MONEY ADVICE TRUST

BUSINESS DEBTLINE | NATIONAL DEBTLINE | WISER ADVISER

Consultation Response:

BEIS Domestic energy retail consultation Opt-in switching and opt-out switching

Response by the Money Advice Trust

Date: October 2021

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Introduction

About the Money Advice Trust

The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money with confidence.

The Trust's main activities are giving advice, supporting advisers and improving the UK's money and debt environment.

In 2020, our National Debtline and Business Debtline advisers provided help to 161,560 people by phone and webchat, with 1.86 million visits to our advice websites.

In addition to these frontline services, our Wiseradviser service provides training to free-to-client advice organisations across the UK and in 2020 we delivered this free training to over 920 organisations.

We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

Find out more at www.moneyadvicetrust.org

Public disclosure

Please note that we consent to public disclosure of this response.

Executive summary

We welcome the opportunity to respond to this consultation which sets out proposals to address the loyalty penalty in the energy market and enable more switching to take place. We appreciate that is a complex area which makes it difficult to come up with a simple set of proposals.

The paper recognises that consumers in arrears are more likely to be on default tariffs and paying a loyalty penalty. As a debt advice charity, we are particularly focused on how switching trials would work for people in, or at risk of debt. Therefore, we have limited our comments to relevant policy areas so have not answered all the questions set out in the paper.

Some of the key points on debt we would make in relation to the switching scheme are set out below.

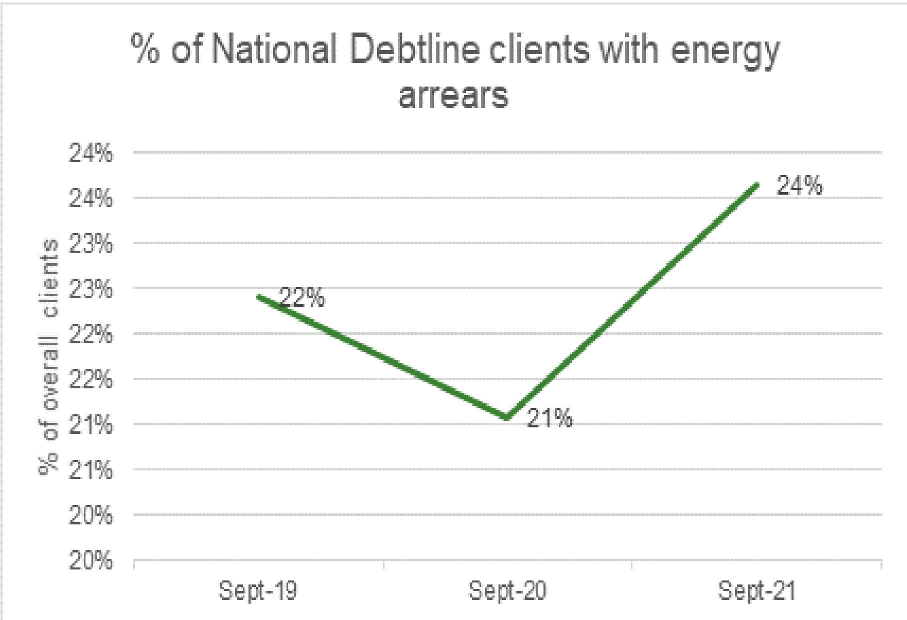
- ✓ The scheme needs to be designed to prevent bill shock, which can be a big barrier to switching and create the risk of debt problems.
- ✓ The policy therefore needs to ensure that there are accurate and up-to-date meter readings provided for each consumer before an opt-out switch is contemplated. If not, then there could be all too predictable and unacceptable consequences for vulnerable consumers.
- ✓ The scheme needs to ensure that existing energy arrears are not a barrier to switching. We are of the view that the rule that allows suppliers to block switches where a consumer is in debt to that supplier for more than 28 days needs to be removed. We are not convinced that this is a useful protection for people in debt, for suppliers to block such switches, and leaves them excluded from the scheme.
- ✓ Consumers should be able to take their existing arrears with them to their new supplier.
- ✓ Consumers should be able to transfer an existing affordable repayment plan or set up a new payment plan they can afford with their new supplier.
- ✓ Government should take an inclusive design approach to developing the scheme, working directly with consumers who have not switched, who are best placed to explain the issues they face and how a scheme could be designed to solve this.
- ✓ It is striking that the paper says that in the prepayment meter market, more than 90% of customers are on default tariffs and therefore likely to be paying a loyalty penalty. Given this, any scheme that can help reduce energy bills for people on prepayment meters must be prioritised.

Switching where there are no cheaper deals available becomes a less effective policy response. BEIS also need to be considering other solutions for vulnerable consumers to ensure energy affordability – particularly given the urgent challenges people may face this winter in affording their energy bills.

