

Appendix 2

Industry-level detail on household recovery actions

Each year we collect information from water companies about the actions they take to recover outstanding revenue from their household customers¹.

Companies are asked to provide details of the total number of:

- pre-court action notices or letters issued to households for the non-payment of bills;
- county court claims issued to households for the non-payment of bills; and
- judgments obtained against households for the non-payment of bills.

Companies are also asked for detail on:

- the type of court enforcement actions used;
- their level of effectiveness; and
- the number of household customers paying by various payment methods and frequencies.

Below is a summary of the key points arising from the companies' submissions. Information on the number of pre-court action letters, claims and judgments is available at company level on our website, www.ofwat.gov.uk.

Effectiveness of debt recovery actions

In line with our ['Dealing with customers in debt'](#) guidelines² companies continue to report the use of a wide variety of debt recovery methods, frequently tailored to suit the needs of individual customers.

Companies noted this year that debt recovery activity has increased as more customers struggle to pay bills in the current economic climate. This can be seen by the number of pre-claims notices issued, which has increased by 23% since 2006-07.

Companies have explained that gathering intelligence about customers is the key to tailoring recovery action. Many companies reported an increased use of externally sourced data, such as from credit reference agencies, which can

¹ Information for 2007-08 was requested in RD 15/08.

² Updated in April 2007 and available from our library or at www.ofwat.gov.uk.

help to make sure that customers are targeted with the most appropriate action.

Nearly all companies now use some form of segmented recovery paths which differentiate customers according to a behavioural score. This is based on a number of factors such as previous payment history.

Several companies noted that recovery actions are more effective at the earlier stages of the debt recovery process and therefore proactive contact was important. Outbound calls were felt to be helpful to debtors where a telephone number was available, as were external liaison schemes such as doorstep collection.

Companies said that using debt collection agents was effective for those customers where the court system is not suitable. Companies can then deal sympathetically with customers genuinely struggling to pay and avoid burdening them with additional court costs. A number of companies now also use income and expenditure forms in order to assess more accurately a customer's financial circumstances.

In recent years most companies have become more selective in how they use court action. Where court action is not felt to be an appropriate recovery method, for example, where it is clear that the customer cannot afford to pay, companies tend to refer the customer to social agencies such as Citizens' Advice, or to a charitable trust fund or restart scheme. Donations to such schemes have increased by 18% since last year.

Companies that offer schemes reported early success rates of up to 80% in encouraging future payment habits, although longer-term studies show that effectiveness tends to fall over time. One company number noted that after three years the success rate could be as low as around 20%, while others noted that even after one year, a significant proportion of customers had failed to maintain their payment habit.

Payment options or frequencies

As in previous years, some companies were not able to provide information relating to the payment methods and frequencies used by customers in the precise format requested. This was due primarily to system constraints, and in some cases to a proportion of customers paying in a number of different ways or frequencies throughout the report period.

The most commonly used payment method reported continues to be direct debit, which was typically used by 50 to 60% of customers. Most companies reported a slight increase in direct debit penetration compared to last year.

The least common payment methods (typically used by less than 1% of customers) were:

- by credit card;
- by standing order;
- over the Internet; and
- through the Third Party Deduction Scheme (Water Direct)³.

Some companies, however, noted that they have increased the number of customers paying through Water Direct through proactively applying for deductions on the customer's behalf. The number of customers clearing water arrears in this way currently stands at around 154,000. This compares with 17,000 for electricity and 22,000 for gas⁴.

The most common payment frequency was monthly, with approximately half of customers paying this way. The next most common frequency was half yearly. Relatively low numbers were reported as paying annually, weekly or fortnightly.

Pre-court action notices

The number of pre-court action notices increased by 23% in the past 12 months, from 8.7 million in 2006-07 to 10.7 million in 2007-08. Companies explain that this is partly due to economic conditions causing more customers to default on payment, but also due to improved timescales and processes which result in notices being sent out in a more timely and efficient way.

'Pre-court action notices' are defined as any written correspondence which warns the customer that they could face legal action for the non-payment of bills. These are normally issued in the latter stages of the debt recovery process, before a county court claim is issued. They do not typically include early or routine contacts.

Other forms of contact with the customer, such as telephone calls or telemessaging, while used by most companies in the debt recovery process,

³ This option, which is only available to customers on specified means-tested benefits and in arrears, deducts benefits at source.

⁴ Source - Ofgem

are not generally classed as a pre-court action notice and are therefore not included in the above numbers⁵.

Because companies typically report on the actual number of notices issued and some customers will receive more than one notice throughout the year, the number of pre-court action notices will typically exceed the number of indebted customers.

