

Institution: University of East Anglia
Unit of Assessment: 19 Business and Management Studies
Title of case study: Improving consumer decisions and outcomes through regulatory decisions
<p>1. Summary of the impact</p> <p>Research undertaken at the University of East Anglia (UEA) has identified whether consumers are likely to switch supplier, whether they are likely to get a good deal, and how companies are likely to respond to specific regulatory intervention. Such research findings challenge regulators to make better decisions. An appropriate regulatory framework leads to better decisions by consumers, helping markets to work better, and resulting in lower prices and bills. This is particularly critical in the energy and water sector, which are of crucial importance to each of the 25 million households in the UK, and where implementation of some of these research findings could lead to reductions of 6% in household energy bills (which translates to a total saving of over £2.1 billion a year).</p>
<p>2. Underpinning research</p> <p>Consumers do not always behave as standard economic models predict in deciding to change supplier or in choosing their supplier, and this has implications for supplier behaviour, for how well markets work, and appropriate policy both towards consumer and company behaviour. Discussions of markets and appropriate policy both in the UK and overseas and the establishment of the Behavioural Insights Team in the UK government have drawn on this work. Research undertaken at the University of East Anglia based on consumer surveys and market analysis, complements a growing debate about behavioural economics, and the basis on which consumers make decisions, as well as the nature of consumer protection and empowerment.</p> <p>The research explored the nature of consumers' choices to switch and how well they switched, using consumer survey data which asked about consumer experiences. The main surveys cited here were conducted in 2000 and 2005. A third survey, conducted in January 2011, will feed into further work and citations in this area. There are two major strands to the results so far. The first is to explain consumers' inertia in switching supplier, and assessment of whether introducing competition has benefited competition, or indeed was likely to do so. The second was developed in Wilson and Waddams Price (2010, reference R2 below), where the focus was on how well consumers captured potential benefits when they switched: a fifth of consumers who were switching solely to save money chose a more expensive option.</p> <p>A third development has fed into the energy regulator's debate about how to address consumer inertia and the proposal to introduce a non-discrimination clause for retail energy suppliers in the household market. The academic publication (Hviid and Waddams Price, 2012, R3) was developed alongside the contribution to the debate in responses to consultation and discussions with the regulator.</p> <p>The work on consumer choice resulted in the commissioning of four specific pieces of research work: for the Office of Fair Trading, the Department of Business and Regulatory Reform and the water regulator, Ofwat.</p> <p>This is a continuing stream of work at the ESRC Centre for Competition Policy and its predecessor the Centre for Competition and Regulation at UEA, and the research has been undertaken at UEA since 2000.</p> <p>Key researchers, with dates of employment at UEA:</p> <ul style="list-style-type: none"> • Waddams (publishing as Waddams Price): Director of CCR and CCP 2000-2011, Professor in Norwich Business School, 2000 - • Wilson: PhD student and research assistant, 2004-2008 • Hviid: Senior lecturer in economics 2000 – 2004; Professor of Competition Law 2004-; Director of CCP 2011 - • Loomes: Professor of Economics, 2001-2009 • Garrod: PhD student, research associate and post doctoral researcher 2003 -2011