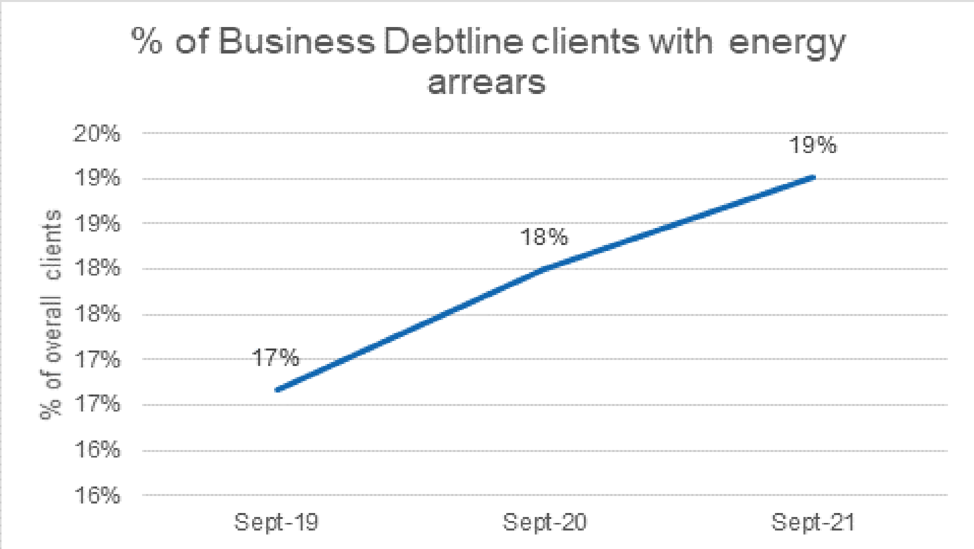
We have seen a worrying growth in energy debts since November 2020. In September 2021, almost a quarter (24%) of National Debtline callers had energy debts.

We have seen an increase in clients with energy arrears at National Debtline and Business Debtline over the course of the pandemic. Over 1 in 5 people contacting National Debtline for advice have energy arrears,[1] and on average they owe £1,418.[2] Energy debts are now the second most common debt reported by National Debtline clients.

We have seen a rise in clients with energy debt since July 2019 at both National Debtline and Business Debtline, as illustrated by the charts below.



[1] National Debtline client data, September 2021
[2] 2021 National Debtline client survey, sample size: 716



We would therefore highlight that it is important not to see switching as the sole solution for reducing energy debt – which at its heart can be an issue of income not being enough to cover energy costs. It is important that other policy measures are considered to prevent energy arrears and to ensure people who do fall into debt are treated fairly. This should include looking at the role of the price cap more widely and how the Warm Home Discount scheme can be effectively enhanced-and whether the proposed changes to the Warm Home Discount should be brought forward.

Responses to individual questions

Question 1: Are there any other measures you think the Government should consider to help address the factors that have caused a loyalty penalty?

The Bristol University poverty premium study[3] found high instances of consumers who had not switched energy supplier or were on PPMs.

In addition, they found high percentages of consumers not paying their bills by the cheapest method, where some suppliers offer discounts for direct debit payments. In some cases, people are charged a premium by suppliers for receiving paper bills. These could be areas where the government could intervene to prevent such charges.

The government and Ofgem need to look at the PPM market and put in place more targeted interventions to deal with the effects of high default tariffs and the loyalty penalty on consumers who are on PPMs. Consumers are often on a PPM due to being in arrears with their energy charges and will therefore be likely to constitute a more vulnerable group of consumers than those who are paying on direct debit or via quarterly bills.

Question 2: Do you agree with the proposed scope of tariff targeting?

The proposed scope of tariff targeting makes sense.

[3] http://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1614-poverty-premium-key-findings.pdf

Question 3: Which consumers do you think are more likely to be disengaged with the retail market, for instance due to their circumstances or duration on a default tariff?

In our experience, there are a variety of reasons why consumers become disengaged with the retail market.

- ✓ We typically see that people on lower incomes, or who are receiving benefits or in vulnerable circumstances are more likely to be disengaged.
- ✓ In particular, where a consumer is digitally excluded, access to switching options will be limited.
- ✓ Where people are struggling to get by, they are less likely to have the capacity to consider potentially complicated and time-consuming energy switches.
- ✓ People may have many competing demands on their time due to their circumstances, such as working long hours, multiple jobs or due to caring responsibilities (either for children or family members who may be unwell or disabled) and have little "band width" to research a switch.
- ✓ Consumers may be worried about a potential bill shock were they to switch by way of a large final bill from their old supplier.
- ✓ People may be reluctant to switch because they do not want to lose their eligibility for the Warm Home Discount.
- ✓ People on low or unstable incomes face a high risk of recurring debt which could make them cautious about switching supplier. If someone is familiar with the way in which their existing supplier treats them when they fall into debt, it may be less risky to stay with that supplier than risk moving supplier and being treated less well.

