



info@collaborateresearch.co.uk | www.collaborateresearch.co.uk

Current and potential future use of credit and smart data by energy suppliers in debt management

Research report

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1. Executive summary

1.1 Research aims and methodology

Citizens Advice represents the interests of consumers across essential, regulated markets. As part of wider work on energy affordability and debt, Citizens Advice commissioned independent agency, Collaborate Research, to undertake research to update and expand its understanding of energy suppliers' debt management policies and practices. The specific focus of this study was on two interlinked themes where a gap in the available evidence was seen:

- If and how those in pre-arrears (i.e. at imminent risk of falling into arrears) are identified and supported.
- Current use or future plans to use customer data, such as from credit reference agencies and smart meters, to inform suppliers' debt management processes including at the pre-arrears stage.

In addition, part of this research brief was to explore stakeholders' and consumers' perceptions and experiences of these activities.

This study comprised a rapid literature review to provide context and inform the research design, followed by four primary research strands:

- An information request which was completed by 13 energy suppliers.
- Interviews with representatives from 12 energy suppliers.
- Interviews with spokespeople from 8 external stakeholder organisations as well as several different parts of Citizens Advice (11 interviews in total).
- Interviews with 20 consumers at various stages of the debt process.

The data collection took place between December 2015 and February 2016.

1.2 Key findings

1.2.1 An update on energy suppliers' approaches to debt management

The literature review conducted to inform this work found that good practice in debt management is commonly characterised as an approach that maximises recovery of arrears through realistic and sustainable repayment plans. Another key tenet is to be able to identify and provide support to customers in genuine financial difficulty and particularly those who are vulnerable. Responses in this research and other publicly

available literature suggest that there are a number of generally recognised guiding principles to achieve these outcomes, including:

- Early identification of customers who are likely to be in financial difficulty and initiation of appropriate contact.
- An approach to communications that reaches customers effectively, encourages their engagement and maximises their response.
- A clear, well-defined and embedded approach to addressing the needs of vulnerable customers which ensures they are identified early and offered appropriate protection and support.
- A holistic approach that takes into consideration customers' overall circumstances and aims to help them with their wider financial health.
- A flexible package of solutions which are responsive to customers' individual and changing circumstances and so maximise the chances both of a sustainable repayment solution and their longer-term financial rehabilitation.
- Highly trained, competent and confident staff empowered to deal sensitively and sympathetically with individual customers and make decisions about the most appropriate response.
- Appropriate partnerships with other organisations to provide additional support where required, such as related to customers' wider financial health, and effective promotion of these relationships to customers.

The suppliers involved in this research reported that they are making efforts in most or all of these areas. A number told us that they are in the process of making or planning changes to their internal processes and/or capacity in order to optimise their approach to debt management.

However, responses suggest that smaller suppliers tend to be less advanced than the Big 6 in their methods to identify and support vulnerable customers. In addition, across the whole of the retail energy market, stakeholders and consumers reported some variability in the customer experience, indicating gaps between policy and practice which are suggestive of implementation challenges.

We also identified a number of barriers to consumer engagement with their energy suppliers at different stages of the debt process. Some consumers in this research admitted to having been in denial of their problems or that they were strategically delaying payments until their financial situation improved. There was also low awareness among consumers of the support measures suppliers have in place, as well as some distrust of energy suppliers' motives when making contact with customers in or at risk of falling into arrears.

1.2.2 Measures to support customers pre-arrears

Early intervention was acknowledged by suppliers and stakeholders to be an important goal in debt management as identifying and establishing contact with customers in or at risk of financial difficulty at an early stage, before their situation becomes more serious and intractable, can make a positive difference to outcomes.

Historically, the commonly understood definition of pre-arrears activity has been engagement with consumers who are on the verge of default, typically through proactive outbound contact by the creditor¹. However, this research suggests that, for a number of energy suppliers and stakeholders, this definition has broadened to encompass all measures to prevent people from getting into financial difficulty right across the customer journey. A number of suppliers reported processes at the acquisition stage and in their ongoing engagement with customers that have been designed to avoid problems later on.

Specific activity to identify and proactively support those at imminent risk of financial difficulty was regarded, by suppliers and stakeholders alike, as a potentially helpful part of the pre-arrears mix but one that is difficult to get right. In particular, it is perceived to be challenging to strike the right balance between being sufficiently engaging but not intrusive. This in turn requires suppliers to identify the right people and be able to offer them tailored and meaningful solutions. Some consumers acknowledged that they would be resistant to pre-arrears contact from suppliers, as they are not familiar with this type of activity and would tend to interpret it as being for sales or marketing purpose rather than to genuinely help people who are struggling. In addition, it was not clear, either to suppliers or to consumers, what 'carrots' could engage and assist consumers in this situation beyond tailored versions of energy efficiency or tariff advice.

Reflective of these challenges, most energy suppliers are currently not engaging in outbound contact of those who may be at risk of future default in any large-scale or sustained way. However, some have embarked on or are planning trials in this area, mainly in response to direct debit cancellations or failures. In addition, some suppliers reported that they are:

- Refining their response to customer-initiated contact pre-arrears, particularly how they respond to customers who self-identify problems.
- Reviewing their approach at the earliest stages of post-arrears.
- Making changes to general pre-arrears communications in order to increase the prominence of the help available for consumers getting into financial difficulty.

¹ See, for example: Understanding financial difficulty: Exploring the opportunities for early intervention (Money Advice Trust, Bristol Personal Finance Research Centre and Barclays, 2011)

1.2.3 Use of customer data in debt management, including pre-arrears

Customer data generally

Suppliers were agreed that customer data can help them to understand their customers better and respond in a more tailored and appropriate way.

There are currently a number of different models for how customer data sources are used by energy suppliers in their debt management. Some rely just on internal data, while others also use external sources. Some just use data to inform specific processes while a few draw on data to build customer segmentations which then guide their approach throughout the customer relationship, including their debt paths. These variations notwithstanding, the trend appears to be towards greater use of external data to supplement internal sources, more use of multiple sources and data linking. In addition, a number who have not developed data-driven customer segmentations as yet are now exploring this.

Credit-referencing data

Most suppliers are already using credit-referencing data, although for some this is just at the acquisition stage, to determine what payment methods will be offered, and/or to inform decisions on changes to payment terms. For others, credit information also plays a role in debt management, both to trace customers and help determine their ability to pay. Credit data are also a key input to customer segmentations which are drawn on by those suppliers that have developed them to tailor their approaches at both the pre- and post-arrears stages of the customer relationship.

While relatively few are currently participating in full Credit Account Information Sharing (CAIS), a number of others expressed interest in this as a way of providing a fuller picture on their customers' payment histories. Some of those looking into CAIS are doing so with a specific view to the pre-arrears stages as they are exploring use of this data to classify customers by their credit risk based on their payment behaviour in other sectors or to help identify materially adverse changes in their circumstances. Suppliers using or considering CAIS felt that this would benefit consumers by giving people with previously poor or thin credit histories additional opportunities to build these up.

Smart meter data

Relatively few suppliers have any explicit plans for their use of smart data in debt management at this stage. Some were cautious in making firm predictions in this area as full roll-out is still several years away and the costs and the 'Return on Investment' associated with applying smart data in this way have not yet been calculated.

However, a number of possible applications for smart data in debt management were seen, including in early intervention and preventative activity. For example, some suppliers and stakeholders said that they expect smart data to reduce bill shock by enabling more accurate billing, help engaged customers to understand their usage better and, importantly, also enable suppliers to spot problems more quickly to facilitate proactive intervention.

A particular opportunity was seen to combine credit and smart data in order to identify cases where customers' usage may exceed their ability to pay. This could then prompt the supplier to make contact with these customers to discuss ways of remedying this.

Stakeholder and consumer views on customer data use

Stakeholders were generally supportive of the use of data to help identify and support customers in financial difficulty at an early stage before their problems become more serious. However, they also saw limitations particularly in the ability of data to identify the more circumstantial and transient forms of vulnerability.

Stakeholders felt more could be done to ensure consumers understand how their data would be used and are assured of measures in place to keep it secure. They also expressed some specific concerns about the potential for use of credit data to result in consumers facing detriment with respect to other services (e.g. restrictions in access or less favourable rates). In addition, some stakeholders wanted reassurance that smart meter technology and data would not lead to premature switching of customers in debt to PPM or an increase in disconnections.

None of the consumer participants in this research spontaneously mentioned the use of customer data by creditors. This suggests little or no consideration of this topic in their day-to-day lives. Upon prompting, consumers did not recall receiving information from any creditors on their use of data but they wanted reassurances that their data would remain secure and that they would not be disadvantaged through its sharing. They were particularly worried about the prospect of data sources, such as from credit reference agencies and smart meters, being combined as this felt like too much monitoring of their affairs and to increase the risk to them in case of any data breaches. Consumers did not see any personal advantage related to the use of their data by creditors including energy suppliers.

1.3 Conclusions and recommendations

Suppliers' debt management policies align with recognised good practice principles but this research indicates that there is room for improvement in consistency of practice. In addition, it may be that more could be done to support and incentivise smaller suppliers to develop a clear, well-defined and embedded approach to addressing the needs of vulnerable consumers.

Suppliers are making efforts to intervene early both in order to prevent payment problems from arising and to resolve issues before they become more serious and intractable. This research therefore suggests that the definition of pre-arrears activity should encompass all preventative and early resolution measures being undertaken by suppliers prior to customers defaulting on their payments.

Most suppliers have considered ways of supporting those at imminent risk of financial difficulty as part of their approach to early intervention. However, currently suppliers are more focused on encouraging customers to make contact with them, and optimising their response to such contact, compared to proactive outbound activity. This is because supplier-initiated contact of customers is regarded as challenging to get right in terms of identifying the right people and encouraging constructive engagement without appearing intrusive.

Credit-referencing data has the potential to provide additional flags that could be helpful in informing future outbound contact of those at risk of default and enabling this type of pre-arrears activity to become a more mainstream part of the debt management process. For example, defaults with other creditors could predict future energy arrears while CAIS provides a more complete picture of customers' payment histories and can also be used to identify materially adverse changes in their circumstances.

Smart data could help suppliers to spot gaps between usage and ability to pay more quickly, particularly if smart data is combined with credit data. It could also enable more meaningful conversations to take place with these customers, including at the pre-arrears stage, such as about how to increase their energy efficiency or change to a more suitable tariff, in order to save costs and avoid financial difficulties. In addition, smart data has the potential to signal to suppliers cases of self-disconnection or low or sporadic use among customers, especially those known to be vulnerable.

More generally, drawing on customer data could enable suppliers to treat individual customers in a way that is more tailored to their individual circumstances and, if the appropriate systems and staff training are in place, to achieve greater consistency in the response to a given customer across all touchpoints.

However, there are also some issues and barriers to consider if the potential of pre-arrears activity and customer data use is to be realised within debt management.

For example, for consumers to become receptive to pre-arrears contact from suppliers they are likely to require more explanation of this practice as it is not currently on their radar. In addition, some consumers may be resistant to being contacted in this way due to their failure to acknowledge problems or distrust of energy suppliers' motives in making contact. These are relatively intractable barriers but suppliers will need to consider how to address them in order to improve their success rate in engaging with customers through the debt process including pre-arrears.

In addition, for the use of data to be demonstrably beneficial to consumers as well as to suppliers, and for any unintended negative consequences to be mitigated, will require good practice principles to be agreed for this area of activity just as they have been for other aspects of debt management.

Both consumers and stakeholders involved in this research were worried that the sharing of credit data could potentially disadvantage consumers in terms of restricting their access to services or leading to them paying more. There were also questions raised about credit data quality (i.e. how accurate and up-to-date it is) and data security generally. Consumers were particularly fearful about the possibility of credit and smart data being combined as this felt like too much monitoring of their affairs and to increase the risk of their information falling into the wrong hands. Stakeholders additionally expressed concern about the possibility for smart meter technology and smart data to lead to premature switching by suppliers of customers in debt to PPM or an increase in disconnections. These are all areas where more work by Citizens Advice and others is likely to be required, particularly to explore the extent to which these are real risks and what if any amelioration is likely to be required.

The current approach of suppliers to informing consumers about data use is mostly limited to inclusion of relevant clauses in their Terms and Conditions. There is a case for more proactive methods, as used by some suppliers currently with respect to credit data, including gaining active consent at the acquisition stage, informing customers in payment reminder letters and again when agreeing repayment plans, as well as providing more explicit assurances about the protections provided. In addition, the responses of stakeholders and consumers in this research suggest that more could be done to explain any benefits to consumers from the use of their data. For example, there is opportunity to convey if and how sharing of credit data could enable consumers to build up poor or thin credit scores.

Finally, suppliers and stakeholders each acknowledged that data use, while potentially helpful, does not fully overcome the challenge of early identification of vulnerable consumers, particularly those with more transient forms of vulnerability related to changes in their circumstances. This remains a priority area for energy suppliers and other creditors to look at ways of addressing.

2. Introduction

2.1 Background

2.1.1 Energy indebtedness and debt management

Problem indebtedness is a major personal and societal issue, with a range of potential impacts including physical and mental health issues, family breakdown, addiction and worklessness².

Since 2005, consumer gas prices have risen by over 120 per cent, and retail electricity prices have risen over 75 per cent³. Given these rising costs, managing energy bills can be particularly difficult, especially for consumers on low incomes, leaving them at risk of falling into energy arrears and causing associated detriment such as reduced ability to afford other essential services and commodities. Fuel poverty now affects 3.5 million households in Britain⁴ and consumers increasingly cite energy costs as a concern.

Evidence on the extent and levels of energy indebtedness in the UK presents a mixed picture. While the proportion of the population in debt to their energy supplier has remained relatively stable at circa 5% since 2006 (there was a slight increase to 6% in 2013 but a return to 5% in 2014)⁵, the amount owed by those in debt has increased between 2013 and 2014 (16% higher for electricity and 18% for gas)⁶.

