

Supporting residential customers: pay their bill, access help, and repay debts.

Severn Trent & Hafren Dyfrdwy response

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Response to guidelines for water companies in supporting residential customers pay their bill, access help, and repay debts.

Introduction

Overview of our response

We support Ofwat encouraging companies to gain a better understanding of the experience and needs of customers. This can help facilitate improvements to the design of bills, communications, information, and support. The matters covered are of shared importance and we believe we are already largely aligned to the guidelines set out.

We also support Ofwat taking a principle-based, rather than prescriptive, approach to its guidance and while it largely does so, there are some areas where the guidance could strike a better balance.

First, and an important point of context, the guidance and associated tools are not the only means to encourage companies to take an efficient, effective, and customer-focussed approach to managing bad debt. The key incentives for driving this performance relate to (i) cost assessment and sharing and (ii) CMEX. In the interests of applying targeted and proportionate regulation it's important that consideration is given to how these incentives driver performance and what are the potential gaps that then need to be addressed, either through the guidance of amendments to the incentives.

At the last two price reviews the cost allowance for retail (which includes bad debt) has been set at the upper quartile with no provision for input price pressures and companies absorbing all overspend. In practice this means companies have an extremely strong incentive to reduce bad debt. We note that virtually every company has incurred retail costs above the cost allowance in the latest APRs, and so there is an extremely strong incentive to find better and more effective ways to reduce bad debt otherwise companies will not recover their cost of equity. At the same time C-MeX incentivises companies to ensure that their debt management strategies are appropriate in tone and language, and sensitive to customers' needs.

Second, affordability and debt are complex issues whereby the experience and circumstances of our customers can vary considerably and change very quickly. Companies' growing maturity at using customer insight and importantly, data on payment behaviours should unlock much greater potential to develop services and journeys that are better tailored to meet these circumstances. Too prescriptive guidance could inadvertently hinder this in future, for example, specifying the number of prompts that should be issued before a move to debt recovery is made. The guidance could also better consider that a different approach can be warranted between 'can't pay' and 'won't pay' customers. Again, as companies' approaches to distinguish between the two continues to mature, there needs to be scope to take different customer journeys.

Finally, too much prescription in some areas risks not taking into account the different circumstances and opportunities that larger and smaller companies have to understand and support their customers, and which could warrant different approaches – for example, the extent to which partner organisations are used, where there is scope to make charitable trust referrals or how customer insight is gathered.

On the latter point, we understand the rationale for encouraging companies to publish findings from research and improvement plans. However, we are concerned that the requirements are detailed and would increase the regulatory burden (especially for smaller companies) and potentially act as a disincentive for doing additional research. The same outcome could be achieved through encouraging best practice sharing through forums and discussion.

The below details our specific feedback to each point, detailing our support and progress against the guidelines but also where we seek further clarity.

Detailed responses to questions

Q1: 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?

Largely we believe that the right balance has been met and appreciate the sentiment of a fairer approach for all. Severn Trent & Hafren Dyfrdwy recognise the importance of offering a wide spectrum of support to customers in different circumstances and in different stages of their billing journey. We have increased our level of support substantially in AMP7 in recognition of the number of customers struggling financially and introduced new contact channels to ensure we are always there to support those in need.

Similarly, for those customers who won't pay, our approach is fair and specific. Our end-to-end review of debt journeys, data driven approach via Credit Reference Agencies and our desire to do what is right for all customers signals our commitment.

We have recently consulted with external professionals and data scientists to redesign our debt reminder notices. A full review of correspondence for language, tone and layout has ensured we are using best practice techniques, making the approach applicable to the individual. This end-to-end review also includes a review of our language, tone, and layout.

We do, however, seek further clarity on specific points as outlined below whereby we believe there is a potential risk of developing guidelines that are too prescriptive and not all companies may be able to meet in the way envisaged. These points include the need for research, the need for engagement from customers and the need for clarity on those customers struggling to pay and those who won't pay.

Q2: What impact do you think our guidelines will have on customer experiences in terms of payment, help and debt?

We believe the impact will be beneficial to customer experience. We are already acting on many of the proposed changes within the guidelines and they are proving successful within our customer experience measures. We recognise that we are already incentivised for bad debt and CMeX and do not believe that the two are mutually exclusive.

Our approach is underpinned by our ability to identify those who can't pay and those who won't pay. From this we can offer bespoke journeys, relevant to the individual experience. Being transparent, offering easy interactions and being available matters to customers.

Ultimately a fair debt recovery process, and responsible lending mindset is key to ensuring customer money is spent wisely.

Q3: Are the minimum service expectations set out in the guidelines appropriate? Do any need to be added, removed, or changed?

We believe the guidelines are largely appropriate, but do have comments in the following areas:

- ***Agree payments that are right for each customer in debt***

For those that can't pay we offer extensive support. This ranges from a simple payment break to acceptance onto our social tariff (Big Difference Scheme). Dependent on the level of support, this is reviewed regularly to ensure customers' needs are being met and our bespoke Care and Assistance team are there to support during this journey.

