Utility Week

In association with INAWISDOM

INSIGHT REPORT

Levelling up debt journeys for vulnerable customers

Rising living costs and the fallout from the pandemic is exercising utilities as they set about developing diversified approaches to dealing with different cohorts of customers in financial difficulty. In this Utility Week Insight report we asked experts from water and energy to share their experiences and solutions.

In this report

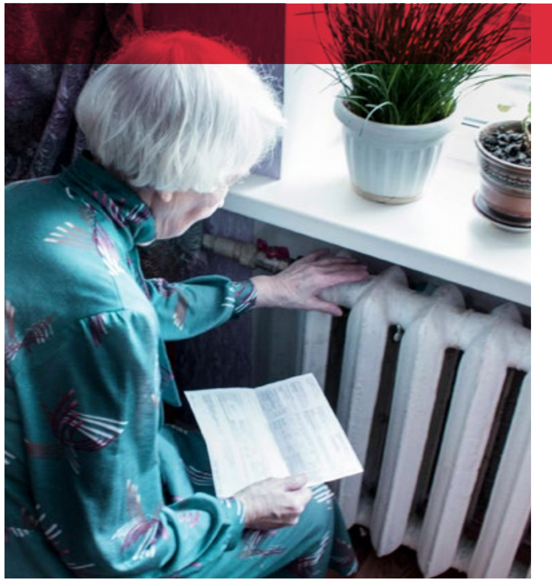
Introduction

The toxic cocktail of COVID, inflation and energy price hikes, is taking its toll on consumers' finances and challenging utility companies to think differently about how they deal with a new cohort of customers tumbling into debt.

This was an important challenge to emerge from a Utility Week workshop which brought together customer and collections experts from both energy and water companies. The virtual event took place at the end of November with support from the AI and data specialist Inawisdom.

The workshop addressed the need for companies to adapt to the new vulnerability trends. It also debated how to ensure that all of those facing payment issues, including the long-term vulnerable, had equal access to multi-channel engagement and the diversity of journeys afforded to other bill payers.

This is no simple feat but a complex territory to navigate. As participants pointed out, there is the issue of dealing sensitively with those new to debt and the stigma they attach to it; the problem of pinpointing those 'just about managing' – pensioners like 'Agnes' who sit in home wearing a hat and coat to keep warm to keep down the cost of bills – but still pay on time. And there are good ideas emerging on better ways to engage with customers in financial difficulties – though no silver bullet. Data is seen as a new tool to harness – but it is widely acknowledged that using it and sharing it to effectively to help customers and their utility providers spot those on the brink of debt and default was still in early stages. These themes are expanded on over the following nine pages.



The urgent need to level up

A key tenet of the discussion was to explore a concern raised briefly at a previous Utility Week/ Inawisdom event: the contention that investment in digital innovation and digitally-supported customer service for debt and affordability "journeys" lagged behind other areas.

It is acknowledged there is a need for levelling up with experts identifying that utilities needed to do something quickly to inject more sophistication into the processes for those struggling to pay and make it easier for higher volumes of customers to flexibly manage their payments if they needed to without stigma. At the same time solutions are needed that don't drive up costs to serve.

As one energy participant remarked: "The levelling up agenda is very important for me because we have yet to tackle it. In contrast, we're allowing digitally connected people to do different things in different ways."

Key findings

- Debt is set to increase as inflation and energy bills soar and universal credit is cut
- A new cohort of vulnerability has emerged – the previously better well-off, which furlough/ losing their job has pushed into debt
- Utility companies are worried about 'just about managing customers' – those new to debt or pensioners that pay their bills but suffer hardship
- There was an urgent need to introduce digital routes to give just about managing and newly indebted customers more control and processes to deal with their predicament with dignity
- Journeys needed more personalisation – and agent engagement was key, with a need for more focussed training to enable agents to deal with the new types of vulnerability
- Data sharing, although seen as a solution, was minimal at present, although a project with DWP held out hope
- There is more scope to harness technology to inform utilities and flag up problems earlier

On a more positive note, it was recognised by a number in the group that while debt and collection departments used to apply a fairly one size fits all approach, COVID had forced a realisation that they needed to add more differentiation for different customers. Encouragingly, that was starting to happen.

