

Microbusiness Strategic Review

Event 3: Broker Conduct Principle, Informed Contract Choices and Commission Transparency



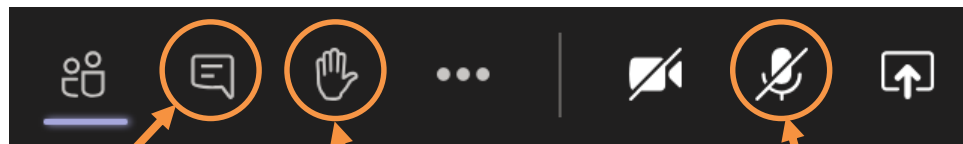
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|---------------|---|
| 13:00 – 13:10 | Introductions and house rules |
| 13:10 – 13:15 | Broker Conduct Principle policy overview |
| 13:15 – 13:35 | Broker Conduct Principle discussion on key topic |
| 13:35 – 13:40 | Commission Transparency and Informed Contract Choices policy overview |
| 13:40 – 14:00 | Commission Transparency discussion on key topic |
| 14:00 – 14:15 | Discussion on additional topics |
| 14:15 – 14:20 | Wrap up and close |

This event is designed as an opportunity for stakeholders to provide views to help inform Ofgem's policy thinking. When providing views we ask that you adhere to the following rules:

- Please **stay on mute and turn your video off** until the moderator requests that you unmute yourself.
- During the discussion on key topics, if you would like to contribute then please **'raise your hand'** using the feature in MS Teams.
- Please **try to be concise** so that we can give as many people the opportunity to contribute as possible.
- After you have finished speaking please **mute your microphone again and 'lower your hand'**.
- Be courteous and respectful to other participants.

We will try to give everyone an opportunity to contribute but if we run out of time then please feel free to get in touch with us to arrange a bilateral.



Open chat box

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- Following concerns that the market is not working well for some microbusinesses we launched the review in May 2019 with the goal that:

“Microbusiness’ needs and preferences are met by the market, that they can access competitive offerings and that they are adequately protected where necessary.”

- We then took steps to better understand and assess the issues faced by microbusinesses.



- Following this we prioritised the areas of harm according to their scale and severity before developing a package of policy proposals to address these.
- We are now seeking views on these proposals via our consultation which closes on the 23rd Oct as well as during these events.

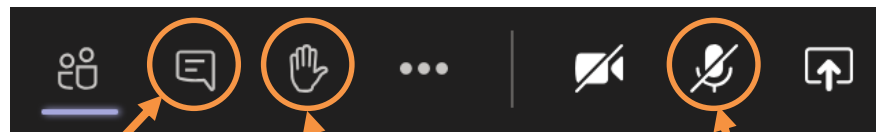
Broker Conduct Principle

- Our review identified:
 - **Dissatisfaction with the provision of some brokerage services and the practices of some brokers** resulting in microbusiness agreeing expensive contracts or paying for services they hadn't signed up for.
 - Evidence of some **brokers charging overly high commissions/commission being 'hidden'** in supplier bills. Other poor practices include misrepresenting market coverage or range of suppliers that are being represented.
 - **Potentially fraudulent practices** being committed such as forging LOAs or CoTs.

To address these issues we propose:

- Introducing a supply licence condition **requiring suppliers to ensure brokers they work with conduct themselves appropriately**. To achieve this we propose extending relevant parts of the existing 'Standards of Conduct' to brokers.
- We envisage suppliers building on the assurance frameworks they already apply when working with brokers to make sure appropriate standards of conduct are met.
- As well as being deliverable in the near-term and being feasible for all parties to implement, we believe this principles-based approach will provide a framework to help guide suppliers and brokers towards delivering positive consumer outcomes, underpinned by a robust monitoring, compliance and enforcement model.

- 1. Discussion on the rationale behind our policy proposal. Are the criteria we've considered most appropriate? Are there others?**
- 2. Discussion on whether there are alternative approaches to ensuring appropriate broker conduct (e.g. voluntary TPI codes of practice) that could be equally or more effective.**
 - If you would like to contribute then please **'raise your hand'**. Please **stay on mute** until the moderator requests that you unmute yourself.
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Commission Transparency

- Our review identified that some microbusinesses are **unaware of broker costs** which can be very high relative to the cost of the energy supply
- This is impairing the ability of some microbusinesses to make **informed choices about a contract offer** and assess the value of services offered by brokers

To address this:

- We have **clarified the existing licence obligation** on suppliers to **include broker commission costs within the Principal Terms**
- We propose **strengthening existing licence obligations** on suppliers by introducing a new requirement to provide information about broker commission payments on **contracts, bills, account statements, and at the request of the microbusiness customer.**

Informed Contract Choices

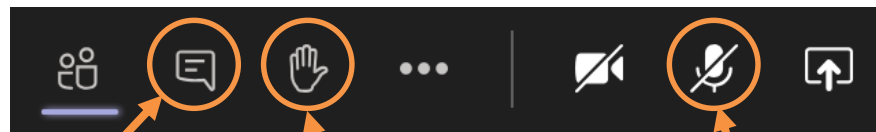
- Our review identified **poor sales practices by some brokers** when engaging with microbusiness customers
- **Complex and opaque contract compositions** are hard to comprehend, making it difficult to make like-for-like comparisons
- Collectively these issues are impacting a microbusiness consumer's ability to make an **informed choice about a contact offer**

To address these issues we propose:

- Applying **targeted sales and marketing rules** to suppliers and brokers they work with via supply licence changes

1. Presentation and frequency of commission disclosure

- If you would like to contribute then please **'raise your hand'**. Please **stay on mute** until the moderator requests that you unmute yourself.
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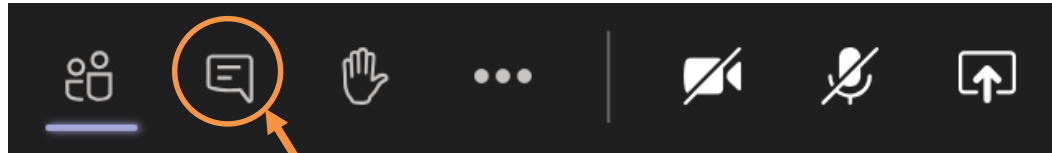


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- Please contribute via the chat box, this will allow us to group comments to make best use of time.



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We want to hear from anyone interested in our consultation and proposals and would welcome a formal response.

Please send your response to CDconsultations@ofgem.gov.uk, or via Survey Monkey, by close on **23 October 2020**.

Subject to responses we intend publishing a statutory consultation in winter 2020/21 and for changes to be implemented later in 2021.

Thank you for your participation

Ofgem is the Office of Gas and Electricity Markets. We are a non-ministerial government department and an independent National Regulatory Authority, recognised by EU Directives. Our role is to protect consumers now and in the future by working to deliver a greener, fairer energy system.

We do this by:

- **working with Government, industry and consumer groups to deliver a net zero economy at the lowest cost to consumers.**
- **stamping out sharp and bad practice, ensuring fair treatment for all consumers, especially the vulnerable.**
- **enabling competition and innovation, which drives down prices and results in new products and services for consumers.**