Dear Mr Blagrove,

Thank you for inviting us to respond to the Microbusiness Strategic Review: Policy Consultation ("the Consultation").

The Verastar group ("Verastar" or "we") supplies essential services including gas, electricity, water, insurance and telecoms to over 160,000 microbusinesses. We are regulated by Ofgem, Ofwat, WICS, the FCA and Ofcom. Our experience in five regulated sectors provides valuable insight into the supply of such services to microbusinesses. Our responses are detailed below.

Awareness

Q: What are the most effective ways to ensure that microbusinesses can access key information about the retail energy market?

There is a lack of engagement amongst microbusinesses in the energy market. This is due to apathy; the belief that all suppliers provide the same level of service at the same cost; the belief that the benefits of transferring do not justify the "hassle" involved; and because they are time poor. Whilst we are generally in favour of information being readily available to microbusinesses, we do not believe that generic information about the retail energy market will increase the engagement. Our experience of working with microbusinesses is that switching generally takes place as a result of suppliers approaching potential customers.

Part of the problem for microbusinesses is that they don't have easy access to the information they need in order to switch providers or search for a better deal. If microbusinesses were able to access specific contract information quickly and easily e.g. MPxN, contract end date, pricing, termination fee and annual consumption, we believe an increase in engagement, and ultimately switching, would follow. In 2019 Ofcom introduced a new 'text to switch' facility that allows customers to send a text message to receive key information about their mobile contract by text[1]. If the energy industry adopted a similar process, microbusinesses could almost immediately receive everything they need for comparison purposes at the click of a button, without the need to locate paperwork that could be difficult to access.

Browsing

Q: Do you agree with our proposal to strengthen the requirements to present a written version of the Principal Terms to customers?

Ofgem has stated in the Consultation that it does not wish to prohibit the use of verbal contracts altogether. We agree with this approach. We are concerned that the additional requirement to present a written version of the Principal Terms could have a negative impact on verbal sales, which we believe is ultimately to the detriment of microbusinesses, for the following reasons.

1. Not being able to progress a verbal contract until the customer has received a written version of the Principal Terms means there is an additional step in the switching process if the customer wishes to switch supplier. Every additional step increases the "hassle factor" and reduces the likelihood of switching.

2. The requirement to present a written version of the Principal Terms unnecessarily increases the supplier's cost of acquisition when microbusinesses can be sufficiently protected in other

[1] https://www.ofcom.org.uk/about-ofcom/latest/media/media-releases/2019/end-it-with-a-text-mobile-switching

ways. This increase in the cost of acquisition reduces the margin available to suppliers which results in a lower number of suppliers prepared to compete to supply services to microbusinesses.

We believe that microbusinesses and suppliers can verbally conclude contracts whilst at the same time maintaining sufficient protection for microbusinesses. This is achievable by requiring the supplier to:

- Provide the Principal Terms verbally to microbusiness;
- Ensure it can **prove** it has verbal acknowledgement from the microbusiness that it has understood the information, for example by retaining the call recording; and
- Send the Principle Terms in writing within the cooling off period (also proposed in the Consultation).

In fact, in the England water market Ofwat moved from requiring microbusinesses to provide written acknowledgment that it has read and understood key information or to provide a signed copy of the terms and conditions before a transfer can take place, to the above suggested approach.

Q: Do you agree with our proposal to require that suppliers disclose the charges paid to brokers as part of the supply contract, on bills, statements of account and at the request of the microbusiness customer?

Verastar agrees that microbusinesses currently have no visibility of the amount of commission earned by brokers. We believe there is a risk that microbusinesses may not always be offered the best prices by brokers as there is nothing to prevent them from switching microbusinesses to the provider offering the highest commission to the broker rather than the provider offering the best rates to the microbusiness. By suppliers/brokers sharing commission prices, it will help to drive competition in the market as brokers need to offer a more competitive service. We also believe that increased transparency within the broker market will increase microbusiness confidence.

Q: Do you think that further prescription or guidance on the presentation and format of broker costs on contractual and billing documentation would be beneficial? If so, how should broker costs be presented?

Yes. It is important that the industry presents information consistently to ensure fairness and transparency in the market. We're aware that the FCA implemented similar amendments in their Code of Business sourcebooks which created more transparency in the financial market and changed the industry.

For this proposal to protect microbusinesses, they will need to clearly see a monetary value. The most pragmatic way to present commission would be presented as the financial rate per kilowatt hour and a formula for the customer to work out the total charge.

