Consumer First Panel: Wave Two

Prompting consumer engagement in the energy market.

February 2018

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Introduction

Overarching objectives

The second Panel session for 2016-17 focused on ideas that could increase consumer engagement in the energy market.

To understand the extent to which the name "Standard Variable Tariff" creates a barrier to engaging with the energy market and to assess which other name(s) may be more appropriate.

To develop, discuss and explore possible prompts that might encourage more consumers to engage with the energy market (i.e. consider switching).

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Background

Standard Variable Tariff (SVT)

Standard Variable Tariffs have no end date and are usually more expensive than other fixed-term tariffs available from the same supplier or other suppliers. There are a high volume of disengaged customers that have remained on a SVT for a significant amount of time. Suppliers tend to call these tariffs "Standard". There is a hypothesis that the term "standard" is normalising these tariffs, and is acting as a barrier to customer engagement with the market.

One way that customers sometimes end up on SVTs is if they reach the end of their current fixed term deal and don't switch again. At the end of 2017 we changed our rules so that suppliers no longer have to roll customers onto the SVT at the end of their current deals – they can now roll them onto further fixed term tariffs, subject to certain criteria.

Prompts to Engage

Following the Competition and Markets Authority (CMA) energy market investigation, Ofgem is considering a series of trials, looking at ways of prompting customer engagement. One suggestion is to trial changing the name of the SVT.

The workshops & Panellists

Workshops were attended by 66 people from across England, Scotland and Wales.

They were held between the 17th and 23rd November 2016.

Panellists were recruited on the basis of:

- Individual characteristics

- Household characteristics

- Energy characteristics

Stirling

Newcastle

Llandudno

Guildford

The workshop process

SVT naming

- Panellists were provided with a recap on the characteristics of an SVT
- They then brainstormed names to better describe these tariffs
- Alternate terms were also tested

Consumer prompts to switching

- Panellists recapped the triggers and barriers to switching
- They considered various 'how to' challenges regarding switching supplier
- Panellists deliberated on a set of prompts created by Ofgem
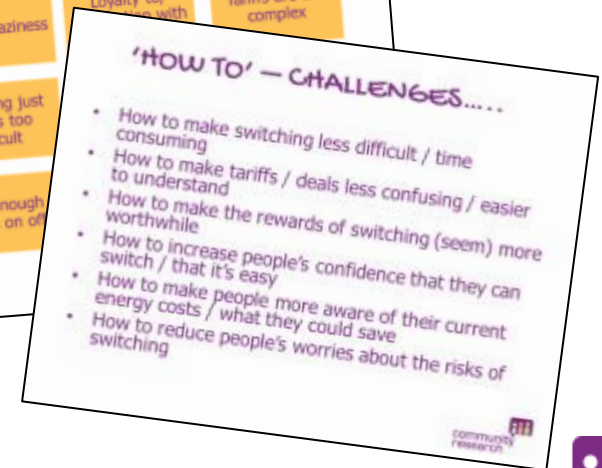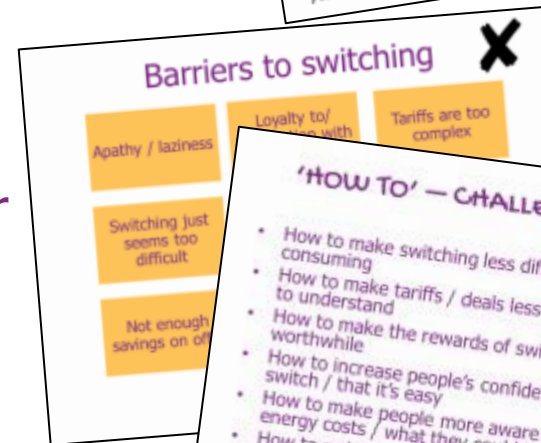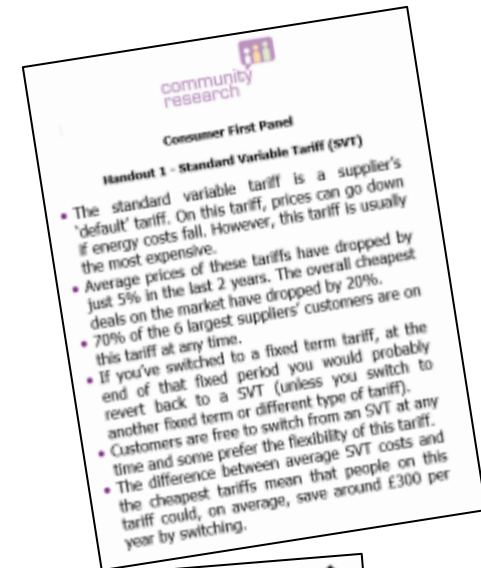
Interpreting the findings

Not statistically robust, but not intended to be

Insight from a broad cross-section having learned more about the issues

Caution about wider extrapolation

They had prior knowledge of Ofgem as a potential provider of remedies

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The Individual, Social, Material (ISM) behaviour change model

Introducing ISM

- In this wave of the Ofgem Consumer First Panel, Community Research worked with Andrew Darnton to use ISM as a framework to analyse Panellists' ideas and responses to proposals for increasing consumer engagement in the energy market.

- The ISM framework was devised following a UK Government review of models that being used to understand consumer behaviour.

- The intention is that ISM provides one single multi-disciplinary model for using behavioural insights to understand consumer behaviour.

- ISM moves beyond the individual to consider everything that shape people's behaviours. These are the individual, the social and the material. By understanding how these and the multiple factors within them influence the way people act, more effective policies and interventions can be developed. (http://www.gov.scot/resource/0042/00423436.pdf)

What does ISM consider?

THE INDIVIDUAL CONTEXT

This includes an individual's values, attitudes and skills, as well as the calculations they make before acting, including personal evaluations of costs and benefits.

THE SOCIAL CONTEXT

These are the factors that exist in the social setting, yet still shape an individual's behaviours. These influences include understandings that are more widely shared, such as social norms and the meanings attached to particular activities. It also considers people's networks and relationships, and the institutions that influence how groups of individuals behave.

THE MATERIAL CONTEXT

This includes the factors that are 'out there' in the environment and wider world, which both constrain and shape behaviour. These influences include existing 'hard' infrastructures, technologies and regulations, as well as other 'softer' influences such as time and the schedules of everyday life.

