Money & Pensions Service

Consultation on Draft Ofgem Consumer Vulnerability Strategy 2025

Money and Pensions Service response

About Us

The Money and Pensions Service exists to help people make the most of their money and pensions. We were created under the Financial Guidance and Claims Act 2018, bringing together the Money Advice Service, The Pensions Advisory Service, and Pension Wise, under one body.

The Money and Pensions Service is an Arms' Length Body, sponsored by the Department for Work and Pensions, with a vision of "Everyone making the most of their money and pensions" by ensuring that people throughout the UK have guidance and access to the information they need to make effective financial decisions over their lifetime. We deliver this across;

- Pensions guidance - to provide information to the public on matters relating to workplace and personal pensions.
- Money guidance - to provide information designed to enhance people's understanding and knowledge of financial matters and day-to-day money management skills.
- Debt advice - to provide people in England with information and advice on debt.
- Consumer protection - enabling us to work with Government and the Financial Conduct Authority (FCA) in protecting consumers.
- Strategy - work with the financial services industry, devolved authorities and the public and voluntary sectors to develop and coordinate a national strategy to improve people's financial capability, help them manage debt and provide financial education for children and young people.

We are funded by levies on both the financial services industry and pension schemes.

Executive Summary

- The cost of gas and electricity supply is significant for consumers, so that it is critical that energy suppliers identify and support those who are vulnerable in relation to energy supply.
- The relative cost of energy and the complexity of the market and products mean that consumers with lower levels of financial capability are particularly vulnerable in relation to this market and should be considered as part of Ofgem's approach.
- The Money and Pensions Service defines financial capability as the ability to manage money well – both day-to-day and through significant life events and see this as a key driver of consumers' financial wellbeing – that is the ability to meet all their current commitments, without undue stress, and the resilience to cope with future income or expenditure shocks.
- Our Financial Capability Survey assesses the financial capability of the UK population and has developed a segmentation model that allows us to understand the characteristics of those consumers with lowest levels of financial capability. We believe this would be helpful for Ofgem to understand low financial capability as a driver of vulnerability in energy supply.
- The relative importance of energy costs in household budget means that 25% of those consumers who seek debt advice have a debt in gas or electricity and this figure has grown significantly over the last two years.
- There is significant potential for energy suppliers to improve outcomes for customers in financial difficulties by referring them to independent debt advice as early as possible, and to adopt creditor best practice to improve the experiences of those consumers. There is also significant opportunity to work with MaPS to develop preventative tools and guidance to support some consumers who are struggling before they get into financial difficulty.
- MaPS has worked with the debt advice sector to develop a Standard Financial Statement for creditors to adopt a consistent approach to recognising income and expenditure when a consumer seeks debt advice and to enter into some form or repayment arrangement. This has had little take up in the energy supply market and there is significant opportunity for Ofgem to encourage energy supplier to adopt existing creditor best practice to improve experiences and outcomes for consumers in difficulties.
- As the arms-length body of government funded to lead the debt advice strategy, we would welcome the opportunity to work closely with Ofgem in their review of the Ability to Pay principles and of self disconnection.

Detailed responses to questions:

We have focused our response on questions 1 and 4 that relate to the Money and Pensions Service's remit and where we have expertise to bring to the subject.

Question 1: Do you agree with the five priority themes and the outcomes we will aim for?

Priority Theme 1: Improving the identification of vulnerability and the smart use of data

We would support this as an important priority theme, with a need to recognise those whose vulnerability makes them particularly dependent on energy or/and particularly vulnerable to detriment in relation to energy, and ensure that they are recognised and their needs are met by suppliers in every interaction. The pilot project to share priority services register (PSR) information between a distributor and an energy supplier must be evaluated and rolled out more widely as soon as reasonably possible to improve levels of PSR registrations in both types of companies, but it is also critical that those records are kept up to date and monitored regularly. As recognised by Ofgem, this will rely on the quality of training of all front line advisers to identify where a customer has a characteristic or is in a situation that would make them vulnerable in relation to their use of energy.

