Supplier Guaranteed Standards of Performance: Consultation on Switching Compensation

Energy Switch Guarantee Response

Executive Summary

The Energy Switch Guarantee shares Ofgem's aims of protecting consumers when switches go wrong, improving all household consumers' confidence in the switching process and creating sharper incentives on suppliers to ensure that switches go right first time. The Energy Switch Guarantee was created two years ago with these aims in mind and it is our ambition to continuously drive up standards across industry in order to achieve our vision that every switch is simple, speedy and safe.

We considered how best to achieve these objectives, including whether to include financial compensation requirements, when we created the Guarantee. While compensation helps consumers who have experienced a poor switching process, it does not protect them from poor processes or mistakes unless it incentivises higher performance. Furthermore, research suggests that compensation may not be effective in improving consumers' confidence in switching.[1] We consider that there are more effective means of improving performance and consumer confidence.

The Energy Switch Guarantee sets requirements for suppliers to complete switches within 21 days, issue final bills within 6 weeks and issue credit refunds within 14 days of final bills. Overall compliance with these standards is currently high and underpinned by a robust application process. As outlined in further detail below, this has driven up standards among an ever-increasing number of suppliers and ensured that the Guarantee has significantly improved outcomes for customers. We will publish suppliers' performance data to provide reassurance that our targets are being met and are committed to doing so for our Q2 2018 results and onwards.

The Energy Switch Guarantee has aspirations to go far beyond the progress made in this initial phase. During the past year, we have made fundamental reforms in order to set up structures to deliver far-reaching change and establish a model of what voluntary codes can achieve under principle-based regulation. This has included: investing in a full-time member of staff; introducing a tougher ongoing monitoring process developed in partnership with Citizens Advice; reviewing and redesigning the role of the Chair to ensure that this role aligns with our overall vision; developing a funding model that ensures the Guarantee is scalable while being affordable for all market entrants; and redesigning our tender for customer research so that our work is informed by the feedback of thousands of customers each year. During this time, we have continued to drive up standards and nearly doubled in size from 13 signatories to 24, covering over 90% of the market. There is much more to do and the foundations laid in the past year have placed the Energy Switch Guarantee in a strong place to deliver this change.

As such, we consider that it would be proportionate to derogate those Energy Switch Guarantee signatories, who comply or exceed the KPIs. This would provide resources for the Energy Switch Guarantee to increase its KPIs and review the timescales for its existing standards, such as issuing final bills for customers. This review is more likely to improve outcomes for consumers and signatories would be reassured that the cost of their investment in improved systems and processes would not disadvantage them relative to suppliers outside the Guarantee that have not done so. We recognise that Ofgem will need further details about the timeframe for delivering these improvements, how we will ensure we will deliver continuous improvements to our standards over time and how signatories would look after any of their customers who experienced a switch that went wrong. Our overall commitments to do so are outlined below and we will discuss the timeline and details of the proposals with Ofgem.

[1] *Switching Supplier Standard Research Report,* QA Research (December 2015), *Results of research on unreliable switching,* Populus (2017)

Background to the ESG

The Energy Switch Guarantee (ESG) is a voluntary industry initiative consisting of 10 commitments that was launched in 2016 to drive up standards in switching. Since the time of its launch, the number of signatories has more than doubled to 24 signatories in total, covering over 90% of the market. Signatories are required to consistently demonstrate compliance with its Key Performance Indicators (KPIs), including two KPIs for switching speed and the issuing of credit refunds that set a higher bar than licence conditions. Switching numbers during the past two years have reached record levels and further to our ongoing discussions with prospective new signatories we project that the coverage of the ESG will continue to grow at a fast pace.

The ESG response is focused upon those aspects that directly link to our work. Many ESG signatories are also members of Energy UK, which has submitted a separate, broader response providing an overall industry position on the erroneous transfers proposals and some of the technical challenges in relation to the proposed measures.

Improving Consumer Confidence

The ESG has invested significant time and resource in improving perceptions of switching. Our work since the very start has been underpinned by consumer research in order to ensure that the views of consumers are directly taken into account.

We carefully considered the introduction of compensation into the ESG when it was launched. The recommendation from QA Research (the firm carrying out the public attitudes research) was clear: They stated that the ESG should "avoid any potential mention of financial compensation as this may be more likely to be counterproductive and lead to assumptions that serious problems and hassle are likely."[2]

This recommendation was based on a finding that very few respondents actually mentioned the need for financial compensation. When asked if the ESG would be enhanced by the promise of financial compensation most, although they agreed they wouldn't refuse it, felt it could be counterproductive as it may reinforce even further that problems could arise. Consumers would rather be reassured of a hassle-free experience than be told they'll get compensated if issues do arise.

More recently, we closely analysed the findings from Ofgem's qualitative research to consider the impact of compensation on attitudes towards switching after a switch had gone wrong. The findings of this research showed that the payment of compensation to customers who had a delayed switch did not increase the likelihood that they would switch again in future.[3] The report concluded that, for customers who had received compensation for a delayed switch, "it did little to change their opinion of the switch, the supplier and their propensity to switch again in the future". This indicates that the provision of compensation payments cannot be assumed to act as an incentive to switching and reinforces our view that driving up standards must be the prioritised outcome of any proposal.

