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# Consumer engagement and switching

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Statement

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## About this document

Please provide any comments on this statement by 30 January 2015

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## About the UK Regulators Network

UKRN is a network formed by the UK's economic regulators:

- The Civil Aviation Authority (CAA)
- The Financial Conduct Authority (FCA)<sup>1</sup> and the Payment Systems Regulator (PSR)
- Office of Communications (Ofcom)
- Office of Gas and Electricity Markets (Ofgem)
- Water Services Regulation Authority (Ofwat)
- Office of Rail Regulation (ORR)
- Northern Ireland Authority for Utility Regulation (Utility Regulator)

Monitor, the sector regulator for health, participates in the network and its projects as appropriate. The Water Industry Commission for Scotland (WICS) and Legal Services Board (LSB) are contributing members which generally participate in projects as observers.

## Contributors to this document

This document has been produced by the FCA, Ofcom and Ofgem. Monitor has been involved as an observer.

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<sup>1</sup> Although it has competition and consumer protection functions, the FCA is not classed by HM Government as an economic regulator. The FCA will be responsible for oversight of a new Payment Systems Regulator, which will be an economic regulator.

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## I. Summary

- 1.1. The UK Regulators Network (UKRN) works to ensure effective cooperation between sectors. Its objectives include empowering consumers and promoting competition. Empowered consumers, who are engaged and active in markets, drive effective competition between service providers by rewarding those that best satisfy their needs.
- 1.2. The first phase of the UKRN consumer engagement and switching project seeks to:
  - Understand the factors that affect how consumers engage and exercise choice in the markets we regulate, how these compare across sectors and what insights this brings to each regulator's understanding of their own markets;
  - Review the interventions that have already been introduced across our sectors to address known barriers to consumer empowerment and engagement and consider whether there is anything we can learn from each other's experiences;
  - Explore how we as regulators can work together to encourage higher levels of engagement, make it easier for consumers to assess their options and change provider, and in doing so drive effective competition in the interests of consumers.
- 1.3. In the first stage of this project we shared and analysed the work on consumer engagement and switching already undertaken by participating regulators, drawing cross-sector comparisons where possible. We created a framework in which to organise this analysis by considering the three steps typically taken by consumers when considering a change of provider: 'Engage', 'Assess' and 'Act'.
- 1.4. We identified and grouped 12 key barriers that make it difficult for consumers to engage, assess and/or act. These barriers fit under the broad headings of 'awareness', 'attitude' and 'ability'. Some of these barriers are likely to be present throughout the entire consumer journey and will manifest in a number of the other identified barriers; others act independently and only appear at a particular stage. Equally some are unique to one sector while many are common to all. The key common barriers are:
  - **Perceive benefits are low and/or costs are high** – a perception that either the benefit from engaging in the market is low and/or the costs are high in terms of the time and effort involved and the likelihood of something going wrong.
  - **Difficulties understanding information** – key drivers of this barrier include product/tariff complexity, a lack of transparency and consistency around product/tariff features, and a lack of familiarity with them.
  - **Barriers to and problems with switching processes** – these include contractual, operational, transitional and eligibility problems.
  - **Factors leading to lower levels of capability or capacity amongst some groups** – The least engaged and active consumers are also often the most disadvantaged and vulnerable; common factors associated with lower levels of market participation include lack of access to the internet, lower incomes, being older and other factors that may reduce a consumer's ability to assess information and invest time in switching decisions (e.g. lower literacy or numeracy skills, English not being the main language, disability or chronic illness, mental health issues, or major life events).
  - **Behavioural biases** – behavioural biases affect consumer behaviour and decision-making. For example, preferences for immediate gratification, the default option or avoiding losses can lead to sub-optimal decision-making or inertia from consumers.

- 1.5. Sectoral regulators are active in seeking better switching outcomes for consumers, and we have also set out examples of regulatory interventions that have been proposed or implemented within our markets to address the barriers we have identified. Interventions can take a number of forms and we have grouped those set out in this paper into five categories: information; process; conduct of business; product design and consumer protection remedies. We are interested in exploring opportunities to apply innovation and learning between sectors.
- 1.6. Finally, having identified common barriers and the scope of work already carried out to address these we have identified areas where we could benefit from further collaborative working.
- 1.7. We are publishing this work in order to share the evidence we have gathered and analysis we have undertaken with those who have an interest in consumer engagement and switching either within the markets we regulate or more widely. We invite comments on the content of this document, and in particular on other consumer engagement and switching issues that could be usefully be considered or addressed through cross-sector work as part of this project going forward.

## 2. Introduction

### Why did UKRN decide to undertake a project on consumer engagement and switching?

- 2.1. Without cutting across the independence or specific goals of each regulator, UKRN works to ensure effective cooperation between sectors. It aims to explain and take account of the differences between sectors, while maximising coherence and shared approaches in the interests of consumers and the economy. UKRN objectives include:
- Consumer empowerment – working to ensure consumers in regulated markets are able to engage effectively in markets.
  - Promotion of competition in the interests of consumers – working with the CMA and through the UK Competition Network to improve the use of competition and regulatory levers to make markets work better and improve outcomes for consumers.
- 2.2. Empowered consumers who are engaged and active drive effective competition between service providers, by rewarding those which best satisfy their needs. This competition delivers choice, value and innovation to consumers.

### Which regulators have been involved in the project?

- 2.3. The regulators that participated in this project are the Financial Conduct Authority (FCA), Ofgem and Ofcom. Monitor has been involved as an observer and contributed relevant insights from the healthcare sector.
- 2.4. Each participating regulator has different statutory responsibilities. Membership of UKRN or participation in UKRN projects does not override or alter those statutory responsibilities. Equally this report does not represent the views of any individual regulator and should not be taken as a statement of an individual or joint policy position.
- 2.5. The FCA regulates the financial services industry in the UK. It aims to secure an appropriate degree of protection for consumers, protect and enhance the integrity of the UK financial system and promote effective competition in the interests of consumers.
- 2.6. Ofgem regulates the gas and electricity markets in Great Britain. Its principal objective is to protect the interests of existing and future electricity and gas consumers, wherever appropriate by promoting effective competition.
- 2.7. Ofcom regulates the UK's TV and radio sectors, fixed line telecoms including broadband, mobile phone services, postal services, plus the airwaves over which wireless devices operate. Its aim is to further the interests of citizens and consumers in communications markets and to ensure that consumers are protected from harm and that competition can thrive.

### What did we set out to achieve?

- 2.8. In the first stage of this project we shared and analysed the work we have already undertaken in relation to consumer engagement and switching within our own regulated markets. In doing this we wanted to:

- Understand the factors that affect how consumers engage and exercise choice in the markets we regulate how these compare across sectors and what insights this brings to each regulator's understanding of their own markets;
- Review the interventions that have already been introduced across our sectors to address known barriers to consumer empowerment and engagement and consider whether there is anything we can learn from each other's experiences;
- Explore how we as regulators can work together to encourage higher levels of engagement, make it easier for consumers to assess their options and change provider, and in doing so drive effective competition in the interests of consumers.

2.9. Following this exercise we set out to identify areas where there is most value in working together in future. Specifically we aimed to:

- identify opportunities to apply learnings from other sectors, and/or
- opportunities to explore new solutions to common barriers.

## Scope

2.10. This review is focussed on the factors that affect the ability of domestic consumers in the UK<sup>2</sup> to engage and be active within the markets we regulate.

2.11. The sectors within the scope of our review are primarily general insurance (car, home, travel, personal accident, gadget, Guaranteed Asset Protection and home emergency insurance), retail banking (personal current accounts and cash savings), gas and electricity and communications (fixed line telephony and broadband, mobile and pay TV). Insights from the healthcare sector have also been included where relevant. In some cases regulators involved in this project are responsible for other sectors that we have not included or provided limited evidence from. This is either because switching does not take place in these markets or because of the limited amount of cross-sector research available with which to draw comparisons.

2.12. We have taken evidence from a range of sources including regulators' own work, government departments and third parties such as consumer groups, academics and think tanks. All of the evidence we have used is publicly available and a list of the material with links is included as an annex to this paper.

## Our approach

2.13. We compiled evidence on the factors that affect consumers' ability to engage and switch across the different markets we regulate. We created a framework in which to organise our evidence by considering the typical steps taken by a consumer when making decisions concerning a potential change in provider. This framework is set out in more detail in chapter 3.

2.14. A consultant reviewed this evidence. We then considered the factors that affect consumers' ability to make decisions regarding their choice of provider, focusing on how these compare across sectors. These factors are explored in chapter 4.

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<sup>2</sup> Ofgem's remit is Great Britain only, and so excludes Northern Ireland, the Channel Islands and the Isle of Man.

- 2.15. We then shared examples of interventions that have sought to empower consumers and help them through the switching journey, some of which are presented in chapter 5.
- 2.16. We then drew conclusions and considered areas where we might usefully work together in future. These are set out in chapter 6.

### **Why are we publishing this document?**

- 2.17. This document sets out the findings from our work. We are publishing it in order to share the evidence we have gathered and analysis we have undertaken with those who have an interest in consumer engagement and switching either within the markets we regulate or more widely. Although we are not inviting feedback on any particular proposal, we welcome general comments, particularly if there is any issues which you feel could usefully be considered or addressed through cross-sector work as we move forward with this project.

### 3. The consumer journey

3.1. This chapter explains the steps typically taken by consumers when making decisions around their choice of provider. This ‘consumer journey’ forms the main framework for our analysis and review. In this section we also present some contextual evidence on levels of engagement and switching across the sectors within the scope of this review.

#### What do we mean by engaged and active consumers?

3.2. The Office of Fair Trading (OFT)<sup>3</sup> set out that to make markets work well, we need engaged consumers, who are able to access, assess and act on information. Confident consumers activate competition by making well-informed and well-reasoned decisions that reward those service providers that best satisfy their needs. This gives providers an incentive to deliver what consumers want as efficiently and innovatively as possible.

3.3. Drawing on this OFT framework, we have examined what consumers do when considering changing their service or provider and the challenges they face in practice. We describe this process using a three-stage consumer decision-making journey: 1. Engage; 2. Assess; and 3. Act. We have agreed the following definitions for these stages:

- **Engage:** An engaged consumer is aware that they have a choice of product, service and provider and is willing to consider the alternatives available.
- **Assess:** To make informed decisions, a consumer must be able to assess which product, service or provider best satisfies their needs. For this they need access to trusted and comprehensive information, an understanding of their own likely consumption pattern, and the ability to make comparisons.
- **Act:** To exercise their choice, a consumer must be able to purchase the product or service which they have assessed as best satisfying their needs.

3.4. All consumers who assess their options and make an informed decision in relation to their choice of product, service or provider can be considered as ‘engaged’ and so regulators often use this term to describe the ‘end to end’ process. However, in this document we use ‘engage’ in a narrower sense, as an initial step, during which the consumer becomes aware of the choices available and is willing to shop around and consider switching.

3.5. Ideally, consumers who have assessed their options and identified the product, service and provider that best satisfies their needs, can act on this assessment. However, in reality some consumers may act having done very little, if any, assessment. This does not necessarily result in a bad outcome and may still deliver benefits for the consumer. However, these may be sub-optimal compared to what could have been achieved had they undertaken a more thorough review of their options.

3.6. Our definition of ‘Act’ includes consumers who make an active decision to remain with their current product, service and provider. These people believe that their existing choice still satisfies their needs, or that the costs involved in switching outweigh the potential benefits. It can be difficult to account for this when seeking to measure levels of consumer activity.

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<sup>3</sup> OFT, What does Behavioural Economics mean for Competition Policy? March 2010

- 3.7. Successful switches require provider action and cooperation. Where a provider makes it impossible to complete a transfer we consider that the consumer's attempt to complete the last stage of their switching journey has been unsuccessful. We set out some of the reasons why this may happen below. For the purposes of this paper we would not consider these consumers to have successfully completed the last stage in our consumer journey. Therefore most of the evidence reviewed in this final stage relates to active changes that that have been successfully executed.

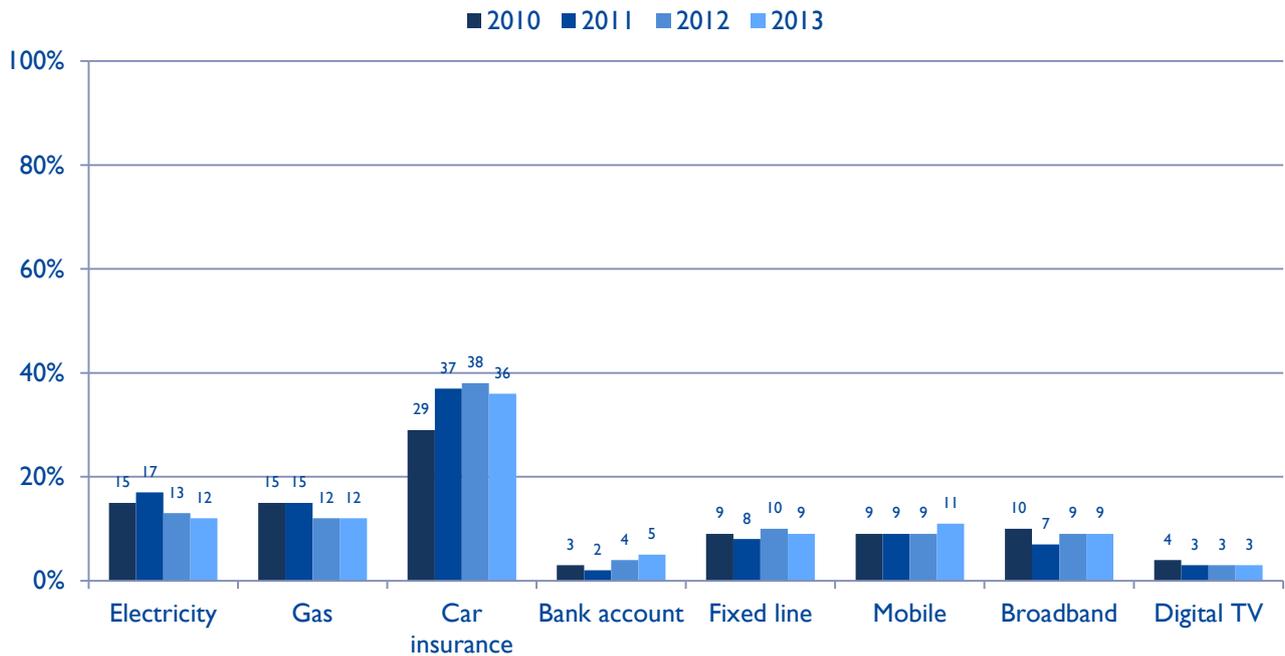
## Levels of consumer market engagement and switching

- 3.8. Measuring market engagement and activity in any sector can be difficult, and even where common indicators of engagement exist across different sectors, directly comparable data is often not available. One useful indicator where comparable data is available is provider switching levels. Provider switching is a key way in which consumers can achieve better outcomes for themselves in the immediate term, while exercising competitive pressure upon a market to improve choice and service quality over time. However, this excludes internal switching – i.e. between products or tariffs offered by the same provider – and also those who make an active decision to remain with their current provider, perhaps following a negotiation of existing terms. Comparable data on these indicators were not identified as part of this review. Equally headline switching rates do not distinguish between informed provider switching that are more likely to lead to positive outcomes and ill-informed provider switching that may lead to poor outcomes (e.g. as was seen in energy through door-step selling practices).
- 3.9. Research undertaken by Ofcom in 2013 looked at switching rates across markets using a consistent sample of consumers. This allows for direct comparison and shows switching rates are highest in car insurance (36%) and lowest in digital TV (3%). Switching levels have remained broadly stable in communications markets since 2010 but were declining until 2013 in energy and increased in car insurance (see Figure 1).<sup>4</sup>

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<sup>4</sup> Ofcom, [The Consumer Experience of 2013](#), p.141. These figures differ slightly from those generated by surveys commissioned by individual regulators and may not show the most recent data available. For example they do not show how the decline in energy switching has since stabilised at around 13% in 2013 (as per the 2014 Ofgem Ipsos MORI consumer engagement tracking survey). Nevertheless for the period in question, these differences are largely within statistical error margins. Consequently it is a helpful data set that enables cross-sector comparison for this indicator.

