronic Communications & Transactions Act 2002;
2. broadcasting sector in terms of the Broadcasting Act, 1999; and postal services sector in terms of Postal Services Act, 1998

ROLES & FUNCTIONS OF ICASA

In order to operationalise its mandate as provided by the legislative framework, ICASA performs several roles and functions in regulating the ICT sector.

This includes:

1. Licensing activities, compliance monitoring of operators and enforcement;
2. Tariff/Price regulation, collation of industry statistics, market reviews;
3. Setting of regulatory guidelines; and
4. Active consumer protection and dispute resolution

GOVERNMENT'S PRIORITY OUTCOMES

ICASA's mandate aligns with certain Government's priority outcomes outlined in the NDP and presented here:

Outcome 4: Decent employment through inclusive economic growth

ICASA's role is to facilitate investment and promote HDI participation in the ICT, thereby contributing to job creation

Outcome 6: An efficient, competitive and responsive economic infrastructure network

ICASA's role is to promote network deployment for universal broadband service provision

Outcome 12: An efficient, effective and development- oriented public service

ICASA's role is to ensure that the regulatory framework is robust enough to facilitate the use of ICTs as a preferred platform to access government services.

Outcome 14: A diverse, socially cohesive society with a common national identity

ICASA's role is to focus and develop a regulatory agenda that promotes local content and disseminate information in the public interest across all broadcasting platforms.

STRATEGIC GOALS: 2016 – 2020

ICASA's strategic goals from 2016 to 2020 are to

1. Facilitate investment in and increase access to broadband infrastructure by 2020
2. Promote competition and reduce the cost to communicate by 2019/20
3. Foster common national identity and social cohesion through increased broadcasting platforms by 2020
4. Be an independent and credible regulator through consistent adherence to regulatory principles; and
5. Improve overall stakeholder and consumer experience through the consistent monitoring of quality of services within the sector and improving stakeholder engagement.

ICT SECTOR OVERVIEW

While voice is still the dominant revenue driver in the market, its prominence has been steadily declining due to changing consumer patterns from voice to data with the advent of OTT services.

Voice tariffs have declined since ICASA's regulatory intervention in the wholesale market in 2010. This has shifted attention to data services where Out-Of-Bundle rates are higher relative to in-bundle rates.

TRENDS IN MOBILE DATA PRICES

Overall, the 2016 & 2017 average prices are at least 42% cheaper than 2010 average prices. However, 2017 average prices for the 500MB category are 33% higher than 2016 average prices. This is the bundle of choice for the majority of low income South African consumers and gives credence to the recent discontent voiced in the #datamustfall campaign.

Greater demand for data services have driven data revenue growth in excess of 30% per annum. Industry experts have long predicted that waning dominance of the voice revenue stream, with some operators already reporting a 50:50 split in their financial reports (i.e. Vodacom).

With increasing smartphone/tablet penetration and rising average data usage per subscriber, the delayed assignment of spectrum will impede the ability of the ICT industry to provide the latest broadband technology (e.g. LTE) and drive economic growth.

STATUS UPDATE ON DATA TARIFFS

The slide discusses the current status of standard pre-paid data prices in South Africa. On average the standard pre-paid out-of-bundle rates are at least 50% higher than the in-bundle rates per megabyte.

However, customers who purchase large data bundles enjoy the benefits of a lower tariff per megabyte.

Furthermore, we note that subscribers who signed up and used a variety of promotional data bundles provided by operators derived some benefit and/or experienced a reduction in standard tariffs.

STATUS UPDATE ON PREPAID VOICE TARIFFS

This slide discusses the three main types of standard prepaid tariff plans available on the market namely:

- flat-rate tariffs that charge the same retail rate for calls to any subscriber;

- on-net focused tariffs that give subscribers substantial benefits for calling other subscribers on the same network; and
- dynamic tariffs that offer lower retail prices depending on the time of day and location.

Although the off-net tariffs are relatively higher than the on-net tariffs, the tariff for calls per minute has reduced significantly since ICASA's intervention into the wholesale call termination market in 2010.

Furthermore, we note that subscribers who signed up and used a variety of promotional voice packages provided by operators derived some benefit and/or experienced a reduction in standard tariffs.

INTERNATIONAL BENCHMARKS ON DATA PRICES

The above slides provide an overview of the benchmark study for data prices charged by operators within the SADC region. The comparison is solely based on the price of 1GB and 2GB data bundles within the SADC region. Other elements such as mobile network reach/coverage, service quality (i.e. speed and latency), available technology (e.g. LTE), and the price of the mobile devices themselves have not been taken into account.

The figures above show the prices of 1GB and 2GB prepaid data packages in South African Rand (an exchange rate converter was used to convert the currencies). The figures further illustrate that, on average, the data prices of the comparator countries are relatively higher than those of South Africa's operators Vodacom, MTN, Cell C and Telkom Mobile. However, there are a few instances where operators in Mauritius, Malawi, Mozambique and Tanzania are relatively cheaper than South African operators by up to 80% in certain instances.

