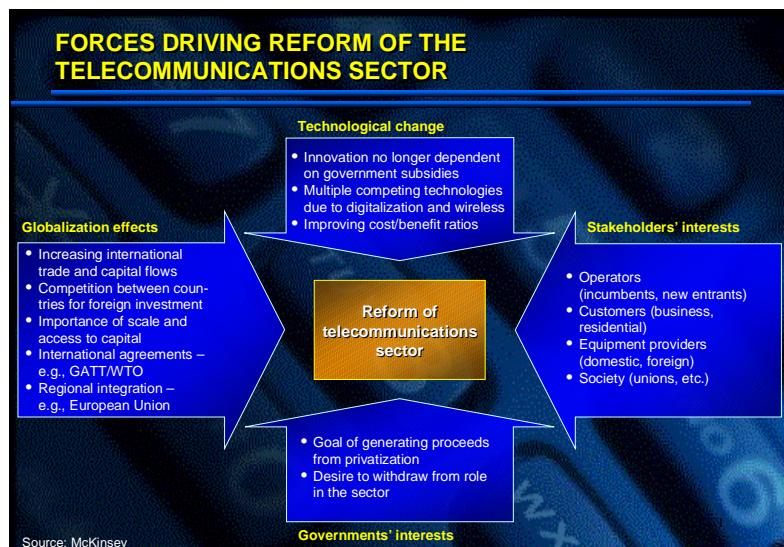


# Assessing and Managing the Impact of Telecom Deregulation

OECD Global Conference on Telecommunications Policy for the Digital Economy

Scott Beardsley  
Director McKinsey & Company Brussels

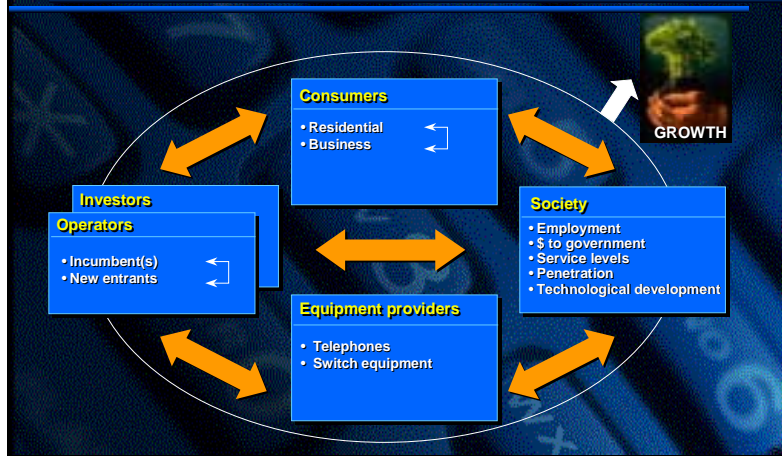
Dubai, January 22, 2002



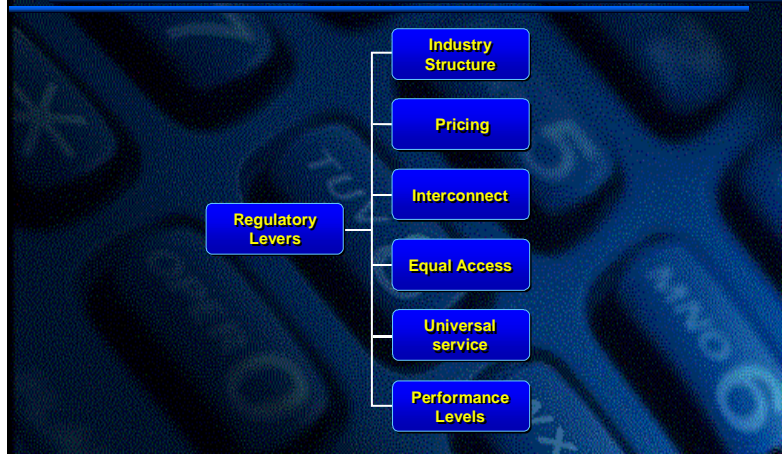
## MAIN MESSAGES

- **Details of deregulation represent potentially the largest value lever for operators and are an important wealth distribution and generation tool for countries**
- Deregulation's impact has been-and will continue to be – a critical determinant of industry development, but varies significantly by country
- Even in "deregulated" countries, sector reform challenges remain significant for regulators. Regulators need to adapt their approach and philosophy to the objectives and situation at hand