The literature review conducted to inform this work found that good practice in debt management is commonly characterised as an approach that maximises recovery of arrears through realistic and sustainable repayment plans. Another key tenet is to be able to identify and provide support to customers in genuine financial difficulty and particularly those who are vulnerable. Here too the evidence for the energy sector is mixed:

- There has been lower levels of supplier-initiated disconnection (a 51% drop between 2013 and 2014) and evidence of suppliers agreeing lower repayment rates and giving customers longer to repay⁷. However, newly published

² See for example: The Impact of Personal Indebtedness in United Kingdom Households, Especially Children (House of Lords Library Note, 2014)

³ Take control: Energy policy and the potential for consumers to take control of their bills (Citizens Advice, 2014)

⁴ Ibid

⁵ See for example, Review of suppliers approaches to debt management and prevention (Ofgem, 2010) and Domestic Suppliers' Social Obligations Annual Report 2014 (Ofgem, 2014)

⁶ Retail Energy Markets in 2015 (Ofgem, 2015)

⁷ Ibid

research by Citizens Advice shows that energy suppliers are 7 out of 11 in the league table of creditors based on their performance in agreeing affordable repayment plans⁸. In addition, Citizens Advice has highlighted a serious issue of self-rationing and self-disconnection among some PPM customers.⁹

- A recent report by the Children's Society¹⁰ proposes that room for improvement is required in several areas of debt management including taking account of the customer's whole circumstances when agreeing a repayment plan, treating customers in a supportive and respectful way, providing them with the opportunity to negotiate the rate or method of payment, and making follow-up contact to check the ongoing affordability and suitability of repayment arrangements.
- Ofgem's data shows that while most consumers are repaying energy debt using methods other than PPM¹¹, the majority of newly installed PPMs (60%) have been put in place to manage debt.¹² While PPMs are preferred by some consumers, the unit charges are higher and there is less tariff choice compared to payment by direct debit.

2.1.2 Pre-arrears activity and use of data in energy debt management

It is well-understood that by identifying and establishing contact with customers at risk of financial difficulty at an early stage, before their situation gets serious, suppliers can make a positive difference. One reason for this, as highlighted by the growing body of behavioural research in this area¹³, is that customers can be reluctant to acknowledge their financial difficulties and are therefore unlikely to initiate early contact with their creditors.

The Financial Conduct Authority has specifically explored methods used by some financial services creditors in order to identify people before they fall into arrears in order to offer support¹⁴. Their conclusion was that detecting and acting upon 'early warning signs' allowed suppliers to develop early engagement strategies and offer

⁸⁸⁸ The State of Debt Collection (Citizens Advice, 2016)

⁹ See for example: Topping up or dropping out: Self-disconnection among pre-paid users (Citizens Advice, 2014)

¹⁰ Show Some Warmth (Children's Society, 2015)

¹¹ Domestic Suppliers' Social Obligations Annual Report 2014 (Ofgem, 2014)

¹² Retail Energy Markets in 2015 (Ofgem, 2015)

¹³ See for example, Applying Behavioural Economics at the FCA (FCA, 2014) and Literature in the Areas of Behavioural Economics and Psychology Relevant to the Understanding of an Individual's Propensity to Engage with their Creditors (Summers et al, 2005)

¹⁴ Consumer Credit Research: Low Income Consumers (Worton et. al. for the FCA, 2014)

proactive solutions or money advice that increased the chance of better outcomes for both customers and the firm.

Ofgem concurs with this view about the value of early intervention, leading the energy regulator to:

- Highlight ‘making proactive contact with consumers’ as one of its six key principles to guide energy companies on how to treat consumers in debt to them¹⁵.
- Recommend that suppliers make an effort to identify and intervene promptly with consumers who may be experiencing difficulty, including focusing greater efforts on early proactive contact, using a variety of channels, but approaching these contacts sensitively¹⁶.

The use of customer data could feasibly help suppliers to identify those who are at risk of being in financial difficulty in order to make earlier proactive contact. Ultimately, use of such data has the potential to lead to better understanding and segmentation of the customer base in order to tailor debt paths and communications appropriately.

For energy suppliers, data provided by credit reference agencies and collected from smart meters are two of the sources that could be drawn on to identify customers who may be in need of support before they fall into arrears. For example, credit data could alert suppliers to the customer’s financial difficulties elsewhere. As smart meters are rolled out more widely, their data could provide a more accurate way of determining whether a customer’s energy use matches his or her ability to pay, and play a role in prevention of payment problems (e.g. via alert messages, tariff optimisation, energy efficiency advice etc.).

As such, there are a number of potential benefits from using data in this way, as Ofgem itself foresees¹⁷. However, there may also be risks and potential unintended consequences associated with the use of customer data¹⁸, including:

- If the information being used is not accurate or up-to-date.
- If there is over-reliance on the data or it leads to any misunderstanding of the customer’s situation.
- If the customer’s full financial status, including positive payment history, is not shown.

¹⁵Debt review report: Key Principles for Taking Ability to Pay into Account (Ofgem, 2009)

¹⁶ In its review of suppliers’ approaches to debt management and prevention (Ofgem, 2010), Ofgem identified potential benefits of using smart meter data to include better control and more efficient energy use, improved budgeting, faster switching, more accurate billing and reduction in need for suppliers to back-bill

¹⁷ Domestic Social Obligations Annual Report (Ofgem, 2014)

¹⁸ For example, as highlighted in On the Record (Consumer Focus, 2011)

- If it is not made transparent to consumers whether and how such data is being used.
- If it leads to outcomes which are not proportionate or fair.
- If there is insufficient opportunity for rehabilitation.
- If it leads to deleterious knock-on effects with respect to accessibility or affordability of other services.

In addition, there may be consumer sensitivities and resistance to the use and sharing of their transactional data by organisations. Previous research¹⁹ indicates that consumers are concerned about the use of their personal data by external bodies generally, although this tends not to affect their behaviour indicating that this issue is not clear-cut.

2.2 Research aims

Citizens Advice commissioned this research in order to update and expand its understanding of energy suppliers' debt management policies and practices. The specific focus of this study is on the two interlinked themes identified in the preceding section where a gap in the available evidence was seen:

- If and how those in pre-arrears (i.e. at imminent risk of falling into arrears) are identified and supported.
- Current use or future plans to use customer data, such as from credit reference agencies and smart meters, to inform suppliers' debt management processes including at the pre-arrears stage.

In addition, part of this research brief was to explore stakeholders' and consumers' perceptions and experiences of these activities, with particular focus on:

- The needs and motivations of consumers pre-arrears, and their views on being contacted by suppliers at this stage.
- The views of consumers at various stages of the debt process on the use of customer data to identify those who might benefit from early assistance and the balance of that benefit with preserving their privacy and minimising other risks.
- The views of stakeholders on the potential benefits of such activities as well as the associated risks and how to mitigate these.

¹⁹ See for example, Personal Data Empowerment (Citizens Advice, 2015)

2.3 Methodology

This study comprised a rapid literature review to provide context and inform the research design, followed by four primary research strands:

- An information request which was completed by 13 energy suppliers.
- Interviews with representatives from 12 energy suppliers.
- Interviews with spokespeople from 8 external stakeholder organisations as well as several different parts of Citizens Advice (11 interviews in total).
- Interviews with 20 consumers at various stages of the debt process.

More detail on each of these strands is contained below. The research materials (information request questions, interview guides, consumer recruitment documents) have been included in the Appendix.

2.3.1 Energy supplier information request

Fourteen suppliers were sent an information request in late 2015 containing a number of specific questions on their debt management practices, pre-arrears activity and use of, or plans to use, credit and smart data. A total of 13 responses to this request were received in late January 2016; all Big 6 suppliers (British Gas, EDF Energy, E.ON, npower, Scottish Power and SSE) responded as did 7 smaller suppliers (The co-operative energy, Ecotricity, extraenergy, First Utility, Ovo Energy, Spark and Utility Warehouse).

2.3.2 Energy supplier interviews

All except 2 suppliers who were invited to take part in this strand agreed to be interviewed. This amounted to 12 participants in total, including all of the Big 6 suppliers (British Gas, EDF Energy, E.ON, npower, ScottishPower and SSE) and 6 smaller suppliers (extraenergy, First Utility, Ovo Energy, Spark, Utilita and Utility Warehouse). These interviews were 45-60 minutes in length and conducted by telephone in December 2015 through to early February 2016.

2.3.3 Stakeholder interviews

Stakeholders were invited to participate in this strand based on their relevant experience in consumer advocacy, the energy sector or the specific topics (pre-arrears activity, use of customer data) of interest in this research. A total of 8 interviews were conducted with external organisations which included Christians Against Poverty, Energy UK, Experian, the Lending Standards Board, Money Advice Trust, National Energy Action, Ofgem and Stepchange. In addition, 3 interviews were conducted with different parts of Citizens Advice, including a policy specialist in debt issues, a regional

energy champion and the Extra Help Unit. Stakeholder interviews, like those with suppliers, were 45-60 minutes in length and most were conducted by telephone in December 2015 and January 2016.

2.3.4 Consumer Interviews

The consumer sample represented people at various stages of the debt process, including pre-arrears, in arrears, paying back and post-arrears. Within these parameters, a cross-section of demographic characteristics were reflected. In addition, specific representation was sought from vulnerable consumers, those from black and minority ethnic backgrounds and those who are customers of smaller suppliers as well as the Big 6. Geographically, participants were drawn from London and the South East, Newcastle and the North East, Wales and Scotland. These details have been summarised in Figure 2.1.

Most of the consumer interviews (15) took place by telephone in order to achieve a comprehensive geographic spread, however 5 were conducted face-to-face in London and Newcastle. The interview length ranged from 30 to 60 minutes and this strand of the project took place in January 2016.

Figure 2.1

Core sample breakdown	Other quotas
<p>5 x pre-arrears Credit consumers not currently in arrears to an energy supplier but finding it difficult to pay and at risk of falling behind</p>	<ul style="list-style-type: none"> • Gender: equal representation of men and women • Age range: from 24 to 70 • Geographic spread: London/South East, Newcastle/North East, Wales, Scotland • The sample also included: <ul style="list-style-type: none"> ○ 5 from black and minority ethnic backgrounds ○ A mix of energy suppliers with 6 consumers who were with smaller suppliers ○ 7 vulnerable consumers
<p>5 x currently in arrears Credit (not pre-payment meter) consumers at least 28 days in arrears to an energy supplier</p>	
<p>5 x paying back Consumers in arrears to an energy supplier who have arranged a re-payment plan with their supplier and are now repaying</p>	
<p>5 x post arrears Consumers formerly in arrears to an energy supplier who have completed a re-payment plan are no longer in debt</p>	

2.4 Guidance for interpreting this report

This report brings together the main cross-cutting findings from each of the strands of the research.

The chapters to follow in this report have been structured as follows:

3. **Consumers' experiences and views of being in, or at risk of, debt to their energy supplier:** This chapter provides contextual insights on the consumer experience of being in, or at risk of, energy debt and what the impacts have been.
4. **Support provided to energy consumers through the debt management process:** This chapter updates the evidence base on the policies and practices to support consumers who are in debt or at risk of falling into debt to an energy company, including alignment with Ofgem's ability to pay principles and any changes to processes and/or capacity that have been made or are planned by suppliers. It also explores stakeholders' and consumers' perceptions and experiences of these measures to ascertain any gaps between policy and practice.
5. **Measures to identify and support energy consumers pre-arrears:** This chapter explores the extent to which energy suppliers are engaged in pre-arrears activity, the nature of this activity, and stakeholders' and consumers' perceptions and experiences of pre-arrears measures.
6. **Overview of data use in energy debt management:** This chapter provides an overview of different types of data that are being drawn on and different models for how data are being used. It also covers stakeholders' and consumers' awareness, understanding and perceptions of data use generally.
7. **Use of, or plans to use, credit data in energy debt management and other relevant areas:** This chapter spans use of credit reference agency data in energy debt management, including pre-arrears and other stages of the customer journey that could have an impact on debt management. It explores reasons why credit data are being used or not used, and the perceived benefits, risks and challenges associated with such use. It also covers stakeholders' and consumers' awareness, understanding and perceptions of credit data use, and suppliers' measures to make consumers aware of such use.
8. **Use of, or plans to use, smart data in energy debt management and other relevant areas:** This chapter covers any current or planned future use of smart meter data in energy debt management, including pre-arrears and other stages

of the customer journey that could have an impact on debt management. It looks at what roles are envisaged for smart data, if and how this is expected to be combined with other forms of data such as from credit reference agencies, and the benefits, risks and challenges foreseen. It also explores stakeholders' and consumers' awareness, understanding and perceptions of credit data use, and suppliers' measures to make consumers aware of such use.

9. **Conclusions:** This chapter focuses on recognised good practice principles in debt management generally and evaluation of current performance against this. It also considers the main perceived benefits, risks and challenges of data use specifically and discusses what good practice could mean in this area. Finally, it looks at the implications of full Credit Account Information Sharing and use of smart data in energy debt management, including at the pre-arrears stage, in the future.

The purpose of this report is to identify high-level themes and highlight common practices and views. As such it intentionally does not identify any individuals within the narrative or attribute any comments to specific suppliers or stakeholders.

Definitions of acronyms and other terminology used in the report are listed below:

Figure 2.2

Definitions of terms	
Big 6	The largest energy suppliers which include British Gas, EDF Energy, E.ON, npower, ScottishPower and SSE.
CAIS	Credit Account Information Sharing, which refers to sharing by creditors of customers' full payment histories rather than just information on defaults.
Fuel Direct	Repayment of energy debt, and sometimes also payment of ongoing energy bills, via a fixed amount directly withdrawn from government benefits.
Fuel poverty	A fuel poor household is defined as one which needs to spend more than 10% of its income on all fuel use and to heat its home to an adequate standard of warmth.
PPM	Pre-payment meters.

PSR	Priority Services Register, which enables certain energy consumers to get extra help and support with their energy supply. Each supplier maintains a PSR and people who are pensioners, disabled, chronically sick or have a hearing or visual impairment are eligible to sign up to it.
Pre-arrears consumers	Consumers at imminent risk of falling into arrears.
Vulnerable consumers	The definition we worked with in this report was outlined by Ofgem in its Vulnerability Strategy; it is broader than just those who qualify for PSR and includes anyone whose characteristics, capacity, circumstances or awareness causes them to be in a vulnerable situation ²⁰ .
WHD	Warm Home Discount, a government scheme which provides consumers at risk of fuel poverty a one-off rebate between October and March. Funding comes from participating energy suppliers. Suppliers are required to deliver WHD when they have over 250,000 customer accounts, and so many smaller suppliers are not yet so obligated. However, key regulations and principles on the treatment of vulnerable consumers apply to all suppliers, regardless of scale.

²⁰ Consumer Vulnerability Strategy (Ofgem, 2013)

3. Consumers' experiences and views of being in, or at risk of, debt to their energy supplier

3.1 Summary of findings

- Consumers interviewed in this research generally felt that their household expenses have become more difficult to manage over recent years, due to cost increases and stagnant or declining incomes.
- Energy bills were perceived by consumers to be one of their most significant household expenses. Energy costs were universally regarded as being very high and with no easy way for consumers to make changes in order to achieve a lasting reduction in these costs.
- Some reported 'bill shock' having led to their energy debt. This was most common among quarterly cash or cheque payers but was also experienced by some whose direct debit payments were set too low.
- A number had experience of other debts in addition to energy, and some were dealing with complex circumstances that had contributed to their financial difficulties. Consumers in these situations were finding it very difficult to resolve their variety of issues and their financial problems were not always the main area of focus.
- It was typical to feel stressed, anxious or depressed when in debt or at risk of debt. There were some who admitted to being in denial or that they were strategically delaying payments until their financial situation improved. These consumers would be unlikely to be receptive to contact from their creditors, as they wanted to stay under the radar.
- Some distrust of energy suppliers' motives was also expressed. This suggests that consumers could be resistant to pre-arrears contact from suppliers, as they would tend to interpret this as being for sales or marketing purposes, rather than to genuinely help people who are struggling.
- Consumers at different stages of the debt process had different attitudes to dealing with their energy supplier and differing levels of confidence in their ability to resolve the issues. Those in arrears but who hadn't yet engaged with their supplier tended to feel most sensitive and fearful of the repercussions. Those who were currently repaying or had completed a repayment plan generally felt more in control.
- Some consumers who had agreed a repayment plan with their supplier were very happy with the outcome. However, others had less favourable experiences, suggestive of some gaps between policy and practice or inconsistency in processes.

