Cashing In or Checking Out: What Does the Future Hold for Consumers?

Introduction

In November 2016, Citizens Advice held an event to look at the future of consumer markets, centering on the findings of 2 recent reports. There was cross-sector attendance, including regulators, market leaders and academics.

Through our research, *Consumer Detriment: counting the cost of consumer problems*, we know that consumers experience high levels of detriment, to the tune of £23 billion each year. Over the next decade we expect markets as diverse as energy, post, water and transport to undergo unprecedented change. A new report, *The Disrupted Decade,* explores these disruptions and their potential impact specifically on the energy market.

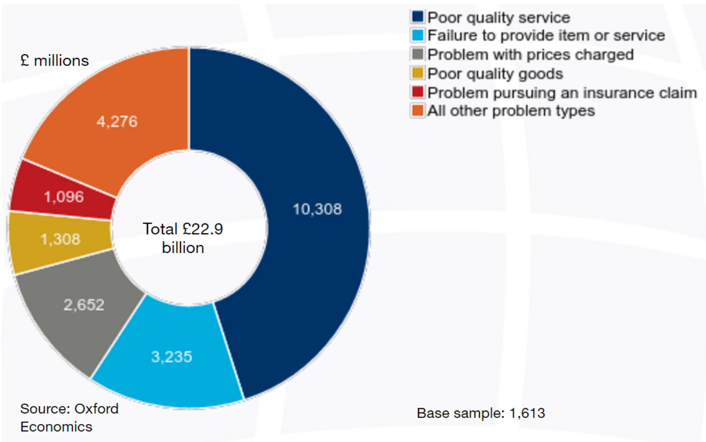
This event brought together both reports' findings to discuss what makes up current detriment and how disruptions might shape how consumers navigate markets.

First Presentation: Consumer Detriment

Ian Mulheirn, Oxford Economics

Earlier this year, Citizens Advice and Oxford Economics collaborated on research to systematically quantify the scale of detriment experienced by UK consumers. Consumer detriment takes many forms, it might be a delayed delivery, substandard service, the purchase of a faulty item or even a delayed train to work. In his presentation, Ian set out the parameters of the research methodology used, followed by an in-depth analysis of the findings. In particular, he focused on:

1. Incidence of detriment - 35.3% of consumers suffered some form of consumer detriment in 2015
2. Cost of detriment - £22.9 billion per year, averaging a £446 loss for every adult



3. Who is affected - younger people experience most problems, but 35-54 year olds suffer the highest cost
4. Time lost - 1,158 million hours in total, or 24 hours per adult
5. Redress and resolution - 55% of affected consumers had not sought redress, but 51% of those seeking redress achieved a satisfactory resolution

Second Presentation: Disruption in the Energy Market

Victoria MacGregor, Citizens Advice

This presentation examined what will change in the GB energy market over the next decade. It honed in on the 4 disruptions that are most likely to occur and that would have the greatest impact on the consumer experience, They were:

1. New pricing models that can be tailored to reflect variations in consumer activity and preference
2. New types of intermediation of energy retail, allowing analysis of energy usage and automated switching
3. Re-allocation of network costs as increasing numbers escape network charges through the use of solar or distributed generation charges
4. Widespread adoption of storage, shifting electricity from when it is produced in surplus to when it is most in demand

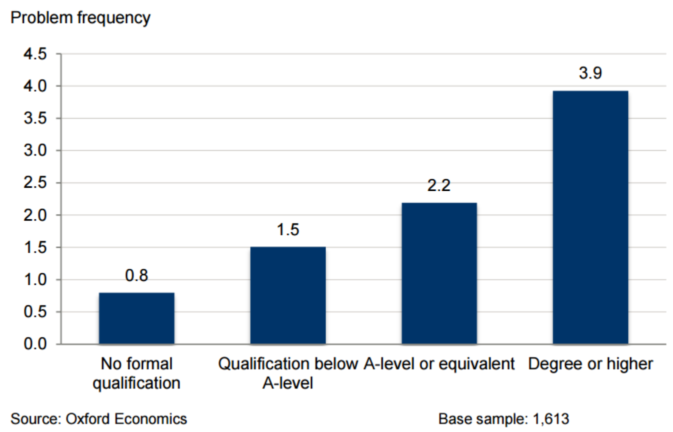
As well as speaking in detail on how these disruptions would change the consumer landscape, Victoria explored several issues raised by them. This included whether the disruptions can reduce the number of disengaged consumers and encourage switching, if they will help consumers navigate a complex marketplace, and how to ensure the benefits of innovation are divided equitably.

Key observations and themes from the day

The presentations were followed by an engaging question and answer session. Over the course of the event a number of key themes were drawn out and are expanded upon below.

Consumers experience detriment differently

The consumer detriment report showed a surprising variation in detriment by education level. The more educated the participant, the more problems they reported. Furthermore, the net cost of the problems was 5 times higher for graduates than non-graduates. This is not solely due to graduates having higher average earnings, but also because graduates reported using up over 4 times as many hours per problem compared to non-graduates.



The research also measured the emotional impact of consumer detriment. Here the reported impact is reversed, with non-graduates experiencing more worry, anger, frustration and stress as a result of their problems than graduates.

While the research did not delve into the reasons behind these differences, the Q&A session drew attention to other research in this area.

