



Behavioural economics and vulnerable consumers

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Summary

Behavioural economics seeks to understand how consumers behave in practice and how this differs from the model of rational consumer behaviour used in standard economic theory.

Vulnerable consumers, particularly low income consumers and, to a lesser degree, older consumers, are more likely to display the biases identified by behavioural economics. This can put them at particular disadvantage in complex markets such as the communications market. It is therefore crucial that regulators and policy makers:

- Work harder to understand the differences in behaviour for different groups of consumers, particularly vulnerable consumers.
- Identify where these different behaviours may lead to different outcomes for different consumers and where this may cause vulnerable consumers to be particularly disadvantaged.
- Identify where the market and/or current regulator interventions are failing to address this disadvantage and adapt policies and interventions to respond to these differences in behaviour and address differential outcomes, testing these policies and interventions with experiments where possible.
- Are cautious about relying solely on providing information as a way of responding to differences in behaviour or addressing differential outcomes. Some evidence suggests that too much information or information that is too complex can lead to poorer consumer decisions and may thus have a detrimental effect on consumer welfare.

1. About the Panel

The Communications Consumer Panel is an independent panel of experts established under the Communications Act 2003. Its role is to influence Ofcom, Government, the EU and service and equipment providers, so that the communications interests of consumers and citizens are protected and promoted.

The Panel pays particular attention to the needs of older people and people with disabilities, to the needs of people in rural areas and people on low incomes, and to the needs of small businesses, which face many of the same problems as individual consumers.

The Consumer Panel is made up of part-time members with a balance of expertise in consumer issues in the communications sector.

Consumer Panel Members are appointed by Ofcom, subject to approval by the relevant Secretaries of State. They are appointed in accordance with Nolan principles and are eligible for re-appointment. The Consumer Panel is assisted by a small advisory team.

2. Behavioural economics and vulnerable consumers

Behavioural economics suggests that, in contrast to traditional economic models, consumers do not act in a perfectly rational manner. Consumers have limits to their ability to take in information; they are influenced by how things are presented, often to the extent of making bad decisions; they tend to be bad at anticipating the future; they care about other people and fairness; and they care more about losses than gains. Government and regulators are looking at how the insights generated by behavioural economics can inform their decisions and help them develop more effective policies across a wide range of areas, from improving public health to pensions and regulation of markets.

Much of the work on behavioural economics to date has looked at consumers as one homogeneous group. The Panel was concerned that there were potential differences between different groups of consumers that were not fully understood. We wanted to understand these potential differences in more detail. In particular, we wanted to know whether vulnerable groups of consumers were more likely to display the kinds of biases identified by behavioural economics and, if so, were more likely to be disadvantaged in communications markets. We therefore commissioned the Economic and Social Research Council (ESRI) to analyse the existing research on our behalf.

The ESRI found that evidence is relatively scarce. However, the evidence that does exist suggests that low income and possibly also older consumers might be particularly susceptible to the kinds of biases identified in behavioural economic analysis. It also shows that these biases might be further amplified by the market

environment faced by those consumers. For instance, these consumers may receive less, or different, marketing material and be more isolated from helpful social networks. The overall impact on these consumers might therefore be detrimental.

3. Implications for policy and regulation

These findings have important implications for policy makers and regulators. It is crucial that they work hard to understand the experiences of different groups of consumers, particularly more vulnerable consumers, and whether the combination of behavioural biases and market conditions is likely to result in increased disadvantage for those groups.

This more nuanced understanding of consumer behavior must underpin the design of policy, and of regulatory and public policy interventions. These must reflect the way consumers actually behave, rather than assuming rationality or perfect access to information, and must take into account the behavior and circumstances of different groups of consumers, particularly more vulnerable consumers.

This is particularly the case when it comes to provision of information. There is evidence that across a range of markets, when faced with decisions that involve too many options or too much information consumers become less inclined to be active and more likely to make errors. The communications market is characterised by complex price structures and a multitude of choice. In many cases the response to this is to ensure that consumers have access to information so they are able to make an informed choice that is in their best interests. For instance, the response to concerns about traffic management has been to ensure consumers have access to information about different providers' policies. However, traffic management information is extremely complicated and we do not fully understand the role it plays in decisions about broadband purchasing and switching decisions. Given this complexity, focusing on provision of information might not be the right approach for some groups of consumers.

4. Moving forward

We would like to thank our colleagues at the ESRI for their hard work in producing the following paper. We hope that it provides a useful contribution to a rapidly developing debate, and that it prompts more analysis of the differences in behaviour and experiences of different groups of consumers in the market.

We urge policy makers and regulators to take account of our recommendations.