uSwitch response to the CMA's Supplementary Notice of Possible Remedies regarding prohibiting the use of evergreen tariffs

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1 Summary

1.1 About uSwitch

uSwitch is an online and telephone price comparison and switching service, helping consumers get a better deal on gas, electricity, home phone, broadband, digital television, mobile phones and personal finance products including mortgages, credit cards, current accounts and insurance. In 2015 uSwitch celebrates 15 years of saving customers money.

uSwitch is part of Zoopla Property Group plc, a digital media business that owns and operates some of the UK's most widely recognised and trusted online brands including Zoopla, PrimeLocation, SmartNewHomes and HomesOverseas.

uSwitch has been actively engaged with the CMA's energy market investigation, and welcomes the opportunity to comment on its supplementary notice of possible remedies.

1.2 Supplementary proposals to replace evergreen variable tariffs as part of Remedy 10

uSwitch has been of supportive of the improvements made to fixed plan ending (FPE) notifications, which we believe have had a positive impact on consumer engagement with the energy market. For many consumers this represents an opportunity to review their energy plan options, as well as providing much more clarity and industry consistency on the rollover process. Increased consumer re-engagement resulting from these prompts should be seen as a positive indicator of the success of this mechanism.

In principle we are therefore strongly supportive of consumers receiving frequent and effective prompts to engage in the market, but we also believe that for these prompts to be successful they need to be accompanied by the information necessary for the consumer to actually act on the notification. This includes all the information required to run a market comparison, displayed clearly and prominently on the notification. A tool such as the Tariff Information Label (TIL) could fulfil this requirement with a few minor improvements.

ScottishPower and Centrica's proposals to end evergreen standard tariffs and replace them with default fixed term tariffs provides a framework where more consumers will receive more regular, structured prompts to engage with the market and we can see merits in this. If developed as an idea, however, it should be as part of a suite of information remedies. On its own we do not believe the proposals will have the impact necessary to raise engagement levels to a point where competition will be sufficiently stimulated in the market.

This suite of remedies should also include ongoing, clear prompts on the first page of customer bills and FPE notifications. Prompts on bills should be particularly prominent when a customer has recently been subject to a price rise or plan change as a result of a plan expiry, to ensure they understand the impact the change has on them and actions they can take as a result. Annual statements could also be made much more effective through a redesign of the current format creating a much stronger call to action.

Were the CMA to develop this proposal we would suggest that the following points are given further consideration:

- It is important that the core message contained within the prompts is not masked by sales messaging included to promote the suppliers' own products. Existing FPE notifications vary quite considerably in the clarity of the messaging and it is important these prompts does not actually result in a customer being worse off. Strong principles should apply to both online and offline prompts to ensure the core message of the notifications is clear.

- Prompts should also highlight the benefits of the competitive market, the consumer's option to switch and that it may be possible to secure a better deal elsewhere. These switching prompts should be included on every account communication that a customer receives from their supplier (bills, annual statements and FPE notifications). To reiterate, as well as information on switching, these prompts also need to include prominent, clear and comprehensive information which enables a customer to run a comparison. This is not always possible with the communications suppliers currently send to customers.

- Any change processes where a customer is automatically rolled over onto another tariff needs to be well defined and straightforward to ensure a customer understands the implications of the change and their options. This is to ensure that customers feel confident enough to take action as a result of the prompt, but also to ensure that TPIs and other independent advice bodies are able to support a customer in finding the best plan for their needs. Prior to the RMR there was little clarity around which plan a customer would be rolled onto, when a supplier would apply a cancellation fee (whether cancellations fees were applied if a switch request was received within the contract term or only if the customer's supply was actually taken over before the contract end date). This made it very difficult for TPIs such as uSwitch to provide information to a customer and help them decide the best course of action. The clarity of a 49 day switching window and rollover onto cheapest evergreen has made it possible for us to provide customers with accurate information and help significantly more people to find a better deal.

- Under these proposals it is not clear what will happen to customers when they come to the end of a fixed plan that is not the default tariff – will they be automatically rolled over onto the default tariff if they do not actively select another fixed term product? This would need to be resolved as this proposal is developed, as stated above the clarity that automatic rollover onto the suppliers' cheapest evergreen tariff provides makes it easier for TPIs to support customers' decision making.

