

MONEY
ADVICE TRUST

BUSINESS
DEBTLINE

NATIONAL
DEBTLINE

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ADVISER

Consultation response: Ofgem

Providing financial protection to more vulnerable customers

Response by the Money Advice Trust

Date: January 2018

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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 2017, our National Debtline and Business Debtline advisers provided help to more than 220,000 people by phone and webchat, with 1.5 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 we have now delivered training and consultancy to more than 160 creditor organisations on identifying and supporting customers in vulnerable circumstances.

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.

Public disclosure

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

Introductory comment

We welcome the opportunity to respond to this consultation. We strongly support the policy intention behind Ofgem's proposals, to extend safeguard tariff protection to further groups of consumers in vulnerable situations. We agree with the premise that consumers who face barriers to engaging with the energy market do not currently benefit from competition and are likely to be on unfavourable deals. We broadly agree with Ofgem's specific proposals for achieving these additional protections. As a consumer-facing debt advice charity, we are not close enough to the day-to-day workings of the industry to be able to comment in detail on all aspects of the proposals. We have focused our comments on those questions most directly related to outcomes for consumers.

To place our response in context, we will briefly outline the Trust's work on energy-related issues and on consumer vulnerability. Our insight into these areas comes from two main sources. Firstly, we deliver advice directly to members of the public experiencing debt and financial difficulty. In 2017, 14 per cent of National Debtline callers had energy arrears to a current energy supplier and an additional three per cent had arrears to a previous supplier. The pattern of debts experienced by National Debtline clients has changed appreciably over the last decade. Debts relating to household bills, including energy, water, rent, council tax and telephone, have become increasingly frequent. Credit debts, while still significant overall, have declined. These changes reflect the serious challenges facing significant sections of the UK population to even afford their household bills, as well as paying back credit.

Secondly, we have an active programme of work to develop and promote best practice in consumer vulnerability and related topics. As Ofgem will be aware, debt and financial difficulty are often intertwined with other sources of vulnerability, including physical and mental health problems, mental capacity limitations, addictions, life events such as bereavement, relationship breakdown and job loss. These broader aspects of vulnerability are also a key aspect of the work we do at the Money Advice Trust. Energy companies, along with other creditors who interact with customers in vulnerable situations, need to be able to recognise indicators of vulnerability, handle those situations sensitively and appropriately and provide relevant support. In recent years, the Trust has developed guidance, tools and protocols for use by creditors, with a particular focus on supporting frontline staff dealing directly with customers in vulnerable situations. Building on our expertise as a training provider (through Wiseradviser, the Trust trains more than 80 per cent of advisers in the free money advice sector) we have developed practical, commercially realistic training for organisations across a range of sectors. We have trained more than 11,000 staff and organisations firms to date. In 2017, we published guidance specifically for energy companies, following work we carried out with Energy UK.¹

¹ Ramone, M., Fitch, C., Vaughan Wilson, M., Trend, C., Evans, J., Vulnerability, mental health and the energy sector: a guide to help identify and support customers. Money Advice Trust: London. 2017.
www.moneyadvicetrust.org

The work outlined above gives us a real appreciation of the barriers to consumer engagement and the need for a safeguard tariff of the kind proposed here. In this context, we agree with Ofgem's proposal to adopt a data-matching approach. Away from this specific context, however, we would reiterate that much can be done by suppliers (and other creditor organisations) to improve their understanding of customers' situations and collect better information during the various interactions they have with them. The staff in frontline roles are also an important, and often under-used, source of insight into consumer vulnerability. The Trust has been involved in several collaborative projects which have used data from collections staff to benchmark the relative performance of companies within an industry, illuminate particular issues and generate practical solutions.² We advocate a continued focus on active identification by companies and efforts to increase consumer engagement, alongside remedies such as data-matching.

² For example, Fitch, C., Evans, J., Trend, C. Vulnerability: a guide for debt collection. 21 questions, 21 steps. University of Bristol, Finance & Leasing Association: Bristol. 2017. www.pfrc.bris.ac.uk

Responses to individual questions:

Question 1: What are your views on our preferred approach of identifying consumers for safeguard tariff protection by primarily relying on data-matching?

We agree that primarily relying on data-matching is the best approach for identifying consumers for safeguard tariff protection. The mechanism for protecting consumers cannot depend on any action being taken by consumers, given that it is intended to protect consumers who do not engage.

We welcome the references in the proposals to disability-related benefits as well as income-related benefits. Like Ofgem, we adopt a broad and dynamic definition of vulnerability. It is important to retain this broad lens when considering vulnerability in relation to consumer (dis)engagement.