The ISM model
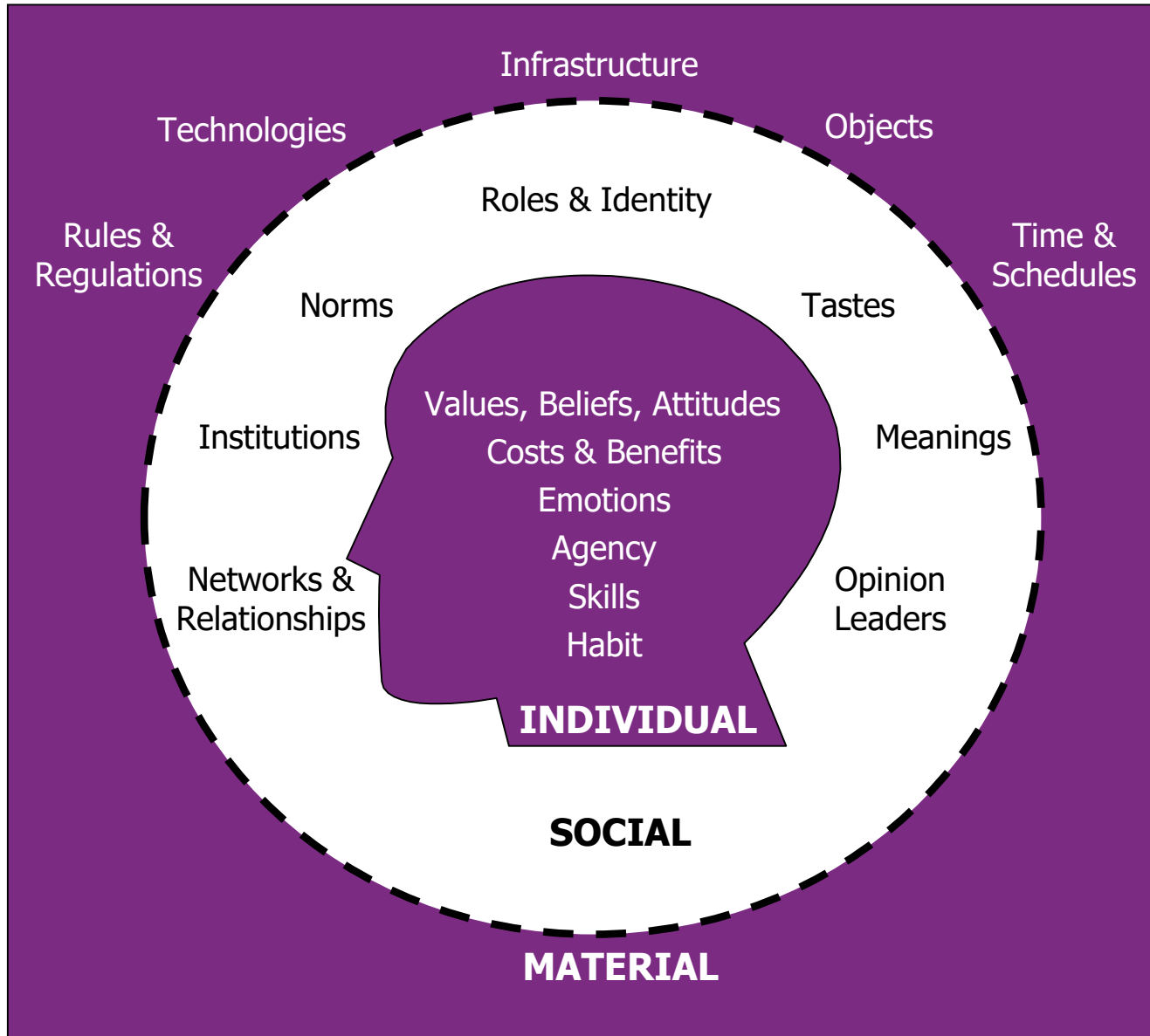
More detail on each element of the ISM model is provided in the appendix.

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Alternative names for Standard Variable Tariff

Thoughts on the term 'SVT'

- The SVT name was seen as misleading and as creating false reassurance.
- Specifically, the word "standard" gives the impression of this being:
  - Normal.
  - OK for anyone /everyone.
  - Neither particularly expensive nor particularly cheap.
  - (For some) standardised across the industry
- It therefore provides reassurance that the SVT is a normal, acceptable tariff.
- As such, Panellists feel it does not reflect the monetary disadvantages of SVTs.
- They suggest a name change to "make people realise" its deficiencies.

General, ordinary, OK for everyone

Normal, non-exotic

Middle of the road – not cheap, but not expensive

Nothing to worry about

Standardised rates across suppliers

Standard Variable Tariff

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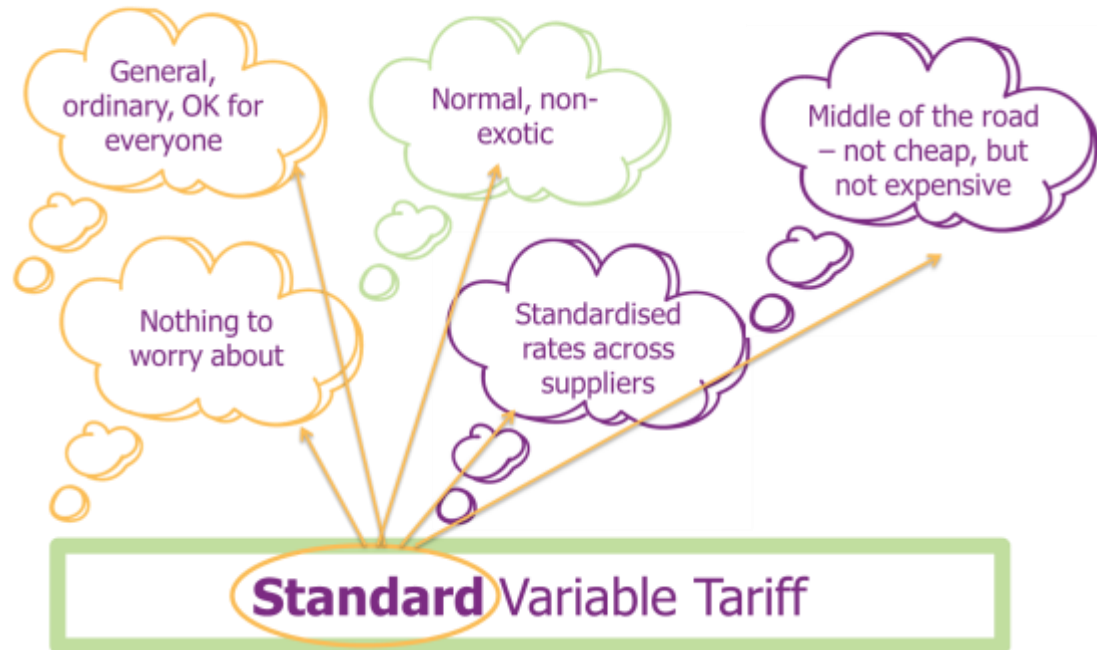
Thoughts on the term 'SVT'

- The variable element of the name is benign and truthful.
- It provides a clear message to most Panellists, that rates will vary and fluctuate.
- There are strong associations for home-owners with variable (as opposed to fixed rate) mortgages.
- A minority wonder whether it denotes variability between suppliers' tariffs.

