

Public Accounts Committee

Oral evidence: [Consumer Protection](#), HC 1752

Monday 20 May 2019

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[Watch the meeting](#)

Members present: Meg Hillier (Chair); Chris Evans; Shabana Mahmood; Nigel Mills; Bridget Phillipson; Lee Rowley; Gareth Snell.

Sir Amyas Morse, Comptroller and Auditor General, Jenny Brown, Parliamentary Relations Manager, National Audit Office, Rich Sullivan-Jones, Audit Manager, NAO, and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-115

Witnesses

[I](#): Andrew Bailey, Chief Executive Officer, Financial Conduct Authority, Sharon White, Chief Executive, Ofcom, Dermot Nolan, Chief Executive, Ofgem, and Rachel Fletcher, Chief Executive, Ofwat.

Report by the Comptroller and Auditor General
Regulating to protect consumers in utilities, communications
and financial services markets (HC 1992)

Examination of witnesses

Witnesses: Andrew Bailey, Sharon White, Dermot Nolan and Rachel Fletcher.

Q1 **Chair:** Welcome to the Public Accounts Committee on Monday 20 May 2019. This is a unique session, as far as we are aware; for the first time, we have the heads of the four main consumer regulators in front of us. I will introduce you in a moment, but we are really interested to see how you are working to protect consumers, what you are doing to address the difficulties they are facing and how you are working to learn from each other. Although you have different areas, the core element of what you do is to make sure that consumers' interests are protected, particularly around pricing.

We have in front of us the National Audit Office Report, "Regulating to protect consumers". I should warn you that this may not be the last time we have you in front of us, because we are quite interested in how you work together on this. As far as we are aware, no other Committee really looks at this or talks to you in public about what you are learning together. We are also interested in what information you publish and how accessible that is to consumers, so we will touch on that as well.

Let me introduce our witnesses. Dermot Nolan is the chief executive of Ofgem, which regulates the energy sector. Rachel Fletcher is now the chief executive at Ofwat, for water, but you were recently at Ofgem, Ms Fletcher.

Rachel Fletcher: I was.

Chair: So you have quite good coverage of the two. Andrew Bailey is of course the chief executive officer of the Financial Conduct Authority, or the FCA—we will try not to slip into acronyms, but you all have them anyway—for short. Sharon White is the chief executive of Ofcom. I think this is the first time you have appeared in front of us with that hat on, Ms White. Is that right?

Sharon White: It's the first time since my Treasury days.

Chair: Which is a long time ago. I remember, but most members of the Committee were not on the Committee at the time. I was trying to think of a quip about the relationship between the Treasury and your regulator—



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perhaps that will come out. I am going to hand straight over to Chris Evans to kick off.

- Q2 **Chris Evans:** I want to begin with you, Mr Bailey. Obviously, your sector has had a lot of the spotlight in the last couple of years. I want to refer to some of the key facts at the beginning of the Report. It says that 70% of customers in deprived areas use unarranged overdrafts. Is that acceptable? What are you doing to combat that?

Andrew Bailey: The number is accurate, and we do not regard that as a good outcome for consumers. Let me explain why. The reason is to do with the pricing of unarranged overdrafts, as opposed to arranged overdrafts. Our work would suggest that arranged overdrafts have reasonably logical pricing, in the sense that it is related to various measures of risk. In the pricing of unarranged overdrafts, we see no such relationship, and therefore the pricing distribution is much more random and tends to fall much more heavily on vulnerable members of society—particularly those who borrow relatively small amounts but use unarranged overdrafts to do so quite frequently. All the evidence suggests that that is quite common.

That is the backdrop to the proposals we have put forward to tie the pricing of unarranged overdrafts much more into the pricing of arranged overdrafts. We see that as a more rational pricing structure, which is related to measures of risk. We believe that the savings that could come to consumers from that are quite substantial. We are talking about something over £100 million a year from the rationalisation and reordering of the pricing mechanism. That is currently out for consultation. If I remember rightly, the consultation ends next month, and we will aim to make rules before the end of this year.

- Q3 **Chris Evans:** How confident are you that the industry will not push back against those proposals?

Andrew Bailey: Well, we have set out the case for what I might call simplicity—simple but logical pricing. Of course, put like that, who would possibly argue against it? I know that there are some members of the industry who take a different view and would like more complex pricing structures. We have taken a very strong view that we need simple pricing structures, for two reasons: so consumers can understand what they are paying, and so they can much more easily compare what they are paying with other providers. Obviously, it is important that I do not prejudge a consultation that is not yet completed, but I think the case we have put forward is strong.

- Q4 **Chris Evans:** But is not the nub of the problem that vulnerable customers in particular cannot compare providers? You talk about a complex system; this is going to make the issue even worse.

Andrew Bailey: If you don't mind me saying so, there are two nubs. One is that they are paying too much, and the other is that they cannot compare and therefore shop around.



Q5 Chris Evans: How much are you dedicating to educating vulnerable customers so that they can shop around and not pay too much?

Andrew Bailey: The education process will be much easier once the pricing structure is simpler and more rational. You might be aware that the Money Advice Service, which is not part of the FCA but is closely linked to it, has been reorganised recently, so we have got a new body there that has got quite sensible and ambitious plans on that front. I hope that with a more sensible and rational pricing structure, the education effort will be easier as well.

Q6 Chris Evans: I will come back to that. I want to go to Mr Nolan. I am looking at the same figures on page 4. You have a 92% reduction in the total number of electricity and gas disconnections. How many of those people are on meter tokens or prepaid meters? Do you know?

Dermot Nolan: I don't know the exact number, but it is a significant number of the reduction in disconnections that has occurred over the last 10 years. A significant fraction has been as a result of prepayment meter installation. Anticipating your next question, it can lead to the possibility of self-disconnection. If someone has a prepayment meter, it is, by and large, to be blunt, much better than their having no connection at all or having to go through the process of replacing a full credit meter, but there is still some evidence—not full levels of evidence; we are doing further work on this at the moment—that self-disconnection can still be an issue. We are studying this more intensively at the moment to try get further data on that. Precisely what steps we will take on that I cannot yet say, although we will consult on it in the near future.

By and large, self-disconnection can sometimes be a choice. From the data you get, someone may use less energy in a house. That might be because they are just budgeting more effectively. Sometimes consumer groups have said, "We want prepayment meters in quickly because it helps people deal with some of their problems and budgeting decisions." Otherwise it could be genuinely a vulnerable person who is turning down the heat in the winter, which is clearly an outcome that is very regrettable. We want to go further on that. Perhaps this is broadening the discussion too much at this point, but how far we go is something I am not fully sure about. Sorry, that sounds terribly vague, but one of the points about looking across the four regulators is that you have different situations.

In water you can never ever be disconnected, regardless of what you pay or don't pay. In energy it is very difficult. In mobile phones it is probably more straightforward. If you don't pay you will be disconnected. Quite how far we should go in this space to make sure that everybody always has an energy supply is something we are thinking further about. Whether or not we are straying effectively into the realms of policy is something that I am not sure of yet.

Q7 Chris Evans: When will you know the results of the consultation?



Dermot Nolan: We haven't formally consulted yet. We will consult over the next two or three months, and I think we will have conclusions before the end of the calendar year.

Q8 **Chris Evans:** How accurate is the data in the consultation?

Dermot Nolan: The data on disconnections is fully accurate. The data on prepayment meters is also accurate. What is more difficult to estimate accurately is whether people who reduce their usage—that is the only data we have; we also have survey data—do so for rational, sensible reasons, or whether they do it because they cannot afford it. There is a question of whether they are vulnerable or not as well. That data will never be perfect, but we will gather more of it and interpret it as best we can. Then we will produce recommendations and conclusions on it.

Q9 **Chair:** How are you gathering the data? What is the methodology? What are you doing to gather that data?

Dermot Nolan: To a large extent, it is surveys. We are talking to people with PPMs and trying to get data produced as a result of that. We talk to consumer groups and we also get overall patterns. What we cannot actually do, or what we have limited ability to do, is to match, because of data protection reasons, a specific meter to whether or not someone is, say, on benefits or something like that. That is something we have no legal power to do, rightly or wrongly, so it makes it slightly more difficult.

Q10 **Chris Evans:** Do you think you need legislation to do that?

Dermot Nolan: I will revert to you on this, but my understanding is that legislation in that area would be efficacious. It might also run the risk of conflicting with GDPR, and how that is equated is not something that I am fully legally clear on. Personally, I think legislation would be helpful in that regard, if it could manage the GDPR issue.

Q11 **Chris Evans:** Have you seen any regional variation in the usage of prepayment meters or on bills in general?

Dermot Nolan: On bills in general, in terms of prepayment meter usage there is slight variation. There is somewhat more prepayment usage in Wales and the north of Scotland. Within England, there is more limited variation. There is slightly increased usage in northern England, but not by a huge amount.

Q12 **Chris Evans:** It is interesting that Wales has the second highest bills in the country.

Dermot Nolan: A portion of the composition of an energy bill—just over 20%—is due to network charges, which vary by region. They tend to vary to reflect the geographical conditions—to a large extent, the topography and population density of any given area. There are roughly eight to 10 different regional areas. There are two in Wales and two in Scotland. In fact, the north Wales area runs into part of Liverpool. They were set at privatisation. Within a particular network company, there is an average level for that, and the average levels vary by region. The highest on



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average, perhaps unsurprisingly, is northern Scotland, because of the very limited population density. The gas connections, and particularly the electricity connections, have further to go, so the average cost per household is higher. I am not sure whether that is right or wrong, but it is a consequence of privatisation. It is very much the area we are in, and I think it would ultimately be a policy change.

Q13 Chris Evans: So is it fair to say that the most impoverished are paying the highest for their bills?

Dermot Nolan: Not necessarily, no. Within England, that is not necessarily true at all. For instance, London, which is probably the most affluent area in the country, although it has population densities that are clearly higher than most of the rest of the country, has network charges that are about average—maybe marginally above average—predominantly because of the various expenses of doing building works in London, compared with other areas. It is not perfect, but certainly in northern Scotland, charges are higher. Having said that, there is a general subsidy from the rest of the UK to northern Scotland, which ameliorates the effect there to some extent.

Q14 Chris Evans: Something I picked up with Mr Bailey earlier is education. Do you personally find it difficult to read your energy bill?

Dermot Nolan: I do not have an energy bill because I am a renter. I have been one for many years, and I have an arrangement with my landlord on that particular aspect of things. There are various rights that tenants have vis-à-vis that. Like many people, I am a renter. Some renters have energy bills and some do not. Notwithstanding that, I have looked at and read many energy bills, including those of many friends of mine. I do not say that I find it difficult when I apply myself to it, but I need to apply myself. That is a purely personal view, I should stress.

Q15 Chris Evans: Do you think it is particularly user-friendly, if you are a vulnerable customer and have some difficulty in some way?

Dermot Nolan: No, it is not terribly user-friendly. There are specific rules for vulnerable customers within any area of the energy sector, in the sense that all suppliers are required to deal with vulnerable customers and offer them an extra degree of protection. One of the problems can be identifying a vulnerable customer. Obviously, if you are not identified as such, you might be vulnerable and still have difficulties reading your bill. A number of steps have been taken in the last few years to protect vulnerable customers, including the imposition of a price cap, which covers the vast majority of vulnerable customers as we can measure them, which is not perfectly. That provides a basic level of protection and ensures that there is not an excessive tariff.