Figure 1: Proportion of consumers who have switched providers in the past 12 months



Source: Ofcom decision-making survey carried out by Saville Rossiter-Base in July to August 2009, June to July 2011, July to August 2013

Base: All adults aged 16+ who are the decision-maker for fixed line (2013, 1596), mobile (2013, 1718), fixed broadband (2013, 1291), digital TV (2013, 1592), electricity (2013, 1583), gas (2013, 1346), car insurance (2013, 1389), bank account (2013, 1783).

3.10. Evidence across the sectors shows the most active consumers tend to be from more advantaged demographic or consumer groups, and conversely those who are least active are more likely to be vulnerable or disadvantaged, although this varies somewhat by market. For example in energy, consumers are less likely to switch if they:

- are from less affluent socio-economic grades
- live in social or private rented accommodation
- are older (i.e. 65+)
- have no or limited internet access.

3.11. A number of other characteristics (e.g. low numeracy and literacy skills, learning disabilities, English not as a first language) are also associated with some consumers struggling to access and assess information and requiring additional support. These are considered in chapter 4 – barrier 11: Factors leading to lower capability or capacity among some groups.

## 4. What prevents consumers from being engaged, informed and able to act successfully?

4.1. This chapter sets out evidence of the factors that affect whether a consumer is engaged, makes effective assessments and can act to change their provider. In particular it draws out how these factors differ across our respective sectors.

### Drawing cross-sector comparisons

4.2. A number of issues can make it difficult for consumers to engage, make effective assessments and act to change their product, service or provider. We think that these factors can be broadly grouped according to a consumer's:

- awareness of choice;
- attitude towards the market and the likely outcome of engagement; and
- ability to make assessments and take action to switch.

4.3. Some factors, such as behavioural biases, are likely to be present throughout the entire consumer journey and will manifest in a number of the other identified barriers; others act independently and only appear at a particular stage. How these factors fit within the consumer decision-making journey is set out in Table 1.

4.4. In Table 2 we consider the extent to which these factors have hampered engagement, assessment and action. To aid cross-sector comparison we have, where data is available, made a qualitative assessment of the key barriers for each sector.<sup>5</sup> However, a lack of comparable data makes this a difficult task and the results should be treated as indicative only.

4.5. It is also important to recognise that there are a number of markets within each sector. For example, general insurance includes car, home and travel insurance, amongst many others. The indicative rating does not reflect the differences within these sub-sectors. We have set out the rationale for our assessment and where relevant, the sub-sector to which it relates.

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<sup>5</sup> For example in energy it is too soon to say whether or how far barriers to market engagement have been reduced following the introduction of major reforms in 2014 through the Retail Market Review (RMR). Therefore the assessment reflects the evidence from the 2011-14 period, or before we expect the impact of these reforms to be fully realised.

**Table 1: Reasons for lack of consumer engagement, assessment and switching along the consumer decision-making journey<sup>6</sup>**

|                               |                                   | Engage   | Assess  | Act  |
|-------------------------------|-----------------------------------|--|---|--|
| <b>Awareness</b>              |                                   | 1) Unaware they can choose alternative product, service or provider                                |   |  |
| <b>Attitude</b>               | <b>Perceptions of the market</b>  | 2) Perceive insufficient choice and/or difficulty navigating choices                               |   |  |
|                               |                                   | 3) Distrust in industry  |   |  |
|                               |                                   | 6) Distrust in available information   |   |  |
|                               | <b>Perceptions of the outcome</b> | 4) Perceive benefits are low and/or costs are high   |   |  |
| <b>Ability</b>                | <b>Access to information</b>      | 5) Few triggers prompting engagement   | 7) Difficulties accessing information (about current arrangements/use and alternatives) |  |
|                               | <b>Assessments of information</b> | 8) Difficulties understanding information: complex information and/or low level of sector literacy |   |  |
|                               |                                   | 9) Circumstances of decision environment   |   |  |
|                               | <b>Ability to effect change</b>   |  |   | 10) Barriers to and problems with switching process (contractual, operational and transitional issues) |
| <b>Cross-cutting barriers</b> | <b>Consumer characteristics</b>   | 11) Factors leading to lower capability or capacity among some groups                              |   |  |
|                               |                                   | 12) Behavioural biases   |   |  |

<sup>6</sup> Factors leading to lower capability or capacity among some groups and behavioural biases are identified as cross-cutting barriers in that they are present throughout the consumer journey and manifest in a number of the other identified barriers. For example, both these factors will affect the extent to which a consumer has difficulties understanding information.

**Table 2: Key reasons for lack of consumer engagement, assessment and switching by sector**

Dark blue squares indicate this factor is or has been a key reason identified through evidence considered in the scope of this review, for lack of consumer engagement, assessment and/or switching in that particular sector.

Grey squares indicate this factor is not a key reason identified through evidence considered in the scope of this review, for lack of consumer engagement, assessment and/or switching in that particular sector or there is insufficient evidence to determine whether it is or not.

|                                 |  | General Insurance   | Retail Banking | Gas and Electricity | Comms | Healthcare |
|---------------------------------|--|---|----------------|---------------------|-------|------------|
| <b>Awareness</b>                | 1) Unaware they can choose alternative product/provider  |   |                |                     |       |            |
| <b>Attitude</b>                 | <b>Perceptions of the market</b>   | 2) Perceive insufficient choice or perceive difficulty navigating choices available     |                |                     |       |            |
|                                 |  | 3) Distrust in industry   |                |                     |       |            |
|                                 | <b>Perceptions of the outcome</b>  | 6) Distrust in available information  |                |                     |       |            |
|                                 |  | 4) Perceive benefits are low and/or costs are high                                      |                |                     |       |            |
| <b>Ability</b>                  | <b>Access to information</b>   | 5) Few triggers prompting engagement  |                |                     |       |            |
|                                 |  | 7) Difficulties accessing information (about current arrangements/use and alternatives) |                |                     |       |            |
|                                 | <b>Assessments of information</b>  | 8) Difficulties understanding information/low level of sector literacy                  |                |                     |       |            |
|                                 |  | 9) Circumstances of decision environment  |                |                     |       |            |
| <b>Ability to effect change</b> | 10) Barriers to and problems with switching process (contractual, operational and transitional issues) |   |                |                     |       |            |
| <b>Cross-cutting barriers</b>   | <b>Consumer characteristics</b>  | 11) Factors leading to lower capability or capacity among some groups                   |                |                     |       |            |
|                                 |  | 12) Behavioural biases  |                |                     |       |            |

## Engage

- 4.6. A fully engaged consumer is aware that they have a choice of product, service and provider and is willing to consider the alternatives available. In this section, we set out the evidence from our sectors on some of the barriers to consumers engaging, drawing out the similarities and differences.

### Awareness

#### **Barrier 1: Unaware they can choose an alternative product, service or provider**

- 4.7. If a consumer is unaware they even have a choice then by default they are unlikely to be engaged. Most people are aware they have the option to exercise choice in energy supplier<sup>7</sup> and communications provider<sup>8</sup>, although a small minority (often more vulnerable consumers) remain unaware. In healthcare lack of awareness of choice is comparatively more prevalent, with many patients unaware that they have a right to choose their provider for planned elective acute care (hospital procedures such as hip replacements). Evidence from a joint NHS England and Monitor survey in May 2014 showed that only 51% of patients were aware that they had a choice of hospital or clinic before seeing their GP for a referral.<sup>9</sup>

### Attitude: Perceptions of the market

#### **Barrier 2: Perceive insufficient choice and/or difficulty navigating choices**

- 4.8. Even where consumers are aware that they can exercise choice in a market, some may perceive the level of choice available, either locally or nationally to be too limited to warrant engagement. Perceptions of a **lack of choice** may occur when consumers believe that their options are limited or that there is little real differentiation between the options available (i.e. 'they're all the same really.'). A perception that choice is limited in either sense may lead a consumer to consider that they are unlikely to benefit from switching, and consequently that they are likely to have little to gain from engaging. These perceptions may be well founded and reinforced by the nature of the market, and so this is an important engagement indicator for regulators to monitor.
- 4.9. The following chart (Figure 2) is drawn from one of the limited pieces of cross-sector and comparative evidence available. It provides some illustrative insight into how perceived level of choice differs across the regulated sectors.
- 4.10. Some consumers, albeit a minority, perceive little or no choice of provider across banking (14%), insurance (9%), communications (16%) and energy (22%), although there is evidence to suggest that this reflects the perceived lack of differentiation between providers. In energy, forty-six per cent of energy consumers agreed 'there is no real difference between suppliers in the prices they charge.'<sup>10</sup>

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<sup>7</sup> In energy most consumers (88%) are aware that they can change their supplier. See Ofgem, [TNS BMRB Retail Market Review Baseline Survey July 2014](#), p3.

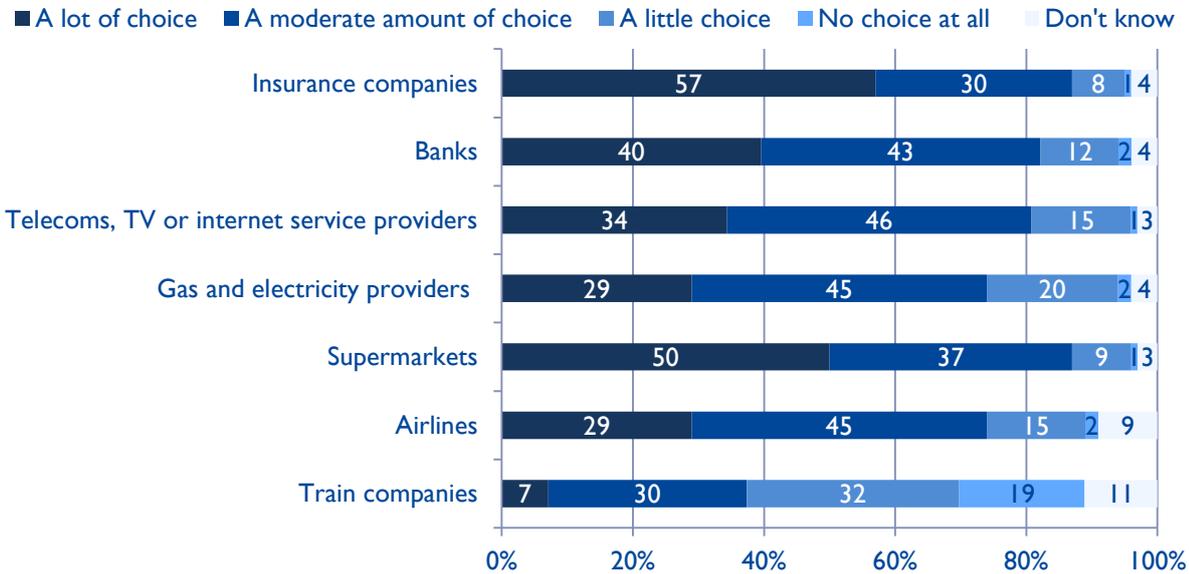
<sup>8</sup> Ofcom, Consumer Experience Report, 2009 At least 90% of consumers were aware of an alternative provider in their area in each of the fixed broadband, mobile, TV and bundle markets.

<sup>9</sup> Monitor and NHS England, [Outpatient appointment referrals: survey summary and findings](#), August 2014

<sup>10</sup> Ofgem, [TNS BMRB Retail Market Review Baseline Survey July 2014](#), p24

Similarly, a perceived lack of differentiation was given as at least a minor reason for not engaging by 20% of mobile consumers and 11% to 18% of consumers of other communications services.<sup>11</sup>

Figure 2: Perceived level of provider choice<sup>12</sup>



Source: Customers in Britain, online survey. Firebrand Insight 2014  
 Base: All adults (1,007)

- 4.11. While the perception of insufficient choice can lead to low levels of engagement, sometimes consumers are put off engaging because they think it may be **difficult to navigate the choice available** to them. As above, this perception may well be justified and the reasons why they may actually find this hard are explored further in the ‘assess’ section. However, it is important to note here that a perception of difficulty, whether or not borne out in reality, can make consumers less likely to engage.
- 4.12. In energy there is considerable evidence of consumers being put off by the prospect of navigating a large volume of tariffs with complex and inconsistent pricing structures. Ofgem found energy consumers are more likely to believe they have too much tariff choice (32%) than too little (14%), and that over a third of consumers believe it is either fairly or very difficult to compare energy tariffs. When those who believed comparison to be difficult were asked why, 41% said tariff information from suppliers is too complicated, 34% that there are too many tariffs to choose from and 27% that tariffs are all structured differently.<sup>13</sup> The most active and engaged segment of consumers<sup>14</sup> were more likely to perceive comparing tariffs as very or fairly easy (52%) than the least active and engaged<sup>15</sup> (27%).<sup>16</sup>

<sup>11</sup> Ofcom, *Customer Retention and Interoperability Research*, June 2013 p46-49

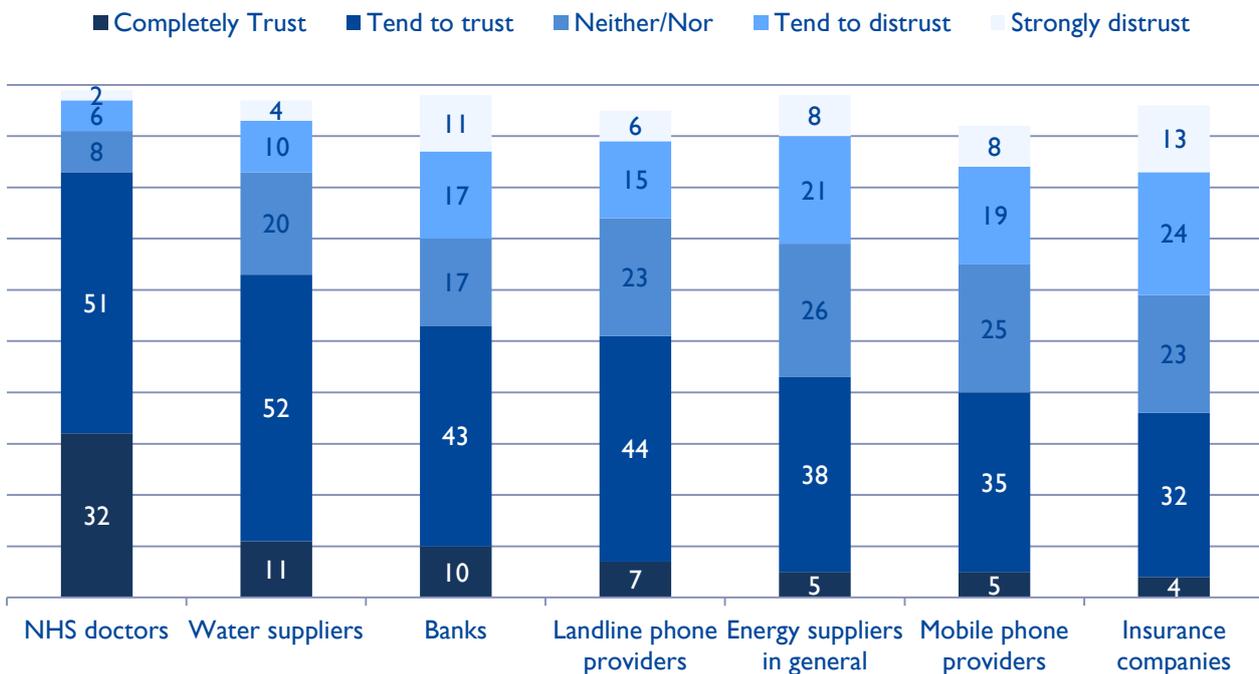
<sup>12</sup> Firebrand Insight ‘Customers in Britain’ online survey with nationally representative sample of 1000 UK adults: examines attitudes towards customer service and loyalty in Britain. Unpublished but please contact [Firebrand Insight](#) to request access to reports. Please note – figures in tables will not always add to 100% either because of multiple answers being allowed, or because of rounding.

