National Audit Office

Report
by the Comptroller
and Auditor General

Ofwat, Ofgem, Ofcom and the Financial Conduct Authority

Vulnerable consumers in regulated industries

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Vulnerable consumers in regulated industries

Report by the Comptroller and Auditor General

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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

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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.

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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.

Part One

Vulnerability in regulated industries

1.1 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.

1.2 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.

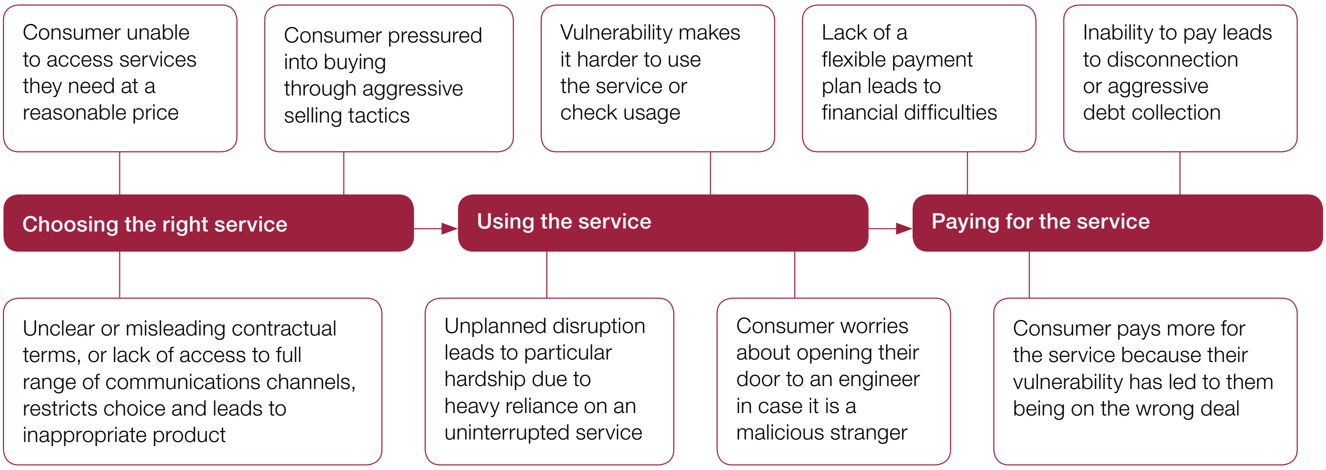
1.3 Consumers spend around £136 billion annually on energy, water, telecommunications and retail financial services. Vulnerable consumers are those who are particularly susceptible to harm or disadvantage. This can arise from the processes or conduct of the companies they interact with, or from an impaired ability to understand and navigate the markets they require services from. Problems can occur in all parts of a consumer's experience of accessing, paying for, and using services (**Figure 1**). 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.

Figure 1

Accessing and using services

Vulnerable consumers can be affected at every stage in service provision



Source: National Audit Office analysis

1.4 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 (such as specialist communications for those with sight or hearing loss) or who are at greater risk of falling into debt.

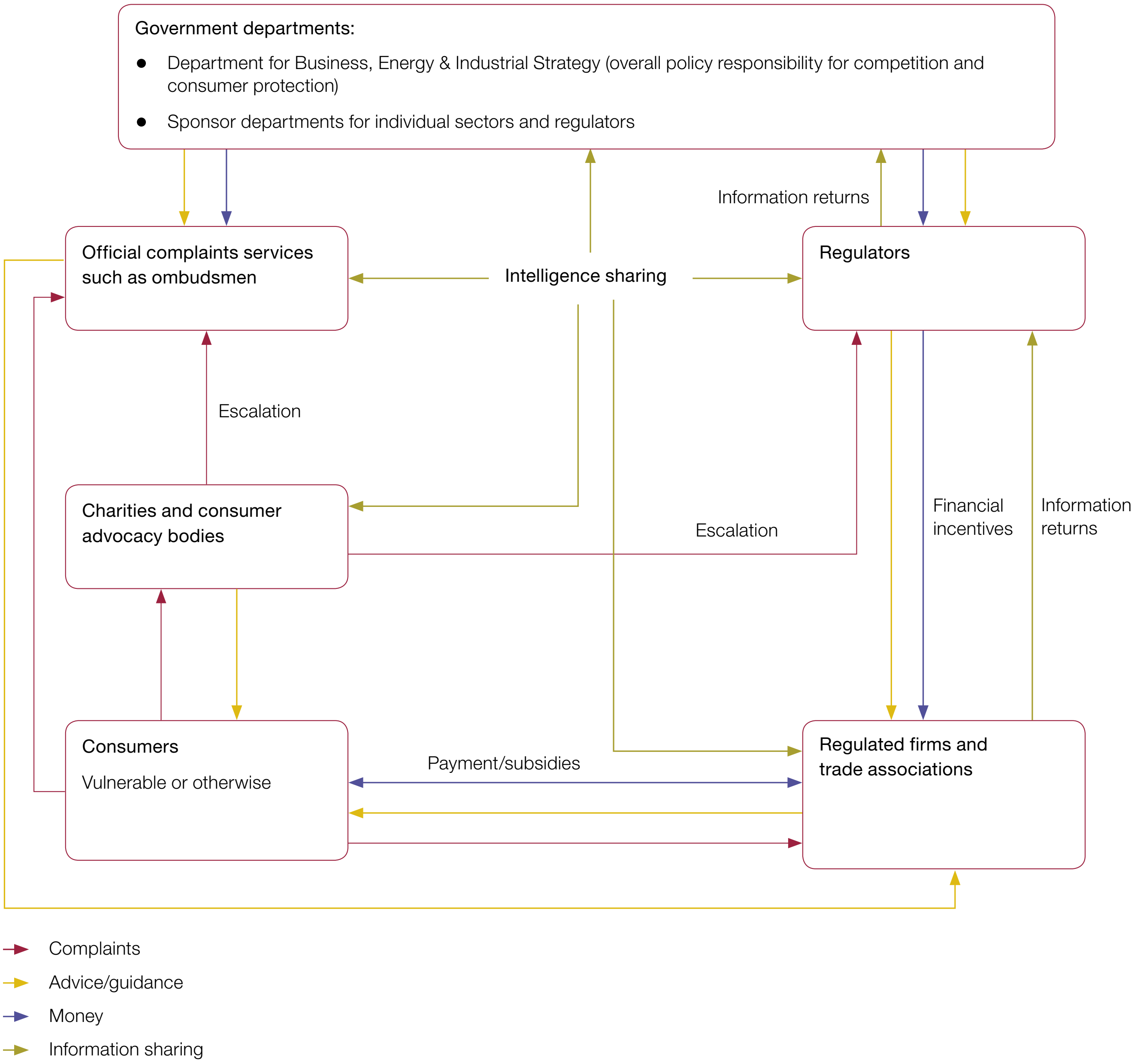
Scope

1.5 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.

1.6 Many organisations have a role in supporting vulnerable consumers, within and across the regulated sectors. Public oversight comes from government departments, regulators and statutory complaints services which are sponsored by government. Government also provides grant funding to some charities and consumer bodies that provide support. Companies provide much of the direct support to their customers, and trade associations can help by sharing good practice (**Figure 2** overleaf).