3.2 Household expenses and debt generally

Across the board, the consumers we spoke to found their household expenses difficult to manage, with the majority stating that making ends meet has become more challenging over recent years. To a degree this may be expected due to the targeted nature of the sample (people currently or formerly in debt, or at risk of falling into debt, to their energy supplier). However, a number of participants were working part or full-time and still finding it difficult to meet their household expenses due to price rises and stagnant or sometimes declining incomes.

The bills that were reportedly most difficult to pay on an ongoing basis included rent or mortgages, council tax, telephony services and utilities including gas, electricity and water. Some reasons why these expenses were difficult to manage were that:

- They generally account for a relatively high proportion of household expenditure.
- They are billed monthly or quarterly, so differ from other household expenses which tend to be 'little and often'.
- The due dates for payment do not always align with when the majority of income is received.
- There is potential, with both energy and telephony services, for 'bill shock' where usage significantly exceeds expectations.

A number of consumers had current or previous experience of having multiple debts. In addition to the ongoing affordability issues mentioned above, circumstantial changes (e.g. divorce, job loss, maternity leave, illness) often preceded people falling into debt. In some cases, there were a number of factors contributing to financial difficulties, and sometimes the issues being faced were complex and difficult for the individual to resolve meaning that they, rather than the associated financial issues, were the main focus.

When participants were asked how they felt about their financial situation the typical responses were 'stressed', 'anxious' and 'depressed'. Some were managing to stay afloat but fearful that any unexpected change could tip them over the edge. Others felt that their situation was already spiralling out of control and they did not know how to resolve it.

3.3 Energy debt specifically

3.3.1 Energy costs perceived to be very high and seen as difficult to achieve savings

The cost of energy was generally felt to be very high and a number were critical of energy suppliers for their pricing. It was commonly perceived that energy tariffs lack transparency and that suppliers are quick to pass on cost increases but slow to deliver savings.

Some also felt that it is difficult to know what specific actions the consumer could take to reduce their energy costs (e.g. how much having one less bath per week would save). There were reports of not putting the heating on or reducing usage of high consumption devices such as tumble-dryers but these measures were felt to ‘shave the edges’ off the bill rather than dramatically reduce it. There was a desire to know more about how to save energy, however consumers felt that they were not able to invest in the home improvements or technology that may enable them to make substantial savings.

Some were more engaged than others with the detail of their energy expenditure. A number among the more engaged group of consumers had switched tariffs or suppliers previously in an attempt to save money. However, several people felt that switching had not materially benefitted them, as either the expected savings had not eventuated or their tariff had subsequently increased. Some had also opted for fixed term tariffs with exit fees and these were a source of resentment in cases where it was felt that there were now cheaper deals on the market.

3.3.2 Energy suppliers tend not to be highly trusted

There was cynicism about the motives of energy suppliers generally, and particularly when they approach customers proactively, as this type of contact would normally be interpreted as being marketing-related. Among those who had not yet been in contact with their supplier regarding energy debt, there was an expectation that the response would be inflexible, with no alternative being provided to paying up in full or risk being disconnected. With the exception of those with recent experience of arranging repayment of energy debt, most had no idea of what support might be available to them and they assumed that it would be negligible.

3.3.3 A number of factors can contribute to energy debt

Because this research took place in January, we encountered several consumers who had fallen into, or felt at risk of falling into, seasonal energy debt as a combination of high expenses in the run up to Christmas and higher energy use in the winter was contributing to a financial ‘pinch point’ for their household. Among those who identified seasonal factors as important in their energy debt situation, there were several who had experienced this in previous years and some who expected to experience it every year.

Seasonal changes in usage were a major contributor to bill shock. This was particularly prevalent among those who paid quarterly by cash or cheque, however it was also reported by a number of people who paid by direct debit where the level of their monthly payment was based on an underestimation of their actual usage over an extended period.

Another factor that led to debt in some cases was a house move. One participant said that he got into trouble after he inherited a credit meter when he was used to pre-paying. Another said that she did not engage with letters to ‘The Householder’ after she moved, which led to her amassing considerable debt.

3.4 Customers at different stages of the debt process

3.4.1 Pre-arrears customers

With the pre-arrears consumers involved in this research, it is important to note that the fact that they recognised that they were in danger of falling into energy debt means they are likely to be more aware of their financial situation than some other consumers who may also be vulnerable to future energy debt. As a consequence, people who self-define as being 'pre-arrears' may be less likely than others to fall into arrears and more receptive to measures being offered them by suppliers to remedy the situation.

Pre-arrears consumers generally felt their household finances to be in a very fragile situation. Some were able to keep on top of bills, but only just. They were often working on very tight budgets and they felt that an unforeseen large expense could push them into arrears.

Some mentioned strategically delaying payment of certain bills to regulate their finances. The bills they chose to delay were those where they felt their service would not be affected. Others mentioned always waiting until they receive the 'red' letter before paying to give them as long as possible between payments.

In addition, some had already fallen into arrears with some commitments (e.g. on credit or store cards) but energy bills, along with rent or mortgages, were generally perceived to be priority bills so effort was being made to keep up payment on these for as long as possible.

Some consumers knew that they were probably already in debt to their energy supplier based on them being aware of a gap between their direct debit payments and usage. Some admitted that they were trying to stay under the radar and waiting for the energy company to 'figure it out'.

None of the pre-arrears consumers in this research had initiated contact with their energy company to discuss their financial situation. The main reasons for this were:

- The belief that contacting the energy company may reveal a debt that they would then be liable to pay on the spot.
- An expectation that energy companies would not be receptive to such contact and not provide any options to pay or support.
- A reluctance to reveal their financial situation and anxiety that such contact could have a deleterious outcome (e.g. being forced to go on a PPM, the supplier putting a 'black mark' against their name etc.).

In addition, none of the pre-arrears consumers in this research had been contacted proactively by their energy company in relation to their financial situation. However, some reported other forms of supplier communication, including:

- Being asked to submit monthly meter readings.

- Being provided with monthly graphs showing their energy usage in Kwh and £ Sterling.
- Being given general information about free or low-cost insulation or home improvements to reduce energy usage.
- Being given general information about smart meters.
- Being given general information about cheaper tariffs.

Consumers' responses suggest that personalised information, or requests for action in the case of requests to provide monthly readings, have most impact on consumer engagement and potential to influence behaviour pre-arrears. For example, the consumers who reported being provided with monthly energy usage information used this to help them judge whether their direct debit was covering their energy usage.

3.4.2 Consumers currently in energy debt

As might be expected, this was the group with whom discussion of energy bills was the most emotional and sensitive. Being in energy debt is a very stressful situation and consumers in debt were waiting for the consequences of their debt to be realised. Those who had been in energy debt before were less emotional about the situation but they still found it to be unpleasant. A few were experiencing a seasonal pinch point and were expecting to catch up; they were delaying until the funds arrived in their accounts. Those without previous experience anticipated bailiffs, having to go to court and generally that 'bad things' were about to happen.

None of those who were in energy debt had made proactive contact with their supplier at the point of the interviews, although they had all received multiple communications, including letters, texts and phone calls. Among this group, all claimed to have read the letters, if only to check they were not threatening to send bailiffs or cut off their supply. One person admitted to screening her phone calls because she was not yet ready to talk to the energy company.

The main reason given by all within this group for not contacting their energy company was that they could not afford to pay them and they felt that the energy company was primarily interested in being paid. They did not want to contact the energy company until they had a 'solution' to offer them. There was a desire to pay the bill in one lump sum where possible and consumers were waiting to find a way to 'scrape the money together' before making contact. A few participants who were experiencing more serious long-term financial difficulties and had multiple debts were also panicking and reluctant to face up to their broader financial situation. They felt 'out of control' and their energy bills were not necessarily their only or even main concern.

Those who had been in debt to their energy supplier before were generally less fearful about the prospect of contacting their supplier eventually. However, those for whom this was a new experience feared that the energy company would be unsympathetic.

3.4.3 Consumers currently paying back

Those consumers on payment plans were the group most likely to feel in control of their financial situation and able to pay their energy bills of all the groups interviewed. Some of those paying back debt were on PPM while others continued with credit arrangements such as direct debit.

One of those currently paying back had her payment plan intermediated by a charity which had also helped her to resolve or mitigate other issues, including divorce and chronic illness. The others had agreed the payment plans themselves.

Of those who had engaged directly with their energy company to agree a payment plan, some had a positive experience. They were surprised by how easy it was to agree an affordable payment plan and felt that the customer service personnel had been helpful and sympathetic. However, others reported varied or less positive experiences, which included:

- Unhelpful staff who did not empathise with their situation.
- Being passed around in order to speak to someone who was able to agree a payment plan.
- Having difficulty filling in paperwork (such as an income and expenditure form or applications for extra assistance).
- Being pressured into agreeing to a PPM (although others who had a PPM installed as part of a current or past repayment plan were happy with this).

3.4.4 Post-arrears consumers

This group had a mix of experiences with their suppliers in connection to their previous debt, much like those currently in arrears. Consumers who reported good experiences tended to be confident in dealing with companies over the phone and in a more stable financial and personal situation than those who did not. They talked about:

- Friendly and helpful call centre staff.
- Being easy to set up a repayment plan.
- Being happy that they have been offered a PPM or even requesting one.

Conversely, those who had negative experiences were more likely to be vulnerable (as identified by the research team) and less likely to feel comfortable engaging with big companies or call centre staff. They mentioned:

- Being passed around between call centre staff.
- Call centre staff not empathising with, or responding appropriately to, their health issues or other needs.
- Being allowed to amass too much debt before contact was made.
- Mistakes on the part of the energy company, which led to debt building up (e.g. only fitting a gas pre-payment meter but not letting the customer know they were still paying a for electricity on a credit account).

Those who had less positive experience with their energy provider in dealing with their debt were less likely to want to engage with their energy provider in future.

However, as post-arrears customers were defined in this research as having completed their repayment within the past 3 years it is possible that some of the experiences referred to relate to historical practices which have since been reviewed and improved by suppliers.

4. Support provided to energy consumers through the debt management process

4.1 Summary of findings

- Suppliers and stakeholders were in broad agreement about what good looks like with respect to energy suppliers' debt management practices. They referred to the value of early customer engagement, the supplier making an effort to understand customers' individual circumstances and being flexible in the repayment arrangements agreed. They also highlighted the importance of being able to identify and respond appropriately to vulnerable customers, ideally through a specialist team and tailored debt paths.
- For consumers, receiving an empathetic response, agreeing an affordable repayment arrangement and having their vulnerability recognised were each contributing factors to a positive experience.
- All suppliers involved in this research reported that they are making efforts in each of the areas highlighted above. They were also commonly offering a range of additional support and signposting to specialist debt advice bodies where appropriate.
- However, some stakeholders felt that there is still a way to go to achieve good practice consistently across the sector. Consumers also reported mixed experiences although they felt that energy companies compared favourably in their responses to some other creditors.
- A number of suppliers were in the process of making or planning changes to their internal processes and/or capacity to enhance how they identify and support those in financial difficulty. For example, there were reports of changes to staff training and incentives, modification of their communications and strengthening of partnerships with third sector debt advice bodies. There was also specific mention of reviewing the approach to assessing ability to pay and to identifying and supporting vulnerable customers.
- In general, smaller suppliers appeared to be less advanced than the Big 6 on their approach to vulnerable customers. However, some are looking at ways of modifying their practices in this area.
- Suppliers did not refer to pre-arrears contact of customers at risk of payment difficulties as being a core part of their approach to debt management. However, several are undergoing trials in this area. A number reported that they draw on data to guide their response to customers including through the debt process, and several are looking to increase their use of customer data. More detail on these areas is provided in Chapters 5-8.

4.2 Suppliers' views

Distinguishing genuine financial hardship from deliberate delinquency ('can't pay vs. won't pay') is a common challenge facing all creditors including energy suppliers. Several suppliers noted that it is more challenging for energy companies than some other creditors to make this assessment as they generally only have a single point of contact with their customers.

That said, aligning with consumers' views on financial strain reported in the previous chapter, a number of suppliers have seen indications of an increase in the extent and/or level of financial difficulty among their customers. For example, one supplier reported a trend away from one-off repayments to customers requiring repayment plans. Another said that over the past 4-5 years they have seen more customers presenting with zero or negative incomes as well as more who are struggling to pay for their ongoing usage as well as debt.

These contextual factors have influenced a number of suppliers' approaches to debt management. For example, a large supplier said that they identified a risk several years ago for high numbers of its customers to fall into arrears due to the wider economic conditions. As this situation would not be sustainable for the business it prompted them to look at how to address the area of customer debt as a priority.

In general, all suppliers reported that they are making efforts to engage with and respond appropriately to those in genuine financial difficulty, and a number of common practices to debt management were referred to by all of the Big 6 energy suppliers and also by most smaller suppliers:

- Attempting to engage with customers who are in arrears at an early stage, both through outbound activity via a number of channels, and by encouraging customers to make contact.
- Assessing customers' individual circumstances, including via income and expenditure assessments and by asking questions to establish ability to pay issues and vulnerability.
- Being flexible in the repayment arrangements agreed, including providing longer terms, lower repayment rates and/or enabling repayment via Fuel Direct if appropriate.
- Offering a range of additional support measures such as tariff optimisation, energy efficiency advice and income maximisation services.
- Signposting customers who would benefit from specialist advice to third parties – in some cases suppliers had formal relationships or referral mechanisms with third party organisations; others provided more general signposting information.

In addition, a few suppliers reported additional practices including:

- Direct (warm) referral of customers to debt charities where appropriate and the customer has given permission.
- Monitoring of customers on repayment plans and reassessment of these plans if circumstances change.
- Setting up of trusts or hardship funds in order to write off debts for certain customers in order to encourage rehabilitation.