<sup>13</sup> Ofgem, *TNS BMRB Retail Market Review Baseline Survey* July 2014, p34

**Barrier 3: Distrust in industry**

4.13. A sense of how trust in providers differs across the sectors can be obtained from a recent Ofgem survey (although it should be noted the sample was based on those identified as energy bill payers only, and as such may not reflect general population attitudes to other services) – see Figure 3. NHS doctors were considered the most trusted professionals in the way they deal with consumers and citizens within the sectors covered in this review (trusted or strongly trusted by 83% of respondents). Insurance companies were the least trusted (36%).

**Figure 3: Extent to which consumers trust or distrust providers to be fair in the way they deal with customers or citizens<sup>17</sup>**



Source: TNS BMRB Retail Market Review Baseline Survey – based on face-to-face interviews with energy bill payers carried out March–April 2014.

Base: All Customers (6,151)

Please note figures do not total to 100% because the 'don't know' responses have been removed.

4.14. There is relatively little evidence on the relationship between consumers’ trust in a market and engagement in that market. The evidence that does exist shows a complex relationship. For example, Ofgem research suggests a lack of trust in the energy industry may have acted as a barrier to consumer engagement in recent years – i.e. as levels of distrust in energy suppliers have risen, while

<sup>14</sup> Ofgem, *TNS BMRB Retail Market Review Baseline Survey* July 2014 - The most engaged segment of consumers ('Switched on') consumers account for 15% of all consumers overall; 52% of this segment considered comparing tariffs as very or fairly easy.

<sup>15</sup> Ibid; The least engaged segment of consumers ('Unplugged') account for 19% of all consumers overall; 27% of this segment considered comparing tariffs as very or fairly easy.

<sup>16</sup> Ibid p5

<sup>17</sup> Ofgem, *TNS BMRB Retail Market Review Baseline Survey* July 2014, p54. Original question also asked consumers to rate the police, estate agents and politicians. The percentage of consumers who answered 'don't know' are not shown.

switching levels have largely declined.<sup>18</sup> However, it does not follow that the least engaged consumers are the least trusting and the most engaged consumers the most trusting. A recent consumer segmentation analysis showed it is in fact the *most* engaged consumers<sup>19</sup> who are the least trusting of their own supplier. This suggests distrust can be a facet of ‘consumer savviness’ and a potential motivation to engage as well as a potential barrier.<sup>20</sup>

## Attitude: Perceptions of the outcome

### **Barrier 4: Perceive benefits are low and/or costs are high**

- 4.15. Consumers who engage in any sector are likely to perceive that this can lead to a positive outcome, whether a successful switch to a new provider, negotiating better terms with an existing one, or simply confirming that they are already on the best available deal given their needs. In the context of our three-step consumer journey, those most likely to engage are those who think that they can derive benefits (in the form of lower prices, better service or quality) which outweigh costs (in terms of money, time and hassle) associated with assessing their options and acting.
- 4.16. A key factor underlying consumer cost/benefit assessments is the extent of their satisfaction with their existing provider. A satisfied consumer may have higher expectations and a lower tolerance to search and switching costs than an unhappy consumer. In the communications market, there are relatively high levels of overall satisfaction (88-93%)<sup>21</sup>; 51-66% of inactive consumers cited this as a major reason for not engaging, as did just under a third of those who considered switching but did not switch<sup>22</sup>.

### Perceived benefits/benefit low

- 4.17. The weight placed on these different types of benefit will vary by consumer and by sector and service area. In energy, the overwhelming majority of consumers who engage and compare energy tariffs do so in order to save money<sup>23</sup>, although the ‘push factor’ of poor customer service may also play a role for some<sup>24</sup>. Many consumers have quite a high benchmark for what represents a ‘worthwhile’ monetary saving in energy: when consumers were asked about the minimum annual saving that would encourage them to switch supplier, the median amount stated was £240 per year in the context of an average dual fuel bill of £1300.<sup>25</sup> It may be that ‘worthwhile’ savings are higher than they would otherwise be, because of the perceived hassle factor associated with switching (see below). Given many consumers believe supplier prices will be roughly the same<sup>26</sup> and that switching will be a time-consuming hassle, many consider the likely benefits of switching to be too low to justify its costs.

<sup>18</sup> Ofgem [Ipsos MORI Customer engagement with the energy market tracking survey](#), June 2014, p10 and 46

<sup>19</sup> Ofgem, [TNS BMRB Retail Market Review Baseline Survey July 2014](#) - the most engaged consumers (‘Switched on’) account for 15% of all consumers.

<sup>20</sup> *Ibid*, p49

<sup>21</sup> Ofcom [The Communications Market Report](#), August 2014, p31

<sup>22</sup> Ofcom, [Customer Retention and Interoperability Research](#), June 2013, p46

<sup>23</sup> Ofgem [Ipsos MORI. Customer engagement with the energy market tracking survey 2014](#); p15 and p22

<sup>24</sup> Ofgem GfK, [Complaint to energy companies – report to Ofgem exploring how energy companies handle customer complaints](#), GfK, 2014 p72. For example nearly half (44%) of complainants had either switched or planned to switch as a result of their complaints experience.

<sup>25</sup> Ofgem, [TNS BMRB Retail Market Review Baseline Survey July 2014](#), p13

<sup>26</sup> *Ibid* p24. Nearly half (46%) of energy consumers believe ‘there is no real difference between suppliers in the prices they charge’.

- 4.18. In retail banking and communications, both cost *and* quality of service are key drivers to switching. In retail banking, consumers' expectations as to the likely gains from switching differ widely. One survey carried out by the OFT in relation to Personal Current Accounts (PCAs) suggested that the majority (73%) thought that charges and interest rates varied so there might be some monetary gains from switching. However other surveys suggest that consumers think the gains from switching are likely to be low.<sup>27</sup>
- 4.19. In communications, cost was stated as a driver to switching by between 54% and 62% of switchers and 'poor service' by around half as many. The service aspects that are important to consumers tend to differ by market. For mobile users, reception (15%), handsets (13%) and 4G service (5%) are key factors. For fixed broadband switchers, faster speeds (15%) are important, while choice of channels is key in the TV market (18%)<sup>28</sup>.
- 4.20. But, as with energy, retail banking and communications consumers who perceive that provider offerings or prices are similar are unlikely to switch. In retail banking, research for Tesco shows 64% of PCA holders are not willing to switch because they 'do not believe I would get a better service/value for money.' This is supported by research from Which? that found the fifth most popular reason (out of 18) not to switch was 'all PCA providers offer the same service so no point.'<sup>29</sup> In communications at least two in five who considered switching did not do so because they could see little difference.

#### Perceived costs/cost too high

- 4.21. The 'costs' referred to in this section include both financial costs (such as early termination charges incurred as a result of switching while still within contract) and non-financial costs (such as the time and energy required to seek out a better deal and switch or to get a phone unlocked).
- 4.22. Concerns about something going wrong and perceptions that switching will entail significant time and hassle, are common 'costs' amongst consumers in retail banking, healthcare, energy and communications.
- 4.23. In retail banking, perceived 'costs' include the time and effort involved in switching which may include having to provide identification and documentation in order to open a new account, move standing orders and direct debits or learn how to navigate new internet banking systems. In relation to PCAs, in 2013 the OFT found that 41% of consumers who had not switched were 'not very' or 'not at all' confident that the process would go smoothly if they were to switch.<sup>30</sup>
- 4.24. In energy there is evidence that these perceptions may lead to a lack of engagement amongst consumers. For example, 59% of the most disengaged energy consumer segment<sup>31</sup> believed switching is a hassle they do not have time for.<sup>32</sup>

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<sup>27</sup> OFT, Personal current accounts in the UK, July 2008, p92.

<sup>28</sup> Ofcom, [The Consumer Experience of 2013](#), January 2014, p133.

<sup>29</sup> CMA, [Personal current accounts market study update](#), July 2014, p95.

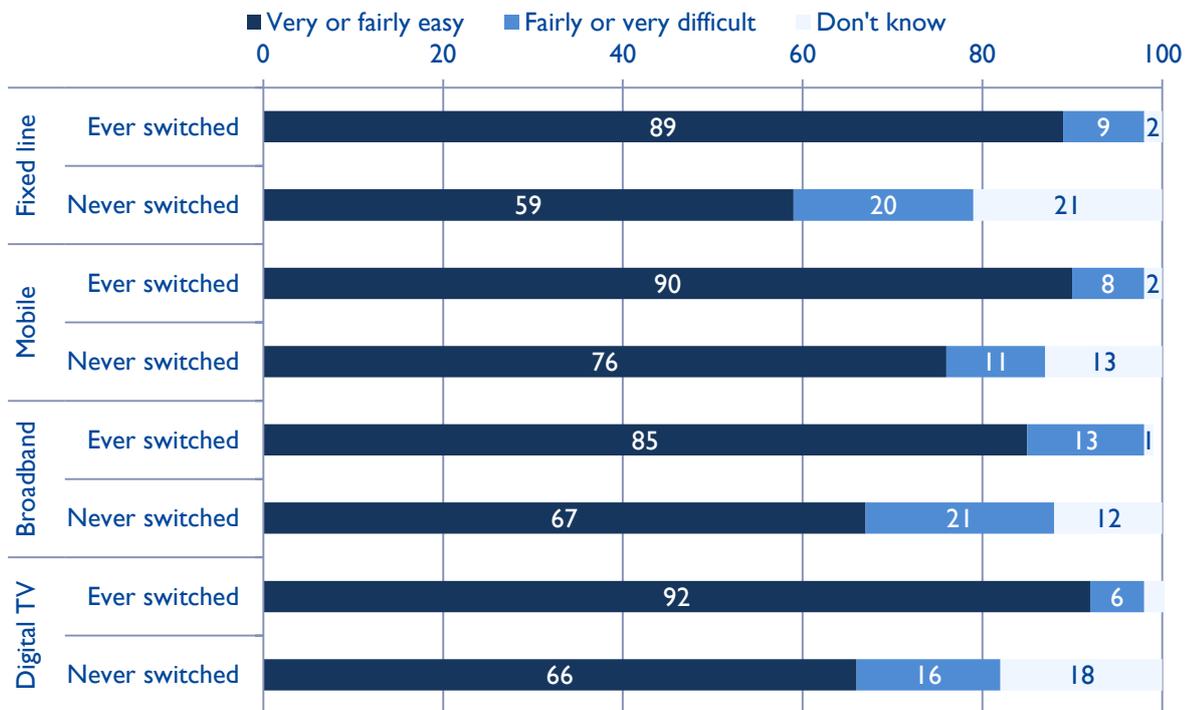
<sup>30</sup> Ibid, p78

<sup>31</sup> Ofgem, [TNS BMRB Retail Market Review Baseline Survey](#) July 2014. The most disengaged consumer segment represents 19% of all consumers overall (Unplugged) - 59% of this segment believed switching is a hassle they do not have time for.

<sup>32</sup> Ofgem, [TNS BMRB Retail Market Review Baseline Survey](#) July 2014, p24

- 4.25. In communications there can also be a perception that switching is ‘too time consuming’, driven by difficulties with comparing offers, inconvenience relating to installation and concerns over service disruption. However, while these issues deter a relatively small proportion of inactive consumers from engaging (e.g. 5-8%), these become more commonly mentioned as issues deterring engaged consumers from switching<sup>33</sup>. Service disruption can include issues such as loss of content, phone number or email address. For example, 7% of ‘inactive mobile customers’ cited concern about losing their phone number as a reason for not engaging, while around one in ten inactive standalone pay TV customers were worried about losing stored programmes, films or channels.
- 4.26. There is also evidence in both communications and energy that those who have never switched perceive switching to be more difficult than those who have. This suggests that some consumers considering a change of provider may overestimate switching costs. For example, 20% of those who had never switched fixed broadband thought it would be fairly or very difficult, compared to 9% among those who had actually switched<sup>34</sup> (see Figure 4).

**Figure 4: Consumer opinions about ease of switching supplier, by ever and never switched<sup>35</sup>**



Source: Ofcom decision-making survey carried out by Saville Rossiter-Base in July to August 2013

Base: % All All adults aged 16+ who are the decision-maker and have ever switched provider for fixed line (619), mobile (708), broadband (468), digital TV (213). Switched provider in the last 2 years for fixed line (276), mobile (307), broadband (225), digital TV (\*86). Never switched provider for fixed line (867), mobile (1010), broadband (719), digital TV (1313) \*Caution: Low base, treat as indicative only.

<sup>33</sup> Ofcom, [Customer Retention and Interoperability Research](#), June 2013 p47-49

<sup>34</sup> Ofcom, [The Consumer Experience of 2013](#), January 2014, p139

<sup>35</sup> Ofcom, [The Consumer Experience of 2013](#), January 2014, p138-142

4.27. We discuss the extent to which concerns like these actually deter consumers from switching in the 'act' section.

### **Ability: Access to information**

#### **Barrier 5: Few triggers prompting engagement**

4.28. For many consumers, engagement is prompted by a 'trigger' event; the absence of triggers may result in unengaged consumers. Common triggers include:

- Exposure to marketing materials and promotions
- Being advised of/aware that an existing contract period is ending
- An event leading to dissatisfaction with a current product or provider
- Desire for a new product or service (e.g. faster internet speed or new mobile handset)

4.29. We now consider the extent to which some of these triggers apply across our sectors.

#### Exposure to marketing materials and promotions

4.30. Awareness of choice can be prompted by many factors, including word of mouth and media coverage. Most service providers try to promote awareness through advertising and marketing, either in relation to specific products or offers, or as part of general brand awareness campaigns. Third party intermediaries may also play an important role in raising awareness, such as online price comparison and switching sites. These can serve as an effective way of alerting consumers to the possible benefits of switching.

#### Coming to the end of an existing contract

4.31. A common trigger that can motivate consumers to consider their choice of product or provider is the end of a contract. In communications and energy, there is a trend towards longer or fixed-term contracts. For example, the proportion of mobile customers tied into a contract has increased from 40% in 2010 to 65% in 2014, and in 2013 two thirds of new mobile phone contracts were for two years. These longer contracts are likely to mean consumers review their service arrangements less frequently.

4.32. Many consumers need to be reminded when their contract comes to an end. Data from 2013 show that between 9% (mobile contract) and 25% (fixed line) of consumers did not know when their current contract ended.<sup>36</sup> In energy, consumers on a fixed-term tariff are sent a letter notifying them of the end of their contract. Around a fifth (20%) of all consumers recall receiving this communication (of which 51% read it in detail and 40% glanced at it). Forty-three percent of consumers who read this letter at least checked the features of the tariff they were on; 34% looked into switching tariffs with their current supplier and 23% looked into switching to a different supplier.<sup>37</sup> Yet the majority (52%) of

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<sup>36</sup> Ofcom, [Customer Retention and Interoperability Research](#), June 2013 p20

<sup>37</sup> Ofgem, [TNS BMRB Retail Market Review Baseline Survey July 2014](#), p42

those who are not on fixed-term contracts (who are most likely on standard variable 'evergreen' contracts or pre-payment meters) will not receive this prompt.<sup>38</sup>

- 4.33. Where contracts are ongoing other triggers may be needed in order to prompt engagement. With no 'end of contract' prompts customers on rolling contracts are likely to be more reliant on routine communications for prompts to switch. Evidence suggests that in energy it is more challenging to prompt engagement through more routine communications such as annual summaries, bills and direct debit or pre-payment statements. For example only 11% of those who had received and read a bill looked into switching supplier as a result, as compared with 23% of those who received and read an end of fixed term tariff notification. However those on rolling contracts may receive notices informing them that the terms of that contract have changed. For example in energy the price increase notification letter (which informs a consumer on a standard variable tariff that the price of their current tariff will be going up and they have the right to change their tariff or provider) has a similar level of impact on engagement behaviours as an end of fixed term notice.<sup>39</sup>

#### Dissatisfaction with a current product or provider

- 4.34. Dissatisfaction with a current provider, for example a bad customer service experience or poor product performance, is a common trigger for engagement across all sectors. For example, between 17% and 29% of communications switchers said they first decided to review their provider choice because they were unhappy with their service. Dissatisfaction with customer service was cited by between 11% and 25%.<sup>40</sup> In energy, a survey of customers who had recently complained to their energy supplier found that nearly half of customers had either already switched or planned to do so because of their complaints experience.<sup>41</sup> In retail banking, in relation to PCAs, the CMA found some evidence that consumers are primarily switching for 'push' reasons such as dissatisfaction with their current bank and poor service. Which? found that among the top cited reasons to switch were dissatisfaction with the current bank (37%) and poor customer service (27%).<sup>42</sup>
- 4.35. Conversely, satisfaction with a current provider or service is given by many consumers as a key reason for not engaging. Across the communications markets, for example, at least half of inactive consumers say the main reason they have not thought about switching is because they are satisfied with their current provider. Consumers also say they are generally happy with the current bank. When those who had not switched were asked why this was so, one of the main reasons cited was they are satisfied with their current provider (67%).<sup>43</sup>
- 4.36. While genuine consumer satisfaction is clearly a positive outcome for consumers there is some evidence - e.g. in energy where the relationship between suppliers and consumers is largely transactional - of reported satisfaction with the status quo being an expression of consumer inertia rather than genuine satisfaction<sup>44</sup>.