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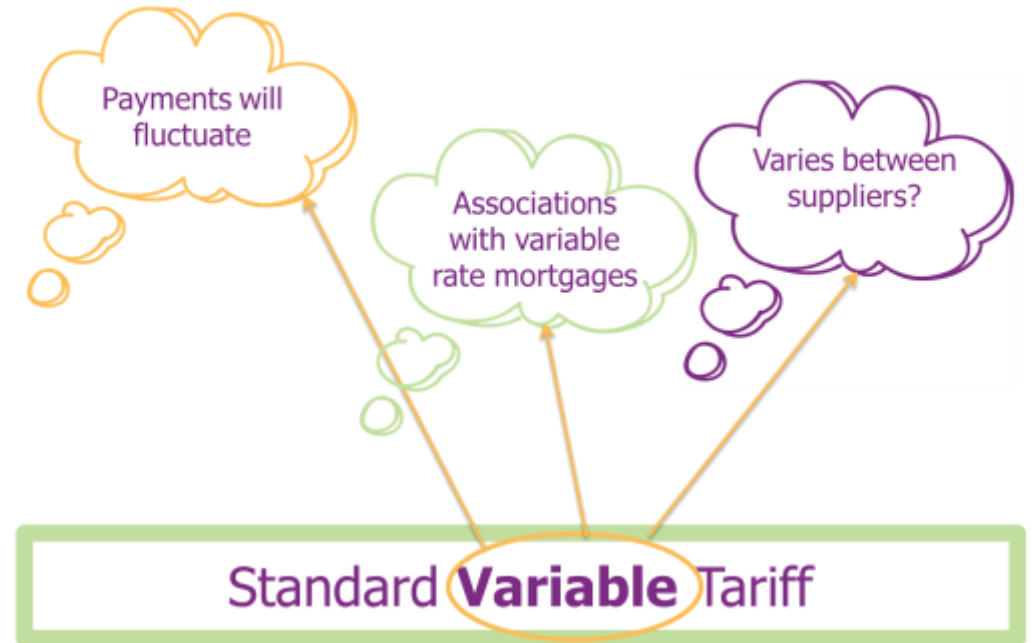
What's in a name?

- The SVT name is not, in itself, an active barrier to market engagement.
    - Some Panellists didn't know the name of their own tariff so were not affected by the term SVT.
- Panellists felt the term SVT was not really a barrier to engage when weighed against the perceived lack of reward and effort required to switch.
- However, there was a strong sense that a more appropriate name for the tariff, which gave a negative perception may jolt some into action.

Panellist suggested names

When asked to develop potential names to replace Standard Variable Tariff, Panellists came up with terms that:

- **Highlighted expense**
  - Straight – expensive tariff; maximum / maximum cost tariff; highest tariff; non discounted tariff; non-fixed rate tariff.
  - Direct / negative - the 'change your tariff' tariff; the rip off tariff; the 'not the best deal' tariff; the losing money tariff.
- **Highlighted variability/uncertainty**
  - Variable tariff, changing/changeable rate tariff; escalator tariff; see-saw tariff; random tariff.
- **Highlighted the fact that the consumer hadn't chosen the tariff**
  - Default tariff; basic tariff; starter tariff; automatic tariff.

The first of these was considered most likely to invoke consumer action.

Combinations of the above were also developed e.g. Maximum Default Tariff.

Removal of the word 'standard' with its associations of being normal was seen as vital.

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Ofgem's suggested names

Alternative terms for an SVT, created by Ofgem, were shared with Panellists. Some of these names were deliberately provocative in order to generate debate. We wanted to understand where the balance should lie between stimulating action and engagement on the one hand; and potentially triggering distress or excessive concern on the other.

Two Ofgem developed names were consistently identified as having the greatest potential impact on consumers' propensity to consider switching.

Emergency tariff

Gives a strong impression of being on a default, abnormal and expensive rate. This arises because many Panellists make an immediate link to HMRC's emergency tax rate, which shares these attributes.

'Emergency' also has strong negative and fear-inducing associations of being unsafe, dangerous, threatening.

It creates a sense that urgent attention should be paid and that action is necessary.

Expensive tariff

This provides a simple and unambiguous message - the tariff is more costly than others. This is less distressing but could still capture attention.

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Striking the right tone

Impact to drive change ← → Potential to cause distress

Panellists were drawn to **strong, negative language** to provide a name change with maximum impact. They felt that more uncomplimentary names would give the necessary **emotional 'kick'** to promote action. Without this emotional response, they felt a name change alone would lack the power to drive change. The name 'Emergency tariff' was liked because it could achieve this reaction.

However, there was also a concern that this approach may make people worried or anxious. Panellists felt that vulnerable people (elderly people in particular) might be alarmed by a name which achieved this emotional reaction, but they might still lack the knowledge and confidence to switch tariff or supplier.

It is clear that Emergency (and similar words that may cause some anxiety) may have the power to overcome inertia by creating an element of urgency and anxiety. Such an approach could be effective, but the name would need to be **accompanied by clear information about how to act**.

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Changing the SVT name - ISM
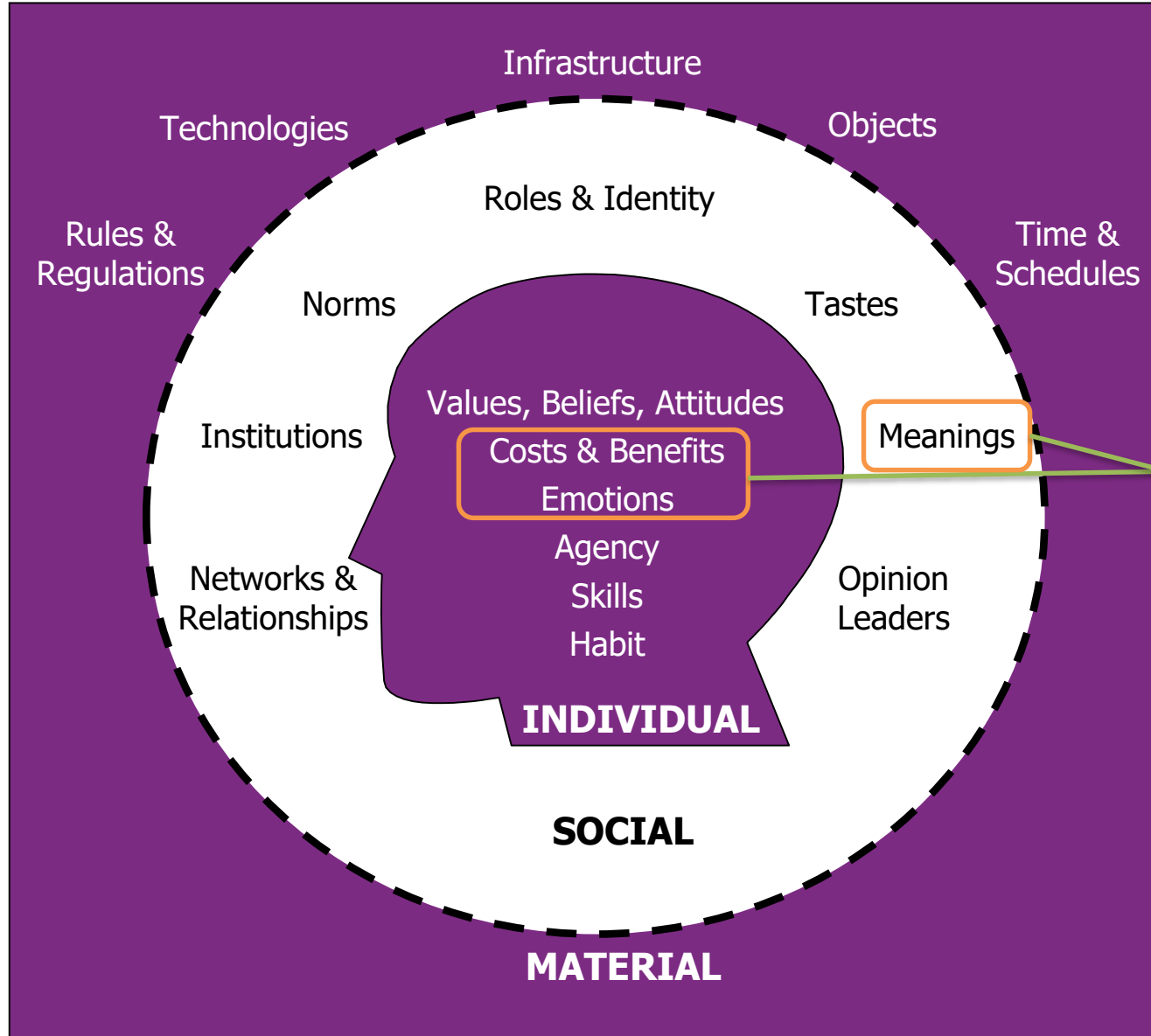
Relating this to ISM, preferred names seek to reframe the cost / benefit equation and provide an emotional spur to action.