Question 4: Do you think that an opt-in switching scheme should focus on, or prioritise, targeting consumers who have been on a default tariff for longer durations? Please specify if you think any particular duration is appropriate.

It makes sense for the opt-in switching scheme to focus on prioritising consumers who have been on a default tariff for a longer time. We do not favour a particular duration, but two or three years would make sense.

Question 5: Do you agree that an opt-in switching scheme should not target consumers based on the price they pay for their existing default tariff?

We do not follow the argument put forward in the paper regarding not targeting consumers based on price. The incentive of saving money on their energy bills (alongside other factors) is likely to be crucial to people engaging – and not taking this into account could lead to ineffective targeting of the scheme at people who cannot save money by switching.

In addition, we would question whether the aim of the scheme as being *'to remove the barriers to market information and engagement for consumers who are currently disengaged'* is comprehensive. A better aim may be '*to ensure people are paying a fair and affordable price for their energy, and those who are unable to switch are not disadvantaged'* – which would not only ensure that the focus remains on protecting vulnerable people from unduly high bills, but which would also help ensure appropriate targeting of the scheme.

Question 6: Do you agree that an opt-in switching scheme could be effective at creating new competition and market engagement in the PPM tariff market? Are there any PPM market considerations we should take into consideration?

It is striking that the paper says that in the prepayment meter market, more than 90% of customers are on default tariffs and therefore likely to be paying a loyalty penalty. This is particularly worrying given that evidence shows PPM customers are more likely to be on lower incomes, receiving benefits, or in a household containing a child or someone with a long-term health condition.[4] These households can be at a greater risk of unaffordable energy bills, fuel poverty and self-disconnection.

Given this, any scheme that can help reduce energy bills for people on prepayment meters must be prioritised. However, historically it has not been easy for anyone on a prepayment meter to swap energy supplier, particularly if they are paying off energy arrears through the meter. Any scheme will need to be extremely easy to engage with, and work smoothly to swap groups of customers as a cohort to new suppliers or tariffs.

Question 7: How do you think we should approach batch sizes and frequency? Do you agree with our proposed incremental, test and learn, approach to introduction?

We cannot comment on the appropriate batch sizes and how this will impact energy suppliers. However, we are concerned that if there are no rules on batch sizes that some suppliers may fail to engage or argue that it is too risky for them to participate in the scheme.

Question 8: Do you think that each batch of the opt-in switching scheme should target all energy suppliers or should batches focus on subsets of suppliers?

We have no comment to make in response to this question.

[4] Citizens Advice (2018) *Switched on: Improving support for prepayment consumers who've self-disconnected*

Question 9: If batches focus on subsets of suppliers, on what basis should suppliers be prioritised for targeting

We have no comment to make in response to this question.

Question 10: Do you agree that the framework should allow for flexibility so that the policy lead (the Government and/or Ofgem) will be able to choose what type of prompt is used? Do you have any comments on the prompt options described, or any other methods?

It would make sense at this stage to allow for flexibility as to which framework to adopt at this point. However, the collective switch appears to be simpler for consumers to engage with and from the Ofgem trial, this produced higher switching rates. We would therefore favour the collective switch model at this point.

Question 11: Do you think a Government Company/ public model or a commercial model should be used for the Delivery Body(ies)? If a commercial body is used, do you think that a fee or commission-based approach would be better? Are there any other models you think we should consider?

On balance, we would support an appointed public body to act as the permanent delivery body. As it says in the paper, this would allow stability for the scheme and provide long-term focus for the provider rather than relying on a commercial company winning a temporary contract. There is also a risk that the commercial firm might not be able to deliver its projections and fail. This approach would also avoid the costs of re-tendering and setting up the scheme again.

Using multiple commercial bodies could lead to consumer confusion, and extra costs. As the paper says, the benefits of a public body could lead to better value to consumers in the long run.

Question 12: If a commercial based framework (either through commission or a fee) is selected, a) to what extent do you think there will be competition risks? b) to what extent to you think the competition risks should and could be mitigated? C) what are your thoughts on the listed options of mitigation? d) how else might competition risks be mitigated?

We have no comment to make in response to this question.

Question 13: Do you think that appointing a Government Company (or another public body) as Delivery Body would help mitigate the identified competition risks? Do you think there are any competition implications from appointing a Government Company (or another public body) to this role? If so, how might these be managed?

We have no comment to make in response to this question.

Question 14: Please provide views on the consumer protections we are considering. Are there other protections that we should consider?

