



## **Money Advice Trust response to Ofgem consultation on Energy Affordability: helping develop Ofgem's Vulnerable Consumers' Strategy**

### **1) About the Money Advice Trust**

The Money Advice Trust (MAT) is a charity formed in 1991 to increase the quality and availability of money advice in the UK. We work with the UK's leading money advice agencies, government and the private sector to increase the availability of money advice, improve its quality, and enhance the efficiency and effectiveness of its delivery.

MAT's vision is to help people across the UK to tackle their debts and manage their money wisely. MAT aims to support individuals and micro-businesses in the UK through their debts and into financial health, and to improve the capability, quality and efficient delivery of free independent money advice by:

- Delivering advice to the public via National Debtline, Business Debtline and My Money Steps;
- Supporting advisers;
- Making the case for free money advice;
- Co-ordinating initiatives to improve money advice;
- Sharing research and information to shape and influence policy.

### **2) Our response to this consultation**

This response departs from MAT's usual practice in relation to responding to consultations, which involves soliciting the views of our partners in the free-to-client money advice sector and collating these comments prior to submitting an integrated sector-wide response. On this occasion, we are

submitting a 'unilateral' response, i.e. one that represents our own views alone.

Please note that we consent to public disclosure of this response.

### **3) Introductory Money Advice Trust comment**

We welcome Ofgem's intention to develop a Vulnerable Consumers Strategy and the opportunity to help inform its development. The problems facing consumers in the energy sector are considerable and span a wide range of policy areas. Our response concentrates on issues of most direct relevance to consumers already in fuel debt or at risk of fuel debt. The following points summarise the key themes of our response.

- Fuel debt is an increasingly important issue within the broader area of fuel affordability.
- Free, independent money advice has an important role to play in assisting vulnerable energy consumers.
- We would welcome more proactive signposting to free, independent money advice services by energy firms and would encourage Ofgem to play a role in facilitating such efforts.
- In promoting good practice among suppliers, Ofgem should have regard to established tools for dealing with debt such as the Common Financial Statement and the Money Advice Liaison Group Debt and Mental Health Evidence Form. Ofgem should also have regard to good practice guidelines such as those drawn up by the Addressing Financial Difficulties working party chaired by Citizens Advice.

### **4) Answers to individual questions**

**Question 1: What should be the key factors or actions that we should consider incorporating in our Vulnerable Consumers' Strategy? How should the themes of our strategy be changed?**

- **Increased numbers of people seeking advice on fuel debt**

Supplier figures reported to Ofgem suggest that the number of consumers repaying energy debts has not risen dramatically in recent years but that the average amount customers owe has increased significantly.<sup>1</sup> The experience of the money advice sector is that fuel debt presents an increasing problem and that the number of those seeking advice on fuel debt has increased rapidly. In 2011, 13.7% of National Debtline clients had fuel arrears compared with 2.7% in 2004.<sup>2</sup> Citizens Advice has also reported significant increases in clients with fuel debt in recent years.<sup>3</sup> These increases are taking place against a backdrop of increasing demand for advice among over-indebted consumers. MAT's *Demand, capacity and need for money advice*

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<sup>1</sup> Ofgem, *Domestic suppliers' social obligations: 2010 annual report*.

<sup>2</sup> MAT press release, 15 March 2012, <http://www.moneyadvicetrust.org/content.asp?ssid=154>

<sup>3</sup> For example, [http://www.citizensadvice.org.uk/index/pressoffice/press\\_index/press\\_20091020.htm](http://www.citizensadvice.org.uk/index/pressoffice/press_index/press_20091020.htm)

research,<sup>4</sup> updated in 2012, indicates that a total of 1.46 million people sought advice from free-to-client debt advice services in 2011, a figure which is expected to rise to 1.7million in 2012. This is in addition to a great many people that would benefit from advice but do not currently seek it. Up to 5 million individuals at any one time are in arrears on credit debts, failing to keep up with mortgage payments or finding their credit commitments a 'heavy burden' but only one in six of seeks advice from any source. In view of this and the projections of continuing fuel price rises it is likely that fuel debt will continue to constitute a significant problem in the coming years.

