



Role of Consumer Principles in the UK Energy, Water and Postal Industries

Research conducted for the Consumer Futures Unit

Summary Report

June 2017



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EXECUTIVE SUMMARY



Executive summary

1. Introduction

This report summarises the findings of a research programme on the existence and application of consumer principles within regulators and service providers in the UK energy, water and postal sectors. The research was conducted by Purple Market Research for the Consumer Futures Unit (CFU), part of Citizens Advice Scotland (CAS).

Although the main focus of the research is the regulated UK industries of energy, post and water, which are the sectors falling within CFU's remit, insights relating to the application of consumer principles frameworks were also sought from other regulated industries, including the legal, financial and health sectors.

The research was designed to inform policy and practice development by providing a better understanding of which frameworks and tools currently exist, the benefits of adopting such frameworks, and the relationship between them, corporate policy and consumer outcomes.

2. Research methodology

The research programme comprised three main phases: a set up and planning stage; data gathering; and the final analysis and reporting stage.

The data gathering phase in turn comprised three symbiotic methodologies:

- A review of intelligence held within the CFU;
- A meta-analysis of information available in the public domain, conducted through desk research;
- Qualitative interviews with a cross section of regulators, service providers and other consumer organisations in the energy, water and postal sectors.

The research was conducted between January and March 2017.

3. The role of consumer-focused frameworks

The OECD has identified a range of policy tools available to authorities with responsibility for consumer protection, both consumer empowerment tools ('demand-side measures') and those that focus on modifying the behaviour of service providers ('supply-side measures'). Supply-side measures are the main focus of this report.

Of the different supply-side measures, a number lend themselves to prescriptive rules, such as licensing, prohibitions and dispute resolution. Others, notably moral suasion (whereby authorities seek to influence or put pressure on service providers to meet a specific objective regarding consumers without directly regulating their activities), tend to place the onus on the service provider to develop a consumer-focused approach to dealing with consumers.

The latter approach is essentially consumer principles-based regulation, and this approach has been successfully adopted in a range of markets, including the financial, legal and health sectors, as described below.



In terms of regulatory processes, the provision of products and services, and consumer outcomes, a principles-based approach has several advantages over a rules-based approach:

- Regulation that is focused on consumer outcomes acknowledges the need to direct efforts towards maximising consumer benefits and protecting consumer interests;
- It is easier to customise regulation to a specific sector or region when that regulation has the flexibility offered by a principles-based approach rather than a more prescriptive set of rules;
- Principles-based regulation that focuses on consumers encourages service providers to define and deliver high quality products or services that meet the needs of consumers, and to consult and engage with their customers to better understand those needs;
- Unlike a more prescriptive rules-based approach, regulators do not have to understand the market so thoroughly under a more discretionary principles-based approach, as the regulations do not need to cover all options or eventualities to ensure that there are no gaps or loopholes;
- With a principles-focused approach, regulators can therefore focus more on outcomes than operations;
- A principles-based approach to regulation takes service providers away from a 'box-ticking' approach to how they deliver products and services towards a more considered and customised approach;
- Service providers are given freedom to be flexible on how best to meet their obligations and they are encouraged to innovate;
- Principles-based regulation tends to use more consumer-friendly terminology than rules-based regulation, and is therefore easier for consumers to understand;
- The language used and the processes employed in a principles-based framework are usually simpler and more concise.

In the desk research and a small number of the qualitative interviews, some concerns were expressed with a principles-based approach to regulation.

Compared with a rules-based approach, an approach based on principles can be vague and open to interpretation, potentially leaving a 'grey area' for disputes and disagreement. This approach can be subjective and make it difficult to have consistent standards. It can also add a layer of regulation to the existing rules, at least while the transition from a rules-based approach is underway.

There is also a perception that a principles-based approach to regulation can be retrospective and reactive, judging the actions of service providers after the event. However, if used correctly, principles will guide the formulation of policies and practices to mitigate against that risk.

Consumer bodies have been using consumer principles to underpin their work for some time, and in a range of sectors there has been a trend away from prescriptive, rules-based regulation towards the adoption of principles-based regulation.

The following are three such examples.



Sector	Application of consumer principles frameworks
Legal	<p>The Legal Services Consumer Panel has recommended that the legal sector in England and Wales adopts a set of consumer principles as '<i>a simple tool for regulators to help them think about the consumer interest in a structured way.</i>'</p> <p>The recommended consumer principles are almost identical to those promoted by the CFU, covering access, choice, safety, provision of information, fairness, representation and redress.</p>
Financial	<p>The Financial Conduct Authority 'Treating Customers Fairly' (TCF) framework requires UK financial service providers to show that fair treatment of customers is '<i>at the heart of their business model.</i>'</p> <p>The framework specifies six consumer '<i>outcomes</i>' that firms '<i>should strive to achieve to ensure fair treatment of customers.</i>' These cover fair treatment, being central, meeting the needs of customers, provision of clear and accurate information and advice, standard of products and services, and ease the removal of barriers to change product, switch provider, submit a claim or make a complaint.</p> <p>The Institute of Chartered Accountants uses a 'Code of Ethics' which is essentially a principles-based approach, based on the International Federation of Accountants' Code of Ethics.</p>
Health	<p>Healthwatch England ('<i>the national consumer champion in health and care</i>') has eight consumer principles based on feedback from the public, covering areas such as access, safety, choice, listening, and being involved.</p>

Thus, it is the view within a range of sectors that better consumer outcomes will result from the adoption of a principles-based framework for regulation, consumer communications, planning and delivery of information and services.

4. Application of consumer principles frameworks in the energy, water and postal sectors

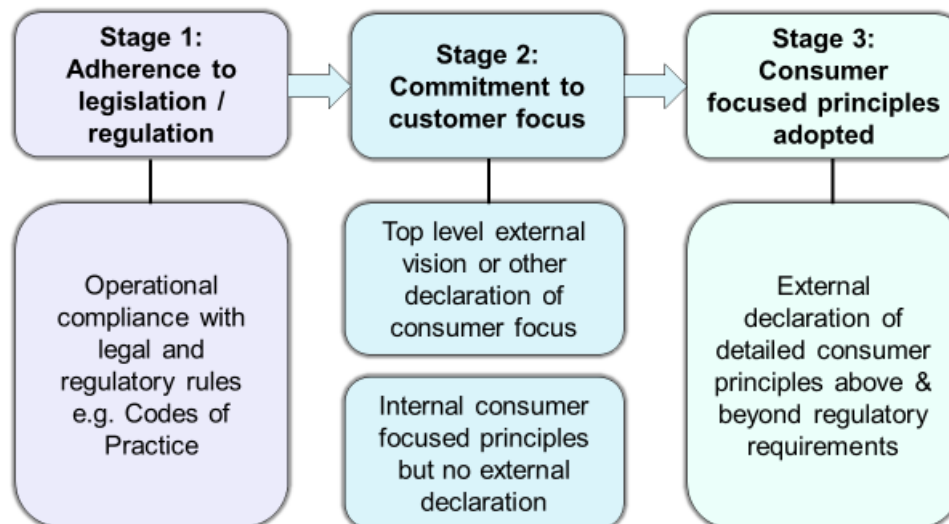
Under the influence of regulators and consumer bodies, service providers in the energy, water and postal sectors are moving away from a predominant focus on engineering or operations towards being more service orientated, innovative and customer-focused.

That transition has gone hand in hand with a movement away from prescriptive rules-based regulation towards lighter touch regulation. The latter approach encourages innovation and gives service providers greater autonomy to develop their own consumer-focused frameworks by engaging with their customers to determine what their needs are and how services should be developed to better meet those needs. Light touch regulation might ultimately lead to the adoption of principles that focus on customers to support stronger consumer outcomes.



That journey towards a culture based on understanding customers' needs, providing services to better meet those needs and putting consumers at the centre of an organisational culture comprises three main stages.

Three key stages in the adoption of a consumer principles framework



The first stage, the adherence to regulations, involves compliance with legislative and regulatory requirements, and takes the form of prescriptive rules. Examples are the Guaranteed Service Standards and Codes of Practice, which service providers must state to demonstrate that they comply with regulations.

The second stage is a commitment to being customer focused albeit not necessarily with a fully-fledged set of consumer principles. This kind of commitment can take two forms: it can be a top level, overarching declaration that the organisation is customer-focused, such as a strategy, vision or mission statement, such as that used by Scottish Water; or it can be a set of internal consumer principles, such as those used by Ofcom and Royal Mail, which is an organisational tool and is generally not made externally visible.

The third stage takes the form of fully-fledged set of consumer principles, which demonstrate that an organisation has taken ownership of the relationship with its customers and that it has gone above and beyond the regulatory requirements. Examples of this level of commitment to consumer principles are the energy companies who have taken the Treating Customers Fairly (TCF) Standards of Conduct and enhanced these with their own customer promises, and also the Customer Charters employed in the Northern Irish energy sector.

There are actually some characteristics that organisations who have embraced consumer principles consistently have. These fall into two broad categories: characteristics relating to planning and those relating to implementation.



Typical characteristics of a consumer-focused organisation

PLANNING	IMPLEMENTATION
Recognition of a need to be more consumer focused	Implemented services that go above and beyond regulation
Consumer engagement to determine needs	Innovation in service delivery and communications
Senior management buy-in	Embedded consumer-focused culture throughout the organisation
Identification of commercial benefits of a consumer focus	Ongoing evaluation to maintain and improve services

Typically, then, such organisations have recognised shortcomings in their service delivery, have addressed those shortcomings by consulting consumers to determine their needs, have proactively gone further than legal or regulatory requirements in developing services to meet those needs and ensured that a consumer-focused culture pervades the whole organisation. In essence, this transfers ownership and responsibility for these developments from the regulator to the service provider.

Usually such consumer principles are openly declared and in the public domain, as required within the TCF framework. However, this is not always the case. The Consumer Council for Northern Ireland has adopted a set of consumer principles that is very similar to the CFU framework, but this is an internal tool and has not been prominently communicated outside of the organisation.

The journey towards the adoption of consumer principles is not generally as clear cut as the above schemata might suggest. While the transition to a principles-based approach is underway, the sector will find that it may have *both* principles *and* rules. Some energy companies comment that they have found themselves having to introduce procedural rules internally to ensure that staff adhere to the TCF principles. The TCF situation suggests that organisations cannot move easily or quickly from rules-based regulation to principles-based regulation without careful consideration of how to make that transition culturally and operationally.

High level consumer principles can actually work hand in hand with prescriptive rules. In the energy sector in Great Britain, for example, the principles enshrined in the TCF framework are a sub-set of the prescriptive rules.

The Institute of Chartered Accountants England and Wales reinforces the feasibility of consumer principles working in tandem with prescriptive rules-based regulation, when commenting about its own principles-based 'Code of Ethics': *'In practice, Codes of Ethics are a mixture of principles and rules. The rules should support the underlying principles of the Code...The key issue is striking an appropriate balance which encourages the spirit of the guidance to be complied with and does not undermine the exercise of judgement and the role of the profession.'*

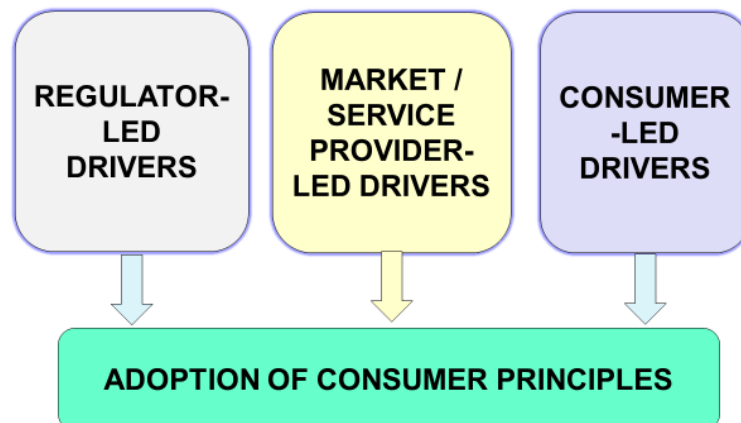
This is an important point, in that the aim is not necessarily to replace a set of rules with a set of principles, and often rules and principles support each other.



5. Key drivers of the adoption of consumer principles

Key drivers of the adoption of a consumer principles-focused approach to regulation and compliance fall into three main types:

Key drivers of the adoption of consumer principles



Regulator-led drivers include: difficulty in maintaining prescriptive rules to ensure that they are watertight; a desire to place the onus on the service provider to determine what a positive outcome is and how to achieve that outcome; and a need to address customer detriment in the market. Another key regulator-led driver is the observation of the successful implementation of consumer principles frameworks in other sectors. Ofgem, for example, was influenced by the adoption of the TCF principles in the financial sector.

Many of the drivers behind the adoption of consumer principles-based regulation are led by the market or service providers. For example, a key driver is whether the market is competitive or a monopoly: monopolistic markets, such as the domestic water industries, are often perceived to require greater prescriptive regulation (although some providers, such as Scottish Water, have gone beyond regulatory requirements), whereas competition should, at least in theory, encourage consumer-friendly pricing and more innovative service delivery among providers. Another related market-led driver is the development of a consumer-centric culture to give service providers a commercial competitive advantage.

The adoption of consumer principles often reflects a customer-focused culture either already existing within a service provider organisation or being the aspiration of such an organisation. In turn, the more customer-focused culture is often attributed to the impact of senior managers driving change within their organisations.

The adoption of consumer principles is also often influenced by consumer bodies, such as Citizens Advice, the CFU, the Consumer Council for Water and the Consumer Council for Northern Ireland. These bodies all have well-established, prominent sets of consumer principles that underpin their work. This in turn has an impact on the approach of regulators and service providers to dealing with consumers.



6. Profiling consumer-centric organisations

To determine how consumer-centric an organisation is, the following questions can be asked.

-
1. Does the organisation have a process of identifying any consumer detriment in its market?
 2. Has the organisation taken any steps to address consumer detriment in its market?
 3. Has the organisation consulted customers to determine their needs in terms of services, communications, and so on?
 4. Are senior managers focused on consumer outcomes?
 5. Does the organisation voluntarily go above and beyond legal or regulatory requirements in its dealings with consumers?
 6. Is the organisation innovative in the way it deals with consumers?
 7. Does a consumer-focused culture exist throughout the organisation?
 8. Does the organisation have a formal set of high level consumer principles underpinning service provision and planning?
 9. Is a set of consumer principles published or made publicly available?
 10. Is the organisation's consumer culture reviewed on an ongoing basis and improvements implemented accordingly?
-

These questions can be asked of a regulator or a service provider to determine how far it is along the journey towards adopting a more consumer-centric approach. The more of these questions that are answered in the affirmative, the more consumer-centric it can be considered.

The corollary is that where less than half of the questions are answered negatively, there is a need to develop a more consumer-centric approach to improve consumer outcomes.

The number of questions which can be answered positively by regulators and service providers varies by sector

7. Variations by sector and region

All regulators specify licence conditions in terms of minimum standards that service providers should meet. That takes the form, for example, of Guaranteed Standards in the Great Britain energy sector and Codes of Practice in the water industry.

Also, almost all regulators and service providers consulted in the research claim to be consumer-focused, either to meet regulatory requirements or voluntarily. However, there is some variation by sector in the extent to which regulators have encouraged service providers to develop consumer principles that are above and beyond the conditions of the licence, and the extent to which service providers have themselves voluntarily gone beyond the minimum standards required by regulators.

There is also some variation in the extent to which consumer principles have been published. Many service providers, particularly those in the water and postal sectors, are reluctant to make these principles prominent until they can back them up with action. Some service providers perceive that consumers will not be interested in seeing the principles, but rather they will want specific information and guidance when needed.



Energy sector

The Standards of Conduct, specifically the Treating Customers Fairly (TCF) framework, has been introduced by Ofgem as a licence condition, so that energy companies must develop and publish their TCF promises. The extent to which the TCF principles have been articulated by suppliers and made explicit in their marketing communications varies by size of company. Larger energy suppliers make their TCF promises very prominent on their websites and in brochures. However, smaller suppliers do not necessarily have the resources to do so, and the TCF promises tend to be less prominent among smaller energy companies.

In Northern Ireland, energy companies have introduced Customer Charters which cover similar ground to the TCF framework.

Water sector

In Scotland, Scottish Water has gone beyond the legal requirement of a Code of Practice and has developed internal consumer-focused 'pillars' to guide its philosophy and behaviour.

In England and Wales, Ofwat has declared a 'Strategy' with the aim of making the water industry more customer-centric and engendering greater public trust and confidence in the industry.

Most service providers in the water industry are in the process of transforming themselves from organisations focused on engineering and operational aspects to service-based ones. However, among these service providers, consumer principles are often internal tools, and customer-orientated statements above and beyond the conditions of licence tend to be restricted to an overarching vision, mission or statement of values. These are often non-specific in terms of promises.

Postal sector

The regulated postal sector remains heavily reliant on rules-based regulation, although Ofcom has an internal set of consumer principles that underpins policy development. Royal Mail also has no prominently stated consumer-focused principles, although like Ofcom it has adopted a set of consumer principles as an internal tool.

In the non-regulated postal sector, there is evidence that service providers are interested in adopting consumer principles frameworks, although the issue is complicated by the fact that postal companies tend to be go-betweens in a contract between the shipper (for example a retailer) and the end customer.

How far along journey towards consumer principles is each sector?

The postal sector is only at the start of the journey from rules-based regulation to a principles-based approach. The regulated postal sector remains dependent on prescriptive rules, although, as indicated above, Ofcom and Royal Mail do have internal consumer principles frameworks with the aim of making the sector more consumer-centric.

The water sector in all countries is also aiming to become more consumer-orientated, although it is also at an early stage in the journey towards consumer principles-based regulation, particularly in England and Wales.



The energy sector is the most evolved in terms of the adoption of consumer principles-based regulation. Having a 'Treating Customers Fairly' set of principles is compulsory in the energy sector in Great Britain, but most of the larger energy companies and around half the smaller suppliers have gone above and beyond the requirements of the Standards of Conduct. In Northern Ireland, the customer charters adopted by energy companies also go beyond licence conditions. However, even in the energy sector, it is widely acknowledged that there is considerable work still to be done and that the sector is only at an early stage of the 'journey' towards the full adoption of a consumer principles-based framework.

Currently few organisations in the energy, water or postal sectors have truly reached the third stage of the process, by which they have adopted a fully-fledged set of consumer principles and embedded these in planning, operations and communications. However, almost all organisations have demonstrated some ambition to move towards that goal.

8. Conclusions and implications of the research

The CFU employs a set of tried and tested consumer principles which have been developed over time by the CFU and its predecessor organisations and by other consumer-focused organisations in the UK and beyond.

Consumer Principles framework used by the CFU

Access	Can people get the goods and services they need or want?
Choice	Is there any?
Safety	Are the goods or services dangerous to health or welfare?
Information	Is it available, accurate and useful?
Fairness	Are some or all consumers unfairly discriminated against?
Representation	Do consumers have a say in how goods or services are provided?
Redress	If things go wrong, is there a system for putting them right?

Some regulators and service providers see a benefit in using an existing, tried and tested framework, such as the CFU one, and either using that framework as it is or modifying it for the sector in question. The legal services sector, for example, proposes using a framework that is identical to the CFU one. Another example is the energy sector taking the TCF framework from the financial services industry.

Regulators and service providers generally demonstrate little appetite for a harmonised set of principles across all sectors, with the majority of respondents in the research believing that each sector should find its own solution that fits its own unique needs.

Priorities will be different for different types of organization. For example, for network operators, safety is a prime consideration whereas suppliers are essentially just providing a billing service. For suppliers, communication is a bigger issue.



The CFU consumer principles framework, or a very similar framework, has been applied in other markets, including the legal and health sectors, and by other consumer bodies such as CCWater and the Consumer Council for Northern Ireland. The fact that so many sectors and organisations have recognised the benefits of this kind of framework demonstrates its usefulness as a checklist to assess consumer focus and inform policy development.

The CFU framework is therefore sufficiently robust to act as a good yardstick against which other consumer-focused frameworks can be measured. The level of match with the CFU framework is therefore a good way of determining how robust and consumer-focused other frameworks are.

By that test, the TCF framework used in the Great Britain energy sector and the customer charters developed by Northern Irish energy companies have the highest level of match with the CFU framework and can therefore be judged the most robust currently in place. Throughout the water and postal sectors, the degree of match with the CFU principles is slightly lower, indicating that the frameworks, even where they exist, are less robust and could be improved.

Although each of the energy, water and postal sectors claim to be consumer-focused, the existing way in which this is implemented is different to the approach of the CFU, and many of the existing consumer-focused statements or frameworks do not cover all the CFU consumer principles. For example, access is often implied rather than explicitly stated as a consumer principle. Another principle, choice, is perceived to be less relevant in monopoly situations, although it is a key aspect in competitive markets such as energy. Choice can, however, be interpreted in a less literal way, namely as a determination of consumer requirements based on consultation (the kind of service that the consumer *chooses*). Indeed, representation is a key principle, and increasingly the 'customer voice' informs service delivery and customer promises.

Safety, fairness and the provision of information that is clear, accurate and unbiased are all important principles, and tend to be reflected in the different frameworks employed.

Also there is almost always a complaints procedure, although redress is not always cited as a consumer principle.

There are items covered by existing frameworks that are not covered by the CFU framework, such as value for money, trust, honesty, confidence, and also the environment and sustainability. There is some concern among regulators and service providers that the CFU consumer principles are too rigid, asking 'yes or no' questions rather than reflecting the subtleties of real situations.

It should be recognised that the CFU principles may not all be applicable in every case. In particular regulators may be responsible for different aspects. In the Scottish water industry, for example, SPSO is responsible for redress, and so WICS would not be expected to address this principle.

The consumer principles framework used by CFU does, however, have an important role to play. The framework has the significant benefit of being tried and tested over time in a range of sectors. It can therefore be used by CFU staff to guide its own work and also applied by regulators and service providers in different contexts with only minor modification. It can act as a good checklist to test policy formulation and service provision.

There is potentially an opportunity to use the CFU framework where no framework currently exists for example in the unregulated postal services market, for Distribution Network Operators, and also for smaller water companies in England and Wales.

At the very least it can be used to test other frameworks to ensure that they are relevant, comprehensive and fit for purpose, and that they truly have consumers at their centre.



