



## **Money Advice Trust response to Ofgem consultation on Proposals for a new consumer vulnerability 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; and
- 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 this opportunity to comment on Ofgem's proposals for a new Consumer Vulnerability Strategy. We are pleased to note that these proposals include the adoption of a more sophisticated understanding of vulnerability, which was among the recommendations we put forward in our response to Ofgem's earlier consultation.

We are similarly encouraged to note Ofgem's intention to engage closely with third-party advice and support organisations, to encourage innovative advice provision and to continue to promote best practice across the energy sector. We consider that along with the remaining themes around regulation, policy and being informed by research and insight, these form a strong foundation for future work.

We would, however, like to put forward some suggestions about what could be included in the work to be carried out as part of these various themes, which we will do in relation to individual questions below.

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

**Question 1: Do our proposed Strategy themes provide an accurate reflection of the work Ofgem should be doing to help protect consumers in vulnerable positions?**

Yes. We consider that these strategy themes cover the right areas. In comparison with the previous strategy, the five proposed themes give greater weight to engaging with third parties and to drawing on a wide range of research, policy and practical expertise to benefit consumers. We welcome the addition of a specific theme focussing on the provision of advice and support, and the acknowledgment given throughout the report to the benefits of working with third parties such as free advice providers.

Additional comments about the work that Ofgem proposes to do in relation to the provision of advice and support and promoting best practice are outlined in more detail below.

**Question 2: Do you agree with our proposed perspective on vulnerability? Are there other risk factors or features of the energy markets that could present issues that we have not covered?**

Yes. In our response we recommended the approach to vulnerability outlined in the report of the Addressing Financial Difficulties working party. As noted by Ofgem, such an approach forms part of a growing consensus on the nature of vulnerability. This approach includes the BSI Standard for inclusive service provision and the recent research report 'Too many hurdles', by the EAGA Charitable Trust and the University of Leicester.<sup>1</sup> The proposed new understanding more fully reflects the various factors, including financial

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<sup>1</sup> <http://www2.le.ac.uk/departments/law/research/cces/documents/Too-Many-Hurdles-2011.pdf>

difficulty, which can cause consumers to experience vulnerability. As such, it will provide a more accurate guide than Ofgem's previous strategy, to the work that needs to be done to properly address the needs of vulnerable customers.

With regard to features of the energy market likely to impact on vulnerable consumers, we note that the proposals give little specific attention to prepayment customers. The growth of prepayment meters (PPMs) has been a very significant feature of the energy market in recent years and it is important to ensure that the needs of vulnerable PPM customers are safeguarded. We recognise that major suppliers have improved their treatment of PPM customers recently, following investigation by Consumer Focus, and have voluntarily agreed to abide by a set of five key principles.<sup>2</sup> We also note from the Consumer Focus report that suppliers are taking steps to actively identify and support prepayment customers who may be self-rationing or self-disconnecting. However, given the significant potential for detriment to vulnerable consumers and the continued popularity of PPM installation as a supplier response to consumer debt, we feel that this is an area which would benefit from greater attention and more proactive monitoring by Ofgem.

We have not identified any other significant features of the energy market itself that we feel require additional attention from Ofgem. However, looking at broader developments, the transition to Universal Credit, which will involve longer gaps between payments, direct payment of housing benefit to most eligible households and payment by household, will impact significantly on low-income households, and in particular on those with poor financial awareness. This will require attention both from energy suppliers and from Ofgem. In relation to energy consumption, budgeting difficulties may result in an increased risk of falling into debt for consumers using credit meters and an increased risk of self-disconnection for consumers on prepayment meters. Ofgem's strategy should take into account the likelihood that additional monitoring of suppliers will be needed to ensure that consumers' interests are adequately safeguarded.

**Question 3: What is your view on whether the BSI Standard on inclusive services could provide a practical approach to adopting our perspective on vulnerability?**

Our understanding of the BSI Standard is that it defines vulnerability as a dynamic and relative condition, recommends that all business systems should be designed to ensure that they identify and provide for vulnerability, and advocates an approach to the identification of vulnerability that uses risk factors and behavioural triggers. It also provides guidance on how to record information about consumer vulnerability, which in MAT's experience is an issue on which suppliers would welcome guidance. We would support this general approach to identifying and working with vulnerability.