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<sup>38</sup> Ofgem, [Annex for TNS BMRB Retail Market Review Baseline Survey July 2014](#), p21

<sup>39</sup> Ibid p40

<sup>40</sup> Ofcom, [Customer Retention and Interoperability Research](#), June 2013 p27

<sup>41</sup> Ofgem, [Complaints to energy companies](#), August 2014, p6

<sup>42</sup> CMA, [Personal current accounts market study update](#), July 2014, p93

<sup>43</sup> Ibid. p95. It is not clear, however, whether consumer perceptions about satisfaction are based on assessment of value for money, or whether they are rationalising their lack of engagement in the market by saying they are happy.

<sup>44</sup> See: Ofgem, [What can behavioural economics say about GB energy consumers?](#) March 2011 and Ofgem, [Consumer research and collaborative engagement on the proposed Standards of Conduct – Domestic Customers](#), October 2012.

### Desire for a new product or service

- 4.37. Sectors with high levels of innovation tend to see regular product and service improvements. The desire to keep up with the latest devices and functionality can sometimes be a trigger that motivates consumers to engage. In communications markets for example, technological developments regularly deliver smarter mobile handsets and faster broadband speeds, that attract certain types of consumers. Around two in five mobile switchers and considerers said ‘a new handset’ was the reason they first decided to review their arrangements. Faster broadband was cited by around one in five broadband switchers<sup>45</sup>.
- 4.38. By contrast, the desire for an innovative new product or service has not traditionally been a driver of switching decisions in energy, where price is paramount, and reliability of supply is taken for granted. However this is something to monitor going forward with the introduction of technological innovations such as smart metering and smart thermostats.<sup>46</sup>

### Assess

- 4.39. To make informed decisions, a consumer must be able to assess which product, service or provider best satisfies their needs. For this they need access to trusted and comprehensive information on alternatives and to understand and be able to access information on their own likely consumption pattern. In this section we set out the evidence from our sectors on some of the barriers to assessment by consumers, drawing out the similarities and differences.
- 4.40. In order for engaged consumers to select an appropriate product or provider, they need to make some sort of assessment of the options available to them. This will probably involve considering two key aspects of their service: price and quality. Within these two broad categories the level and type of detail required will vary by market and consumer. For example, service quality issues such as speeds and coverage are important to broadband and mobile consumers, whereas customer service may be relevant to all sectors

### **How easy or difficult do consumers find comparing products and providers?**

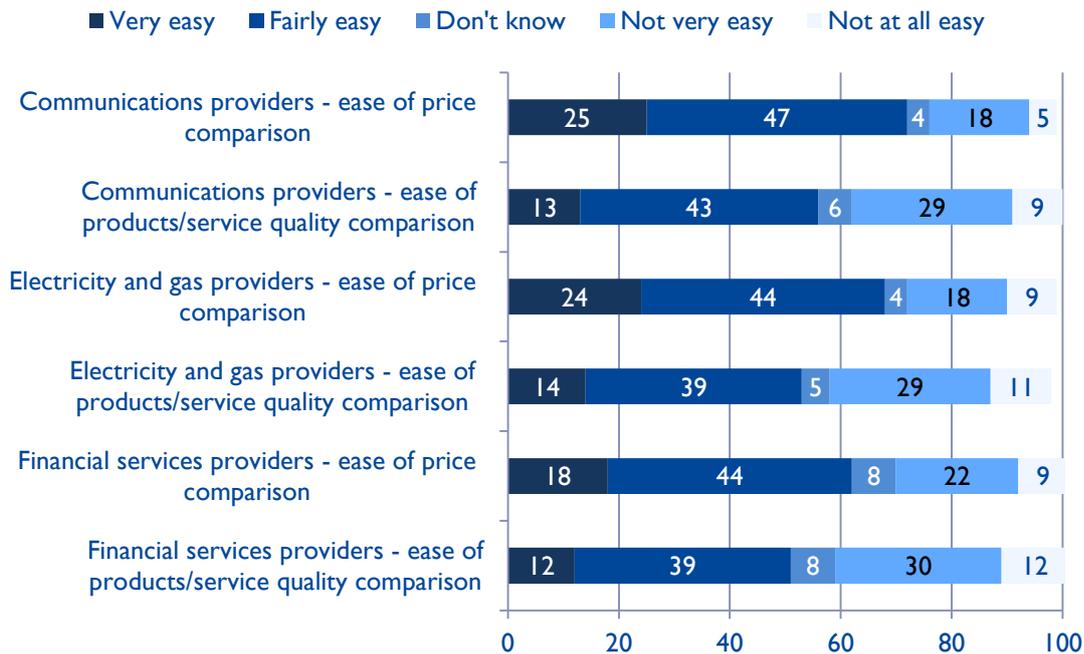
- 4.41. The following chart (Figure 5), is drawn from one of the few pieces of cross-sector comparative evidence available. It offers illustrative insight into how easy consumers find, or think they would find cost and quality of service comparisons across the different regulated sectors. It shows that most people think comparisons are fairly easy, with price generally the easier of the two. However, between 23% and 42% consider it is or would be hard. We explore some of the reasons for this, in more detail in the rest of this section.

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<sup>45</sup> Ofcom, Customer Retention and Interoperability Research, June 2013 p27-29

<sup>46</sup> See: <https://nest.com/uk/>

**Figure 5: Ease of comparison: products/services and prices<sup>47</sup>**



Source: *Customers in Britain, online survey, Firebrand Insight 2014*  
 Base: All adults (1,007)

4.42. There is evidence in healthcare that repeated practice at making assessments can improve consumers’ ability to make effective choices. In a behavioural experiment run by The King’s Fund, more consumers were able to pick a high-quality hospital second time round, suggesting some sort of learning took place.<sup>48</sup> This suggests that consumers may find assessing easier the more practised they are at it.

**Attitude: Perceptions of the market**

**Barrier 6: Distrust in available information**

4.43. The evidence suggests high levels of trust in price comparison websites among those who have used them with 94% considering it to be either very (21%) or fairly (73%) reliable.<sup>49</sup> Only a small proportion (5%) say they consult more than one comparison website because they don’t trust the results and (7%) cited lack of trust as a reason they had stopped using price comparison websites.

4.44. Another survey explored trust with certain aspects of these websites (among the general population). It found that only 42% of consumers trusted price comparison websites and services to be impartial and complete.<sup>50</sup> This suggests that lack of trust may be a barrier to use of these intermediaries.

<sup>47</sup> Firebrand Insight ‘Customers in Britain’ online survey with nationally representative sample of 1000 UK adults: examines attitudes towards customer service and loyalty in Britain. Unpublished but please contact [Firebrand Insight](#) to request access to reports.

<sup>48</sup> The King’s Fund, [Choosing a high quality hospital \(the role of nudges, scorecard design, and information\)](#) 2010, p.57

<sup>49</sup> Consumer Futures, [Price comparison websites: consumer perceptions and experiences](#), 2013, p48

<sup>50</sup> Firebrand Insight ‘Customers in Britain’ online survey with nationally representative sample of 1000 UK adults: examines attitudes towards customer service and loyalty in Britain. Unpublished but please contact [Firebrand Insight](#) to request access to reports.

- 4.45. Research by the OFT found consumers trust price comparison websites for energy, travel and insurance (most commonly car, home and travel), however regard them as less reliable for other financial products, mobile phones and media.<sup>51</sup>
- 4.46. In relation to other information sources, Ofgem found that nearly two thirds (65%) of consumers trust at least one of their energy suppliers to provide clear and helpful information. However qualitative research from 2012 found that many consumers believed the information provided by energy suppliers on their available tariffs to be deliberately confusing.<sup>52</sup> In the communications sector, the majority (between 86% and 94%) of consumers in each market cited at least one trustworthy source of advice or information, with the internet most commonly mentioned.<sup>53</sup> Looking more generally at consumer attitudes there is evidence to suggest that a majority (63%) of adults are more likely to trust the views of other consumers than information from providers.<sup>54</sup>

### **Ability: Access to information**

- 4.47. In order to assess which product/service and provider in any sector best satisfies their needs, consumers need access to, and the ability to understand, information about their current product, their current and likely future consumption pattern; and the alternatives available.

### **Barrier 7: Difficulties accessing information**

#### Difficulties accessing information about current arrangements and usage patterns

- 4.48. The amount and type of usage information needed by consumers to accurately assess current arrangements against alternative offerings varies by sector. For example:
- to compare mobile phone providers, a consumer typically needs to know the tariff they are currently on and the number of voice minutes (including calls to friends and family or particular number ranges e.g. national, international or non-geographic), texts and amount of mobile data they use each month. They may also need to factor in the cost of their chosen handset and contract length as well as any applicable termination charges.
  - to compare energy tariffs, a consumer needs to know the tariff they are currently on and the amount of energy they use over the course of a year, their meter type and their preference for payment method.
  - to compare current accounts a consumer needs to know how much they currently pay for their current account. For example the interest rate they receive and how frequently they incur fees and charges for going into unauthorised overdrafts.
- 4.49. If consumers cannot easily access information about their current use, they may be deterred from continuing their assessment or make assumptions about their use that may lead them to making a sub-optimal choice.

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<sup>51</sup> OFT, The consumer's view of the Advertising of Pricing: Final Report, Annex H, 2010

<sup>52</sup> Ofgem, [Consumer research and collaborative engagement on the proposed Standards of Conduct – Domestic Customers](#), October 2012, p14

<sup>53</sup> Ofcom, [The Consumer Experience of 2013](#), January 2014, p156

<sup>54</sup> Firebrand Insight 'Customers in Britain' online survey with nationally representative sample of 1000 UK adults: examines attitudes towards customer service and loyalty in Britain. Unpublished but please contact [Firebrand Insight](#) to request access to reports.

4.50. Six in ten consumers who had compared energy providers or tariffs in the year ending March 2014 looked for more information about either their existing tariff or current energy use. Of these, the majority found it quite or very easy to find the information that they wanted (78%) and to understand the information they found (70%). However, nearly one in seven (13%) found it quite or very difficult to find information and one in five (20%) found it difficult to understand.<sup>55</sup> We do not have evidence on ease of accessing information about usage patterns in either the financial or communication sectors.

#### Difficulties accessing information about alternatives

4.51. As noted above most consumers in the communications markets were able to recall at least one trustworthy source to seek advice or information. While the internet tends to dominate, consumers do use a range of sources including provider websites, decision support tools such as price and quality comparison websites, and recommendations from family and friends<sup>56</sup>. There is evidence to suggest that these sources are also commonly used to access comparative information on alternative providers in other sectors.

#### *Price comparisons*

4.52. Where consumers are primarily focussed on achieving cost savings (i.e. in energy and insurance), they tend to use price comparison websites. There has been a significant growth in the use of price comparison websites in recent years. A report by Consumer Futures found more than half (56%) of consumers have used a price comparison website in the last two years and of these 56% use them at least quarterly, with insurance, and to a lesser extent energy, being the two products most commonly investigated.<sup>57</sup> Eighty-one percent of those who had used a price comparison website in the past two years had done so in relation to car insurance (see Figure 6).<sup>58</sup> The majority of consumers who use price comparison websites do so in order to help them find the best deal (85%).<sup>59</sup> Examining the use of price comparison websites in individual sectors also shows their growing prominence. For example, in energy it is now the predominant way for consumers to find out about deals offered by alternative suppliers as well as other tariffs and payment methods offered by their existing supplier.<sup>60</sup>

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<sup>55</sup> Ofgem, [TNS BMRB Retail Market Review Baseline Survey July 2014](#), p43

<sup>56</sup> Ofcom, [The Consumer Experience of 2013](#), January 2014, p156

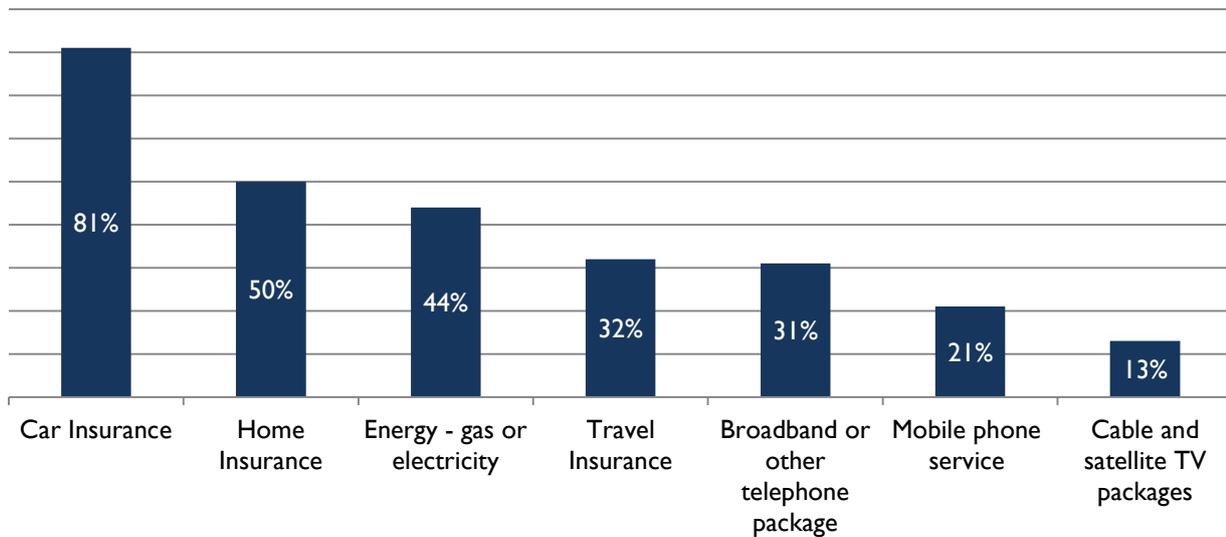
<sup>57</sup> Consumer Futures, [Price comparison websites: consumer perceptions and experiences](#), 2013, p4, 17 and 22

<sup>58</sup> Consumer Futures, [Price comparison websites: consumer perceptions and experiences](#), 2013, p22

<sup>59</sup> *Ibid* p22

<sup>60</sup> Ofgem, [Ipsos MORI, Customer engagement with the energy market tracking survey 2014](#), p16, 24 and 25

**Figure 6: Products/services that price comparison websites are used for**



Source: RS Consulting for Consumer Futures 2013

Base: All respondents who have used a price comparison websites in the last 2 years (1088)

#### Quality of service comparisons

- 4.53. Consumers often require access to a number of pieces of information in order to help them assess quality and this information is likely to be highly sector specific. As the OFT's report on quality competition highlights, there are difficulties in objectively and robustly measuring quality, not least due to its multi-dimensional nature.<sup>61</sup>
- 4.54. In communications, consumers typically want access to a range of information on quality, including mobile phone network coverage, broadband speeds and channel packages. In energy, price is the key information. Evidence suggests that the majority of consumers who receive their energy from the largest suppliers assume that the quality of service they offer will be broadly similar.
- 4.55. In healthcare, family and friends were used by 35% of patients as a source of advice when choosing a hospital<sup>62</sup> and by 52% as information sources on hospitals performance in their area. Only 7% used official performance reports and 3% the internet. The source most commonly used for advice by patients when choosing a hospital is a GP (40%). However, only 13% of patients used their GP as a source of information about the performance of hospitals in their local area.
- 4.56. Family and friends are also an important source of information in retail banking with one source findings that recommendations from family and friends, followed by suggestions from branch staff, were the most important sources of information when choosing a new current account.<sup>63</sup>
- 4.57. There are a number of specific barriers to accessing information faced by some groups of consumers, e.g. those without internet access or with literacy problems. These are discussed under Barrier 11 below (factors leading to lower capability or capacity among some groups).