3. References to the research

- R1. Giuliotti, M., Waddams Price, C. and Waterson M., 2005, Consumer Choice and Industrial Policy: a study of UK Energy Markets, *The Economic Journal*, 115, pp. 949–968 (4* ABS list); earlier version published as Consumer Choice and Industrial Policy: A Study of UK Energy Markets, Centre for the Study of Energy Markets WP 112, University of California Energy Institute, 2003.
- R2. Wilson, C.M. and Waddams Price, C., 2010, Do Consumers Switch to the Best Supplier?, *Oxford Economic Papers*, 62, pp. 647-668 (3* ABS list); earlier version which was widely cited in policy documents: Wilson, C.M. and Waddams Price, C., 2007, 'Do Consumers Switch to the Best Supplier', CCP Working Paper 07-6.
- R3. Hviid, M. and Waddams Price, C., 2012, Non-Discrimination Clauses in the Retail Energy Sector, *The Economic Journal*, 122, pp. F236–F252 (4* ABS list); earlier version CCP working paper 10-18, <http://competitionpolicy.ac.uk/publications/working-papers-2010> formed the basis of advice to the energy regulator see
<http://competitionpolicy.ac.uk/publications/responses-to-consultations> (2008)
<http://www.ofgem.gov.uk/Markets/RetMkts/ensuppro/Documents1/UEA%20Response%20o%20Energy%20Supply%20Probe%20-%20Initial%20Findings%20Report.pdf>;
<http://www.ofgem.gov.uk/Markets/RetMkts/ensuppro/Documents1/Response%20from%20Catherine%20Waddams.pdf>;
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=95&refer=Markets/RetMkts/ensuppro>
http://www.ofgem.gov.uk/Markets/RETMKTS/RMR/Documents1/SLC_25A_CCP.pdf
- R4. Garrod, L., Hviid, M., Loomes, G. and Waddams Price, C., 2008, *Assessing the Effectiveness of Potential Remedies in Consumer Markets*, a report for the Office of Fair Trading. Revised version published as Garrod, L, M. Hviid, G. Loomes and C. Waddams Price, 2009, "Assessing The Effectiveness of Potential Remedies in Consumer Markets" *Loyola Consumer Law Review*.

Most of the work was undertaken as part of the ESRC funded Centre for Competition Policy ESRC grant reference numbers RES-578-28-0001 and RES-578-28-0002, principal investigator Waddams. The ESRC awarded funding for 10 years, from September 2004 to August 2014 at a value of £8.5 million.

4. Details of the impact

The impact has been at two levels: in influencing the policy debate, and thus improving the quality of argument and decision; and through this in stimulating competition to deliver lower prices for consumers which will affect all households.

Both the energy regulator, Ofgem, and the water regulator, Ofwat, have recently taken fundamental decisions about the structure of household choice in their sectors. Ofgem has introduced a number of measures since a review of the market in 2008 to encourage more consumer switching. CCP's research on consumer behaviour, and analysis of potential response by firms and consumers to Ofgem's proposed changes, has fed into and informed those debates. These have occurred in two distinct areas:

- Concern about consumers who switch to less good deals. The research by Wilson and Waddams received media coverage and caught the attention of a number of policy makers (S4, S6, S7), including the energy regulator (S5). Ofgem was sufficiently concerned and sceptical about the work showing consumer errors that they commissioned their own study,

Impact case study (REF3b)

which both confirmed even 'worse' results than those in Wilson and Waddams Price and led to greater understanding of the nature of 'active' and 'passive' consumers. This has led to a number of important initiatives to improve the ability of consumers to make good decisions, implemented after the Energy Supply Probe in 2009.

- To protect consumers who were not switching, Ofgem introduced tighter controls on company behaviour, in particular introducing a non-discrimination clause which prevented companies offering better deals to consumers in areas where they had not previously been the incumbent to encourage switching. Although the regulator initially decided to implement the non-discrimination clauses, despite acknowledging the advice of "three academics" (including Waddams) not to do so, the regulator did not renew them, largely because of arguments based on the work of Hviid and Waddams in demonstrating the potentially perverse effects of these clauses (S8, S9). An independent expert (Littlechild response at <https://www.ofgem.gov.uk/publications-and-updates/retail-market-review-updated-domestic-proposals>) estimated that the damage done by the non discrimination clauses amounted to £10bn over 6 years, averaging £400 for each household in the UK and adding around 6% to energy bills.

In the water sector, on the basis of CCP's work on consumer choice in newly opened markets, Ofwat invited CCP researchers to explore the benefits of allowing companies to offer a choice of tariffs to household consumers for whom they are a monopoly supplier. As a result of the commissioned paper, based on evidence from the CCP research programme cited above, the Board decided in September 2011 not to permit companies to offer such a choice, thus avoiding potential harm to consumers. The commissioned paper has been published on the Ofwat website.

