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Ofwat
Centre City Tower
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20 September 2019

Dear Sir/Madam,

Ofwat's emerging strategy: Driving transformational innovation in the sector.

I write in response to your request for views on the consultation on Ofwat's emerging strategy. Thank you for the opportunity to comment on what is an important area for the driving real change in the water market. We are keen to share with Ofwat some of the thinking and work that we have done in the sectors that we cover, in particular our work about building consumer trust and confidence in sectors to help deliver innovation that works for consumers.

Summary of our response:

In our response, we want to share with Ofwat and others in the water sector our experience of working in other utility sectors, such as energy and communications. In order to build consumer trust and confidence in sectors and make the most of innovation, we think it is important to look at the customer service and culture of companies. Aligning how companies intend to behave to their consumers, the actual execution of that intent, and the outcomes consumers receive is critical in building consumer trust and confidence. Whilst it is important to promote innovation and maintain resilience in innovation; just like infrastructure resilience, we think it is equally important to promote consumer resilience.

One way to help build consumer trust and confidence in companies and sectors is to look at consumers outcomes. If you look at what consumers think are fair and reasonable outcomes when things go wrong and they need to make a complaint, and what companies think are fair and reasonable outcomes – if you can align those outcomes, then this will help to build consumer trust and confidence in companies and sectors. We have worked on a framework to look at this in more detail – the Intent, Execution and Outcomes framework. We discuss this model in our response.

About Ombudsman Services:

Ombudsman Services is a not-for-profit private limited company established in 2002 which runs a range of discrete national ombudsman schemes across different sectors including energy and communications. Each scheme is funded by the companies under our jurisdiction and our service is free to consumers. In 2018 we received 174,855 initial contacts from complainants and resolved 68,063 complaints. In the energy sector we received we received 108,349 initial contacts and resolved 45,667 cases and in the communications sector we received 62,233 initial contacts and



resolved 21,251 complaints. We also operate a private parking appeals service – POPLA and for 2018 we received over 67,000 appeals.

We are:

- to our consumers, the people they can turn to for impartial advice and solutions that's fair;
- to our partners, the people they look to for knowledgeable and insightful ways to help them reduce complaints by enabling them to make the changes they need to deliver better customer services;
- to our regulators, champions in protecting rights as well as partners in information sharing, we share our analysis so that regulators and business partners can make improvements; and
- to our people, here to enable them to deliver clarity to consumers and partners through meaningful work.

General comments:

We welcome this consultation and agree that companies working together can provide a catalyst to facilitating and encouraging innovation. We also think that there is merit in companies in different sectors working together as well, especially as markets change and technology means that traditional market boundaries fade. We do think that putting consumers at the heart of innovation development is the key to helping deliver real change in sectors and building consumer trust and confidence.

Working with the wider regulatory landscape and strategic redress:

In order to place consumers at the centre of innovation and ensure better outcomes for consumers, we think that the wider regulatory landscape along with water companies needs to work together. As we mention above, this should also include greater collaboration between different sectors, for example, on issues such as consumers in vulnerable circumstances. For example, Ombudsman Services during this year facilitated workshops on behalf of communication providers around sharing good practice in providing a good service to consumers in vulnerable circumstances. These workshops also included energy providers sharing good practice and insight from Citizens Advice and the Competition and Markets Authority (CMA).

We also think that increasingly this must include better sharing and utilisation of data and insights that all stakeholders have. Especially in terms of assessing the outcomes of piloting and wider introduction of innovation.

At Ombudsman Services we take the approach that prevention is better than cure. So, as well as resolving individual consumer complaints, we use our complaint data to build insights to help companies in the sectors that we operate in - to improve their customer services and complaint handling to the benefit of all their consumers, and we work with the wider regulatory landscape to help improve policy development, horizon scan and target consumer detriment as early as possible in order to improve consumer services and complaint handling in the sectors that we operate in. We also look at the impact and outcomes of policy makers and regulators to ensure they are the best they can be for consumers. By working in this way, we help to build consumer trust and confidence in markets. We call this Strategic Redress.

An example of where this works well is in the energy sector via the Tripartite working between Ofgem, Citizens Advice (including the Extra Help Unit) and the Energy Ombudsman. This involves sharing data and insight to spot consumer detriment early and to act accordingly.

The Consumer Voice and policy and innovation development leading to better outcomes for consumers:

We agree that regulation has a key role to play in encouraging and helping to facilitate innovation in terms of policy decisions and thinking. However, we think that the consumer voice must feed into consumer policy decision making and the introduction of innovation. It is important that the outcomes of policies and innovation are looked at in terms

of how they affect consumers, to ensure they are positive and fair for consumers, especially those in vulnerable circumstances.

As you know, recently there have been a number of reports published looking at how regulators need to understand more fully the implications for consumers of their policies. For example, the:

- National Audit Office report highlighted that while regulators have a good understanding of key consumer issues, there are common challenges across sectors and regulators can be more specific in defining and measuring consumer outcomes;
- the Public Accounts Committee (PAC) report called for regulators to demonstrate they are delivering positive outcomes for consumers. The PAC highlighted that consumers are facing the same challenges across sectors and has called for greater consistency between regulators to ensure better services and prevent consumers being exploited; and
- CMA put forward proposals to the Government on reform of the competition and consumer protection regulation of markets. The CMA concluded that more can be done to put consumers at the heart of markets and ensure that consumer protection takes priority to reduce consumer detriment.

