

Consultation Response



Proposals for a new Consumer Vulnerability Strategy

StepChange Debt Charity consultation response to
Ofgem

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We are an independent charity dedicated to overcoming problem debt. Our advice and solutions are effective, tailored and importantly, free. Foundation for Credit Counselling. Wade House, Merrion Centre, Leeds LS2 8NG. Company No 2757055. Charity No 1016630. www.stepchange.org

Introduction

StepChange Debt Charity is the UK's largest specialist provider of free, independent debt advice. In 2011, we were contacted by over 370,000 indebted consumers, and helped clients repay £312 million. The charity currently manages over £3.7 billion worth of unsecured problem debt.

We are supportive of Ofgem's work. Fuel arrears are increasingly a problem for our clients. A survey of our clients this year showed 68 percent were finding it more difficult to keep up with energy bills. Over the last four years the proportion with arrears on either gas or electric bills to their existing supplier has increased from less than seven percent to eleven percent. The value of arrears has increased as well, with the average StepChange Debt charity client with fuel arrears owing £664 in 2012. Three percent of clients have debts with previous suppliers of around £850.

| | 2009 | 2010 | 2011 | 2012 Q1-3 |
|--|------|------|------|-----------|
| Proportion of clients with fuel arrears | 6.8% | 7.1% | 8.2% | 11.0% |
| Level of arrears | £537 | £596 | £592 | £664 |
| Proportion of clients with debts to former suppliers | 2.9% | 2.3% | 2.6% | |
| Level of debt to former suppliers | £798 | £895 | £841 | |

In addition, the charity's Social Policy network, made up of highly experienced advice staff, reports some problems with utility company's treatment of customers, as well as problems with debt collection agencies employed by energy providers.

StepChange Debt Charity advised a client who had a debt to a large energy company. She informed the adviser the company's collection staff was rude, 'nasty' and the client felt bullied. This was for a debt of £250.

A StepChange Debt Charity client was recently contacted by debt collection agency, regarding an outstanding gas bill. The client has two disabled children and the agency was disputing the amount that she has to spend on them for clothes.

StepChange Debt Charity believes that overall the proposals contained in the Consumer Vulnerability Strategy are positive and will benefit the general public. The overarching strategy themes are excellent, although we are recommending one addition specifying better communication practices. We believe the nuanced approach to the concept of vulnerability, focussing on the effect of changing

circumstances rather than membership of specified groups, is also correct, and StepChange Debt Charity evidence on vulnerability confirms it is the right approach.

However, in this response the charity would like to draw attention to some issues Ofgem and suppliers should be aware of when dealing with vulnerable customers. Suppliers should be sensitive to the effect unsecured debt can have on family finances and how poor debt collection practices, including misuse of Continuous Payment Authority (CPA), can have a severe impact on households. We also raise questions surrounding the use of credit referencing.

Question 1: Do our proposed Strategy themes provide an accurate reflection of the work Ofgem should be doing to help protect consumers in vulnerable positions?

The strategy themes contained in the consultation document contain a good base from which Ofgem can protect the needs of vulnerable consumers. We are particularly in favour of theme one, **developing targeted and effective regulatory obligations**. Another regulator, the OFT, recently stated in an interim report of the payday lending industry, “there appear to be higher levels of compliance where the statutory requirements...are more prescriptive...in areas where....obligations are mainly set out in guidance, compliance is lower.”¹

The key issue is whether Ofgem is in a position to gather evidence of regulatory breaches, or areas in which new regulation is needed. The new Consumer Vulnerability Network should help provide this, and it is crucial that contributors are in a position where they can gather useful evidence. We welcome the approach taken by Ofgem, which is seeking to involve both national and grassroots organisations with direct consumer contact. However, it may also be useful to have in place a mechanism where organisations can feed in evidence outside of the Network structure, and a simple way for consumers to feed evidence to Ofgem directly, this perhaps could be via a dedicated section of the organisation’s website.