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<sup>2</sup> Consumer Focus, 'Making progress: An analysis of improvements made by energy companies for their prepayment customers', July 2012.

**Question 4: What are your views on other approaches suppliers and distributors could take to adopt our proposed perspective on vulnerability in practice?**

As Ofgem recognises in its proposals, an approach to vulnerability needs to be workable. In addition to the BSI Standard, there are several existing tools and guidelines capable of supporting organisations to implement and embed good practice.

‘Debt collection and mental health: ten steps to improve recovery’ is a report jointly authored by the Money Advice Trust (MAT) and the Royal College of Psychiatrists (RPSYCH).<sup>3</sup> It sets out ten practical measures that organisations can implement to ensure that the needs of consumers with mental health problems are dealt with appropriately. MAT, RPSYCH and Rethink have also developed training for frontline collections staff based on this report.

The areas covered by these ten steps include:

- encouraging customers to disclose problems;
- providing procedures, training and skills to assist staff to deal with such disclosure;
- making use of specialist teams or specialist staff members where possible;
- putting procedures in place to ensure that information about customer vulnerability is properly requested, stored and used to aid decision-making;
- embedding vulnerability in organisational policies;
- improving monitoring;
- working with third parties; and
- focusing on sustainability.

While the ten steps have been developed specifically in relation to a particular group of vulnerable consumers (those with mental health problems), they are not narrowly restricted to that group and would be suitable to form the basis of an approach to identifying and responding to all types of consumer vulnerability.

We would also draw your attention to the Money Advice Liaison Group (MALG) Mental Health Guidelines<sup>4</sup> and the MALG Debt and Mental Health Evidence Form (DMHEF).<sup>5</sup> The Mental Health Guidelines provide robust but pragmatic guidelines for creditors and advisers working with this section of vulnerable consumers.

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<sup>3</sup> [http://www.rcpsych.ac.uk/PDF/Debt%20collection%20and%20mental%20health%20-%20ten%20steps%20to%20improve%20recovery%20\(WEB\).pdf](http://www.rcpsych.ac.uk/PDF/Debt%20collection%20and%20mental%20health%20-%20ten%20steps%20to%20improve%20recovery%20(WEB).pdf)

<sup>4</sup> <http://www.malg.org.uk/dmhddocuments/Mental%20Health%20Guidelines%20Ed%202%20Final%202009.pdf>

<sup>5</sup> <http://www.malg.org.uk/dmhddocuments/DMHEF-FORM-for%20advisers.pdf>

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. Version 3 of the DMHEF was launched on 28 November 2012. This most recent version supports use of the DMHEF by creditors, by advisers representing clients and by advisers providing assisted self-help advice to clients. The DMHEF is recognised in the Office of Fair Trading Debt Collection Guidance and the banking sector 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.

**Question 5: What are your views on our plans for developing a Consumer Vulnerability Network and are there additional organisations that we should engage?**

We welcome the proposal to engage more closely with advice and support providers and to develop a Consumer Vulnerability Network as a means of doing so. However, it is unclear from the proposals how the membership and remit of such a group would be decided. Ofgem's proposals list those organisations which were approached as part of research into this network. These are an eclectic mixture, including some very small and specialised organisations, but not including large and active stakeholder organisations such as ourselves and Citizens Advice. No other representative of the free money advice sector is included. It is not clear whether or not this reflects the approach Ofgem intends to take towards membership of the proposed network. However, we would strongly recommend including free-to-client debt advice providers such as ourselves and our advice partners among the organisations represented and we would be happy to work with Ofgem in such a network.<sup>6</sup>

Secondly, we would recommend dividing the network into subgroups or organising its work around particular themes or topic areas, for example, energy efficiency; market engagement; financial difficulty. This would give stakeholder organisations more flexibility to engage in discussion relevant to their area of specialism. Our preference would be for regular face-to-face meetings, which will allow organisations to properly discuss issues and provide information. However, we would also welcome other forms of engagement.

