

Future of retail market regulation

Workshop with consumer groups

3 March 2016

ofgem

- 13:40 – 13:50 Welcome and overview of workshop
- 13:50 – 14:35 Session 1: Vulnerability
- 14:35 – 14:55 Session 2: Consumer information and billing
- 14:55 – 15:05 Break
- 15:05 – 16:00 Session 3: Sales and marketing case study
- 16:00 – 16:25 General questions, remarks, comments, discussion
- 16:25 – 16:30 Next steps, close

Welcome

Neil Barnes

Associate Partner, Consumers and Competition

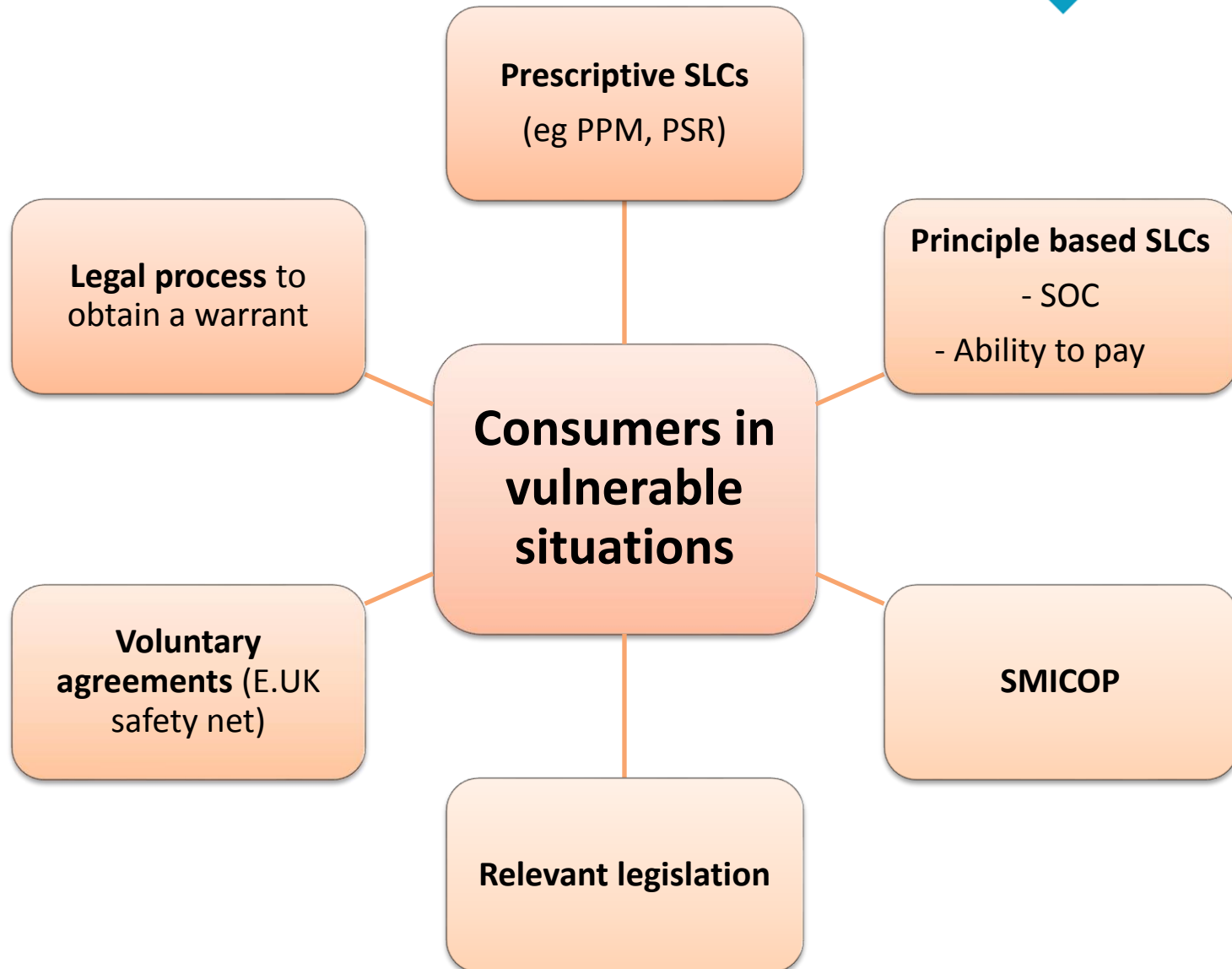
Session 1: Vulnerability

Stew Horne & Katherine Harris
Consumer Vulnerability / Future Retail Regulation

Ofgem's Consumer Vulnerability Strategy defines vulnerability as:

*“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.”*



We are developing our thinking on this. Key questions at this stage are:

