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:

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Dear Siobhan,

Retail market review – emerging findings consultation

Thank you for consulting with us on this proposal and inviting our views, and I am sorry that we were not able to attend your recent workshop on this subject.

We previously responded to your initial consultation in October 2014, and I would ask that you would read this letter in-conjunction with that original document, which we have included as appendix to this letter.

In general terms therefore we still think that the ‘market’ for selling rail tickets works quite well, and passengers derive significant benefits from the universal availability of tickets and of the ability to buy through tickets irrespective of the operator of their local service or station. We would not wish to see the diminution of these benefits. We note however, that the complexity of the fares structure can be a significant barrier to passengers being able to purchase the ticket that is most appropriate to their journey, and to have trust and confidence from whomever they purchase their ticket that they have got the best value fare for the time and means that they are travelling.

We also think insufficient weight being given to passenger interests in the your analysis - especially in relation to transparency and simplification, the apparent ignoring of smart card and Near Field Communications issues, the possible impact of any changes on the Oyster Zone and the risk of introducing changes without effectively anticipating the impact of technology changes and the increasing importance of on line and Internet transactions.

We would draw your attention to the importance of London, and travel within London as the largest single component of the rail retail market, as 70% of all rail travel is within, through or to London. Any review of this market needs to reflect this and take account of the unique characteristics of this market.

In addition, as we note in our summary sheet, in our view the rail market is not a normal ‘market’ by virtue of the franchising process that manages it. Therefore significant change within this is only really feasible at the direction and leadership of the Department for Transport.

I attach a summary sheet giving our responses to your individual questions.

If you have any questions on this response please contact me.

Yours sincerely

Tim Bellenger
Director, Policy and Investigation

Retail Market Review – Emerging Findings

London TravelWatch welcomes the opportunity to comment on the above consultation. Some of the issues have been covered in our earlier submissions, (which I attach for your information) to ORR and also we have a large body of published research on issues surrounding this subject that the ORR should be aware of and take account of in its deliberations.

Chapter 1

1. Do you agree with our description of the features of the market for ticket selling?

We agree that the document does in part describe the market for ticket selling. But it underplays the importance of simplicity and ease of use, especially in relation to short, regular journeys such as commuting for which passengers increasingly use Oyster, Near Field Communications (NFC) and other smart card technology. We are also concerned that the nature of the London market and its importance in relation to the whole of Great Britain is significantly down played, as is the important role that TfL plays in enabling passengers to get the most appropriate ticket for their journey, and ensuring that passengers get a 'best price guarantee'.

We note your comments about competition although competition between train operators has been reduced in recent years, with the amalgamation of a number of franchises, and a consequent reduction in consumer choice along common routes. However, this has not necessarily caused an increase in detriment because of the confusion amongst passengers that this often causes, especially on routes with very little differentiation of the customer offer between each train operator (for example between Luton Airport Parkway and St Pancras, served both by East Midlands trains and TSGN). This is especially true on shorter journeys where passengers would normally be expected to travel on the first train that arrives.

We acknowledge that, in theory, competitive effects could be expected to encourage innovation in normal market conditions. This, of course, assumes that rail is a normal market. There is competition, but this works in ways that are very different from other markets. Competition to run services operates only at the point franchises are awarded; competition between franchises only operates on a very limited number of routes; competition to supply tickets for a particular service on a given route is theoretically possible but is only a very minor part of the equation.

Chapter 2

2. Do you agree with our emerging findings with respect to passengers' ticket buying experiences regarding their choice / ability of a) retailer/sales channel; b) how they buy tickets; c) their ticket format; d) the range of tickets; and e) opportunities to find cheaper prices?

Previous research by us¹ (and Transport Focus) has shown that value for money is, by a considerable margin, the highest priority for improvement²; and that the price of the ticket is a major determinant here³. So we agree with ORR on this count. However, one of the major impediments to getting the best price is the complexity of the fares system. Simplification of fares structures would in our view do more to remove passenger detriment than changes to the retailing system - especially for passengers making short, regular journeys such as on metro style commuter services.

A good example of innovation without increasing complexity has been the restructuring of Oyster Pay-As-You-Go pricing in January 2015 by TfL so as to give part time workers the same cost of travel as full time workers buying weekly Travelcards. This addressed the long term aspiration for part time season tickets, but without adding additional complexity to the fares system by adding extra products to the ticket range.

Chapter 3

3a. What are your views on our emerging findings that TOCs' incentives to introduce new fares and products are somewhat limited? What are your views on our suggestions around DfT's role and, more specifically, the role of franchising?