Meanings are also important and (if noticed) can frame how people engage (e.g. associations with HMRC Emergency tax code).

Infrastructure

Technologies

Objects

Rules & Regulations

Time & Schedules

Roles & Identity

Norms

Tastes

Institutions

Values, Beliefs, Attitudes
Costs & Benefits
Emotions

Meanings

Agency
Skills
Habit

Networks & Relationships

Opinion Leaders

INDIVIDUAL

SOCIAL

MATERIAL

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Prompts to engaging in the energy market

Barriers and challenges considered

Panellists were reminded of barriers to engaging they had identified at the first workshop.
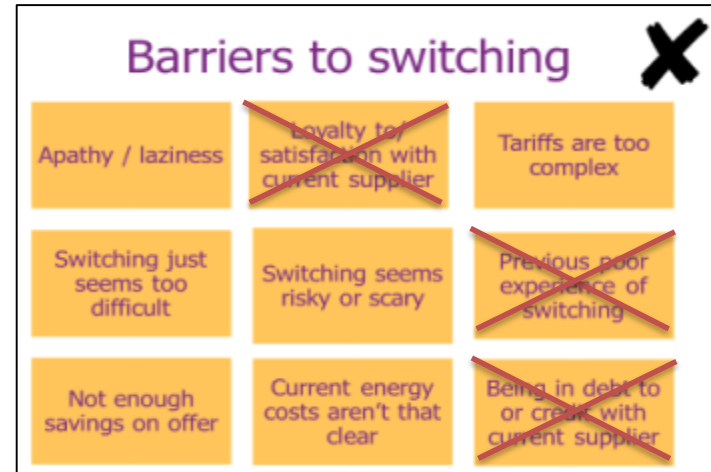
Some of these barriers were converted into challenges which Panellists brainstormed.

Barriers to switching

- Apathy / laziness
- Loyalty to/ satisfaction with current supplier
- Tariffs are too complex
- Switching just seems too difficult
- Switching seems risky or scary
- Previous poor experience of switching
- Not enough savings on offer
- Current energy costs aren't that clear
- Being in debt to or credit with current supplier

'HOW TO' – CHALLENGES…..

- How to make switching less difficult / time consuming
- How to make tariffs / deals less confusing / easier to understand
- How to make the rewards of switching (seem) more worthwhile
- How to increase people's confidence that they can switch / that it's easy
- How to make people more aware of their current energy costs / what they could save
- How to reduce people's worries about the risks of switching

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The imbalance of effort to reward

Much of the discussion amongst Panellists centred around a single central 'equation'. The effort and resources required to engage in the switching process (or to think about doing so) is not matched by the perceived reward of doing so.

Effort

- Switching not top of mind
- Have to find the time
- Perceived to be time consuming
- Hard to understand
- Uncertain effort /time required
- Problems may add time/effort
- Some +ve experience

Reward

- £300 is not a trivial sum
- Relatively modest
- Diffused over time
- Uncertain / variable reward
- Risk of error / mis-selling
- Don't trust suppliers to deliver

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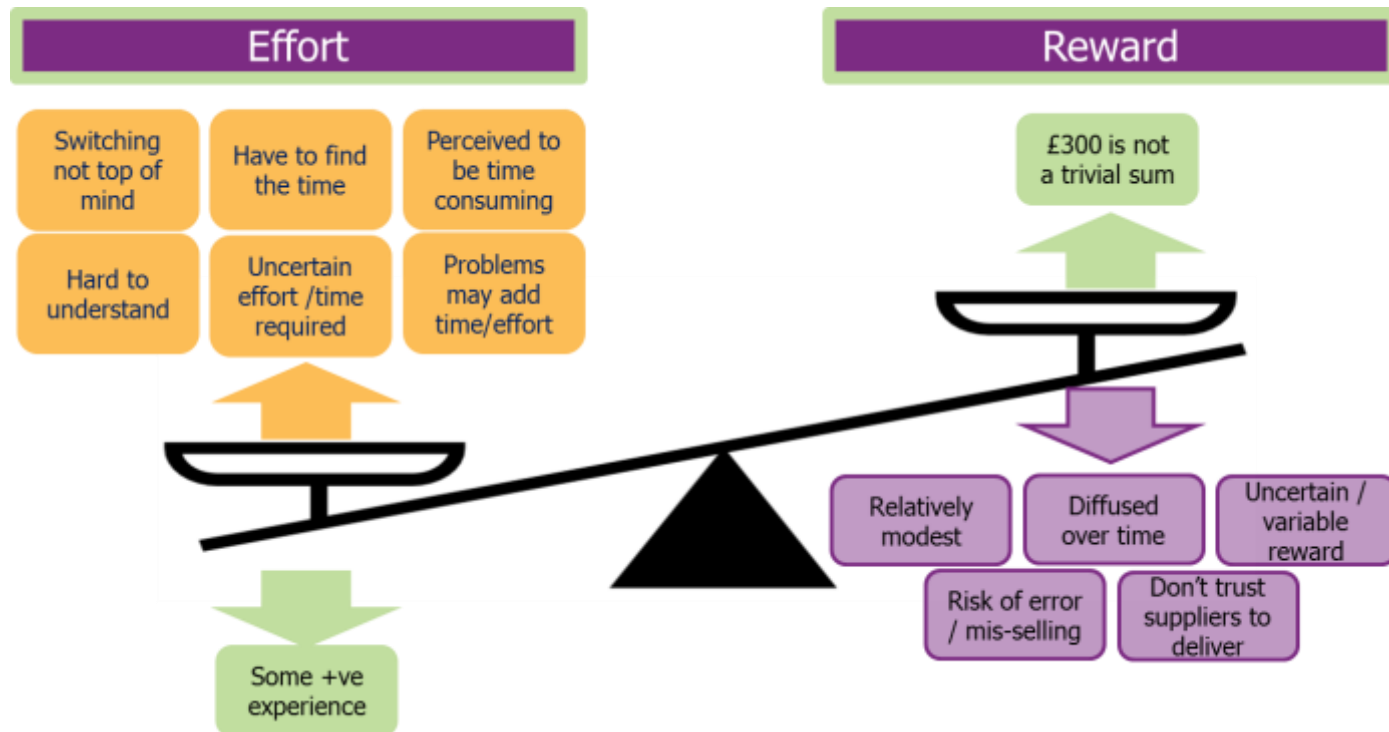
Redressing the balance

Panellists preferred ideas were those that sought to redress the inequity of this core equation – in both <u>perceptions and reality.</u>

Effort

Reward

Ideas which seek to make the process quicker, easier, more predictable <u>in practice</u>

Ideas which seek to make the process <u>seem</u> quicker, easier, more predictable

Ideas which seek to make the outcome guaranteed, more valuable <u>in practice</u>

Ideas which seek to make the outcome <u>seem</u> guaranteed, more valuable

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Reducing effort – in reality

Ideas that reduce effort centred on three main elements:

- **Automation** of switching – this was the most popular idea and had greatest perceived capacity to increase switching as it requires less effort. Panellists' own ideas included mobile apps and one-click online processes.
- **Simplification** of comparison – consumers felt a reduced and homogenised set of tariffs would break down barriers of confusion to switching.
- **Delegation/assistance** –assistance to short cut and/or push consumers was seen as potentially effective. Of the potential solutions, the 'best tariff in whole market message' and 'face-to-face support for vulnerable consumers' were well liked.

