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Our Ref:
Your Ref:

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Dear Siobhan,

Retail market review consultation

Thank you for consulting with us on this proposal and inviting our views.

London TravelWatch is the statutory watchdog representing transport users in and around London.

In general terms we 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. It concerns us that your review seems to be more focused on ensuring that the 'market' complies with economic theory, than with the needs of passengers for a comprehensive, transparent and convenient method of buying train travel.

The review also does not in our view recognise that a significant proportion of the rail market in the UK is comprised of journeys made on London's railways using the Oyster / contactless card system rather than paper based tickets.

Response to individual questions posed in the consultation.

1. Is our description of the retail market for tickets and passenger buying behaviour correct? If not, are there any relevant trends/issues we are missing?

Answer : The description is broadly correct, although it underplays the importance of the London market in relation to the whole of the Great Britain market, and the role of TfL outlets enabling passengers to get the appropriate ticket for their journey. It also does not pick up the fact that there are still many stations that do not have any ticket issuing facilities or restricted ones at that even in the London area. These are often reliant on either antiquated 'Permit to Travel' ticket issuing system (PERTIS) (car park type) machines or train staff issuing tickets on trains.

In the former case this often means that passengers are only required to pay a minimum amount until they are able to exchange their 'permit' for a full ticket. This relies on the honesty of passengers, and also that the machines are kept in working order (reliability is often not good because of the age, exposure and mechanical nature of the machines).

In the latter case, the continued use of 'conductor guards' on a rail network that is carrying vastly more passengers than when this role was introduced, has consequential implications for train performance due to their dispatch, safe boarding and alighting and time keeping roles. This can result in train delays – due to the need to complete transactions before opening train doors etc, and also in lost revenue as passengers do not have the opportunity to buy a ticket before arriving at their destination. In the London context the use of conductor guards on some trains (who can issue the full range of tickets, but not Penalty Fares), can lead to confusion amongst passengers when they are asked by revenue protection staff (who cannot issue the full range of tickets, but do issue Penalty Fares and report people for prosecution).

London TravelWatch would advocate the extension of station based smart ticketing and other ways to reduce the need for passengers to use PERTIS type arrangements and conductor guards to purchase tickets. In the London context this would require the extension of the 'Oyster/Contactless' system to stations in the wider 'commuter belt' to the terminus points of 'metro' services such as Gravesend, Sevenoaks, East Grinstead, Tonbridge, Gatwick Airport, Horsham, Guildford, Reading, Aylesbury, Tring, Luton, Letchworth and Stansted Airport.

2. Have we appropriately captured the most significant changes to ticket retailing in the last 10 or so years? Do you consider that the pace and level of developments and changes have been appropriate in meeting passengers' changing needs?

Answer ; No, Oyster and the introduction of contactless payment has resulted in significant improvements to the efficiency and attractiveness of the rail network in London, with a resultant increase in usage attributable to this. It has also significantly reduced the cost to operators of providing ticketing, and improved queuing times at ticket offices and vending machines. The savings from this have not necessarily been shared with passengers. However, the pace and complexity of some of the changes that have been introduced has left some passengers behind in terms of their ability to understand the fares and ticketing system, the appropriateness of the tickets that they are able to buy and their ability to use for ticket vending machines.

3. Are there insights on passenger behaviour, market share and sales channels from other sectors that are worth considering?

Answer ; yes. London TravelWatch when researching passengers ticket purchasing and journey experiences asked passengers to detail their experiences of using self-service check outs at supermarkets compared to ticket vending machines. Likewise a comparison could be made between supermarket tills and ticket offices, and between supermarket on line retailing with web based ticket sales. Other examples would be the way in which the banking industry has moved from our counter based operation to a self-service model through cash machines, 'cashback' at retailers and mobile banking. We would recommend that further work is carried out looking at these comparisons.

4. Have we accurately described the ticket selling arrangements in respect to i) retailers' incentives in selling tickets; ii) retailers' obligations to facilitate an integrated, national network; iii) retailers' governance arrangements; iv) retailers' industry rules; and v) retailers' industry processes and systems?

Answer : yes, as far as we understand them.

5. What are your views on the impact of the retailers' incentives in the way they sell tickets? To what extent do the incentives discussed herein impact retailers' approaches, and how do these differ by retailer type? From the point of view of a retailer, what factors have to be present to make the development of new products an attractive proposition?

