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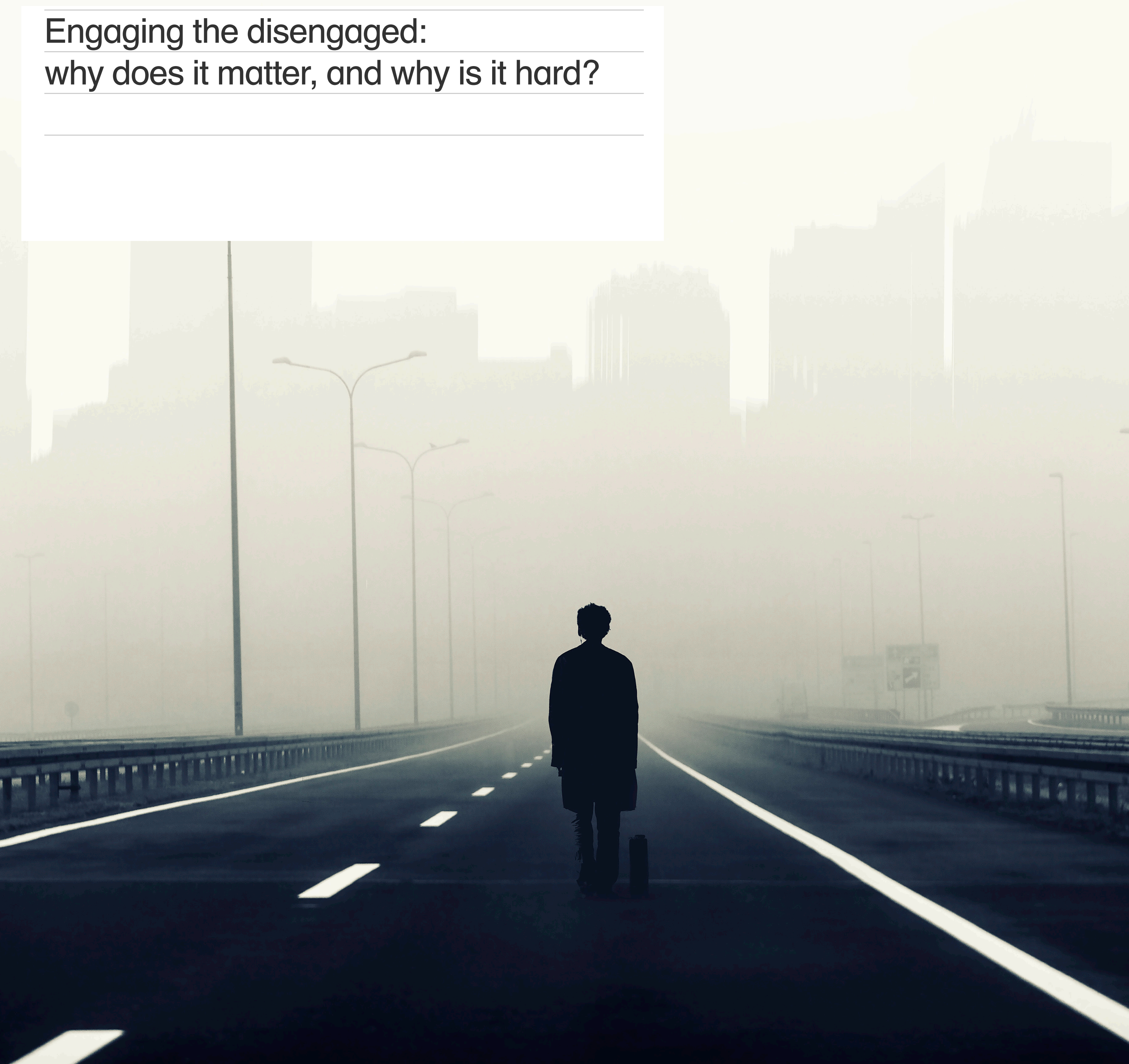
# Engaging the disengaged: why does it matter, and why is it hard?



**Contact**
Leon Fields
Senior Consultant

**Why do consumers become disengaged from effective decision-making, and how can we improve engagement and market outcomes? Amelia Fletcher, Professor of Competition Policy at the University of East Anglia, UK, looks at the latest developments in this fast-moving area, and discusses a number of insights from her recent paper on disclosure and other tools for enhancing engagement**

*This article is based on Fletcher, A. (2019), 'Disclosure as a tool for enhancing consumer engagement and competition',* Behavioural Public Policy, https://bit.ly/2ZDpYzK.