Claims and judgments

The number of county court claims made and judgments awarded for the non-payment of household water bills fell by 8% and 3% respectively between 2006-07 and 2007-08. However, water companies continue to be one of the largest users of the county court system.

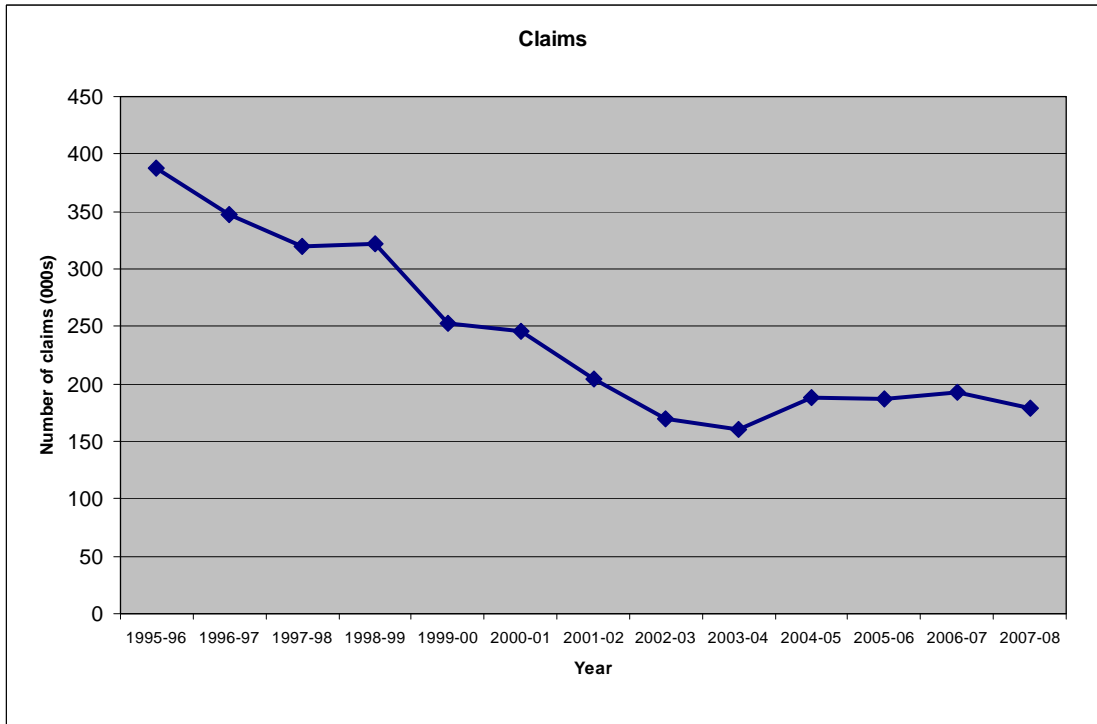
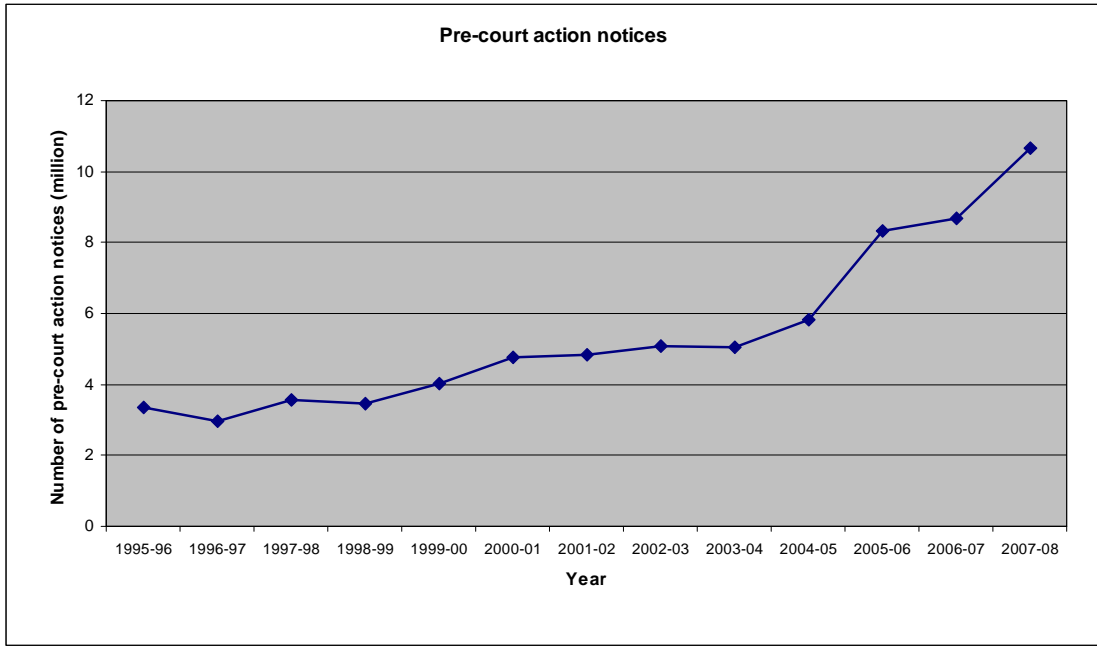
Some companies explained that the number of claims issued and associated judgments has reduced due to more targeted claiming and an increase in activities to collect debt without the need for legal action. However, others report an increase in court-related activity, principally due to the current economic climate leading to an increasing number of customers not paying their bills.

