



## ***Consumer Vulnerability Strategy 2025***

*CAP's official response to Ofgem's consultation*

June 2019

**always hope.**

Christians Against Poverty (CAP) is pleased to contribute to this important review of Ofgem's Consumer Vulnerability Strategy.

Back in 2013, the original strategy led the way in defining vulnerability as driven by individual characteristics or circumstances and the market's actions or omissions, as well as making it explicitly clear that suppliers have a responsibility to treat their customers in vulnerable circumstances with care. Since then there has been notable action for Ofgem to address in areas of detriment faced by customers in vulnerable circumstances and ensure that vulnerability is high on the agenda of all suppliers through the new principle. It is also fair to say suppliers have taken notable action in this space too and to recognise there is much good practice within the sector.

However, every day at CAP we still come face-to-face with the desperate situations many people in the UK face and are all too aware of how the support they need either does not exist or is not accessed by them. We welcome this opportunity to take stock of the progress so far and gaps that remain, and recognise the need for action in the five priority areas this review has highlighted.

The number of recommendations in the Independent Commission for Customers in Vulnerable Circumstances' recent report demonstrates how wide ranging the action we need to see across the energy sector is. We need to ensure everyone can afford the energy they need, and that those unable to make a proactive choice whilst dealing with difficult and chaotic personal and financial circumstances are not penalised.

We know the consequences of severe financial difficulty all too well: one in five of the people CAP help cut back or went without heating on a daily basis during winter; 60% have mental health problems and for 27% debt caused their relationship to completely break down.<sup>1</sup> Debt is destructive and isolating. We welcome the focus on affordability within the strategy but this is not ambitious enough. Transferring the Ability to Pay principles to rules is an important step but this needs to be combined with other action to achieve the outcomes identified in this strategy.

Vulnerable circumstances are wide-ranging and dynamic. However, it is not necessarily effective to consider each 'category' of vulnerability in individual groupings or silos. Different people are affected and deal with the same circumstances in different ways. Not to mention the fact that often there is not just one vulnerability at play. Every person's circumstances are different and although the problem they encounter may look the same, it is not necessarily the case that the solution will be.

I hope that you will find our input helpful to refine the proposed strategy so that it responds to the acute needs of people in the most vulnerable situations. We welcome further engagement with Ofgem and are happy to provide any further explanation that would be useful.



Dawn Stobart  
**Director of External Affairs**

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<sup>1</sup> CAP (2019) Client Report: changing perceptions, available at [capuk.org/clientreportpdf](http://capuk.org/clientreportpdf)

### Question 1

Do you agree with the five priority themes and the outcomes we will aim for (as set out in chapter 3-7 and annex 2)?

**The five priority themes:**

1. Improving identification of vulnerability and smart use of data
2. Supporting those struggling with their bills
3. Driving significant improvements in customer service for vulnerable groups
4. Encouraging positive and inclusive innovation
5. Working with partners to tackle issues that cut across multiple sectors

CAP agrees with the five priority themes outlined in the consultation document. We believe that these encompass the pertinent issues and opportunities highlighted by us and other consumer groups advocating for customers in vulnerable circumstances in the energy market.

In particular we welcome theme two and the focus on supporting customers struggling with their bills, as well as the proactive approach represented in theme one to using smart meter data to provide better support to customers in vulnerable circumstances. It is important to make the most of this opportunity from the outset and identify how this data can be used and put plans in place so that this proactive support is ready when the roll-out is complete.

CAP strongly welcomes the clear articulation in the consultation document that suppliers are expected to hold more data internally than Priority Service Register (PSR) data to ensure they provide a tailored approach to supporting customers in need. However, the strategy more generally fails to deliver much needed clarity about the purpose of the PSR. To support outcome 1B, the benefits of self-identifying need to be clear to consumers and at present there is a mismatch between the services provided under the PSR and the groups of customers eligible to go onto it.

It is CAP's view that a dual system is needed to allow for clarity of purpose of the PSR and provide a better offering of support to groups eligible for, but not served well by, the services on offer. In particular, a second scheme is needed to clearly articulate the support and extra care on offer to those on low incomes, facing temporary life shocks and in need of customer service sensitive to their needs, who do not typically need the practical services traditionally offered through the PSR.

