

Ofwat Retail Services Efficiency

Customer and debt management

Industry event

28 September 2017

Background and scope

- ✓ Benchmark debt performance and customer service costs against other sectors
- ✓ Provide an objective and sustainable perspective in how to challenge water companies
- ✓ Debt analysis based on externally published data
- ✓ Customer service analysis based on external data provided by ContactBabel and Dimension Data
- ✓ Drawn upon our utilities specialists, market economists and situational experts

PwC

Key findings from our analysis

PwC Debt Analysis - What did we do?

- Qualitative assessment
- Benchmark telco, council tax, water & energy
- Published data
- Correlated analysis within the sector

Some constraints:

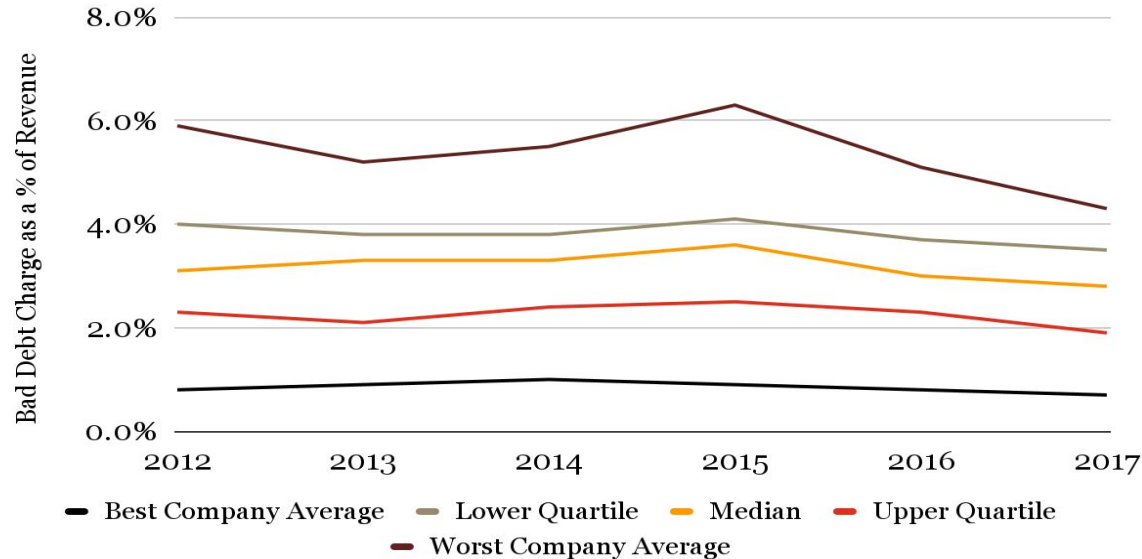
- Water data granularity changed in last 2 periods
- Some extrapolation required
- Other sectors don't separate BtB & BtC
- Limited bad debt data
- Different environment across sectors

Assessed 6 key debt metrics



PwC Debt Analysis - key conclusions

1. Bad debt costs are reducing



A lot of focus on bad debt over the AMP



5yr Avg from 3.8% to 3.1%
(median improved 10% from 3.1% to 2.8%)

Data source: Regulatory Accounts for the financial periods 2011/12 through to 2016/17. Data is derived from the records of all 18 Regulated Water companies. Data compares the bad debt charge for household customers to household revenue.

