

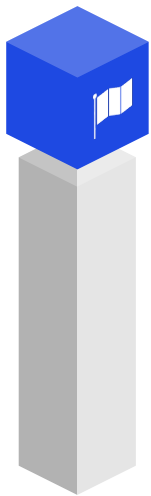
# Conduct & Remediation in the Energy Sector

## Energy sector trends that demand action

The Power & Utilities sector has proven to be a challenging environment for both Irish energy providers and their customers over the last 12 months, with the sector coming under increasing public, political and regulatory pressures. The continued rise in energy prices and the cost of living crisis has created headlines, with average electricity prices increasing by ~23% over the past 12 months.<sup>1</sup> These levels of energy price hikes have not been common in recent years which is resulting in a number of key trends which require the sectors attention to ensure fair customer treatment.

A review of Commission for Regulation of Utilities (“CRU”) and Office of Gas and Electricity Markets (“Ofgem”) complaints has highlighted a growth in the number of vulnerable customers who cannot afford increasing energy prices. In addition, an analysis of industry standard billing processes across Ireland and the UK has highlighted several customer journeys with potential poor unintended outcomes which could be driving these complaints.

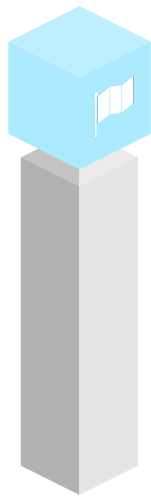
There is an opportunity to support customers in vulnerable situations (CIVS) to a standard not currently seen, but increasingly expected in the Energy sector. Adopting some of the practices we have helped our Financial Services (FS) clients implement will help CIVS during this difficult time, give providers a competitive advantage in delivering the best service for customers and will meet the increasing regulatory expectations. Additionally, implementing a more streamlined complaints process will not only allow customers to receive their response quicker, but may also be more financially efficient.



### Price increases and inflation

Families are paying up to €4,000 a year more compared to 12 month ago, while higher energy prices continue to drive up the cost of other goods and services.

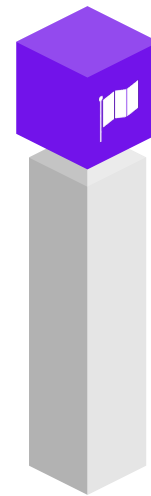
Source: [Irish Times](#)



### Government Intervention

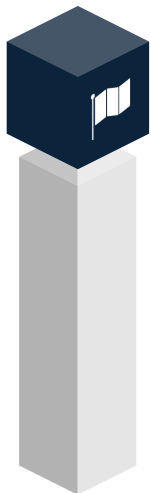
The Government has had to intervene by providing three €200 Electricity Credits per household to reduce to burden of increasing energy cost over the winter period. Overall cost of c.€1.2 billion.

Source: [Oireachtas](#)



### Increased consumer protection

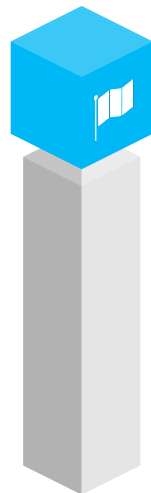
The CRU has introduced extended disconnection moratoriums, extended debt repayment period and promotion of vulnerable customer register, amongst other measures to protect vulnerable customers.



### Increasing number of complaints

The number of complaints logged has increased 51% year on year from 2020 – ’21, and has highlighted a number of potential poor customer outcomes associated with industry standard billing processes.

Source: [Bonkers.ie](#)



### Removal of customer discounts

Across the sector, switching discounts are being cut from up to 40% to less than 10% resulting in less competition in the market and value for the end user.

Source: [Irish Times](#)

1. <https://www.irishtimes.com/business/energy-and-resources/electric-ireland-prices-to-rise-23-25-from-may-1.4840135>

# Conduct & Remediation in the Energy Sector

## Emerging customer journey outcomes due to increasing price hikes

A review of Commission for Regulation of Utilities (“CRU”) and Office of Gas and Electricity Markets (“Ofgem”) complaints and industry standard products and pricing structures across Ireland and the UK has identified a number of customer journeys that may result in increased customer vulnerability and require the attention of energy providers.

### Fixed Payment Period Plans (FPPP)

Fixed Payment Period Plans typically spread costs equally over a 12-month period. In scenarios where usage and or unit price have increased this can result in an outstanding payment being due at the end of the fixed payment period. Given the level of price hikes over such a short timeframe in 2022, customers may not be aware that this repayment is building in the background. Consideration should be given to the frequency of fix repayment recalculations and how these are communicated to customers.

