

Consultation Response

Ref 2516

Submission to Ofwat re introducing competition to residential water customers

August 2016

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About this consultation

In July, Ofwat, the water sector regulator in England and Wales, published 'Costs and benefits of introducing competition to residential customers in England: emerging findings'. This is part of the Government's agenda to 'open up markets to new entrants, driving greater competition and providing consumers with more choice'.¹

Age UK is the country's largest charity dedicated to helping everyone make the most of later life. We help more than 5 million people every year, providing support, advice and companionship for older people who need it most.

We welcome the opportunity to respond to this consultation. We recently responded to the BIS consultation on faster switching across energy and other markets.² In this paper we respond to the Ofwat 'Summary of emerging findings' document,³ making a number of points about the needs of older people.

Key points and recommendations

1. We do not currently support introducing competition to water customers. We do not believe the evidence presented makes the case for meaningful benefits to customers, including older and vulnerable ones. Based on our experience in other sectors, we believe it would introduce risks for vulnerable and 'inactive' customers.
2. The evidence provided by Ofwat and others suggests that switching would not be successful. This is because a) the savings are less than what people would be motivated by to switch, b) customer satisfaction is high, and c) not all those say they like choice or would switch will actually do so in practice. Following point c, findings should be treated with caution and not used to overstate the case for competition.
3. While we welcome Ofwat's point that vulnerable customers would need to be protected, we are concerned about the potential impacts of competition on older customers, including but not limited to vulnerable customers. Many older people face a range of barriers to switching and so risk losing out on price over the longer-term.
4. Barriers to switching faced by many older people include: not using the internet and so lacking access to comparison and switching tools; finding it difficult to make sound comparisons and decisions due to living with dementia or cognitive decline; and living with physical impairments that make switching practically difficult.
5. Many customers live in vulnerable circumstances that can make switching more difficult, including living with long-term health conditions or mental health conditions, having caring responsibilities, and being isolated, lonely and/or bereaved.
6. The experience in other sectors does not support the case for competition. A majority of energy customers remain inactive despite the large savings available through switching (much larger than in water), meaning that many pay much more than others. Following the CMA investigation, the energy industry is trying to find solutions to help more people switch; given that this is a significant and ongoing challenge, the Government should be cautious about expecting better outcomes for water customers.

7. If competition is introduced, it will be vital that customers in all circumstances can access comparison information and switching services through a range of channels.
8. Further, there would be a hugely important role for various third parties to help people switch, including price comparison websites, advisors, relatives and Attorneys. The Government and Ofwat should support these developments.

Costs and benefits

9. Age UK comes at the issue of introducing competition from the perspective of older customers. While we welcome Ofwat highlighting that the Government would need to consider how to provide assistance for vulnerable customers, we think that many older customers not considered 'vulnerable' would face significant barriers to switching and engaging in the market more generally, and so risk losing out in a competitive market. Further, we do not think that the purported benefits for *all* customers make a strong enough case for competition. Therefore, we do not currently support introducing competition to water customers.
10. The Government's initial call for Ofwat to 'provide an assessment...of the costs and benefits of extending retail competition to household water customers' was made in the context of 'helping households'.⁴ Therefore, for competition to be introduced there should be a convincing case that it will bring down bills for all households. We are currently of the view that the potential benefits to customers, as presented in Ofwat's emerging findings, are unconvincing, for three main reasons.
11. Firstly, the price savings are not enough to incentivise people to switch. Ofwat estimates that the average saving to customers' bills is 'in the order of £6',⁵ well short of the 25 per cent of bill savings that customers say would make switching worthwhile (£6 is only 2 per cent).⁶ Research by the Consumer Council for Water (CCWater) found that 'support for water market competition drops considerably when potential savings [are] revealed'.⁷ When people are informed about the expected savings, less than a third (32%) say they are 'likely to consider switching'.
12. Further, the time cost for consumers of engaging in the water market should be considered in the context of other utilities also seeking consumers' time. Research suggests that consumers have a 'hierarchy of priorities that determines how much time and in what way they are prepared to engage with different markets'. Observation of consumer behaviour suggests that, 'regulated markets [are] not of such high priority'.⁸
13. Secondly, customer satisfaction with water companies is at a five-year high, suggesting that many customers are not desperate to switch. CCWater research shows that 93 per cent of customers are satisfied overall with their water supply, with scores consistently high over the last five years.⁹
14. Reporting on its qualitative research with water customers, CCWater said:
'Participants across many of the focus groups felt that they did not have enough contact with their water company for poor customer service to be a likely motivator to 'push' them away from their existing supplier, or that the offer of improved customer service would 'pull' them to a different company.'¹⁰