BACKGROUND AND RESEARCH METHODOLOGY



1. Background to the research

1.1. The Consumer Futures Unit



The Consumer Futures Unit (CFU) is part of Citizens Advice Scotland (CAS). The CFU seeks to put consumers at the heart of policy and regulation in the regulated industries of energy, post and water and thereby to improve consumer outcomes in these sectors. It develops evidence-led, practical policy solutions that lead to consumers being informed, engaged, protected and empowered to make the right choices.

The CFU employs a set of tried and tested consumer principles which have been developed over time by consumer-focused organisations in the UK and beyond. One of the CFU's predecessors is the National Consumer Council, which stated the importance of having a consumer principles framework in place to support its development of consumer-focused policy and practice:

*'In order to achieve an impact, it is important that our work is seen as authoritative and credible. Our legitimacy is underpinned in part by the extent to which we demonstrably connect into consumer experience, support our analysis with evidence and have suitable quality controls. It is therefore important to have some kind of agreed framework underpinning the way we approach issues, so that we are consistent across subject areas, can extend our previous thinking to new topics and are not driven by individual preference. This framework should also help us identify what is or is not a consumer policy topic, as opposed to a wider policy or political matter.'*¹

The CFU and its predecessors have identified some key benefits of adopting consumer principles:

- They can be used to assess the consumer interest;
- They can form the framework within which policy is developed and communicated;
- They allow consumer bodies, regulators and other organisations to champion consistent and transparent policy positions across a diverse range of subject areas;
- They help management and staff to operate confidently and effectively when new or unfamiliar issues arise;
- They provide a straightforward way of explaining to stakeholders how a consumer body identifies and analyses consumer issues.

¹ Consumer Focus Scotland 'Underpinning our Consumer Policy Analysis' (2009)



The adoption of a set of principles focusing on consumers can therefore support the work of regulators and service providers in providing beneficial outcomes for consumers.

The consumer principles adopted and used by the CFU and its predecessors has its origins in a 1962 speech given by John F. Kennedy to the US Congress, in which he outlined the 'Kennedy Principles' of the rights to choose, to be informed, to safety and to be heard. These rights were further developed in the European Community's 1975 Council Resolution on Consumer Policy, including the addition of a new one relating to redress.

The United Nations 'Guidelines for Consumer Protection' were initiated in the 1970s, and expanded in 1999, and add a further three principles relating to standards of safety and quality; access to essential goods and services; and the promotion of sustainable consumption. The guidelines were adopted by the UN in 1985 after 10 years of campaigning by Consumers International (CI). They gave important legitimacy to the principles of consumer rights and practical support and guidance for developing national consumer protection legislation.

Consumers International (CI) uses a similar list itself, expressed as eight 'rights' rather than seven principles². These are the rights to:

- Satisfaction of basic needs
- Safety
- Be informed
- Choose
- Be heard
- Redress
- Consumer education
- A healthy environment

This, then, is the lineage of the principles adopted by the CFU to underpin its work, which are as follows.

Access	Can people get the goods and services they need or want?
Choice	Is there any?
Safety	Are the goods or services dangerous to health or welfare?
Information	Is it available, accurate and useful?
Fairness	Are some or all consumers unfairly discriminated against?
Representation	Do consumers have a say in how goods or services are provided?
Redress	If things go wrong, is there a system for putting them right?

² Consumer International (www.consumersinternational.org)



There is an argument that they should be expanded to cover elements such as the quality of goods and services, how they are delivered and sustainability. However, these principles or rights are tried and tested, well established and accepted by consumer organisations globally. They also have the significant merit of being concise and memorable.

The CFU uses its consumer principles framework as a checklist to assess consumer focus and form the framework within which policy is developed and communicated. The principles allow CFU to champion consistent and transparent policy positions across a diverse range of subject areas, and help the CFU to operate confidently and effectively when new or unfamiliar issues arise. The consumer principles provide a straightforward way of explaining to stakeholders how the CFU identifies and analyses consumer issues.

1.2. Market research to explore the take up of consumer-focused frameworks

The CFU believes that if principles that focus on consumers were more widely understood and adopted by regulators and service providers that this would result in the development of greater consumer-focused policy at a 'grass roots' or strategic level, that would deliver better consumer outcomes.

There is currently a lack of insight relating to the existence and application of consumer principles-based frameworks within regulation, the development of policy and the delivery of services. It is also unclear whether existing frameworks are made publicly available as part of a corporate statement of intent or customer 'promise.'

The CFU has therefore sought a clearer understanding of how consumers are currently considered by other industries during the formulation of policy and practice. The aim is to identify which mechanisms, if any, regulators and service providers currently use to ensure their policy and practices are designed around consumers, and to determine if there is potential for using the consumer principles to improve performance in this area, leading to more positive consumer outcomes.

Research has been conducted to explore these issues, in the form of a meta-analysis of information already available in the public domain together with qualitative interviews with a cross section of regulators and service providers.

Purple Market Research, an independent research consultancy, conducted the research on behalf of the CFU.

In this report, we outline the key findings of the research on the existence and application of consumer principles frameworks together with key conclusions and implications arising out of the research.



2. Research methodology

2.1. Scope of the research

The primary focus of the research is the UK energy, water and postal sectors.

There are a number of regulators responsible for these sectors in the UK, and the remit of each regulator varies by sector and region.

- Ofgem is responsible for regulating the energy sector in Great Britain (England, Wales and Scotland), whereas the energy market in Northern Ireland is regulated by the Utility Regulator Northern Ireland.
- The water industry is different, with three different regulators operating: Ofwat is responsible for the water industry in England and Wales; the Water Industry Commission for Scotland (WICS) regulates the industry in Scotland; and the Utility Regulator Northern Ireland regulates the Northern Ireland water industry (in addition to the energy sector in Northern Ireland).
- Regulation of the postal sector is the responsibility of Ofcom and their remit is UK-wide (and covers multiple communications industries in addition to post, such as broadcasting, telecommunications and broadband services).

In diagrammatic form, this rather complicated situation can be summarised as follows.

The regulatory landscape

	Energy	Water	Post
England & Wales	Ofgem	Ofwat	Ofcom
Scotland		Water Industry Commission for Scotland	
Northern Ireland	Utility Regulator for Northern Ireland		

In this report, we have considered the different segments separately, although we have determined any commonalities and key differences in the 'Summary and Conclusions' section towards the end of this document.

2.2. Overview of the research methodology

The research programme comprised three main phases: a set up and planning stage; data gathering; and the final analysis and reporting stage. The data gathering phase in turn comprised three symbiotic methodologies, namely a review of intelligence held within the CFU, a meta-analysis of information available in the public domain and qualitative interviews with a cross section of regulators, service providers and other consumer organisations in the energy, water and postal sectors.



The key elements of the data gathering exercise are described below.

Internal data mining	A review of market intelligence already available within the CFU, including policy documents and research conducted on consumer principles.
Meta-analysis	<p>Secondary (desk) research was employed to identify and summarise consumer principles currently adopted by regulators and service providers. The analysis involved a review of relevant regulator and service provider websites and a general information search to explore the key elements of a consumer principles-based approach and best practice in this area.</p> <p>The focus was on organisations within the regulated UK industries of energy, post and water, although the desk research also explored best practice in other industries, such as the legal, financial and health sectors.</p>
Qualitative research	<p>Qualitative research among regulators and service providers to explore further the extent to which consumer principles are the basis for planning and operations in such organisations.</p> <p>As for the meta-analysis, the qualitative research focused mainly on UK regulators and service providers in the energy, post and water industries although the research scope embraced best practice in other sectors and markets.</p> <p>The main qualitative research technique employed was depth interviews (a mix of face to face and telephone interviews).</p> <p>Forty interviews were conducted in the qualitative research. Organisations consulted in the research are listed in the appendices to this document.</p> <p>All interviews were conducted by Purple Market Research.</p>

More information on the research methodology can be found in the appendices to this report.

The research was conducted from January to March 2017.



KEY RESEARCH FINDINGS



3. The role of consumer principles frameworks

Key findings:

- The benefits of adopting a consumer principles-based approach to regulation have been demonstrated in a range of markets, including the legal, financial and health sectors.
 - There is a strong body of evidence that regulation is moving from a prescriptive rules-based approach towards one based on principles or ethics.
 - A principles-based approach to regulation has several key benefits, including being briefer, simpler and easier for consumers themselves to understand.
 - With principles-based regulation, the regulator does not have to understand every nuance and detail of the market, and the regulations do not need to cover every option or eventuality to ensure that there are no gaps or loopholes.
 - Principles-based regulation, importantly, places the onus on the service provider to consult consumers, better understand their needs and develop more customised, innovative and consumer-focused service provision, leading to more positive consumer outcomes.
-

3.1. Consumer policy tools

Consumer policy tools available to authorities with responsibility for consumer protection

The Organisation for Economic Co-operation and Development (OECD) estimates that consumers account for more than 60% of GDP in OECD countries and therefore play a vital role in economies. When they are empowered, consumers can improve economic performance by helping to drive competition and market innovation.

However, to maximise the contribution of consumers, the OECD stresses the importance of '*an effective consumer policy regime in which consumers are protected from unfair marketplace practices and are in a position to make well informed decisions, and in which both business and consumers are aware of their rights and responsibilities.*'³

The OECD describes consumer policy making in terms of six main steps:

1. Defining the consumer problem, its sources and the institutions and stakeholders that could be involved in the potential policy development process;
2. Measuring the consumer detriment (how consumers are being harmed and how many);
3. Determining whether the consumer detriment warrants a policy action;
4. Setting a policy objective and identifying a range of policy options;
5. Evaluating options and selecting a policy action;
6. Developing a policy review process to evaluate the effectiveness of the policy.

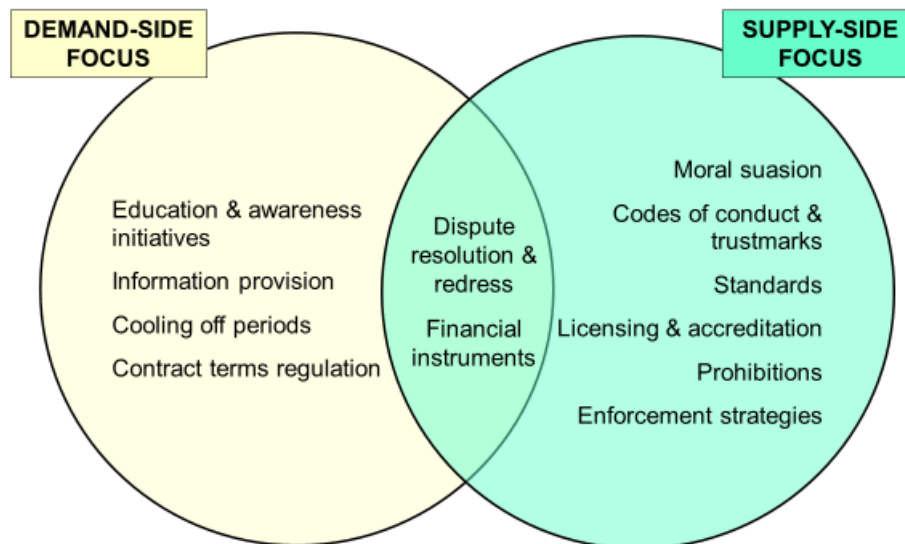
³ Chapter 4 of the OECD report 'Consumer Policy Toolkit' (http://www.keepeek.com/Digital-Asset-Management/oecd/governance/consumer-policy-toolkit_9789264079663-en#.WOdNdk11qUk)



There is a range of policy tools available to authorities with responsibility for consumer protection, both consumer empowerment tools ('demand-side measures') and those that focus on modifying the behaviour of service providers ('supply-side measures').

The OECD presents these sets of tools as follows.

Consumer policy tools to target the demand and supply sides of markets



The supply-side measures are the main focus of this report. Of these different measures, a number lend themselves to legislation and prescriptive rules, such as licensing, prohibitions and dispute resolution. Others, notably moral suasion (whereby authorities seek to influence or put pressure on service providers to meet a specific objective regarding consumers without directly regulating their activities), tend to put the onus on the service provider to develop a consumer-focused approach to dealing with consumers. The latter approach is essentially consumer principles-based regulation.

Consumer principles-based regulation has been adopted in a range of markets, including the financial, legal and health sectors, demonstrating the benefits of a set of consumer principles as a framework for regulation, consumer communications, planning, and the delivery of information and services.

Ethical Business Regulation ⁴

There is a body of evidence that regulation is moving from a rule-based approach to a principles-based one, where the onus is on the provider of a product or service to demonstrate that they are treating customers with respect and fairness.

⁴ C Hodges 'Law and Corporate Behaviour: Integrating Theories of Regulation and Enforcement' (2015).



A good example of an approach to regulation that puts the onus on suppliers to take responsibility for their treatment of customers is 'Ethical Business Regulation,' (EBR) advocated by Professor Chris Hodges of Oxford University's Faculty of Law. Hodges has conducted extensive research to explore why people obey rules, or break rules, and based on that research has determined best practice in ensuring compliance and maximizing performance and innovation, both internally within companies and externally in public regulatory and enforcement systems.

Based on that research, Hodges has proposed a model of Ethical Business Regulation. Within this model, the regulatory system is most effective in affecting the behaviour of individuals where it *'supports ethical and fair behaviour.'* Regulators should adopt *'unimpeachable, consistent and transparent ethical practice'* and product and service providers should demonstrate constant and satisfactory evidence of their *'commitment to fair and ethical behaviour that will support the trust of regulators and enforcers, as well as of employees, customers, suppliers and other stakeholders.'*

Hodges contention is that a 'blame' culture will inhibit a culture of learning and ethical behaviour, so businesses and regulators should encourage and support an essentially *'no blame'* culture, that is open and collaborative.

There are many examples of a positive response to this proposed approach to regulation. The idea of EBR has influenced the UK Government in adopting its major January 2017 policy on Future Regulation, involving 'regulated self-assurance' and 'assured advice.' The Scottish Government has approved of the approach in its 2016 Competition and Consumer Protection Policy. The Committee on Standards in Public Life strongly supported the EBR policy in its 2016 report on ethics in regulators 'Striking the Balance: Upholding the Seven Principles of Public Life in Regulation. The work has been cited in the European Commission's July 2016 report on 'Innovation, Opportunity Now: Europe's mission to innovate.'

The concept of EBR has been used as the basis for the Government's Regulatory Futures Review published in January 2017. The Review recommends that all UK regulators should move towards models of 'regulatory self-assurance' and 'earned recognition', which would permit savings of approximately £600 million in the government's funding of regulators. The Review notes that such a system must be based on evidence of trust, that people will all 'do the right thing', based on ethical business practices, in return for which they would be regulated with a 'very light touch' in a no-blame relationship. That is the EBR model proposed by Hodges.

Institute of Chartered Accountants England and Wales Code of Ethics⁵

The Institute of Chartered Accountants England and Wales (ICAEW) uses a 'Code of Ethics' which is essentially a principles-based approach, based on the International Federation of Accountants' Code of Ethics.

The ICAEW considers this approach to be robust and flexible for several reasons:

- It provides guidance that can be applied to the infinite variations in circumstances that arise in practice;
- It can cope with rapid changes of the modern business environment;
- It prevents the development of a mechanistic, "box-ticking" approach to decision-making and the use of legalistic loopholes to avoid compliance with guidance;
- It focuses on the spirit of the guidance and encourages responsibility and the exercise of professional judgement, which are key elements of professions.

⁵ ICAEW (www.icaew.com)



The ICAEW recognises that there are some potential drawbacks and a rules-based approach has benefits, namely that compliance with such guidance is easier since the requirements are prescriptive and leave little room for misunderstanding. Furthermore, rules-based approaches are easier to enforce.

The ICAEW notes that, in practice, Codes of Ethics are often a mixture of principles and rules and *'the key issue is striking an appropriate balance which encourages the spirit of the guidance to be complied with and does not undermine the exercise of judgement and the role of the profession.'* This is an important point, in that the aim is not necessarily to replace a set of rules with a set of principles, and often rules and principles support each other.

3.2. Application of consumer principles-based frameworks in other sectors

Consumer principles-based frameworks have been applied within many sectors, including the following.

The legal sector

The role of the Legal Services Consumer Panel is to provide independent advice to the Legal Services Board about the interests of users of legal services. This is done by investigating issues that affect consumers and by seeking to influence decisions about how lawyers are regulated.

The Legal Services Consumer Panel has recommended that the legal sector in England and Wales adopts a set of consumer principles as *'a simple tool for regulators to help them think about the consumer interest in a structured way.'* The recommended consumer principles are the same as those promoted by the CFU, namely access, choice, safety, information, fairness, representation and redress.

Legal Service Consumer Panel Consumer Principles⁶

Access	Can people get the goods and services they need or want?
Choice	Is there any?
Safety	Are the goods or services dangerous to health or welfare?
Information	Is it available, accurate and useful?
Fairness	Are some or all consumers unfairly discriminated against?
Representation	Do consumers have a say in how goods or services are provided?
Redress	If things go wrong, is there a system for putting them right?

⁶ Legal Service Consumer Panel 'The Consumer Interest: Using Consumer Principles' (January 2014)



The financial sector

The Financial Conduct Authority is the conduct regulator for UK financial services firms and markets. Its remit is to protect customers, enhance the integrity of markets and promote competition.

The FCA 'Treating Customers Fairly' (TCF) framework states: '*All firms must be able to show consistently that fair treatment of customers is at the heart of their business model.*'⁷

The TCF principle aims to raise standards in the way firms carry on their business by introducing changes that will benefit consumers and increase their confidence in the financial services industry. Specifically, TCF aims to help customers fully understand the features, benefits, risks and costs of the financial products they buy, and minimise the sale of unsuitable products by encouraging best practice before, during and after a sale.

The FCA doesn't specify a standard way in which TCF should be assessed and implemented, but it has highlighted key areas within the product life cycle where extra checks should be in place. These include product design, financial promotion and marketing practices, the sales process, information provision, customer support after the point of sale and complaint handling. In practice this means identifying potential gaps in TCF practice and developing procedures and checks to plug these in staff training, marketing and sales materials, product understanding, advice and sales processes, and complaint handling.

The framework specifies six consumer '*outcomes*' that firms '*should strive to achieve to ensure fair treatment of customers.*' The outcomes are:

-
1. Consumers can be confident they are dealing with firms where the fair treatment of customers is central to the corporate culture;
 2. Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly;
 3. Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale;
 4. Where consumers receive advice, the advice is suitable and takes account of their circumstances;
 5. Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect;
 6. Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.
-

The TCF framework has been adopted by Ofgem as an appropriate model for the energy sector in Great Britain (see section 4 of this report).

The health sector

Healthwatch England is '*the national consumer champion in health and care,*' with statutory powers to ensure the voice of the consumer is strengthened and heard by those who commission, deliver and regulate health and care services.

⁷ Financial Conduct Authority (www.fca.org.uk/firms/fair-treatment-customers)



Healthwatch has eight consumer principles based on feedback from the public.⁸

- Essential services
- Access
- A safe, dignified and quality service
- Information and education
- Choice
- Being listened to
- Being involved
- A healthy environment

Looking at the above applications, the excellent match between these and the CFU consumer principles framework is demonstrated below.

Comparison with the CFU consumer principles framework

	Legal Services Consumer Panel	FCA 'Treating Customers Fairly' framework	Healthwatch consumer principles
Access	✓		✓
Choice	✓	✓	✓
Safety	✓		✓
Information	✓	✓	✓
Fairness	✓	✓	
Representation	✓	✓	✓
Redress	✓	✓	

✓ Indicates a match with the CFU consumer principles

There is clearly a high degree of matching. The overall spirit of these frameworks and much of the detail is entirely consistent with the CFU consumer principles.

This reinforces the proposition that the CFU set of consumer principles is a good, robust framework which can be applied in a range of contexts.

⁸ Healthwatch (www.healthwatch.co.uk)



3.3. Application of consumer principles-based frameworks among consumer representative bodies

In addition to the CFU, there are several other bodies providing consumer protection and representing the consumer voice in the UK energy, water and postal sectors (and in other sectors).

All such bodies consulted in the research have adopted consumer principles frameworks to underpin their work in consumer protection, advocacy, policy development and education. In this section of the report we discuss some examples of the way consumer principles have been used by consumer bodies.

Consumer Council for Water

The Consumer Council for Water (CCWater) represents the consumer's voice in the water industry in England and Wales.

Established in 2005 to provide consumers with strong representation, including making sure their interests are at the heart of decision-making in the water industry, CCWater provides free advice to consumers and keep them informed on the issues that affect their water and sewerage services. It also takes up the complaints of household and non-domestic customers when they are unable to resolve them directly with their water company.

In terms of overall strategy, CCWater states that *'Our values define what we stand for as an organisation, and are there to guide us in our day-to-day work and decisions...Consumers are at the heart of our organisation.'*

In its Forward Work Programme and also in the Annual Report 2016, CCWater identifies a set of 'key strategic issues' that underpin its work.⁹

1. *Speaking up for and informing consumers by providing a trustworthy, independent voice that informs consumers about key water issues and ensures governments, water companies and other stakeholders understand water consumers' views;*
2. *Pressing for fair, value for money and affordable charges that are acceptable to customers;*
3. *Water companies provide services that are right first time and sort out problems quickly and without hassle;*
4. *A reliable, resilient, sustainable, safe, good quality water supply that consumers value and use wisely;*
5. *A sustainable, resilient sewerage service that works and is used responsibly by consumers.*

These issues are very prominent and visible on CCWater website and documents.

The Consumer Council for Northern Ireland

The consumer's voice is also represented by the Consumer Council for Northern Ireland (CCNI), whose remit covers energy, water, postal services and food.

The CCNI applies a set of consumer principles that are very similar to those used by the CFU, albeit refined for the CCNI remit. Consumer principles are used by CCNI *'to assess the consumer interest and form a consistent framework within which policy is developed and communicated.'*¹⁰

⁹ CCWater Forward Work Programme and Annual Report 2016

¹⁰ Consumer Council for Northern Ireland 'Draft Forward Work Programme 2017/2018'



The eight principles are:

- *The right to access to and satisfaction with basic needs e.g. food clothing, public utilities, water, etc.*
- *The right to safety – protection from dangerous products or services*
- *The right to be informed and protected from dishonest & misleading advertising or labelling*
- *The right to choose – to be able to select from a range of products & services, offered at competitive prices with assured quality*
- *The right to be heard – to have consumer interests represented in government policy and the development of products & services*
- *The right to redress – to receive a fair settlement of just claims including compensation for unsatisfactory products or services*
- *The right to education – knowledge to inform decision making*
- *The right to a healthy environment*

These principles cover all seven CFU consumer principles with the possible exception of 'fairness.' They also include satisfaction and education, which are not explicitly covered by the CFU framework.