Broadly we agree with the ORR's conclusions here. The short term nature of the franchising process i.e. competition for the market for a limited period means that the incentives for train operators to innovate are restricted because the length of franchises is not long enough for operators to be able to reap the reward of such risk without the guarantee of a residual value when handing over to the next franchisee. However, it could be argued that more competition between retailers will compensate for the limited incentives on train operators to innovate.]

¹ Value for Money on London transport services what consumers think http://www.londontravelwatch.org.uk/documents/get_lob?id=3734&field=file and Value for Money on London Overground – what passengers think http://www.londontravelwatch.org.uk/documents/get_lob?id=3896&field=file

² Rail Passengers' Priorities for Improvement. Passenger Focus. October 2014.

³ Fares and Ticketing Study. Passenger Focus. 2009.

Similarly the 'captive market' aspect of many London commuter journeys means that operators are very loath to potentially dilute a consistent revenue stream by introducing new ticketing products at a lower price than its existing one. In such a market without outside competitive pressures there is an inherent bias against change or innovation. This further reduces the scope for any competitive benefits ensuing from greater retail competition. Rather, it is the willingness of the procurer of services (such as the DfT as franchise issuer or TfL as issuer of management agreements) that becomes the most important driver of change.

To date, DfT has appeared relatively reluctant to promote innovation at the retail level, when franchises are awarded. It has instead left this role to individual train operators, in the light of their own business plans. In turn, the train operators tend to be reluctant to expose themselves to significant revenue risk over a relatively short time period. This means that new fares, products and purchasing channels tend to have low priority.

It is worth noting, however, that even within the current framework TfL has successfully led, promoted and managed a number of radical changes to its fares and ticketing arrangements in products over the past ten years or so. Innovation at the retail level has included sale of Oyster and Travelcard products through local shops, and the use of NFC bank debit and credit cards at ticket gates. This has overall been of benefit to passengers, and has been a major factor in the growth in usage of public transport in London (including National Rail operators). TfL have also been flexible and agile enough to change their 'product offer' in response to public comment. There are of course fewer risks for train operators here - TfL's contracting regime means that operators are not exposed to the same revenue risks from changing of fares and ticketing arrangements as those operating DfT franchises.

3b. What are your views on our proposed recommendations that improvements be made to the industry processes to make it easier for TOCs to introduce new fares or products? Specifically, do you agree this should be taken forward now, as a matter for TOCs and governments?

Research by ORR and others over many years shows that passengers value the ability and simplicity of inter-available tickets. They also value 'network benefits' in general, not just inter-availability but also impartiality and the operation of national Railcard schemes. Given this it follows that there is a need for a central mechanism to control and co-ordinate the delivery of such benefits as market forces alone will not ensure that these occur naturally.

However, from the consumer perspective, there could be significant advantages if industry processes can be improved and streamlined. Hence we would agree with ORR's recommendation that government and the industry review these processes

with a view to speeding them up, streamlining governance, looking at voting rights and greater use of pilot schemes.

4. What are your views on the role TIS machines play in enabling TOCs to differentiate the way they sell tickets to passengers? What are your views on the appropriate response, in particular around the balance between providing the TIS market with more direction about the design of the TIS machines and in facilitating choice?

The design of TIS machines and the governance arrangements for deciding the content of the specification has a major impact on what products can be offered to passengers. An example of this was the decision by London area train operators at an early stage not to retail Oyster products such as pay as you go and Travelcards, or to answer queries about these products by using their ticket office machines. This has effectively limited passenger choice, and in South East and South West London, passenger access to redress is limited when problems occur with either their card or their journey. Where individual operators did make an attempt to overcome this obstacle, the technology was not as robust and secure as would have been the case if the TIS machines had been designed as Oyster compatible from the start. However, train operators at the time were not open to the benefits that Oyster would bring to them and passengers.. The operators that did install Oyster capability then found that their system was open to large scale fraud by their staff, and with no solution found to address this, have subsequently withdrawn this capability from ticket offices. The result has been a significant reduction in passenger choice, inconvenience to passengers who choose to use Oyster as their ticketing medium and movement of revenue collection from train operators to TfL outlets.

5. What are your views on the possibility that the price of (permanent) fares could vary by sales channel? What are the merits of considering this further at this stage?

In the London area differential pricing by sales channel has been in operation on the National Rail network since 2010, and prior to that on the TfL network since the introduction of Oyster. This has however required clear, consistent and targeted messages to consumers as to how to obtain the best price fare and where this applies. London Underground for example has introduced posters at each station showing in simple terms the likely costs of travelling within the London area either by Oyster / Contactless or paper based tickets and whether a discount can be obtained through the use of a Railcard. This was in response to research by London TravelWatch, which showed up the need for much greater clarity in this respect.