One theme we would suggest is missing and could be incorporated into the final document is that of adequate communication. Qualitative research commissioned by StepChange Debt Charity from the Personal Finance Research Centre (PFRC) at the University of Bristol drew attention to the vulnerable position consumers often find themselves in when facing financial difficulty². This was an issue acknowledged by Ofgem’s Retail Market Review (RMR), which drew attention to a general lack of trust in the industry, arising from poor consumer experience³.

Ofgem’s approach to the issue is positive, recognising the need for clearer information about products, prices and available savings. However, as the RMR

¹ http://www.oft.gov.uk/shared_of/business_leaflets/general/OFT1466_PL_Rev_Interim_Rpt.pdf

² http://www.stepchange.org/Portals/0/Documents/media/reports/Bristol_Report.pdf

³ <http://www.ofgem.gov.uk/MARKETS/RETMKTS/RMR/Documents1/The%20Retail%20Market%20Review%20-%20Updated%20domestic%20proposals.pdf>

pointed out, not all suppliers have taken steps to improve their interactions with consumers, and more needs to be done to engage the least active consumers. We believe a way to address this would be a sixth theme for the Consumer Vulnerability strategy, **‘ensuring communication between suppliers and customers is clear and enables individuals to make choices that are in their best interests’**.

Communication on financial difficulties is an important example of this. Such communications should come early, to prevent problems growing, and inform customers of their options when it comes to debt advice. It should be sensitive to the stress many people feel when faced with money worries. When contacting people about debt collection, firms also must be sensitive not to create mental distress.

Question 2: Do you agree with our proposed perspective on vulnerability? Are there other risk factors or features of the energy markets that could present issues that we have not covered?

StepChange Debt Charity evidence shows that vulnerability is often the result of unexpected life changes, such as unemployment or a reduction in hours. Therefore we welcome the Ofgem approach, which recognises the importance of treating vulnerability as a set of factors, rather than a characteristic of being in a protected group. It is right the needs of groups identified by Ofgem’s statutory requirements and the Equality Act 2010 continue to be addressed. However, this should not prevent suppliers being alert to vulnerability wherever it occurs. They should be particularly sensitive to issues of existing financial difficulty and vulnerability to financial difficulty. Research commissioned by StepChange Debt Charity showed that three million households in the UK are in financial difficulty and a further 3.2 million in danger of financial difficulty⁴.

One of the problems facing consumers approaching the charity is that, due to a sudden drop in income, they have a negative budget surplus, spending more each month than they take home. For StepChange Debt Charity clients who have energy arrears, 38 percent have a negative budget. We are aware that the majority of suppliers are ending their social tariffs in anticipation of the warm home discount scheme. We are concerned that in some cases this may result in households receiving less of a discount that they did previously⁵. These clients have great difficulties meeting bills, and we wonder whether Ofgem is investigating the possibility that consumers in similar position may benefit from access to a new social tariff.

| Reasons for debt | |
|-------------------------|-------|
| Unemployment | 24.9% |
| Reduced Income | 23.2% |

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http://www.stepchange.org/Portals/0/Documents/media/reports/additionalreports/Summary_Debt_and_household_incomes.pdf

⁵ <http://www.consumerfocus.org.uk/files/2010/01/Consumer-Focus-Briefing-on-the-Warm-Home-Discount-Scheme.pdf>

| | |
|----------------------|-------|
| Lack of Budgeting | 10.1% |
| Separation / Divorce | 9.7% |
| Injury / Illness | 9.5% |
| Other | 22.6% |

The PFRC research commissioned by the charity earlier this year (see above), pinpointed a set of ‘trigger points’, which households should use to recognise they may be in financial difficulty:

- Spending up to credit limits in a short space of time
- Borrowing to repay borrowing
- Borrowing to consolidate debts
- Juggling or falling behind with priority bills
- For students, remaining in overdraft even after receiving student loan
- Relying on borrowing to manage a period of unemployment, reduced earnings or ill health

We are aware that many utility suppliers use credit reference information⁶. This should enable them to have some awareness of these issues and proactively contact customers to discuss potential problems, if they have access to the relevant data.