15. Lastly, it is vital that the Government treats the customer data with caution. Ofwat's headline findings include that:

- 56 per cent think choice would be a good thing
- 50 per cent would be interested in switching¹¹

These should not be taken at face value to support competition, for the following reasons:

- Asking whether people think choice is a good thing is a leading question, and few are likely to be against choice when unaware of its implications. After being informed about the expected savings, the proportion of customers saying they are 'likely to consider switching' fell from 56 per cent to 32 per cent.¹²
- There will always be a higher proportion of people saying they are *interested in* switching than will *actually* switch in practice, due to practical realities such as hassle and inertia, never mind the practical barriers discussed below.
- Actual switching rates across a range of sectors range from a high of 32 per cent to a low of 7 per cent, as shown in the table below. The highest rate, in vehicle insurance, results largely from the fact that contracts typically last one year and, importantly, are not rolled over. This means that customers are forced to act, which is not the case in energy and would not be case in water.

Switching rates across markets¹³

| Vehicle insurance | Mobile phones | Broadband | Energy | Digital TV | Credit cards | Mortgages | Current accounts |
|-------------------|---------------|-----------|--------|------------|--------------|-----------|------------------|
| 32% | 21% | 21% | 17% | 16% | 11% | 10% | 7% |

16. As Ofwat has noted, some of the challenges facing the water sector – including lower prices for customers, water efficiency and resilience, and customer convenience – can be at least partially addressed through regulation.¹⁴ Given the low average customer savings and the experience of other markets we question whether switching rates will be high enough to drive major investment or innovation by firms. While it is possible that customer service or reliability may drive switching if differences are significant, these factors are harder for consumers to compare which may also reduce consumers' ability to create effective demand.

Barriers to switching

17. There are significant barriers to switching that apply to people of all ages and circumstances, including choice overload, feeling that it is a hassle or too complex, not knowing how to do it, and worrying it will go wrong.

18. CCWater research illustrates some of these points:

“It's such a vast market and we got confused with it and so I think a lot of people could get quite confused, especially as we're in our late 50s and we do use the computer – but anyone who is older or just doesn't use computers I think would just be absolutely flummoxed.” (Female, Medical, Yorkshire)¹⁵

19. Given these barriers – plus the experience of older consumers in the energy market, discussed below – it is clear that competition poses significant challenges to many older people. Ofwat’s own research highlights that:

‘Older customers were least enthusiastic about switching and were concerned about the burden of choice and confusion about who to contact in an emergency.’¹⁶

20. Many older people are independent, self-reliant and capable of dealing with their own affairs, including in water and other utilities. However, many face a range of significant barriers to switching and engaging in utilities sectors. These include the following:

- **Digital exclusion** – Three in five (61%) people aged 75+ are not online;¹⁷ this is a large proportion of people who cannot access online information on comparing and switching. People from lower socio-economic backgrounds are even more likely to be offline – see the table below.¹⁸
- **Cognitive skills** – For example, people living with dementia or experiencing cognitive decline. This can impair customers’ ability to make sound comparisons and decisions.
- **Physical impairments** – For example, challenges with dexterity, vision, hearing or speaking. These can make it difficult for people to access information via computer or to hold effective telephone conversations with a utility company.

