

StepChange Debt Charity response to the Department for Business Innovation & Skills' call for evidence on improving the consumer landscape and quicker switching

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StepChange Debt Charity
London Office, 6th Floor, Lynton House, 7-12 Tavistock Square, London WC1H 9LT
Policy Contact: Alison Blackwood
Tel: 0207 391 4583
Email: Alison.Blackwood@StepChange.org

We are an independent charity dedicated to overcoming problem debt. Our advice and solutions services are effective, tailored and importantly, free. Foundation for Credit Counselling Wade House, Merrion Centre, Leeds, LS2 8NG trading as StepChange Debt Charity and StepChange Debt Charity Scotland.

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Introduction

StepChange Debt Charity welcomes the opportunity to respond to this Department of Business, Innovation & Skills call for evidence on improving the consumer landscape and quicker switching.

StepChange Debt Charity is the largest specialist debt charity working across the UK. In 2015 over half a million people contacted our free telephone helpline or on-line debt remedy tool for advice and support on problem debt. As a result we have considerable experience in dealing with consumers who are vulnerable through financial difficulty.

StepChange Debt Charity clients' experiences of the energy market

The number and proportion of people StepChange Debt Charity has seen with gas and electricity debts has grown in recent years. In 2011 we saw 22,118 people with gas and/or electricity arrears, around 8% of our clients who were responsible for a gas and/or electricity bill. In 2015 this had risen to 71,377, around 13% of our clients. In 2015, 77% (123,894) of StepChange telephone clients paid more than 10% of their income towards electricity and gas¹.

Looking at a sample of just over 160,000 people who contacted StepChange Debt Charity in 2015 by telephone demonstrated that clients with fuel debts were more likely to be vulnerable.

- People with fuel debts were more likely to be on lower incomes and in receipt of means tested, incapacity and unemployment benefits: 64% of those with fuel debts compared to 46% of those without fuel debts.
- StepChange clients with fuel debts were more likely to have children: 52% of those with fuel debts compared to 39% of those without
- Our clients with fuel debts were more likely to be in receipt of (or a household member to be in receipt of) disability and incapacity benefits: 24% compared to 17% of those without fuel debts.

¹ the measure of fuel poverty formerly used in England and currently used in Scotland and Wales

Specific problems raised by StepChange Debt Charity clients this year concerning energy suppliers provide additional evidence of poor consumer outcomes and the need for better access to redress in this sector. Issues reported by our advisers have included: incorrect billing, poor customer service and communication, difficulty in switching energy suppliers and problems caused as a result of switching (see Appendix 1 for examples of complaints provided by StepChange Debt Charity advisers between January and May 2016).

StepChange Debt Charity clients' experience of the water sector

In the water sector an even higher proportion, 24.2% of our clients, had water bill arrears in 2015. The average amount of arrears per client was £704.

Again, problems raised by StepChange Debt charity clients this year show consumers, who are already in financial difficulties, experiencing problems with water suppliers. Issues reported to our advisers included: causing unnecessary stress by refusing to accept affordable payments towards water bill arrears, lack of, or poor, communication with customers, inaccurate billing and poor treatment of vulnerable clients (see Appendix 1 for detailed examples).

StepChange Debt Charity clients' experience of the communications market

StepChange Debt Charity clients continue to tell us about their problems with communication providers. Issues reported in 2016 included: poor customer service, problems with communications and information provision, poor treatment of vulnerable customers, difficulties with cancelling contracts, confusing pricing structures and bills, passing wrongly attributed debts on to debt collection agencies and low quality or no service for which customers were still being charged the full rate (see Appendix 1 for detailed examples).

A May 2016 survey of StepChange Debt Charity telephone clients found that 32% said they had been treated unfairly by a mobile phone company.

StepChange Debt Charity clients' experiences across consumer markets

Evidence suggests that the majority of UK consumers do not switch providers in the main regulated markets even when this would save them money². StepChange Debt Charity clients are particularly vulnerable consumers, who are more likely to have poor mental and physical health³. They already face constrained choices, as a result of their debts, exacerbated by creditor action demanding repayment, are significantly less able to advocate for their own interests and are more likely to suffer harm than the average consumer, while having little resource to complain⁴.

