

*Through our value-for-money work, the NAO reports on whether public bodies have used public money efficiently, effectively and with economy. We do not question the merits of government policy objectives, but examine objectively and independently the value for money with which public bodies implement those policies.*

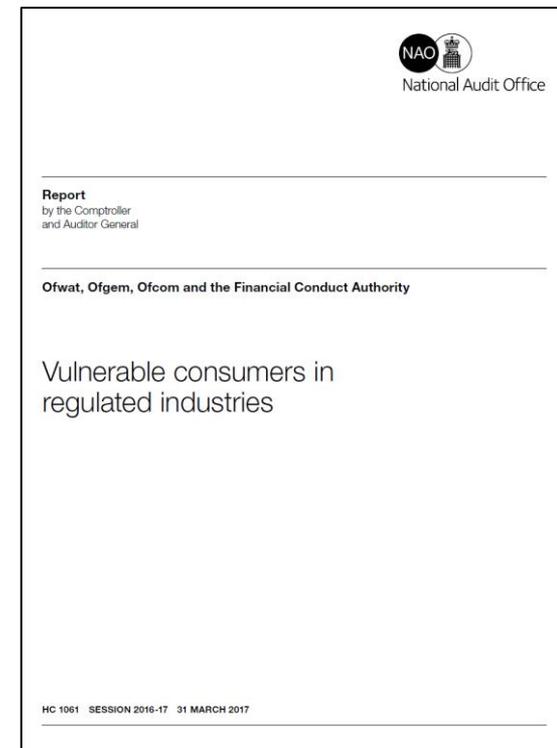


National Audit Office

# Vulnerable consumers in regulated industries

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## Summary of presentation

- Rich Sullivan-Jones has been with the National Audit Office since 2009. He is an Audit Manager specialising in independent, external value-for-money audit on matters of regulation, consumers and competition, covering both private and public sector consumer and market issues. His recent work has included a 2017 report on vulnerable consumers in regulated industries, and a series of reports on tertiary education in England.
- This presentation was given by Rich at the fifth workshop of the UKCN Consumer Remedies project held at the CMA on 26 September 2017. This workshop was focused on designing remedies that work for vulnerable consumers.

## Background to our study

- **The NAO reports on whether public bodies have used public money efficiently, effectively and with economy.** We do not question the merits of government policy objectives, but examine objectively and independently the value for money with which public bodies implement those policies.
- **Our study aimed to provide an overview for Parliament of the challenges for vulnerable consumers in regulated industries and what regulators are doing to address these challenges.** It focused on the regulation of four sectors – water, energy, telecommunications and financial services – that are essential for security, well-being and social participation. This covered the role of regulators within the wider landscape.
- **We considered a broad definition of “vulnerable consumers” as any who, through their condition or circumstances, are particularly susceptible to harm or disadvantage.** This includes all forms of potential vulnerability (for example, disability, low income, temporary circumstances such as bereavement or illness, etc).
- **The study considered:**
  - the experiences of vulnerable consumers, and regulators’ understanding of vulnerability;
  - whether key organisations have clear roles, responsibilities and objectives; and
  - how firms and regulators identify and support vulnerable consumers, and monitor progress.

# The experiences of vulnerable consumers

The features of different sectors affect the experiences of vulnerable consumers.



- Disconnection illegal.
- 17 companies.
- Standardised product at point of use.
- One supplier for most households.
- No competition for household water.



- Universal service.
- 90 companies.
- Standardised products at point of use.
- One supplier for most households.
- Competition between suppliers but not distribution networks.



- Universal service in landline phone only.
- 1,500 brands.
- Multiple products which are not easily comparable.
- Full competition, but only one network in some areas.



- “Universal service” for Basic Bank Accounts only.
- 56,000 businesses.
- Multiple products, often complex and can require long-term commitments.
- Full competition.

