

# Meeting note

14:00 – 15:30, Wednesday 15 November 2023

## C-MeX workshops for PR24 – cross-sector benchmarks

This note provides a summary of the key points raised by water companies and other stakeholders during a virtual workshop on using cross-sector benchmarks to allocate C-MeX incentive payments at the 2024 price review (PR24).

This meeting was part of our [review of the C-MeX incentive mechanism](#) for PR24.

### Presentations from Ofwat and the Institute of Customer Service

Ofwat presented on its proposed approach to allocating incentive payments at PR24 making greater use of cross-sector benchmarks, including the formula currently used for the 2019 price review (PR19).

The Institute of Customer Service provided an overview of the UK Customer Satisfaction Index (UKCSI), which is currently used as a higher payments gateway in C-MeX for PR19, as well as proposed changes to come into effect from January 2024.

### Discussion on using cross-sector benchmarks to allocate incentive payments for C-MeX for PR24

During the workshop discussion, the following points were raised by water companies and other stakeholders in attendance.

Potential benefits of Ofwat's proposed approach:

- helps to align with customer expectations;
- enables comparisons between water companies and firms outside of the sector;
- makes use of UKCSI, which is a well-known and established measure of customer service;
- would be made more robust by proposals from Institute for Customer Service to increase survey sample sizes and change survey questions; and
- provides an opportunity for the water sector to work together to increase its average score within the UKCSI.

Potential risks with Ofwat's proposed approach:

- may inappropriately compare the customer service provided by water companies and other sectors, with some water companies suggesting using a subset of other sectors in the UKCSI which they argue are more comparable;
- may unfairly compare survey results from C-MeX with the UKCSI, with some arguing that the UKCSI is more affected by reputational effects than direct customer service experience which has a higher weight within C-MeX;
- potentially introduces more risk to water companies, with payment thresholds based on the performance of other water companies;
- uses the UKCSI, which some companies feel lacks robustness – while proposals to increase its sample size, include all water companies within the sample frame, and change the survey methodology were welcomed, some argued sample sizes are still too small;
- creates short-term risk to water companies if improvements in customer service do not occur immediately, which may mean negatively skewed risk for water companies until later in the 2025-30 period;
- adds complexity to C-MeX, potentially making it harder to understand.

Other points raised:

- Some stakeholders said it would be helpful to see more modelling on the proposed approach, including financial impacts.
- Some stakeholders asked questions on the timings/frequency of the UKCSI surveys and interactions with C-MeX.
- Two stakeholders asked why we use standard deviation in the conversion calculation.

Query	Response
Will we provide modelling of different approaches, including financial impacts? Will this include other proposed changes, such as an increase in the weight of the customer service survey?	As part of reaching our decisions we will undertake modelling, including of financial risk, and provide this in the PR24 draft determinations, We confirm this will include the impact of all proposed changes.
Why do we use standard deviations in the conversion calculation between UKCSI scores and C-MeX?	The reason for having standard deviations in the conversion calculation is to reflect spread and control for survey differences. We are proposing to use the same calculation as we used at PR19 for the higher payments gateway. We are open to exploring any alternatives.
When do the UKCSI surveys take place, when are they published and which results are used in C-MeX?	Survey results are published twice a year, in January and July. Data is collected in March / April and September / October. We currently use the July survey results in C-MeX, and at this stage are not proposing to change.
Will non-member companies receive the full water industry scores so we can verify the calculation?	The Institute of Customer Service have confirmed that it will provide each water company with its UKCSI score and sample size, whether or not they are members.

	<p>All water company scores will also be in our C-MeX in-period model (as currently).</p>
<p>Some attendees noted that there are some questions which are not applicable to the water sector, such as 'would you switch supplier' question. Is there any accounting for these questions for the water company scores? How do these answers impact overall scores?</p>	<p>The UKCSI is based on responses to 26 questions / measures across 5 dimensions of customer service – Experience, Complaints, Customer Ethos, Emotional Connection and Ethics. These measures are based on research the Institute of Customer Service has undertaken into customer priorities across all 13 UKCSI sectors including the utilities sector.</p> <p>As part of the UKCSI research, it asks additional questions that provide extra insight but are <u>not</u> part of the UKCSI so have no bearing on a company's UKCSI score. These include: how likely would you like to be stay as a customer of xx / buy another product or service from xx / recommend xx to others.</p> <p>In addition, a customer can select N/A for any question (including those that form part of the UKCSI score) and if they give this response, it is not included in the UKCSI calculation.</p>
<p>Noting that it is an online survey, does this limit the representation of some customers?</p>	<p>The methodology to collect data for the UKCSI is online: this is a deliberate, practical and cost-effective method for gathering large number of responses from a broad cross section of customers.</p> <p>The Institute of Customer Service monitors and reviews the make-up of the customer sample by age group, region, gender and ethnicity to ensure as much as possible it reflects the UK adult population. It also includes questions about household income, well-being and whether a customer has a disability or long-term health condition. In this way, it ensures that the UKCSI is an accurate representation of the UK adult population.</p>