% OF PEOPLE WHO ARE NON-INTERNET USERS

| | All | 16-24 | 25-34 | 35-44 | 45-54 | 55-64 | 65-74 | 75+ |
|----|-----|-------|-------|-------|-------|-------|-------|-----|
| AB | 5% | 0% | 0% | 1% | 0% | 4% | 12% | 35% |
| C1 | 8% | 2% | 0% | 3% | 6% | 6% | 22% | 58% |
| C2 | 20% | 0% | 4% | 8% | 3% | 26% | 46% | 80% |
| DE | 22% | 7% | 6% | 16% | 15% | 32% | 35% | 81% |

21. People living in vulnerable circumstances (‘vulnerable customers’) will likely find it especially difficult to engage in the water market and gain benefits. This includes older people facing the barriers listed in point 20, but also those living with long-term health conditions or mental health conditions, those with significant caring responsibilities for a partner/relative and those who are socially isolated, lonely and/or bereaved.¹⁹

22. Barriers could be reduced by inclusive design, ensuring accessible offline information and services, and by providing additional support to switch (see points 28-33). However, the Government should note the significant challenge in getting more energy customers to switch; the energy industry is expending much time and resource thinking about how to achieve this, so the Government should not be overly optimistic in expecting better outcomes for water customers.

23. So, we are concerned that barriers to switching will mean that relatively few customers switch because of the relatively high costs, that vulnerable consumers may in fact experience no choice (because they are unable to switch) and pay higher costs, and that relatively few people will benefit from reduced prices.

Differential pricing

24. The impact of not switching can be that those ‘inactive’ customers pay higher prices than active customers, especially over the longer-term. In this context it is important to

look at the energy market (although we appreciate that there are differences between the markets).

25. The CMA investigation into competition in the energy market identified people aged 65+ as among those groups that are 'less likely to be engaged in the domestic retail energy markets'.²⁰ We know of cases where older people who had not switched in years did switch and as a result made savings of £600 or £700 per year.
26. The CMA also highlighted 'those who have low incomes' as more likely to be disengaged. It concerns us that people on low incomes are therefore less likely to be switchers and so are more likely to be paying higher prices.²¹
27. So, we are concerned that water competition could introduce the risk of a cohort of older, 'inactive' customers paying an increasing price for water relative to more active customers, with the price differential becoming more significant over cumulative years of inactivity. The fact that many people do not switch energy despite an incentive of hundreds of pounds in savings shows the deep level of customer disengagement from utilities markets. There is no reason to believe that this would be any different in the water sector, where the savings incentive would be much lower. We seek assurances from Ofwat that this risk will be fully acknowledged and plans put in place to prevent it from happening, which could include social tariffs, price caps, automatically switching people to more affordable tariffs and intensive support for vulnerable customers on expensive tariffs.

Support to switch

28. In the event of competition, it would be vital that the Government and Ofwat develop and support a range of third part intermediaries to help people who face barriers to switching to do so.
29. Price comparison websites (PCWs) play a key role in helping energy consumers compare and switch. Similar websites could prove helpful to water consumers. However, PCWs are not a perfect solution; there are significant challenges around whether they are fully accessible to people not online, whether or not they should cover the whole of the market, and whether consumers have adequate trust in them. Indeed, previous Age UK research indicated that only 1 in 20 (5%) people aged 65+ trust switching websites.²²
30. Given the limitations of PCWs, the Government and Ofwat should recognise that many customers, including vulnerable customers, need more in-depth support to become active. An example of this is the Age UK Energy Advisors programme, run during 2015-16, involving fully trained Energy Advisors going to people's homes to deliver a range of energy support, including help to switch. Often the advisor would phone the energy supplier to arrange a switch there and then. A total of 395 older people received support to switch, saving an average of £203 per year.
31. Feedback from advisors highlights the importance of having face-to-face conversations and building a trusting relationship in order to reach the point of switching. One said:
'Half the battle... is just making customers relaxed and feeling comfortable to just talk.'

32. More broadly, the programme highlights some of the reasons people seek an advisor, including:
- A lack of confidence or understanding of switching generally or specific information like energy consumption (and difficulty accessing meters).
 - A lack of access to, or confidence using, the internet.
 - Feeling intimidated by long and complex conversations on the phone with suppliers.
 - Phone systems that are difficult to use for people with speaking, hearing or mobility impairments.
 - A feeling of being overwhelmed by responsibilities, including due to caring for family.
33. Reflecting these barriers, many clients wanted the advisor to call and speak to the supplier on their behalf. It is likely they would not have contacted their supplier and switched otherwise. One advisor said:
- ‘When we finish the phone call they tell me they wouldn’t have bothered going through all that on their own if they had known what was involved.’

