

# Consultation Response

Ref 3615

## Department for Business, Innovation & Skills call for evidence on switching principles

December 2015

All rights reserved. Third parties may only reproduce this paper or parts of it for academic, educational or research purposes or where the prior consent of Age UK has been obtained for influencing or developing policy and practice.

Phil Mawhinney  
phil.mawhinney@ageuk.org.uk

Age UK  
Tavis House  
1-6 Tavistock Square  
London WC1H 9NA  
T 0800 169 80 80 F 020 3033 1000  
E [policy@ageuk.org.uk](mailto:policy@ageuk.org.uk)  
[www.ageuk.org.uk](http://www.ageuk.org.uk)

Age UK is a charitable company limited by guarantee and registered in England (registered charity number 1128267 and registered company number 6825798). The registered address is Tavis House 1-6 Tavistock Square, London WC1H 9NA.

## About this consultation

In October the Department for Business, Innovation and Skills published a call for evidence on consumer switching in energy, telecoms and banking.

## Introduction

Age UK is the country's largest charity dedicated to helping everyone make the most of later life. We help more than 5 million people every year, providing support, companionship and advice for older people who need it most.

Age UK welcomes the opportunity to respond to this consultation. This paper responds to selected questions posed in the 'Respondents other than consumers' section of the consultation document, discussing relevant considerations.

## Key points

While we welcome the Government's efforts to make switching easier, we question the implicit idea that consumers *have to* switch to access affordable, decent products in essential services like energy, banking and telecoms. Some older people face significant barriers to switching and should not be penalised as a result. Efforts to improve switching must be complemented by effective regulation to ensure essential services are accessible, affordable and of adequate quality for everyone.

While poverty among older people has fallen in recent years, one in seven pensioners (14%) still lives below the poverty line, with 7 per cent living in severe poverty. So it is vital that older people do not pay over the odds for essential services.<sup>1</sup> While many older people are engaged in comparing and switching, the Competition & Markets Authority (CMA) identifies people aged 65+ as among the 'disengaged' groups less likely to switch.<sup>2</sup>

While calling for stronger regulation, we recognise the potential benefits of switching and call on the Government to tackle the barriers to switching among older people, including:

- **Digital exclusion** – Two thirds (67%) of people aged 75+ do not use the internet. Many miss out on online comparison and switching services, and are excluded from cheaper online products.
- **Complexity in comparisons** – Product pricing, product/service descriptions and bundling of multiple products, can lead to consumer confusion and inertia.
- **Lack of trust in long-term benefits** – The Government must ensure that efforts to increase switching do not put undue emphasis on the lowest price without also taking into account value and certainty for budgeting purposes.
- **Restricted access and age discrimination** – Some people may not be accepted by new providers because of poor credit records. (Although we appreciate the work that has been done to make basic bank accounts available to all, this does not yet apply in the telecoms market). Special age-restricted terms may apply, for example to packaged bank accounts or (in previous years) payment protection insurance. These special terms are not necessarily made apparent at the outset.<sup>3</sup> Park home residents often find it difficult to switch energy supplier.
- **Fear of disruption** – Some consumers, including those who are ill or live alone, may be deterred from switching for fear of losing an essential service if things go wrong, for example having their phone service cut off.

To enable people of all ages who want to switch to do so, we propose an additional principle: **Consumers should be able to access comparison information and switching services through a range of channels, including telephone.**

The Government should recognise that there will always be some consumers who do not want to or cannot switch, and guard against the risk of them being stuck with products that continually deteriorate in terms of price or quality. This has particularly been the case with superseded savings accounts<sup>4</sup> but is also one of the issues that the CMA has been considering in its current Energy Market Investigation.<sup>5</sup> In these cases, the Government should consider what can be done to remove the problem at source, by challenging supplier behaviour. We support the CMA's proposal for a transitional 'safeguard regulated tariff' in the energy market.

*(Q1. Do you think switching costs or contract terms act as a deterrent to switching?)*

### **Lack of knowledge of switching**

A simple but important point is that some older people *want* to switch to achieve savings, but don't know how to do so. For example, a 68-year old person living alone contacted Age UK saying: 'I need help in knowing how to change energy, phone and other services in order to save money.'

The Government should continue to explain clearly the basics of what switching is, the potential savings and how to do it in practice. Regulators should require firms to highlight the possibility of switching. We support the CMA's proposed remedy that banks should prompt customers to consider switching at optimal times.<sup>6</sup>

### **Difficulties making comparisons**

One of our key points is that the Government must tackle the barriers to switching. These include perceptions about the difficulty of the switching process, and difficulties comparing prices and product/service terms.

A number of factors can make comparison between products/suppliers difficult, including:

- Bundling of multiple services in a single package, e.g. broadband, fixed telephone, pay television.<sup>7</sup>
- Complexity of pricing structures, e.g. different energy prices at different times of the day/week.
- Time limits to prices, e.g. teaser rates that drop after a set period.

