



Top 10 risks in telecommunications

Evolving sector considerations for 2024



EY

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An industry navigating a complex and shifting risk landscape

In any business today, a deep understanding of risk is no longer the preserve of the Chief Risk Officer, Chief Financial Officer or even Head of Internal Audit. The dynamic nature and pervasive impact of all types of risk means that having a clear focus is imperative for executives across all functions. Put simply, risk is everyone's business. And this is especially true in the telecommunications industry, given its unique positioning at the nexus of technological change, geopolitical strains, economic shifts and societal development.

Factors informing the telecoms risk landscape

Macroeconomic and geopolitical headwinds, ranging from the cost-of-living crisis to ongoing supply chain disruption, present a continued threat to telecoms companies' financial resilience and stability. Vulnerable customers are also a growing area of focus among regulators, who are doubling down on digital safety as they begin to consider the ethical implications of AI.

Enterprise transformation initiatives are expanding in scope and ambition. Sustainability is now a major consideration at board level as diversity and inclusiveness (D&I) initiatives and hybrid working modes continue transforming ways of working. Furthermore, infrastructure carve-outs and consolidation are reshaping telecommunications market structures.

New technologies – from generative AI (GenAI) and quantum computing to stand-alone 5G and gigabit fiber – are raising fresh questions around business resilience and service innovation. The ability to harness a range of frontier technologies is becoming ever more important to achieving market differentiation and competitive advantage.

Through their individual and collective impacts, these factors are giving rise to a diverse range of risks affecting every aspect of a telco's business. And given the pace and scale of change, these risks are constantly shifting both in nature and impact. In this report, we draw out and analyze the top 10 risks that we believe are facing telcos globally in 2024 – and pinpoint three key actions that leaders can take to mitigate them.

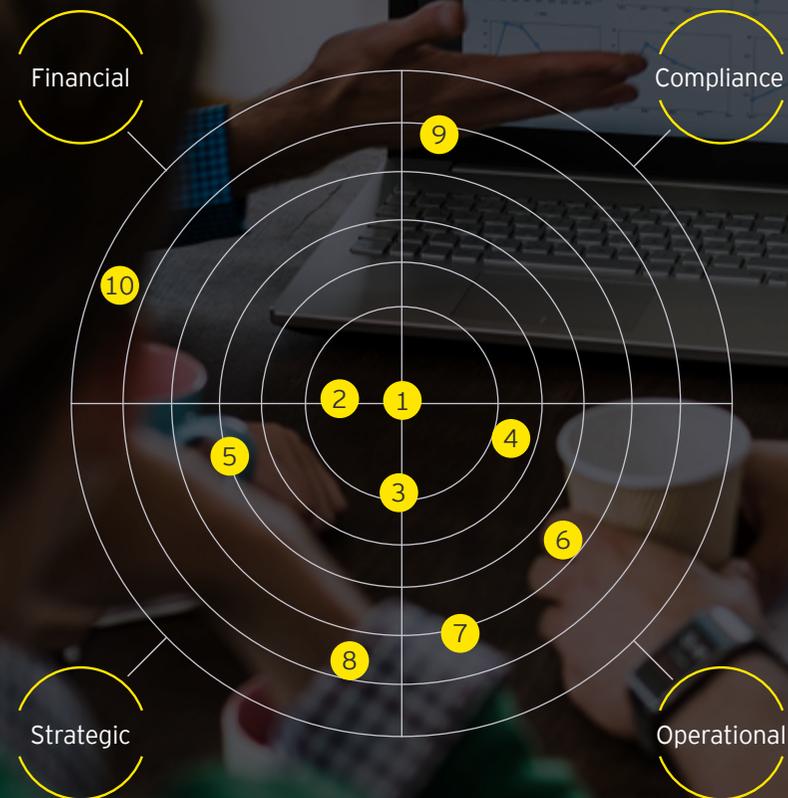


Mapping out the industry's risks

Our analysis of the telecoms risk universe in 2024 is based on the industry "risk radar" depicted on the right. We divide the sector's risk factors into four domains and rank each risk based on its current importance and impact. The four domains are:

- ▶ **Compliance threats** that originate in politics, regulations or corporate governance
- ▶ **Operational threats** that impact the processes, systems, people, and overall value chain of the business
- ▶ **Strategic threats** that are related to customers, competitors and investors
- ▶ **Financial threats** that stem from volatility in markets, ecosystems and investments

- | | |
|--|---|
| 1. Underestimating changing imperatives in privacy, security and trust | 6. Inadequate network quality and value proposition |
| 2. Insufficient response to customers during the cost-of-living crisis | 7. Failure to improve workforce culture and ways of working |
| 3. Inadequate talent and skills management | 8. Ineffective engagement with external ecosystems |
| 4. Poor management of the sustainability agenda | 9. Inability to adapt to the changing regulatory landscape |
| 5. Failure to take advantage of new business models | 10. Failure to maximize value of infrastructure assets |





The top 10 risks for telecommunications 2024

Here's a drill-down into the 10 biggest risks we've identified across the sector.