Figure 2
Oversight in regulated industries

Many organisations are involved in supporting consumers in regulated industries



Notes

1 The Department for Environment, Food & Rural Affairs (Defra) sponsors Ofwat and the water sector.

2 The Department for Business, Energy & Industrial Strategy (BEIS) sponsors Ofgem and the energy sector.

3 The Department for Culture, Media & Sport (DCMS) sponsors Ofcom and telecommunications industries.

4 HM Treasury sponsors the Financial Conduct Authority and financial services industries.

Source: National Audit Office analysis

1.7 This report aims to provide an overview of this landscape, and a baseline against which to measure future progress. We focus on what the sector regulators in Great Britain – Ofwat,[1] Ofgem, Ofcom and the Financial Conduct Authority – 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).

1.8 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 that we examined in our 2016 reports on scams[2] and financial mis-selling.[3] We have not considered these issues in detail as part of this report.

1 In the water sector, Ofwat is responsible for only England and Wales. This report does not cover the Water Industry Commission for Scotland.
2 Comptroller and Auditor General, *Protecting consumers from scams, unfair trading and unsafe goods*, Session 2016-17, HC 851, National Audit Office, December 2016.
3 Comptroller and Auditor General, *Financial services mis-selling: regulation and redress*, Session 2015-16, HC 851, National Audit Office, February 2016.

Part Two

The experiences of vulnerable consumers

2.1 This part examines the experiences of vulnerable consumers in regulated industries. Vulnerability can lead to harm depending on three key factors: an individual's particular condition or circumstances; a situation that creates a potential problem for them; and the features of the product or market they require services from. This part therefore considers:

- characteristics of consumers most likely to experience harm or disadvantage;
- the impact of being in a vulnerable position; and
- regulators' understanding of vulnerability in their sectors.

Defining vulnerability

2.2 Regulators have certain obligations relevant to vulnerable consumers defined in their statutes. These vary, but most commonly require the regulators to consider the needs of specific vulnerable groups in their regulatory activity, particularly those who are disabled, elderly, on low incomes or living in rural areas (**Figure 3**). As public bodies, regulators also have certain duties arising from the Equality Act 2010 towards protected characteristics that include groups who may be vulnerable.

2.3 In reality, vulnerability is difficult to define precisely, as it can depend heavily on circumstances. All four regulators now define vulnerability in a broadly consistent way, recognising that vulnerable consumers are, due to their circumstances, particularly susceptible to harm. This is especially the case where someone's financial position means that they struggle to pay for essential services. The Money Advice Service found in 2015 that 32% of UK adults would be unable to pay an unexpected £300 bill without cutting back on essentials. This rose to 50% or more for those who were unemployed, receiving benefits or living in social housing.

Figure 3
Regulators' statutory duties

Regulators have statutory duties relevant to consumer vulnerability

Ofwat

… the Secretary of State or, as the case may be, the Authority shall have regard to the interests of:

a individuals who are disabled or chronically sick;

b individuals of pensionable age;

c individuals with low incomes;

d individuals residing in rural areas; and

e customers, of companies holding an appointment under Chapter 1 of Part 2 of this Act, whose premises are not eligible to be supplied by a licensed water supplier,

but that is not to be taken as implying that regard may not be had to the interests of other descriptions of consumer.

Ofgem

… the Secretary of State or the Authority shall have regard to the interests of:

a individuals who are disabled or chronically sick;

b individuals of pensionable age;

c individuals with low incomes; and

d individuals residing in rural areas,

but that is not to be taken as implying that regard may not be had to the interests of other descriptions of consumer.

Ofcom

Ofcom must also have regard … to such of the following as appear to them to be relevant in the circumstances:

...

a the vulnerability of children and of others whose circumstances appear to Ofcom to put them in need of special protection;

b the needs of persons with disabilities, of the elderly and of those on low incomes; and

c the different interests of persons in the different parts of the United Kingdom, of the different ethnic communities within the United Kingdom and of persons living in rural and in urban areas.

Financial Conduct Authority

In considering what degree of protection may be appropriate, the Authority must have regard to:

…

a the differing degrees of risk involved in different kinds of investment or other transaction;

b the differing degrees of experience and expertise that different consumers may have in relation to different kinds of regulated activity;

…

c the needs that consumers may have for advice and accurate information; and

d the general principle that consumers should take responsibility for their decisions.

Source: Water Industry Act 1991; Electricity Act 1989 and Gas Act 1986; Communications Act 2003; Financial Services and Markets Act 2000

2.4 Many of the conditions and circumstances that may cause vulnerability are projected to become more common over the next 20 years. This is, in part, due to the ageing population; it is estimated, for example, that the UK population living with dementia will increase between 2015 and 2030 from 0.9 million to 1.3 million people, and reach 2 million by 2050. An estimated 8 million people are over-indebted, with expected rises in household debt potentially putting further pressure on finances (**Figure 4** overleaf).

Figure 4

Projections of potential vulnerability

Many characteristics likely to indicate vulnerability are predicted to become more prevalent

Current UK estimates		Future projections (where available)	
8 million	Adults over-indebted in 2017 (*Money Advice Service*).	No specific projections. Household debt as a proportion of income is forecast to rise between 2015 and 2021 (*Office for Budget Responsibility*), potentially putting further pressure on household finances.	
13 million	People living in poverty[1] (*Department for Work & Pensions*).	No substantial change in poverty rates by 2021 (*Institute for Fiscal Studies*).	
1.5 million	People with learning disabilities (*NHS*).	4.2%	Annual increase in adults with learning difficulties requiring social care each year up to 2030 (*Department of Health*).
0.9 million	People with dementia (*Dementia UK*).	1.3 million	People with dementia by 2030; more than 2 million by 2050 (*Dementia UK*).
2.5 million	People with cancer (*Macmillan*).	4.0 million	People with cancer by 2030 (*Macmillan*).

Note

1 Poverty is defined as living in households with income less than 60% of the median average, after accounting for housing costs.

Source: National Audit Office summary of publicly available estimates and projections (*sources named in brackets*)

The impact of being in a vulnerable position

2.5 The impact of being in a vulnerable position can be significant. Our analysis of Citizens Advice data found that consumers who were unemployed, single parents or social tenants were more than twice as likely to seek help for problems in the regulated sectors as the average citizen. Single parents, in particular, are four times more likely than average to seek support. Our literature review also found insights into some of the particular problems that vulnerable groups face. For example, an estimated 3 million disabled people have been denied insurance or charged extra. An estimated 310,000 households may be using illegal money lenders because of limited or no access to legal credit (**Figure 5**).

2.6 Some vulnerable consumers can find themselves facing difficulty with multiple services, particularly when struggling with debt. We found that 7% of people contacting Citizens Advice regarding the four sectors had problems with at least three of them, and 22% had problems with at least two. Among those struggling with debt, these figures rose to 11% and 32% respectively. The most prevalent issue for consumers across all four sectors is dealing with debt. Problems accessing one service can also lead directly to disadvantage in others. For example, people with no bank account need to use cash to pay for their energy supply, which excludes them from the best deals which are only available to direct debit customers.