Q16 Chris Evans: But if you've got a real problem understanding your energy bill, how can you be confident that you are getting the best possible deal? You said yourself that you have to study energy bills very hard. How can you be confident that you are getting the best possible deal from your provider?

Dermot Nolan: Nobody is absolutely confident that they are getting the best deal for any of the services here, because of the way they are bought. We have seen changes in the pattern of the way that energy and other utilities—water probably less so—are bought in the last few years, whereby there is more and more use of price comparison websites. It varies slightly by sector, but many people use price comparison websites. They take their bill, put a number in and get something that splurges out a list of deals for them. They can switch online, and it is relatively straightforward. Some vulnerable people do that, but for those who do not have access to computers or the internet, that is much more difficult. For the majority of people, using price comparison websites has been relatively successful—not perfect, but relatively successful. It helps people to switch. For vulnerable people, it is more difficult, which is why there is a prepayment meter cap for them, as well as protections to ensure that all suppliers treat them appropriately.

Q17 **Chris Evans:** I would like to broaden the next question to the four panellists. What is your definition of a vulnerable customer?

Dermot Nolan: We have no perfect definition of a vulnerable customer in the sense that we say that a vulnerable customer is someone who is having difficulty accessing the market and accessing good deals. We explicitly say that we all can be vulnerable at different points in our lives. We all may be vulnerable at points and may require certain protections. We have a definition for a vulnerable customer, but it is a dynamic definition, which people can fall into and out of. It is up to us as regulators, and the companies that we regulate, to be cognisant of that and to take that into account.

Rachel Fletcher: Our definition would be similar. Obviously there is not a retail market for household customers in water, so vulnerability in terms of accessing the best deals does not apply. Equally, there is a recognition that anyone could be vulnerable at any point in their lives and need special assistance from their water company for something that is, after all, an absolutely essential product.

Andrew Bailey: In principle, our overarching definition is that due to their circumstances they are particularly vulnerable to detriment. A second leg of that is: especially when the firm that supplies the service is not acting with appropriate care.

Sharon White: It is very similar for us. Unusually for regulators, we set our own consumer rules. We introduced some new rules last October particularly to ensure that operators are treating vulnerable customers well and with support. Similarly to the other regulators, we look at both permanent circumstances—whether one is vulnerable by reasons of disability or age—and at dynamic circumstances, so life events such as bereavement. We are trying to capture in that both longer-term vulnerability and people who may be vulnerable at a particular point in time.

Q18 **Chris Evans:** I have some figures here—perhaps you can pick up on this,



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Mr Bailey—from our last PAC Report, in 2016, on mis-selling to consumers. It said that, on average, disabled people face additional costs related to “impairment or condition” of £583 a month and that “1 in 5 these costs add up to over £1,000 each month.” Those extra costs arise in regulated industries. What are you doing to address disabled people in this world?¹

Andrew Bailey: If I remember rightly—correct me if I am wrong—that was particularly a comment about insurance, wasn’t it?

Chris Evans: Yes.

Andrew Bailey: Subsequently we have done a piece of work with Macmillan, the cancer charity, taking that as a very good case study of access to insurance of people who either have cancer or are in remission from cancer. One of the reasons we did that was because we are aware that, although access to insurance is, in a way, becoming more straightforward for people in circumstances that are not vulnerable—price comparison websites are much more common now—for those who have specialist needs and need access to specialist risk management, specialist underwriting and an understanding of the risk involved, there was a very real sense in evidence that if anything it was becoming more difficult. That is a perverse outcome of it going the other way for the general public.

The work that we did highlighted that. We now have an arrangement and agreement with the industry. They have produced a guide to specialist insurance outlets, so that if you have particular needs you will find it easier to identify the underwriters and firms who are expert in your particular risk. We will keep that under review, because obviously the world moves on, but the particular need there was to identify access to specialist underwriting resource.

Q19 **Chris Evans:** Ofgem has found that elderly and lower social grade consumers are a third less likely than the average consumer to switch energy supplier. Is it correct that vulnerable customers are having difficulty in switching their energy supplier, and what are you doing to address it?

Dermot Nolan: Certainly, it was correct when it was produced, which was not that long ago. I will absolutely address the question. One thing I have learned over the last few years to some extent is that often an elderly person does not wish to be referred to as vulnerable. These labels can matter. Some are not vulnerable, but none the less switch less. On the other hand, some elderly people will switch quite a lot. That shows, to some extent, some of the difficulties. The broad pattern you referred to is quite accurate, which is one of the reasons why there is now a price cap—which we think, broadly, applies to nearly all vulnerable customers.

Price caps are not perfect by themselves, I freely confess. They certainly tend to have positive short-run effects, but in the long run they can be

¹ These figures appear in written evidence supplied to the Committee from Scope (CON0005).



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gamed and they can limit innovation and efficiency. Dealing with the potential removal of the price cap and finding satisfactory answers to the protection of vulnerable people is an absolute priority for Ofgem over the next two or three years, because at some point that and the more general price cap that the Government asked us to put in place will need to be removed.

My own view, for what it's worth, is that for vulnerable customers in energy—I am not necessarily speaking about any other sector—given the nature of the service, there will need to be some form of fairly significant long-run intervention in the sector, which might involve a price cap or a way in which people who are seen as vulnerable, elderly or with some issue in accessing the market will need a form of switching service. Probably some long-run intervention will be needed. The exact form and magnitude of that I cannot say to you, other than that it is a priority for us. We will publish some indications of it this year, but within the next 12 to 24 months we will have a potential replacement for the price caps currently in place, should they be removed.

Q20 Chair: You say, “should they be removed”—do you have any inside track there, Mr Nolan?

Dermot Nolan: In terms of legislation, two price caps are now being brought into consensus with each other—if I may use that phrase—in the sense that on the price cap that Parliament required Ofgem to introduce, we have to report to the Secretary of State on its efficacy in about 18 months' time. Then we make yearly reports, but it finishes at the end of 2023 regardless—that is a drop-dead date. As to what decisions the Secretary of State will make, obviously I cannot speak to that.

Q21 Chair: How quickly can you react to a change in policy? It is quite significant work involved for you to regulate that and to set it up as a system. Say you report in 18 months, saying it's not working, that there's some problem, and the Secretary of State agrees, saying, “We'll change it and do something different”. How long would it take to implement?

Dermot Nolan: It's a fair question. The legislation states that the Secretary of State may either maintain the cap or remove it; she or he cannot necessarily do anything else without further legislation. I think the sense will be that we say whether the cap is working effectively or not and, on that basis, make a recommendation for the Secretary of State—

Chair: That's quite quick, and you either have it or you don't, but the rest would then depend—you know how long we take to legislate here.

Dermot Nolan: Yes, but it is an absolute priority for us.

Q22 Chris Evans: Ms White, a sort of consensus is developing. The nub of this problem is digital exclusion. How are you ensuring that those vulnerable customers can access the internet, and have fast broadband speeds when they need to do so?

Sharon White: The nub of the issue in my sector is around access. We have set two overarching priorities for the next year, though I suspect that



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they will run for a number of years: first, to ensure that everyone has decent broadband or mobile wherever you are, whatever your circumstances are; and, secondly, we have a big programme on fairness for customers, which gets into the pricing issues that are broader than that.

It is a combination of issues, with some people finding that it is their individual circumstances and the support that they need. We are working with the industry, whether that is enabling people to have friends and relatives to help them navigate a quite complicated system, as my colleagues have already talked about. We know that, even when we put out information to help people, it is not very engaging even for people who are not in vulnerable circumstances. There is more to do there.

Alongside the Government, we are also implementing a number of measures to spread out connectivity and to reduce digital exclusion in different parts of the country. You will be familiar with something called a universal service obligation, which is basically a broadband guarantee. In the summer, we will say who is going to be providing that, and we will be getting them to work at quick speed to ensure that this gap starts to close.

The broader issue around digital inclusion and education you have picked up already. For our sector, that sits more squarely within the Department for Digital, Culture, Media and Sport, but we are doing our best to provide targeted support for vulnerable people. We need to accelerate the work to ensure that access to decent connectivity doesn't depend on your circumstances, but is a right for everybody.

Q23 Chris Evans: What discussions have you had with the Department about that?

Sharon White: We have had a number of discussions. For example, this broadband guarantee is a Government policy; they took legislation through over a year ago and we are implementing that with the industry, in close concert with the Department. Obviously, there is the big issue that we are talking about, which is the next range of technologies, be that 5G or fibre to the premises. We are trying to think now about how we ensure vulnerable people and excluded communities aren't at the back of the queue. We are talking to the industry, but there will also be some Government levers here to make sure that the vulnerable and those beyond that—probably about a third of the country—don't find that in five, six or seven years' time everybody else has got very high speeds. We are looking at a different model of regulating BT, to try to encourage them to provide connectivity in areas that are not necessarily commercially rewarding in the first instance.

Q24 Chris Evans: Ms Fletcher, the other three have the benefit in their sectors of an allowed switch. In the water industry, that is not the case; you don't have that lever. What are you doing to help vulnerable customers, particularly with water? We have already heard that you don't cut off water consumers, but they are still paying heavy prices. What are you doing to help them out?

Rachel Fletcher: About 12% of people struggle to pay their water bill, and we are not happy with that statistic. We set direct incentives and requirements on the water companies because, as you say, they are monopoly providers. Through that mechanism we can push—and we are pushing them hard—to improve their awareness of who is vulnerable among their customer base, to improve the services that they provide to vulnerable customers and to think actively about the financial support they are providing to customers who are struggling to pay.

Over the next five years we will be seeing a near doubling in the number of households that receive assistance in paying their water bill. We will also be seeing an increase in the support that is given to people that have problem debt. We are pushing the water companies very hard to work and partner up with others, whether that is the Money Advice Service or a local authority, to really help people who are in water debt, and who probably have other problem debts as well. We will work holistically to support people to get out of that debt, as well as providing support and financial support, to reduce the number of households that fall into debt in the first place.

- Q25 **Chris Evans:** Debt is extremely important. In the Report, Citizens Advice shows that if you are in trouble with one debt you are likely to be in trouble with at least three. What are you doing to address that problem debt within your sector? This question is to each of the panel; would you start, Mr Nolan?

Dermot Nolan: Most recent patterns of debt within the energy sector suggest that the number of people in debt is falling, but those people who have debts have slightly more acute debts—that is not in the Report specifically. In other words, fewer people are in debt but those who are have slightly worse debt. That is not a great situation. The trend has been for energy prices to rise over the last five to 10 years, which is deeply unfortunate but hard to do anything about. By and large, anybody who is in debt is offered a variety of things, such as a prepayment meter or a plan. All suppliers must allow people to get to a plan to repay their debt in a reasonable and equitable fashion. Sometimes that can work well, but sometimes it doesn't work perfectly. As a general principle, we have to see whether or not the majority of companies are doing enough to manage people with debt.

I will come to outside energy in a second, but within energy I would think, by and large, many companies are addressing the problem. One of the positive things in energy in the last four or five years has been that more companies have entered the market. Not all of those have dealt as well with vulnerable people and people in debt as they should have. That is something we are pursuing with a number of companies at the moment.

- Q26 **Chris Evans:** What is the minimum compensation you recommend if something goes wrong?

Dermot Nolan: If it goes wrong in debt or just in general?

Chris Evans: In general.



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Dermot Nolan: There are a variety of different compensation levels for certain things. I cannot recall all of them. Generally people can be compensated up to £50 or sometimes more depending on the situation. I will revert to you on that.