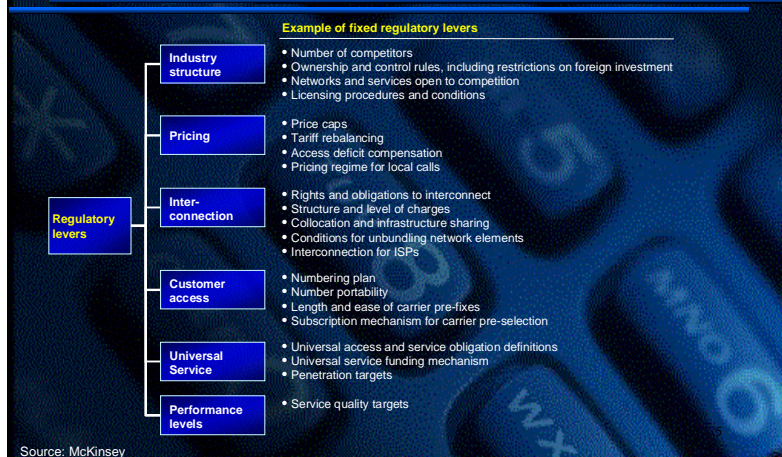
## REGULATION MUST MAKE COMPLEX GROWTH AND VALUE TRADE-OFFS



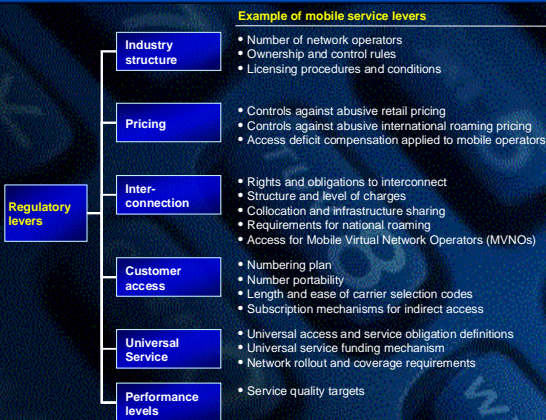
## OVERVIEW OF REGULATORY LEVRS



## OVERVIEW OF FIXED REGULATORY LEVRS



## OVERVIEW OF MOBILE REGULATORY LEVRS

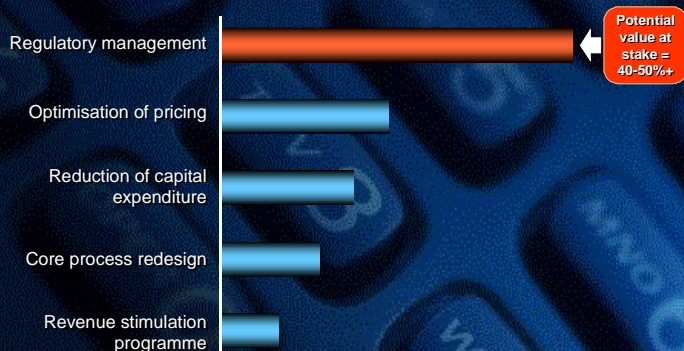


Source: McKinsey

## REGULATORY MANAGEMENT IS LARGEST VALUE LEVER

BASED ON EUROPEAN INCUMBENT EXAMPLES NOT MUTUALLY EXCLUSIVE IMPACT

