

MONEY
ADVICE TRUST

BUSINESS
DEBTLINE

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Consultation Response:

Ofgem Self-disconnection and self-rationing statutory consultation

Response by the Money Advice Trust

Date: August 2020

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Introduction

About the Money Advice Trust

The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money with confidence.

The Trust's main activities are giving advice, supporting advisers and improving the UK's money and debt environment.

In 2019, our National Debtline and Business Debtline advisers provided help to more than 199,400 people by phone and webchat, with 1.97 million visits to our advice websites.

In addition to these frontline services, our Wiseradviser service provides training to free-to-client advice organisations across the UK and in 2019 we delivered this free training to over 981 organisations.

We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

Find out more at www.moneyadvicetrust.org

Public disclosure

Please note that we consent to public disclosure of this response.

Introductory comment

We welcome the opportunity to respond to these proposals. Although there are some areas where we think Ofgem could go further or adopt a slightly different approach, our general response to these proposals is very supportive. We think Ofgem is right to focus on self-disconnection as a priority area for action. We share Ofgem's concern about the growth in the number of cases and inconsistency in the support provided by suppliers. Given the potential for consumer detriment, which has been starkly highlighted during the recent covid-19 crisis, we think Ofgem is absolutely right to make this a priority area for action.

We also warmly welcome Ofgem's proposal to embed Ability to Pay principles fully within the licence regime. Along with other debt charities, we have noted significant growth in recent years in the number of people we help who have energy debt. In 2019, 21% of National Debtline clients had energy arrears. The economic impact of covid-19 will inevitably exacerbate the problem of consumer debt, affecting households that previously enjoyed financial security as well as those that were already in financial difficulty. In the face of this crisis, all suppliers need to focus squarely on ensuring their treatment of customers in financial difficulty is proactive, positive and sympathetic.

In both areas we would stress the need to act quickly and ensure that these proposals are implemented by the coming winter so that consumers have adequate protection at a time when they need it most.

- ✓ We welcome these proposals and urge Ofgem to prioritise implementing them to ensure the proposed additional protections are in place for winter.
- ✓ Suppliers should be required to report data on self-disconnection, which should be published by Ofgem.
- ✓ While sympathetic to Ofgem's general position on self-rationing, we think Ofgem should take the opportunity to introduce a specific requirement for smart prepay.
- ✓ We would like to see a minimum level set for Emergency Credit to ensure adequate consumer protection
- ✓ We would appreciate clarity about whether the requirement to provide information about emergency credit, friendly-hours credit and additional support credit functions applies only to new installations, or whether suppliers will also be required to provide such information to new occupants of properties already fitted with prepayment meters.
- ✓ We are concerned that proposed licence condition 27A.7 appears to frame additional support credit and broader support (energy efficiency, debt advice, financial assistance) as alternatives to one another instead of as complementary areas which should often be explored together as a part of a package of help.

- ✓ We strongly support the proposed incorporation of Ability to Pay principles within the licence conditions. We would emphasise that signposting needs careful consideration to ensure it works well for both customers and third-party advice providers. Signposting also raises questions about how far energy suppliers contribute to the costs of debt advice provision, from which they as creditors benefit significantly. We hope Ofgem will continue to engage closely with the Money and Pensions Service over its work to develop a sustainable funding model for debt advice given the energy industry's very considerable stake in this work.

Comments on the specific proposals in the paper

We welcome the proposal to introduce *‘a new requirement on suppliers to take all reasonable steps to identify all PPM customers who are self-disconnecting and offer appropriate support in line with existing and new obligations.’* This requirement makes it clear that suppliers need to be proactive and not rely solely or mainly on self-disclosure by customers, which we think is crucial. We are pleased to note that the requirement applies to all prepayment customers, and not only to those already identified as being in vulnerable circumstances. This reflects the reality that customers may move in and out of vulnerable situations over time.

While supportive of this proposal overall, we think Ofgem could go further in some areas.