A clear winner

- Of all the pre-designed prompts, one was frequently favoured above all others:

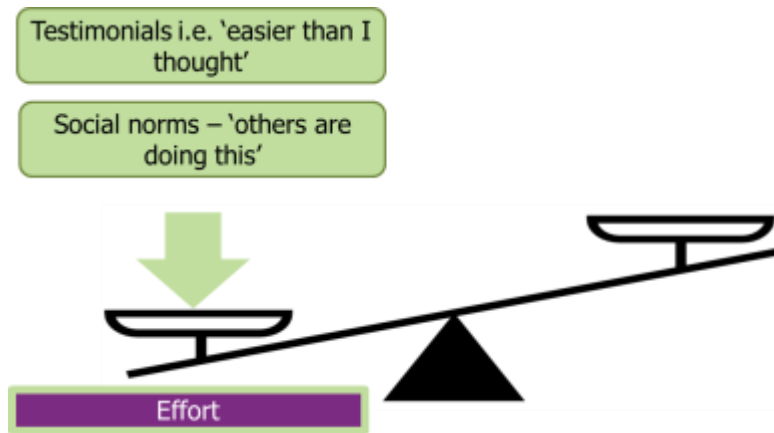**Most competitive tariff after previous contract ends**
Idea: When a fixed term tariff comes to an end and customers do not take any action, they will not default to the Standard Variable Tariff, but to the "most competitive tariff". Suppliers automatically roll them over to the best "most competitive tariff".
This would only apply to fixed term customers.

- In reality this removes the need for individual to think about the cost benefit as it AUTOMATES the behaviour.
- Some Panellists expressed a desire for this automation to happen for those not coming to the end of a fixed deal – i.e. all those currently on SVT would be automatically switched to the most competitive tariff.

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Reducing effort - perceptions

Testimonials i.e. 'easier than I thought'

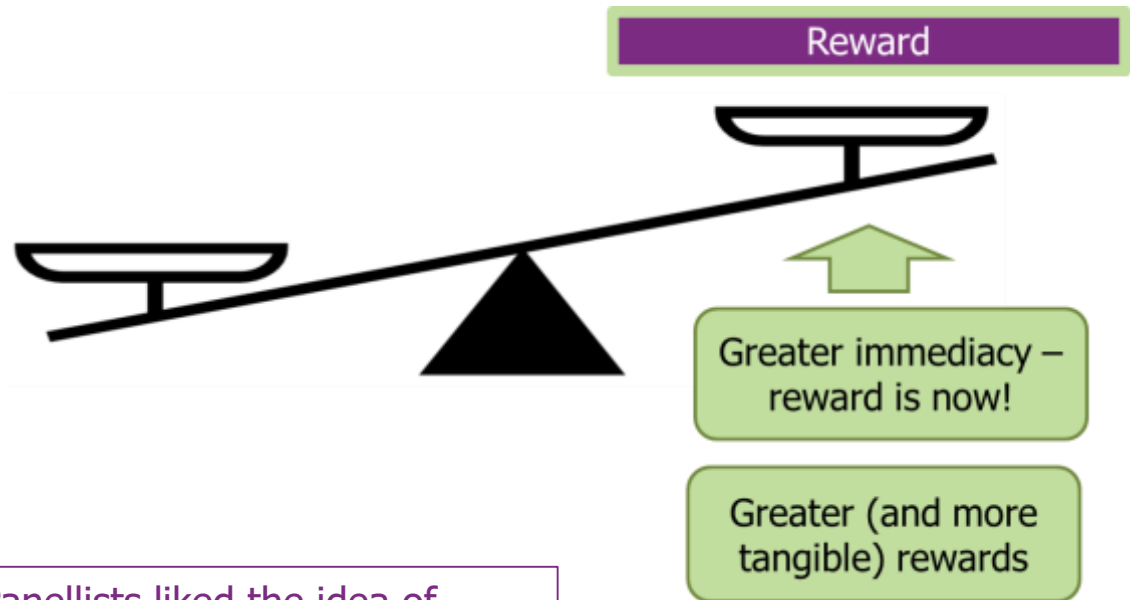Social norms – 'others are doing this'

Effort

Testimonials – Panellists felt information which made switching sound easy and quick could act as a small prompt. Panellists said they would like to hear from other consumers with recent experience who may have been surprised that the process was easy and quick.

Social norms – however messages citing that 'other people are doing this' had very limited appeal (e.g. the number of households in their postcode that switched). This is because most Panellists tended to believe themselves immune to influences of this kind. However, behavioural theory suggests that if these messages work it, might be on a less rational level. Therefore you would not necessarily expect to identify it in a research setting.

Expressed resistance to norms messages was also linked to an apparent wider reluctance to engage with the potential social dimensions of switching. These included a sense of privacy about what happens in your own home, and energy use not being something they ever talk about with their friends and neighbours. These responses suggest that norms-based techniques – including 'recommend a friend' campaigns – may have limited appeal, or effect, in this context.

I changed tariff

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Increasing reward - reality

Reward

Greater immediacy – reward is now!

Greater (and more tangible) rewards

Make rewards immediate – Panellists liked the idea of reallocating the "reward" of switching to make it happen at the point of switching e.g. cashback. This would make it more tangible and appealing.

Additional rewards – Panellists found the idea of additional financial (or at least tangible) benefits appealing and a reason to act e.g. points or vouchers.

Increasing reward - perceptions

There is a lack of confidence that the rewards through switching will actually materialise and a feeling that promised returns may not actually be achieved.

Reward

Increased confidence they will materialise

Creating false interest
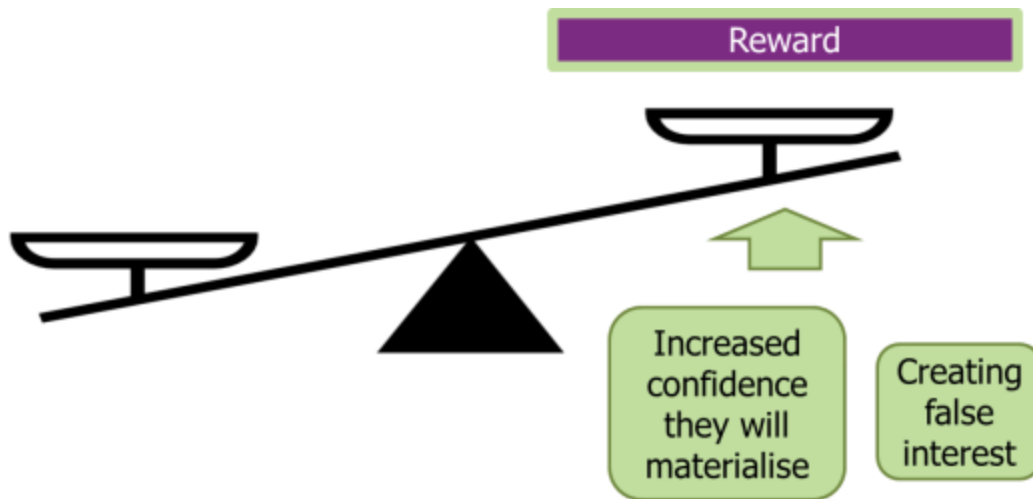
Building confidence in rewards - consumer testimonials that they are "seeing the difference" might be helpful.