- **Role of independent debt advice**

Free-to-client debt advice services can play a crucial role in helping consumers to manage their money more effectively, identify additional income from benefits or other sources, prioritise their commitments appropriately and arrive at sustainable solutions to their debt problems. It is important to note that although issues specific to the energy sector have an important bearing on fuel affordability, many of those who incur fuel debt or struggle to pay energy bills have wider debt problems or financial difficulties. Typically, National Debtline clients will have multiple debt problems with both priority debts such as fuel, rent or mortgage and council tax as well as credit commitments. The role of holistic advice from free, independent debt advice services is particularly important in such cases. Energy suppliers should have due regard to the possibility that customers will require third-party advice or guidance and should signpost or refer to third parties where appropriate.

- **Definitions of vulnerability**

It is possible to identify certain groups as being particularly in need of protection. We note that Ofgem's Powers and Duties specify that it should have regard to

*'the interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas',*

although it can also have regard to other descriptions of consumers. In establishing its 'Safety Net', The Energy Retail Association adopted a broader definition, along with guidance that vulnerability should be assessed on a case-by-case basis:

*'A customer is vulnerable if for reasons of age, health, disability or severe financial insecurity, they are unable to safeguard their personal welfare or the personal welfare of other members of the household.'*<sup>5</sup>

We welcome efforts to focus on the needs of particular groups. However, there are a range of factors that may place consumers in a vulnerable position and it is important that approaches to consumer protection recognise this. The Addressing Financial Difficulties Working Party considered

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<sup>4</sup> Money Advice Trust, *Demand, Capacity and Need for Debt Advice in the United Kingdom* — 2012.

<sup>5</sup> <http://www.energy-uk.org.uk/publication/finish/30/308.html>

definitions of vulnerability in some detail and developed this point in its report, 'How to do the right thing'<sup>6</sup>

*“Consumers won’t always be able to make informed choices, manage money, choose financial products and services, exercise their rights or protect their own best interests. When this happens the consumer is at greater risk of being disadvantaged or suffering detriment, and is often said to be a vulnerable consumer.*

*Developing systems that only help ‘vulnerable consumers’ suggests that being vulnerable is a static state that always affects consumers with certain characteristics. This excludes everyone else, regardless of how their circumstances affect their ability to interact with their creditors.*

*AFD members believe good practice addresses ‘consumer vulnerability’, which is a dynamic state that can affect anyone at any time for any reason, be that medical, social or environmental.”*

*Consumer vulnerability is identified and responded to using:*

- *risk factors*
- *behavioural triggers*
- *appropriate solutions.*

*A set of risk factors is not the same as a list of vulnerable consumers. Instead risk factors should be seen as characteristics that may make someone susceptible to disadvantage or detriment.*

We consider that this approach has considerable advantages over definitions based around lists or examples of vulnerable consumers, for the reasons outlined above, and we advocate a similar approach be incorporated in the Vulnerable Consumers’ Strategy.

- **Green Deal**

The advent of the Green Deal will open up a new set of issues around fuel affordability and consumer protection. The intention of the Green Deal is that loans for energy efficiency will be repaid from energy savings. Assuming this proves to be the case, suppliers will nonetheless need to be sensitive to the possibility that customers’ circumstances may change, leaving them at risk of default. We are particularly concerned about the possibility of disconnection for non-payment of Green Deal loans and the difficulties that may face people who move into properties with existing Green Deal loans attached to them. This in an area in which Ofgem will need to work proactively with suppliers to ensure the development of clear guidelines to protect vulnerable consumers and to monitor supplier practice as the scheme takes shape.