1

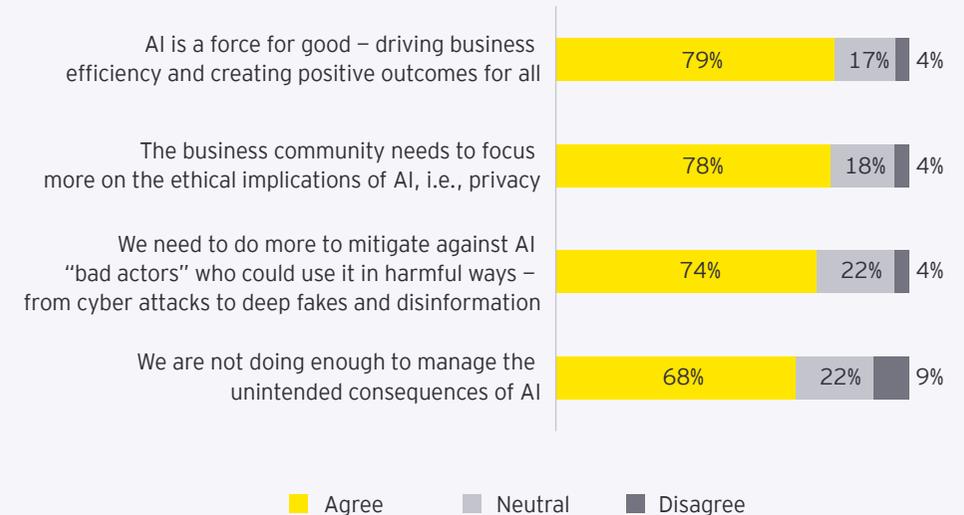
Underestimating changing imperatives in privacy, security and trust

Telco cyber resilience is under pressure at a time when the rise of generative AI (GenAI) is putting data governance and ethics even more firmly in the spotlight.

For telecoms operators worldwide, the challenges involved in maintaining effective cybersecurity are mounting. According to [global EY research](#),¹ 53% of telcos believe that the total cost of cybersecurity breaches to their organization will exceed US\$3m in 2023, up from 40% in 2022. Meanwhile, a range of internal issues are undermining telcos' cybersecurity efforts, topped by a failure among non-IT workforce to adhere to best practice – cited by 52% of telcos in our cybersecurity study, well above the cross-sector average of 38% – and a perception that there are too many attack surfaces to protect. Looking forward, advancing technology cycles heighten cyber risks. Over the coming five years, most telcos believe that the Internet of Things (IoT), cloud at scale, and artificial intelligence (AI) will pose substantial risks to their organization from a cybersecurity perspective.

Telcos' attitudes to AI

To what extent do you agree with the following statements related to artificial intelligence (AI)?



Source: [EY CEO Outlook Pulse Survey](#), (telecoms respondents), July 2023.

At the same time, the rise of GenAI is adding to telcos' challenges around data governance. On the upside, GenAI offers major opportunities for telcos to accelerate digital transformation across their business, especially in areas like customer service and network management. This is why four in five telcos responding to a [recent EY study of attitudes to AI](#)² agree that AI is a force for good. However, nearly as many accept that there are security and related risks to consider, with 74% of TMT companies believing they need to do more to mitigate against AI “bad actors.” There are also potential ethical implications and unintended consequences from AI that exceed the scope of existing regulatory frameworks. The overall effect is that existing data governance strategies may not be fit for purpose.

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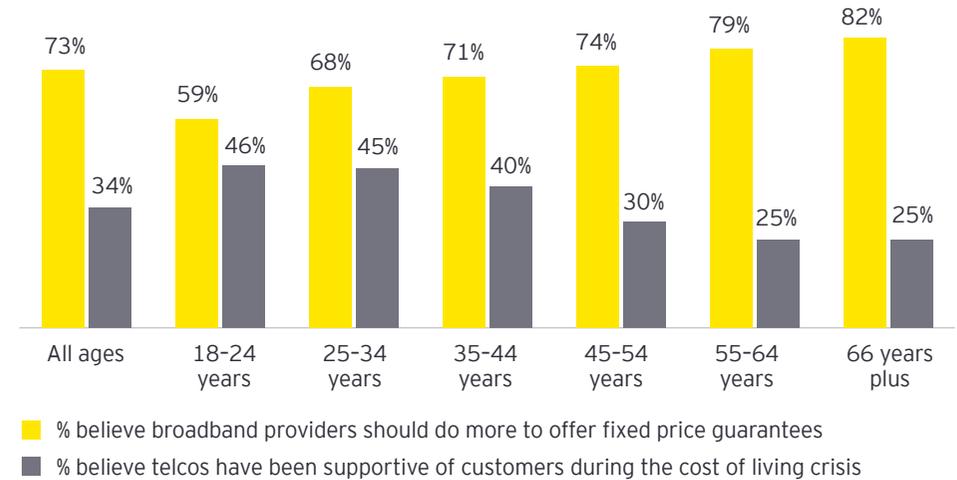
Insufficient response to customers during the cost-of-living crisis

Households want clearer, more predictable pricing and are prepared to shop around more to get a better deal, taking the path to purchase out of a telco's control.