In general, smaller suppliers, who are newer to the market, tended to be less focused than the Big 6 on being proactive in their identification and support of customers in financial difficulty and less advanced in their approach to vulnerable customers. One potential reason for this is that risk of bad debt is less for some of these suppliers due to them having fewer legacy customers or because they have engineered out some of the risks through their business models. A number of smaller suppliers also stated that they place emphasis on encouraging their customers to 'self-serve' by providing regular meter readings, changing their payment arrangements if required and alerting them of any issues. In addition, there was a view expressed that smaller suppliers, who have not yet met the threshold required to offer WHD, are primarily focused on growth rather than social obligations.

That said, a number of smaller suppliers said that they are looking at ways of tailoring their approaches to respond to different customers' circumstances, with a particular focus on those who have been flagged as vulnerable. As such, some small suppliers are following the Big 6 by directing vulnerable customers and those with severe financial difficulties to specialist teams and developing dedicated debt paths and tailored communications for vulnerable customers.

Overall, a number of suppliers said that they have made or are planning changes to their internal debt management processes and/or capacity to optimise their ability to achieve sustainable resolution as well as to meet social obligations. These include:

- Redesign of staff training, incentives and quality assurance procedures.
- Review of communications, including written materials and the proactive contact strategy.
- Improvements in how ability to pay is assessed, and vulnerable customers are identified and supported, including broadening the definition of vulnerability and offering even greater flexibility in repayment arrangements.
- Strengthening of partnerships with third parties.
- Combining of credit and debt operations to take a holistic approach to customer management.

- Segmenting the customer base using various data sources, and drawing on this to tailor the entire customer experience including debt paths.

Suppliers did not specifically mention outbound contact of those who may be at risk of default as being a core part of their approach to debt management. However, some were implementing trials in this area and a number had other measures in place to engage with and support customers pre-arrears. More detail on this activity is included in Chapter 5 of this report.

In addition, while relatively few suppliers so far have moved from a 'collections' to 'credit management' model of debt management, or have adopted comprehensive segmentation of their customers, there were indications that there may be further uptake of these approaches in the future. In particular, several energy companies – including some smaller suppliers - reported that they are exploring making greater use of customer data throughout the customer journey, including in debt management. The theme of data use to identify and support customers in debt or at risk of debt will be described in more detail in Chapters 6-8 of this report.

4.3 Stakeholders' views

Stakeholders were broadly agreed on what good looks like with respect to management of energy debt and support of customers who are in debt to their energy supplier. In particular, they highlighted the importance of energy suppliers:

- Engaging with customers early on, including making effort to pick up on any initial signs that the customer is in financial difficulty.
- Being easily contactable, via a range of channels, with staff trained to recognise vulnerability when responding to inbound customer contact.
- Understanding the customer's full financial situation and wider circumstances.
- Agreeing realistic and affordable repayment plans, and reviewing these once implemented.
- Using an appropriate tone in all interactions and written communications.
- Having a dedicated vulnerable customer team and access to hardship funds and trusts to write off debt where appropriate.

These measures have each been applied by a number of suppliers as highlighted in the preceding section. In addition, another stakeholder reported that they are seeing an increase in signposting of customers to debt advice services.

However, matching consumers' reports of variability in Chapter 3, stakeholders felt that there is still a way to go to achieve good practice consistently across the whole of the retail energy sector. One specific issue identified by certain stakeholders who deal with

consumers who are vulnerable and/or have complex financial circumstances is that they believe the default response by some suppliers to consumers in debt is to switch them to a prepayment meter (PPM)²¹. While PPMs are preferred by some consumers as they can help with budgeting, stakeholders highlighted a number of potential issues with PPMs including higher unit costs compared to direct debit, less tariff choice and possible additional charges for their installation or removal. (It is worth mentioning, however, that some suppliers reported plans for significant innovation in the pay-as-you-go space, which may make this payment option more competitive and attractive to consumers in the future.)

In addition, there were a number of reports of variability, both between and within suppliers, in their response to customers in debt. For example, one stakeholder had seen examples of staff lacking empathy and authority to be flexible in their response, as well as of suppliers not identifying or transferring vulnerable customers effectively. A couple said that they are aware of instances where customers were put under pressure to sign up to high repayments over short periods. There was also a view expressed that some suppliers' definitions of vulnerability are too narrow (e.g. requiring them to qualify for the Priority Services Register (PSR) to be considered vulnerable).

In general, the Big 6 energy companies were perceived by stakeholders to be more advanced than smaller suppliers in their identification and support of customers through the debt management process. They felt that this was potentially related to larger suppliers having more established systems, greater resources and higher regulatory expectations of their social obligations. The difference was particularly noted with respect to how proactive suppliers are with respect to the identification and support of vulnerable customers, including whether they have dedicated vulnerability teams, hardship funds and strong relationships with debt advice charities. One stakeholder felt that smaller energy firms are concentrating on growth and would not consider wider factors such as customer vulnerability in any depth until they reached the tipping point in customer numbers that committed them to offering WHD. However, some pockets of inconsistency or poor practice among larger suppliers were also reported by stakeholders.

4.4 Consumers' views

In general, energy companies were thought to handle debt management somewhat better than a number of other creditors, particularly councils and telephony providers. Consumers felt that telephony providers were too quick to cut customers off and generally demanded full payment before services were reinstated. The process for

²¹ As highlighted in the Introduction, evidence on PPM use for debt management is mixed. Ofgem's data show that while most consumers are repaying energy debt using methods other than PPM, the majority of newly installed PPMs (60%) have been put in place to manage debt.

dealing with council tax debts was felt to reach court summons stage prematurely and not to provide sufficient opportunity for softer contact in order to reach a resolution. By comparison, those with direct experience of dealing with energy suppliers on debt issues felt that they tend to be understanding if customers make contact with them, and are not likely to disconnect them. Energy suppliers were also felt to allow relatively long repayment periods on small monthly or weekly amounts that were more manageable than those demanded by telephony companies in particular.

However, because there was felt to always be the ultimate recourse to disconnection, energy companies were perceived by some as more difficult to deal with than water companies who had to agree a repayment plan without the threat of loss of supply.

In addition, the consumer experience of energy suppliers' frontline staff in response to their debt issues was reportedly variable in empathy and effectiveness. In general, how positive or negative the experience felt to consumers was based on the following elements:

- How easy it was for them to contact the supplier and speak to an appropriate staff member.
- The extent to which staff were perceived to respond in friendly and empathetic manner.
- The nature of the resolution agreed and how appropriate and affordable this was seen to be.

Significantly, it tended to be people in more vulnerable situations (e.g. those with chronic health conditions or who had gone through changes in their circumstances such as job loss and separation etc.) who felt that they had a more negative experience. In several cases they felt their vulnerability was not sufficiently recognised.

Those who had experienced a supplier's debt management process made several suggestions of improvements, which included:

- Capping the amount of debt the energy company will let a customer amass before they notify the customer.
- Asking 'how much can you afford?' not 'how are you going to pay?'
- Allowing consumers in debt to switch to a cheaper available tariff without exit fees, to ease their financial situation.
- Allowing consumers in energy debt, or in danger of getting into debt, to access technology such as smart meters without charge to help them monitor their usage and to support budgeting.
- Making sure that the full range of vulnerability indicators are routinely picked up and that these customers are dealt with sensitively and appropriately.
- Signposting vulnerable consumers to charities and intermediaries to help them negotiate with the energy company.

5. Measures to identify and support energy consumers pre-arrears

5.1 Summary of findings

- A number of suppliers took a broad view of pre-arrears activity which they defined as encompassing all measures to prevent their customers from getting into financial difficulty. This was supported by some of the stakeholders who also felt that the focus of pre-arrears activity should be right across the customer journey rather than just at the brink of default.
- Some suppliers mentioned their efforts at the acquisition stage to know their customers and ensure they offer the most appropriate payment terms. Regular communication with customers was also highlighted as being important as a preventative measure as it could alert customers to their usage and encourage self-service (e.g. providing meter readings, changing direct debit levels if usage is out of line with payments).
- Proactive identification and support of those imminently at risk of financial difficulty was regarded, by suppliers and stakeholders alike, as a potentially helpful part of the preventative activity mix. For this reason, some suppliers were undertaking or planning trials in this area.
- However, none had embarked on any large-scale ongoing pre-arrears activity, perhaps related to this being regarded as challenging to get right. In particular, it was believed to be important and potentially difficult to strike the right balance of being engaging but not intrusive. It was generally felt that energy suppliers had few triggers to identify people who are likely to default, with the exception of failed or cancelled direct debits. This was seen by some to risk incorrect assumptions being made about customers or potentially to waste resources by resulting in contact of some customers who would otherwise have gone onto self-remedy.
- Other activities reported to improve early intervention included reviews of general pre-arrears communications, their response to customer-initiated contact pre-arrears or their approach at the early stages of post-arrears.
- Consumers involved in this research had not previously experienced or even considered the possibility of being contacted by their energy supplier prior to getting into debt. They too could see potential benefit of being provided support at an early stage, however they could not envisage what could be offered to them at this point, and some were not convinced of the value to suppliers of helping customers in this way. In addition, some acknowledged that they may not have been receptive to contact by their supplier at this time, particularly if they were not yet aware of, or ready to admit, a problem.

5.2 Suppliers' views

A number of suppliers took a broad view of what pre-arrears activity means and their definition included all efforts to understand, interact with and respond appropriately to their customers throughout the customer journey. A number of approaches were reportedly being used to achieve this type of customer insight and relationship.

Most were in agreement that engaging with customers at an early stage, and setting them up appropriately from the outset, helps prevent problems later on. For example, the risk of default is known to be higher in cases where customers have been inherited through a property move and are as yet unnamed, or in properties with a high turnover of tenants. As a result, some suppliers said that they make considerable efforts to identify a named bill payer and engage with them promptly after acquisition. In addition, a number of energy companies reported that they assess new customers' circumstances (e.g. via credit referencing as will be reported in Chapter 7) to ensure they are offered the most appropriate payment terms. Several said that they encourage their customers to pay via direct debit wherever possible, and some also expected to focus more on pay-as-you-go moving forward.

A number of energy companies also mentioned ongoing activity, such as contacting their customers on a monthly basis, via their preferred communication channel, to ask for meter readings and provide usage updates. The aim of this regular contact is to encourage customers to self-serve by checking that their usage and payment levels align. One supplier also told us that it regularly checks direct debit levels against usage and makes adjustments where required with the aim that its customers who pay by direct debit have a zero balance at the end of their contract.

In addition, as reported in the previous chapter, some suppliers segment their customers based on what they have learnt about them via direct conversations as well as other internal and sometimes also external data. They use this insight to tailor how they interact with customers at various points including in their debt management and collections processes. For some of the Big 6 in particular, the use of data in this way has enabled pre- and post-arrears activities to be integrated into their overall account management.

That said, only a minority said that they proactively contact customers specifically to support those who have been identified as being at risk of falling into arrears, or that they had immediate plans in this area. For the suppliers looking into this, it is only through small-scale trials at present. The main triggers being used for such contact currently are direct debit rejections or cancellations.

While there was general agreement among those exploring pre-arrears activity of this kind that proactive customer contact at this stage has the potential to be helpful, they also regarded it as being challenging to get it right. As such, some suppliers reported that they are exploring how to develop early indicators of financial hardship and what contact methods work best to engage customers without feeling intrusive.

In one large supplier's view, customers would respond better to this type of contact if they could be offered something tangible which could be useful to them. They felt that

they don't have much to talk about now except alternative payment channels such as direct debit. However, they envisaged that, in the future, smart data could be drawn on to enable suppliers to provide personalised advice to consumers in this situation e.g. on energy efficiency or tariff optimisation (see Chapter 8 for more detail).

Another supplier is piloting both outbound calls and texts where a direct debit has failed. One challenge they identified is the potential for these approaches to annoy 'self-remedying' customers who do not actually have a problem and will go on to pay on time.

On the other side of the spectrum, one supplier told us that they are not convinced of the value of pre-arrears activity which they felt could appear to be 'Big Brother' and may lead to incorrect assumptions being made by the supplier about customers' circumstances. Some others also took the position that they don't want to use resources to chase the wrong types of customers, such as those who are going to pay anyway. One of these suppliers stated that its focus is to contact customers in early delinquency rather than pre-arrears, acting on initial warning signs such as failed direct debit to trigger a response as soon as the customer moves into arrears.

Overall, most suppliers are largely reactive in how they deal with customers who are at risk of falling into debt. Some suppliers have looked at how they respond to inbound calls from customers identifying as being at risk of default and whether they have appropriate systems in place to direct pre-arrears customers who are flagging problems, to the appropriate route. In addition, one supplier reported that it is focusing more on its general written communications to customers who are pre-arrears, including sending prompt payment reminders and including messages about being 'not yet overdue but would you like to discuss?'

5.3 Stakeholders' views

Most stakeholders did not know what pre-arrears activity energy suppliers are currently undertaking and they assumed that it is probably negligible.

They could see value in early identification of people who are in financial difficulty but also identified challenges in targeting the right people and managing the potential sensitivities and resistance of customers being contacted at this stage.

One participant commented that energy suppliers had fewer signals in this area than creditors in other sectors but they felt that potential indicators they could look at include needing to send payment reminders, failing direct debits and being proactively contacted by customers to report difficulty. Getting the tone of such communication right was regarded as being critical to the success of such activity.

Another stakeholder said that they could potentially provide some useful data to energy suppliers on how many clients they are seeing with difficulties in other areas as the typical path they see is for customers to default on credit or store cards first and then on energy bills.

It was also felt that early intervention should go further than just identifying people at risk of falling into debt and include more upfront effort to ensure customers are aware of what they are using and how much it costs. One stakeholder commented that in the financial services sector the trend with pre-arrears activity is to focus on preventing financial difficulty right across the customer journey rather than just at the brink of default.

5.4 Consumers' views

Consumers did not spontaneously refer to pre-arrears contact in their suggestions for optimising the debt management experience. This is primarily because they were not familiar with this type of contact from any creditors. However, several did mention the value of more proactive approaches early on when customers have fallen into debt, particularly if they were not aware of there being an issue (e.g. in cases of a gap between direct debit payment and usage).

When prompted, the majority thought it would be a good idea for their energy supplier to contact them proactively to help them avoid energy debt and save money on their bills. They felt that a letter or email, possibly followed up by a phone call or with a direct number to call if you wanted to discuss anything, would be the best approach.

However, there were some reservations:

- Most consumers were confused about how the energy company would know who was at risk of falling into debt.
- Some were also unsure about what the energy company would say at the pre-arrears stage - for example, whether they would provide generalised information about saving money by using less energy or improving their insulation or whether the support would be more tailored to individuals (the latter, more personal approach, was seen as preferable).
- Several consumers were cynical about 'money saving' emails from their energy supplier; they thought their supplier would probably be trying to sell them a tariff or product, rather than genuinely motivated by a desire to help them save money.
- Some admitted that they would be unlikely to pay attention to messages about avoiding energy debt if they did not feel they were in immediate danger of being in debt.
- Some felt that they simply didn't have enough money to pay all their bills, all the time. They didn't see how the energy company would be able to help them with this through their pre-arrears activity.
- A number who are further down the debt process admitted that even though pre-arrears contact may have been advantageous to them, they probably would not have been receptive to it as they were 'in denial' at this stage.