Figure 5

The impact of being in a vulnerable position

Consumers with particular traits are more likely to seek support or experience problems in regulated industries

	Circumstances	UK population estimate	Likelihood of seeking help from Citizens Advice compared with average citizen	Average number of separate issues raised with Citizens Advice compared with average citizen[1]	Other findings
Groups specified in regulators' statutes	Pensionable age	9 million	1.6 times more likely	44% fewer issues	38% of over 65s never use the internet, rising to 58% of over 75s (*Ofcom*). 7% of over 65s have dementia, rising to 20% of those over 85, and often struggle to make informed choices or manage bills (*Alzheimer's Society*).
	Disabled or long-term sick	11 million	1.9 times more likely	13% more issues	3 million turned down for insurance or charged extra because of a disability (*Extra Costs Commission*). Consumers seeking the most help are those with cognitive impairments, mental health problems or multiple disabilities (*Citizens Advice*). Half of people seeking debt advice have a diagnosed mental health problem (*Money Advice Service*).
	Living in rural area[2]	6 million	As likely	81% fewer issues	36% of rural households lack mains gas and rely on more expensive fuels (*Department of Energy & Climate Change*). Rural download speeds are below half the national average (*Ofcom*).
	Low-income	13 million	Not recorded by Citizens Advice	Not recorded by Citizens Advice	10% of low earners need to cut back on food due to household bills, compared with 1% of higher earners (*Citizens Advice Scotland*). 310,000 households may be using illegal money lenders because of limited or no access to legal credit based on 2010 research (*Policis*).
Other groups	Unemployed	2 million	2.5 times more likely	16% more issues	61% of unemployed people could not afford an unexpected £300 bill without cutting back on essentials (*Money Advice Service*).
	Single parent with dependent children	2 million	4.3 times more likely	22% more issues	Single parents are twice as likely to be in poverty as couples, and can therefore struggle to afford essential services (*Department for Work & Pensions*).
	Social tenant	7 million	2.4 times more likely	17% more issues	50% of social tenants could not afford an unexpected £300 bill without cutting back on essentials (*Money Advice Service*).

Notes

1 Average number of issues raised per person seeking help from Citizens Advice, relating to water, energy, telecommunications or financial services, from April 2014 to March 2016.

2 Defined as people living in local authorities which are over 80% rural.

Source: National Audit Office analysis of population estimates, Citizens Advice data and other research (*sources in brackets*)

2.7 Less common problems, such as unexpected high charges, mis-selling and aggressive debt collection, can also lead to significant hardship and distress. This is particularly the case when individuals are struggling with a number of problems at the same time. In some cases, firms' conduct may be reasonable for the average customer but fail to reflect the particular needs of those in vulnerable circumstances (**Figure 6**).

2.8 The impacts of being in a vulnerable position can also push individuals to become more reliant on state services such as benefits or care. There is no overall estimate of the impact on the public purse. We found the groups most likely to seek help for problems with regulated services were also highly likely to receive state support. For example, around half of unemployed people claim benefits, and social tenants receive state support through social housing.

Figure 6
Case studies

Examples of problems faced by vulnerable consumers

A customer unable to open a bank account

Following long-term illness, an individual became self-employed and needed a bank account to register for tax purposes. However, several banks would not provide an account, due to a lack of photo identification. Banks require identification to comply with money laundering regulations. The situation caused considerable anxiety for the individual, as they could not begin earning until the situation was resolved and they had a secure place to deposit the money.

A grieving single parent in debt to their water company

A single parent suffering from recent bereavement was in debt to their water company. The company made no effort to understand the customer's situation, and instructed a debt collection agency to pursue the debt. The agency used aggressive debt collection techniques, creating additional upset and distress at an already difficult time, and making the problem worse.

A mobile phone customer with learning difficulties

A young adult with learning difficulties entered a phone shop to see what was on offer. The sales assistant was unaware of the individual's learning difficulties, and pushed for a sale without understanding the customer's needs. The customer was enticed by the offer of a new phone model for free, not understanding that they were signed up to an expensive two-year contract they could not afford. The seller's negligence amounted to mis-selling, but the onus was on the customer (with social care support) to prove that this was the case.

An energy customer receiving an unexpectedly large bill they could not afford

An energy customer with mental health issues received an unexpected bill of £4,000; they were unaware that their direct debit payments had been too low and built up a shortfall. Failure to pay led to an impaired credit rating, which caused problems remortgaging the home and led to a prepayment meter being installed. Seven years later, the customer still owed £3,000, despite the meter automatically recovering £10 each week. The energy company refused to write off the debt, and the situation caused severe depression for the customer.

Source: National Audit Office review of material from charities and consumer bodies

Regulators' understanding of vulnerability in their sectors

2.9 The regulators have improved their understanding of vulnerability in each sector, recognising that it is broader than the specific groups defined in their statutes. They have undertaken recent research to understand more fully the nature of vulnerability. The Financial Conduct Authority's (FCA's) 2014 publication on vulnerability has had a particularly wide reach, and was referenced by stakeholders we interviewed from all four sectors.[4] It provides insights into the circumstances that can cause vulnerability, and how firms' behaviour can exacerbate problems. The FCA subsequently published further work on access and on the ageing population. Ofcom has also published a lot of research and data on the experiences of different groups of consumers, including on access and inclusion.

2.10 Regulators' research also provides insight into the relationship between market structure and vulnerability in each sector. For most households, energy and water services are standardised products at the point of use, each from a single supplier. In contrast, many consumers have multiple products from telecommunications and financial service firms, where the services themselves are also more varied and complex. Household water is also the only sector with no competition and where disconnection is illegal, meaning that vulnerable consumers cannot be denied access and do not miss out on cheaper deals (**Figure 7** overleaf).

2.11 Regulators' research has not yet quantified the impact of problems on vulnerable consumers, or how the issues are changing over time. This partly reflects the difficulty in identifying and recording different forms of vulnerability. The research provides a good snapshot of the current situation, but the challenges that people in vulnerable circumstances face will change as economic, technological and social factors change.

4 Financial Conduct Authority, *Vulnerability exposed: The consumer experience of vulnerability in financial services*, December 2014.

Figure 7

Differences between regulated sectors

The features of each sector bring different challenges to vulnerable consumers

Feature	Water	Energy	Telecommunications	Financial services
Universal service ensures that everyone can access basic services of reasonable quality at a reasonable price	Universal service. Disconnection is illegal	Universal service. Restrictions on disconnection but it is not illegal. Prepayment customers can self-disconnect if they cannot afford to top-up their meter	Universal service on landline phones for two providers. Government will consult on extending to broadband	No universal service. Nine banks must offer basic bank accounts
Customer-funded discounts, such as social tariffs, can keep services affordable for low-income customers	Variety of social tariffs, designed and implemented by individual suppliers	Warm Home Discount, implemented by individual suppliers	Social tariffs on landline phones for providers with universal service obligation	No customer-funded discounts
Complexity of product and number of providers can impact on consumers' ability to find and assess the best service	17 regulated regional water and wastewater companies. Standardised product at point of use. One supplier for most households	Around 90 regulated companies. Standardised products at point of use. Single supplier for most households, often different to the distribution company	An estimated 1,500 regulated brands. Consumers have multiple products which are not easily comparable, change with technological advances, and are often accessed through intermediaries	56,000 regulated businesses. Consumers have multiple products with different providers. Many products are very complicated, can require long-term commitments, and are often accessed through intermediaries
Competition can bring benefits to consumers by promoting efficiency and innovation among suppliers. However, potentially vulnerable customers can miss out on the best deals and pay more	No competition for household water services, suppliers are regional monopolies. Government considering introducing competition	Competition between energy suppliers. Distribution networks are regional monopolies	Competition in all industries, though some parts of the country have only one network	Competition in all industries

Source: National Audit Office analysis of research by regulators and others

Part Three

Roles, responsibilities and objectives

3.1 This part examines the respective roles, responsibilities and objectives of government and regulators. It considers:

- whether there is a clear division of responsibility between regulators and government; and
- whether regulators have clear aims and objectives relating to vulnerability.

