Fitting the bill

Quantifying and solving the utilities collections challenge
In February 2016, Intelligent Environments published a white paper titled Bridging the Gap, which outlined the particular collections challenges faced by utility providers, and asked how far digital collection techniques could go towards mitigating them.

Water, gas, and electricity providers, it proposed, were at a disadvantage compared with lending institutions, thanks to having more enforcement limitations, more vulnerable customers, and lower placement in debtor priority, among other factors.

But while the utilities sector is commonly held to have a tougher job than banking when it comes to collecting overdue payments, the evidence for this - even though it comes from experts - has to date been largely anecdotal.

As such, in this followup to Bridging the Gap, we've set out to test some of the assertions from our previous paper via extensive consumer research: in early September, we set out to survey 2,000 UK citizens on their approach to bill payments and debt across both utilities and financial services.

The results demonstrated not only that utility companies do indeed face a disadvantage compared with lending businesses when it comes to collections activity, but that digital interaction with customers appears to be the best tool they have in overcoming that disadvantage.
The most striking finding, however, was the massive priority gap between water and other utilities - water debt collected only 6%
First things first

Utility companies provide services nobody can live without: heat, light, power and water are basics for human survival. Yet while one might think this would make utility payments the number one priority for consumers on a limited budget, the reality is of course more complex.

In fact, because utility companies provide such vital services, they are much more limited than financial services providers when it comes to enforcement options. Disconnection of electricity or gas is a last resort, while disconnection of household water supply is illegal.

Perhaps unsurprisingly, housing costs, including both mortgage and rent payments, were the number one perceived priority for consumers. Interestingly, however, gas and power debts came a close second, just five percentage points behind. It seems energy providers may not be that far behind financial services when it comes to debtors’ perceptions of priority.

The most striking finding, however, was the massive priority gap between water and other utilities - water debt collected only 6% of respondents’ priority ticks, compared with 30% for gas and power. This would seem to be a clear reflection of the fact consumers perceive there to be less risk in letting water bills go unpaid than in falling behind on gas and power payments.

This may be because of limited water enforcement options for water companies - but it may also simply reflect the smaller ticket size of household water debt. When respondents were asked what percentage of their monthly outgoings went on various bill types (see Figure 2 below), water averaged only 6%, while gas/ electricity came in at 11% and mortgage/rent came in at 22%.

In part because of these limited enforcement options, and in part because utilities debts tend to be smaller than financial services debts such as those on credit cards, utility suppliers often find themselves at the bottom of the “pecking order”, with customers with multiple debts prioritising those connected with financial products.

We presented our survey respondents with a list of debt types, and asked them to identify which they would pay first if they had limited money - they could tick up to two of them. Figure 1 shows the proportion of the overall tick total each debt class received:
While the percentages aren’t an exact match with Figure 1, they seem to show a link between balance size and payment priority.

Of course, it’s worth taking all these findings with a certain amount of pragmatic cynicism. The results came from consumers imagining themselves in a hypothetical situation and reporting what they would likely do if it occurred. Few people in that situation are going to admit that they would prioritise phone, internet or TV payments over water bills. Under real pressure, however, the results might well be different - and indeed, they are.
Falling behind

In the next part of the survey, we asked respondents whether they had fallen behind on payments in various debt categories (figure 3) and if so, how long it had taken them to pay their bills (figure 4). Here’s what we found:

**Figure 3: Overdue Payments By Debt Type:**

<table>
<thead>
<tr>
<th>Debt Type</th>
<th>% Overdue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor Finance</td>
<td>10%</td>
</tr>
<tr>
<td>Mortgage</td>
<td>7%</td>
</tr>
<tr>
<td>Water</td>
<td>11%</td>
</tr>
<tr>
<td>Gas</td>
<td>9%</td>
</tr>
<tr>
<td>Electricity</td>
<td>9%</td>
</tr>
<tr>
<td>Council tax</td>
<td>11%</td>
</tr>
<tr>
<td>Rent</td>
<td>13%</td>
</tr>
<tr>
<td>Internet &amp; TV</td>
<td>5%</td>
</tr>
<tr>
<td>Telephone</td>
<td>6%</td>
</tr>
</tbody>
</table>