- ✓ Suppliers should be required to report data on self-disconnections to Ofgem and this data should be made publicly available in some form, in a similar way to debt and disconnection data. This would aid transparency, give greater visibility of trends and differentials, and allow suppliers to benchmark their performance against their peers.
- ✓ We appreciate the rationale behind Ofgem’s decision not to introduce a general requirement to identify customers who are self-rationing, given the technical limitations of traditional prepayment meters. However, we think Ofgem should take the opportunity to introduce a specific identification requirement for smart prepay, where these technical limitations do not apply. Given that suppliers have not made full use of smart meter data to identify self-disconnection, as the consultation notes (2.12) we think a strong steer is needed to ensure suppliers take a more proactive approach to self-rationing.

We welcome the *proposed ‘new requirements on suppliers to offer emergency and friendly-hours credit to all PPM customers and to offer additional support credit to customers in vulnerable circumstances.’* We agree that prepayment customers should benefit from a safety-net against disconnection and extra support at times when they need it most. The proposals establish a clear distinction between different types of credit which operate in different ways. We welcome the inclusion of a requirement on suppliers to take the customer’s ability to pay into account when determining rates of repayment for additional support credit. We also welcome the proposal that there will be no rigid rules around the number of times support can or should be offered. We think that the term ‘additional support credit’ is a helpful innovation and improves on ‘discretionary credit’.

However, there are a couple of areas where we have outstanding concerns.

- ✓ The proposals leave suppliers to determine what amounts of credit to provide to customers. We think this is generally the right approach, particularly for additional support credit, but we would like to see a standard minimum offer for emergency credit specifically. There is considerable variation in the amount of emergency credit suppliers currently offer, which we do not think can be justified on the basis of customer needs. If suppliers offer too low an amount it will not have the desired consumer protection effect. We also think inconsistency across the market may lead to consumer confusion and misunderstanding. Although we don't think Ofgem should prescribe a maximum amount, it would be appropriate to set a minimum, to ensure this safeguard is adequate and consistent.
- ✓ Low awareness of prepayment meter credit functions is an issue at present and will continue to be so. The proposals would require suppliers to provide information about credit functions when a prepayment meter is installed, but we do not find any mention of customers who move into a property where a prepayment meter is installed already. This will be a common situation, particularly for renters. If it is not already covered elsewhere in the licence conditions, we think Ofgem should extend the requirement to provide information on prepayment credit functions to new customers.

We have a number of concerns about the proposed condition 27A.7. This condition seeks to link short-term support (additional support credit) to longer-term types of support such as information about debt advice, energy efficiency and financial assistance, which fall under 31G.2. We think it is absolutely right to link these areas but the way the proposed condition does this could have unintended consequences. As currently worded, the condition frames other types of support as an *alternative* to additional support credit, once a supplier has determined that additional support credit is not a suitable option. We would like to see suppliers proactively exploring their customers' broader support needs as part of conversations about self-disconnection and alongside the provision of additional support credit, since these types of help will often be complementary. We would further argue that suppliers cannot reasonably determine that additional support credit is not in a customer's best interests unless they have already explored broader support needs and offered appropriate support. The concept of the '*best interests of the Domestic Customer*' implies that suppliers have looked at the customer's situation in the round, exploring a range of appropriate options before coming to a decision.

We would ask Ofgem to revise the wording of this condition to make it clear that suppliers should explore and offer appropriate broader support as a standard part of their response to customer self-disconnection, and require suppliers to explore broader support fully before determining that additional support credit is not in a customer's best interests.

We strongly welcome the proposal to introduce *‘enhanced requirements on suppliers with respect to providing support to all customers who are facing financial difficulties through the inclusion of new Ability to Pay principles in the supply licence.’* We think these principles played a very useful role and we have long advocated giving them more prominence. We are pleased to see the inclusion of signposting for debt and energy advice for the first time and Ofgem’s highlighting of the Standard Financial Statement.