Q27 **Chris Evans:** Ms Fletcher, can you also tell me how much you recommend as the minimum compensation? I am going to keep asking the question.

Rachel Fletcher: We are working together, through the UK Regulators Network, to consider how we can learn from each other and work collectively, as regulators, to address some of the challenges that people in vulnerable circumstances have. Whether that's people who are struggling to pay and are in debt or whether it's people in other vulnerable circumstances, it is a big focus of the work that the UK Regulators Network is doing. It is fair to say that we do learn from each other. I know for a fact that Ofwat has learned from some of the work that Ofgem has done, and vice versa. The energy and water regulators are also working collectively—together—to push our regulated companies to be better at sharing the data that they hold about people in vulnerable circumstances, through a data-sharing exercise, which is one way of improving overall understanding of people who need special assistance.

Q28 **Chris Evans:** What is the minimum compensation?

Rachel Fletcher: As with energy, there are various ranges of compensation available, depending upon what has gone wrong. Ofwat has made a proposal to increase the compensation that customers get when they are off water supply, which is obviously not a pleasant experience. We have now pushed the minimum of that—that proposal will need to go through secondary legislation, but I am pleased to say that in the meantime most of the water companies have, on a voluntary basis, agreed to compensate people—put the compensation up to £30 for every 12 hours off supply. That is just one example. There are many other compensation rates.

Andrew Bailey: We work very closely on debt issues. We do not have a standard tariff, because it depends on the detriment. We have imposed redress schemes on some suppliers, particularly in the debt management area, where we found bad practices, but also, of course, people can complain to the firm, and the backstop is the Financial Ombudsman.

There are two things I would highlight, and both of these really have come out of the FCA taking over responsibility for regulating consumer credit, which happened in 2014. On the one hand, over the years since the implementation, particularly of the cap on payday lending, we have seen a reduction. If you look at the amount of overall problem debt that is reported by organisations like Citizens Advice and StepChange, really it falls into three categories. I think you may have mentioned this at the start. They are financial services, utilities and Government, both central and local. Post the payday cap, the proportion of that represented by the first one—financial services—has come down, which is what I would expect



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to see. However, there is another aspect of this, which we found when we took over regulation of consumer credit and which we were very unhappy about, which was firms in the commercial sector—I distinguish them from the charities—that were offering so-called debt management services to vulnerable people. They would essentially come and say, “I’ll take over managing your debts; you pay me the income,” and of course a large slice is taken en route. Frankly, I would say some particularly pernicious practices were going on in that area. That is where we have introduced some quite big redress schemes of our own. That is the other area that we have cracked down on in the post-2014 period.

Q29 Chris Evans: How much is the minimum compensation?

Andrew Bailey: It depends on the level of detriment.

Q30 Chair: It’s more of an adjudication process.

Andrew Bailey: Yes, it’s entirely calibrated to how much the consumer has suffered.

Sharon White: For broadband and mobile, debt levels tend to be lower than in the other sectors, but any debt is an issue. It’s about 2% unaffordability. People saying in the last 12 months that they have struggled to pay their bill has been pretty static and stable.

Q31 Chair: Is that because poorer consumers buy pay as you go?

Sharon White: I think that is predominantly the case, and although we are not a utility in the sense that your water being cut off is not the same as losing your mobile phone. Reaching emergency services and other public services is very important, and we are, with colleagues, doing much more work on debt than we have as an organisation in recent times. I would also say that we have the ability to regulate the dominant players in the sector, which is why a lot of our interaction is with BT and then in parts of the country, for example in Hull with a company called KCOM. We can require them to introduce social tariffs, which are basically discount rates. New European legislation on broadband is due to be brought into domestic legislation over the next year or so, and there is a question that we are discussing with the Government, because that looks as though it should give us the ability to require a greater number of operators effectively to introduce social tariffs or discount tariffs for those in difficult circumstances.

Q32 Chris Evans: Do you look at the compensation?

Sharon White: We have just introduced an automatic compensation scheme as of 1 April this year, which focuses on fault repairs not being done on time or an engineer failing to turn up. If an engineer does not turn up it is £25; if your installation does not happen on the day it is £5 a day; and if your fault is not repaired within two working days it is £8 a day thereafter.

Q33 Chris Evans: This is my final question for the four of you: there seems to be a disparity in what you are doing for people in debt, knowing already



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that Citizens Advice says that it will likely be in trouble with more than one of you. There is a disparity in the amount of compensation. If I may praise you, Mr Bailey, your FCA regime seems to be more robust than the other three. Why are consumers not getting the same level service from your industry as they are from the banking industry? Can you give me that answer? Surely they should expect the same level of service and compensation, based on how bad their experience has been? Why is there not a more joined-up approach?

Chair: Is it geographical area rather than an individual issue?

Dermot Nolan: I am not entirely sure. Certainly it is a fair question. I think the industries are somewhat different. The financial sector is quite different, and in water they are all regional monopolies, so that makes a slight difference. If you look at, say, telecoms and energy I am not entirely sure. We have converged somewhat over the past few years and we are sharing ideas with each other quite a bit more.

The problems people have are sometimes different. To be blunt, if your water is off, it is one of the worst things that can happen to you—it is probably worse than your mobile phone not being on—and you may need different measures to deal with that and perhaps more punitive reasons to limit it. The same is probably true of electricity, so you will never get exactly the same outcomes. I agree as a general principle that we should be doing more to have convergent outcomes across the sector and convergent levels of satisfaction across the different utility sectors.

Rachel Fletcher: One thing to flag is that I think Mr Bailey's answer reflects the fact that you have a Financial Ombudsman Service, which we do not have in water. There is no statutory body there to adjudicate and ensure that the compensation offered to customers is commensurate with the harm. The main tool that we have in water is the guaranteed standards, which are set out in legislation. They are broadly in line with the kind of inconvenience compensation given to customers in different sectors.

Q34 **Chris Evans:** That begs the question—do you want an ombudsman in the water sector?

Rachel Fletcher: Yes.

Dermot Nolan: Very briefly, there is an Energy Ombudsman, who is very active at the moment. There is no minimum; they sometimes give very substantial levels of compensation, but I think they work reasonably effectively.

Sharon White: We do not have a statutory compensation scheme for broadband. It is something we introduced with the industry, and indeed the industry has decided to step forward in a voluntary way. In determining the amounts, we did a huge amount of research with consumers to work through what the consumer detriment is, because in order to introduce the scheme we have to demonstrate that it is proportionate. My reflection would be that in terms of our co-ordination,



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given that so many vulnerable customers will be common to all of us, there is a question about data sharing and ensuring that we have a joined-up approach. Personally, I would say that is more important than whether one would necessarily expect to see absolutely standardised fixed rates of compensation across what are very different sectors.

- Q35 **Gareth Snell:** Briefly, on the point that you originally made, Ms Fletcher, and that you have just touched on, Ms White, about the fact that your overlapping customer base may have serious issues, particularly if they are vulnerable—you said, Ms Fletcher, that the regulator of regulators was looking at how regulators could work together to wrap around individual customers. I wonder what you are going to do that will compel those companies, through the data sharing, to take that activity seriously? I would presume, although I am happy to be proved wrong, that if a vulnerable customer is in debt to three of your regulated organisations, frankly the telecom company may not care whether the water debt is paid, because they want the debt paid to them, and vice versa. What is it that you are actually going to do and what is the timescale?

Dermot Nolan: It is difficult—this may sound as though I am making an excuse, but I hope I am not: data protection makes these issues very difficult. Specifically within water and energy, we have a project where all the water companies themselves and energy network companies attempt to share data on vulnerable customers with each other, so that if as a water company you know that this person is vulnerable, has a particular issue or needs some form of support, you are able to tell the energy company.

- Q36 **Chair:** And you're able to do that?

Dermot Nolan: No, we're finding it hugely difficult.

- Q37 **Chair:** Under the new data protection rules?

Dermot Nolan: Under new data protection.

- Q38 **Chair:** So it was all right under the old rules?

Dermot Nolan: It was sort of all right, at the risk of sounding slightly vague. It is much more difficult now.

- Q39 **Chair:** So now you have to have personal permission from the consumer, presumably?

Dermot Nolan: We have to have some form of consent, yes.

- Q40 **Chair:** And what is that—a simple form? How do you do that practically?

Dermot Nolan: We are trialling it at the moment, but something along the lines of a form—something that is probably more than verbal.

- Q41 **Chair:** Yes, so something with a signature?



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Dermot Nolan: Yes. But it is very difficult, given those rules, to then go further with, say, an insurance company or indeed a mobile phone company. It would be perhaps more difficult.

- Q42 **Chair:** Just to pick up on this, before I bring Mr Snell back in, if an operative from a company went to visit somebody because there was a problem and found that they were very vulnerable and therefore could be referred to social services, you could do that, because there would be an urgent need. There is a threshold above which you can share data, but not just because there is a debt problem—it would have to be other issues as well?

Dermot Nolan: Yes, absolutely.

- Q43 **Gareth Snell:** I would argue that those are two very different visions of the future: Ms Fletcher, you said you it was something you hoped to see through data sharing, and Mr Nolan, you are saying it is almost impossible to achieve.

Dermot Nolan: I would hope to see it too, but it is difficult.

- Q44 **Gareth Snell:** Which is it, and again, what is the timescale for this? Are there certain legislative things that you need? Are there certain new powers you would all like to have? If I am a vulnerable customer one day, what would you expect me to be able to see and have wrapped around me, and how are you going to ensure that the companies actually deliver on that, as opposed to signing up to a scheme and taking whichever data reason they choose to use as a hook to hang an excuse on?

Rachel Fletcher: We have required the energy and water companies to have implemented this data-sharing arrangement by 2020 next year. We have some trials under way at the moment; as Mr Nolan says, they are not straightforward, but we think there is still value in continuing, notwithstanding some of the data protection challenges to companies' sharing customer data with each other. We are expecting that to go ahead and to be making a difference—especially in water, frankly, where the companies are behind the energy companies in having a reasonable understanding of the customers in their patch who have vulnerable circumstances.

Andrew Bailey: Can I add two things from our perspective that are relevant to this? First, we are working and we will put out guidance this year on helping financial firms to identify vulnerable customers. You asked us earlier for our definitions and we all gave very high-level definitions; that was deliberate—certainly from my perspective—and that is what the umbrella is, but of course the real challenge is to put that into practice in terms of how you identify vulnerability. That is something I would imagine us all working together on through the regulatory network.

Secondly, owing much to our area, one thing that is very important across the board is that we have properly funded debt advice and that the charities that organise the debt advice services—Citizens Advice, the Debt



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Advisory Service and StepChange—are funded to do that. We recently had a review of the new Single Financial Guidance Body, which is providing debt advice across the piece. There is the whole question of how you ensure that nobody is trying to jump the queue in terms of preference, that people get debt plans that actually work out their debt problems, and that they get legal solutions where that is appropriate: this is where the debt advice charities are very important, in my view.

- Q45 Gareth Snell:** While that sounds, as regulators, good, my interest is in how you compel those companies that are providing those services—those utilities—to deliver on your aspiration, given that you will all be aware that if you are a customer that has debts, the first interest of the company, on a commercial basis, is to recover that debt? What is it that you are actually going to do? Your arsenal of tools to compel companies to do things is limited, so how will it be different from what is happening now? What will you as regulators be able to force companies to do so that the vulnerable consumer, whether they are in trouble with one provider or several, understands that the people around them are talking to each other to come to a solution that works for them and not necessarily for the individual parties who are chasing debts?

