



Speech

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A business retail market that creates value for society - the vision and path to delivery

Introduction

Overview

Overview

Our **vision for the market** that creates value for society

What it looks like
The behaviours and outcomes

Delivering the vision

Ofwat role
MOSL role
Market participants role

 Improving life through water | Gwella bywyd drwy ddŵr | 2

Figure 1: Overview of the vision for the market

- 2020 has not been the year any of us expected or wanted. Covid-19 has impacted many sectors, including the business retail market. Whilst we aren't back to business

as usual with the lockdown in England commencing today, everyone is having to adjust to a new normal, which we know is not easy.

- But despite this I think the business retail market is entering a new era – where collaborative and concerted effort from all of us involved can achieve a market that creates more value for society – and that is what I want to explore today.
- It's no longer a new market and the market systems and processes are beginning to mature. For example:
 - MOSL is well placed to provide strong collaborative leadership to the industry, as set out in its 3 year strategy;
 - The industry Panel, under a new chair, is actively looking at how to improve its effectiveness;
 - We are seeing increased momentum to resolve market frictions
 - The pandemic response and water efficiency action plan – demonstrates what can be achieved with collaborative working towards a common goal.
- It's time to step up the pace and scale of improvement – and for a stronger strategic focus on how the market evolves so it delivers much greater benefits for customers and society.
- In my comments today, I want to focus on our vision for the market, on the behaviours needed to achieve a market that creates this value, and the roles that we all need to play in making this possible.

