

# **How can behavioural insights make regulated markets better for consumers?**

Summary of conference held on 7 June 2016



# Introduction

Every day, thousands of people come to Citizens Advice for help overcoming a problem. These problems are incredibly diverse but, if there's one thing they have in common, it's a story of people colliding with systems that do not work for them. Whether this is a time-consuming and confusing switching process or a complicated application form for support as a vulnerable person, we see, time and again, systems that are not designed for real human behaviours.

Behavioural insights can help us understand why these problems occur—and how to redesign systems to run *with* the grain of human behaviour. A huge amount of work has been undertaken already in this space, particularly in public policy debates. Yet the application of behavioural insights to consumer policy in particular is less developed. We think behavioural insights can play an important role in strengthening consumer protections and ensuring markets deliver good outcomes for consumers. This does *not* need to mean more red tape - applications of behavioural insights to public policy have shown that light touch interventions (nudges, triggers, defaults) can sometimes be more effective.

Behavioural insights form an important part of our [consumer work plan](#) for 2016/17. We will be applying these arguments to everything from the debate about switching to the question of how our own advice can be delivered in ways that fit human behaviours, such as changing the way we present information or publicising helpful rules of thumb. We will stay in contact with our key partners and beneficiaries as we progress this work.

**James Plunkett**

***Director of Policy and Advocacy, Citizens Advice***

# Key observations and themes from the day

## This is timely

With the CMA set to recommend action from Ofgem in pursuing better outcomes through use of Randomised Controlled Trials and The UK Department for Business, Innovation and Skills undertaking a whole programme of work to understand and improve markets through the Better Markets Bill and Digital Economy Bill, behavioural insights are becoming even more important to policy makers. If we are to make improvements to markets that are truly enduring, these opportunities need to be seized. Progress to date is very positive but more needs to be done to ensure consumer insights are integral to all key decisions on market design, no matter the sector.

## Segmentation is key

One size may not fit all in terms of introducing a behaviourally led approach to policy. There is a need in particular to think about the ways we can reach different consumer groups (e.g. those who are vulnerable) and the different ways in which people will react to messages. It is important that any analysis supporting policy change accounts for the ways in which different categories of consumers experience and interact with a market, and any variance in the way they act across markets.

## Evidence must be robust

We need a robust evidence base in order to ensure behavioural interventions deliver the right outcomes and do not give rise to unintended consequences. Research should be agile and the most appropriate methods for getting results should be utilised, with changes ideally being backed up by evidence from multiple sources, quantitative and qualitative. Sometimes getting it right will require taking an idea and iterating based on continuous monitoring and evaluation.

## Some problems need another solution

Moves to improve choice architecture, create smart defaults and frame choices better through regulation will improve outcomes for many consumers. But there

are arguably consumers for whom exercising their market power through traditional means is so much of an unrealistic prospect that a different set of remedies is required. There are still real barriers to consumers exercising their power in some markets: their tenure, debt with a current supplier, problems with their credit rating. These barriers cannot be tackled by behavioural interventions but need firm action from the government and regulators.

Beyond this, people who suffer from long-term digital exclusion, have disabilities or reduced capability physically or mentally should not have to suffer in markets they are unable to properly access. Therefore more needs to be done in order to support consumers through things like social tariffs, particularly in essential markets such as energy and broadband.

## **Getting engagement right is difficult**

Regulators should start with the aim of moving markets to consumers rather than consumers to markets. However, it is important to recognise the difficulty of designing people-centric models for policy - rational choice assumptions are often our default because solutions like giving consumers more data are easier to make happen. Pursuant to this, some changes are difficult to make in isolation, and markets may need to adapt entirely to behavioural approaches to avoid detriment simply being pushed to different parts of the consumer experience. However, this does not need to mean more detailed rules as such changes can be delivered with reference to broad principles. We have seen some sectors moving towards that model already.

## **Lessons can be learned across sectors**

A consumer is the same consumer in all markets. Our motivations, what matters to us and our values are largely the same no matter what markets we are shopping in. Pooling of knowledge could help prevent mistakes from being replicated across sectors.

However, it is also important to recognise that different consumer markets operate differently and the types of choices we make can vary. So although there is scope for learning lessons from other markets, it cannot be assumed that what works in one market will work in another. There is a need to trial and monitor solutions for each context in which they are applied.

# Session 1: Changing Market Architecture

## Applying behavioural insights to regulated markets

*Lis Costa, Behavioural Insights Team*

Lis presented recent research commissioned by Citizens Advice ([applying behavioural insights to regulated markets](#)).

A range of indicators show that UK markets are not delivering the best outcomes for consumers: many are paying over the odds and switching levels are low. Behavioural economics tells us this is because consumer decision-making systematically strays from what is expected from a 'rational actor' within economic theory, and consequently in traditional regulatory models.

Lis focused on three key behavioural biases, which cause the greatest consumer detriment and are the easiest to address:

1. **Inertia** - many consumers will stick with the default
2. **Anchors** - consumers are heavily influenced by anchors, e.g. minimum repayments
3. **Choice overload**

She presented a new vision for the regulation of consumer markets. In practical terms this needs to:

1. **Set the criteria** for what a well-functioning market looks like from a consumer perspective.
2. **Collect and publish data** to see whether the market is performing on a 'well functioning' scale, and identify behavioural market failures.
3. **Design targeted remedies** to overcome identified behavioural market failures.
4. **Test** if the remedies are actually leading to better outcomes for consumers, and iterate.

