



# Providing financial protection to more vulnerable customers

CAP's official response to Ofgem's consultation

December 2017



christians  
against  
poverty

**CAP**

Lifting people out of debt and poverty



Christians Against Poverty (CAP) welcomes the focused and fast-paced action Ofgem is taking to protect consumers in the domestic retail energy market. This latest safeguard tariff for more vulnerable consumers is an important extension of previous work in this area and will provide more encompassing protections, which are much needed.

We fully support the intended aim of reducing the detriment caused to those in vulnerable situations from the current 'two-tier' energy market and agree that speed of action is imperative. However, we consider automatic eligibility and data-matching to be imperative to the success of this initiative and all efforts should be made to get the right mechanisms in place within a reasonable timeframe.

CAP's home-visiting model means we come face-to-face with the hardship experienced every day by those afflicted by deprivation and debt. Debt is destructive and isolating. Dealing with the stress of financial hardship whilst trying to get by sees three-quarters afraid to open their post, 64% afraid to answer the phone and 38% even considering suicide as a way out.<sup>1</sup> This explains why, despite suppliers' efforts to engage consumers in vulnerable situations, many in the most severe hardship remain unable to do so.

The nature of a two-tiered competitive market means that this safeguard tariff is needed for those who cannot pursue their own interests in a competitive market, whether this is for a transitory phase or if there are permanent barriers to full engagement. This safeguard tariff targets a group for whom the gains from switching have not been sufficient to incite engagement, yet they are less likely to be able to contend with the higher price they face as a result. It is a positive step forward to see that action is being taken to prevent those in this situation from continuing to bear a financial penalty when they are often worst placed to do so.

We strongly advocate indicators of financial difficulty be used to determine automatic eligibility for this safeguard tariff. All consumers in debt are in a financially vulnerable situation, with many also facing other complex needs and vulnerable circumstances. At this time of crisis they should not be penalised for their inability to secure the best tariff, and applying this cap would place them in a better position to keep up with the energy bills moving forward. To this end, Ofgem should also ensure that there are no waterbed effects that result in poor treatment of customers in arrears as a result of this safeguard tariff.

We greatly appreciate the opportunity to input into this consultation process and look forward to continuing to support Ofgem as they further develop this safeguard tariff.

A handwritten signature in black ink that reads "Matt Barlow." The signature is written in a cursive, flowing style.

Matt Barlow  
UK Chief Executive

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<sup>1</sup> CAP (2017) *Client Report: Partnership; the key to transforming lives*, [capuk.org/clientreportpdf](http://capuk.org/clientreportpdf)

## Scope

### 1. What are your views on our preferred approach of identifying consumers for safeguard tariff protection by primarily relying on data-matching?

Data-matching is vital to ensure the safeguard tariff is inclusive of the target group and practicable. In line with the Consumer Vulnerability Strategy (CVS), the overlap between consumers on a Standard Variable Tariff (SVT) tariff and metrics that demonstrate personal circumstances or characteristics that are suggestive of consumers in vulnerable situations provide a good basis for identifying consumers for the safeguard tariff. CAP is supportive of the intention to include both consumers who are unable to engage and those more likely to suffer detriment from a higher tariff than a typical consumer (even if they may be able to engage but remain on a SVT). This addresses both aspects of vulnerable situations that result from the two-tier market.

Automatic eligibility is incredibly important in the design of this safeguard tariff to ensure it is inclusive of those most in need. Lack of self-identification is a substantial challenge and the target group would be some of the least likely to contact their supplier. Data-matching provides a workable basis for providing an encompassing safeguard tariff.

With regards to the proposed indicators for identifying customers for the safeguard tariff, CAP is broadly supportive of using more extensive data matching with the Department for Work and Pensions (DWP) to automatically apply protection for eligible customers. Other data sources should also be used alongside this, particularly indicators of financial difficulty (see response to question three). It is only by using a range of indicators that close to the full range of vulnerable circumstances will be included within the criteria.

#### **Income-related benefits**

Using income-related benefits as an indicator of eligibility will capture consumers on a low income who are in receipt of benefits. Often the financial strain of this is coupled with other challenging personal circumstances, such as unemployment, mental health problems or lack of internet access. This means these consumers are significantly less able to represent their interests in the energy market than a typical customer, as well as their low income meaning the detriment of being on a higher tariff is more substantial.

CAP agrees that the income-related benefits in scope for the safeguard tariff should include Jobseekers Allowance (JSA), Income Support, Employment Support Allowance (ESA) and Pension Credit. In addition to Carers Allowance and Bereavement Allowance to capture those who due to their personal circumstances, may find the prospect of switching tariff considerably more challenging.

