

## **Moving to reliable next-day switching: VocaLink's response to the consultation on Target Operating Model and Delivery Approach**

### **OVERVIEW**

VocaLink is delighted to have the opportunity to respond to Ofgem's consultation on 'Moving to reliable next-day switching: A consultation on Target Operating Model and delivery approach.'

This paper sets out our response to the consultation questions and focuses specifically on aspects of Ofgem's proposals in which VocaLink has particular and highly relevant expertise.

VocaLink runs the UK payments infrastructure and as such, plays a fundamental role in the functioning of the economy and the delivery of public services. We process around 10 billion transactions each year, with a combined value of about £6 trillion. We provide the central infrastructure for Bacs Direct Debit and Credit payments and the Faster Payments Service, as well as managing the world's busiest ATM network (LINK), which connects around 65,000 ATMs. We also operate the banking industry's Current Account Switching Service and the Cash ISA Transfer Service, and host the proxy service which links mobile phone numbers to bank account details, enabling mobile payments (Paym). VocaLink is also a trusted partner of the UK government, responsible for processing 98% of all the state benefits paid in the UK. We also play a critical role in the functioning of the energy industry, enabling millions of customers across the UK to pay their bills by Direct Debit, standing order and online banking payments.

VocaLink previously responded to Ofgem's initial consultation on 'Moving to reliable next-day switching' and welcomed the decision, published in February 2015. In particular, we welcome Ofgem's decision to introduce reliable next-day switching on a Centralised Registration Service (CRS).

VocaLink would be happy to answer any further questions that Ofgem may have concerning our response, and would be pleased to participate in the industry expert groups, due to take place over the summer.

### **KEY POINTS**

As operators of the Current Account Switching Service, we believe that there are many common features with Energy Switching and welcome the opportunity to respond to this consultation from Ofgem regarding the Target Operating Model (TOM) and delivery approach, drawing on our expertise to make informed recommendations.

VocaLink strongly supports the proposed reliable next-day switching plans. We are supportive of the requirements set out in the TOM, but have some concerns that they are currently expressed in supplier centric as opposed to a consumer centric way.

Key to the TOM achieving the desired customer outcomes will be the requirements for switching not being confused with the requirements for the CRS to receive, hold and provide data to support the switching process.

The TOM requirements must therefore reflect the movement of a customer's account and account balance from their old to their new supplier and the areas of supplier friction that will not be taken forward into the new reliable next-day switching service.

**Question One:**

- We believe that the proposed TOM looks sensible, and in particular, support the introduction of a CRS service. This will have a number of benefits for the introduction and running of a next-day switching service for energy users, including facilitating a greater level of oversight of the system, faster switching and a reduction in the operational costs of the switching system for all energy companies.
- We welcome the proposal for a truly next-day switch, but would recommend that Ofgem consider further support for those consumers who do not have access to the internet, and will therefore need to request a switch via telephone or postal services.
- VocaLink also welcomes the proposal that the CRS will support a process for returning a consumer to their previous supplier in the event of a contract cancellation (in reality just another next-day switch), and would continue to assert that the switch should run concurrently with any cooling-off period.
- We also welcome the proposal to harmonise the switching arrangements between gas and electricity markets.

**Question Two:**

- Regarding the non-functional requirements of the CRS, VocaLink believes that the TOM needs to be clearer on separating requirements for the orchestration of switching a customer's account and their account balance from their old supplier to their new supplier from the role of the CRS to receive, hold and provide data to support the switching process.

**Question Three:**

- VocaLink believes that the TOM needs a clear requirement that the cost of switching is separate to the costs for the CRS to receive, hold and provide data to support the switching process.
- Furthermore, we believe that the TOM needs to include specific requirements that support the transfer of both credit payment arrangements (e.g. Direct Debit) and also pre-payment arrangements (e.g. counter top-up, mobile top-up, etc.) to ensure that these do not prevent any customer group from being able to reliably next-day switch.
- With regard objections where the TOM expresses a 'near real-time' requirement this needs to be expressed as a 'real-time' requirement to ensure that customers receive real-time feedback on any old supplier objections whilst they are on-line or on the telephone switching suppliers.

## RESPONSES TO QUESTIONS

### **Question 1: Do you agree with the requirements set out in the TOM?**

Yes.

VocaLink believes that the proposed Target Operating Model looks eminently sensible.

We believe that the CRS service in particular will support the supplier switching process to be orchestrated, and qualitative and quantitative metrics or SLAs to be easily monitored.

