

# Automation for the nation

The need for automatic compensation  
for essential service failures in Great  
Britain



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# Summary

Consumers shouldn't pay for the mistakes of their essential service providers. But clunky and outdated compensation processes mean too often consumers do, and the impact can be severe. A fifth of telecoms consumers faced severe financial impacts as a result of a service issue, as did a third as a result of energy supply problems.<sup>1</sup> The emotional effect is also significant, with more than a third of consumers feeling more worried or anxious as a result of energy, telecoms, postal or water problems.<sup>2</sup>

The growth of automatic compensation has helped ensure consumers don't lose out in some areas such as missed appointments in water and supply disruptions in energy. But automatic compensation is still not the norm. The result is some consumers not receiving the compensation they're due, with our research finding that 1 in 3 consumer problems goes unclaimed.<sup>3</sup> We have identified 4 key barriers that consumers face when claiming compensation:

- Awareness of the initial problem, and their rights to compensation
- Confidence in securing worthwhile compensation
- Access to information on how to complain
- Complexity of the customer journey when making a claim.

Our research outlines key design features that are necessary for compensation schemes to be successful and accessible - whether automated or otherwise. These include introducing incentives to ensure companies comply, integrating retailers into compensation processes to prevent disputes over responsibility for compensation, and providing clear information to consumers.

To determine where automatic compensation could improve markets, we identified two central criteria. Firstly, there must be **evidence of consumer harm** that can be measured against clear consumer standards - such as Guaranteed Service Standards. And secondly, systems must have **capability to pay out compensation** without a consumer initiating a claim. Areas such as problems with energy switches and inadequate responses to complaints across markets appear suitable for automatic compensation.

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<sup>1</sup> \*severe categorised as:

- being unable to meet existing financial commitments;
- taking on additional debt;
- harm to a credit rating; and
- missing one or more housing payments.

<sup>2</sup> Citizens Advice, [The Domino Effect](#), March 2018.

<sup>3</sup> Ipsos Mori polling, calculated average of non-claimants across essential services when asked if they tried to claim compensation the last time they had an issue.

Essential service providers should have a duty to simplify their complaints processes, and automate them where feasible. Compensation incentivises companies to improve their services, and - as a consequence - improve the consumer experience. It places the responsibility onto the company that is at fault, rather than relying on an oft-unrealistic level of engagement by consumers. This promotes a fairer system, ensuring equal access to compensation when a service goes wrong.

Advancements in technology and increasingly intelligent systems are creating new scope for automation in consumer markets, that could benefit millions. Providers and regulators should capitalise on the opportunities this presents and streamline access to compensation.

To make automatic compensation a success:

- **Regulators should introduce guaranteed service standards - with automatic compensation attached.** Key examples of where markets could introduce automation are energy provider switches and consumer complaints handling.
- **Regulators should ensure there are adequate incentives to ensure company compliance with automatic compensation schemes.**

To improve all compensation processes:

- **Providers should present clear information on consumers' compensation rights and claims processes.**
- **Providers should remove barriers to customer complaints.** Providers should strive to automate compensation for service failures, where this is practicably possible. Where this is impracticable, the number of steps to complete a complaint should be minimised.
- **Regulators should ensure consumers don't lose out on compensation because of disputes between a retailer and a supplier.** In some instances, responsibility for compensation payouts can be unclear. Too often the consumer can end up paying the price. This practice must end.

At the moment it is too easy for firms to avoid streamlining their compensation processes. We call on regulators to be ambitious, and to design incentives that mean providers automate compensation as standard.

# Background

Citizens Advice represents consumers across essential regulated markets, and is the statutory consumer advocate for energy and postal services in Great Britain. Our consumer advice service helped with 520,000 consumer problems last year.

When things go wrong within essential markets, there can be significant impact on consumers. Previous research<sup>4</sup> by Citizens Advice revealed significant detriment to people's finances and wellbeing, from increased anxiety to having to take time off work.

There is wide variation between essential markets' existing compensation practices. There are guaranteed standards in the water and energy markets, most of which have automated compensation processes associated with them. Some other markets rely much more heavily on consumers activating and processing a complaint.

This report is an analysis of automatic compensation as it stands, and where it can get to.

The government's consumer green paper acknowledged that automatic compensation is a useful tool in incentivising companies - and, in turn, markets - to do better. But there are still gaps and issues of process.

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<sup>4</sup> Citizens Advice, [The domino effect: exposing the knock-on effects of consumer problems](#), March 2018.