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<sup>6</sup> Other appropriate organisations include MAT's partner agencies, which are listed at <http://www.moneyadvicetrust.org/content.asp?ssid=9>

## **CHAPTER: Three**

### **Question 6: What are your views on our proposed annual workplan for 2013/14?**

We welcome the initiatives proposed under the work plan for 2013/14. We particularly welcome the plans to review the priority services register with the aim of creating a common brand, expanding eligibility and creating a common joined up strategy across the sector. We also welcome proposals targeted at off-grid communities, given the disproportionately high levels of fuel poverty such communities experience.

We have commented only on those themes for which we have specific recommendations or comments to make.

### **Theme 2: Promoting best practice amongst suppliers and distributors**

Ofgem needs to provide a firmer lead and greater coordination in this area. While we recognise that suppliers need freedom to innovate and differentiate themselves from competitors, there are other areas in which a common approach is absolutely essential. In many such areas, there are existing and well-established initiatives which could be readily adopted by energy suppliers and distributors. Key examples are the Common Financial Statement (CFS) and the Breathing Space initiative, which are outlined in more detail below.

#### **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>.

Use of the CFS is free of charge and is controlled by MAT through a licensing system. There are good practice checklists both for advisers and for creditors, which provide practical guidance on the proper use of CFS. The CFS is underpinned by a commitment from supporting creditors to accept offers made using this budgeting format providing the underlying principle is met. The CFS principle is that repayment offers are made by independent money advisers, based on expenditure within trigger figures following guidelines.

Recognition of CFS is incorporated into the main voluntary and regulatory codes of the credit sector: the Lending Code, the Finance and Leasing Association Lending Code and the Office of Fair Trading Debt Collection Guidance.<sup>7</sup>

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. Suppliers should also be required to accept CFS compliant offers made by third parties on behalf of clients, unless they have an objectively justifiable reason not to do so.

A practical way to embed the CFS in good practice for energy suppliers would be to include it in a revised version of Ofgem's key principles for ability to pay.<sup>8</sup>

### **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 into both the CSA code of practice and the Lending Code.<sup>9</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 period can be extended by an additional 30 days if necessary.

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

We welcome the recognition given in Ofgem's proposals to the importance of independent advice and support. Consumers with energy debt or other problems often require advice and assistance that suppliers themselves cannot provide, and it is important that they assist consumers to find appropriate sources of advice. Suppliers and distributors would benefit from coordination in this area, which Ofgem is in an ideal position to provide.

Major advice organisations offer distinct services, each of which has particular benefits for particular groups of advice seekers. While some consumers may require direct representation by a caseworker, others may be more suitable for self-help solutions that allow them to take charge of their debts themselves, with information and support from an agency. Similarly, while some consumers will prefer to receive advice face-to-face, others will find remote channels such as telephone and online advice more accessible, more readily available and more anonymous. Consumers need help to understand what support and advice is available to them. Suppliers, for their part, would

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<sup>7</sup> <http://www.lendingstandardsboard.org.uk/docs/lendingcode.pdf>;  
[http://www.fla.org.uk/consumers/The\\_Lending\\_Code](http://www.fla.org.uk/consumers/The_Lending_Code);

[http://www.ofgem.gov.uk/shared\\_ofgem/business\\_leaflets/consumer\\_credit/OFT664Rev.pdf](http://www.ofgem.gov.uk/shared_ofgem/business_leaflets/consumer_credit/OFT664Rev.pdf)

<sup>8</sup> <http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Open%20letter.pdf>

<sup>9</sup> <http://www.csa-uk.com/media/editor/file/CoP%20New.pdf>

<http://www.lendingstandardsboard.org.uk/docs/lendingcode.pdf> (point 201)

benefit from help in understanding the range of potential referral sources available to customers with specific needs.

It is important to recognise that for signposting to be effective, suppliers must ensure their staff are adequately trained to identify appropriate third-party services and to communicate the reason for signposting to such services clearly and sensitively to customers. When signposting is handled badly, it may have a detrimental effect on the consumer. For example, referring consumers to third-party organisations without a clear explanation for making this referral may be interpreted by consumers as a refusal to help. Similarly, signposting customers to services that are clearly not appropriate for their specific needs causes frustration, delay and, in some cases, non-engagement. Inappropriate signposting also puts pressure on advice services by generating unnecessary client contacts.