It is vital to the success of the scheme that anyone switching will not risk losing their Warm Home Discount rebate and we recognise that the adoption of current government proposals relating to the expansion of the Warm Home Discount to most energy providers would mitigate this risk.

There will need to be full consideration given to how the scheme can include pre-payment meter customers in particular.

It is also vital that the needs of vulnerable consumers are considered when designing the optimal scheme and to ensure that it is easy for people to engage, that it will effectively tackle the barriers that people face in switching and will not disadvantage people in debt. The scheme should therefore be designed with the needs of vulnerable consumers and those who are digitally excluded to allow for a full range of contact methods and communications including phone and post.

We would strongly recommend that BEIS take an inclusive design approach to designing and developing the switching trials. Involving customers in the design of the scheme including the support available, scheme processes and communications can help ensure providers strike the right tone, and lead to better outcomes for providers in increased customer engagement. Earlier this year, we released two guides on Inclusive Design in Essential Services, in partnership with Fair By Design – one for regulators and one for providers.[5] The guides – which includes a practical toolkit – set out how providers and regulators can use inclusive design in their work to better understand the needs of their customers and to co-design support.

At its heart, inclusive design means that, instead of designing for a mythical 'average user', we design for all consumers, including people with additional or out-of-the ordinary needs. Inclusive design has the potential to significantly improve outcomes for consumers, particularly those on low incomes and/or in vulnerable circumstances, by making sure that products and services are accessible, meet their needs and do not cause them harm. We are happy to discuss how government could practically use inclusive design in the design of this scheme, if that would be helpful.

We are pleased to see the recognition of the importance of Government and Ofgem monitoring the outcome for consumers and to adapt the scheme design processes "*with particular attention on consumers in vulnerable circumstances".*

We are concerned that the paper identifies a potential for firms to try to acquire previously disengaged customers through the switching scheme with the aim of increasing prices again after the end of the fixed period-in the hope that these customers do not bother to switch again. It is important that the scheme is designed to avoid firms being able to adopt such practices, including longer fixed-term tariff periods.

[5] https://mailchi.mp/moneyadvicetrust.org/design

However, there needs to be consideration to further auto-switching when the fixed term expires, to avoid this.

Question 15: Do you think that the prompt should be administered by the incumbent supplier or the Delivery Body with the incumbent supplier’s branding included on the communication? Do you think the identified challenges with requiring incumbent suppliers to provide the prompt to consumers can be resolved, if so, how?

We would expect the prompt communication to be sent by the body that has the most success in the trials in prompting consumers to get in touch. It appears from the trails that this might be the delivery body with the incumbent supplier’s branding.

We are concerned that the existing supplier would not be motivated to act if responsible for providing the prompts. As it states in the paper:

“If the Delivery Body is instead responsible for the personalised calculations, it would be in their interest to identify the best possible saving for each consumer, whereas that would not be the case for the supplier.”

It is vital that the consumer journey to switching is made as simple as it can be. Given the amount of data and personalised tariff information required for a successful switch, it would appear that the delivery body should be the central body handling this information.

Question 16: If the Delivery Body is chosen to send out the prompt, do you think that the proposed functions and the data required by the Delivery Body set out in Table 1 are appropriate? Are there any of other data fields that you think should also be included?

We have no comment to make in response to this question.

Question 17: Do you agree that participating consumers should not be followed-up outside of the scheme? Do you think that the framework for the scheme should include the Delivery Body following-up and re-prompting consumers who previously switched through the scheme?

We would definitely agree that suppliers and PCRs should not be allowed to use consumer data to encourage switching outside of the scheme as this will undermine the scheme and could lead consumers to worse schemes and poorer deals.

We agree that the delivery body should follow up with consumers who previously switched through the scheme. It makes complete sense for this to be at key points such as when the fixed tariff is about to end.

Question 18: If the Delivery Body were to re-prompt such consumers, how do you think this should be designed?

We have no comment to make in response to this question.

Question 19: How do you think the opt-in switching scheme could link up with Midata or Smart Data more generally?

We have no comment to make in response to this question.

Question 20: Do you have comments on how wider information law requirements should be considering in the design of the opt-in switching scheme?

We have no comment to make in response to this question.

Question 21: How might the opt-in scheme be designed to help facilitate reaching the UK’s 2050 net-zero target?

We have no comment to make in response to this question.

Question 22: Do you think that we have identified appropriate testing aims? Please specify if there are areas you do not think we should focus on or if there is anything you think we should also include or take into consideration?

We have no comment to make in response to this question.

Question 23: Do you agree with our proposed approach to targeting? Are there any particular segments you think the testing should focus on or exclude?

The proposed approach appears sensible, including initially excluding Warm Home Discount customers.