Chair: Who are you directing that to? All four?

Gareth Snell: Whoever wants to try to answer it. Whoever wants to offer a solution.

Chair: As Ms White is in a slightly different position, but it is more about utilities, we will start with Ms White, shall we, and work across?

Sharon White: As I was saying earlier, our key tool to compel companies is what we call general conditions, which essentially is consumer law that applies to telecoms companies. It is almost like a licence. It is a condition for operating in the UK. We have just revamped those conditions explicitly to bring in much stronger obligations to serve vulnerable customers well. Yes, there is the staging—which is your point—but the debt issue might be in a different sector. The next step for us in the conversation with mobile and broadband operators is precisely going to be this guidance, which gives them a more holistic picture. Vulnerability doesn't just sit within our sector, but sits across it.

Clearly, on our ability to compel a company to act on vulnerability on debt in another sector, it is not possible within the framework that we work; but this is a much more open conversation than we have had with the operators for many months.

I would just add—because I think there is a cultural point for our sector, as it starts to become more like an essential service, and less like a nice-to-have—that we are having a conversation with all the big operators about something we are calling a fairness commitment, which we hope all the big companies will sign up to, which is essentially fair treatment for all. Within that there is a big plank around having a culture in the industry of serving vulnerable customers more effectively.



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Andrew Bailey: We can do more, I suspect, to develop the consistency of the information we get back from the debt advisory charities. They can often say “This company is much harder to deal with than that company.” I am sure we can work more on that, because it goes across the board. They are also very aware of who is fastest to use bailiffs. Is the use of bailiffs appropriate, and how are they used? They have got a better sense of that than anybody I have met.

Chair: You can rack up the debt on a bad debt.

Andrew Bailey: Yes. I have to say they will often tell you that parts of government are the fastest to use bailiffs. They do quite consistently say that, although it is changing, I think. We can collectively get information from there and put it to use more effectively.

Rachel Fletcher: We have got different tools, actually, because the vast majority of the value chain in water is directly regulated by us. The companies know that the cost of chasing bad debt is much higher than the cost of helping people avoid getting into problem debt in the first place. That, alongside guidance that Ofwat and other bodies have issued on responsible ways to help people in debt, is driving a culture change in the sector. A month ago, the water industry as a whole made a public commitment to make bills affordable, at—as a minimum—no more than 5% of the disposable income for all households with water and sewage bills.

There is a growing recognition in the sector of the importance of helping people in debt. We are about to set price controls for companies, many of which have made specific commitments on helping customers with debt over the next five years. We have some examples of great practice, such as one company setting up a high-street shop where people can drop in and ask for advice. That very quickly attracted the local Citizens Advice service, Money Advice Service and other utilities and is providing some holistic support. As well as the price control incentives that we can apply as a regulator, I want to see us being better at highlighting best practice and perhaps highlighting less good practice across the sector, to drive a step up in improvement overall.

Gareth Snell: That is the point I was trying to get to, albeit somewhat contortedly. If somebody is in debt to a provider—to one of your regulated entities—and three of you see this person as not being vulnerable but one of your organisations does, presumably there is a possibility for that group to ask how you, as a sector that provides people with a consumable product, could help them out through the process, so that they do not end up as a vulnerable person on your books as well as on somebody else’s. I guess we are not quite there yet. I am finished, Chair.

Q46 **Bridget Phillipson:** On the energy industry, I just want to ask you, Mr Nolan, how helpful or otherwise the priority services register is in identifying, managing and supporting vulnerable customers. Does it work? Is it useful?



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Dermot Nolan: It is certainly useful. I would not say it works perfectly, but it is generally very effective in making network and supply companies aware of someone who has need for special services of some fashion. There is some evidence—this is a difficult thing to say—that it has almost become too large in the last few years. Almost everybody is a priority, which is very laudable in some ways but makes it far more difficult to work practicably.

Certainly, for a period of time, there was strong evidence that people on the priority services register were getting very good levels of service and protection—particularly if they were suffering from a disability or some kind of dementia issue, which is a growing problem—but not getting particularly low prices; they were often on bad deals. In some senses, the prepayment meter caps and various other things protected against that. Overall it is of value, but it is difficult to know who precisely to focus it on.

- Q47 **Bridget Phillipson:** How could you use it better if you have all this information, which as you say may be too plentiful? I appreciate that you talked earlier about data protection issues, but how can that be used with other datasets or information to try to build a better picture of the consumer base?

Dermot Nolan: Perhaps I was unclear in my earlier comments. I was saying that the energy industry has powers sufficient to deal with debt, although whether perfectly or not I do not know; we are certainly doing our best and will try to improve further. It is far more difficult to go across sectors. Frankly I have no legal basis to share evidence from the priority services register with, say, Sharon.

- Q48 **Bridget Phillipson:** Yet the same people who would potentially suffer the most detriment from loss of supply—would that apply whether it is water or electricity?

Dermot Nolan: There are repercussions. I remember, probably just before Andrew started in the FCA, when the payday lending cap came in and the amount coming through payday lending fell, which is probably a good thing, in my view. That had an effect. People were borrowing through payday lending to pay their bills, and when they could not borrow so much on payday lending they struggled more with other bills, at least for a period of time. There are repercussions, but the data implications are very difficult to resolve.

Andrew Bailey: That would explain why the mix of the three things that I mentioned that form debt—financial services, utilities and government—has shifted somewhat towards the other two and away from financial services. That is not the total explanation but it is a bit of it.

- Q49 **Chair:** Financial services could be managed debt, which is different.

Andrew Bailey: Yes, although I think Dermot was suggesting that taking out an expensive payday loan to stave off an energy bill problem is not the right answer.

- Q50 **Chair:** Well, it depends on what your options are for credit. I think we are



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a bunch of well-paid people in this room who can probably get credit more easily than some of our constituents—

Andrew Bailey: Certainly not at the price at that time, anyway.

Chair: There is a whole other debate there, which we will not go into.

Q51 **Bridget Phillipson:** I have just one final question on a slightly separate issue, but around data, and I want just to pick up the point you made there, Mr Nolan. What conversations are ongoing with the industry around data and sharing information—the growing wealth of information that we have around usage coming out of smart metering? I know that a number of suppliers have raised that whether we could better plan for peaks and troughs if that information were more broadly gathered.

Dermot Nolan: I think we can. Among other things—again, this is an important issue that Ofgem that is working on—the Government has set up an energy data taskforce, which is due to report in the next few weeks. The general principle, I think, will be that data is a) the customer's and b) if the customer consents, publicly available to all, and not necessarily the supplier's or network company's. That is the guiding principle that will take us forward.

Q52 **Nigel Mills:** How do you ensure that when you are data sharing for vulnerable people to try to give them more support it does not accidentally end up putting them at a disadvantage? If I am struggling with my finances and decide not to pay my mobile phone bill for a few days while I get some more money, I probably would not be too keen on their ringing up my energy company and my water company and saying, "This person is not paying their bills." That has some risk of my going on to a more penal tariff or something, and my risk rating going the wrong way. How do you ensure that this is used for a positive experience for people and that it does not end up costing them more?

Dermot Nolan: We have not got to that point yet. As I said, at the moment the difficulties are quite considerable, apart from the pilot scheme that Rachel's and my organisations are working on. It would genuinely be a concern. Ultimately, whatever is done vis-à-vis data sharing would have to be done by consent. I don't think there would be any way around that in terms of GDPR. If a person said, "If I am perceived as vulnerable or a late payer and need to be helped by my energy company, I absolutely do not give you permission to share this with my water company."

Q53 **Chair:** If you think about the Money Advice Service, once someone is referred there and they get a reference number, suddenly all the creditors are in a much more relaxed position because they know that person has the help to manage their way through. So what happens now if someone is in debt to each of you? Do you get the companies to refer them to the Money Advice Service or another debt advice agency?

Dermot Nolan: Yes, quite a lot, certainly in energy.

Q54 **Chair:** Do you do that with water, Ms Fletcher?



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Rachel Fletcher: Yes. As I said, they do work very closely with the Money Advice Service.

Andrew Bailey: We encourage that, yes.

Q55 **Chair:** You would encourage it, but it is slightly different in your sector.

Andrew Bailey: No, it happens.

Sharon White: As I say, our sector has just very recently started to wake up to the fact that we are an essential service. We are lucky to be in the position of learning from colleagues.

Q56 **Nigel Mills:** And you can't fix this GDPR problem by having it on page 27 of those conditions that I never read when I take out a new contract, saying that you can share my data on non-payment with whoever or whatever you like. That might legally get you the consent, but it does not seem to be a very transparent way of doing it.

Dermot Nolan: At the risk of sounding like a nerd, what we need is an opt-in rather than an opt-out.

Nigel Mills: So it could not just be a default condition.

Q57 **Chair:** Ms White, you were saying, "We're not a utility," at one point but, as you just said, broadband, mobile and connectivity is fast becoming a utility. One thing I want to pick up on, particularly with Ofgem and Ofcom, is about when a new housing development is built—I represent a borough where there has been rather a lot of that recently. You get the water because of the water monopoly, you get the energy supplier that the developer wants, and you very often get no broadband at all because no deal is done with a broadband provider, or there is a deal, sometimes retrospectively. Maybe with newer developments it is coming in, but it has been a big problem in my constituency and, I know, elsewhere. Do you think there is anything you can learn from each other about where you fit in to the planning system for these pretty essential services? This doesn't really cover Mr Bailey—I think he is off the hook on this one.

Sharon White: What is interesting about our sector is that compared with having a conversation five, six or seven years ago, the idea now is that it is very difficult to live your life without a functioning smartphone. So we are a utility in the sense of being essentially, but not a utility in the sense of the monopoly market structure, because obviously there is a lot of competition and a lot of technological disruption.

The question about universal access gets you straight into the issue of housing developments, and certainly I have had conversations with Openreach, BT's network arm, although less about whether there is a connection and more about whether the connections that are getting put in place are being done quickly enough and reliably enough, and also with the fastest, future-proof speeds. This is as much a conversation with Government, as you say, around planning, because it is not yet the case that, by right, new housing developments are getting fibre all the way to the doorstep, even though that is a national priority.



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Q58 **Chair:** And people do tend to expect it. So is there anything that you need or would like as a power? Is this just a matter for the Government to decide and then you to work on, or are you lobbying Government on this?

Sharon White: As you say, it's very much a tripartite conversation between the companies, ourselves and Government. Again, what is interesting, as a reflection of the competition, is that there are now some specialist broadband operators that are particularly targeting new developments and flat developments. Hyperoptic is a very good example. It is backed by George Soros and now has a very good business model, which is effectively filling this gap. But there is definitely more to be done to ensure that it is a right and there is automaticity, compared with the current circumstance.

Q59 **Chair:** That brings me to you, Mr Nolan, in energy. Is there any power you have to make sure that developers are working with a reasonable energy supplier? They could, perhaps even by accident, pick the most expensive in an area.

Dermot Nolan: I have two points on that. One would be that the network connections are not by the supplier itself; they're by the energy network company, and they are sort of quasi-regional monopolies. They are the ones that interact with the developers. Performance on that five or six years ago was, frankly, rather iffy, but has improved fairly significantly over the last few years.

Q60 **Chair:** When you say "improved", what do you mean? What would you measure?