**Figure 4: % Of Overdue Payers Within 6 Months**

<table>
<thead>
<tr>
<th>Debt Type</th>
<th>% Overdue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor Finance</td>
<td>28%</td>
</tr>
<tr>
<td>Mortgage</td>
<td>39%</td>
</tr>
<tr>
<td>Water</td>
<td>46%</td>
</tr>
<tr>
<td>Gas</td>
<td>48%</td>
</tr>
<tr>
<td>Electricity</td>
<td>50%</td>
</tr>
<tr>
<td>Council tax</td>
<td>56%</td>
</tr>
<tr>
<td>Rent</td>
<td>58%</td>
</tr>
<tr>
<td>Internet &amp; TV</td>
<td>64%</td>
</tr>
<tr>
<td>Telephone</td>
<td>73%</td>
</tr>
</tbody>
</table>
According to these results, some 9% of respondents said they had fallen behind on electricity bills, an equivalent 9% on gas bills, while 11% had fallen behind on water bills. Only rent, with 13%, had a greater number of late payers than the utilities sector.

Interestingly, it was the products involving an asset security - mortgage and motor finance - that took longest for people to pay off, at 7 and 8 months average respectively. Considering the severity of repossession options attached to these products, these numbers seem surprising.

The longer average payment times may, however, be a result of more advanced forbearance policies in those industries.

What stood out most from these results is the priority assigned to paying communications and entertainment debts: Telephone, TV and Internet bills had the smallest number of non-payers, the greatest proportion of settlements within six months, and the lowest average settlement times.

These results are at odds with those shown in Figure 1: Consumer Debt Priorities chart at the start of this report, where telephone, TV and internet debts only made it onto the reported priority payments of 5% of respondents. The divergence is even more striking given the supposed link between smaller ticket sizes and slower repayment - one would expect these debt classes to have appeared at the other end of the table.

Aside from human nature - which one imagines plays a significant role in keeping these bills paid - this discrepancy has two root causes. Firstly, with the services attached to these debts being non-essential, their providers don't have the same duty to pursue forbearance options as, say, car finance providers - consumers know that if they don't pay, the car will be removed.

There's another factor in play, however - given the intrinsic tech-led nature of entertainment and communications providers, it may simply be that these debts are easier for people to handle rapidly online.
There is a clear indirect impact, however; companies with a more digital mindset overall offer their customers more channels for interaction.

The Solution
Taking it online

Heading back to take a closer look at debtor behaviour in the utilities sector, our survey showed there is a connection between consumers' ability to interact with their provider online, and their propensity both to stay out of debt, and to pay overdue debt early.

Let's take a closer look at the options for bill receipt and payment that consumers reported across water, gas and electricity:

**Figure 6: Analogue V Digital In Water Payments**

Bill sent via post - 50%
- 40% Paid by Direct Debit
- 10% Paid by phone, post or in person

Access to bills online - 35%
- 8% Paid online
- 26% Paid by Direct Debit
- 1% Paid by phone, post or in person
- Other methods or N/A - 15%

**Figure 7: Analogue V Digital In Gas Payments**

Bill sent via post - 25%
- 20% Paid by Direct Debit
- 5% Paid by phone, post or in person

Access to bills online - 54%
- 8% Paid online
- 45% Paid by Direct Debit
- 1% Paid by phone, post or in person
- Other methods or N/A - 21%
There's a clear gradient across the three utility types, with water customers having the lowest level of access to bills online (35%), followed by gas (54%) and electricity (61%). All three utility types had a low proportion of customers paying online - 10% for electricity, and just 8% for both gas and water.