# Research method

The research used three research methodologies:

1. Extensive desk research, conducted by Lucerna Partners, which was used to compile a literature review, develop analytical frameworks, conduct analysis of existing and potential schemes and calculate a central estimate of quantifiable harm in energy switching.
2. Additionally, Lucerna Partners conducted 5 industry specific interviews with Ofwat, Ofgem, Transport Focus, National Express and Megabus/Scottish Citylink/Stagecoach. These interviews were for information/understanding purposes only, and no material from the interviews have been published.
3. Finally, Ipsos Mori conducted a representative online omnibus survey of 2,000 British adults (England, Wales and Scotland) on behalf of Citizens Advice. This gathered evidence on consumers' experience and perception of claiming compensation in essential markets.<sup>5</sup>

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<sup>5</sup> By 'essential markets', we are referring to the water, energy, post, transport, broadband and telecoms markets.

# 1. Barriers to making complaints

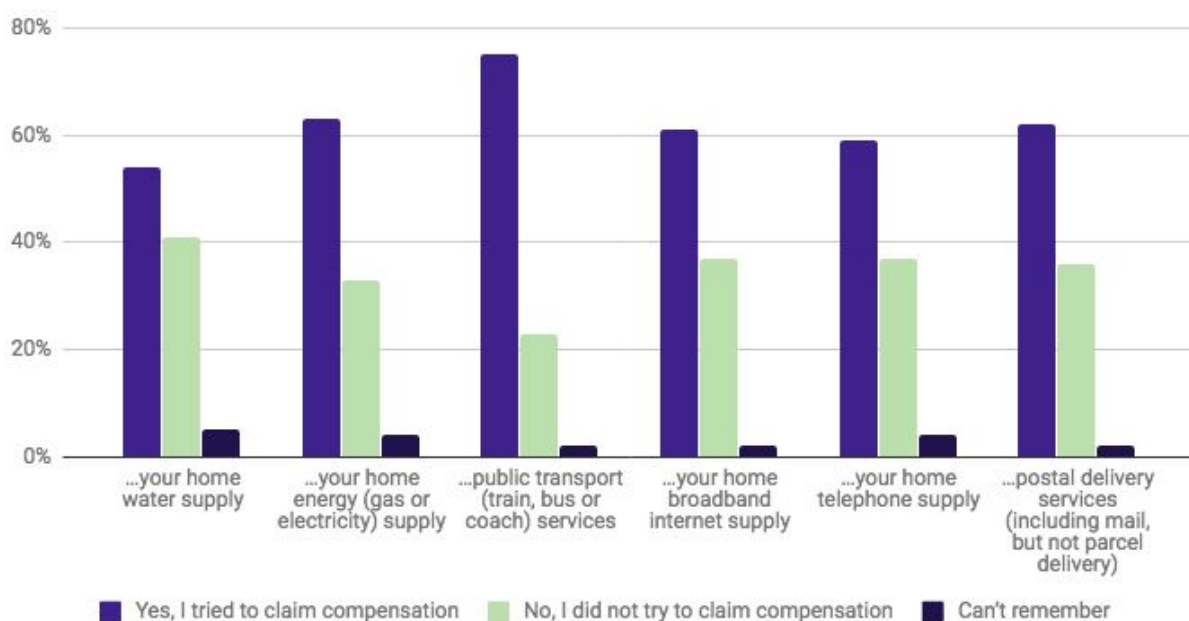
Complaints processes are - often needlessly - long or complex. The result is consumers not receiving the compensation they're due, with 1 in 3 consumer problems going unclaimed.<sup>6</sup> A number of key barriers stand in the way for consumers, and every market could do more to reduce these barriers.

## What markets have the highest compensation rates?

Only 9% of consumers say they always claim compensation when they experience a problem that they deem worthy of compensation.

The rate of compensation claims varies considerably by market. In public transport markets only around 20% of respondents did not claim compensation last time they experienced an issue. All other markets have significantly higher no-claim rates, ranging from 33% in the energy market to 41% in the water market. It is worth noting that some markets - energy, water and some rail operators - have automated compensation for some complaint areas. As such, the information below relates only to those areas that are not yet automated.

**Chart 1: Did you try to claim compensation the last time you had an issue with...**



Source: Survey conducted by Ipsos Mori, Base: 2000

<sup>6</sup> Ipsos Mori polling, calculated average of non-claimants across essential services when asked if they tried to claim compensation the last time they had an issue.

## What prevents consumers from making complaints?

Consumers can find many barriers to making claims for compensation. Our research shows that these occur to varying degrees in every sector at each stage of the claims process. We have divided these into 4 key stages;<sup>7</sup>



### 1. Lack of awareness of harm and of rights

In our survey of consumers, 28% of people who claimed compensation for public transport services (train, bus or coach) said it was difficult to find out whether or not they were eligible for compensation. This aligns with our desk research, which found poor information on rights in the coach and ferry sectors. In rail, the desk research found that passengers are not always made aware of their rights, for instance due to inaccurate information by station staff and a lack of train announcements. The only sector that scored worse was water, where 37% of people who had claimed compensation said finding out eligibility made it difficult.

