

E VOLVI RAIL SYSTEMS LIMITED

Submission To

Office of Rail Regulation

Retail market review for selling tickets – call for evidence

Introduction

Evolvi Rail Systems Limited is a wholly owned subsidiary of Capita PLC and is the operator of the Evolvi web based rail booking and ticket issuing system. Evolvi distributes UK rail content and ticket issue capabilities at nil cost to Train Operating Companies (TOCs), with our income coming from charges to Licensed Travel Agents. Evolvi is the second largest non-TOC Ticket Issuing System (TIS) in the UK, by value.

The Evolvi system, which is a Rail Settlement Plan (RSP) accredited TIS is used by 181 ATOC Licensed Travel Agents who are mainly Travel Management Companies (TMCs) and is deployed by those agencies, either in an on-line “self-book” or off-line “agency book” mode primarily to service the needs of business travellers employed by organisations operating business travel services accounts with those TMC licence holders. The way in which corporate travellers buy rail tickets has changed dramatically in recent years and typically at least 85% of transactions will be self-booked on-line with the balance being booked by telephone. There have also been changes in ticketing with postal delivery being largely replaced by on-site ticket printers and kiosks and the collection from fastticket machines at stations. The corporate market has always been ready to embrace new technology and innovations and is keen to see the deployment of new ticketing technology. The use of on-line booking tools have benefitted the corporate traveller in terms of convenience, efficiency and significant cost savings from having the information easily displayed to choose the right ticket type for the journey.

Evolvi using TMCs collectively have 22,000 corporate client entities containing 985,000 users of the system. These corporate clients which include organisations such as Royal Mail Group, Network Rail, Balfour Beatty, Santander and HM Government are typically sophisticated users of specific system functionality that is relevant to the needs of business travellers, far beyond booking and ticket issue.

This user base booked ticket transactions for the calendar year 2013 of 6.7 million journeys representing total ticket sales of £397 million that used a wide range of ticket fulfilment options, the majority of which provide for “off station” acquisition – a key issue identified in the McNulty report as a determinant for greater TOC efficiency.

Evolvi Rail Systems Limited, as a significant channel provider for ticket sales, thanks the ORR for the opportunity to participate in this review process and is happy to amplify any aspect of this submission during it. We have used your structured questions as the framework to respond to your initial call for evidence.

1) *What additional drivers (if any) of the review should be considered?*

We think that the correct drivers are being looked at to ensure there is choice and innovation in the selling of rail tickets.

2) What is your view on the proposed scope of the review? What, if any, additional areas should be considered? What areas, if any, should not be considered?

TOCs' costs and benefits of driving demand for rail tickets. We are keen to understand better the impact industry arrangements and practices have on TOCs' incentives to increase passenger revenue and to create new types of fares or products, with a view to understanding better the general functioning of the retail market;

It would be beneficial if all types of fares and/or products were distributed to all Retailers rather than the practice of selective distribution that is operated today. The types of ticket that can be sold by these licence holders are defined in the current Travel Agents' Licence. Licensed Travel Agents are specifically excluded from the sale of the following categories of product:

- Season Tickets
- Local Promotions
- Short Term Promotions
- Certain types of ticket that include entrance to theme parks or exhibitions
- Special fares introduced by Train Operating Companies (TOCS) from time to time

The inability of Licensed Travel Agents, because of licensing constraints, to sell the above product categories restricts customer choice in terms of their ability to procure product from their chosen suppliers. There is no justification, in competitive terms, for the restrictions imposed.

The practice of restricting discounted fares, adopted by a number of TOCs, to ticket sales only effected via their own websites rather than making full fare content access available to all retail channels confers a price advantage to TOC own websites that prevents other licensed retailers from competing on equal terms. In our view this constitutes an unfair practice that is designed to drive sales exclusively through operators' own sites to the detriment of 3rd party retailers. At no time during the TIS accreditation process is it made clear to Ticket Issuing System developers that they will be restricted from offering certain categories of product. It is possible to construe this lack of transparency as an attempt to conceal impediments to possible market entrants.

In addition there are two specific areas in which the TOC's could improve passenger access to fares. Firstly, bringing forward the advance purchase deadline from 23.59 the day before and secondly by removing the fare inconsistencies that enable savings to be made from split ticketing.

The impact of industry arrangements and practices on the kind of products TOCs must sell and the way in which they can be sold, including the permitted sales channels, the information to be provided at the time of sale and the arrangements for TOCs selling fares on behalf of other TOCs. In particular, we are keen to understand how these arrangements promote more competition and innovation;

It has been contended for some time that there is not a level playing field for ticket retailers. There are limitations on the sale of certain fare types by licence, such restrictions could be construed as anti-competitive. We have welcomed the progress towards transparency in this area but remain concerned that the market is skewed in favour of the TOC rather than the passenger.

Innovation in the market for ticket products and sales channels. We have seen some evidence of innovation in, for example, TOCs selling e-tickets or integrated tickets (that combines a rail journey with something else (e.g. theatre tickets)). We are keen to understand more about the drivers for innovation, how competition and innovation relate to each other and the role of industry

arrangements and practices in facilitating innovation. We consider this to be particularly salient given scope for more smart ticketing and ticketing systems

The development of new methods such as plain paper ticketing for example is welcomed however the fragmented and different approach to it by TOCs is a considerable frustration. Without a cohesive, consistent and centrally driven strategy, it allows each TOC or owning group to develop bespoke solutions that require retailers to undertake considerable development of many solutions for one problem at their own cost and for little additional benefit. In general, the development of a longer term national ticketing strategy including how it should be funded, would help underpin developments and encourage greater proliferation. It would also help if there was a joint working group of all stakeholders that determined future ticketing strategies rather than just being left to the TOCs.

