



Customer protection for the retail market
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Agenda

Morning session

- Overview of customer protection
- Guaranteed Standards Scheme (GSS)

Break out discussions and feedback

- Introduction to wider customer protection issues

12:30 lunch

Afternoon session

- Wider customer protection issues continued

Break out discussions and feedback

- Next steps

15:30 finish



Overview of customer protection

Why does customer protection matter?

Our statutory duties include **protecting consumers**, where appropriate by **promoting effective competition**

Protecting customers

- New market arrangements will potentially create a **gap in existing customer rights** without further action e.g.
 - GSS
 - Retail exit
- Customers **not used to exercising choice**, and proportion will remain 'sticky'
- **Smaller non-HH customers** in similar market position to HH customers, so may require similar protections
- Early stages of retail market could see **misleading or aggressive sales techniques** and **potentially restrictive contractual terms**

Need to balance these

Promoting effective competition

Important that market is seen to **deliver benefits for customers**

- Customers must:
 - Be able to **easily switch** or negotiate better deals
 - Not be deterred by the **switching process**
 - Not be prevented from switching by **excessive contractual tie-ins and roll-overs**
 - Be able to negotiate **best deal** for them
- But, if customer protection measures are **too onerous** they could act as a barrier to entry or expansion
- Do not want to stifle **innovation**

Protecting customers – potential regulatory action

We must do these to support Government's policy aims

Guaranteed Standards Scheme (GSS)

- Review existing GSS to make sure customers continue to be protected after market opening

Deemed contracts

- To protect customers in relation to:
 - Retail exit
 - Interim supply (supplier of last resort)

Interim supply (Supplier of last resort)

- Allocation mechanisms including market-based allocation
- Policy considerations e.g. allocation of commercial risk, price and service offered to affected customers

We are considering these in accordance with our statutory duties and strategic objectives

Sales, marketing and contractual issues

- Perhaps greater protection required for SMEs and micro businesses?

Customer switching journey

Monitoring and managing complaints

- Need to make sure customers are adequately protected after market opens, and to identify any emerging issues or areas for concern

Proportionate and targeted approach

**Very large
customers**

**large
customers**

SMEs

**Micro
businesses**

Perhaps greater customer protection required?



Minimum protections for all non-HH customers

To include:

- Good customer experience of switching process
- GSS
- Deemed contracts

Additional protection for smaller
non-HH customers?



Guaranteed Standards Scheme (GSS)

What is the Guaranteed standards scheme (GSS)?



Ensures all customers are **entitled to guaranteed minimum standards of service**