PwC Debt Analysis - key conclusions

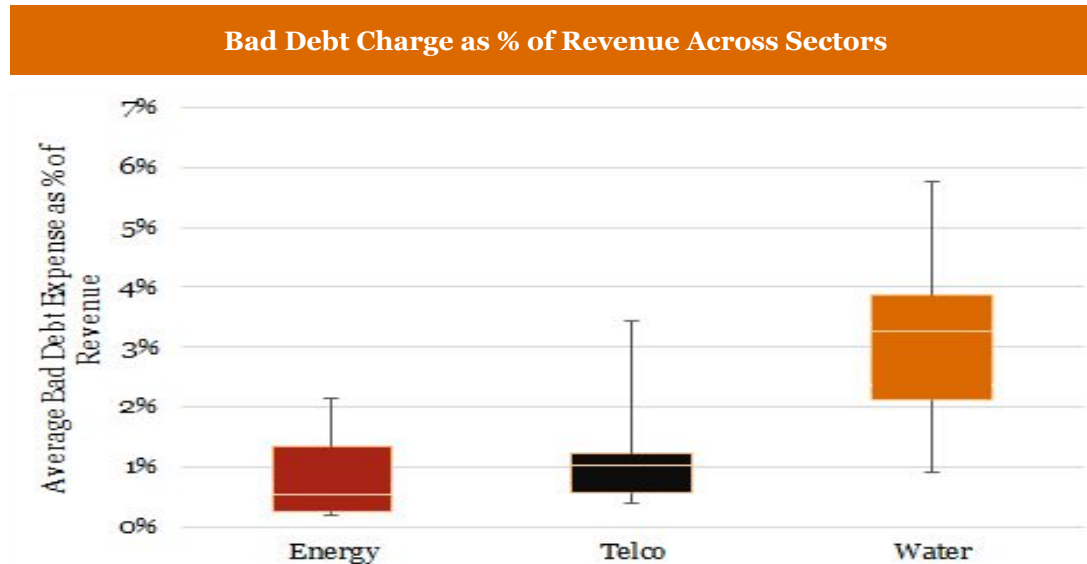
2. But Water is still outperformed by each sector

Metric	Water	Energy Utilities	Telcos	Local Authorities
Bad debt charge as % of Revenue	3.2%	1.5%	0.8%	0.8%
DSO	39	29	30	10
Doubtful debt as a % of net debtors	86%	23%	19%	n/a
Unbilled Debtor Days	80	25	10	n/a

Data source: Water - Regulatory Accounts for Revenue, Bad debt & DSO (household only), unbilled (HH and non-HH combined), Statutory accounts for Doubtful debt (HH and non-HH combined). Bad debt average in period from 2011/12 to 2016/17, DSO, Doubtful debt and unbilled are 2011/12 to 2015/16 (DSO extrapolated from 2014/15). Energy and Telcos - Statutory Accounts. Local Authority - Council tax data from the Department for Communities and Local Government. Average from 2012 to 2016. Metrics show the average median performance in sector, except local authorities which is average across the country:

PwC Debt Analysis - key conclusions

3. The spread in Water is broad compared to other sectors

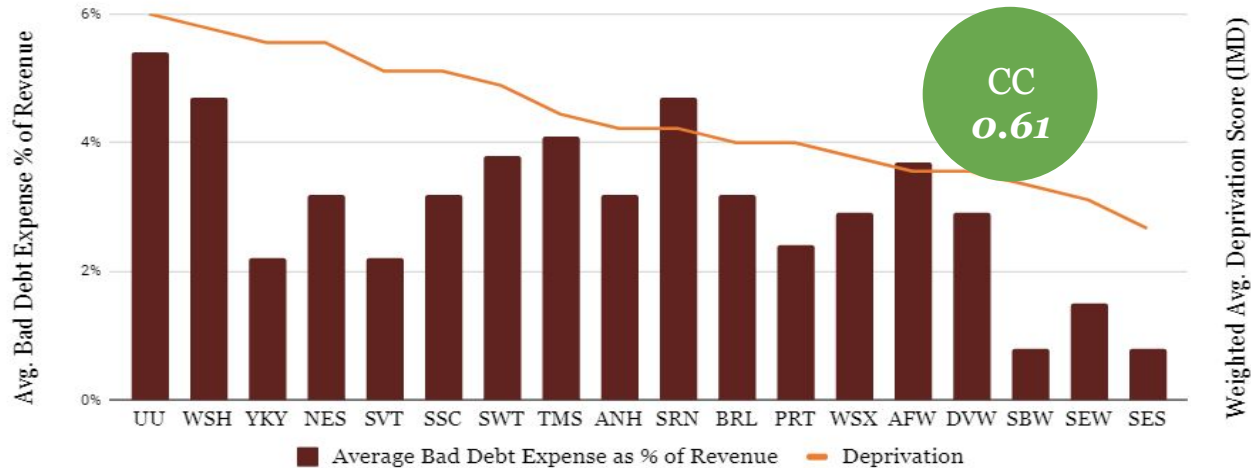


Data source: Water- Regulatory Accounts for the financial periods 2011/12 through to 2016/17 for household only (revenue and bad debt). Energy and Telco - Statutory Accounts published from 2012 to 2016. Average bad debt expense as % of revenue is the average % performance across the benchmarked period