Answer ; The governance of the Rail Settlement Plan (RSP) and the Association of Train Operating Companies (ATOC) can in our view lead to perverse outcomes for passengers and a culture of the industry being 'risk averse' when it comes to innovation. An example of this was the introduction of 'contactless payments' on the Oyster estate of the National Rail network. Final agreement to the introduction of this system was blocked by just one train operator concerned that the new ticket inspection devices were not able to read an ITSO product that has not yet been introduced into London. It took considerable pressure via ATOC to get the operator concerned to change their position at the very last moment before the system could be introduced.

6. What are your views on the impact of the impartiality obligation? What is your view on passengers' awareness of impartial retailing? How does the cost of impartial retailing impact passengers' services? How could this be addressed?

Answer ; We are not sure that passengers understand or know about the impartiality obligation. However, significant numbers of passengers do not recognise which train operator they travel with even locally. This was demonstrated to us quite clearly by the 'value for money' research that we carried out which included a branding exercise – significant numbers of passengers were unable to recognise the brand or operating names of rail companies. This means in our view that impartiality is an important feature of selling rail travel that should be retained.

7. With respect to split ticketing, what are your views? Are passengers appropriately safeguarded against the risks attached to split ticketing? To what extent do industry processes and systems enable split ticketing to be developed by industry and used by passengers? Where there are issues, what could be done to address them?

Answer ; Split ticketing as a phenomena has largely been created by the divergent fares and ticketing policies of different parts of the rail industry since the mid 1990's. This has been exacerbated the inability of operators to communicate with one another even where there is no element of competition. Similarly there are cases where operators do not actively take an interest in the pricing of flows because they do not operate direct train services or where passenger numbers are low. The answer to this should be the more wide spread use of 'concatenation' to price flows. e.g. the price for journey between X and Y is set by operator 1 even though they only operate between X and W, where a connection is necessary to Y. The price from X to Y exceeds the price of X to W, plus W to Y. These would lead some passengers to purchase a split ticket. However, pricing X to Y as a concatenated fare would result in all passengers

receiving a lower fare. Concatenated flows should be set by an independent body that has no financial interest in the outcome of the resulting income stream.

8. What are your views on the requirement on TOCs to create and retailers to sell inter-available and through tickets and to offer a timetabled, walk-up service? What are your views on the benefits passengers and TOCs derive from these tickets and the timetabled, walk-up service? What challenges does this obligation give rise to, if any? Where there are issues, what could be done to address them?

Answer ; The provision of inter-available and through ticketing is the major advantage that rail has over other forms of transport. It would not be in the passenger interest to see a diminution of the availability of such tickets. Passengers expect these to be available at all times and throughout the rail network. There is often criticism from passengers where there are no through ticketing arrangements or where it is very limited e.g. Heathrow Express. Without through and comprehensive ticketing many passengers would simply choose another mode of travel or not make their journey at all. We are aware that train operators do not like to have to share or apportion revenue with each other, as it is more convenient for them in terms of accounting. However, this does not justify requiring passengers to do the railway industries accounting for it.

In the London area, we are concerned that London Underground's proposals to close all their ticket offices, could lead to restrictions on the availability of National Rail tickets especially at stations where London Underground is the station facility operator, but where National Rail services call, or in areas where there are no National Rail ticket offices. This would potentially reduce passenger choice and access to the full range of tickets. From figures supplied to us by TfL this would affect around six million passengers a year.

9. With respect to having minimum obligations on TOCs to have their station ticket offices open, what are your views on the impact of these obligations on how the market can develop in line with passengers' needs?

Answer ; The current rules surrounding ticket office hours are well developed and allow operators where they have developed a sound argument and evidence base for change to adapt the hours that their ticket offices are open in an easy and reasonable way, and which does not disadvantage the majority of passengers.. However, our experience of train operators is that many develop their proposals without a well argued and evidenced case for doing so, and often on the basis of trying to reduce staffing costs rather than responding to changing passenger buying patterns, with minimal mitigation measures and then get frustrated when we as a passenger body ask them to demonstrate their case for agreeing to their proposal. Staff conducting these reviews often, in our view do not have previous experience of the process - we have had in the past to provide them with quite detailed on advice on how the process works in order to get a mutually beneficial outcome. In cases, such as recently with London Midland, where the process has been long drawn out and where it has been difficult to come to a consensus, this has come about in our view, because the operator has approached this with a fixed 'closed' view of what they wished to achieve, with very little room for manoeuvre when approaching passenger organisations or trade unions. However, where operators have approached with an 'open' view this is a much more constructive process, as we are able to give them the benefit of our experience and knowledge from the start. The result from this is a more flexible,

quicker and ultimately more beneficial outcome for both the passenger and the operator.