Provides an **element of protection** for customers

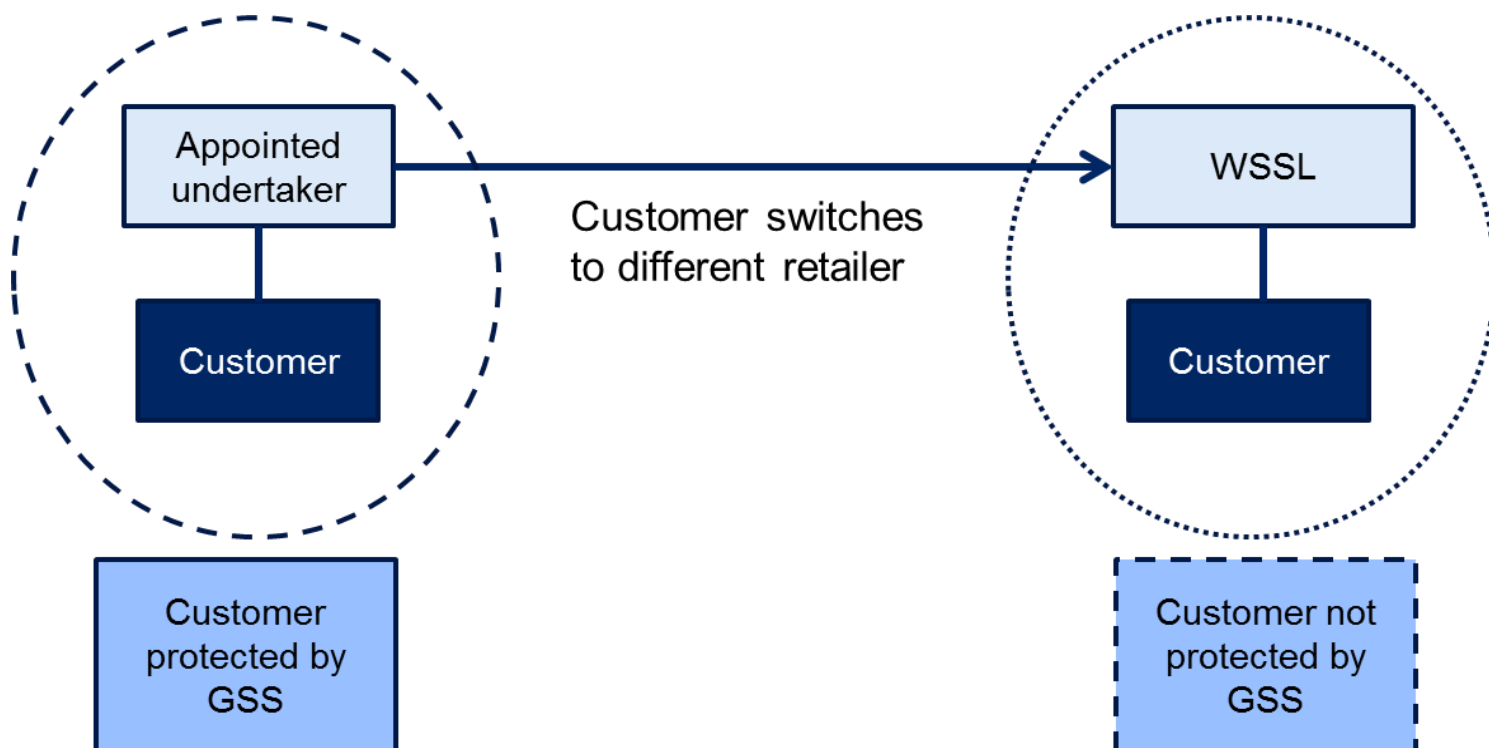
Applies to **appointed companies only**

Is laid down by **Government**

