

Consultation response

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# Energy UK: **Commission for Customers in Vulnerable Circumstances**

**Response from the Money Advice Service**

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## 1. About us

- 1.1. The Money Advice Service (MAS) is a UK-wide, independent organisation set up by government to improve people's ability to manage their financial affairs. Our free and impartial money advice is available online and by phone or webchat.
- 1.2. As the statutory body for financial capability, MAS has led work with financial services firms, the third sector, government and regulators to develop the Financial Capability Strategy for the UK<sup>1</sup>. This 10-year strategy aims to give people the ability, motivation and opportunity to make the most of their money.
- 1.3. The Financial Guidance and Claims Act 2018 establishing a new Single Financial Guidance Body received royal assent on 10th May 2018. One of the Objectives of the new Body is to 'ensure that information, guidance and advice is available to those most in need of it (and to allocate its resources accordingly), bearing in mind in particular the needs of people in vulnerable circumstances.'<sup>2</sup>
- 1.4. The work of the Commission is timely. Data from debt advice services we fund shows 13% of those seeking help from these services are behind on their energy bills. These clients are more likely to have been diagnosed with a mental health condition<sup>3</sup>. We welcome the opportunity to respond and discuss our work on both financial capability and debt advice, the recent recommendations from the Wyman Review, and how Energy UK, its members and the Money Advice Service can work together effectively.

## 2. Executive summary

- 2.1. We welcome the Commission's recognition of financial vulnerability as a form of vulnerability. However, it is vital that when considering vulnerability in a financial context, firms see it as a wide issue, which covers financial capability.

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<sup>1</sup> Money Advice Service, Financial Capability Strategy for the UK, (October 2015)

<sup>2</sup> <http://www.legislation.gov.uk/ukpga/2018/10/section/2/enacted>

<sup>3</sup> Data based on Citizens Advice, East Midlands Money Advice, Greater Merseyside Money Advice Partnership, Money Advice West, Capitalise or Citizens Advice Northern Ireland services. The data was collected between November 2016 and October 2017 based on advice provision in England, Wales and Northern Ireland between July 2016 and June 2017.

- 2.2. When considering vulnerability firms should be aware of the role it could play in preventing people who need advice or guidance. We must build awareness and trust in what's available in a way that is focused, timely and relevant.
- 2.3. When approaching issues of vulnerability as well as understanding your customer, consistency of treatment is key. This is a focus of the Wyman Review, our creditor toolkit and the Standard Financial Statement, which we discuss below.
- 2.4. We would be keen to discuss in more detail how the Commission could play an important role in the UK's Financial Capability ('FinCap') Strategy. The Commission can play a major role in the FinCap Strategy, by ensuring suppliers are aware of its aims and integrating its objectives into their approaches to vulnerability, helping customers build resilience.
- 2.5. As the body with statutory responsibility for coordinating the debt advice sector in the UK, there are several ways in which we could help energy suppliers support customers in vulnerable circumstances. We would be happy to discuss these further with the Commission.

### 3. Response

#### **Q1. Are the areas of vulnerability identified in this call for evidence the correct areas for the Commission to focus on?**

##### *Financial capability*

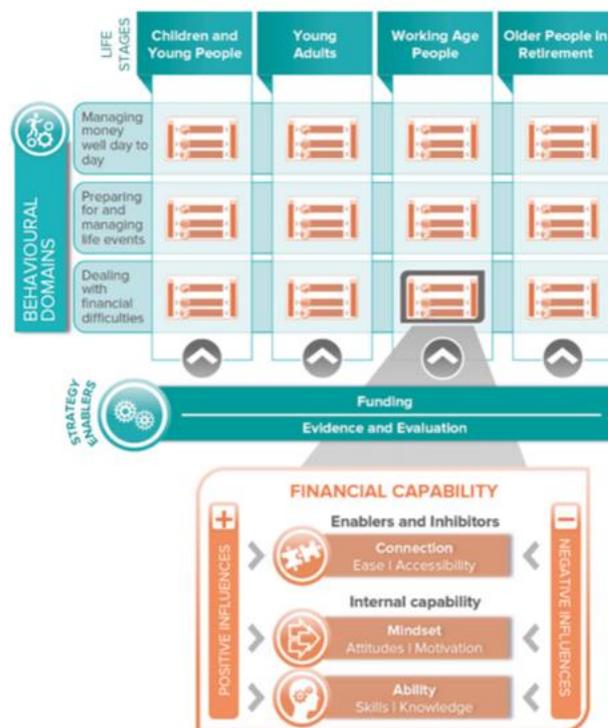
- 3.1. As the Commission recognises, the concept of 'vulnerability' embraces a wide spectrum of different groups – and individuals within them – and that needs vary. Vulnerability is not just about an individual and the market can create or exacerbate vulnerability.
- 3.2. We particularly welcome the Commission's recognition of financial vulnerability as a form of vulnerability, which advances the debate significantly. More than 8 million people across the UK often have difficulty paying bills and meeting credit commitments and almost three-quarters of working-age people don't have savings equal to or exceeding three months' pre-tax income<sup>4</sup>.
- 3.3 However, while we welcome recent moves on matters such as the pre-payment meter cap, energy suppliers must view financial vulnerability as more than just the ability to pay a bill when it comes due. It is vital that when considering vulnerability in a financial context, firms