Create incentives – people felt the energy market lacked elements of interest other markets benefit from e.g. handsets for mobile switching. They thought energy markets could learn from other markets that use different kinds of incentives (e.g. collectables or points).

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Changing the equation
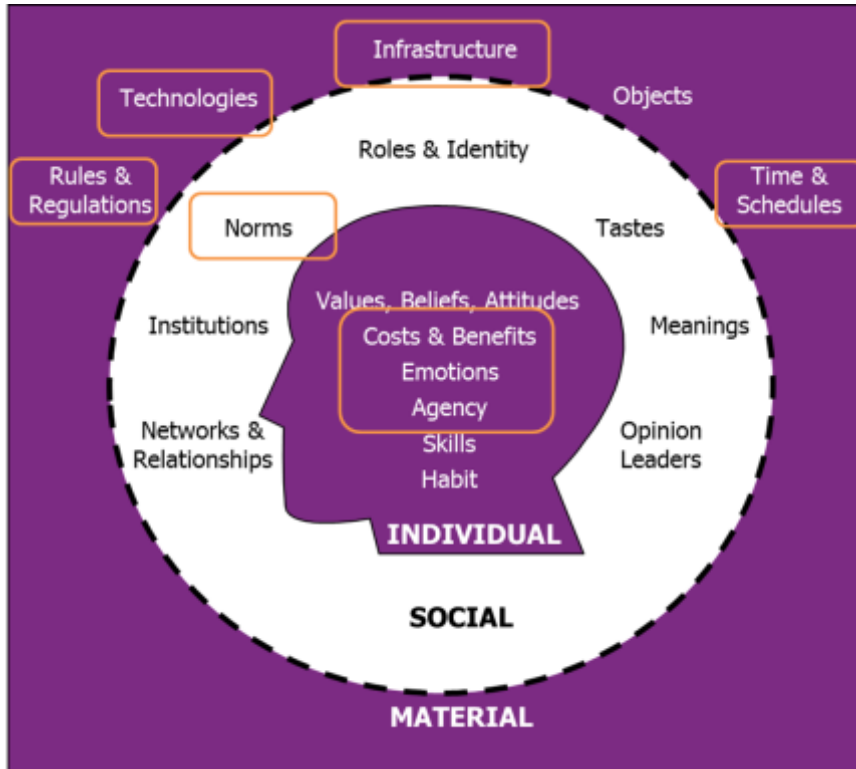
Whilst this focus on the core equation of effort vs. reward may appear to be only about individuals' weighing up of costs vs. benefits, in reality many of the ideas that Panellists particularly liked were about changing the **material** elements.

- Changing the number of tariffs (simplification);
- Changing the rules (default to cheapest tariff when a contract ends);
- Using technology to automate the switching process.

Issues related to Time and Schedules also came into play. Success may be about catching people at the exact right moment in time. There is a seasonality element here – choosing times when levels of debt (for direct debit customers) with the current supplier will be lowest.

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Moving beyond the core equation

If the balance of this core reward vs. effort equation cannot be tipped (in practice, or perception, or both) another possibility is to trigger a more emotional, less rational response. This will be very difficult in a market in which there's not much interest, let alone emotion. The only emotional reactions discussed were in relation to creating warmth through incentives and creating a negative emotional kick (through alternative SVT names).

Alternatively there is the creation of habit, which again moves away from reliance on rationality.

The Annual Review concept (the idea of creating an annual process or moment where customers would be reminded and/or helped to review their current tariff) was seen as having potential to achieve this (similar to the insurance market). This would create a regular moment in time when supplier and tariff are routinely and habitually reviewed.

Emotional engagement

Habit creation

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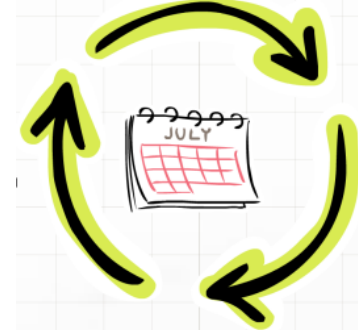
Communication channels

Face to face support is strongly valued as it provides the **hand-holding** and confidence that is needed (**delegation**). However, there are strong negative reactions to door-to door approaches. Where face to face was suggested, Panellists felt that this could be better done via workshops, community/centres, libraries and other community settings. The **concern with door to door approaches** is that it puts people under undue pressure to switch. Recurrent calls were also made for any face to face service to be independently provided/impartial rather than via the supplier.

Panellists had **mixed views** on whether text messages would be effective. Some said these would be ignored/deleted and would irritate. Some were more positive as long as the number of texts is 'reasonable'. Timings of such communications was seen as important. They should only be sent at an appropriate point, for example when a fixed rate deal was about to end.
Some see text messages being good as a quick reminder or prompt. Others associate any text messages not from friends or family with personal injury and PPI schemes.

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Conclusions

- The term 'Standard Variable Tariff' does not suggest that consumers may not be on the cheapest deal.

- Renaming will need to achieve something of a negative emotional 'kick' if it is to impact behaviour.

- This should be accompanied by clear communications on how to act to rectify matters – particularly in order to protect more vulnerable consumers.