These consumer principles are not *currently* very visible on CCNI website and in documents. They can be accessed in the Consumer Council for Northern Ireland's 'Draft Forward Work Programme 2017/2018,' but they are not prominent in the public domain. Consideration is being given to making them more prominent on a newly reworked website.

Consumer and Competition Policy for Scotland ¹¹

The Scotland Act 2016 gave the Scottish Parliament new consumer advocacy and advice powers. The Scottish Government is working with stakeholders to develop a Consumer and Competition Strategy for Scotland to determine the best way to deliver new consumer advice and advocacy powers in Scotland. Keith Brown, the Scottish Government's Cabinet Secretary for the Economy, Jobs and Fair Work, commented in 2016: '*It is vital that we create a system of consumer protection, competition and regulation in Scotland which is fully aligned with the needs of our citizens and businesses and which improves people's lives.*'

To help achieve this goal and to take forward its work on delivering better outcomes for consumers and businesses in Scotland, a set of principles have been adopted:

- Consumer protection and competition policy will support economic growth while upholding our values of a fairer, more equal Scotland;
- Collaboration and flexibility will be at the heart of our approach;
- Consumers will be protected from harm, and empowered to challenge organisations to take their needs into account;
- Protecting consumers will also protect and support businesses, and encourage fair competition;
- Scotland's competition policy should reflect its specific needs and circumstances.

¹¹ Scottish Government 'Delivering better outcomes for consumers and businesses in Scotland (December 2016)'



The CFU principles of safety, choice, fairness, representation and redress are all reflected in these commitments, as indicated below.

The Scottish Government has committed to some specific actions in pursuit of the above aims, including delivering on its commitment on a unified consumer body, tackling nuisance calls, co-ordinating publicly funded advice services, forming a taskforce (to identify consumer harm and market failings and ways of tackling them), understanding how markets work and developing a 'collaborative economy.' One of those actions is to embed ethical based regulation (*'securing compliance by changing organisational culture through collaboration and developing ethical values'*) into the regulatory toolkit during the course of 2017. This is the essence of consumer principles based regulation.

There is a high degree of match between the different frameworks used by the consumer bodies discussed above and the CFU consumer principles framework.

Comparison with the CFU consumer principles framework

	Consumer Council for Water	Consumer Council for Northern Ireland's 8 principles	Scottish Government Consumer & Competition Policy
Access	✓	✓	✓
Choice		✓	✓
Safety	✓	✓	✓
Information	✓	✓	✓
Fairness	✓		✓
Representation	✓	✓	✓
Redress	✓	✓	

✓ Indicates a match with the CFU consumer principles

This again reinforces the view that the CFU consumer principles framework is a robust one. We conclude that the CFU framework is one that regulators and service providers could use with confidence, either by adopting it as their own framework or as a yardstick to test their own frameworks.

3.4. Pros and cons of principles-based regulation

The key benefit of a principles-based approach to regulation rather than a rules-based approach, is that it is easier for consumers themselves to understand, in that it tends to use consumer-friendly terminology and tends to be simpler and briefer.



Another important benefit of a principles-based approach to regulation is that it places the onus on the service provider to consult consumers, to better understand their needs. So it encourages communication between service providers and consumers. This approach also makes it easier to tailor the principles to the specific sector or region in question. The corollary is that the regulator does not have to understand every nuance and detail of the market, and the regulations do not need to cover every option or eventuality to ensure that there are no gaps or loopholes. Rules-based regulations also have to be constantly updated.

Last but not least, a principles-based approach makes it less likely that service providers can continue using a mechanistic, 'box-ticking' approach to their customers. Rather they are given leeway on how best to meet their obligations and encouraged to innovate.

Of course, there are some potential drawbacks to a principles-based approach to regulation. This approach can be vague and open to interpretation, potentially leaving a 'grey area' for disputes and disagreement. There is a risk that it can be subjective and makes it difficult to have consistent standards across an industry. A principles-based approach can also add a layer of regulation to the existing rules, at least while a principles-based approach is bedding in.

A principles-based approach can be retrospective and reactive, with the regulator judging the actions of service providers after the event rather than setting out rules about what should happen in advance of non-conformances. However, used correctly a principles-based approach can be a proactive tool, guiding the formulation of policies and practices to reduce that risk.

In summary, the main benefits and drawbacks of a principles-based approach to regulation are:

Benefits and drawbacks of a principles-based regulation ¹²

Benefits	Drawbacks
Consumer understanding	Vague
Simplicity and brevity	Open to interpretation / subjective
Onus on the service provider to communicate with consumers & better understand their needs	Adds to regulatory burden
Easier customisation to market or region	Retrospective and reactive
Less need for the regulator to have comprehensive understanding of the industry	Lack of consistent standards across sectors
Less need to cover every option / eventuality	
Do not need to be constantly updated	
Discourages a mechanistic, 'box-ticking' approach	
Gives service providers flexibility on how to satisfy principles	
Encourages companies to innovate in service provision	

¹² Interviews with regulators & service providers / Utility Week / ICAEW & others



4. Application in the Great Britain energy sector

Key findings:

- Despite gas and electricity companies in Great Britain requiring a licence to operate, in the form of prescriptive conditions, Ofgem is committed to moving to a greater reliance on enforceable general *principles* rather than prescriptive *rules*, with the principles taking the form of Standards of Conduct with the Customer Objective that service providers *treat customers fairly* (TCF).
 - Suppliers are each responsible for determining how to achieve the objective of treating customers fairly; they must publish an annual TCF statement setting out how they seek to meet the objective and the main actions taken to that end, based on Ofgem's standards.
 - The main drivers behind the introduction of the Standards of Conduct were:
 - A need to reduce grey areas and loopholes in the rules;
 - A desire to place the onus is on the service providers, encouraging them to consult with customers to determine what their needs are, to develop products and services that meet those needs, and, importantly, to innovate in the way they treat customers;
 - A need to address customer detriment in the market due to poor customer satisfaction, a lack of transparency regarding pricing and the difficulty of changing supplier.
 - The extent to which the TCF principles have been articulated by suppliers and made explicit in their marketing communications varies by size of organisation, with larger energy suppliers making their TCF promises very prominent on their websites and in brochures, whereas smaller suppliers do not necessarily have the resources to do so, with TCF promises tending to be less prominent among smaller energy companies.
 - Distribution Networks Operators (DNOs) have expressed some interest in a consistent consumer principles framework and believe that they would benefit from such a framework.
 - Another market segment that might benefit from the introduction of a consistent, tried and tested consumer principles framework, is the district heating sector.
-

4.1. Ofgem's role

Ofgem is Great Britain's National Regulatory Authority for the electricity and natural gas markets. Ofgem is governed by the Gas & Electricity Markets Authority (GEMA), which determines strategy and sets policy priorities.

Gas and electricity suppliers are required to be licenced by Ofgem in order to operate. Until 2103, licence conditions took the form of prescriptive and detailed supplier conditions.

Since 2013, Ofgem has been committed to moving to a greater reliance on enforceable general *principles* rather than prescriptive *rules*.



4.2. Treating Customers Fairly – a regulator-led principles-based framework

The Standards of Conduct

These principles take the form of Standards of Conduct, which are now incorporated as a condition of an energy supplier's licence to operate. The overall aim of this condition (the 'Customer Objective') is to ensure that each customer is treated fairly.¹³ The Standards of Conduct require that the licensee and any representatives of the licensee:

- Behave in a fair, honest, transparent, appropriate & professional manner;
- Provide information that is appropriate, fair, complete, accurate, not misleading and in plain & intelligible language;
- Make it easy for the customer to contact the licensee;
- Act promptly and courteously to correct any mistakes;
- Otherwise ensure that customer service arrangements & processes are complete, thorough, fit for purpose & transparent.

Moreover, the licensee must provide annual updates on how they treat customers fairly.

The key drivers behind the introduction of the Standards of Conduct were threefold.

- A need to address gaps in the licence conditions. Prescriptive rules need to be comprehensive to avoid grey areas and loopholes and Ofgem was finding it challenging to ensure that the rules were watertight.
- A desire to encourage energy suppliers to take responsibility. The aim of the Standards of Conduct is to ensure that there are positive outcomes for consumers, but the onus is on the service provider to determine what that positive outcome is and how customers should be treated fairly. This encourages services providers to consult with customers to determine what their needs are, to develop products and services that meet the needs of customers and, importantly, to innovate in the way they treat customers. Thus, customers are put at the heart of the organisation.
- A need to address customer detriment in the market due to poor customer satisfaction, a lack of transparency regarding pricing and the difficulty of changing supplier.

Ofgem formulated the Standards of Conduct principles based on a public consultation and input from key stakeholders, such as energy companies, trade bodies and consumer bodies. Particular regard was taken to the Treating Customers Fairly framework introduced into the financial services sector by the Financial Conduct Authority (FCA), which involved the introduction of principles alongside the retention of many of the prescriptive rules.

Ofgem is, however, seeking to remove prescription, and views principles as an alternative to prescription, while rejecting rules that aren't fit for purpose in that they do not support the principles. For example, the rules relating to customer bills are very detailed, specifying aspects such as the content, how bills are presented and even the font size used. The aim of the introduction of the Standards of Conduct was to remove much of this detailed prescription, placing the onus on suppliers to develop their own customer-orientated and innovative approach to billing.

¹³ Ofgem Current Domestic Standards of Conduct



Furthermore, service providers should be able to demonstrate where consumer consultation or research has influenced service delivery.

Ofgem's focus has moved from enforcement towards the prevention of poor practices that could negatively impact on the consumer, with the aim that this will give more scope to optimising the spread of good practice.

Ofgem has held Challenge Panels on the Standards of Conduct. These look at how the standards are being embedded at different stages or elements of the customer process, sales and marketing for example. The Panels identify and highlight good practices (which are attributed to companies) and areas of concern (which are not attributed).

Steps have been taken to encourage innovation. Ofgem has recently opened an Innovation Link to encourage particularly smaller suppliers and potential new entrants to discuss where they think regulations might be obstructing innovation. Ofgem has also issued invitations to a 'Regulatory Sandbox' where suppliers can be given temporary exemptions from the licence conditions to try out innovative solutions, an idea taken from the FCA.

Ofgem requires that service providers make their TCF statement accessible within four clicks from the home page on their websites.

There is evidence of positive consumer outcomes. Ofgem has recorded a reduction in the number of complaints for each of the last three years running the number has gone down. However, the Challenge Panels have determined that some providers have performed well and some less well, and Ofgem acknowledges that there is still a considerable amount of work still to do to fully realise TCF practices that maximise consumer benefits.

Suppliers' obligations

Guaranteed standards are written into suppliers' Standard Licence Conditions or through legislative instruments (for example the Complaint Handling Regulations 2008). These commitments are mostly very transactional, for example relating to fixing appointments, compensation for missing appointments and information to be contained in bills.

Suppliers are each responsible for determining and demonstrating how they achieve the objective of treating customers fairly. They must publish an annual TCF statement setting out how they seek to treat customers fairly and the main actions taken in line with the Customer Objective, based on Ofgem's standards.

Thus, the directions of the regulator, Ofgem, take the form of Licence Conditions, one of which is the Standards of Conduct, which requires that suppliers treat customers fairly. Suppliers meet their obligations through promises to consumers in accordance with the Standards Licence Conditions, presented as 'promises' or 'guaranteed standards.' One of the conditions is the Standards of Conduct, which in turn requires that suppliers declare how they will treat their customers fairly.

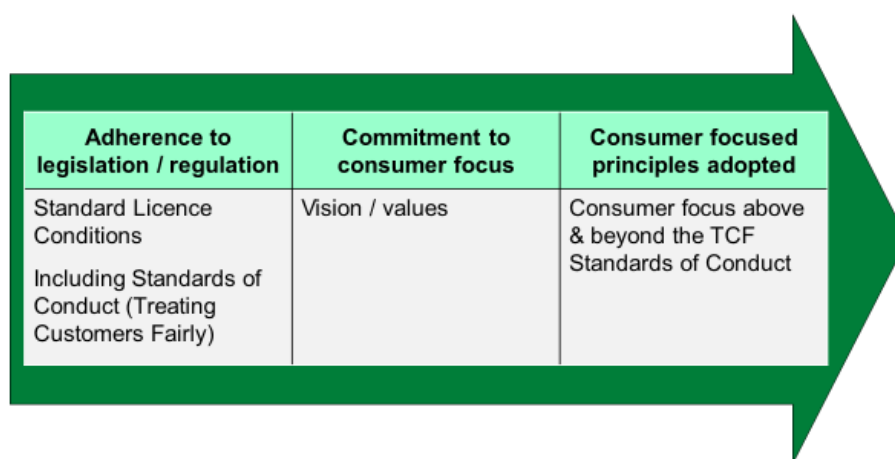
Service providers have different ways of focusing on the customer to meet their obligations. Essentially, they must define how they will meet the Customer Objective and show that they have achieved that objective. Although most suppliers use the expression 'Treating Customers Fairly' or a variation of that expression, they have freedom to use their own language and also to choose how they prefer to present their principles or promises. Suppliers also have the opportunity to go above and beyond the regulatory requirements by determining the best way to meet consumers' needs and finding innovative ways to meet those needs. Some energy companies have taken that opportunity.



Ofgem's aim is to move towards a principles-based approach to regulation, although this is likely to be a slow process. For a time, the principles-based approach will sit alongside the rules specified in licence conditions, but ultimately they should replace the rules-based approach.

In summary, the journey towards a principles-based approach is as follows.

Journey towards consumer principles: energy sector in Great Britain



For Ofgem and GB energy companies, both large and small, the movement from a rule-based regulation to a principles-based one remains a work in progress, with strong direction from Ofgem. The regulator and energy companies frequently describe the transition to a principles-based approach as a 'journey' and acknowledge that it has not yet been completed.

While the transition to a principles-based approach is underway, service providers may find that they have *both* principles *and* prescriptive rules determined by the regulators. A small number of energy companies complain that the 'burden' on suppliers has increased with the introduction of a principles-based approach. Some companies also comment that they have found themselves having to introduce strict procedural rules internally to ensure that staff adhere to the TCF principles. However, this may be a temporary situation during the transition to principles-based regulation.

The more customer-focused service providers are striving to embed the TCF principles throughout the organisation, as discussed below.

4.3. Comparison of Ofgem's TCF principles with the CFU framework

In the following table the TCF principles, as stipulated by Ofgem, are compared with consumer principles within the CFU framework.



Comparison with the CFU consumer principles framework

CFU principles	Ofgem TCF principles
Access	
Choice	
Safety	
Information	✓
Fairness	✓
Representation	
Redress	✓

✓ Indicates a match with the CFU consumer principles

There is therefore only a partial match between the TCF framework and the CFU consumer principles. However, if the TCF standard is considered alongside the regulatory requirements to provide access, choice and safety, there is a good match.

Also Ofgem does require that energy companies consult with their customers and that service delivery is informed by that consultation. The principles of access, choice, safety and representation are therefore addressed by Ofgem, although they are not explicitly referenced in the TCF specifications.

4.4. Application of the Treating Customers Fairly framework by energy service providers

All energy companies declare their Standards of Conduct, although the prominence they are given, and the extent to which they go beyond the regulatory requirements, varies by size of company.

How large energy companies in Great Britain apply Treating Customers Fairly

Large energy companies usually have explicit and highly prominent statements of their Standard Licence Conditions (the customer guarantees that they must offer under the terms of their licence from Ofgem), usually including separate documents or brochures stating their 'Treating Customers Fairly' promises. The following are good examples.

E.ON¹⁴

E.ON provides a prominent link to its Guaranteed Service Standards of Service ('*Because keeping a promise matters*'), a 26-page document outlining its standards for aspects of service such as access, safety, pricing, making a complaint and contacting E.ON, together with compensation levels for breaches of promises. One of the Guaranteed Service Standards is 'Treating Customers Fairly,' which is described in a separate statement.

¹⁴ Appendix A and E-on (www.eonenergy.com)



Treating customers fairly is one of the goals of E.ON's strategy to *'help us achieve our vision of becoming your partner of choice for energy solutions.'* E.ON states: *'Our customers continue to be at the heart of everything we do and our aim is to treat you fairly at all times. We've defined what we think that means for our customers in our definition of fairness above, and have been putting it into practice. We set out in this statement the things we have done in 2016, in-line with Ofgem's Standards of Conduct.'*

E.ON's key customer promises relating to Treating Customers Fairly are:

- *Being honest with you – giving you simple, clear and accurate information so that you can make informed decisions*
- *Saying sorry if we make a mistake – telling you promptly how and when we'll put things right, and keeping you informed of progress*
- *Making it easy for you to contact us, because we know your time is precious, and communicating with you in easy to understand language and in a way of your choice*
- *Giving you help to meet your energy needs, like ways to help you use less*
- *Listening to you so that we focus on improving the things that are important.*

E.ON also makes the claim that staff within the organisation are fair to each other, indicating the extent to which fairness is embedded within company values. Each year E.ON publishes a statement of activities and plans to achieve the aim of treating customers fairly.

Scottish Power

Another large energy company, Scottish Power, makes a number of statements prominently on its website, including Guaranteed Standards (the standards for eventualities such as making appointments or fixing faults, together with compensation for breaches, required under the licence conditions), a series of 'Customers Charters' (15-20 page guides to paying bills, making complaints, and so on) and a Standards of Conduct commitment that it will treat customers fairly, in that it will:

- *Be fair, appropriate, professional, honest and transparent in every interaction*
- *Provide you with information that is accurate, simple, straightforward and right for you*
- *Provide a level of service to meet your needs and where possible make managing your account easier*

In addition, Scottish Power has created headings of its own when describing the actions taken during the year...

- *Simple and easy to deal with*
- *There when you need us*
- *Fair and socially responsible*
- *Provide value for money.*

npower

The approach of the larger GB energy companies to consumer principles is illustrated by npower's framework *'Treating Customers Fairly – Putting You First.'*¹⁵ The npower 'Treating customers fairly' document can be accessed through prominent links throughout its website.

¹⁵ Appendix A and npower (www.npower.com)



Key sections of the document are:

- *You talked, we've listened – customers' views & needs understood through surveys, call centre feedback, online feedback, exit surveys, etc.*
- *Getting the help that you need – alternative ways to contact us, making it easy to contact us*
- *Caring for you – Priority Services, Warm Home Discount, Affordable Solutions and other schemes to ensure that all customers, including vulnerable ones, are treated fairly*
- *Improving our journey together – commitment to ongoing improvement*
- *We've improved communication – we've improved the way we communicate, including social media, online, phone and post options*
- *A better service for you – ensuring that tariff is right for you and service improves.*

In addition to its TCF statements, internally npower uses 'pub and mum' tests, that is how would employees feel if the customer was their mum and how comfortable would employees be telling friends in a pub what they are doing at npower? These tests are used to help develop and maintain working practices relating to customer service. This illustrates the extent to which npower is working towards putting customers at the centre of its philosophy and practices.

How smaller energy suppliers in Great Britain apply Treating Customers Fairly

Among smaller energy companies there is less likely to be a prominent statement relating to TCF. Sometimes the customer promise does not explicitly mention 'Treating Customers Fairly' although the spirit of the framework is always present.

Smaller energy companies in Great Britain generally claim to be as customer-focused as their larger counterparts, although they may not have the resources to produce glossy 'Treating Customers Fairly' brochures. With small energy companies, it is often the case that statements relating to 'Treating Customers Fairly (or equivalent wording) are less prominent than for larger energy companies. Typically, it is necessary to go through three or four clicks to access TCF promises or statements on the websites of smaller energy companies, such as Ovo Energy or Ecotricity.

Ovo Energy¹⁶

Ovo Energy, for example, makes the following statements in support of its 'Treating Customers Fairly' commitment.

- *We do our best to make sure we act honestly, transparently, appropriately and professionally at all times.*
- *We make it easy for you to contact us in whichever way suits you best*
- *We keep an eye on the information we give you, so it's always accurate and easy to read. We'll never try to mislead you*
- *We'll only write to you about plans and products that we believe are right for you*
- *Our Priority Services Register is a confidential list of customers who have specific needs. This helps us make sure we treat every customer in a way that meets their needs as fairly as possible*
- *Sometimes mistakes can happen. If they do, we'll react fast and do everything we can to sort things out the very first time you get in touch.*

¹⁶ www.ovoenergy.com



However, to find these statements, it is necessary to go through four links on the Ovo website.

Ecotricity¹⁷

Similarly, Ecotricity makes the following statements relating to Treating Customers Fairly:

- *We treat you the way we like to be treated ourselves*
- *We make it really easy for you to speak to us*
- *We'll tell you everything you need know to make an informed decision – and we'll always be upfront and clear with you.*
- *We operate an Ethical Pricing Policy, which means we have just one simple tariff for electricity and one for gas – and all our customers are always on our latest price*
- *When things do go wrong we have a simple process to support you*

There is some match with the spirit of the CFU consumer principles (if not much overlap with the specific principles). But to find these statements, it is again necessary to go through several links on the Ecotricity website. Indeed, the TCF page is hidden in a section called 'The Legal Stuff.'

First Utility¹⁸

First Utility is another good example of the approach of smaller GB energy companies. First Utility is very customer-focused, illustrated by the fact that they have life-size cardboard cut-outs of typical customers throughout their offices as a reminder that the customer is the key focus of the organisation. TCF is not explicitly referenced, but the 'Great Service' promise covers much of the same ground, and is prominent on its website.

'We believe in a more positive, engaged and informed relationship between customer and supplier. So, no matter if you're new or not to First Utility, we're committed to looking after you fairly by:

- *Treating you as we'd like to be treated - by acting honestly, transparently, appropriately and professionally at all times*
- *Making it easy for you to get in touch with us - however and whenever is convenient, we'd be pleased to hear from you*
- *Giving you the best possible deals we can - we'll always offer you our cheapest prices and best deals whether you're a new or existing customer*
- *Providing the best possible customer service - we invest heavily in staff training and high-tech systems so that our service continues to strengthen as we continue to grow*
- *Making it simple to understand and manage your account - through accurate and easy to understand bills, number one rated customer app and fun account tools.'*

The consumer principles of fairness, information and representation are again prominent.

