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# Customer vulnerability – the regulatory landscape

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### Water UK Customer Vulnerability Innovation Hub

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## Introduction

Good morning everyone.

And **thank you** to Pamela and to Water UK for having me here. I think it is great that WaterUK have organised this event, on such an important topic. And I'm very pleased to be here to speak.

I'm conscious that I have spent a lot of time recently **talking about quite abstract things** - about our regulatory model, about the scope for greater use of markets in the sector - things that I think are critically important if we are all, collectively to enable the sector to deal with the challenges it faces.

But through all of that debate, it is critically important we **stay grounded**. Grounded in what matters most, which is the **customer**. And to keep firmly in mind that in a sector that provides genuinely vital public services, it is **essential that all the many different types of customers** - in all their various shapes, sizes and circumstances - **get what they need from the sector at a price they can afford**.

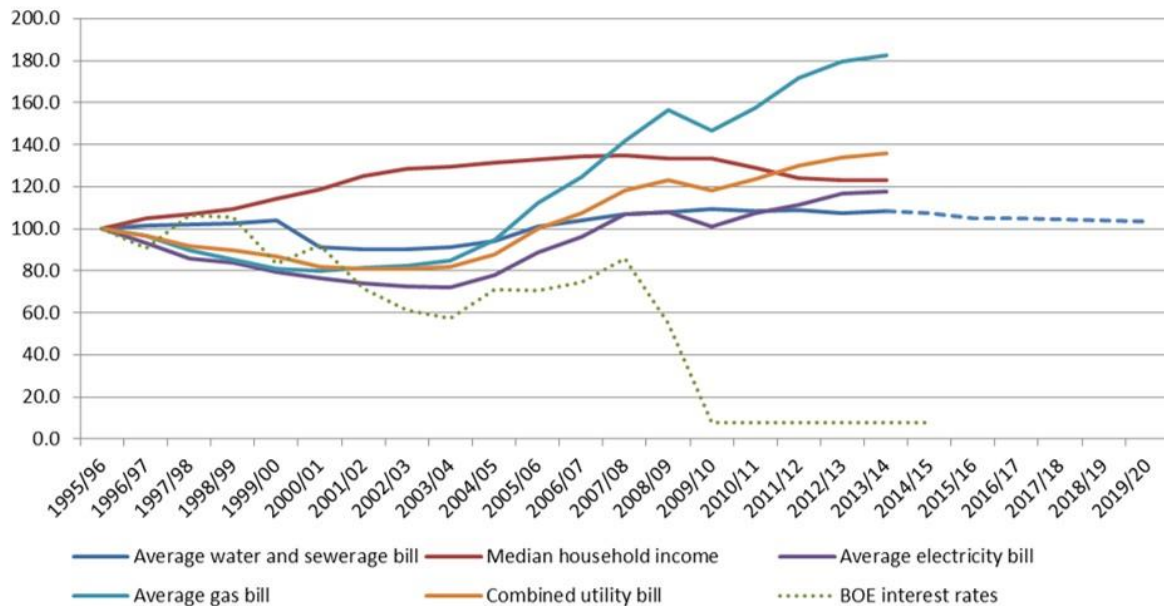
This after all goes to the **heart of our strategy**.

Our vision for the sector, one we share with the sector itself, is for customers and society to have **trust and confidence** in water and waste water services. Without that the sector loses legitimacy. It loses what you might call its 'social licence to operate'. The interventions we make ratchet up, at the next level, political interventions become inevitable, financing costs rise, and the whole environment in which the sector operates, in which investment is delivered, becomes harder, which ultimately makes things worse for customers and society.

In many ways **the way that the sector interacts with vulnerable customers is an acid test** of whether it has, can maintain and build, trust and confidence.

## Vulnerability is here to stay

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Medium household incomes (ANC), average utility bills (gas, electricity and water) and BOE interest rates (1995/96 = 100)

Trust in water

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The first point I want to make is that **vulnerability as an issue is here to stay**.

I'm conscious that there was a particular focus on customer vulnerability during PR14. And a particular focus on one aspect of it - **affordability**.

This has been a **bigger issue over the last 5 years** than at any point since the privatization of the water and wastewater services.

You can see on the **graph** why this was. Over the last few years, since the recession we have seen household real **incomes** fall.

But not only that. You can also see on the graph that **energy bill increases** (especially gas – that lightish blue line) have been adding to the pressure. And that to a large extent it is low housing costs as a result of low interest rates (that dotted green line) that have been helping to offset things.

And so affordability has been a huge issue over the last 5 years, really driving a lot of the debate about water, albeit to a lesser degree than in energy.

But we need to be under no illusion that the affordability issue is going away. It isn't. It is going to **continue to be a huge issue**.

Particularly when you consider the close correlation of **housing costs and interest rates**. We all know interest rates are going to rise - even if we don't know when. And if housing costs rise with them, at a faster rate than incomes, the affordability issue will get worse. And that is before you think about where energy prices might go.

And it is worth noting too that it **could be getting harder for the sector to spot those affordability issues** at their most acute. In many cases, I know companies have used receipt of **benefits** as a criterion for their assessment of customers at risk of not being able to afford their bill. The criteria for 5 out of the 14 social tariffs we have in the sector relate to receipt of benefits. But we know that welfare reform is coming - benefits are being stripped back.