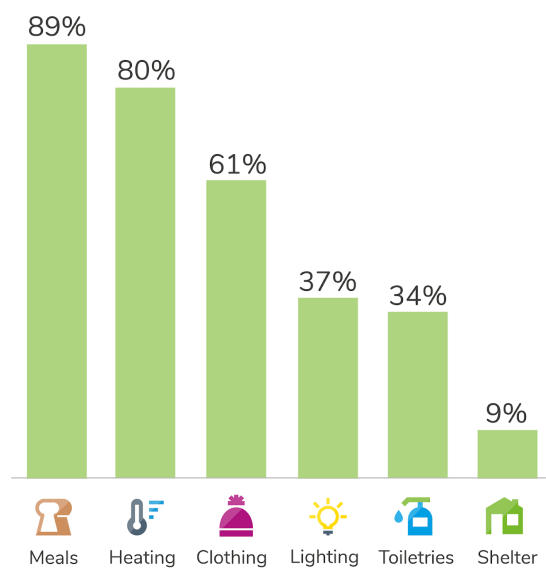
## Question 2

Do you agree with our approach on affordability? While we recognise this is a concern for many consumers in vulnerable situations, we think addressing wider affordability pressures is mainly a matter for government to address.

Energy affordability needs to be high on the agenda in the Consumer Vulnerability Strategy 2025. Recent research by CAP showed one in three (32%) CAP clients experienced destitution while in debt.<sup>2</sup> Heating is one of the two most common essentials sacrificed by low income families. 80% of destitute households went without heating and 37% went without lighting on a daily or weekly basis due to debt. As a regulator for a market delivering an essential service, Ofgem has joint responsibility with BEIS to respond to this growing need.

### *Destitution markers*

Proportion of destitute households that went without each destitution marker



CAP welcomes 'supporting those struggling with bills' being included in the five priority themes, however it is not clear how substantial improvements in this area will be achieved. It is agreed that the outcomes in this section (2A, 2B and 2C) are the right ones but there is little detail as to what plans will be in place to achieve them.

#### **Case study: unaffordable energy (1)**

A CAP had his home repossessed following getting into debt when his relationship broke down. When he contacted CAP for help he owed £57,000 in total and only had a net annual household income of £7,300. After paying his rent, council tax and utility bills (£102.60/month), he only had £30 a month left for food and all other living costs.

#### **Case study: unaffordable energy (2)**

One CAP client whose budget was unbearably tight had a learning disability and got into debt due to a mental health problem. She only received £594.45 a month to cover all her living costs and her rent alone was £428. Due to debt repayments she could not afford to pay her full rent each month. She needed to budget £60 a month to top-up her PPMs, however this would only leave her £4 a week for food. As a result, she went without energy and other essentials to survive.

<sup>2</sup> CAP (2019) Left destitute by debt, available at [capuk.org/destitutionpdf](http://capuk.org/destitutionpdf)

The Ability to Pay principles have an important role to play in ensuring consumers in financial difficulty are offered an affordable payment plan. As such, CAP supports the proposal to transfer the Ability to Pay principles from guidance to rules. However, attention needs to be paid to ensure that suppliers operationalise the principles in line with the policy intention. In CAP's experience the following inconsistencies are commonplace and need to be addressed:

- Suppliers set rigid maximum repayment timeframes (e.g. twelve months) to avoid being criticised for allowing customers to be in arrears for long periods. This approach can prevent customers in acute financial difficulty from accessing an affordable repayment timeframe.
- If income and expenditure shows that a customer's budget does not balance a prepayment meter (PPM) is offered as a positive solution despite the high risk of self-disconnection. The 'reasonably safe and practical' safeguards only protect a small proportion of customers in vulnerable circumstances and, as such, attention needs to be given as to how to make sure outcome 2B is not undermined by outcome 2C.
- There is a lack of oversight and visibility of the rate of debt repayments deducted from PPMs, which can vary substantially. More explicit guidelines are needed about what is reasonable and constitutes fair practice.

#### Case study: PPM deductions

CAP helped one client who had significant mental health problems which were the cause of his debt. He was on medication for depression, suffered from panic attacks and had attempted suicide after being visited by enforcement agents. He owed £1,850 in gas and electricity arrears and was repaying these via deductions from his PPM. Each week £10 of his £15 top-up to his gas meter, and £4 of the £10.50 he put on his electricity meter were deducted for debt. In total these deductions were more than the money he had available for food (£9.50 a week).

- Supplier's collections journeys can have 'points of no return' which prevent affordable payment plans being offered to customers who engage late in the process. It is well known that when facing difficulty, both personal and financial, customers can find it difficult to engage with suppliers. 82% of CAP clients report being scared to open the post and 76% were scared to answer the phone whilst in debt.<sup>3</sup> Once positive engagement does happen, rigid check points can stop customers in vulnerable circumstances accessing the support they need. This is especially the case where accounts are being dealt with by warrant and litigation teams.