A number of companies had got to a stage where they had five to six different standardised customer journeys. One energy company representative described new processes that it had

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created, saying: "We currently operate six tailored customer journeys for residential customers and have another six planned for development in the next three months. Within these journeys we are making better use of data and insight to tailor the solutions we offer customers, based on their individual circumstances."

The journeys included a wide range of support services and solutions for customers struggling to pay, such as:

- Flexible payment options
- Flexible debt repayment plans
- Smart meters and other tools to help customers reduce their consumption
- Referrals to partners offering specialist financial support (income maximisation advice, affordability checks etc.)
- Reductions in debt from a support fund for customers experiencing serious financial hardship.

The data the company was drawing on to help was primarily internal customer data: account history, previous payment history, past behaviours, and response rates to different contact mediums.

"This helps us to form a view of the customers' preferred way to interact as well as what solutions may be best suited to their needs," he added.

COVID has accelerated the need for process change

While the financial impact of COVID might not have led to dire debt problems, as predicted at one stage, it has drawn in different profiles of people. This, plus the hike in energy prices and another steep rise inevitable in 2022, has given new impetus to tackling the need to produce different solutions and scale them up.

Those attending the workshop identified three types of 'vulnerable' customer:

- Those already on some sort of support scheme
- The new to debt group – now having to have difficult conversations for the first time and find it embarrassing
- Those identified through access to credit data struggling to pay other bills – but are continuing to pay water – where the issue is should they be given a social tariff.

Before COVID, typically, people who had got into multiple debt were poor money managers, who needed debt advice and real support and debt help.

After COVID, many of those struggling to pay were higher earners, with car loans and mortgages, who have maxed out on cards and savings and whose finances are starting to creak.

"They might have been on furlough or self-employed and constrained finances and are in a territory they've not been in before and there's a stigma around it. But they might be able to get back on track quite quickly and therefore they might be able to do more on self-help and self-serve and might be more comfortably digitally, so we have to keep our offerings agile," said one participant, adding: "We've put help in place to support them, including adapting some of our social tariffs to allow them to be used on a short term basis with fewer hoops to jump through because they are short term. This helps until their income begins to go up – and seems to be working well."

Others recognised this scenario, and have been developing new journeys and changing payment arrangements, including a water company which was allowing customers to flex bills up or down to suit themselves, which they could do very simply online.

"That way, they don't have to have engagement over the phone. We trust them to decide whether they want a payment break and giving them that trust and the option to control it themselves seems to have worked really well," the water company representative explained.

Helping people help themselves

Another approach taken by an energy supplier was to empower agents where possible to discern between those who belonged to the longer-term vulnerability cohort, and those who were temporarily struggling. The rationale for this was to explain to those in the second group that taking a payment holiday may not be in their best interests, in that they would be building up debt for later.

"People in these circumstances don't need a payment holiday but rather a week or two's grace until they get paid again. They are not used to be being in debt so therefore they feel they are in crisis. They just need a bit of payment leniency, and we are trying to empower agents to suggest these types of alternatives without upsetting anyone.

"Some of our agents are able to do it, but the training for that is still coming on line. And understanding how we empower people to have those conversations is the biggest challenge we are facing at the moment."

Others agreed that speaking with agents was important, to allow them to help set a realistic and sustainable payment plan, and that new journeys had been designed to get people to engage with agents. One representative said that internal data was used early on when a customer reaches a very early stage of delinquency, such as having sent out a second or third reminder, or it may be debt information from credit bureaux.

"It's about how you improve the accuracy of the conversation and the offering – not to make agents' jobs easier. So, for example, access to open banking allows customers to have a more efficient and easier conversation if they want to."

Identifying and supporting the 'just about managing'

There was broad agreement that serving the just about managing customers (JAMs) is going to become increasingly challenging. The impact of COVID and rising living costs are putting a strain on more households and pushing more into a situation where it is hard to make ends meet.

In terms of mitigating these risks and helping customers, a number of different things were raised. Firstly, the difficulty of quantifying the problem. This is because most will continue to pay their bills and go without other things until they hit a real crisis. Pensioners were a prime example. (We asked those who took part in our virtual discussion to brainstorm the challenges they faced and potential solutions, which are presented on **pages 5** and **8**).