StepChange Debt Charity clients' complaints about suppliers in 2016, highlight how markets are not always working well for these financially vulnerable consumers. High street banks and utility companies were the creditors that received the most client complaints between January and May 2016. Issues raised across consumer markets included misleading advertising, confusing tariffs, inflexible contracts, difficulty in claiming refunds and cancelling contracts, lack of support and inappropriate treatment of the most vulnerable consumers and failed, complicated and time-consuming switching processes.

² Costa, E., King, K., Dutta, R. & Algate, F. (2016) Applying behavioural insights to regulated markets London: Behavioural Insights Team & Citizens Advice

³ Mind (2008) In the red: Debt and mental health

⁴ Financial Conduct authority (2015) Occasional paper No. 8: Consumer Vulnerability

Responses to consultation questions

Q1. Are there problems with the current provision and routes to advice and information for consumers in these sectors [energy, communications, water and transport]?

Q2. If yes, what are these problems and how can provision be improved?

The evidence provided in Appendix 1 suggests that the energy, communications and water markets are not always working well for financially vulnerable consumers. This highlights the need for consumers to have easily accessible advice and information.

Our experience of dealing with the multi-faceted needs of financially vulnerable consumers suggests that a strategic approach is needed to ensure consumers get the support and information necessary to meet their needs from providers in all these markets. Sector regulators should have a clear mandate to encourage and support co-ordination between advice providers, firms and other stakeholders. This could focus efforts to raise awareness on consumer rights and responsibilities; support consumers to search for best deals and switch; and provide support and advocacy for consumers experiencing problems and seeking redress.

In the case of clients facing financial difficulties, lack of advice and information may worsen the situation and increase their likelihood of falling into debt. More resources need to be dedicated to publicise the advice and information services that are currently available to help consumers, and the provision of these should be further simplified for easy accessibility.

Q3. Are there problems with the way that consumers are represented in these sectors [energy, communications, water and transport]?

Q4. If yes, what are these problems and how can it be improved?

The problems that StepChange Debt Charity clients continue to report to our advisers across the energy, communications and water markets suggest that sector regulators are not yet fully addressing the issues faced by consumers, in particular for those who are vulnerable. A *better markets* strategy needs to consider how sector regulators and statutory consumer advocacy organisations can be better equipped to understand the problems faced by different consumer groups.

It is important to provide a number of channels through which consumers can be represented. Though online channels are cost effective, it should not be forgotten that social networking is used by only 61% of adults in Great Britain and in 2015 14% of households still did not have internet access⁵.

Particular support should be provided to ensure that the most vulnerable consumers can be engaged and their needs addressed. In some cases this may be supported by regulators and statutory consumer advocates working with organisations that give advice and support to consumers facing problems in these markets. . All consumer advocate organisations should have a clear strategy detailing and demonstrating how vulnerable consumers are represented.

Q5. Are there problems with the current provision of ADR in these sectors?

Q6. If yes, what are these problems and how can provision be improved?

Current provision of Alternative Dispute Resolution (ADR) remains complex and confusing, with different rules for different sectors. Some forms of ADR are charged for, while others are not. It is difficult for consumers to decide whether binding ADR decisions that subsequently prevent them taking their case forward through court action mean that ADR is the best choice for them, and again binding ADR decisions only apply to some sectors and not others, confusing the issue further.

Access to free ADR is particularly important for financially vulnerable consumers who will not be able to access other forms of redress. ADR should also allow the consumer to challenge the matter further if they feel the result is wrong, should rule on enforceable awards, publish its decisions to provide information on markets and pass its intelligence on to the relevant regulator. The Financial Ombudsman Service model might provide a standard for other sectors. It is free for consumers, binding on firms, its award decisions are enforceable by consumers, it publishes decisions to inform market conduct and it has a clear relationship with the sector regulator.

Q8. Is there scope to make consumer complaints data in these sectors easier to access and more widely available?

Q9. If yes, how can this be achieved and what protection should be included?

⁵ ONS (2015) Internet access: households and individuals

Publishing complaints data can help improve the market. Sector regulators should therefore work to ensure that consumer advocate organisations are aware of issues coming through their complaints data.

Advice organisations that collect complaints data from vulnerable consumers should also be able to share this with regulators to assist them in identifying areas of consumer detriment. Regulators should, therefore, review their strategies for gathering intelligence from advice organisations and look at ways to support and enhance the capacity of these organisations to provide them with standardised anonymous data, which can help them identify and deal with problems in the market.