Consumers are tired of opaque pricing messages that are difficult to interpret. The latest EY [Decoding the Digital Home](#)³ study finds that just one-third of consumers think telcos have been supportive during the cost-of-living crisis, while three-quarters believe broadband providers should do more to offer fixed price guarantees. These sentiments are especially pronounced in older age groups, who are more likely to want fixed pricing and less likely to think telcos have been supportive. Alongside seeking greater certainty around pricing, households also want telcos to communicate it better: 49% find explanations of price changes difficult to understand, while 39% find it hard to locate terms and conditions relating to pricing.

Households' attitudes toward telcos during the cost-of-living crisis

Percentage of households



Source: 2023 EY [decoding the digital home study](#), September 2023.

These gripes are contributing to a rising tendency for users to shop around, resulting in telcos losing control of the path to purchase. While fewer than one in five consumers are actively reducing their spend on fixed and mobile connectivity at the moment, many are looking for better deals and advice – with 60% agreeing the cost-of-living crisis has made them more likely to shop around for the best deals. This changing behavior is propelling a concerted shift away from operator-controlled retail outlets, whether physical or online. Tellingly, the proportion of households going to price comparison sites or friends and family for recommendations has risen sharply, from 19% in 2022 to 30% in 2023.

3

Inadequate talent and skills management

External factors – including rising costs – are constraining telcos’ ability to attract and retain talent, with network engineers in especially short supply.

Financial pressures are causing many telcos to dial down their efforts to bring in new talent, threatening their future talent pipeline. In the latest [EY Work Reimagined Survey](#),⁴ over half – 55% – of telecoms employers say they’re freezing hiring in response to financial pressures, almost double the proportion across all sectors (28%). Efforts to control costs are also leading to salary and benefits reductions – cited by 61% of telcos compared with 44% of all employers – adding to challenges around talent retention. What’s more, these latest actions come on top of several years of workforce reductions, with the leading 20 telcos worldwide [reportedly having cut their workforces](#) by a combined 20% in the past seven years.⁵



Against this background, it’s hardly surprising that talent management dominates the people-related risks cited by telecoms employers – with our [Work Reimagined Survey](#)⁶ showing that retaining talent, attracting new talent, and developing next-generation talent are all ranked in their top five. With new technology cycles in both GenAI and edge computing looming, access to digital talent will only become more important. However, a more immediate challenge is a shortage of network engineers. It’s been estimated that the US will need [an additional 23,000 additional workers](#) over the next 10 years to deploy broadband and 5G infrastructure funded by federal programs.⁷

Top five people-related risks cited by telcos

Question: Which of the following risks at work are you most concerned about?



Source: EY 2023 Work Reimagined Survey.

4

Poor management of sustainability agenda



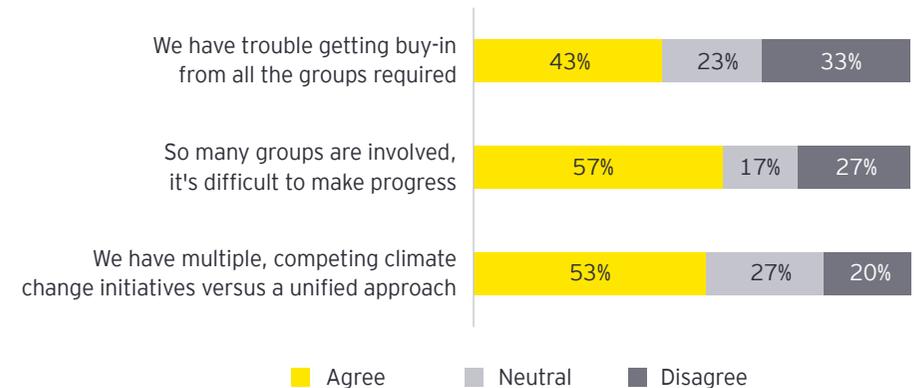
Telcos' climate disclosures are lacking in quality, while internal complexity is hampering the progress of their climate change initiatives.

The EY [Global Climate Risk Disclosure Barometer](#)⁹ shows that the quality of telcos' climate-related financial disclosures has not risen significantly over the past two years despite substantial expansion in the disclosures' coverage. Almost all operators report Scope 1 and Scope 2 emissions, but there's little reporting on their substantial Scope 3 emissions, which include supply chain, data center and customer-level service emissions. Our [Barometer](#)⁹ also shows that – despite being at high risk of generating climate impacts – some 43% of telecoms and technology companies do not disclose a specific net-zero strategy, transition plan or decarbonization strategy.