Inactive consumers have received a lot of focus in recent years. We have seen widespread public dissatisfaction with markets that are seen to treat inactive consumers unfairly. The UK charity Citizens Advice, in its 2018 super-complaint to the Competition and Markets Authority (CMA), coined the term 'loyalty penalty' to describe the higher prices that inactive consumers can face.[1]

We have also seen a variety of policy interventions designed to engage consumers, or alternatively to protect disengaged consumers from exploitation, such as the 2019 price cap on default energy tariffs in the UK.[2] There is continuing activity in this area across the UK regulators, some of which is described in the CMA's January 2020 update on the loyalty penalty super-complaint.[3]

## Why does this matter?

But why is there all this attention on consumers who themselves pay little attention?

It is increasingly well understood that competitive markets will only deliver good consumer outcomes if both the supply side and the demand side of the market work effectively. A truly effective competition policy therefore needs to address demand-side limitations as well as the supply-side issues such as mergers, cartels and strategic entry barriers that are more typically considered relevant.

Over recent years, policymakers have developed their understanding of the key barriers to consumer decision-making which underpin such demand-side limitations, and how these might be addressed through their intervention.

Three elements in particular have been highlighted, which are sometimes denoted the three 'As' of consumer decision-making.

1. Consumers need to **access** information about the products (goods or services) available in the market. Where there is **asymmetric information** between suppliers and consumers, access to this information can be enhanced by placing **disclosure** obligations on suppliers

2. Consumers then need to **assess** that information, in terms of making comparisons across the various products and determining which best suits their preferences. This can be assisted through any intervention which reduces consumer **search costs**, and in particular through **comparison tools**. These might ensure that the format of any disclosure is standardised so as to be easily comparable across products, or require that disclosure is made to third parties (such as price comparison websites) that are able to facilitate consumer assessment.

3. Finally, consumers need to **act** on that information, by purchasing (or, in some cases, switching to) their preferred product. This can be facilitated through **switching interventions**, which reduce **switching costs** by making the process of moving supplier cheaper or easier.

## Why is it hard?

Over the past decade, however, there has been increasing recognition that, while interventions to reduce asymmetric information, search costs and switching costs may be necessary for facilitating better consumer decision-making, they may nevertheless not be sufficient. Just as with the proverbial horse, you can lead a consumer to better decision-making, but you can't make him or her use the tools provided.

Why? Because consumers also exhibit cognitive limitations and behavioural biases which can have a powerful influence over their decision-making. Indeed, disclosing more information to consumers can create information overload and so worsen their decisions.

Such insights from behavioural science have led to an increased focus on careful policy design to address the three 'As' of decision-making—in ways that allow for the decision-making of real consumers, as opposed to their hypothetical, hyper-rational counterparts.

For example, there has been a greater focus on smart disclosures that are sufficiently clear, prominent and timely to really aid consumer decision-making. Likewise, more attention has been given to interventions that address psychological blockages to switching, such as the recent requirement by Ofcom (the UK communications regulator) that providers enable telecoms consumers to switch provider via text or online.[4] This removes the step whereby consumers wishing to switch had to phone up their existing supplier, a torment that many of us hated having to undergo.

There has also been a welcome move towards trialling policy interventions on real consumers, where this is feasible. However, in several cases, such trials have found proposed interventions to be strikingly less effective in changing consumer behaviour than expected. A depressing result perhaps, but one which has been valuable in avoiding the implementation of ineffectual remedies.

## The fourth 'A' of consumer decision-making

It has also become obvious that, before any of the more standard demand-side interventions become relevant, a fourth 'A' of consumer decision-making is important.

4. Consumers have to **attend** to the market in the first place. If consumers are disinclined to engage at all, none of the other 'As' of consumer decision-making will even be activated. This can clearly constitute a significant barrier to effective competition.

Consumer inattention is of particular concern in markets where there is an ongoing transactional relationship between the consumer and the firm, such that payments continue despite a lack of consumer focus. Outside of the utility sectors, the products concerned are commonly known as 'subscription products'.

In such circumstances, market outcomes may reflect the **relative consumer attention** paid by different customer groups, as was highlighted by the loyalty penalty super-complaint. Firms compete by offering low-price (or high-quality) products to win or retain more engaged consumers, while supplying inactive customers with high-price (or poor-quality) products.

However, consumer inattention can also be relevant where consumers are making new transactions, if they focus only on what is most salient to them. Market outcomes can reflect such **relative salience**, with competition focused on the most salient aspects of a product offering, while firms act in a more monopolistic manner on the less salient aspects.

Often it is upfront prices that are most salient and thus may be set too low, while terms and conditions or longer-term charges are less salient and so can end up being unattractive or even exploitative. Unless they are carefully designed, price comparison websites can exacerbate this issue by driving greater salience of the upfront price over other relevant product characteristics.

## Engaging the disengaged

So how does one deal with consumer inattention?

Perhaps counterintuitively, such inattention can be a **conscious** decision. For example, I have actively decided not to worry about the fees I pay for cloud services for the time being. I know that the process of engaging in the market will suck up both my time and my energy, while the benefits are uncertain and will take time to add up to much in value terms.