10. With respect to TOCs being prohibited from charging fees, what are your views on the impact of this requirement? To what extent, if any, does this give rise to a distortive effect between TOCs and third party retailers?

Answer ; All train operators receive a commission based on the value of the ticket for sales that they make. This means that the cost to passengers is not distorted by whether one train operator charges a fee or not. It means that for tickets purchased through train operators there is always transparency of the total cost of the ticket. However, in the case of third party retailers such as thetrainline.com often passengers find that at the end of the transaction there is an additional booking fee, or cost attached to a particular method of ticket dispatch or collection that the passenger might not have been aware of when they started the transaction.

11. What are your views on the current form of industry governance? Are there specific examples where the governance has enabled or limited retail innovation? Where necessary, how could industry governance be improved?

Answer ; The current form of industry governance has been effective in limiting innovation and usage of the Oyster / contactless system because of a culture of risk aversion. This is largely because the change has been proposed by TfL rather than TOCs or where the TOC feels that it cannot initiate changes because it has not been specified by the DfT in the original franchise, or because although the London market is very large, and a change would be the right thing to do for London passenger, the TOC is only serving a very small proportion of that market, and compared to the rest of its operation it is also a small proportion of its activities. Examples of this behaviour are as follows:-

- The introduction of Oyster Pay As You Go on National Rail routes in London was a protracted affair, and was only completed in January 2010. Some train operators embraced the system early, but others were over cautious and concerned that some passengers with Travelcards on Oyster might manipulate the system and cause them to lose revenue, even though TfL or other TOCs had not experienced such behaviour. In order to overcome these fears TfL were forced to devise the 'Oyster Extension Permit' (OEP). This Oyster 'product' was required to be added to an Oystercard every time a passenger with a Travelcard on their Oyster travelled outside their existing zones. If the passenger was checked by a revenue protection inspector outside of their zones and did not have one of these OEPs they were liable for a Penalty Fare. However, if they did not have an OEP and completed their journey by touching out they were simply charged the correct fare. We advised the TOCs that this system was incomprehensible to passengers and would be (and was) more observed in the breach than in compliance. However, TOC intransigence meant it was implemented, with the resulting reputational damage to the industry. Fortunately after experience showed that the OEP was unnecessary the industry relented and abolished the requirement for OEPs. However, much public and train operator money was spent on a 'product' that was ultimately unnecessary.
- Most train operators have consistently refused to sell Oyster cards and products through their ticket offices, even though these represent the bulk of transactions

on the rail network in London. Those that have done so in the past (Southeastern and South West Trains) have subsequently withdrawn from this activity. This has caused significant difficulties for passengers in areas of London which do not have London Underground or London Overground services. In addition, because of who provides station services at stations jointly served by both TfL and National Rail services, some very large stations for TfL usage e.g. Wimbledon, Richmond, Ealing Broadway, Barking, Upminster, Peckham Rye, Lewisham, Greenwich, Denmark Hill, Woolwich Arsenal do not have the ability for passengers to resolve Oyster issues that would normally be provided to them as standard at a TfL run station. The result is that passengers in these areas have less access to redress than those who do not.

12. What are your views on the current form of industry rules? What benefits do they give rise to, and how? Are there any specific aspects of industry rules that limit or dampen innovation in retail? How could they be addressed?

Answer ; The current industry rules have the benefit of providing a uniform and comprehensive service offer to passengers. However, the entry requirements by RSP are such that it limits the ability of new providers to enter the market. In London, Oyster agencies are concentrated largely in the hands of small and medium sized enterprises with local ownership. The sale of Oyster products is combined with that of selling other things such as food and drink, makes the employment of staff viable for the retailer, and enables passengers to get access to ticketing over a longer period of the day and week than would be viable for a transport provider to operate on a stand alone basis. This kind of arrangement is very rare under the RSP arrangements, and the rules as they stand are a significant barrier to retailers selling rail tickets as part of a broader business. In the case of smaller and medium sized stations, an independent retailer could potentially provide ticket selling facilities at much lower cost, and over longer periods than the rail operator by being able to spread their overhead costs over a much larger product range. This would be a potential benefit to passengers. This should be explored in much greater detail as a reduction in retailing costs would make a significant contribution to reducing overall industry costs. In areas where a significant proportion of ticket sales are on train, an initiative such as this would also potentially have a performance benefit in reducing station dwell times, and in reducing unintentional fare evasion because the conductor has not had time to issue tickets to all passengers before they get to the next or final station..