Q10. What new opportunities or risks for businesses, workers and consumers would be created if they were able to port their reputation and feedback data between platforms?

Q11. What are the barriers to doing this?

Reputation and feedback data can play an important role in helping consumers to make better informed decisions. They offer particular opportunities in helping people to make decisions about purchasing goods or services that they have not purchased before, improving the speed and confidence of consumers' decisions, boosting competition between businesses and so improving the value, quality and reliability of such goods and services for consumers.

However, research by the Competition & Markets Authority⁶ has also highlighted the risks of using reputation and feedback data, including businesses writing or commissioning fake positive reviews, competing businesses writing or commissioning fake negative reviews and businesses cherry picking only positive recommendations and feedback. All such "gaming" of the system risks misleading consumers, distorting the decisions they make, and so increasing consumer detriment. These sorts of practices breach the Consumer Protection from Unfair Trading Regulations 2008 and the UK Advertising Codes, suggesting that if businesses, workers and consumers were able to port their reputation and feedback data between platforms there would need to additional enforcement activity to ensure this met these standards.

⁶ Competition & Markets Authority (2015) Online reviews and endorsements

Q12. What more can be done to get consumers their money back and give them information on a business' past performance when consumers have suffered detriment in these sectors?

Q13. How can this be achieved?

Financially vulnerable consumers will often not have the resources or capacity to challenge firms, complain about poor treatment or seek redress, particularly through the courts. Well publicised, easily accessible, free to the consumer, ADR would help more people who have suffered detriment to get their money back. But regulators should also have a proactive role in organising redress for consumers in cases where there are widespread problems with a particular firm, practice or product. A *better markets* strategy cannot rely solely on consumers, and vulnerable consumers in particular, to challenge firms in a way that brings better market outcomes.

In addition to helping consumers get their money back, more needs to be done to prevent consumers experiencing excessive charging practices in the first place. People struggling with severe financial difficulties can face significant additional interest and charges added to their bills. In the case of StepChange Debt Charity clients who face multiple arrears, our evidence suggests that often these additional charges can make it even more difficult to pay off their debts.

StepChange Debt Charity has argued that customers who face financial difficulties should be given a period of “breathing space” protection where their creditors would freeze further interest, charges and enforcement action. In May 2016 68% of our telephone clients surveyed stated that charges added to their debts had made their debt problems harder to deal with; while 62% told us that fees and charges had continued to be added to their debts even when they had told the creditor that they were in financial difficulty. In 2015, 60% of our surveyed clients told us that their financial situation stabilised once creditors agreed to freeze further charges and enforcement action. Tellingly, however, none of our surveyed clients who said that they did not get this help reported that their finances had stabilised⁷.

This suggests that an additional way to address the current gap in redress between consumers and suppliers would be to reduce the additional costs financially vulnerable consumers face. Supporting consumers to recover control of their finances would help reduce the stress and anxiety experienced by people facing

⁷ StepChange Debt Charity (2015) Safe Harbours

financial difficulties and improve their capacity to participate more effectively in markets for essential services like fuel, water, transport and communications.

Q.14. What would be the benefits and drawbacks to consumers of quicker (7 day) switching?

Q22. What would be the advantages and disadvantages of ending all administrative fees for switching?

Evidence suggests that despite much public and consumer organisation resource being concentrated on helping consumers to switch suppliers, only a minority of UK consumers take advantage of the financial benefits offered by switching providers. In 2013 only 27% of consumers switched their vehicle insurance provider and only 9% switched the providers of their bank account⁸. This is despite the fact that many would see a financial benefit if they did so. The Department for Energy & Climate Change estimates that 9.5million consumers could save over £300 (savings of £85 for electricity and £215 for gas) by switching their energy tariff or supplier, but don't do so⁹.

The current focus on switching to improve markets for consumers ignores the impact on those who do not take up switching opportunities that would be to their benefit. These customers often continue to receive lower quality and more expensive goods and services¹⁰. They are more likely to be vulnerable and/or in financial difficulty, but presently there is little incentive for their suppliers to improve, or reduce the cost of, the goods or services they continue to pay for¹¹.

