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DEBT GUIDELINES CONSULTATION

Northumbrian Water Response

27th July 2021

Introduction

We welcome the opportunity to feedback on the draft guidelines and agree the principles of providing clear expectations for customers falling into debt and protecting the vulnerable should be the core purpose of the guidelines.

The guidelines set out a principle-based approach in the initial document, which we support and feel gives clear expectations under which water companies should operate for the benefit of their customers. Appendix 1 then provides a detailed, and considerably expanded (compared to the current guidelines) minimum set of quite prescriptive rules which seem to be at odds with the principles-based approach and ethos outlined in the initial summary.

The scope for flexibility in approach, effectiveness of recovery processes, as well as additional cost need to be carefully balanced to ensure the impact of the guidelines is not to add unnecessary additional costs and worsen debt levels, which all customers would ultimately feel as bills rise as a result.

The water industry, like all sectors has scope for improvement in its debt collection practices and is often quoted as already taking a customer focussed and balanced approach to debt collection.

Consultation Questions

Do our guidelines strike the right balance between offering sufficient protection and support for individual customers, while allowing companies flexibility to recover revenue for the benefit of all customers?

The guidelines are very much focussed on protecting vulnerable customers which we obviously welcome. There is significant additional demand on the company to know much more about customers, which is a challenge when billing and payment interactions with customers are typically limited in nature and the regulatory model encourages a cost reduction approach.

When a customer falls behind with payments, the information available to companies to make collections decisions are based on historical information, and vulnerabilities may not be known. We make attempts to contact our customers, offer support and signpost external help, however we can never be entirely sure that a customer is vulnerable or not. Decisions are therefore often made based on our knowledge of their historic circumstances, home ownership, employment, credit data etc.

For collections activities to be efficient, data sources need to be used to make decisions. The proposed guidelines suggest that companies could take a different approach, (i.e. different to enforcement actions as a last resort only after all other actions have been taken) only if a company accurately identifies a customer will not pay rather than can't pay or has information on a customer's circumstances to show why an alternative method is appropriate. This places a very high burden of proof on a company and assumes that circumstances remain the same throughout the recovery journey.

This approach does mean that costs of collection would increase significantly as more activity is required in advance of debt recovery actions and that as a result it is also likely that bad debt would increase, as customers who are choosing not to pay are not pursued effectively for a longer period. It also increases the risk of absconding customers. Making such a change at this point in the regulatory cycle adds additional costs which companies are unable to recover, and ultimately leads to upward pressure on all bills which all customers incur.

What impact do you think our guidelines will have on customer experiences in terms of payment, help and debt?

We welcome the focus on signposting debt and other support to customers at the earliest opportunity and support these recommendations. We believe that advice is best provided by working with expert partners. A water company, as a creditor, should not be providing advice directly as customers need to be able to trust the independence and objectivity of the advice provided to them to ensure that no individual creditor is unduly prioritised.

The recommendations on payment and billing flexibility set out in the minimum standards are quite prescriptive and could perhaps be better described as examples of the types of flexibility that companies could offer. A company's ability to offer all flexibilities outlined will be dependent on the capability of their IT infrastructure and may take significant investment to deliver. We already offer or intend to offer the payment and billing flexibilities suggested but understand that this may not be possible for all.

We are concerned there is a risk the minimum standards will result in higher debt levels as customers move further into debt before facing the problem, or prioritising water payments.

Are the minimum service expectations set out in the guidelines appropriate? Do any need to be added, removed or changed?

We feel that there are a number of elements that should either be removed or amended.

Requirement for a bereavement customer care email channel

The principle of a making it as easy as possible for customers suffering a bereavement to contact companies is one, we fully support. However, the requirement for a bereavement customer care email channel is very specific. We currently offer a separate phone line for bereaved customers, so they avoid queuing. Customers can of course contact us via the website or in writing. We are not sure why a specific email channel has been highlighted as a single required channel above others that customers might prefer. We know that customers choose a channel they feel more comfortable with, and often a phone call might be preferred which allows companies to show empathy and respect when supporting a customer in this situation.

Research

The minimum standards appendix outlines detailed additional research requirements

We already seek views from our customers on all different areas of our operations routinely through formal research, feedback surveys, customer forums, partners etc. The requirement for quite detailed annual research around billing and payments is an additional burden on companies. We are unsure this additional formal research on such a regular basis would be value for money or significantly enhance our approach. Any changes made from research would still need to be tested with customers and feedback collected.