### 2. Lack of confidence in securing worthwhile compensation

Our research found that many consumers are not confident that a complaint will lead to meaningful compensation being issued by providers. Our desk research found information gaps that may put off consumers. In energy networks, coaches and ferries, there is a lack of information about the amount of compensation due to consumers for different problems. In airlines, well-reported efforts to avoid paying compensation may put off consumers from attempting to get compensation.

Uncertainty around complaint escalation can exacerbate consumers' initial lack of confidence. Our external researchers found that signposting to Alternative Dispute Resolution (ADR) in water and the transport sectors can be confusing. In

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<sup>7</sup> Our research focused on barriers that consumers experience at the 'first stage' of complaint handling - where claims are made to the firm. Whilst we do believe the availability of Alternative Dispute Resolution (ADR) is relevant as sectors with established 'second stage' signposting and smooth complaint journeys can significantly improve consumer experience and confidence, we focused on consumers' first point of contact in making compensation claims.



rail, and seemingly also in ferries, the relevant ADR scheme cannot make binding decisions on the company. This means consumers can't be confident that ADR will lead to compensation.

### **3. Lack of access to information on how to complain**

Not understanding the practicalities of making a complaint can also put off consumers. Our researchers conducted a review of selected company websites from different essential service sectors. In comparison to the websites of the other essential service sectors, complaints information was considerably better in water. Information was easily accessible and there was a clear link to a dedicated claim form for use if automatic payment had failed.

However, this related solely to the Guaranteed Service Standards, with a lack of information regarding complaints that aren't covered by these standards.<sup>8</sup> This is corroborated by our polling, which found that more than half (52%) of consumers who complained about a water issue didn't know who to contact to start the complaints process. This is more than 3 times higher than any other sector. Consumers described the steps within the postal delivery and water complaints processes as the hardest to understand, with around 3 in 10 consumers who had made a complaint citing this as a problem. A recent CCNI report found Royal Mail's complaints processes to be easy to find, transparent and simple.<sup>9</sup> This indicates that consumer problems may largely be elsewhere in the postal delivery market.

### **4. Difficulty of the claims process**

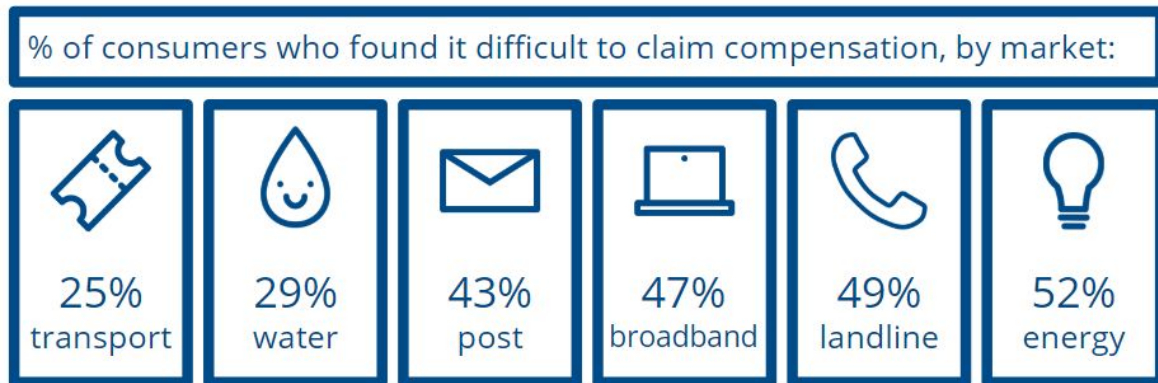
When we asked about consumers' perception of claiming compensation in each essential market, there was clear pessimism. Across every essential market, almost double the amount of respondents thought that claiming compensation would be difficult, compared to those who believed it would be easy.

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<sup>8</sup>On the Thames Water home page (visited on 24th January 2018) there was a drop-down menu from Help and Advice gave the option Consumer commitment which went to a page with an option: "Our commitment to you: Find out about our Guaranteed Standards Scheme and how to request a payment". This linked to page with clear, concise information on GSS standards and compensation levels in the web page itself, so that the consumer did not have to download a leaflet. At the bottom of the page was a clear button labelled "Request a Consumer Guarantee Scheme Payment" which went to a dedicated web form designed for claims. This was in spite of the fact that all water GSSs are paid automatically, thus recognising that failures could occur.

<sup>9</sup> CCNI, [Publications](#). Last accessed: 27/11/2018

While perceptions were broadly similar across markets, the reality of making a complaint uncovered much greater variance. A quarter of consumers who had recently made a complaint about public transport found the process difficult, compared to more than half of consumers in energy.



For those who found the claim difficult, there were two clear areas that contributed. The most commonly cited reason was companies being “unhelpful”, preventing people from making a claim. 4 in 5 consumers (79%) who claimed compensation for their broadband said the company was unhelpful, the highest of any market. This was closely followed by energy (76%) and the landline market (74%). Even in the best-performing market, public transport, more than 50% of people reported this as their main challenge in claiming compensation.