The vision

Our vision for the market

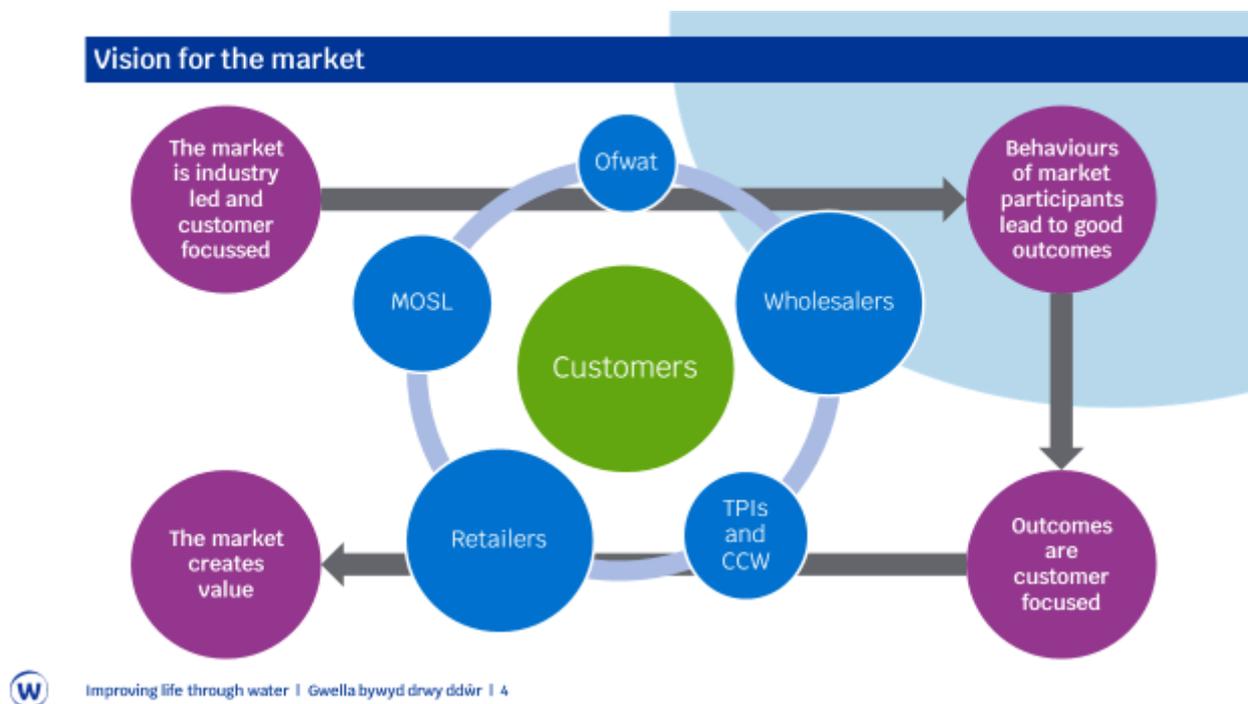


Figure 2: Diagram explaining our vision for the market

- Our vision is of a market that provides better quality service, better value for money and new propositions that increasingly meet the changing and diverse needs of customers and wider society. Success for this market means that it is creating added value – growing the pie. The aim of market opening went well beyond the goal of bringing in new parties to take over the legacy retail activities of the regional water companies and to drive down costs. It was to create a dynamic, competitive market that will drive a fundamental improvement and a significant evolution of the retailer offering altogether.
- With this focus on value creation it follows that we see business customers, and a focus on what they need and expect, sitting at the heart of the business retail market, with the various parties – e.g. retailers, wholesalers, third parties, MOSL, CCW and Ofwat – all playing our respective roles in delivering improved outcomes for these customers. Even in the few years since market opening, we've seen a step change in the speed, accuracy and personalisation of service that is provided by retailers across the economy especially through the use of digital interfaces and data analytics. And it is possible that Covid-19 accelerates this trend and progressively opens up a gap between the businesses that can respond to this new world, and those that don't.

We've also seen businesses – from supermarket chains to manufacturers – realise the importance of strong environmental credentials if they are to maintain or grow their market position.

- These changes demonstrate that innovation is central to achieving our vision of a market that creates value. It is therefore essential that the market is open to innovators and encourages and rewards those who do things differently and better to save customers time, money and water. The opportunities are escalating for participants in this market to provide new services to help businesses achieve their own environmental ambitions and obligations. And I am pleased that we are beginning to see new entrants coming forward to capture these opportunities.
- I hope you can see that, with this vision, the business retail market has the potential to make an important contribution towards achieving the three strategic goals we have set ourselves as a regulator: to transform performance; to tackle the challenges of the future; and to add further value to customers, society and the environment. This market – as it matures – has the potential to
 - set new norms in terms of customer service levels – including through a better use of data and digital technologies
 - to bring down water use and help close Sir James Bevan's "jaws of death" so we have a secure water future
 - and to help us reduce carbon and the pressure that water abstraction places on the natural world.

But to get there, we need to step up a gear and set our sights a bit higher.