6. Overview of data use in energy debt management

6.1 Summary of findings

- All suppliers reported using at least some customer data to help them understand and respond appropriately to their customers, including within the debt management process.
- The main sources of internal data being used are customers' names and contact details, their payment history and PSR/vulnerability flags. In terms of external sources, a number mentioned credit referencing information and some also utilise socio-economic data, marketing-based classifications, and track and trace information.
- Some suppliers just use these data to inform particular processes at specific stages of the customer journey. However, a few use data to build their customer segmentations which are then drawn on to tailor communications and approaches throughout the customer relationship, including debt paths.
- Overall, the trend appears to be towards greater use of external data to supplement internal sources and more use of multiple sources, data mining and linking of sources. While only a few suppliers are currently using data-driven customer segmentations, a number of others are exploring this.
- Stakeholders were generally supportive of the use of data to help identify and support customers in financial difficulty at an early stage before their problems become more serious and intractable. However, they also saw limitations particularly in the ability of data to identify vulnerability.
- In addition, stakeholders felt more could be done to ensure consumers understand how their data would be used and are assured of the protections in place. They also believed that more exploration is required to ensure that there are not unintended negative impacts on customers related to the use of their data, such as with respect to access to or affordability of services.
- None of the consumer participants in this research spontaneously mentioned the use of customer data by creditors. This suggests little or no consideration of this topic in their day-to-day lives. Upon prompting, some similar concerns were expressed by consumers as had been raised by stakeholders. Despite these reservations, consumers tended to feel disempowered and unable to object to their data being used in order to access services they required. As well as lacking understanding of how their data are being used, consumers did not see any advantage to them related to the use of their data by creditors including energy suppliers.

6.2 Suppliers' views

All suppliers reported using at least some customer data to help them understand and respond appropriately to their customers including in debt management. The trend appears to be toward greater use of external data by suppliers to supplement their internal sources of intelligence, and more use of multiple sources and associated data mining and linking of sources.

The main internal forms of data mentioned include customers' names and contact details, their payment history with the supplier and if they appear on the PSR or have otherwise been flagged as vulnerable. External data reportedly comes mainly from credit reference agencies but some also use socio-economic data and marketing-based classification data. In addition, a number mentioned using external information (track and trace etc.) to help them identify current householders where they are as yet unnamed, or trace former residents.

As mentioned in Chapter 4, some suppliers segment their customers using data and draw on this at all stages of the customer journey. A couple of larger suppliers told us that they feel their use of data from acquisition onwards has been key to them avoiding debt occurring in the first place as it enables customers to be segmented appropriately and a range of processes to be tailored accordingly. For example, it allows them to provide an appropriate 'pathway' for communications with customers, wherever they hit the business, based on everything known about that customer to date. This has ultimately led to customers being more engaged and responsive, which has reportedly halved the number of customers falling into arrears in the case of one supplier.

This insight also helps suppliers to tailor their debt management processes specifically. For example, one supplier reported that they use data to fast track some people through the collections process and to determine the most appropriate 'treatment plan'.

To be fully effective, these systems need to be regularly updated. For example, one supplier said that they update their payment performance models for existing customers on a monthly basis.

A couple told us that they would like it if the government would share benefits-related data to help them identify vulnerable customers by providing early indications of financial difficulties (e.g. people moving from work to job-seeking benefits under Universal Credit).

6.3 Stakeholders' views

There was a general endorsement from stakeholders of the use of internal and external data to identify vulnerable people so they can be supported at an early stage. A trend has been observed by one stakeholder towards more use of in-depth data over the past 5 years, including internal payment history, geo-demographic data to analyse the customer base, default credit data and moving through to full Credit Information Account Sharing (CAIS).

The majority saw internal data as being most useful, particularly for early intervention. It was felt suppliers should use every customer contact for intelligence to build up their individual customer profiles and to flag people who might be at risk of difficulty.

In one stakeholder's view, external data can also be useful at the acquisition stage, when there is no pre-existing customer relationship, by throwing light on who the supplier is interacting with and enabling an appropriate offer to be made. Further down the customer journey, this stakeholder felt that external data are most powerful when combined with internal sources of customer intelligence, and they said that this could be used to enable periodic reviews of customers' circumstances.

One consumer advocacy organisation saw further opportunity for the detailed income and expenditure plans that they provide to suppliers on behalf of their clients to be used more proactively by suppliers. For example, they saw potential for suppliers to refer to this data to make decisions on the use of trust/hardship funds and to determine the customer's eligibility for WHD.

Another mentioned the proposed Standard Financial Statement and how this has potential to provide consistent information on people with multiple debts that can be used as a tool by all creditors.

Some stakeholders also felt that suppliers should make more effort to inform customers of how their data are being used and to give assurances about data privacy and security protections. In addition, more exploration was perceived to be needed to ensure that there would not be unintended negative impacts on consumers related to the use of their data. More detail on this is provided in the next chapter.

We were also told that the one area where all creditors are still struggling is establishing vulnerability which is still largely reliant on the customer to self-identify. It was felt that anything that could be done to help flag vulnerability would be a good thing and they saw benefits data as potentially being a useful additional predictor of vulnerability.

6.4 Consumers' views

None of the consumer participants in this research spontaneously raised the use of customer data by energy suppliers or any other creditors in the course of these discussions. This is likely to relate to low awareness of what and how data can be used by creditors including energy suppliers, along with little or no active consideration of this topic by consumers in their day-to-day lives.

For this reason, the moderators prompted participants to consider the prospect of credit and smart data being used by energy suppliers, either now or in the future. Consumers' reactions to these two specific scenarios are detailed in the chapters that follow.

The discussions also covered views on measures to make consumers understand the potential for their data to be used in debt management and what protections are

needed. Some knew there were safeguards already in place in relation to data generally (e.g. the Data Protection Act) while others felt there 'must be some regulations' but didn't know what they were. However, some people were cynical about these rules and regulations because they were aware of high profile hacks (e.g. TalkTalk) and felt that legislation had not prevented these. Consumers found it difficult to suggest what additional rules and regulations should be put in place because this was not a subject area that many felt particularly informed about.

Most felt that data related to their own energy usage - and to a degree also their credit risk - should only be used with their active and informed consent. Putting an additional point in the Terms and Conditions was not felt to be enough as consumers acknowledged that they generally gave these little or no consideration.

When they focused on it, a number felt very negative about the commercial use of customer data by companies. By contrast, few could see any personal advantage related to the use of their data. That said, it is worth noting that data use by companies is a relatively normalised part of everyday life and consumers felt relatively disempowered and unable to object to the use of their data because they needed to access the services they required.

7. Use of, or plans to use, credit data in energy debt management and other relevant areas

7.1 Summary of findings

- The majority of suppliers are currently using credit-referencing data in some way in their customer management. The most common application is at the acquisition stage to determine the payment methods offered, or to inform decisions on changes to payment terms (e.g. if a customer requests to move from PPM to credit). Some are also drawing on credit data in their debt management, both to help identify or trace customers who are in arrears and to determine their ability to repay.
- A few use credit information as one of the data sources that feeds into their customer segmentations. For this group, credit data is used to understand customers' circumstances better at each stage including their likelihood to be facing financial difficulty. Suppliers using credit data in this way saw defaults in other areas as a good predictor of future energy arrears.
- Most suppliers are just using default data while a few are sharing full payment histories (CAIS). The suppliers currently participating in CAIS tend to be those who use credit data in their customer segmentations. A number of others are planning for or trialling CAIS to help them predict future credit risk or to identify materially adverse changes in their circumstances.
- However, some remain unconvinced of the value of credit data. For example, a view was expressed that internal data, such as customers' payment histories with the energy company, are a better source of intelligence. Some also mentioned the investment required for CAIS as being a barrier or questioned the return on investment.
- There was some uncertainty among stakeholders about if and how energy suppliers are currently using credit data. In principle, the use of such data to help identify and support customers who are at risk of payment difficulties was endorsed. However, stakeholders wanted reassurances about the quality of the data and that those with poor or thin credit scores would not face detriment in terms of access to or affordability of energy or other services.
- Consumers had very low awareness of the possibility for their credit histories to be the subject of ongoing monitoring by their energy supplier, or indeed any creditor, and a number were uncomfortable about this once informed. Like stakeholders, consumers expressed concern that this may lead them to be disadvantaged in some way. The potential benefits of capturing a good payment history were not readily seen.

7.2 Suppliers' views

While a few suppliers reported that they do not use data provided by credit reference agencies at all currently, the majority are using or starting to use credit data.

Some are utilising it just at the acquisition stage (to credit check customers and determine what payment options will be offered) or to make decisions on changes to payment terms (such as where a PPM customer wishes to begin paying by credit²²).

However, a few said that they are making use of such data not only with respect to new accounts or new payment terms but also in debt management. In these cases, credit data tends to be used towards the end of the debt collections process at present, for example in field collections, (pre-) litigation and final accounts, both to trace customers and help determine their ability to repay debt.

In addition, a few larger suppliers have combined credit data with other sources of intelligence to contribute to a fuller segmentation of their customer base. They then draw on this segmentation to guide their responses to individual customers throughout the customer journey.

These findings regarding credit data usage by energy suppliers are summarised in Figure 7.1 over the page:

²² In the information request, suppliers were asked not just about use of credit information in debt management but also this informed decisions about moving customers from PPM to credit meters. Overall, just over half of those who responded said it did. For those using credit data in this way, it informs decisions on whether the customer is deemed eligible to move from PPM to credit and in some cases can also be used as an alternative to asking for a security deposit.

Figure 7.1

Current usage of credit data by energy suppliers	
No use	3 of the 13 suppliers completing the information request
Use at the acquisition stage and/or in decisions re changing payment terms	9 of the 13 suppliers completing the information request
Use in debt management	5 of the 13 suppliers completing the information request
Use throughout customer journey (via integration in customer segmentations)	3 of the 13 suppliers completing the information request

Some suppliers felt that use of credit data is particularly effective when it is combined with internal data and fully integrated into customer communications to the extent that any member of staff can access full information on a customer, including any flags attached to their case relating to priority needs or vulnerability. For example, suppliers using credit data in their customer segmentations tend to do so in conjunction with internal payment performance data and, over time, the customer’s profile becomes more weighted to internal data as these are seen as a better predictor.

Suppliers who draw on credit data in their customer segmentations use this to understand their customers’ circumstances better at each stage of the customer lifecycle including to minimise the risk of arrears and financial difficulty. One supplier specifically explained how they use credit data to identify customers who are showing signs of struggling to pay. They believe defaults in other areas to be a good predictor of likely future difficulty in paying energy bills, as people who experience financial difficulty reportedly tend to default on other payments before energy. Each month, they calculate a risk segment for their entire live credit base by combining external data supplied by credit reference agencies with historic internal payment performance. This is then applied to predictive models to identify customer groups that have a high likelihood of falling into arrears in the future.

There are two levels at which credit reference agency data can be accessed by creditors – just defaults or full payment history. In each case, the principle of reciprocity means that the creditor needs to share the same level of data that they access²³.

²³ Principles of Reciprocity (SCOR, 2014)

Most energy companies are currently just using default data, along with track and trace information in some cases to identify or locate current or past customers. However, a few have signed up for Credit Account Information Sharing (CAIS). One supplier said that they hope the whole energy sector will sign up to full credit data sharing in order to provide a fuller and more relevant view of customers as otherwise the data will mainly reflect the financial services sector and provide a skewed picture of behaviour. They felt that not sharing full data could be unfair to consumers who are not using credit or are excluded from the mainstream credit market but may have a good payment record for essential services.

A number of others said that they are planning for or trialing CAIS and/or wider application of credit data in some way, for example:

- To better identify levels of credit risk and tailor communications accordingly.
- To help with the identification of materially adverse changes among its customers.
- To develop a more tailored user experience throughout the customer journey.

However, some suppliers remain unconvinced about using such data in debt management. For example, one supplier, which does not currently use credit data in any way in their operations, told us that they do not have any immediate plans to. This is because they do not see its value compared to other internal information they have, they feel it is too based on credit assessments in other sectors where behaviour is different, and they are concerned that it could be misleading. They regard conversations with their customers as being a superior way to provide intelligence.

Another, which only shares default data, said that the investment required to meet the Principles of Reciprocity for full sharing is a barrier to their uptake. In addition, a smaller supplier felt that full data sharing would not provide sufficient return on investment given their size and relatively small number of customers who are in arrears.

Suppliers we interviewed recognised that customers need to be informed about the use of their credit data and may be resistant if they see it as being intrusive or are worried about data security. However, it is also worth mentioning that, at present, 'informing' customers appears to be limited to including this within Terms and Conditions as part of the contract of supply. Beyond this, a couple of suppliers stated that they explicitly gain consent for their initial credit assessments. A few also reported that they notify customers in arrears, as part of their payment reminders, of the potential for non-payment and non-engagement to affect their credit file. In addition, one energy company stated that they explain the potential for data to be shared to customers in arrears as part of the process for agreeing repayment plans.

7.3 Stakeholders' views

Some stakeholders were not familiar with how energy companies use credit data. Most assumed that the main use of credit data by energy suppliers currently would be for risk-profiling new customers and those wishing to change from PPM to credit.

The primary benefit perceived of using credit data at this early stage of the customer journey is the potential for it to do away with the requirement for security deposits for lower risk customers. However, some questions and concerns were also raised, such as about the quality of the data (how accurate and up-to-date) and whether those with poor or thin credit scores may receive less favourable treatment (e.g. not being taken on as a customer, being provided with less tariff choice etc.).

Most were uncertain if and how suppliers are using credit data in their wider account management including with respect to customer debt. Only a couple could comment on this, one of which told us that they are aware of credit data being used by some suppliers to decide at what point in the debt path individual customers would start and, accordingly, how many letters they would be sent, the tone of communications etc. Another said that some suppliers are using credit data to inform enforcement by helping to distinguish the 'can't vs. won't pays'.

There was also a lack of awareness among most stakeholders of the extent to which energy companies are participating in full payment history sharing (CAIS). Again, only a couple were more informed in this area:

- One of these stakeholders said that they believe only a few suppliers to be using credit data in this way at present. They commented that each supplier would need to make an individual assessment of the value of such data against other tools they have and relative to the cost. One of the costs suppliers would need to consider is related to the systems they would need to have in place to share equivalent data to what they were using, given the principle of reciprocity.
- Another spoke of the importance of getting the implementation right, which they said meant a stage of widespread consultative engagement, conducting representative analysis so the benefits of using the data could be seen, and ensuring the initial programme of work has a senior owner and is sufficiently funded. They also highlighted a challenge, particularly for larger suppliers, of needing to adapt large billing systems to enable data sharing. These challenges notwithstanding, this stakeholder said that more energy suppliers and other priority creditors were exploring full data sharing. They felt that such data could be helpful to suppliers in understanding how their customers are faring outside their experience. They felt that full CAIS could also be helpful to customers by enabling their positive payment history to be recorded and drawn on by creditors in other sectors.

