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Nina White

28th July 2021

Consultation on updating Ofwat's guidelines for water companies in supporting residential customers in debt

Dear Dylan,

Thank you for the opportunity to respond to the consultation on updating Ofwat's guidelines for water companies in supporting residential customers in debt, published on 16 June 2021. We support Ofwat's aim of treating customers fairly and in providing support for those in financial difficulties and other vulnerable circumstances.

Our commitment to achieving this aim is evidenced by the fact that we were one of the inaugural signatories of the Inclusive Economy Partnership's Code of Best Practice for Debt Collection & Recovery. We agree with the direction of the guidelines and the attached document provides more detailed responses.

There are a few specific points that we felt it was worth emphasising in this letter, as set out below.

- We are investing in our capability to engage with customers to generate fair outcomes during the collections journey. Of the 59 new guidelines, 47% are within our current practice and a further 31% are in our current plan.
- While we agree with the sentiment of the remaining 22%, as our feedback is based on how the outcome is achieved rather than the outcome itself, we do not feel it is appropriate to have a minimum standard for them at this time. The majority of these are due either to the aspirational nature of the guidelines which are not yet ready to become minimum standards, or to overly prescriptive good practice which is not necessarily best practice.
- We would welcome a discussion on how the guidelines can have a greater focus on outcomes and the measures that demonstrate that those outcomes are being met.

We look forward to working with you to implement improvements to the guidelines.

Yours sincerely,

Nina White
Director of Financial Customer Care

Updating Ofwat's guidelines for water companies in supporting residential customers in debt

28 July 2021

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?

1.1 We support the aim of the guidelines in respect of customer support and protection, but we would welcome an approach that is less prescriptive and more principles-based, geared towards delivering fair and consistent customer outcomes.

1.2 Experiences within the Financial Services sector have shown that whilst prescriptive guidance may offer protection for customers, it sometimes leads to unintended consequences which are to the detriment of customers, often also causing confusion. These are typically difficult to address without formal amendment to the minimum standards, resulting in a poor customer outcome for a period of time. A principles-based approach would allow companies to be nimbler and to react to any unintended potential poor customer outcomes resulting from an existing treatment strategy.

1.3 Our approach is to endeavour to support customers in debt to become debt-free as quickly as is affordably possible by offering them flexible options to interact with us, based on their needs or preferences and a range of payment options including forbearance measures where appropriate. Underpinning this approach are our policies, procedures, and measurable quality assurance to ensure that clear intents for customer segments can be delivered. As a result, our Financial Customer Care business unit has invested in Customer, Credit, Risk & Control based resources to drive processes and a culture aligned to fair and consistent customer outcomes.

1.4 An example of a prescriptive item with unintended consequences in financial services is the requirement to send a notice to a customer who has missed two monthly payments. The intention of the requirement is to ensure customers are aware of these missed payments, the impact this may have on them and the further action that may be taken. However, in a scenario like the COVID pandemic where companies were encouraged to allow payment holidays, even though these payment holidays were agreed by the lenders and supported by Government, the letters about missed payments still had to be sent as this was a prescribed requirement. Lenders were not able to flex to deliver an appropriate outcome for their customers, resulting in confusion and distress.

1.5 While we would recommend that the guidelines are less prescriptive, as stated in our response in 1.1 to 1.4 above, our understanding is that where a customer's or a segment of customers' specific circumstances render the guidelines inappropriate to apply, then we can deviate from them to achieve a fair and appropriate outcome. This guidance on how to interpret and apply the minimum standards is required to give the flexibility to allow companies to recover revenue for the benefit of all customers.

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

2.1 We are one of the inaugural signatories of the Code of Best Practice for Debt Collection & Recovery issued by the Inclusive Economy Partnership ("IEP") and are investing in our capability to engage customers to generate fair outcomes during the collections journey.

2.2 Having reviewed the Ofwat guidelines against our current practices and plans, of the 59 new guidelines:

- 28 are existing practices;
- 18 are in our existing plan to create the capability; and
- 13 would be creating new requirements for our ways of working but we do not consider appropriate to make them minimum standards.

2.3 Therefore, as the guidelines largely reflect either our existing or proposed practices, we believe they will be beneficial and have a positive impact when it comes to helping customers with payment and debt. At this stage however, it is difficult to quantify the level of impact the new guidelines are likely to have.

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

3.1 The table below summaries our feedback by exception.

3.2 In general, we believe there is still opportunity for confusion as some of these guidelines are very detailed and prescriptive and some more aspirational rather than a minimum standard. A more consistent approach would ensure they have more impact.

Ref	Guideline	Feedback
1.9	Offer or accept more frequent billing frequencies to encourage customers to pay and avoid unexpected and unaffordable increases in their bills ('bill shock').	We understand this to mean a monthly payment cycle, which we offer already to help customers who want a monthly budgeting approach. If this is referring to monthly billing based on a monthly meter reading cycle, this would require a separate initiative to assess the costs and benefits of doing so.
1.18	Where companies become aware that a different tariff, payment level, location, frequency or method may suit a customer better than the one they currently use, they should proactively offer the option.	We take every opportunity to be proactive with improving a customer's situation during live interactions. However, the minimum standard suggests that we are proactive at a data segmentation level which is not something that we could implement, so we would be concerned about this guideline being interpreted as such.
1.25 - 1.31	Various, related to publishing research on an annual basis.	See response to question 5.