- **Behaviours**
- This brings me to behaviours

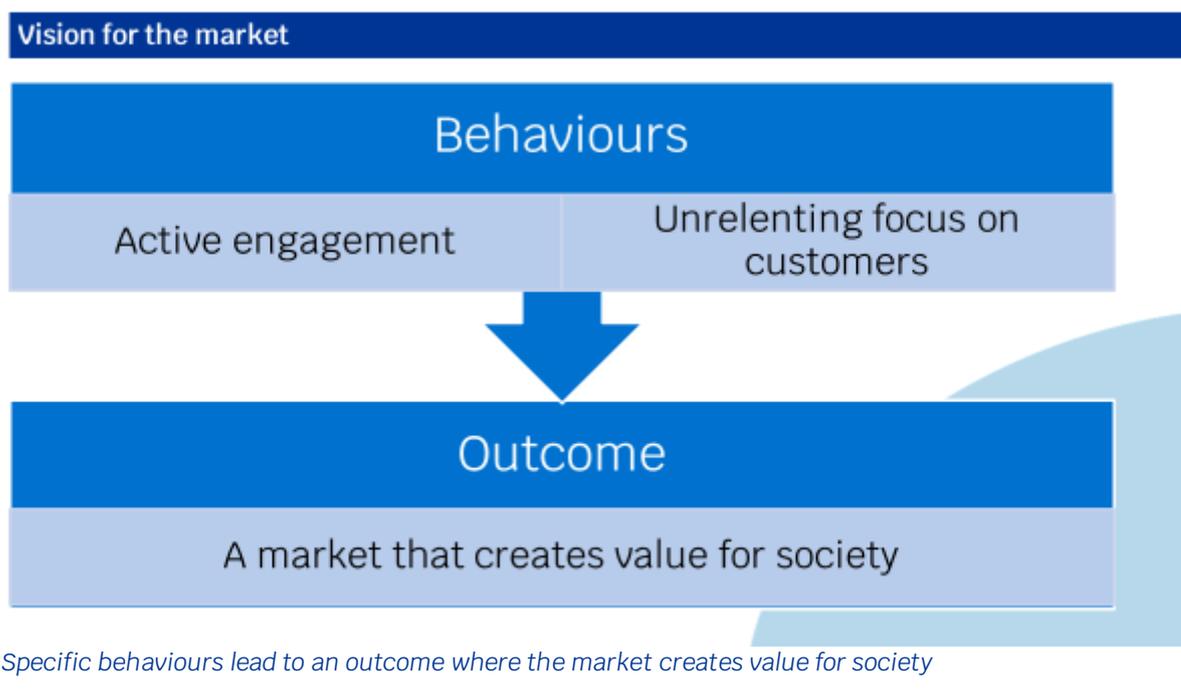


Figure 3: Specific behaviours lead to an outcome where the market creates value for society

- The business retail market has been set up to be industry led. The value of this being that the knowledge and experience of those who are engaged in the market can be harnessed to help the market evolve and mature. And we support this approach.
- However, two key behaviours are needed by all trading parties if we are to achieve our vision:
 - We need active engagement from trading parties – with senior sponsorship and a strategic focus as well as engagement at an operational level; and.
 - An unrelenting focus on customers – and what they need both now and in the future. Of course I don't need to tell you that this makes good business sense as keeping customers happy is crucial to a supplier's success.
- By active engagement we mean that:
 - We want to see trading parties being proactive in identifying if and how the market codes *and operational processes* under which they are governed need to change to bring greater benefits for customers. And to work collaboratively using industry processes, including MOSL, to bring forward well thought out high quality change proposals to the Industry Panel.
 - Sometimes these will be relatively detailed operational issues. But if we are going to step up the pace of change then increasingly we need engagement and leadership at a more senior and strategic level too – with a real commitment to unleash the full potential the business retail market has to meet the changing needs of businesses and to contribute to society. This senior level engagement was one of our challenges to Wholesalers in project RISE.
- When it comes to an unwavering focus on customers:
 - We need market arrangements that can foster innovation. This means there needs to be more attention paid to reducing barriers to new business models and making sure that the rules and codes don't just reinforce the status quo and generate a set of cookie cutter retailers. This dynamism took decades to achieve in energy and we should be looking to learn the lessons so we can achieve this more quickly in water.
 - Obviously the prospect of making it easier for new business models to enter the market, could be seen as a threat by some suppliers, and the changes needed to bring it about, could face opposition. This is why it is important that industry governance is robust and decisions are made on the basis of what is in customer interests.
 - It's been good to see some positive changes recently to make industry governance more customer focussed – for example including CCW as a voting member at panel. But we think more is needed to genuinely put customers at the heart of the market – in particular by harnessing the important check and challenge that independent voices can bring and by listening to innovators, including third party intermediaries, and understanding their needs. We set out some initial views on this in project RISE and are glad to see this being considered as part of the Panel effectiveness and market governance reviews.

Delivering the vision – key roles and responsibilities

I want to touch now on the different roles and responsibilities of the parties involved in the market.

Let's start with Ofwat.