4.5. Comparison of the application of TCF principles by service providers with the CFU framework

Looking at the frameworks used by specific energy companies, and again comparing these frameworks with that used by the CFU, yields the following comparative table.

¹⁷ www.ecotricity.co.uk

¹⁸ Appendix A and First Utility (www.first-utility.com)



Comparison with the CFU consumer principles framework

CFU principles	E.ON	Scottish Power	npower	Ovo Energy	Ecotricity	First Utility
Access						
Choice						
Safety						
Information	✓	✓	✓	✓	✓	✓
Fairness	✓	✓	✓	✓	✓	✓
Representation	✓	✓	✓	✓		
Redress	✓		✓	✓	✓	✓

✓ Indicates a match with the CFU consumer principles

There is consistently a good match for the provision of information, fairness, representation and redress. Redress tends to be implied by promises that it will be easy to contact the company rather than explicitly mentioned in the energy companies' frameworks, although regulatory rules specify that a clear and prominent complaints process must be in place.

Access and safety are not explicitly mentioned but are covered by legislative and regulatory requirements. Choice is important and suppliers are obliged by Ofgem to make switching easy. However, this is not part of the TCF framework.

So, although there is only a partial match between the TCF framework and the CFU consumer principles, that match is greater if the TCF principles are considered in tandem with the Guaranteed Standards.

This is a good example of rules working together with principles towards a more positive consumer outcome. In this case, that might be an interim solution, and Ofgem's ultimate ambition is for principles to replace prescriptive rules.

4.6. Evaluation of consumer-based frameworks in the GB energy sector

Energy suppliers are obliged to demonstrate that their consumer principles are being delivered effectively.

A series of methods are used to validate and evaluate performance.

Evaluation of consumer-based frameworks in the GB energy sector

Treating Customers Fairly Statement	All suppliers required to prepare annual statements highlighting how they are seeking to treat customers fairly and the actions taken in line with this objective.
Social obligations reporting	Companies obliged to provide quarterly data regarding treatment of debt and disconnections – published on Ofgem website.



Consumer complaints reporting	Quarterly and annual complaints data published on suppliers' websites with comparative data published by Ofgem.
Investigations into supplier behaviour	Ofgem authorised to investigate supplier behaviour where licence conditions (incl. Standards of Conduct) may have been breached.
Consumer research	Ofgem undertakes extensive customer research including its Consumer First panel and biennial research into complaints to energy companies.

4.7. Consumer-focused frameworks used by energy distribution network operators

Distribution Networks Operators (DNOs) have tended to have less interaction with consumers, but they are becoming more consumer-focused.

Currently, among DNOs, consumer or customer commitments are framed in a variety of ways, including 'vision' statements, Codes of Practice, Standards of Performance, Priority Services and general customer commitments or promises. Some of these are mandatory requirements (such as the Guaranteed Standards of Performance) and some are more general consumer promises.

DNOs express some interest in a consistent consumer principles framework and they believe that they would benefit from such a framework. There is, however, no evidence of a consistent, formal consumer principles framework currently in place.

An example: Scottish and Southern Electricity Networks¹⁹

Scottish and Southern Electricity Networks, for example demonstrates its commitment to customers in a number of ways.

It is mandatory for the organisation to provide Guaranteed Standards of Performance, which set out the service provider's obligations, such as how quickly power should be restored following an interruption, and a Priority Services commitment to offer extra help to vulnerable customers, together with compensation levels for failures to meet requirements.

In addition, SSEN demonstrates its consumer commitment through 'Our new brand' which goes beyond mandatory requirements and sets a goal '*of putting our customers at the heart of everything we do.*'

Despite these declarations, there is no single, prominent, stated set of consumer principles beyond this overall brand statement and SSEN's consumer commitments are demonstrated by an adherence to the Guaranteed Standards and an overarching vision to be more customer-focused.

4.8. Consumer-focused frameworks used by the district heating sector

There is another market segment that might benefit from the introduction of a consistent, tried and tested consumer principles framework, namely the district heating sector.

District and communal heating schemes (also known as heat networks) supply heat and hot water from a central source to multiple consumers through a network of insulated pipes.

¹⁹ Scottish and Southern Electricity Networks (www.ssepd.co.uk)



In 2015 DECC estimated that district heat met between 1% and 2% of UK heat demand. At this time, there were estimated to be 2000 heat networks, with 210,000 homes and 1,700 commercial properties connected, with a further 150 schemes under development.²⁰ Its use is growing, particularly in built-up urban areas. On average, therefore, each scheme covers around 100 homes, and an estimated 75% of all schemes are small, connecting fewer than 100 households. Just over half of schemes are in London.²¹

District heating has the benefit of being low carbon and it takes away the need to maintain a gas boiler. However, there is currently very little protection for consumers living in properties connected to district heat networks. Consumers in Great Britain have little or no choice of supplier and the sector is unregulated, so that consumers have no access to an ombudsman should they have a complaint and no control over the price they pay.

Consumer organisations such as Citizens Advice, the CFU and Which? have expressed concern over the lack of consumer protection in the sector. As heating policy is devolved, there is the potential to take this forward in Scotland, and the CFU has published research in this area²².

Within the district heating market, the existence and application of consumer principles frameworks is pretty much non-existent. Where consumer promises are made, they tend to be general and piecemeal. This is not surprising, given that many of the operators are small organisations, with less need for formal processes or procedures.

Typically, a provider of a district heating scheme might have several 'policies' relating to customer complaints handling, customer compensation, billing and so on. These may well have been 'borrowed' from energy companies with more evolved frameworks.

Feedback from consumers might be sought in a piecemeal fashion, through an occasional customer satisfaction survey or an open day.

The main consumer framework in place in the district heating sector is Heat Trust, a voluntary scheme launched in Nov 2015. The scheme is managed by Heat Customer Protection Limited, a not-for-profit company. The scheme has been adopted mainly by operators in the South East of England, and appears less prevalent in other parts of the UK.

Heat Trust sets customer service standards and customer protection requirements that heat suppliers should provide to their customers.

When a heat network is successfully registered with the Heat Trust Scheme, the customers on the heat network will benefit from the standards set by the scheme.

The scheme includes rules on the following:

- Support for vulnerable heat customers
- Heat supplier obligations
- Heat customer service and reporting a fault or emergency
- Process for customers joining and leaving
- Heat meters & heat Interface Units (HIUs)

²⁰ DECC, The Future of Heating: Meeting the Challenge, 2013; DECC, News Article: £7m Boost to Heat Industry Innovation 2015

²¹ DECC, Summary of Evidence on District Heating Networks in the UK, 2013

²² www.cas.org.uk/system/files/publications/different_rules_for_different_fuels_-_cfu_insight_report.pdf



- Heat bill and heat charge calculations & clarity
- Heat bill payment arrangements and the management of arrears
- Suspension and resumptions of service processes
- Complaint handling and independent complaint handling
- Privacy policy and data protection.

Requirements are 'comparable to the quality and performance standards for regulated utilities and draw on legislation and industry best practice.' It also provides an independent process with the Energy Ombudsman for settling complaints between customers and their heat supplier. This service is free for customers to access.

There is a partial match between the Heat Trust Scheme and the CFU consumer principles framework:

Comparison with the CFU consumer principles framework

CFU principles	Heat Trust Scheme standards
Access	
Choice	
Safety	
Information	✓
Fairness	✓
Representation	
Redress	✓

✓ Indicates a match with the CFU consumer principles

Among operators not registered with Heat Trust, there is some interest in the CFU framework to provide consumer principles, with the perception that it would help to raise standards and establish a minimum level of performance.

Many of the district heating providers are social landlords, that is local authorities and housing associations who abide by social housing consumer frameworks, such as the Scottish Social Housing Charter. Some providers have expressed concern about how the Heat Trust scheme would mesh with such existing frameworks.



5. Application in the water industry in Scotland

Key findings:

- The mission of the regulator of the Scottish water industry, WICS, is to manage an effective regulatory framework which encourages the Scottish water industry to provide a high-quality service and value for money to customers.
 - WICS believes that it is important to ensure that customers are at the heart of decision making in the industry.
 - WICS itself is not directly customer facing but the work carried out by WICS is based on consumer input through an independent 'Customer Forum'²³, which carries out research into customer preferences and negotiates with Scottish Water to ensure that it is customer-focused.
 - Most household customers in Scotland are billed for water and sewerage charges alongside their Council Tax bill, which means that there is less of a direct supplier / customer relationship than in England or Wales.
 - Nevertheless, Scottish Water is a consumer-centric organisation, as illustrated by its vision, ('six pillars'), which represents an important enhancement to the rules specified by regulators under the conditions of licence.
-

5.1. The Scottish domestic water industry

The Scottish water industry

Scottish Water²⁴ is the sole provider of water and waste water services to households in Scotland and acts as the wholesaler of water and wastewater services to licenced providers who provide retail services to non-domestic customers.

Most household customers in Scotland are billed for water and sewerage charges (alongside their Council Tax bill) by local authorities on behalf of Scottish Water.²⁵ This means that there is less of a direct supplier / customer relationship than in England or Wales.

Scottish Water has an obligation to produce a Code of Practice under section 26 of the Water Industry (Scotland) Act 2002. The Code of Practice provides information on the standards of service that customers can expect and on how Scottish Water will deal with customers.

Scottish Water's also has an overarching vision statement in the form of 'Six Pillars' which demonstrate a consumer focus which goes beyond regulatory requirements. It also has an internal set of consumer principles to guide its behaviour and culture.

The 'journey' towards the adoption of consumer-focused principles can be summarized as follows.

²³ Set up by the Water Industry Commission for Scotland, the CFU and Scottish Water (www.cas.org.uk/news/agreement-reached-establish-customer-forum-water)

²⁴ Scottish Water (www.scottishwater.co.uk)

²⁵ There is one notification but two bills



Journey towards consumer principles: water sector in Scotland

Adherence to legislation / regulation	Commitment to consumer focus	Consumer focused principles adopted
Legislation / regulation	Vision / values	Scottish Water 6 pillars
Codes of Practice	Internal consumer focus	
Market Code		

5.2. Regulation of the Scottish domestic water industry

The 'Quality and Standards' process, run by the Scottish Government, is the mechanism by which the principles of charging and investment objectives for the water industry in Scotland are set by Scottish ministers. Along with the Scottish Government, the Quality and Standards process involves the Water Industry Commission for Scotland (WICS), the Scottish Environment Protection Agency (SEPA), the Drinking Water Quality Regulator (DWQR), the CFU and Scottish Water.

The regulator WICS is a non-departmental public body with statutory responsibilities. Its mission is to manage an effective regulatory framework which encourages the Scottish water industry to provide a high-quality service and value for money to customers.

WICS' role and remit is as follows:

- *Setting prices: WICS has a statutory duty to promote the interests of customers, principally by setting prices for water and sewerage services that deliver the lowest reasonable overall cost.*
- *Facilitating competition: it is part of WICS' role to facilitate competition in the Scottish water industry (for non-household customers)*
- *Monitoring performance: It is essential that Scottish customers receive value for money from their water services provider. WICS' role in monitoring and reporting on Scottish Water's performance focuses on the following key areas: customer service; investment; costs; leakage.*

The role of WICS is to establish the lowest reasonable overall cost of delivering the principles of charging and objectives set by ministers. It does this by carrying out a 'Strategic Review of Charges' (or 'Price Review') for the six-year regulatory period.



WICS itself is not directly customer facing but the work carried out by WICS is based on consumer input through other bodies. As part of the Strategic Review process, WICS has developed the model of an independent 'Customer Forum.' The role of the Customer Forum is to carry out research into customer preferences and, within acceptable ranges set by WICS, to negotiate directly with Scottish Water on the outcome of their business plan for the regulatory period.

WICS supports an approach that gives clarity for consumers and believes that there may be potential value in having principles against which to test policy and procedures. However, WICS believes that high-level statements do not, in themselves, lead to better outcomes for customers. It is, nevertheless, important to ensure that customers are at the heart of decision making in the industry.

WICS monitors Scottish Water's overall performance on customer service and reports on this each year.

Other regulators in the Scottish water industry

Consumer protection is very much the objective of other regulators and consumer representatives in the Scottish water industry, notably the CFU, the Customer Forum, the Scottish Public Services Ombudsman (SPSO), the Drinking Water Quality Regulator (DWQR) and the Scottish Environment Protection Agency (SEPA).

The latter two organisations are not particularly consumer-facing. Nevertheless, they are working, along with other stakeholders, to deliver a more consumer-focused water industry.

The Scottish Public Services Ombudsman²⁶

The Scottish Public Services Ombudsman is the final stage for complaints about most water companies (and for complaints about other public services such as councils, the National Health Service, colleges and universities, and the Scottish Government).

SPSO's commitment to a focus on consumers is demonstrated by its core vision and values:

Vision:	Our vision is to be a world-leading, innovative, accessible and trusted organisation that promotes best practice, learning and improvement.
Values:	We work independently and fairly We are customer-focused and value integrity and respect We value learning and improvement.

SPSO is part of a programme to set common service principles for all Ombudsman schemes and has supported the development of a set of principles, including respect, dignity, clarity and accessibility, which can be applied across all Ombudsman schemes.

²⁶ <https://www.spsso.org.uk>



The Drinking Water Quality Regulator²⁷

The Drinking Water Quality Regulator (DWQR) provides an independent check that Scottish Water is complying with the legal standards, set out in regulations, for drinking water in Scotland. The regulator has extensive powers to acquire information, conduct investigations and take enforcement action should this prove necessary.

Scottish Environment Protection Agency

The Scottish Environment Protection Agency (SEPA) has worked in the last 2-3 years to better understand the needs of consumers and make itself (and the water industry) more consumer-focused. This is illustrated by the changes in the language used, which reflects a more consumer-orientated approach.

SEPA's Service Charter²⁸ makes several promises, including that the organization will be:

- *Courteous – dealing with you with courtesy and integrity at all times*
- *Accessible – we will make it easy for you to access our services and information*
- *Understanding – we will try to understand your needs*
- *Good partners – we will work with you to help you protect and improve the environment*
- *Constantly improving – we will regularly review our performance, listening to and learning from you*
- *Accurate – we will strive to get it right first time and will act promptly*
- *Good communicators – we will express ourselves simply, clearly and within agreed timescales*
- *Fair – we will apply the law fairly and consistently and provide a proportionate enforcement response*
- *Competent – our staff will be well-trained and equipped with the right knowledge and skills.*

The SEPA Service Charter brings its principles together in one prominent place, in the 'Working with you' section on the SEPA website. Although the Charter is aimed at businesses, it illustrates the changing focus on the organization and its contribution to the wider water industry.

5.3. Application of consumer frameworks in the water industry in Scotland

Scottish Water's Code of Practice gives a default set of standards to guide action and covers operational issues that are important to customers, such as arranging and keeping appointments, planning and communicating interruptions to the water supply and handling of enquiries. The Code explains the standards of service customers can expect and how they will be compensated if these are not met. However, these are commitments under the licence conditions rather than a consumer *principles* framework.

Beyond the Code of Practice, Scottish Water's customer focus is best represented by an overarching statement in the form of 'Our Vision.'

Through its engagement with entities such as the CFU and the Customer Forum, Scottish Water has addressed customer-related issues such as how to measure customer satisfaction and how to improve the consumer experience.

²⁷ <http://dwqr.scot>

²⁸ SEPA website (www.sepa.org.uk) 'Working with you' section



The declaration of its commitment takes the form of a vision statement which sets out six organizational characteristics ('six pillars') to influence internal behavior and thereby achieve better outcomes for its customers.

- **Serving:** *show our customers that we care, achieving year on year improvements in their experience of our service and having a positive impact on customers and communities.*
- **Strong:** *work hard to keep customers' prices low, delivering savings to keep customer price increases below inflation.*
- **Responsible:** *always do the right thing for Scotland, providing ever better drinking water, implementing plans to boost water supply resilience to all major communities, fulfilling our environmental obligations and reducing our carbon footprint.*
- **Leading:** *shape our future for the benefit of customers; listening to our customers, being proactive, working with customers, landowners, local authorities and developers to deliver even more efficient services.*
- **Growing:** *enable a thriving Scotland, supporting developers, seeking innovative and low cost solutions for businesses to grow in Scotland, and supporting an efficient supply chain through world class procurement.*
- **Committed:** *behave safely and have agile, healthy people and workplaces, building our skills and diversity to sustain high standards.*

These six pillars therefore represent an important enhancement to the rules specified by regulators under the conditions of licence, although, essentially, they have an organizational focus rather than being based on how consumers perceive the organization.

Scottish Water also has a set of *internal* consumer principles guiding behavior, culture and promises, which have been developed with customers and other stakeholders.

5.4. Comparison with the CFU framework

Scottish Water's six 'pillars' match the CFU principles moderately well.

Comparison with the CFU consumer principles framework

CFU principles	Scottish Water
Access	✓
Choice	
Safety	✓
Information	
Fairness	✓
Representation	✓
Redress	

✓ Indicates a match with the CFU consumer principles



There is little choice for Scottish domestic consumers and redress is covered by the Code of Practice. In fact, if aspects of the Code of Practice and Scottish Water's vision statement were taken as a whole, there would be a very good match with the CFU framework.

5.5. Evaluation of Scottish Water's performance

Several methods are used to evaluate the performance of Scottish Water. These are summarised below.

Output Monitoring Group	Performance in delivering the outputs is monitored by the Output Monitoring Group, comprising representatives from the Drinking Water Quality Regulator, Scottish Environment Protection Agency, the CFU, Scottish Water, the Scottish Government and WICS. The group meets every three months to review progress against ministerial objectives. WICS collects regulatory information each year and publishes its findings.
Overall Performance Assessment (OPA)	The OPA was originally developed by Ofwat to compare customer service performances of companies in England and Wales by scoring performance across a range of activities that affect customer service. By using the same points system as England and Wales WICS was able to compare Scottish Water's performance against that of the companies south of the border.
The hCEM	The 'Household Customer Experience Measure' (hCEM) is a performance measure that was developed by Scottish Water and the Customer Forum to quantify the success of Scottish Water's interactions with its customers. The hCEM score is split evenly between quantitative and qualitative components. The quantitative component is scored based on the contact between Scottish Water and its customers. The qualitative component is based on customer experience surveys.

However, these tools are used to monitor Scottish Water's performance against its business plan, rather than to check against any consumer-based frameworks.

5.6. Customer focus among non-domestic water suppliers

The move towards a more consumer-focused approach can be illustrated by other service providers in the Scottish water industry, namely the providers of water and waste water services to businesses in Scotland's competitive non-domestic water market, which has been in operation since 2008.

All participants in the retail market for water and wastewater services in Scotland must adhere to a Market Code, which sets out rules to be followed relating to:

- The obligations on, and the standards expected of, market participants
- The processes that govern how licensed providers register their business customers
- The processes that govern how wholesale charges are calculated
- The processes that govern how operational activities are carried out.



Water companies declare service standards based on minimum standards and compensation levels set by the regulator, WICS, which are essentially Codes of Practice for key aspects of service:

- Response to complaints and other queries
- Making, moving or cancelling appointments
- Interruptions to supply and notifications
- Damage due to flooding
- Addressing emergencies and keeping customers informed.

WICS, with the support of CFU and other stakeholders, has been developing a Code of Practice on pricing, selling, switching and complaints handling in the non-domestic water market.

The proposed Code of Practice has been designed around consumer-focused principles and aims to deliver significant outcomes for (business) consumers in the form of improvements to the quality of services provided by licensed providers in this market. It should also give greater transparency, resulting in consumers being treated more fairly. It could also act as a driver for ongoing improvements in business practice, and for greater consumer protection against poor service or practices, and direct innovation into positive channels across the non-domestic market.

Above and beyond the Market Code and the minimum service standards, water service providers in the Scottish non-domestic market claim to be developing a customer-focused culture. However, consumer-focused frameworks currently tend to be internal tools for business development, rather than an openly expressed declaration.

Currently there is little evidence of service providers in the Scottish non-domestic water market having a prominent, stated set of consumer principles beyond very broad vision statements such as '*We are committed to being the most efficient water provider in Scotland and having the highest level of customer service.*'²⁹

Currently, therefore, such service providers typically work with a stated set of service standards based on default standards set by WICS, an overarching vision statement and, in some cases, an internal set of principles used to help develop a consumer-orientated focus.³⁰ The internal principles used tend not to be published, although they may be in future.

All of the above reflects the rather fledgling nature of the competitive non-domestic water market in Scotland.

The CFU consumer principles framework has the potential to assist service providers in that market as they develop a more consumer-focused culture, although the consumer in this case is an organization rather than an individual.

²⁹ Castle Water (www.castlewater.co.uk)

³⁰ Due to commercial sensitivities we are unable to give more detail on the internal tools used in this market



6. Application in the water industry in England and Wales

Key findings:

- Under its regulatory model, Ofwat gives explicit and detailed specifications of standards (for complaints handling, billing and so on), which requires service providers to develop Codes of Practice.
 - Ofwat has also been working to ensure that service providers in the England and Wales water industry are more consumer focused, with a 'Strategy' aiming to engender greater 'trust and confidence' in the sector.
 - The combination of a consumer focused top-level strategy supported by a regulatory model is reflected in the approach to consumers demonstrated by service providers in the water industry in England and Wales.
 - Most service providers do claim that they are putting consumers at the centre, although that consumer focus tends to be an internal framework or a very top level declaration, in the form of a vision or set of values, working together with the mandatory Codes of Practice.
-

6.1. Consumer focus of the water industry in England and Wales

Ofwat³¹ is the economic regulator of the water and sewerage sectors in England and Wales, a non-ministerial government department established in 1989 when the industry was privatised.

Ofwat ensures that the water industry in England and Wales complies with national and European legislation. Its regulatory framework has been the main way in which Ofwat imposes compulsory standards on suppliers that they must meet in delivering services to customers, and stipulations regarding a Code of Practice that service providers must produce, detailing key customer protection obligations.

Under its Chief Executive, Cathryn Ross³², Ofwat has been working to ensure that service providers in the England and Wales water industry are more consumer focused. This takes the form of engendering 'trust and confidence,' as indicated in Ofwat's stated vision: *'As the economic regulator of the water sector in England and Wales, Ofwat's role is to help the sector build trust and confidence with customers and wider society.'*

The combination of Ofwat's consumer focused top-level strategy supported by a regulatory model is reflected in the approach that service providers in the England and Wales water industry take towards consumers.

