

On supply, in control

Using data to identify and support energy consumers in financial difficulty

June 2016

The logo for Citizens Advice, featuring the text "citizens advice" in white lowercase letters inside a dark blue speech bubble shape.

**citizens
advice**

Background

Citizens Advice is the statutory advocate for energy consumers in England and Wales. As part of our role, we carry out research, policy and advocacy work around energy affordability, debt and disconnection.

In recent years, energy suppliers have looked to use new technologies and data sources to improve their debt management strategies. In particular, there has been a growing trend for suppliers to use credit reference information to understand their customers' payment behaviours.¹ As the smart meter rollout gathers pace, there are also opportunities for suppliers to use detailed energy consumption data to proactively identify and support customers in payment difficulty.²

The combination of smart meter data with credit reference data presents a unique set of opportunities and challenges. Energy suppliers who choose to gather this information should be able to spot gaps between energy usage and ability to pay, hence identifying customers who may not be able to afford their energy consumption. More proactive identification of customers in financial difficulty could allow suppliers to target help and support at those who are at risk of compromising their health and wellbeing by falling into debt or turning off their energy supply.

In 2010, Ofgem and Citizens Advice developed a set of key principles on ability to pay.³ These stipulate that suppliers should:

- Make full use of all available information to understand a customer's ability to pay
- Make early contact to identify whether a customer is in payment difficulty

However, there is a fine balance to be struck between suppliers using data to target offers of help and support, and making sure that consumers are comfortable with this particular use of their personal data.

In this context, Citizens Advice commissioned a piece of research on the data-driven activity being undertaken by energy suppliers to support customers in 'pre-arrears', that is, on the brink of defaulting on energy payments.⁴ It explored the attitudes of energy suppliers, consumers and stakeholders. This paper summarises key findings from the research and presents our recommendations.

¹ Consumer Focus (2011) [On the record](#)

² We have previously called for suppliers to monitor self-rationing and self-disconnection among their smart prepayment meter users. Citizens Advice (2014) [Topping up or Dropping out](#)

³ Ofgem (2010) [Debt review report](#)

⁴ 'Pre-arrears' is a regulatory concept in the financial services sector but not in energy.

Research summary

The findings of Collaborate's research are as follows:

Use of credit reference data

The trend towards greater use of credit reference data has continued, both in the scope of its application and the amount of data energy suppliers are looking to share. Most suppliers are now using credit reference data, whether to determine contract and payment terms, guide debt management processes, or carry out customer segmentations. Others are looking to move towards full data sharing, which will provide them with a fuller picture of their customers' payment behaviours in other sectors.

Plans to use smart meter data

Suppliers tend to agree on the potential for smart meter data, both to help them spot problems early, and to tailor energy efficiency advice to the individual's consumption behaviour. However, they are at an early stage of development when it comes to incorporating smart meter data into their debt management strategies. There were particular concerns around the level of investment needed and uncertainty about the benefits.

Pre-arrears activity

The research confirmed the value of early intervention when customers are experiencing financial difficulties. Both consumers and suppliers reported that the earlier they were able to make contact, the easier it was to prevent the situation from getting worse. However, only a very small number of suppliers are undertaking or planning trials to make outbound contact with credit customers at the pre-arrears stage. It was widely perceived that this sort of activity was highly challenging to get right in terms of identifying customers (those likely to experience difficulties paying) and then engaging effectively with them. In addition, it was felt that suppliers did not have very much to offer by way of help at the pre-arrears stage. Instead, most suppliers were focusing their activities on preventing debt throughout the customer journey.

Consumer views on use of data

Whilst acknowledging some potential benefits, the research reaffirmed consumer concerns about the increasing use of personal data by creditors and other organisations. It found low awareness among energy consumers of how suppliers were using their credit reference data. The research also found concerns about the potential combination of credit data with data from smart meters, 'out of the blue' supplier contact on the basis of their findings or, worse, having the information used against them by restricting access to products or services.

Recommendations

The energy industry is in the early stages of thinking about how to support consumers pre-arrears. The research highlights a number of opportunities and challenges around using data and proactively supporting these consumers. We want suppliers to be able to use data if this helps consumers at risk of experiencing financial difficulty or self-rationing their energy use. However, we also know that consumer confidence depends on the degree of control had over their personal data.⁵

While there is currently no specific regulatory framework for pre-arrears activity, there are a number of regulated related areas such as on ability to pay and protections for prepayment customers that suppliers must have regard for⁶. Ofgem has also highlighted the importance of early contact to establish whether a customer is in payment difficulty⁷ and supplier obligations to help vulnerable customers⁸. Citizens Advice has identified three consumer outcomes to guide the further steps we believe the energy sector needs to take:

Consumers are able to have meaningful control over the use of their personal data by suppliers

Consumer confidence depends on clarity and control over how their data is being used. The government has recently established a clear consent framework for use of smart meter data. With consumers already sharing other data with suppliers, there is an opportunity to simplify the framework. This should improve the process for gaining consent and ensure consumers understand how and why their data is being used. Consumer confidence could be improved by:

- Establishing a set of clear consent requirements for the use of personal data, including how data use is explained to the consumer and how the consumer prefers to be contacted about any potential problems. Consumer research and consultation will be an important part of this process.
- Citizens Advice to develop a 'data dashboard' to show which companies are using a consumer's smart meter data with the potential to extend the scope in the future to all personal information being used in the energy sector.

⁵ Citizens Advice (2015) [Personal data empowerment](#)

⁶ [Energy Supply License Conditions](#)

⁷ Ofgem (2010) [Debt Review report](#)

⁸ Ofgem (2013) [Consumer Vulnerability Strategy](#)

Consumers who are at risk of falling into arrears or self-disconnecting are proactively identified and engaged by their supplier

Suppliers' access to personal information comes with a responsibility to use it to help identify consumers having difficulty paying for their energy.

- Suppliers should work more collaboratively to develop industry-wide standards for identifying consumers who are at risk of falling into arrears or self-disconnecting.
- Citizens Advice will work with industry to establish good practice on points in the customer journey where consumers can be engaged before any problems have arisen, partnerships with third parties (including local agencies) and getting the right tone for outbound and inbound contact.

Consumers are offered support to help them avoid falling into arrears or self-disconnecting

Our research showed a level of scepticism among consumers of supplier motives. In order to build trust amongst consumers, the potential benefits associated with early engagement will need to be made clear. Suppliers will need to pilot different approaches to see what type of communications are most effective. It is also important to establish the principle that consumers should not be disadvantaged through a change to their payment method or tariff if they have not broken the terms of the contract. Suppliers should:

- Develop a package of support measures (delivered either directly or through third party partners)⁹.
- Ofgem to consider a principle as part of the future retail review that protects the consumer's interests at the pre-arrears stage.

⁹ In 2016/17 Citizens Advice will publish a report on good practice in this area which could provide useful insight for suppliers looking to offer meaningful support to their customers in pre-arrears.