The roles of regulators and government

3.2 Government sets the legal framework for consumer protection, and may set out social policy objectives to protect particular groups such as the elderly or low-income households. The regulators are independent organisations broadly responsible for ensuring that their markets operate effectively in the interest of consumers, though specific duties vary between regulators. Alongside responsibilities to protect consumers directly, regulators may also promote competition and efficiency or support the financial stability of their sectors.

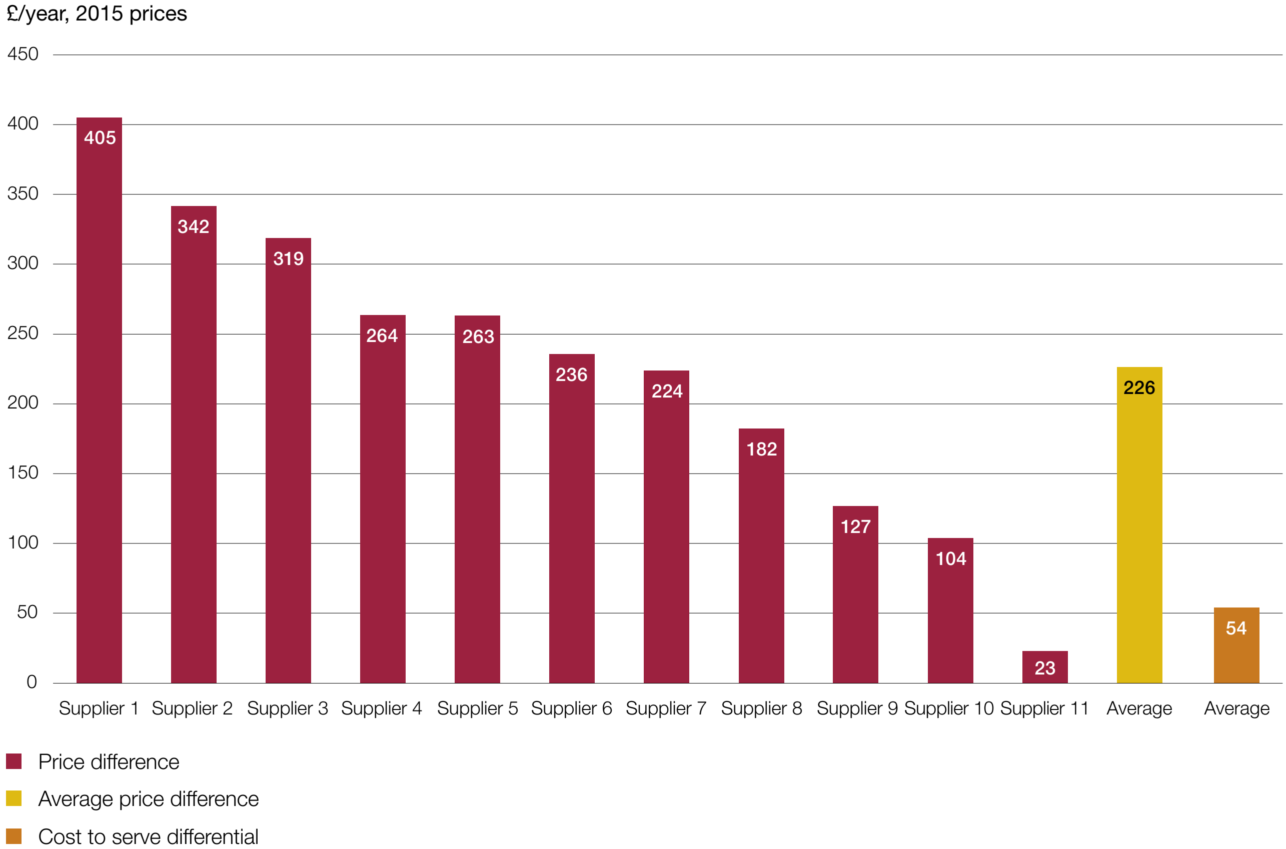
3.3 Regulators' duties to protect vulnerable consumers can conflict with other measures designed to benefit consumers in general. For example, the Competition and Markets Authority (CMA) recently concluded that large price differences between energy tariffs incentivised active consumers to seek out the best deals, and that intervening directly could adversely affect competition. However, vulnerable groups such as disabled and low-income customers are substantially less able or likely to switch than other customers. These groups are therefore the least likely to benefit from an estimated average £300 saving a year (**Figure 8** on pages 24 and 25). Ofgem accepted the CMA's conclusions, and is instead exploring ways to raise awareness and understanding among disengaged consumers. Stakeholders raised similar concerns with us in other sectors such as internet and insurance, where tariffs are even more complex than in energy.

Figure 8
Case study

Price differences in the energy sector

Ofgem data show that disabled and particularly low-income customers are more likely to use prepayment meters than other customers. Until 2016, the cheapest tariffs available were on average over £200 more expensive for prepayment customers than direct debit customers. This was only partially explained by higher costs to companies of providing this payment method.

2015 Price differential between cheapest direct debit and cheapest prepayment dual fuel tariff



The Competition and Markets Authority's (CMA's) energy market investigation determined that prepayment customers were poorly served by technical constraints and weak consumer engagement. The CMA therefore ordered a price cap which Ofgem is implementing from April 2017.

Notes

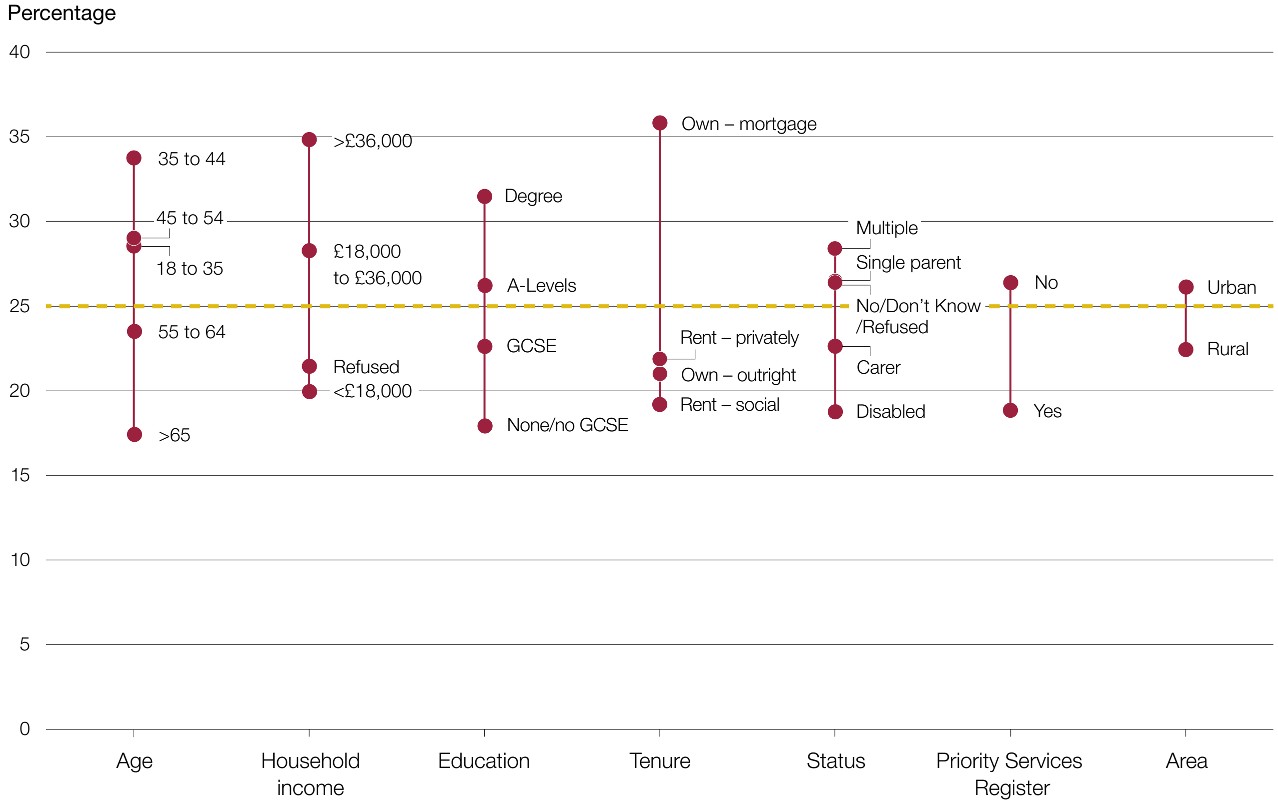
1 'Cost to serve differential' is the estimated difference in cost to suppliers between customers paying by prepayment meter and by direct debit.