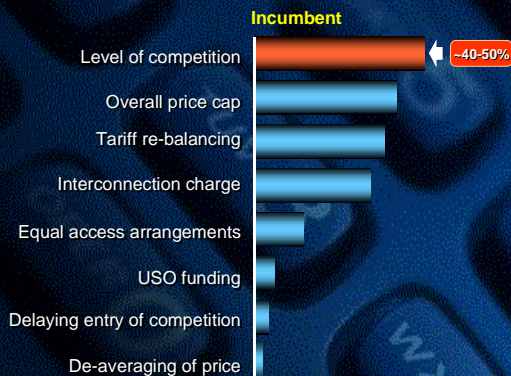
### Potential impact of lever on value of telco



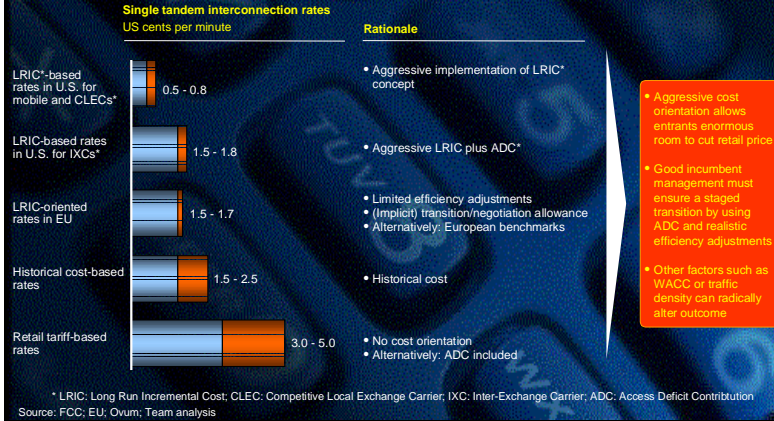
## THE IMPORTANCE OF LEVERS VARIES BY PLAYER

EXAMPLE BASED ON EUROPEAN PSTN EXAMPLE AT NO MOMENT OF DEREGULATION MUTUALLY EXCLUSIVE IMPACT

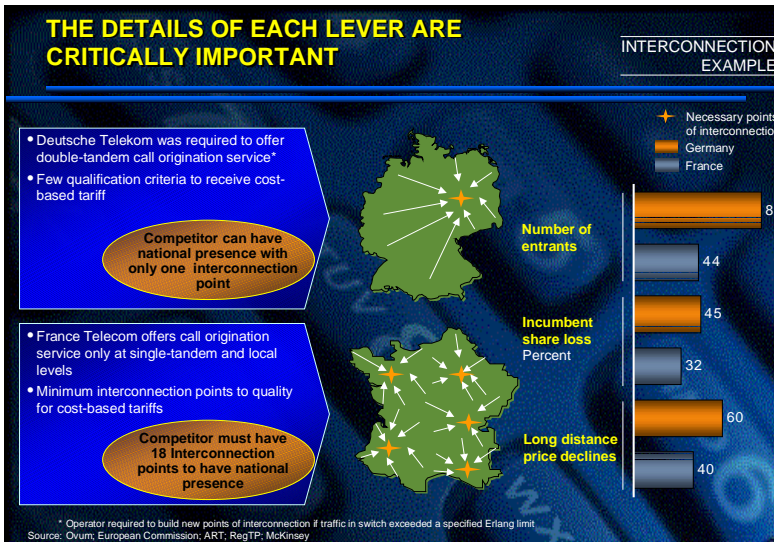
### Potential value at stake by regulatory lever



