National Audit Office

Report
by the Comptroller
and Auditor General

Ofwat, Ofgem, Ofcom and the Financial Conduct Authority

Vulnerable consumers in regulated industries

HC 1061 SESSION 2016-17 31 MARCH 2017

Key facts

8m

UK adults estimated to be over-indebted

£136bn

total UK household spend on water, energy, telecommunications and financial services in 2015

750,000

number of times consumers seek help from Citizens Advice for issues with energy, water, telecommunications or financial services each year

11%	proportion of consumers with debt issues seeking help for problems in at least three of the four regulated sectors
3 million	number of disabled people who have been denied insurance or charged extra because of their condition
1.6 million	estimated number of energy customers who self-disconnect at least once per year by not topping up their prepayment meters
5 million	number of UK adults who have never used the internet
61%	estimated proportion of unemployed people who could not afford an unexpected £300 bill, compared with 32% of all UK adults

Summary

1 Many people have characteristics or circumstances which can impair their ability to engage with or benefit from different services. This potentially makes them vulnerable, particularly when things go wrong. Permanent or long-term conditions – for example, 13 million UK citizens living in poverty or 11 million living with a limiting physical or mental disability – can lead to vulnerability. So too can more temporary circumstances such as bereavement, job loss or short-term illness.

2 Public bodies often have objectives and interventions designed to help vulnerable individuals, such as financial support or guaranteed access to services. Where government delivers services directly (such as tax administration), or through contractual arrangements, it has a high degree of control over how vulnerable individuals are catered for. In regulated industries which supply essential services, such as energy and water, government's influence is less direct. Regulation therefore plays an important role in protecting consumers.

3 Consumers spend around £136 billion annually on energy, water, telecommunications and retail financial services. Vulnerable consumers are those who are particularly susceptible to harm or disadvantage. This can arise from the processes or conduct of the companies they interact with, or from an impaired ability to understand and navigate the markets they require services from. Vulnerability can have three broad effects:

- **Exclusion**. Those who are disabled, elderly or on low incomes in particular can find themselves unable to access or use essential services such as energy or banking.
- **Financial difficulty**. Vulnerable consumers can pay substantially more for services than other users because they are excluded from, or unable to find, the best deals. Those on low incomes or with unmanageable debt can struggle to afford the cost of essential services.
- **Poor user experience**. Services may not meet the often complex needs of consumers in vulnerable circumstances. Some consumers are particularly susceptible, for example, to poor debt collection practices.

4 Service providers face challenges in supporting vulnerable customers. In interactions with providers, consumers may be reluctant to identify their particular needs, making it harder for front-line staff to make reasonable adaptations. Companies in some markets may also under-provide or charge more for services to consumers who require costly tailored support or are at greater risk of falling into debt.

Scope

5 This report focuses on the regulation of four sectors: water, energy, telecommunications and financial services. The services in these sectors are critical for security, well-being and social participation, which magnifies the impact of potential harm faced by vulnerable consumers.

6 Many organisations have a role in supporting vulnerable consumers, within and across the regulated sectors. This includes government departments, regulators, ombudsmen, consumer bodies, charities, trade organisations and companies. This report aims to provide an overview of this landscape, and a baseline against which to measure future progress. We focus on what four sector regulators – Ofwat, Ofgem, Ofcom and the Financial Conduct Authority (FCA) – are doing, including working with government, to meet their statutory duties and obligations that relate to vulnerable consumers. The report considers:

- the experiences of vulnerable consumers, and whether regulators understand vulnerability in their sectors (Part Two);
- whether key organisations, and regulators in particular, have clear roles, responsibilities and objectives (Part Three); and
- how effectively firms and regulators identify and support vulnerable consumers, and monitor progress (Part Four).

7 Vulnerability is also relevant to other parts of the wider consumer protection system, for which the Department for Business, Energy & Industrial Strategy has overall policy responsibility. Vulnerable consumers are, for example, particularly susceptible to issues we examined in our 2016 reports on scams and financial mis-selling (paragraph 1.8). We have not considered these issues in detail as part of this report.

Key findings

The experiences of vulnerable consumers

8 **The number of vulnerable consumers is potentially high, and many conditions that may cause vulnerability are projected to increase.** Vulnerability is difficult to define precisely, as it can depend heavily on circumstances. But certain groups seek substantially more help than others from support organisations: particularly single parents, the unemployed, those in debt or those with cognitive impairments, mental heath issues or multiple disabilities. The number of people with dementia, for example, is projected to rise from 0.9 million to 2 million by 2050. An estimated 8 million people are over-indebted, with expected rises in household debt potentially putting further pressure on finances (paragraphs 2.2 to 2.4).

