

# Better Choices: Better Deals

Consumers Powering Growth

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# Foreword



This document aims to show how consumers can become empowered to make better choices and get better deals. It is about helping consumers to get better value, better customer service and better support when making choices or seeking help.

By empowering consumers, *Better Choices: Better Deals* can also contribute to long term growth. More active consumers mean that our best and most innovative businesses benefit most, helping to improve overall economic performance.

Many of the changes set out in *Better Choices: Better Deals* would have been impossible a decade ago. The internet, smart phones and new data management methods have increased the information available to consumers. This has created new opportunities for consumers, which we want to support.

These technological changes have also given businesses more information about their customers' shopping habits. In some areas, businesses know more about customers' spending habits than they do themselves – with detailed knowledge of how they use their phone, or how likely they are to go over their overdraft limit.

*Better Choices: Better Deals* is about putting customers in charge: in charge of their own personal data which can be used to inform their purchasing decisions and lifestyle choices. However, our vision of consumer empowerment goes far beyond the hidden value in information. We want, for example, to foster renewed and widespread interest in collective purchasing, enabling consumers to be stronger by acting

together. We want Government organisations to publish more of their data on consumer issues, especially on complaints. And above all, we want this strategy to stimulate feedback to Government about how we can support consumers to get better choices, better deals from business and Government. Please go to [www.bis.gov.uk/better-choices](http://www.bis.gov.uk/better-choices) to let me know what you think.

We know that not everybody is a confident consumer – which is why *Better Choices: Better Deals* is also about helping to support the vulnerable in becoming more confident as consumers. Equally, we remain committed to a strong consumer protection regime so this strategy will complement – but not replace – existing consumer protection. A separate document consulting on changes to publicly funded consumer protection will be published shortly.

We want to see confident, empowered consumers able to choose the best deals, demand better products or services and resolve problems when things do go wrong. This will drive innovation, competition and growth. A better deal for consumers and the economy – a better deal all round.

A handwritten signature in black ink, appearing to read 'Edward Davey'. The signature is stylized and written in a cursive-like font.

Edward Davey MP  
Minister for Employment Relations, Consumer and Postal Affairs.

# Executive Summary

# Executive Summary

In the Budget three weeks ago, George Osborne and Vince Cable set out a Plan for Growth<sup>1</sup> which is designed to rebalance and strengthen the economy. The plan recognised that vigorous competition lies at the heart of a dynamic economy, and that markets rely heavily on active and informed consumers to drive competition.

This consumer empowerment strategy is designed to support the Plan for Growth. It puts information and influence into the hands of consumers and helps secure a significant power

shift to citizens and communities. In practical terms, it gives consumers a helping hand in the face of tight household budgets and rising world commodity prices. It will make a major contribution to our efforts to create a competitive economy with low inflation, which will promote a strong private sector recovery.

The consumer empowerment strategy is very timely, in at least two respects. With the economic challenges we face, we need to help a more sophisticated domestic demand to develop and to

## Plan for Growth

The Government's Plan for Growth builds on action that the Government has already taken, with the new measures resulting from the Growth Review and Budget 2011. It contains four overarching ambitions to ensure progress is made towards sustainable and balanced growth which is more evenly spread across the country and between industries, namely:

- To create the most competitive tax system in the G20, including the lowest corporate tax rate in the G7.
- To make the UK one of the best places in Europe to start, finance and grow a business, with more finance for start-ups and business expansion.
- To encourage investment and exports as a route to a more balanced economy, with an increase in exports to key target markets.
- To create a more educated workforce that is the most flexible in Europe, including more support for apprenticeships than any previous government.

Hence, the government is acting on a wide range of levers to help ensure strong and sustainable private sector growth secures the recovery Britain needs. Further details on the range of measures being taken forward can be found in the Plan for Growth.