The 2017 report commissioned by Energy UK and the Money Advice Trust on "Vulnerability, mental health, and the energy sector: a guide to help identify and support consumers"[1] sets out a range of tools to allow frontline advisers to identify customers in vulnerable circumstances, and whilst this referred particularly to customers with mental health conditions, it offers significant learning opportunities for other areas of vulnerability.

There are particular challenges in relation to consumers who are vulnerable due to affordability or over indebtedness issues, and it is also important for suppliers to seek to understand the needs of those consumers and how to identify them early and provide support where possible before they fall into serious financial difficulties.

The Money and Pensions Service takes a view that low financial capability is also both a result of some types of vulnerability, for someone with a cognitive impairment for example, and in itself will mean that someone is more vulnerable in relation to markets, by being unable to secure the best deals for example or managing their money. We define financial capability as the ability to manage money well – both day-to-day and through significant life events and see this as a key driver of consumers' financial wellbeing – that is the ability to meet all their current commitments, without undue stress, and the resilience to cope with future income or expenditure shocks.

In recognition of the fact that many customers will not disclose their financial vulnerability to their supplier, there is a significant opportunity for energy suppliers to offer more proactive preventative support to their customers who may be struggling. The Money and

[1] http://www.bris.ac.uk/media-library/sites/geography/pfrc/pfrc1708_vulnerability-energy-sector.pdf

Pension Service can work with energy suppliers to develop a dedicated money guidance hub within their customer facing websites to help their customers manage their money and improve their financial capability. We can provide free editorial, tools and videos, that can be embedded into suppliers' website pages to help support and educate customers, directed to this through website navigation and any direct customer communication channels such as email, printed guides and statements.

We recommend that such guidance should be a combination of support material for the immediate issues, and advice that aims to address longer term financial capability. For example, guidance on debt, paying bills and budgeting, with financial capability guidance on building a savings buffer, plans to cope with life events and improving numeracy. There is significant opportunity for energy suppliers to work with us in this way to support their customers to avoid financial difficulties and we would welcome an approach by any supplier to work in partnership to develop a hub that would work for them.

The suggestion to consider the use of data across regulated markets to enable more holistic and targeted support for consumers in vulnerable circumstances is one we would welcome whilst also asking Ofgem to be mindful that some of the most vulnerable consumers are often the least digitally engaged. The increasing use of digital solutions to secure the best energy deal and secure the greatest benefits from an energy account risks creating advantages for more engaged consumers at the expense of those who are less so, and all solutions that rely on digital access need to be carefully evaluated for their impact on such consumers.

The Lloyds Bank Digital Consumer Index 2019[2] found that 11.9 million people (22%) do not have the Essential Digital Skills needed for day-to-day life in the UK, and that a further 19% have very low levels of basic skill. They found that whilst almost half of the Offline (48%) are under 60 years old, challenging the assumption that the Offline are mostly elderly, nearly half of Offline people (47%) come from a low income households including 16% of benefits claimants.

Priority Theme 2: Supporting those struggling with their bills

Our latest data on MaPS funded debt advice[3] provision found that energy debts were the fourth and fifth most prevalent for those presenting for debt advice, who would typically

[2] https://www.lloydsbank.com/assets/media/pdfs/banking_with_us/whats-happening/LB-Consumer-Digital-Index-2019-Report.pdf

[3] Debt Advice Evaluation Tracking Survey. Cover clients who received advice from Citizens Advice, East Midlands Money Advice, Greater Merseyside Money Advice Partnership, Money Advice West and Capitalise The data was collected between September 2017 and July 2018 based on advice provision in England and Wales between April 2017 and March 2018

be presenting with a range of debts, and that overall 25 % of people were presenting with either a gas or electricity debt.