We would raise one further issue that Ofgem may want to consider when fleshing out concepts of vulnerability with suppliers, that of unsecured debt. High levels of unsecured debt can place great strains on household finances. For one in seven of our clients, contractual debt repayments are worth more than 100 percent of their monthly disposable income. Although the charity always recommends paying priority costs before any unsecured debt repayment, suppliers need to be sensitive to the high levels of pressure that some creditors can place on individuals in an attempt to recover money owed. If households bow to this pressure it can mean they are especially vulnerable to missing utility payments. Again, increasing use of credit referencing by utility suppliers should mean they are more aware of this issue going forward.

An associated problem, of which suppliers should be aware, is one of Continuous Payment Authority (CPA) misuse. CPA is set up using a debit or credit card. By signing up, an individual authorises a creditor to take payments and the money is collected from the account linked to the card. This becomes problematic when money is taken with no account taken of the potential financial difficulties that can cause. We have seen cases of clients having money taken from accounts using CPA, resulting in them having no money left to pay priorities, such as utility bills, and falling into arrears. Suppliers should ensure they have systems in place that recognise when missed payments are the result of CPA misuse and react accordingly, by contacting the customer, discussing the reasons for their missed

⁶ <http://www.consumerfocus.org.uk/files/2011/10/Consumer-Focus-On-the-record.pdf>

payment and showing forbearance when it comes to initiating debt collection procedures.

Question 3: What is your view on whether the BSI Standard on inclusive services could provide a practical approach to adopting our perspective on vulnerability?

We support the concept of common standards on services, but any standards should be flexible in order to meet changing needs of consumers. When standards are agreed upon they should be reviewed at regular interval to ensure they are still fit for purpose.

Question 4: What are your views on other approaches suppliers and distributors could take to adopt our proposed perspective on vulnerability in practice?

In addition to the issues raised by the consultation document and earlier in this response, there are three areas we feel suppliers may want to address.

1. Referrals to free, independent debt advice

We appreciate the good work Ofgem has engaged in, promoting forbearance and reducing disconnection. The number of disconnections reduced from around 16,000 in 2003 to less than 1,300 in 2011.

However, forbearance should not occur *instead* of signposting people to appropriate advice, the two should go hand in hand. It is important that all suppliers proactively refer customers to free advice, should they identify need.

2. Debt collection

Suppliers must be aware of the way in which aggressive debt collection practices can have a negative impact on customers. We have seen cases of debt collection adding to debt burdens and putting individuals in highly stressful situations. Suppliers should work closely with consumer groups, so they see evidence of where debt collection practices, including by external organisations employed, are unreasonable. This is important not just in this context but also as part of a general customer engagement strategy.

StepChange Debt Charity recently advised a client who was being chased by a debt collection agency, working on behalf of a large energy supplier. The agency has sent someone to her property six times and is constantly disputing the debt management plan budget put in place by StepChange Debt Charity. The collection process has inflated the original debt significantly. From August to September this year it increased by £297 and the current statement lists the balance as £1,598 plus costs. Debt began as a £750 gas debt.

3. Credit referencing

Credit referencing should be used positively, rather than for installing pre-payment meters (PPMs) or requiring deposits. A consistent history of paying utility bills indicates financial stability and should count for more than one or two missed payments. Ofgem may want to consider issuing guidance on how firms use credit referencing data. Firms need to treat customers fairly and not require PPM installation or deposits when there is a good history of utility payments.

Over evidence also indicates suppliers may want to communicate better with customers when they do use credit referencing. Over 40 percent of our clients are unsure whether their energy supplier accesses their credit file or not.

Question 5: What are your views on our plans for developing a Consumer Vulnerability Network and are there additional organisations that we should engage?

StepChange Debt Charity supports the development of a Consumer Vulnerability Network, and is happy to provide Ofgem with any help it requires. We would emphasise however the importance of including groups in the Network that directly engage with consumers and can provide up-to-date evidence of any detriment.