While the use of credit data to inform pre-arrears activity was generally supported, one stakeholder felt that care was needed as such data are not a direct predictor that the customer will fall into debt. Another said that it can't be regarded to be a magic bullet as the data are not perfect, with some accuracy issues and time lags perceived.

One stakeholder also commented that customers know little about how their data may be used and shared by energy suppliers and that awareness raising is needed. A survey conducted by Experian in January of 2015, which we have been given permission to refer to, confirms that consumers lack understanding of the way credit data is developed and used, and that there are a number of misconceptions such as that consumers have a single rating (38%), that late payments stay on consumers' credit report forever (34%) and that it is possible to be blacklisted for future credit (72%). It was felt that there was a potential for more overt messaging in this area, including of the potential benefits to customers of recognising their positive record of paying on time.

Of concern was the possibility seen for sharing of customers' data by energy suppliers to have deleterious impacts on people in other essential areas, such as contributing to them not getting access to rental accommodation etc. However, one stakeholder argued that full data sharing would enable positive payment behaviour to be captured, which could be particularly helpful to those who would otherwise have a thin credit record.

7.4 Consumers' views

Some consumers were aware that credit checks may be used at point of joining a new supplier, or at least were not surprised when it was raised. A number accepted this, because they recognised that the energy company would want to know whether it was acquiring a risky customer or not. However, some felt it was not appropriate for their credit risk information to be shared with energy companies because it was felt to be information about their financial status and therefore only relevant for loans or financial institutions and not for other service providers.

None of the participants were aware that their credit information could be monitored on a regular basis. When informed of this possibility, consumers' attitudes varied from those who were relaxed about this to those who felt it was intrusive and unnecessary. Attitudes depended on a variety of factors including:

- Those who felt consumers' credit scores, along with a great deal of other personal information, was already 'out there' vs. those who felt that this was private, personal information that should be given out only with the customer's permission.
- Younger people vs. older people – broadly younger people were more comfortable with sharing their credit score, in order to obtain the services they wanted, while older people felt that if they paid regularly their credit score was no one's business.

- Those who had experience of getting into bad credit vs. those who felt their credit score was generally good – those who felt they might have bad credit were less comfortable with sharing their information than those who thought they had good credit, because they felt they might have to pay more for products and services.

None of the consumers in this research envisaged that energy companies would want to monitor credit scores of its existing customers unless the customer was already falling behind on payments. When the moderators raised this prospect during the discussions, the reaction tended to be negative. Even though, upon prompting, consumers could see that this was one of very few ways for energy companies to know who might be in financial difficulties at an early stage, they felt uncomfortable that their financial behaviour could be monitored so closely. On the other hand, it was felt to be acceptable to use past payment history held by the supplier to predict ability to pay, because this was data the energy company collected and had a right to consult.

In general, people felt that checking credit scores on a regular basis would benefit the energy company more than the consumer. They raised a number of questions and concerns, including:

- Whether those in financial difficulty would be refused energy supply or provided worse terms than those with good credit.
- Whether a customer could be forced to change payment method or tariff due to a poor credit score.
- Whether poor credit score a long time previously would still count against customers.
- Whether customers could receive a poor credit score due to error.

When asked whether they had been informed if their energy company was using credit reference data about them, no one remembered having been informed. They felt it might possibly be in their Terms and Conditions, but most did not read them thoroughly, if at all, and even those who said they had read them did not remember anything about sharing or checking their financial information.

8. Use of, or plans to use, smart data in energy debt management and other relevant areas

8.1 Summary of findings

- In discussing possible applications for smart data, suppliers expected, as a minimum, for this to help avoid bill shock by enabling more accurate and regular billing. They also anticipated that it would be an additional tool to give engaged customers a more in-depth understanding of their usage.
- Some additionally saw potential for smart data to be combined with credit referencing information in order for suppliers to be better able to spot gaps between usage and ability to pay. In these cases, the consumption information provided by smart meters was expected to help suppliers have more meaningful conversations with customers pre-arrears, such as about energy efficiency or tariff optimisation measures, that could lower costs and reduce payment difficulties. A related area of opportunity perceived is to help suppliers identify self-disconnection or low or sporadic usage among its customers.
- However, few suppliers had any explicit plans for their use of smart data. Some were cautious about making predictions in this area as they felt that mass-market rollout is too far away for the potential of smart data to be clear. Some also referred to the significant investment required, both in preparation for using smart data and in its ongoing processing, as a potential barrier.
- Stakeholders tended to agree that smart data has the potential to improve consumers' understanding and management of their usage, and to enable suppliers to be able to spot problems early. They hoped that suppliers would use the data proactively to support vulnerable customers rather than just focusing on self-help among savvy consumers.
- In addition, stakeholders felt that it was important for sufficient protections to be in place to prevent smart meter technology from leading to premature switching to PPM or increased disconnections of those in financial difficulty.
- There was relatively low consumer understanding of smart meters. Once informed, some were more interested than others in the additional energy usage data that will be possible for consumers to access. However, consumers reacted negatively to the possibility of smart data and credit data being combined by suppliers as it was felt that this would mean their lives would be too closely monitored. It also raised concerns about data security.

8.2 Suppliers' views

Most suppliers do not have fixed plans for their use of smart data at this stage as the mass roll out is still several years away. As such, discussions tended to be theoretical and to consider what might feasibly be possible.

Suppliers expected that smart data could, as a minimum, enable more accurate bills to be calculated and for these to be generated monthly rather than quarterly, both of which would help avoid bill shock and assist customers with budgeting. The potential was also seen for smart meters to help customers to keep track of their ongoing usage, and for suppliers to spot cases early on where usage doesn't match ability to pay.

One supplier provided detailed feedback on the potential opportunities of smart data which they felt were:

- Early identification of where direct debits are out of kilter with usage.
- Triggering earlier supplier contact of customers and more self-help.
- Ultimately, leading to fewer debt conversations and more real time 'lets do something about it before it becomes a problem' conversations.
- Potentially making customer interactions with suppliers more constructive.
- Providing a catalyst for other products and services to help customers increase their energy efficiency and save money.

In addition, a couple of suppliers felt that smart meters could help them to support consumers already in debt by better understanding their consumption data. It was also perceived that smart meters could provide useful intelligence to help with debt management more generally, such as identifying empty properties etc.

A few of the bigger suppliers, however, were of the view that roll-out of smart meters is still very limited and unrepresentative of the full customer base to be able to illustrate their full potential in the mainstream energy sector. In addition, one or two felt that as full roll-out was so far in the future, with a number of potential challenges on the way, it was difficult to assess how far they would live up to their perceived potential. One believed that, to some extent, the focus on smart meters was putting a brake on current innovation and investment in other areas of the business, such as pre-arrears.

Some suppliers noted the increased technical ease of switching from credit to PPM with smart meters but they did not regard premature switching as a concern. This is because suppliers felt that Ofgem would ensure consumer protections would be in place in this area. In addition, some reported that they are planning innovation in the pay-as-you-go space and they felt that smart meters could further help reduce the cost differential between prepayment and direct debit and reduce the perceived stigma to consumers of using PPM.

Similarly, the potential for more or faster supplier-initiated disconnections was not seen to be a risk because the industry are committed not to disconnect except in extreme circumstances (normally for health and safety reasons rather than non-payment). There was some mention of how smart meters could make it easier for suppliers to spot self-disconnections and self-rationing among customers, which could represent another benefit of this data if it is used in this way.

However, some other challenges were seen to using smart data for supporting customers in or at risk of debt. One supplier felt that more engagement in this area would be required by some suppliers to recognise the value of this data and make sufficient investment for such applications. Significant costs were seen not just in preparing for use of data in this way but also for ongoing processing. Another highlighted technical interoperability issues with the transition between SMET 1 and SMET 2 as a potential constraint. In addition, the requirement for customers actively to opt in to data being collected more than daily was noted as a potential barrier if customers were suspicious of sharing data with their suppliers.

The minority who are more actively considering how smart data might be incorporated in debt management made the following comments:

- One supplier could see opportunity to combine smart data with credit data to help customers proactively from falling into debt by matching usage to ability to pay. They also envisaged potential for smart data to alert them to the needs of vulnerable customers e.g. when consumption patterns change. Smart meters are already being used by this supplier to set up monthly billing for new customers identified as being at risk of falling into debt and where a direct debit cancels, plus all customers can request a smart meter.
- Another is planning a credit management trial using consumption data from smart meters which will include exploring indications of self-disconnection (of PPM) or changes in financial circumstances. More generally, they see potential for smart data to enable more accurate billing, increased customer awareness of their usage and the ability for them to have more engaging conversations to support customers with financial difficulties.
- Suppliers were also asked whether the potential for smart data to be used in debt management is included in their Terms and Conditions. In the majority of cases, suppliers have not yet included any clause on the use of smart data, mainly because most are not currently using this data and do not have immediate plans to. One of the two suppliers including clauses commented that they feel it is important to explain all of the possible ways smart meters might be used so that they can make the case for this technology and also assure customers on the privacy and data protection measures in place.

8.3 Stakeholders' views

There was general consensus amongst stakeholders that smart meter data could have significant benefits in terms of enabling suppliers (and engaged customers) to understand their consumption better. It was also seen to have potential to help suppliers to monitor risk factors such as gaps between usage and ability to pay, as well as self-disconnections, very low or sporadic use (both among PPM and credit customers).

One stakeholder saw considerable potential for smart data to be combined with credit data so consumption and ability to pay could be compared. They felt that this combination of data would provide a number of levers for suppliers to have constructive conversations with consumers.

However, there were concerns that the cost of analysing smart data may be a barrier to suppliers using their data in this way. In addition, one stakeholder hoped that the focus would not just be on giving savvy consumers energy efficiency advice but also on those who are less engaged but for whom the data could also bring benefits.

The other worry expressed by some stakeholders is not primarily related to the data side of smart meters but concerns the possibility that enhanced smart meter functionality leads to premature switching of customers to PPM. They hoped that Ofgem would ensure that there were protections in place for consumers in this area. On the other hand, one participant felt that easier switching between providers and payment methods would make it easier to adapt tariffs and payment channels to people's individual circumstances, which would be of overall benefit to consumers.

8.4 Consumers' views

Some consumers involved in this research had heard of smart meters, while others had no awareness. In general more vulnerable consumers were less likely to have heard of smart meters compared to other groups. Even among those who had heard of smart meters, most did not have a detailed understanding of what they do and no one was aware of the data monitoring possibilities. When informed of this, a number responded positively as they felt this could be helpful for them, for example to improve energy efficiency and lower costs. Some others were less interested, either because they did not feel they could reduce their energy usage with or without a smart meter, or because they were not particularly engaged in thinking about their energy use. No one responded in a strongly negative way to the idea of a smart meter. That said, some were less comfortable than others with their energy supplier having access to their usage data as they felt this was personal to them.

When the possibility of connecting smart meter data to consumer credit information to assess risk of energy debt was raised by the moderators, the consumer response was overwhelmingly negative. While some consumers feel comfortable about giving credit information or providing regular usage information to energy companies, the thought

that the two might be cross-referenced and used to predict risk of delinquency made people feel very nervous. A risk was seen for the energy company to make incorrect assumptions about customers based on this data, potentially leading to limitations being placed on their services.

The prospect of data linking in this way also led to a number of more generalised concerns to be voiced about companies accessing consumers' data. As the discussion progressed, participants became increasingly worried that their energy supplier would know far too much about their lives and habits and there were a number of risks associated with this, including:

- Potential data breaches, 'hacking' and other illegal usage.
- Personal information being sold to third parties who would use it for unsolicited marketing (people widely believe their email addresses, addresses and telephone numbers are sold to marketing companies without their permission).

In general, it was felt that smart meter data alone should be enough to tell the energy company whether certain customers are using a lot of energy and should be given help to reduce their usage; participants could not see why it needed to be cross-referenced with credit data. On the other side, consumers felt that credit information and payment activity on the account should be enough to measure payment risk. The rationale and benefits to consumers of bringing the two together were not understood which contributed to the negative response when this prospect was discussed in the research.

The discussions about smart data also considered measures to make consumers aware how such data could be used. Most consumers felt that data on their own energy usage - and to a degree also their credit risk - should only be used with their active and informed consent. Putting an additional point in the Terms and Conditions was not felt to be enough and at the very least they felt it should be highlighted rather than hidden within them.

However, it is also worth noting that although, when they focus on it, people can feel very negative about the commercial use of personal information and data by companies, it is a relatively normalised and accepted part of everyday life. People felt relatively disempowered and unable to object to the use of their data because they needed to access the services provided. This is often referred to as the 'say/do' disconnect.

9. Conclusions and implications

9.1.1 Energy suppliers' debt management practices

Energy suppliers' stated debt management aims and approaches align with recognised good practice principles, as identified both in previous research and by stakeholders. All of the suppliers that contributed to this research told us that they were working on all or most of the following areas:

- Early identification of customers who are likely to be in financial difficulty and initiation of appropriate contact.
- An approach to communications that reaches customers effectively, encourages their engagement and maximises their response.
- A clear, well-defined and embedded approach to addressing the needs of vulnerable customers that ensures they are identified early and offered appropriate protection and support.
- A holistic approach that takes into consideration customers' overall circumstances and aims to help them with their wider financial health.
- A flexible package of solutions that are responsive to customers' individual and changing circumstances and so maximise the chances both of a sustainable repayment solution and their longer-term financial rehabilitation.
- Highly trained, competent and confident staff empowered to deal sensitively and sympathetically with individual customers and make decisions about the most appropriate response.
- Appropriate partnerships with other organisations to provide additional support where required, such as with respect to customers' wider financial health, and effective promotion of these relationships to customers.

However, interviews with both stakeholders and consumers suggest that suppliers' policies are not always delivered in practice. In addition, there is some evidence that practice is more consistent among the six larger suppliers than among newer, independent suppliers. More could be done to support and incentivise smaller suppliers to consider how they can more proactively identify and offer help to vulnerable customers.

9.1.2 Pre-arrears activity in the energy sector

Early intervention was acknowledged, by suppliers and stakeholders alike, to be an important goal in debt management as this provides the best opportunity to resolve issues before they become more serious and intractable. This research suggests that the definition of pre-arrears activity used in the energy industry is broader than just

focusing on the brink of default. Rather, pre-arrears work encompasses all measures currently being undertaken by suppliers to prevent customers from getting into financial difficulty right across the customer journey.

