



OFGEM: INNOVATION LINK – REQUEST FOR FEEDBACK

JULY 2021

INTRODUCTION

[Fair By Design](#) welcome the opportunity to respond to Ofgem's request for feedback on Innovation Link.

Please note that we consent to public disclosure of this response.

For more information about this response please contact Carl Packman:
c.packman@barrowcadbury.org.uk

ABOUT FAIR BY DESIGN

Fair By Design is dedicated to reshaping essential services, such as energy, credit and insurance, so they don't cost more if you're poor.

People in poverty pay more for a range of products including energy, through standard variable tariffs; loans and credit cards with high interest rates; and higher insurance premiums, through postcodes considered higher risk. This is known as the poverty premium.

We collaborate with industry, government, and regulators to design out the poverty premium.

Our Venture Fund provides capital to help grow new and scalable ventures that are innovating to make markets fairer.

The Barrow Cadbury Trust manages our advocacy work, and Ascension Ventures manage the Venture Fund.

OUR RESPONSE

Fair By Design welcomes the opportunity to respond to Ofgem's request for feedback on Innovation Link. We are very pleased to observe that in its evaluation of the programme, the consultancy CEPA noted that the "Sandbox specifically enables innovators to trial something that would otherwise not be possible within existing regulations, while continuing to protect consumers."¹ Fair By Design fully supports the ability for innovators to test new ideas in a way that sits outside normal regulatory oversight for the purpose of finding new operating models that work for consumers.

It's encouraging to see that the overall response of CEPA is that "the Innovation Link can benefit energy consumers by reducing the time to get innovations to market, by making innovators' proposals more consumer-focused, and by feeding into regulatory developments through the unique insights we gain from working directly with innovators"². We are also encouraged to see that Ofgem's own reflection for the future is that "Innovation Link can evolve to help facilitate innovation and support a fair and inclusive net zero at lowest cost to consumers."³

At Fair By Design we believe there is a very strong case to evolve the Innovation Link programme into one that addresses specific urgent problems. To that end, we are advocating moves for Ofgem to include a specific poverty premium challenge within the programme.

Ofgem can learn from the FCA.

In its Digital Sandbox programme, the FCA added vulnerability as a specific challenge that innovators participating on the programme should address. This means that participants on the programme were not just innovating for the sake of building new technologies or providing for already well-served consumer groups. Instead they were addressing socially urgent issues.

The themes that the FCA chose to address within the vulnerability challenge (in their own words) were the following:

- How can advanced analytics be better deployed to identify and manage the risk that a customer may be in a vulnerable state, or about to transition to one? How can those customers be better supported through human intervention, or other methods?
- How can technology be used to provide or augment bespoke debt management advice to consumers, who may be experiencing, or about to experience debt challenges in order to improve; the quality of advice; the scalability of advice channels to meet unprecedented demand; or overcome the challenge of unavailability of face-to-face debt advice support.

¹

https://www.ofgem.gov.uk/sites/default/files/docs/2021/05/il_evaluation_and_evolution_request_for_feedback_may21.pdf

² ibid

³ ibid

- How can technology and/or advanced analytics be used to better manage risk and improve lending and credit services in a world of uncertain and unprecedented income fluctuations?⁴

We think this is a very positive move by the FCA. We would like to see it replicated by Ofgem. **The one difference is we think vulnerability as a category is too broad. Instead we want to see a poverty premium specific challenge, because affordability for low income consumers is an area that vulnerability initiatives often steer clear of.**

Why the poverty premium matters in the energy market

There is a specific urgency to address the poverty premium. In 2019 Fair By Design commissioned the Personal Finance Research Centre at the University of Bristol⁵ to carry out an updated report on the poverty premium in the UK. Specifically looking at energy they found:

- The exposure by low income households to poverty premiums on their energy bills had lowered since 2016 – which was when the academics' original research had been carried out;
- However many low income households still were exposed to extra costs so it is a problem that still needs addressing.

More specifically, they found that:

- Compared with the average Standard Variable Tariff for dual fuel using a direct debit payment, those on PPMs are likely to spend £57 more split between gas and electricity every year;
- The extra costs total £212 when considering the average difference in cost across the best six deals for dual fuel monthly direct debt payment and online account management, compared with average Standard Variable Tariff cost across the big six suppliers.