Consumers are also often confused by the data provided to them and the difficulties of the switching process itself. European research found that only 23% of electricity switchers felt they had made a significant saving by switching and only 59% felt they had made any saving at all. One in five energy switchers ended up actually paying more¹². In the communications market, of the 62% of broadband users who had tried

⁸ Costa, E., King, K., Dutta, R. & Algate, F. (2016) Applying behavioural insights to regulated markets London: Behavioural Insights Team & Citizens Advice

⁹ Department of Energy & Climate Change (2016) Many households could save around 200 per year through switching energy supplier: basis for claim

¹⁰ Costa, E., King, K., Dutta, R. & Algate, F. (2016) Applying behavioural insights to regulated markets London: Behavioural Insights Team & Citizens Advice

¹¹ *ibid*

¹² Gill Wales Research (2014) Consumers' engagement with markets and the implications for their use of their time: review of existing research: London, Citizens Advice

to compare internet providers, one in three said the process had been complicated and, in an experiment, some consumers failed to understand the difference between internet download speeds and download limits, which led them to them thinking they needed to switch to more expensive deals¹³.

Switching providers is not an option for many StepChange Debt Charity clients, whose levels of arrears often mean that they can't change their providers, even though a cheaper deal may allow them to pay off their debts more quickly. Quicker switching and an ending of administrative fees for switching would, therefore, only offer benefits to a minority of consumers at the present time, and could possibly further financially disadvantage those in debt who cannot take advantage of switching opportunities.

So a strategy to ensure *better markets* needs to focus on meeting the needs of those consumers who face significant barriers to switching, and as a result get left behind.

Q26. What are the benefits and drawbacks to consumers of rolling over contracts?

Q27. Should any renewal paperwork sent to consumers always include reasons for any cost increases?

Q28. Should any renewal paperwork sent to consumers always include the price that would be offered to a new customer in exactly the same circumstances?

Q29. Are any changes needed to ensure that all 'lock-in' contracts have a fair and clear exit price?

Q30. What difficulties exist for consumers who want to cancel a contract?

Q31. It can be difficult to unsubscribe to services we have signed up to by email. Should we always be able to unsubscribe with just one click?

Rolling over of contracts, unexplained cost increases on contract renewal, lower prices for new customers that are suddenly hiked up later, "lock-in" contracts with hidden exit prices, other difficulties in cancelling contracts or unsubscribing to services all currently disadvantage consumers and favour market distortion by suppliers. Evidence highlighting the negative impacts of each of these issues for StepChange Debt Charity clients is set out in Appendix 1. These add to the difficulties our clients face and can lead them into further debt.

¹³ *ibid*

The current focus of regulation on competition and supply side issues means that consumer detriment to the most vulnerable is still often not addressed. The Better Markets Bill is an opportunity to introduce legislation to ensure that regulators also measure and improve levels of customer satisfaction and the quality and value of goods and services provided, with a particular emphasis on the needs and experience of the most vulnerable consumers. This legislation could also ensure that the information provided to consumers is simplified and provided at an appropriate time (for example, at the time annual contracts are renewed). Regulators should have stronger powers to enforce fair treatment of the most vulnerable consumers.

Regulators should also work more closely with, free and independent consumer advice services and support them to provide complaints and other data. This would be an additional way to ensure better regulation with a stronger focus on reducing consumer detriment and protecting vulnerable consumers.

Appendix 1

Examples of complaints about the energy sector reported to StepChange Debt Charity advisers in 2016

Client has had issues with her key meter as her account arrears cannot be agreed with her energy provider, and they have not dealt with her situation effectively. Client has had to spend up to three hours a day trying to sort out her account. Her provider has offered some compensation at times, but client really wants the account balance to be finalised so that she knows where she stands.

Client had been using a pre-payment meter to pay for his energy for several years with no debt on this. Client recently switched his energy provider but has received a bill from his previous supplier, to whom he thought he owed nothing, of over £100. Client has been advised the bill arose due to the previous supplier not providing a meter reading, which has nothing to do with the client as he was a pre-payment meter customer.

Client has received an unusually high bill from his electricity supplier and is unhappy with their handling of his efforts to find out why and pay it off. Client was told he was unable to switch his electricity supplier because he had been in arrears for over 28 days as a result of this dispute. Client feels that there is something wrong with the bill but has complained twice and not been given a satisfactory answer and feels that the supplier has also given incorrect information. Client is able to pay the bill in full within the next month but as the supplier has not explained why the bill is so high he feels he will get another bill for the next quarter which will be equally as high, with no explanation as to why this has suddenly increased.