Dermot Nolan: Time required. I don't have the exact figures in front of me, but the time required to actually make the connection—so if a new housing estate is being put in, when the developer wants the connection ready.

Q61 **Chair:** So it is the relationship between the developer and the physical inputting of the thing. What about the end consumer?

Dermot Nolan: The consumer at the end of it? One thing that is different from broadband is that, in some sense, electricity is, without being too bland, relatively homogenous. Everybody is entitled to a supply of electricity of a certain quality, and if they don't get it, they can be—

Q62 **Chair:** It's the cost, isn't it?

Dermot Nolan: It is partially the cost, but again, these are averaged. I said earlier that the network is actually averaged across a particular region, so the cost for any individual person doesn't vary—they are averaged across anyone in, say, the Greater London area or northern Scotland. It depends on the region, and the region, as I said, was determined, rightly or wrongly, at privatisation.

There is a specific point about heat and access to heat. I think 83% of British people get their heat through gas, and by and large gas networks



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have probably on average cheaper and more reliable sources of heat than, say, bulk burning oil or fuel of other sorts. One of the issues we are trying to grapple with at the moment, though, is whether to allow for further extension of the gas network in an environment where we are also seeking to decarbonise. Trading those issues off against each other is proving something of a challenge at the moment.

- Q63 **Chair:** But what about—I should declare an interest as a leaseholder myself—if you are a leaseholder in a large block? My constituency has a lot of these; it is less the case in Stoke, I suspect. You have consumers coming into their nice new flat, as a tenant or an owner. They assume they are going to have broadband and, as Ms White said, there are plenty of people trying to break into that now, although that wasn't the case always. And they get their first energy bill. They have no choice over the supplier, no choice over whom the developer has chosen to pair up with. Is there anything that you do or would like to do to make sure that where there is so little consumer choice, you are really protecting the interests of those consumers who are faced with a small monopoly provider, in effect?

Dermot Nolan: I have two point on that. First, for all electricity and for the majority of, certainly, gas heating systems, you will have choice. You may have a supplier, but you can switch; you are always entitled to switch. The exception to that is something that is probably limited in scope at the moment but will increase. The Competition and Markets Authority recently did a study of what are called heat networks. They are things that occur in London, and are basically small monopolies in a particular housing block or housing area, where someone has a heat network, which can often be low carbon and therefore is seen as a desirable solution in that sense, but they are local monopolies. The CMA, to be blunt, did a study of it and recommended that ex ante regulation be put in place.

- Q64 **Chair:** So where are you at with those conversations?

Dermot Nolan: We are working with the Department on it. It will obviously require primary legislation and will not be straightforward, but we are working with the Department on that. I would assume legislation will come forth at some point.

- Q65 **Chair:** That will be interesting to watch, because of the tariff on solar. Where they are using green energy, there could be interesting issues or tensions. Do you want to give us a few examples of the main issues that you are having to deal with in trying to work out how you are going to regulate that added complexity to the market you have already?

Dermot Nolan: Are you talking about solar connections?

Chair: No, the local energy networks, because that is quite an interesting example.

Dermot Nolan: One would be, how do we charge a price? Do we charge a comparable price for gas, when in fact the costs vary enormously? A second would be, what levels of consumer protection should we have?



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Should they have exactly the same levels of consumer protection as anyone has with heat and electricity—that is, it is very hard to disconnect them or cut them off, even in the case of non-payment? A third would be, should they have the right in some fashion, which is very hard technically, to switch? Even if they are happy with price, if they are not happy with it, can we find a solution that involves them switching if they just do not like that entity? But that is very hard to do, given the technical situation.

- Q66 **Chair:** We will get on to what legislation you might want later on. I wanted to pick up on how you are sharing information between you. Coming out so far, we have talked about the consumer rules and things about mis-selling. At one point, Mr Bailey, about vulnerable customers, you said, “I imagine we’ll all be working together on this.” How often do you all meet together, except in this happy space of the Public Accounts Committee—at your level? Obviously, we have heard about Ofwat and Ofgem working together, but do you ever meet together, the four of you? When do you four meet again?

Dermot Nolan: In thunder, lightning, or in rain—none of the above, I think.

Chair: None of you is saying, “Yes, we have dinner together every week.” I am not suggesting that.

Dermot Nolan: We don’t do that. As has been referred to, there is a network called the UK Regulators Network—perhaps not the most original of names—which consists of the four of us plus a variety of other regulatory bodies and which meets regularly. It has senior representatives who are senior figures from our organisations who meet, I think, 10 times a year, and CEOs meet three to four times a year. We are generally there; not everybody is there.

- Q67 **Chair:** So you meet three or four times a year then?

Dermot Nolan: Usually. We would not always be there, but we would generally mostly be there.

- Q68 **Chair:** What have you got out of that? Have you found times when you have thrown something into the mix and come out with a solution that you think you have learned from each other on? Can you give us some examples? Any takers?

Dermot Nolan: I don’t know if there has been—

Chair: Mr Nolan, you’re speaking a lot. Go ahead, but I am hoping that—

Dermot Nolan: I am used to being asked a lot of questions. Any time I have been in Select Committees in the past, I have been solo.

Chair: Fair enough. You offer up something. The others are not jumping forward, so I am just encouraging them.

Dermot Nolan: No, I shall yield to my colleagues.

Sharon White: There is a practical issue at the moment with the Office of the Public Guardian and the question about power of attorney and making sure that, across all our sectors, it is dealt with very smoothly. I would actually say that, for Ofcom, my group director for competition, Jonathan Oxley, is the current UKRN head, so he tends to be more personally facing into this.

The issues of vulnerability that we are discussing today are very much the key priorities for us to try to crack more effectively over the next 12 to 18 months. I do not know if my colleagues would agree, but that is the area that we are really trying to work through—trying to crack those difficult issues around data sharing, so we can more effectively support consumers. My sense is that it has actually been an effective forum for sharing good practice.

Rachel Fletcher: I agree with that. At the moment, we are focusing our minds on scoping out that joint work on vulnerability that I talked about earlier, sharing general reflections around big data and the challenges and opportunities with big data for us as regulators, and indeed working with some of the data regulators as well. UKRN has just expanded to include some of the data regulators² so that we can work through some of the data protection issues and see how they bump up against some of the utility regulation issues.

Q69 **Chair:** More generally, then, what we have noticed and what the NAO Report draws out quite neatly is that you do not have any overall outcomes that you set up for what you are trying to achieve for consumers. You have broad mission statements and your annual reports are there, but if I were trying to measure you like you are trying to measure the companies you are regulating—we did a bit of mystery shopping as an exercise on the websites, which Mr Evans might go into a bit more—it would not be easy to say, “Aha, the FCA set these criteria and it met x, y and z, but it failed a little on y, or on a, b, or c,” or whatever, and the same for Ofwat. It is not easy to measure that. Perhaps we can go through you all. How are you working out how you assess yourselves and how others can assess you? We will start with Ms White.

Sharon White: That is a fair point. There are maybe two or three things to say on our side. One is that we have not in the past systematically done, “We introduced an intervention. Has it worked, or has it not worked?” The FCA, Andrew and his team have been much further ahead than us, and we are now planning to do serious evaluations of two or three of our interventions on an annual basis. We have already said that our new scheme for automatic compensation will be looked at in detail next year.

There is also the really difficult question: we are all trying to drive better outcomes for consumers, with different levers and measures, but how can

² Note from Ofwat: UKRN has expanded to include the Information Commissioner’s Office.



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we then set whether they are targets or indicative indicators that are meaningful but also help to drive performance and better accountability? We have some work under way to try to develop some measures that feel real to consumers—better access, more affordable prices and so on. My one note of caution, partly with my old Treasury hat on from the days of public service agreements—

Chair: You can take the woman out of the Treasury—

Sharon White: I know. It is very easy to set targets, and in the world in which we operate, your levers are not very deterministic, because you are essentially setting a rule for us and we are often working with competing companies, often with lots of merger and acquisition activity, and you are hoping at the end of the sausage machine you can sort of point to victory and to success. For us, when we set out these indicators, it has to be in the context of understanding that these are quite complicated processes. Yes, more accountability, but the context is that these processes are not brilliant.

Q70 **Chair:** I think we would all agree and understand that if one year you said you were going to do this in 12 months, it might not always be 12 months. Can you point us to where Ofcom, in your case, sets out your long-range vision? You have set out some of it today, but can you say where it is laid out clearly and where you have set milestones that are clear and public about where you hope to be? Things don't always go to plan, but knowing where you hope to be in one, three or four years' time will help consumers, and help suppliers to move into the place where you want them to be with consumers.

Sharon White: I agree. There is definitely more to be done. Our annual plan is now a pretty good articulation of the priorities.

Q71 **Chair:** Where can we find your annual plan?

Sharon White: We just published the latest version in April, and that talks about fairness, universal access and some of the work we are doing on security and broadcasting. We then also publish a lot of data about what improvements are happening for consumers in the market. What the NAO and the Committee are right to alight on is that we are not then very good at telling the joined-up story about what we do, what outcomes we are trying to seek, and what the milestones are along the way. That is something we will set out in our next annual plan in 2022.

Q72 **Chair:** So your annual plan is different from your annual report?

Sharon White: It is.

Q73 **Chair:** Your annual report is on the website; where is the annual plan?

Sharon White: The annual plan is also on the website.

Chair: It is on the website. Okay, I haven't found that yet—I will go and have a look.

Sharon White: It is a good read.

Q74 **Chair:** I will take your recommendation. Mr Bailey?

Andrew Bailey: It is very kind of Sharon to say that we are further advanced; I would not want to say that we are too far on, actually. We have introduced a programme of evaluations of measures we have taken. Obviously, we do cost-benefit at the time that we introduce measures, and the idea about doing the evaluation is that after a sensible but not too long period we go back and say, "Has it worked out as we thought it would?" with the particular bent of trying to do quantification at that point. We have historically done reviews of implementation, but they have tended to be more words than numbers. We did three last year, and will certainly do the same number this year.

The second thing we have done is to introduce something called sector views, which are on our website. We publish them every year. The idea there is that we have a very big landscape, so we have divided it up into seven sectors and asked what do we identify in those sectors as the issues that come under our objectives, and what have we done? That then feeds into our business plan, which we publish every year and is also on our website. That is the process of prioritisation. To be honest with you, the challenge we face in something like that is trying to identify the effects of our actions versus the fact that the world moves on. While we are measuring the effects of our actions, the world around us changes. Stripping those two things out and identifying what we have contributed to and what has moved on in the meantime is inherently quite hard.

Finally, like others—the NAO Report referred to this—we do produce assessments, particularly in our annual report, but we are working on that to improve it. We take the challenge that you set out in your question that we can do more on that front to provide assessment of the effectiveness of our actions.

Rachel Fletcher: I agree with a lot of what has been said already. Ofwat does reviews of the big price controls that we carry out every five years, and that informs how we set and design future price reviews, but we would like to expand that approach, post-implementation review, but to be more across the various policy levers that we use.

I think the NAO is right to alight on the fact that we are not very clear or consistent in reporting on outcomes. We have in the past 12 months or so set ourselves some high-level outcomes as a regulator. We are now aiming to have a dashboard that we report on annually in our annual report around those outcomes. We have already met as regulators to learn from each other about that outcome reporting, of course with the caveats that have already been mentioned about the fact that we do not have direct control over some of the things that we are regulating.