Question 24: Do you agree with our assessment of the PPM market and proposed approach of keeping PPM within the testing framework's scope, and assessing closer to implementation whether PPM consumers should be targeted?

The paper states:

"The PPM market has limited competition and switching, and very few suppliers offer fixed term tariffs. Many suppliers only offer evergreen tariffs (there is no fixed term on the contract), and often only one of these."

It goes on to say:

"In PPM market, more than 90% of customers are on default tariffs, compared to only 60% for all other domestic consumers, according to Ofgem's 2020 RFI data. The PPM market, therefore, has significantly lower levels of competition, and the vast majority are paying more, a loyalty penalty, than they would be in a competitive market."

The government and Ofgem need to look at the PPM market and put in place more targeted interventions to deal with the effects of high default tariffs and the loyalty penalty on consumers who are on PPMs. Consumers are often on a PPM due to being in arrears with their energy charges and will therefore be likely to constitute a more vulnerable group of consumers than those who are paying on direct debit or via quarterly bills. People on low incomes and in debt are also likely to be disengaged and have multiple pressing issues to deal with which may take precedence.

Whilst we appreciate that there is little point in including PPM customers into a switching scheme where there are no cheaper tariffs to switch to, it means that this is not a policy solution for this group.

Question 25: Do you agree that the testing should target a subset of suppliers? If so, on what basis should those suppliers be selected

We have no comment to make in response to this question.

Question 26: Do you think that a competitive process is likely to be effective at producing a good saving for consumers in the testing scheme? Would a process where the Delivery Body selects tariffs from open market using a set of criteria be more appropriate? Are there any other approaches we should consider?

We have no comment to make in response to this question.

Question 27: Do you agree that tariffs should not be compared on variables other than price for testing, but there should be some minimum standards for non-price variables such as customer service? If yes, which variables should be included and how should they be measured/what should be the minimum standard?

We have no comment to make in response to this question.

Question 28: What methods could be used to help maximise consumer engagement with the opt-out option and communication?

We support the intention to carry out qualitative research to help design the communications to consumers. We agree with the proposals to send multiple reminders. As mentioned previously, we would encourage BEIS to take an inclusive design approach to designing communications to ensure they are accessible to all customers, and to increase the chance of the trial being successful.

Question 29: What action should consumers be required to take to opt out of the arranged switch? Do you agree with our proposals in section 3.5.1?

We agree that it must be as simple as possible for a consumer to opt out and the scheme should be made as easy to navigate as it can be. It should be made as easy as possible for the consumer to respond to the communication sent to them, and by a variety of methods of communication. There should not be barriers put in the way of people getting in touch such as unstaffed phone lines, or premium rate numbers.

We like the idea that the consumer could switch back to their supplier but on to a cheaper tariff than their default tariff. However, we agree that this will need to be tested extensively to mitigate any potential for consumer anxiety or distress.

Question 30: How should the testing allow consumers to easily switch back to their previous supplier should they wish to? Would only restricting exit fees for the new tariff be sufficient? Should we consider any other options?

It should be possible for consumers to easily switch back to their previous supplier should they wish to, and on the same terms. It seems to us that the potential for old suppliers to be allowed to refuse to take back a customer on the same terms, or to force people to accept a PPM as a prerequisite for doing so, should be prevented as a condition of the scheme.

The example of the Erroneous Transfer Customer Charter cited in the paper, could be followed here, as it enables consumers to quickly switch back to their previous supplier and tariff when they have been incorrectly switched.

Consumers should be assessed for the PSR and Warm Home Discount eligibility in either case.

We agree there should be no exit fee chargeable from the new supplier for switching back to an old supplier.

Question 31: Do you agree with our proposed approaches to setting up new payments with standard credit and Direct Debit customers?

The major drawback we can identify with the switching process is that for many consumers, their account with their existing supplier is based upon an estimated, or inaccurate bill. They may be making monthly direct debit payments that are too low as a result. They may find that once swapped on to a new tariff, their final bill or "reconciliation payment" with the previous supplier is completely unaffordable.

Fear of receiving a large or unexpected bills is a common and understandable reason why people on low incomes, or those 'just about managing' financially, can be reluctant to switch. It can also lead directly to debt: the second most common reason for financial difficulty among National Debtline clients is 'unexpected expenditure, bill or debt' with almost one in five (19%) of clients citing this.[6]

The policy therefore needs to ensure that there are accurate and up-to-date meter readings provided for each consumer before an opt-out switch is contemplated. If not, then there could be all too predictable and unacceptable consequences for vulnerable consumers.

It is not clear to us how the proposals deal with a large final bill. Will this be transferred to the new supplier and built into the payments going forward? Will the consumer be left to pay the outstanding bill in a lump sum whilst paying monthly payments for their ongoing energy? We do not think the latter approach is fair or reasonable and will undermine the policy intent by continuing to present a barrier to switching.