2 Based on 6,999 respondents. Some response categories are not shown to aid clarity of presentation.

Source: National Audit Office analysis of Citizen's Advice research and the Competition and Markets Authority's energy market investigation

The CMA's investigation also found that similar consumers – disabled, low-income, elderly and low educational attainment – are least likely to switch energy deal, in part due to worse access to tools such as price comparison websites. The investigation concluded that on average customers could save £300 a year by switching away from expensive standard variable tariffs, and that these consumers were most likely to miss out.

Proportion of customers who switched energy supplier between 2011 and 2014, by demographic and household characteristics[2]



The CMA concluded that the price differences incentivised active consumers to switch deals, and that intervening directly could adversely affect competition. Ofgem accepted this conclusion, and is instead exploring ways to raise awareness and understanding among disengaged consumers. It is not clear what further role Ofgem has, if any, or whether any additional protection would be a matter for government policy.

3.4 Regulatory interventions alone can be insufficient to protect all vulnerable consumer groups. For example, the government tasked the Financial Conduct Authority (FCA) with introducing a price cap on high-cost short-term lending from 2015, to protect consumers from excessive charges. The FCA estimated that 70,000 consumers would become excluded from the industry, but that most would be better off by not taking on unaffordable debt. It also committed to reviewing the sector after two years to establish what detriment may have occurred. However, it is unclear whether the regulator or government is responsible for any further protections, particularly for an estimated 6% of those excluded who would turn to unlicensed lenders (**Figure 9**).

Figure 9
Case study

Access to high-cost short-term lending

Part of the Financial Conduct Authority's (FCA's) duty to protect consumers involves seeking to prevent them from taking unaffordable loans that put them into financial difficulty. When it began regulating the high-cost short-term lending industry in 2014, it required lenders to be more rigorous in conducting affordability checks.

The government also required the FCA to introduce a price cap from 2015, to protect consumers from excessive charges. When introducing the cap, the FCA estimated that 70,000 people would become excluded from the industry, as firms would no longer be willing to lend to them. The FCA's assessment concluded that, on average, these consumers would be better off, and that they were unlikely to turn to illegal lending. The FCA committed to reviewing the sector two years later to establish what detriment, if any, may have occurred.

Research into the short-term lending sector by the Social Market Foundation in 2016 indicated that 27% of customers would go without essentials if unable to access this borrowing, while 6% would turn to unlicensed lenders. It is not yet known how many of the estimated 70,000 will have done so. It is also unclear what further duties, if any, the FCA has towards these consumers, or whether additional protection is a matter for government social policy.

Source: National Audit Office analysis of information published by the Financial Conduct Authority and Social Market Foundation

Aims and objectives

3.5 The range of challenges that vulnerable consumers face make it important for regulators to have clear, measurable objectives to help them prioritise their efforts and measure progress. Regulators' statutes require them to consider the needs of different consumers, but do not indicate how, or to what extent, these needs should be supported. Regulators therefore need to interpret these roles and determine their own precise objectives. We reviewed regulators' approaches against our 2016 guidance on measuring performance in regulation which set out the key features of a good performance framework:[5]

- relevant high-level aim or vision;
- lower-level objectives, linking clearly to the high-level vision; and
- criteria that the regulator will use to judge whether it is achieving its objectives.

5 Comptroller and Auditor General, *Performance measurement by regulators*, National Audit Office, November 2016.

3.6 The regulators have articulated high-level aims relating to vulnerability, but none has translated this into detailed objectives or performance measures. In other areas of regulatory activity, regulators use a range of indicators to measure performance. Our 2015 report on the economic regulation of the water sector found that Ofwat used various indicators to assess overall company performance.[6] These included five key targets on service and quality, such as water quality or supply disruptions, plus further measures which companies agreed with customers. Ofwat also set expectations for company efficiency by benchmarking cost information. Company-level measures and specific targets may not translate easily to the complex issue of vulnerability, particularly in financial services where there are 56,000 regulated businesses. But none of the regulators has applied this approach to developing a full set of expectations relating to vulnerability (**Figure 10** overleaf).

3.7 The regulators have begun work in this area to varying degrees. Ofgem introduced social obligation statistics in 2008 that monitor suppliers' customers in debt, using prepayment meters, being disconnected or signing up to priority service registers. Ofgem also offers small financial rewards for energy distribution companies demonstrating behaviours that support vulnerable consumers, and sets relevant expectations for firms to meet these requirements. These measures help Ofgem understand progress against some particular challenges for vulnerable consumers. But they do not yet set out what Ofgem considers to be good performance, and some significant concerns (for example poor service or wider financial difficulty) are not captured by the statistics. The FCA is also currently consulting on how to interpret its statutory objectives, including on vulnerability. This is a recent development, however, and it is too early to say whether it will produce well-defined aims.

3.8 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. The network allows regulators to discuss common challenges and share insights. It has conducted work on affordability pressures and helping vulnerable groups understand the support available in various services, including pushing its own accessible information leaflet. It is now investigating how energy and water companies might share data on customers who require specialist support. While other actions to date have been limited, the network provides a forum for future collective work, research and activity.

6 Comptroller and Auditor General, *The economic regulation of the water sector*, Session 2015-16, HC 487, National Audit Office, October 2015.

Figure 10
Objectives and performance indicators

Regulators have not set clear objectives and performance indicators relating to vulnerability

Set an overall high-level aim

All four regulators have articulated an overall aim. In July 2013, Ofgem was the first to publish a vulnerability strategy, setting a high-level aim to "understand and identify the causes of vulnerable situations in the energy market and reduce the likelihood and impact of such situations". The other three regulators have developed similar approaches since.

Translate this aim into detailed objectives

Each regulator has gone some way to describing best practice for their sector, for example through publishing research and guidance. But they recognise that firms have freedoms to devise their own approaches, not all of which will fit best practices. None of the regulators has set detailed objectives or articulated a clear, realistic vision for what good looks like.

Set specific indicators to measure progress against objectives

The regulators have not developed metrics to measure progress against. In other areas, for example when setting the prices that regional monopolies can charge, regulators use a range of indicators to measure company performance. None of the regulators has developed a similar set of measures and expectations relating to vulnerability.

Use these indicators to prioritise activities and interventions

As a result, regulators do not have clear objectives and indicators that they can use to prioritise their efforts.