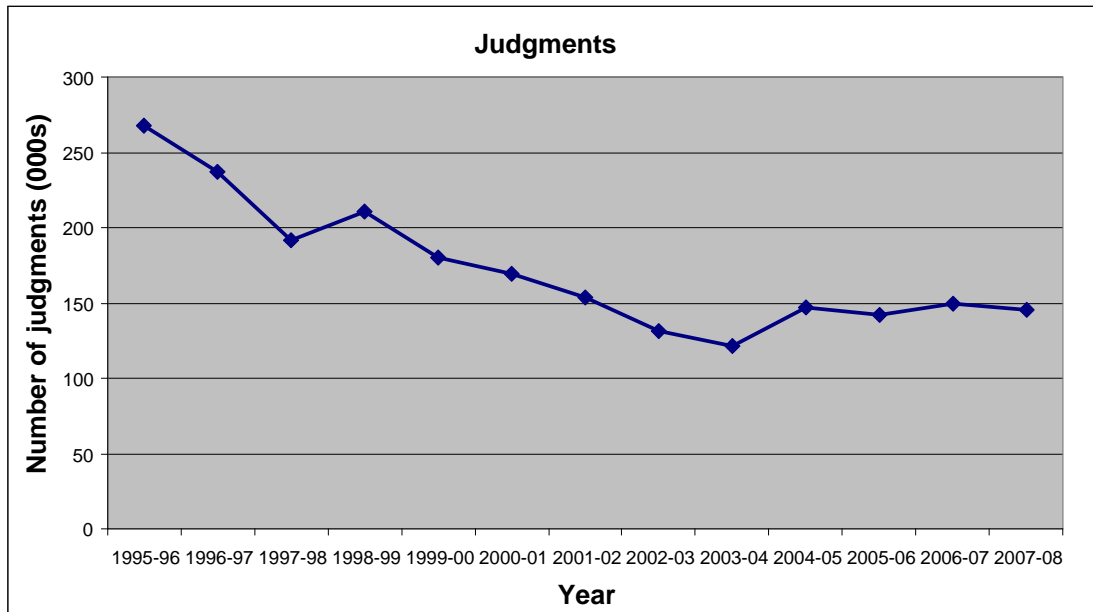
Most companies now tailor their approaches according to information held about individual customers' circumstances, including payment histories and credit records and, in an increasing number of cases, using externally purchased data.

Changes since 1995-96

The graphs below show how the number of pre-court action notices, claims and judgments have changed from 1995-96 to 2007-08.

⁵ One company has included telemessages in their pre-court action notice numbers.





It can be seen that while the number of pre-court action notices issued has increased each year, the level of claims and judgments has steadily declined.

Effectiveness of enforcement actions

Of the various enforcement methods used, the most popular continue to be charging orders⁶ and attachment of earnings⁷. These are also rated as the most effective methods, but depend on the customer owning a property or being employed.

Warrants of execution⁸ were also felt to be effective by some companies.

Orders to obtain information in court⁹ and third party debt orders¹⁰ were felt to be the least effective and therefore were the least used enforcement methods that companies reported.

⁶ An order of the court placing a charge on the debtor's property, such as a house or piece of land. The charge means that if the property is sold, the charge has to be paid first before the proceeds of the sale can be given to the debtor.

⁷ A method by which money will be stopped from the debtor's wages to pay a debt and as such will only help if the debtor is in paid employment.

⁸ Where a bailiff of the court is ordered to seize property to the value of the amount owed by the debtor, to satisfy the debt.

⁹ Where the debtor is ordered to attend court to provide details of their finances.

¹⁰ Where the court orders funds to be deducted directly from the debtor's bank account to settle the debt.