

# Consumer First

## - Key Research Summary

### Switching behaviour amongst vulnerable customers

As part of its Consumer First initiative, Ofgem recently commissioned two pieces of research to develop our understanding of how vulnerable consumers engage with the energy market.

We commissioned Ipsos MORI to carry out a quantitative survey amongst a cross-section of energy customers to compare behaviour between vulnerable and non-vulnerable customers and track year on year changes. We also commissioned FDS International to carry out a programme of focus groups and individual interviews with a range of vulnerable customers including those on low incomes, single parents, non-English speakers, those aged 75+, people with low levels of literacy or numeracy, and people living in remote areas.

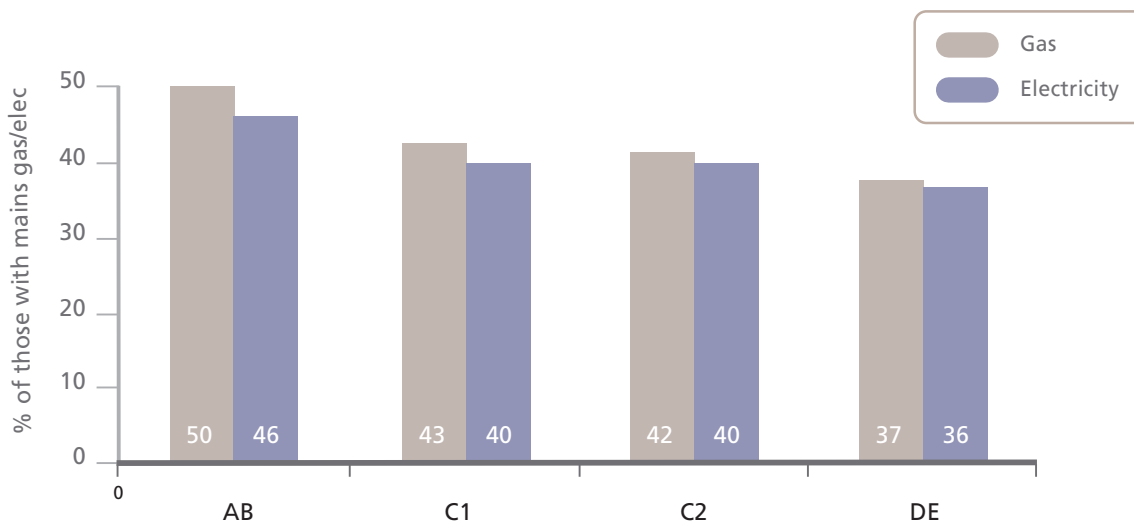
### Switching rates

The Ipsos MORI survey showed that the energy market continues to be active with many customers, including some of those who are considered to be vulnerable, switching their gas or electricity supplier. Switching rates remain similar to last year with 20 per cent of those with mains gas and 19 per cent of those with mains electricity saying that they switched their supplier during 2007. Switching rates amongst PPM customers rose significantly during 2007 with activity being at a similar level to those paying by direct debit. However switching amongst standard credit customers, a payment method favoured by many vulnerable customers, remains a sluggish part of the market.

The proportion of those from social class DE who say they have ever switched supplier is significantly lower than other customers. Whilst we know that the figures are underestimates across all customer groups, the difference is concerning.

Our research sought to explore the barriers to some of these more vulnerable customers switching supplier so that action can be taken to help overcome, or where possible, remove those barriers.

### Have you ever switched your supplier?



## Likelihood of switching

The vast majority of people know that they can switch supplier - 80 per cent of those who said that they hadn't ever switched said they were aware that they could. People are likely to switch suppliers when (as illustrated below):-

- they perceive it to be easy, or almost as easy to switch as to stay

and

- the expected benefits of switching are greater than the perceived risks or disbenefits.

### Balance model for customer about to switch




## Switching triggers

The main reason why customers switch supplier is to save money (78 per cent). Half of those who switch do so proactively i.e. they seek out a deal themselves, whilst half switch reactively i.e. in response to a visit or call from a sales rep.

Many vulnerable customers lack the confidence, knowledge or initiative to seek out, find, evaluate and sign up to alternative energy providers and consequently are more likely than others to be reactive switchers: 56 per cent of those in social groups DE, and 52 per cent of people renting their home had switched electricity supplier last time as a result of a sales call at their door.

This compares to 26 per cent of AB's and 38 per cent of owner occupiers. However sales reps can only persuade those people who let them talk to them. Many customers will refuse to talk to them and consequently do not learn about any potential savings or how they can go about switching.



*The main reason why customers switch supplier is to save money*

## Barriers to switching

Whilst most vulnerable consumers are aware that they can switch many are not sure how to. Some also believe that they cannot switch due to geography (believing other suppliers would not service remote locations); having a debt that they believe they have to clear with their existing supplier before they can switch; or not knowing if their landlord would allow it.