Within the UK the route of the research in influencing impact has been through invitations to give advice to Government and agencies across a range of areas and departments. Members of the team have been consulted on issues of consumer choice by the Cabinet Office's Behavioural Insights Team (January 2011); by the Department for Business, Innovation and Skills through membership of the Economic Strategy Review Group advising the Better Regulation Executive from January to December 2010; to give written and verbal evidence on the Enterprise and Regulatory Reform Bill (<http://www.publications.parliament.uk/pa/cm201213/cmpublic/enterprise/memo/err43.htm> and <http://www.publications.parliament.uk/pa/cm201213/cmpublic/enterprise/120621/am/120621s01.htm>); in Ofwat through membership of Ofwat's Future Regulation Advisory Panel, and particularly its Customer Engagement subgroup, for which a piece of work on consumer choice was commissioned which formed the basis of a high level breakfast briefing at Westminster, and from May 2012 as a non executive director of Ofwat; and by membership of the Ofgem Retail Market Review expert panel (S1). Much of this research was disseminated through responses to consultation documents, using the framework established within the ESRC Centre for Competition Policy for identifying such opportunities where its research findings can contribute to a current policy area.

Further international policy impact occurred through influencing European Commission discussions on consumer behaviour in energy markets, where the research is seen as "*very relevant as it has helped us in the Commission go beyond simply referring to the GB energy market as the blueprint for electricity and gas market liberalisation...by identifying issues that need to be addressed even in a market where more than a few energy providers operate*" (S2). Also, through the Centre on Regulation in Europe (CERRE), which CCP joined in autumn 2011 and of which Waddams has been a joint academic director since November 2011. This group of regulated industries, regulators and academic institutions is influential in European policy. Waddams has been invited by decision makers to present the work at high level conferences, e.g. to DG Health and Consumer Protection, Brussels, 28th November 2008 and the Australian Competition and Consumer Commission Regulatory Conference, July 2013 (see also S10).

5. Sources to corroborate the impact

User statements

- S1. Senior Partner Sustainable Development and Board member at Ofgem for the contribution to the Retail Market Review;
- S2. Director of Consumer Affairs, DG SANCO (Health and Consumers), the EC's representative in London since February 2013, for effects on policy

Documentary references to the research

R1: Giuliotti et al. (2005)

- S3. Working paper cited in Ofgem Supply probe 2008 p.45:
http://www.ofgem.gov.uk/MARKETS/RETMKTS/RMR/Documents1/SLC_25A_Stephen_Littlechild.pdf

R2: Wilson and Waddams Price (2008)

- S4. Cited as evidence in National Audit Office report 'Protecting Consumers? Removing Retail Price Controls', March 2008:
http://www.nao.org.uk/publications/0708/protecting_consumers_removing.aspx
- S5. Referenced in Ofgem report 'energy Supply Probe – Initial Findings report (October 2008):
<http://www.ofgem.gov.uk/Markets/RetMkts/ensuppro/Documents1/Energy%20Supply%20Probe%20-%20Initial%20Findings%20Report.pdf>
- S6. Cited as evidence in BIS report 'A Better Deal for Consumers: An Economic Narrative' July 2009: <http://www.bis.gov.uk/files/file52074.pdf>
- S7. Cited in 'Better Choices: Better Deals Consumer Powering Growth' April 2011:
<http://www.bis.gov.uk/assets/biscore/consumer-issues/docs/b/11-749-better-choices-better-deals-consumers-powering-growth.pdf>

R3: Hviid and Waddams Price (2010)

- S8. Citation by other influential commentators of evidence on non-discrimination clauses which dissuaded Ofgem from renewing them. Stephen Littlechild evidence to Ofgem:
http://www.ofgem.gov.uk/MARKETS/RETMKTS/RMR/Documents1/SLC_25A_Stephen_Littlechild.pdf
- S9. Cited in Competition and Entry in the GB Electricity Retail Market: Frontier report for Energy UK <http://www.frontier-economics.com/europe/en/publications/336/>

R4: Garrod at al. (2008)

- S10. Used as a resource by Australian Communications Consumer Action Network Guide to Consumer Rights and Protection in the Communications Industry:
<http://www.apo.org.au/guide/accan-guide-consumer-rights-and-protection-communications-industry>