There is considerable consumer impetus for the development of a national mechanism for the provision of tickets by mobile phone. However, notwithstanding the fact that national standards have been published for the format of such tickets, the inability of TOCs to agree upon a common method of scanning these to allow tickets to be fulfilled and critically, validated through this channel is proving to be a real impediment to companies such as ourselves. Each TOC is allowed to source its own validation provider and methodology. This means that the investment required by a TIS provider, such as Evolvi Rail Systems Limited, to develop compatibility is multiplied significantly and unjustifiably.

The same issues referenced to ticketing via mobile phone are also true of plain paper ticketing, also known as "Print at Home". Again, the lack of uniformity with respect to barcode scanning capability has the overall effect of limiting the range of both ticket types and operators available for this method of fulfilment.

It is our view that the industry urgently needs to fund the creation of a national database capable of receiving ticket issue records using a standardised method for both mobile ticketing, "print at home", and all other new methods. Without this initiative, deployment is likely to remain piecemeal, fragmented and limited in scope for the foreseeable future. This facility should be regarded by TOCs as a normal cost of doing business – currently both East Coast and Virgin Trains are seeking to recover validation costs of new ticketing methodologies from Ticket Issuing System providers. This practice is wholly unacceptable as the principal beneficiaries of these methods are the TOCs themselves.

Open and Free Access to industry data would be beneficial for the passenger. It would allow the development of real time push solutions covering for example; delays, short notice alterations and claims for delay repayment. To facilitate this, the data must be structured and centrally provided, recognise that different channels may need white label solutions and most importantly should follow published data and security standards. Without this, the specific TOC developments make it difficult for TIS Suppliers as previously referenced.

It may be the case that innovation is stifled as a result of the present custody arrangements for industry data. We consider there to be a strong argument for the establishment of an independent entity with no vested interests to manage data availability and its distribution.

The structure of and arrangements for the third party market, including the licensing arrangements of third parties (which is done by ATOC, the trade association for TOCs) and the arrangements third parties are subject to in selling tickets. We recognise the importance of ATOC's work in ensuring these third parties meet minimum standards and, going forward, we are keen to ensure that the

arrangements can continue to meet passenger needs and, in particular, play its part in promoting more competition, innovation and choice.

There are currently significant disparities between the commissions paid to Licensed Travel Agents and other licence holders for the retailing of rail tickets.

There is no justifiable reason why the commissions paid to Travel Management Companies under the terms of their ATOC licence should be pitched at a significantly lower level (3%) when compared with other distribution channels. Such a structure allows other third party retailers on higher rates to compete with the TMC community on less than equal terms and it is our recommendation that the levels paid to all channels are harmonised to facilitate fair competition for the provision of similar ticket retailing services.

Whilst progress has been made in this area in the last few years there are some anomalies that remain. Absolute transparency is required to give assurance to all retailers that the same rules and obligations are being applied and measured by the licensor. The inconsistencies also relate to obligations to marketing and investment ‘for the benefit of the industry’ as well as commission payable to business account holders at a higher rate than Licensed Travel Agents receive. Evolvi Rail Systems Limited would welcome a review of the role of the licensor. Is it really in the best interest of the passenger to have the licensor being a company that is wholly owned by the Train Operating Companies? It could be construed that the needs of the TOCs differ from the needs of the passenger and therefore, should the licensor be an independent organisation, such as ORR.

3) *What features of the GB retail market for tickets work well? What features of the retail market for tickets work less well for passengers and industry?*

Licensed Travel Agents are required, under the terms of the ATOC agreement, to provide either evidence of a financial guarantee of reimbursement for the value of ticket sales to Rail Settlement Plan (RSP) in the event of financial default or to participate in the TARIF (Travel Agents Reserve Insurance Fund) fund scheme.

Neither of the above schemes, either bonding or TARIF are in respect of consumer protection requirements. They are first and foremost a mechanism whereby TOCs seek to offset their normal commercial risk in respect of payment default by the licence holder.

Whichever method of guarantee is selected by an agent, considerable additional costs of sale are imposed on the licence holder and, ultimately, consumers of their services. The bond requirement for a retailer is set by ATOC at a level equivalent to the highest two consecutive rail accounting periods’ ticket sales value and must be provided by a bank or insurer. Membership of the TARIF scheme is conditional upon the licence holder contributing a levy to the TARIF insurance backed bond. For the last two years this has been set at 0.36% of the ticket values sold by an agent. Although this is shortly to reduce to 0.18%, the available cover provided under this scheme and the fund value itself is disproportionately high and expensive to furnish when set against any likely default risk exposure.

In summary, the mandatory requirement imposed by ATOC as a licence condition, either a bond or participation in TARIF provides TOCS with what may be termed as a “gold plated” protection scheme that is wholly disproportionate and excessive. Inter-TOC ticket sales are not subject to similar bonding requirements and it is difficult to understand why this should be the case if other retailing environments are compelled to comply with the requirement.

4) *Are there examples of particularly innovative retailing approaches from rail markets elsewhere or other sectors that could be relevant to the GB rail market?*

The UK market is in many ways unique due to its current regulation and franchise arrangements that make comparisons with other markets/sectors difficult. However, there are probably good ideas around the deployment of new technologies that are worth investigating.

5) *What are your views on the proposed timetable and approach to the review?*

The timetable and approach looks sensible. The workshop on the 8th of May is potentially a good opportunity for issues to be aired, but is probably too short and involves too many people to achieve a great deal. Evolvi Rail Systems Limited would be very happy to engage further in this process and explain our views in more detail.