

Domestic energy suppliers,
consumer groups and other
interested parties

Email: promptsenquiry@ofgem.gov.uk

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Dear Stakeholders

Our next steps to prompting greater consumer engagement

Encouraging and supporting domestic consumers to engage in the retail market is a priority for Ofgem. Consumers who engage achieve lower bills than those who do not, with those on standard variable tariffs often paying around £300 per annum more than those on the cheapest fixed-term deals¹. More engaged consumers also help to increase the competitive pressure on suppliers.

We recently published an update on steps we expect suppliers to take to facilitate the database service remedy, which will support engagement measures for the most disengaged consumers². Today, we have published the results of our first, large-scale randomised control trial, which tested how people respond to a letter showing personalised information on cheaper offers across the market ([the CMOL trial](#)).

We published an open letter in August calling for suppliers to submit proposals for trials to identify effective prompts.³ We received a disappointing number of responses: this letter sets out the steps we will take now:

- To help consumers move off poor value default tariffs – by piloting a cheaper market offers communication with a range of suppliers and for a wider group of consumers
- To help consumers avoid ending up on default tariffs – by enabling and encouraging suppliers to improve their communications with customers at the end of fixed-term contracts.

We will be inviting suppliers to take part in further trialling of measures to increase engagement among the less engaged and to improve their renewal communications for customers at the end of fixed-term contracts.

¹ <https://www.ofgem.gov.uk/publications-and-updates/state-energy-market-2017>

² <https://www.ofgem.gov.uk/publications-and-updates/open-letter-improving-customer-data-and-database-remedy-0>

³ <https://www.ofgem.gov.uk/publications-and-updates/open-letter-finding-ways-unlock-consumer-engagement-through-supplier-trials>

Context

Ofgem is committed to helping more consumers engage in the market. To do this, we are undertaking a co-ordinated programme of initiatives to address barriers to engagement. These include:

- Reforms to the switching process to make switching faster and more reliable, helping to address concerns about whether a switch will succeed.
- Reforms to the rules covering how suppliers communicate with their customers⁴ – in line with our commitment to greater reliance on enforceable principles – to promote better informed choices. We will publish shortly a working paper setting out our latest thinking on principles for consumer communications, the issues we are considering and the evidence we need to support this work.
- Development of a disengaged consumer database service⁵. This will help target consumers who have been on default tariffs for more than 3 years.
- A programme to develop, test and implement more effective prompts for consumers to engage in the retail market. This is the focus of this letter.

We have seen improvements in engagement in recent years. For example, the proportion of consumers on default tariffs has fallen to 60%, down from the 66% identified by the Competition and Markets Authority last year⁶. Nevertheless, there remain numerous barriers to engagement and switching and significant potential benefits both for individual consumers and for competition in the market. We believe intervention is necessary.

Government has expressed its intention to bring in legislation to introduce a safeguard tariff for all default tariff consumers by winter 2018/19⁷. Within this context, switching will still offer savings and we believe measures to prompt consumer engagement have an important role to play in reducing the proportion of consumers on default tariffs before a broader price cap is introduced and in maintaining levels of competition during a price cap.

Our plans for encouraging consumers to engage

Helping consumers off poor-value default tariffs – cheaper market offers communications

The results of our cheaper market offers letter trial showed an increase in both switching (from 1% in the control group to an average of 2.9% in the treatment groups) and the quality of those switches (measured by an increase in savings by an average of £50), compared to those who did not receive a letter. Based on these results, we are considering requiring suppliers to send a cheaper market offers communication regularly to their default tariff customers. A trial of the proposed intervention in the form of a market-scale pilot will inform our decision of whether to take steps to amend licence conditions.

⁴ <https://www.ofgem.gov.uk/publications-and-updates/open-letter-reforming-our-rules-related-domestic-supplier-customer-communications>

⁵ <https://www.ofgem.gov.uk/consumers/household-gas-and-electricity-guide/how-switch-energy-supplier-and-shop-better-deal/ofgem-energy-customer-database-service>

⁶ <https://www.ofgem.gov.uk/publications-and-updates/state-energy-market-2017>

⁷ <https://www.gov.uk/government/publications/draft-domestic-gas-and-electricity-tariff-cap-bill>

This will allow us to:

- Evaluate the effects of the actions required of suppliers, with the intention of improving the effectiveness of the cheaper market offers concept
- Understand the effect of the intervention on groups of consumers excluded from the CMOL trial. This includes, for example, customers with debts that may have prevented them from switching to take advantage of the offers presented.
- Understand better the cost and burden of implementation for suppliers.

