Service Incentive Mechanism (SIM) for 2015 onwards – a consultation

Portsmouth Water Response

Thank you very much for the opportunity to help shape changes to the Service Incentive Mechanism. We believe there is a real opportunity here to build on the undoubted improvements that this mechanism has helped to drive within the industry, whilst simplifying collection of data and improving the consistence of measurement of quantitative elements.

Q1 To inform the extent of the range for rewards and penalties, we invite views on:
- **Our proposition that the SIM should continue to incentivise service improvements in companies operating below the frontier; and**
- **Whether, and if so in which areas, further service improvements by companies should be incentivised – and the benefits of doing so.**

Given the timing of this consultation, we would also consider evidence from any company outcomes beyond the SIM.

Response

We believe that the SIM has facilitated service improvements to date but still has the potential to drive further improvements. Accordingly, we believe that incentives and penalties should be available to all companies, including those at the frontier.

Whilst, above anything, the reputational incentive drives us, we believe that financial penalties and incentives are important.

We consider financial incentives are important for frontier companies to encourage innovation. Innovative service offerings often have degrees of uncertainty around the cost/benefit analysis undertaken and accordingly will often be justified based on the perceived benefits to customers rather than efficiencies created. Furthermore, the loss of automatic RPI rises for the retail business, and the need to manage the average cost to serve, has the potential to stifle funding for innovative projects without the possibility for later financial reward.

Q2. We consider that the SIM should continue to incentivise service quality throughout the value chain, and not just those elements under the sole control of the retail businesses. The implication is that the retail businesses would be exposed to the full financial risk of the SIM, which we expect to be passed on to the wholesale businesses as appropriate.

We invite views on:

- **The proposition that the SIM should continue to be used to incentivise service improvements throughout the value chain, rather than focus entirely on 'retail' activities;**
- **How these incentives (and financial risks and rewards) might be passed from retail to wholesale businesses; and**
- **The proposition that we should leave companies to develop internal 'contracting' arrangements as they see fit, rather than be subject to any prescribed arrangements.**

Response

We believe it is wholly sensible to continue to incentivise service quality throughout the value chain. We consider appropriate that customers should be asked about overall service received rather than trying to distinguish and question on wholesale and retail elements.

It should be for companies to consider and manage how contracting arrangements will work internally. We see no benefit in trying to impose a standard approach across the industry.

Q3 Design issue 1 – symmetric or asymmetric incentive?

The options we are consulting on are:

- **Option 1 – retain current asymmetric structure;**
- **Option 2 – remove the upside potential entirely (for example, no upside; retaining the downside of up to 1% of revenue); or**
- **Option 3 – move to a symmetric incentive (for example, upside and downside both up to 1% of revenue).**

Response

We consider option 1 to be most appropriate. Research for our Business Plan into support for financial incentives/penalties understandably revealed that customers considered that penalties for a failure to meet targets should be greater than rewards for outperformance. We believe that this principle holds true here.

Our least favoured option is 2, given the lack of financial incentive to invest in innovative technologies/process changes where the cost/benefit case is uncertain.

Q4 Design issue 2 – magnitude of financial incentive

Our current preference is to broadly maintain the current magnitude of financial exposure under the SIM in the range of +0.5% to -1.0% of total appointee revenue. (dependent on responses to questions 1 and 2.)

Do you agree with this approach?

Response

We consider the approach and range appropriate.

Q5 Design issue 3 – balance of qualitative and quantitative measures

The options we are consulting on are:

- **Option 1 – retain the current 50/50 weighting**
- **Option 2 – shift the balance more towards the qualitative measures (for example, 75% qualitative/25% quantitative);**
- **Option 3 – remove the quantitative measures entirely;**
- **Option 4 – shift the balance more towards quantitative measures (for example, 25% qualitative/75 quantitative); or**
- **Option 5 – remove the qualitative measures entirely**

Response

We favour option 2.

Whilst we believe that an element of quantitative measurement is appropriate, differences in the ways that companies are able to collect and report quantitative information have the potential to create results that are not directly comparable.