We would welcome clarification of how data-sharing would work in situations where a person in a household receives a qualifying benefit but is not the person named on the bill. This will be particularly important for disability-related benefits, which might be received by a partner, children or other relatives of a named bill-payer. There may be significant caring responsibilities and other pressures that create barriers to engagement in such scenarios, but the bill-payer may not have any formal 'carer' status or receive Carers' Allowance. Ofgem should give priority to thinking through, if it has not already done so, how such cases can be identified within a data-sharing approach.

While we support data-matching as the most appropriate single solution, we also welcome Ofgem's recognition that data-matching approach does not necessarily preclude using supplier information as well. This leaves open the possibility of individual suppliers going beyond the core requirements on a voluntary basis.

Question 2: What are your views on our backstop option that requires suppliers to use the information they hold (such as Priority Services Register and debt information) to identify vulnerable consumers?

The backstop option is clearly inferior to the Ofgem preferred approach for identifying consumers who may qualify for safeguard tariff protection because of the reasons listed in the paper. There are significant gaps in the PSR and debt data and a degree of inconsistency across suppliers. We understand from Ofgem's recent report on consumer vulnerability in the retail energy market that some suppliers are much slower than others to identify debt as an issue and that the relative proportion of customers on suppliers' priority service registers also varies considerably across the industry.³ If PSR and debt data become the basis for price protection, disparities between suppliers could lead to significant inconsistencies in support between companies and differing outcomes for consumers.

³ Ofgem, Vulnerable consumers in retail energy market: 2017, October 2017

<https://www.ofgem.gov.uk/publications-and-updates/vulnerable-consumers-retail-energy-market-2017-0>

Additionally, there is a risk here of perverse incentives. Earlier identification of financial difficulty and wider use of the priority service register are both to be encouraged, but may not be in practice if they trigger discounts for customers.

For the above reasons, we would not be in favour of this approach being used in any instance where data-matching is a viable option. We do consider it acceptable as a short-term solution for smaller suppliers that do not currently have data-sharing arrangements in place and for whom data-sharing may not be feasible to arrange in the available timescale. There should be, in such a case, a commitment for all such suppliers to move to data-sharing at the earliest opportunity (in the event that the introduction of the government's wider cap is significantly delayed or abandoned).

We do not object to PSR and debt information being used to supplement data-matching and further extend the number of consumers receiving protection. Nor would we object to this 'backstop' approach being used as an alternative to data-matching if, on subsequent investigation, Ofgem deems it to be the only viable approach. We recognise that Ofgem's over-riding objective is to ensure adequate protections are in place by next winter and may need to take a pragmatic approach to ensure this.

Question 3: Are there other methods for identifying vulnerable consumers that we should consider, either alongside or as an alternative to, our preferred approach?

There are a number of potential sources of data which might contribute to a suppliers' view of consumer vulnerability. Trusted intermediaries such as charities, health and social services, housing providers and local authorities often have a bank of rich information about consumer situations, which may include information about fuel poverty as well as broader vulnerability. These organisations also have opportunities for intervention and engagement not available to energy suppliers.

In many situations, using trusted intermediaries as a source of data and as referral sources is sensible and beneficial. On balance though, we are not persuaded that this would be appropriate for a safeguard tariff. Intermediaries that encourage and support consumers to switch supplier or secure a better tariff with their current supplier will continue to do so. We anticipate that suppliers will continue to offer cheaper tariffs than the safeguard tariff and that this will be the best advice for such consumers. Using voluntary sector organisations as a source of data brings additional potential problems, including unfunded costs for those organisations, so we caution against any significant reliance on the voluntary sector to deliver these specific proposals.

Question 4: What are your views on our proposal for all suppliers to be required to provide safeguard tariff protections to vulnerable consumers? What impact would this have on suppliers? Please provide evidence to support your views.

We strongly support the proposal that all suppliers should be required to provide safeguard tariff protections to vulnerable consumers. So far as possible, this should be on a consistent basis so that every supplier must adhere to the same objective scheme standards. It cannot be right that consumers get a different level of protection depending upon which supplier they have as this undermines the point of the scheme. It is also potentially likely to undermine consumer confidence and diminish engagement. As a consumer organisation we are unable to comment on the impact on suppliers.

Question 5: What are your views on our proposal regarding the tariff types and meter types our extended safeguard tariff protections would apply to?

We support Ofgem's proposals for both tariff types and meter types. We have no additional comments to make on these points.

Question 6: Which of our two options for setting the benchmark component of the safeguard tariff would be most effective?

We are not in a position to comment on this question.

Question 7: Do you have any comments on the design issues for either of our two options?

We are not in a position to comment on these design issues.

For more information on our response, please contact:

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