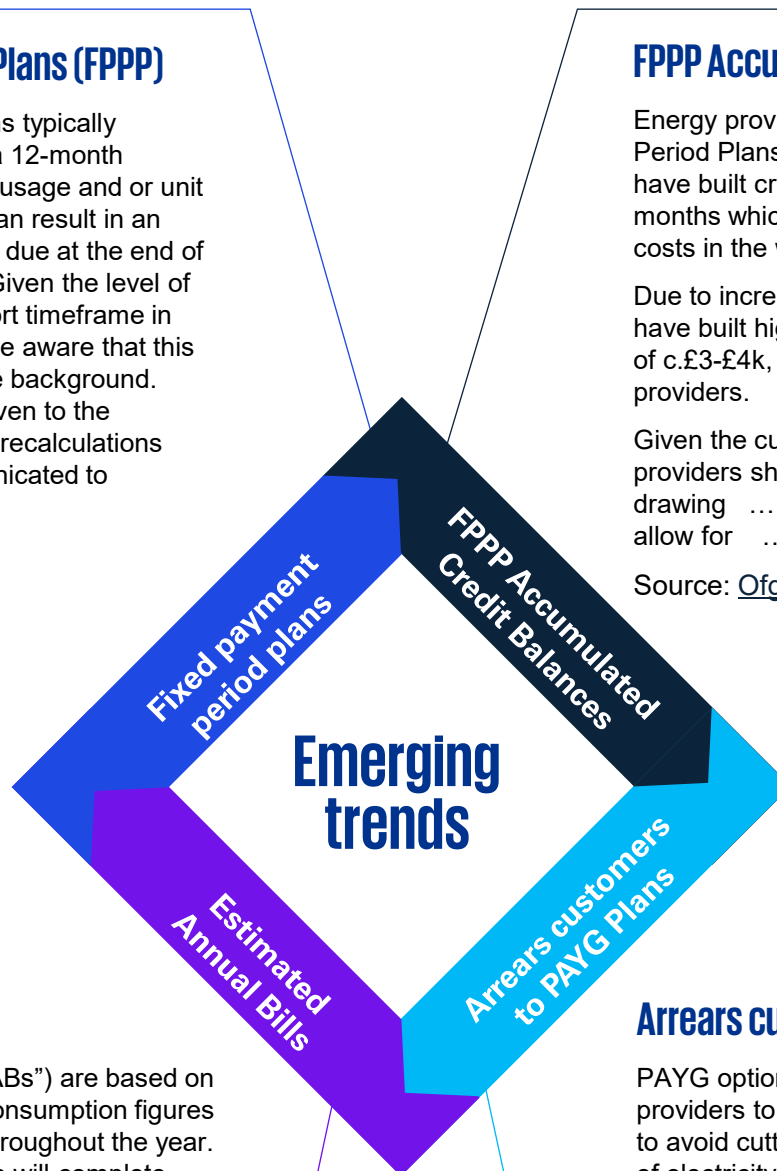
### FPPP Accumulated Credit Balances

Energy providers in the UK use Fixed Payment Period Plans, where as a result customers have built credit balances during summer months which are then used to offset high costs in the winter when usage is higher.

Due to increasing energy costs customers have built higher than average credit balances of c.£3-£4k, which are being held by energy providers.

Given the current cost of living crisis, energy providers should review the process for drawing ... down these funds as it may not allow for ... timely withdrawal and use.

Source: [Ofgem](#)



### Estimated Annual Bills

Estimated Annual Bills (“EABs”) are based on the CRU’s typical annual consumption figures and adjusted periodically throughout the year. In practice energy providers will complete actual readings periodically to adjust for actual versus CRU guidance figures to ensure customers do not build large credit or debit positions. Given the level of price hikes over a short timeframe and the estimated versus actual usage process, customers may receive large and unexpected bills after actual readings. A challenge now exists for energy providers to match what price usage was actually incurred. Energy providers should consider reviewing its processes to ensure large debit / credit balances do not arise and customers are charged at the correct unit rate.

### Arrears customers to PAYG Plans

PAYG options are generally used by energy providers to manage customer in arrears and to avoid cutting customers off from the supply of electricity. In the UK, it is estimated the c.10k customers per month are being switched to PAYG plans due to missing repayments and falling into arrears.

PAYG plans generally attract a higher unit cost which is attributable to the additional operational cost of servicing the customer.

Energy providers should consider this practice as it impacts the most vulnerable.