- It would be important to have clear success criteria in place if this framework was adopted, in particular the number of customers who end up on a default tariff should be monitored. Whilst we can see some benefit to the proposal and expect that some customers would be motivated by the prompts to engage, we do not feel as positive as Centrica that many customers will not simply remain on successive iterations of the supplier's default fixed tariff. For these customers, the default tariff(s) would effectively act as a rebranded standard plan.

- We have some concerns that some consumers could be given a false sense of sense of security by being on a default tariff. If a supplier was to creatively name their default tariff consumers could be misled into thinking there were on a good deal. Rules (whether principle-based or prescriptive) should be implemented to ensure that the default tariff does not appear more attractive than it is.

- Should a proposal similar to Centrica's or ScottishPower's be adopted, we agree that default tariffs should not have exit fees. Additionally suppliers should not be able to apply exit fees to any other tariff a customer may be automatically rolled onto.

2 Response to consultation questions

Below we have provided comments in response to some of the CMA's specific consultation questions.

2.1 (a) Would this remedy be effective in encouraging customers to engage more frequently in the market? Are there certain groups of customers who could not be covered by this remedy and, therefore, would not benefit, eg those on prepayment, DTS or other meters?

2.1.1 (i) To what extent is the higher level of engagement observed in response to end of fixed-term contract notifications the result of the type of customer who has chosen those products, rather than a response to the notification itself?

This is a fundamental question which the CMA must answer before proceeding with a proposal such as that presented by Centrica or ScottishPower.

As has been widely stated, FPE notifications have proved effective in prompting customers to re-engage with the market and choose a new product when their current one ends.

We agree that the customers who are most active in the fixed deals market are likely to be the most engaged. What works in terms of a notification for this group may not necessarily work for much less engaged groups which these proposals aim to target.

The reason that FPE notifications are so effective in driving engagement could be down to the simple fact that their product is coming to an end, they have relatively recently engaged with the market, or because there is an imminent change in price if they do not act upon the FPE notification.

In reality it is likely that it is a combination of these factors and therefore it is vital that the CMA is clear why current FPE notifications work so well and how these aspects could be carried over to the default tariffs.

In order for the CMA to determine this, different types of notification could be tested with different customer segments - particularly those less engaged with the market, for example those in lower socioeconomic groups, to properly assess what drives action.

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2.2 (d) The wording of the end of fixed-term notifications appears to be critical to the effective functioning of this remedy. Should Ofgem take responsibility for developing and testing appropriate wording, or should the energy suppliers retain responsibility for this?

2.2.1 (i) If suppliers design these prompts, how can they be incentivised to maximise their effectiveness?

It is vital that suppliers are strongly incentivised or required to make the prompts or notifications sent to customers on default tariffs effective in encouraging them to engage with market. It seems unlikely that suppliers would feel sufficiently incentivised to encourage their customers to switch supplier and/or tariff without a regulatory framework that requires them to do so.

In practise this is likely to mean either a level of prescription around the content of the prompts, some strong and enforceable principles around their content or engagement targets that suppliers must achieve. The answer could well be a combination of all three of these.

We agree that the design and format, as well as the wording, of a notification is crucial to whether it succeeds in driving consumer behaviour. The role Ofgem plays in developing and prescribing the wording contained within the prompt has to be dependent on the way suppliers are incentivised or required to drive sufficient engagement. Ideally suppliers would be sufficiently incentivised so that the effectiveness of prompts can be continuously driven through innovation. If the proper requirements or incentives are not in place then there is a danger that suppliers may innovate to drive down the effectiveness of the prompts.

Audits should be regularly carried out by Ofgem to ensure suppliers are meeting the requirements with compliant notifications. Suppliers should be required to regularly submit data to Ofgem showing the degree to which customers are acting upon the prompts. If the percentage of customers acting upon the prompts falls below targets, Ofgem should investigate.

2.3 (e) Should the default tariff be fixed price as well as fixed term, or should suppliers be allowed to roll customers onto a variable price tariff?

As explained in our response to questions E (i) & (ii) below, we would have strong reservations were the CMA to propose moving to a mandated structure where suppliers had many different groups of customers on a multitude of differently priced default tariffs. Beyond that we see pros and cons to both options (default tariffs being fixed or variable price).

If the default tariff were to have variable pricing it would theoretically allow suppliers to respond to falls in wholesale rates and reduce prices for consumers. Reductions to standard tariffs by the Big 6 suppliers have, however, been modest and infrequent.