Bills behind on (Base: All Respondents who have fallen behind or missed payments)	2017/18 clients
Rent	35%
Council Tax	34%
Water bill	25%
Electricity bill	22%
Gas bill	21%
Personal credit card	20%
Mobile phone bill	8%
Personal loan from a bank or building society	7%
TV licence	6%
Goods bought on mail order / catalogue credit	6%
Overdraft from a bank or building society	5%
Telephone (landline) bill	4%
Payday loan	4%
Loan from a door to door lender / Home credit (e.g. Provident)	4%
Mortgage	4%
Overpayment of benefits or tax credits	3%
Car finance/insurance	2%
Tax debts	2%
Store card	2%
Internet access bill	2%
Court fines	1%
Satellite or cable television	1%
Goods bought on hire purchase	1%
Loan from a friend or family member	1%
Family / child maintenance payments	1%
Loan from a pawnbroker	0
Other (please specify)	11%
Don't know/None of these	2%
Priority bills	73%
Non-priority bills	62%

The table also demonstrates that the majority of those presenting for debt advice, 73%, have priority debts, those that carry the most serious consequences for debtors if they do not pay them. These debts are more complex to resolve, as relating to essential services and with less capacity to change spending behavior in the long run and are indicators of a greater prevalence of people who simply have insufficient income to meet their essential needs.

It is striking how this has changed since the 2015/16 data, when those presenting with priority debts were 68%, 5% less than the latest data and the same figure as for non-priority debts. At that point, 25% of people were presenting with credit card debt, whilst electricity and gas debt were present for 22% and 21 % respectively of those seeking debt advice – a significant 5% increase in energy debts in only two years.

In this context, we emphatically agree that affordability of energy bills and the treatment of consumers who fall into debt should be a priority theme for Ofgem's Consumer Vulnerability Strategy. We welcome the recognition of the factors that are putting more financial pressures on a range of vulnerable and low paid consumers, and that these, accompanied by above inflation price rises of 7.4 percent for electricity and 5.9 per cent in gas in the year to March 2019[4] are making it increasingly difficult for many consumers to afford to pay for energy. The government's recent launch of a consultation on the fuel poverty strategy for England[5] saw Chris Skidmore, at the time interim energy minister recognise that: "*Steady progress is being made, but much more needs to be done to meet the fuel poverty target and end the blight of cold homes*."

In 2018, we surveyed a representative sample of the UK population of nearly 6,000 adults to assess their levels of financial capability and findings included the fact that 48% of the population were finding it a struggle to keep up with bills or credit commitments, are falling behind or have fallen behind with their commitments (41% in 2015) whilst 54% (50% in 2015) find keeping up with bills and commitments a burden. This demonstrates both the scale and increase in the struggles facing consumers.

Our 2018 Financial Capability Survey also found that only 49% of adults were shopping around for better deals in gas and electricity, but only 41% of older people, and much higher for the more affluent 'cushioned' segment of consumers at 55%. Set against this, 70% of people were shopping around for better deals on home and car insurance. With significant savings to be secured from the high value household expenditure that energy bills represent, there is still much more work to be done to both raise awareness of the benefits of switching but also address the barriers that make it less prevalent than in the insurance market. Without this, we will continue to see those with the most to gain from securing better energy deals miss out on this opportunity.

4 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/790035/QEP_Q4_2018.pdf

5 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/819606/fuel-poverty-strategy-england-consultation.pdf

Alongside this work to ensure that the energy market works better for all consumers, we would reiterate the point we made earlier for Ofgem to encourage suppliers to play a more active role in preventative work to support wider consumer financial capability.

For those consumers on the lowest incomes, there continues to be the need for programmes of additional support such as the Warm Homes Discount, but as the national debate on poverty increasingly highlights the plight of families on benefits and low incomes[6], there needs to be increased focus on reaching those consumers with rebates and additional support. Whilst the current emphasis on the poorest pensioner households is important, it needs to be extended to include other vulnerable groups more consistently.

For those consumers that fall behind with their energy bills and build up debts, we believe that there is much more that the sector can do to support consumers effectively. There has been significant development in the debt sector since Ofgem developed their 'Ability to Pay' principles in 2010. As the Money Advice Service, we collaborated with representatives from the debt advice and creditor sectors to agree on the best format for a Standard Financial Statement (SFS)[7].