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<sup>4</sup> Money Advice Service, Savings evidence review, (July 2017)

see it as a wider issue, which covers financial capability, for example saving regularly, keeping track of finances or using credit.

- 3.4. In its recent *Approach to Consumers* report, the Financial Conduct Authority identified a lack of financial capability, defined by the regulator as very low knowledge of financial matters or low confidence in managing money, as one of four categories of vulnerability<sup>5</sup>. This supports MAS research, which demonstrated a close relationship between financially capable behaviours and financial wellbeing<sup>6</sup>.
- 3.5. Our 'financial capability framework', captures the main elements of financial capability – the behaviours underpinning financial capability and the factors impacting it – in a single model. As the Commission has also identified, alongside internal capability, 'Enablers and Inhibitors' e.g. the accessibility of market services, is a crucial factor in an individual's wellbeing. This approach can be used to understand the overlap between vulnerability and capability, where vulnerability arises from and the risks that face individuals due to it.



<sup>5</sup> Financial Conduct Authority, *Our future approach to consumers* (November 2017)

<sup>6</sup> Money Advice Service, *Measuring Financial Capability – Identifying the building blocks* (November 2016)

- 3.6. A lack of financial capability could be considered a form of vulnerability, as something that contributes to other forms of vulnerability, or both. Those with low financial capability are vulnerable because it can limit the ability of individuals and families to manage their money, plan and make financial decisions that are right for them. In the energy industry, indicators of low financial capability could include failing to shop around or failing to seek advice or guidance when they might be struggling to pay.
- 3.7. Low capability can contribute to other forms of vulnerability because it leaves families in a precarious position, unable to respond when life events such as separation or bereavement occur, or leaves individuals experiencing mental or physical health difficulties without an adequate financial buffer to take the time and space to address them.
- 3.8. It might be beneficial for the Commission and MAS to discuss further how financial capability as a form of vulnerability could be explored in the context of the energy industry.

#### *Advice and guidance*

- 3.9. In many circumstances appropriate guidance or advice can help. However, our research shows that people do not necessarily seek advice when they need it. There are currently 8.3m people in the UK who feel their debts are a heavy burden or have missed three or more bill payments, up from 7.9m people in 2016<sup>7</sup>.
- 3.10. Yet people are only getting help with a quarter of the key financial events they face and only half of all working-age people are aware that they can get free or low-cost financial support<sup>8</sup>. There are, of course, a range of reasons why people don't seek help at the right time, but financial capability is a significant influence. This can include a lack of awareness or low self-confidence, which can apply across the age range. Less than a third of young adults and only two-thirds of older people in retirement feel very confident about financial products and services<sup>9</sup>.
- 3.11. To overcome this, we must build awareness and trust in what's available in a way that is focused, timely and relevant. When considering vulnerability firms should be aware of the role it could play in preventing people who need advice or guidance. Therefore, it is of vital importance they have a full and accurate understanding of their customers circumstances, including their confidence levels, and how this could affect their behaviour. In the energy sector there are already indications that individuals who may be vulnerable are failing to seek advice or guidance at an early enough stage. Industry figures show the average debt

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<sup>7</sup> Money Advice Service, *A strategic approach to debt advice commissioning 2018-2012* (December 2017)

<sup>8</sup> Money Advice Service, *Right place, Right Time – Helping people with their finances when they need it most* (November 2017)

<sup>9</sup> Money Advice Service, *Financial Capability Strategy for the UK* (October 2015)

when a customer sets up a repayment plan is over £600 for gas and electricity<sup>10</sup>. The experience of firms keeping the Priority Services Register updated would also indicate that there are problems with accurately recording customers circumstances across the industry.