Why are telcos making such slow progress on their climate initiatives? The answer appears to lie in a combination of low prioritization of climate action and internal complexity. [EY research among CEOs](#)¹⁰ finds that 46% of telcos consider sustainability when allocating capital, but don't give it sufficient weighting to secure the necessary funding. Meanwhile, [other EY research](#)¹¹ shows that telecoms executives struggle with decision-making around climate change initiatives more generally: Four in 10 report difficulty winning buy-in from internal stakeholders, with an even higher proportion (57%) saying that the number of groups involved internally hampers progress. A fundamental lack of strategic cohesion is also apparent, with more than half of telecoms executives agreeing that their climate strategy consists of multiple competing initiatives, as opposed to a unified approach.

Telcos' attitudes toward executing climate change initiatives

Question: To what extent do you agree or disagree with the following statements about executing climate change initiatives?



Source: [EY Sustainable Value Study, 2022](#) (Includes 30 telecoms industry respondents).

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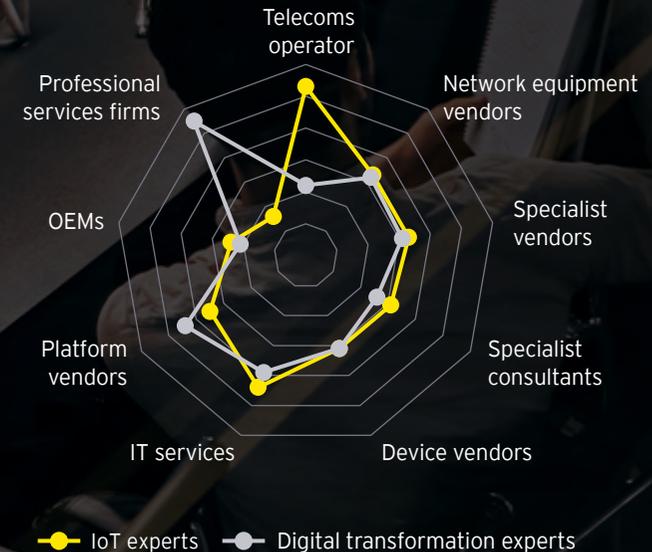
Inability to take advantage of new business models

Despite significant investment in B2B services beyond connectivity, these still generate only a small proportion of revenues – with telcos facing a credibility gap as digital experts.

While the enterprise segment is widely recognized as offering telcos strong potential for growth progress is lacking. [Industry research](#)¹² shows that many enterprise services still account for just a fraction of overall revenues despite operators having been active in this market for a decade or more. Indeed, it's estimated that Internet of Things (IoT), cloud, and security offerings account for only about 0.5% to 2% each in terms of gross revenue contribution – and the margins on many of these services are further constrained by a reliance on partnerships or indirect sales channels. To date, technology innovations relevant to the enterprise segment – such as 5G for IoT and edge computing for cloud – have yet to kick in as catalysts for growth. The picture is further blurred by the fact that operational and financial key performance indicators for the B2B segment tend to be under-reported compared with B2C, making it hard for stakeholders to evaluate telcos' progress against their strategy for corporate customers.

A further barrier to B2B success – one that comes across strongly in [EY research](#)¹³ – is that telcos suffer from a credibility gap as digital advisors to enterprises and are still perceived primarily as connectivity experts rather than providers of value-added services beyond bandwidth. While 53% of large enterprises say they view telcos as IoT experts, just 22% regard them as digital transformation experts. These preconceptions limit telcos' ability to sell additional consulting or software-related services as part of their value proposition. Also, business customers say that many use cases on offer from telcos fail to meet real-world needs, with 47% of enterprises claiming that vendors' 5G/IoT offerings fall short of their requirements around sustainability. And 66% of enterprises characterize their interactions with vendors regarding 5G and IoT as largely transactional and tactical rather than collaborative – again indicating limited credibility as advisors and partners on corporations' digital journeys.

Enterprise perceptions of telcos' competencies as ICT suppliers



Source: [EY Reimagining Industry Futures](#), February 2023.

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Inadequate network quality and value proposition



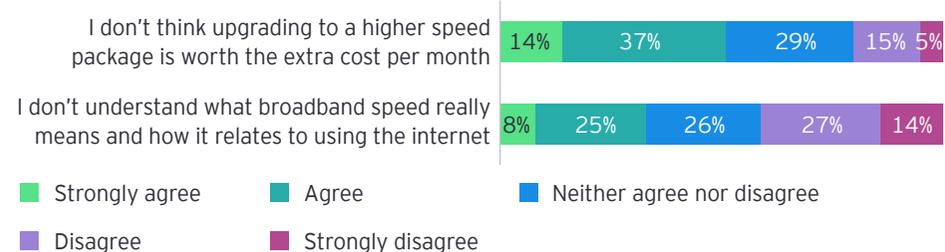
Network reliability remains a pain point for customers, but they are unconvinced of the benefits of upgrading to new infrastructure.

