

Improving participation in the energy market

citizens
advice

The problem

Many consumers remain disengaged from the retail energy market

- Ofgem's RMR and the CMA Energy Market Investigation have highlighted many **consumers are failing to take advantage of the choices available**
- The CMA investigation found **over half of consumers had never switched energy supplier**, almost a third reported that they had never considered switching and 5 per cent were unaware that they could

More work is needed to encourage consumers to actively engage with the energy market.

What we set out to do:

- Despite the importance of the issue, little research has been conducted into why consumers are disengaged and what can be done about it
- Citizens Advice commissioned Verve to:
 - **Establish the key issues** that help explain apparent disengagement with the energy market, including among long-term disengaged consumers.
 - **Identify and critically evaluate behaviourally-led options** for addressing the current levels of disengagement in the energy market.
 - **Test a number of interventions** highlighting the principles outlined above and **aim to identify viable avenues for policymakers.**

The current context:

- Policymakers commonly assume that consumer behaviour is underpinned by rational choice
 - Identifies consumers as rational agents who are self-interested, fully-informed, outcome oriented, and consistent in their behaviour.
 - Indicates that they would switch between energy providers to maximise returns, promoting market competitiveness in pricing, service quality and service innovation.
- It is debatable whether the GB energy market is currently structured in such a way that consumers can easily exercise rational choice.

Does the principle of rational choice accurately reflect consumer behaviour?

The current context (2):

There has been a significant volume of activity to date.

- **Information provision** - Ofgem's RMR and switching campaigns (Be an Energy Shopper, Power to Switch, Energy Best Deal & Fair Play for Prepay)
- **Providing price comparisons** - around 65% have used a switching site
- **Improving switching process** - Ofgem-led 17-day switching initiative

Despite all the investment, we have not seen significant changes to rates of switching.

	2011	2012	2013	2014	2015
Electricity	14%	12%	13%	13%	15%
Gas	13%	11%	13%	12%	14%

Behavioural economics

- Can Behavioural Economics unlock the longstanding problem of consumer engagement in the energy market?
 - Describes how individuals do not consistently maximise their utility function rationally but possess cognitive biases that interfere with rational decision making
 - Can behavioural economics help design interventions based on a framework that considers a range of relevant psychological factors with the potential to engage consumers with the market?



Research

Verve reviewed the behavioural economics based interventions considered most viable for increasing consumer engagement in the UK energy market

1. **Hyperbolic discounting** - consumers' tendency to place a disproportionate emphasis on short-term costs over long-term gains.
2. **Time scarcity** - a scarcity of time influences the decisions we make and can push us towards different trade-offs and choices.
3. **Social proof** - this refers to consumers' tendency to mimic the actions of others, sometimes described as 'herd behaviour'.
4. **'Energy as a market'** - the transition of the market from publicly owned to private sector may mean that consumers do not always see energy as a market they should engage in.

Research Process

10 minute benchmark study on switching attitudes with 1,800 homeowners responsible for energy decision-making



- 1,001 were later shown stimulus materials based on proposed interventions
- Control group of 200 shown no stimuli
- Both groups were again surveyed on switching attitudes



Gained an indication of the potential effectiveness of each intervention to increase consumer engagement with the GB

Tested messages

Hyperbolic discounting:

“Switch energy supplier and save £50 on your quarterly bill. That's equivalent to a meal out for two people.”

Energy as a market:

“Would you shop around for the best deal when choosing car insurance or a broadband provider? Shopping around for an energy provider is no different - find the best deal for you and you could save up to £200 a year.”

Time poor/scarcity:

“No time to switch energy provider? It takes less than half an hour to find an alternative energy provider. That's about the same amount of time it takes to watch the next episode of your favourite TV show or make your dinner.”

Social effects:

“Other people in [insert their region] have saved up to £200 by switching energy provider. Are you missing out?”

Results

- No statistically significant differences in propensity to switch or attitudes towards engagement with the GB energy market.

BUT

- 'Hyperbolic discounting': This offers some promise both in terms of indicative increase in propensity to switch but also effective for communicating key messages to consumers.
- 'Energy as a market': Indicatively increased the propensity to switch with an indicative positive uplift for influencing attitudes towards engagement with the energy market.



Conclusions

- This report recommends that much greater attention be paid to how behavioural principles can help inform policy making in the GB energy market.
- Be mindful of not only talking to consumers that are already engaged
- Need to better understand how to isolate the effect of the intervention on subsequent consumer activity.
- Selecting tools that are relevant for evaluation: (survey tools work at a conscious level / behavioural economics works at a largely unconscious level).
- More widespread adoption of experiment-based research approaches that are backed up by a social science evidence base.



Presented by: **Alex Belsham-Harris**
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