Bundling can be a barrier to switching but can also lead to poor outcomes for consumers who do switch. The Financial Ombudsman Service found in favour of an older consumer who switched bank account on the basis of the travel insurance included but later discovered there was an 80 year age limit, meaning he could not use it.<sup>8</sup> The age limit should have been more clearly highlighted.

We welcome work by the Financial Conduct Authority to increase customer engagement through 'switching boxes' that summarise key account information – particularly the rate of

interest on savings accounts – and how it compares to other products on the market, to accompany statements and other communications.<sup>9</sup>

### A lack of trust in the longer-term benefits of switching

Most people are not regular switchers, and going through a cumbersome process for a very short-term or small gain is likely to deter future switching.

For example, switching bank accounts needs to be understood in the context of bank branch closures. Many older people prefer to bank in branches. One woman over 75 told us: ‘Barclays has gone, Lloyds has gone, there is only NatWest left round here.’ Some older people might switch to a bank because of its local presence, only to find that it also closes its branch.

In addition, consumers may not feel confident about the products offered by an alternative provider. Some people are frustrated at not receiving the service quality advertised by the gaining provider. For example, Which? research shows that just 17 per cent of households achieve the average advertised broadband speed.<sup>10</sup>

As long as this kind of uncertainty when comparing continues, as well as misleading advertising and poor service, many older customers will not have sufficient trust in alternative providers to switch. That is why we believe there is a place in the market for longer-term ‘value’ products such as fixed-term energy prices that may cost a bit more in the short term but offer greater certainty for budgeting purposes. The Government must ensure that efforts to increase switching do not put undue emphasis on the lowest price without also taking into account value and certainty for budgeting purposes.

### Digital exclusion

Not using the internet is a barrier to switching. While many older people do use the internet and increasing numbers are going online, there are still two thirds (67%) of people aged 75+ who are non-users.<sup>11</sup> This also varies across socio-economic groups – people in the most disadvantaged group (‘DE’) are more likely to be offline, as shown in Table 1.

Those who are not online face two distinct exclusions:

- They cannot easily access price comparison websites or online switching services.
- They cannot access online-only tariffs/products, which are often better value.

**Table 1. Percentage of each sub-group that are NON-users (Ofcom, 2015, bespoke)**

	All	16-24	25-34	35-44	45-54	55-64	65-74	75+
AB	5%	0%	0%	1%	1%	7%	15%	39%
C1	9%	0%	1%	1%	4%	10%	25%	63%
C2	16%	2%	3%	3%	9%	19%	37%	81%
DE	25%	14%	9%	7%	14%	32%	45%	78%
All	14%	7%	3%	2%	7%	16%	30%	67%

Age UK sees cases where older people are frustrated at missing out on cheaper deals online. One Age UK advisor helping a client reported the following example:

'Running a price comparison via a number of different sites, it became apparent that there were many tariffs and suppliers which could have saved him a lot of money, but which were limited to customers who would carry out their business [online only].

My client is an older gent who does not use the internet regularly, or at all, and for whom acquiring the wherewithal to do so – a PC, ISP, phone line, etc. – would be prohibitively expensive for the purposes of making a saving on his utility bills.'

This example also hints at the barriers that prevent people from going online, which include cost, fears around security/privacy, lack of interest/relevance and accessibility.<sup>12</sup> While some older people simply do not want to use the internet, others could go online given the right training and support. Yet some people simply prefer not to go down that route. As one older woman told us in a survey –

'I prefer to speak face to face with people when I buy anything. It is totally wrong that we pay higher prices just because we use cash or cheques e.g. gas, electric or trains.'<sup>13</sup>

Further, while some people are aware of potential savings online, this alone is not a sufficient incentive to go online. The Government should not assume that everyone would go online if they knew about the savings they could make, and that, consequently, making people aware of these savings is enough.

*(Q4. Do you think the length of time it takes to switch acts as a deterrent to switching?)*

### **Disruption to service, loss of support**

The perceived length of time to switch is likely to be a deterrent for some. Disruption to a service is likely to be a key concern, particularly for older people who live alone and have health or mobility problems. For example, disruption to a fixed line telephone connection can leave people cut off and feeling vulnerable. One in eight respondents to an Age UK questionnaire cited 'Worry it will go wrong' as a reason for not switching.<sup>14</sup>

This risk is exemplified by someone who contacted Age UK regarding his mother-in-law. Aged 97 and living alone, she had her fixed telephone cut off unexpectedly (not during a switch). This caused her 'very considerable distress as she had been unable to make telephone contact with anyone the previous evening.' Further, she uses a 24-hour 'lifeline' service, which alerts family if she needs help. This relies on a telephone line, meaning she 'would have been completely unable to raise the alarm had she had a fall or suffered some other hazard event.'

