



**Thursday 25 October 2007**

## **Ombudsman issues contract warning to small business**

Small businesses should be careful when signing phone contracts that come bundled with equipment such as laptops, washing machines or plasma televisions.

The Telecommunications Industry Ombudsman's office is receiving up to 20 complaints a week from businesses who claim that they were misled about or did not understand the contracts before they signed.

"Typically, a bundled deal will offer a contract for call costs at the same price or less than what a business is currently paying," said Deputy Ombudsman Simon Cleary. "The business is commonly offered a handset, plasma TV, laptop or even an overseas holiday at 'no extra cost'.

"Small businesses sometimes don't fully appreciate that they are signing two contracts; one for the phone calls with a telecommunications service provider and one for a lease of the equipment from a finance company."

The monthly equipment lease payments are often offset by "credits" on the phone bill from the phone company. The size of these credits is often similar to the monthly lease payments for the finance contract.

Businesses who have contacted the TIO say that their call rates often increase and the package proves to be more expensive than their previous arrangement. If the business transfers to another phone company, they will still be bound by the finance lease but without the credits from the phone company.

Under the finance lease alone, the equipment can work out to be quite expensive. The TIO has heard of cases where standard model laptops end up costing up to \$20,000 over five years of finance lease payments.

Mr Cleary said that while the dual contract arrangement might meet the needs of many businesses, the TIO was concerned by the number of small businesses who said they had been misled and then found themselves locked into expensive equipment leases. The TIO can direct service providers to release a small business or consumer from a telecommunications contract, but has no similar power over a finance company and their leases.

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Small businesses who are offered bundled deals should take extreme care before signing contracts. In particular, they should ask:

- who are the parties involved in the deal?
- how many contracts does the deal involve? Is it just one contract with one company or are they separate contracts?
- exactly what services are being offered by the phone company? If “credits” are being offered to offset the lease payments, how much are the credits and are there any limitations on when they are paid?
- is there a lease? If so, what are the monthly lease payments, and how long is the lease for?
- what happens if the telecommunications contract ends? Is the business still bound by the lease?
- what is the total cost of the deal over the term of the contracts?
- does it actually work out to be cheaper than the small business’s existing telecommunications arrangements?

**For further information, please call TIO Public Affairs on 03 8600 8738.**

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