
Cathryn Ross, speaking notes

Customer Engagement Seminar, 2 November 2017

Welcome. Delighted to be able to host this event and to have all of you here to take part in what I hope will be an interesting and stimulating discussion on a topic that I think Bob will tell us constitutes a new trend in regulation!

I think that's right. And it's no coincidence.

Now we know that regulation isn't simply about 'holding the fort until competition arrives', we understand just how important it is that that it pays attention not only to driving down costs for the same set of products and services, but also ensuring those products and services are genuinely what customers need and want.

And, recognising that customers' preferences are actually pretty nuanced... and that they change over time... getting the regulator to do bigger and better surveys and turn the answers into bigger and better spreadsheets never seemed that the best way to do that.

Which is why back before the 2014 price review, we decided at Ofwat that we would go in a different direction and encourage companies to own the relationship with their customers, to reconnect with the people who depend on and pay for their services, by placing unprecedented emphasis on customer engagement in our review.

As a result, more than 250,000 conversations with actual real life customers took place, with the results being fed into the companies' business plans. A process that was - crucially for us - assured by the companies' independent customer challenge groups. Groups that were not a proxy for customers, but experts in the field who provided really important assurance to us about the quality of companies' engagement and how it had been taken into account.

All of this, resulted in a set of company business plans that were more grounded than ever in what customers actually wanted, which enabled us to put in place an incentive regime that means what companies get paid reflect whether their customers get more or less of the services that matter to them.

Not only that, but - and I confess this wasn't something we really expected when we started - the whole process seemed to re-energise the sector. That reconnection with customers really tapped in to the public service ethos that really motivates people in water companies. Many companies I have visited have spoken about the effect on staff engagement and motivation.

So, when we refer to PR14 as having delivered a step change in customer engagement, there is plenty of evidence to back that up.

But of course, you wouldn't expect us - any of us, regulator or companies - just to sit back and roll out the self-same approach again.

We wanted to learn and build on it. We want to see a further step change in customer engagement in PR19.

We want to see company business plans in PR19 built from the bottom up - starting by being thoroughly grounded in customer preferences. Less developed by the companies, with customers asked later on whether they 'support' the plan.

We want to see companies seeking out those areas where they can go beyond customer engagement and into customer participation - getting customers (not all customers on everything but maybe particularly interested or motivated groups) involved in co-creating and co-delivering a vision of the future. We commissioned a great report from Corporate Culture called 'Tapped In' on this and held an event on it back in March.

In PR19 we will ask every company for the first time to set out its strategy for identifying and supporting customers in vulnerable circumstances. We think customer engagement has a critical role to play in the development and successful implementation of those strategies. Especially, though not only, where customers who are struggling to pay their bills, will effectively receive support that is funded by increasing the bills of others.

I talked before about how customer engagement was used in PR14 to help shape the financial incentives that companies receive according to whether they deliver more or less of what customers want. We expect that to be the case again in PR19, but given that we expect those financial incentives for delivery in PR19 to be greater, that engagement needs to be better.

We also see scope for customer engagement to support companies' applications for special cost factor adjustments. If customers are being asked to pay more because a company's costs are higher because that company is in some way different, do customers value that difference?

Finally, we have said for a few years now that we expect to see real innovation and improvement in PR19 in the methods of customer engagement. Bigger better customer engagement does not necessarily mean a bigger, better stated preference willingness to pay survey! We want to see companies using a range of tools and techniques to gather evidence and draw insight about what customers' preferences. We want to see them drawing on the information that is revealed through their day to day interaction with customers. But we also very much welcome the use of field experiments. And we will expect companies to apply their brain and really think about what the tools that will best give them the insight they need. And to think about what all the evidence available to them is telling them in the round. And I do think companies are really taking this on board, we will hear from Alex Plant at Anglian later on this.

All of this of course means that the role of customer challenge groups in PR19 is even more important. The fact that customer engagement will be wider ranging, more nuanced and we hope more impactful on business plans means that their challenge, scrutiny and assurance to us on the quality of that engagement and how it has fed through into plans is really vital. And it has been great to see the CCGs passion and commitment to their role - and I have to say Anne particularly the energy of the chairs! - as we have worked with them over the last few years.

So what?

In case anyone was sitting here wondering why companies would be bothered with all this, and whether we shouldn't all go back to the regulate drawing up a list of 'minimum standards' for companies and companies, I want to be clear that the size of the prize from customer engagement is bigger now than ever.

Most parochially, for companies, the quality and effectiveness of their customer engagement will feed directly through into our assessment of their business plans. And as we said in our methodology consultation back in July, we envisage that assessment resulting in a small number of companies who can demonstrate innovation being classed as outstanding, able to access not only an upfront uplift on their equity return but more powerful rewards for delivery through the period. We see customer engagement as one of those areas that is itself ripe for innovation, and is also able to generate innovative ideas that can be picked up elsewhere in plans. Beyond those few outstanding companies, we envisage a greater number of companies being fast tracked as a result of our assessment too. Giving them early certainty about their settlement, and a less onerous regulatory process. And there is no way that a company that cannot demonstrate excellent customer engagement will be fast tracked.

I've spoken to about the important of customer engagement in respect of particular areas of company plans like ODIs and special cost factors.

So customer engagement should really matter to companies who want a good settlement from PR19.

But the real size of the prize here is much bigger than that. In the context of a raging debate about the legitimacy of privatised public services, the ability of companies demonstrate not only that they are delivering against customers' expectations but that they genuinely do know what those expectations are, and have a real connection into the commutes they serve, is more important than ever.

So it is in that wider context, as well as simply in the context of the upcoming price review, that I look forward to hearing the debate today.