Source: National Audit Office analysis of regulators' vulnerability strategies against good practice framework set out in National Audit Office guidance on Performance measurement by regulators, November 2016

Part Four

Supporting vulnerable consumers

4.1 This part examines what firms and regulators are doing to identify and support vulnerable consumers. It considers how regulators:

- promote good front-line support by companies, and how companies are responding;
- intervene directly; and
- monitor progress and the impacts of their activities.

Promoting front-line support by companies

4.2 Companies interact directly with their customers, and are therefore often best placed to provide support to those who need it. Companies we interviewed recognised the potential commercial benefits of doing so, particularly because people are often vulnerable only in certain circumstances. Supporting them in those circumstances can result in customer loyalty and enhanced reputation. However, not all companies will recognise these benefits, and many that do will not know how best to provide support. The regulators therefore have a role in promoting the benefits and providing guidance.

4.3 All four regulators produce publications and work with trade associations to disseminate good practice in understanding and supporting vulnerable consumers. The Financial Conduct Authority (FCA), for example, has supported industry by publishing specific guidance for companies, and supporting the British Bankers Association's (BBA's) 'Financial Services Vulnerability Taskforce'. It has also supported BBA events where banks, charities and others discuss common challenges and practical ways to overcome them.

4.4 Companies we spoke to demonstrated some innovative approaches to identifying signs of vulnerability and providing tailored support. Particular examples included using digital tools to help identify signs of vulnerability (such as text-analysing software), and dedicated customer service teams to respond to specific needs. Charities and consumer bodies we interviewed were broadly positive about the influence that regulators have had in working with their sectors to encourage improvement. However, stakeholders were concerned that less engaged firms have made limited progress.

4.5 Firms' ability to support vulnerable consumers is constrained by limited data sharing. Firms need to know which customers may need additional support. Proposals to allow firms in some sectors (currently water and energy) to share information on such customers would support vulnerable consumers, aid efficiency and prevent information being lost when customers change supplier. Progress so far has been limited, and concerns have been raised over data protection requirements. However, some of the challenges may be addressed as part of proposals in the Digital Economy Bill. Ofgem is also reforming priority service registers from June 2017, which it believes will improve data sharing between energy companies.

Regulatory intervention

4.6 While guidance from regulators can prompt good practice from companies that are inclined to support vulnerable consumers, it cannot ensure that this is happening across the industries as a whole. Regulators therefore intervene directly to ensure that companies are supporting vulnerable consumers. Regulators take action against firms that breach rules or principles, and also implement industry-wide interventions that broadly fall into three categories:

- ensuring that essential services are accessible and affordable for those who need them;
- providing information to consumers to help them understand what deals or products might be best for them; and
- offering reputational or financial incentives for companies to support vulnerable customers.

4.7 Regulators have, to varying degrees, recently moved away from directly specifying how firms should help vulnerable customers, towards more general principles that firms should follow to achieve good outcomes. Principles-based regulation can empower firms to be more innovative and responsive to the evolving needs of vulnerable consumers than precise rules alone. A focus on outcomes allows more flexibility for regulators as well, but also brings challenges. It is difficult to measure outcomes for vulnerable consumers and attribute them directly to individual firms, as they are also affected by external factors. This can therefore make it harder for regulators to know when they need to intervene. Ofgem and the FCA have made progress in balancing principles and rules relating to vulnerability, and have taken action against some firms for failing to treat customers fairly in cases where specific rules were not broken.

Ensuring that services are accessible and affordable

4.8 Some sectors have universal service obligations or other interventions to ensure that customers can access the services they need (**Figure 11**). In the water sector, it is illegal for a company to disconnect anyone. Disconnections by energy companies have also reduced from 25,000 in 2001 to 253 in 2015. However, 1.6 million prepayment customers self-disconnect their energy supply at least once a year. There is a universal service on landline telephones, and government will consult on extending this to broadband. Since 2016, nine banks have been required to offer basic bank accounts to eligible consumers, though it is too early to say what impact this will have.

Figure 11
Access and inclusion

Access and inclusion vary by sector

Service	Universal service or similar	Access and inclusion
Water	Yes. Disconnection is illegal.	No substantial access problems in water.
Energy	Yes. Restrictions on disconnection but it is not illegal.	Disconnections by energy companies have reduced from 25,000 in 2001 to 253 in 2015. However, prepayment customers can self-disconnect if they do not or cannot top up their meters. Citizens Advice estimates that 1.6 million prepayment customers self-disconnect at least once each year.
Telecommunications	Landline phones only, for two companies: BT and KCOM. Government will consult on extending universal service to broadband.	An estimated 5 million UK adults have never used the internet. Ofcom found in 2016 that 1.4 million UK households were being poorly served by slow internet speeds.
Financial services	Since 2016, nine banks must offer basic bank accounts to eligible consumers. No other universal service.	Research estimates that in the UK: • 1.5 million people do not have a bank account – it is too early to assess take-up of basic bank accounts; • 3 million people with disabilities have struggled to access insurance; and • 310,000 households may be using illegal lenders because of limited or no access to legal credit.

Source: National Audit Office review of research on access to services

4.9 Regulators also place requirements on companies to ensure that services are fully accessible. Many of these require specific adaptations such as large-print bills for sight-impaired customers, text relay for deaf people, and easy-access meters for the physically disabled. While these are important in ensuring that these specific groups can use the services, accessibility challenges change over time. Customers unable to use digital communication channels may become excluded as services increasingly move online.

4.10 Price caps on certain services commonly used by vulnerable consumers can protect them from excessive charges. The Competition and Markets Authority required Ofgem to introduce a price cap on prepayment meters from April 2017, which Ofgem estimates will save 4 million customers an average of £75 a year. Similarly, the government required the FCA to introduce a price cap on high-cost short-term lending in 2015. In March 2017, Ofcom began consulting on its proposals for a price cap on standalone landline telephone services, where prices have increased despite falling costs.

4.11 The water, energy and landline telephone industries offer discounted prices for customers on low incomes, but these do not necessarily reach the people who need them most (**Figure 12**). Eligibility criteria vary by company and sector, rather than relating to need. A customer's eligibility therefore depends on where they live and who their suppliers are. Awareness and take-up of discount schemes vary and can be low. 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. At the end of 2015-16, some water companies had no customers on social tariffs, while others had up to 3% of their customers on social tariffs.

Information to help customers to make decisions

4.12 All four regulators require companies to provide customers with accurate and accessible information with which to make decisions. Consumers are responsible for choosing what deal they are on, for example by switching supplier or applying for support schemes. In order to make these decisions, they need to understand what deals are available, and how they might benefit from choosing them. Ofgem, for example, requires energy companies to include information about their cheapest deals on bills, and is exploring what else could be done to raise awareness of how to switch provider. The FCA recently introduced a requirement for insurance companies to disclose the previous year's premium on renewal quotes, alongside other initiatives to improve communications between companies and consumers.

4.13 These interventions are helpful in raising awareness among consumers, but the impact on some vulnerable groups can be limited. People with cognitive impairments or mental health problems can find it difficult to process the information and make decisions. Some consumers are also unwilling to make a change because they do not trust that it will help them. The regulators recognise that information alone is not sufficient, as people engage with information in different ways.