THE COST TO COMMUNICATE PROGRAMME

The above two slides provide a brief overview of ICASA's cost to communicate programme and an update on the following cost to communicate projects:

Short term interventions

In the short term ICASA has established a task team with the National Consumer Council (NCC). The objective of the task team is to review the current industry rules on data expiry, high out-of-bundle rates and their impact on consumers. To date the task team has held one-on-one meetings with the

operators and will finalise the recommendations to its findings by the end of 31 August 2017.

Furthermore, ICASA will finalise the review of the wholesale call termination regulations, which are aimed at reducing the cost of voice calls, by 30 September 2017.

Medium term interventions

In the medium term ICASA is planning to conduct a market inquiry into the broadband market services. The broadband market inquiry will be initiated in terms of Sec 67(4) of the ICASA Act read with sec 4B and 4C of the ICASA Act and the Policy direction on "Effective Competition and the reduction of data prices".

Proposed steps:

- Step 1 – information gathering
- Step 2 – formal inquiry in terms of sec 4B and 4C of the ICASA Act and discussion document for comment (min 45 days)
- Step 3 – publication of draft discussion paper for comment (min 45 days)
- Step 4 – publication of final position paper with draft regulations (if necessary) for comment (30 days)
- Step 5 – publication of final regulations

Long term interventions

With regards to long term interventions, ICASA is currently identifying specific markets to be regulated in the future, including broadband / data markets.

The objective of the project is to:

- identify relevant markets that are prone to *ex ante* regulation; and
- identify those markets the Authority will prioritise for market reviews in terms of sec 67(4) of the ECA.

So far ICASA has gazetted a Notice to conduct a sec 4B inquiry. The next steps will involve the following:

- one-on-ones with licensees, if necessary
- publish a discussion document with a list of recommended priority markets for public comment (min 45 days)
- hold public hearings, if necessary
- publish findings document with a list of priority markets

THE KEY CONSIDERATIONS

The above slide discusses other key considerations out of the cost to communicate programme which are pertinent to the reduction of the cost to communicate in the ICT industry.

CONCLUSION & WAY FORWARD

The above slide is a recap of the entire presentation and highlights the key issues on cost to communicate. Of importance to note is that the Competition Commission of South Africa (CCSA) has been tasked to conduct an inquiry into the high data costs in South Africa.

ICASA welcomes the announcement CCSA's inquiry which will complement its efforts outlined above to reduce cost to communicate.

PART B – ECS / ECNS COMPLIANCE

Electronic Communications Network Services (ECNS) and Electronic Communications Services (ECS) Compliance

1. Legislative & Regulatory Mandate

The Authority's mandate includes compliance monitoring and enforcement of the following legal instruments:

- The Independent Communications Authority of South Africa Act 13 of 2000 (ICASA Act);
- Electronic Communications Act 36 of 2005 (ECA);
- Broadcasting Act 4 of 1999;
- Postal Services Act 124 1998;
- Licence Terms and Conditions; and
- Relevant Regulations.

Section 4(3)(b) of the ICASA Act specifically requires ICASA to monitor the electronic communications sector and ensure compliance with the Act and the underlying statutes.

Compliance is monitored retrospectively, that is, during the 2017/2018 financial year the Compliance Department will monitor and report on compliance for the 2015/2016 financial year. All fees collected by ICASA are paid over to the National Revenue Fund.

2. Compliance Monitoring: General Licence Fees (GLF)

In terms of the General Licence Fee Regulations, 2012 all ECS and ECNS licensees are obliged to make an annual contribution of between 0.15% – 0.35% of revenue calculated using a formula (with a sliding scale) that takes into account the amount

of revenue generated. The GLF is payable within six months of end of the licensee's financial year.

ICASA collected a total of R 624 million GLF from all ECS/ECNS licensees for the 2015/2016 financial year. The mobile operators (Cell C, MTN, Telkom, Vodacom and WBS) all complied with the requirement to pay GLF's.

3. Compliance Monitoring: Spectrum Fees

In terms of the Radio Frequency Spectrum Fees Regulations, 2005 all ECNS licensees that have been allocated and assigned radio frequency spectrum are obliged to pay annual Spectrum Fees in furtherance of the objective of efficient spectrum regulation.

The Spectrum fees collected for the 2015/2016 financial year amounts to R464 million. The mobile operators comply with this annual obligation.

4. Compliance Monitoring: Universal Service and Access Fund (USAF)

In terms of the Universal service and Access Fund Regulations, 2009 ECS and ECNS licensees are obliged to contribute 0.2% of their annual turnover into the USAF. USAF fees must be paid within six months of the licensee's financial year end.