While Universal Credit must also be included in the scope, it presents more of a challenge. Some Universal Credit recipients will be in equivalent circumstances as those on legacy benefits which are not currently paid by the DWP and therefore not proposed to be included in the data-matching. Tax Credits and Housing Benefit, and the corresponding elements of Universal Credit, would provide the facility to capture those on low incomes who are in-work. However, unless Tax Credits and Housing Benefit recipients are also included in the safeguard tariff, to include all those on Universal Credit would provide inconsistent protection. To overcome this, Ofgem could consider setting up data-matching arrangements with HMRC and Local Authorities as well, but we appreciate there is less precedent set for this data-matching.

Finally, the receipt of benefits can be very changeable, with people experiencing periods without any income while appealing a decision or switching to a new benefit. The safeguard tariff should be applied with enough longevity to accommodate these disruptions and offer consistent protection over the longer-term.

### **Disability-related benefits**

CAP also supports the inclusion of consumers in receipt of disability benefits within the scope of the safeguard tariff. Data-matching for Disability Living Allowance (DLA), Personal Independence Payment (PIP) or Attendance Allowance claimants will identify consumers who may have a need for higher consumption, which renders them fuel poor or facing greater barriers to engagement. As CAP's data shows, a greater proportion of consumers with a health condition or disability are digitally excluded.<sup>2</sup> This data-matching should be done in such a way that captures where the person in receipt of the disability benefit is not the bill holder, but perhaps a spouse or dependent.

### **Priority Services Register (PSR)**

The safeguard tariff should not automatically apply to those on the PSR. There are better proxies of the need for the safeguard tariff protection and on the whole, those in need would be captured by the other metrics suggested. Further considerations on the suitability of the PSR for identifying those in need of financial protections are discussed in response to question two.

## **2. What are your views on our backstop option that requires suppliers to use the information they hold (such as Priority Services Register and debt information) to identify vulnerable consumers?**

While the challenges of implementing the data-matching option within a reasonable timeframe are appreciated, the backstop option is far from ideal. Using the PSR and other supplier information would be inconsistent and it would be only those most easily identifiable or able to engage with the supplier that receive the protections. The PSR was not designed for financial vulnerabilities and on the whole provides more practical support. To use it as a basis for safeguard tariff eligibility would create ambiguity over the purpose of the PSR and also put the most proactive suppliers at a disadvantage, creating pervasive incentives to increase the proportion of customers on the PSR.

The PSR is also not completely encompassing of the circumstances facing those needing the safeguard tariff protections, such as mental health problems or caring responsibilities outside of the household. If the backstop option needs to be used, a more encompassing register of supplier identified information about customer's circumstances would be beneficial. In addition to continuing the use of receipt of Warm Home Discount (WHD) as a proxy. Using both sources of information would more adequately capture the breadth of consumers that need this protection.

As discussed in response to question three, using indicators of financial difficulty would also be an important part in any backstop option.

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<sup>2</sup> CAP (2017) *Offline and shut out: digital exclusion in an increasingly digital landscape*, [capuk.org/offlineandshutout](http://capuk.org/offlineandshutout)

### **3. Are there other methods for identifying vulnerable consumers that we should consider, either alongside or as an alternative to, our preferred approach?**

Indicators of financial difficulty should be used alongside the preferred approach and backstop option. Data-matching with DWP benefit data would not capture low-income consumers who are in employment and are either facing financial or personal hardship, which impacts their engagement, ability to contend with higher prices or manage bills. In addition, being in debt brings additional financial pressures to meet debt repayments and the cost of servicing debt.

The stress of financial hardship renders consumers significantly less likely to be able to engage with suppliers, as well as higher energy costs causing detriment. On average, the consumers CAP helps have ten debts totalling £14,298. Fuel debt is part of this picture in two-fifths of cases, and many more have resorted to borrowing to pay their household bills.<sup>3</sup> As these statistics show, the impacts of this on their standard of living and engagement levels can be severe:

- 75% report that they were afraid to open their post and 64% afraid to answer the phone before CAP's help
- 45% have cut back on heating over winter
- 40% have mental health problems and 38% have considered or attempted suicide as a way out of debt
- 67% have skipped meals due to debt, and for 27% debt caused their relationship to completely breakdown

Supplier data showing customers in arrears, customers being supported by a Debt Management Company (DMC) and payment history should be used to identify customers in financial difficulty for the purposes of the safeguard tariff. Being in arrears for two months or more is a clear sign of financial difficulty and would be an easy metric to apply. However, protections should not only apply to those in arrears with energy, but also to all who are known to be in wider financial difficulty. This could be done by monitoring payment behaviour to identify consumers struggling to keep up with bills over a longer period and also those being supported by a DMC. A definition of financial difficulty for the purposes of the safeguard tariff should be prescribed to suppliers so that the protections are applied consistently and to the expected breadth of situations.