<sup>61</sup> OFT 'Competing on Quality – Literature Review' March 2014

<sup>62</sup> The Kings Fund, [Patient Choice: How patients choose and how providers respond](#) 2010, p87-90.

<sup>63</sup> OFT, Personal current accounts in the UK, July 2008, p95.

## Ability: Assessment of information

### **Barrier 8: Difficulties understanding information: complex information and/or low levels of sector literacy**

4.58. There are a range of reasons why consumers may face difficulties understanding information. These include:

- Low levels of sector literacy;
- Information being complex and not transparent; and
- A lack of standardised comparison information or consistent tools being available.

#### Low level of sector literacy/understanding

4.59. Sector literacy relates to the consumer's familiarity with and understanding of the products and services they use and the products, services and providers available to them. A consumer who is highly sector literate is likely to be:

- Aware of the range of products/services available in a market;
- Familiar with terminology, acronyms and technical details, such as the difference between mobile and Wi-Fi internet services;
- Aware of the tools and information sources that facilitate comparison of products and services; and
- Able to use this information.

4.60. A consumer who is less sector literate is less likely to engage. When they do engage they are likely to find the subsequent steps of understanding their own usage, comparing products and providers, and switching more challenging. They may also be less confident about making good choices which could deter them from acting.

4.61. In communications and energy, unengaged and inactive consumers are far less likely to feel familiar with the products and services on offer than engaged consumers. In energy, less than one quarter (23%) of the least engaged and active consumer segment<sup>64</sup> feel familiar with the features of their own tariff, compared to nearly three quarters (72%) of the most engaged and active segment<sup>65</sup>. The least engaged and active also feel less familiar with the range of tariffs available from their current supplier and from energy suppliers in general.<sup>66</sup> Similarly in communications Ofcom found inactive and unengaged consumers were less likely to consider themselves 'technically minded' than engaged consumers.

#### Complexity and lack of transparency

4.62. The OFT described 'confusopoly' as a situation where firms make price structures or product attributes unnecessarily confusing, thereby making it difficult for consumers to evaluate rival offers. As

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<sup>64</sup> Ofgem, [TNS BMRB Retail Market Review Baseline Survey July 2014](#) - The least engaged consumer segment ('Unplugged') account for 19% of all consumers.

<sup>65</sup> Ibid - The most engaged consumer segment ('Switched on') account for 15% of all consumers.

<sup>66</sup> Ofgem, [TNS BMRB Retail Market Review Baseline Survey July 2014](#), p46

a result firms avoid having to compete hard on price. Complexity of product or tariff and a lack of transparency around pricing or service quality are all elements that may contribute to the existence of ‘confusopoly.’ The OFT cited mobile phone contracts, retail energy tariffs and current accounts as examples of this.

- 4.63. In communications, consumers are regularly confronted by multi-part pricing. For example when comparing the cost of TV, phone and broadband packages consumers must weigh up ongoing monthly costs, any introductory offer, bundling discount and costs for equipment and installation. This cost element must also be weighed up against the ‘package’ as a whole including issues such as the reliability of service, coverage, technology or hardware offered, contract length and customer service.
- 4.64. When consumers were asked about difficulties experienced throughout the switching process for communications services, ‘comparing offerings’ was cited as at least a minor difficulty by 59%. ‘Lack of personal knowledge’, complexity of information/the market’, and ‘inconsistent terminology’ were among the main reasons given by both switchers and considerers who had difficulty making comparisons.<sup>67</sup>
- 4.65. In energy, prior to market reforms introduced this year<sup>68</sup>, the existence of product proliferation, combined with inconsistent tariff structures has been confusing for consumers and made it difficult for them to navigate the choice available to them. For example complex pricing structures had led to multiple ‘versions’ of similar products, and made like-for-like comparisons difficult.
- 4.66. Ofgem found that many consumers felt that there were too many tariffs with different pricing structures and that this made tariff comparisons too complicated and confusing.<sup>69</sup> Many consumers had found it difficult to understand what was on offer, make an accurate comparison with their existing arrangements and choose a product that better met their needs. This was also reflected in recent research that found energy consumers are more likely to believe there is too much choice (32%) than too little (14%), and that over a third (39%) believed it is either fairly or very difficult to compare energy tariffs.<sup>70</sup> Many found it difficult to understand what was on offer, make an accurate comparison with their existing arrangements and choose a product that met their needs.
- 4.67. In retail banking, in relation to personal current accounts, the CMA set out in 2014 that overdraft charging structures for PCAs are complex and difficult to understand which poses a problem for consumers’ ability to understand the costs they incur from their PCA and to compare costs across different providers.<sup>71</sup>

### **Barrier 9: Circumstances of decision environment**

- 4.68. Where a consumer is unaware they need or want a product or service and are then offered it ‘on the spot’ they can end up making a decision without being fully engaged, assessing their options and considering the suitability of the product or provider. Examples of this occur in general insurance and

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<sup>67</sup> Ofcom, [Customer Retention and Interoperability Research](#), June 2013 p64

<sup>68</sup> See Retail Market Review (RMR) tariff simplification and information remedies set out in Ofgem, [The Retail Market Review – Implementation of Simpler Tariff Choices and Clearer Information](#), August 2013 and Ofgem, [The Retail Market Review – Updated domestic proposals](#), October 2012

<sup>69</sup> Ofgem, [Ipsos MORI Consumer engagement with the energy market, information needs and perceptions of Ofgem; Consumer First Panel Year 4 second workshops held March 2012](#)

<sup>70</sup> Ofgem, [TNS BMRB Retail Market Review Baseline Survey](#) July 2014, p5 and 33

<sup>71</sup> CMA, [Personal current accounts market study update](#), July 2014, p6

in healthcare. In general insurance when consumers buy insurance as an 'add-on' alongside another product, such as a car or a holiday they often end up with products they do not need. The FCA found 58% of consumers who bought insurance as an add-on did not consider any other insurance policy when purchasing and 19% of add-on buyers were not even aware they owned the product.

- 4.69. Poor decision-making linked to the decision environment was also a problem in the energy sector when door-step selling was prevalent, however this practice has declined significantly in recent years.

## Act

- 4.70. To exercise their choice, a consumer must be able to purchase the product or service that they have assessed best satisfies their needs. In this section we set out the evidence from our sectors on some of the barriers to successful consumer action, drawing out the similarities and differences.
- 4.71. Qualitative research suggests there are two types of consumer in the communications market . Those who are serious about switching and willing to undertake a comprehensive review of the market, and those who are simply browsing and trying to save money. The latter group tend to be less committed to switching and describe their efforts to engage and assess as 'due diligence'. These consumers are more inclined to stay with their communications provider than go through the perceived upheaval of making a comprehensive assessment and switching.<sup>72</sup>

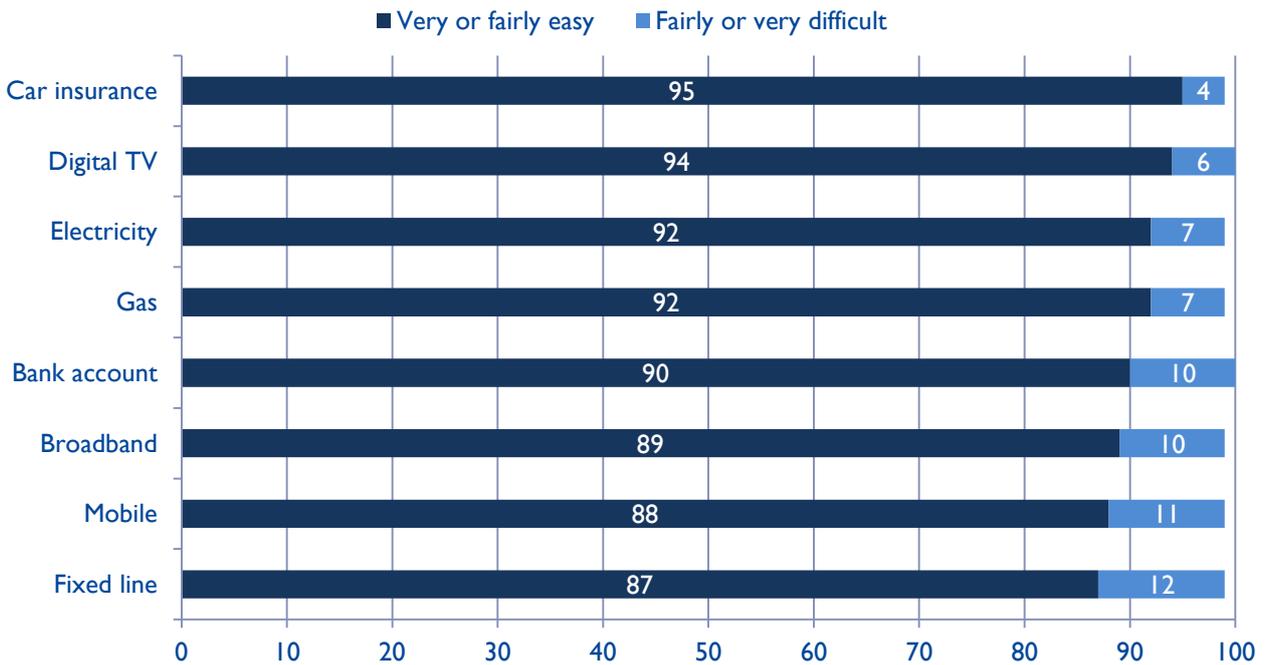
### How easy do consumers find switching provider?

- 4.72. Data from Ofcom show that the majority of consumers who have switched providers across all the sectors covered in this review (except healthcare, which was not included in Ofcom's data) found switching either very or fairly easy (see Figure 7). Consumers found switching car insurance the easiest, with only 4% of consumers saying they found it fairly or very difficult. As mentioned above non-switchers tend to think it will be more difficult to switch than it is in reality (see Figure 4 above).

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<sup>72</sup> Ofcom, [Customer Retention and Interoperability Research](#), June 2013 p25

**Figure 7: Consumer opinions on ease of switching suppliers<sup>73</sup>**



Source: Ofcom decision-making survey carried out by Saville Rossiter-Base July to August 2013

Base: All adults aged 16+ who are the decision-maker and have switched provider in the last 12 months for electricity (2013, 185), gas (2013, 153), car insurance (2013, 492), bank account (2013, 59).

Please note figures do not total to 100% because the 'don't know' responses have been removed.

4.73. However, in the communications market, at least, there is evidence that the number of switchers who experience difficulties is higher than these figures might suggest. For example, when prompted to recall their experience, around half of switchers in each of the communications markets said they had experienced difficulties. These varied by service, ranging from ‘provider persuasion to stay’, ‘arranging start and stop times’, ‘temporary loss of service’, ‘provider sending bills for cancelled service’, to ‘technical issues’ and problems ‘keeping phone number/email’.<sup>74</sup>

**Ability: Ability to effect change**

**Barrier 10: Barriers to and problems with switching processes**

4.74. Consumers may face a range of barriers and problems with switching processes. These include:

- Contractual barriers (e.g. early termination charges)
- Operational issues (e.g. contact with current provider, lack of portability and interoperability)
- Transitional issues (e.g. loss of service)
- Eligibility issues (e.g. credit ratings)

<sup>73</sup> Ofcom, [The Consumer Experience of 2013](#), January 2014, p138-139

<sup>74</sup> Ofcom, [The Consumer Experience of 2013](#), January 2014, p140

### Contractual barriers

- 4.75. Being under contract can cause difficulties for switchers in energy, communications and financial services markets. For example, 48% of consumers who had switched Pay TV cited ‘contract terms’ as a problem faced during their switching journey, as did 64% of those who considered switching.<sup>75</sup> These issues may become more prevalent with the trend towards longer fixed-term contracts in both energy and communications.
- 4.76. The issues raised by being under contract can take a number of forms. One common problem relates to cancellation charges, also known as ‘Early Termination Charges’ (ETCs), imposed for exiting before the end of the fixed-term. These charges are common in financial services, communications and energy. While they may offer a legitimate way for providers to recover some of their fixed costs, they can also create barriers for consumers who wish to get out of fixed-term contracts. At least 60% of consumers who considered switching across the communications markets mentioned contract terms as a reason for not switching, with at least 40% of these citing cancellation charges as the underlying cause. Ofgem found that prior to new rules being introduced on fixed-term tariffs<sup>76</sup> many consumers lacked a full understanding of fixed term tariffs and felt helpless in view of any price increases experienced under them.<sup>77</sup>
- 4.77. Cancellation charges can also be present where fixed-term contracts automatically rollover into new fixed-term contracts at the end of their fixed term, meaning consumers can effectively become ‘locked-in’. Automatically-renewable contracts are common in savings and some types of insurance, and also existed in energy and communications before recent reforms. The FCA considered automatic-renewal in relation to fixed-term bonds and set out that this could be unfair if the provider has discretion to impose less favourable terms (e.g. a longer term).<sup>78</sup> Ofcom research found that automatically-renewable contracts in fixed-line and broadband markets have a significant negative effect on switching activity. They found 59% of consumers had been automatically rolled into new fixed term contracts.<sup>79</sup> In their research, Ofgem also found some consumers had concerns about being ‘locked in’ to contracts and facing termination fees.<sup>80</sup>

### Operational issues

- 4.78. Two key operational issues are cited by consumers as barriers to switching, particularly in communications markets: these relate to the switching process itself, and portability/interoperability of services.
- 4.79. Switching arrangements can be classified into three broad types:
- Gaining Provider Led (GPL) – This is where the consumer only needs to contact their (new) Gaining Provider to switch. The Gaining Provider informs the (current) Losing Provider on behalf of the consumer in order to organise the transfer. The losing provider sends a sorry-to-see-you-go letter, explaining the implications of the decision to switch.

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<sup>75</sup> Ofcom, [Customer Retention and Interoperability Research](#), June 2013 p65

<sup>76</sup> These new rules banned price increases and other adverse unilateral variations on all fixed-term offers. See: Ofgem, [The Retail Market Review – Updated domestic proposals](#), October 2012, p144

<sup>77</sup> *Ibid*, p18.

<sup>78</sup> FCA, [TR13/4 Automatic renewal of fixed-term bonds](#), July 2013, p5.

<sup>79</sup> Ofcom, [Automatically Renewable Contracts](#), March 2011, p31 and 40

<sup>80</sup> Ofgem, [The Retail Market Review – Updated domestic proposals](#), October 2012, p118

- Losing Provider Led (LPL) – This is where a consumer wishing to switch must obtain a code from the Losing Provider and give it to the Gaining Provider.
- Cease and re-provide (C&R) – This is where there are no agreed switching processes in place that enable a transfer of services between providers. The consumer terminates their contract with the Losing Provider, requests a new service from the Gaining Provider and coordinates the stopping and starting of the old and new service themselves.

4.80. In the communications sectors all of these processes exist, depending on the service that is switched and the network used. Evidence suggests consumers are more likely to experience operational issues when switching using C&R or LPL processes (see Table 3). In particular, the LPL process requires the consumer to liaise with a provider that has little incentive to make the switch happen. This can result in delays, increased costs and sometimes unwarranted pressure on the consumer to stay with that provider.<sup>81</sup>

**Table 3: Main/major difficulties experienced during communications switches by process type<sup>82</sup>**

|  | Total<br>(1814) | GPL<br>(196) | C&R<br>(724) | LPL<br>(483) |
|--|-----------------|--------------|--------------|--------------|
| Being without the service during the switch            | 20%             | 9%           | 19%          | 20%          |
| Arranging for services to stop/start at the right time | 18%             | 13%          | 17%          | 21%          |
| Paying for both services at the same time              | 18%             | 11%          | 20%          | 20%          |
| Previous provider made it difficult for me             | 15%             | 6%           | 17%          | 17%          |
| Provider trying to persuade me to stay                 | 14%             | 9%           | 17%          | 14%          |
| Needing to contact more than one provider              | 12%             | 5%           | 13%          | 15%          |

Source: Ofcom Customer Retention and Interoperability report  
Base: All Switchers (past two years)

4.81. Issues relating to portability and interoperability of services are also primarily experienced by consumers in communications markets. Portability relates to the ability to transfer content from one service/device to another. Interoperability relates to the ability of different services, platforms and operating systems to work with one another.

