

Consumer Vulnerability Strategy

RIIO ED1 CSI WG

November 2013

ofgem

Our regulatory duties

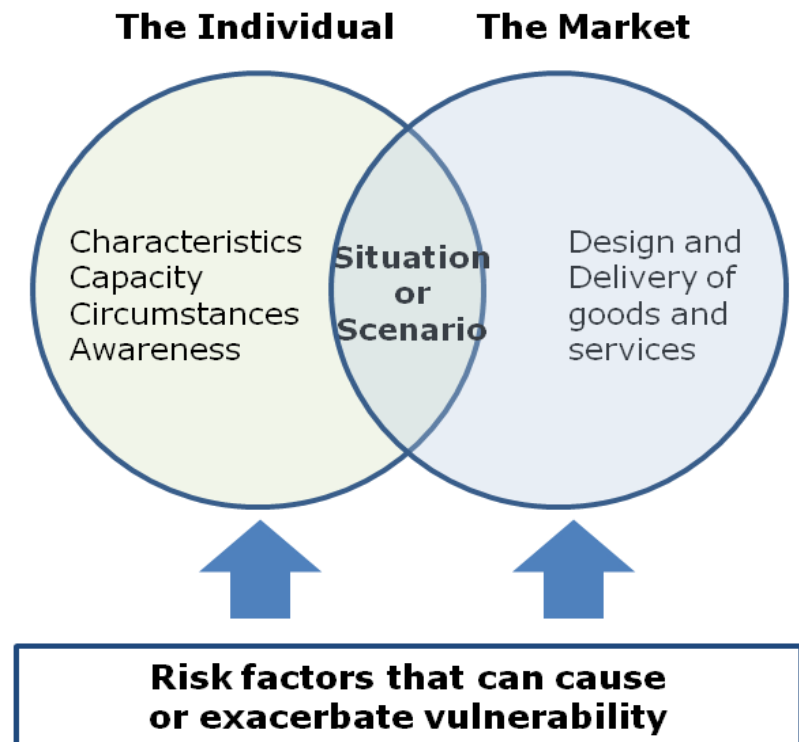
- In performing our duties we must take into account the needs of particular groups of consumers:
 - of pensionable age
 - that have a disability
 - that are chronically sick
 - on low incomes, or
 - living in rural areas.
- These consumers may, or may not, be vulnerable in a range of different situations and for a range of different reasons
- We are also able to take into account the needs of other groups of consumers
- The Strategy is shaped by our remit and powers as a regulator, with a recognition that some matters are for us and others are for Government.

Strategy role and objectives

- The Strategy has two roles
 - To guide Ofgem’s approach to understanding vulnerability – through evidence, research and market analysis – to help us set our priorities, develop and implement interventions and assess their effectiveness; and
 - To guide our expectations of supply and distribution companies to embed consideration of consumer vulnerability in designing and delivering their products and services.
- The overarching objectives of the Strategy are to understand and identify the causes of vulnerable situations in the energy market and to reduce the likelihood and impact of such situations.

Risk – factor approach

- Vulnerability is about the situations in which consumers are in, rather than about the individual *per se*.
- Risk factors can stem from individual circumstances and the market, and how they interact.
- Vulnerability can often be complex and multidimensional.
- Vulnerability can be transitory as circumstances change.



Risk factors can be wide ranging

- Living alone or without a support network
- Living with anxiety or depression
- Being in debt or having a poor credit rating
- Internet access and use for transactions
- Living in a cold, inefficient home
- Relying on electricity for heating
- Changing circumstances
- Experiencing multiple and complex issues

An example – older consumers

- Risk factors can include
 - Being more likely to live alone or under occupy their home
 - Being more likely to disabled or have sight or hearing impediments
 - Being less likely to use the internet
 - Behaviourally, displaying more loss aversion than other consumer groups
 - Being less likely to seek help when things go wrong
 - Living on a low or fixed income
- Impacts can include
 - Being less willing or able to choose the best deals
 - Being less able to access the best deals
 - Self-rationing energy use
 - Being more sensitive to the effects of living in a cold home

Where we focus our attention

- Any consumer can face detriment in a market. The Strategy focuses on those consumers in vulnerable situations who are most in need of protection or support.
- Our **definition of vulnerability** is when a consumer's personal circumstances and characteristics combine with aspects of the market to create situations where he or she is:
 - Significantly less able than a typical consumer to protect or represent his or her interests in the energy market; and/or
 - Significantly more likely than a typical consumer to suffer detriment, or that detriment is likely to be more substantial
- The risk-factor approach prompts us to identify which consumers are more likely to face detriment, in which scenarios, and why.

Work programme – initial priorities

- Putting in place an incentive and reward framework for the **electricity distribution companies** to identify and work with stakeholders to help support their customers in vulnerable situations.
- Reviewing the **Priority Services Register** to ensure suitable support to access the market is available for consumers in vulnerable situations.

Work programme – initial priorities

- Taking forward our work on **third party intermediaries** – looking at how we can help to facilitate collective switching and third party advice for vulnerable consumers.
- Starting a programme of work to **review company practices** in identifying and responding to vulnerability. This will actively identify and promote best practice across the industry.

Ofgem is the Office of Gas and Electricity Markets.

Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.

We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.