Now, let's map those figures against the previous findings on overdue bill payments:

<table>
<thead>
<tr>
<th>Utility</th>
<th>% of consumers accessing bills online</th>
<th>% of consumers paying online</th>
<th>% of consumers falling behind on bills</th>
<th>Average time to pay overdue bills (months)</th>
<th>% of overdue bills paid within 6 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water</td>
<td>35</td>
<td>8</td>
<td>11</td>
<td>6.57</td>
<td>46</td>
</tr>
<tr>
<td>Gas</td>
<td>54</td>
<td>8</td>
<td>9</td>
<td>6.52</td>
<td>48</td>
</tr>
<tr>
<td>Electricity</td>
<td>61</td>
<td>10</td>
<td>9</td>
<td>6.23</td>
<td>50</td>
</tr>
</tbody>
</table>

Looking at the two sets of data together, there is a clear link between customers’ ability to view and pay their bills online, and their probability of either staying out of collections activity, or moving through it rapidly.

Obviously, offering the facility to pay bills online does not have a direct impact on collections performance - repayment of overdue debts is an entirely separate process to making monthly payments by direct debit.

There is a clear indirect impact, however; companies with a more digital mindset overall offer their customers more channels for interaction, and encourage them to transact online on a regular basis. These tendencies then pay dividends when accounts move into collections.
When we asked our respondents some specific questions on attitudes to collections, the answers further backed this up:

**Question:** If you fell behind on your payments would you prefer to work out what you could afford and then make a payment either via the call centre or online?

- 27% A call centre agent ringing you to discuss the position
- 73% Logging in to a website to work out how much you can afford and make a payment

**Question:** If you had a choice what time during the day would be most convenient for you to make a payment if online was an option?

- 7% Before 8am
- 47% Between 8am and 6pm
- 46% After 6pm

Answers were clear here - nearly three quarters of respondents with a preference on how to assess affordability and pay debts would prefer to do so via an online portal, rather than by speaking to an agent. Equally, more than half of respondents said they would prefer to make payments either before 8am or after 6pm, outside office hours.
Conclusion

The good news for utility providers is that they have lots of room to improve. At present, all three types of providers offer lower levels of online billing and payment functionality than their counterparts in financial services - even for electricity providers, 90% of consumers are either unaware of the ability to pay online, or unable/unwilling to do so.

It seems fair to assume that with a thorough rollout of fully digital, round-the-clock interaction options, customers’ payment behaviour with regard to utilities would move further towards parity with their treatment of financial debts.

By offering an online space in which consumers can interact with their accounts, utility firms can create a starting point for collections conversations, in a way that gives their customers influence over how they are handled. Full digital engagement with customers means utilities providers can not only solve their unique sectoral challenges, but operate with standards in line with those at the leading edge of financial services.
About the Author

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Intelligent Environments

Jerry has 25 years experience working in the financial services industry. He spent 12 years at NatWest/RBS where he took on senior product and marketing roles across Retail and Corporate Banking before moving to the Cards division, where he ended up heading the e-commerce team.

Jerry joined Intelligent Environments in 2000 and was the Sales and Marketing Director for most of that period. Jerry has recently taken up the role Director of Customer and Partner Relationships driving our strategy of globalising the business through partnerships, looking after our customer and our marketing activity including The Digital Banking Club.

About Intelligent Environments

Intelligent Environments is an international provider of innovative mobile and online solutions for financial services providers. Our mission is to enable our clients to deliver a simple, secure and effortless digital experience to their own customers.

We do this through Interact®, our single software platform, which enables secure customer acquisition, engagement, transactions and servicing across any mobile and online channel and device. Today these are predominantly focused on smartphones, PCs and tablets. However Interact® will support other devices, if and when they become mainstream.

We provide a more viable option to internally developed technology, enabling our clients with a fast route to market whilst providing the expertise to manage the complexity of multiple channels, devices and operating systems. Interact® is a continuously evolving technology that ensures our clients keep pace with the fast moving digital landscape.

We are immensely proud of our achievements, in relation to our innovation, our thought leadership, our industrywide recognition, our demonstrable product differentiation, the diversity of our client base, and the calibre of our partners.

For many years we have been the digital heart of a diverse range of financial services providers including Atom Bank, Generali Wealth Management, HRG, Ikano Retail Finance, Lloyds Banking Group, MotoNovo Finance, Think Money Group and Toyota Financial Services.

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