PwC Debt Analysis - key conclusions

4. Strong correlation between bad debt cost and deprivation

Average Bad Debt Charge as a Percentage of Revenue vs Deprivation



But, some perform well despite high deprivation

Data source: Regulatory Accounts for the financial periods 2011/12 through to 2016/17, household only data. Deprivation is the weighted average deprivation score based on 2015 government data (Welsh Deprivation score is the weighted average based on the top and bottom 100 most deprived areas in Wales in 2001). Average bad debt expense as % of revenue is the average % performance across the benchmarked period

PwC Debt Analysis - key conclusions

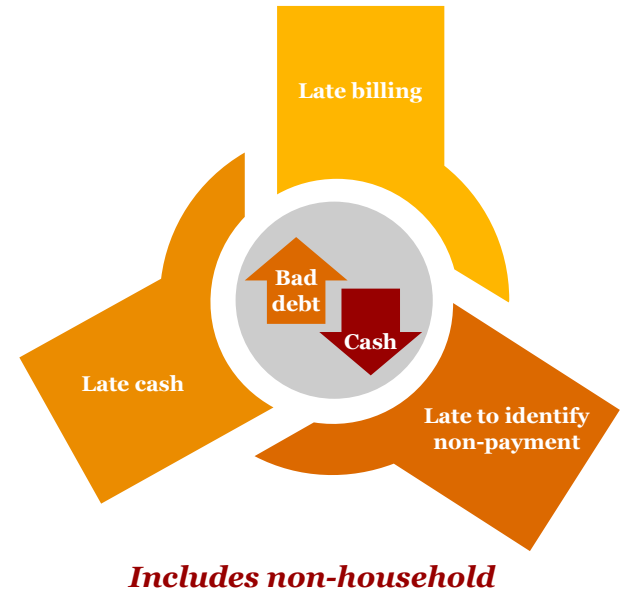
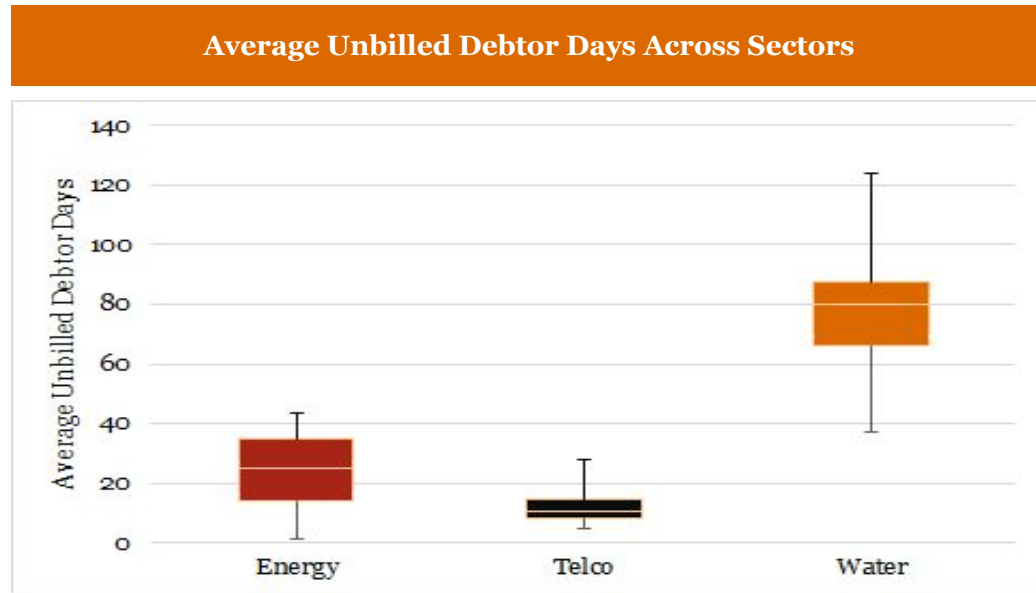
5. There's a less mature debt management environment in water