#### Case study: PPM force-fitting

One couple CAP helped got into debt after a close family bereavement. When they contacted CAP for help, one partner was out of work and the other was working part time. They had energy arrears of £2,250 but CAP calculated they could repay all the debts they owed in one year and eight months. They entered into a payment plan with their energy supplier in February, but missed a payment in April. Despite payments resuming in May and the clients repaying a higher amount in subsequent months a warrant to install a PPM was issued in November.

<sup>3</sup> CAP (2019) *Client Report: changing perceptions*, available at [capuk.org/clientreportpdf](http://capuk.org/clientreportpdf)

The clients tried to resolve the situation with the supplier but received inconsistent answers from different staff members and could not stop the PPM installation, which caused much distress. The clients did not know how to top up the meters and the £65 credit they had on their energy account was sent back to them by cheque which left them without money to do so in the first instance. After several phone calls the supplier subsequently agreed to remove the meters. However, they did not turn up on the arranged date when the client had taken time of work to be there.

- It is problematic that the Ability to Pay principles only apply to debt repayments, as for household on low income changes to their payments for ongoing consumption can create hardship as well. We are increasingly seeing examples of customers being notified with little warning of large increases to their monthly payments by letter or email. Similar principles are needed to ensure ability to pay is taken into account for all energy payments and changes to these.

**Case study: Direct Debit increase (1)**

A CAP Client with five-year-old child got into debt whilst struggling to budget on a part time salary. She lived in a two bed property and was paying her energy bill by a Direct Debt of £60 a month. She unexpectedly received a letter informing her the supplier would be doubling her Direct Debit to £120. Living in private rented accommodation limited her ability to improve the efficiency of her home and as such she had to cut back on other essentials to cope with this increase.

**Case study: Direct Debit increase (2)**

An extremely vulnerable CAP client's energy supplier wrote to advise they were increasing her Direct Debit from £45 to £90 a month. The client was carefully living on a low income and could not afford to pay this new level. As she suffers from anxiety and panic attacks she did not feel able to speak to the supplier about her concerns. Her CAP Debt Coach rang the supplier on her behalf and received assurances they would not go forward with the increase. However, the next month a payment of £90 was taken regardless and CAP had to provide the client with food bank vouchers as a result.

Furthermore, the current price protections in place do not ensure affordability of ongoing consumption. As noted in the consultation document, low usage customers do not benefit from the price cap, and standing charges are still a big issue for those on PPMs. For too many energy remains unaffordable and we believe Ofgem has a duty of care for energy consumers which warrants a stronger response to this issue. The strategy is not ambitious enough in working towards a market where energy is affordable to all. The strategy should include an explicit commitment to take forward the Energy UK's Independent Commission for Customers in Vulnerable Circumstances recommendation that 'suppliers and Ofgem should re-examine the case for the introduction of a social tariff for particular groups of financially challenged and vulnerable customers'.

**Case study: self-disconnection**

A CAP client in his 60s had been unable to afford to gas in his one bedroom property since becoming unemployed. He instead prioritised electricity and topped up £15 a week. Over several years the standing charge on his gas PPM had built up to £400. He had not realised charges would still be applied and was shocked to find he owed such a large debt despite not consuming any gas.

There also needs to be more focus on making sure help is accessible to those struggling financially. In particular, it is imperative that suppliers provide free phone numbers to contact collection teams as many customers on low incomes only have pay as you go mobile phones and struggle to afford credit to make phone calls to energy suppliers. Ofgem should also continue to explore data sharing to remove the unrealistic expectation placed on customers in the most vulnerable circumstances to proactively engage with and apply for schemes like Warm Home Discount.

The strategy should also look for new ways to ensure customers in vulnerable circumstances receive the best tariff on offer from their supplier automatically. This is currently not often streamlined with debt conversations, despite clear benefits, and customers are not helped to navigate the complex menu of tariff choices they face even from their existing supplier. A recommended tariff option would be beneficial.

In addition, the strategy contains no reference to ensuring suppliers support the implementation of the government's breathing space scheme and statutory debt repayment plan. These schemes are important step changes in the support available to people in problem debt in England and Wales and Ofgem should ensure their approach to affordability is conducive to these schemes.

### Question 3

What more could be done through energy regulation to assist consumers in vulnerable situations in the longer term? How should any such further measures be funded?

In addition to the comments made above about how energy regulation should respond to the needs of customers struggling with their bills, customers in vulnerable circumstances could also be assisted by:

- Facilitating collaboration between suppliers and third parties by encouraging streamlined contact points, encouraging trust to reduce the burden of proof placed on customers and remove data protection blockers.
- Creating clear expectations and safeguards to govern the process of forced switching to prepay on smart meters. As this does not require access to someone's property the warrant process no longer serves as a final safeguard in a smart meter world.