# Conduct & Remediation in the Energy Sector

## Comparison of energy sector market condition to comparable FS trends

A comparison of the energy sector to the financial sectors has identified a number of attributes which led to significant conduct reform and redress in the financial sector over the past five to ten years.

	Energy Sector Market Conditions	Comparable Trends in FS
<b>Regulatory &amp; Political Pressure</b>	<ul style="list-style-type: none"> <li>CRU Suppliers handbook sets out the principles to guide the behaviour of licensed electricity and gas suppliers interacting with customers.</li> <li>CRU regulates energy suppliers in marketing, arrears management, billing, vulnerable customers and complaints handling.</li> </ul>	<ul style="list-style-type: none"> <li>Consumer Protection Code ('CPC') sets out FS firms obligations to customer fairness and treatment, arrears handling, errors and complaints management.</li> <li>Central Bank of Ireland thematic reviews to ensure compliance with regulations and firms treating customer fairly.</li> <li>CBI Enforcement strategy leading to fines and redress for 100,000's customers for unfair customer treatment.</li> </ul>
<b>Media &amp; Reputational Pressure</b>	<ul style="list-style-type: none"> <li>There are circa 90,000 'hardship' pay-as-you-go electricity users who have been switched for assistance with managing their energy costs. These are meant to be a last resort. Source: <a href="http://oireachtas.ie">oireachtas.ie</a></li> <li>Multiple increases in electricity prices.</li> <li>Increases to wholesale gas prices in excess of 700% over the last 12 months, and 200% since June 2022 alone resulting in record profits for energy suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>Significant media coverage over the last decade on FS firms' behaviours and conduct resulting in the Tracker Mortgage Examination plus multiple other high profile redress programmes.</li> <li>Distrust from consumers given repeated scandals within the FS sector, including the financial crash, PPI mis-selling, inappropriate removal of tracker interest rates etc.</li> </ul>
<b>Cost of Living &amp; Vulnerabilities</b>	<ul style="list-style-type: none"> <li>Combination of rising bills and falling real incomes increasing vulnerability – annual average inflation was 7.8% in 2022, the highest its been in the last 20 years. Source: <a href="http://rte.ie">rte.ie</a></li> <li>CRU have introduced enhanced requirements to actively promote the vulnerable customer register and the protections it offers.</li> <li>Vulnerable customers are less likely to switch energy providers due to a lack of understanding of pricing and consumption and difficulty in comparing offers.</li> <li>Government support for non-domestic users to end in April 2023.</li> </ul>	<ul style="list-style-type: none"> <li>Heightened pressure on mortgages industry in a climate of increasing interest rates and falling real incomes.</li> <li>Increased CBI compliance monitoring through consumer protection reviews.</li> <li>Increased implementation of vulnerable customer frameworks.</li> <li>Hesitancy by Banks to pass on ECB rate increases due to pressure if will imposes on customers.</li> </ul>
<b>Consumer Expectation &amp; Complaints</b>	<ul style="list-style-type: none"> <li>A review of CRU disputes identified between 46% to 66% of all cases between 2018 to 2021 related to 'Billing' themes which includes inaccurate bills, catch-ups bills and tariffs etc. Source: <a href="http://cru.ie">cru.ie</a></li> <li>Increase in switching suppliers in the market, driving heightened consumer expectation and competition.</li> <li>Social media and comparison websites influencing customer behaviour.</li> </ul>	<ul style="list-style-type: none"> <li>Increase in switching banks, with consumers chasing the best rates.</li> <li>CBI increased focus on arrears, vulnerable customers, fair outcomes and transparency.</li> <li>Increased awareness by FS industry of requirements to communicate the impact of changes and errors clearly with customers (including redress).</li> <li>The FSPO continually mediate settlements and impose legally binding decisions for FS complaints of millions per annum.</li> </ul>

# How we can support our Clients

## KPMG are market leaders in Conduct Risk, Remediation and Product Assurance

### How do we support our clients with Conduct & Remediation?

KPMG offers a suite of **Conduct Risk, Remediation and Product Assurance** solutions to support firms throughout the lifecycle: from identification of conduct issues, through to operational delivery and post-remediation transformation, while also offering independent review, design and implementation services.

#### 1. Complaints & Vulnerable Customer Framework

- KPMG has mature and developed frameworks for carrying out complaints assessment, with a robust and comprehensive root-cause-analysis of complaints a key first step.
- Our vulnerable customer frameworks are industry agnostic and can be adapted to meet specific client needs.