On the other hand, if the default tariffs were to be fixed, this may create some upward pressure on the price of those tariffs as suppliers would need to hedge the price for a year.

One interesting aspect of requiring default tariffs to be fixed would be increasing the likelihood of the consumer seeing a price change when their current default tariff came to an end, as this would be the only time the supplier would be able to change the price they were charging. This could positively impact the effectiveness of this proposal, since it seems likely that a customer would be more likely to respond to a notice that their default tariff was ending if the rollover onto another version corresponded with a change in price.

2.3.1 (i) If the default tariff were variable price, should energy suppliers be required to roll all customers who did not take action onto the same tariff, such that in effect there was only a single variable price default tariff per supplier?

We would have significant reservations about any regulatory framework which moved customers from a SVT to multiple default tariffs with different prices.

Firstly, it would add a major, additional layer of complexity to what is already a complex market, as well as reducing transparency. Currently suppliers each have one SVT and when large suppliers change their prices for this tariff it is clearly and publically announced and so it is easy to assess the impact of the change on the amount consumers will pay.

It would be harder to ascertain the impact of price changes if they were applied to different segments of customers, to varying amounts at different times. This would reduce transparency around pricing and, at the same time, reduce media and political attention during periods of price changes. This attention undoubtedly helps to put competitive pressure on suppliers, as well as acting as a catalyst for consumers to engage with the market.

Second, having a plethora of SVTs across suppliers would, in addition, make running a comparison more difficult for customers and add unnecessary extra complexity for PCWs to administer. One of the bigger challenges we face in helping consumers receive an accurate comparison is helping them to identify their current tariff. Many tariffs have multiple versions with very similar names, and the pricing or end date depends on the date the customer switched to the tariff.

We do not currently have this issue with consumers who are comparing based on SVTs, so replacing them with multiple, similarly named, differently priced tariffs would make it difficult for them to select their tariff on our website, adding unnecessary barriers to those consumers engaging with the market.

2.3.2 (ii) If the default tariff were fixed price, should energy suppliers be required to roll all customers who did not take action within a given period, eg one month, onto the same default tariff? Is there a risk that the existence of multiple default tariffs (eg one for every month) would reduce the pressure on SVT pricing that currently results from media attention on changes to SVTs?

As per our response to question E (i) above, we would be quite concerned about the impact of suppliers having multiple default tariffs with similar names and different prices. Those concerns apply equally whether the default tariffs were to be fixed or variable.

We recognise that it would be more difficult to limit the number of default tariffs operated by each supplier where each one was fixed, but in our view this represents a significant weakness in the proposal.

2.4 (g) What should the default tariff be called? Should it be the ‘emergency’ tariff to further prompt engagement or would some other wording be more appropriate? Is there a risk that certain customers will be concerned that their energy supply will be cut off if they do not engage following an end of contract prompt?

The name of the default tariff will have a direct impact on how customers react to being placed on it and, consequently, the likelihood of them engaging with the market to look for or choose an alternative. We would not want customers to be misled into thinking their supply is at risk, but at the same time we believe there is an opportunity to name the default tariff in a way that indicates to a customer that it is intended to be a temporary measure.

The name of the default tariff should be tested to better understand consumer reaction but ultimately we would expect the name to be standardised across the industry.

2.5 (h) Should Ofgem monitor the proportion of customers on default tariffs, their average tenure and/or the pricing of default tariffs (eg with a view to publishing summary information)?

Yes, if the CMA was to adopt this remedy, it should absolutely be part of Ofgem's role to monitor the proportion of customers on default tariffs and measure the effectiveness of the default tariffs and associated prompts in encouraging customers to run a comparison, switch tariff or supplier.

2.5.1 (i) Should all energy suppliers be subject to the prohibition on evergreen tariffs?

Yes, if the CMA was to implement this policy we believe it should apply to all licensed suppliers.

2.6 (j) Would any energy suppliers have the ability to circumvent the remedy? If so, how could they do this?

As previously stated, one of the main risks we see in adopting this default tariff framework is that it is not generally in suppliers' interests to engage customers who are paying higher rates and have been disengaged for a long time. Therefore we believe careful consideration needs to be given to ensure suppliers are sufficiently incentivised not to weaken the messaging on default tariff prompts/notifications.