This vision aligns with a more principles-based, or consumer outcomes-based, approach to regulation.

## Switching suppliers and the trigger points: evidence review

*Yasna Reynolds and Eleanor Jones, Department for Business, Innovation and Skills*

Yasna and Eleanor discussed the Government's commitment to increasing consumer engagement and their current research on trigger points. They

discussed the EAST framework for designing effective triggers (make it Easy, Attractive, Social, Timely). One emerging finding, echoed throughout the day, was the need to adapt possible solutions to different sectors and sets of circumstances - there is no one size fits all.

They discussed possible legislative changes to mandate better consumer experience, in particular as part of the Better Markets Bill, which may seek to improve the time it takes to switch, and the Digital Economy Bill, which will improve switching in the communications markets. The Government has a big task to ensure industry buys into this work and to find a way of measuring the success of any changes it makes. BIS currently has an open [call for evidence](#) on improving the consumer landscape and quicker switching, which will close on 23 June.

### **Applying behavioural insights in the field**

#### ***Guy Champniss, Enervee***

Guy showed how behavioural insights have been applied successfully across a number of fields and discussed some of the challenges around making successful interventions. In particular, he showed how framing has a key effect on consumers' propensity to act. Using the example of encouraging consumers to buy an energy efficient product, he showed how describing a discount on the product as a 'reward' rather than a 'reduction' led to an increase in sales of 200%.

The session highlighted again that there is no one size fits all - for each intervention, there is a unique set of considerations and reasons why it may or may not work. He spoke in particular about the effects of social and identity norms and challenges around designing trials where these are at play. He emphasised the importance of trials that are well-structured and well-run, noting that even if they do not drive the desired behaviour the results can be highly informative.

### **Panel session**

The panel answered questions from the audience. Issues addressed included:

- **Measuring the effectiveness of behavioural interventions** - the role of randomised control trials and other qualitative methods. Small scale trials can provide valuable insights as long as they are well designed.
- **Changing markets** - there is difficulty in testing and applying behavioural interventions in a fast-changing market landscape. There are also particular challenges around testing for market situations that do not yet exist (e.g. domestic water competition), although there are ways around

this, for example, testing in prototype environments, combined with observed behaviour elsewhere.

- **Behavioural interventions are only one piece in the puzzle** - there are wider, macroeconomic reasons why consumers do not act in the way policy makers want them to. Changing consumer behaviour is only part of the solution.
- **Vulnerable consumers** - there is some doubt as to the extent to which behavioural interventions reach vulnerable groups of consumers, e.g. those lacking digital access. While there are examples of behavioural interventions tailored to vulnerable groups, these must be part of a wider solution framework.

## Session 2: Improving Participation in the Energy Market

### Improving participation in the energy market

**Colin Strong, Verve**

Colin began by outlining how attempts to increase switching levels in the energy market to date (usually focused on better information provision and improvements to the switching process) have had very little effect on consumers, only marginally increasing switching rates. He then presented Verve's research carried out for Citizens Advice, which explores how to design effective behavioural interventions that encourage engagement with the energy market. The research, which involved consumer testing of possible interventions, highlighted the need for a more systematic process of evaluating behaviourally-led interventions. Testing and evaluation were key themes throughout the presentations and discussions.

### Opportunities for applying behavioural insights in Ofgem

**Beth Moon, Ofgem**

In their [provisional remedies](#) for addressing weak customer engagement in the energy market, the CMA recommended that:

*"Ofgem establish an ongoing programme of identifying, testing and implementing measures (to provide domestic customers with different or additional information) to promote engagement in the domestic retail energy markets"*

Beth presented Ofgem's current thinking on how to implement this remedy and, more broadly, expand their use of behavioural insights. Initial trials are likely to focus on increasing engagement of sticky customers (linked to the CMA's database remedy) and testing prompts on supplier communications.

### **The Energy Switch Guarantee**

***Audrey Gallacher, Energy UK***

Audrey spoke about the rationale for developing an Energy Switch Guarantee, Energy UK's approach and some of the limitations. She said any such initiative must be part of a wider framework for increasing consumer engagement in the energy market, in which industry, regulators and consumer bodies all contribute. She also emphasised the need to test and evaluate the effectiveness of such behavioural interventions and explained how the Switch Guarantee would be monitored through stringent key performance indicators.

### **Panel session**

Issues addressed in the second panel session were:

- **What better consumer engagement looks like** - switching rates are not the only measure of consumer engagement/confidence/trust. Participants were asked what the wider picture looks like, particularly as new technologies and supply models (e.g. service bundling) enter the market. Policy makers should choose carefully where to intervene - evidence suggests that informational remedies and improving the switching experience might not be the best fit with how consumers actually engage (or want to engage) with the market.
- **Trying to change consumer behaviour might not be the right approach** - while it is positive that the debate has moved on and behavioural insights are more integrated into regulatory decision making, some problems will require solutions other than behavioural interventions.
- **Monitoring and evaluation** - behavioural interventions must be subject to ongoing evaluation to ensure they deliver the right outcomes. This is an iterative process and can employ a range of testing techniques at different points.