It feels at odds with the principles of 'guidelines' to find detailed requirements around customer research within a document designed to protect customers and assure them around collections practices.

How can we encourage consistency of approach across the sector?

There needs to be a balance between consistency and innovation, the recovery practices in the water industry and beyond are very different now to those of 10 years ago. With the growth of technology, new contact and payment methods, smart meters and increased data sharing, we want to be at the forefront of

being able to give customers the opportunities and flexibility that come with these new innovations. Showcasing innovation and good practice is the best way of encouraging those underperforming to improve. It sets new standards when it comes to best practice.

There are already processes in place such as the assessments that CCW carry out allow a check to highlight where companies need to improve. These could be carried out differently in future and CCW are talking to companies about improving the assessment process going forward which we welcome.

There are already a number of best practice groups across the sector sharing good practice when carrying out collections activities. Companies should be encouraged to benchmark their activities both within the sector and outside to ensure that they continue to improve their approach.

Our expectations for companies to “Show customers how their views on billing payment and support are encouraging improvements to services” (see expectations 1.24 and 1.30) include companies reporting on the findings of their customer research. We would welcome views on whether this is appropriate – and (if so) the format and frequency.

We support the principle of companies understanding their customers’ needs regarding bill and payment approaches. As mentioned previously, we already seek views from our customers across all areas of our operations routinely through formal research, feedback surveys, customer forums, partners etc.

The requirement for detailed annual research in billing and payments is an additional burden on companies when we are unsure what this additional formal research on such a regular basis would provide to enhance customer experience. Any changes made from research would need to be tested with customers and feedback collected.

We wouldn’t expect to see such detailed customer research requirements within a document on debt guidance that is designed to protect customers and assure them around collections practices.

We are unsure of the benefits from publishing research outcomes and would question whether it’s likely that those customers we would be seeking to reassure would be those accessing the research.

We have had feedback and received customer testimonies that companies can sometimes move from payment prompts to debt recovery action. Should companies give three prompts rather than two for customers to contact the company? We would also welcome views on whether companies should send prompts by different means to avoid errors in contact details causing customers to fall into debt unnecessarily.

Payment Prompts

Where a payment plan is in place, we routinely send electronic prompts, text, email before moving into more traditional paper prompts. The guidelines as set do not define the difference between a payment prompt and a debt recovery action. We aim to signpost support at the earliest stage and would therefore question whether a communication talking about problems paying and debt support relating to a missing payment would be seen as a prompt of a recovery action.

Our experience has taught is that care needs to be taken when considering the number of prompts before moving to recovery action. For many companies they are reporting a customer’s payment performance into their credit file when a payment plan fails, these missed payment statuses deteriorate. The guidelines need to be mindful that any extension to minimum standards that elongate debt recovery might result in

customers finding themselves with a negative impact on their credit score that will have an impact for a number of years to come without being fully aware of the impact. Credit reporting is factual and reports what happens as opposed to the recovery cycle or actions a company takes. Being clear of the potential impact with customers is fair and transparent, the message may become diluted if not clearly outlined in early prompts.

Different contact methods.

Fundamentally companies' recovery processes are designed to encourage contact or payment from customers. We routinely use different contact methods to reach out to customers and are only limited to more traditional methods where we have no alternative contact methods available.

As mentioned in the consultation companies are required to have a code of practice on dealing with customers in debt which should outline what customers can expect from their water company. This document will outline our approach and is reviewed annually. Expectations such as contact attempts should be outlined in the document and agreed annually. The household debt code of practice should reflect the expectations within the debt guidance.

Summary

We do agree that the guidelines need updating and support the view that a principles-based approach is the right development.

The focus on partnerships is essential to ensure customers receive the help and support they need and are pleased to see this take a key place in the guidelines.

Our view is that the changes to the minimum standards as set out are too detailed and place an additional workload on companies which we do not believe will substantially enhance our already high performing approach to support customers. There is a careful balance between ensuring customers have confidence in companies' debt collection practices and making sure that debt collection practices are efficient and effective in preventing customers falling too far into debt and keeping bad debt levels down.