Daniel Walker-Nolan @DWN85 · Nov 29
Lower income consumers get less consumer redress due to lower sense of entitlement, according to a study from Northern Ireland #CashingIn

The event also highlighted the lack of in-depth international research quantifying consumer detriment, which makes it hard to know how the UK stacks up against other countries. Deciding what counts as detrimental is subjective for each consumer and varies by how research is carried out.

Everyone needs access to new technology

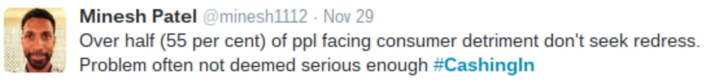
While technology could pave the way to improving access to redress and simplifying processes for consumers it may prove exclusionary, particularly for vulnerable consumers. More intermediaries and new, innovative pricing models may make navigating the market more difficult for less technology-savvy people.

Savings from cheaper renewables, or from not having to build new wires and pylons because of smarter grid management, should reach all consumers. New market interventions will make the need to engage all the more pressing. In energy, a striking example of this is the growth of solar and other types of distributed generation. This may allow some consumers to escape network charges which, while fantastic for the few, will mean the share borne by everyone else goes up.

Many new ways to improve energy efficiency and reduce costs highlighted in our energy research take the form of 'invest to save'. The risk is that benefits will be limited to wealthier households that can invest. The effect could be amplified because many investments require (or at least are made much easier by) owning a property, and may exclude those who do not own their home.

Robust consumer protections will have an increasingly important role in ensuring equal access to the benefits of innovation so we avoid vulnerable consumers getting left behind. Regulators and policymakers need to look at existing rules to see if they balance support for innovation with protection for consumers.

More information could make levels of engagement worse


Minesh Patel @minesh1112 · Nov 29
Over half (55 per cent) of ppl facing consumer detriment don't seek redress.
Problem often not deemed serious enough #CashingIn

The consumer detriment report showed that over half of those experiencing detriment do not seek redress. The majority of these were smaller instances of detriment, where consumers only lost out to a minor degree. It seems that consumers in these circumstances often decide it's not worth the time and effort to complain. This is particularly true where companies make routes to redress complex or time-consuming.

If technological advances serve to increase the complexity of an already-confusing marketplace, consumers could disengage further. Citizens Advice knows from our work on behavioural insights that more information can actually lead to greater disengagement: consumers experience choice overload. An abundance of energy tariffs varying by time of day and type of consumer are likely to only be used by a minority of enthusiasts. While this minority may appreciate increased complexity, the majority will not. The major problem this causes is the cost burden that gets passed on to the majority of consumers.

If energy policymakers aspire to a market that works for consumers, as opposed to a market that makes consumers work, innovation has to be nurtured and encouraged, but also steered and guided. In that way, enthusiastic consumers can benefit from new technologies quickly, without leaving the less well off and the disengaged too far behind. Citizens Advice has an important role in continuing to help consumers understand products and to advocate for clarity and transparency of pricing and benefits.

Consumer choice doesn't necessarily mean consumer savings

Our work on consumer detriment highlights the complexity of consumer satisfaction. For instance in leisure, consumers only recover 7% of their costs yet 77% say their issue was resolved reasonably.

We know that for many consumers, time is as valuable as money. New intermediaries tend to attract consumers through convenience and cost. Consumers increasingly expect to be able to shop for services online and, from this perspective, an intermediary is able to provide a superior consumer experience. The automation of switching, led by next generation intermediaries, further adds to the convenience and potentially eases decision making.

While important, this can disconnect the consumer from considering the quality of service ultimately received from the supplier. Disruptions to service design have the potential to improve the quality of service consumers receive as well as the amount they pay.

It is also by no means a given that technology leads to more competitive pricing. Overseas examples of 'subscription' pricing models often appear to offer objectively poor deals, especially when compared with complex, lower-cost time of use tariffs. This shows that market innovations often demand a pay off between simplicity and price.

Cross-sector solutions are increasingly important

Although our report, *The Disrupted Decade*, focuses solely on the energy market, the extent to which we should look to cross-cutting consumer solutions was discussed. The variation in consumer detriment suffered across different markets made this particularly pertinent. One question raised in the session got to the heart of this: what are the reasons behind some sectors giving rise to higher levels of consumer detriment than others, and could disruptions in the energy market also represent solutions for other sectors?

The panel agreed that there will continue to be a need for sector specific solutions, but that cross-sector solutions increasingly exist. The panel were clear that many of the problems and solutions discussed in Disrupted Decade were relevant to many markets. Intermediaries were cited as an example of the increasing overlap of market solutions.

The panel also emphasised that there is room for consumer markets to learn from one another. One example pointed to was telecoms. The rapid expansion of the industry, with phones having gone from luxury item to essential service over recent years, has meant consumer protections have often struggled to keep up. For instance, debt collection practices for consumers in arrears for their telecoms bills appear outdated in comparison with other sectors. Similar examples exist in other markets.

As technology brings new ideas and interventions to the fore, the barriers between sectors are being increasingly blurred. The energy market is a prime example of this. Regulatory boundaries are an important area where clarity is needed. For example, are energy suppliers or tech hardware suppliers responsible for smart meters? Looking to consumer markets more broadly, if a consumer buys bundled products, how can it be ensured that market specific rules can be adhered to, and who do they turn to for redress? As these boundaries blur, it will become increasingly vital to develop consumer protections with a cross-sector mindset.