

Ofgem Consultation – Perspective from broker

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We spoke to Ofgem at the October meeting of the UIA in relation to this report and consultation and what we could contribute from a broker perspective. We wanted to suggest ways in which we believed our sector could be controlled better but also ways Ofgem and suppliers could help in this. We strongly believe that a strong and diverse broker and agent market is very beneficial for the customer.

I was advised to look specifically at Appendix 7 and comment on what small business customers had brought up in relation to their dealings with agents and brokers.

I think the best way is to go through each relevant section and make our comments:

1.7. A few businesses claimed that they would monitor prices more closely and seek out cheaper suppliers if prices rose.

1.8. Most customers admitted to, or displayed, a limited understanding of how their energy bills were made up, and some confessed that they would not necessarily know if they were being charged the correct amount.

1.9. Few are both willing and able to seek out better deals proactively. Some who attempt to do so struggle to compare prices easily on price comparison sites. Price comparison may also be complicated by issues such as length of contracts.

Brokers are able to help with the above points, as customers are contacted regularly they are naturally more informed of the market. Independent brokers are able to offer comparisons over several suppliers and explain the benefits of each option. For example we offer a minimum of 3 choices to all our customers, explain the benefits of each one and let them choose. Responsible brokers are able to offer assistance in understanding bills, for instance in the gas market we have helped several customers who were being charged on a square feet meter to have this correctly changed to a square metre meter thus reducing bills significantly on a billing technicality.

1.10. Many businesses report receiving calls offering them better deals on energy every few weeks, and, for some, the expectation that they would continue to have such opportunities, was a deterrent to making the effort to switch proactively.

1.11. Most of those switching do so reactively in response to contact with sales reps or agents with the switchers often failing to ascertain whether they were speaking to a rep or agent. Decisions frequently appeared to be hurried (especially where customers subsequently regretted their choice), although customers usually made savings, even if only for the first year, as a result of switching.

1.12. Agents were seen as pushy salespeople, only interested in quick sales and rarely did small businesses develop beneficial long-term relationships with Third Party Intermediaries.

As customers do receive a lot of calls from sales agents and brokers, it makes more likely that customers will change and this benefits competition. Suppliers are aware that brokers are comparing their prices and this helps bring prices down quickly when needed. For example one of our suppliers reduced their prices by around 20% yesterday and we've obviously informed our other suppliers of this, meaning more price reductions are likely and quicker than they would have been otherwise. This only has an effect when prices are coming down as we obviously don't inform suppliers if someone increases prices.

Without the regular contact between brokers and customers, many more would fall into the renewal trap and be penalised with higher prices because they didn't quite understand how easy it was to be rolled over on renewal. I disagree that customers getting a lot of calls makes them less likely to pro-actively research the market, indeed us contacting a customer often makes them do a lot of research and compare results on prices.

Sales people can be pushy but we and other brokers always try to build long term relationships. However we've found that a lot of customers really are not interested in this and just want the best price you can find them at the time. We offer free

energy saving advice and bill checking to our customers but none are that interested in this. We are customer driven in that we offer is based on what customers want and that seems to be a quick comparison of prices.

1.17. This was particularly galling for those who claimed not to have known they were in a contract or who said their contracts had been rolled over automatically without the supplier flagging to the customer that this would happen unless they opted out. The automatic roll-over of contracts was a particular issue for some small businesses, although some recognised they could have done more to check what was happening regarding their contract and supply.

I think the problem originates that with long term contracts, it is very hard for the customer to remember what they were told with regards to renewals. Even if it had been explained thoroughly and the customers listened, it's easy to understand how that could be forgotten very quickly, and with a lot of contracts being 3 or more years then it becomes even more unlikely the customer remember. This is another area where brokers help, a responsible broker will keep a database of customers to enable them to contact them when renewals are due. Our belief is that each supplier should have the responsibility of sending a reminder to customers ahead of renewal. This happens sometimes but the consequence of non action is not made clear enough.

1.18. Business customers were at best fairly satisfied with their energy supplier and often disappointed. They felt that energy companies deliver, at best, moderate standards of service with no attempt to offer value-added services such as energy efficiency advice.

Again, although customers like the idea of energy saving advice, we very rarely have them requesting this. All our customers receive a welcome letter which outlines their options for free energy saving advice tailored to their premises. I also believe the advice offered by suppliers in this respect to be good and so this is unfair.

1.19. On the evidence of this study it is common for energy companies to:

- win business through dubious sales practices;
- keep customers through one-sided contracts, with verbal contracts a particular source of confusion;
- exploit the passivity of customers and the fact they have other priorities;

and

- appear to make very little effort to retain customers through quality of service.

1.20. The regulations for the energy market tend to assume people running small businesses do not need the same level of protection as vulnerable residential customers. While there is a clear logic for this view our study suggests current regulations may favour energy companies over hard-pressed small businesses, whose owners are not necessarily sharp and astute business people. This study suggests tighter regulation of TPIs and energy companies may be desirable.

I think there are energy companies that turn a blind eye to the actions of some of their agents and brokers, this angers us immensely. Verbal contracts should not be a cause for confusion as they are very fairly set out. The problems occur when the sales agent rushes through the call and leaves parts out to deliberately confuse the customer. Some suppliers will not process a contract until they have the recording but others don't seem to care. There has to be a requirement for suppliers to be in possession of a verbal recording before progressing the contract.

I think the 'passivity' of customers has decreased as prices have risen and the customer has to take at least some responsibility for their supply and actions. I believe that small business owners on the whole are smart and astute but it's quite easy to pretend they didn't quite understand something when they regret having entered into a contract. I think to portray small business owners as vulnerable and perhaps not quite up to negotiating energy deals is altogether wrong, these are people who hire and fire employees and have responsibilities to HMRC, Customs and legal responsibilities under Company law so I think they are capable of negotiating energy deals. Small business owners have a growing responsibility to understand their energy usage, becoming part of the annual return required under Company law. They will have to set out their energy policy. I think rather than accepting some small business owner just don't understand these things, Ofgem should be encouraging them to learn more.

1.24. BCC argued that, compared to domestic users, businesses were "significantly

more vulnerable" to exploitation and unfair practice, partly because:

- domestic suppliers are required to publish their tariffs but there is no regulatory requirement covering business suppliers; and
- domestic contracts allow people to switch every 28 days, but businesses have to sign up to long-term deals.

If there is confusion in the market now then if business customers could change every 28 days this would be greatly increased. From a budget point of view it would be impossible for a small business to be totally aware of the direction energy prices were likely to go and to what extent. The price fluctuations this year have underlined that.

I understand why business suppliers do not publish their prices as there is always the element of negotiation.

However I do believe that the tariff system could be simplified for the benefit of everyone.

The main problems for us in the market right now are certain suppliers turning a blind eye to the practices of certain brokers and agents. The UIA is aware of the suppliers involved. The suppliers are usually aware but keep receiving the high volumes of business generated by these practices, when they are finally put under pressure they sometimes do something about it but have already benefitted hugely from those unacceptable practices.

This makes the market harder for all of us and decreases customer confidence, yet no-one seems to be minded to do anything about it. Whilst we would encourage more regulation for brokers, it has to apply to all.

Right now you have the good brokers, a lot of which are members of the UIA, and follow a set of guidelines and good practice and then the rest!

The objection system seems to be still being used as a tool by suppliers' intent on retaining business by non-competition methods, we find that past experience of objection problems makes customers less likely to seek out better deals and change.