MoneySuperMarket's response to Ofgem's proposed approach to dealing with supplier insolvency and its consequences for customers

29th July 2016

About MoneySuperMarket.com:

MoneySuperMarket.com is the UK's leading price comparison website. We provide free, online tools to help people manage, save and grow their money, by enabling them to compare and switch Insurance, Money and Home Services products from nearly 700 providers.

MoneySuperMarket.com is part of the Moneysupermarket Group PLC, an established member of the FTSE 250 index. In 2015, we helped six million families save an estimated £1.6bn on their household bills, including 1.6m people who got a better deal on their finances and half a million households that switched their energy supplier.

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Introduction

As Britain's leading price comparison website, MoneySuperMarket is committed to helping consumers shop around to save money on their household bills. Energy is one of those areas where consumers stand to gain most by shopping around. Our research regularly finds that consumers on standard tariffs can save up to £300 by changing their supplier. It is one of the reasons that energy is one of the fastest growing parts of our business. Last year, we helped 500,000 households switch their energy supplier and this year we're aiming to help 750,000.

Ofgem's commitment to clarifying their approach to supplier insolvency in regard to consumer credit is welcome. In particular, we support any moves that will bring the energy retail industry up to the same standards expected by consumers in other markets, such as those found in travel via the Financial Protection Scheme and in banking via the Financial Services Compensation Scheme. Doing so, we believe, will also provide greater reassurance to some consumers who are considering switching to less well established new market entrants.

However, we do not think that the main options being proposed by Ofgem in this consultation, in themselves, provide adequate safeguards for consumer credit in the event of a supplier insolvency. Our reasons for why we think this are explained below. Instead we would encourage Ofgem to look at these measures in tandem with the more fundamental need to strengthen market entry requirements for new suppliers.

MoneySuperMarket's views on Ofgem's options

Option 1- the status quo option – has the obvious downside of providing no certainty to customers that they would get their money back in the event of a supplier insolvency. With average summer credit surpluses being in the region of £100, this could result in substantial losses, especially for vulnerable consumers.

Option 2 – the ring-fencing option – would separate the consumers assets from those of the energy company, thus providing greater likelihood that customers with credit balances would be repaid in full in the event of supplier insolvency. Clearly, this would be a step in the right direction from a consumer protection perspective. Also, we do not believe that energy companies should be able to use their customers' credit balances as part of their wider working capital: unlike banks, the customers of energy suppliers do not expect their balances to be used in such a way.

However, as noted by Ofgem, implementing option 2 could prove impractical for a variety of reasons, making its ultimate implementation unlikely. Some of these reasons are:

- Its potentially negative impact on competition due to the fact that introducing a ring-fence could deny smaller suppliers a key source of working capital, thus making their participation in the market more difficult.

- The fact that its implementation could lead to those existing suppliers who depend on using customer credit balances as part of their wider operational costs, failing or exiting the market.

- The difficulties in effectively enforcing the new regime which would be likely to require substantial effort and resource from Ofgem.

We agree that Option 3 and the other options detailed by Ofgem are not practical for the reasons outlined by the regulator in the consultation.

Strengthening market entry requirements

Ofgem's measures to safeguard consumer credit in the event of supplier insolvency should not be viewed in isolation. We believe this work represents a good opportunity to stress the importance of an issue closely related to supplier insolvency: strengthening market entry.

In our recent response to Ofgem's consultation on The Future of Retail Market Regulation, MoneySuperMarket wrote in detail about the importance of understanding, challenging and regulating the business models used by new market entrants seeking a supplier license. Doing this effectively, we believe, will help remove a lot of the risk of insolvency often faced by new suppliers and, in turn, provide greater levels of consumer protection.

We believe strongly that the current process for entering the energy retail market needs to be more robust to build consumer confidence. The current approach of new suppliers buying 'off the shelf' licences and then entering the market (via PCW's and other channels) raises a number of concerns:

1. The ability for new suppliers to sign up new customers on the open market having had no direct contact at any point with the regulator;

2. The ability for new suppliers to be 'coached' through Controlled Market Entry (CME) by service providers who have commercial relationships with the suppliers and thus enabling the "passing" of CME without sufficient focus on customer service and protection;

3. The lack of any due diligence for financial strength, growth plans and data security by Ofgem on new suppliers;

4. A new supplier going into insolvency and leaving customers out of pocket when, in reality, they have been subject to little or no contact or checks by Ofgem does not reflect well on the industry and could harm trust levels.

With these concerns in mind, we would encourage Ofgem to take a fresh look at market entry requirements. MoneySuperMarket has been highly supportive of new suppliers entering the energy market and we will continue to be so. However, our enthusiasm for them is also matched by our eagerness to see them having business models that justify support and give consumers not only great savings and products, but also protection from financial loss and service disruption.

We would be delighted to discuss these thoughts in person with the appropriate team members at Ofgem should they have any questions. [redacted]