<sup>1</sup> HM Treasury & The Department for Business, Innovation and Skills (2011) *The Plan for Growth*

secure the sustainable growth we need. And second, many of the changes set out in *Better Choices: Better Deals* would not have been possible a decade ago, and we now have the opportunity to harness them. Three of the most important of these changes, which shape the policies in this strategy, are:

- The increasing role of new technologies, in particular internet and mobile phone applications, that have opened up new channels for consumers to find, compare, and purchase goods and services.
- The use of data, drawn from customers' own transaction histories, that have allowed businesses to understand their customers better, allowing them to make more tailored recommendations.
- The development of new ways for different consumers to collaborate across the economy – for example whether by sharing cars or bicycles, or giving feedback about a GP practice, a local tradesman or a multinational corporation.

Many consumers have been ready to embrace these opportunities, while others may have wanted to but are bewildered by the choices facing them. *Better Choices: Better Deals* sets out the Government's response to such important changes. Putting power in the hands of consumers, so that they are better able to choose between suppliers, will both enable them to get the best deals for themselves individually and collectively, while also putting pressure on businesses to be more efficient and innovative.

*Better Choices: Better Deals* is not a traditional Government publication. It does not set out a new legislative programme. Nor will it see a range of new regulations laid in Parliament. Rather, it seeks to put in place a wide range of new programmes that have been developed in partnership with businesses, consumer groups and regulators. It aims to stimulate debate and feedback, on how consumers can empower themselves and others. This does not mean however, that we are ignoring the importance of regulation; enforcement of consumer protection and business regulation will continue.

Using this non-regulatory partnership approach has, we believe, enabled us to go further in less time than a more traditional approach. But the proposals are no less profound. In fact, we believe that in time, the package of programmes across *Better Choices: Better Deals* will turn the existing approach towards consumers on its head. We will see two profound changes:

- A shift away from a world in which certain businesses tightly control the information they hold about consumers, towards one in which individuals, acting alone or in groups, can use their data or feedback for their own or mutual benefit.
- A shift away from seeing regulation as what Government-sponsored bodies do *after* consumers have suffered in some way, towards one in which individuals and groups feel more able to send the right signals to business, and hence secure the products and services they want.

In short, we want to see confident, empowered consumers able to make the right choices for themselves – to get the best deals, demand better products or services, and be able to resolve problems when things go wrong. This approach makes it easier for honest, high quality businesses to compete and will drive innovation, competition and growth. A better deal for consumers and the economy means a better deal all round.

## Key Policies

### The Power of Information

#### Making informed choices easier

We are helping consumers to access, control and use data held about them by businesses through a radical new programme of work called 'mydata'. Over 20 leading businesses, covering financial services, retail, utilities, telecoms and online platforms, have agreed to work with Government on 'mydata'. The applications of 'mydata' are potentially limitless. They might enable you to identify which of the 12 million mobile phone contracts is the best for you (based on your past 12 months usage); to understand what the average fat content of the food you purchase from supermarkets is; or to find out whether there might be better ways of saving your money or using your credit and debit cards. By helping you access your own data we believe a market in useful apps and websites will be stimulated – able to analyse your data for you, to make choosing the best deal easier.

#### Richer information for important choices

We are setting up six new programmes to give consumers richer, more relevant information about the goods and services that they use. We are:

- **Introducing Annual Credit Card Statements**, containing information about fees and how to switch, which we expect credit card companies to start issuing in December 2011.
- Working with energy suppliers to provide, by the end of the summer, **clearer information about the lowest available energy tariff**.
- **Reforming Energy Performance Certificates** so they include clear information about the costs of heating a home.
- Working with the Food Standards Agency, trialling new ways to **help consumers understand food hygiene ratings of restaurants**.
- **Reforming car labelling** by supporting work to give consumers clearer information about the costs of running different cars.
- Facilitating the launch of a new programme of work to examine **product information in relation to health and the environment**.

### The Power of the Crowd

#### Consumers working together for a better deal

We will be introducing a range of new initiatives that will support the development of collective purchasing and collaborative consumption. We will be:

- Working with the new group of **Community Organisers to encourage local areas to develop their own collective purchasing deals**.
- Producing an **advice toolkit full of information to support new initiatives**, which will be encouraged further through a new **collective purchasing Innovation Prize**.
- Piloting a **green collective purchasing scheme** in which B&Q will help encourage the uptake of energy efficiency measures.