Client has been in financial difficulty following unemployment and felt her energy supplier had not supported her in anyway. Client has been trying her best to offer payments but told us that her energy supplier has rejected amounts of up to £100. Her debt had been sent on to a debt collection agency, who advised her that they wouldn't try to collect any payments because she was unemployed. They passed the debt back to her energy supplier, who then passed it on to court and forced entry to her property to install pre-payment meters. A £730 charge was added to her bill to cover the court fees.

Examples of complaints about the water sector reported to StepChange Debt Charity advisers in 2016

Client unhappy with their water company as they will not accept lower payments towards his water bill arrears, although these payments are the most he can afford.

Client expressed dissatisfaction with his water company because his tariff is a lot higher in his new property than it was in his previous property which was much bigger. Client explained that he has tried to get an explanation or breakdown of the billing from his water company, but he has found them to be very unhelpful, and they have not provided this.

A relative phoned on behalf of a StepChange client. She was dissatisfied with his current water supplier, who was taking £27 per week from her relative's Employment & Support Allowance benefit payments. The relative claimed that the alleged water bill arrears were a mistake because the water company had made some mistakes with the billing.

Examples of complaints about the communications sector reported to StepChange Debt Charity advisers in 2016

Client has advised she is unhappy with the service from her telephone and broadband provider. She does not feel they answered her questions and she was continually transferred between different departments. Client does not feel she was given any correct answers by the service provider and kept getting cut off. Client cancelled her contract in October, because of this lack of customer support but has since received two bills, one of £426 for which the company has provided no explanation and she is disputing.

The client complained about a mobile phone contract. The client said she hadn't been made fully aware of the call charges and cancellation terms when sold the contract. When she asked to cancel the contract because of the high call charges, the provider advised she could only do this if she paid the full balance for the contract in one instalment.

Caller contacted a telephone company on behalf of a person he was caring for to update them of the person's circumstances (they were in hospital). The telephone company then added the carer's name to the account without his knowledge. The person he was caring for has subsequently died and the telephone company has sold their debt to a debt collection agency, which is now attempting to collect the debt from the carer.

Client has been told that she has a debt with her previous mobile phone company. Her phone had appeared to stop working and the client, therefore, cancelled her contract with this mobile phone company. She informed them that she wouldn't be paying for the services because the services weren't working. However, around one year ago, the client received a letter from a debt collection agency saying that she still owed money for this mobile phone contract. She made a complaint. She followed the correct procedures and decided to get in touch with the Ombudsman. However, she hasn't received any correspondence back since. The debt collection agency have now contacted her for the full amount they claim she owes, which she is unwilling to pay as she feels she does not owe this money.

Client hasn't received the service he paid for from his broadband provider, as the client was promised broadband download speeds of 20mb and upload speeds of 17mb. The client has reported this to the broadband provider and to Ofcom. The broadband provider has subsequently diagnosed a fault on the line and advised the client that he would need to pay for this to be rectified to receive the broadband speed he had paid for. The client refused to pay the bill and is now at a point where the broadband provider is claiming that he owes almost £200 and has threatened him with disconnection if this is not paid in full.

Client was contacted by her mobile phone provider towards the end of a contract she had with them; they asked if she wanted to continue or to end contract. She chose to end the contract. She then received a bill from the mobile phone provider for over £400, which they stated was the cancellation charge and this was taken from her bank account. She contacted the mobile phone provider, who agreed that they had made a mistake and would put it right. Seven months later the client was contacted by a debt collection agency which told her that the mobile phone provider had passed this debt on to them and she still owed the money. Client contacted the mobile phone provider's complaints department. She claims they were very rude to her and unhelpful. The complaints department told her that as the debt was no longer with them she could not make a valid complaint.

A caller rang on behalf of his brother, who was a client. The brother had been contacted by a telecoms company about switching his telecom services to them. The brother didn't actually go through with this and no service was provided, but the telecoms company continued to frequently contact the brother for payment. The brother was never told what this payment was for, but the constant phone calls got so bad that he paid anyway just so they would leave him alone.