The other main issue raised was the company or organisation taking a long time to get back to consumers. At least a third of respondents in every market reported this issue, but it was a particular concern in landline, energy and public transport sectors. In line with this, many consumers report that the claims process feels unduly lengthy. There is some evidence that this is the case: across energy networks, telecoms, water and letters, there are 3 or 4 stages that a consumer must complete before they can take their case to ADR.

In addition, there are some market-specific difficulties. In the energy networks sector, there aren't always dedicated forms for making claims. In rail, companies have differing policies on proof of travel for claiming compensation, which can confuse consumers. Providers should take steps to streamline complaints process and remove unwarranted demands on consumers.

## 2. Improving compensation

Analysis of existing automatic compensation schemes highlights the design features needed for schemes to run effectively. And whether automated or otherwise, improvements should be made to ensure adequate incentives on companies, compensation is delivered smoothly even when multiple organisations are involved, and clearer information is given to consumers.

### 1. Incentivising automatic payment

Even in markets where automatic or near-automatic compensation is in place, firms sometimes fail to pay the required compensation. To reduce instances of failure to pay compensation automatically, incentives - financial or reputational - on companies need to be in place.

In practice, there are 4 main ways that regulators can incentivise the payment of compensation:

Firstly, **additional automatic payments if automatic compensation is not paid within specified timescales**. This incentive currently exists within the energy and water schemes, whereby additional automatic payments are made if automatic compensation is not paid within specified timescales. Where an unresolved issue is ongoing, rolling payments should be made to increase the incentive, as suggested in Ofgem's new automatic-compensation proposals.

Secondly, **enforcement action by the regulator or Ombudsman**. Enforcement action by regulators against companies who haven't paid out automatic compensation typically leads to additional payments to consumers or charities. For example, in response to an Ofgem investigation of energy suppliers' failures, British Gas compensated affected consumers, resulting in a total pay out of £1.1 million.<sup>10</sup> Other examples include Eon, which paid £1.9 million to charity on top of the £1.2 million it owed in compensation to its consumers, and Ovo which agreed to pay £58,000 to charity.

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<sup>10</sup> British Gas paid £30 for initial failed appointment and £30 for not paying consumers within the required 10 days, plus an extra £30 to each affected consumer.

Thirdly, **publicising failures to pay compensation**. Regulators can report failures to the mainstream press, providing a 'reputational incentive' on companies to comply. Developments, such as the government's proposal of 'scorecards', could offer further opportunities for publicising company compensation failures.

Fourthly, **automatic regulatory penalties for failure to pay compensation**. For electricity supply interruptions, a regulatory penalty system reduces electricity network companies' allowed revenues by the amount of compensation that companies do not pay out plus 20%. Previous Citizens Advice research reported that in 2015-16 companies had their regulated revenue adjusted down by £1.2 million because they did not identify and compensate consumers who had been affected by 20 supply interruptions.<sup>11</sup>

## 2. Streamlining if multiple organisations are involved

At the moment, consumers can struggle to know where to apply for compensation when multiple organisations have been involved - e.g. a delayed delivery from a retailer, or a problem with energy that could be the fault of either the supplier or the network.

By placing responsibility with one organisation - generally the one most directly linked to the consumer - this can be prevented. The main benefits of this approach is that it makes it easier for consumers to identify the appropriate company, understand their rights and to make claims for compensation where automation doesn't exist. For instance, when a parcel is delivered from a retail outlet to a consumer, the consumer relationship is primarily with the retailer. In these instances, the retailer would be at a loss, providing a clear incentive to claim back the compensation from the delivery company if they are at fault.

In addition, it can be challenging for energy consumers to work out who is responsible. If the consumer's energy supplier were responsible for paying all categories of consumer compensation, this would provide significant simplification. The energy supplier would then be able to re-charge

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<sup>11</sup> Citizens Advice, [Living up to the Standards? Energy networks' performance against the Guaranteed Standards of Performance in 2015-16](#), October 2017

compensation to the electricity distributor responsible for the relevant service failure.

### **3. Clear information on consumers' compensation rights and claims processes**

Clearer, more accessible information about compensation rights and dedicated claims processes would help consumers if compensation is not automatic or has failed. Often the changes required are basic: simple, practical adaptations such as direct links to claim forms and transparent contact details would make it easier for consumers to apply.

#### **Automatic compensation in landline and broadband**

Ofcom consulted in March 2017 on regulating to require fixed line and broadband communications providers to provide automatic compensation for loss of service, missed appointments and delayed provisioning of a new or switched service. In a statement in November 2017, Ofcom decided to accept a voluntary industry scheme for delivering automatic compensation.

We assessed the design features of this proposed scheme in light of our assessment of the existing automatic compensation schemes in energy and water.