Whilst, in theory, a well developed qualitative measure should be properly reflective of service, making quantitative figures unnecessary, not all customer types are as likely, or able, to participate in a telephone survey. Therefore, there is a risk that service offerings are driven by participant bias.

Q6 Design issue 4 – detailed design of the qualitative and quantitative measures

Please provide your views on the various options presented in detail in section 4.4.

Response

Clearly an ideal measure will accurately represent customers' views without being overly onerous to administer.

Overall, of the options put forward we least favour option 1, believing that the best option would be made up of elements of options 2 and 3.

Taking each element in turn:-

All lines busy and calls abandoned – Whilst these provide really good information for us as a business, and will continue to monitor and target, we accept that industry wide comparison is not easy. Collection of this data is dependent on historic interpretation of DG9 rules, which varied across the industry. Also, interestingly, customers from our SIM survey appear to have a poor recollection of waiting time and do not generally appear to judge us by it. We therefore believe that this element should be excluded from the measure.

Unwanted phone contacts -

Robust comparison between companies is difficult as, in the case of most companies, call classifications were devised pre-SIM and contact types are classified as wanted or unwanted based on best fit. Accordingly this weakness exists in Option 2, along with any complexity that arises out of a move to recording as wanted/unwanted contacts for all media types.

Option 3, however, seeks to capture all complaints. Currently we train agents to identify complaints and change any wanted contact to unwanted where a complaint (or dissatisfaction) exists. Asking employees to exercise this judgment, on an ongoing basis, and produce high levels of compliance, is challenging.

On balance, from these options, we consider that Option 2 will produce the most reliable statistics and represents a reasonable quantitative measure.

Written Complaints -

We support the retention of written complaints (all options).

Escalated Written Complaints -

We support the retention of escalated written complaints (option 2).

CCWater Investigated Complaints –

We support their retention within the measure (option 2).

Survey of satisfaction with the handling of recent transaction (or series of transactions) all media types – resolved contacts

With Option 2 we support streamlining and no notice period. However, the best performance measures are simple. Having selection criteria to the sample (such as resolved contacts only) adds complexity to the system, and introduces the possibility of measurements that are not comparable and most importantly risks companies focussing on selection techniques of the sample rather than customer service. Furthermore, resolved contacts can be difficult to robustly identify and smaller companies need to provide weeks of data for resolved operational contacts in order for a sufficient survey size to be achieved. Accordingly, the customer's recollection of the transaction at the time of survey may not be reliable.

We favour Option 3. We see no reason why a customer can not assess quality of service during an ongoing transaction as well as at the end. This increases the number of customers available for survey and ensures that companies focus on a high quality service with each individual interaction. This also simplifies the production of the survey for sampling.

Q7 Design issue 5 – the use of absolute or relative performance

We invite views on:

- **Option 1 – retaining the current relative incentive structure; or**
- **Option 2 – using absolute performance levels to set rewards and penalties (with suggestions of how we might set these).**

Response

We favour option 1, believing that it provides an ongoing incentive to continue to innovate, even for a frontier company.

We do, however, believe that care is needed when publishing results to ensure that very small differences in recorded performance are kept in context. To this end, it may on occasions be better to band companies, rather than publish individual results, if the individual results have the potential to mislead.

Q8 Design issue 6 – non-household SIM design for Wales

We are seeking views on 2 options for the incentive comparator for the Welsh company non-household SIM:

- **Option 1 – to compare the non-household SIM score against the household SIM score for England and Wales; or**
- **Option 2 – to compare the non-household SIM score against an absolute threshold level.**

We invite comments on any additions or modifications that would be appropriate to the household SIM methodology for its use for non-households, including dealing with sample size issues from smaller customer bases.

Response

We consider option 1 to be best, subject to a suitable explanation within published results that direct comparison with household can not be made. Clearly, after year 1, the year on year variation in satisfaction will be the most significant factor.

Please direct any queries in respect of this response to Paul Barfoot, Customer Services Manager.

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