Figure 12
Discount schemes

Discount schemes do not necessarily reach the customers who need them most

Service	Eligibility criteria	Help offered	Take-up
Water	All water companies must offer WaterSure[1] to high essential-usage customers in receipt of means-tested benefits. Companies set eligibility for their own social tariffs.	WaterSure customers have bills capped at the level of their company's average bill. Companies set social tariffs based on customer consultation. Some offer bill discounts, the maximum of which ranges by company from 50% to 90%. Others limit bills, with caps ranging from £190 to £366 a year for water and sewerage.	130,000 WaterSure customers and 130,000 social tariff customers in 2015-16.
Energy	Eligibility for Warm Home Discount set by suppliers. Government also requires all energy suppliers with over 250,000 customers to offer the discount to pensioners in receipt of certain means-tested credits.	£140 discount off annual electricity bill.	2.2 million Warm Home Discount customers in 2015-16.
Telephone	Universal service providers must offer a social tariff. Eligibility based on receipt of means-tested benefits.	Free installation if not already connected, and discounted line rental of £5 a month including a free call allowance. Since 2016, BT has also capped the maximum charge for additional calls on BT Basic at £10 a month.	Estimated 350,000 social tariff customers in 2015-16.

Note

1 References to WaterSure include the equivalent scheme in Wales.

Source: National Audit Office analysis of customer-funded discount schemes

Reputational and financial incentives

4.14 The regulators provide some reputational incentives for companies to support consumers, though these do not normally relate to vulnerability. All four regulators publish customer service scores or complaints data for companies in their sectors. Regulators also announce when they have found large-scale customer service failings as part of enforcement action.

4.15 Ofgem and Ofwat also offer financial incentives for regional monopoly companies demonstrating positive behaviours, but these are limited. As economic regulators, they set the prices they allow monopoly water and energy distribution companies to charge. In doing this, Ofgem includes specific financial incentives for behaviours that support vulnerable consumers. These provide only around 0.2% of company income, though may create additional reputational incentives if companies fail to earn them. Ofwat includes financial rewards for water companies meeting certain levels of quality and customer service, but does not set measures specific to vulnerability. Ofcom and the FCA do not offer specific financial incentives relating to customer service.

Monitoring outcomes

4.16 Regulators need to monitor the impacts of their interventions to measure the outcomes for vulnerable consumers and the costs placed on businesses in doing so. This will allow them to understand what works, and prioritise approaches that have the biggest impact without creating excessive costs that are ultimately passed back to customers.

4.17 There are no comprehensive data on vulnerable consumers or their experiences, as data are held by many different bodies in different formats. There are 10 official regulators and complaints bodies that regularly collect consumer data, while Citizens Advice receives 750,000 enquiries a year related to the four sectors. This is in addition to the thousands of firms that collect data on their customers, and other support organisations such as charities that provide support or guidance to certain groups (**Figure 13**). There are no common data standards, such as consistent ways to record indicators of potential vulnerability. For example, Citizens Advice is contacted around 450,000 times a year about issues relating to financial services, while the Financial Ombudsman Service receives around 340,000 new complaints each year. But the two organisations do not record the information they collect on complainants in a comparable way.

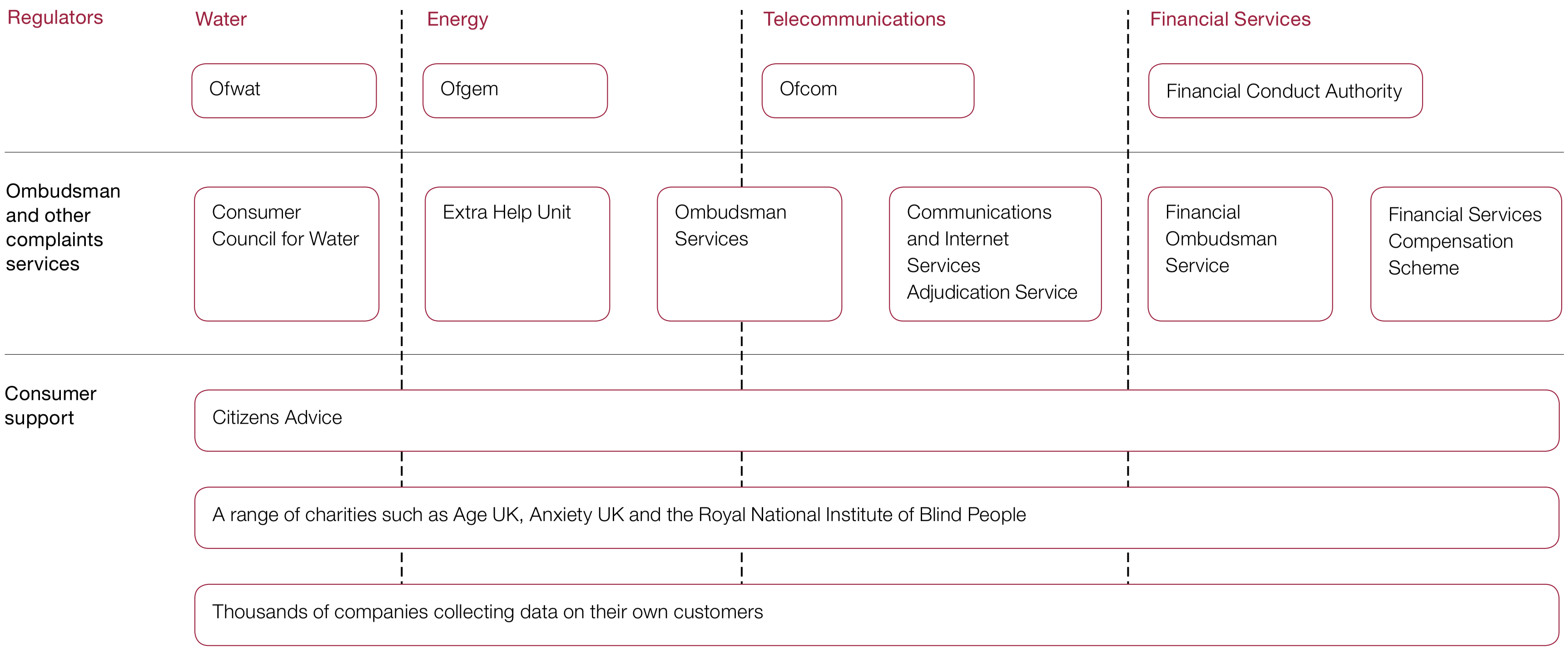
4.18 The regulators are not making full use of the information available to measure progress or prioritise whether particular groups require greater intervention. All four regulators conduct their own research, for example through consumer surveys, and separately make use of the intelligence gathered by other support organisations. Their networks involve many of the same charities and consumer bodies. Despite differences between sectors and the particular challenge of recording and monitoring temporary vulnerable circumstances, there is scope for a more joined-up approach to understanding common issues or groups of consumers facing particular difficulties.

4.19 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 the incentives for companies and any cross-subsidies that may result. Regulators also have to balance their 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 regulatory interventions.

Figure 13

Organisations that regularly collect consumer data

Data on consumers' experiences are held by a range of different organisations, in different formats



Source: National Audit Office review of organisations that collect consumer data

Appendix One

Our audit approach

1 This study examined what the sector regulators in Great Britain – Ofwat,[7] 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. We reviewed:

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

2 We applied an analytical framework with evaluative criteria, which consider what arrangements would be optimal in protecting consumers in vulnerable circumstances. By 'optimal' we mean the most desirable possible, while acknowledging expressed or implied restrictions or constraints. A constraint in this context is the need for regulators to balance the interests of vulnerable consumers with measures designed to benefit consumers in general, such as promoting competition and avoiding excessive costs that are passed back to consumers through increased prices.