4.82. The main and major portability issues experienced by switchers across the communications markets include:

- Problems moving content (12% of switchers)
- Having to change telephone number (13% of switchers)
- Having to change email address (10% of switchers)
- Transferring programmes stored on old set-top (10% of switchers)

4.83. Interoperability (specifically difficulties with new devices not working with other devices) was recalled as a main/major difficulty experienced by around one in ten switchers across communications markets.

<sup>81</sup> Ofcom, [Consumer switching](#), February 2012, p39.

<sup>82</sup> Ofcom, [Customer Retention and Interoperability Research](#), June 2013 p62

Difficulties with interoperability were more prominent in the standalone pay TV market, where closer to one in five said this was the main/a major problem experienced when switching provider.

### Transitional issues

- 4.84. Transitional difficulties experienced during switching include arranging for services to start and stop at the same time, loss of service, billing errors and learning how to operate the new product or service.
- 4.85. In current account banking, a 2012 OFT consumer survey found loss of service in the form of misplaced Direct Debits was experienced by 25% of consumers who had switched.<sup>83</sup>
- 4.86. Consumers in energy were concerned about errors and delays in final billing during the change in supplier process.<sup>84</sup> Research by Consumer Futures found that 13% of consumers who switched or tried to switch said they experienced a problem during the switching process. The most common problem, experienced by over 45% of these consumers, was with closing the bill from their old supplier.<sup>85</sup>
- 4.87. In communications, half of switchers said they experienced difficulties learning how to use the new service. However in the main this was cited only as a 'minor issue' with the highest proportion of consumers citing it as a main or major issue in pay-monthly mobile and standalone pay-TV (14%).<sup>86</sup>

### Eligibility issues

- 4.88. Some consumers will be unable to switch, or will believe they are unable to switch, because of issues such as:
- being in debt to their current supplier
  - other personal circumstances such as rental agreements, e.g. a rental agreement may prohibit energy supplier switching without the landlord's consent
  - being unable to access certain products, e.g. because they are online-only products or require payment by direct debit.
- 4.89. These issues often affect the most disadvantaged and vulnerable consumers disproportionately.

## **Cross-cutting barriers**

- 4.90. We identified two cross-cutting barriers which are present throughout the consumer journey and manifest in a number of the other identified barriers. In this section we present evidence on these barriers.

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<sup>83</sup> OFT, Review of the personal current account market, January 2013, p106.

<sup>84</sup> Ofgem, [Consumer engagement with the energy market, information needs and perceptions of Ofgem](#), August 2012

<sup>85</sup> Consumer Focus, [Switched on? Consumer experiences of energy switching](#), 2013, p22

<sup>86</sup> Ofcom, [Customer Retention and Interoperability Research](#), June 2013 p58

## Consumer characteristics

### **Barrier 11: Factors leading to lower capability or capacity amongst some groups**

- 4.92. A consumer's ability to engage, assess and act, could be affected by practical resource constraints (e.g. not having access to the internet), or a wide variety of issues affecting their confidence and decision-making abilities (e.g. time constraints, numeracy and literacy levels, disabilities or chronic health conditions, mental health issues or major life events). Evidence shows that those consumers whose capability or capacity is limited by these kinds of reasons are less likely to be able to engage, assess and act.
- 4.93. Across all sectors internet users are more likely to be engaged. They have access to a wider range of information, making it easier to assess their options. For example, in energy those without internet access report more difficulty in understanding some supplier communications, and show the lowest rates of energy supplier switching (8% the year ending March 2014 compared to 14% among all consumers<sup>87</sup>). This group tends to include the oldest and most disadvantaged of consumers.
- 4.94. In energy, older consumers, those in less affluent social grades, those who live in rented accommodation, are from black and minority ethnic (BME) groups, have no internet access and pay by a means other than direct debit are generally less engaged across a range of indicators.<sup>88</sup> Consumers with a physical or mental impairment are also disadvantaged in some areas e.g. in finding comparisons significantly more difficult to make than those without such impairments.<sup>89</sup>
- 4.95. Numeracy levels are also associated with a consumer's ability to engage and assess information in financial services and healthcare. In both these sectors comparing product and provider offerings can be complex; even for those with fairly good numeracy skills. In financial services, the Financial Services Authority (predecessor body to the FCA) when considering the retail investment market found lower engagement to be associated with lower than average levels of risk tolerance, financial capability, education and income.<sup>90</sup>
- 4.96. In healthcare, making comparisons between different providers requires consumers to make assessments about quality of care offered using a range of quality and performance indicators such as infection and mortality rates as well as waiting times and car parking charges. A Kings Fund report provides evidence that poor numeracy skills are the largest factor inhibiting patients' ability to use comparative performance information.<sup>91</sup>
- 4.97. Patients tend not to know as much as GPs about care pathways or the potential differences in the quality of care offered by different providers. Given this and the difficulties patients face making comparisons between providers, many choose to rely on their GP for guidance on the provider that best satisfies their needs.

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<sup>87</sup> Ofgem, [TNS BMRB Retail Market Review Baseline Survey July 2014](#)

<sup>88</sup> Ofgem, [Customer Engagement with the Energy Market: Tracking Survey 2014](#), June 2014 and Ofgem, [TNS BMRB Retail Market Review Baseline Survey July 2014](#)

<sup>89</sup> Ofgem, [Customer Engagement with the Energy Market: Tracking Survey 2014](#)

<sup>90</sup> FSA, [Consumer purchasing and outcomes survey 2010](#), May 2011, p22.

<sup>91</sup> The King's Fund, [Choosing a high quality hospital \(the role of nudges, scorecard design, and information\)](#) 2010, p.13

4.98. Evidence from Which? shows that some patients may feel under-qualified to judge the performance of an expert, such as a GP, due to their relative lack of knowledge. Their survey showed only 54% of patients felt confident they were able to make the best choice<sup>92</sup>.

**Barrier 12: Behavioural biases**

4.99. The term behavioural biases relates to specific ways in which normal human thought systemically departs from being fully rational.<sup>93</sup> Understanding behavioural biases can help us understand consumer behaviour and the factors that influence consumers’ decision making. It can help us understand why consumers may not engage, assess or act.

4.100. The table below presents a range of behavioural biases, descriptions of which are taken from a paper on behavioural economics by the FCA.<sup>94</sup> It is important to recognise that behavioural biases will, to an extent, play a role in all the other factors we have identified as affecting consumers ability to engage, assess and act. In effect it is not a single factor working in isolation but a consumer characteristic that drives the other eleven factors. However for clarity we have provided some examples in this section of where these behavioural biases occur in the context of the barriers explored in this paper.

**Table 4: Behavioural biases and examples of where these might exist within our sectors**

| Bias  | Description   | Example   |
|---|---|---|
| <b>Present bias</b>                           | People often have a preference for immediate gratification, and overvalue the present over the future. As the consumer can regret such choices later, their preferences are ‘time inconsistent.’  | Consumers may over-emphasise short-term or up-front discounts over future savings. This means that when assessing they may be more likely to choose tariffs or products that offer cash-back rewards or short-term special offers (e.g. first 3 months free).   |
| <b>Reference-dependence and loss aversion</b> | Consumers may not assess outcomes in their own right, but rather as gains and losses relative to a reference point. Psychologically, losses are felt roughly twice as much as gains of the same magnitude. As a result many consumers under-weigh gains and overweigh losses. | Consumers may overestimate the potential costs of switching and underestimate the potential benefits making them less likely to be engaged and active.<br><br>Consumers may estimate benefits with reference to their current bill (e.g. being willing to switch to save £10 in relation to a £25 phone bill, but not in relation to a £100 energy bill, even though the saving is the same). |
| <b>Status-quo bias</b>                        | People prefer their current option.   | A tendency to select default options even when the effort of making a different decision is low. This means that consumers with automatically-renewable contracts are more likely to let their contracts roll-over even where they can exit these contracts easily.   |
| <b>Regret and other emotions</b>              | Many people act to avoid ambiguity or stress. Their choice can also be distorted by temporary strong emotions (e.g. fear).  | Buying expensive insurance for peace of mind, even though you are very unlikely to need it.<br><br>Choice of hospital being distorted by strong emotions (e.g. fear, shock).  |

<sup>92</sup> Monitor, [Which? response to Monitor call for evidence on general practice services](#), August 2013.

<sup>93</sup> FCA, [Applying behavioural economics at the Financial Conduct Authority](#), April 2013.

<sup>94</sup> Ibid.

| Bias   | Description   | Example  |
|--|---|--|
| <b>Over-extrapolation</b>                      | People may make predictions on the basis of only a few observations, when these observations are not representative.  | Consumers may use just a few years of past returns as a basis for judging future returns and making investment decisions, without considering the extent to which past returns reflect chance and particular circumstances.  |
| <b>Projection bias</b>                         | People may expect their current tastes and preferences to continue in the future and underestimate the possibility of change.   | <p>Consumers may tie themselves into long mobile phone contracts expecting their preferences and financial circumstances to remain the same in the future.</p> <p>Consumers may not anticipate that they will have difficulty controlling their future credit card spending or overestimate the amount they expect save.</p>   |
| <b>Framing, salience and limited attention</b> | Even when the economic benefits of particular choices are identical, consumers may make different choices depending on how the decision problem is framed. Attention is also drawn to particularly salient aspects of a situation that can have a marked influence on choice. | <p>Consumers might overestimate the value of a packaged bank account or bundle of communications services because they are presented in an attractive way that highlights benefits and under-emphasises charges.</p> <p>Consumers may not pay attention to disclosure letters as important information is buried in heavy paragraphs of text or hidden in small print.</p>   |
| <b>Decision-making rules of thumb</b>          | Consumers can simplify complex decision problems by adopting specific rules of thumb (heuristics).  | <p>When choosing from a wide range of options consumers may choose the most familiar, well known brands for instance and avoid the ambiguous or uncertain or pick the first option on a list.</p> <p>When choosing from a list of hospitals or providers displayed on a comparison website consumer choose the first option or one that is familiar to them for example their local hospital or a well-known brand they are familiar with.</p> |

## 5. Interventions

- 5.1. This chapter sets out examples of different types of interventions that have been proposed or implemented in sectors within the scope of this review in order to address some of the barriers to consumer engagement, assessment and action identified in chapter 4.

### Reviewing interventions

- 5.2. Regulators intervene in markets for a number of reasons, most commonly to promote competition or protect consumers. Interventions aimed at promoting competition often seek to encourage greater levels of consumer engagement or reduce the barriers to switching in order to drive firms to produce products and services that best satisfy consumers' needs.
- 5.3. Table 5 sets out a summary of examples of different types of interventions that have been proposed or implemented in sectors within the scope of this review in order to address some of the barriers to consumer engagement, assessment and action identified in chapter 4.
- 5.4. It does not aim to present a comprehensive picture for each sector, but to usefully highlight the diversity of interventions that have been applied by participating regulators, with the aim of exploring whether there is anything we can learn from each other's experiences.
- 5.5. Interventions cannot be taken "off the shelf"; the appropriateness of an intervention will always depend on the particular features of the targeted market. Just because an intervention has been successfully implemented in one market does not necessarily mean this will be the case in another. However we felt it was still useful to compare experiences.

### Different types of interventions

- 5.6. Interventions to encourage consumer engagement and reduce the barriers to switching, and so promote competition, can take a number of forms. We have grouped them into the following categories:
- Information remedies (denoted using an "I" in Table 5) – These aim to provide consumers with information in order to raise awareness, prompt engagement or aid assessment. Information may be provided directly from the provider to the consumer (this can be required under 'disclosure' remedies), or made available more broadly in the form of publications or media exposure. Also included are measures to present existing information in a more effective way.
  - Process remedies ("P") – These either create or change processes for providing information or switching to make them simpler, more reliable or trusted.
  - Conduct of Business remedies ("CoB") – These aim to change the general way in which a provider conducts its business with its customers, for example requiring firms to take measures to ensure they treat customers fairly.
  - Product design remedies ("PD") – These aim to directly alter the nature of products, for example by simplifying them, removing product features or limiting product ranges.
- 5.7. In some cases, particularly where significant proportions of consumers are disengaged or inactive, regulators may intervene directly to protect consumers. For example, they may seek to change default options to ensure good outcomes even for unengaged consumers. These interventions are denoted "CP" in Table 5.

**Table 5: Interventions to promote consumer engagement and switching**

Dark blue squares indicate this factor is or has been a key reason identified through evidence considered in the scope of this review, for lack of consumer engagement, assessment and/or switching in that particular sector.

Grey squares indicate this factor is not a key reason identified through evidence considered in the scope of this review, for lack of consumer engagement, assessment and/or switching in that particular sector or there is insufficient evidence to determine whether it is or not.

|                               |                                   |  | General Insurance                       | Retail Banking                       | Gas and Electricity                              | Comms                          | Healthcare               |  |
|-------------------------------|-----------------------------------|--|---|--------------------------------------|--|--------------------------------|--------------------------|--|
| <b>Awareness</b>              |                                   | 1) Unaware they can choose alternative product/provider  |   |                                      | I: Consumer Awareness Campaign                   |                                |                          |  |
| <b>Attitude</b>               | <b>Perceptions of the market</b>  | 2) Perceive insufficient choice or perceive difficulty navigating choices available                    |   |                                      | I: Disclosure: clearer info & standard metrics   |                                |                          |  |
|                               |                                   | 3) Distrust in industry  | CoB: Standards of conduct               |                                      |  |                                |                          |  |
|                               |                                   | 6) Distrust in available information   |   |                                      | P: Price comparison website accreditation        |                                |                          |  |
|                               | <b>Perceptions of the outcome</b> | 4) Perceive benefits are low and/or costs are high   |   | I: Consumer Awareness Campaign       | I: Disclosure: personalised messages and prompts | I: Consumer Awareness Campaign |                          |  |
| <b>Ability</b>                | <b>Access to information</b>      | 5) Few triggers prompting engagement   |   | I: Disclosure                        |  |                                |                          |  |
|                               |                                   | 7) Difficulties accessing information (about current arrangements/use and alternatives)                | I: Publishing information               |                                      |  |                                |                          |  |
|                               |                                   |  | I: Disclosure                           |                                      | I: MiData  |                                |                          |  |
|                               | <b>Assessments of information</b> | 8) Difficulties understanding information/low level of sector literacy                                 |   | PD: Simple products                  | I: Consumer Awareness Campaign                   |                                | I: Traffic Light Ratings |  |
|                               |                                   |  |   | PD: Simpler Tariffs                  |  |                                |                          |  |
|                               |                                   |  | I: Disclosure: Standard metrics         |                                      | P: Price comparison website accreditation        |                                |                          |  |
|                               |                                   | 9) Circumstances of decision environment   | CoB: Delayed sales and banning opt-outs |                                      |  | CoB: Ban on reactive saves     |                          |  |
|                               | <b>Ability to effect change</b>   | 10) Barriers to and problems with switching process (contractual, operational and transitional issues) |   | CoB: Notice                          | periods and penalty                              | -free cancellations            |                          |  |
|                               |                                   |  |   |                                      |  | I: Disclosure                  |                          |  |
|                               |                                   |  |   | P: Imp                               | roving switching pro                             | cesses                         |                          |  |
| <b>Cross-cutting barriers</b> | <b>Consumer characteristics</b>   | 11) Factors leading to lower capability or capacity among some groups                                  |   |                                      | I: Targeted support and advice                   |                                |                          |  |
|                               |                                   | 12) Behavioural biases   | CoB: Delayed sales and banning opt-outs |                                      | CP: Dead tariffs                                 |                                |                          |  |
|                               |                                   |  |   | PD: Banning auto-renewable contracts |  |                                |                          |  |

## Examples of interventions aimed at increasing engagement

### Information remedies

#### Example intervention: Consumer awareness campaigns

- 5.8. Regulator websites often contain information designed to help consumers switch. This type of information is provided by Ofgem, Ofcom and the Money Advice Service (an independent body set up by government and funded by a levy on financial services firms to help people manage and make the most of their money).
- 5.9. Sometimes regulators go further than this by launching campaigns designed to encourage consumers to engage and make informed decisions. Ofgem launched its 'Be An Energy Shopper' campaign in response to consumer demand for impartial advice on how to compare tariffs in the gas and electricity markets. An easy guide has been set up at [www.goenergysopping.co.uk](http://www.goenergysopping.co.uk) to show how the recent changes to the energy market can help consumers to compare tariffs and get a better deal on their gas and electricity bills. Consumers have been directed to the website through a public relations and digital media campaign. This aims to raise awareness of the possibility of switching, draw attention to the benefits of switching and support people in using information well to make accurate comparisons.
- 5.10. Similarly, Ofcom designed and led the UK Calling national consumer information campaign. Launching in Spring 2015, UK Calling is intended to raise awareness of changes to the charging structure for 08, 09 and 118 numbers coming into effect next summer. Under these changes, consumers will be able to compare how much different providers are charging to connect these calls. This charge will become a price consideration for telephone users, which may drive switching in the landline and mobile markets. The campaign is supported by the largest fixed and mobile telecoms operators, and includes national newspaper and radio adverts, leaflet distribution, bill messaging and SMS.
- 5.11. Governments and regulators can also promote better information by setting industry performance targets around consumers' awareness of switching processes. One example of this is the performance criteria agreed by Her Majesty's Treasury (HMT) with the Payments Council for consumer awareness and confidence in the new current account switching service. These include targets that 75% of consumers are aware of the service by June 2015 and that 75% would be confident in using the service (measured by agreeing that the process would be quick, easy, low effort, error free and that they would be in control of the process). In order to meet these targets the Payments Council who led the current account switching service initiative invested in a multi-million pound advertising campaign that accompanied its launch.