The FDS research showed that, in addition many vulnerable consumers fail to switch supplier because of the following barriers:-

1. They are **unaware of, or underestimate, the savings** they could make through switching supplier or payment method. When shown price comparison sheets during the research discussions many were surprised at the amount they could save.
2. They believe that any savings will be short-term only or that **they will not save enough** to outweigh the hassle of switching. In particular many customers on low incomes tend to think in terms of weekly, or possibly, monthly savings and even quite a substantial yearly saving of £100 or so does not seem attractive enough when broken down to this level.

*"You work it out weekly and it isn't worth the change"*

3. They **do not have easy access to price comparison information**. Whilst information on prices is freely available it is more likely to be seen and understood by those with internet access (who tend to be more educated and affluent). Many more vulnerable customers do not have easy access to the Internet or the time or inclination to seek out relative prices. In addition, some of the research participants who were more proactive in seeking out a better deal complained of the difficulties in comparing tariffs, finding the way suppliers express their charges complicated.

*"Tesco and Texaco have a big billboard outside saying its 98p a litre. If the gas and electricity companies said its 60p per watt or volt or whatever it is then you could compare. They don't do anything in that kind of basic level do they?"*

*"I phoned another supplier to check their day and night rates and I've got my bill in front of me and I can work out how many units. But it's too complicated they just won't give it to you straight like that."*

4. Reluctance to switch is also a reflection of a widespread belief, sometimes based on experience, that switching is **difficult and a hassle**. Many have heard reports of being billed by the old and new supplier. While switching is straightforward in most instances, and many of those who had switched reported no problems, there are still occasions where problems occur. Where people hear of these through word of mouth or media coverage, their doubts about switching are magnified.

5. Some **fear that something may go wrong** if they switch and that they will be unable to easily recover from unexpected problems or expenses. This particularly applies to changing payment method where they fear direct debits being set up for the wrong amount leaving an unexpected debt or bank charges being incurred.

6. Many vulnerable customers also simply **lack confidence** in their ability to manage the switching process and are nervous about embarking on it. Some research participants made it clear that they were overwhelmed at the thought of making the decision to switch and were concerned that they would make the wrong decision.

7. Some are simply **too passive, lazy or busy** to switch, so even a small degree of effort may be too much to persuade them to change supplier.

*"I've got three kids under five so when I've got five minutes peace I don't think, oh I'm going on the internet now and I think I'll change electricity or whatever – no, it's sit down with a glass of wine and watch Eastenders."*

8. Some believe they may receive poorer service if they switch or have a **loyalty to existing provider**. This loyalty is sometimes based on good service experience, particularly amongst some people with disabilities who were interviewed. Where they are reliant on the energy supply or on additional arrangements that have been made with their supplier to meet particular needs the risk of changing supplier will also be greater. Loyalty is also often based on mistaken or naive views of the service they might expect from a competitor. For example some believed that they would receive lower priority in the event of gas leaks if they were to switch away from British Gas. For some the loyalty is based on 'national' loyalty to British Gas, SWALEC or a company with Scottish in its name.

*"You feel safer with anything that's got Scottish in it – Scottish Power, Scottish Gas – and you feel that you are doing Scotland some good."*

9. Some, particularly the elderly and those living on their own **dislike talking to sales reps** and fear of being pressured discourages many from switching reactively in response to a sales call.



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## Changing Tariff

Only a small proportion (8 per cent) of customers in the survey said they changed tariff without changing supplier during 2007.

Most vulnerable customers had stuck with the same method of payment for many years, and were often nervous at the prospect of making a change. Vulnerable customers were unlikely to be attracted to online billing. They are less likely than others to have online access, but even those who do liked the security of paper bills and worried they might forget to go online to receive a bill or might lose online access.

The research showed that those who had changed from PPM to direct debit were as likely to have made the switch because they thought direct debit would be more convenient or that it would enable them to pay equal amounts each month, rather than paying more in winter, as they were to have switched to save money. As in previous research many of those on PPMs indicated that this was a positive choice giving them control over their money and avoiding unexpected bills. Others simply don't like change:

***"My energy company tried to change it to direct debit but I just find it easier to nip to the shop to get it."***

Similarly many customers on low incomes get paid weekly and monthly direct debits do not easily fit with this. There were also concerns about the level of the direct debit being set too low resulting in unknowingly building up a debt. Customers on low incomes find this type of situation difficult to easily recover from. Others fear bank charges if there is insufficient money in their bank account when the direct debit is due.

***"If you are living from week to week and they take it early because of a Bank Holiday then you get those bank charges."***

## Acting on this research

The findings of this research have been used to inform discussions in the lead up to Ofgem's Fuel Poverty Summit on 23rd April. The action plan arising from the Summit will be published on Ofgem's website.

The research will also be used to inform Ofgem's Market Probe which will report in September 2008.

**The full reports from this research can be downloaded from Ofgem's website.**

Ipsos Mori's report "switching rates for vulnerable customers" at : <http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/MORI%20report%20switching%20rates.pdf>

FDS' report "vulnerable consumers' engagement with the energy market" at: <http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/vulnerable%20customer%20engagement%20with%20the%20energy%20market%20research%20report.pdf>