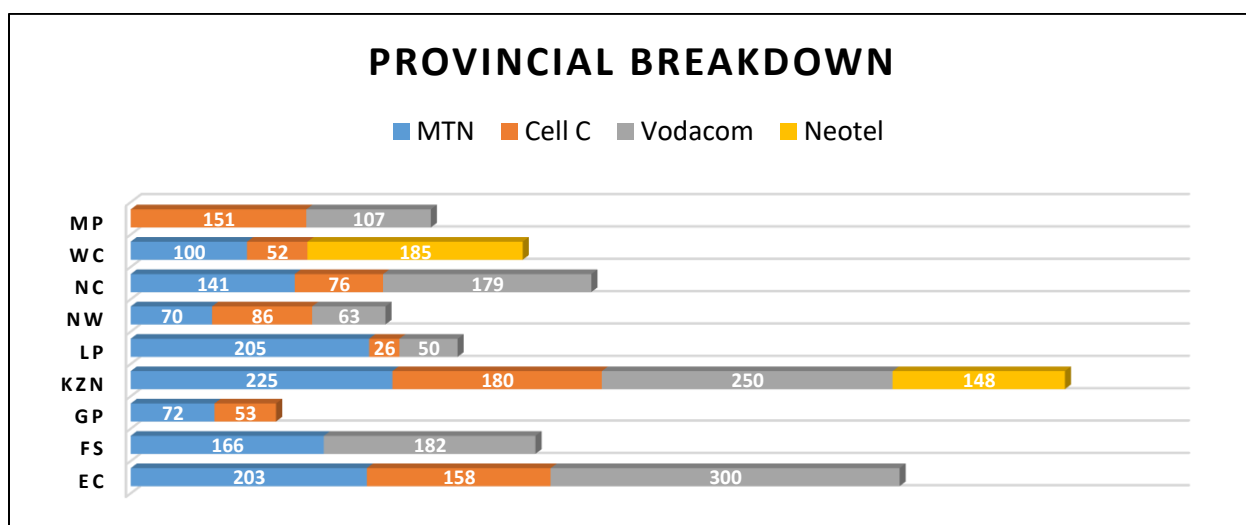
ICASA collected R 181 million for the USAF during the 2015/2016 financial year. The mobile operators comply with this obligation.

5. Compliance Monitoring: Universal Service Obligations (USO)

Currently four licensees (Cell C, MTN, Neotel and Vodacom) are obliged to roll out infrastructure to selected Historically Disadvantaged schools and Special schools. The obligation includes the provision of connectivity, the supply and installation of equipment and the provision of data at e-rate.

Cell C, MTN and Vodacom are each obliged to connect 1 500 schools and Neotel 500 schools over a five-year period which commenced in April 2014. Cell C, MTN and Vodacom therefore each have to connect 300 schools and Neotel 100 per annum.

The obligation requires that a total of 3 000 schools should have been connected by April 2017. The operators however managed to connect 3 427 schools by April 2017. MTN (with 1 182 schools connected), Vodacom (with 1 131 schools connected) and Neotel (with 333 schools connected) are ahead of their April 2017 obligations, while Cell C (with 781 schools connected) lags behind their obligation. The below graph shows the number of schools connected by the operators per province.



The Authority will finalise Universal Service Obligations for Sentech, Telkom and WBS during the 2017/2018 financial year.

5.1 Cell C Review Application

In February 2016 Cell C submitted an application to the Authority to amend its radio frequency spectrum licences (in the 1800/900 and 2100 MHz bands) by removing its Universal Service Obligations. The Authority rejected Cell's C application on 29 June 2016.

On 12 December 2016, Cell C filed a court application to review, set aside and substitute the Authority's decision taken on 29 June 2016 to refuse Cell C's application for an amendment to its radio frequency spectrum licences. The court process is currently at the stage where the parties are exchanging pleadings.

6. Compliance Monitoring: End User & Subscriber Service Charter (EUSSC)

All ECS/ECNS licensees are obliged to comply with inter alia the following minimum service standards in the provision of electronic communications services to consumers:

- An average of 95% network service availability, measured over a period of six months
- 90% success rate to both install and activate services within thirty days with the remaining 10% of requests for installation and activation being met within forty days from the request
- 90% success rate to activate services within seven days with the remaining 10% of the requests for activation being met within fifteen days of the request”.
- Connectivity failure rate not exceeding an average of 3% of all connections, over a period of six months
- Operator assisted calls must be answered within three minutes averaged over twelve months
- An average of 90% fault clearance rate for all faults reported within three days with the remaining 10% of faults reported to be cleared within six days of reporting of the fault
- Licensees must indicate the point of entry for complaints and indicate how they acknowledge receipt of complaints within three days
- Licensees must indicate how many complaints were resolved within fourteen days
- Licensees must indicate how many complaints were referred to the Authority for resolution

The mobile operators generally comply with these minimum service standards.

7. Other Compliance Areas

ECS/ECNS licensees are also monitored for compliance on the following:

- Shareholding
- Management and staff distribution
- Submission of Interconnection / Facilities Leasing Agreements for review
- Submission of administrative notifications

The mobile operators are generally compliant with the above requirements as well as other regulatory obligations. Any non-compliance found is escalated to the Complaints and Compliance Commission (CCC) for adjudication.