Most service providers do claim that they are putting consumers at the centre. However, the consumer focus tends to be an internal framework or a very top level vision or set of values, which works together with the mandatory Codes of Practice.

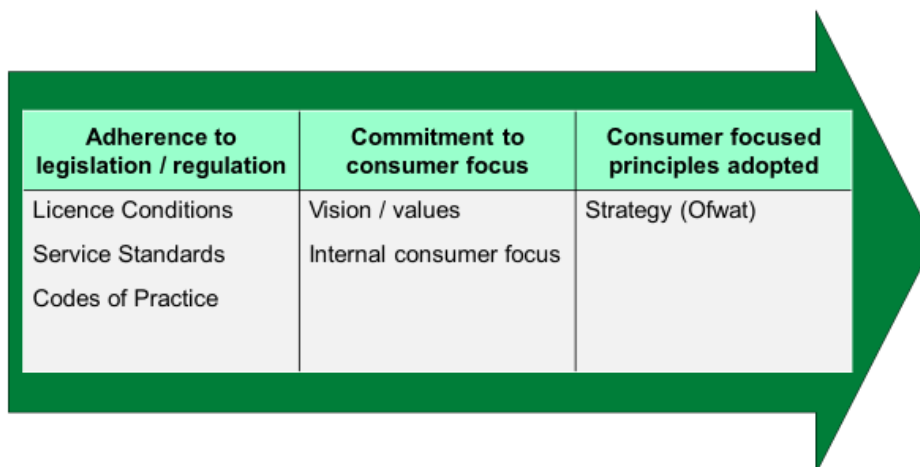
³¹ Ofwat (www.ofwat.gov.uk)

³² Cathryn Ross was appointed Chief Executive of Ofwat in 2013



In diagrammatic form, the journey of the water industry in England and Wales towards the adoption of a consumer-focused approach to service delivery is as follows.

Journey towards consumer principles: water sector in England and Wales



The Consumer Council for Water (CCWater) also focuses on making sure consumer's interests are central to service delivery in the water industry. As discussed in section 3.3 of this report, CCWater has identified a set of 'key strategic issues' that underpin its work and these focus on key consumer issues such as access, safety, fairness and representation.

6.2. Ofwat – regulation and strategy

Legal and regulatory model

This top-level strategy works hand in hand with Ofwat's regulatory model, which describes how the vision is to be achieved.

The legal and regulatory framework for the water industry in England and Wales includes the following:

- Guaranteed Standards Regulations – currently the Water Supply and Sewerage Services (Customer Service Standards) Regulations 2008 imposes compulsory standards on suppliers that they must meet in delivering services to customers (known as the 'guaranteed standards scheme').
- Service providers ('licencees') can be required to make payments to customers where they have failed to comply.
- Charging Guidance – guidance issued by the Secretary of State or Welsh Ministers (as appropriate) to which Ofwat must have regard when making charging rules.



- Customer Contracts – contracts between the service providers and the end users of water and sewerage services, incorporating or having regard to a Customer Protection Code of Practice and Guaranteed Standards Regulations.
- Customer Protection Code of Practice – a code of practice containing key customer protection obligations.

Under its regulatory model, therefore, Ofwat gives explicit and detailed specifications of standards (for complaints handling, billing and so on), which requires service providers to develop a Code of Practice.

Ofwat provides some 'principles' that are designed to drive more effective customer engagement and information provision as part of its Price Review policy statement.³³

- Water companies should deliver outcomes that customers and society value at a price they are willing to pay
- Customer engagement is essential to achieve the right outcomes at the right time and at the right price
- Engagement should not simply take place at price reviews. Engagement means understanding what customer want and responding to that in plans and ongoing delivery
- It is the companies' responsibility to engage with customers and to demonstrate that they have done it well.
- Customers and their representatives must be able to challenge the companies throughout the process.
- Engagement is not a 'one size fits all' process but should reflect the particular circumstances of each company and its various household and non-household customers

Ofwat also provides 'information principles' which specify what it expects each supplier to do to ensure that the information it provides to customers is consistent with its licence obligations.

There are several requirements from suppliers: to provide information to customers that empowers them to secure the lowest possible bills and best possible service; to involve customers and representatives in the information provision approach; and to consider and demonstrate their adherence to Ofwat's information provision requirements.

The information principles require that information provided is:

- Accurate – Suppliers should make sure the information it provides is correct by regularly reviewing it.
- Transparent – Information should not be misleading, should be unbiased and enable customers to make informed decisions.
- Clear – Information should highlight key messages and direct customers to more detailed information.
- Accessible – Suppliers should customise information and communication channels to meet the needs and preferences of particular customer groups ('customer segmentation').
- Timely – Companies should design and deliver information in a way that makes sure customers get the right information at the right time – for example, when a customer moves home.
- Customer-led – Each company should actively seek its customers' and their representatives' views on the information it provides and how it is provided.

³³ Ofwat's customer engagement policy statement and expectations for PR19 (May 2016)



Ofwat's 'Trust in Water' strategy

Ofwat has a primary duty to protect consumers, which it aims to achieve through a three-stranded approach.

- Empowering consumers by giving them tools to get the services they want and need.
- Engaging customers by making sure that companies take account of customers' priorities.
- Protecting customers by making sure consumers are treated fairly.

Ofwat's commitment to making the water industry in England and Wales more consumer-focused has been articulated by Chief Executive, Cathryn Ross, who commented in 2015:

*'We want to...enable and encourage companies to deliver more for less. If we are to maintain trust and confidence in these vital public services, providers need to deliver better services that are better value for money, while also using scarce resources more smartly and working better for our natural environment. With big challenges ahead, we cannot afford to stand still. The sector needs to innovate to create value that can be shared between customers, the environment, society, and of course investors. For instance, we have made a lot of progress in focusing companies on what the customer – rather than the regulator – wants. Yet we believe the sector can go further. Companies need to stop seeing customers as passive consumers, and build relationships with them that will enable better value, more sustainable services.'*³⁴

Ofwat doesn't have a consumer principles framework in the same way as the CFU. Ofwat's consumer focus is best represented by its 'Strategy,' a top-level statement of its vision and values. This is given a prominent place on the 'About us' page of the Ofwat website. It takes the form of a PowerPoint slide presentation, 'Trust in Water.'

The following is an extract from this strategy statement.³⁵

'...customers need to have trust and confidence in the vital public service they receive...To achieve trust and confidence the sector must listen to their customers and deliver outcomes which benefit customers today and in the future. This means strong relationships throughout the supply chain and with investors, and genuine engagement with government and regulators.'

As the economic regulator for the water sector in England and Wales, we help build trust and confidence in water. We do this through focusing on what matters to customers, the environment and society both now and in the future. We oversee how the sector is performing and seek assurance that service providers are engaging with customers and delivering services they want and can afford...

Our vision is to be a trusted and respected regulator, working at the leading edge, and stretching ourselves and others to build trust and confidence in water...We need the sector and everyone interested in it to work with us and together, listening and communicating to build trust and confidence among customers, investors and our wider society.'

³⁴ Cathryn Ross, Ofwat Chief Executive, quoted in 'Waste Water and Treatment' 2015

³⁵ Appendix A and Ofwat website (www.ofwat.gov.uk)



Comparison of Ofwat's consumer focus with the CFU consumer principles

Comparing Ofwat's strategy statement with the CFU consumer principles framework, there is only a partial match.

Comparison with the CFU consumer principles framework

CFU principles	Ofwat 'Trust in Water' Strategy
Access	
Choice	
Safety	
Information	
Fairness	✓
Representation	✓
Redress	✓

✓ Indicates a match with the CFU consumer principles

Given the lack of competition, at least in terms of the domestic market, choice is less of an issue in the water industry compared to the energy sector.

Safety is not explicitly covered by the Ofwat strategy, although consumers are protected by other bodies. The Drinking Water Inspectorate (E&W) is the drinking water quality regulator, ensuring that companies supply water that is safe to drink and meets the standards set in the Water Quality Regulations. They do this by checking the tests that water companies carry out on drinking water and inspecting individual companies. The Environment Agency's aim is to provide an efficient and integrated environmental protection system and monitor discharges to ensure they meet environmental standards.

Separately, Ofwat also provides principles relating to engaging with customers and information provision.

If the Ofwat 'Trust and Confidence' strategy and the regulatory model and other consumer protections are taken there is a better match with the CFU consumer principles, although Ofwat does not have an equivalent unified, prominent set of principles in the same way as CFU does.

6.3. Application of consumer frameworks in the water industry

Service providers' Code of Practice and overarching consumer-focused vision

Suppliers' licence obligations require them to submit a Code of Practice to regulators and customers. The Codes of Practice are explicit and detailed statements of obligations under conditions of licence, together with compensation levels for breaches of standards. They typically cover access, delivery and incidents, safety, payment and billing, information on metering, customer promises and looking after customers who need help



Codes of Practice therefore cover many of the same areas as the CFU consumer principles. However, the Codes of Practice tend to be transactional, such as guidance on what to do if something goes wrong or how to complain.

They can take different forms, from a single lengthy document to a series of short, focused documents. They tend not to be user friendly, although there are exceptions, as indicated below. They can also be labelled in different ways. Many service providers do refer to the 'Codes of Practice' but they are sometimes given alternative labels. Sutton and East Surrey Water, for example, refers to 'Our Customer Charter'.³⁶ This 'charter' covers the guaranteed standards of service for making appointments, querying accounts, making complaints, and so on, so it is, essentially, their Codes of Practice.

The Codes of Practice are usually accompanied by a vision, which is typically an overarching statement of ambition (for example 'to be the best supplier'), and often includes very broad principles relating to price or value, customer service in a very general way and environmental performance. The vision tends to be highly visible on supplier websites and documents and is often a non-specific statement.

That vision may encapsulate an ambition to go beyond the regulatory requirements of a Code of Practice. For example, South West Water presents their Codes of Practice in the form of 'Our Customer Promise,' in which '*we explain our promises and what you should expect from us. Some of these are based on standards set by Government; we see these as a minimum requirement and, in many instances, have improved on these or introduced additional standards demonstrating our commitment to providing excellent service.*'

This illustrates the ambition of service providers to pursue the strategy outlined by Ofwat to engender trust and confidence in the industry and focus on the consumer.

Examples of how the Codes of Practice and vision statement work together

The following examples show how the Codes of Practice can work in tandem with an overarching vision statement.

Severn Trent Water

Severn Trent Water provides its Codes of Practice alongside a set of 'principles.'

The Codes of Practice outline '*the standards of service you can expect from us,*' covering areas such as access, billing and making complaints, and running to 60 pages,

Severn Trent Water also has a more overarching set of principles,³⁷ which cover issues such as:

- *Keeping everyone healthy & safe*
- *Supporting employees' rights & diversity*
- *Maintaining ethical & honest behaviour*
- *Keeping our communications open & responsible*
- *Delivering excellent customer service*
- *Working within the community*
- *Protecting the environment*

³⁶ Sutton and East Surrey Water 'Our Customer Charter'

³⁷ Severn Trent Water Annual Report & Accounts 2016 / 'Doing the right thing' booklet



Wessex Water³⁸

Wessex Water is another good example of consumer focus taking the form of a combination of mandatory Codes of Practice working together with an overarching vision (in the form of mission, aims and values).

In line with legal and regulatory requirements (provided under licence agreement), Wessex Water provides a number of policy documents relating to issues such as affordability, social tariffs and standards of service. These include a series of succinct and focused Codes of Practice documents, based on standards of service relating to specific service areas, such as accounts and bills, help and advice, water meters and water quality.

Each of the documents represents a promise to customers relating to service performance and compensation levels for failures to meet promised service standards.

The Wessex Water standards and promises are '*enhanced beyond the legal requirements.*' This customer-centric philosophy is illustrated by Wessex Water's stated mission, aims and values.

Our mission	<ul style="list-style-type: none"> To provide outstanding, sustainable water and environmental services.
Our aims	<ul style="list-style-type: none"> To provide customers with excellent affordable services; To protect and improve the environment and contribute to wider society; To be a great place to work in which all employees can work safely and reach their full potential; To deliver the best possible returns to investors.
Our values (BEST)	<ul style="list-style-type: none"> Behaviours – we respect and value everyone's contribution and always operate with integrity and openness; Excellence – we aspire to excellence in everything we do; Service – serving customers is at the heart of our business and we always go the extra mile; Teamwork – we are one team working together to deliver our mission.

Wessex Water encourages staff to 'go the extra mile' (GEM) whenever they can in order to build trust among customers, resolve issues efficiently and treat customers fairly.

Colin Skellett, Chief Executive, states: *We are a customer centred organisation and believe in putting customers and the communities we serve at the heart of everything we do – our aim is always to achieve the best outcome for them. We focus on understanding customers' changing needs and responding to the pressures that many continue to be under in these challenging economic times.*

Wessex Water is therefore a good example of how a consumer-focused philosophy can enhance the basic consumer protection offered by rules-based regulation.

³⁸ Appendix A and Wessex Water website (www.wessexwater.co.uk) / 'Our Strategic Direction' (updated in 2017)



6.4. Comparison with the CFU framework

A comparison can be made between the consumer-focused frameworks of service providers in the water industry in England and Wales and the CFU consumer principles.

Comparison with the CFU consumer principles framework

CFU principles	Severn Trent Water 'principles'	Wessex Water mission, aims & values
Access		✓
Choice		
Safety	✓	✓
Information	✓	
Fairness	✓	✓
Representation		
Redress		

✓ Indicates a match with the CFU consumer principles

Both Severn Trent Water and Wessex Water claim to be customer-centric and to go beyond the regulatory requirements. However, the customer focus does not cover all the areas specified by the CFU consumer principles.

Again, there is a better fit with the CFU consumer principles if legal and regulatory responsibilities are also taken into account.

6.5. Evaluation of consumer-based frameworks in the water industry in England and Wales

Water providers in England and Wales are obliged to demonstrate that their consumer-based frameworks are being delivered effectively. Various methods are used to evaluate performance.

Evaluation of consumer-based frameworks

Annual performance reports	All suppliers are required by Ofwat to submit an annual performance report to demonstrate compliance with their separate price controls. Ofwat expects companies to have processes in place to ensure that this information can be trusted ('assurance').
Company monitoring framework	Ofwat uses its company monitoring framework – a series of tests of the quality of each company's information – to provoke and challenge the 17 largest companies to publish information that can be trusted.



Service Incentive Mechanism (SIM)	<p>The SIM measures customer service levels and how companies can get financial rewards and penalties depending on how well they score.</p> <p>Each company's customer service performance is assessed annually, and includes a measurement of the number of complaints they receive as well as the results from customer satisfaction surveys.</p> <p>All monopoly water-only and water and wastewater companies in England and Wales publish information about their performance each year, including information about performance against targets, rewards and penalties and actions to address issues arising.</p>
Discover Water dashboard	<p>Discover Water is a way for customers to find out more about their own water company and the water sector overall. Set out like a dashboard, the Discover Water website brings already-available company data from a range of sources together in a friendly and interactive way.</p>
CCWater	<p>Ofwat uses the views of the Consumer Council for Water (CCWater) on how well companies are communicating with their customers, and insights from other consumer bodies, to inform its risk-based review of companies' information provision.</p> <p>CCWater conducts ongoing consumer research to monitor customer views of their water and sewerage services.</p>



7. Application in the energy and water industries in Northern Ireland

Key findings:

- In 2016 Utility Regulator for Northern Ireland (UR) launched the Consumer Protection Strategy (CPS) to build on existing regulatory protections by enhancing consumer protection, and attempting to ensure that the energy and water industries in Northern Ireland are consumer-focused.
 - The Consumer Council for Northern Ireland has adopted a set of consumer principles that follow the CFU consumer principles closely, although these are applied internally rather than being prominently displayed.
 - Service providers in the Northern Ireland energy and water industries, under the terms of their licences, must provide regulators and consumers with Codes of Practice, specifying minimum standards on transactional commitments, such as payment of bills, provision of service for vulnerable customers and complaints handling procedures.
 - In addition, Northern Ireland energy companies have developed their own Customer Charters, which go beyond the requirements of the Codes of Practice.
 - NI Water publishes a Code of Practice specifying service standards and compensation for failure to meet minimum standards and is also working to be more customer-centric through its customer 'promises.'
-

7.1. Regulation and consumer principles in the Northern Irish energy and water industries

Service providers in the Northern Ireland energy and water industries, under the terms of their licence, must provide regulators and consumers with Codes of Practice, specifying minimum standards on transactional commitments, such as payment of bills, provision of service for vulnerable customers, prepayment meter services and complaints handling procedures.

The consumer frameworks adopted by service providers in the Northern Irish energy and water sectors combine these Codes of Practice with a customer commitment that goes beyond the regulatory requirements.

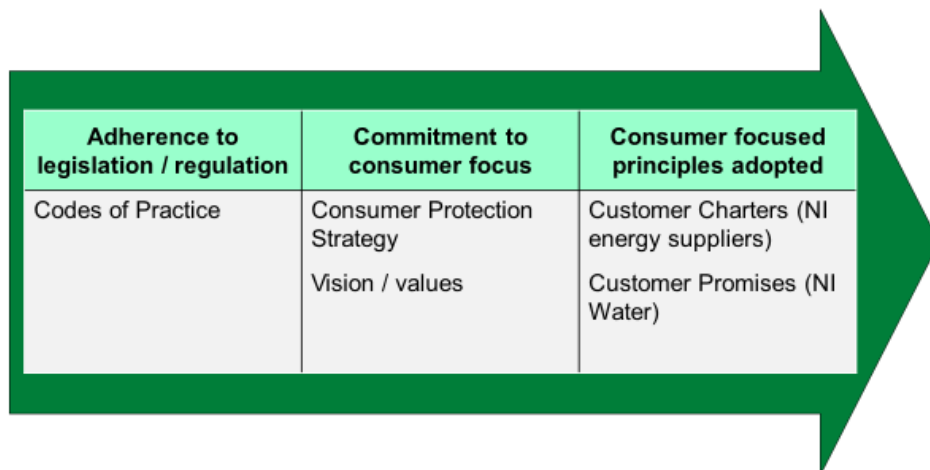
Northern Irish energy companies provide a Customer Charter, based on a triangular conversation between the regulator, the Consumer Council and the service providers to scope the charter framework. Service providers are left to develop their own charter based on that framework.

In the Northern Irish water industry, the relationship between the sole service provider, NI Water, and its customers is different to the relationship that energy companies have with their customers, in that the direct relationship with consumers is limited. Nevertheless, NI Water gives a number of customer 'promises' that go above and beyond the regulatory requirements of the Code of Practice.

In both the energy and water sectors in Northern Ireland, service providers reflect the position of their regulator, the Utility Regulator for Northern Ireland (UREGNI), in that they combine a statement of the regulatory obligations with a more overarching statement of consumer commitments beyond the legal and regulatory requirements.



Journey towards consumer principles: energy and water sectors in Northern Ireland



7.2. Regulation in Northern Ireland

The Utility Regulator for Northern Ireland

Utility Regulator for Northern Ireland (UR) is responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries. UR is a member of the United Kingdom Regulators Network, which co-ordinates policy development and activities with Ofgem, Ofwat and other UK regulators.

UR's work involves:

- Issuing and maintaining licences for gas, electricity and water companies to operate in Northern Ireland;
- Making sure that these companies meet relevant legislation and licence obligations;
- Engaging with these companies to ensure that their prices are as low as possible;
- Encouraging regulated companies to be more efficient and responsive to customers;
- Working to encourage competition in the gas and electricity markets;
- Setting the standards of service which regulated companies provide to customers in Northern Ireland;
- Acting as an adjudicator on certain customer complaints, disputes and appeals.

UR issues and enforces licences to gas and electricity suppliers in Northern Ireland. Licence conditions refer to Codes of Practice setting minimum standards for suppliers on the payment of bills, provision of service for vulnerable customers, complaints handling procedures and services for prepayment meter customers.



These Codes of Practice contain detailed transactional commitments. There is also a Marketing Code of Practice, which provides mandatory protection for consumers.

Consumer protection is given prominence on the UR website, which includes a dedicated section relating to the consumer protection for consumers.

In addition, in 2016, UR launched the Consumer Protection Strategy (CPS) to build on existing regulatory protections but enhance consumer protection, particularly where consumers may be considered to be vulnerable. It was developed in consultation with consumer bodies. It sets out a five-year (2016-2021) strategy and action plan to address the long-term needs of domestic consumers.

The objectives of the CPS are:

- Focus on affordability – includes treatment of and communication with vulnerable consumers;
- Make sure there is equal access to utility services, including safe provision
- Empower customers through education and transparency
- Provide leadership by being a best practice regulator.

Some of the consumer protections are mandatory, but they are pushing service providers to be more consumer-focused in their philosophy and behaviour.

There is a moderate match between UR's CPS and the CFU consumer principles.

Comparison with the CFU consumer principles framework

CFU principles	UR's CPS
Access	✓
Choice	
Safety	✓
Information	✓
Fairness	✓
Representation	
Redress	
✓ Indicates a match with the CFU consumer principles	

The CPS represents an enhancement to consumer protection and an attempt to ensure that the energy and water industries in Northern Ireland are consumer-focused.

The Consumer Council for Northern Ireland

The consumer's voice is also represented by the Consumer Council for Northern Ireland (CCNI), whose remit covers energy, water, postal services and food.



As indicated in section 3.3 of this report, the CCNI applies a set of consumer principles that are very similar to those used by the CFU, albeit refined for the CCNI remit. These principles cover all seven CFU consumer principles with the possible exception of 'fairness' which is not explicitly stated.

These consumer principles are not *currently* very visible on CCNI website and in documents. They can be accessed in the Consumer Council for Northern Ireland's 'Draft Forward Work Programme 2017/2018,' but they are not prominent in the public domain. Consideration is being given to making them more prominent on a newly reworked website.

7.3. Application of consumer frameworks by service providers in the Northern Irish energy sector

In addition to the Codes of Practice, specifying minimum standards on transactional commitments, NI energy companies typically publish a Customer Charter. The Customer Charter provides customer commitments above and beyond legal and regulatory requirements.

Firmus Energy

A good example of the Customer Charter is provided by firmus energy, which states: '*We like to do things differently. We put customers first. That's why we created the firmus energy Customer Charter.*'³⁹ A set of company values and a Customer Charter are very prominent on the firmus energy website.