Ofwat has a role in when amendments are made to existing regulations

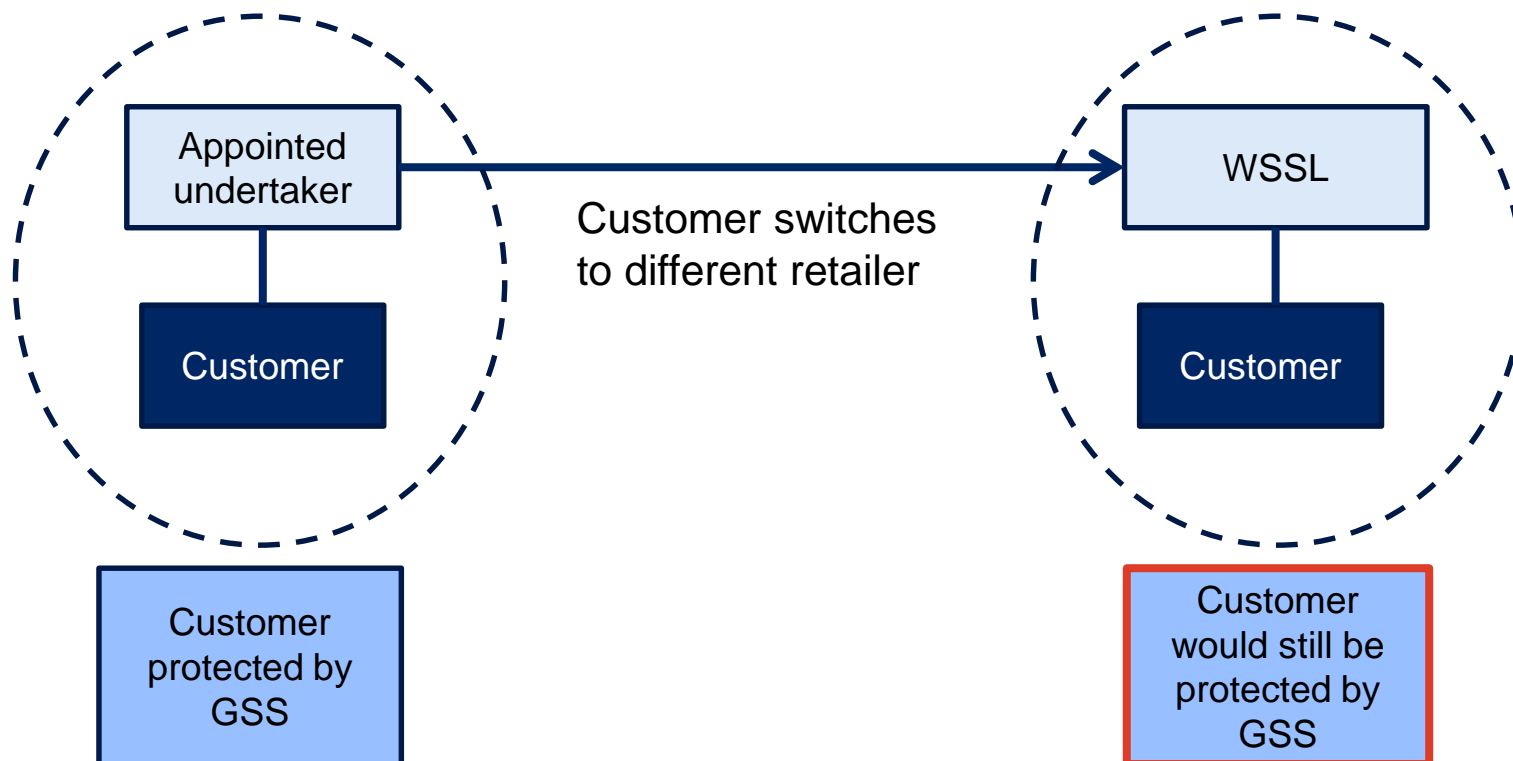
Why are amendments needed?