## Protecting consumer feedback and improving public sector choice tools

We are introducing new measures to help to protect the integrity of consumer feedback and online comparison sites. In this area:

- We will be **supporting the development of a self-regulatory quality mark** for web and comparison sites. Basic features might include a commitment to transparency on financial interests.
- The OFT have plans to crack down on significant cases where companies create false feedback.
- We are calling on public sector providers of 'choice tools' to assess whether alternative methods of provision would be more effective.
- The OFT will be publishing a paper on relevant competition and consumer protection issues.

## Better access to performance and complaints data

We are making changes to the way in which the government enables access to performance and complaints data held by public bodies. We will:

- **Make available more complaints and performance data held about businesses.**
- Set an **expectation that regulators, departments and public service providers release the complaints data** they hold.
- Launch a **competition to support new ways of using the data** released.

## More Support for the Vulnerable

### Empowering the vulnerable

We are putting in place a set of new proposals that will provide additional support to vulnerable consumers. Specifically, we will:

- Expand alternative dispute resolution including through a new system of redress. This will include a **new resolution scheme for e-commerce disputes**, which might include a new Ombudsman.
- Ask Citizens Advice and Citizens Advice Scotland with Consumer Focus, **to conduct a joint review on how to empower very vulnerable consumers.**
- Work with Argos to trial new ways of **ensuring that consumers shopping in store are able to access consumer feedback** normally only available online.

## A New Role for Business and Government

### Working in partnership with businesses

We are establishing new partnerships with businesses to achieve social objectives. This will include:

- **Extending the Public Health Responsibility Deal**, which amongst other things will help reduce salt in food bought in shops.
- **Establishing a Green Responsibility Deal** to help reduce businesses carbon emissions.
- **Developing the 'Every Business Commits framework'** which helps businesses support the economy and consumers, as part of the Big Society.
- Supporting new industry-led professional standards through the Growth and Innovation Fund.
- Continuing to encourage consumer and competition bodies to work together to empower consumers



## Devolution

This Consumer Empowerment Strategy has been produced in consultation with the Devolved Administrations. In those policy areas where the Government's responsibilities extend, the proposals outlined will apply across the UK. However, other aspects of policy highlighted in the document are devolved, in differing settlements, to the administrations in Scotland, Wales and Northern Ireland. It is the benefit of devolution that the Devolved Administrations can tailor their policies and thus deliver public services to meet the specific needs of their countries.

## Your feedback

**We would like to hear your comments on this document – what are your ideas on how we can help consumers to feel in control? We want to make sure that there are no barriers getting in the way and to help where it is needed most. Please go to [www.bis.gov.uk/better-choices](http://www.bis.gov.uk/better-choices) to leave your views.**

# Introduction

# Introduction

'Consumer empowerment' is a term often used to mean that consumers are confident in how they shop and demand goods and services from business. However, we think there is much more to empowerment. We not only want consumers to feel confident when they make decisions, but we also want them to be able to make the best decisions for themselves, armed with the best available information and best available choice tools.

Our vision is of consumers who know their rights and demand them, drive the development of new products and services and can work together to get the best deals. Such empowered consumers are a strong agent of growth.

The internet has opened up new channels for consumers to purchase products and services, to find out which is the best hotel in a given area, or to compare the cost and quality of tens of thousands of different types of products, from cars to homes to holiday insurance. So there are now many more ways by which consumers can try to find good information about both products and businesses as well as knowledge of their rights – all before they make a purchase. The challenge for consumers is often in knowing what is relevant information and what is not; knowing what is accurate and what is not; and what can be trusted and what cannot.