More than one in four households frequently experience network reliability issues with their broadband service, whether involving network outages, dropped signals or buffering during streaming. According to [EY research](#).¹⁴ 26% of households experience an unreliable home broadband connection “often” or “very often.” And an even bigger proportion – 29% – say the same about their mobile data signal inside the home. While operators are taking active steps to adapt their customer promises to focus on home coverage, these messages often fail to resonate with customers: 43% believe that Wi-Fi performance guarantees are misleading or inaccurate.

Despite frustrations over network reliability, there is a clear “adoption gap” in many countries, with take-up of gigabit connectivity failing to match its availability. According to [FTTH Council Europe](#)¹⁵, fiber-to-the-home coverage in the Europe stands at 62% of households, but adoption of packages is at just 50%, having risen by only one percentage point year-on-year. What is responsible for this lag in adoption of higher-end, premium services? A lack of affordability certainly plays a role, but value propositions based around speed also fail to resonate with customers. [EY research](#)¹⁶ shows that one in three customers find it difficult to correlate broadband speeds to performance, which feeds into a broader picture where half don't feel that upgrading to faster speeds is worth the extra cost.

Household attitudes to broadband speed

How much do you agree with the following statements relating to the use of home broadband



Source: [Decoding The Digital Home](#), EY, September 2023.

7

Failure to improve workforce culture and ways of working

Telco employees outscore other sectors on remote working preferences, which also feeds into their changing skills and learning needs.

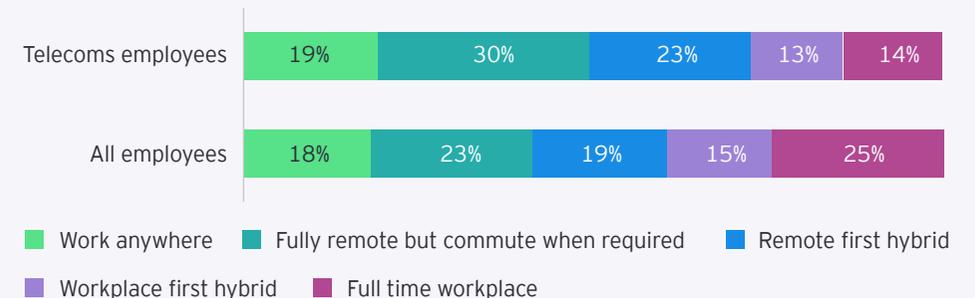
Compared with workers in other sectors, telecoms employees are more likely to prefer working remotely and less likely to want to be at the workplace full time. According to the latest [EY Work Reimagined Study](#),¹⁷ 30% of people working for telcos express a preference for working fully remotely and commuting only when required, compared with 23% of their counterparts across all sectors. And asked whether they prefer to be at the workplace full time, only 14% of telco workers say yes, compared with 25% of all employees. While meeting workers' desire for remote or hybrid working may offer benefits in terms of employee engagement and potentially retention, it can also bring some significant challenges, not least in terms of redefining collaboration paradigms. For example, our research finds that only 54% of telco employees agree that "in-person" interaction is worth the commute.



Interestingly, one specific impact of new ways of working that's largely gone below the radar is its effect on skills development and learning needs. Access to learning and skills (47%) is the top factor cited by telco employees as a means of helping to ensure they thrive as remote or hybrid workers. And they cite training around collaboration tools and remote skills, alongside virtual learning, as among the most desirable improvements to overall learning and development programs. More broadly, our research underlines that improvements to workforce technology and tools are still essential in a remote-working world: while 43% of telecoms employees say their company has enhanced its technology for remote working, 34% believe it still needs to undergo extensive further change to have leading technology and tools in the future.

Flexible working preferences: telecoms compared with other sectors

Question: How would you describe your personal flexible work preference?



Source: [EY Work Reimagined Survey 2023](#).

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Ineffective engagement with external ecosystems

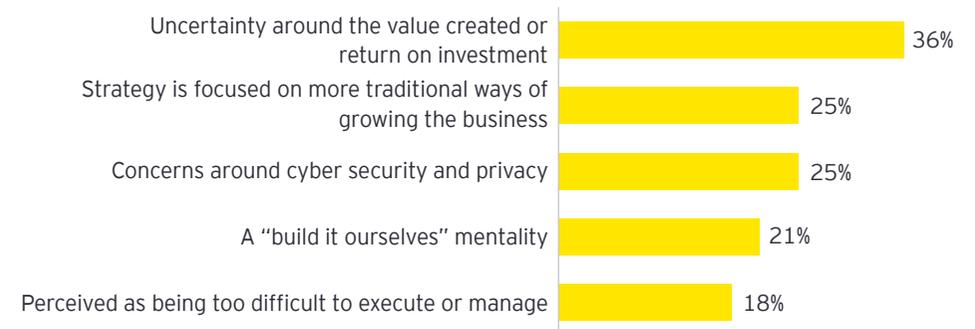
Enterprise customers associate supplier ecosystems with higher-value delivery and outcomes, but telcos have yet to adjust their mindset to match.