The firmus company values	<ul style="list-style-type: none"> • <i>Empathy – putting customers first, understanding & meeting customers' needs</i> • <i>Clarity – keeping it simple, listening & communicating clearly</i> • <i>Integrity – open & honest, keeping promises</i>
The firmus Customer Charter	<ul style="list-style-type: none"> • <i>We will use clear and understandable language.</i> • <i>We may offer a connection if there is an available natural gas supply and if not, will explain the reasons why.</i> • <i>Our fully trained staff will explain the connection process and any associated costs.</i> • <i>We will offer a range of payment options to make paying for your natural gas easy.</i> • <i>We will send you clear bills in plenty of time for you to pay.</i> • <i>We will take responsibility for any issues you raise about our service, our contractors or associates.</i> • <i>We will sort out any complaints quickly and efficiently.</i>

Power NI

Another good example of the provision of a Customer Charter is Power NI, Northern Ireland's leading electricity supplier, with approximately 70% share of the domestic market and 49% share of the commercial market.⁴⁰ Power NI's prices for homes, small businesses and farms are agreed with the Utility Regulator, '*so our customers can be sure that they will always pay a fair price.*'

³⁹ Firmus Energy Customer Charter (<https://www.firmusenergy.co.uk/about-us/customer-charter>)

⁴⁰ Power NI (www.powerni.co.uk/powerni/about-power-ni)



Power NI makes the claim: *'Excellent customer service is in our DNA...Our DNA also shows that we have the 'low complaints' gene! For the third year running, we've been recognised by the Consumer Council as having the lowest level of customer complaints of any local supplier.'*

The Customer Charter very prominent on website and in documents. In the Charter, Power NI promises to:

- *Have caring and knowledgeable staff to help advise you on all the services we provide.*
- *Ensure our services are accessible to all our customers.*
- *Give you a choice of payment options.*
- *Produce clear and accurate bills.*
- *Provide help if you have difficulty paying.*
- *Provide special help and advice for our most vulnerable customers.*
- *Make it easy for you to contact us*
- *Deal quickly and effectively to resolve any problems you tell us about.*
- *Provide a list of advice agencies that may be of help to you*

There is a good match between the Customer Charters of Northern Irish energy companies and the CFU consumer principles.

Comparison with the CFU consumer principles framework

CFU principles	firmus Energy values and Customer Charter	Power NI Customer Charter
Access	✓	✓
Choice	✓	✓
Safety		
Information	✓	✓
Fairness	✓	✓
Representation	✓	✓
Redress	✓	✓

✓ Indicates a match with the CFU consumer principles

Only safety is *not* mentioned in the customer charters, although this is covered by the Codes of Practice.

7.4. Application of consumer frameworks by service providers in the Northern Irish water industry

Northern Ireland Water (NI Water) is the sole provider of water and sewerage services in Northern Ireland. It is a Government Owned Company (GoCo), which is a statutory trading body owned by central government but operating under company legislation, with substantial independence from government, the Department for Infrastructure (DfI).



Domestic users in Northern Ireland do not pay directly for water services (although non-domestic users do pay for water services). Government funding via the Northern Ireland Executive makes up the shortfall in the cost of providing water services. This is therefore a very different market to the energy one and the service provider does not have the direct relationship with consumers that energy companies have.

NI Water publishes Codes of Practice specifying service standards. As for the NI energy sector, this is a statutory requirement under the licence conditions.

NI Water believes that having standards of service with a Code of Practice is important, but it does not fully meet customers' needs. NI Water believes itself to be a provider of Northern Ireland's most essential service, delivering what really matters in terms of the economy, health & wellbeing and the environment. NI Water has become a more customer-centric organization since its formation in 2007. It recognizes that good customer service correlates with employee engagement. Employees do not all interact with customers but they interact with each other. NI Water recognises the importance of all employees understanding the part they play in delivering excellent water and sewerage services to the people of Northern Ireland, and a company-wide training programme is currently under development.

From May 2012, the company's new Vision Statement is: *'To be a valued and trusted provider of one of Northern Ireland's most essential services; an organisation our customers and staff are proud of.'*

NI Water's strategic approach over the period 2015 to 2021 (the 'PC15 period') has been shaped around their identification of 8 customer promises developed in 2013/14. These promises are detailed in the 'Our Strategy' document and they are prominent on the NI Water website and other documents.

- *We provide you with customer service you value and expect*
- *We provide you with clean, safe water to drink*
- *We seek to give you value for money*
- *We adapt to deal with the effects of climate change*
- *We want to protect and enhance the natural environment*
- *We take care of your wastewater so it doesn't pollute your environment*
- *We supply you with the water you need*
- *We provide excellent service by having the right people doing the right thing for you.*

NI Water is focused on engagement with customers to understand their needs. They conducted deep research into consumer needs in collaboration with CCNI and Perceptive Insight Market Research, through the Consumer Engagement Oversight Group (CEOG).

The CEOG sought the views of householders and businesses on the aspects of water and wastewater services that mattered most to them to inform decisions and investment priorities for the PC15 price control period 2015 to 2021. The research was conducted by Perceptive Insight Market Research (PIMR) and Queen's University, Belfast.

There is a more modest match between NI Water's 'customer promises' and the CFU consumer principles.



Comparison with the CFU consumer principles framework

CFU principles	NI Water 'customer promises'
Access	✓
Choice	
Safety	✓
Information	
Fairness	
Representation	✓
Redress	

✓ Indicates a match with the CFU consumer principles

Nevertheless, NI Water is a good example of a service provider taking steps to move beyond legal or regulatory requirements to instill a consumer orientation across the organisation.

7.5. Evaluation of consumer-based frameworks in the Northern Irish energy and water industries

Service providers in the Northern Irish energy and water industries are obliged to demonstrate that their consumer-based frameworks are being delivered effectively. Several methods are used to evaluate performance, including the following.

Customer surveys	A range of customer surveys are conducted to measure customer satisfaction in the energy and water industries. For example, the Consumer Measures / Customer Satisfaction Working Group (CM/SAT) is a partnership group of the Utility Regulator, the CCNI, NI Water and DfI which has introduced consumer measures for NI Water.
Consumer Council for NI	The Consumer Council for Northern Ireland publishes an annual Complaint & Enquiries report for NI energy companies.
Annual Information Return (AIR)	NI Water provides the Utility Regulator with a comprehensive Annual Information Return (AIR) to monitor the company's performance.
Net Promoter Score (NPS)	<p>New consumer service metrics have been developed for the Northern Irish water and sewerage sector, including a Net Promoter Score (NPS), which is included within surveys among customers who have contacted NI Water.</p> <p>This is augmented by a province-wide omnibus survey of all water and wastewater service customers, which includes the NPS question.</p> <p>NI Water is focused on improving its ability to resolve consumer contacts on first response and is developing scoreboards of consumer satisfaction at a very detailed level.</p>



8. Application in the UK postal sector

Key findings:

- Although Ofcom has a set of consumer principles, these are for internal use when considering policy and processes, and there is no prominent set of principles in public view
- Similarly, Royal Mail has a set of consumer principles for internal use, but no prominent, publicly declared principles.
- Royal Mail is heavily regulated and there is a perception that current regulation and an internal consumer focus are sufficient to deliver positive consumer outcomes in the absence of market dissatisfaction or consumer detriment.
- In the unregulated postal sector, there is little evidence of the adoption of consumer principles, with the situation complicated by the nature of the shipper / recipient relationship, with the postal operator acting as a 'middle man.'

8.1. Consumer frameworks in the regulated postal sector

The journey towards a more consumer-focused culture in the UK postal sector can be summarised as follows.

Journey towards consumer principles: UK postal sector

Adherence to legislation / regulation	Commitment to consumer focus	Consumer focused principles adopted
Legislative & Regulatory Conditions (regulated market)	Vision / values Internal consumer focus – one of 3 pillars (Royal Mail) Fledgling voluntary consumer focus (unregulated market)	No publicly stated set of consumer principles

In the following sections, both the regulated and unregulated postal sectors are discussed.



8.2. Application of consumer frameworks in the regulated postal sector

Ofcom is the communications regulator for the whole of the UK, responsible for the broadcasting, video on demand, telecommunications and regulated postal sectors. In the postal sector, Ofcom's primary duty in relation to postal services is to secure the provision of a financially sustainable universal postal service.

The Ofcom Postal Services website focuses on legislative conditions imposed, such as the complaints process and annual monitoring reports, showing key data and trends for the postal sector, information on pricing, quality of service, efficiency and financial performance. These conditions apply mainly to Royal Mail.

There is no evidence of a prominent Ofcom consumer principles framework for postal services (or other sectors) on the Ofcom website or in Ofcom documents in the public domain. Ofcom does, however, have a set of consumer principles which are used *internally* to inform and test policy development.

The Ofcom consumer principles are as follows.

- Availability – Is the service available where the consumer wants to use it?
- Adoption – Has the consumer got access to the service?
- Engagement – Does the consumer use the service?
- Satisfaction – Is the consumer satisfied with the service?
- Harm – Does the consumer have concerns with the service?
- Exit – Can the consumer leave or seek a new service?

These principles are used by Ofcom across all sectors within the regulator's remit, including the postal sector but also broadcasting, some aspects of the Internet and telecoms. The principles are not prominently communicated in the public domain and are primarily for internal use.

Royal Mail is the 'Universal Service Provider' of residential postal services in the UK, including six-day collection and delivery to all UK addresses. Royal Mail is required to ensure that customers areas across the whole of the UK can access services easily (at least 98% of the population must be within half a mile of an access point e.g. a post box) and at a uniform, affordable price.

Royal Mail is regulated more closely than other postal operators in the UK. Obligations are imposed on Royal Mail in the regulatory conditions. These include, for example, mail integrity obligations, publications of complaints and compensation data, adherence to a prescribed complaints and compensation process, publication of quarterly quality of service information by postcode area, and mandatory consumer access to a redress scheme (ADR). By contrast, other postal operators are only required to provide a complaints process, but the format is not prescribed and complaints and compensation data is not published.

Ofcom and Royal Mail's customer satisfaction monitoring shows that customer satisfaction is high and improving. Royal Mail has a formal stakeholder engagement procedure and seeks feedback from customers & other stakeholders through a range of methods including research, social media and events. Royal Mail is also part of the Keep Me Posted partnership fighting for the consumer's right to choose how they are contacted, including billing.



Customer focus is one of the three key pillars of Royal Mail's internal business strategy. Internally, therefore, Royal Mail has a set of consumer principles that it adheres to, in order to ensure that the consumer is front of mind in its strategy and service provision.

However, these principles are not externally stated or referred to as 'consumer principles,' something that can be attributed to a number of features of the regulated postal market:

- High customer satisfaction within the postal sector
- A generally low level of customer detriment
- Already a high level of regulation.

Post is only one of Ofcom's areas of interest (as indicated above) and consumer detriment in post does not affect the same number of people as other issues, such as broadband coverage, although it can be severe for individuals affected.

Given these features, an additional set of external consumer principles is less of an imperative than it is in the energy or water industries.

Ofcom undertook an assessment of the extent to which the postal services market in the UK is meeting the reasonable needs of users of those services. That assessment was completed in 2013 and concluded that the reasonable needs of users were being met by the current universal service. This is an important point, namely that there is no 'crisis' needing to be addressed through additional obligations on Royal Mail. Consumers are happy with the service provided, and there is a low level of consumer detriment.

There is a partial match between the internal principles adopted by Ofcom and Royal Mail and the CFU consumer principles framework.

Comparison with the CFU consumer principles framework

CFU principles	Ofcom internal principles (regulated market)	Royal Mail internal principles
Access	✓	
Choice	✓	
Safety		
Information		
Fairness	✓	✓
Representation		✓
Redress	✓	✓

✓ Indicates a match with the CFU consumer principles

If the legal and regulatory stipulations were taken into account, then the match with the CFU consumer principles would be more pronounced.



Both Ofcom and Royal Mail affirm that they abide by the spirit of the CFU framework and are consumer-focused. However, this has not taken the form of a proclaimed set of consumer principles along the lines of the CFU framework, and remains an internal tool, albeit with the aim of increasing consumer orientation.

8.3. Evaluation of consumer-focused frameworks in the regulated postal sector

Royal Mail is required by Ofcom to provide evidence that it is performing to the standards required. A series of methods are used to validate and evaluate performance.

Regulation framework reporting requirements	Royal Mail is required under regulatory conditions to publish annual reports relating to: <ul style="list-style-type: none"> • Quality of service • The provision of collection points • Pricing • Collection & delivery exceptions • Customer complaints & compensation • Arrangements for blind or partially sighted users, and those not within 10km of an access point
Corporate scorecard	Royal Mail measures (business and consumer) customer satisfaction on a rolling monthly basis. Ofcom also monitors and reports on satisfaction with Royal Mail and postal services. Satisfaction is high and increasing. Customer-focused measures (customer service & complaints) form approximately half of the corporate scorecard used to measure success
Monitoring by consumer bodies	Consumer bodies (Citizens Advice / the CFU / Consumer Council for NI) promote & safeguard interests of consumers in the postal sector, including consideration of complaints & research to monitor supplier performance

8.4. The unregulated postal sector

The unregulated postal sector comprises the delivery of letters and parcels outside of the Universal Service Provision. The postal sector, for both letters and parcels, is increasingly competitive and the UK parcels sector is one of the most competitive in Europe. Over 50% of all letters and around 70% of all addressed letters posted by large businesses are handled by operators other than Royal Mail and are largely unregulated by Ofcom.

There has been some attempt to introduce principles for the parcel delivery sector, notably by Citizens Advice, but these are aimed more at retailers than postal operators.

That is an important feature of the unregulated postal sector, that the immediate customer of the postal service provider is often a business, such as a retailer, shipping the letter or parcel, rather than the consumer (a person or organisation) receiving the letter or parcel.



Therefore, the business transaction is often between the shipper and the recipient. The postal operator is simply the 'middle man.' Where there is evidence of a 'customer promise' or consumer principles framework, it is therefore often aimed at the shipper. Such consumer principles frameworks also tend to be fledgling, as is the case with Parcelforce and Yodel (see below).

Nevertheless, service providers are evolving to be more consumer-centric, and most service providers claim that they are becoming more customer-focused, even without the regulatory pressure to do so.

Parcelforce

For example, Parcelforce has demonstrated some interest in consumer principles, possibly influenced by their association with the Royal Mail Group.⁴¹

Parcelforce's 'Customer Promise' offers:

- *Excellent quality & reliable delivery*
- *Parcel in expert hands*
- *Serious about security*
- *Fast, helpful customer service*
- *Outstanding choice of UK and worldwide services*
- *Convenient local delivery options*
- *Putting your customer in control*
- *Great value for money*
- *Superior delivery experience*
- *Partnership with a trusted UK carrier*

This Customer Promise is clearly aimed at the shippers, particularly business customers, but it illustrates the desire to become more customer-focused.

Other postal service providers - Yodel and APC Overnight

This ambition is also demonstrated by other service providers in the unregulated postal market, such as Yodel and APC Overnight.

Yodel applies some internal customer principles relating to contact with end-consumers. It has developed a number of rules of conduct in response to well-publicised poor customer service performance and subsequent loss of business. Yodel has not made a public statement of consumer-focused principles and any statement of principles would need to reflect different shippers' own contracts with end-consumers (a potentially complex situation).

Within APC Overnight, there is currently no documented statement of consumer principles aimed at end consumers. Customer feedback and competitor analysis informs an undocumented 'consumer strategy' on delivery options (focusing on when, where, what, redirection, information required).

Within both Yodel and APC Overnight there is therefore some interest in the adoption of a national standard for dealing with end consumers.

⁴¹ Parcelforce is part of the Royal Mail Group, but operates in the parcel market and is unregulated



The parcel delivery market in general

The parcel delivery market is mainly unregulated and competitive. In theory, its competitive nature should encourage a greater focus on customers and failure to do so might lead to loss of business, as happened with Yodel.

By definition there is no regulator imposing standards on providers in the unregulated postal market, and individual providers must find their own solutions. This has prompted some interest in consumer principles frameworks to guide the provision of customer services and bring about more positive consumer outcomes. This is widely believed to bring commercial benefits.

However, it is the nature of the parcel company's business model that the contract is often with the business customer (the shipper) rather than the end consumer (the recipient of the parcel). Any end consumer principles must accommodate that feature and take account of the shippers' requirements and the shippers' own customer promises.



9. Summary and conclusions

9.1. Policy tools available to consumer protection authorities

The OECD has identified a range of policy tools available to authorities with responsibility for consumer protection, both consumer empowerment tools ('demand-side measures') and those that focus on modifying the behaviour of service providers ('supply-side measures'). Supply-side measures are the main focus of this report.

Of the different supply-side measures, a number lend themselves to prescriptive rules, such as licensing, prohibitions and dispute resolution. Others, notably moral suasion (whereby authorities seek to influence or put pressure on service providers to meet a specific objective regarding consumers without directly regulating their activities), tend to put the onus on the service provider to develop a consumer-focused approach to dealing with consumers.

Another example of an approach to regulation that could support positive consumer outcomes is 'Ethical Business Regulation' (EBR), advocated by Professor Chris Hodges of Oxford University's Faculty of Law. Within this model, the regulatory system is most effective in influencing the behaviour of individuals where it '*supports ethical and fair behaviour.*' Hodges contention is that a 'blame' culture will inhibit a culture of learning and ethical behaviour, so businesses and regulators should encourage and support a '*no blame*' culture, that is open and collaborative.

Consumer principles-based regulation has been successfully adopted in a range of markets, including the financial, legal and health sectors, which have recognised the benefits of applying a set of consumer principles as a framework for regulation, consumer communications, planning and the delivery of information and services.

9.2. The benefits of a consumer principles framework

Organisations that have adopted consumer principles frameworks have recognised the need to shape their internal processes and service delivery in a way that results in more positive consumer outcomes and experiences. There are many examples, as indicated above, of sectors and organisations moving away from prescriptive rules to a more consumer-focused approach.

CFU and its predecessor organisations have identified some key benefits of adopting a set of principles to improve consumer outcomes. Consumer principles form a framework within which the consumer interest can be assessed, policy can be developed and communicated, and consistent and transparent policy positions across a range of subject areas can be championed. A concise and relevant set of consumer principles help an organisation's management and staff to operate confidently and effectively when new or unfamiliar issues arise. Above all they provide a straightforward way of explaining to stakeholders how a consumer body identifies and analyses consumer issues.

There is a body of evidence that regulation is moving from a rule-based approach to a principles-based one, where the onus is on the provider of a product or service to demonstrate that they are treating customers with respect and fairness.

In addition to the benefits identified by the CFU, along with other bodies, a key benefit of a principles-based approach to regulation, compared to a rules-based approach, is that it is easier for consumers themselves to understand, in that it tends to use consumer-friendly terminology and tends to be simpler and briefer.



Another important benefit of a principles-based approach to regulation is that it places the onus on the service provider to consult consumers to better understand their needs. Consequently, it encourages communication between service providers and consumers. The adoption of principles encourages service providers to take responsibility for the relationship with the consumer, and to be more innovative on how service is delivered.

This approach also makes it easier to tailor the principles to the specific sector or region in question. The corollary is that the regulator does not have to understand every nuance and detail of the market, and the regulations do not need to cover every option or eventuality to ensure that there are no gaps or loopholes. Rules-based regulations also have to be constantly updated.

Of course, there are some potential drawbacks to a principles-based approach to regulation. This approach can be vague and open to interpretation, potentially leaving a 'grey area' for disputes and disagreement. There is a risk that it can be subjective and makes it difficult to have consistent standards across an industry, although there is a counter argument that a simple set of consumer principles will make it easier to ensure consistency in the way consumer rights are protected.

A principles-based approach can be retrospective and reactive, with the regulator judging the actions of service providers after the event rather than setting out rules about what should happen in advance of non-conformances. Again, a counter argument is that consumer principles can be used to proactively develop policies and processes, targeting specific consumer experiences and outcomes.

A principles-based approach can also add a layer of regulation to the existing rules, at least on an interim basis, while a principles-based approach is bedding in.

Overall the benefits outweigh the drawbacks.

Benefits and drawbacks of a principles-based regulation

Benefits	Drawbacks
Consumer understanding Simplicity and brevity Onus on the service provider to communicate with consumers & better understand their needs Easier customisation to market or region Less need for the regulator to have comprehensive understanding of the industry Less need to cover every option / eventuality Do not need to be constantly updated Discourages a mechanistic, 'box-ticking' approach Gives service providers flexibility on how to satisfy principles Encourages companies to innovate in service provision	Vague Open to interpretation / subjective Adds to regulatory burden Retrospective and reactive Lack of consistent standards across sectors



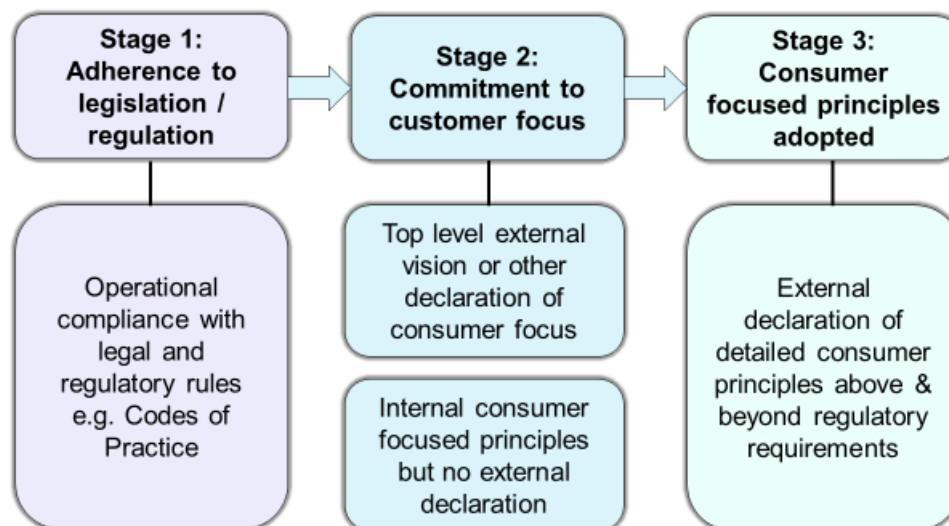
9.3. The application of consumer-focused frameworks in the energy, water and postal sectors

Under the influence of regulators and consumer bodies, service providers in the energy, water and postal sectors are moving away from an engineering or operational focus towards being service orientated, innovative and customer focused. That evolution has gone hand in hand with a movement away from prescriptive rules-based regulation towards more open, principles-based regulation, with service providers given greater autonomy and responsibility to communicate with their customers, to determine what their needs are and how best to meet those needs, and thus to develop their own consumer frameworks.