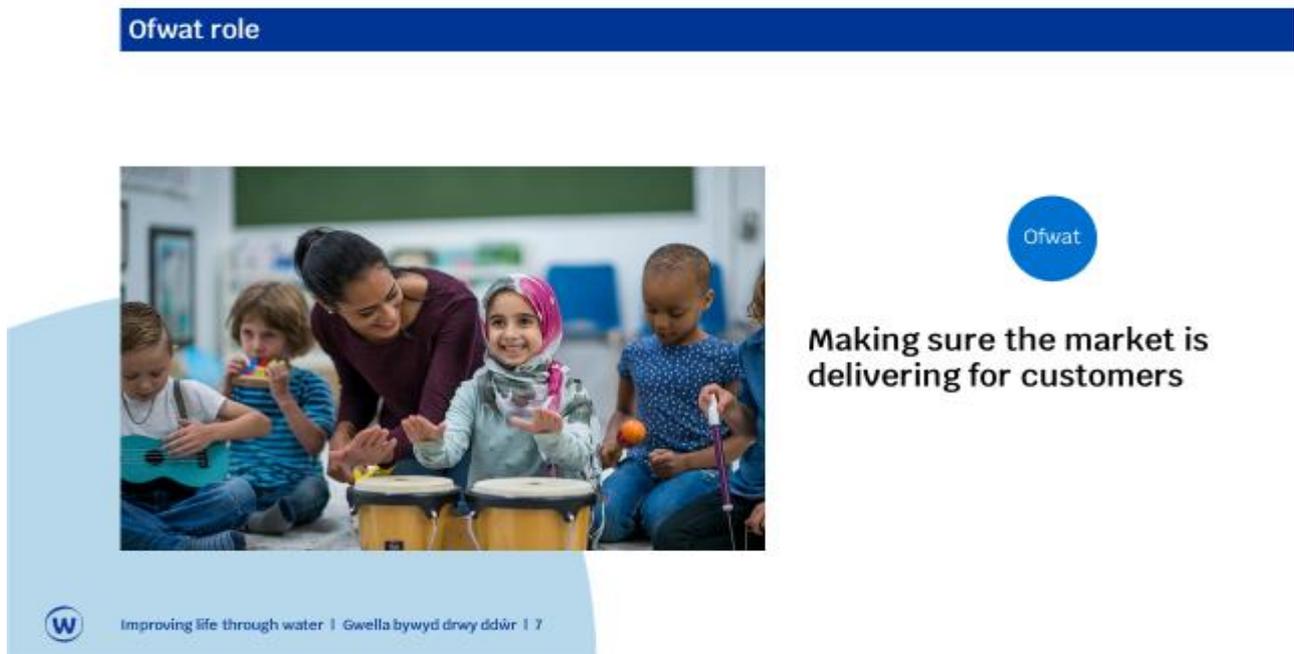


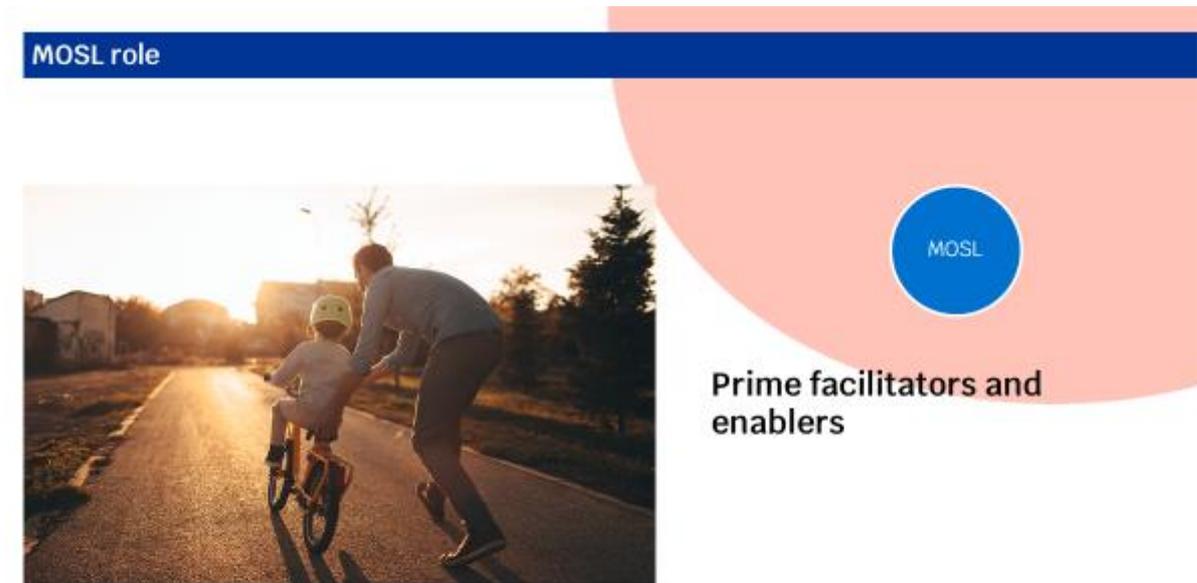
Figure 4: Making sure the market is delivering for customers

- Ofwat has a role in making sure the market is delivering for customers.
 - We have a direct role in making sure customers are protected:
 - For example through the customer protection and retail exit codes.
 - We monitor how the market is performing for customers and take enforcement action if necessary:
 - For example our state of the market reports have helped to identify the presence of key market frictions such as poor quality data; cumbersome wholesaler-retailer interactions; and poor wholesaler performance.
- You will also see us setting strategic direction and working with MOSL to drive change where industry might find it difficult to take action. For example, in relation to market frictions and lack of water savings, we have provided a very clear steer that these issues need to be resolved urgently through industry-led action. It's been good to see industry step up their efforts on both of these. We have also provided – including through project RISE – clear direction that there needs to be sufficient check and challenge on behalf of customers through market governance arrangements. Again, it's good to see this being picked up by the market governance reviews. Going forward we will work with MOSL and others to consider how we could drive a strategic agenda focussed on fostering innovation.