One major unresolved problem relates to the way in which Oyster / Contactless pay as you go fares are displayed on the National Rail Enquiries Service (NRES) website. At present these fares, which are in almost all cases the cheapest fare for journeys within the Oyster area, are given a very low prominence on NRES

compared to the much higher paper ticket fares. This often leads to passengers believing that they need to purchase the paper ticket fare rather than use Oyster. In addition the NRES site has not been updated to include Oyster / contactless fares to places such as Broxbourne, Shenfield and Dartford that are outside the Greater London Authority area but have been added to the Oyster area in recent times. It would be helpful if the ORR retail review could address this relatively simple but annoying issue.

Chapter 4

6. What are your views regarding our emerging findings on the incentives potential and existing retailers face in entering and expanding in the market? Specifically, what are your views around having an independent body overseeing the third party retailers' arrangements, including the identity of the body; on having greater transparency of retailers' likely costs and remuneration; on having a formal obligation on the relevant TOC governance bodies to consult on significant changes to the industry regime; and on having an appeal mechanism to enable a third party retailers raise a dispute?

London TravelWatch would support the establishment of an independent body that oversees third party retailing arrangements, as it would help overcome actual or perceived conflicts of interests and reluctance to change. Greater transparency and clear governance arrangements also would go along way to ensuring the confidence of third party retailers.

However, we would be do not consider that Transport Focus could be such an appropriate body. This would seriously compromise their role representing the interests of passengers by introducing a role which would also involve them representing retailers interests, and making it more difficult for the organisation to maintain an objective perspective on the operation of the system as a whole.

In our view the ORR would be the appropriate body to fulfill the role of overseeing third party retailer agreements.

7. What are your views around the ways that industry could reduce the barriers smaller retailers face in selling rail tickets?

This was covered in our previous submission, where we said:-

There are a number of aspects to third party retail arrangements, we would support the dropping of the requirement for third party retailers to share their marketing plans with ATOC: the levels of bonds needs to be proportionate to the potential size of the business : staff training is essential as is monitoring and enforcement of the standards expected of those staff: third party retailers

should have the ability to sell all ticket types, products and discounts if they wish to do so.

8. What are your views regarding our emerging findings that there could be increased scope for third party retailers to compete in selling tickets? Specifically, what are your views that all retailers should have access to all fares and products? What are your views on retailers' ability to discount fares, and to what extent should other retailers have access to these discounted products (at the cheaper price)? What are your views around third party retailers' inability to create new fares and products, and do you consider further consideration could be given to options that provide for a net pricing (or something similar)?

There is a case for third-party retailers to be able to sell a wider range of, if not all products, including season tickets. This however, will need a robust, but transparent process to ensure that passengers and operators are not at the risk of fraud, misleading advice and mis-selling.]It would be difficult to see any advantage for passengers from the ability of third party retailers to be able to create their own fares, as this would undermine attempts to simplify the structure and presentation of fares.

But it follows from our general perspective on the market, set out in response to Question 1, that we think the impact of any reforms in this area are likely to be limited. They also need to be weighed against the potential detriment to consumers of any increase in complexity of the system as a whole.

The idea of net or wholesale pricing is an interesting proposition but it is hard for us to assess without further information what precise impact or benefit would accrue to passengers from this.

Chapter 5

9. Do you agree with our emerging findings that TOCs have limited incentives to collaborate with each other in the development of shared systems? To what extent do you consider that having increased emphasis through innovation funding mechanisms of the role of an integrated, national network (and thus the role of shared IT systems) could address the issues? To what extent do you consider that a strategy, led by governments with input from across industry, on future ticketing can play a role?

There are various reasons why train operators might appear not to collaborate as enthusiastically as might have been expected regarding shared systems. These could include :-

- Fear of competition authority investigation

- Fear that another operator or operators would benefit from an innovation initiated by one group without contributing towards its costs
- Lack of staff time and resource to commit to such projects
- Lack of confidence in the 'business case' for such activities given the relatively short time frames for returns during the life of a franchise contract.

10. What are your views on the merits, as a possible longer-term option, to consider relaxing the obligations on TOCs to facilitate a fully integrated, national network?

We would be opposed to any relaxation of the obligations on train operators to maintain a fully noted integrated national network . As noted above research shows that passengers value the concept and practice of inter-available and comprehensive point to point fares and tickets. It is the rail industries unique selling point.

However, as your documents point out the reason for the distribution of the sale of such tickets is largely a product of railway geography and franchise make up, rather than any conscious decision of the 'market'.

Therefore we do not see any particular reason why changing the current arrangements would be a worthwhile exercise.

11. What are your views on the role of third parties (including third party retailers, passenger representatives and technology providers) in the development of shared IT systems? To what extent could formal working groups address the issue?

London TravelWatch has no comment on this issue..

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