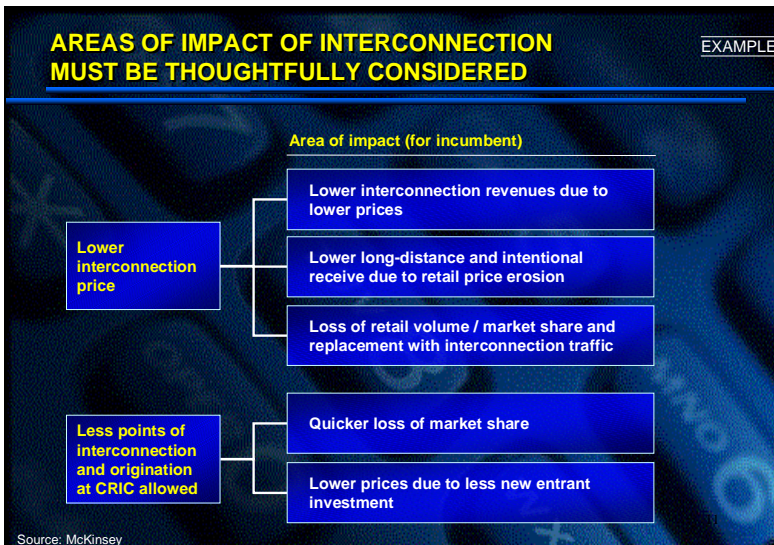
## DETAILS UNDERPINNING COST-ORIENTATION DRIVE HUGE IMPACT ON INTERCONNECTION RATES