We identified some design issues concerns compared to existing schemes, as well as some design features which appeared better than in some of the other automatic compensation schemes.

- Unlike in the energy and water Guaranteed Service Standard schemes, there is no provision in the communications provider industry scheme for automatic additional payments if automatic compensation is paid late. This limits the incentive on firms to comply with the scheme.
- Automatic compensation will be paid to consumers by their retail provider, irrespective of whether the service issues arise with the wholesale network. This ensures consumers won't lose out due to disputes over who is responsible for payment. This is a design feature where the communications provider scheme appears better than the automatic compensation scheme in energy, and mimics similar processes in the non-household sector of water.
- Information on consumers' compensation rights and claims processes is an area of possible concern, but it is too early to tell how the scheme will be implemented by providers. Providers should ensure consumers' rights to automatic compensation are clearly outlined, with links to dedicated claims forms if the automated payment has not been made.

# 3. Extending automatic compensation

Some markets could go further, extending automatic compensation so more consumers benefit. This chapter explores when automatic compensation is the right solution, and specific examples where progress can be made - energy switching and customer complaints.

## The potential for automatic compensation

To receive truly 'automatic' compensation - where a consumer is compensated without taking any action - two features are needed. Firstly, there must be **adequate evidence of consumer harm** to justify the scheme, and which can be reliably measured. And secondly, systems must have the **ability to pay out** compensation without a consumer initiating the complaint.

### Evidence of consumer harm

Introducing automatic compensation is not cost-free. Therefore it should only be brought in where there is evidence that the service failure causes, or is likely to cause, harm to consumers. For example, our research found that - for letter delivery in the postal market - there are high delivery statistics, and very low costs to the consumer where service issues do arise.<sup>12</sup> In these cases, the cost to implement automated processes is likely to be disproportionate. However, these markets should still take opportunities to improve and streamline their complaints processes.

In addition to requiring evidence of consumer detriment, it needs to be feasible to set:

- A **clear standard** that the failure can be reliably measured against. Some essential service markets already have this in the form of guaranteed standards.
- A **specific amount of compensation** that is likely to be broadly right for most affected consumers

Two further considerations set out when automatic compensation is suitable:

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<sup>12</sup> Royal Mail, [Quarterly Quality of Service and Complaints Report](#), Aug 2018

- The company ultimately bearing the cost has some **ability to improve** services to reduce the need to pay compensation.<sup>13</sup> Otherwise the automatic compensation scheme would simply shift unavoidable costs without benefiting consumers.
- Adequate **compensation is not already provided**, or would be expected to develop through competition.<sup>14</sup>

### Identifying affected consumers

A further limitation on circumstances where automatic payment may be feasible is the need of firms to be able to **identify which consumers have been harmed** by the service failure. For instance, when electricity distribution companies failed to pay approximately £1 million in compensation in 2015-16 for electricity supply interruptions, companies were obliged to make “reasonable endeavours” to identify and pay affected consumers within three months. They were not required to compensate consumers automatically because company systems are currently unable to identify which premises are impacted by specific interruptions. In other areas, current regulations may prevent the identification of affected consumers. For instance, Royal Mail are currently prevented by regulation from tracking ‘Recorded Signed For’ postal products in their systems.

The company also needs to have the **means to contact the consumer and offer payment**, or make a refund, which requires certain consumer information to be recorded by the company. In practice, this means having payment details, e.g. debit or credit card details, in order to repay the consumer. Unlike other essential markets, letters are very rarely paid by direct debit. As such, large-scale changes to back end systems and payment processes would potentially be needed, which is likely to come at a prohibitive cost.

### Areas where automatic compensation can be extended

Within the above framework, we explored what areas there is the greatest potential for automation. Particularly promising areas are switching energy provider and customer complaints across markets. These demonstrate

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<sup>13</sup> A fixed level of compensation for factors outside a firm’s control would simply shift unavoidable costs without any broader economic benefits to a sector or consumers, and may harm the ability of firms to operate. This does not imply that firms should not recover cost of compensation paid to consumers from other firms that provide them with a wholesale service (and who have control over the cause of service failings).

<sup>14</sup> This is included as it may be more relevant in the future. It is not typical for firms to ‘compete’ on levels of compensation - particularly not ‘automatic’ compensation - but this could change.

significant levels of consumer detriment, and are largely feasible for affected customers to be identified.