#### Example intervention: Disclosure

- 5.12. In many sectors, consumer engagement is prompted by a trigger such as receiving an unexpectedly high bill, notification of an imminent price increase or the end of a fixed-term contract. Regulators have tended to focus on how the format, wording and content of such communications can best prompt consumer engagement.
- 5.13. One example of an intervention comes in energy. As part of the Retail Market Review, Ofgem commissioned a review of the language and format of bills, annual statements and price increase

notifications.<sup>95</sup> The report highlighted the importance of grouping together key pieces of information and using consistent terms and language. It also identified sections of energy communications that it claimed showed the same level of complexity as the Harvard Law Review.

- 5.14. Following this review Ofgem implemented changes to energy communications.<sup>96</sup> Some of these were designed to prompt consumers to engage, such as the requirement that the following information be included on page one of energy bills:
- The standardised title “Could you pay less?”
  - Information on cheaper tariffs offered by the supplier and the savings available if the consumer were to switch (in pounds and pence).
  - A Personal Projection of energy costs for the next 12 months for the consumer’s current tariff.
  - A signpost to further tariff information.
  - A standardised switching reminder “Remember – it might be worth thinking about switching your tariff or supplier”.
- 5.15. Ofgem identified the bill as a valuable opportunity to prompt consumers to consider their energy options. This was on the basis that it is the most likely of the regular communications to be noticed and read by consumers. Consumer testing found that personalised prompts, savings messages and tariff information in a prominent position was likely to both raise consumers’ awareness of the benefits of switching and support them in making comparisons.

## Conduct of Business remedies

### Example intervention: Standards of Conduct

- 5.16. Both Ofgem and the FCA enforce high-level principles or standards of conduct. Ofgem has introduced new enforceable Standards of Conduct to ensure that energy suppliers are treating consumers fairly. These standards cover all interactions between household suppliers and consumers, from the marketing of energy deals, to making amends when customers make a complaint. Suppliers must carry out these actions in a fair, honest, transparent, appropriate and professional manner, and ensure that information given to consumers is clear, easy to understand and written in jargon-free language.
- 5.17. Suppliers must take into account customers’ needs in all their dealings with them. And they will have to publish statements each year clearly showing what actions they are taking to treat consumers fairly. It is expected that improved standards will help increase levels of consumer trust and confidence in energy suppliers, given that distrust in the industry as a whole may be inhibiting some consumers from engaging in the market.
- 5.18. These standards are similar to the FCA’s ‘principles for businesses,’ which include that a firm must pay due regard to the interest of its customers and treat them fairly (principle 6) and pay due regard to the

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<sup>95</sup> Ofgem, [Retail Market Review: Energy bills, annual statements and price rise notifications; advice on layout and the use of language](#), November 2011.

<sup>96</sup> Ofgem, [The Retail Market Review – Updated domestic proposals](#), October 2012

information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.<sup>97</sup>

- 5.19. Ofcom, Ofgem and the FCA also enforce consumer protection legislation. For example Ofcom requires providers when selling or marketing services to consumers, not to contact the customer in an inappropriate manner or engage in slamming.

## Examples of interventions aimed at helping consumers to assess

### Information remedies

#### Example intervention: MiData

- 5.20. As part of the current MiData initiative,<sup>98</sup> the government is working with businesses to give consumers more control of, and access to their personal data. The initiative aims to enable consumers to access their own transaction data in a way that is portable and safe so they can use it to help them consider their spending habits or, with the help of an intermediary, find a better deal. The intended benefits are reduced 'friction' in transactions, fewer inputting and transportation errors, and more accurate comparisons based on actual data. Information held by businesses that could be useful to consumers includes information on transaction data related to current accounts held by financial services firms, gas and electricity usage held by energy suppliers and mobile phone usage held by telecoms providers. Many businesses have volunteered to take part in the initiative and MiData downloads are now available from seven energy suppliers, including the six largest energy suppliers, and the majority of current account and credit card providers.

#### Example intervention: Disclosure

- 5.21. Disclosure is a common tool used by regulators to require firms to provide consumers with information that will help them make effective choices. However in recent years, regulators have begun to acknowledge that there may be such a thing as too much disclosure and are instead focusing their attention on 'smarter disclosure.'
- 5.22. An early example of this more refined approach to disclosure was the FSA's mortgage market reforms that removed some disclosure obligations after consumer research found that the information was not being used as intended.<sup>99</sup>
- 5.23. Common disclosure requirements for provider communications (e.g. annual statements) include:
- The name of the customer's current product, service, tariff or account;
  - The current price or interest rate they are currently receiving;
  - Their annual or monthly consumption;
  - The term of the product or any offer and the time remaining;
  - Details of other similar products available;

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<sup>97</sup> FCA: [The Principles](#)

<sup>98</sup> See Department for Business Innovation and Skills, [Better Choices: Better Deals](#), 2011

<sup>99</sup> FSA, [DP09/3, Mortgage Market Review](#), October 2009, p72

- Information on a consumer's ability/right to cancel; and
- Contact details if the consumer wishes to find out more about their options.

5.24. Ofcom has taken a less prescriptive approach by requiring that itemised bills should show a sufficient level of detail to allow the customer to verify and control their charges and adequately monitor their usage and expenditure in order to exercise a reasonable degree of control over their bills.

#### Example intervention: Publishing information

5.25. The FCA and Ofgem ensure that regulated businesses publish information about the number of complaints they receive. This is intended to incentivise businesses to improve their performance.<sup>100</sup> However, some consumers may also choose to use it to make more informed decisions. FCA research found that 22% of consumers were aware of complaints data published by financial services firms, and that of these, 38% had used it when considering a new financial services provider.<sup>101</sup>

5.26. Ofcom publishes an annual report comprising levels of satisfaction with customer services for each of the main communications providers, and six-monthly information on broadband speed performance. The FCA announced earlier in the year that it will consult on requiring firms to publish claims ratios for general insurance products<sup>102</sup>. With all regulators committed to promoting greater transparency, it is likely that more performance information will be made available to consumers in the future.

5.27. NHS England and the Care Quality Commission (CQC) publish a range of quality and performance indicators that patients can use to compare providers.<sup>103</sup> NHS England publishes its indicators on the NHS Choices website, where consumers can also write their own reviews. Examples of hospital indicators include the percentages of registered nurse night hours and unregistered care staff day hours filled as planned.

5.28. Another indicator published by NHS England is the Friends and Family test, which aims to provide information to help consumers make assessments. Patients are asked if they would recommend the services they have used and the test is a mechanism for highlighting good and poor practices. This feedback is then published on the NHS England and NHS Choices website.

5.29. Examples of indicators published for a GP practice include the results of the GP Practice Patient Survey and scores on criteria such as recommendations, opening hours and the experience of making an appointment.

#### Example intervention: Standard metrics

5.30. One of the first examples of introducing a standard measure to help consumers compare products was the introduction of the Annual Percentage Rate (APR), as part of the 1974 Consumer Credit Act. APR is designed to be a single comprehensive measure of the cost of credit over a single year taking into account the interest rate but also any fees or costs associated with the product. It is calculated according to a standard methodology, and commonly used to compare products such as credit cards, mortgages and loans.

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<sup>100</sup> UKRN, [The use of data publication to enable reputational regulation](#), July 2014.

<sup>101</sup> FCA, [DPI3/1 Transparency](#), March 2013, p.12

<sup>102</sup> FCA, [General insurance add-ons: Provisional findings of market study and proposed remedies](#), March 2014

<sup>103</sup> See [NHS England](#) and [CQC](#) websites

- 5.31. More recently in spring 2014, Ofgem introduced measures to help consumers make ‘like-for-like’ comparisons between energy tariffs. These included the Tariff Comparison Rate (TCR) and the Personal Projection. The TCR is a ‘common currency’ that enables market wide comparisons of energy prices. Like APR it is a single figure that captures the tariff’s relevant price elements and is adjusted for level of energy usage. The Personal Projection is a standard methodology that uses the consumer’s actual energy usage to provide a projected annual cost. Both measures must be displayed using consistent language and presentation. Providers are required to include them in all advertisement and marketing of tariffs and in customer communications such as annual statements and bills. They should be displayed using standard language and presentation.
- 5.32. Ofcom has sought to standardise information on broadband line speeds provided to consumers before signing up to a new provider, in order to help inform their decision. Access line speed should be in a range achieved by the 20th to 80th percentiles of the ISP’s customers with similar line characteristics (for example distance from the cabinet). The ISP should also explain that this is only an estimate, and that if the consumer receives an access line speed significantly below this range then they should contact the ISP. Providers sign up to this standardised measure through a voluntary code of practice. They must offer a line checker facility on their website so that consumers can find out their estimated access line speed in a clear and easily accessible manner.

#### Example intervention: Traffic light ratings

- 5.33. As set out above, many patients find making sense of and understanding the comparative information available difficult. In order to try and make this information easier to comprehend, the Care Quality Commission have developed a four-tier traffic light ratings system. Providers are rated either Outstanding (green star), Good (green light), Requires Improvement (orange light) or Inadequate (red light). These ratings are based on the results of CQC inspections. Criteria used include whether a provider is safe, effective, caring, responsive and well-led, as well as the performance of specific services such as intensive/critical care and outpatient services.<sup>104</sup>

### **Process remedies**

#### Example intervention: Developing or accrediting comparison websites

- 5.34. Decision tools such as comparison websites can be useful in helping consumers find information about a range of products and providers and make comparisons between them. In some smaller markets where comparison websites do not exist, government has intervened to ensure a similar service is available.
- 5.35. One example is the home credit market that was referred for investigation by the Competition Commission (CC) in 2004<sup>105</sup>. Home credit is the provision of small unsecured cash loans that are repaid, often on a weekly or fortnightly basis, in fixed cash instalments and usually collected by agents who call at the customer’s home. One of the CC’s findings was that customers in the home credit market found it difficult to assess and compare the prices of home credit loans. To address this, the CC required that all home credit companies must publish comparative information for all their available home credit loans on a centralised database. This led to the establishment of the free website

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<sup>104</sup> See [CQC website](#)

<sup>105</sup> Competition Commission, [Home credit inquiry final report](#), April 2006

'lenders compared', paid for by the largest home credit companies and governed by an independent Board.

- 5.36. Where comparison websites do exist, consumers benefit from the information they are provided with being impartial, accurate, comprehensive and up-to-date. To this end, both Ofcom and Ofgem run a price comparison website accreditation scheme.
- 5.37. Ofcom launched its scheme in 2006 in order to ensure the availability of quality-assured, independent comparative information. This followed research that showed consumers would be more inclined to participate in communications markets if they had access to price comparison information accredited by Ofcom. In order to achieve accreditation organisations must demonstrate that their services are accessible, accurate, transparent and comprehensive. Ofcom conduct spot-checks on accredited members to ensure they meet accreditation standards and full reviews take place every 18 months. There are currently five accredited members under the Scheme.
- 5.38. Ofgem runs the Confidence Code, a code of practice that accredits independent domestic energy price comparison websites. The Confidence Code requires members to follow key principles (e.g. independence and impartiality) for how they must operate their service. So using a site with the Confidence Code logo means that the process of switching energy supplier should be easier, more reliable and reassuring for consumers.

## Conduct of Business remedies

### Example intervention: Delayed sales and banning opt-outs

- 5.39. Where consumers are unaware they need or want a product or service and are offered it 'on the spot' they sometimes make decisions without considering the suitability of the product or provider. Where this is the case regulators can put in place interventions designed to provide consumers with the opportunity to engage and consider their choice further before reaching a decision.
- 5.40. In general insurance, the FCA has recently announced that it will bring forward proposals to impose a 'deferred opt-in' on sales of Guaranteed Asset Protection (GAP) cover, which is a type of insurance offered alongside cars and other vehicles. Under this proposal, car dealers would not be able to conclude the sale of the insurance policy at the same time a car is purchased – this is designed to reduce the point of sale advantage they enjoy. The FCA proposed that if GAP insurance is offered alongside a car sale, consumers must be given information about alternative products and that if they wish to purchase the insurance they must proactively contact the firm after a stipulated number of days to complete the sale.
- 5.41. The FCA has also announced that it will bring forward proposals to ban 'opt-outs' such as pre-ticked boxes. They found that opt-outs are associated with consumers not making informed decisions and that where a particular type of add-on insurance was sold on an 'opt-out' basis the sales rate achieved by one firm was 80% compared to 40% when sold on an 'opt-in' basis. The FCA believes that opt-outs do not support consumers in making engaged and informed decisions and allow firms to exploit behavioural biases and should therefore be banned.<sup>106</sup>

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<sup>106</sup> FCA, [General insurance add-ons: Provisional findings of market study and proposed remedies](#), March 2014

## Product design remedies

### Example intervention: Simple products

5.42. In financial services, the ‘Simple Financial Products’ initiative<sup>107</sup> has resulted in the financial services industry developing a suite of simple financial products. The aim is that these products are easy to compare, readily understandable and accessible to the mass-market, meet consumers’ basic needs and are commercially viable for providers. They will sit alongside other products currently available on the market but will have a kitemark from the Trading Standards Institute certifying that they meet nine ‘simple product’ principles. The first simple products will be savings accounts and a life insurance product.

### Example intervention: Tariff simplification

5.43. In energy, Ofgem took measures to both limit and simplify the tariffs available to consumers.<sup>108</sup> On 1 January 2014 rules came into force requiring gas or electricity providers to limit the number of tariffs on offer to four and to simplify tariff structures so that they all consist of a simple two-part structure (a standing charge and per unit rate). The rules also standardise surcharges and simplify discounts and bundles to limit the number of components linked to energy tariffs. When first proposing these measures, Ofgem set out that this would reduce the number of tariffs on offer by the main suppliers from 117 to 48. It would help consumers understand their tariffs and better assess the alternatives.