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Conclusions

The ISM mode allows us to draw the following conclusions:
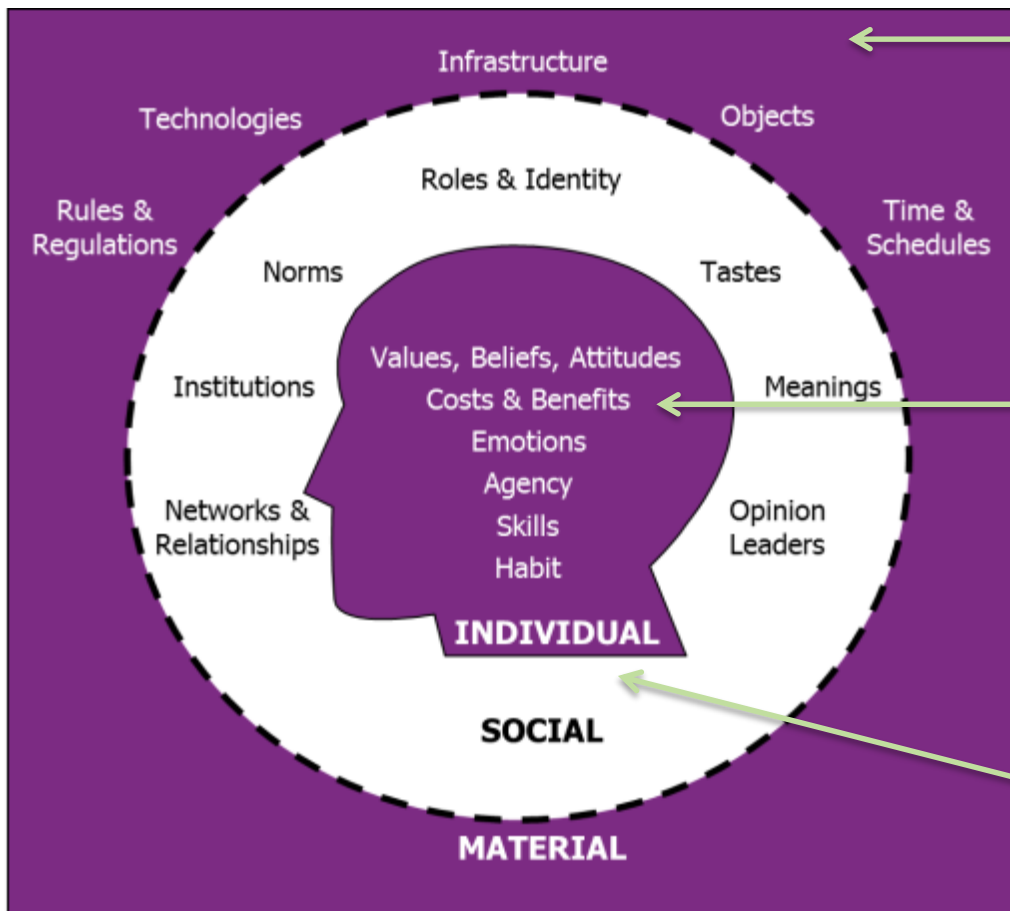
Ideas targeting the material layer of ISM address the effort barriers – potentially making switching 'frictionless'. These had greatest perceived potential impact.

Ideas targeting the individual layer address the perceived effort/reward imbalance. Making switching easier and more rewarding were seen as potentially having some impact.

Prompts targeting the social level mostly addressed the role of consumer testimonials, reassuring the ease/reward of switching. However, these had the lowest perceived impact.

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Appendix – ISM further detail

Values, Beliefs, Attitudes: The basic elements of an individual's motivational system, moving from the most abstract and broad based values (e.g. pursuit of wealth or power), through beliefs or more particular worldviews (e.g. that we should preserve the environment for future generations) to attitudes, which are individual's views on specific things such as objects, activities or other people (e.g. I should not have to pay more for sustainable products).

Costs & Benefits: The cost/ benefit calculation is the basic method of decision making, in which the perceived benefits (or 'utility') of acting are weighed against the perceived costs of doing so, including non-monetary costs such as time (e.g. deciding whether the time spent looking at alternative tariffs and suppliers is worth the financial benefits). However, recent research has shown that much of this decision making is based on mental shortcuts, which can introduce errors, rather than effortful calculations.

Emotions: How people feel about something – their emotional response – is one aspect in their behavioural decision making (e.g. fear, virtuousness or apathy). Some theories contrast 'hot' evaluations, based on emotions, with 'cold' evaluations, based on attitudes and rational choice.
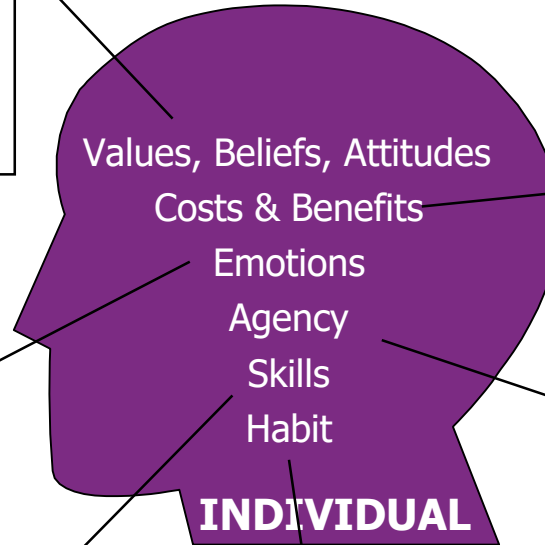
Agency: Agency relates to self control and a person's confidence that they can undertake the behaviour in question, and see it through to completion. It usually relates to a specific object or situation but people can also be described as 'low agency' (generally lacking in confidence).

Skills: Skills are the things a person needs to know in order to carry out a behaviour. These include both procedural knowledge ('know how') and factual knowledge ('know what') (e.g. fuel efficient driving techniques).

Habit: Habits are those behaviours which are undertaken automatically and frequently, with little conscious thought, and usually in the same time or place. These can also be understood as routines (e.g. commuting by car or using the tumble drier even in good weather).

Values, Beliefs, Attitudes
Costs & Benefits
Emotions
Agency
Skills
Habit

INDIVIDUAL

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Norms
People's perception of how other people (especially 'significant' others) would view their behaviour. In turn these perceptions have a strong influence on the behavioural decisions that people make (e.g. people being aware that they are not supposed to fly for domestic trips, but observing family, friends and others doing it).

Roles & Identity
Roles relate to a person's different repertoires of behaviours and attitudes, based on the role they are fulfilling at the time (e.g. other, employee, football supporter etc.). The related concept of identity is a person's innate sense of who they are (e.g. being a good person or identifying as a 'green').

Tastes
Tastes can be understood as preferences through which people signal their belonging to particular social groups (e.g. kinds of music listened to, or table manners). These references are collectively developed, and are based on shared understandings of appropriate and desirable conduct.

Institutions
Institutions influence how groups of individuals behave when they are engaging in particular activities or interacting with other people. Institutions can be formal (such as the legal system) or more informal (such as family life). In either, shared expectations about how members should behave are transmitted. Shared understandings may also take shape as explicit rules and regulations.
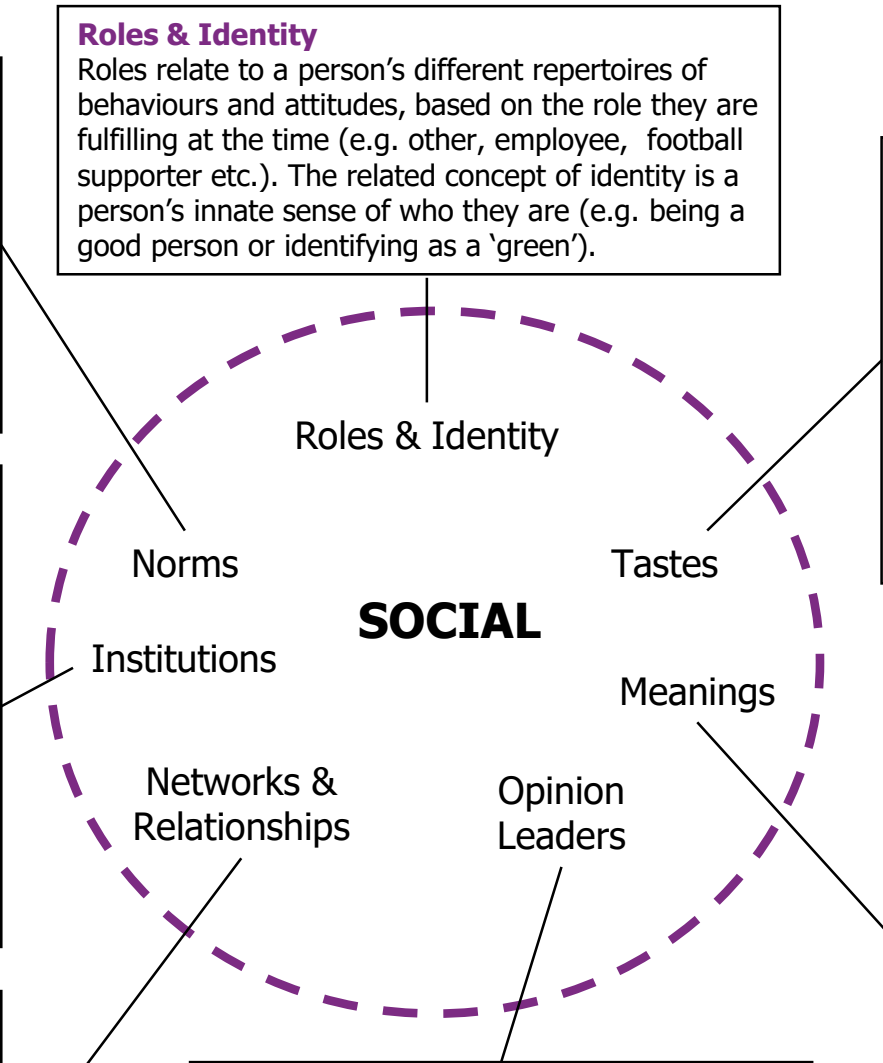
Networks & Relationships
Connections between individuals, which people identify and draw upon in identifying and carrying out possible courses of action (this is sometimes called 'social capital'). In aggregate, social networks can help to explain how ideas, innovations and behaviours can spread (e.g. growing your own food).