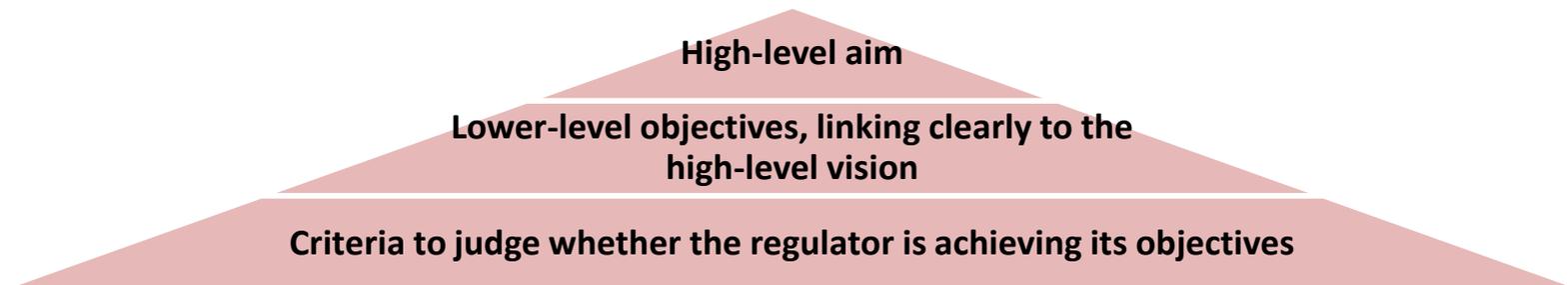
**But the impact on individuals of being in a vulnerable position can be significant and cut across multiple services.** For example:

<p>The most prevalent reason for contacting Citizens Advice across all four sectors was <b>debt</b> (NAO/CitA)</p>	<p><b>7%</b> of people contacting Citizens Advice regarding the four sectors had problems with at least three of them, and <b>22%</b> had problems with at least two. Among those struggling with debt, these figures rose to <b>11%</b> and <b>32%</b> respectively (NAO/CitA)</p>	<p><b>32%</b> unable to pay an unexpected £300 bill without cutting back on essentials, rising to <b>50%</b> or more for unemployed, social tenants or benefits recipients (MAS)</p>	<p>Unemployed, single parents or social tenants <b>more than twice as likely</b> to seek help for problems in regulated sectors as average citizen (NAO/CitA)</p>
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# Roles, responsibilities and objectives

Before designing interventions, there is a need for clarity over who is responsible for what, and what organisations are trying to achieve.

- **More clarity needed on roles and responsibilities, particularly between regulators and government.** Measures designed to benefit consumers in general will not always work for those with more complex needs (e.g. allowing large price differences in energy, where some potentially vulnerable groups very unlikely to switch).
- **Regulators need to develop clearer objectives regarding vulnerable consumers.** We reviewed regulators' approaches against our 2016 guidance on measuring performance in regulation which set out the features of a good performance framework:



- Each regulator had interpreted its statutory duties and articulated a high-level aim, but none had translated this into detailed objectives or performance measures. Some had begun work in this area to varying degrees (e.g. FCA's mission consultation, Ofgem developing the measures in its social obligation statistics).

# Supporting vulnerable consumers

## SUPPORT BY COMPANIES

Firms' conduct is particularly important as they have the direct relationship with customers.

Companies we spoke to demonstrated some innovative approaches to identifying signs of vulnerability (e.g. text-analysing software) and providing tailored support.

**Industry-wide regulatory interventions are helpful, but can be limited in reach and impact.** For example:

- Discount schemes for low-income utility consumers vary by sector and even company. Some financial services particularly complex where price reflects risk.
- Information remedies help, but impact can be limited on groups who find it hard to process information and make decisions (e.g. cognitive impairments, mental health difficulties, low education).



## REGULATORS' INFLUENCE

Stakeholders broadly positive about the impact that regulators have had in working with sectors to encourage improvement.

But concerned that progress has been limited among less engaged firms who are more difficult to influence outside of regulatory intervention and supervision.



## DATA SHARING

Firms' ability to support vulnerable consumers constrained by limited data sharing, as they need to know who may need additional support.

Some developments, such as proposals to allow firms in some sectors (currently water and energy) – though these come with their own challenges.



# Monitoring outcomes

## Consumer data

**No comprehensive data on the experiences of vulnerable consumers or the impact of regulatory interventions.**

- 10 official regulators and complaints bodies that regularly collect consumer data across the four sectors.
- Other support organisations (e.g. Citizens Advice) also collect data, as do companies on their own customers.
- No common data standards that would allow a joined-up approach to understanding common issues or groups of consumers facing particular difficulties.

## Costs

**Also need to understand costs to businesses of activities to support vulnerable consumers.**

- Need good information on costs to get a full picture and understand incentives and cross-subsidies.
- Regulators also have to balance consumer protection responsibilities with the need to avoid excessive costs that are passed back to customers.