Consumer resilience - how to build public trust and confidence to make innovation work:

Building consumer resilience to fully realise the benefits of innovation and infrastructure changes in sectors is key. From our experience of operating in three sectors relevant to resilient innovation – energy, communications and parking, we think this can be achieved by:

- Consciously designing structures and systems for the public. Having data and insights around what the public wants, is complaining about and the impact on the public is key. Ombudsman Services is in a unique position, we have data and insight into what consumers complain about, what they are saying, how they feel and what they think is fair and reasonable.
- Ensuring that there is skills resilience within organisations, for example, appropriate 'soft' skills to communicate effectively with the public, especially when things go wrong. Keeping the public and customers informed about what is happening, manage expectations and fixing things quickly, including providing compensation/redress for customers is crucial. We have worked with organisations and companies within all our sectors to help them build soft skills resilience.

A framework to look at helping build consumer trust and confidence in a sector - Intent, Execution and Outcomes:

Operating the Energy Ombudsman, a Communications Ombudsman and a private parking appeals service - POPLA, we have a unique insight into complaints across sectors. Looking at the data from complaints, we think there is a mismatch between what consumers think are fair outcomes and what companies consider fair. We think there is merit in looking at the relationship between the intent of companies when it comes to customer service, how that intent is executed in practice and what the outcomes are. The diagram at Figure 1 below helps to illustrate what we mean.

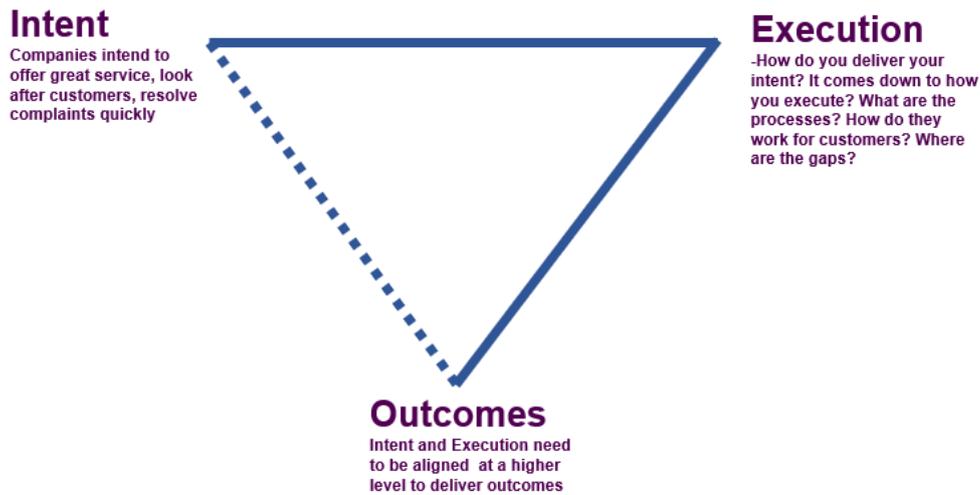


Fig 1.

The diagram links intent, execution and outcomes – the dotted line between outcomes and intent highlights that outcomes achieved should always be reviewed against the intent of the company. It is a continuous process to build alignment between intent and outcomes. To us, it is clear that:

- on the whole companies want to provide good customer service to consumers, or to put it another way they do not intend to provide poor customer service. Many operate in a regulated sector where there is a regulator, consumer advocacy bodies and ombudsman schemes. It is difficult to hide poor customer service in regulated sectors;
- regulators also want to ensure that fair outcomes are delivered to consumers; and
- other stakeholders, for example consumer groups and policy makers, also want fair outcomes and good customer service for consumers to be delivered.

So how might we help companies, regulators and other stakeholders look at the link between intent and execution to deliver outcomes that are aligned to what consumers consider are fair, and therefore help to improve consumer trust? If, broadly speaking, the intent part is good then it seems sensible to look at the execution part in more detail. There does appear to be a disconnect between intent and execution and the outcomes achieved. We call this the execution gap.

The execution gap:

From the data and insights we have on complaints, coupled with what consumers and companies are telling us, we know that the execution gap can be the result of a whole range of things from initially accepting a consumer, setting up their account, when and how the bill is sent out, what the bill says, and dealing with consumer queries. Failure to execute with good customer service means a poor outcome for consumers and a loss of trust – which may mean that consumers switch to a new company or lose trust in the whole sector.

We think that Ombudsman Services can help companies and assist regulators and other stakeholders in achieving fair and good outcomes for consumers in several ways. For example, by sharing our data and insights with the operational teams of companies to help them bridge the execution gap – provide better customer service and complaint handling to achieve better outcomes for consumers. And by working with other stakeholders, using our data and insights to track the actual outcomes from policy decisions that are implemented. Offering almost real time feedback.

Building consumer trust and confidence should be seen as innovation:

We appreciate that when it comes to talking about innovation that the discussion is around technology or new services or systems that do things and offer things to consumers in a new way. This is often very exciting and has the possibility of changing the way things are done for the future. However, we do think that if companies, regulators and other stakeholders were to look at ways of building trust and confidence with consumers as innovation itself then this will help to lead to innovation more generally landing better with consumers and consumers trusting the innovation and making it a success. Companies, by focusing on consumer trust and confidence, will also be more competitive and have an advantage in the marketplace in that they will be more attractive to consumers.

Please do not hesitate to contact us if you would like further information regarding our response. We welcome the opportunity to continue to work closely with Ofwat and other stakeholders to help put consumers at the centre of innovation and service in the water sector.

Yours sincerely,



Matthew Vickers
Chief Executive and Chief Ombudsman

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