

Which?

**How Which?
decides what to
campaign on**

**CCP Conference
'Problem Markets'
12 June 2014**

About Which?

- We began life in a garage 56 years ago as a volunteer organisation committed to providing expert and impartial advice
 - now the UK's largest consumer body - almost 800,000 members
- An independent, a-political, group social enterprise working for all consumers and funded solely by our commercial ventures
 - no government money, public donations, fundraising income
 - commercial revenue into our campaigns and free advice for all
- Which? drives change in 3 ways
 - Information/advice to make complex markets easier to navigate
 - Where choice and information isn't enough we campaign for fundamental change in those markets
 - When an important market fails to deliver value to customers, we develop products and services that put customers' needs first and are worth paying for

Markets - challenging the accepted wisdom

- Apparent mantra pre-financial crisis: ‘markets always work’
 - always the best solution
 - the freer the better
- Not Adam Smith’s view in the late 18th century
 - *‘People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices....’*
- Nor that of the first Consumer Minister, Geoffrey Howe in 1972
 - *“the sovereignty of the consumer, which is the most important element in the operation of the free competition market, is not to be taken for granted.” He went on to say it’s the job of the government and regulators to ensure consumers are “adequately and accurately informed”, but information alone is not sufficient. Consumers should be protected against unfair practices, abuse of market power, and “other aspects of imperfect competition”*

The signs of effective competition

- Choice, Innovation and Information became the buzzwords for companies wanting to burnish their competition credentials
- These terms need to be qualified
 - Meaningful choice
 - Innovation that benefits consumers
 - Useful information
- If consumers are to make decisions that actually drive genuine competition in markets, rewarding the best and eliminating the worst, they must be able to
 - judge value - price against quality
 - compare the alternatives

Evaluating competition in a market

- We start with two tests
 - Is the market achieving what it was intended to do?
 - Consumer outcomes: is the market working for consumers as well as business?
 - and which parts of business is it working for?
- If not, why not?
- Check claims of
 - Choice - are consumers making choices? And the 'right' ones?
 - Innovation - are consumers taking it up? Are they benefiting?
 - Information - are consumers using it? Understanding it?

Understand the type and level of detriment

- Wide vs narrow
- Shallow vs deep
- Issues that genuinely matter to people
- Everyday Frustrations
 - smaller individual detriment but annoying for many
 - e.g. premium rate phone numbers, nuisance calls, card surcharges
- Structural and/or cultural issues at the heart of broken markets
 - Banking reform, Energy, Food Fraud

Confusing pricing - often at the heart of the problem

- In almost all consumer markets consumers' role is to drive competition by choosing the best available products and services
 - if they can't understand the price they can't begin to do this
 - a market may give the appearance of competition but it won't be effective competition
- If people can't understand the price
 - they can't judge value
 - they can't compare what's on offer
 - they have less chance of making the best decision for them
 - and may withdraw from the market
- No coincidence that in many very different areas - Financial Services, Energy, Food, Telecoms - Which? is calling for one thing
 - clear pricing
 - comparable pricing

Give consumers a real chance to take responsibility

- In a market situation consumers do have a responsibility to choose
 - But they need to be empowered with the right information
 - Not locked out by baffling price structures that can't be understood never mind compared
- Wilful misunderstanding of what's needed does not help
 - More products doesn't necessarily equal a better choice
 - Tweaks to a pricing structure aren't necessarily beneficial innovation
- Nor does the assumption that consumers will go to any lengths to get the information they need
 - few have actually read the 29,000 words of 'A Christmas Carol'
 - even fewer the 29,000 words in HSBC's current account terms & conditions

Case Study - the retail Energy market

- Competition was intended to protect the interests of consumers by putting them in the driving seat
 - Individual choices of the best products would ensure efficient, competitive prices by driving down wholesale and retail costs
- Standard indicators of competition were apparently positive
 - A choice of hundreds of tariffs! Lots of Switching!
 - International comparisons - cheaper than most of Europe!
- Against increasing media and consumer anger about
 - Not making the expected savings from switching
 - Prices that rise substantially but never seem to fall
 - Regular large rises in profits announced soon after price rises
 - Terrible customer service

An overlooked indicator - the outcome for consumers

- Looking at the outcomes for Energy consumers
 - 75% are on standard tariffs; est overpayment of £3.9bn a year
- Not exercising choice effectively
 - Few - mainly more affluent, engaged, online - choosing from the hundreds of tariffs available and making savings
 - Few switchers confident they're saving; some even paid more
- International comparisons are not like-for-like
- The limited information available suggests profit margins are much higher on the Wholesale side than the Retail side
- The industry is now facing a MIR and finally acknowledging it has lost consumers' trust

What is Which? doing?

- Continuing what Which? is known for
 - Best buys
 - Exposing poor practice and proposing solutions
- Engaging with business
 - Banks and Energy Suppliers say rebuilding Trust is a priority
- Intervening in markets where consumers are at a disadvantage
 - Whole of market Mortgage Advice
 - Energy switching service with typical achieved savings claims
 - Energy collective switch that beat the market
 - Using big data sets on the Which? University, Birth Choice and Elderly Care websites to help consumer make complex choices