The other thing that we are doing in Ofwat is that some of the long-term targets for the water sector involve us being joined up with other water regulators—the Environment Agency and the Drinking Water Inspectorate—and we have already started work with them and the Departments in England and Wales to set some longer term targets

beyond the next five-years horizon for the sector. That also becomes a useful framework for reporting, and we will need to look at milestones, particularly if we are looking at a 25-year horizon.

I think the last thing is that you alluded to, "Wouldn't it be great if customers could look across our sectors and see whether things are better in water, energy or whatever?" That was a challenge in the NAO Report, too. Just as we have met to learn from each other about outcome reporting, we are also having discussions about whether there are some at least methodological similarities that we could be using, even if we cannot come up with cross-sectoral targets that make sense.

Q75 Chair: It seems sensible to share good methodology so that you do not have to repeatedly go back. You are not doing that at the moment.

Rachel Fletcher: We have just started doing that.

Dermot Nolan: We have a strategy—a five-year strategy. We are currently rebuilding that. We will release a strategic vision again by the end of the summer. It talks about high-level outcomes to achieve over the next three to five years. They are high-level. I accept that and I accept the NAO's comments that that can seem irritatingly vague at times. One point is that I referred earlier to the retail price cap in energy; if that is indeed at some point to be removed, we would require a very precise set of conditions with how we thought the residential energy market was working. That will rightly force us to be very specific and relatively prescriptive.

If I can make two other brief points, one is that in terms of the overall impact, some of the thrust of the Report was saying, "We know it is difficult to measure your own impact as regulators, but there is no point just saying it is difficult. Try."

Q76 Chair: You have anticipated my next question.

Dermot Nolan: We have made some progress in that. Within Ofgem we have published one—we are about to publish our second—consumer impact report. It is an attempt to quantify the effect of Ofgem's interventions over the past year. That was to some extent using a methodology that is similar to that chosen by the Competition and Markets Authority, which has been doing this for four or five years. We published something saying: this is an actual numerical attempt to model how much every £1 we spend affects consumers, and what multiple—hopefully a high multiple—thereof. There are all kinds of potential pitfalls with the methodology; none the less I think it is the best we can do, and it is peer reviewed.

Also, partially as a result of discussing it with the NAO—I think we had started anyway—the FCA issues ex post reviews of particular areas and we published our first one of those about two days ago, on interventions that we made into the small business market in energy. Did it work? To what extent did it work? We will do more of those in the time to come.



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Q77 Chair: There is a couple of things that people are learning from. Ms Fletcher, you mentioned the dashboard. Without that, how do you know whether you are aiming for the right area? Do you wait till it flags up in the news, or you get contacts from the consumer bodies, or there is a furore in Parliament because people have been having problems with something? How do you pick up the issues if you do not have a dashboard that is showing you a sudden leap in disconnections or a problem with people being cut off from their phones through misunderstandings or whatever? Where do you pick that up if you do not have the dashboard?

Rachel Fletcher: Certainly, in water we have that at an individual company level, which has its uses.

Q78 Chair: That is not public.

Rachel Fletcher: That is public, but there are 17 water companies across England and Wales, so it is not very digestible for the customer who wants to know in general how effective the regulator is and the water companies are. We would be able to pick that up through that company level data.

Q79 Chair: And trends.

Rachel Fletcher: And trends, but I think having sector-wide dashboard and performance indicators help us, as a regulator, to figure out whether we are using our resources appropriately.

Q80 Chair: It also gives important information to consumers, doesn't it? Ms White, what about at Ofcom?

Sharon White: We have dashboards that are viewed internally. There is a version that goes to our board, and a version that our exec committee scrutinises, which the NAO Report picks up. It looks really at the level of intervention—whether the intervention itself is on track and whether consumer outcomes are flashing green, amber or red. Like Rachel, I think our challenge then is to turn what works well for a management information pack into something that then enables us to hold ourselves more properly to account to the public and to consumers. That is the work over the next few months.

Andrew Bailey: Yes, we have something very similar. We have internal management information sharing. That goes to the executive committee and to the board. We try then, as I mentioned earlier, to translate that into something that is, I hope, more useful for the outside world, particularly through the sector views. That is part of our own prioritisation process. We use a very large range of information sources to do that, and we are open to almost any information source to get that.

One of the helpful things about sector views is that they raise it up to the level of sectors. It is therefore a more succinct summary. It also gets us round some of the problems that we would have through the way in which the legislation works. If we tried to do that at the firm level, as a supervisor of firms we have a confidentiality restriction in terms of the way

the legislation works, so raising it up to the sector level is helpful in that sense.

- Q81 **Chair:** Do you all have the same confidentiality rules on relationships with businesses, or is it just really an FCA thing?

Dermot Nolan: I don't believe we have exactly the same, but we would have commercial confidentiality issues. It is similar enough in many ways in the sense that one particular pattern is that we have regular meetings with the Energy Ombudsman, who I referred to earlier, to see what they are finding out within the market. What are the patterns of events there? What do they think the coming patterns are? We can find out about those relatively easily, and then try to do something about them.

- Q82 **Chair:** Of course, they are only getting the most difficult cases, aren't they? That could skew it.

Dermot Nolan: It skews it a bit, but we also talk to Citizens Advice fairly regularly, and the extra help unit in particular. They tend to be more the acute cases as well. They are getting more difficult cases. There is a reasonable congruence of patterns. They may get the more difficult cases, but they do not get all the difficult cases of one type of issue, if you know what I mean. I think that is reasonably positive.

We published about 10 documents last year that related to consumers specifically and gave them a picture of the market. As for how well read or used they are, they are reasonably well read but perhaps not as much as we would like. As with others, every month an eight to 10-page paper of patterns in the market is presented to the board and discussed.

- Q83 **Chair:** You are getting a lot of data, but I guess I am a little puzzled about why more of that is not easily digestible publicly. We as Parliament have to hold you to account; it helps us, but it also helps the average consumer.

The other thing that I would say is that you are quite good at understanding what the issues are for consumers, but you do not seem to be using that data to say, "We missed a big one there—whoops!", or "We anticipated the problem, so it was not as big as it could have been." Have you given any thought to incorporating the data that you are getting from consumers and their experience into your public metrics about how well you are doing? The disconnection is an interesting and subtle one. You could look at it both ways, but there is a definite shift there—I am thinking of Ofgem in particular.

Dermot Nolan: Speaking as the energy regulator, I am not sure if we are doing that terribly well—I am not sure if I have a very good answer to give you. I see the point that you are making. I do think that we try to respond to the data that is there and prioritise it, as was said by others: "Right, these are the issues—we need to do something about them." We can do that via direct compliance work, by enforcement and ultimately fining someone, or sometimes just by ringing someone and shouting down the phone and saying, "Stop doing this or we will come after you," which happens quite a lot.



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Whether we measure the effect of monitoring and compliance very well, I do not know. I referred to the quantitative aspects earlier, but they do not attempt to measure the quantitative benefits of compliance work. That is a slight problem: it is very hard to quantify.

Andrew Bailey: We have a particular challenge on this front, and we are going to do something about it this summer. We have what is called a perimeter of regulation. The way the legislation works—it is not quite this simple, although I wish it were, but it is a good description—is that activities are designated as within our perimeter of regulation. Parliament can change those activities, which are set out in something called the regulated activities order. The sum of those activities defines the perimeter.

The perimeter is one of the things that ties together many of the most problematic activities that we deal with—not because it is bad, but because you get things that are sitting right on the edge of it, have migrated over it as an arbitrage away from our regulatory regime, or are outside it because the perimeter was designed for a world that no longer exists. Crypto-assets are a case in point. Marketing on the internet is a big issue for us: how do we have a line of sight on that? We have a programme to invest quite substantially in data analytics.

What we are going to do this year—we did it a little bit for the Treasury Committee about 18 months ago, when I wrote it a letter setting out where I thought we were with the perimeter—is produce out of that, very helpfully I think, an annual report on the perimeter. My aim there is to set things out for Parliament and the Government and say, “This is what we are seeing in terms of the problematic issues at the perimeter.” Sometimes that is because things are migrating across it. That is why the Treasury has been consulting on funeral plans, for instance: they were brought within the perimeter but there was a way of doing it that was outside the perimeter, and guess what happened—they are outside the perimeter.

Crypto-assets descend on a world that was designed for a different place; frankly, the regime is so complex that you can do things that are largely outside the perimeter but that have an impact on the world inside it. From our point of view and, I hope, the point of view of others, setting this all out and drawing conclusions from it will be a useful undertaking.

Sharon White: We do not have the same boundary issues as Andrew, but I think what we have done less well is explain publicly how we have developed new priorities based on changing circumstances and changing issues in the markets. I do not think that we have exposed publicly, in the way that you have set out, some of the thought processes that we go through internally as an exec. Drawing on the work of the NAO, our plan is to use next the annual plan to say, “In the previous year we said we were going to do the following. This is what we have achieved and this is what we haven’t achieved. These are some of the metrics in the basket of indicators that we are going to use going forward.” We will set out more of

a framework so that Parliament and consumers can trace a little bit more effectively—

Q84 Chair: As Mr Bailey has outlined, if you were chief exec five years ago, you would be dealing with quite a different case.

Sharon White: We haven't talked about half of what we do as a regulator. We also regulate the media, the BBC aspects of online and post, so if we had a framework set out not just for consumers of broadband and mobile, but also audiences and listeners of UK broadcasting, I think we could do a better job of enabling the public to hold us to account.

Rachel Fletcher: We have information about what customers tell us and what they tell the statutory consumer advocate in water. It is just not brought together coherently. That is a takeaway for us following on from the NAO Report, both to allow us to be held to account publicly and, much more practically, to help drive our own priorities. We are a small regulator making decisions all the time about how we use our time and our money. It is one of the biggest challenges that we have. Picking up on what Sharon said about having a clear framework about how you make decisions and linking it back to what you hear from the public through various forums, that is something that we could be better at.

Q85 Chair: I suppose you would expect this of the sectors that you regulate, so it is about whether you match up to that.

My last question is hopefully a quick one. We have talked about sharing good practice. There has been quite a lot of good work done to improve the readability of bills and so on, but it is not universal across your sectors. In terms of that basic information for consumers in the moment that they consume and pay for it, have either of you got any plans to improve that, and which sector do you think does it best so far? If you think you have got it best, what were the challenges getting there? Let us start with Mr Bailey because we know there have been a lot of changes in financial reporting in recent years.

Andrew Bailey: We do not have bills in quite the same way, but—

Chair: Bank statements. The annual summary and that sort of thing.

Andrew Bailey: We have this issue. We have done a certain amount of work and have discussed with the Treasury Committee numerous times the way in which firms present their information. Frankly, more can be done.

Q86 Chair: I am aware of some of the work that Charlie Elphicke does on that Committee. Did you find resistance when you tried to drive some of the changes through in the sector?

Andrew Bailey: Which changes?

Chair: The changes to how bills were presented and how financial information was presented to consumers on their bills: annual interest rates, annual summary and things like that.



Andrew Bailey: Oh, yes. It goes back to the discussion that we had at the beginning on overdrafts. I don't want to generalise here, but in some parts they were making it as complicated as possible, so it was as hard to understand as possible. There is no question about that. One of the things that we do consistently with the measures that we use on information provision is to simplify the presentation of information. We sometimes get into a wrestle with parts of the industry when they say we have oversimplified. That happens, but there is no question that if you leave it to—

Q87 Chair: What are your tips to your fellow regulators about how to approach this in their sectors?

