

INSIGHT SPOTLIGHT

The Covid-19 pandemic and resulting widespread shift in working patterns from the office to the home have thrust communications and the resiliency of telecoms networks to the fore. In recognition of the vast number of organisations that drive or depend on such networks, our latest series of Insight Spotlights examines the

implications of Covid-19 across the telecoms, media and technology sector.

In this Spotlight, we focus on the usage and resiliency of mobile networks, considering fast-changing supply and demand factors as well as the implications for mobile operators and regulators.

Analysis

Churn down, usage up

In advanced high-income countries, there is unlikely to be any discernible impact on the size of the overall unique mobile subscriber base. Saturation has long been reached and demand for mobile service is highly inelastic. Overall active SIM connections may decline as a result of migrant workers returning home (reducing the need for second SIMs for low-cost international calls) and SME closures.

Churn is likely to decrease as retail outlets are closed and consumers avoid the risk of network interruption. The composition of mobile operator bases will therefore go through a rare period of continuity. Prevailing contract churn tends to run at 15–20% per year; this may well fall below 10% for the next year. This will be welcomed by operators, considering the associated reduction in pricing pressure, reduced costs from subscriber acquisition and the opportunity to focus on what matters most – network resiliency.

The major exception is likely to come in SME segments not protected by government-backed financing schemes and whose closure would trigger unemployment. B2B tends to be 10–20% of mobile telecoms revenue on average, so the potential hit to the overall top line is clear. Operators have wisely offered discounts and payment holidays to support such customers.

Usage of mobile and fixed networks is rising significantly as a result of the mass shift to working from home and social distancing. As important as the growth in traffic volumes are the changes in patterns, location and timing. The normal evening peak has shifted to earlier in the day, with BT and AT&T reporting 30–50% rises in daytime traffic. Videoconferencing, TV streaming, gaming and even call volumes are already experiencing spikes, which will continue throughout the duration of any lockdown restrictions and potentially longer should new entertainment habits become entrenched at the expense of trips outside. With much of the use at home, data volumes will largely be shouldered by fibre and Wi-Fi, with the corresponding rise in cellular traffic lower. There are some exceptions – notably mobile-only households (nearly 20% in the US), which may be a source of upgrades to unlimited tariffs, including 5G.

Short term: network resilience a priority

Early reporting from operators and anecdotal evidence indicate mobile networks are coping with rising demand. Ookla data suggests mobile broadband speeds have held up, though with degradation of 5–10% in the hardest hit European countries of Italy, Spain and France. The picture will likely remain unchanged over the next three to six months. Most societal restrictions have already been implemented close to the full extent they can be. The rise in data traffic is also being met more by fixed than mobile. And where there is stress on mobile, operators with 5G holdings can soak up additional traffic and reduce the burden on LTE.

Long term: network rollouts delayed but only temporarily

The long-term network investment outlook is uncertain as it is influenced by the length and depth of a recession. The Chinese domestic market is the least exposed to a delay in 5G rollouts as its peak virus period has passed and there is strong government support to resume 5G builds as a sign of national strength. Europe and the Middle East may experience a short-term stall in 2020 from supply-chain constraints, particularly if involving Chinese vendors Huawei and ZTE. 3GPP has also delayed 5G standards by three months. However, any delays are likely to be temporary rather than long lasting, considering the systemic importance of universal broadband access and 5G's support for industrial applications in manufacturing and healthcare, as well as to avoid the risk of stranded network assets.

A hit on 5G adoption among consumers?

The more likely consequence of Covid-19 is a slowdown in consumer 5G adoption in the short term due to the impact on discretionary income and potential slowing of new handset launches, including a would-be 5G iPhone. For more analysis, see [Evaluating the impact of Covid-19 on mobile](#)

Implications

Mobile operators

- **Challenging near-term financial outlook** – Our central case scenario sees Covid-19 reduce GDP growth in 2020 by 4.5 pp, with the global economy shrinking by 1.5%. This scenario sees viral impacts ease in the summer in some countries but grow in others. Social distancing and travel disruption impact supply and demand for the rest of 2020. Working on the assumption of a 1:1 translation from GDP to telecoms revenue growth (a cyclical sector) with a delay of three to six months, operator revenue growth would be 2.5–3.5 pp lower in 2020 than it would have been. This scenario would see GDP largely back to current levels in early 2021, with the same occurring for the telecoms sector – potentially with a further bounce from pent-up spend which could propel 5G upgrades. A severe disruption scenario driven by a prolonged recession would see revenue growth hit by 5–6 pp, while an optimistic case would involve a short and shallow dip in economic activity, with telco revenues largely flat in 2020.
- **A focus on reassuring customers and maintaining reliability** – In a time of global uncertainty, consumers are looking for reliable networks and stable pricing. The priority now is to deliver – and be seen delivering – an essential service and to maintain network quality.
- **Trust, trust, trust** – This offers a marketing opportunity based on growing a trusted, reliable brand. Operators should consider flexible or deferred billing for those consumers and businesses struggling financially. Social media platforms should be widely used to continue to inform and reassure customers as they spend more time on connected devices.
- **New times bring new opportunities** – A sanguine price environment need not constrain innovation. There are opportunities for operators to be creative with content. Large numbers of consumers are stuck at home, so we expect to see a spike in video streaming and mobile gaming, with operators in a position to partner with third-party platforms and studios.

Regulators

- **Network traffic is the priority** – With most people operating remotely, networks must cope with increased traffic to keep disruption to consumers, businesses and the economy as manageable as possible. The European Commission and BEREC have released a statement confirming that exceptional traffic management measures to prevent network congestion are permitted. Some regulators are also helping with emergency spectrum management measures – for example, in the US, Jordan, Brazil and South Africa.
- **Monitor mobile operator financials** – The financial outlook for mobile operators is challenging. If financials are strained further, this could impact their ability to provide extra network capacity where needed. Long-overdue reform measures in countries with excessive sector-specific taxes and spectrum charges should be put on the table now. Otherwise, much-needed investments will be put at risk.
- **Mobile connectivity is more important than ever** – Those without access will suffer the consequences of lockdowns and social distancing the most. Policy measures that enable mobile networks to reach further will be important where deployment costs are higher. Equally important will be policies that stimulate demand. In Africa, Airtel has scrapped charges on mobile money transactions. In the UAE and Jordan, WhatsApp voice and video calls are now possible after regulatory restrictions have been lifted.

Related reading

[Evaluating the impact of Covid-19](#)

[Global 5G Landscape, Q4 2019](#)

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