### **Switching energy provider**

Sometimes energy consumers experience problems, such as delays, when they switch provider. Switching within the energy market showed significant promise for automation, and [this is currently under active consideration by Ofgem](#).<sup>15</sup> We carried out further analysis in this market, and estimated the scale of harm to consumers affected by switching problems that currently goes uncompensated. Our central estimate for quantifiable harm is around £9 million per annum, with low and high case estimates of around £5 million and £14 million per annum respectively. We strongly support automatic compensation for problems with switching an energy provider, both as a way to give consumers easier access to redress and to incentivise suppliers to improve their services.<sup>16</sup>

### **Customer complaints**

Only energy distribution companies are required to automate compensation for failure to respond acceptably to written customer complaints. There is potential to introduce automatic compensation for this across sectors, although the costs and benefits of doing so may vary by sector. In energy supply and the water sector, this could be incorporated into the guaranteed standards. Similarly, for letters, this compensation could be included in Royal Mail's post 'scheme', though our research found limited evidence of consumer detriment in this area. The parliamentary Select Committee for Environment, Food and Rural Affairs recently proposed "a mechanism whereby water companies either automatically pay complainants a fixed sum or escalate complaints to CCWater if the complaint is not resolved by the company within 15 days."<sup>17</sup> This was in response to the "unnecessarily convoluted" nature of company complaints processes, as described by the Select Committee.

Other sectors would benefit from the introduction of automatic compensation for complaints, but face practical barriers. In parcels, there is currently no sector-wide regulatory framework for requiring compensation for delays in handling complaints, and in rail the new obligations might need to be included in

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<sup>15</sup> Ofgem, [Supplier Guaranteed Standards of Performance: Consultation on Switching Compensation](#). Last accessed: 15 Oct 2018.

<sup>16</sup> Citizens Advice, [Response to Ofgem's consultation on Supplier Guaranteed Standards of Performance for Switching](#), August 2018.

<sup>17</sup> EFRA Committee, [Regulation of the Water Industry](#), October 2018.



franchises when renewed, meaning a long wait before this is delivered across all routes. Finally, in ferries and coaches there do not appear to be sector-wide complaint standards, which would be needed before introducing this, or any other, automated compensation.

# Conclusion

Automatic compensation schemes can level the playing field when an essential service goes wrong. Yet too many consumers - particularly those less able to participate effectively in markets - are being let down by clunky and outdated compensation processes.

Where automatic compensation is feasible, we call on regulators and providers to adopt it. And where this isn't the case, providers should have a duty to simplify and streamline complaints processes.

Over time, automatic compensation should become the status quo - with service failures the responsibility of service providers to identify and rectify. The principles set out below demonstrate the progress needed to reach that point:

To make automatic compensation a success:

- **Regulators should introduce guaranteed service standards - with automatic compensation attached.** Service standards will ensure consumers have a clear understanding of what service they can expect. Solutions to technological barriers should be sought as a matter of priority. Key examples of where markets could introduce automation are energy provider switches and consumer complaints handling.
- **Regulators should ensure there are adequate incentives to ensure company compliance with automatic compensation schemes.** Without suitable financial and/or regulatory incentives in place, schemes could remain ineffective, and consumers will not receive the service or compensation they are entitled to.

To improve all compensation processes:

- **Providers should present clear information on consumers' compensation rights and claims processes.** This would better enable consumers to submit claims for the service issues where compensation was not automatic, or where there had been a failure to pay automatic compensation.
- **Providers should remove barriers to customer complaints.** Providers should remove the barriers to making compensation claims. This includes

reducing the number of steps to complete a complaint, improving the transparency of information and the timeliness of responses.

- **Regulators should ensure consumers don't lose out on compensation because of disputes between a retailer and a supplier.** In some instances, responsibility for compensation payouts can be unclear. Too often the consumer can end up paying the price. This practice must end.
- **Guaranteed service standards should be introduced in all essential service markets where they don't exist already.** Without specified guaranteed standards, it is difficult to establish the level of service problem required in order to gain compensation.

## Appendix 1: Analysis of potential automation in current schemes

The researchers analysed the potential for automation across a range of essential markets. While automation appeared feasible in the short or medium term in some markets, there were practical, legislative and technical barriers in others. Further details of this research is available upon request.

### Energy distribution networks

Guaranteed Services Standards (GSSs), overseen by Ofgem, provide for specified compensation for a large number of service problems. Compensation is automatically payable in most but not all cases.

Service issues with scope for introducing automatic compensation	Further detail	Prerequisites and timing
Notification of planned supply interruptions	Standards and compensation are already specified in GSSs, but, for reasons we have not been able to bottom-out, it is not paid automatically in these areas.	<b>Potentially achievable in the short-term.</b> But it depends out whether there are difficult technical issues for companies e.g. to identify affected consumers in these areas. Adding new items to GSS may require legislation.
Multiple electricity outages of 3 hours or more on 4 separate occasions in a 12 month period		
Provision of alternative cooking and heating facilities for people in need who are on Priority Services Register		

### Energy suppliers

Supplier Guaranteed Services Standards (GSSs), overseen by Ofgem, provide for specified, automatically-paid compensation for a number of service problems. But there are gaps.