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<sup>6</sup> [www.citizensadvice.org.uk/how\\_to\\_do\\_the\\_right\\_thing\\_report.pdf](http://www.citizensadvice.org.uk/how_to_do_the_right_thing_report.pdf)

## **Question 2: What can Ofgem do differently to help address affordability concerns?**

We welcome the work that Ofgem has done in recent years to monitor suppliers' practices and set good practice guidelines. The joint Ofgem and Consumer Focus review of supplier approaches to debt management and prevention in 2010 uncovered evidence of serious problems with supplier practice.<sup>7</sup> We note the following in particular.

- Inconsistency of approach both within and between suppliers.
- Lack of any systematic approach on the part of suppliers to gathering information on customers' circumstances.
- Little evidence of a proactive approach by suppliers.
- Consumers not being informed about the range of payment methods available to them.
- Low rates of Fuel Direct take-up.
- Incentives schemes that did not encourage staff to pursue sustainable repayment arrangements.
- Too little being done to follow up and monitor payment arrangements.

The 'Key principles for ability to pay' which Ofgem set out as part of this review are a welcome development and we hope that Ofgem will continue to actively monitor suppliers' arrangements and promote good practice, particularly in those areas mentioned above. We would draw your attention to several further good practice issues that merit attention.

### **Signposting consumers to free advice sources**

Section 4.23 of the joint review calls upon suppliers to do more to proactively signpost customers towards free-to-client, independent, debt advice agencies. However, signposting is not specifically included within the key principles for ability to pay. In our view, suppliers should be required to take all reasonable steps to make customers aware of the availability of appropriate third party support, using available opportunities such as telephone contact, letters to customers and online information.

We recognise that effective signposting can be challenging to achieve. It requires sensitivity to customer needs and a sufficient level of understanding of the types of advice and advice provider available and what assistance they can provide for customers. There is scope for Ofgem to play an important role in promoting and facilitating the sharing of best practice in this area. For example, Ofgem could work with energy firms and advice sector organisations such as Money Advice Trust to establish effective signposting guidelines for use by energy firms.<sup>8</sup>

In the consumer credit sector, creditors are required to send information sheets prescribed by the Office of Fair Trading to consumers who are in

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<sup>7</sup> Ofgem, Review of supplier approaches to debt management and prevention, 2010

<sup>8</sup> Other appropriate organisations include MAT's partner agencies, which are listed at the <http://www.moneyadvice Trust.org/content.asp?ssid=9>

arrears or default. These information sheets provide basic guidance and contact details for free debt advice organisations.<sup>9</sup> We would encourage Ofgem to produce and maintain similar information sheets and require their use by the energy sector.

### **Common Financial Statement**

To assist with the assessment of affordable offers of repayment we draw your attention to the Common Financial Statement (CFS) as a good example of a model basket of income and expenditure items which has standardised the debt repayment process across the advice sector. The CFS is collectively sponsored by the Money Advice Trust (MAT), the British Bankers' Association (BBA) and Finance & Leasing Association (FLA). The Common Financial Statement includes a set of trigger figures which provide an indication of average levels of expenditure dependant upon the number of adults, children and vehicles in a household. These figures have been calculated using the bottom income quintile from the Office of National Statistics Living costs and food survey. The CFS is recognised in the OFT Debt Management Guidance and the OFT Debt Collection Guidance. It forms the basis for income and expenditure calculations in debt relief orders and the debt arrangement scheme in Scotland and the IVA protocol. More information about the CFS can be found on the MAT website at <http://www.cfs.moneyadvicetrust.org/>.

Energy suppliers could be required to use the CFS as part of a standardised approach to working out income and expenditure with customers. This would enable more consistent outcomes when working out affordable and sustainable offers of payment with the customer.

### **Breathing space**

We would welcome the extension of the 'Breathing Space' initiative to the energy sector. This initiative was developed in 2009 and has been since incorporated in both the CSA code of practice and the Lending Code.<sup>10</sup> It provides that creditors and debt collection agencies will give customers in financial difficulty a period of an initial 30 days 'breathing space' in order to allow them to seek independent advice and develop an appropriate repayment plan. This breathing space can be extended by an additional 30 days if necessary.