Q: What challenges do you think suppliers and brokers may face implementing these proposals?

We appreciate that the publication on the monthly bills reminds customers on a regular basis of the cost of broker commission and could help improve competition in the market and reduce the stronghold that brokers have in the market. However, we would face certain challenges in being able to do this:

- We have different commercial agreements with different brokers, resulting in varying broker commissions. The publication of broker commissions on every bill would therefore require software development which would increase our costs. The costs increase will ultimately be passed on the to the customer.

- We invoice our customers for multiple services on one bill. We would therefore need to consider how this information is presented on invoices to ensure that it does not create confusion for our customers.

We believe that a simple and effective solution is for the broker to declare commission charges during the verbal contract or write this on the written contract. This would ensure transparency from the outset and would give microbusiness the opportunity to decline to contract. The supplier could verify this information during the processing of the deal and contact the customer if there were any issues.

Q: Do you have any comments on the associated draft supply licence conditions in Appendix 1 of this document?

No.

Q: Do you think there are other changes which would better address the consumer harm that has been identified?

No.

Contracting

Q: What do you think the impact of our proposal to introduce a broker conduct principle will be? Are there any particular reasons why suppliers/brokers couldn't achieve the broker conduct principle?

We believe that suppliers should only work with brokers that meet a high standard of conduct when interacting with microbusinesses.

However, we have concerns relating to the impact of non-compliance with any broker conduct principle. We believe that it is reasonable for suppliers, as the licenced provider, to be responsible for taking **all reasonable steps** to ensure that a broker behaves appropriately but we cannot and should not be **primarily** responsible for broker conduct. Brokers should be primarily responsible for their own conduct and failure to directly regulate the TPI industry will continue to cause consumer harm and create friction between suppliers and TPIs in the industry.

If suppliers could be liable for broker activity above and beyond what is reasonable, this could negatively impact the broker industry as suppliers will be reluctant to work with brokers, which could reduce competition in the market.

Q: Do you agree that our proposal to introduce specific sales and marketing requirements on suppliers and the brokers they work with is important to help customers make more informed choices and increase trust in and effectiveness of the market? If so, do you agree that face-to-face marketing and sales activity should be covered alongside telesales activity under these proposals?

There is no doubt that sales and marketing behaviour should be regulated by Ofgem. Verastar is of the view that these proposals are already covered by the principles of the treating customers fairly regulations already in force. As Ofgem has already advised their move into more principles based regulation, we question the need for more prescriptive rules in this instance.

Yes. Everyone should already be doing this. TCF. Ofcom have moved towards a more principles based. This is more prescriptive. Similar to TCF

Q: Do you agree that our proposal to introduce a cooling-off period for microbusiness contracts represents an effective way to protect consumers during the contracting process? If so, do you agree that the length of the cooling-off period should be 14 days?

Yes. We also agree with the length of the cooling off period (14 days) but would add that customers should be able to exercise the right to waive the cooling off period if they wish e.g. if the customer is paying out of contract prices, to ensure that customers will not be negatively impacted. Suppliers should be expected to keep records of the waiving of the cooling off period.

Q: What challenges do you think suppliers and brokers may face implementing these proposals?

We question how the introduction of a 14 day cooling off period will impact the Faster Switching Programme for non-domestic suppliers. By 2022, customers will transfer over to their chosen provider within the cooling off period. As suppliers buy energy in advance, suppliers will need to factor in the possibility that customers may leave during the cooling off period into their pricing.

Q: Do you have any comments on the associated draft supply licence conditions in Appendix 1 of this document?

We have some concerns about the proposed wording for Standard Licence Condition 0A.2. The proposed wording is: *"The licensee must and must ensure that Brokers, achieve the Standards of Conduct in a manner consistent with the Customer Objective".*

We believe that more appropriate wording would be: *"The licensee must take reasonable steps to ensure that Brokers achieve the Standards of Conduct in a manner consistent with the Customer Objective".* Brokers are not employees of the licenced provider and therefore there are limits to the actions suppliers will be able to take to ensure the broker's compliance. We are concerned that Ofgem's proposed wording could set a precedent for suppliers being ultimately responsible for broker behaviour rather than brokers being encouraged to take responsibility for their own behaviour. This contradicts the proposal that brokers must register with an ADR scheme.

Q: Do you think there are other changes which would better address the consumer harm that has been identified?