With direct debit consumers making up 70% of the default tariff market, we are keen to see them included in the trial. However, we note the challenges set out in the consultation about how to achieve this without causing harm to customers.

The clear drawback of putting people onto a standard credit tariff when they are part of an opt-out transfer process, is that people will not realise this has happened. They may not be engaging with the process and assume their direct debits are carrying on as normal. This could lead to consumers being faced with a large and unexpected quarterly bill to pay. Whilst we assume that such consumers could then contact the new supplier to set up monthly direct debits, they may face some anxiety and confusion in doing so.

The induction period might work better where the existing supplier passes the payments on to the new supplier.

[6] National Debtline client data, August 2021

Question 32: Are there any other approaches or variations to the options outlined we should consider to help make the process as simply as possible for consumers?

We have not been able to identify a simple solution. If the existing supplier or the delivery body could set up direct debits with the new supplier on behalf of the customer, that might be the best solution. However, it does not deal with the problem of consent to set up the new direct debit.

Question 33: What, if any, practical challenges do you see for opt-out switching for PPM consumers, and how might these be overcome?

From the details provided in the paper, it appears that a smart PPM will set any remaining credit the customer has put into the meter, back to zero to be refunded by the old supplier. This means that where there is a smart PPM, transfer to a new supplier will require consumers to actively top-up their meter immediately following the switch. If a customer is either unable to do so (for example, due to practical reasons such as getting to the shop) or due to affordability reasons, then the process would increase the risk of self-disconnection.

We would expect there to be a delay in the previous supplier refunding the credit. This could easily destabilize their budget for someone who has a low or benefit level income or who is in debt. They may have carefully budgeted the amount they paid in to top up their meter, and which is now not accessible to them.

We would have thought the best solution would be for the smart PPM to retain the credit balance when the account swaps to a new supplier, as is the case for a traditional PPM meter. Otherwise, there is going to be a likelihood of consumer detriment for the most vulnerable group of consumers through the opt-out switching policy.

Question 34: Do you agree with the highlighted potential consumer risks that the scheme will need to consider? Do you think there are risks that we may have missed or other things to consider? Do you agree with our proposed approach to these risks? Are there other protections we should consider?

We agree that the paper has highlighted some potential consumer risks that the scheme will need to resolve, such as how people who are vulnerable, digitally excluded or consumers on low incomes and in debt might be considered.

As we have said, the major drawback we can identify with the switching process is that for many consumers, their account with their existing supplier is based upon an estimated, or inaccurate bill. They may be making monthly direct debit payments that are too low as a result. They may find that once swapped on to a new tariff, their final bill or "reconciliation payment" with the previous supplier is completely unaffordable. The policy needs to ensure that there are accurate and up to date meter readings provided for each consumer before an opt-out switch is contemplated. If not, then there could be all too predictable and unacceptable consequences for vulnerable consumers.

We agree that research, and a test and learn approach is a good idea. However, given that the most vulnerable consumers are in the "more complex" group of consumers, then it is important to ensure that the scheme does not become weighed down in testing to the extent that the complex consumers are never reached. BEIS also need to be considering other solutions for this group to ensure energy affordability – particularly given the urgent challenges people may face this winter in affording their energy bills.

We agree that both the delivery body and the new supplier should be required to check for eligibility for PSR and should be required to check for eligibility for the Warm Home Discount.

It is important to learn from lived experience and to involve sectors where a loyalty penalty has been identified. For example, the paper says that private and local authority tenants are more likely never to have switched. This suggests to us that involving local authorities and both landlord and tenant bodies might provide valuable insights into designing the appropriate solution in that sector, as well as directly involving customers from these groups.

Question 35: What types (for instance, by duration) of tariffs do you think participants in testing should be switched to?

We do not think a fixed one-year tariff would be long enough. We favour a longer tariff. However, the longer the tariff is, the more the likelihood that it becomes expensive or uncompetitive. Potentially there should be a regular review with a further switch where necessary.

However, the answer cannot be to roll back on to an expensive default tariff. Further work needs to be done to ensure this does not happen.

Question 36: Do you agree that the opt-out communication should be administer by and addressed from the Delivery Body, but that also including the incumbent supplier's branding should be tested?

Yes, this makes sense as a proposal. However, it is vital that the communications are designed well and in plain English. This should result in a common set of prescribed terms devised to ensure consistency.

We support design being developed between Ofgem and the delivery body but would urge this to be done in conjunction with consumers and consumer groups. Research into the most effective form of communications with consumers is vital here, so that the communications work well for the target groups.

Question 37: Should the Delivery Body administer the opt-out communication, do you agree with the proposed data fields in Table 2 that the Delivery Body would require from the incumbent supplier to administer the opt-out communication with the consumer? Are there other identifiers that we should consider to enable consumers with certain characteristics to be identified, with an alternative approach applied?