Enterprise customers are more receptive to buying from service providers with ecosystem awareness and capabilities: in the [EY Reimagining Industry Futures Study 2023](#),¹⁸ 71% of large enterprises across all industries say they prioritize technology and 5G suppliers with ecosystem relationships, with the automotive sector recording the highest proportion, at 81%. At the same time, a rising percentage of corporate customers value a supplier more highly if it's able to articulate its role in the evolving industry ecosystem, at 50% in 2023, up from 47% in 2022. This shift in customers' buying criteria is mirrored by telcos' continuing formation of new ecosystems and alliances, especially in areas like AI, ESG and the provision of private networks.

However, while the momentum behind ecosystems is building, and corporate customers view them positively, many telcos are still questioning the effectiveness of ecosystem strategies. The most recent [EY Tech Horizon Study](#)¹⁹ suggests that while most operators now leverage partnerships and business ecosystems as a tool to provide services, there are various factors at play hindering their effectiveness. The main cause of telcos' skepticism about ecosystem opportunities is a perception of limited value creation, followed by attachment to more traditional ways of driving growth and concerns over cybersecurity risks (both 25%).

Telco and tech providers: top drivers of skepticism around ecosystems²

Question: What is contributing to your organization's skepticism about the opportunities around partnerships and ecosystems?



Source: [EY Tech Horizon 2022](#), April 2022.

9

Inability to adapt to changing regulatory landscape

Antitrust reviews are an ongoing cause of uncertainty, while regulators' early approaches to AI present risks of fragmentation between jurisdictions.

Deep concern over compliance burdens comes across clearly in [EY CEO-level research](#),²⁰ with 61% of telco leaders believing that regulatory risks will have a significant impact on their business's performance over the coming 12 months. Recent merger reviews have been contentious in some markets, and regulatory sentiment toward consolidation reviews in other markets is difficult to predict, as seen recently with proposed telco mergers in [Spain](#)²¹ and the [UK](#).²² Tax frameworks are also in flux, with base erosion and profit shifting (BEPS) 2.0 rules coming into force in 2024, while increasing sector-specific taxes, and new taxes, pose challenges in some markets.



Another potential pain point lies in emerging approaches to regulating AI. Policymakers are already starting to develop guidelines for the development and use of AI, taking a risk-based approach to how AI might impact core principles such as privacy, nondiscrimination, transparency and security. One complicating factor relates to how nascent AI policies impact or align with other digital policies relating to data privacy, intellectual property protection and cybersecurity. Meanwhile, [EY research](#)²³ in this field shows that some divergence is already emerging at the country level in terms of the balance between guidelines and planned legislation. The EU is taking a comprehensive approach – but this [has reportedly triggered concerns in the industry](#)²⁴ that it could stifle innovation and limit international competitiveness.²⁵

National and regional approaches to AI rulemaking



Source: [The Artificial Intelligence \(AI\) global regulatory landscape](#), EY, September 2023.

10

Failure to maximize the value of infrastructure assets

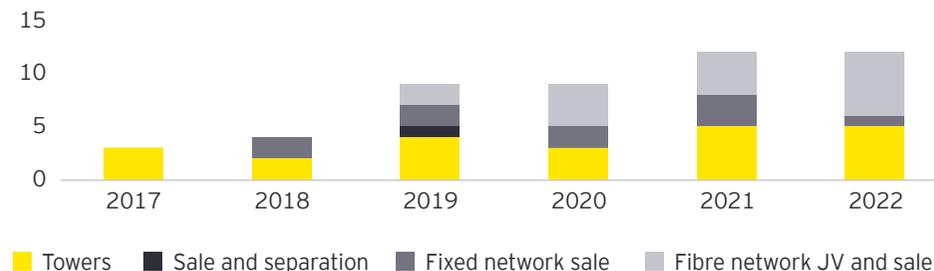


Carve-outs and sales are unlocking immediate value, but long-term market structures remain unclear.

Telcos' efforts to release value from their infrastructure are gathering pace and scale. Recent years have seen an acceleration in their adoption of asset-light strategies, with fiber carve-outs supplementing the tower sale and carve-out deals that have been underway for a decade and more. EY research conducted this year²⁶ underlines the industry's continued propensity to transact and transform through infrastructure carve-outs, with 41% of telco CEOs telling us they'll actively pursue divestments, spin-offs and initial public offerings (IPOs) in the next 12 months, and 61% saying they'll be seeking to form joint ventures or strategic alliances with third parties.