The transition from rules-based regulation towards consumer principles-based regulation is often described as a 'journey.' That journey is towards a culture based on understanding customers' needs, identifying what experiences and outcomes consumers should have from engaging with them, and providing services to better meet those needs and ensure that consumers are the key focus of an organisation.

There are three main stages in that journey. In diagrammatic form, those stages are as follows.

Three key stages in the adoption of a consumer principles framework



The first stage, the adherence to regulations, involves compliance with legislative and regulatory requirements, and takes the form of prescriptive rules. Examples are the Guaranteed Service Standards and Codes of Practice, which service providers must state to demonstrate that they comply with regulations.

The second stage comprises a commitment to being customer focused albeit not a fully-fledged set of consumer principles. This kind of commitment can take two forms: it can be a top level, overarching declaration that the organisation is customer-focused, such as a strategy, vision or mission statement; or it can be a set of internal consumer principles, such as those used by Ofcom and Royal Mail, which is an organisational tool and is generally not made externally visible.

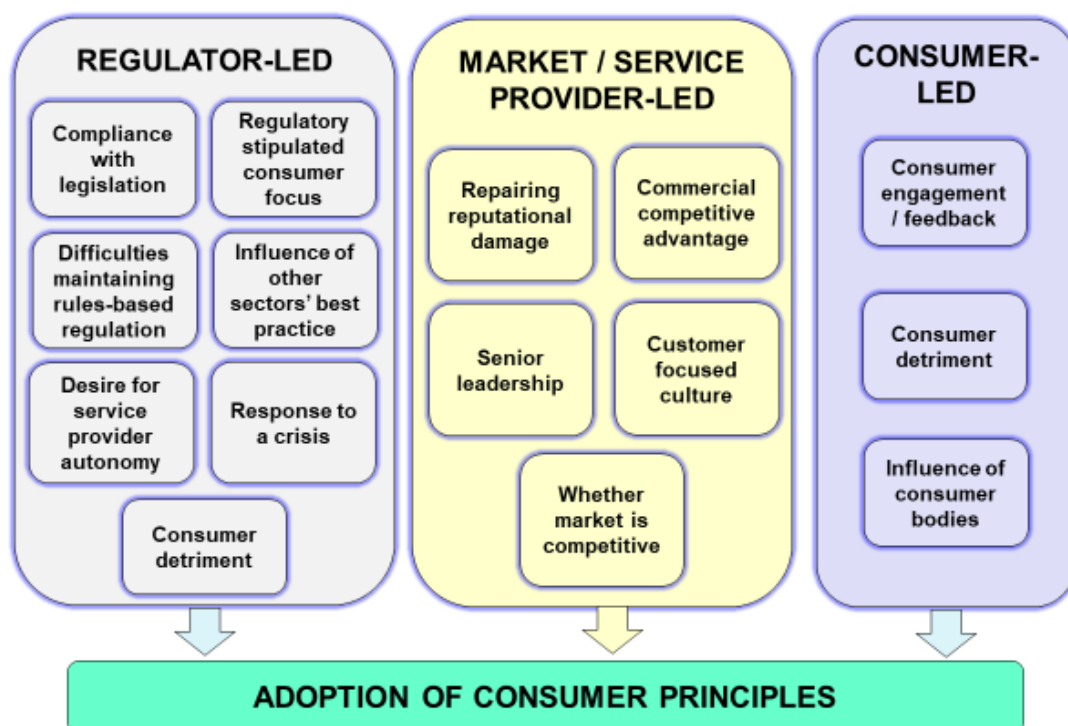


The third stage takes the form of fully-fledged set of consumer principles, which demonstrate that an organisation has taken ownership of the relationship with its customers and that it has gone above and beyond the regulatory requirements. Although many organisations in the energy, water and postal sectors make a claim to have reached stage two of this process, few can confidently claim to have reached stage three. Examples of this third level of commitment to consumer principles are the energy companies who have taken the TCF Standards of Conduct and enhanced these with their own customer promises (such as npower), and also the energy companies in Northern Ireland who have developed a Customer Charter. In all these cases, service providers have consulted their customers to determine their key needs and have developed their services to better meet those needs.

9.4. Drivers of a more consumer-centric approach to dealing with customers

The key drivers behind the transition from rules-based regulation to a regulation based on consumer principles, fall into three main types: regulator led drivers, consumer led drivers and market or service provider led drivers.

Key drivers of the adoption of consumer principles



Ofgem cites a number of the regulator-led drivers as being behind the introduction of the Standards of Conduct, namely difficulty in maintaining prescriptive rules to ensure that they are watertight, a desire to put the onus on the service provider to determine what a positive outcome is and how to achieve that outcome, and a need to address customer detriment in the market due to poor customer satisfaction, a lack of transparency regarding pricing and the difficulty of changing supplier. Another key regulator-led driver is the observed successful implementation of consumer principles frameworks in other sectors. Ofgem, for example, was influenced by the adoption of the Treating Customers Fairly principles in the financial sector.



Many of the drivers behind the adoption of consumer principles-based regulation are led by the market or service providers. For example, a key driver is whether the market is competitive or a monopoly: monopolistic markets, such as the domestic water industries, are often perceived to require greater prescriptive regulation, whereas competition should, at least in theory, encourage consumer-friendly pricing and more innovative service delivery among providers. Another related market-led driver is the development of a consumer-centric culture to give service providers a commercial competitive advantage; a few the research respondents cited this as a key reason for adopting a more customer-focused philosophy.

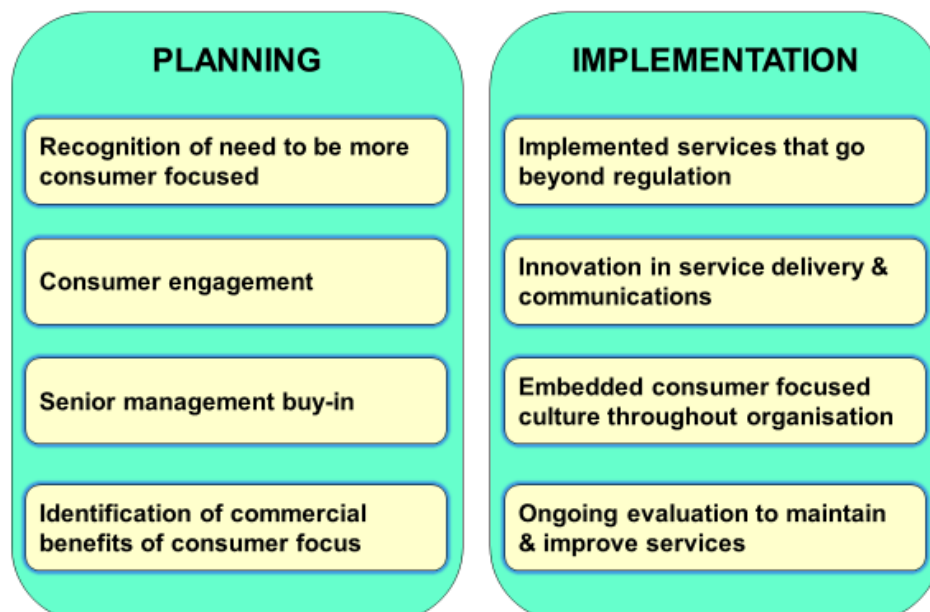
The adoption of consumer principles often reflects a customer-focused culture within a service provider organisation. In turn, the more customer-focused culture is often attributed to the impact of senior managers driving a change within their organisations. Cathryn Ross at Ofwat is one example of this driver.

The adoption of consumer principles is also often influenced by consumer bodies, such as Citizens Advice, the CFU, the Consumer Council for Water and the Consumer Council for Northern Ireland. These bodies all have well-established, prominent sets of consumer principles that underpin their work. This in turn has an impact on the approach of regulators and service providers to dealing with consumers.

9.5. Characteristics of consumer-focused organisations

The key characteristics of organisations that have adopted consumer principles is a desire to be truly customer-centric and to be focused on improving consumer outcomes. There are actually a number of characteristics common to organisations that have embraced consumer principles. These fall into two broad categories: those relating to planning and those relating to implementation.

Typical characteristics of a consumer focused organisation



Typically, then, such organisations have recognised shortcomings in their service delivery, have addressed those shortcomings by consulting consumers to determine their needs, have proactively gone further than legal or regulatory requirements in developing services to meet those needs and ensured that a consumer-focused culture pervades the whole organisation. In essence, this transfers ownership and responsibility for these developments from the regulator to the service provider.

Usually such consumer principles are openly declared and in the public domain. For example, energy companies in Great Britain are required to publish their Treating Customer Fairly standards. However, this is not always the case. The Consumer Council for Northern Ireland has adopted a set of consumer principles that is very similar to the CFU framework, but this is an internal tool and has not been prominently communicated outside of the organisation.

Of course, the journey towards the adoption of consumer principles is not generally as clear cut as the above schemata might suggest. While the transition to a principles-based approach is underway, the sector will find that it has *both* principles *and* rules. Several energy companies complain that the 'burden' on suppliers has increased with the introduction of a principles-based approach. Some companies also comment that they have found themselves having to introduce strict procedural rules internally to ensure that staff adhere to the TCF principles.

High level consumer principles can work hand-in-hand with prescriptive rules. In the energy sector, for example, the principles enshrined in the TCF framework are a sub-set of the prescriptive rules.

The Institute of Chartered Accountants England and Wales notes that, in practice, Codes of Ethics are often a mixture of principles and rules and *'the key issue is striking an appropriate balance which encourages the spirit of the guidance to be complied with and does not undermine the exercise of judgement and the role of the profession.'*

This is an important point, in that the aim is not necessarily to replace a set of rules with a set of principles, and often rules and principles support each other, or one can act as a sub-set of the other in their application. For example, the TCF standard is a condition of licence in the energy sector in Great Britain. On the other hand, some energy companies have developed internal rules to ensure that staff abide by the principle of treating customers fairly.

The comment about not undermining the exercise of judgement is a key feature of a consumer principles-based approach to regulation, which gives service providers freedom to take responsibility, determine the needs of their customers and develop appropriate, innovative ways of dealing with customers.

9.6. Determining how far along the journey towards consumer principles an organisation is

To determine how consumer-centric an organisation is, the following questions can be asked.

These questions can be asked of a regulator or a service provider to determine how far it is along the journey towards adopting a more consumer-centric approach. The more of these questions that are answered in the affirmative, the more consumer-centric it can be considered. The corollary is that where less than half of the questions are answered negatively, there is a need to develop a more consumer-centric approach in order to improve consumer outcomes.



The questions are:

-
1. Does the organisation have a process of identifying any consumer detriment in its market?
 2. Has the organisation taken any steps to address consumer detriment in its market?
 3. Has the organisation consulted customers to determine their needs in terms of services, communications, and so on?
 4. Are senior managers focused on consumer outcomes?
 5. Does the organisation voluntarily go above and beyond legal or regulatory requirements in its dealings with consumers?
 6. Is the organisation innovative in the way it deals with consumers?
 7. Does a consumer-focused culture exist throughout the organisation?
 8. Does the organisation have a formal set of high level consumer principles underpinning service provision and planning?
 9. Is a set of consumer principles published or made publicly available?
 10. Is the organisation's consumer culture reviewed on an ongoing basis and improvements implemented accordingly?
-

The number of questions which can be answered positively by regulators and service providers varies by sector

9.7. Differences by sector

All regulators specify licence conditions in terms of minimum standards that service providers should meet. Generally, this takes the form of Guaranteed Standards, Codes of Practice and variations thereof.

All regulators and service providers in the energy, water and postal sectors claim to have started the journey from the slavish adherence to prescriptive rules towards a more customer-focused approach. However, the distance organisations have moved along that journey, and the way the commitment to consumer focus has been addressed, varies by sector and by region.

In the energy sector the Standards of Conduct, specifically the Treating Customers Fairly (TCF) framework, has been introduced by Ofgem as a licence condition, so that it is mandatory for energy companies to develop and publish their TCF promises.

Larger energy suppliers make their TCF promises very prominent on their websites and in brochures, but smaller suppliers do not necessarily have the resources to do so, and the TCF promises tend to be less prominent among smaller energy companies. In Northern Ireland, energy companies have introduced Customer Charters which cover similar ground to the TCF framework.

The energy sector is the most evolved in terms of the adoption of consumer principles-based regulation, as illustrated by the use of the TCF framework in Great Britain and the development of customer charters by energy companies in Northern Ireland. However, even in the energy sector, it is widely acknowledged that there is considerable work still to be done and that the sector is only at an early stage of the 'journey' towards the full adoption of a consumer principles-based framework.



In the water industry, Ofwat has declared a 'Strategy' with the aim of making the industry more customer-centric and engendering greater public trust and confidence in the industry. Most service providers are also in the process of transforming themselves from engineering organisations to customer service ones. However, among service providers in the water industry, consumer principles are often internal tools, and customer-orientated statements above and beyond the conditions of licence tend to be restricted to an overarching vision, mission or statement of values. These are often non-specific in terms of promises. So, although the water sector is aiming to become more consumer-orientated, it is currently at an early stage in the journey.

The regulated postal sector remains heavily reliant on rules-based regulation, although Ofcom and Royal Mail have *internal* sets of consumer principles that underpin policy development. In the non-regulated postal sector, there is evidence that service providers recognise the potential in adopting a consumer principles framework, although the issue is complicated by the fact that postal companies tend to be go-betweens in a contract between the shipper (for example a retailer) and the end customer.

This is summarised in the following chart.

How sectors are moving towards the adoption of consumer-focused frameworks



Sector / region	Adherence to legislation / regulation	Commitment to consumer focus	Consumer focused principles adopted
Energy in Great Britain	Standard Licence Conditions Including Standards of Conduct (Treating Customers Fairly)	Vision / values	Consumer focus above & beyond the TCF Standards of Conduct
Water in Scotland	Legislation / regulation Codes of Practice Market Code	Vision / values Internal consumer focus	Scottish Water 6 pillars
Water in England & Wales	Licence Conditions Service Standards Codes of Practice	Vision / values Internal consumer focus	'Trust in water' strategy (Ofwat)
Energy & Water in Northern Ireland	Codes of Practice Marketing Code of Practice	Consumer Protection Strategy Vision / values	Customer Charters (NI energy suppliers) Customer Promises (NI Water)
UK post	Legislative & Regulatory Conditions (regulated market)	Vision / values Internal consumer focus – one of 3 pillars (Royal Mail) Fledgling voluntary consumer focus (unregulated market)	No publicly stated set of consumer principles above and beyond regulatory requirements



Currently few organisations in the energy, water or postal sectors have truly reached the third stage of the process, by which they have adopted a fully-fledged set of consumer principles and embedded these in planning, operations and communications.

However, almost all organisations have demonstrated some ambition to move towards that goal.

9.8. Role of the CFU consumer principles framework

The CFU employs a set of tried and tested consumer principles which have been developed over time by the CFU, its predecessor organisations and other consumer-focused organisations in the UK and beyond.

Access	Can people get the goods and services they need or want?
Choice	Is there any?
Safety	Are the goods or services dangerous to health or welfare?
Information	Is it available, accurate and useful?
Fairness	Are some or all consumers unfairly discriminated against?
Representation	Do consumers have a say in how goods or services are provided?
Redress	If things go wrong, is there a system for putting them right?

The CFU consumer principles framework, or something very similar, has been applied in other markets, including the legal, financial and health sectors, and by other consumer bodies such as CCWater and the Consumer Council for Northern Ireland.

The fact that so many sectors and organisations have recognised the benefits of this kind of framework demonstrates its usefulness as a checklist to assess consumer focus and inform policy development.

The CFU framework is therefore sufficiently robust to act as a good yardstick against which other consumer-focused frameworks can be measured. The level of match with the CFU framework is therefore a good way of determining how robust and consumer-focused other frameworks are.

In broad terms, the match between the customer-focused frameworks in place among service providers and the CFU consumer principles is as follows.



Comparison with the CFU consumer principles framework

CFU principles	GB energy sector's TCF standard	Scottish Water's six pillars	England & Wales water industry's vision	NI energy sector's customer charters	NI Water's customer promises	UK postal sector's internal principles
Access		✓	✓	✓	✓	✓
Choice	✓			✓		✓
Safety		✓	✓		✓	
Information	✓		✓	✓		
Fairness	✓	✓	✓	✓		✓
Representation	✓	✓		✓	✓	
Redress	✓			✓		✓

✓ Indicates a match with the CFU consumer principles

By that test, the Treating Customers Fairly framework and the customer charters developed by Northern Irish energy companies have the highest level of match with the CFU framework and can therefore be judged the most robust currently in place.

Throughout the water and postal sectors, the degree of match with the CFU principles is slightly lower, indicating that the frameworks, even where they exist, are less robust and could be improved.

Many of the existing frameworks do not cover all the consumer principles covered by the CFU framework.

Although each of the energy, water and postal sectors has some kind of framework in place, the existing frameworks are different to that used by the CFU.

- Access is often implicit rather than explicitly stated as a consumer principle;
- Choice is perceived to be less relevant in monopoly situations, although it is a key aspect in competitive markets, notably energy;
- Safety, fairness and the provision of information that is clear, accurate and unbiased are all important principles, and tend to be reflected in the different frameworks employed;
- Representation is a key area, and increasingly the 'customer voice' informs service delivery and customer promises;
- There is almost always a complaints procedure, although redress is not always cited as a consumer principle.

On the other hand, there are items covered by existing frameworks that are not covered by the CFU framework, such as value for money, trust, honesty, confidence, and also the environment and sustainability.



There is some concern among regulators and service providers that the CFU consumer principles are too rigid, asking 'yes or no' questions rather than reflecting the subtleties of real situations. For example, on fairness, the question 'Are some consumers unfairly discriminated against?' is a yes/no question, but for a regulator it's a question of degrees. Secondly, fairness is about treating *all* customers fairly, such as not being mis-sold to; it's not just about discrimination. Also, it's not enough to ask (on redress) whether there is a system for putting things right. The questions are: Does the system work? Are people having things put right?

Another example is choice. The question 'Is there any?' is considered to be too black and white. In energy, the answer is affirmative, that there are multiple suppliers, but the issues are more complex: is choice serving the intended purpose, is there enough choice, and is the market competitive? This is also linked to information provision: it is not just about giving consumers choice, but allowing them to make *informed* choices.

Some regulators and service providers see a benefit in using an existing, tried and tested framework and modifying it for use in that sector. The energy sector, for example, has taken the Treating Customers Fairly framework from the financial services industry.

However, regulators and service providers generally demonstrate little appetite for a harmonised set of principles across all sectors, believing that each sector should find its own solution that fits its own unique needs.

Priorities will be different for different types of organization. For example, for network operators, safety is a prime consideration whereas suppliers are essentially just providing a billing service. For suppliers, communication is a bigger issue.

The consumer principles framework used by CFU does have a role to play. The framework has the significant benefit of being tried and tested over time in a range of sectors. It can therefore be both used by CFU staff to guide its own work and also applied by regulators and service providers in different contexts with only minor modification. It can act as a good checklist to test policy formulation and service provision.

There is potentially an opportunity to use the CFU framework where no framework currently exists for example in the unregulated postal services market, for Distribution Network Operators, and also for smaller water companies in England and Wales.

At the very least it can be used to test other frameworks to ensure that they are relevant, comprehensive and fit for purpose, and that they truly have consumers at their centre.



APPENDICES



Appendix A: case studies referred to in report

Section 4: the GB energy sector

Customer Fairness at E.ON

As our customer, you're important to us. Our aim is to give you simpler products, at fair prices and a responsive, friendly and helpful service.

Our Treating Our Customers Fairly statement sets out how we're looking to continue to treat you fairly through what we have done, and plan to do, to make sure we achieve our aim and meet the Standards of Conduct that you can expect of us.

We've been changing and we'll continue to change to make sure we treat you fairly in everything we do. We won't forget that you've chosen us and we'll work hard for you, so you'll want to stay with us. We know that energy bills are a big part of your spend and we're really focused on keeping our costs down so you pay no more than you need.

So that you, our customers, feel fairly treated by us every time, we worked with customers and colleagues to seek to define what fair treatment felt like.

Therefore, we aim to treat you fairly by:


- being honest with you – giving you simple, clear and accurate information so that you can make informed decisions*
- saying sorry if we make a mistake – telling you promptly how and when we'll put things right, and keeping you informed of progress*
- making it easy for you to contact us, because we know your time is precious, and communicating with you in easy to understand language and in a way of your choice*
- giving you help to meet your energy needs, like ways to help you use less*
- listening to you so that we focus on improving the things that are important.*

We will also make sure that we are fair to each other at E.ON so that we naturally use this experience to treat you fairly.

Each year we publish a statement to share what we've done, and plan to do, to continue to treat you fairly, and you've told us that it is important to you that we share our progress. Treating customers fairly is one of the goals of our strategy to help us achieve our vision of becoming your partner of choice for energy solutions.


Our customers continue to be at the heart of everything we do and our aim is to treat you fairly at all times. We've defined what we think that means for our customers in our definition of fairness above and have been putting it into practice. We set out in this statement the things we have done in 2016, in-line with Ofgem's Standards of Conduct.