As we are not an energy supplier, we cannot respond to this question.

Question 38: Do you agree the Delivery Body should be the point of contact for consumer questions? And that, with the consumer's permission, the Delivery Body should be able to record the feedback and questions that come in from consumers as a method of understanding the consumer experience.

Yes, we agree that the delivery body should be the designated point of contact for consumers. This ensures consistency of response and an independence of response which may be perceived as more reliable than using individual suppliers to come up with their own responses which could be variable in quality.

Question 39: Do you agree with our proposals on what data sharing process will be required to initiate the switch?

We have no comment to make in response to this question.

Question 40: Do you agree that the Delivery Body should be the point of contact in communication to initiate a reverse switch and empowered to represent the consumer in this process, including by enacting their rights (subject to the protections in place) when engaging with the new and old supplier?

It would make sense for the delivery body to be the point of contact to initiate a reverse switch. It is important that the body can ensure that the reverse switch takes place, by acting on behalf of the consumer affected, not just be a contact point for advice and/or information. However, it is also important that that body can interact with the consumer, who may be scared and confused, but also may have misunderstood the advantages of the switch. Once this has been explained, it may be that people are more receptive to keeping the new tariff.

However, this should be subject to rigorous checks that the new arrangement is in fact advantageous and does not result in a loss of rights e.g. to the Warm Home Discount. It is also not going to work well for consumers if they are swapped to an online service when they need to be able to interact by phone.

As mentioned previously, it is not clear to us how the proposals deal with a large final bill. Will this be transferred to the new supplier and built into the payments going forward? If the consumer is left to pay the outstanding bill in a lump sum whilst paying monthly payments for their ongoing energy, this could be a very good reason to want to initiate a reverse switch. However, what approach the existing supplier decides to take to the large final bill once the customer is back with them, is also a problem that needs to be addressed if the scheme is to work for people on low incomes and/or at risk of debt.

Question 41: Do you have comments on how wider information law requirements should be considering in the design of the opt-out testing framework?

We have no comment to make in response to this question.

Question 42: How could default arrangements be reformed to help facilitate reaching the UK's 2050 net-zero target?

We are not close enough to the detail of this policy area to comment.

Question 43: Do you have any evidence that may improve our understanding of how these measures may impact consumers with different characteristics? For instance, given that we propose for these measures to target disengaged consumers.

We have no extra evidence that we are able to share at this time. However, we would suggest that the Fair by Design report, The inequality of poverty[7] should be essential reading on this subject.

Question 44: How could we design these measures to better: a) eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010;b) advance equality of opportunity between people who share a protected characteristic and those who do not; and c) foster good relations between people who share a protected characteristic and those who do not.

We have no further comment to make in response to this question.

[7] https://fairbydesign.com/wp-content/uploads/2021/02/The-Inequality-of-Poverty-Executive-Summary.pdf

Question 45: How could the barriers to switching be reduced for indebted consumers?

As we have said, the major drawback we can identify with the switching process is that for many consumers, their account with their existing supplier is based upon an estimated, or inaccurate bill. They may be making monthly payments that are too low as a result. They may find that once swapped on to a new tariff, their final bill or "reconciliation payment" with the previous supplier is completely unaffordable on top of their new payments and any other arrears. The policy needs to ensure that there are accurate and up-to-date meter readings provided for each consumer before an opt-out switch is contemplated. If not, then there could be all too predictable and unacceptable consequences for vulnerable consumers.

As we have said, the fear of receiving a large or unexpected bills is a common and understandable reason why people on low incomes, or those 'just about managing' financially, can be reluctant to switch. It can also lead directly to debt: the second most common reason for financial difficulty among National Debtline clients is 'unexpected expenditure, bill or debt' with almost one in five (19%) of clients citing this.[8]

It is not clear to us how the proposals deal with a large final bill. Will this be transferred to the new supplier and built into the payments going forward? Will the consumer be left to pay the outstanding bill in a lump sum whilst paying monthly payments for their ongoing energy? We do not think the latter approach is fair or reasonable and will undermine the policy intent.

To ensure this is not a barrier to switching and to prevent people from experiencing a 'bill shock' which can cause significant financial difficulty, we are strongly of the view that the rule that allows suppliers to block switches where a consumer is in debt to that supplier for more than 28 days needs to be removed. We are not convinced that this is a useful protection for people in debt, for suppliers to block such switches, and leaves them excluded from the scheme. As the paper recognises, consumers in arrears are more likely to be on default tariffs and paying a loyalty penalty. Making people pay a more expensive tariff will not help them to clear their energy arrears.