Most suppliers have considered ways of proactively contacting and supporting those at imminent risk of financial difficulty. However, supplier-initiated contact of customers is regarded – by suppliers and stakeholders alike - as challenging to get right in terms of identifying the right people and encouraging constructive engagement without appearing intrusive. One of the reasons for this is that they could not readily identify what tools they had to encourage consumers to engage with such proactive contact, beyond offering existing tariff and energy efficiency advice, or help via third parties.

Similarly, while consumers could see the benefits of early engagement in theory, they too found difficulty in identifying new measures suppliers could take to help them.

As a result, suppliers are currently more focused on encouraging customers to make contact with them, and on optimising their response to such contact.

9.1.3 Use of credit data

Credit-referencing data has the potential to provide additional flags that could be helpful in informing future outbound contact of those at risk of default and enabling this type of pre-arrears activity to become a more mainstream part of the debt management process. For example, defaults with other creditors could predict future energy arrears, while CAIS provides a more complete picture of customers' payment histories and could be used to identify any materially adverse changes in their circumstances.

It is clear from this research that the use of credit-referencing information is expanding in the energy sector. There are already some new models of credit data use within the sector, including as an input into customer segmentations which are then used provide individuals with bespoke paths right through the customer journey. This may help some consumers move from PPM to credit meters, and therefore access cheaper tariffs, without the need to pay a security deposit. However, the use of credit data could also result in consumers being given fewer payment options.

In addition, the extent to which consumers are aware of, and are comfortable with, this use of data is uncertain and is an area where further research may be useful.

9.1.4 Potential role of smart and credit data

The rollout of smart meters has the potential to expand considerably the information available to suppliers, with associated implications for debt management. This research suggests, however, that discussions on this issue are still at a relatively early

stage, with the main benefit seen by suppliers and stakeholders being to avoid debt arising by enabling early identification of gaps between usage and regular payments.

Beyond this, some could foresee a potential for smart data to enable suppliers to identify cases of self-rationing or self-disconnection among customers. It is not yet clear that suppliers or stakeholders have thought through the implications of this, either in terms of privacy concerns or of possible responses, although there is willingness to do so.

However, this research has also identified the specific possibility for suppliers to combine smart data with credit-referencing data to provide greater intelligence on their customers. This is a new area and, as with any innovation, there is potential for its use to bring benefits to consumers, but also a need to identify and mitigate any possible risks.

The combination of credit and smart data was seen to have potential to identify gaps between usage and ability to pay more quickly, for example where defaults on lower-priority debts are recorded, even where payments for energy are maintained. This could facilitate earlier contact of consumers in order to avoid financial difficulties. In addition, the detailed usage information that smart meters provide could help make these conversations more meaningful such as by enabling more tailored and specific recommendations to be made on measures to increase energy efficiency in order to reduce costs.

More generally, drawing on combined customer data of this nature could also enable suppliers to treat individual customers in a way that is more tailored to their individual circumstances. Where data are linked to appropriate systems and staff training, there is the potential to achieve greater consistency in the response to a given customer across all touchpoints, and as a result, reduce customer complaints.

9.1.5 Issues for further consideration

However, there are also some issues and barriers to consider if the potential of pre-arrears activity and customer data use is to be realised within debt management.

As discussed above, for consumers to be receptive to pre-arrears contact from suppliers they are likely to require more explanation of this practice as it is not currently on their radar. In addition, some consumers may be resistant to being contacted in this way due to their failure to acknowledge problems or distrust of energy suppliers' motives in making contact. Suppliers will need to consider how to address these barriers in order to improve their success rate in engaging with customers throughout the debt process – this will particularly be the case where contact is being made as a result of a credit default in a non-energy area.

In addition, for use of data to be demonstrably beneficial to consumers and for any unintended negative consequences to be mitigated, good practice principles will need to be agreed for this area of activity, just as they have been for other aspects of debt management. This is particularly important because both this and previous research show that there is a link between debt and significant changes of circumstances. Codes of conduct need to reflect that consumers involved may well be in temporary vulnerable situations such as redundancy or family breakdown, even if they are not included in 'traditional' vulnerability definitions.

Both consumers and stakeholders involved in this research were worried that the sharing of credit data could potentially disadvantage consumers in terms of restricting their access to services or leading to them paying more. There were also questions raised about credit data quality (i.e. how accurate and up-to-date it is) and data security generally. Consumers were particularly fearful about the possibility of credit and smart data being combined as this felt like too much monitoring of their affairs and to increase the risk of their information falling into the wrong hands. Stakeholders additionally expressed concern about the possibility for smart meter technology and smart data to lead to premature switching by suppliers of customers in debt to PPM or an increase in disconnections. These are all areas where more work is needed to explore the extent to which these are real risks and what if any amelioration is likely to be required.

The current approach of suppliers to informing consumers about data use is mainly limited to inclusion of relevant clauses in their Terms and Conditions. There is a case for more proactive methods, as used by some suppliers currently with respect to credit data, including gaining active consent at the acquisition stage, informing customers in payment reminder letters and again when agreeing repayment plans, as well as providing more explicit assurances about the protections provided. In addition, the responses of stakeholders and consumers in this research suggest that more could be done to explain any benefits to consumers from the use of their data. For example, there is opportunity to convey if and how sharing of credit data could enable consumers to build up poor or thin credit scores.

Appendix – Research materials

A.1 Supplier information request

Information sought by Citizens Advice:

We are seeking information about how energy suppliers use, or plan to use, customer information, including data from credit reference agencies and smart meters, in decisions that affect consumers as part of the debt management process. We are working to the same definitions of accounts - in arrears, in debt or repaying debt - as are used by Ofgem in its social obligations report²⁴.

In your response to the following questions, please also provide links to, or digital copies of, any relevant customer information materials.

1. Please outline the support you provide to customers at various stages of the formal debt management process (i.e. arrears, debt, repaying debt).
2. Do you have measures in place to identify and support customers at the pre-arrears stage (i.e. those who show signs of struggling to pay for their energy, before they are formally classed as being in arrears)? If so, please provide details of how you seek to identify and support them. If not, do you have any plans in this area?
3. Do you currently use credit reference information in your management of customer debt, including at the pre-arrears stage. If so, please provide details. If not, do you have any plans in this area?
4. Does credit reference information currently play a role in your decisions regarding customers' eligibility for changing from pre-payment meters to credit meters or vica versa? If so, please provide details. If it does not, do you have any plans to introduce greater use of credit referencing information in this area?
5. Do you currently use, or have plans to use, smart meter data in the management of customer debt, including at the pre-arrears stage? If so, please provide details, including whether it is/will be used in combination with credit reference information.
6. Do you currently use, or have plans to use, any other internal or external customer data in debt management? If so, please provide details.
7. How do you ensure and document that customers understand the potential for their data to be used in debt management, including at the pre-arrears stage? Please

²⁴ <https://www.ofgem.gov.uk/about-us/how-we-work/working-consumers/supplier-performance-social-obligations>

provide details.

8. Do contractual terms and conditions related to the installation of smart meters include any clauses on the potential use of customer data in debt management, including at the pre-arrears stage? If so, please provide details.

9. How have you assessed your debt management processes, including the use of customer data if relevant, against Ofgem’s key principles for taking ability to pay into account²⁵?

10. What if any changes to your internal processes and/or capacity have you made or planned to ensure the delivery of your debt management processes, including use of customer data if relevant, meets the standards you have set?

Date information request sent	8 December, 2015
Date response required by:	25 January, 2016 If you are unable to meet this deadline, please get in touch with us.

Brief explanation of why information is being requested:

Citizens Advice has commissioned research to update and expand our understanding of how energy suppliers identify and provide support for consumers throughout all aspects of debt management. We are particularly interested in collecting up-to-date evidence in the following areas:

- The extent and nature of suppliers’ pre-arrears activity.
- If and how data, including credit reference agency information, is currently playing a role in debt management as well as in decisions to move customers from PPM to credit meters.
- How approaches are likely to evolve further, including the potential for smart meter data to be integrated within debt management processes.

Information is being requested to inform this research.

²⁵ <https://www.ofgem.gov.uk/publications-and-updates/review-suppliers%E2%80%99-approaches-debt-management-and-prevention>

A.2 Supplier interview guide

<p>Introduction</p>	<p><u>Explanation of the research:</u></p> <ul style="list-style-type: none"> • CitA is looking to update and expand its understanding of energy suppliers’ debt management policies and processes, with a specific focus on: <ul style="list-style-type: none"> ○ If and how suppliers identify and provide support to consumers pre-arrears ○ Their current use or future plans to use data such as from credit reference agencies and smart meters to inform this • The research will include interviews with stakeholders working in relevant fields, interviews with consumers and an information request sent to all suppliers. In addition, we are seeking to explore the issues in more detail with selected suppliers. • Explain why this supplier has been invited to take part. • Explain that there will be no attribution of individual comments in the report without checking first. <p><u>Participant introduction:</u></p> <ul style="list-style-type: none"> • Name, role, length of time in post, previous experience in area <p><u>Context</u></p> <ul style="list-style-type: none"> • What trends have you observed in customers’ ability to pay their bills and what are the reasons for this? • What if any impacts have welfare reforms had on customers’ financial circumstances and their ability to pay their bills? Which particular reforms have had most impact and why?
<p>Debt management generally</p>	<ul style="list-style-type: none"> • What do you regard to be the main ‘good practice principles’ for debt management overall (what does good look like)? Are there any differences in good practice in the energy sector and other sectors? • Please describe your organisation’s approach to managing customer debt end to end, with particular reference to: <ul style="list-style-type: none"> ○ Measures to achieve good practice as identified above ○ Features designed to identify and support customers through the debt process. • Probe for any specific measures in place in the following areas: <ul style="list-style-type: none"> ○ Early intervention

	<ul style="list-style-type: none"> ○ Vulnerable consumers ○ Holistic approach ○ Flexible solutions ○ Sustainable repayment ○ Staff response ○ Innovation ○ Partnerships. <ul style="list-style-type: none"> ● What are the drivers of good practice overall? What are the barriers to good practice overall? ● What if any plans do you have for developing or changing your debt management approaches? What is driving these changes? <ul style="list-style-type: none"> ○ What, if any, areas have you identified for improvement in managing customer debt? (probe: drivers for identifying improvement e.g. regulator, consumer pressure etc.)
Pre-arrears activity	<ul style="list-style-type: none"> ● To what extent do you regard there to be value in early intervention with respect to debt management, including pre-arrears? ● How much focus do you currently place on this? What if any plans do you have in this area? ● What are the drivers of pre-arrears activity? What are the barriers to pre-arrears activity? ● How do customers respond to pre-arrears contact (or how would you expect them to)? ● How much do consumers themselves initiate contact with your organisation pre-arrears? What are their reasons for engaging/not engaging?
Use of customer data	<ul style="list-style-type: none"> ● To what extent do you make use of, or plan to use, internal and external data to provide intelligence on your customers? How/in which parts of the customer journey? ● To what extent are customer data being used or planned specifically for use in debt management? ● What types of customer data are being used in debt management? How are they being used? ● What are the drivers of using customer data in debt management? What if any barriers are there to its use? ● What are the benefits of using customer data in debt management?

	<ul style="list-style-type: none"> ○ Probe: whether benefits are seen specifically with respect to use of data with respect to early identification and support of consumers in financial difficulty ● What are the risks or potentially unintended consequences associated with use of customer data in debt management?
Credit reference agency data	<ul style="list-style-type: none"> ● Do you currently use credit reference agency data in your management of customer debt, including at the pre-arrears stage. If not, do you have any plans in this area? Probe fully current use/plans. ● Does credit reference agency data currently play a role in your decisions regarding customers' eligibility for changing from pre-payment meters to credit meters or vica versa? If not, do you have any plans in this area? Probe fully current use/plans. <ul style="list-style-type: none"> ○ If/how does CRA data affect the need to ask for security deposits when customers ask to switch from PPM to credit meters? ● What are the benefits and risks specifically associated with the use of credit reference agency data? ● Probe for any of the following issues perceived with respect to CRA data specifically: <ul style="list-style-type: none"> ○ Lacking in accuracy or not being up-to-date ○ Being overly relied upon ○ Not showing full financial status (positives as well as negatives) ○ Not transparent to consumers whether/how data is used ○ Leading to outcomes that aren't proportionate or fair (e.g. switching to PPM for energy consumers or other differential pricing policies) ○ Not giving sufficient opportunity for rehabilitation. ● What if any measures are being put in place or planned to address risks associated with CRA data use in debt management?
Smart meter data	<ul style="list-style-type: none"> ● Do you currently use or have plans to use smart meter data in your future management of customer debt, including at the pre-arrears stage? Probe fully. ● Do you see potential for smart meter data to be integrated with credit reference information in your future management of customer debt, including at the pre-arrears stage? Probe fully. ● What are the benefits of using smart meter data for debt

	<p>management?</p> <ul style="list-style-type: none"> • What are the risks of using smart meter data for debt management? <ul style="list-style-type: none"> ○ Probe: whether an increased risk is foreseen of switching customers from credit to PPM meters too quickly (because of remote switching functionality of smart meters). ○ Probe: whether smart meters are expected to impact disconnections? (E.g. Will warrants still be required? Are any changes expected in numbers of speed of disconnections? What measures are being considered to protect consumers in this area (e.g. code of practice)? • What if any measures are being put in place or planned to address risks associated with smart meter data use in debt management?
<p>Consumer awareness and summing up</p>	<ul style="list-style-type: none"> • How have you assessed your debt management processes, including use of customer data, against Ofgem’s ‘Key principles for taking ability to pay into account’? • What changes to your internal processes and/or capacity (e.g. staff training) have you made or planned to ensure the delivery of your debt management processes, including use of customer data, meets the standards you have set? • To what extent are consumers aware of the (potential) use of their data in debt management? • How do consumers feel about the (potential) use of their data in this way? What if any consumer sensitivity or resistance is there (or likely to be)? • How do you ensure and document that customers understand the potential for their data to be used in debt management, including at the pre-arrears stage? Probe fully. • Do contractual terms and conditions related to the installation of smart meters include any clauses on the potential use of customer data in debt management, including at the pre-arrears stage? Probe fully. • Do you expect that your use of data in debt management will increase in the future? Why, what and how? • What do you regard as overall good practice principles for data use in debt management? Probe fully. • Thanks and close

