SOLVING THE UTILITIES BAD DEBT CRISES WITH BETTER DATA

Sagacity

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Though the UK has now emerged from COVID-19 restrictions, the after-effects of the pandemic are still being felt. Families and companies alike are counting the costs of successive lockdowns, with the poverty rate among working households hitting a record high of 17.4 per cent in May, affecting their ability to pay energy bills. In fact, the utilities industry has been one of the hardest hit by the pandemic, with EDF Energy alone reporting losses of £160 million.

One of the key factors cited by EDF Energy for this was the increase of bad debt provisioning within the utilities industry. Bad debt refers to loans or outstanding credit balances owed that are no longer deemed recoverable and must be written off. The pandemic has sent a tidal wave of bad debt towards the utilities industry, as the number of customers unable to pay their bills increased exponentially.

According to Ofgem, in Q2 2020 there were more than 1.6m electricity and gas accounts in arrears with no arrangement to repay their debts.

The resulting problem for suppliers is that more customers require support now more than ever, but managing ever-growing bad debt and an increasing pool of customers falling into financial vulnerability is proving to be an almost insurmountable challenge.

It is clear that that both customers and suppliers need help, but for suppliers this starts close to home as they should go upstream and leverage their customer data to reduce debt and/or prevent this debt occurring in the first place.

Bad data leads to bad debt

Utilities companies must start with the basics: ensuring their customer data is correct. This is particularly crucial in the wake of the pandemic, as many billpayers have undergone a change of circumstances. For example, there has been a 37 per cent rise in business closures during the pandemic. If utility companies don't have up-to-date information for their customers, they may still be billing businesses that have shut down, or families that have relocated, with no easy way to recoup cost, whilst wasting time and money in the process.

Many utility companies currently use internal data or rely on their customers or third parties to provide the data they need whether that be to replace incorrect data or populate missing. Where external data is purchased, the use of it is limited due to the complexity of the customer base and volume of data that needs to be processed and interpreted. However, significant value can be drawn from this data with the right technical, operational and industry expertise.

Tackling the problem at its source

Having cleaned the customer data and ensured it is up to date, utility providers can now use this information to determine the root cause of why they're experiencing bad debt. These will likely fall into the following categories: billpayers unaware of the debt they owe; those who are aware of bills and can afford to pay them but choose not to; and customers who cannot afford to pay.

From here, utility providers can start to fill in any blanks, by aggregating third party data to help build a fuller picture of each individual customer. For those unaware they owe money, the issue may be that customers are not receiving bills as the name or address on their account is incorrect.

Third party data can help verify addresses as customers move, even if they forget to inform their utility provider. If a customer can pay but is choosing not to, third party data can confirm what other services the customer uses and whether they pay for them e.g. a utility provider can identify if a customer is paying their credit cards, mobile phones, etc.

Finally, to determine which customers cannot afford to cover their bills, providers can use external data sources to identify criteria that indicates a problem with affordability - for example, if the billpayer receives benefits, this may also be an indicator that they require urgent support.

Many in this category may not pay, but some will pay, even when they can't afford to, pushing them further into energy / water poverty or debt. This group continues to grow as the pandemic leaves lasting damage to households and businesses across the country, who desperately require help with their bills as their financial vulnerability worsens.

If utility providers have a segmented customer base and the correct details for billpayers, they can put this information to use to both head off bad debt and support those in need.

Providers can use data analytics to determine bad debt risk and which payments they're more likely to be able to collect. From here, customer communication is key, ensuring that up-to-date phone numbers or email addresses are used to reach customers and that agents are trained on how to collect debt in appropriate ways, most suited to the customer.

Utility providers must look at how they can proactively help customers who are struggling to pay their bills. The Consumer Council for Water is calling for a cross-industry social tariff for vulnerable customers, but there are also special measures that providers can implement, such as helping customers pay bills in instalments, find a better payment method or guide them towards government support to unlock some of the £16bn of unclaimed benefits for those most financially vulnerable.

Analytics for the future

Analytics can also help providers plan for future debt crises. Companies could prioritise and chase up customers they know have the funds available to pay. Using analytics, companies can combine third party data with their own records to forecast bad debt costs. This way, suppliers will be able to determine which payments they are most likely to be able to collect before referring accounts to an external collections agency.

Finally, analytics has the power to prevent future bad debt by determining bad debt risk when accepting and onboarding new customers. Being able to predict future bad debt costs at this early stage allows utilities companies to be prepared for the future – flagging where debt might occur and being ready to take action if needed when the time comes.

After a difficult 18 months, utility providers have options on how they go about tackling bad debt and supporting vulnerable customers, but the responsibility must rest on their shoulders. While recouping costs is a must, utilities companies can't just rely on regulators to recoup costs. They need to use methods that don't penalise their entire customer base, and tackle the cause of the issue, not just treat the symptoms.

Analysing customer data to categorise billpayers contributing to bad debt can help achieve this, as well as identify and assist vulnerable customers who need help now more than ever.

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We are dedicated to delivering the highest quality business solutions for our clients and partners alike and are proud to work with some of the best-known and challenger brands.

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