One energy supplier representative said there would be more JAMs as people came out of contract for cheaper fixed price deals and rolled onto more expensive SVTs. What exacerbated the problem was that the normal procedure for engaging with these customers was difficult for smaller suppliers, who did not have the resources to cope with the increased numbers.

Conversation also threw up the difficulty of understanding the right channels through which to communicate with different JAM groups. Again, pensioners were singled out as being especially tricky because of their aversion to digital options.

Discussion also turned to the different payment processes and it was agreed that it was easier to spot signs of finances being out of kilter for receipt bill payers than those on direct debit. It may be a case of those who are prone to paying a day or two late may start to pay a week or so late. These were the signals that utility companies need to have on their radar, but there would seem to be very little sign of this happening in an automated fashion. Staff did not seem to be supported by digital alerts, which could be used to reach out to a customer and present them with payment options to help them through a tricky time.

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Group 1: **Serving the 'just about managing'**

Challenges

How do these customers prefer to interact? Suspect alternative to phone would be preferred chat? 2way SMS, WhatsApp, WSS?

Making the data captured open source (as appropriate) allows other to deliver relevant solutions

In Energy world – customers may be JAM/OK just now but uncertainty over the upcoming price cap review – what can we do now to support those customers when the traditional methods eg fixed tariffs are no longer as accessible. We need to be proactive but the world we will be in come April is unknown.

JAMs – not had to engage before so all new and will need to make it easy for them

Lack of familiarity with debt raises barriers to engagement

Volume of JAM customers unknown

Multi channels to a company need to be switchable for a new vulnerable customer – on line chat great for getting to a point, but then a need to switch to verbal discussion to reach a solution

As we move to digital self-serve, recognise the need to make sure that all channels are inclusive and that payment offerings available via a digital channel would be the same via voice etc. We can't have vulnerable or customers unable to utilise digital channels being penalised

Unwilling / unable to accept that they may need help, or know that help is available

Good credit histories mask hand to mouth existence

JAMS are notoriously difficult to identify if they're continuing to pay but going without other things to do so. We will only pick them up if they start to miss payments or they reach out to us for help.

Uncertainty makes it hard to forecast debt accurately

Lack of experience makes it hard for them to know if challenge is short term or a long term problem

Not all JAMS will be new to debt. We have lots of low income pensioners who just about manage but don't fall into debt. Instead they will go without something. We're giving them discounts on their bills if they on low incomes to ease budgets as they get help with other bills and essentials so why not water.

How do we identify these customers? Often they may appear to a creditor as a good payer however we don't know the true situation.

The majority of customers still want to speak to us if they're struggling and that way we can find a fully tailored solution. We're finding the customers affected by Covid are a bit different and more comfortable to self help and use digital channels.

How can we identify JAMs who continue to pay despite them qualifying for support. Will require a proactive approach from the supplier to promote support offerings – even single household pensioner on RV in water.

Solutions

Identification of JAM via change in payment method i.e. away from dd to card or switch from on-demand to monthly plan?

DWP data imminent to support accurate identification of those on benefit?

Partnership working with organisations such as charities

CRA account level data could be used to proactively monitor significant deterioration in over-indebtedness, despite customer continuing to pay.

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Direct debit (DD) customers were deemed to be something of a mystery cohort. Generally, there was a view that these were the lowest risk customers and that the thing to look out for was people cancelling DDs as a sign they may be worried about being able to pay them. This appeared to be a more pronounced issue in energy, where billing is more frequent.
One representative said that when customers were asked about their decision to cancel a direct debit it was usually about timing. In straitened times their DD payment was coming out of their account at an inopportune moment in the month. For one energy retailer, there had been a noticeable falling off in the proportion of those on direct debits.

"There is always a drive to try and increase this as it is lower cost to serve and customers get offered better deals."

One explanation was that growth in direct debit customers would normally come through acquisitions, but because suppliers were not in a position to attract new customers with attractive deals, the market had stagnated.

"New acquisitions through the Supplier of Last Resort processes are harder to persuade to opt for DD payment, because those people are nervous about committing themselves to the new supplier they've been moved to until they see how things play out."

In terms of using data more cleverly to understand people's financial situation, water companies are very hopeful of the positive impacts they will have once they can access Department of Work and Pensions (DWP) data on things like pension credit. This was very much a theme that also came up too in the break- out group focussing on the long-term vulnerable.