- **What would the **benefits** and **risks** be of a vulnerability principle?**
 - Eg benefits - flexible, comprehensive, adapt to future changes in the market
- **What are the key considerations?**
 - Don't create regulatory uncertainty
- **What would success look like?**
 - Strengthen protections for consumers in vulnerable situations
 - Address specific aspects of consumer's circumstances

Session 2: Consumer information and billing

Dr Stephen Bass
Head of Domestic Consumers

- Customers must have the information they need to engage and make decisions.
- EU/Government/Ofgem requirements have influenced today's bills.
- But we see case for change – new technologies, techniques and need to provide clarity.
- Opportunity to do this in post CMA world and through FRR.
- Important role for trials in terms of informing our policy development and for individual suppliers to understand what works best for their customers.
- Suppliers keen to engage – looking to harness through setting out our expectations for robust and **safe** trialling

Minimising risks and maximising innovation – expectations

1. Development of a strong theoretical framework
2. Clear consideration of ethics and consumer protection
3. Determine measurable outcome(s)
4. Design an effective sampling strategy
5. Monitor and evaluate throughout trial
6. Plan analysis and reporting

For discussion:

- What are your views on trials?
- Do you feel there are further conditions we should apply?

Session 3: Sales and marketing case study

Beth Hanna, Charlie Troughton & Katherine Harris
Future Retail Regulation team

Marketing gas and electricity to domestic customers

The objective of this licence condition is to ensure that:

(a) all information

- is **complete and accurate**,
- is **capable of being easily understood** by customers,
- **does not relate to products which are inappropriate** to the customer,
- **does not mislead** the customer, and
- is **otherwise fair** both in its content and how it is presented.

(b) the licensee's Marketing Activities and all contact and behaviour are conducted in a **fair, transparent, appropriate and professional manner**.

[Followed by 5½ pages of detailed and broadly prescriptive rules]

- Ofgas and Offer introduced a marketing condition in order to address mis-selling when the retail energy markets first opened. **Purely prescriptive.**
- In 2009 we changed regulation to address concerns around doorstep selling. Adopted a different aim (**to enable customers to make well-informed decisions**) and a new proactive approach including increased enforcement activities. **Introduced principle** (Objective) which was used in 6 mis-selling cases.
- Following these cases, most suppliers **stopped doorstep sales**. While this stopped the problem of some consumers moving onto worse deals, it did also **stop a channel of engagement that was particularly effective for some vulnerable consumers** (e.g. those with no access to the internet) when carried out in a responsible way.

- Our aim with regard to sales and marketing continues to be that consumers should be able to make well-informed decisions about their energy supply.
- We believe it's possible to rely on the objective of SLC 25 alone in regulating face-to-face sales and marketing in the domestic retail supply market.
- We want to know whether stakeholders feel it's necessary to keep any prescription or narrow principles and why.
- We will only rely on the objective alone so long as we are confident both suppliers and Ofgem are able to protect consumers properly.

Key benefits

- Increased consumer engagement, particularly from some vulnerable consumers
- Allowing technological innovation in the market which can protect consumers

Key challenges

- How to maintain/monitor good quality, responsible sales and marketing activities by suppliers and their representatives
- Avoid returning to poor supplier practices relating to sales and marketing, including inaccurate savings info, lack of management oversight, commission-only selling

For discussion:

- Are there any other potential benefits or challenges?

Rulebook (and guidance?)

Monitoring and engagement

Data we might want to collect

- Which suppliers are doing F2F marketing and selling?
- Methods they are using eg doorstep selling, at shopping centres, through TPIs...
- Internal processes these suppliers have for managing risks
- Consumer outcomes/experiences:
 - Satisfaction levels
 - Qualitative feedback
 - Complaints
 - Cancellations
 - Sales data eg contacts v switches

Possible sources of data

- Suppliers
 - Regular engagement (one-to-one meetings, site visits...)
 - Challenge panel-type event
 - Complaints data
 - Other request for information
- Consumer groups
 - Complaints/contacts data
 - Early warning of emerging issues?
- Ofgem
 - Customer forums/surveys
 - Mystery shopping
 - Social media

For discussion:

- Do you think the principles in the objective are the right ones?
- How can we best minimise the risks, using the rulebook, guidance, monitoring and engagement?

Wider approach to monitoring

For discussion:

- Are there any other sources of data you're aware of that could help us monitor compliance with the SOC or other principles?
- Is there a way in which we can capture issues you are noticing on the ground more quickly than waiting for monthly reports from Citizens Advice and the Ombudsman Services: Energy?

General Q&A

- Our consultation opened on the 18 December. We would like to hear your views. The deadline for comments is 11 March 2016.
- We are continuing with our ongoing engagement through bi-laterals and are happy to engage via phone or email.
- Please contact us on FutureRetailRegulation@ofgem.gov.uk



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.