

# Study on consumer vulnerability across key markets in the European Union

London Economics, Ipsos and VVA Consulting

Vulnerable Consumer Working Group

Brussels

3 June 2015

Patrice Muller, London Economics



# Study objectives

- Investigate how markets identified as **problematic for consumers** function for consumers with characteristics that are linked to **vulnerability**
- The **markets of focus** for the study:
  - Energy
  - Finance
  - Online environment
- **Test different measures** that could prove effective to **mitigate vulnerability** in specific markets

The study is commissioned by CHAFEA acting on behalf of the European Commission

# Study approach overview

## Task A

- Preparatory review of consumer vulnerability concepts and policy measures in place in the EU 28 plus Iceland and Norway

## Task B

- Mapping of vulnerability drivers per sector
- Mapping of consumer vulnerability patterns

## Task C

- Testing phase – behavioural experiments

## Task D

- Theoretical framework outlining causes and effects of vulnerability

## Task E

- Analysis of results and recommendations

# Task A: Preparatory review

- Typology of **vulnerability drivers, indicators, and practices** that may lead to or exacerbate vulnerability **cross-sectoral** and **sector specific**:
  - **Market related drivers**
  - **Behavioural drivers**
  - **Access drivers**
  - **Situational drivers**

# Vulnerability drivers in the energy sector

Driver	Indicator	Practices that may exacerbate
Market-related drivers	Unclear or complex information in bills and contracts	Use of <b>complex language</b> <b>Information overload</b> Consumers <b>not being clearly informed of terms and conditions or product features.</b>
	Recent energy market liberalisation	Consumers may <b>not be aware of option to switch supplier.</b> <b>Aggressive marketing techniques</b> particularly to <b>older customers</b> more likely not to be aware of market liberalisation.
	High energy prices	Increasing energy prices and stable or decreasing salaries have resulted in a <b>higher number of people having difficulty paying bills.</b>  Creates further problems for <b>groups facing higher energy costs due to illness or disability.</b>

# Vulnerability drivers in the energy sector

Driver	indicator	Practices that may exacerbate
Behavioural drivers	Information framing	Reference pricing – suppliers can <b>create a reference point</b> from which alternative offers are compared. Comparisons can be incorrect or incomplete offers.
	Status quo	Setting <b>more expensive offers as the default</b> offer, similar to reference pricing it impacts consumer comparison of offers.
	Cognitive limitations (can disproportionately affect elderly, people with disabilities, migrants)	<b>Bundled offers</b> , overly complex offers and the use of complex language.

# Vulnerability drivers in the energy sector

Driver	Indicator	Practices that may exacerbate
Access drivers	Lack of <b>physical access</b> to markets, products or services due to disability, age, location	<ul style="list-style-type: none"> <li>•Lack of <b>access to top up points</b> for prepaid meters</li> <li>•<b>Customer services</b> not adapted to certain disabilities (e.g. sight and hearing difficulties)</li> <li>•<b>Customer service staff</b> not trained to provide support</li> </ul>
	Lack of <b>online access</b> due to age, location, income	<ul style="list-style-type: none"> <li>•<b>Inaccessible websites</b> or apps used to present offers and inform consumers</li> <li>•<b>Higher costs</b> due to lack of online access regarding means of payment or receiving paper bills</li> <li>•No access to <b>online discounts</b></li> </ul>
	Lack of <b>access to offers or services</b> available to other groups due to income	<ul style="list-style-type: none"> <li>•<b>Lower cost payment methods</b> (e.g. direct debit) not available to lower income customers</li> <li>•Lower income customers <b>offered more expensive tariffs</b> (i.e. pre-payment meters)</li> <li>•Requirement to <b>provide payment in advance</b> or cash bond to sign an energy contract or switch suppliers</li> </ul>



# Vulnerability drivers in the energy sector

Driver	Indicator	Practices that may exacerbate
Situational drivers	Increased susceptibility to <b>particular forms of marketing</b> due to personal situation	•For example, <b>aggressive telephone and doorstep marketing</b> to older customers that can result in unsolicited contracts with energy providers.
	<b>Housing quality</b> due to housing situation or tenancy	• <b>Low energy efficiency housing</b> and limited capacity to move or upgrade to more energy efficient type housing. In the case of <b>tenancy</b> , which is more common for low-income consumers, there is little incentive for a landlord to invest in energy efficiency measures.



# Task B: Mapping vulnerability drivers and patterns

- **Consumer survey** in 28 Member States plus Iceland and Norway
  - Investigate how consumers understand and choose their energy supplier (financial provider & online services)
  - Assess consumers' awareness and understanding of marketing practices
  - Look at the consumer characteristics and circumstances that may lead to vulnerability
  - Explore what an average consumer is
- In-depth qualitative **interviews** in 5 Member States
  - Real-life evidence-based case studies of how consumers can move in and out (or not) of situations of vulnerability

## Task C: Behavioural experiments

- Test if and how **external factors/problematic marketing practices** impact upon consumer decision making
- Test if and how **corrective measures** improve consumer decision making
- Energy sector experiment was one of four experiments (others were online sector, finance sector and 'cross-cutting' experiments)

# Task D: Theoretical framework outlining causes and effects of vulnerability

- **Integrate** previous tasks' findings
- Develop a **framework** setting out causes and effects of vulnerability
- Use of **7 step process**

7. Visualisation

6. Quantitative assessment

5. Identification of interactions between pairs

4. Assessment of relationship magnitude

3. Identification of the directional relationships between causes and effects

2. Ranking of importance

1. Identification of most important causes and effects



# Task E: Analysis and recommendations

- Reporting of integrated outputs from Tasks A, B, C and D
  - Analysis of the **internal** and **external factors** generating consumer vulnerability
  - Recommendations on **possible refinements** of the future **Consumer Scoreboards** and **Market Studies** conducted by the Commission, in order to ensure that data relevant for consumer vulnerability is collected and analysed
  - Recommendations on **possible revisions** to the **Unfair Commercial Practices Directive** Guidance chapter on vulnerable consumers
  - Recommendations on **types of interventions** that can help **alleviate consumer vulnerability**

Patrice Muller  
Partner  
[pmuller@londecon.co.uk](mailto:pmuller@londecon.co.uk)  
+44 (0) 20 3701 7702