### **Proactive approach**

We welcome the encouragement suppliers are given in the six key principles to make proactive contact with customers but consider that there is scope to go further in this area. We draw your attention to the recent research report, '*Understanding financial difficulty: Exploring the opportunities for early intervention*'.<sup>11</sup> This research looked at a pre-arrears service run by Barclays

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<sup>9</sup> <http://www.ofg.gov.uk/about-the-ofg/legal-powers/legal/cca/CCA2006/information/>

<sup>10</sup> <http://www.csa-uk.com/media/editor/file/CoP%20New.pdf>  
<http://www.lendingstandardsboard.org.uk/docs/lendingcode.pdf> (point 201)

<sup>11</sup> This research was carried out by the Personal Finance Research Centre at the University of Bristol, in partnership with the Institute for Employment Research at the University of Warwick. It was funded by Barclays with the independent support of the Money Advice Trust. A summary can be consulted at [www.infohub.moneyadvicetrust.org](http://www.infohub.moneyadvicetrust.org)

and investigated the attitudes of customers contacted by the service and the actions they subsequently took. The study found that customers were welcoming on the whole of proactive support from creditors and that there were high levels of satisfaction with the pre-arrears service. The study was able to identify some key features of an ideal pre-arrears service from a customer's point of view which would help inform future work by energy firms, for example:

- The pre-arrears service is operated as a separate department to help people at risk of financial difficulty.
- The pre-arrears service gets in touch at an early stage, when it first identifies that the customer might be at risk of financial difficulty.
- Pre-arrears staff should take the time to explain and discuss options with customers, and take a collaborative approach to agree a course of action.

This indicates a greater potential for proactive work and some possible avenues for energy firms to explore.

### **Debt and mental health good practice guidelines**

Some consumers face problems that require particular sensitivity and clarity of approach, for example, dealing with those with mental health problems. In this connection, we would draw your attention to the Money Advice Liaison Group (MALG) Mental Health Guidelines<sup>12</sup> and the MALG Debt and Mental Health Evidence Form (DMHEF).<sup>13</sup> The Mental Health Guidelines provide robust but pragmatic guidelines for creditors and advisers working with this section of vulnerable consumers.

The DMHEF provides a standardised approach to evidence-gathering in situations where an individual discloses a mental health problem to a creditor or adviser that impacts on their ability to repay or manage their debts. The DMHEF is recognised in the Office of Fair Trading Debt Collection Guidance and the Lending Code and is widely used by advisers and creditors in the consumer credit sector. We would welcome Ofgem's support in encouraging its use across the energy sector.

### **Potential for broader initiatives e.g. jamjar accounts**

One of the themes of Ofgem's existing Social Action Strategy is to inform consumers about ways to lower their energy bills. We welcome the work that has been done under this heading, for example, the Energy Best Deal scheme run in partnership with Citizens Advice. However, a broader approach could include exploring the potential to develop alternative payment methods that would benefit low-income fuel consumers, e.g. by providing budgeting mechanisms such as 'jam jar' accounts, and easier access to lower direct debit tariffs. Current initiatives to expand the credit union network

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<sup>12</sup> <http://www.malg.org.uk/documents/MentalHealthGuidelinesEd2Final2009.pdf>

<sup>13</sup> <http://www.malg.org.uk/DMHEF-FORM-for%20advisers.pdf>



provide an opportunity to reconsider this area and we would consider it appropriate for Ofgem to involve itself in this area.<sup>14</sup>

### **Debt Assignment Protocol**

We note from the consultation that Ofgem has commissioned research on the Debt Assignment Protocol allowing consumers with prepayment meter to switch suppliers as long as their debt is below £200. In view of the fact that the average energy debt is now above £300 we would urge Ofgem to consider raising this threshold to allow more consumers to benefit.

### **Conclusion**

We hope that the above has been of help in developing Ofgem's thinking around the development of a Vulnerable Consumers Strategy. We look forward to seeing the draft strategy document in due course.

***Money Advice Trust  
May 2012***

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<sup>14</sup> <http://www.dwp.gov.uk/docs/credit-union-feasibility-study-report.pdf>