Andrew Bailey: One thing we always aim to do is to make sure that—obviously, we are working in a world of many suppliers; most of our world has competition in it—it is comparable. That's the first thing. For instance, when people quote interest rates on the cost of things, we make sure they are comparable.

The second thing we have done is to invest in a lot of behavioural economics to understand what indicators the public respond to. A good example was the measure we introduced on general insurance pricing. This is all tied up with this thing that we are now putting a lot of work into, which tends to get called the loyalty premium. If you get presented with information by your insurer when they offer you the renewal, what do you most easily respond to, in terms of the thing that is the most meaningful? The answer we got back from the public, generally, was "Tell me what I paid last year and line it up against what you are proposing I pay this year." Even there, though, you have to be careful. I have to say, there are some suppliers who then try to subtly change the nature of the contract.

Q88 Chair: So that behavioural economics thing is really a tip you are giving.

Andrew Bailey: Yes.

Chair: A nudge.

Andrew Bailey: Yes, it is nudge work, really; that is the term to use. However, I have to tell you that that work on what we tend to call fair pricing and the loyalty premium is by no means over. I think that does go across us, actually; what we do about it is a big issue. We are keen to use those sorts of information tools to improve public understanding of what they are paying and what they are getting.

Sharon White: On what we have learned from other sectors, the issue for us tends to be less the complexity of bills, and more the complexity of bundled contracts, how much data there is, "Is my contract coming to the end?", and so on. A number of my colleagues already have rules around end-of-contract notifications: "My contract's about to come to an end. There's a very clear statement of when it's going to end, and also what the best tariff fee available to me from my current provider is."

We are about to introduce those rules, having looked very carefully—not least with Dermot's team on the energy side—because also taking into

account behavioural economics, we know that how that communication is framed, what channel that communication is, and how these things are presented and set out can have a material impact as to whether somebody switches or not.

Dermot Nolan: We've never found the holy grail on bills themselves, but we have tried a number of different formats of gradually improving things. By and large, companies will still—given the point made earlier—have commercial imperatives to try and minimise your probability of switching, because by and large they do not want people switching from them. We have improved bill presentation a fair amount, but it is far from perfect, as was commented earlier.

I have two other points, briefly. One issue about bills is that obviously, many people are now getting digital bills or no bills. That is more and more common, and it is fine for them, but for people who aren't so digitally aware, it is less fine. The final comment is just on the nudge stuff. Frankly, we have shamelessly stolen from Andrew's colleagues in terms of all their behavioural economics stuff.

Chair: We think that's excellent.

Andrew Bailey: You guys always poach.

Chair: That's why all four of you are here together.

Dermot Nolan: In that sense, the FCA was one of the pioneers in this area, and has done a lot of research on it. We have taken a lot of its insights and tried to apply them in different ways in the energy sector. We found a number of nudges. The most effective nudge we have found so far is something called a collective switch, where somebody tries to sign up maybe 5,000 or 6,000 people en masse. We hope we will be rolling that out more strongly in future.

The loyalty premium Andrew referred to is across all four sectors, and may frankly be more prevalent in the economy as a whole. As we buy more and more digitally, people will find out more information about us and present us with different personalised offers, and particularly will favour those who are switchers. That is a phenomenon that the whole economy is going to have to deal with more in the coming years.

Rachel Fletcher: Perhaps water bills are the simplest of the four sectors you have in front of you.

Q89 **Chair:** Water meters add a complication, don't they?

Rachel Fletcher: Ofwat has for some time been pushing the companies to listen to their customers and understand what their customers want. This is an area where there have been strides, not least towards the establishment of consumer challenge groups in each of the water companies, which is something that Ofwat has required them to do. That really confronts them with the customer perspective on the service that they provide. We have seen an improvement in the clarity of the bills as a



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result. You might also think that water companies have got a good incentive to make their bills clear, given the thing that drives traffic through to their customer service desk is generally queries from people who do not understand the bills.

I think we will be shamelessly copying from our fellow regulators as well in future. One of the things that water companies are considering now is how you might use messaging on the bill and other media in order to encourage people to use water wisely, and to provide them with education on the impact of what they flush down the loo. It is a different set of nudges—not about participating in a market—but it is definitely a growing recognition that customers are part of the value chain and the water system that we are all trying to improve.

Sir Amyas Morse: I want to take you one step further, if I may. There are clearly things that you are all affected by. Are you strategising together? Let me give you an example. Both HMRC and DWP are being held back from implementing their mass market policies by a lack of connectivity. They have a percentage of people who are not fully connected—they are not able to communicate online. Really, they want their whole model to be online. They have issues about mass data. They really want to be able to interrogate mass data and understand it. You might find quite a lot of characteristics that would really help you, if you strategise more about what is going on in the rest of Government and how you can be helped by that. That was just a thought that crossed my mind as you were speaking.

Q90 **Chair:** Can we have a quick response from each of you to that?

Andrew Bailey: I think data analytics are a common demand. Frankly, we have to make quite a big investment in data analytics—both capturing and analysing it. It is one of my priorities. I have to be honest with you—I have managed to avoid using the B word so far this afternoon—that balancing that against the demands on us coming from Brexit is very hard. We have a lot of things that we want to do, which we are trying to balance, but I would emphasise data analytics. You are right: there probably is some common ground in terms of what we are trying to do.

Sharon White: I completely agree. As I say, Andrew picks up the question of data analytics. Again, we are borrowing—you might feel that you are less advanced. We are thinking, partly in the context of online regulation—the work that we already do—not least in relation to cyber-security, which again is a common issue, about how we can learn from some of the data analytics work that Andrew has put in place and that the CMA has put in place. As chief executives, do we do enough jointly to take a macro view across the sectors? I suspect probably not. Even under the auspices of UKRN, there is probably more that we could do.

Dermot Nolan: I would also concur. The CMA has been trying to invest in this, and some of the regulators have as well. As Sharon said, we now have responsibility for cyber-security in the energy sector, as Sharon has for the telecoms sector. I have to say that this is proving difficult. In terms



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of attracting people with the right skills and moving outside what was previously our core competence, we found it slightly difficult to attract people with the capacity to deal with mass data and cyber-security. It is an ongoing issue.

Chair: Cyber-security certainly is.

Rachel Fletcher: The only other reflection from me is that—it is perhaps not common across all of us—it is really clear that in financial services, many more strides have been made on open data in order to get the market working for customers and to foster innovation. That has certainly happened in energy and water. This is an area where we perhaps could usefully strategise together. Potentially, it could improve our ability as regulators and address some of the information asymmetries in regulating monopoly services.

Q91 **Chair:** Given what Sir Amyas has raised, why aren't you doing more? That is what puzzled us a bit when we were preparing for this. Given that you have got some common issues—the main one is standing up for the consumer—why are you not strategising? One of you says it and you all agree that you could say that. Ms White, do you want to answer?

Sharon White: I would not say we are at ground zero. I think the UKRN, which has been established for a number of years, has been mostly an effective forum for these discussions to happen at different tiers. Inevitably, not least given the scale of the day job, it can be too easy to lock down on your own sector and the performance of your own industry. That is why these discussions and the idea of the Report was actually a very good reminder and prompt of what we are missing.

Q92 **Chair:** Does anyone have anything to add to that? Also do you do anything internationally? Do you compare notes? I know that the Australians had some issues around broadband.

Sharon White: That is interesting. We probably do more internationally than we do collectively. Partly, for us, that is because we also have media responsibilities, so we have been very active in the European forums on what is called electronic communications as well as the media, and in international forums too.

Chair: Does anyone have anything to add, briefly, or do you generally agree?

Rachel Fletcher: I would agree. The only thing I would add is that the consumer forum that the Government set up, coming out of the consumer Green Paper, is actually another forum where we get together to strategise on customer issues. Indeed, that is a really helpful forum because it also allows us to strategise with Government policy makers. There is a model there, and we perhaps need to think about how we make the best of that kind of model.

Chair: You do not need to add in if you agree, gentleman. Do you agree?

Dermot Nolan: Yes.

Andrew Bailey: That sounds right.

Q93 **Chris Evans:** We have heard phrases today such as “data analytics” and “behavioural economics”, which are not heard in common conversation. If I am watching this as an average consumer, what are each of you doing—in plain English—to improve my experience?

Dermot Nolan: Ofgem is trying to make your bills lower and your customer service better. We have found the former difficult. The factors behind energy prices are to a large extent outside our control. One of the most difficult parts of my job—sorry, I am not whiny—is trying to explain why energy prices have tended to rise over the last few years. Whether I do that well or not, I do not know. I am sure I could do it significantly better. However, a lot of it is trying to say what the factors influencing your bill are and your options to manage that, and trying to explain that we are trying to make sure that you get a fair price. It may not be what you want to pay, but we are trying our best to make it fair.

Customer service in energy was pretty egregious at times six or seven years ago. It could still be better, but by and large we have tried to drive that up. On a specific point beyond that, pretty much once a month—maybe I should do it more—I go somewhere to meet an energy company or a community energy group or a consumer group, generally somewhere out of London, and try to actually listen to what people say to me. We are trying, both in general and specifically at CEO level, to listen to what consumers are doing and to their concerns, and we are trying to improve things.

Chris Evans: You are very welcome to come to Islwyn any time.

Chair: Islwyn is in the Welsh valleys. You were talking about geography earlier.

Dermot Nolan: I have been to the Welsh valleys on at least two occasions.

Chair: It is very beautiful but expensive, I gather, in terms of energy.

Rachel Fletcher: It is very similar: better service, better value for money, resilient services and a long-term focus, not just for customers but for the environment. That is what we are driving the water companies to do. I think we have seen some areas of improvement there, but we are not satisfied.

Q94 **Chair:** Can I just chip in? You talk about resilience, but the customer effectively pays quite a lot for the upgrades of the system—the sewers that break and the water pipes that burst. How are you making sure that consumers’ interests are protected and that it is not just the companies putting that cost on to the consumer?

Rachel Fletcher: Absolutely. That is one of our central challenges that we are grappling with right now, in the middle of the price control with that



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£50 billion of expenditure potentially on the table over the next five years. There are a number of answers there. One is that we aggressively use benchmarking and cost benchmarking across the companies to keep prices down. We are doing what we can to drive innovation, and I believe that there are really big opportunities to improve resilience, but without really burdening the bill payer with a huge increase. We see companies taking a much more creative and innovative approach to achieving resilience.

I also think that we should encourage companies to look at nature-based solutions—non-capital-based solutions—that may still cost the customer money but might also deliver value beyond water supply resilience.

Q95 **Chair:** Can you give an example?

Rachel Fletcher: Cleaning up rivers and taking pollution out of rivers before they hit the water treatment works may not actually be any more expensive than it going through, but you end up with a better river—a cleaner river—for people to enjoy.

Andrew Bailey: I would highlight two or three areas. We have talked about pricing. It is important in our world, but relatively speaking, it is not the only thing in our world. We have talked about loyalty premiums and things such as high-cost credit.

The second area that I would point to in our world is the quality of advice. I will give you one big example for us there, which is in the whole pension world. What we have done in this country over the years is effectively transfer the responsibility for decision-making from employers to employees—to individuals. I have said this before in one Committee or another, to be honest. Initially, of course, that was in what we tend to call the accumulation or saving phase, and now we have done it in the decumulation phase—the use or the drawing of it. I have to say that we are backfilling some of what I might call the quality of advice and the assurance around that advice to support that. That is a huge change in society, because these are some of the most complicated financial decisions that any of us can take, if not the most complicated, so quality of advice is important.