Other points

34. The emergence of multi-utility retailers supplying energy and water to customers could be good for some older people, bringing convenience and a single point of contact. However, the Government and Ofwat should fully consider the challenges, including bundling being a barrier to switching (as happens in telecoms²³) and the fact that the (vulnerable) customers who might benefit most are likely to be inactive and so less likely to switch to these retailers.
35. In the event of competition, Ofwat would need to ensure there is a system in place to reliably communicate between suppliers data on customers receiving priority services. This is currently a challenge in the energy industry, so Ofwat should understand the challenges and learn lessons from Ofgem.
36. Similarly, Ofwat would need to ensure that water companies have adequate systems and skills to deal with customers who have donated Power of Attorney or who have others who help them to manage their affairs. We are aware of cases in the energy market where someone has switched supplier on behalf of their donor and then had difficulties repeatedly explaining these circumstances to the new supplier.

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- ¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/480798/a_better_deal_for_families_and_firms_web.pdf
 - ² http://www.ageuk.org.uk/Documents/EN-GB/For-professionals/Policy/safe-at-home/cr_to_BIS_call_for_evidence_on_consumer_landscape_and_quicker_switching.pdf?dtrk=true
 - ³ <http://www.ofwat.gov.uk/wp-content/uploads/2016/07/RRR-summary.pdf>
 - ⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/480798/a_better_deal_for_families_and_firms_web.pdf
 - ⁵ <http://www.ofwat.gov.uk/wp-content/uploads/2016/07/RRR-summary.pdf>
 - ⁶ <http://www.ofwat.gov.uk/wp-content/uploads/2016/07/RRR-summary.pdf>
 - ⁷ <http://www.ccwater.org.uk/wp-content/uploads/2016/05/CCWater-Household-Competition-Report-FINAL-20160517.pdf>
 - ⁸
 - <https://www.citizensadvice.org.uk/Global/Public/Policy%20research/Documents/Policy%20publications/Consumer%20Publications/Consumers%20Hierarchies%20of%20Priorities%20report.pdf>
 - ⁹ <http://www.ccwater.org.uk/wp-content/uploads/2016/06/CCWater-Water-Matters-Report-to-client-FINAL.pdf>
 - ¹⁰ <http://www.ccwater.org.uk/wp-content/uploads/2016/05/CCWater-Household-Competition-Report-FINAL-20160517.pdf>
 - ¹¹ <http://www.ofwat.gov.uk/wp-content/uploads/2016/07/RRR-summary.pdf>
 - ¹² <http://www.ccwater.org.uk/wp-content/uploads/2016/05/CCWater-Household-Competition-Report-FINAL-20160517.pdf>, p.9
 - ¹³ <http://www.smf.co.uk/wp-content/uploads/2015/10/Social-Market-Foundation-Social-Market-Foundation-Publication-Should-switch-dont-switch-Overcoming-consumer-interia-WEB-011015.pdf>
 - ¹⁴ <http://www.ofwat.gov.uk/wp-content/uploads/2016/07/RRR-summary.pdf>, pp.16-17
 - ¹⁵ <http://www.ccwater.org.uk/wp-content/uploads/2016/05/CCWater-Household-Competition-Report-FINAL-20160517.pdf>
 - ¹⁶ <http://www.ofwat.gov.uk/wp-content/uploads/2016/07/RRR-summary.pdf>
 - ¹⁷ Internet users in the UK: 2016, ONS, 2016
 - ¹⁸ Table of internet usage stats from Ofcom, 2016
 - ¹⁹ http://www.ageuk.org.uk/Documents/EN-GB/For-professionals/Policy/money-matters/ppp_consumer_vulnerability_uk.pdf?dtrk=true
 - ²⁰ <https://assets.publishing.service.gov.uk/media/576c23e4ed915d622c000087/Energy-final-report-summary.pdf>
 - ²¹ <https://assets.publishing.service.gov.uk/media/576c23e4ed915d622c000087/Energy-final-report-summary.pdf>
 - ²² Age UK Energy Switching Omnibus, 2012
 - ²³ <http://www.smf.co.uk/wp-content/uploads/2015/10/Social-Market-Foundation-Social-Market-Foundation-Publication-Should-switch-dont-switch-Overcoming-consumer-interia-WEB-011015.pdf>