Suppliers should also be encouraged to work closely and collaboratively with third parties who can help them identify and reach more disengaged customers in the most vulnerable situations. Ofgem could facilitate work between consumer groups and energy suppliers to look for opportunities for secure and compliant data sharing that would allow third parties to inform energy suppliers in bulk which of their customers would benefit from a safeguard tariff. This could include housing association, DMCs and other charitable organisations.

### **4. What are your views on our proposals for all suppliers to be required to provide safeguard tariff protections to vulnerable consumers? What impact would this have on suppliers? Please provide evidence to support your views.**

CAP supports Ofgem's policy intention to apply the vulnerable safeguard tariff to all suppliers. The vulnerability principle applies to all suppliers, and as this safeguard tariff will form a core part of the vulnerability protections in the market, this policy should also.

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<sup>3</sup> 40% of CAP clients feel behind with their electricity and/or gas bills. 91% have borrowed to pay a household bill or another debt. See CAP (2017) *Client Report: Partnership; the key to transforming lives*, [capuk.org/clientreportpdf](http://capuk.org/clientreportpdf)

**5. What are your views on our proposal regarding the tariff types and meter types our extended safeguard tariff protections would apply to?**

CAP fully supports the proposal for the safeguards tariff to apply to all default tariff types, including default fixed-term tariffs. Where the consumer has not made an active choice of tariff, they risk being on a higher price than those able to engage. CAP agrees that consumers should be provided with this protection irrespective of how long they have been on a default tariff. The intension of the policy is to reduce the detriment consumers in vulnerable situations experience by paying higher prices, therefore needs to apply to the full duration they are on a default tariff. Likewise, CAP welcomes the decision to extend the safeguard tariff to all meter types.

A key benefit of smart meters is that cost to serve differentials for different meter types will be eliminated and greater engagement will increase competition, driving down prices. While this will mitigate the concerns raised by the CMA which led to the introduction of the prepayment safeguard tariff, there is no guarantee that this will result in fairer default tariff prices. The safeguard tariff is to protect those unable to engage with the market or suffering a higher level of detriment from higher tariffs, smart meters will not significantly mitigate these concerns and as such the safeguard tariff should also apply to fully interoperable smart meters. This safeguard tariff should also apply to those on smart pre-pay meters who will not be covered by the prepayment meter safeguard tariff and may also be in vulnerable situations. Moreover, CAP welcomes Ofgem's intention to consider whether a safeguard tariff is needed once the smart meter roll-out is complete and any government SVT-wide price cap has concluded.

## Methodology

### **6. Which of our two options for setting the benchmark component of the safeguard tariff would be most effective?**

A basket of tariffs approach would be more tangible for consumers to understand and have confidence in, as well as better reflecting the current price setting landscape. However, the challenge of setting a robust criterion for the tariffs to be included in the basket mean that using the CMA prepayment methodology would be a more straightforward methodology to apply.

### **7. Do you have any comments on the design issues for either of our two options?**

When investigating the technical details and choosing the favoured methodology, Ofgem should prioritise consumers' interests and provide sufficient price protection, especially taking into account low consumption consumers and the challenge presented by high standing charges. On the issue of payment method uplifts, CAP would favour a blended uplift so not to perpetuate the poverty premium, but does appreciate the importance of ensuring this average cost to serve is proportionate for individual suppliers' customer base. In addition, the chosen methodology should not create pervasive incentives that would not serve customers in vulnerable situations in other areas. For example, requiring paperless bills to access the best tariffs to the detriment of those digitally excluded.

## Requests for further information

This response has been written by Rachel Gregory, Social Policy and Relationship Manager for Christians Against Poverty (CAP).

To discuss any queries and to request further information, please contact:

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Christians Against Poverty (CAP) is a nationally recognised charity that works with over 500 churches to help the most vulnerable out of poverty across the UK. The services provided offer both practical and emotional support, are completely free and are available to all, regardless of age, gender, faith or background.

Through a network of 296 CAP Debt Centres, CAP offers a free face-to-face debt management service, with advice and ongoing support provided from head office. In addition to this, CAP provides face-to-face adult financial education across the UK in partnership with 760 churches who run the CAP Money Course. This is a three-week money management course, which equips over 6,500 people each year to budget, save and spend wisely.

CAP has also recently expanded to tackle more causes of poverty. To this end, CAP now operates 156 CAP Job Clubs, 79 CAP Release Groups to tackle life-controlling dependencies, and is piloting 93 CAP Life Skills groups to empower members with the essential skills and support they need to live on a low income.





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