A business retail market that creates value for society - the vision and path to delivery

- The market was designed with the intention that Ofwat would not ordinarily be involved in the day-to-day operations. Of course we will step in where there is an urgent need – e.g. as recently seen in response to Covid-19. But in general it's trading parties with their detailed technical knowledge and proximity to customers who in many cases are going to be better placed at spotting problems and designing the solutions (for example via well thought out code changes to the industry panel). Not Ofwat.
- So to conclude we see Ofwat's role in delivering our vision - of a business retail market that creates value for society - is to: work with MOSL and others to provide the strategic direction; ensure the systems and processes (including market governance) are appropriately customer-focussed and innovation-friendly; and to empower market participants to step up and get on with delivering the vision.

MOSL role



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Figure 5: Prime facilitators and enablers

- Collaboration and partnership working are absolutely crucial to the delivery of our vision for the market and underpin the concept of industry governance.
- For this reason we see the role of MOSL, market operator, as being crucial to delivering our vision – because they are the prime facilitator and enabler of collaboration. Their role is to bring expertise and independent insight and challenge to support industry in identifying and fixing problems to ensure the market delivers for customers.
- We've heard today about MOSL's 3 year strategy and their key priorities. And I fully support MOSL's strategy and the leadership which Sarah is showing, bringing the needs of customers to the fore. This strategy is entirely consistent with the role that we envisage the market operator playing in delivering our vision for the market
- A well-resourced and expert MOSL is critical for the success of the market. Let's all support that goal.