Similarly, for those customers who won't pay, our approach is fair and specific. We will always communicate with customers to discuss options but do indeed require mutual engagement. All agreed payment arrangements are confirmed in writing in the form of a payment plan schedule which confirms due dates, payment amounts and completion dates.

Throughout these journeys we will signpost customers to external support, affordability schemes and ways to keep in touch. Based upon this we support the principle but do note that it requires that engagement from the customers.

- ***Be clear, courteous and non-threatening to customers in debt***

We support an approach whereby customers are fairly treated in response to the circumstances. We are already investing here.

Alongside our commitment to continue debt recovery with a fair approach, we do seek further clarity regarding enforcement as a last resort. We would encourage an approach whereby data is used to identify the next best action to offer a truly bespoke journey. This proves more successful and cost effective when we consider our responsibility to all customers.

- ***Be proactive in contacting customers in debt***

Severn Trent & Hafren Dyfrdwy recognise the importance of offering a wide spectrum of support to customers in different circumstances and in different stages of their debt journey. We have increased our level of support substantially in AMP7 in recognition of the number of customers struggling financially. Our strategy centres around the important of identifying two customer categories:

- Can't pay
- Won't pay

As we continue to enhance our approach, we recommend the industry continues to challenge itself to define the customers that can't pay and those that won't pay. Additionally, whilst we will always be sympathetic towards customers, and are incentivised to do so through CMeX, we seek further clarity as to when it may be appropriate for debt professionals to be involved. The importance of signposting customers to support is as critical as being sympathetic to an individual.

- ***Make sure customers who are eligible for help receive it when it is needed***

We recognise the challenges companies face when trying to identify customers in need. Our approach is to offer a service across all channels, always being available and identifying groups of customers who may need our support without the need for contact.

We have already established approaches to allow customers to contact face to face, online, via email/letter or via the telephone. We have a dedicated team to help case manage customers in need, and this is supported by a team based in our communities engaging with external partners to seek out the necessary support.

We have existing data sharing agreements with several Local Authorities and housing associations in our region, which enable our teams to proactively target those most in need of support. By working in partnership with such trusted organisations customers have the reassurance we're acting in the best interests of the customer when promoting our schemes and services and acting quicker to identify customers at risk of falling into debt.

Whilst we recognise that we have a good customer offer for those in need, we would seek further detail on the approach of using all data sources to predict customers at risk of falling into debt. Whilst we enter data sharing agreements to understand customers payment behaviours and offer the appropriate journeys bespoke to a customer, we recognise this may not be an affordable approach for all companies.

Q4: How can we encourage consistency of approach across the sector?

We believe we can learn from current approaches used in the industry. Generally, we feel the industry works well together but a more formal forum for this topic is appropriate. Here we can discuss best practice and the implementation of guidance.

We believe the approach used for the CCW Complaints guidance offers a good recommendation and showcases healthy challenge.

Q5: Our expectations for companies to 'Show customers how their views on billing, payment and support are encouraging improvements to services' (see expectations 1.24 to 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 need to conduct periodic customer research on these topics, as well as drawing on other sources of insight, including complaints data, behavioural science, and on-going tracking. If the requirement is designed to encourage companies to take an insight-based approach to improving service, then it is our preference that Ofwat take a principles based approach, but leave the method and means at companies' discretion (the current proposals discuss being proportionate, but are also quite detailed). Having flexibility is particularly helpful for two reasons:

- it is likely to be more cost effective for smaller companies (than for example, requiring the introduction of new 'set-piece' research projects; and
- careful consideration needs to be given as to how to sensitively engage those who may be struggling (and which may warrant a bespoke approach by companies).

That said, given that the introduction of the guidelines may prompt companies to revise their insight approach, it would be a prudent point for Ofwat and CCW to consider if they would want to use any of this, or other related information, to build a national picture of debt and affordability and which would require it to be captured in a comparable basis in the future. If this was the case, there would be benefit for all stakeholders in clarifying it at the same time.

We're also mindful that companies publicly reporting on information in the way suggested in the guidelines does increase the regulatory burden – with associated resource and assurance depending on the risk associated with the publication. Consideration should be given as to whether the potential additional benefit to customers of publicly reporting on insight and improvement plans would justify this, or if the same end could be achieved more efficiently. For example, an annual forum or event to share best practice and insights (perhaps facilitated by CCW) could allow for more productive discussion and the outcome could be captured in CCW's annual reporting.

Q6: We have had feedback and received customer testimonies that companies can sometimes quickly move from payment prompts to debt recovery action. Should companies give three prompts rather than two (see expectation 4.9) for customers to contact their 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.

We believe that customers should be managed separately, and a single approach does not deliver successful debt recovery or indeed a better customer experience. Our approach is based on data to develop end-to-end debt journeys specific to the individual, moving through debt recovery stages dependent on the history of the customer and data that is refreshed.

We have also tested our approach with external professionals to understand what contact methods, what tone and what structure is likely to engage customers. Whilst we are in the early stages of this, we encourage this more sophisticated approach. Given this we do not believe it is as simple as multiple prompts, but more sophisticated, however we do recognise that this might be the only strategy that is achievable for companies.