Service issues with scope for introducing automatic compensation	Further detail	Prerequisites and timing
Timeliness of switching,	The expected speed of energy	<b>This might require some time</b>

which could include of the switch itself and of reimbursement of any credit owed	switching is currently being enhanced, and the trigger for specified compensation would need to be considered. (Erroneous switches are another problem, but are often not the fault of either supplier and may often require the customer to flag.)	<b>to implement.</b> A system for establishing fault for a switch delay would need to be established and the compensation recharged as appropriate. Adding new items to GSS may require secondary legislation
Timeliness of substantive response to queries about bills and payments	The increasingly competitive energy supply market could mean that regulation had unintended consequences.	<b>Potentially achievable in the short-term.</b> Relevant company systems might need to be enhanced. Adding new items to GSS may require legislation.
Billing problems, such as error or delay	Automatic payment of compensation is only likely to be possible where the company has detected, or been alerted to, a systemic billing problem that they can then identify affects a wider number of customers.	

## Telecoms

While, on the face of it, telecoms seems behind the curve in introducing compensation standards, and automatic compensation, there may be some good reasons for this. Operators claim that Ofcom should forebear in favour of allowing competition to drive up service standards. Ofcom has [announced the introduction of a voluntary automatic compensation scheme](#) for landline and broadband customers, and revised its General Conditions for complaint handling, so further regulatory action soon may be unrealistic. There are some indications that intrusive regulation to specify standards in telecoms may have more downsides than in some other sectors.

Service issues with scope for introducing automatic compensation	Further detail	Prerequisites and timing
Degraded service - loss of broadband speed, poor quality line etc.	While poor broadband speed meets our framework for automatic compensation there are complications. Not least the problematic roll out of high speed broadband, the	

	potentially undesirable consequences of regulating standards at this point in time, and the difficulties in securing investment for roll out.	
Responding to queries about bills and payments	This is included in the GSS for water, and complaints about billing in telecoms is also high.	Likely low likelihood of swift implementation – see comments above.
Inaccurate bills, large scale billing errors	Complaints about billing in telecoms is also high.	Likely low likelihood of swift implementation – see comments above.

## Water

Ofwat already has specified automatic payments should be made for services covered by the Guaranteed Service Standards (GSSs) scheme. This provides reasonable coverage. There are some gaps, detailed below.

Service issues with scope for introducing automatic compensation	Further detail	Prerequisites and timing
Installation of new water meters	The installation of new services is specified to a greater degree in energy than water. Welsh water already automatically pays compensation if meters are not installed on time.	Further work would be needed to decide whether the roll out of water meters, and any problems reported by customers, justified additional regulation. Adding new items to GSS may require legislation (but this doesn't seem particularly problematic).
Poor water quality	Some firms do pay automatic compensation when they issue a restriction of use notice. Others do not, and just pay a 'run off' rebate if a customer contacts them.	Further work would be needed to examine whether more regulation is necessary, and would bring benefits.
Inaccurate bills, large scale billing errors	Currently not included in GSS – billing and charges is the most complained about issue by water customers.	It is not clear whether there is a widespread problem with inaccurate bills such that more regulation is justified.

## Airlines

EU law sets out specified levels of compensation for a range of service problems, including flight delays, cancellations, denied boarding and seat downgrades. Compensation is not automatically paid, and airlines have tried put obstacles in the way of claims. The Montreal Convention governs airlines' liability in relation to lost, damaged or delayed baggage, and does not set out specified compensation levels.

Service issues with scope for introducing automatic compensation	Further detail	Prerequisites and timing
Flight cancellations, delays, denied boarding and seat downgrades	Standards and specified compensation levels are already set, and airlines have the means to pay their passengers.	<b>Unlikely to be implementable soon.</b> Mandating automatic compensation in these areas may require change to EU law.
Delayed baggage	Levels of specified compensation would need to be determined – for distress and inconvenience and a level of consequential costs that would be broadly appropriate for most passengers.	<b>Unlikely to be implementable soon.</b> Mandating specified, automatically-paid compensation for delayed baggage would be likely to require renegotiation of the Montreal Convention.

In addition, for all forms of transport, failures in communication with customers about delays could be introduced as a candidate for automatic compensation in the future, as the expectations of personalised communications increases.

## Rail

Train Operating Company franchise agreements require specified compensation levels for delays and cancellations under 'Delay Repay' or, for a few old franchises, the National Conditions of Carriage (which also specifies compensation for last of first class seating). There is no general requirement to make automatic payment where possible, even though some TOCs do.

Service issues with scope for introducing automatic compensation	Further detail	Prerequisites and timing
Delayed or cancelled	Automatic compensation is	<b>Mandatory roll-out to all TOCs</b>

services	currently possible, where the passenger used a smartcard, or where they bought an Advance ticket at the TOC's website or app or at a third party seller able to pass-through compensation.	<b>could be slow - as each franchise is re-let.</b>  Technical feasibility of automatic payment would increase as smartcards are rolled-out.
Overcrowding	A proxy standard for overcrowding could be where a "short-form" train is laid on at a peak time. Automatic payment could be made to those passengers on these services using a smartcard, or where they bought an Advance ticket at the TOC's website or app or at third party seller able to pass-through compensation.	Use of short-form trains at peak times is already recorded. <b>But mandatory roll-out to all TOCs could be slow - as each franchise is re-let.</b>  As smartcards are rolled out, it could be possible to estimate crowding levels on trains more generally and accurately.

