

South Staffs Water (SST) Response to Consultation Paper on Service Incentive Mechanism (SIM) for 2015 onwards

South Staffs Water submits the following response to the Consultation Paper on Service Incentive Mechanism (SIM) for 2015 onwards.

Q1. Should the SIM continue to incentivise service improvements in companies operating below the frontier?

This answer is included in our response to Q3

Q2. Should the SIM continue to incentivise service quality throughout the value chain, and not just those elements under the sole control of retail businesses?

To ensure the overall effectiveness of the SIM it is essential that both the retail and wholesale businesses and components of the value chain are incentivised through financial risks and rewards. Therefore we support Ofwat's proposal to continue to incentivise service quality throughout the value chain as we believe that companies should have discretion on how these incentives are passed from retail to wholesale in accordance with their own internal financial and performance arrangements.

Detailed Design

Q3. Design issue 1 – symmetric or asymmetric incentive?

We agree with the conclusions reached as to the effectiveness of the SIM incentive and penalties to promote improvement from the less well performing companies but to a lesser extent, improvement amongst frontiers. However, we would argue that reputational incentives are equally as effective at encouraging companies to improve customer service delivery.

As an overriding issue, we consider it important that Ofwat follow through on the promise of penalties of -1% for lower performing companies for any future incentive (symmetric or asymmetric) to be effective.

As it is unclear how the current asymmetric incentive will be applied in the current AMP it is difficult to fully assess the effect of the various options presented. Nevertheless, we support the proposed Option 3 – to move to a symmetric incentive (for example, upside and downside both up to 1% of revenue).

Option 3 should encourage both frontier and less well performers to improve, innovate customer service delivery and ensure the industry continues to perform well.

Scope for further service improvements

While we recognise the purpose of the SIM, our view is that the proposals for 2015 onwards may not achieve the objective of a consistent national minimum customer service incentive that is relative to customer expectation. We believe there is a risk that the industry as a whole may not keep abreast of the changing landscape of customer service delivery in the absence of clear direction and incentive to do so. We suggest that one such incentive could be in relation to service channel availability:

- **Service channel availability**

SST's research on service channel availability in 2013 indicated that non voice channels have not been fully embraced by the water industry. This research evidenced that both consumers and businesses benefit from multi-contact channels yet only one third of water companies offered an array of digital channels i.e. phone, email, web, social, mobile and SMS. To successfully meet customer expectations and the changing rules of customer service delivery, the water industry must recognise this new digital/multi-channel dynamic, adapt accordingly and be more responsive to this change.

We are keen to see incentives that drive frontier companies' ability to keep pace with changing customer needs and behaviours i.e. meeting customer's expectation with an excellent multi-channel service delivery capability.

Q4. Design issue 2 – magnitude of financial incentive

As part of the PR14 preparations SST carried out extensive customer research which included customers' willingness to pay for customer service improvements. Our research found that customers expect a minimum level of service comparable with other industries but are unwilling to pay more for this service.

Despite these findings, we would highlight that it is very likely that companies across the water industry would have made financial provision, as part of PR14, to maintain or improve customer service delivery in line with customers' expectations.

We are content with the principal to broadly maintain the current magnitude of financial exposure under the SIM.

We also believe that whilst, there is evidence that the current financial incentive is sufficient to deliver the objective of the SIM, further consideration should be given to how frontier companies could be further incentivised with the application of +1% to -1% of revenue as part of Option 3 of Design issue 1.

Q5. Design issue 3 – balance of qualitative and quantitative measures

In assessing the options for the balance of the qualitative and quantitative measures, we have considered the way in which customers' experience when interacting with their water company could be determined through the use of both measures:

- The qualitative measure explores the customer's experience and expectations in depth, this is crucial to enable understanding for the reasons behind the level of satisfaction.
- The quantitative measure provides customer service metrics and numerical measures to assess performance and also provides information to drive improved service quality.

We consider both measures equally important to provide a balanced view of customer satisfaction and that there should be no stand-alone measure by which a company's success is measured and subsequently judged.