Driving up standards

The ESG agrees that there is a need for strong incentives on all suppliers to ensure that switches go right first time. Compensation is one tool that can be used to achieve this aim. One downside with this approach is that it may result in resources being channelled into setting up compensation processes rather than improving standards. We have received feedback from current and prospective signatories that they do not consider that it would be viable for them to both pay for automatic compensation in switches covered by the ESG and to continue to pay to be a signatory to the ESG. A compensation-led approach could also incentivise companies to focus activity towards meeting the minimum requirement, such as issuing a final bill within six weeks, rather than continuously seeking further improvements to

[2] *Switching Supplier Standard Research Report,* QA Research (December 2015)

[3] *Results of research on unreliable switching,* Populus (2017)

the customer experience. Our alternative proposal would incorporate both increasing the percentage of bills issued within six weeks and reducing the length of time for final bills to be issued.

Our view is that a more effective means of driving up standards would be for suppliers to set new standards underpinned by close monitoring and robust processes to ensure compliance. This view is grounded in evidence of the standards of performance that have been achieved through the ESG using this approach. In all three areas of proposed compensation that do not relate to erroneous transfers, the performance of ESG signatories significantly exceeds that of non-signatories. Of greater importance is that our new compliance process is accelerating the speed at which suppliers make further improvements, which places the performance of ESG signatories on an upward trajectory. Each supplier receives a RAG rating for their performance against each KPI, with incidents of underperformance requiring the submission of an action plan to outline how the issue will be swiftly and effectively remedied. If suppliers do not deliver the required improvements within a narrow timeframe, then our escalation process makes it clear that the likely outcome is a suspension of their membership.

The performance data for the ESG during Q1 2018 indicates the extent to which our signatories have established systems and processes that result in them outperforming non-signatories by a significant margin. While there is still more work to do and we expect our results to further improve, the improvement in standards is clear. With regard to switching speed, 98% of valid switches to ESG signatories were completed within 21 days of the date that the gaining supplier received the completed application. We highlight that our KPI uses a different definition to Ofgem, however as the nearest point of comparison this is significantly above the figure of 91% of valid switches for industry as a whole being completed within 21 days of a customer entering into a contract. It is possible that there is a gap between ESG signatory performance and the market average, which when combined with the fact that the ESG covers over 90% of the market, suggests the gap is not inconsequential and points to the success of the ESG when improving its signatories.

94% of final bills issued by ESG signatories during Q1 2018 were issued within 6 weeks or less. Ofgem highlights that the figure for industry as a whole is 92%. While our aspiration is to go higher than 94%, the fact that 90% of the market is achieving a KPI of 94% and that the overall average is 92% suggests that there is a difference in performance between ESG signatories and non-signatories. 93% of credit refunds were issued within 14 days of the final bill being issued by ESG signatories. Our experience of supporting suppliers through our application process indicates that the ESG has played a major role in incentivising suppliers to improve performance in this area.

It is our view that, with the transition to principles-based regulation and the rapid growth in the volume of energy suppliers, voluntary codes can play a key role in driving up standards and providing consumers with a clear picture of the highest-performing suppliers in the market. In order to do so, the operating model of voluntary codes must shift towards greater transparency of performance and a strict approach to non-compliance. The compliance process introduced for the ESG in recent months reflects this new approach.

<u>How automatic compensation could work alongside the ESG</u>

We believe that the best solution could be achieved through an approach that combines the respective strengths of the ESG and Ofgem's proposals for automatic compensation. An agreed derogation for ESG signatories, contingent for each signatory upon evidence that its KPIs had been met, would place a strong incentive on existing signatories to uphold standards while incentivising non-signatories to make system improvements and join the ESG. It would further strengthen the new compliance process introduced by the ESG by ensuring that a failure to meet KPIs resulted in a loss of the derogation.

More importantly, it would facilitate the opportunity for ESG signatories to instead invest resource in further raising standards for consumers more quickly and substantially. We would welcome the opportunity to meet with Ofgem to talk through the activity that we would deliver, which would include:

- A new commitment to drive the issuing of a significant proportion of final bills within a shorter timeframe than 6 weeks;
- An improvement project, which has already been initiated, to understand the causes behind 6% of final bills being issued after more than 6 weeks and make changes as a result;
- To consult on our % targets for credit refunds and final bills, recognising that the progress that has been made since the launch of the ESG means that we now significantly outperform these benchmarks;
- To consult on the potential role of the ESG in driving up industry standards in relation to Erroneous Transfers;
- A commitment to meet quarterly with Ofgem, Citizens Advice and the Energy Ombudsman to inform and consult on escalation measures for compliance issues;
- A commitment to publish performance data from Q2 2018 onwards;
- An annual consultation on the ESG strategy in order to ensures its continued development alongside industry changes such as the transition to faster switching;
- A new commitment to outline how we would protect the customers who experience detriment in the rare case that a signatory has not met its KPI commitments (excluding valid exceptions).

We recognise that these actions will require a clear and transparent timeframe and are committed to providing this to Ofgem in our further discussions.