Issue: only appointed companies currently covered by GSS



Our proposals...

We propose that GSS should be extended to WSSLs



Ofwat's role:
to apply to SoS for changes to GSS regulations

How would this work in practice?

GSS Regulation	Proposed allocation	
	Wholesale	Retail
Making appointments – GSS Regulation 6		✓
Keeping appointments – GSS Regulation 6		✓
Low pressure – GSS Regulation 10	✓	
Notice of interruption to supply – GSS Regulation 8	✓	
Supply not restored – GSS Regulation 9	✓	
Account queries and requests to change payment arrangements – GSS Regulation 7		✓
Complaints – GSS Regulation 7		✓
Flooding from sewers (internal flooding) – GSS Regulation 11	✓	
Flooding from sewers (external flooding) – GSS Regulation 12	✓	



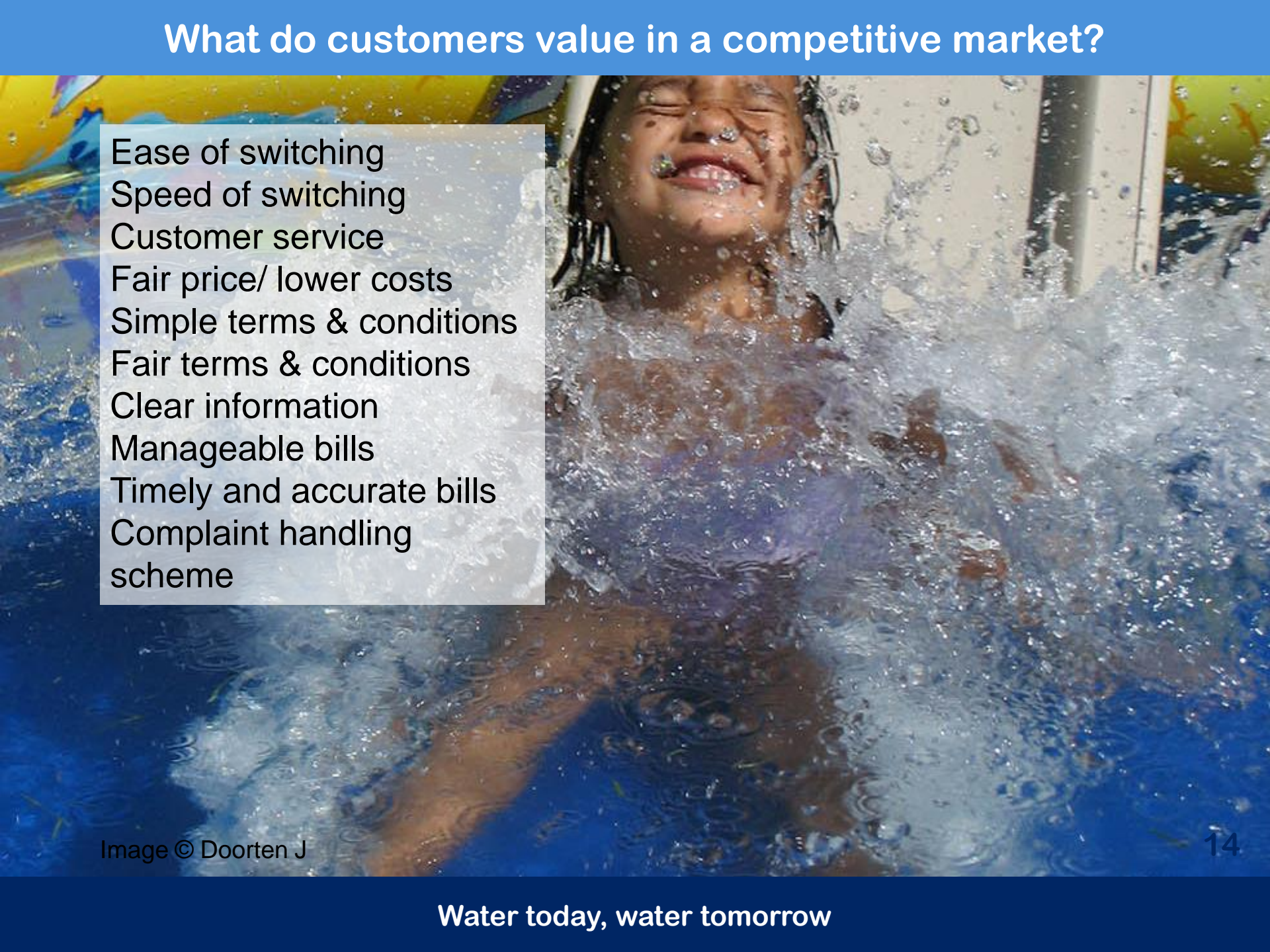
GSS

1. Do you agree with our proposal to extend GSS to WSSL retailers?
2. Do you agree with the proposed allocation of the GSS Regulations to wholesale/retail? Do you foresee any issues arising from this allocation? How can these be addressed?
3. Are there any other issues that we need to consider?



Introduction to wider customer protection issues

What do customers value in a competitive market?

A young child is splashing in a blue hot tub, smiling with eyes closed. The water is splashing around the child's head and shoulders. The background shows a white structure, possibly part of the hot tub or a building.

- Ease of switching
- Speed of switching
- Customer service
- Fair price/ lower costs
- Simple terms & conditions
- Fair terms & conditions
- Clear information
- Manageable bills
- Timely and accurate bills
- Complaint handling scheme

Image © Doorten J

Summary of planned approach

1. Look at customer protection issues which have arisen in other sectors and Scotland to inform list of potential concerns
2. Identify potential gaps in existing regulatory provisions
3. Develop proposals for possible regulatory intervention
4. Consider possible interdependencies with market codes and CSDs
5. Initial consultation on issues and proposed policy approach
6. Further consultation on proposed rules

1. Customer protection issues in other sectors - Energy

Example of issues for non-HH customers	Regulatory measures and safeguards
The overall service provided by supplier, including value for money and billing	Enforceable Standards of Conduct for suppliers with respect to micro businesses as well as suite of licence conditions
Contracts	Contract renewal process – inc requirement to publicise contract end dates and notice period on customers' bills, and to allow customers to give notice to terminate at any point
Barriers to switching	Ofgem has started monitoring transfer objections and switching trends
Erroneous Transfers	Ofgem has introduced a licence obligation on suppliers to take all reasonable steps to ensure it has a valid contract with the customer when the transfer request is made.
Sales and marketing activities including conduct of brokers	Ofgem was granted powers to enforce against misleading marketing in this area and has developed a regulatory approach on TPIs including a consultation on a code of practice.