## THE DETAILS OF EACH LEVER ARE CRITICALLY IMPORTANT



## AREAS OF IMPACT OF INTERCONNECTION MUST BE THOUGHTFULLY CONSIDERED

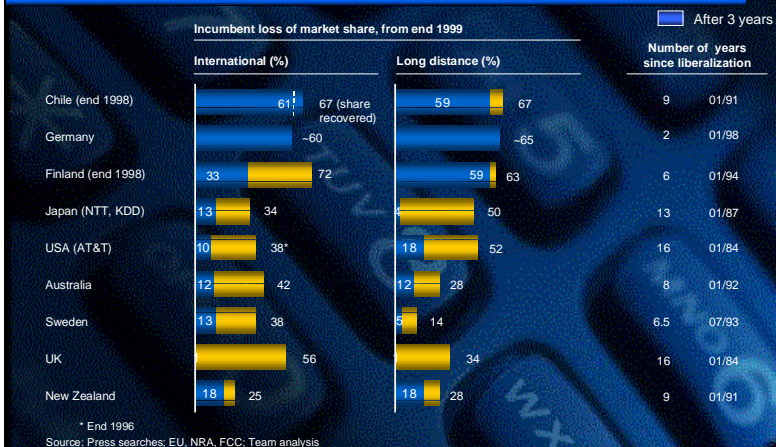


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## INCUMBENT MARKET SHARE DECLINES HAVE BEEN SIGNIFICANT

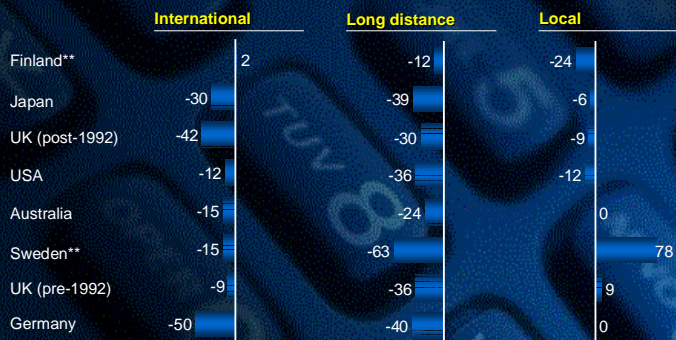
TELECOM DEREGULATION EXAMPLE



## DEREGULATION DRIVES RAPID PRICE DECREASES IN MOST COUNTRIES

TELECOM EXAMPLE

Percent cumulative real price change over 3 years after deregulation\*



\* Price changes in local currency corrected for inflation

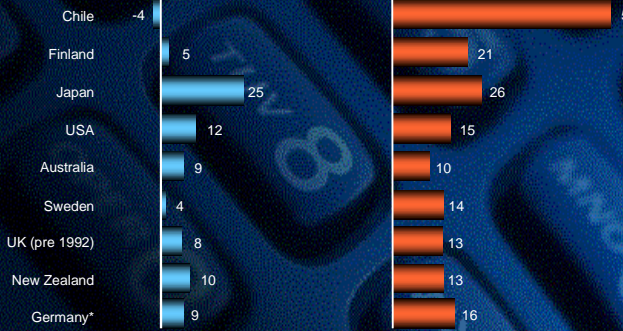
\*\* Price changes only over 2 years after deregulation in Finland, 18 months in Germany

## DEREGULATION DRIVES INCREASE IN TELEPHONY USAGE PER LINE

### % increase of telephony minutes per line

Annual usage increase over 3 years prior to deregulation

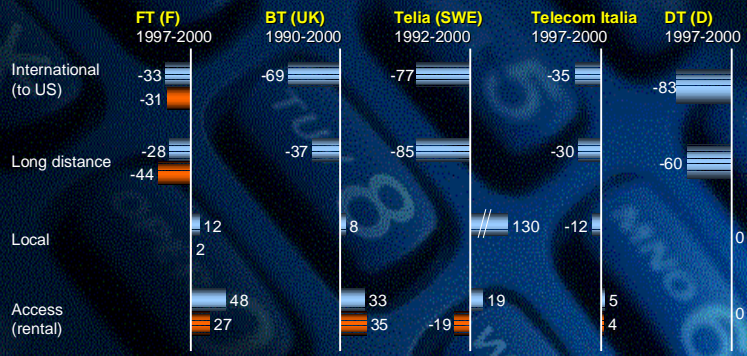
Annual usage increase over 3 years after deregulation



\* 1 year before and after deregulation

## DEREGULATION DRIVING MOST INCUMBENTS TO REBALANCE ACCESS PRICES, AND ELIMINATE CROSS-SUBSIDIES

### Percent (local currency)

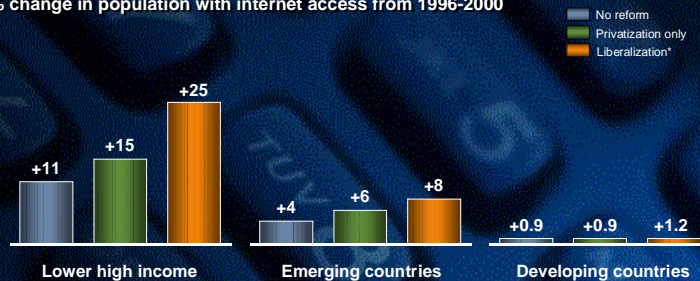


\* Metropolitan, Peak time, excluding set-up fees, digital line (non ISDN)

Source: Tarifica 1999; Eurodata

## INTERNET PENETRATION ENCOURAGED BY REFORM IN MOST COUNTRIES

### % change in population with internet access from 1996-2000



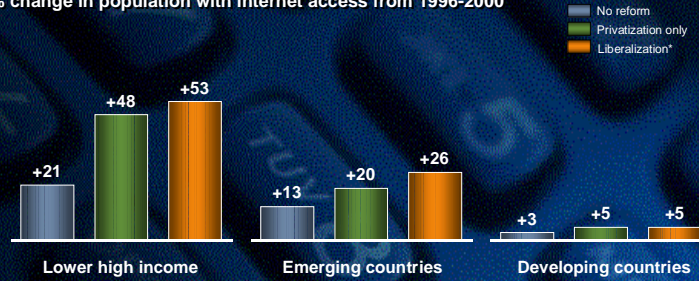
Note: All upper high income countries have pursued reform. Internet penetration in these countries has grown from 7% to 38% of the population from 1996 to 2000

