

StepChange Debt Charity response to Ofgem consultation: Providing financial protection to more vulnerable consumers

January 2018

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Introduction

StepChange Debt Charity welcomes the opportunity to respond to this Ofgem consultation on 'Providing financial protection to more vulnerable consumers'.

StepChange Debt Charity is the largest specialist debt advice charity helping people across the UK. In 2016 we were contacted by almost 600,000 people seeking debt advice. Demand for our services has increased to its highest level in the first half of 2017 when 326,639 people contacted StepChange Debt Charity for help and support with their problem debt. This equates to one person contacting us every 48 seconds.¹

We welcome Ofgem's decision to extend safeguard tariff protections to more vulnerable consumers. Financial vulnerability and other indicators of vulnerability are often experienced together and become self-reinforcing if the right help is not available for consumers when they need it.

At StepChange, we have seen an increase in the number of people we help who have gas and electricity debts, and believe measures to help improve affordability for these consumers – many of whom have other vulnerabilities – are much needed.

In 2012, for example, we saw 17,443 people with electricity arrears: This amounted to around 11.5% of our clients who were responsible for an electricity bill. By 2016, this had increased to 33,974 people; or around 13% of our clients responsible for an electricity bill.

The picture is similar for gas. In 2012, 12,356 clients had gas arrears: representing 11% of all clients who were responsible for a gas bill. By 2016, this had risen to 20,874 people, around 12% of all clients with responsibility for a gas bill.

We welcome the focus on identification of eligible consumers, and Ofgem's ambition to ensure as many consumers as possible are able to benefit from safeguard tariff protections.

As we will set out in our answers to the specific consultation questions below, we support the use of data matching to offer price protection to those on income-related, or disability-related benefits. However, as this is unlikely to identify all consumers who are vulnerable, we believe all suppliers should also be required to use other information they hold, such as data on debt and arrears, to identify those who should be offered safeguard tariff protection.

Throughout our response, we share data regarding our clients' experience of energy bills to help explain our rationale for this position and to inform Ofgem's approach going forward.

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

Question 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?

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

We agree that using data matching, in relation to claiming an income or disability related benefit, is a helpful way to identify vulnerable consumers for safeguard tariff protection. Claiming one of these benefits shows someone either has a low-income or has a physical or mental health condition – all of which are clear indicators of vulnerability.

It also has the benefit of not requiring the consumer to have contacted their energy supplier to communicate their vulnerability. As the consultation highlights, vulnerable individuals may have lower levels of engagement with their provider and this can act as a barrier to people receiving support.

Data from StepChange clients supports the use of data matching for the purpose of identifying vulnerable consumers for safeguard tariff protection. Clients with fuel debts (gas and electricity) were more likely to be in receipt of income-related or disability benefitsⁱⁱ: 35% of those with fuel debts compared to 23% of those without fuel debts.ⁱⁱⁱ

Data matching based on these benefits could therefore help identify those struggling with fuel bills, who would particularly benefit from safeguard tariff protection.

However, we are concerned that relying solely on data matching could mean that some vulnerable clients would miss out on safeguard tariff protection. Based on analysis of StepChange data, we see that:

- 10% of StepChange clients who were not receiving any income-related or disability benefits were in arrears on their gas bills.^{iv}
- 12% of StepChange clients who were not receiving any income-related or disability benefits were in arrears on their electricity bills.^v

Relying solely on data matching, based on benefits, would risk leaving these people unidentified, preventing them from benefitting from safeguard tariff protection.

As highlighted in paragraph 2.23 of the consultation, identifying vulnerable consumers through data-matching and supplier-held information 'need not be mutually exclusive'. The consultation goes on to suggest that 'supplier held information could be used to expand the consumers in scope [of safeguard tariff protection] beyond consumers in receipt of benefits'.^{vi} StepChange Debt Charity would endorse this approach; and we would suggest that both data-matching and the use of supplier-held information will be needed to ensure vulnerable consumers who are eligible for standard tariff protection are identified.

We would therefore recommend that all suppliers, including those who run a data matching exercise, should be required to use other information they hold to identify vulnerable customers who should be offered safeguard tariff protection. This should include using information about whether a customer is in debt.

Analysis of StepChange Debt Charity clients in 2016 showed how people with fuel debts are more likely to experience broader vulnerability^{vii} than our clients who do not have fuel debts.