The number of households in financial difficulty looks set to increase dramatically over the next few months, due to covid-19 related job losses and the unwinding of government and creditor support for consumers. Given this, it is crucial that Ofgem prioritises ability to pay this area and ensures the new proposals take effect as early as possible.

We are pleased that Ofgem has chosen to highlight signposting for debt and energy advice within the revised principles and to reinforce its expectation of suppliers on how they should work with third parties. As a debt advice charity we welcome signposting by energy suppliers, but this signposting needs to be effective and sustainable. Currently, we see some examples of poor and inappropriate signposting. Some of the issues reported to us by clients include:

- ✓ Clients have been told they must get advice from a specific debt advice provider nominated by the energy supplier, despite having already taken advice from an equivalent debt advice agency. This is not an appropriate position for suppliers to take and creates unnecessary duplication and confusion for both consumers and advice providers.
- ✓ Clients who are self-employed tell us that they have been repeatedly signposted to an advice agency that does not give advice to self-employed people, despite informing the supplier of this fact. Business Debtline is acknowledged as a specialist in this area and, reflecting this, receives many referrals from other debt advice agencies.
- ✓ Clients have been told they are not eligible for help from their supplier unless they have had debt advice first.
- ✓ Clients are signposted to us for advice while in dispute with the supplier over the amount they owe. In some cases, these clients clearly have problems paying for their energy bills or other debts, so may benefit from debt advice. In others however, they simply have an unresolved complaint.
- ✓ Clients have been given a misleading impression of the services we offer and our relationship with the energy supplier. For example, clients may believe we can directly write off debts or set up payment plans, or that we can intervene directly with the supplier on their behalf.

We recognise that suppliers are acting in good faith by signposting and that genuine misunderstandings play a role in the issues reported above. Nonetheless, these sorts of experiences are unhelpful for customers and unproductive for advice providers who have limited resources and capacity. They have a cost both in terms of customer time and advice capacity. Suppliers should give careful consideration to the way they approach signposting, to ensure it is consistent, supports good customer outcomes and is reflective both of customer needs and the availability of third party services. We would recommend the Citizens Advice good practice guide on signposting¹ as a starting point and general overview of good practice.

We also need to emphasise that signposting by energy suppliers, while welcome in itself, can be a significant driver of demand for debt advice services. As an example, a single large supplier was responsible for signposting more than 3,250 National Debtline clients between 1 January and 31 August 2020. This is one of our largest referral sources and equates to nearly 8% of total clients for National Debtline, yet we receive no funding from this supplier. This kind of scenario raises questions about sustainability for advice services and about equity across sectors and within the energy sector itself.

There is a danger of suppliers shifting what are in effect their own operational and regulatory costs onto charities, putting further pressure onto services which already have limited resources. Given that funding is voluntary and that some suppliers contribute while others do not, it could be argued that suppliers who do not fund debt advice gain a competitive advantage over those that do.

Closely linked to this is the question of the provision of debt advice. As Ofgem will know, there is a considerable gap between the advice sector's resources and the number of households in financial difficulty. The impact of covid-19 looks certain to increase demand for advice very considerably. The Trust is working hard, along with the Money and Pensions Service and our advice partners, Citizens Advice and StepChange Debt Charity to increase provision, but a significant gap will still remain.

We appreciate that debt advice provision is not within Ofgem's direct remit. However, we believe that Ofgem should take the following steps.

- ✓ Maintain close engagement with the Money and Pensions Service on its work to develop a sustainable cross-sector funding model for the advice sector.
- ✓ Continue to engage with third sector stakeholders through the regular stakeholder calls with consumer groups and charities initiated during lockdown, and explore how insight from this stakeholder group can be used more broadly to inform Ofgem's monitoring activity and policy development.
- ✓ Explore how far funding for debt advice could be incorporated into the Energy Industry Voluntary Redress Scheme.

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<https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/Good%20practice%20guide%20FINAL.pdf>

The BEIS review of the Warm Home Discount provides an opportunity to explore how the debt advice and assistance element of this scheme can be used to best effect, to complement and enhance fuel poverty interventions.

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