We are seeing the development of new applications that allow individuals to view their spending patterns and better understand how they are spending their money. Technology is being used to enable

consumers to buy and share goods together, powering new forms of what has been called 'collaborative consumption'.<sup>2</sup> And across the whole economy we are seeing the emergence of different ways in which consumers are able to give feedback – both to service providers and other consumers – about the services they have used, whether in relation to a GP practice, a local tradesman, or a multinational corporation.

At the same time, businesses are using data to understand their customers better. The development of loyalty cards has given those in the retail and other sectors a richer picture of their customers on a scale never known before. Online retailers are able to suggest to their customers what else they might like to listen to, watch or buy, based on previous purchases and what consumers similar to them also like.

In the future, these trends are likely to continue, as businesses find new ways to understand their consumers, and as individuals find it easier to use and take advantage of the power of information, whether from online communities, customer feedback on websites, or new and growing platforms like smartphone applications.

This strategy is the Government's response to how consumers can benefit from these exciting and innovative developments. As we shall see, they are important not just because they help individual consumers to make better decisions, but because individual decisions ultimately have significant effects across the whole of society and

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2 Botsman R and Rogers R (2010) *What's Mine is Yours*. New York: HarperCollins Publishers

the economy. Consumer spending, for example, represents more than half of the UK's Gross Domestic Product (£910 billion).<sup>3</sup> More

sophisticated domestic demand is essential to secure the sustainable growth we need for the future.

## In 2010, UK consumer spending was £910bn



ONS 2011

## Behavioural insights and consumer empowerment

These developments, which are shaping the industries and markets of today, are largely positive for consumers. They allow consumers to choose products and services that suit them best, and can help them to lead healthier, wealthier and happier lives.

They also help to promote growth, productivity and innovation in markets by rewarding the most efficient and responsive businesses, allowing them to prosper at the expense of those offering lower quality products, customer service, poor marketing or value for money. We usually think about innovation and competition in terms of the role played by businesses. But we should recognise the critical role of active consumers in this – encouraging businesses to provide new products and services and to compete keenly on price,

service and quality in order to attract customers. In other words, enhancing consumer empowerment is a key plank in the Government's medium to long-term plan to boost growth.<sup>4</sup> A recent European Commission report found that while about two-thirds of UK consumers felt confident and knowledgeable about their purchasing decisions, actual shopping behaviour (taking into account a wide range of different factors) indicated much lower levels of consumer empowerment.<sup>5</sup>

In developing this strategy, we have drawn upon insights from both traditional economics and behavioural science, which recognises that not all consumers respond in an economically rational way to financial or other incentives – for example because we have limited time, desire or cognitive resources to make a fully informed decision. These behavioural insights are set out in the relevant sections of this strategy.