9 **The impact on individuals of being in a vulnerable position can be significant and cuts across many services.** For example, around 3 million disabled people have been denied insurance or charged extra because of their condition. An estimated 310,000 households may be using illegal money lenders because of limited or no access to legal credit. We found that 7% of people contacting Citizens Advice had experienced problems in at least three of the four sectors, rising to 11% of those struggling with debt. The most prevalent issue for consumers across all four sectors is dealing with debt. Less common issues, such as unexpected high charges, mis-selling and aggressive debt collection, can also lead to significant hardship and distress, particularly when individuals are struggling with a number of problems at the same time (paragraphs 2.5 to 2.7).

10 **The problems faced by vulnerable consumers can potentially increase their reliance on public services such as benefits or care.** There is no overall estimate of the impact on the public purse. We found that groups most likely to seek help for problems with regulated services were also highly likely to receive state support, such as unemployment benefits or social housing. We also found cases where consumers needed specific support: for example, social care services helping disabled customers who had been mis-sold inappropriate products (paragraph 2.8 and Figure 6).

11 **The regulators have improved their understanding of vulnerability in each sector.** To develop and prioritise their interventions, regulators need good information on how and why problems occur. The regulators have all undertaken recent research, improving their insight into such issues. This research also reveals key ways in which the different features of each sector affect the particular challenges for vulnerable consumers. For example, household water is the only sector with no competition and where disconnection is illegal, and services across the four sectors vary in complexity. However, research to date has not quantified the impact of problems or how they are changing over time, partly reflecting challenges in recording different forms of vulnerability (paragraphs 2.9 to 2.11).

Roles, responsibilities and objectives

12 **The respective responsibilities of regulators and government are not sufficiently clear.** We found the following:

- **Regulators' duties to protect vulnerable consumers can conflict with other measures designed to benefit consumers in general.** For example, Ofgem and other public bodies have not intervened directly to reduce large price differences between energy tariffs, as doing so could adversely affect competition. However, many vulnerable groups are substantially less able or likely to benefit from switching to cheaper deals. Stakeholders we interviewed raised similar concerns in other sectors such as internet and insurance (paragraph 3.3).
- **Regulatory interventions alone can be insufficient to protect all vulnerable consumer groups.** The government required the FCA to introduce a price cap on high-cost, short-term lending (for example 'pay-day lending') from 2015, to protect consumers in general from excessive charges. The FCA estimated, however, that 70,000 people would become excluded from this borrowing, even though many of them would be better off by not taking on unaffordable debt. It is unclear whether the regulator or government is responsible for any further protections for an estimated 6% of those excluded who would turn to unlicensed lenders (paragraph 3.4).

13 **None of the regulators has yet translated its high-level aims on vulnerability into detailed objectives.** Regulators' statutes do not indicate how, or to what extent, they should support vulnerable consumers. Each regulator has therefore interpreted its individual statutory duties relevant to vulnerability and articulated a high-level aim. But, unlike in their other areas of regulatory activity, none has translated this into detailed objectives or performance measures. The regulators have begun work in this area to varying degrees. For example, the FCA is consulting on how to interpret its statutory objectives, including on vulnerability. These are recent developments, however, and it is too early to say whether they will produce well-defined aims (paragraphs 3.5 to 3.7).

14 **Regulators recognise the need to work together more closely, but progress to date has been limited.** The work of the UK Regulators Network, which brings together a number of regulators including those in this report, has considered vulnerability since its formation in 2014. Its work has focused on affordability pressures and better use of company data to identify those in vulnerable circumstances. While other actions to date have been limited, the network provides a forum for future collective work, research and activity (paragraph 3.8).

Supporting vulnerable consumers

15 **Proactive firms are improving support to vulnerable consumers, but progress is mixed.** Firms' conduct is particularly important as they, not the regulators, have the direct relationship with customers. Companies in all four sectors demonstrate innovation, from using digital tools to help identify signs of vulnerability (such as text-analysing software) to providing tailored support. Charities and consumer bodies we interviewed were broadly positive about developments, but were concerned that progress has been limited among less engaged companies (paragraphs 4.2 to 4.4).