	Water	Energy	Telco	Local Authorities
Risk mitigation	Limited	Pre-pay meters, Security deposits, Disconnection Credit Scoring on Acq.	Risk segmentation, Usage caps, Prepayment, ID validation; Refuse service/disconnection	Limited
Affordability options	High priority Broad range of options Under utilised	Warm Home discount reactively offered to eligible homes	Wide range of tariff options to suit different customers	CT Reduction (benefit) offered for low income Subject to anti-poverty policies
Routine collections	Typically unsophisticated - limited segmentation. Low use of sms and other channels	More tailored to segment. Better use of sms and other digital channels	Tailored to segment/risk. Widespread use of digital channels	Good use of behavioural marketing, Rapid escalation of non payment
Late stage recovery	Historically limited use of Litigation & default registration. High reliance on DCA. Some door step visits	Prepayment Meter installation, DCA, litigation and enforcement used	Tendency to use limited DCA before moving to litigation and/or debt sale	Litigation and enforcement widely used
Data quality / validation	Limited control Limited validation Poor data	Better validation; Better control over new customers. Final Debt remains a problem	Credit checking & Proof of ID for new customers	DPA concessions. Access to LA administered benefits data

Source: PwC experience

PwC Debt Analysis - key conclusions

6. Water companies take too long to bill

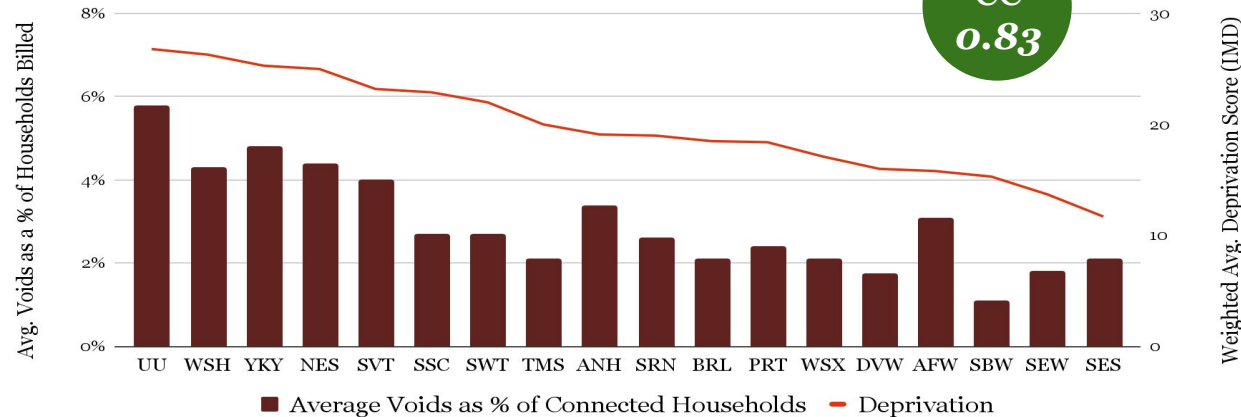


Data source: Water - Regulatory Accounts for the financial periods 2011/12 through to 2015/16, using measured income accrual and total income (HH and non-HH combined). Energy and Telco data is accruals and prepayments from Statutory Accounts published between 2012 to 2016. Days unbilled calculated as the measured income accrual divided total income multiplied by 365 days. The average is the average days performance across the benchmarked period

