

Domestic energy suppliers,
consumer groups and other
interested parties

Email: databaseremedy@ofgem.gov.uk

Date: 20 August 2018

Dear Stakeholders

Active Choice Collective Switch Trial: Early Findings

In 2016 the Competition and Markets Authority (CMA) concluded that there was an adverse effect on competition in the retail energy market stemming from a lack of consumer engagement. This has given suppliers a position of unilateral market power, in which they have been able to charge customers more than they would in a better functioning competitive market. The CMA estimated that the detriment to consumers on default tariffs for gas and electricity was approximately £1.4 billion a year. As at January 2018, approximately 8 million people across Britain have been on a default tariff for three years or more. This group includes some of the most vulnerable members of society.

Our consumer engagement work is an essential piece of Ofgem's long term retail market strategy. Working alongside the default tariff cap and faster switching reforms, our aim is to transform the current market by empowering more consumers to be active in the energy market, help them save money on their energy bills and drive greater competition between existing suppliers.

Following the CMA's energy market investigation, we have tested a variety of approaches for engaging disengaged consumers and helping them to switch to cheaper tariffs. Today, we are publishing the initial results from the Active Choice Collective Switch trial that ran between February and April 2018. With over 20% of the most disengaged consumers switching to better value energy deals - a rate eight times higher than the trial control group - this is our most successful trial to date and we are keen to explore it further. Customers saved over £3.3 million pounds, with an average saving of approximately £300 each¹.

Collective Switch Trial Design

This Collective Switch was designed for customers who find it difficult or do not feel confident enough to navigate the complex range of tariffs available in the open market. It was designed to give a 'helping hand' and provide them with an exclusive tariff negotiated for them by an Ofgem appointed independent price comparison service, Energyhelpline. Ofgem also required Energyhelpline to consider customer service when selecting the winning collective switch tariff to offer customers. Around 50,000 disengaged² customers were randomly selected to be in the trial.

¹ This is excluding external direct switches. Total figures will be available when the full report is released.

² Those who had been on a Standard Variable Tariff for over three years.

Unlike other switches, customers did not need to enter their existing tariff details in order to have their personal savings from switching calculated. If a customer did not exercise their right to 'opt-out', they received letters showing how much they could save by moving to the collective switch tariff. Customers who contacted Energyhelpline online or by phone also received information about potential savings from deals across the market. They could then make an informed choice about whether or not to start a switch.

Trial Findings

Early findings indicate that the trial had a clear and substantial impact. Key points include:

- 22.4% of trial participants switched their energy deal;
- Almost a quarter of those who chose to switch via Energyhelpline were over 75 years of age;
- Phone switching was more popular than online; 71% of switches via Energyhelpline happened on the phone;
- Customers saved an average of around £300 a year³; and
- Total savings made by customers were approximately £3.3 million⁴.

Switching rates

This is the highest switching rate achieved in our consumer engagement trials to date. This outcome is particularly impressive given that this group were amongst the most disengaged of energy consumers. On average, customers had been on a Standard Variable Tariff for six and a half years. The overall switching rate was over eight times higher than the switching rate of the trial control group of 2.6%.

The indications are that vulnerable customers also responded strongly. Customers on the Priority Services Register were almost as likely to switch their energy deal as anyone else, at 21.1%. Of the switches made through Energyhelpline, 24% were by participants over 75 years of age, with the oldest switcher aged over 100.

Customers switched to a range of tariffs through various routes. Approximately half of the switchers chose the collective switch tariff with another 40% moving to cheaper deals in the open market. Approximately 10% of this group chose another tariff with their existing provider.

Average savings

Customers saved an average of around £300 a year. The largest savings in the trial were made by participants who undertook an open market tariff search through Energyhelpline, saving £352 a year. On average customers who switched to the Collective Switch tariff saved £261 a year.

Trial features

We believe a number of key features led to these encouraging results:

- The trial offered customers a choice of routes to switch: giving customers the option to discuss their options with a person is likely to have helped with customer confidence about switching. The phone also provides a route to engage for the sizable group of disengaged customers who are not online, or only go online occasionally.

³ Excluding external direct switches

⁴ Excluding external direct switches

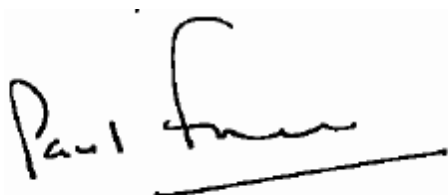
- Being able to switch via an intermediary rather than having to deal with suppliers directly was viewed positively. The lack of confidence that many disengaged consumers express about comparing and switching suggested that they might be more comfortable speaking to an intermediary, especially if they had queries or concerns. Switching levels were considerably higher than in previous trials where customers were advised to contact the supplier directly. Energyhelpline also provided customer service ratings. This is important as customers should compare suppliers on their customer service performance as well as on the price of tariffs.
- The trial was designed to take the hassle out of switching for disengaged customers. Customers received accurate savings calculations based on their own consumption information. Not only were they presented with an alternative tariff from a recognised energy provider, but the results show that it empowered consumers to investigate other options in the market.
- We gave customers the option to exercise their right to 'opt out' of participating in the trial and these were low at 0.1% of the eligible trial population.

Next steps

This trial points to an approach that if rolled out nationally could lower the bills of millions of consumers across the UK. Based on these positive results, we are launching two larger scale trials this autumn. Over 200,000 disengaged customers from three large energy suppliers will take part. The trials will include an exclusive energy tariff and open market search results.

We will test whether these findings, especially on switching rates, are repeatable, and if so, on a larger scale. We intend to release the results of this trial in Spring 2019. The results will inform our next steps, including our ongoing policy development process, which will include considering how we might facilitate the benefits of this approach to a wider range of disengaged energy consumers.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Paul Fisher', with a horizontal line underneath it.

Paul Fisher
Deputy Director, Consumer Engagement
Consumers & Markets