1. Customer protection issues in other sectors - Telecoms

Example of issues for non-HH customers	Regulatory measures and safeguards
Mis-selling of mobile services	<p>In 2007 Ofcom worked with industry to develop a voluntary code of practice for the sales and marketing of subscriptions to mobile networks</p> <p>The voluntary code did not have the desired impact, and customers were still at risk of harm.</p> <p>So Ofcom decided to introduce a General Condition which included a general prohibition on mis-selling by mobile service providers</p>
Roll over contracts - barrier to switching	<p>From December 2012, Ofcom banned rollover contracts, which tie landline and broadband customers into repeated minimum contract periods unless they opt out.</p>

2. Potential gaps in existing regulatory provisions (1)

1. Before switching

Sales and marketing activities including:
Mis-selling
Third party intermediaries/brokers
Sales team recruitment, training and security checks

2. During switching

Switching timeline
Cancellations, erroneous transfers
Meter reading, account closing & opening

3. After switching

Managing contract types, tariffs and unfair terms and conditions
Transparency and provision of information to customers
Billing accuracy, frequency, payment options and backbilling

Any others?

2. Potential gaps in existing regulatory provisions (2)

1. Before switching

Sales and marketing activities including:
Mis-selling
Third party intermediaries/brokers
Sales team recruitment, training and security checks

Sales and Marketing

Non-HH customers may be unable to benefit from market opening if they are unable to:

- access accurate and transparent information provided by retailers (or third parties) at the point of sale or contract agreement
- understand key information: e.g. terms and conditions, tariff structure and deals
- act on key information on time: e.g. termination or renewal fees which may lock them into expensive or unfair deals or prevent them from switching

We expect that TPIs will play a role in the market. In other sectors, the actions of some TPIs have misled customers onto worse deals. This poor practice can deter consumers from engaging in the future, and undermines trust and confidence in the whole sector.

2. Potential gaps in existing regulatory provisions (3)

2. During switching

Switching timeline

Cancellations, erroneous transfers

Meter reading, account closing & opening

Switching, including ease and speed of the process and barriers to switch

- the switching process can be prone to errors
- customers may be switched to the wrong retailer, or be switched without agreement
- customers may be forced to go back to old retailer on different terms and conditions
- retailers may object to a transfer for the wrong reasons (behavioural issues)
- if billing information is unclear, customers could find it difficult to assess alternative offers
- customers' ability to act can be hindered by their understanding of termination and renewal procedures, and problems with switching supplier

2. Potential gaps in existing regulatory provisions (4)

3. After switching

Managing contract types, tariffs and unfair terms and conditions
Transparency and provision of information to customers
Billing accuracy, frequency, payment options and backbilling

Contracts

Issues include unfair terms, terms that restrict switching (e.g. auto roll-overs, termination fees), or terms that customers did not agree to, or did not intend to sign up for, if key information was hidden or they were misled. Query - where to draw the line on personal responsibility if terms are discussed but not understood, or accepted because no alternative?