Just because a decision is conscious doesn't mean behavioural factors are absent. My decision not to engage may be influenced by any number of biases such as myopia, present bias, default bias, status quo bias, endowment bias, and so on. However, the positive aspect of my conscious decision not to engage is that the situation may still be improved by a change in the relative costs and benefits of engaging. As such, consumer attention may still be enhanced through traditional demand-side interventions that make it cheaper or easier to search out and switch to a new supplier.

However, consumer inattention can also be an **unconscious** non-decision (or at least have unconscious elements). I may have intended to switch my bank account at some point, but it is somehow never front of mind, always put off for tomorrow—something I just can't force myself to do. Or I may even forget about it entirely.

For such unconscious inattention, there is little point in improving the decision-making process, as it will make no difference. **New tools** are required. These fall into four categories.

1. **Engagement triggers**. These essentially work by using salience to make the unconscious conscious. For example, if a particular piece of information is made salient at just the right time, a consumer may be moved to act on it. The requirement on UK banks to send text alerts to consumers who are slipping into overdraft is a good example, which has been shown to be effective in providing an engagement nudge.[5]

2. **Choice architecture**. This involves requiring suppliers to change the way in which choices are framed for consumers, ideally in the direction of requiring consumers to make more active and holistic purchasing choices. Examples include the 2014 EU legislation banning the use of pre-ticked boxes to sell add-ons,[6] and work by the UK Financial Conduct Authority (FCA) to ensure that price comparison websites can access information on insurance quality, enabling them to offer more holistic decision-making tools.[7]

3. **Changing supplier incentives**. In some circumstances, supplier incentives can be changed to better align with those of consumers. For example, the 2012 UK ban on commissions for independent financial advisers (replicated EU-wide in 2018) has reduced advisers' incentives to offer investments that pay them the highest commissions, but may not be the best for the investors. In some markets, suppliers are also required to adopt a fiduciary duty towards their customers, requiring them to act in customers' best interests.

4. **Outcome control**. This can take various forms and be more or less prescriptive. At one end of the spectrum, there is general consumer law requiring that non-salient terms and conditions should not be unfair. At the other end, there is direct price regulation such as the current energy tariff cap in the UK. Along the spectrum between these we might include 'relative price' or 'non-discrimination' rules, such as the recent FCA proposal to require banks to offer a single easy access savings rate.[8] This is designed to avoid lower rates being applied to the least active consumers.

We are seeing these various categories of intervention being debated across a range of markets. Indeed, they are starting to take centre stage relative to the more standard forms of disclosure, comparison tools and switching interventions that have been the more traditional route to addressing demand-side problems in markets.

However, their design and implementation is far from straightforward, and they have important potential cons as well as pros. There is relatively limited evidence on their efficacy to date, and a serious need for further research work.

At the same time, the dramatic growth of the digital sector is creating new issues, but also offers new solutions. On the negative side, there is a risk of consumer decision-making being influenced by 'dark patterns' within website and app design. These exploit natural behavioural biases in order to exacerbate consumer 'mistakes'. Algorithms could even be utilised to create designs which maximise such mistakes.

On the positive side, though, there is the potential for a huge growth of personalised 'robo-advice' (automated digital advice that employs algorithms), especially once consumers have more options to 'port' relevant data from their existing suppliers to such advisers. Such new business models may need careful regulation if they are to generate well-justified consumer trust, but have a major potential to enhance consumer decision-making.

None of this is easy, of course, but the challenges are interesting and exciting, and UK regulators are at the forefront of much of this thinking internationally.

Amelia Fletcher

## Contact

leon.fields@oxera.com

Leon Fields

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[2] Ofgem (2019), 'Energy price caps explained', February, https://bit.ly/3ewfvur.

[3] Competition and Markets Authority (2020), 'January 2020: Loyalty Penalty Update', January, https://bit.ly/2LVjuV0.

[4] Ofcom (2019), 'End it with a text: easy mobile switching from Monday', media release, 28 June, https://bit.ly/2TDvdfa.

[5] Financial Conduct Authority (2015), 'Message received? The impact of annual summaries, text alerts and mobile apps on consumer banking behaviour', Occasional Paper 10, March, https://bit.ly/2TFiOHx; Financial Conduct Authority (2018), 'Sending out an SMS: The impact of automatically enrolling consumers into overdraft alerts', Occasional Paper 36, May, https://bit.ly/3d5ml9B.

[6] 2014 EU Consumer Rights Directive.

[7] Financial Conduct Authority (2019), 'General Insurance Value Measures reporting', Consultation Paper CP19/8, January, https://bit.ly/2B2M7xi.

[8] Financial Conduct Authority (2019), 'General Insurance Value Measures reporting', Consultation Paper CP19/8, January, https://bit.ly/2B2M7xi.