As a non-domestic supplier, Verastar deals with brokers on a regular basis. One area of consumer harm that has not been identified in Ofgem's consultation is the Letter of Authority (LOA) process. When customers use a broker, a LOA is submitted to the current supplier so that certain information can be shared. Suppliers have the discretion to set their own acceptance criteria for LOAs and the contents/requirements can therefore differ widely from supplier to supplier. This can result in LOAs being rejected. This creates inconvenience and frustration for the microbusiness customer during the switching process.

Further, as brokers are not regulated licenced parties, we feel that Suppliers should only be accepting a LOA where it is provided directly from the customer or the gaining supplier to protect the customer from dishonest broker conduct.

Verastar would like Ofgem to provide guidance on or regulate the LOA process; particularly in relation to the content of LOAs and the fact that LOAs should not be accepted by suppliers when submitted directly by the broker.

Dialogue

Q: Do you agree that our proposal for a mandated ADR scheme represents an effective way to fill the existing consumer protection gap where a microbusiness has a dispute with their broker?

Yes. We also believe that this will improve the quality of the brokers active in the industry.

Q: What challenges do you think suppliers and brokers may face implementing our proposal regarding dispute resolution?

It would be beneficial for all industry parties to have further guidance on how the dispute resolution process is expected to work. Clarification needs to be provided in the following areas:

- How the complaints process would work to prevent having the same complaint running concurrently; one through the supplier complaint handling process and one via the broker's ADR scheme.
- Whether the outcome of an ADR complaint about a broker would be shared with the supplier and whether it would impact the supplier's contract with the microbusiness customer.
- Who would be responsible for subscription and case file costs?

Q: Do you have any comments on the associated draft supply licence conditions in Appendix 1 of this document?

No.

Q: Do you think there are other changes which would better address the consumer harm that has been identified?

No**.**

Exiting

Q: Do you agree that termination notice requirements represent an unnecessary barrier to switching and should be prohibited? If so, do you agree that a prohibition on notification periods should apply to both new and existing contracts?

Yes. As stated in our previous response, the receipt of a transfer order (together with the licence obligations on placing a transfer order) should be deemed acceptable notice from the customer, via their chosen new provider, to terminate an existing contract with effect from the chosen transfer date. The need for written notice from the customer adds an additional step to the switching process that is not required in other essential services such as telecoms and water, where the switching process works well.

Q: Do you agree that our proposal to require that suppliers continue to charge consumers on the basis of the rates in place prior to a blocked switch for up to 30 days represents an effective approach to limiting the financial impact of switching delays? If so, do you agree that the time period should be 30 days?

Yes to both questions.

Q: What challenges do you think suppliers and brokers may face implementing our proposals regarding improving the switching experience?

We will require an appropriate implementation period to ensure that our systems can correctly identify accounts in relation to which a switch has been blocked and bill the customer accurately.

Ofgem has suggested that the supplier would need to charge the microbusiness the rate applied prior to the blocked transfer until "…30 days from the day after the day that the licensee prevented the Supplier Transfer". Please can Ofgem confirm the rationale behind the 30 day period and provide clarification as to whether this figure will change in light of the Switching Programme transfer time being two working days.

Q: Do you have any comments on the associated draft supply licence conditions in Appendix 1 of this document?

No.

Q: Do you think there are other changes which would better address the consumer harm that has been identified?

When objecting to a customer transfer, the Standard Licence Condition 14.3 states that if the licensee makes a request to prevent a transfer of a non-domestic customer, the supplier must write to the customer to inform them that we've objected to the transfer, why and how the customer can dispute or resolve the issue.

This regulation is useful but creates an unnecessary delay in the switching process detailed as follows:

1. the current supplier writes to the customer;
2. the customer has to wait for the notice to be received;
3. the customer needs to share this information with their chosen supplier;
4. the customer needs to work with the current supplier to resolve the issue;
5. the customer needs to inform his chosen provider that the issue has been rectified;
6. the chosen supplier replaces the order.

This frustrates the switching process and creates the 'hassle factor' which contributes to disengagement in the industry. We believe a better process would be for the current supplier to inform the chosen supplier the reason for the objection so that this can be addressed quickly.

By requiring suppliers to share this information, this improves the customer experience and also encourages suppliers to only object in valid circumstances.

We hope that you've found the above useful. If you wish to discuss any of these proposals further, please feel free to contact me.

Kind Regards,

Laura-Jayne Owen
Compliance Officer.