"If this can progress fully," said a water representative, "then we will be able to passport customers directly onto social tariffs.

"So for example, we offer a discount for customers in receipt of pension credit. If the DWP can tell us the customer is on pension credit, we can apply the discount automatically rather than waiting for the customer to engage and apply for the discount. We know that pensioners often don't apply for help, preferring instead to go without other items." (See right)

There was also hope for the potential of sharing information between energy and water firms, but as yet there was little confidence of how that could be done.

> They might have been on furlough or self-employed, and constrained finances means they are in territory they've not been in before and there's a stigma around it."

Data sharing with the DWP – how it could work

- A Data Sharing Agreement with the DWP is covered by The Digital Economy Act 2017. This provides a legal gateway for DWP and water companies to share data to positively assist people living in water poverty by reducing their bills by way of social tariffs or improving water efficiency.
- It has similar principles to the Warm Home Discount scheme overseen by BEIS and Ofgem under the Governments' Fuel Poverty Strategy.
- Water company data is passed securely to the DWP who check for eligibility to means tested benefits. These are either a qualifier or indicator of possible eligibility for social tariffs or support from the water company. Over time, it may be possible to define and share more data to expand the number of customers supported.
- Currently four companies – Thames Water, Anglian, Northumbria and United Utilities - are using the data to help identify those eligible or to keep customers on the special tariffs. Another four are about to begin and we expect interest from remaining companies to increase as we move towards a common single social tariff.
- The benefit to customers is, if the DWP data confirms entitlement, they don't need to provide evidence themselves to either join or remain on support schemes. However, there is no disadvantage to customers if DWP cannot match their data if they can prove their entitlement in other ways.

With thanks to Thames Water

New ideas needed for the long-term vulnerable

Utility companies clearly had aspirations to raise their game supporting the long-term vulnerable. But solutions were thin on the ground. Deferring payment just builds up more debt. It was agreed that the situation had not been helped by the reduction in universal credit, which dropped by £20 in October.

Participants observed that this cohort were the most difficult to engage with. As one from a water company said: "Once someone has decided not to pay their bills, they are very difficult to reach.

"We need to make it easier for customers to engage using whichever channel they choose – and that needs to evolve."

The water representative continued: "We're trying to talk to more people than ever before. And also to engage with them and go through an assessment of affordability, so that we can come up with alternative options – whether that's a short-term or long-term plan – and hopefully get them back into the habit of paying regularly, even if that doesn't for the moment pay down their current debt."

Said another, also from water: "In some instances, we can be talking about customers we haven't spoken to in the entire time they have been supplied by one of our businesses. Once you have a customer fall out of that routine – ie, making a decision to deprioritise their energy or water bill – it can be a very difficult situation for them to climb out of. And for the supplier too. But it's better to try and maintain some sort of payment regime, even if it only covers current usage. Keeping the customer committed is really important."

All agreed the need to be sympathetic and adapt to people's circumstances. Said one representative: "We have the privileged position of going into people's homes and we see life happening, and that often includes poverty – which we do see growing.

"Often we see a customer sitting with a cup of soup and a cap on but heating off because they can't afford it. We all need to be understanding and sympathetic to people's additional needs and circumstances. Pride sometimes makes it difficult for people in these circumstances to engage."

And while there were some useful options on offer, like using credit data to issue affordability passports, without the agreement of their customer, companies' hands were tied.

Also discussed again was the issue of training agents to adapt their skills to engage with those with chronic payment problems so that conversations could be made as productive as possible. One scheme introduced by a water company was writing off historic debt provided the customer paid their bills for the next 12/24/36 months. "It's been very successful, but it's just for one group of customers. With chronic non-payers, our options are quite limited."

She added: "Despite all our publications and efforts, many people don't know there's a lot we can do."

The sort of help highlighted in the discussion was linking up with charities and supplying customers with budgeting tools, and sharing that with other organisations – "that's a real win-win for customers," said one representative.

"It means that they haven't got to tell 15 people that they're struggling. They just need to have a really in-depth conversation with only one person.

"And that way, we're not fighting against each other to get customers into payment arrangements. We're trying to do it together."

> "And in winter months, we do incentivise by contributing to customers' payments if they keep them going through the winter. So they don't come out of winter with a big debt they can't recover from."