#### 2. Customer Journey Mapping and Assessment

- Customer journeys are mapped with full consideration given to relevant regulations, customer documentation and conduct assessment.
- Our regulatory experts assess the outputs of the mapping to ensure alignment with all relevant documentation and associated governing bodies.

#### 3. Product Assurance

- KPMG has developed a bespoke Product Assurance Framework focused on preventative review practices supported by automated testing.
- Examples of how this may work include implementation of data controls, visual dashboards and early warning indicators.

#### 4. Remediation

- We are home to a dedicated, industry-leading Remediation Centre of Excellence ("COE")
- The COE is a managed end-to-end remediation service solution. It covers all aspects of the remediation from stakeholder management through to customer identification, refund rectification and communication.
- The COE uses automation, advanced analytics and data tools to reduce time and resource overheads.

#### 5. Independent Oversight & Assurance

- Our dedicated team can provide project oversight and assurance to ensure full adherence to relevant governance and regulations.
- We have extensive experience in carrying out thematic reviews in line with Central Bank of Ireland guidelines, involving design, implementation and delivery of final review.

#### 6. Programme Management

- We have highly experienced project and programme managers, including industry specific experts who can provide programme management on large scale engagements with teams of 100+
- Our work is underpinned by Project Management tools such as PRINCE2, allowing us to support our clients in areas such as with planning, governance, budgeting and MI & reporting.

## Our assets support with Conduct Risk, Remediation and Product Assurance



**Established frameworks**  
KPMG proprietary Product Assurance, Vulnerable Customers, Complaints etc



Real time insights and data-driven **MI reporting tools**



Teams with extensive experience in the **utilities sector**



**Workflow**  
Salesforce / MS Dynamics enabled workflows for case / customer management



**Complaints management**  
Complaints AI – Integration of complaints back into client BAU activities



**Experience with large datasets**  
and using established tools for automation and data analysis to drive efficient and cost effective results



**KPMG proprietary Redress Calculator**  
Data driven models to identify impacted customers and calculate refunds

# Our Experience

## Utility Firm – Vulnerable Customer Review

Our client was an energy retail firm who came under scrutiny from Ofgem. The client was issued with a requirement from the regulator to review their vulnerable customer framework, specifically processes to handle vulnerable customers with payment difficulties.

Review of remuneration and incentive plans to assess whether they align to promote positive outcomes for vulnerable customers in payment difficulties, or who need to repay a debt



KPMG conducted a review of

**153**  
customer journeys

from the first point of payment difficulty through to resolution.

KPMG provided a thorough report of the required changes required to uplift the vulnerable customer process to support those having payment difficulties. This allowed the Utility Firm to meet the requirements of the regulator and provide a better service for its customers.

## Large Retail Bank – Product Assurance

KPMG provided Product Assurance Service to a large pillar bank offering to ensuring end-to-end oversight and regulatory compliance of their products.

KPMG supported the client in assessing

**140+** products

products through the bespoke Product Assurance Framework. To identify, assess and monitor product risk with methodologies utilising MI to ensure that products are fit for purpose and operating as intended.

KPMG has a core team with a track record of delivery and extensive experience of consumer focussed operating models to deliver this review. The team brought a distinctive variety of skills from product subject matter expert knowledge, conduct and risk expertise to data analytics and applied intelligence.

KPMG used a specially designed data led risk assessment framework to assist in managing consumer protection risk, using quantitative data which is overlaid with qualitative key performance indicators

## Large Retail Bank - Complaints

Our client had a major spike of over

**180k** complaints

in a 5 week period.

KPMG deployed and configured our Complaints AI Tool to automate complaint processing to accelerate their timelines given regulatory pressure.

Our operations and tool automated triage and FRL creation of low risk complaints.

**60%** reduction



in elapsed time to complete the backlog of complaints using the Complaints AI Tool compared to BAU.

Speedy Resolution which supported the client with positive regulatory collaboration which satisfied the regulator.

## Large Retail Bank - Remediation

**15+** years experience

working on large scale remediations in Financial Institutions in Tracker Mortgage Examination.

Identification, calculation and remediation design and oversight for

**100,000s**  
customer accounts

who were subject to Banking errors and Regulatory breaches.

KPMG worked with the client to identify impacted populations, calculate the redress, draft customer communications while providing regulatory, project management, calculation model and analytical experts to support the running of the programme.

The expert resources, project delivery and technology driven tools provided by KPMG allowed the client to complete complex remediation programmes to the satisfaction of the regulator.

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