1.32	Use a consistent means of establishing customer's ability to pay.	We agree that a consistent customer experience is important. We interpret that this guideline is suggesting consistency at a company level and not at an industry level.
2.1	Make efforts to predict where customers might be at risk of falling into debt, and proactively contact these customers with a support offer to help prevent this where possible. For example…	We agree that this is a good aspiration. However, it is difficult. For example, the banking sector is still unable to be proactive during a pre-arrears stage. 90% of customers pay on time within a grace period. There are no models available with any reasonable accuracy that can segment customers with a high risk of being unable to pay in this pre-arrears stage.
2.15	Carry out reviews to help customers maximise their incomes and make them aware of other forms of support they may be eligible for through Government or other service providers.	We support the need to help customers that have financial difficulties, but we feel that a better customer outcome is to signpost/refer them to debt advice professionals who can assess their needs holistically and then coordinate all interactions with all creditors. This reduces the burden on the customer and achieves a more consistent and better outcome for them. For example, we do support customers with income maximisation services, but through a referral to Auriga.
4.7	Companies should engage with customers on Water Direct – or about to be placed on it – directly. In particular, companies should,,,,	We would like to support this, but issues with the Water Direct scheme need addressing first to justify this level of engagement. The % cap on the value of deductions from UC has reduced from 40% to 25% from April 2021. Water arrears are 13th in priority. There's a good probability those with water debt will have rent arrears as well as gas and electricity, which are higher priority. This will take at least 10% of the 25% available. For joint UC recipients, if there isn't a full 5% available, the scheme can't be set up for water arrears.

		As such, we don't think this guideline is appropriate at this time.
4.24	Consider highlighting customer outcomes and testimonies on resolving debt problems to encourage other customers to contact them.	This is an example of good practice to promote adoption of services, but it's not the only way to achieve this and feels overly detailed and prescriptive.
6.17	Monitor arrangements after they have been set up to make sure the customer is content with them.	The language for this guideline is not very clear and we would recommend instead utilising the wording from the IEP's Code: Regularly review and adapt repayment plans as the customer's situation changes.
1.13, 1.21, 1.23, 1.29, 1.31, 2.2, 2.6, 4.24, 6.6	Various, but all start with 'consider'.	We agree that these guidelines would drive some positive practices. However, they are aspirational and don't define a minimum standard. To convert them into a minimum standard, they would need initiatives with sponsorship from the industry or, in some cases, regulators before adopting consistently. At that time, it may be appropriate to adopt them as a minimum standard. 2.6 is a good example of this. We are leading the way with data sharing with statutory bodies / 3rd sector organisations and are sharing our practices with the sector which we hope will become business as usual but expect this to take several years.

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

4.1 We support the desired aim of a common best practice experience for customers, but we feel that rather than 'consistency of approach', the sector should be encouraged to 'consistently deliver fair customer outcomes'. Whilst the approaches may differ within some broad principles, a fair and consistent outcome for the customer should be the result we are collectively aiming for.

4.2 We would welcome further discussion about how this could be achieved, for example evidencing how deeply the approach to delivering an outcome is embedded through a company's culture, policies and processes and then measured through customer outcome KPIs. For example, complaint volumes, handling times, CSAT, C-MeX, % of broken payment schemes/plans, first time resolution etc.

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.

5.1 In general, our approach is to use insight to better understand our customers, their specific needs and expectations, and also how we are performing against their expectations. In this way, we identify areas requiring improvement and can also undertake targeted research to shape continuous improvement on specific issues.

5.2 We routinely gather insight on our performance, for example processing times, satisfaction surveys and customer outcomes such as complaints and ability to pay payment plans. We also have an active vulnerability network where we continually engage with thought leaders in organisations such as StepChange, Money Advice Trust, Citizens Advice, Money and Penson’s Service and Christians Against Poverty. Their research and publications feed into our strategy and plans. This external and internal insight leads us to focus on areas of improvement, such as our recent work to improve our bill where we undertook research with customers as part of the development. We then collaborated with Plain Numbers to test ideas through further quantitative research with customers to further improve comprehension of the bill.

5.3 From our experience, we have found that customers do not engage with information or activities outside of their functional needs. Therefore, producing regular research with the end customer as the audience is not value adding.

5.4 We have not seen any research that suggests that customers would welcome an annual presentation of research in the water industry debt collection processes.

5.5 As a result, we do not think it is appropriate to include guidelines 1.24 to 1.30.

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.

6.1 We are unclear as to the formal definitions of debt recovery and payment prompts. However, assuming that debt recovery is passing an account to a Debt Collection Agency (“DCA”) and that a prompt is a letter, SMS, phone call with the customer etc. then we would, in most circumstances, expect to issue at least three prompts before we would pass to a DCA.

6.2 However, as per our comments in 1.1, we would favour a principles-based approach to avoid prescriptive requirements having potentially unintended consequences e.g. if we have had a letter returned undelivered and we have no other contact details for the customer, do we have to send a further two letters before passing to a DCA, knowing that they will likely be returned too? If we outsource the management of our deceased cases to a specialist debt recovery company, are they included? If so, would we have to write to the executors three times before we could pass it to the specialist? There are likely to be many scenarios that may not be appropriate for three prompts which we feel could be addressed by the application of principles rather than a prescriptive requirement.

Thames Water