This tool brings greater consistency to debt advice and a smoother transition through the process for consumers, advisers and creditors by creating a universal income and expenditure statement, together with a single set of spending guidelines. It summarises a person's income and outgoings, along with any debts they owe, and provides a single format for financial statements, allowing the debt advice sector and creditors to work together to achieve the right outcomes for people struggling with their finances. Debt advisers using the SFS will prioritise energy debts for repayment ahead of other 'non-priority' debts. Its use will also be required in the forthcoming Statutory Debt Repayment Plan (SDRP)[8], being introduced by HM Treasury, which energy companies will be subject to.

Going further than the Ofgem principles, it looks at an overview of an individual's debts, recognising that it will be rare for a consumer to only incur debt in one area of their household expenditure. It has been adopted by more than 90% of the debt advice sector and approximately 600 of the 1500 members are creditor organisations who have signed up to recognise and use this as sector leading best practice in their own debt processes. Disappointingly, in the energy supply sector this only includes British Gas and Octopus Energy, and whilst it is good to see them leading the way, we would urge Ofgem to consider

[6] https://socialmetricscommission.org.uk/
[7] https://sfs.moneyadviceservice.org.uk/en/what-is-the-standard-financial-statement/public-organisations
[8] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/810058/______17June_CLEAN_response.pdf

embedding this into any revision to the 'Ability to Pay' Principles, particularly given its inclusion within the government's new Statutory Debt Repayment Plan.

The SFS is highlighted as part of our wider recommendations in the strategic creditor toolkit 'Working Collaboratively with Debt Advice Agencies'[9] that we developed as the Money Advice Service. This also sets out how critical it is for creditors to refer their customers in debt to independent 'free to client' debt advice at the earliest appropriate opportunity, and to develop smooth and customer centric referral pathways to maximise the likelihood of take up by consumers. As set out above, debt advice is critical to ensure that a customer's debt repayment arrangements are realistic and affordable, taking into account their wider outgoings, commitments and other debts. Arrangements that do not take a wider view will often fail if consumers do not fully understand the extent of their debts, are under pressure from other creditors or underestimate day to day spend.

Our 2018 evaluation of 'The Economic Impact of Debt Advice' [10] provides significant evidence that aside from the positive impact on individuals, and particularly on improving mental health and addressing financial distress, there is a significant benefit for creditors who refer customers to debt advice. This is a result of improving the recovery rate on problem debt and reducing the costs to creditors in pursuing debtors, estimated in our report as a net benefit of over £135-237 million annually.

Similar findings were also reported in the National Audit Office's recent report into 'Tackling Problem Debt'[11] in September 2018, this recognised utility debts as a growing problem and that "*Evidence shows that good debt collection practice both benefits individuals and boosts collection rates. Common best practice principles include timely assessments of vulnerabilities, affordable repayment plans, and signposting or referring people to debt advice. Research in 2014 estimated that tailored debt advice, support and affordable repayments saved creditors £82 million in a year from 110,000 over-indebted clients, an average saving of £750 per person*."

The social and economic benefits of referring energy customers to debt advice early are clear and the Money and Pensions Service would welcome the opportunity to collaborate with Ofgem to discuss the opportunities to improve outcomes for consumers in debt in the energy sector. We believe that there is significant potential to improve on current approaches in the sector to create improved customer journeys and more support for suppliers to treat customers fairly.

[9] https://www.moneyadviceservice.org.uk/en/corporate/influencing-creditor-support
[10] https://www.moneyadviceservice.org.uk/en/corporate/economicimpactdebtadvice
[11] https://www.nao.org.uk/wp-content/uploads/2018/09/Tackling-problem-debt-Summary.pdf

Priority Theme 3: Driving significant improvements in customers service for vulnerable groups

In considering the services provided to new and prospective customers in vulnerable circumstances, we would urge Ofgem to take into account the fact that low levels of financial capability will also make someone in a market like energy vulnerable, particularly as such an essential resource for households.