So not only is affordability going to remain as a huge issue, and a driver of vulnerability, we may need to develop different ways of assessing those at risk.

## Vulnerability is multi-dimensional

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Data from FCA Occasional paper No.8, "Customer Vulnerability", Feb 2015, unless stated otherwise.

If a customer cannot afford to pay their water bill - quite possibly cannot afford to pay their other bills - they are vulnerable. Affordability is an important driver of vulnerability, and we spend a lot of time focusing on that.

But the second point I want to make here is that **vulnerability is about so much more than this**. And it is so much more complex.

There is a tendency to categorise vulnerable customers as those who are **members of particular groups** – those who struggle to afford the bill, the old and frail, or customers with disabilities.

But this 'customer type' approach, for all it may be easy to operationalise, risks oversimplifying the position in a way that is **potentially dangerous**. Because in reality any customer could be vulnerable. The drivers of vulnerability are many and various and of us could be affected by time at different times in our life.

We have been quite impressed with some of the work the **Financial Conduct Authority** has been doing on this, and we have been talking to them, through the UK Regulators Network, about it to inform our own thinking.

They published a report on vulnerability earlier this year, which followed a lengthy study, involving qualitative and quantitative techniques, focus groups, and face to face interviews.

Their report is very compelling on precisely this point – **vulnerability depends on circumstances**. Some of which may be long standing such as persistent disability. Some of which may happen overnight, such as bereavement. And some of which may fluctuate, as in the case of mental illness for example, or caring responsibilities.

And if you look at some of other aspects of the debate in regulated sectors right now it is clear that there is another factor that is becoming increasingly important. And that is access to - and confidence in using - **the Internet**.

In the CMA's provisional findings from its **energy market investigation**, it found that lack of access to the internet – or confidence in using the internet - appeared to be a barrier to engagement and access to information, including the best deals.

And the CMA's survey found while 70% of respondents are confident in using the internet - which is great - **12% lack confidence in using the internet and 17% have no access to the internet** at all. Which is increasingly of concern when you think about how helpful the Internet is as a means of finding out what your choices are, informing you as to which choice to make, and acting on that choice.

So, if the drivers of vulnerability are many and various, if vulnerability is here to stay but the drivers of it change over time, where does this take us?

## Getting to know your customers



The single most important thing you can do - and you know this - is really **get to know your customers**. Not only as water bill payers, but **as people**. So much of this is about creating the basis for those human being to human being relationships, that allow you as companies both to learn about your customers' circumstances and to respond to them in a way that works for that customer.

I wonder if some of the things the FCA found in financial services might be relevant to the water sector - these may be things that come up in discussion later during the day. They found too many instances of:

- customers were overwhelmed by complex information,
- staff not trained to deal with sensitive issues like cancer or bereavement - customers calling proactively to be let their bank know that had a cancer

diagnosis and would be going through chemo therapy being asked 'is it terminal?',

- systems, such as making payments, were not flexible enough to allow customer service staff to adapt to individual circumstances - a customer with a dying relative told that the only way their relative, who was so ill they couldn't sign their name, could make a payment was to come into a branch,

So if these are 'problem areas' **what does good look like?** From the customer perspective I suspect it sounds like common sense. As a customer I need to be able to trust:

- that the company will treat me as an individual – it won't be a case of 'computer says no';
- That if my circumstances change, maybe quite suddenly, we can work out a way of dealing with this, with flexible solutions, tailored to my needs;
- That you will communicate with me in a way I can handle and understand;
- That when I talk to you, you listen to what I have to say rather than processing me through a system.

I know that many of you do think this way.

We saw really **inspiring approaches by some water companies in their PR14** business plans to understand who is a vulnerable customer in their area and how they help them. There is a wide variety of tools being used I know. And it is great to see companies increasingly focused on spotting issues early to avoid bigger problems for customers later on.

And I think it is fantastic to see many companies - too many to name check here - working in partnership to provide a better service, not only with national organisations like CAB and Age Concern but with more local organisations too.

The report we have coming out in the new year will showcase some of these examples.

We have been taking a lot about the step change in customer engagement that the sector achieved in PR14. And I have said before that we want to see this go further for PR19 - with more emphasis on **company plans being driven by what you learn from your day to day interactions with your customers, with maybe less emphasis on big willingness to pay surveys**. I think the whole area of customer vulnerability is ripe for this.

We will be **placing more emphasis in PR19 on customer vulnerability**. But in line with our approach - you are familiar with it now! - we won't be telling you what we



have to do. We will be encouraging you to own the issue of vulnerability, understand it and do the right things in relation to your customers and their circumstances.

But we will be looking for you to provide us with assurance that you're doing this.

And we will be looking to see how you have learned from this day to day interactions to inform what you plan to do. And also what you have learned from things you have tried that worked, and indeed didn't work. And what you have learned from the experience of other sectors.

## Trust and confidence

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Ofwat's vulnerability focus report will be published on 18 February 2016

I hope our **report will provide some food for thought** - it is coming out in February next year.

And in the meantime, I'm sure the **debate today will** have an important contribution to make too.

**Thank you.**