13. With respect to the third party retailers' arrangements, to what extent does the nature of their relationship with TOCs enable them to benefit passengers, including bringing about competition and innovation? How are the arrangements between the wholesale provider and the third party retailers in other sectors relevant to rail? What is the impact of third party retailers in rail not having access to a wholesale market / wholesale price? Do the industry governance, rules, processes, and systems pose additional impacts for third party retailers that we have not captured?

Answer ; 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.

14. What are your views on the current form of industry processes and systems? What benefits do they give rise to, and how? Are there any specific aspects of industry processes that limit or dampen innovation in retail? Do these processes have other impacts, either causing problems or leading to benefits?

Answer ; We support the continuance of a consistent ticket format in both paper and electronic formats. Previous experience of the use of other formats led to confusion amongst passengers and problems for operators particularly when passengers were using a multiple number of operators or retailers for their journey or to provide their ticket. The use of consistent formats also reduces the risk of fraud or misunderstanding by revenue protection staff and by passengers.

15. With respect to industry data, how does access to and quality of data manifest? What is the impact?

Answer ; We support the opening up of industry data to third parties to enable the development of apps and other on line tools. In particular this should be made available to TfL and other transport authorities without the requirement to share revenues that these bodies generate through website connections where advertising is made available..

16. What are your view on our proposed approach to assessing the materiality and relevance of the impacts? Please particularly consider the extent to which the incentives, obligations, governance, rules, processes and systems in place facilitate or inhibit i) passengers being active, empowered and engaged in the market, causing suppliers and retailers to reduce costs and raise quality; and ii) retailers can compete to deliver services that meet consumers' needs and expectations.

Answer ; The principles set out in your consultation are good, but are clearly aimed at the needs of longer distance infrequent travellers, rather than frequent local to middle distance travellers, particularly in urban areas such as London who form the most significant proportion of rail travellers overall. The approach seems to be based on economic theory rather than the practical requirement for passengers to have a consistent and comprehensive ticketing that is easily accessed and understood by passenger and staff alike. The current situation whilst not perfect, has enabled the rail industry to compete effectively with other modes of transport such as the private car and domestic air, attracting new passengers to rail. We would be very loath to lose the benefits that consumers have gained or retained by this approach. Indeed, in some sectors such as mobile phones there is move toward the approach taken in the rail industry, with companies such as Vodafone and EE concentrating their activity on directly sold products rather than repackaged products as offered through companies such as 'The Carphone Warehouse'. The closure of 'Phones4U' demonstrates the reduction of this type of repackaging activity.

17. What are your views on proposed approach to Stage Two of the Review?

Answer ; We would ask the ORR to take a much more pragmatic approach to this subject, looking at the practical implications for passengers, rather than concentrate on whether ticket retailing conforms to a theoretically competitive market. It also needs to recognise the importance of urban travel and how railway ticketing systems should enable this to happen in a seamless and transparent manner.

18. What other views have you regarding the Review that has not been captured in the questions above?

Answer ; We have undertaken a number of pieces of research in recent years that are relevant to the review. These include 'Passenger ticket purchasing and journey experiences'

http://www.londontravelwatch.org.uk/documents/get_lob?id=3710&field=file and 'value for money on London transport services – what consumers think'
http://www.londontravelwatch.org.uk/documents/get_lob?id=3734&field=file .

In addition we have recently published 'Improving public transport access to London's airports' http://www.londontravelwatch.org.uk/documents/get_lob?id=3894&field=file which specifically recommends changes to fares and ticketing to improve passengers access to ticketing on journeys to and from London's airports. In particular there is a need for the Oyster/contactless system to be extended to cover all of London's airports and all rail operators serving them, and for the full range of National Rail destinations and tickets to be available at Heathrow Airport.

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

Yours sincerely

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