Billing information

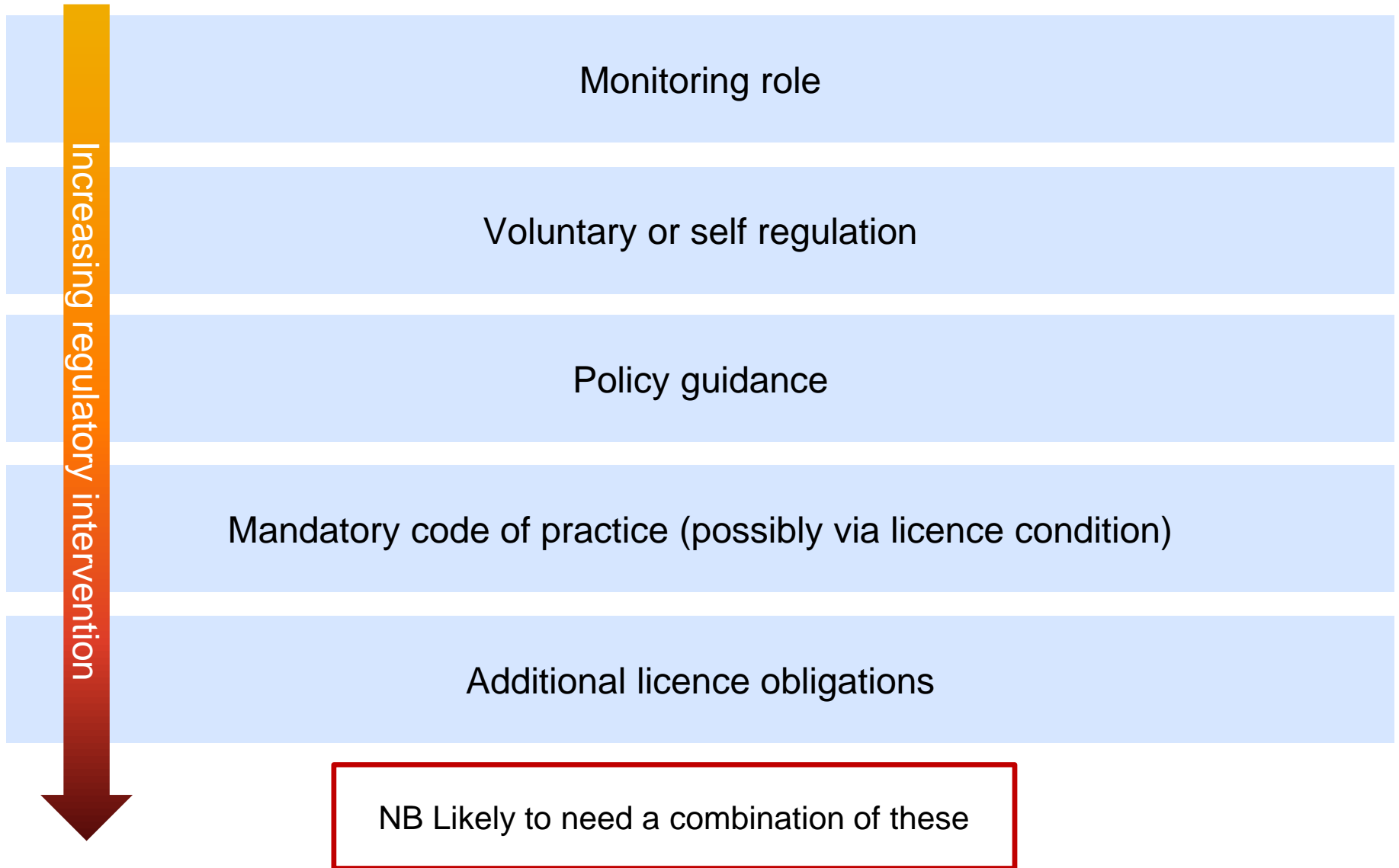
Lack of clear information can mean customers do not know:

- if they would benefit from an alternative tariff
- how their bill is calculated and whether it is correct
- how best to manage costs
- if they are building up debt

Billing and backbilling

- billing accuracy, frequency and payment options are important for customers
- backbills or catch up bills can cause significant consumer detriment, especially for smaller businesses
- currently retailers can issue bills for up to 6 years - backbilling limit is a lot shorter in energy

3. Proposals for possible regulatory intervention



Trust in water



Wider customer protection issues

1. Do you agree with our proposal to focus on these issues?
2. Do you have any comments about:
 - a) Marketing and sales activities?
 - b) How we can make sure that TPIs act in the best interests of customers?
 - c) Issues that might arise for customers during the switching process, and how best to avoid these?
 - d) The contractual issues outlined today?
 - e) Billing or backbilling issues?
3. Are there any other areas that we should consider ahead of market opening?



**Second workshop – Tuesday 29 September
(Deemed contracts; results from licensing consultation)**

GSS consultation responses due by 2 October

Further consultations planned for October/November:

- **Interim supply**
- **Deemed contracts**
- **Customer protection**