### *Consistency*

- 3.12. As the FCA identified in the financial services sector, when approaching issues of vulnerability as well as understanding your customer, consistency of treatment is key<sup>11</sup>. This is also a focus of the Wyman Review, our creditor toolkit and the Standard Financial Statement, which we discuss below, both in financial services but across multiple sectors.
- 3.13. If people are treated poorly when they need help it can exacerbate their difficulties, including heightening any medical symptoms, and prevent them seeking help in future. This is especially important in the energy industry, considering the growth in the number of energy providers in recent year. Ofgem's research shows between December 2013 and June 2017, the number of domestic gas and electricity suppliers increased from 24 to 60<sup>12</sup>. People need to know that no matter where they switch their services, they will have access to the support in the event of potential vulnerability.
- 3.14. There are several consumer support mechanisms across the industry in which greater consistency of approach may be needed. For example, the Debt Assignment Protocol (DAP). Although we understand the use of DAP has risen since changes to debt levels in 2015, the overall proportion of successful switches remains low. This is a problem exacerbated by the fact not all firms use the DAP. Similarly, the Safety Net is voluntary and not offered by many suppliers, as are the Prepayment Meter Principles. It is unsurprising that in an uncertain marketplace, vulnerable consumers may fear poor service.

### *FinCap Strategy*

- 3.15. We would be keen to discuss in more detail how the Commission could play an important role in the UK's Financial Capability ('FinCap') Strategy.
- 3.16. Over the last two years the Strategy has made radical progress creating a coalition dedicated to its objectives. Nearly 200 events took place across the country in our Financial Capability Week 2017, over 100 organisations have signed up to our financial capability IMPACT principles and there are over 190 studies on our financial capability Evidence Hub, where organisations share evidence about effective ways to improve

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<sup>10</sup> Ofgem, *Vulnerable consumers in the retail energy market: 2017*, (October 2017)

<sup>11</sup> Financial Conduct Authority, *Occasional Paper No.8 – Consumer Vulnerability* (February 2015)

<sup>12</sup> Ofgem, *Vulnerable consumers in the retail energy market: 2017*, (October 2017)

financial capability. We are happy to share more details on any of this with the Commission.

- 3.17. An integral part of the strategy is the FinCap Steering Groups, chaired by external organisations, to advance the goals of the Strategy. Currently these cover debt advice, children and young people, young adults, working age people, savings, retirement planning and older people. Potentially one of these would be a good forum for the Commission to discuss its objectives and gain stakeholder support.
- 3.18. The Commission can play a major role in the FinCap Strategy, by ensuring suppliers are aware of its aims and integrating its objectives into their approaches to vulnerability, helping customers build resilience. One way of doing this might be recommending suppliers consider our segmentation model to better understand their customers. The model divides the UK population into three groups, the 'squeezed', 'struggling' and 'cushioned', each with their own distinct financial needs. Combining this modelling with the suppliers' existing data will likely be a powerful way to understand the challenges facing customers and respond appropriately. It would potentially allow a much deeper insight into the financial position of the most vulnerable, in terms of their income, savings and financial attitudes.

**Q5. Can you share any examples of best practice to support customers in vulnerable circumstances, either within energy or other relevant sectors?**

- 3.19. As the body with statutory responsibility for coordinating the debt advice sector in the UK, there are several ways in which we could help energy suppliers support customers in vulnerable circumstances. We would be happy to discuss these further with the Commission.

*Wyman Review of debt advice*

- 3.20. The Wyman Review<sup>13</sup> examines the funding and delivery of debt advice from the private, voluntary and public sectors. It was commissioned by the Debt Advice Steering Group, which is convened by the Money Advice Service.
- 3.21. The Review, which has been widely accepted by the debt advice sector, recommends several ways in which the debt advice sector, covering both advice providers and creditors, could be improved in the best interest of consumers. Several of these recommendations touch on the operations of energy suppliers and their interactions with customers in vulnerable situations.