A.3 Stakeholder interview guide

<p>Introduction</p>	<p><u>Explanation of the research:</u></p> <ul style="list-style-type: none"> ● CitA is looking to update and expand its understanding of energy suppliers' debt management policies and processes, with a specific focus on: <ul style="list-style-type: none"> ○ If and how they identify and provide support to consumers pre-arrears ○ Their current use or future plans to use data such as from credit reference agencies and smart meters to inform this ● The research will include an information request sent to all suppliers, in-depth interviews with selected suppliers, and consumer interviews. In addition, as part of the scoping stage, we are seeking the views of stakeholders with relevant points of view ● Explain why this stakeholder has been invited to take part ● Explain that there will be no attribution of individual comments in the report without checking first <p><u>Participant introduction:</u></p> <ul style="list-style-type: none"> ● Name, role, length of time in post, previous experience in area
<p>Debt management generally</p>	<ul style="list-style-type: none"> ● What are regarded to be the main 'good practice principles' for debt management overall (what does good look like)? ● How close to these principles are creditors' approaches in different sectors currently (e.g. financial sector, retail, telecoms, public sector, energy, water)? ● Are there differences between policies and practices on the ground? How and why? ● Do any sectors or organisations stand out as having adopted good practice? Are any sectors or organisations lagging behind? ● Probe for stand out examples with respect to: <ul style="list-style-type: none"> ○ Early intervention ○ Vulnerable consumers ○ Holistic approach ○ Flexible solutions ○ Sustainable repayment ○ Staff response

	<ul style="list-style-type: none"> o Innovation o Partnerships ● Where does the energy sector fit in? Do any particular suppliers stand out either positively or negatively? ● What are the drivers of good practice overall? What are the barriers to good practice overall? ● What if any plans are creditors in different sectors known to have in place for developing or changing their debt management approaches? What is driving these changes?
Pre-arrears activity	<ul style="list-style-type: none"> ● To what extent is the value of early intervention, including pre-arrears, understood by creditors overall? And in the energy sector specifically? ● How much focus is there currently on pre-arrears? Which sectors/organisations are known to be placing emphasis on this? Are there particular organisations within the energy sector known to be placing focus here? ● What are the drivers of pre-arrears activity? What are the barriers to pre-arrears activity? ● What is known about how consumers respond to pre-arrears contact by creditors? ● What is known about the extent to which consumers themselves initiate contact with creditors pre-arrears?
Use of data	<ul style="list-style-type: none"> ● To what extent do creditors in different sectors make use of internal and external data (e.g. transactional, personal, third party etc.) to provide intelligence on their customers? Which sectors/organisations are known to be making use of data? Are there particular organisations within the energy sector known to be using data? ● To what extent are data being used specifically for debt management? In what ways? ● What types of data are being used in debt management? How are they being used? ● What are the benefits of using data in debt management? <ul style="list-style-type: none"> o Probe: whether benefits are seen specifically with respect to use of data with respect to early identification and support of consumers in financial difficulty ● What are the risks or potentially unintended consequences

	<p>associated with use of data in debt management?</p> <ul style="list-style-type: none"> ● To what extent are consumers aware of the use of their data in this way? How do you expect consumers to feel about the use of their data in this way? What if any consumer sensitivity or resistance is there? ● What are the benefits and risks specifically associated with the use of credit reference agency data? ● Probe for any of the following issues perceived with respect to CRA data specifically: <ul style="list-style-type: none"> ○ Lacking in accuracy or not being up-to-date ○ Being overly relied upon ○ Not showing full financial status (positives as well as negatives) ○ Not transparent to consumers whether/how data is used ○ Leading to outcomes that aren't proportionate or fair (e.g. switching to PPM for energy consumers or other differential pricing policies) ○ Not giving sufficient opportunity for rehabilitation ● What if any measures are being put in place to minimise or mitigate any risks associated with CRA data use? ● What likelihood is seen for the use of smart meter data in future energy suppliers' debt management? ● What benefits are foreseen from use of smart meter data in this way? What risks are seen? ● Is it expected that use of data in debt management will increase in the future? Why, what and how? ● Views on good practice principles for data use in debt management
Next steps	<ul style="list-style-type: none"> ● Any new publications in this area that we should be aware of? ● Any other stakeholder organisations we should be speaking to? ● Any specific energy suppliers that are focusing on pre-arrears activity and/or use of data in debt management that we should be speaking to? ● Thanks and close

A.4 Consumer recruitment specification

Overview:

20 x 1 hour in-depth interviews with energy consumers:

- 5 to be face-to-face in London and/or Newcastle
- 15 to be by telephone spread across London, Newcastle, Cardiff and Glasgow (or alternative Welsh and Scottish locations if required)

The eligibility criterion is being at one of the following stages of the debt path with respect energy bill payments (gas, electricity or both):

- 5 interviews with consumers *pre-arrears* (credit (not pre-payment meter) consumers not currently in arrears to an energy supplier but finding it difficult to pay and at risk of falling behind)
- 5 interviews with consumers currently *in arrears* (credit (not pre-payment meter) consumers at least 28 days in arrears to an energy supplier)
- 5 interviews with consumers *paying back debt* (consumers currently in arrears to an energy supplier who have arranged a re-payment plan with their supplier and are now paying back)
- 5 interviews with consumers *post-arrears* (consumers formerly in arrears to an energy supplier who have completed a repayment plan within the past 3 years and are no longer in debt)

We are not applying interlocking quotas to these depth interviews, due to the low incidence of these consumers in the population, however we are also looking for a range of demographic characteristics that will be described in more detail below.

Additional characteristics to be achieved across the sample

Criterion	Quota
Gender	10 x men; 10 x women
Age	5 x 18-29 5 x 30-44 5 x 45-59 5 x 60+
Vulnerability	Min 4 x vulnerable consumers – this includes: <ul style="list-style-type: none"> • Low income consumers (income below £16,000) • Consumers in receipt of the full state pension • Consumers with disabilities or long-term health conditions
Ethnicity	Min 4 x BME consumers
Energy provider	Min 4 x smaller suppliers for the account that they are experiencing difficulty/have experienced difficulty paying (see table below for definition of large/small suppliers)

A.5 Consumer interview guide

<p>Introduction</p>	<p><u>Explanation of the research:</u></p> <ul style="list-style-type: none"> • This research is for Citizens Advice who, as well as providing advice to consumers, also undertakes policy and campaigning work on behalf of consumers • The aim of this project is to update their understanding of how energy suppliers deal with consumers who are in debt or at risk of falling behind with their energy payments, and what support is provided • We are interested in hearing from a range consumers about their experiences of energy suppliers as part of this • All views are confidential and no one will be identified in the final report • Explain audio recording and seek respondent's permission to record <p><u>Participant introduction and ice-breaker:</u></p> <ul style="list-style-type: none"> • Name, age, household composition, whether working/what kind of job • Best things in your life at present? Main challenges in your life at present or what most like to change?
<p>Household expenses and debt generally</p>	<ul style="list-style-type: none"> • How easy or difficult is it to manage your personal and household expenses and bills currently? Which personal household expenses/bills are most difficult to manage? <ul style="list-style-type: none"> ○ How do you feel when you think about this situation? Can you describe the feeling? What is your reaction to feeling like that – what kinds of things do you do or avoid? • Has your ability to manage bills/expenses changed over time? Why? (e.g. cost increases, changes in usage or personal circumstances) • Are you behind in any payments currently? Which ones? How did this come about? • Have you been behind in any payments in the past? Which ones? How did this come about? • Do you feel at risk of missing payments in the future? Which ones? Why? • Confirm supplier/s for electricity and gas

	<ul style="list-style-type: none"> • If not already covered, confirm energy debt status – which of the following categories best fits you: <ul style="list-style-type: none"> ○ Not currently behind in payments but worried that could fall behind (probe for whether ever in arrears previously) ○ Currently in arrears and have not started paying back (probe for how long been in arrears) ○ Currently in arrears and have started paying back (probe for when started paying back and how long to go) ○ Was in debt but have repaid (probe for when first in debt and when finished paying) • If not already covered, probe for how these problems paying for energy bills first came about and how feel about them now/at the time
<p>Pre-arrears customers</p>	<ul style="list-style-type: none"> • Have you initiated any contact with your energy supplier about feeling at risk of missing a payment? <ul style="list-style-type: none"> ○ If not, why not? Would you consider making contact? What do you expect would happen if you made contact? ○ If so, why? How did you make contact (channel/s used)? What interactions have you had so far? What do you recall about what was said/how it was said? How do you feel about this experience? • Has your supplier initiated any contact with you about your financial situation even though you haven't yet missed a payment? <ul style="list-style-type: none"> ○ If not, how would you feel if your supplier made contact in this way? What do you expect would happen? How do you think you would respond? ○ If so, do you know how your supplier identified you given you haven't yet missed a payment/did they explain this? How did they make contact with you (channel/s used)? What interactions have you had so far? What do you recall about what was said/how it was said? How do you feel about this experience? • If any contact made with supplier (either customer or supplier initiated): <ul style="list-style-type: none"> ○ Did you get the opportunity to discuss your wider financial or personal circumstances in relation to your concerns about missing a payment? Have you been provided any additional support? What/by whom? How do you feel about this?

	<ul style="list-style-type: none"> • What do you think will happen next? How do you feel about this?
<p>In arrears customers</p>	<ul style="list-style-type: none"> • Have you initiated any contact yet with your energy supplier about missing payment/s? <ul style="list-style-type: none"> ○ If not, why not? If/when would you consider making contact? What do you expect would happen if you made contact? ○ If so, why? How did you make contact (channel/s used)? What interactions did you have? What do you recall about what was said/how it was said? How do you feel about this experience? • Has your supplier initiated any contact with you yet? <ul style="list-style-type: none"> ○ If not, how would you feel if your supplier made contact? What do you expect would happen? How do you think you would respond? ○ If so, how did they make contact with you (channel/s used)? What interactions did you have? What do you recall about what was said/how it was said? How do you feel about this experience? ○ How did you feel about them? • If any contact made with supplier (either customer or supplier initiated): <ul style="list-style-type: none"> ○ Have you discussed a repayment plan yet? Did you get the opportunity to discuss your wider financial situation in relation to the repayment plan? Do you expect that the repayments will be manageable? Overall, how do you feel about these discussions? ○ Did you get the opportunity to discuss your wider personal circumstances in relation to your energy debt? Have you been provided any additional support? What/by whom? How do you feel about this? • What do you think will happen next? How do you feel about this?
<p>Paying back customers</p>	<ul style="list-style-type: none"> • Who first made contact about your energy debt – was it initiated by you or your energy supplier? • Do you remember how you were feeling at the time? • How did you/they make contact (channel/s used)? • What interactions have you had? What do you recall about what was said/how it was said? How do you feel about this experience? • What is the nature of your repayment plan? Did you get the opportunity to discuss your wider financial situation in agreeing the

	<p>repayment plan? Do you find the repayments manageable? Overall, how do you feel about your repayment plan and how it was agreed?</p> <ul style="list-style-type: none"> • Did you convert to a PPM as part of your pre-payment plan? If so, did you or your supplier initiate this? How do you feel about this? Would you like to move back a credit account once the debt has been repaid? • Did you get the opportunity to discuss your wider personal circumstances in relation to your energy debt? Have you been provided any additional support? What/by whom? How do you feel about this? • What do you think will happen once the debt is repaid? How do you feel about this? • How vulnerable do you feel to falling back into debt? Why? What if anything would help?
<p>Post-arrears customers</p>	<ul style="list-style-type: none"> • Who first made contact about your previous energy debt – was it initiated by you or your energy supplier? • Do you remember how you were feeling at the time? • How did you/they make contact (channel/s used)? • What interactions did you have? What do you recall about what was said/how it was said? How do you feel about this experience? • What was the nature of your repayment plan (e.g. amounts and duration)? Did you get the opportunity to discuss your wider financial situation in agreeing the repayment plan? Did you find the repayments manageable? Overall, how do you feel about your previous repayment plan and how it was agreed? • Did you convert to a PPM as part of your pre-payment plan? If so, did you or your supplier initiate this? How do you feel about this? Would you like to move back a credit account? If so, have you discussed this with your energy supplier and what has been their response? • Did you get the opportunity to discuss your wider personal circumstances in relation to your energy debt at the time? Were you provided any additional support? What/by whom? How did you feel about this? • How vulnerable do you feel to falling back into debt? Why? What if anything would help?
<p>Learnings on</p>	<ul style="list-style-type: none"> • Overall, how satisfied are you with the way your energy supplier

<p>suppliers' approaches</p>	<p>has handled your situation (so far)? What aspects have worked well? What aspects have worked less well or could be improved?</p> <ul style="list-style-type: none"> • What if any additional support would have helped you and at which points? • In your experience, or from what you have heard from friends or family, are some energy suppliers better/worse than others in how they handle customers who are in debt? Who/how? • In your experience, or from what you have heard from friends or family, could energy suppliers learn anything from how suppliers in other sectors handle customers who are in debt? Probe: <ul style="list-style-type: none"> ○ Banks, credit card providers etc. ○ Water companies ○ Mobile, landline or broadband providers
<p>Views on pre-arrears contact by energy suppliers</p>	<ul style="list-style-type: none"> • Ask pre-arrears customers: If your energy supplier contacted you now, before you fall into arrears, could this help your situation? Why/why not? If so, how expect it to help/what would need to happen? • Ask all except pre-arrears customers: If your energy supplier would have contacted you before you got into arrears, could this have helped your situation? Why/why not? If so, how expect it could have helped/what would have needed to happen? • How expect you would have reacted to your energy supplier contacting you at this point? How do you expect consumers in general would react to this?
<p>Views on use of data by energy suppliers</p>	<ul style="list-style-type: none"> • To be able to identify customers at this stage and provide them with support, energy suppliers would need to establish which individual customers might be in financial difficulty and at risk of falling behind with their bill. One way of doing this is to use financial information on individual customers that is provided by credit reference agencies as this could highlight if they had missed any other payments. • What are your views about this? Probe for perceived benefits and risks of credit reference information. Look out for but don't prompt for any of the following concerns: <ul style="list-style-type: none"> ○ Lacking in accuracy or not being up-to-date ○ Being overly relied upon ○ Not showing full financial status (positives as well as negatives) ○ Not transparent to consumers whether/how data is used

	<ul style="list-style-type: none">○ Leading to outcomes that aren't proportionate or fair (e.g. switching to PPM for energy consumers or other differential pricing policies)○ Not giving sufficient opportunity for rehabilitation● In addition, smart meters, which are currently being installed in households across the UK, will provide detailed data on customers' energy consumption that has the potential to be used, in conjunction with information on their financial circumstances, to help energy suppliers determine whether customers' energy use matches their ability to pay. Therefore, it could flag customers who are at risk of going into arrears for suppliers to make contact with. It could also play a role in prevention of problems (e.g. via alert messages when the customer is at risk of going beyond agreed limits, providing advice on best tariffs and/or how to improve energy efficiency etc.)● What are your views about this? Probe for perceived benefits and risks of use of smart meter data in this way● Do you recall any information from your energy supplier about the potential for your data to be used in this way?● What do you think needs to happen if customer data are to be used in this way (e.g. to make sure consumers are aware and protected)?● Thanks and close
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