PwC Debt Analysis - key conclusions

7. The level of voids is highly variable

Average Voids as a % of Total Connections vs Deprivation Index



Voids range
1-6%

Strong correlation between voids and deprivation

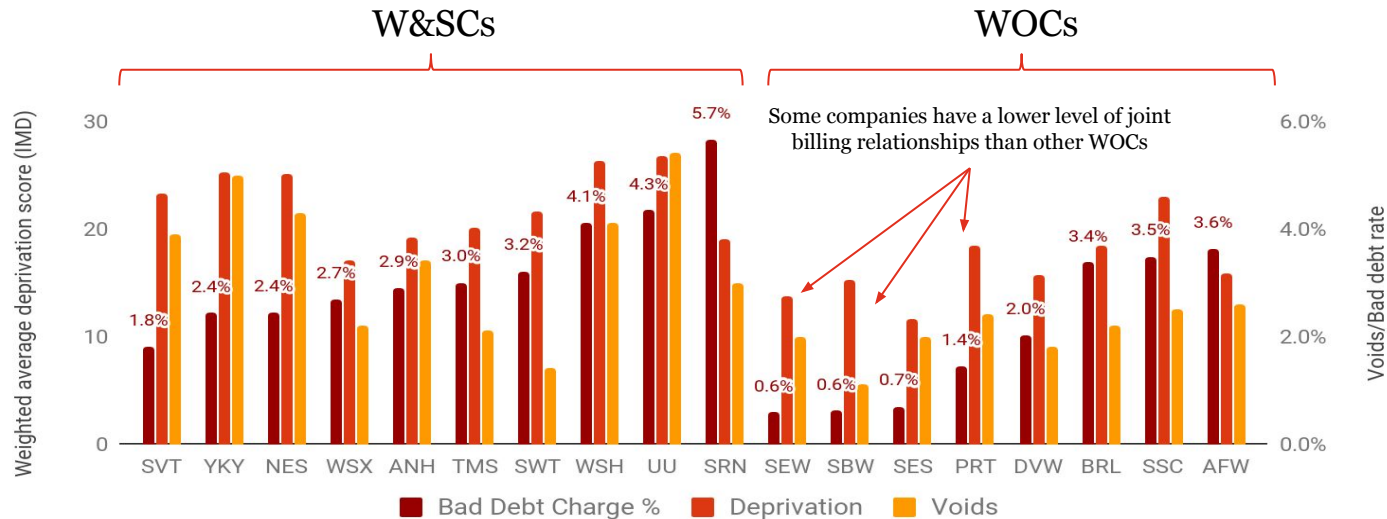
Data quality issues?

Are voids hiding true level of bad debt?

Data source: Regulatory Accounts for the financial periods 2011/12 through to 2014/15. Data compares the household voids to household connected properties. Deprivation is the weighted average deprivation score based on 2015 government data (Welsh Deprivation score is the weighted average based on the top and bottom 100 most deprived areas in Wales in 2001). Average voids as % of households billed is the average % performance across the benchmarked period

PwC Debt Analysis - key conclusions

8. WoCs perform better than W&SCs



Frontier bad debt
0.6%

Range from 0.6% to 5.7%
3 companies at or near frontier

Best W&SCs have elevated deprivation and voids

Best WoCs tend to have low deprivation and no or limited joint billing relationships

Data source: Regulatory Accounts for household bad debt charge, household revenue, household voids and household connected properties. Bad Debt charge as % of revenue based on 2016/17 accounts. Deprivation is the weighted average deprivation score based on 2015 government data (Welsh Deprivation score is the weighted average based on the top and bottom 100 most deprived areas in Wales in 2001). Voids as % of connected properties based on average from 2011/12 to 2014/15.