We are concerned that any plan to allow consumers to move supplier whilst still paying back the debt to the old supplier could be confusing, and risk people ending up with various small debts owed to multiple suppliers. This could lead to increased defaults on payment plans and potential debt recovery action by the previous supplier. We think it would be simpler and fairer to take the arrears to the new supplier, where they can then be repaid in an affordable way over time through a repayment plan.

Either way, it is vital that people are allowed to pay their arrears at an amount they can afford based upon their income and outgoings and their circumstances. There is also an important issue around existing repayment plans. Where people have an existing repayment plan with a supplier, they may be reluctant to switch (if, indeed they are able to) for fear of losing this payment plan. This can have a significant impact on people – something that has been particularly exposed with recent supplier failures.

[8] National Debtline client data, August 2021

As the supplier taking on these customers is not required to take on customer debt, and the default is for this to pass to the administrator, who no longer has to honour repayment plans and is not bound by Ofgem rules on debt collection. While we appreciate this is a slightly different context, protecting affordable repayment arrangements will be key to making this policy work for indebted customers.

For this reason, any arrangement to pay / repayment plan that has been agreed with the previous supplier, should be transferred over and continue with the new supplier, unless it is now unaffordable, in which case it should be looked at again and a new affordable payment arrangement put in place.

Question 46: How could opt-in switching and opt-out testing be designed to effectively support indebted consumers?

If the schemes are set up to allow people to switch suppliers with existing debt, then that could mean that consumer with energy arrears can still participate in the opt-in and opt-out switching processes. However, we would also highlight that it is important not to see switching as the sole solution for reducing energy debt – which at its heart can be an issue of income not being enough to cover energy costs. It is important that other policy measures are considered to prevent energy arrears and to ensure people who do fall into debt are treated fairly.

Question 47: Are there other approaches that the Government should consider to the default arrangements that would facilitate greater competition between suppliers and lower prices for all energy consumers?

We are not able to identify other approaches to default arrangements at this point.

Question 48: If the consumer is prompted to a specific winning tariff, do you think that the scheme should consider variables other than price? If so, how?

We believe that other variables such as green energy tariffs and customer service are very important and should be considered alongside price. Offering of the Warm Home Discount, support available to vulnerable customers or people at risk of debt and the way suppliers treats someone in arrears can all also be important factors to people at risk of debt.

Question 49: If consumers are prompted with a particular tariff, do you think that there should be more than one?

We would normally come down on the side of simplicity, and agree that there should only be one tariff, especially as this had greater success and was more effective in the trials. However, there may need to be an alternative green tariff on offer as well, so that people who wish to prioritise green energy can have a choice of alternative tariff.

Question 50: Do you think that the competitive process, where used, should enable more than one winner? If so, why and how?

We are not close enough to the detail to comment.

Question 51: Do you think that the opt-in switching scheme should seek to enable incumbent suppliers to try and keep their existing customers alongside the opt-in prompt?

We would be concerned that consumers in debt with their energy supplier can be blocked from switching in many cases. Therefore, the ability to allow their existing supplier to offer a cheaper tariff to such customers would be valuable if the consumer would be unable to progress a switch to a new supplier due to arrears.

However, as we said in our response to question 45, we would like to see action taken to ensure debt is not a barrier to switching so that suppliers would not be able to block a switch on the basis of arrears.

Question 52: Do you think that cherry picking is a plausible risk and, if yes, how should processes be designed to mitigate against it? Please provide your view on the two options raised: requiring suppliers to select with the Government/Ofgem/Delivery Body reviewing aggregated data to check for representativeness; or the Government/Ofgem/Delivery Body randomly selecting from the pool of eligible customers for each supplier? Are there other methods we should consider?

We have no comment to make in response to this question.

Question 53: If the Government/Ofgem/Delivery Body were to review aggregated data to check for representativeness, what data do you think would need to be processed to enable this check?

We have no comment to make in response to this question.

Question 54: If consumer data is shared with the Delivery Body to enable them to administer the prompt, do you think that consumers should be offered an initial opt-out before that data processing?

It would make sense to offer consumers an initial opt-out before their data is shared with the delivery body.

Question 55: Do you agree that target suppliers should be required to randomly pick consumers from their pool of eligible target suppliers, to determine which consumers are targeted by the testing?

We have no comment to make in response to this question.

Question 56: Do you agree that incumbent suppliers should be required to share consumer characteristics data to enable analysis of the impact on testing on different consumer groups?

We have no comment to make in response to this question.

Question 57: Do you agree that consumers should be offered an opt-out from having their data shared?

Yes, consumers should be offered an opt-out from having their data shared.

Question 58: Should suppliers be required to share a tally of the number of consumers who have not opt-ed out of each segment, to support processes for identifying a winning tariff?

We have no comment to make in response to this question.

For more information on our response, please contact:

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