As we set out in our response to Ofgem's initial consultation, 'Moving to reliable next day switching', we believe that a centralised system will:

- Facilitate a greater level of oversight of the system (and therefore increase customer confidence);
- Facilitate faster switching (and enable customers to benefit from 'n' days of cheaper energy supply and improved customer service, post switch);
- Reduce the operational costs of the switching system for all energy companies, i.e. a reduction in failed switches, erroneous switches and reduction in the resource required to facilitate the current network switching system that requires more manual intervention.

In terms of requirements for new switching arrangements, VocaLink welcomes the proposal by Ofgem that a consumer will be able to enter into a contract on one day and to start being supplied by their preferred new supplier at the start of the next day or on such a day as they request.

VocaLink notes that Ofgem propose that the gaining supplier will be able to submit a transfer request to the CRS on any calendar day up to a specified time (e.g. 17.00 hours). Whilst we welcome this, we would however like to highlight that Ofgem may need to further consider the methods through which consumers will apply to switch and the effect that this may have on time scales.

Whilst online switching may prove the most popular and convenient for many consumers, it is also the case that some corners of society that may benefit the most financially from a switch to a cheaper energy supplier may not have access to the internet. Therefore VocaLink believes that switching one's energy supplier should also be initiated via phone call. If postal switching is also considered, 'next day' may not be practicable in this instance.

In regards the cooling-off period, VocaLink welcomes the proposal that the CRS will support a process for returning a consumer to their previous supplier in the event of a contract cancellation, and that this cooling-off period will run concurrently with the switch process, rather than taking place at the end of the cooling-off period.

An important lesson for next-day switching from other switching services is that the process for returning a customer will potentially need to be nothing more complex than simply instigating a next-day switch to their previous supplier.

VocaLink also welcomes the recommendation to harmonise the switching arrangements between gas and electricity markets. We believe that a single process for gas and electricity switching has the potential to both improve the customer proposition and increase the efficiency of the overall process by eliminating duplicate and/or parallel processes.

**Questions 2: Is our description of the requirements sufficiently comprehensive to progress the design of our reforms during the next phase of the programme?**

VocaLink believes that the requirements at this stage are sufficiently comprehensive.

However, we do observe that the ‘non-functional’ requirements mandated against the CRS will be a determinant in the ultimate success of the service.

For example: - reliability, availability, integrity, and security requirements should, if delivered, contribute to the qualitative experience of the switching process for consumers.

In addition, it will be important that the role of the CRS to ‘...receive, hold and provide data to support the switching process’ should not be confused with where the orchestration of switching messages between the various stakeholders and the provision of switching management information (MI) to police the switching service occurs.

The description of the TOM would therefore benefit from being clearer on separating requirements for the orchestration of switching a customer’s account and account balance from their old supplier to their new supplier from the role of the CRS to receive, hold and provide data to support the switching process.

**Question 3: Are there any additional requirements that should be captured in the TOM?**

Whilst we are supportive of the requirements set out in the TOM, we do have some concerns that they are currently expressed in supplier centric as opposed to a consumer centric way.

VocaLink believes that there are a number of areas in which additional requirements should be captured in the TOM.

With regard price control arrangements for the CRS, VocaLink believes that the TOM needs a clear requirement that the cost of switching is separate to the costs for the CRS to receive, hold and provide data to support the switching process. VocaLink believes that this requirement will be very important in ensuring transparency in the cost of switching and that other industry costs do not become a barrier to entry for new energy suppliers. As in other sectors the target cost for switching should be ‘pennies’ not ‘pounds’ with the per transaction switch cost split equally between the losing and gaining suppliers; thereby ensuring challenger suppliers are not disadvantaged by artificially high customer acquisition costs.

Furthermore, we believe that the TOM needs an explicit requirement that as well as the customer's account moving from old supplier to new any outstanding account balance also moves and is available to the customer at the point of their new supplier contract commencing.

Also, because the TOM is expressed in a CRS centric way it does not highlight differences in the requirements of pre-pay customers over credit customers in being able to access reliable next-day switching. The TOM needs to therefore include specific requirements that support the transfer of both credit payment arrangements (e.g. Direct Debit) and also pre-payment arrangements (e.g. counter top-up, mobile top-up, etc.) to ensure that these do not prevent any customer group (e.g. counter top-up customers) from being able to reliably next-day switch.

In addition, with regard objections where the TOM expresses a 'near real-time' requirement this needs to be expressed as a 'real-time' requirement to ensure that customers can receive real-time feedback from the CRS on any old supplier objections whilst they are on-line or on the telephone switching suppliers. Without the requirement being centered on supporting the channels customers will use to switch (online or telephone) the customers experience of switching will be damaged.

Finally, as above, key to the TOM achieving the desired customer outcomes will be the requirements for customer switching not being confused with the requirements for the CRS to receive, hold and provide supplier data to support the customer switching process.

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