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<sup>13</sup> Peter Wyman, *Independent Review of the Funding of Debt Advice* (January 2018)

- 3.22. For example, people would be increasingly encouraged to seek advice via telephone or online, rather than face-to-face, which would have ramifications for supplier referral processes, especially with regards to vulnerable customers. The Review also calls on creditor trade bodies, including Energy UK, to set out and agree a code of conduct setting clear expectations of paying Fair Share contributions pro rata when debts are repaid. Again, acting on this recommendation is likely to be particularly beneficial for the most vulnerable as it will ensure they can access free, independent advice in times of extreme need.
- 3.23. We would be interested in meeting with the Commissioners to discuss how these recommendations can be progressed.

#### *The MAS strategic toolkit for creditors*

- 3.24. Creditor practices have a significant impact on the experiences of those with problem debt, particularly those who are vulnerable, and crucially on the steps they take to resolve the issue. Poor debt collection practices lead to customer harm, drives disengagement and damages creditor reputation.
- 3.25. We therefore produced a toolkit<sup>14</sup> to bring consistency to the way creditors work with debt advice agencies when collecting repayments from people who are in debt. It sets out seven steps creditors should use to ensure the optimum result for all parties while meeting the Money Advice Service Supportive Credit Standards. Customers in financial difficulty need to know they will be treated fairly by all types of creditors during periods of financial difficulty and debt advice agencies appreciate confidence that all creditors are operating by the same rules.
- 3.26. This toolkit, if used, drives good creditor practice, relieving stress and anxiety for people in arrears, whilst also having clear and tangible benefits for the creditor. It uses examples of best practice from several sectors, including the energy industry – such as the British Gas, StepChange Debt Charity and Experian project on measuring the impact of free debt advice in the utility sector. One possible positive outcome from the Commission might be to include details of the toolkit in the Safety Net.

#### *The Standard Financial Statement*

- 3.27. The Commission may further want to recommend the use of the MAS-developed Single Financial Statement (SFS) when suppliers are trying to understand the position of struggling customers<sup>15</sup>. MAS launched the SFS on 1 March 2017. The tool summarises a person's income and outgoings, along with any debts they owe. It is the result of a broad

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<sup>14</sup> Money Advice Service, *Working Collaboratively with the Debt Advice Agencies; A strategic toolkit for creditors* (July 2017)

<sup>15</sup> <https://sfs.moneyadviceservice.org.uk/en/what-is-the-standard-financial-statement>

collaborative project with the debt advice and creditor sectors to reach consensus on a standardised approach to affordability across the UK. Use of such standardised information can help energy suppliers adequately support customers' vulnerable because of their financial situation or whose vulnerability may have contributed to financial detriment.

### *Debt Commissioning Strategy*

- 3.28. The MAS debt advice commissioning strategy for 2018–2023 outlines a challenging plan to help ensure that the services we fund deliver the best outcomes for clients<sup>16</sup>. We believe the research and approach underpinning this strategy could help the Commission deepen its understanding of vulnerability.
- 3.29. Following consultation, we have decided to focus our funding service design on over-indebted people with dependent children, low household incomes and who experience mental ill health.

Beyond these cross-cutting themes we have also defined a final set of six target groups:

1. People at risk of homelessness.
  2. People experiencing or who have recently experienced domestic abuse
  3. Single people with severe mental health issues
  4. Parents with 3+ children in rented accommodation
  5. People newly diagnosed with a long-term health problem
  6. People with variable incomes from employment
- 3.30. Further information on how we arrived at these target groups is detailed in Appendix 4 of our *Strategic Approach to Debt Advice Commissioning* report<sup>17</sup>.
- 3.31. As we roll out the Commissioning Strategy we will be looking to co-design and commission services that reach out to and engage with these target groups and identifying and work with providers with the abilities to focus on these groups. This may be of interest to the Commission and energy suppliers in the long-term and we would be happy to come in and discuss this in more detail.

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<sup>16</sup> Money Advice Service, *A strategic approach to debt advice commissioning 2018-2012* (December 2017)

<sup>17</sup> Ibid