We therefore propose to undertake this trial to test the intervention and gain more evidence before deciding on the need further action. We will invite suppliers to take part in this trial and will select suppliers using our published selection criteria⁸.

We intend to use the results of this trial to inform our policy development and support decisions on the scope, frequency and application of any such communications. In this assessment, we will be taking into account linkages with other initiatives, wider market developments and the costs for suppliers. Based on evidence from the CMOL trial, the concept appears relatively low cost to implement. Nevertheless, the pilot will help us to assess the proportionality of the intervention in different circumstances.

Helping consumers avoid default tariffs - improvements to the end of fixed-term notice

For customers on fixed-term tariffs, supplier communications at the end of the fixed-term period are critical. We are keen to help these consumers to avoid defaulting back onto poor value tariffs. Evidence suggests that many consumers do not take action when their tariff expires and so roll onto a default tariff. We have recently taken action to enable suppliers to roll customers onto tariffs others than standard variable tariffs⁹. This is likely to see more consumers moving on to fixed-term tariffs, making renewal communications even more important.

Whether a consumer makes an active choice at the end of a fixed-term contract is likely to be influenced by both the quality of communications from their supplier and the attractiveness of the offers available. Engagement rates at tariff end vary significantly across suppliers, suggesting that suppliers can play a key role in supporting and encouraging their customers to make an informed choice. We will shortly be asking suppliers for data on what their customers do at the end of their contracts – to help us better understand relative supplier performance.

Rules relating to end of fixed-term notices ('statements of renewal terms') currently contain some prescriptive elements (such as information and text to include). A number of suppliers have already suggested potential improvements to the notice, citing feedback from their customers. Furthermore, we have seen evidence from a supplier trial that refining the content of renewal communications can significantly increase the number of consumers making an active choice. With our revised enforceable principles now in place¹⁰, we believe allowing flexibility, where appropriate, can generate more engagement and result in fewer consumers rolling onto the default tariff and we intend to allow suppliers more scope to develop their end of fixed-term notices. We note also the move by some suppliers to roll consumers finishing a fixed contract onto a default fixed tariff.

⁸ <https://www.ofgem.gov.uk/publications-and-updates/decision-selection-criteria-mandatory-supplier-testing-measures-promote-domestic-consumer-engagement>

⁹ <https://www.ofgem.gov.uk/publications-and-updates/decision-default-tariffs-domestic-customers-end-fixed-term-contracts>

¹⁰ <https://www.ofgem.gov.uk/publications-and-updates/final-decision-enabling-consumers-make-informed-choices>

To give suppliers greater scope to develop more innovative and engaging end of fixed-term notices, we intend to grant a market-wide derogation for suppliers from certain prescriptive rules relating to renewal communications. We will publish further details on this in the next fortnight. In addition, we consider suppliers can explore other ways to re-engage consumers at the point at which fixed-term tariff ends, for example by sending a reminder communication closer to the tariff end date. As part of this process, we will talk to suppliers – particularly those with poorer engagement rates – to understand what steps they are taking to make improvements. We will monitor the outcomes for consumers and consider where further trials, including a requirement for additional prompts, may bring benefits.

Next steps

We will host a workshop for stakeholders in January 2018 to provide more detail on our plans for the cheaper market offers pilot, changes to the rules around end of fixed-term notices and our other engagement work.

We are aiming for the pilot to take place in spring 2018. This will allow us to consider the results of the pilot, and then, if appropriate, consult on whether to amend supply licences to include an obligation on suppliers to send a cheaper market offers and to take a decision in autumn 2018.

We will be contacting suppliers to discuss their involvement in the cheaper market offers communication pilot and trials of renewal notices. If you would like to be involved and for all communication on this project, please email promptsenquiry@ofgem.gov.uk.

Yours faithfully,

Neil Barnes
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