We refer back to the Report on the Horizontal Audit of the Service Incentive Mechanism (SIM) to the Water Services Regulation Authority and note the analysis found that, in the context of monitoring and reporting abandoned calls, there were reporting inconsistencies due to system configuration and as stated in the report "in general companies who can report fully within these systems tend to be ranked lower in this component of the SIM Measurement".

Whilst we agree that the current differences in the ability to consistently report on some quantitative elements could impact on the overall results/league table, we do not think this should impact disproportionately on the overall rationale for balanced qualitative and quantitative measures to be applied.

We note Ofwat's preference to retain both types of measure and agree that the design of these measures would help ensure a level playing field for all companies.

Consequently, we believe Option 1 – retain the current 50/50 weighting, delivers the possibility of the provision of a balanced and whole view of customer service delivery.

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

ALB – Abandoned calls

Taking account of the Horizontal Audit findings relating to the reporting of abandoned calls, we agree that there is a need to remove phone availability metrics from the quantitative measure. We welcome the greater fairness the proposals within Option 2 brings in recognising the need to improve reporting accuracy of the quantitative measure.

Unwanted phone contacts

We welcome the intent to include unwanted contact from other media types in recognition of the change in customer expectations and introduction of digital contact channels.

However, we do not believe that the addition to this measure of unwanted contact from all media types will be as effective as the current unwanted phone contacts measure.

In particular, Ofwat is likely to find it difficult to offer the required specific guidelines in relation to 'unwanted contact' from social media channels such as Facebook and Twitter. We wish to emphasise that should this measure be extended to include all media types, it is vitally important to clearly define the rules of this measure.

We believe that the SIM should acknowledge the fundamental difference between unwanted contact from all media types and unwanted contact from all 'primary contact channels'. Primary contact channels should include contact made via the following;

- Phone
- Web forms
- Email
- Letters and;
- SMS

We consider that the focus of this measure should be unwanted contact from primary contact channels.

Whilst it is true that some companies may proactively respond to Facebook or Twitter comments as an 'added value' activity, inclusion of all media types could dissuade some companies from engaging with customers via these contact channels due to fear of encouraging and therefore increasing reportable unwanted contact.

Survey of Satisfaction

When evaluating the various options for the qualitative element, we revisited the stated goals of the SIM which is "to provide companies in the water sector in England and Wales with a common outputs-based measure of customer service quality". We believe option 2 provides the best methodology for meeting this goal for the following reasons:

- Option 2 aims to streamline the customer experience survey by removing transactional question and only retain key satisfaction and driver questions.
- The current process of a notice period for survey provides an opportunity for companies to adapt their business as usual activities over a short period time (typically one week) and still submit the required data sample size. This possibility gives larger companies an advantage over smaller companies who due to the smaller number of customer contact, currently default to a 'no notice period for survey'.
- The introduction of 'no notice period for survey' would mitigate any opportunity for a company to manipulate the types of issues resolved during the survey period with the intent to self-select or filter data prior to submission for survey.
- We are particularly concerned about the alternative proposal presented in Option 3. The surveying of consumers' irrespective of whether or not the issue has been resolved would present unnecessary complication to this process i.e. resolution is a critical determinant of customer satisfaction and therefore the survey sample would

need to ensure that an equal number of unresolved contacts were included for all companies. We believe this option presents an unnecessary complexity to the SIM and that trailblazing companies will continue to go further than the SIM to measure their own end to end customer service delivery success, such as:

- Brand reliability
 - Value for Money
 - Business improvement and innovation
- We consider retention of resolved contact crucial to ensure equality and comparability.

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

It is not evident that the proposal to move to a system of rewards and penalties against an absolute performance level will have the effect of increasing companies' desire to improve customer satisfaction. Therefore, for this reason, we believe relative performance in the form of penalty or reward according to rank against other companies in the industry will continue to encourage companies to study strategies that other companies have adopted which makes them successful.

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

We have no comment to make on the issues raised and proposals presented.