## Examples of interventions enabling consumers to act

### Information remedies

#### Example of information remedy: Disclosure

5.44. It is important that consumers are properly informed of the financial and service implications of switching providers. A consumer who does not receive information relevant to their specific circumstances may be confused or inadequately informed, and feel the need to go through the inconvenience of contacting their current provider to find out more. In light of this, Ofcom recently required communications providers on the Openreach copper network to improve the effectiveness of the ‘sorry to see you go’ letter. This includes:

- provision of precise information on any applicable early termination charges, calculated according to a reasonable estimate of the planned switchover date;
- information about the impact of the transfer on the prices of all continuing services; and
- making clear that the customer is not required to contact their existing provider and that their contract will be automatically cancelled and a final bill sent out when the transfer is complete.

5.45. These new obligations are in addition to existing requirements to inform the customer of the proposed switchover date, and provide a list of all communications services that will be transferred, as well as the services that will be affected and unaffected by the transfer.

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<sup>107</sup> HM Treasury, [Sergeant Review of Simple Financial Products: Final report](#), March 2013

<sup>108</sup> Ofgem, [The Retail Market Review – Final domestic proposals](#), March 2013

## Process remedies

### Example intervention: Switching processes and services

- 5.46. Consumers considering a change of provider are often worried that something will go wrong, such as loss of supply or double-billing. In order to reduce these concerns and make switching more straightforward, switching processes have been introduced across a range of services including personal current accounts and Cash ISAs, landline telephony and broadband.
- 5.47. In autumn 2013, Ofcom identified that the existence of multiple processes and an increase in service bundling meant that some consumers were required to navigate multiple processes when switching a bundle of services on the Openreach network. As a result, Ofcom required providers to adopt a single process, led by the gaining provider, for all voice and broadband switches made over the Openreach copper network.<sup>109</sup> Under this process, a consumer who decides to change provider does not need to inform their current provider; instead the process is managed entirely by the new provider. Ofcom found that where consumers had to contact their existing provider to request the change, they encountered more difficulties. The existing provider had incentives to delay or disrupt the transfer or to put pressure on the customer not to switch. Sixty percent of consumers who switched using the 'gaining provider led' service found the switch to be 'very easy', compared to 32% of those using 'losing provider led' processes (42% excluding mobile switchers), and 40% among those using a cease and re-provide process.
- 5.48. In retail banking the Independent Commission on Banking (ICB) recommended the introduction of a faster and more reliable current account switching service in its April 2011 interim report<sup>110</sup>. The government supported the recommendation. The Payments Council, an industry body, took this forward and the current account switching service was launched in September 2013. The new service has a number of benefits for consumers including that the customer can choose the date on which the switch takes place, it takes seven working days – an improvement on the previous process, existing payment arrangements are transferred to the new account and there is a redirection service to ensure any payments made to or requested from the old account are automatically redirected for a period of 13 months after the switch takes place.
- 5.49. This is similar to Ofcom's new Openreach process in that it is also 'gaining provider led.' If a consumer decides they wish to switch their current account they need only talk to their new bank which manages the process and engages with the consumer's current provider on their behalf. As well as 'gaining provider led' switching being a simpler process, the service also promises that switching will be faster and more reliable. It now takes seven working days to switch accounts, having previously taken up to a month. It also ensures that payment arrangements such as salary and direct debits, are transferred to the new account. In the six months since the service was launched current account switching levels were up by 14% compared to the previous year.
- 5.50. In 2014 Ofgem announced that it had approved proposals from energy suppliers that will halve the switching times to 17 days, which includes a 14 day cooling off period.<sup>111</sup> The changes will take effect

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<sup>109</sup> Ofcom, [Consumer Switching](#), August 2013

<sup>110</sup> [Independent Commission on Banking, Interim Report](#), April 2011

<sup>111</sup> [Ofgem, Ofgem leads radical shake up of energy switching process](#), June 2014.

from the end of 2014. Ofgem have also put forward proposals to make the switching process more reliable and to put next day switching in place by the end of 2018.

#### Example of intervention: Number portability

- 5.51. Where services are linked to a number or code that is personal to the customer, switching can be made easier by making that number or code portable between providers. Examples include mobile number portability and proposed account number portability.
- 5.52. Mobile number portability enables consumers to keep their number when switching provider.<sup>112</sup> It has evolved from being a paper-based porting system that took 25 working days, to the current system which takes one working day. Unlike the 'gaining provider led' switching services, mobile number portability is 'losing' or 'donor provider led'. This means a consumer must contact their existing provider for authority to take their number to a new provider. The existing provider must then give the customer a 'Porting Authorisation Code (PAC)' either immediately over the phone or by text message within two hours. The customer then passes this code to the new provider.
- 5.53. Portability has also been suggested in retail banking in relation to current accounts where account number portability would allow a consumer to keep their account number when switching between providers.<sup>113</sup> The FCA has committed to undertaking a study of the costs and benefits of account number portability as a way of increasing competition in banking.<sup>114</sup>

### **Conduct of Business remedies**

#### Example intervention: Notice and penalty-free cancellation periods

- 5.54. Ofgem has rules to ensure consumers are given sufficient warning when their fixed-term contracts come to an end. Suppliers must notify customers between 42 and 49 days before the contract expires. Between this notification period and the end of the fixed term contract, suppliers are banned from charging a termination fee should the customer decide to switch.
- 5.55. Ofcom has introduced measures that mean if a provider makes a contractual change that is to the customer's material detriment, for example a price increase, the customer can exit the contract without penalty. Ofcom implemented this measure in January 2014 for landline, broadband and mobile contracts after finding many consumers were caught unaware by price increases in what they believed were fixed-price contracts.<sup>115</sup>

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<sup>112</sup> Ofcom, [Mobile number portability](#), August 2009

<sup>113</sup> [Treasury Select Committee: Competition and choice in retail banking](#), March 2011

<sup>114</sup> HM Treasury, [Budget 2014](#), March 2014 and FCA, [Approach to the review of Current Account Switch Service and account number portability](#), September 2014.

<sup>115</sup> Ofcom, [Guidance on "material detriment" under GC9.6 in relation to price rises and notification of contract modifications](#), January 2014

## Product design remedies

### Example interventions: Ban on reactive saves

- 5.56. Reactive save activity occurs where the Losing Provider is able to accurately identify, as a result of information it receives through the switching process, all those customers intending to switch and to make them a counter offer not to switch.
- 5.57. When considering reactive save activity under the losing provider led MAC code process on the Openreach network, Ofcom was concerned that this could damage competition because it favoured incumbents over new entrants and providers looking to grow. Under this process, the Losing Provider had a systematic opportunity to make a discriminated counter offer. Entrants seeking to attract these customers were likely to incur higher marketing and sales costs. Ofcom considered that this created barriers to entry and expansion and undermined the competitive process, ultimately harming consumers' long-term interests.
- 5.58. Reactive save activity may also reduce the incentives on incumbents to provide good value to existing customers. If the Losing Provider can make selective counteroffers to each switching consumer, then its incentives to price competitively to its entire customer base may be reduced. Furthermore, a significant minority of consumers experience unwanted pressure from their existing provider when they seek to leave.
- 5.59. Ofcom's concerns about this form of save activity for voice and broadband switches made over the Openreach copper network did not apply to save activity outside the switching process, e.g. when consumers initiate contact with their Losing Provider to discuss their options.
- 5.60. Ofcom has banned reactive save activity under the Gaining Provider Led Notification of Transfer process, that is currently used for all voice switches made over the Openreach copper network, and that will be used for all Openreach broadband switches from June 2015. As a result of the ban, Losing Providers are prohibited from using information received through the formal switching process to make reactive save offers to potential switchers.

### Example intervention: Banning auto-renewable contracts

- 5.61. Both Ofcom and Ofgem have banned contracts that automatically roll over at the end of their fixed term into new fixed-terms: consumers are frequently required to pay a penalty to exit these contracts. Ofcom introduced these measures in 2011 for landline and broadband contracts<sup>116</sup> having conducted analysis that indicated a clear causal link between automatically renewable contracts and reduced levels of consumer switching. In energy, suppliers must default customers to an evergreen contract if the customer takes no switching action before the end of their fixed-term contract (this default contract must be the cheapest evergreen tariff with the supplier from 31st March 2014).

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<sup>116</sup> Ofcom, [Automatically Renewable Contracts](#), September 2011

## Examples of interventions that help and protect the unengaged and inactive

### Information remedies

#### Example intervention: Dedicated support and advice

5.62. Ofgem supports Energy Best Deal, which is delivered in England and Wales by the Citizens Advice service, and in Scotland by Citizens Advice Scotland. Sessions are aimed at low income consumers and front-line staff who work with people at risk of fuel poverty. Consumers can be signposted to a range of further help with issues such as fuel debt, benefits entitlement and energy efficiency. The campaign aims to:

- make people aware of the savings that can be made by switching fuel providers or negotiating with existing providers;
- provide information about help available from energy suppliers and government for people struggling to pay their gas and electricity bills; and
- inform consumers about how they might save money by using less energy and sources of advice and help around energy efficiency.

5.63. Ofgem has also supported Energy Best Deal Extra, which CAB have piloted and offers one-to-one face-to-face support and coaching to consumers to assist in assessing their energy options.

### Consumer protection remedies

#### Example: Dead tariffs

5.64. Ofgem have introduced rules where suppliers have to move consumers on expensive “dead tariffs” automatically onto the cheapest variable rate. This is intended to protect consumers who have not engaged in the market for some time. Suppliers are only able to keep consumers on “dead tariffs” if they are cheaper than, or as cheap as, the supplier’s lowest standard or evergreen tariff.

## 6. Conclusions and next steps

- 6.1. This section sets out conclusions on our analysis of the barriers to engagement, assessment and action across our sectors and the interventions that have been implemented to try and address some of these barriers. It also considers areas where there may be benefit in working together in future.

### Conclusions: Comparing barriers to consumer engagement and switching across our sectors

- 6.2. Having reviewed and analysed the available evidence, we identified 12 factors that may act as barriers to consumers engaging, assessing and/or acting across our sectors. Some of these barriers are common to all sectors, others particular to one or two.
- 6.3. The key common barriers are:
- **Perceived benefits are low and/or costs are high** – A perception that either the benefit from engaging in the market is low and/or the costs are high in terms of the time and effort involved and the likelihood of something going wrong.
  - **Difficulties understanding information** – Key drivers of this barrier include product/tariff complexity, a lack of transparency and consistency around product/tariff features and a lack of familiarity with them.
  - **Barriers to and problems with switching processes** – These include contractual, operational, transitional and eligibility problems.
  - **Factors leading to lower levels of capability or capacity amongst some groups** – The least engaged and active consumers are also often the most disadvantaged and vulnerable; common factors associated with lower levels of market participation include lack of access to the internet, lower incomes, being older and other factors that may reduce a consumers' ability to assess information and invest time in switching decisions (e.g. lower literacy or numeracy skills, English not being the main language, disability or chronic illness, mental health issues, or major life events).
  - **Behavioural biases** – Behavioural biases affect consumer behaviour and decision making. For example, preferences for immediate gratification, the default option or avoiding losses can lead to sub-optimal decision making or inertia from consumers.
- 6.4. The evidence suggests the following factors are secondary barriers, or those that have particular prominence in some sectors but not others:
- **Unaware they can choose** – Most people are aware of choice in energy and communications. The small minority who are not aware of choice tend to be more vulnerable consumers (and so this barrier links to factors leading to lower capability among some groups above). However in healthcare lack of awareness of choice is far more widespread and many patients do not realise they have a right to choose their provider for planned elective acute care.
  - **Few triggers prompting engagement** – In all sectors there are many triggers that can prompt a review of service arrangements. These include marketing materials and promotions, dissatisfaction with a current product or provider, the end of a fixed-term or special offer and price or interest rate changes. Notification of the end of a contract term is a key trigger that is absent in the communications sector.
  - **Difficulties accessing information** – The evidence suggests that the majority of consumers do not find it difficult to access information. They increasingly use a range of channels including price

comparison websites and recommendations from family and friends. However, consumers with lower levels of capability may have specific problems, such as lack internet access.

- 6.5. We consider that we would need further evidence in relation to the following factors in order to better understand their impact on consumers' ability to engage, assess and act in each of our sectors
- **Perceived insufficient choice or perceived difficulty navigating choices available** –In energy considerable evidence exists to suggest that many consumers have felt there is too little choice in terms of genuine price differentials, too much choice in terms of different tariffs available, and believe that it will be difficult to compare tariffs. However, there is little evidence on the impact it can have on engagement in other sectors.
  - **Distrust in industry** – There is relatively little evidence on the relationship between consumers' trust in a market and engagement in that market however the evidence that does exist shows a complex relationship.
  - **Distrust in available information** – There is an apparent lack of trust in price comparison websites among UK consumers that may be a barrier to their use. Consumers who use them tend to report higher levels of trust than is noted among the general population.
  - **Circumstances of the decision environment** – Evidence suggests that buying certain types of general insurance as an add-on can limit consumers' ability to shop around and compare against alternative products. However, there is less detailed evidence in relation to the role of the decision environment, for example consumers being offered "a deal" or discount on the spot, on decisions in other markets.

### Conclusions: Sharing examples of interventions

- 6.6. Having identified the barriers to consumers engaging, assessing and acting within each of our sectors, we also considered examples of interventions proposed or implemented to address some of these barriers. We sought to understand the aims of these interventions, and whether there was anything we could learn from each other's experiences.
- 6.7. Areas of intervention that we feel might most usefully be explored further, include:
- The effectiveness of consumer awareness campaigns in trying to change perceptions, both around the benefits and costs of shopping around and switching.
  - The effectiveness of information disclosure, particularly those examples designed to change perceptions and act as a trigger for consumers to engage (drawing on insights from behavioural economics).
  - The role of innovation in intermediaries, recognising emerging developments in intermediaries may offer opportunities to improve market participation for many consumers including those with lower levels of capability and capacity to engage. These developments are also likely to present regulatory challenge.
  - Improving the operation and effectiveness of switching processes

### Next steps

- 6.8. We welcome the views of interested stakeholders on these possible areas for further exploration and suggestions as to other areas which could usefully be explored within the UKRN consumer engagement and switching project. We will consider these areas along with other suggestions with a view to beginning the next stage of this project in the second half of 2015.

- 6.9. In addition, we will continue to share learnings between regulators on the operation and effectiveness of interventions already implemented. This may include sharing the reasoning and analysis that underpinned the decision to implement the intervention, how it works in practice and the results of any evaluation findings or ex-post analysis.

## 7. Annex I – List of evidence included in the scope of our review

- Ofcom, [The Consumer Experience of 2013](#), January 2014,
- Ofcom, [Customer Retention and Interoperability Research](#), June 2013
- Ofcom, [A review of consumer information remedies](#), March 2013
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- Ofgem, [Consumer research and collaborative engagement on the proposed Standards of Conduct – Domestic Customers](#), October 2012
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- Ofgem, [Options for cheapest tariff messaging on customer communications](#), October 2012
- Ofgem, [Prompting engagement with and retention of written customer communications](#), October 2012
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- FCA, [How does selling insurance as an add-on affect consumer decisions? A practical application of behavioural experiments in financial regulation](#), March 2014

- FCA, [Study into the sales of Add-on General Insurance Products: Experimental consumer research](#), March 2014
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- OFT, [Personal current accounts in the UK](#), July 2008
- OFT, [Review of the personal current account market](#), January 2013
- CMA, [Personal current accounts market study update](#), July 2014
- The Kings Fund, [Choosing a high-quality hospital \(the role of nudges, scorecard design and information\)](#), November 2010
- The Kings Fund, [Patient choice - how consumers choose and how providers respond](#), June 2010
- Consumer Futures, [Next generation intermediaries](#), January 2014
- Consumer Futures, [The Rise of the Consumer Empowering Intermediary - A special report on a catalyst of market change by Ctrl-Shift for Consumer Futures](#), January 2014
- Consumer Futures, [Price comparison websites: consumer perceptions and experiences - A report by RS Consulting](#), July 2013
- Consumer Futures, [Consumer sentiment toward collective switching \(DJS research for consumer futures\)](#), December 2013
- Consumer Focus, [Tackling consumer vulnerability](#), December 2012
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