16 **Industry-wide regulatory interventions are often limited and inconsistent in reach and impact:**

- **Universal services help vulnerable consumers access services, but are not comprehensive.** Water disconnection is illegal, and energy companies now rarely disconnect consumers (disconnections fell from 25,000 to 253 between 2001 and 2015). However, 1.6 million prepayment customers self-disconnect their energy supply at least once a year. There is universal service on landline telephones, and government will consult on extending this to broadband. In financial services, nine banks have been required to offer basic bank accounts since 2016, but it is too early to assess take-up (paragraph 4.8).
- **Discounts such as social tariffs are inconsistent.** The water, energy and landline telephone industries offer discounted prices for customers on low incomes. However, eligibility criteria vary by company and sector rather than need, awareness can be low, and uptake inconsistent. There are 2.2 million Warm Home Discount customers in energy, compared with 350,000 on social tariffs in telephone services and 260,000 on discount schemes in the water sector (paragraph 4.11).
- **Improving consumer information is only partially effective.** The regulators require companies to give consumers information to help them make informed choices about the most appropriate service or deal. At the same time, they recognise that information alone is not sufficient, as different people engage with information in different ways. Consumers with cognitive impairments or mental health problems in particular can struggle to benefit from improved information (paragraphs 4.12 to 4.13).
- **Regulatory incentives to promote service quality for vulnerable consumers are limited.** All four regulators provide reputational incentives, such as ranking companies' customer service quality, or naming companies that do not treat customers fairly. Ofwat and Ofgem also provide small financial incentives for regional monopoly companies that support vulnerable consumers. Ofgem's incentives for energy distribution companies, for example, provide around 0.2% of total income (paragraphs 4.14 and 4.15).

Monitoring outcomes

17 There are no comprehensive data on the experiences of vulnerable consumers or the impact of regulatory intervention. Across the four sectors there are 10 official regulators and complaints bodies that regularly collect consumer data. Citizens Advice and other support organisations such as charities collect data on the consumers they help, and companies have data on their own customers. There are no common data standards that would allow a joined-up approach to understanding common issues or groups of consumers facing particular difficulties. For example, Citizens Advice receives 450,000 contacts a year for financial services issues, while the Financial Ombudsman Service receives 340,000 new complaints. But the two organisations do not record the information they collect on complainants in a comparable way. Recording and monitoring temporary vulnerable circumstances presents a particular challenge (paragraphs 4.17 and 4.18).

18 The regulators do not have a good enough understanding of the costs to businesses of activities to support vulnerable consumers. Regulators need good information on the costs companies incur in supporting vulnerable consumers, to understand companies' incentives to provide support and any cross-subsidies that may result. Regulators also have to balance consumer protection responsibilities with the need to avoid excessive costs that are passed back to customers through increased prices. The regulators do not have a full understanding of business costs relating to vulnerability, as they do not normally collect this information except when assessing the impact of specific interventions (paragraph 4.19).

Conclusion on value for money

19 Consumers in the UK spend around £136 billion annually on services in water, energy, telecoms and financial services, which are essential to security, well-being, and social inclusion. A significant and increasing number of these consumers have conditions or circumstances which make them potentially vulnerable, often in multiple sectors. Regulators have improved their understanding of vulnerability, and have made some progress in working with their industries to improve support for vulnerable consumers.

20 However, some of the biggest challenges for vulnerable consumers relate to access, affordability and debt, which regulators alone have limited powers to solve. Regulatory interventions often have limited impact, and the lack of clarity between the responsibilities of regulators and government can mean that systemic issues are not addressed. Until regulators and government work together to clearly define roles and objectives, and prioritise the highest impact interventions, the overall arrangements in place to support vulnerable consumers will not be value for money.

Recommendations

21 Regulators and government should work together to:

a Clearly define roles and responsibilities for supporting vulnerable consumers, while recognising regulators' independence. This could, for example, set a framework for how to balance the interests of different groups of consumers, such as where measures designed to benefit consumers overall may disadvantage those in vulnerable circumstances.

b More proactively explore options to enhance data-sharing that would allow better identification of, and support for, consumers in long-term or permanent vulnerable circumstances. In particular:

- continue to explore proposals for firms to securely share information about consumers who need specialist support, including working to overcome legal barriers; and
- consider developing a system to allow firms to easily establish consumers' eligibility for support schemes based on receipt of means-tested benefits. While this might initially relate only to existing discount schemes, such a system could prompt firms to consider what other support they might offer.

22 Regulators should:

c Develop clear aims, objectives and progress indicators for their support for vulnerable consumers, and use these to test their interventions and develop a better understanding of what works.

d Build on work to monitor outcomes for a wide range of customers by developing better information on the cost to firms of different initiatives to support vulnerable consumers. Use both outcome and cost data to identify what activities are most cost-effective, recognising that this may be more difficult for consumers in temporary vulnerable circumstances.

e Work together more closely to identify and address common challenges. Efforts to support vulnerable consumers could benefit from more joined-up approaches to, for example, monitoring outcomes (such as cross-sector surveys or aggregated complaints data) and intervention.