PwC Debt Analysis - key conclusions

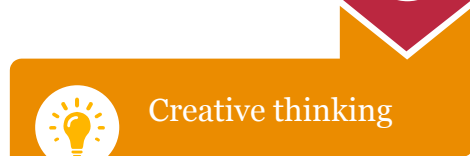
9. Our overall thoughts



Wide variance in performance but 3 companies achieve at or close to frontier



All should aspire to frontier performance. Some will find it hard to achieve



Think differently and prioritise cash and debt management

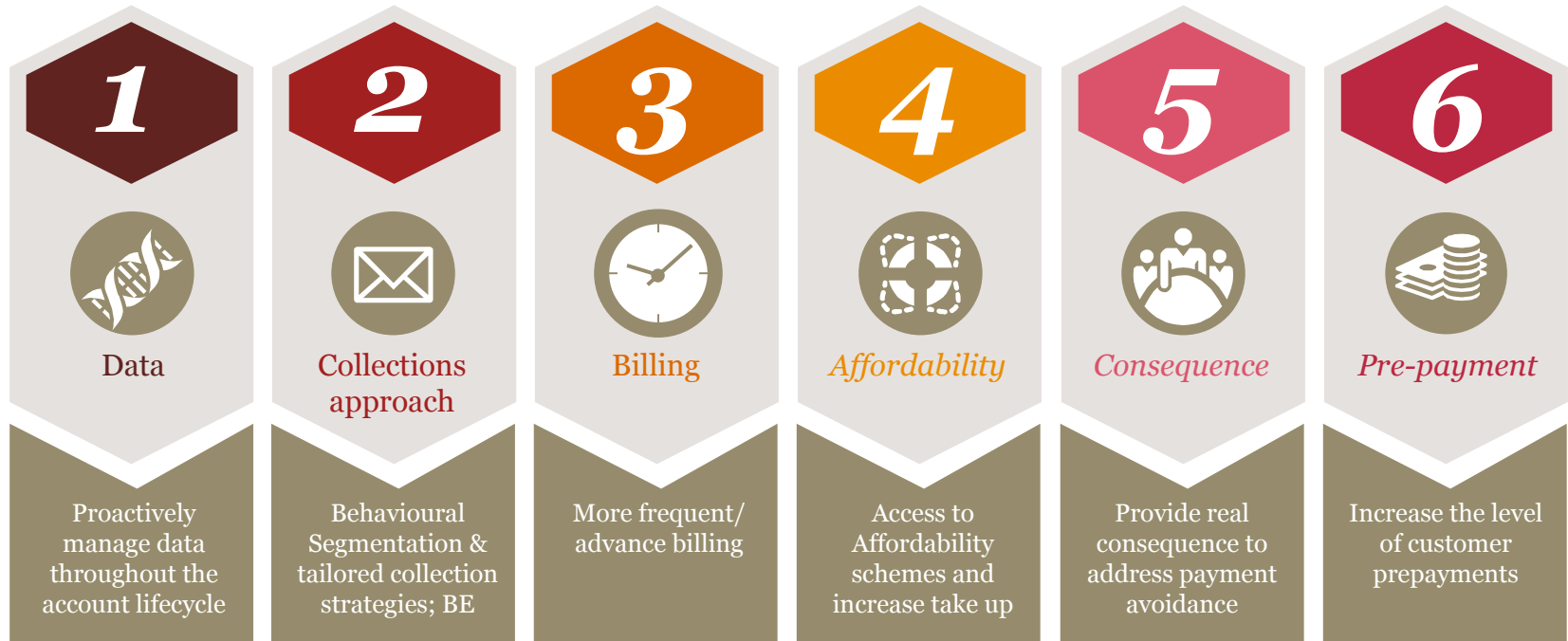


Ofwat should adjust for deprivation & consider:

- Voids
- Doubtful debt

PwC Debt Analysis - key conclusions

10. What could water companies do differently?



PwC Debt Analysis - key conclusions

11. Key areas for assessing the end to end process maturity

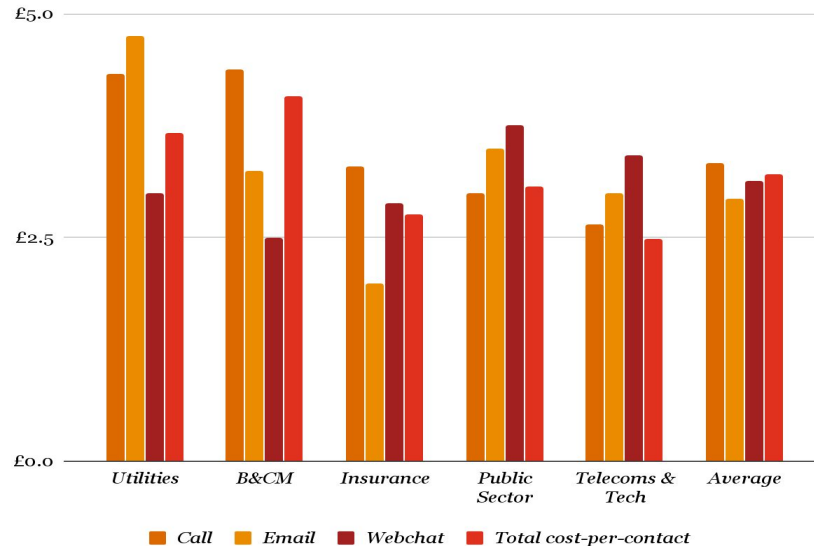


Customer Service costs

PwC Customer Service Analysis - key conclusions

1. Cost-per-contact is higher than in comparable sectors

Cost-per-contact by channel*



The closest indicator to overall customer service cost efficiency is cost-per-contact.

High cost-per-call and cost-per-email key factors in Utilities performance

*ContactBabel, The UK Contact Centre HR & Operational Benchmarking Report 2016-17 & Dimension Data, 2017 Global Customer Experience Benchmarking Report. Combined value (total cost-per-contact) calculated using ContactBabel 2014-16 cost-per-contact data, per channel, and Dimension Data inbound contact channel distribution data.

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Ofwat: Retail Services Efficiency

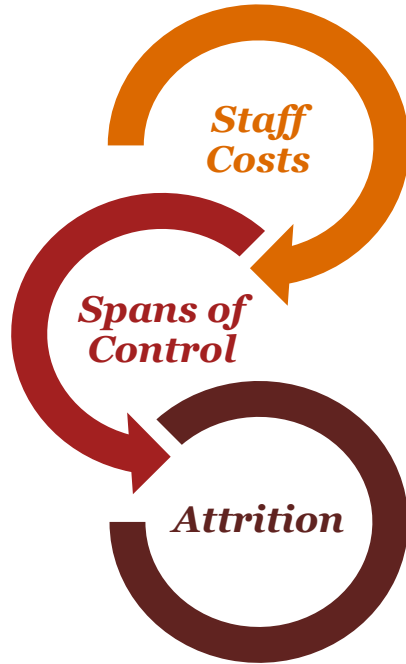
PwC Customer Service Analysis - key conclusions

2. Cost-per-contact performance is driven by four main areas

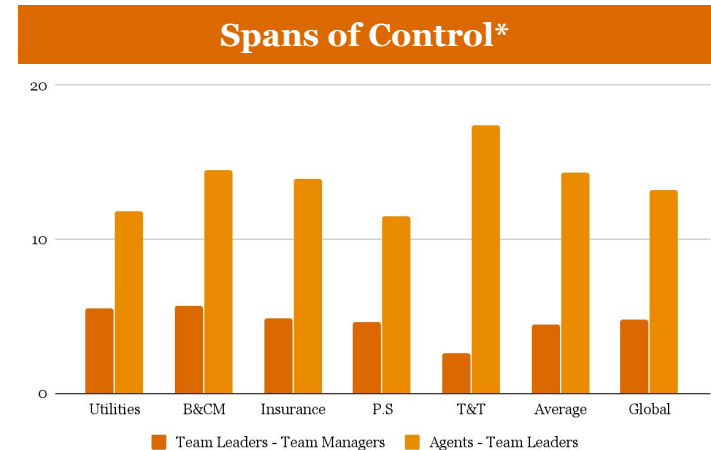


PwC Customer Service Analysis - key conclusions

2.1 People Management



- Costs driven by higher Manager and Team Leader salaries in Utilities
- Spans significantly below other sectors (11.8 vs 14.3), indicating higher proportion of management staff
- Attrition and absence rates appear on par with most sectors but are higher than sectors with cheaper cost-per-contact

