

IAP Response

Ref B2.WSH.OC.A36

Customer Trust as a Performance Commitment

1 April 2019

1. Ofwat's IAP feedback on Customer Trust

It is unclear what outcome the company aims to achieve beyond those covered by other PCs. We consider that the definition overlaps with C- MeX. This could cause confusion for customers and stakeholder for example if contradictory results are found.

The company should provide further justification of why this PC is required in addition to C-MeX.

2. Our response

The Vision of Welsh Water is “to earn the trust of our customers every day”. We have adopted this vision because we believe that trust is about more than providing great service and customer satisfaction. We provide an essential public service, and because public health is at stake if things go wrong, earning our customers’ trust should be integral to everything we do. Customer trust will among other things help us to collect revenue, reduce blockages, report pollutions and reduce both demand and leakage.

In harmony with this view, while also recognising the importance of trust for shareholders and other stakeholders, Ofwat adopted “Trust in Water” for their overarching strategy for the industry. This reflects the fact that transparency and good governance are the building blocks of trust, not just customer satisfaction.

We recognise that there is an overlap between Customer Trust and customer satisfaction as measured by C-Mex, but they are not the same. Trust is a longer-term measure, based on a more fundamental view of the company, rather than customer satisfaction which is more transactional. Any company could hypothetically deliver great customer satisfaction without earning a commensurately high rating for the trust of customers.

We have looked at the correlation between trust and customer satisfaction as measured by CC Water in their annual “Water Matters” survey. The R-squared value for the correlation between the two measures comes out only at between 70% and 80% (depending on the year, and how the water and sewerage service values are averaged). There are a number of cases of companies scoring significantly better on one measure than the other.

Wessex Water came 12th on water customer satisfaction in 2016, but ranked 4th on Trust. In 2017, South Staffs came 9th in terms of customer satisfaction, but came 5th in terms of Trust.

If we scored highly for C-Mex but not so highly for Customer Trust, we would expect customers to be happy with the day to day service that they deliver but not necessarily to be receptive to our requests for them to play their part in delivering improved outcomes for customer resilience and environmental quality. So we continue to believe that both measures matter.

Trust is hard to win and easy to lose, but if we are genuine in our desire to work with our customers to deliver resilient and affordable services over the long-term, we cannot do this without their trust. Given our mission, of ‘earning the trust of our customers every day’ we think customers would expect us to measure this, publish our performance, and to be

appropriately incentivised to achieve a great result. Indeed, we believe they would have legitimate questions if we did not.

We also make considerable use of our customer performance measures and commitments to motivate and focus our colleagues onto delivering great outcomes for our customers on the things that matter most to them. Consistent with our vision, we believe that Customer Trust is the most important overall measure of how well we are doing for our customers and this is why it is the 'bottom line' measure for us as a company – analogous to the 'profit line' for other water companies. For this reason, it would be consistent and reinforcing for our colleagues to see that the key internal measure of company performance is also recognised by the regulatory system as a key measure of success, with attendant financial incentivisation. This would enable us to use Customer Trust as a key measure in our all-colleague Reward Scheme post 2020, in the same way that other companies use 'profit growth' as a measure in their performance related pay schemes.