The third thing I would highlight is what I might call the provision of service—we talked about the reliability of service. There are some big issues in our world, which necessarily involve the Government as well, because we cannot on our own impose universal service obligations around things such as bank branches and, increasingly, ATM provision. In a world where we have a lot of technological change going on, people just do not use those services as much as they used to, but there are people who still rely on them, quite reasonably, and they should be able to do that. How do we meet that challenge?

Sharon White: We have two big priorities: decent broadband and mobile wherever you are. I have already talked about implementing the broadband guarantee, so if you have poor broadband at the moment,



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whether you are in a new housing development or a business in the Welsh valleys, that is something we are rolling out over the next couple of years.

Also, on the mobile side, there is a lot of debate at the moment because we are going to hold an auction of spectrum—the valuable airwaves that power wireless. The plan is that, if you want to buy some of that spectrum, you are going to have to take up an obligation to extend mobile coverage into rural areas. We have some big practical action to ensure that the digital divide starts to shrink away.

On the fairness side, as Andrew has said, we are looking at pricing. The question about the loyalty penalty or premium is quite complicated in our sector because of competition, so we are looking at every single customer's data to see what price they are paying and whether there are egregious examples where the pricing is unfair. One particular example is that some customers pay more for a low-quality, low-speed broadband who do not have the choice of a faster service. We are talking to the companies about how we can stop some of those practices.

- Q96 **Chris Evans:** Before I finish my section, I should share our mystery shopping on websites, which the Chair alluded to. As I would have expected, Ofcom came out on top with no key negatives. However, each of you—

Chair: It was not a scientific or official survey.

Chris Evans: It was not a scientific experiment, I admit that, but each of you have issues with finding your performance levels. Have any of you looked at the website and have you thought of ways you could improve that? Again, why are consumers not getting the same sort of information across the board from all four industries?

Dermot Nolan: I think our website, frankly, could be improved. There are lots of indicators of performance quality of different firms on our website, but they have obviously not been got to in sufficient numbers of portals, so we will work further on that.

As I said earlier, I do not think you could ever have perfectly similar compensation across the industry, but it is not unreasonable to ask that the experience of the websites of the regulators be fairly similar. The FCA is slightly different in certain ways because it is more complex, and because of the perimeter issues, as Andrew has said, but it is not an unreasonable question.

- Q97 **Chris Evans:** For the FCA, the positive is that the consumer section was clearly set out with subsections of different topics and issues. The negative is that it is not very engaging text and not in particularly plain English, which I just complained about. For Ofwat, the positive is that the residential section of the website was user-friendly and the negatives are that the document added to the website and the publication were not very user-friendly, and there is a large volume of often technically labelled reports and frequent use of anachronisms. The results from consultations were in its other publications, separate to the consultation



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webpage. It seems there is a problem here with plain English.

Rachel Fletcher: Guilty as charged. I would love to see the results of your mystery shopping.

Chris Evans: Yes, we can share that.

Chair: Well, we will discuss that. I am not sure we can.

Q98 **Chris Evans:** Mr Bailey, you are being accused of the same thing.

Andrew Bailey: I do not dispute it at all. We are servicing various audiences here. You have done all what I call the consumer side but we regulate the wholesale world as well, and there is some furiously technical stuff in there, but it would be interesting to know where you shopped.

Q99 **Chris Evans:** What would your advice be, Ms White? You are the ones off the hook.

Sharon White: I have my team here. We have worked really hard in the last year to try to ensure that we can communicate to customers, businesses and families in a way they can find really easy to understand.

Q100 **Chair:** There is nothing though on the website, just something about what to do if you have problems paying your bill.

Sharon White: We will look at that.

Q101 **Chair:** Earlier, Mr Nolan, I think you posed the question: how far should we go to guarantee energy as a major policy issue? You have all talked about data sharing and data matching, and Mr Mills raised some thoughtful points about the risks of that. But are there any other legislative or policy issues that you wanted to flag up as things you think Government or Parliament should be addressing, or are you having any conversations about things that you haven't already mentioned? We will start with Ms White, because you have quite a lot in your area, I guess.

Sharon White: Yes. In terms of being across the areas, I think we have alighted on the big issue, which is: while preserving the importance of GDPR, how do you make it easier for us to serve vulnerable customers? That would be the big priority for me for the next 18 months.

Andrew Bailey: I think that with the issue around the marketing of services on the internet through social media, we could see some very big changes in the role of the major social media companies in financial services. We will probably collectively have some pretty strong views on that, some of it will be okay and some of it not.

Q102 **Chair:** In other words, if it is a challenge for you it is a challenge for everyone, isn't it? Particularly as a regulator, it is an almost impossibly big pool to dive into.

Rachel Fletcher: There are two things from us: one I have already mentioned is that there is no statutory ombudsman in the water sector.

Q103 **Chair:** Would you like one?

Rachel Fletcher: I would like one. I have seen at first hand in energy the role that an easily accessible ombudsman can have, partly in helping individual customers out but also in providing another really rich source of data and another way of keeping pressure on companies to be customer-focused.

The other thing we are talking to Government about is indeed our own powers to make licence modifications. That might sound slightly esoteric, but some of the conversations today have been about how we hold companies to account, and how we insist on and drive standards. In the water sector we are not able to unilaterally impose a licence condition on water companies; they have to agree to it. The only way to overcome that would be for us to take the matter to the Competition and Markets Authority, which is time-consuming and resource-intensive.

Q104 **Chair:** Are you having conversations with Government about those plans now?

Rachel Fletcher: We are.

Q105 **Chair:** Mr Nolan?

Dermot Nolan: I share Sharon's point of view about vulnerability, but for energy specifically I would say decarbonisation. We have statutory obligations but need clarification over the extent to which we should support decarbonisation, which we broadly do. Should it be binding upon us? That is a particularly prevalent topic. Specifically with regard to transport, one of the things that will transform, I think, the energy system in the next 10 years, is more and more electric vehicles. At the moment, propositions are being made to Ofgem—not formal ones—that we should fund a large roll-out of infrastructure across the country for charging points. In one sense, that might be the right thing, although it may not be for the UK as a whole, but it would put significant extra costs on energy customers, and I would de facto be engaging in transport policy. A clarification of our role in relation to such issue would be an inestimable boon.

Q106 **Chair:** I had never thought of Ofgem as being the body that rolled them out.

Dermot Nolan: We have been called on to do some of that. It would then be funded by the general taxpayer, who might be the more vulnerable person who does not have an electric vehicle. Dealing with such issues with clarity would be very helpful.

Q107 **Chair:** You mentioned the B word—Brexit—Mr Bailey, which we have left to the end. Ms White, you talked earlier about new EU legislation coming in in the next year. Obviously, as the timetable stands at the moment, if or when we leave—however you want to say it—by the end of 2020, we won't be in the EU. Are you still focusing on new EU legislation and carrying on business as usual while we are still in Europe?

Sharon White: The particular issue that I have mentioned in relation to social tariffs is that our legislative framework is set in Europe. At the

moment, there is pretty close synergy between domestic legislation and the European framework.

Q108 **Chair:** So you don't see a big change?

Sharon White: No, but the European framework has just been through a big review and change. The intention that the Government has set out is for us to start aligned on day one. That is why this transposition question is relevant. We are luckier than Andrew and the FCA, in that the transitional issues are more modest for us. They are more on the broadcasting side, where we are setting up a new licencing regime. That is basically ready to go when Brexit happens.

Q109 **Chair:** My Bailey, you probably have a long list of issues.

Andrew Bailey: Picking up Sharon's point, we have had the task, working with the Treasury, of translating over 50 pieces of European legislation and taking up vast amounts of your time with SIs. We have to go on doing that for what we call the pipeline of European legislation coming through while we remain members. There is a large amount of work to prepare for contingency planning. The vast majority for that is for the no-deal exit scenario. That is obviously the one that has the biggest impact.

Q110 **Chair:** And how much has it absorbed? You said that it has taken a lot of time out from other things. A percentage perhaps is not the way to describe it, but can you roughly tell us how much energy it is absorbing in the FCA?

Andrew Bailey: It is absorbing a lot of energy. It sounds relatively small, in terms of our budgets. Our dedicated budget is probably under 10%, but particularly at a senior level I don't think that measures the amount of time that we actually spend on the subject. For us, balancing this against the very real objectives and challenges we have in the non-Brexit world, which we have been discussing this afternoon, is very demanding. Don't take away from that.

Q111 **Chair:** Ms Fletcher?

Rachel Fletcher: No, we don't have a legislative challenge around Brexit. We have obviously been participating on the sidelines with the contingency planning with the sector itself.

Q112 **Chair:** We have talked to DEFRA quite a lot, so we know some of those issues. Mr Nolan?

Dermot Nolan: We are probably in a similar position to Sharon. There is roughly the same level of involvement. There is a European framework that involves us being part of the European internal energy market, which greatly benefits British energy customers and allows seamless trade of electricity and gas across interconnectors. We are preparing for a variety of issues, but obviously a no-deal scenario would potentially be the most problematic. It has absorbed a fair amount of resources, but probably nowhere near as much as for Andrew.

Q113 **Chair:** Basically you are saying that a no-deal scenario would increase

prices.

Dermot Nolan: Not necessarily. It would depend on the framework, and that has not yet been clarified.

Q114 **Chair:** So we are up against it, then?

Dermot Nolan: In the event of a no-deal scenario, it is not precisely clear what would happen to the ability to trade electricity and gas. If that was limited, there would be a modest increase in prices.

Chair: “Modest”—right, okay.

Chris Evans: In the shortest time possible, what is the one thing liable to keep you up at night in the coming years?

Chair: You may have already given us the answer.

Chris Evans: I think you may have done.

Q115 **Chair:** Mr Nolan, what’s worrying you?

Dermot Nolan: I probably only have a year left at Ofgem. That’s a rather glib answer—my apologies. If I was staying longer, I would think how to manage decarbonisation at a cost. That is mostly a policy issue, but hugely demanding. Specifically, the British heat system needs to be entirely decarbonised by 2050. That is unbelievably difficult and hugely demanding. I don’t think we really know how to do it yet.

Chair: Okay. Well, put it in a manifesto for your successor.

Rachel Fletcher: Six months ago I might have said long-term water resource planning, but that is something that as a sector and as a group of regulators in water we are making big strides on. Probably the biggest challenge for the water sector is currently still the degree of legitimacy around the privately owned companies and the questions that are still being asked about that model.

Andrew Bailey: I would come back to the point about the marketing of financial services and products via the internet.

Sharon White: I would say the next 10 to 15 years of investment in modern digital infrastructure—great broadband—that is universally available.

Chair: Thank you very much indeed for your time. The transcript of the session will be up on the website in the next couple of days. It goes up uncorrected, so I am sure that your people will be on to that and have a look at it. We are already in May, so our report may be towards the end of June. Obviously, we will alert you to that, and we will obviously have our recommendations to you in that report as well.

This may be your first, but not your only outing in front of us, because there is an awful lot of interest here. Consumers use the services that you regulate. They rely on you to make sure that they get a good deal, and we



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want to keep you on your toes to make sure that you are doing everything that you can to protect the interests of consumers. Thank you very much indeed for your time.