Retailer role

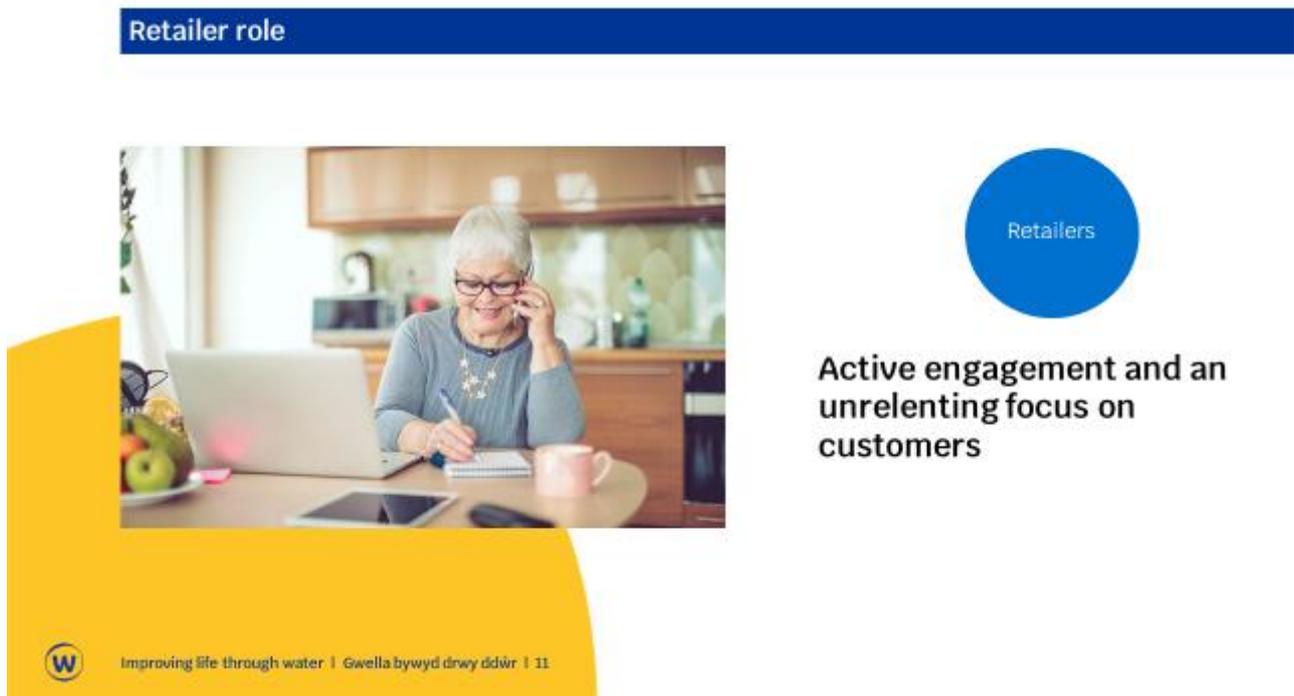


Figure 6: Retailers – active engagement and an unrelenting focus on customers

- To deliver a business retail market that create value for society we need retailers that are tuned in to the needs of their customers, but are also actively engaged in the market. We are looking to you to use your detailed knowledge and expertise of market processes and of your customers to improve the value the market delivers for customers. I want to emphasise that this doesn't just involve identifying the problems – it also involves retailers stepping up to design the solutions.
- Retailers also have unique insight given the proximity to their end customers but it's important this insight is harnessed and supplemented by other voices – for example
 - CCW – with their breadth of knowledge and insight on customers more generally – provide an important check and balance within the market;
 - Innovators – including Third Party Intermediaries (TPIs) – who can provide real insight about existing barriers to innovation (e.g. access to market data?)

Wholesaler role

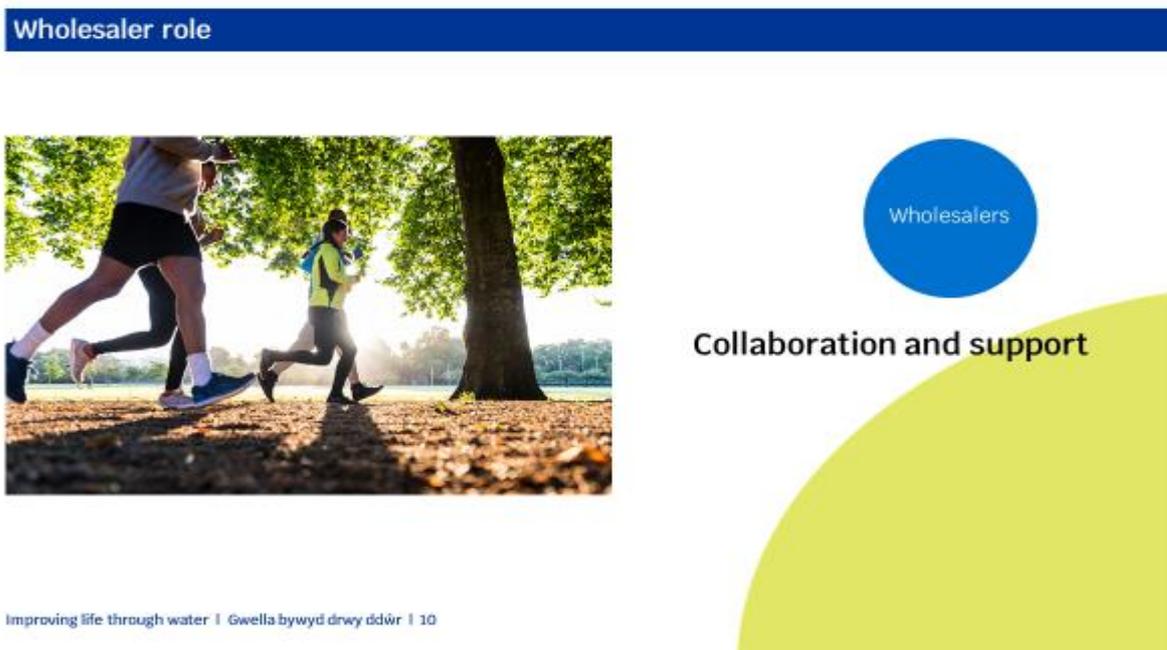


Figure 7: Collaboration and support

- And finally, wholesalers.
- Our goal in Ofwat to transform water companies' performance includes the services wholesalers provide to retailers. In project RISE we found examples of good practice but overall concluded that all wholesalers need to pay more attention to the service they provide to retailers.
- Following this project we are exploring how we can keep the spotlight on the support that wholesalers provide to business retail and other markets so we can better hold wholesalers to account for this aspect of their performance. The introduction of R-MeX¹ is not only a great example of collaborative industry action – it's also an important step towards transforming this aspect of wholesaler performance. We think the introduction of a financial B-MeX² measure could be another important step.
- Project RISE essentially concluded that Wholesalers need to pay more attention to this market and their behaviour in it, including by ensuring sufficient resource is dedicated to it. We also think they need to step up their engagement with the market and show more leadership here if the business retail market is to play a full role in addressing the challenges we face as an industry.