	
Company	npower ⁴²
Profile	<p>'One of Britain's leading energy companies' (one of the 'big six') and part of the Innogy group.</p> <p>Serves approximately 5.1m residential and business accounts with electricity and gas.</p>
Customer focus	<p>Very customer focused.</p> <p>Internally npower uses 'pub and mum' tests i.e. how would employees feel if the customer was their mum / how comfortable would employees be telling friend in a pub what they are doing.</p>
Consumer framework	<p>The npower framework is 'Treating Customers Fairly – Putting You First.'</p> <p>'Treating customers fairly' document accessed through prominent links throughout website.</p> <p>Key sections of document are:</p> <ul style="list-style-type: none"> • You talked, we've listened – customers' views & needs understood through surveys, call centre feedback, online feedback, exit surveys, etc. • Getting the help that you need – alternative ways to contact npower making it easy to contact company • Caring for you – Priority Services, Warm Home Discount, Affordable Solutions and other schemes to ensure that all customers, including vulnerable ones, are treated fairly • Improving our journey together – commitment to ongoing improvement • We've improved communication – we've improved the way we communicate, including social media, online, phone and post options • A better service for you and your home – ensuring that tariff is right for you and service improves. <p>Good match with CFU principles, notably representation, redress, information, fairness.</p> <p>Brochure outlining the npower TCF promise accessible through links throughout the npower website.</p> <p>TCF principles based framework currently sits on top of original rules.</p>

⁴² npower (www.npower.com)



	
Company	First Utility ⁴³
Profile	<p>Launched in 2008.</p> <p>Supplies gas and electricity to approximately 1m UK homes.</p> <p><i>'The largest independent energy and broadband provider in the country with award-winning customer service.'</i></p> <p><i>'Our goals are simple. We want to make the running of your home (managing energy, broadband and home-services) straightforward, painless and great value for money for everyone.'</i></p>
Customer focus	<p>Has an INTERNAL framework REPS: Reliable, Engaging, Pioneering, Straightforward – about how to treat customers.</p> <p>Will be communicated externally at some stage.</p> <p>Customer-centric throughout organisation e.g. life-size cardboard cut outs of customers throughout offices.</p>
Consumer framework	<p>'Great Service' promise is prominent on website:</p> <p><i>We believe in a more positive, engaged and informed relationship between customer and supplier. So, no matter if you're new or not to First Utility, we're committed to looking after you fairly by:</i></p> <ul style="list-style-type: none"> • <i>Treating you as we'd like to be treated - by acting honestly, transparently, appropriately and professionally at all times</i> • <i>Making it easy for you to get in touch with us - however and whenever is convenient, we'd be pleased to hear from you</i> • <i>Giving you the best possible deals we can - we'll always offer you our cheapest prices and best deals whether you're a new or existing customer</i> • <i>Providing the best possible customer service - we invest heavily in staff training and high-tech systems so that our service continues to strengthen as we continue to grow</i> • <i>Making it simple to understand and manage your account - through accurate and easy to understand bills, number one rated customer app and fun account tools.</i>

⁴³ First Utility (www.first-utility.com)





Heat Trust⁴⁴


When a heat network is successfully registered with the Heat Trust Scheme, the customers on the heat network will benefit from the standards set by the Scheme, including rules on the following:

- Support for vulnerable heat customers
- Heat supplier obligations
- Heat customer service and reporting a fault or emergency
- Process for customers joining and leaving
- Heat meters & heat Interface Units (HIUs)
- Heat bill and heat charge calculations & clarity
- Heat bill payment arrangements and the management of arrears
- Suspension and resumptions of service processes
- Complaint handling and independent complaint handling
- Privacy policy and data protection

⁴⁴ Heat Trust (www.heattrust.org)



Section 5: the water industry in Scotland

	
Profile	<p>A publicly owned company, answerable to the Scottish Parliament and the people of Scotland.</p> <p>Scottish Water is the sole supplier of water and waste water services to households across Scotland and runs Scotland's network of pipes, water sources.</p>
Our Vision – six pillars ⁴⁵	<ul style="list-style-type: none"> • Serving: show our customers that we care, achieving year on year improvements in their experience of our service and having a positive impact on customers and communities. • Strong: work hard to keep customers' prices low, delivering savings to keep customer price increases below inflation. • Responsible: always do the right thing for Scotland, providing ever better drinking water, implementing plans to boost water supply resilience to all major communities, fulfilling our environmental obligations and reducing our carbon footprint. • Leading: shape our future for the benefit of customers; listening to our customers, being proactive, working with customers, landowners, local authorities and developers to deliver even more efficient services. • Growing: enable a thriving Scotland, supporting developers, seeking innovative and low cost solutions for businesses to grow in Scotland, and supporting an efficient supply chain through world class procurement. • Committed: behave safely and have agile, healthy people and workplaces, building our skills and diversity to sustain high standards.
Code of Practice ⁴⁶	<ul style="list-style-type: none"> • Keeping you safe • Dealing with a complaint • How can you be sure the water is safe? • What are we doing about climate change • All about water meters • Keeping you in the picture • What we charge you • Our promises to you (incidents, payments, etc.) • Complaints • Looking after customers who need additional support • Who do we answer to?

⁴⁵ Scottish Water (www.scottishwater.co.uk)

⁴⁶ Scottish Water 'Our promises to you – code of practice' (extract)



Section 6: the water industry in England and Wales



Trust in water⁴⁷

Across England and Wales, we all rely on the water, drainage and sanitation services that the water sector delivers every day. In our homes, in our work and in our environment. But challenges threaten those vital services that we receive, such as population growth, climate change and water scarcity. Everyone involved in the water and wastewater sector has a role to play to help address these challenges.

To meet these challenges, customers need to have trust and confidence in the vital public service they receive. This means trust in the water in the tap, wastewater flushed away and the price they pay. But also, much more than that.

To achieve trust and confidence the sector must listen to their customers and deliver outcomes which benefit customers today and in the future. This means strong relationships throughout the supply chain and with investors, and genuine engagement with government and regulators. And investors need to encourage the delivery of new and efficient solutions for customers.

As the economic regulator for the water sector in England and Wales, we help build trust and confidence in water. We do this through focusing on what matters to customers, the environment and society both now and in the future.

We oversee how the sector is performing and seek assurance that service providers are engaging with customers and delivering services they want and can afford. We're ready to step in when things go wrong, and to act clearly and predictably with the right tools to achieve the best results.

The way that we work, the way we behave and the values we live by will be as important as the work that we do. Our vision is to be a trusted and respected regulator, working at the leading edge, and stretching ourselves and others to build trust and confidence in water.

Delivering trust and confidence in vital public services is ambitious and will take time to achieve.

And we cannot do this alone.

We need the sector and everyone interested in it to work with us and together, listening and communicating to build trust and confidence among customers, investors and our wider society.


If together we succeed, we will see:

- *customers confident in the service they receive at a price they can afford.*
- *society trusting that decisions made today will protect future generations and the environment; and*
- *investors having the confidence to invest in water and wastewater service providers.*

We will all benefit from trust in water.


⁴⁷ Ofwat website: <http://www.ofwat.gov.uk/about-us/>



	
Profile	Wessex Water is a regional water and sewerage business serving 2.8 million customers across the south west of England.
Customer focus	<p>In line with legal and regulatory requirements (provided under licence agreement), Wessex Water provides a number of policy documents relating to issues such as affordability, social tariffs and standards of service. These include a series of succinct and focused Codes of Practice documents, based on standards of service relating to specific service areas, such as accounts and bills, help and advice, water meters and water quality. Each of the documents represents a promise to customers relating to service performance and compensation levels for failures to meet promised service standards.</p> <p>The Wessex Water standards and promises are <i>'enhanced beyond the legal requirements.'</i></p> <p>Wessex Water encourages staff to 'go the extra mile' (GEM) whenever they can in order to build trust among customers, resolve issues efficiently and treat customers fairly. Colin Skellett, Chief Executive, states: <i>We are a customer centred organisation and believe in putting customers and the communities we serve at the heart of everything we do – our aim is always to achieve the best outcome for them. We focus on understanding customers' changing needs and responding to the pressures that many continue to be under in these challenging economic times.'</i></p>
Consumer framework	<p>Our mission: <i>To provide outstanding, sustainable water and environmental services.</i></p> <p>Our aims:</p> <ul style="list-style-type: none"> • <i>To provide customers with excellent affordable services;</i> • <i>To protect and improve the environment and contribute to wider society;</i> • <i>To be a great place to work in which all employees can work safely and reach their full</i> • <i>Potential;</i> • <i>To deliver the best possible returns to investors.</i> <p>Our values (BEST):</p> <ul style="list-style-type: none"> • <i>Behaviours – we respect and value everyone's contribution and always operate with integrity and openness;</i> • <i>Excellence – we aspire to excellence in everything we do;</i> • <i>Service – serving customers is at the heart of our business and we always go the extra mile;</i> • <i>Teamwork – we are one team working together to deliver our mission.</i>




Section 7: the energy and water industries in Northern Ireland

	
Profile	<p>Northern Ireland's leading electricity supplier. Approximately 70% share of the domestic market and 49% share of the commercial market.</p>
Customer focus	<p>Power NI's prices for homes, small businesses and farms are agreed with the Utility Regulator, <i>'so our customers can be sure that they will always pay a fair price.'</i></p> <p><i>'Excellent customer service is in our DNA - and it shows. We have friendly staff in Antrim, Belfast and Omagh and answer most of our calls within 20 seconds, so with us you won't be left hanging on the line, or be passed from pillar to post. Our DNA also shows that we have the 'low complaints' gene!</i></p> <p><i>For the third year running, we've been recognised by the Consumer Council as having the lowest level of customer complaints of any local supplier.'</i></p> <p><i>Our Promise: Power NI aims to provide a first-class service and value for money for all our customers.</i></p> <p>Customer Charter very prominent on website and in documents.</p>
Customer Charter	<p><i>We promise to:</i></p> <ul style="list-style-type: none"> • <i>Have caring and knowledgeable staff to help advise you on all the services we provide.</i> • <i>Ensure our services are accessible to all our customers.</i> • <i>Give you a choice of payment options.</i> • <i>Produce clear and accurate bills.</i> • <i>Provide help if you have difficulty paying.</i> • <i>Provide special help and advice for our most vulnerable customers.</i> • <i>Make it easy for you to contact us</i> • <i>Deal quickly and effectively to resolve any problems you tell us about.</i> • <i>Provide a list of advice agencies that may be of help to you</i>




Northern Ireland Water

	
Profile	<p>Northern Ireland Water is a Government Owned Company (GoCo), set up in April 2007 to provide the water and sewerage services in Northern Ireland. NI Water supplies 560 million litres of clean water a day for almost 1.8 million people as well as treating 320 million litres of wastewater a day.</p>
Customer focus	<p>NI Water's strategic approach over the period 2015 to 2021 (the 'PC15 period') has been shaped around their identification of 8 customer promises developed in 2013/14.</p> <p>These promises are detailed in the 'Our Strategy' document and they are prominent on the NI Water website and other documents.</p>
Customer Promises	<p><i>NI Water '8 customer promises' are:</i></p> <ul style="list-style-type: none"> • <i>We provide you with customer service you value and expect</i> • <i>We provide you with clean, safe water to drink</i> • <i>We seek to give you value for money</i> • <i>We adapt to deal with the effects of climate change</i> • <i>We want to protect and enhance the natural environment</i> • <i>We take care of your wastewater so it doesn't pollute your environment</i> • <i>We supply you with the water you need</i> • <i>We provide excellent service by having the right people doing the right thing for you</i>



Section 8: the UK postal sector

	
Profile	Royal Mail is the 'Universal Service Provider' of residential postal services in the UK.
Regulation	<p>Royal Mail is governed by regulation, and is regulated more closely than other postal operators in the UK. Obligations are imposed on Royal Mail in the regulatory conditions. This includes, for example, mail integrity obligations, publication of complaints and compensation data, adherence to a prescribed complaints and compensation process, publication of quarterly quality of service information by postcode area, mandatory consumer access to a redress (ADR) scheme.</p> <p>By contrast, other postal operators are only required to provide a complaints process, but the format is not prescribed and complaints and compensation data is not published. No other postal operator in the UK is subject to this regulation or published quality standards.</p> <p>Royal Mail is required as the Universal Service Provider to ensure that customers areas across the whole of the UK can access services easily (at least 98% of the population must be within half a mile of an access point e.g. a post box) and at a uniform, affordable price.</p> <p>Royal Mail has a formal stakeholder engagement procedure and seeks feedback from customers & other stakeholders through a range of methods including research, social media & events.</p>
Customer Focus	<p>Customer focus is one of the three key pillars of Royal Mail's business strategy. Ofcom and Royal Mail's customer satisfaction monitoring shows that customer satisfaction is high and improving.</p> <p>Royal Mail is also part of the Keep Me Posted partnership fighting for the consumer's right to choose how they are contacted, including billing.</p> <p>Internally, therefore, Royal Mail has a set of consumer principles that it adheres to, in order to ensure that the consumer is front of mind in its strategy and service provision.</p> <p>However, these are not externally stated or referred to as 'consumer principles,' something that can be attributed to a number of features of the regulated postal market:</p> <ul style="list-style-type: none"> • High customer satisfaction within the postal sector • A generally low level of customer detriment • Already a high level of regulation. <p>Given these features, an additional set of external consumer principles is less of an imperative than it is in the energy or water industries.</p>



Appendix B: research methodology

Overview of research methodology

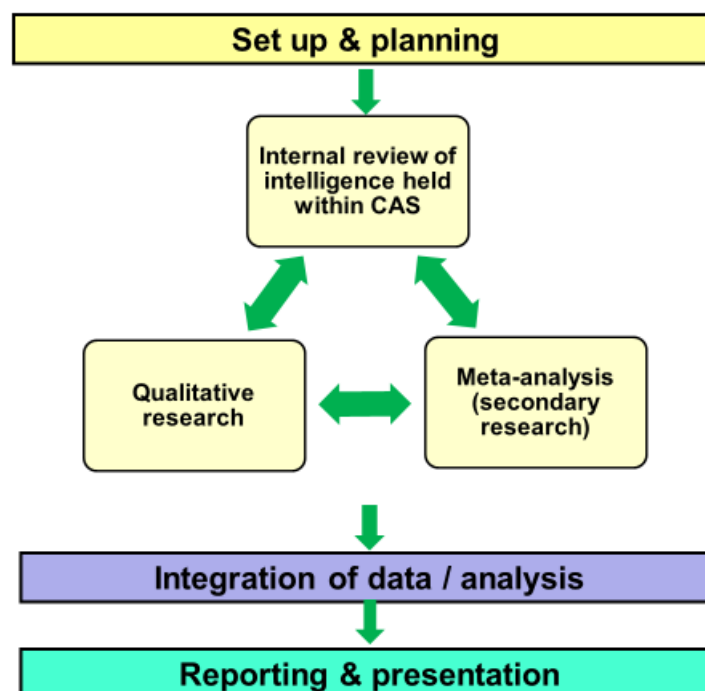
Our approach to the required research on consumer based frameworks comprised a combination of secondary (desk) research and qualitative research among UK regulated and non-regulated industries, particularly (but not exclusively) in the energy, post and water sectors.

Purple Market Research has a tried and tested approach to this kind of research project, comprising the following main stages:

- A set up and planning phase;
- An intelligence gathering phase: in this case, a combination of a review of intelligence already held by the Consumer Futures Unit, additional desk research and qualitative research among regulators, service providers and other relevant bodies;
- An analysis and reporting phase to cross-analyse and integrate the findings from the different intelligence gathering components, and to derive insights and recommendations from the research.

Our research programme for this project conforms to this model, and is therefore as follows.

Research programme structure



Meta-analysis

Secondary (desk) research was employed to identify and summarise consumer principles currently adopted by regulators and service providers.

The meta-analysis explored:

- Evidence of stated consumer or customer frameworks in industry, where they are held, how they are applied to policy and practice, and how, if at all, they are evaluated.
- In the absence of a tangible consumer framework, evidence of stated consumer policy and practice by regulators and service providers where it implies a consumer outcome.
- A sense of whether or not applied frameworks adequately cover the seven key areas outlined within the consumer principles, and which aspects require strengthening.
- Commonality and diversity in consumer based frameworks identified by participating regulators and service providers.

This involved the analysis of relevant regulator and service provider websites and also a general intelligence search to explore the key elements of a consumer principles based approach and best practice in this area.

Qualitative research

This second phase of the project comprised qualitative research among regulators and service providers. This further explored the extent to which consumer principles are the basis for planning and operations in such organisations.

The primary research into applied standards for service provision took the form of in-depth interviews with regulators and service providers.

As for the meta-analysis, the qualitative research focused mainly on UK regulators and service providers in the energy, post and water industries.

Qualitative research was conducted with 40 personnel / organisations in a cross-section of the target market.

Qualitative interviews were conducted within the following organisations.

	Energy	Water	Post
Regulators	Ofgem Utility Regulator NI (Energy) Ombudsman for Energy	Ofwat Water Industry Commission for Scotland (WICS) Utility Regulator NI (Water) Scottish Environment Protection Agency (SEPA)	Ofcom



			Ombudsman Services Scottish Public Services Ombudsman	
Operators / suppliers	Dundee City Council EDF Eon First Utility Fyne Homes HOBESCO Npower Scottish Power	Scottish Power Energy Networks Scottish & Southern Energy Shetland Heat & Power West Whitlaw Housing Co-op	Business Stream Castle Water NI Water Scottish Water Welsh Water Wessex Water	Royal Mail Parcelforce APC Yodel
Consumer & trade bodies	Consumer Council for NI (Energy) Energy UK Heat Trust		Consumer Council for Water (CCWater) Consumer Council NI (Water)	Consumer Council NI (Post)



Appendix C: topic guide used in the qualitative interviews

Section	Detailed probing
<p>1 Introduction & background</p>	<p>The Consumer Futures Unit of Citizens Advice Scotland is currently conducting research on the application of consumer principles within UK organisations in the energy, water and postal sectors.</p> <p>The aim of the research is to explore what kind of consumer oriented frameworks are currently in place and whether there is room for improvement in this area.</p>
<p>2 Existing consumer-focused framework</p>	<p>What kind of consumer commitments or promises does your organization make?</p> <p>Do you currently have an overarching framework encapsulating your consumer or customer focus?</p> <p><u>IF A FRAMEWORK IS IN PLACE:</u></p> <p>What form does your framework take?</p> <p>What do you call it?</p> <p>What are the key consumer principles or promises given?</p> <p>How was it formulated? What were the main drivers e.g. legislation, regulation, commercial (giving a competitive edge), other?</p> <p>How clear and central is the framework to the way your organization delivers consumer outcomes?</p> <p>How and where do you communicate the framework to consumers (e.g. on website, in brochures, in annual report, other)?</p> <p>How flexible is the framework?</p> <p>How much is the framework used to formulate policy and practices in your organization?</p> <p>How do you evaluate how well your organization is performing in line with the framework? (E.G. MARKET RESEARCH, SIM, ANNUAL REPORTS, ETC.)</p> <p><u>IF NO FRAMEWORK IS IN PLACE:</u></p> <p>Is there any particular reason that your organization doesn't have such a framework?</p> <p>Are there any particular barriers to adopting such a framework?</p>



		<p>How might these barriers be overcome? PROBE: additional resources, change of strategy, a model or 'template' that can be used as the basis for a framework, something else?</p> <p>In the absence of such a framework, how does your organization develop policies and procedures relating to consumer protection and focus?</p> <p>Do you think that your organization would benefit from such a framework? How?</p>
3	Other consumer frameworks	<p>Are you aware of any other consumer based frameworks used by other organisations in your sector?</p> <ul style="list-style-type: none"> • Which organisations? • What kind of frameworks? <p>Are you aware of consumer frameworks used in other sectors?</p> <ul style="list-style-type: none"> • Which sectors? • What kind of frameworks? <p>For other frameworks that you are aware of, what do you think are the benefits of these kinds of framework?</p> <p>Do you think that your organization (and / or your industry) would benefit from adopting such a framework? Why / why not?</p>
4	Need for a framework in the wider industry	<p>Do you think that your industry (water / energy / post) would benefit from a consistent consumer principles framework?</p> <p>How?</p> <p>What do you think the benefits are?</p>
5	Reaction to the outline of consumer principles	<p>Please look at the outline of the consumer principles concept (REFER TO APPENDED CONSUMER PRINCIPLES CONCEPT OUTLINE)...</p> <ul style="list-style-type: none"> • What are your initial thoughts when seeing this description of consumer principles? • What do you like about it? • What do you dislike about it? <p>Probe: how clear, flexible, easy to implement?</p> <p>Do you agree with the claimed benefits of the consumer principles framework?</p> <p>Application:</p> <ul style="list-style-type: none"> • How do you think this kind of framework could be used or applied by your organization? • What do you think such a framework could support? (e.g. setting corporate goals, establishing the customer promise, establishing a vision or set of values focused on the customer)



	<p>Does your organization currently have a consumer principles framework like this?</p> <p>If yes:</p> <ul style="list-style-type: none">• Please tell me about it.• What do you call it? (e.g. Customer Promise, Treating Customers Fairly, Code of Practice, Customer Charter, something else?)• How well does your framework match the Citizens Advice Scotland Consumer Futures Unit one?• What are the differences between this framework and yours? <p>If not:</p> <ul style="list-style-type: none">• Do you think that your organization and your customers would benefit from having such a framework?• Why do you say that?
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Appendix D: outline of stimulus for the qualitative interviews

ROLE OF CONSUMER PRINCIPLES



The Consumer Futures Unit: part of Citizens Advice Scotland (CAS) seeking to put consumers at the heart of policy and regulation in the regulated industries of energy, post and water.

Consumer principles: the work of the CAS Consumer Futures Unit is underpinned by a number of consumer principles, which are used as a checklist to assess consumer interest and form the framework within which policy is developed and communicated...

Access	Can people get the goods and services they need or want?
Choice	Is there any?
Safety	Are the goods or services dangerous to health or welfare?
Information	Is it available, accurate and useful?
Fairness	Are some or all consumers unfairly discriminated against?
Representation	Do consumers have a say in how goods or services are provided?
Redress	If things go wrong, is there a system for putting them right?

Benefits: if the Consumer Principles were advocated by Citizens Advice Consumer Futures Unit and more widely adopted by regulators and service providers, this would result in the development of more consumer-focused policy and practices that would deliver better consumer outcomes.



Appendix E: Citizens Advice Scotland Consumer Futures Unit



The Consumer Futures Unit (CFU) is part of Citizens Advice Scotland (CAS), and seeks to put consumers at the heart of policy and regulation in the regulated industries of energy, water and post.

The CFU speaks out for consumers across the regulated industries of energy, post and water. We combine policy expertise, research and market intelligence with insights from its advice services about the problems people experience, so its recommendations are evidence based.



Appendix F: About Purple Market Research



Purple Market Research is a strategic insight consultancy specialising in research in professional services and other business-to-business audiences. Purple was founded in 2002 by Trevor Wilkinson and Stephen Bairfelt.

Purple Market Research Directors Trevor Wilkinson and Stephen Bairfelt are experts in the integration of consumer, market and competitor information and both speak regularly on this subject at market research and insight conferences and seminars.

Over a period of ten years, Purple Market Research has conducted desk research projects for over thirty clients and analysed in excess of fifty sectors and markets, both in the UK and internationally.

Qualitative business-to-business interviews is another key specialism of Purple. In the last year alone we have conducted over 300 depth interviews, mainly in business-to-business markets, for clients such as Calor Gas, the Open University and St. John Ambulance.



Appendix G: further information

For further information on the research, contact:

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