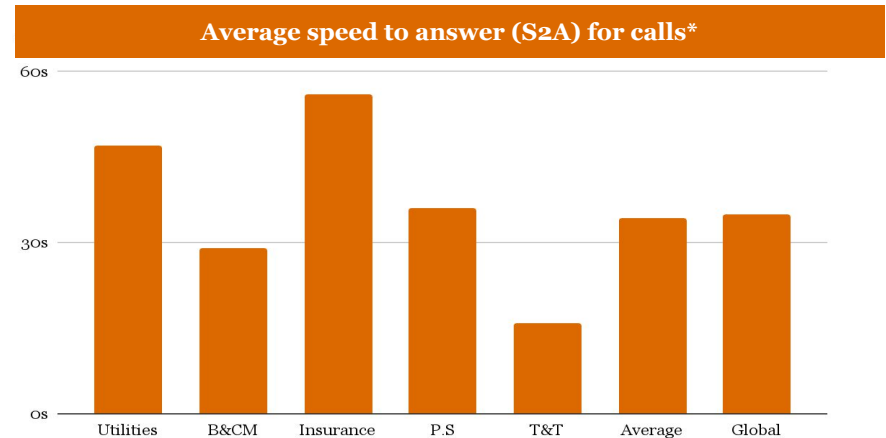


*Dimension Data, 2017 Global Customer Experience Benchmarking Report.

PwC Customer Service Analysis - key conclusions

2.2 Customer Experience

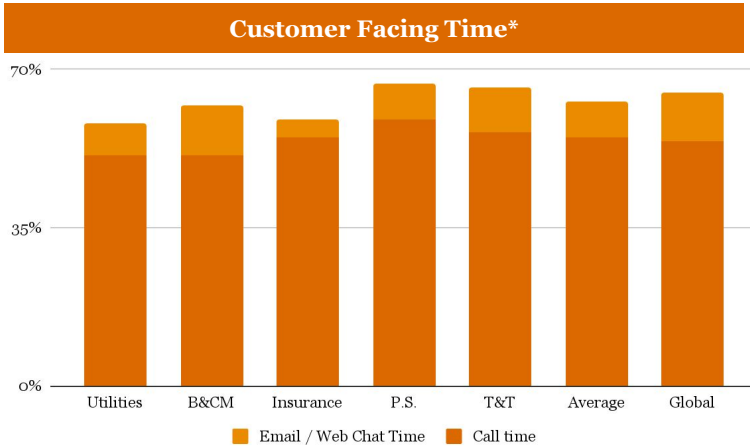
- Service levels are largely in-line with industry averages indicating no significant effect on overall customer service costs.
- Abandonment rate and First Contact Resolution (FCR) performance are largely in-line with other sectors - average speed to answer slightly below (see left).



*ContactBabel, The UK Contact Centre HR & Operational Benchmarking Report 2016-17

PwC Customer Service Analysis - key conclusions

2.3 Operational Efficiency



Overall agents in Utilities spend:

- 5% less time interacting with customers,
- 2% more sat waiting for the next contact
- 3% wrapping up calls

all contributing to less time spent on productive customer service activity.

High cost-per-call of **£4.33** across Utilities is largely driven by the following call performance variance to comparable sectors:

- 60% longer wrap time
- 10% longer average handling time (AHT)
- 4% higher call transfer rate

PwC Customer Service Analysis - key conclusions

2.4 Channel Performance

1

- *73% of inbound contact by call and email*
- *These channels are more expensive per contact than other sectors*
- *Low cost channels have limited penetration*

2

- *Low levels of automation for inbound contact*
- *Considerably below sectors averages across all interaction types.*

3

- *Service levels for digital channels lower in utilities, email response times 3x the average.*
- *T&T has lowest response times and greatest distribution towards digital channels.*

PwC Customer Service Analysis - key conclusions

3. Customer Service recommendations

The primary recommendation to support PR19 is to collect data from water providers across a targeted set of KPIs that will allow for robust benchmarking of customer service functions' cost efficiency against industry-wide best practice.

The following metrics are proposed for collection:

Cost-per-contact across each inbound channel (£)

People Management

Average salary costs across grades (£)

Customer Experience

Call abandonment rate (%)

Operational Efficiency

Agent utilisation (%)

Channel Performance

Inbound channel distribution (%)

Digital self-service volumes (#)

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