¹ R-MeX is a qualitative measure of wholesaler performance from the perspective of its retailer customers.

² B-MeX is a qualitative measure of wholesaler performance from the perspective of its (end) business customers.

Conclusion

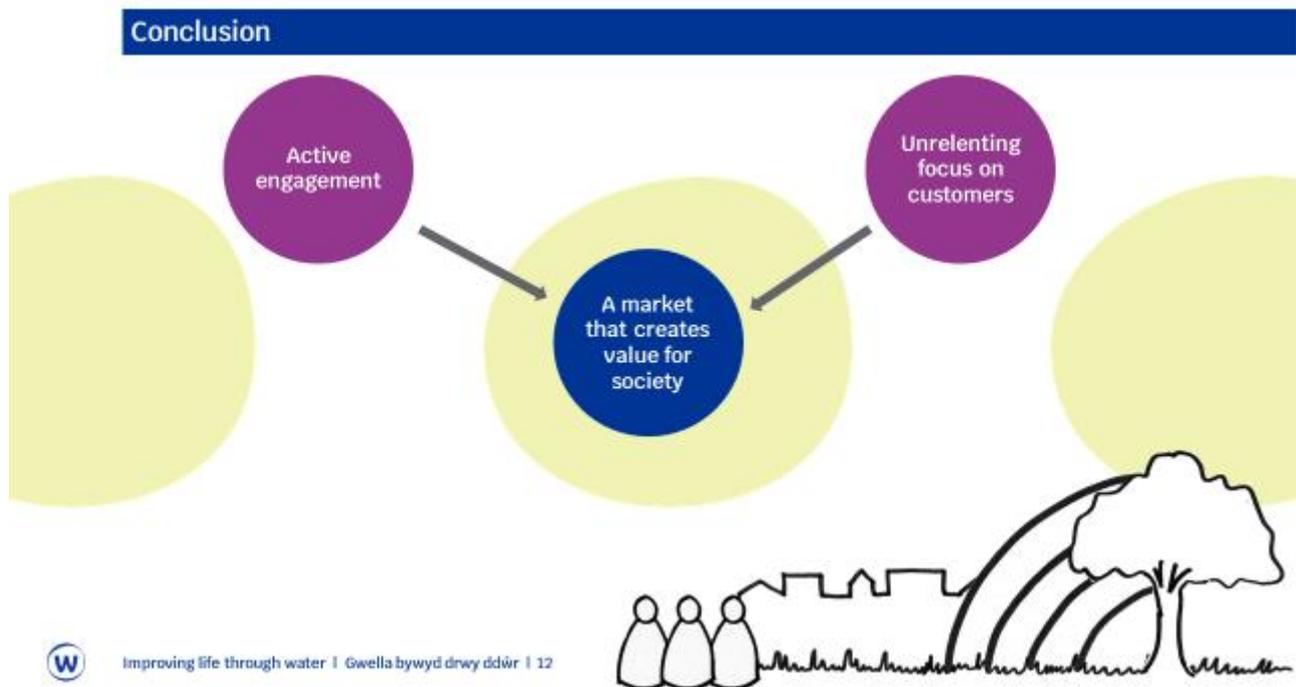


Figure 8: Active engagement and unrelenting focus on customers feed into a market that creates value for society

- So, in conclusion:
- Our vision for the market is simple; it needs to create value for society. The introduction of the retail market was not about carving up the pie, it was about harnessing market forces to increase the size of the pie.
- It's now time to step up the pace at which the market is improving, to realise this vision.
- It's good to see momentum develop on market frictions and water efficiency. And a focus on governance that is more customer-centric. But going forward the market needs a particular focus on reducing barriers to innovation that will unlock greater value – we see real opportunities still untapped especially on the environmental and water saving agenda.
- We all have our role to play in getting there – trading parties, Ofwat and MOSL, independents and customer voices on the Panel.
- If we work collaboratively with an unrelenting focus on customers – and if we show some leadership – we can unlock the greater value that is still untapped and create a more sustainable business retail market for the future.

This is something we can all be proud of.