## Ferries

An EU Directive regulates the compensation due in the event of delays and compensation, and also specifies communication with customers – although compensation for delays starts for journeys over an hour. Wightlink (Isle of Wight) provides decent information on its website about compensation and claims. The information for Steam Packet Company and Manx Ferries (Isle of Man) is very poor. Information about second stage complaint handling is very poor across the board.

Service issues with scope for introducing automatic compensation	Further detail	Prerequisites and timing
Cancelled, delayed or rearranged services	There are clear standards in the EU directive, and the scope for paying compensation automatically seems good.	<b>Potentially achievable in the short-term.</b> There appear to be no particular barriers (apart from the implementation time in the firms). Even if automatic compensation were not brought about immediately, there does seem scope for improvement in terms of information on rights and claims processes.  Possibly much could be done without new legislation, via discussion with operators and ABTA (Association of British Travel Agents).



## Coaches

There are no standards set within the coach sector, and an EU Directive applies but only for journeys greater than 250 kilometers (for which the UK has an exemption). Setting standards for compensation for delays should be straightforward, however. Information on compensation is poor, with the only information available in the conditions of carriage for each operator. Little information is available on the second stage complaint handling.

Service issues with scope for introducing automatic compensation	Further detail	Prerequisites and timing
Cancelled, delayed or rearranged services	There are no existing standards, so these would have to be developed.	<p><b>Unlikely to be implementable soon.</b> Various obstacles render introducing guaranteed standards soon unlikely. The triggers for compensation may be difficult to define for delays, commuter detriment from cancellations may be low, and the arguments around operator liability for delays may be difficult.</p>

## Letters

Ofcom requires Royal Mail (the only nationwide end-to-end letter delivery firm) to have remedies for service failures. Specified compensation (not dependent on the value of posted items) is available for delayed, damaged and lost letters, and non-delivery under the Signed-For service - typically six 1st class stamps. Consequential losses for damaged or lost items were not considered in this research. Consumers must make a claim for all compensation.

Service issues with scope for introducing automatic compensation	Further detail	Prerequisites and timing
Delayed letters under Special Delivery and	Special Delivery is a tracked service, and signatures	<p><b>Unlikely to be implementable soon.</b> Regulatory changes would be</p>

Signed-For services, where paid-for by card or online	proving delivery under Signed-For are also recorded in 'Track and Trace' – which could confirm the delivery time. Unlike other essential services, payments are rarely via direct debit. There would be costs to system changes.	needed to enable this for Signed-For services. Royal Mail systems would need additional functionality, e.g. to track when Recorded Signed-For products enter and move through the pipeline, and to record the sender's payment details as payment is rarely done by direct debit. Where compensation covers the value of the items contained, as well as the cost of postage, this would be infeasible to do automatically.
Damaged letters under Special Delivery and Signed-For services, where paid-for by card or online	Drivers would need to be empowered to record damage to mail above some threshold. There would be cost.	<b>Unlikely to be implementable soon.</b> As above, but in addition, driver handsets may need additional functionality to record damage, and drivers may need training. Automatic compensation could only be issued at a flat rate, which would not reflect most consumers' true loss.
Lost letters under Special Delivery and Signed-For services, where paid-for by card or online	Lack of signature under Signed-For in relevant timescale could mean <u>either</u> lost mail <u>or</u> a failure to secure signature. If compensation the same, this is not a problem.	See delayed letters.
Failure to secure proof of delivery under Signed-For and Special Delivery services		

## Parcels

There are no regulated compensation levels, since Ofcom does not regulate the majority of the parcels market. Parcelforce voluntarily provides specified compensation levels for delays to delivery (only).

Service issues with scope for introducing automatic compensation	Further detail	Prerequisites and timing
Delayed parcel delivery - where paid-for by card or online, or sender address	The tracking of parcels makes this feasible. Standards for specified compensation would	<b>Potentially hard to achieve in short-term because since Ofcom does not regulate the</b>

recorded	need to be developed.	<b>majority of the parcels market.</b> In addition, providers would need to add functionality to their tracking system in order to automatically identify customers owed compensation. Where compensation covers the value of the items contained, as well as the cost of postage, this would be infeasible to do automatically.
Delayed or missed parcel collection	The standard is clear and measurable, and payment easily deliverable. A compensation level would need to be determined.	
Failure to secure proof of delivery - where paid-for by card or online, or sender address recorded	Mirroring the regulated Royal Mail standard.	

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