3 Our audit approach is summarised in **Figure 14**. Our evidence base is described in Appendix Two.

7 In the water sector, Ofwat is responsible for only England and Wales. This report does not cover the Water Industry Commissioner for Scotland.

Figure 14
Our audit approach

The objective of government

To protect consumers in vulnerable circumstances from harm or unfair disadvantage in the regulated industries providing services that are essential for security, well-being and social inclusion.

How this will be achieved

Vulnerable consumers are able to access the services they need at an affordable price, and are treated fairly by the companies supplying those services. Regulators and government have a good understanding of what causes consumers to be vulnerable in these industries, and intervene to prevent them from being harmed or disadvantaged.

Our study

We examined how the sector regulators in Great Britain are working with government to meet their statutory duties and obligations relevant to vulnerable consumers.

Our evaluative criteria

The impact on consumers of being vulnerable is minimised. Regulators have a deep understanding of vulnerability and the problems it can lead to.

Regulators and government have a joined-up understanding of their respective responsibilities. Regulators have clear objectives and performance indicators.

Regulators intervene in a cost-effective and targeted way to ensure vulnerable consumers are not disadvantaged.

Our evidence

(see Appendix Two for details)

- Analysis of Citizens Advice consumer data.
- Review of research and publications by the four sector regulators.
- Analysis and review of other literature and research on the impact of consumer vulnerability.
- Review of demographic projections.
- Interviews with regulators, departments and other stakeholders.

- Interviews with regulators and departments.
- Case study review of interventions where regulators and government may both have a role.
- Analysis of regulators' vulnerability strategies.
- Assessment of regulators' aims and objectives against best practice for performance frameworks and regulators' approaches in other areas.

- Review of available literature on regulatory interventions and their reach and impact.
- Review of data collected by regulators and others on outcomes for vulnerable consumers.
- Review of regulators' data on costs to business of supporting vulnerable consumers.
- Interviews with regulators, departments and other stakeholders.

Our conclusions

A significant and increasing number of consumers have conditions or circumstances which make them vulnerable. Regulators have improved their understanding of vulnerability, and have made some progress in working with their industries to improve support for vulnerable consumers. However, some of the biggest challenges for vulnerable customers relate to access, affordability and debt, which regulators alone have limited powers to solve. Regulatory interventions are helpful but often have limited impact, and the lack of clear responsibilities between regulators and government can mean that these 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.

Appendix Two

Our evidence base

1 Our independent conclusions on how sector regulators are working with government to protect vulnerable consumers from being unfairly disadvantaged were reached following our analysis of evidence collected between August 2016 and January 2017.

2 We applied an analytical framework with evaluative criteria, which consider what arrangements would be optimal in protecting consumers in vulnerable circumstances. Our audit approach is outlined in Appendix One.

3 **We conducted semi-structured interviews with departments, regulators and other stakeholders to gather perspectives, experiences and evidence across all of our study areas.** We interviewed representatives from the following organisations:

- **Government departments and regulators** with responsibility for the four regulated sectors we examined:
  - Ofwat and the Department for Environment, Food & Rural Affairs in the water sector (covering England and Wales only);
  - Ofgem and the Department for Business, Energy & Industrial Strategy (BEIS) in the energy sector; BEIS also has responsibility for overall consumer protection policy;
  - Ofcom and the Department for Culture, Media & Sport in the telecommunications sector; and
  - the Financial Conduct Authority (FCA) and HM Treasury in the financial services sector.
- **Organisations with a statutory role to receive complaints** from customers in the four sectors:
  - Consumer Council for Water;
  - Citizens Advice Bureau;
  - Citizens Advice Scotland;
  - Extra Help Unit;
  - Financial Ombudsman Service; and
  - Ombudsman Services.

- **Charities** that support, or advocate on behalf of, vulnerable consumers or specific groups:
  - Age UK;
  - Alzheimer's Society;
  - Anxiety UK;
  - DOSH Financial Advocacy;
  - Essential Services Access Network;
  - Money Advice Trust;
  - Royal National Institute of Blind People; and
  - Scope.
- **Companies and trade associations** from across the four sectors:
  - Association of British Insurers;
  - British Bankers Association;
  - British Gas;
  - Building Society Association;
  - Consumer Finance Association;
  - Energy UK;
  - Lending Standards Board;
  - Northern Gas Networks;
  - Northern Powergrid;
  - npower;
  - TalkTalk;
  - Water UK and representatives from a number of its member companies; and
  - Wonga.

- **Other organisations, academics and think tanks** who were able to provide expert opinion on the key challenges for vulnerable consumers and progress in addressing them:
  - Behavioural Insights Team;
  - British Standards Institute;
  - Centre for Competition Policy (Norwich Business School);
  - Centre for Consumers and Essential Services (Leicester Law School);
  - Forward Institute;
  - Money and Mental Health Policy Institute; and
  - Personal Finance Research Centre (University of Bristol).

4 **We examined the experiences of vulnerable consumers in the regulated industries, and whether regulators have a good understanding of vulnerability.**

- We **analysed consumer data** recorded by the Citizens Advice Bureau for England and Wales (Citizens Advice Scotland separately provides support to consumers in Scotland) in the two years from April 2014 to March 2016, to understand the characteristics of consumers seeking the most support and the most prevalent issues they faced. Where possible, we reviewed specific findings against available research from other organisations, such as the Money Advice Service, to ensure consistency.
- We **reviewed research and publications by the four sector regulators** to identify what work they have conducted to identify and understand vulnerability in their sectors and the problems it can lead to.
- We **analysed and reviewed literature, research and data produced by other organisations** such as Citizens Advice and the Money Advice Service on the impact of consumer vulnerability.
- We **reviewed demographic projections** to identify the extent to which certain vulnerability characteristics, such as dementia and over-indebtedness, are forecast to rise.
- We **conducted semi-structured interviews** with regulators, departments and other stakeholders, to gain a rounded perspective of the biggest challenges for vulnerable consumers.

5 We examined whether key organisations, and regulators in particular, have clear roles, responsibilities and objectives.

- We **conducted semi-structured interviews** with regulators and departments to understand their respective roles, responsibilities and objectives.
- We **conducted case study reviews** of two interventions where regulators and government may both have a role:
    - The introduction of mandatory affordability checks and a price cap to the short-term lending sector.
    - Price differences between the cheapest tariffs, standard variable tariffs and prepayment meters in the energy sector.
- We **analysed regulators' vulnerability strategies** to establish what each regulator is aiming to achieve and how its activities fit into its overall aims.
- We **assessed regulators' aims and objectives against best practice for performance frameworks**, based on our 2016 guidance on performance measurement in regulation. We compared regulators approaches to vulnerability with their approaches to other regulatory areas, such as how they set the prices that firms can charge.

6 We examined how firms and regulators are acting to identify and support vulnerable consumers, and monitor progress.

- We **reviewed available literature on the reach and impact of regulatory interventions** related to vulnerability, from regulators and other organisations.
- We **triangulated our literature review with interviews** with regulators, departments, charities and companies to understand the regulatory approach, the impact that regulators are having and what companies are doing in response.
- We **reviewed what data and intelligence regulators and other organisations collect on outcomes for vulnerable consumers**, to understand how regulators identify when they need to intervene and how they monitor the impacts of their interventions.
- We **reviewed what data are available on the costs to business** of supporting vulnerable consumers, and the extent to which regulators collect this information and use it to inform their regulatory approach.

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