- 21% of our vulnerable clients have electricity arrears, compared to 16% of non-vulnerable clients.
- 20% of our vulnerable clients have gas arrears, compared to 15% of non-vulnerable clients.^{viii}

Requiring all suppliers to look at information about customers in debt or arrears is therefore likely to be a useful way of identifying vulnerable consumers in need of standard tariff protection.

Once a consumer has been identified as vulnerable, it is vital that they are treated accordingly and offered the help they are eligible for. We therefore welcome Ofgem's suggestion in paragraph 2.9 of the consultation that the safeguard protection tariff should apply automatically for eligible consumers, rather than them having to request it.

However, even with data matching and use of suppliers information, it is likely that there will be vulnerable consumers who are not identified. As the consultation sets out, there are limitations to every set of data and some, such as the Priority Services Register, require people to self-declare their vulnerability, something that disengaged, vulnerable consumers may not do.

Promoting the support available to vulnerable consumers, including the standard tariff protection, will therefore continue to be key; as will creating an environment in which consumers are able to engage and feel comfortable disclosing their vulnerability. We would welcome further information on how the tariff will be promoted, including how advice charities can refer clients who may be eligible.

When a customer is identified as vulnerable - either through data matching, from information on a supplier's records, or another means - it is important that they are not only offered safeguard tariff protection but also all other financial and non-financial support they may be eligible for. This should include protection from debt-collection practices and third-party deductions, that could cause particular harm for vulnerable consumers.

This is particularly important given that research with StepChange clients^{ix} suggests that people are not routinely being offered support by energy companies when they disclose that they are in a vulnerable circumstance.

- Just 24% of respondents were referred by their utilities provider^x to free debt advice after making the provider aware of their financial situation.
- Similarly just 23% of respondents were offered a reduced payment plan after making their utilities provider aware of their financial situation.
- Just 9% of respondents said their utilities provider advised them of other help available for people in financial difficulties, after they made them aware, such as social tariffs or trust funds.

Companies often cite difficulties with identification as a barrier to offering support to vulnerable consumers. The identification of a large number of consumers through the safeguard tariff protection process therefore presents an excellent opportunity to overcome this barrier, and offer vulnerable consumers vital support.

We would welcome Ofgem setting out what other support they expect suppliers to offer to any consumers who are eligible for the safeguard tariff protection, to ensure that this opportunity is not missed.

Question 4: What are your views on our proposal for all suppliers to be required to provide safeguard tariff protections to vulnerable consumers? What impact would this have on suppliers?

StepChange Debt Charity believes it is important that the safeguard tariff protection is offered by all suppliers, to consumers on all tariff and meter types. This is to ensure that vulnerable consumers receive protection regardless of who they receive their energy from. This is particularly important given that, as highlighted in the consultation document, vulnerable consumers are more likely to lack confidence in engaging with the market and switching suppliers to find the best deal.

Q5: What are your views on our proposal regarding the tariff types and meter types our extended safeguard tariff protections would apply to?

Please see our answer to Question 4.

Question 6: Which of our two options for setting the benchmark component of the safeguard tariff would be most effective?

We have no comment in response to the question at this time.

Question 7: Do you have any comments on the design issues for either of our two options?

We have no comment in response to the question at this time.

ⁱ StepChange Debt Charity (2017) Statistics Mid-Year Book: an in-depth look at over 300,000 people struggling with problem debt

ⁱⁱ For the purposes of this analysis, we define income-related and disability benefits as any of the following: Disability Living Allowance, Incapacity Benefit, Income Support, Jobseeker's Allowance.

ⁱⁱⁱ Based on analysis of StepChange clients in 2016.

^{iv} Based on analysis of StepChange clients in 2016. This figure refers to all clients with responsibility for a gas bill who were not claiming one of the following benefits: Disability Living Allowance, Incapacity Benefit, Income Support, Jobseeker's Allowance.

^v Based on analysis of StepChange clients in 2016. This figure refers to all clients with responsibility for a gas bill who were not claiming one of the following benefits: Disability Living Allowance, Incapacity Benefit, Income Support, Jobseeker's Allowance.

^{vi} Ofgem (2017) Providing financial protection to more vulnerable consumers, p.17

^{vii} Based on a range of vulnerabilities, including mental and physical disabilities, poor health, and low literacy and numeracy skills.

^{viii} Analysed using StepChange data warehouse in 2016.

^{ix} StepChange (2016) The sample was 1,794 StepChange Debt Charity clients who came to the charity for advice in Q3/4 2015. The fieldwork was conducted 2-15 May 2016.

^x This question related to all utilities, including mobile phone services