We know that this situation for low income consumers will get worse before it gets better. The Covid-19 pandemic has led to an increase in personal debt for certain segments of the population. According to the debt charity StepChange, over 19 million adults experienced a loss in income during this time while 11 million people have built up £25 billion of arrears and debt to pay for essentials (figures to March 2021)⁶.

The distribution of this increase in personal debt has impacted low income households disproportionately. According to the Bank of England⁷, the share of households struggling with their finances has increased, particularly among those with unsecured loans – who

⁴ <https://www.fca.org.uk/firms/innovation/digital-sandbox>

⁵ <https://fairbydesign.com/wp-content/uploads/2020/11/The-poverty-premium-A-Customer-Perspective-Report.pdf>

⁶ <https://www.stepchange.org/Portals/0/assets/pdf/covid-debt-rescue-report-stepchange.pdf>

⁷ <https://www.bankofengland.co.uk/quarterly-bulletin/2021/2021-q2/household-debt-and-covid>

tend to have lower incomes and are less likely to be in employment. This group is likely to be one of the more vulnerable in the next phase of this crisis.

It's very clear that making sure energy is affordable and accessible for low income consumers is vital. And there is a place for supplier innovation in identifying solutions for this group. Ofgem has the opportunity to focus the minds of participating innovators on thinking through urgent issues and engineering solutions around at-risk consumers.

In a recent report by the Energy Systems Catapult,⁸ they found that many innovation programmes in the energy market were not considering low income households:

"There is a prevailing view that it is not fair that some consumers could not be able to access the same benefits from a smart energy market because of factors largely out of their control. Obstacles faced by some consumers could also be important because their presence could slow down the energy transition needed to reach the Net Zero carbon emissions reduction target."

The point is very clear: an innovative energy market is vital to save consumers money and to get us in a place where we are within reach of our carbon emissions reduction target. But innovators are currently not designing these systems around real people's lives; instead they're being built around better-off consumers who:

- are digitally included
- are digitally confident
- feel totally in control of how energy gets into their home
- have the time to compare the market
- are totally confident that energy suppliers are competing for their custom.

In other words, already well-cushioned consumers.

For this reason, Ofgem has a big part to play in solving for this problem. Essentially, left to the market alone innovation is only serving already well-served consumers.

However, using Innovation Link as a testing space for new ideas that inclusively design around the needs of low income consumers who experience or are at risk of the poverty premium makes sure that the future of innovative services provides socially useful outcomes as well as a new generation of very interesting sustainable businesses.

Two potential challenges to address the poverty premium

1. How can the innovative use of (smart) data to achieve better customer outcomes?

What are the best ways to use energy consumption data in ways that can:

- a) identify signs of energy customers experiencing harm (e.g. self-rationing, 'heating or eating') and,

⁸

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/994845/project-involve-smart-energy-system-low-income-vulnerable-consumers.pdf

- b) indicate to suppliers that a customer could be on a much more appropriate tariff (for instance if the majority of a customer's energy consumption is predominantly taking place at a particular time of the day, and a time-of-use tariff could save them money).

This would enable suppliers to provide timely interventions to help customers avoid harm/personal financial crises. It would also help customers avoid poverty premiums (specifically where they're on tariffs which are not the best available deal for them). Using this data would enable suppliers to notify struggling/at-risk customers of available schemes that would help avoid harm in the future, or other interventions like payment holidays/emergency credit.

2. Flexibility on payments for credit customers

Currently, many energy customers using prepayment meters voluntarily do so because of the flexibility and control. However, at the moment these same customers pay extra for their energy consumption due to this payment method. While we do want to see a fair price paid by PPM customers, at the same time we think a useful opportunity would also be in adding flexibility in the way direct debit payments are paid to energy suppliers. This would give the opportunity for customers to pay their bills at times that suit them without impeding on the supplier, or penalising the consumer.

Elsewhere Request to Pay⁹ services are building in flexibility into utilities payments, and "rent-flex"¹⁰ is doing the same in the private rental market. Innovators in the energy market could also find solutions for how flexibility can be built into energy bill payments.

⁹ <https://www.requesttopay.co.uk/>

¹⁰ <https://www.rent-flex.org/>