Energy suppliers explained some of the steps they had been taking, including incentivising customers to move to smart meters to help monitor their consumption and reduce their daily usage.

"And in winter months, we do incentivise by contributing to customers' payments if they keep them going through the winter. So they don't come out of winter with a big debt they can't recover from. But we can't do that for everyone," said one participant.

There is a real and growing concern about this middle ground, between those not yet in debt and the really extreme indebtedness cases.

All were troubled with the prospects for next year and problems coming down the line with mounting financial pressures on customers. "It's pretty much all we talk about at the moment," remarked another.

Asked if there was an opportunity to use data in a better way, to forecast how customers' financial landscape might pan out, the point was made that utilities needed to be careful in how they used it, with the right triggers built in for human interaction. That said, all were excited by the prospect. As a representive from Inawisdom explained, "Technology can deliver visibility. One of the challenges dealing with this cohort of customers is that they're expensive to serve; and one of the things that data may be able to do is allow you to find them and do something proactive with them.

"Because data has so much scale, it gives the potential to personalise services – and target people and offer them packages. So, not Big Brother; but an ability to do things at scale." [See Viewpoint.]

Group 2: **Handling chronic non-payment**

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Concluding remarks

Levelling up: what now?

At the end of the discussion participants were asked to sum up what they would like to see happen now to support a levelling up agenda. Their replies certainly pointed to a consensus on the need to roll out more digital options and self-serve, giving customers more choice about how they want to handle debt without the need for difficult conversations. Offering more digital routes with self-serve options provides parity with other customers and frees the team up to deal with the real hardship/vulnerable customers that prefer or need to have a conversation.

It was certainly emphasised that for those with chronic payment problems, engagement was vital to help them get more support and back on track.

The need for online affordability assessment leading to appropriate plans to be formulated also came out as top priority, as did offering flexible payment methods and timings and fair customer outcomes.

An absolute must, and a bright spot on the horizon, was sharing data and thus enabling water companies to spot problems earlier, and potentially reach those falling down the cracks. There was hope that the initiative to share financial information with the DWP would help water companies. But it was also acknowledged utilities need to use the data they have available now to better predict those customers heading into in debt and harness emerging technology to help them.

VIEWPOINT Data-led decisions in solving debt

Russ Vodden

Utilities Lead, Inawisdom says there are more opportunities to harness data in the quest to level up customer journeys and spot problems.

Having worked alongside utilities in trying to solve problems through cutting-edge technology, it was great to be part of the conversation around debt, especially with such a broad range of responsibilities represented from across both energy and water utilities. It really was a collaborative and informative session, with all parties joining the discussion with the sole aim of addressing the challenge of better serving customers.

We continue to navigate through these constantly evolving times. The ever-present uncertainty of the pandemic, increasing wholesale gas prices causing the collapse of many energy suppliers, and the looming increases to the energy price cap in April make this a particularly challenging moment for the industry.

The need to address debt has never been greater for utilities, and it is clear that across the board this is being embraced – from introducing additional situational customer journeys to using deeper customer insight to enable proactive decision making and personalise the experience for each customer.

The main pattern across the discussion was the importance of addressing a customer's need before they find themselves in crisis. By the time a customer finds they are in financial need and can't pay, the available journeys are often limited – and to add even further complexity, they are also less likely to engage at this point.

Historically, the first indication that a customer may be in financial difficulty is simply when a bill goes unpaid. Utilities are often the last to know when a customer is nearing crisis, as people often choose to forego other necessities before failing to pay the utility bills.

This presents an opportunity to identify the upstream patterns and proactively engage before it's too late. But how to identify these patterns?

Many of the answers are in the data. We are already working with utilities in helping them use their data to identify customers at risk earlier and then better understand bespoke payment/contact methods and preferences to help prevent or solve debt quicker.

Listening to the attendees of the workshop, many had thought about trying to use data better in debt management and some had tried but there is still more to be done. By sharing data across energy and water utilities, identifying additional data sources and utilising modern analytics techniques – including Artificial Intelligence and Machine Learning – utilities providers can gain unique insights and predict financial crises before they happen. This can enable better debt journeys and proactive responses that mitigate risk for the business whilst protecting vulnerable customers.

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