European telecoms infrastructure deals, 2017-2022

Number of deals by type

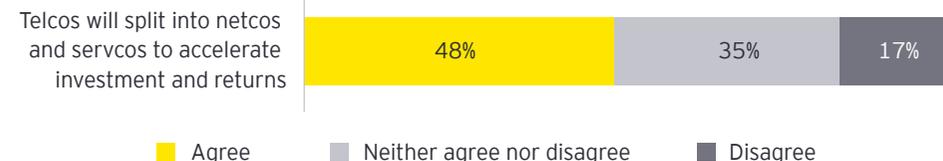


Source: European Fibre Stories: Navigating the path from splits to consolidation, Morgan Stanley, March 8, 2023.²⁷

However, while significant value is being unlocked from infrastructure, and the immediate financial upside of sales and carve-outs is clear, it remains difficult to predict how asset-light approaches will evolve in the long term. In setting their strategies for infrastructure separation and retention, telecom industry leaders are split on whether bolder separation into netcos and servcos will become a dominant industry structure. An EY study²⁸ finds that 48% agree this is a likely future scenario, but the remainder are undecided or disagree. Determining the optimal level of long-term infrastructure ownership requires a telco to consider a wide array of factors, including the scope for legacy network decommissioning, consolidation opportunities and the evolution of "infraco" business models.

Telecoms leaders' perspective on netco and servco market structures²

To what extent do you agree with the following statement?



Source: The telco of tomorrow, (survey of telecommunications executives), EY, October 2023.

Next steps for telecommunications operators

Maximizing the risk mitigation strategy

As operators consider how best to mitigate the risks we've highlighted and explored in this paper, they should continue to scan the horizon for new threats while taking care to evaluate the evolving impact of existing risks within their organizations. Looking ahead, effective mitigation strategies will hinge on gaining an understanding of the interrelationship between risks that may initially appear self-contained and how positive actions to address one threat may help to mitigate – or potentially exacerbate – others. With this in mind, we recommend the following three overarching actions that we believe, together, can serve to alleviate a range of different risks.

1. Improve governance across the organization

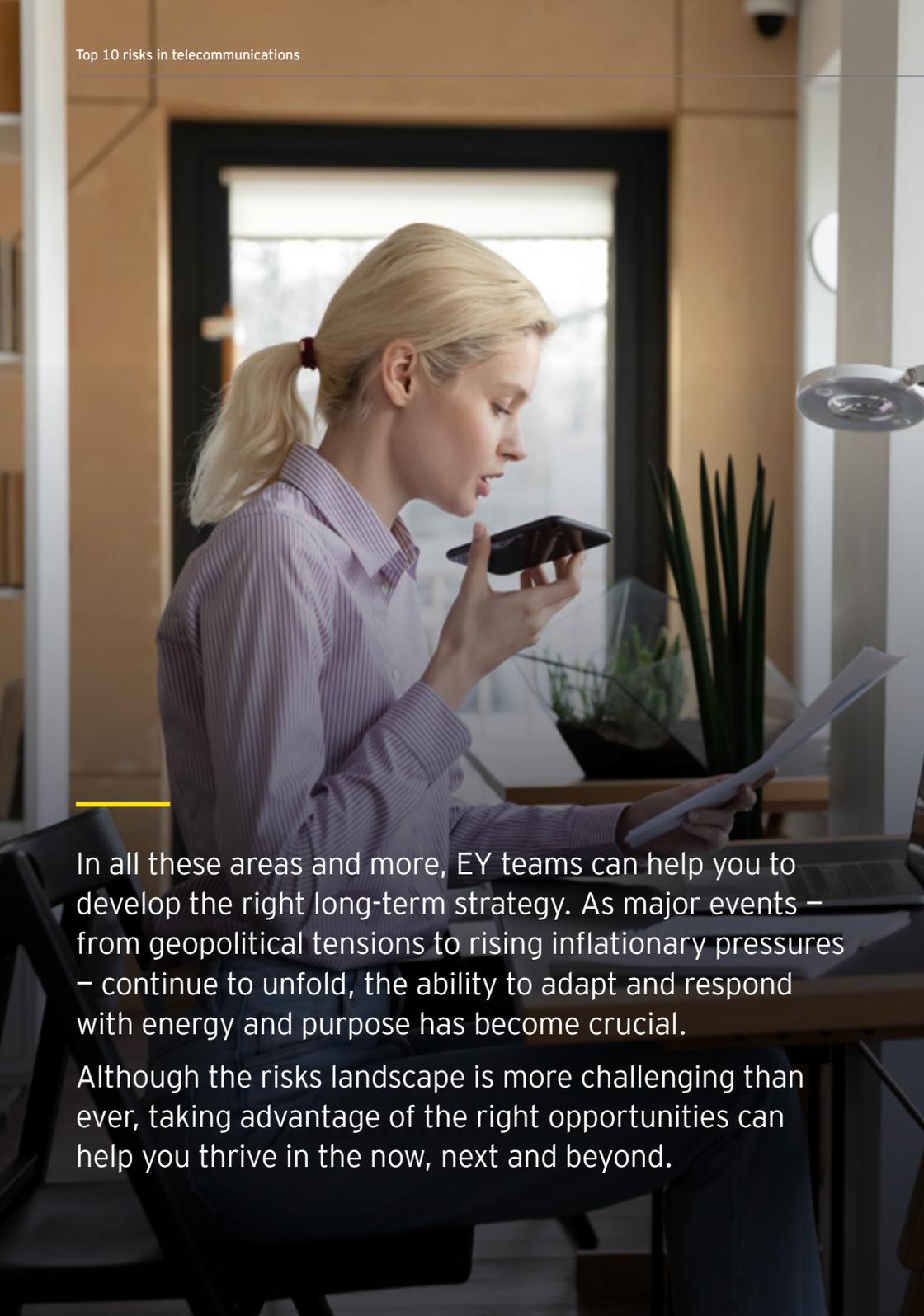
Better governance is a vital enabler for mitigating a range of threats, particularly as new technologies such as GenAI become part of telcos' technology portfolio, potentially adding to existing data protection risks. In light of this, revisiting existing data governance frameworks is essential. This should be accompanied by adopting new approaches to decision-making and leadership interaction that enable early and enduring consensus to be built on fast-evolving topics such as data ethics, sustainability, partner relationships and new ways of working. Robust governance should also include regular dialogue with external stakeholders, from suppliers to regulators.