#### Case study: forced switch to smart prepay

A couple and their teenage son woke up one morning in January to find they had no electricity. Subsequently they received a letter advising their smart meter had been remotely transferred from credit to prepay mode due to being £500 in arrears. The were very stressed by this and had no prior warning. CAP contacted the supplier and they agreed to switch the meter back.

- Reduce the lottery faced by customers in vulnerable circumstances requiring extra support by placing the same obligations to provide assistance on all suppliers, regardless of their size.
- Security deposits should never be required from customers in vulnerable circumstances who want to switch to a cheaper tariff to support their ability to keep up with ongoing bills and repay any debt faster. A security deposit should also never be demanded from a customer who becomes formally insolvent to allow them to continue paying by Direct Debit.

#### Case study: security deposit

A CAP client who got into debt due to a long-term illness and living on a low income was paying £50 a month via PPMs for her gas and electricity. She received £317.82 a month in Universal Credit to cover all her living costs (excluding rent) and wanted to switch to a new supplier and pay by Direct Debit to access their best tariff. The supplier asked for £125 security deposit to complete the switch due to the client's credit history which the client could not pay. She had no energy arrears at the time, only £120 in rent arrears and £500 owed to telecoms companies.

- Ensure customers in vulnerable circumstances are not left off-supply because they have no credit on their PPM for a gas safety check to be conducted. While engineers may not be instructed by suppliers, Ofgem should ensure this forms part of gas supplier's obligations under the vulnerable principle and ensure they facilitate a way for engineers to carry out safety checks when the PPM is out of credit or notify the supplier if they have capped the customers gas supply so that they can take steps to reconnect them.



**Case study: gas safety check**

A man in his 60s contacted CAP for help after living without heating or light in his property for four years. The client was wheelchair bound and had a terminal illness. His gas supply had been capped in his property the year before because a gas safety check could not be carried out as there was no credit on his meter. The standing charge had still been accruing as the supplier did not know his supply had been capped. Once CAP contacted them they arranged for him to be put back on supply and wrote off the accrued standing charge.

**Question 4**

Do you agree with our proposals for the first year of the strategy?

CAP agrees that considering formalising Ability to Pay principles in the Ofgem rulebook and strengthening protections from self-disconnection on PPM are priorities for action in the first year of the strategy. In addition to consulting about proposals for the further energy retail market, it should also be a priority to consider how the loyalty penalty can be reduced in the short-term too.

CAP does not agree that it is important to create an analytical framework and update the 12 household archetypes. Consumer's situations are diverse and fluid. One in two CAP clients face three or more additional difficulties on top of their debt problems, and 23% face five or more.<sup>4</sup> Using frameworks like this risks artificially simplifying the complex reality of living in vulnerable circumstances and the situations of those in the most vulnerable circumstances, who typically do not engage in user research, being missed.

Broadly speaking it is known which demographics face financial struggles or additional challenges because of their circumstances and it is more important to identify specific households that are struggling than theoretical groupings. Instead CAP would encourage Ofgem to focus on identifying the types of needs customers in vulnerable circumstances have and seek to lower these barriers. Building a framework that describes people's needs (which cut across categories of circumstances) at different points is an inclusive and solution-driven approach. The DWP have recently embraced this approach and identified barriers faced by customers in vulnerable circumstances accessing their services in the following categories; access, daily life, communication, connections and availability of resources.

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<sup>4</sup> CAP (2019) Stacked Against, available at [capuk.org/stackedagainstpdf](http://capuk.org/stackedagainstpdf)

## Requests for further information

This response has been written by Rachel Gregory, Social Policy Manager for Christians Against Poverty (CAP), with contributions from:

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Christians Against Poverty (CAP) is a nationally recognised charity that works with over 500 churches to help the most vulnerable out of poverty across the UK. The services provided offer both practical and emotional support, are completely free and are available to all, regardless of age, gender, faith or background.

Through a network of 293 CAP Debt Centres, CAP offers a free face-to-face debt management service, with advice and ongoing support provided from head office. In addition to this, CAP provides face-to-face adult financial education across the UK in partnership with 645 churches who run the CAP Money Course. This is a three-week money management course, which equips over 6,500 people each year to budget, save and spend wisely.

CAP has also recently expanded to tackle more causes of poverty. To this end, CAP now operates 124 CAP Job Clubs, 60 Fresh Start groups to tackle life-controlling dependencies, and 120 CAP Life Skills groups to empower members with the essential skills and support they need to live on a low income.