Some older people receive additional support due to illness or other circumstances. This includes energy suppliers' priority service registers for people who need electricity to power medical equipment like oxygen machines, and priority fault repair by phone providers for people with health conditions. People in these circumstances might fear (justifiably or not) they will lose this support if they switch provider.

Further, customers with bundled products (e.g. broadband, phone, pay television) might be reluctant to switch one element of the bundle for fear of disrupting other services they rely on (e.g. phone).<sup>15</sup>

So, as the Government aims to promote switching it has to ensure that people in vulnerable circumstances are protected from service disruption. For example, a common priority service register shared across multiple providers (and, ideally, across utilities) could prevent people losing service during a switch.

*(Q7. Do you think consumers would be more likely to switch if they only had to deal with the gaining provider [i.e. where the new provider takes responsibility for organising all steps in the switch]?)*

### **Hassle**

Yes. We know that 'hassle' (or *perceived* hassle) is a major reason given for not switching. Research by Citizens Advice,<sup>16</sup> for example, argues that hassle and inertia are barriers. In an Age UK questionnaire, the two most frequently cited reasons given for not switching were 'I'm happy with my current supplier' and 'It's too much hassle'.<sup>17</sup> If people only had to deal with the gaining provider they may feel it is less hassle. However, it remains to be seen if this would lead to a significant increase in switching.

*Q8. In your view what factors might prevent the gaining provider taking responsibility for organising all steps in the switch, or force the consumer to engage with their existing provider to arrange the switch?*

### **'Forced' switching**

We support proposals to require the gaining provider to take responsibility for the overall switching process, where appropriate.

We assume that this question refers to the possibility of requiring consumers to switch, for example by removing automatic renewal. We would query the idea of *forcing* people to engage with their existing provider to switch. In our view, switching needs to be made sufficiently convenient that forcing is not required, and that people who do not switch have products and services of a sufficient standard and price so as not to cause harm.

There is a real risk of leaving those who do not switch (for example people with very poor credit records who are not attractive customers, or people with disabilities) with increasingly poor quality/value products, such as highly priced energy tariffs. The Competition & Markets Authority has highlighted this risk, proposing a cap on default energy tariffs, or 'safeguard tariffs'.<sup>18</sup>

We appreciate this is a complex issue, but simply ask the Government to register the risk that increased rates of switching could result in ever-deteriorating terms for those who find it particularly difficult to switch or can not. Indeed, utility providers may have to consider the impacts of switching/pricing policies on protected groups under the Equality Act.

*(Q10. Do you think consumers are easily able to work out how much they are using each month (e.g. gas units, data, minutes) and use this information to manage their accounts or make valid comparisons of deals?)*

### **Understanding usage/bills**

No. Many older people struggle to understand their fuel bills, for example. For example, an older people's forum raised this concern to Age UK, saying that some older people 'have difficulty in understanding their fuel bills' and suggesting that this makes it difficult for

people to change tariff or supplier. A 77-year old asked Age UK for help with billing, saying their 'energy supplier is overcharging [me]' and 'their billing is not easy to check'.

The Government, regulators and service providers should continue to improve practice so that it is easier read bills and understand usage. Accurate comparison requires this.

*(Q12. In your view, can consumers be confident that comparisons sites will give them a good chance of identifying the best deal for them?)*

### **Comparison services**

We are not sure. There are widely-acknowledged concerns that comparison sites do not give a full and accurate picture of the options available, with some showing only selected providers and omitting others, based on commission agreements. Consequently, they may be distrusted.<sup>19</sup> However, comparison sites are an invaluable tool in helping people switch; at the very least they make consumers aware of other providers in the market. So, they should be more easily accessible to consumers who do not use the internet, who should be able to compare (and switch) over the phone.

One older person told Age UK they prefer to speak to someone on the phone about switching. Another described a positive experience speaking to a comparison firm on the phone to obtain information on different utilities providers. They said the advisor was very helpful, filtering out the relevant information.

To make telephone work well for older consumers, providers should:

- Account for the various needs some older consumers have, including those with memory problems e.g. speak more slowly, recap, offer clarifications.
- Send a written summary of the options by post afterwards. Given the complexity of information, this is essential to keep people in control of their decisions.

While we recognise that it is more costly to provide comparison information by phone, any Government strategy to promote switching should recognise this preference and ensure adequate provision. Any (future) comparison/switching sites run by regulators<sup>20</sup> should include a telephone option.