A low level of financial capability may make it more difficult for consumers to ensure that they are on the best value product for them and stay on the best deal as deals change. It may also mean that the relatively complex bill layout is difficult to understand, and importantly for those not yet connected to a smart meter, there is a high risk of consumers building up energy debt due to reliance on estimated bills. This is a particularly complex market and Ofgem needs to consider vulnerability beyond the characteristics that make someone eligible for the Priority Services Register or those eligible for social tariff support.

Priority Theme 4: encouraging positive and inclusive innovation

We would agree with Ofgem that they need to guard against and monitor the risk that innovation that drives to better services and products in the sector benefits more able consumers at the expense of those who are more vulnerable and cannot access these. There are significant risks of pricing strategies for such products intended to attract and/or retain more profitable customers being cross subsidised by the rest of the customer base, and particularly by those who are less engaged in markets and struggle to secure the best deals.

In this context, those who are less digitally engaged are often particularly at risk, as digital channels are often a prerequisite of the best deals and products, and as highlighted in response to question theme 1, an understanding of the challenges faced by those who are least digitally engaged must underpin Ofgem's approach.

Priority Theme 5: working with partners to tackle issues that cut across multiple sectors

We also welcome the proposal to work across sectors to consider how to support those who may be vulnerable in relation to all regulated markets and have highlighted earlier in relation to debt that an individual is likely to be indebted across a number of creditors so that there needs to be a wider understanding and consistency of approach.

In relation to this theme, we would reiterate the importance of energy suppliers adopting the Standard Financial Statement approach that will address a consumer's financial difficulties across all markets. Several water companies have signed up to this approach but a debt advice agency would have to negotiate differently with an energy supplier who does not recognise the SFS and the understanding of the other financial commitments the customer may have.

Similarly, whilst many energy suppliers have individual relationships and partnerships with debt advice and money guidance organisations, we believe Ofgem should seek to encourage more standardisation of when and how customers in financial difficulties are referred to debt advice, with an emphasis on the smoothest handover and early intervention built into early debt recovery processes. A more standard approach across regulated sectors would be more likely to be recognised, trusted and followed up by consumers who are often reluctant to seek help.

The Money and Pensions Service are currently developing a new Target Operating Model that will provide enhanced referral routes for creditor for their customers to access a range of 'free to client' debt advice providers. The new approach, likely to be available from 2020, will allow creditors to refer people seeking advice to an appropriate debt advice agency who has capacity. As this develops, MaPS will be keen to work with Ofgem and energy suppliers to maximise the opportunity for customers with energy debts to be able to access support quickly and effectively in this way, and address debts at the earliest opportunity.

In the meantime, we host an independent 'debt advice locator tool' [12] that all energy companies, regardless of existing debt advice partners, can refer customers in financial difficulties to in order to access debt advice at the earliest opportunity.

Question 4: do you agree with our proposals for the first year of the strategy?

The proposals for the first year of the strategy appear to focus on the right priorities, assuming that the proposals on the future of the energy retail markets will include consideration of current price protections for more vulnerable consumers.

We would urge Ofgem to ensure that the work to develop an analytical framework to assess the impact of policies on those in vulnerable situations include those consumers with particularly low levels of financial capability as a vulnerability in relation to energy markets. The Money and Pensions Service has a wealth of data and insights on consumer characteristics and segmentation in relation to financial capability, including those with the lowest levels of financial capability that we describe as 'financially struggling' and who represent 19.6% of the population. We attach our segmentation model as Appendix to this submission but would also welcome the opportunity to discuss our insights in more detail with Ofgem.

We would also offer to collaborate in the revision and development of the Ability to Pay principles to reflect the best practice that has been encapsulated in the Standard Financial Statement and our creditor toolkit. As an arm's length body of government

[12] https://www.moneyadviceservice.org.uk/en/tools/debt-advice-locator

tasked with a national strategic role in relation to people in financial difficulties and debt advice, we are best placed to work with Ofgem on this important priority to improve practice and consumer outcomes in the energy sector.

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