Opinion Leaders
Opinion leaders can be thought of as individuals who have a strong influence over others, for instance in shaping social norms. In social networks, these people could be network nodes, who connect together numerous others. In everyday life, examples could include faith leaders or celebrities.

Meanings
Meanings are culturally constructed understandings of daily life which can include images, ideas, metaphors, and associations. These meanings effectively set the frame for a behaviour or practice, and in so doing influence how it is undertaken, and how it is understood.

Roles & Identity

Norms

Tastes

Institutions

Meanings

SOCIAL

Networks & Relationships
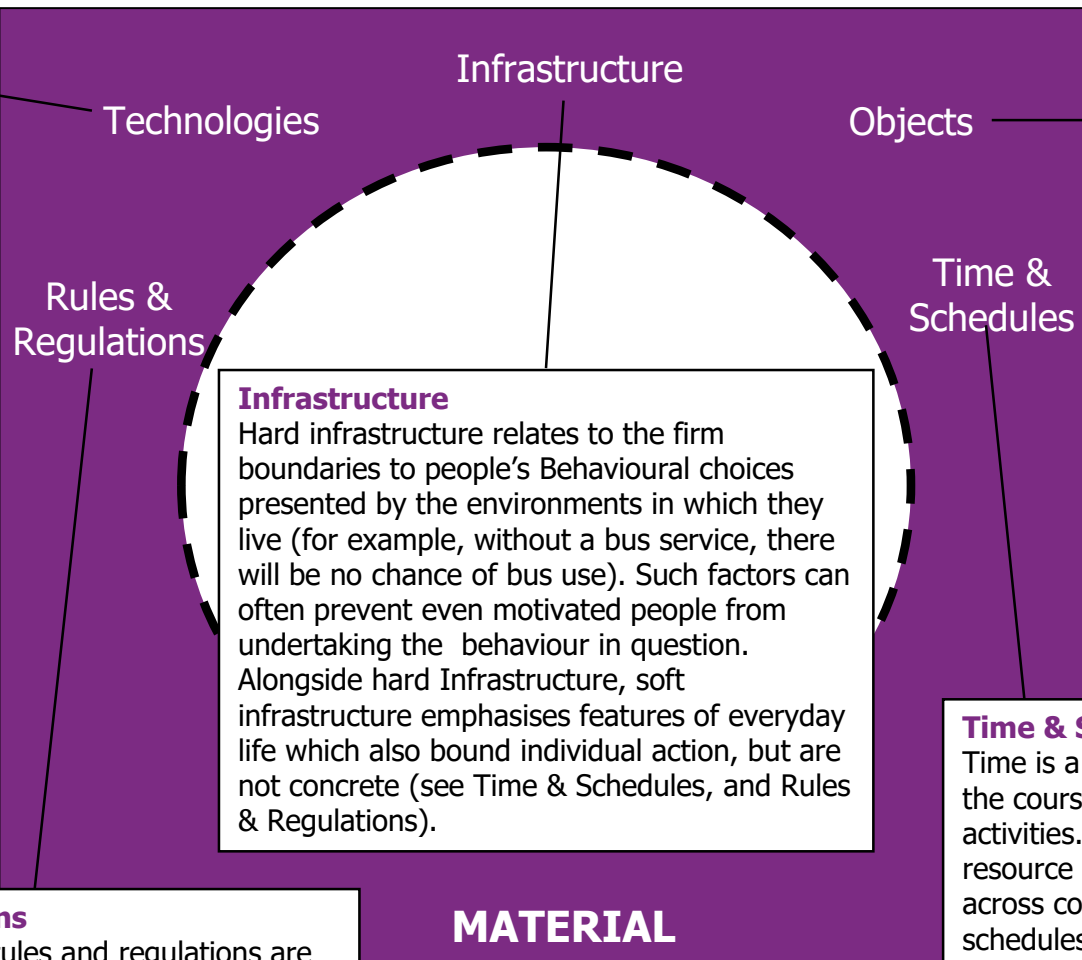
Opinion Leaders

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Technologies
Technology is sometimes contrasted to behaviour, in that techno-fixes are presented as ruling out the need for individuals to change their behaviour. However, individuals and technologies interact, and this can influence the effectiveness of a technology in terms of its desired impact (e.g. smart meters and how they are used in practice). This interaction also enables new practices, and the meanings of these practices, to spring up and take hold quickly (e.g. tweeting).

Objects
Many behaviours (e.g. cycling to work) involve the use of objects (e.g. a bike, cycle racks at work), and the lack of necessary objects can stop a practice from being undertaken. As with technologies, objects and individual users interact, such that sometimes the object can 'act back' on its owner and heavily influence how much time an individual spends on which practices (e.g. waste in the home 'acts back' on the householder who spends time cleaning and sorting recycling for collection).

Infrastructure

Technologies

Objects

Rules & Regulations

Time & Schedules

Infrastructure
Hard infrastructure relates to the firm boundaries to people's Behavioural choices presented by the environments in which they live (for example, without a bus service, there will be no chance of bus use). Such factors can often prevent even motivated people from undertaking the behaviour in question. Alongside hard Infrastructure, soft infrastructure emphasises features of everyday life which also bound individual action, but are not concrete (see Time & Schedules, and Rules & Regulations).

MATERIAL

Rules & Regulations
At their most basic, rules and regulations are set out by formal institutions, such as government, to prescribe or prohibit certain kinds of behaviour (e.g. through the taxation system). Yet rules and regulations are also implicit, for instance determining appropriate conduct for individuals in informal institutions (e.g. not disposing of recyclable materials in the general waste bin in the workplace).

Time & Schedules
Time is a finite resource that gets used in the course of carrying out everyday activities. Like money, it is a scarce resource that people have to allocate across competing demands. Changes in schedules (e.g. set by formal institutions) an often result in changes in individuals' practices, for instance, school hours and commuting habits.

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