2. Engage in new ways of working with employees

At a time when 30% of telecoms employees prefer fully remote working, factors like resistance to new technologies and limited awareness of changing data security needs could together undermine business resilience and innovation. To help meet these challenges head-on, telcos should look to develop a clearer definition of their organizational purpose allied to a deeper focus on learning, upskilling and re-skilling – one that accommodates the effects of remote working. In the longer term, having more engaged and satisfied employees not only reduces the risk profiles associated with technology and operations but also paves the way for better internal collaboration and, ultimately, more successful connections with customers and other stakeholders.

3. Rearticulate the value proposition to customers

In recent years, the combined effects of a range of external forces – the cost-of-living crisis, supply chain disruption, the COVID-19 pandemic and more – have fundamentally altered telecoms customers' needs and expectations. While these changes can open up new demand scenarios among both consumers and enterprises, they also bring a heightened risk of confusion and frustration that could, in turn, limit loyalty and cross-selling opportunities. Rearticulating the customer promise in each segment, along with simplifying value propositions, will help to sustain and grow a telco's relevance to its various customers, in turn unlocking new routes for creating long-term value.



In all these areas and more, EY teams can help you to develop the right long-term strategy. As major events – from geopolitical tensions to rising inflationary pressures – continue to unfold, the ability to adapt and respond with energy and purpose has become crucial.

Although the risks landscape is more challenging than ever, taking advantage of the right opportunities can help you thrive in the now, next and beyond.

How EY teams can help

The telecoms sector is at the heart of the digital disruption and convergence agenda. Given this positioning, are you embracing the right opportunities and mitigating the right risks?

EY teams are one of the world's leading and most trusted professional services organizations, which serves most leading telcos worldwide. EY professionals can help you to find the right answers and prioritize your transformation needs across a range of dimensions.

Whether your focus is on scaling and accelerating returns from digitization initiatives, achieving the right level of infrastructure resilience and reach in the most efficient way, or making sure that your customers and stakeholders trust you as much as possible, we offer a range of solutions that can provide positive outcomes.

EY solutions

Our digitization solutions include:

- ▶ Digitally integrated customer experience
- ▶ Intelligent automation
- ▶ IoT platforms
- ▶ Data and analytics

Our network and IT effectiveness solutions include:

- ▶ Agile business transformation
- ▶ Capex allocation and operations
- ▶ Network engineering, deployment and operations
- ▶ Business support system (BSS), operational support system (OSS) and IT transformation
- ▶ Convergence post-merger integration

Our enterprise trust solutions include:

- ▶ Cybersecurity
- ▶ Legal managed services
- ▶ Tax finance operate
- ▶ Climate change and sustainability

Report methodology

Top 10 risks in telecommunications 2024 is the latest in our series of annual publications exploring the most critical risks facing the telecommunications sector, based on primary and secondary research.

- ▶ We analyzed the findings of six EY surveys of senior business leaders worldwide, conducted between 2022 and 2023. These include anonymous online surveys of both senior telecoms executives and senior executives of enterprises across different industries, and also feature the findings from face-to-face interviews with senior telecoms executives. These surveys feature c-suite respondents, with sample sizes varying from 30 to 1,300. In addition, we analyzed the findings of an anonymous online survey of consumers in eight countries, based on samples that vary in size from 1,000 to 5,000 per country.
- ▶ EY teams evaluated a number of third-party sources, including press articles and research published by industry associations, to analyze specific topics, such as telecommunications revenue development, workforce strategies and industry sentiment relating to regulation. In addition, EY examined the disclosures made in annual, sustainability, CDP reports and other reports published by telecommunications companies.



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