This is a key point so we propose an additional switching principle to add to the six outlined in the consultation document: **Consumers should be able to access comparison information and switching services through a range of channels, including telephone.**

*(Q17. Do you have any other comments you would like to make on the switching process or the proposed switching principles?)*

### **Powers of Attorney**

Switching processes need to meet the needs of people who hold Power of Attorney (PoA) for relatives and are managing their financial affairs. In one case seen by Age UK, a caller held PoA for, and looked after, his mother, who lives with dementia. He was trying to switch her banking provider. He followed the online switching process until the point where his mother was required to visit a branch with proof of identity. This was not possible because she was housebound and unable to go to the bank. This stopped the switch.

The Government should recognise that many people who hold PoA for relatives want to help them switch but struggle to do so, and ensure that switching processes account for this. This is especially important in the context of rising numbers of people living with dementia; by 2025 there are expected to be 1.14 million, up from 850,000 in 2014.<sup>21</sup>

## Meters and loss of special terms

People's energy meter can be a barrier to switching energy supplier. For example, someone contacted Age UK saying they were unable to switch as they had 'a difficult meter which some suppliers can't work with'. People who qualify for the Warm Home Discount may also lose this if they switch to (smaller) providers who are not obliged to offer it. Specific barriers like this may mean people actually lose out financially by switching, or at least not make the advertised savings.

---

<sup>1</sup> Households Below Average Income 2013/14, Chapter 6, DWP, 2015

<sup>2</sup> [https://assets.digital.cabinet-office.gov.uk/media/559fc933ed915d1592000050/EMI\\_provisional\\_findings\\_report.pdf](https://assets.digital.cabinet-office.gov.uk/media/559fc933ed915d1592000050/EMI_provisional_findings_report.pdf)

<sup>3</sup> See, for example, <http://www.financial-ombudsman.org.uk/publications/ombudsman-news/130/issue130.pdf>

<sup>4</sup> *Older Savers Report*, All Party Parliamentary Group for Older People and Ageing, October 2012

<sup>5</sup> <https://www.gov.uk/cma-cases/energy-market-investigation>

<sup>6</sup> [https://assets.digital.cabinet-office.gov.uk/media/5627c23aed915d101e000004/Notice\\_of\\_possible\\_remedies\\_-\\_banking.pdf](https://assets.digital.cabinet-office.gov.uk/media/5627c23aed915d101e000004/Notice_of_possible_remedies_-_banking.pdf)

<sup>7</sup> <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/culture-media-and-sport-committee/establishing-worldclass-connectivity-throughout-the-uk/written/24037.pdf>

<sup>8</sup> <http://www.financial-ombudsman.org.uk/publications/ombudsman-news/130/issue130.pdf>

<sup>9</sup> <https://www.fca.org.uk/news/fca-to-consult-on-new-measures-for-cash-savings-account-holders>

<sup>10</sup> <http://www.ibtimes.co.uk/uk-broadband-millions-homes-not-getting-internet-speed-advertised-says-watchdog-which-1506779>

<sup>11</sup> [http://stakeholders.ofcom.org.uk/binaries/research/media-literacy/media-lit-10years/2015\\_Adults\\_media\\_use\\_and\\_attitudes\\_report.pdf](http://stakeholders.ofcom.org.uk/binaries/research/media-literacy/media-lit-10years/2015_Adults_media_use_and_attitudes_report.pdf)

<sup>12</sup> For more on the barriers to going online, see Age UK's Digital Inclusion Evidence Review:

<http://www.ageuk.org.uk/Documents/EN-GB/For-professionals/Research/Age%20UK%20Digital%20Inclusion%20Evidence%20Review%202013.pdf?dtrk=true>

<sup>13</sup> Forthcoming Age UK report *Later Life in a Digital World*

<sup>14</sup> Your Voice questionnaire, Sept 2015, 229 respondents

<sup>15</sup> <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/culture-media-and-sport-committee/establishing-worldclass-connectivity-throughout-the-uk/written/24037.pdf>

<sup>16</sup> <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/culture-media-and-sport-committee/establishing-worldclass-connectivity-throughout-the-uk/written/24037.pdf>

<sup>17</sup> Your Voice questionnaire, Sept 2015, 229 respondents

<sup>18</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/442489/EMI\\_Remedies\\_Notice\\_-\\_Final.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/442489/EMI_Remedies_Notice_-_Final.pdf)

<sup>19</sup> [https://assets.digital.cabinet-office.gov.uk/media/54ef378a40f0b61427000005/Price\\_comparison\\_websites.pdf](https://assets.digital.cabinet-office.gov.uk/media/54ef378a40f0b61427000005/Price_comparison_websites.pdf)

<sup>20</sup> The CMA has proposed that Ofgem operate an independent price comparison website:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/442489/EMI\\_Remedies\\_Notice\\_-\\_Final.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/442489/EMI_Remedies_Notice_-_Final.pdf)

<sup>21</sup> The Alzheimer's Society Dementia 2014 <http://www.alzheimers.org.uk/infographic>