It is possible to minimise such difficulties and assist effective signposting by putting in place simple guidelines and protocols for signposting. 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>10</sup> Another possible option is to develop a common information sheet for use by energy suppliers. The consumer credit sector provides a model of how this might work. Creditors are required to send information sheets prescribed by the Office of Fair Trading to consumers who are in arrears or default. These information sheets provide basic guidance and contact details for free debt advice organisations.<sup>11</sup> We would encourage Ofgem to produce and maintain similar information sheets and require their use by the energy sector.

We note that Ofgem is encouraging suppliers to provide clearer information to consumers through bills as part of its Retail Market Review. There is a similar need for clarity on where to seek advice for energy and energy debt-related issues. Although not directly related to the issues of competition that underpin the Retail Market Review, we would recommend taking account of this area in any proposals for standard prescribed information to be included by suppliers on bills.

#### **Theme 4 – Innovating in the provision of advice and support**

We welcome Ofgem's intention to devote work to this area. However, we note that the proposals express a strong preference for face-to-face advice delivery. Whilst we agree that face-to-face delivery has a vital part to play in advice provision, we would point out that other advice channels such as telephone, email and online advice have an important and growing role to play. This is based not only on our experience of direct service provision

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<sup>10</sup> Other appropriate organisations include MAT's partner agencies, which are listed at <http://www.moneyadvicetrust.org/content.asp?ssid=9>

<sup>11</sup> <http://www.offt.gov.uk/about-the-offt/legal-powers/legal/cca/CCA2006/information/>



through National Debtline, Business Debtline and My Money Steps, but also through our recent research on debt advice delivery channels.<sup>12</sup>

This research considers the current mix of advice channels and the potential for channel shift. Among its findings are the following.

- People have little awareness of the range of advice providers or channel options available, but are rather primarily seeking a solution to their problems.
- Although channel preferences do exist, they are less widespread than might be assumed and the current mixture of advice channels is determined by what advice agencies are putting on offer, not what clients demand.
- Levels of satisfaction differ little by channel.
- Remote channels (telephone, email and online) tend to attract more clients with early-stage problems, although there are clients facing urgent and serious problems in all channels.
- Patterns of channel use for vulnerable clients do not differ significantly from debt advice clients more widely.
- Vulnerable clients are being served effectively in all channels.
- Advice seekers view remote channels as offering important advantages including greater accessibility and convenience and, importantly, anonymity.'

Research by the Money Advice Service yields similar findings about openness to the use of alternative channels.<sup>13</sup>

These findings need to be set in the context of the enormous demand for advice, which free-to-client services struggle to meet. Research commissioned by the Money Advice Trust estimates that 1.7 million people will seek debt advice in 2012, while the total number of consumers requiring debt advice at any one time is estimated as being in the region of 5 million. The impact of welfare reform, including radical changes to payment processes brought about by the introduction of Universal Credit, may increase demand still further, at a time in which funding for many services is being restricted or withdrawn. Similar pressures will affect the whole range of organisations involved in supporting vulnerable energy consumers. For these reasons, it is important not to adopt too narrow a conception of the ways in which the advice needs of energy consumers can be met. Telephone, email and online channels currently play a crucial role in providing debt advice and relieving the pressure on face-to-face resources. Such channels have the potential to fulfil an even more important role over the next few years. This needs to be reflected in Ofgem's proposals for working with advice services.

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<sup>12</sup> Money Advice Trust, Demand, Capacity and Need for Debt Advice in the United Kingdom – 2012

<sup>13</sup> Money Advice Service, 'User Needs from Debt Advice: Individual and Stakeholder Views User Needs from Debt Advice', 2012.

**Question 7: Do you believe that there are other areas that we should be specifically addressing in the workplan for 2013/14?**

We do not have any other specific recommendations at this point in time.

***Money Advice Trust  
December 2012***