\* Includes countries that have privatized and liberalized

Source: ITU; EMC; WEFA; McKinsey

## TELECOMMUNICATIONS INFRASTRUCTURE GROWTH MORE RAPID AMONG COUNTRIES WITH REFORM

% change in population with internet access from 1996-2000



Note: All upper high income countries have pursued reform. Teledensity in those countries has grown from 70% to 123% from 1996 to 2000

\* Fixed plus mobile lines per 100 population

\*\* Includes countries that have privatized and liberalized

Source: ITU, FMC, WFA, McKinsey

## MAIN MESSAGES

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## GOVERNMENT AND REGULATORS' CHALLENGES REMAIN SIGNIFICANT

Countries with mature sector reform process

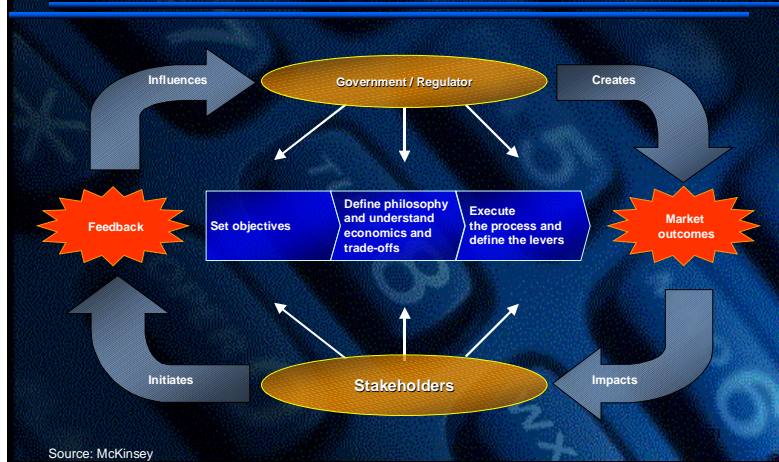
- Understand and react to differences in performance relative to other countries
- Fine-tune/correct key regulatory policies and processes to improve sector performance
- Determine the degree to which regulation should be adjusted to create regulatory parity between the incumbent and competitors
- Improve the quality of networked experience by promoting broadband and 3G sector reform (e.g., local infrastructure incentives, cable industry reform, unbundling and indirect/direct funding mechanisms)

Countries with sector reform emerging or in progress

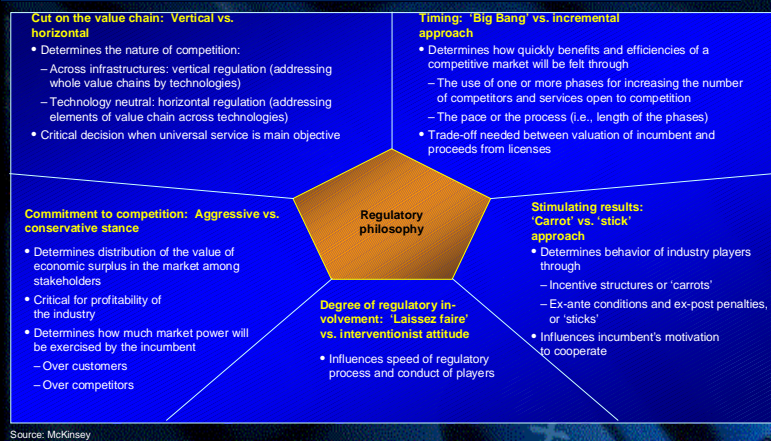
- Focus on attracting private investment to unlock value
- Develop capabilities to manage reform process including understanding of industry economics
- Establish the prerequisites of sector reform: a credible legal framework and a capable, adequately resourced regulator
- Establish clear policies on critical regulatory levers, such as timing, industry structure, interconnection and rebalancing

Source : McKinsey

## SECTOR REFORM FEEDBACK LOOP



## ELEMENTS OF THE REGULATORY PHILOSOPHY



## REFORM WILL CONTINUE TO MATTER