3 Office for National Statistics (2011) Household Consumption Expenditure, Domestic Concept (Series ABJQ)

4 HM Treasury & The Department for Business, Innovation and Skills (2011) *The Plan for Growth*

5 European Commission (2011) *Consumer Empowerment: Eurobarometer 342*. Brussels: European Commission

## Lessons from economics and behavioural science

- *Information and trust:* Consumers often lack understandable information to support their choices, or may not trust information provided to them. For example, in some markets, such as the market for second hand cars, it is difficult to truly know the quality of a product until you have bought and tested it.<sup>6</sup> In others, there may be additional costs that consumers don't expect to incur; such as additional charges for baggage and credit card payment charges that are sometimes added to the price of an airline ticket. A recent survey of consumer conditions in a wide range of UK markets showed that consumers generally rated markets more highly on available choice, and the ease of comparing price and quality, than they trusted advertising and marketing.<sup>7</sup> In practice, a variety of solutions such as warranties and certification, have been developed to address the problems arising from 'asymmetry of information' (where the business has more information than the consumer). By sophisticated design of the market, many problems can be anticipated and addressed – the development of trust mechanisms for online auction sites is a good example.
- *Searching:* Even when information is available, it is often difficult to compare goods and services.<sup>8</sup> For example, there are currently over 12.7 million mobile phone deals being offered within the UK, with a range of options such as pay as you go or a monthly contract, the handset included and the number of minutes and texts included in the tariff.<sup>9</sup> It can be very difficult to assess which option would be best given a consumer's particular needs. Indeed, having a large number of firms in a market does not necessarily lead to the most competitive outcome when consumers have insufficient information.<sup>10</sup> Consolidation can improve productivity by increasing the number of customers per supplier and reducing fixed costs; it can also reduce search costs for consumers.
- *Switching:* Once a consumer has identified what appears to be the best deal for them, there can be both real and perceived barriers that get in the way of them taking advantage of it.<sup>11</sup> For example, consumer research conducted for the Department for Business, Innovation and Skills in 2010 found that only 7% of credit card holders had switched in the last year; yet 92% of these had found switching easy.<sup>12</sup> Consumers may feel that a bank is giving them a substandard service but never get round to changing to a better bank or service. An Office of Fair Trading (OFT) survey in 2008 found that 64% of respondents had never switched provider for their main current account.<sup>13</sup> Sometimes consumers are discouraged from switching by charges for leaving a contract before it ends, for example early termination charges in gym membership contracts. Alternatively, they may suffer from 'status quo bias', for example having annual charges for a product or service paid by direct debit may encourage them to stay with an existing provider rather than shopping around for a new one.<sup>14</sup> While greater switching does not necessarily lead to a more competitive outcome, consumer inertia can make it difficult for new and innovative businesses to establish a foothold in the market, and reduce overall business competitiveness and growth.

6 Akerlof GA (1970) The market for "lemons": Quality uncertainty and the market mechanism. *The Quarterly Journal of Economics* 84(3): 488-500

7 Ipsos MORI (2009) *Report on the 2009 Consumer Conditions Survey*. London: Consumer Focus

8 Stigler GJ (1961) The Economics of Information. *The Journal of Political Economy* 69(3): 213-225

9 See <http://blog.billmonitor.com>

10 Giulietti M, Otero J and Waterson M (2004) *Supply competition and price behaviour in the UK electricity supply industry*. Centre for Management under Regulation, WBS Discussion Paper

11 Farrell J and Klemperer P (2007) Coordination and Lock-In: Competition with Switching Costs and Network Effects. *Handbook of Industrial Organization* 3: 1968-2072

12 Department for Business, Innovation and Skills (2010) *Credit and Store Card Research*. London: BIS

13 Office of Fair Trading (2008) *Personal current accounts in the UK. An OFT market study – Annexe D – Current Account Research*. London: Office of Fair Trading

14 Samuelson W & Zeckhauser R (1988) Status Quo Bias in Decision Making. *Journal of Risk and Uncertainty* 1:7-59

## Better Choices: Better Deals

The purpose of this strategy is to set out what Government and others can do to help empower consumers in a rapidly changing and demanding economy. It has two aims:

- To put consumers in charge so that they are better able to get the best deals for themselves individually and collectively as well as looking at ways to empower the most vulnerable who may not otherwise benefit from these exciting developments.
- To contribute to our broader growth agenda, supporting a strong private sector recovery and helping to raise underlying long-term growth rates.

We will do this by:

- Championing a new approach where businesses, regulators and consumer groups work together. Government's role will be helping to facilitate and encourage these groups to come together to tackle problems faster.
- Avoiding regulation where possible. This strategy is not a traditional Government publication. It does not create new regulation. Instead, we think our approach has enabled us to develop more proposals that will help consumers in less time than a more traditional package.
- Recognising that Government does not have a monopoly on knowledge on what's best for the consumer. If you think there are ways in which consumers could become more empowered that we have not covered, or barriers we need to remove, we want to know. Better still, why not set up your own group to tackle it and then tell us?

This document covers a broad range of areas and proposals, grouped for clarity under 4 key chapters.

**The Power of Information:** This chapter sets out a radical new vision for consumer empowerment in the internet and smartphone age, in particular by ensuring that individuals are able to use information held by businesses about them to

inform their purchasing and lifestyle choices. In addition, we set out proposals to make consumer information simpler and more accessible, for example in relation to annual credit card statements and product labelling.

**The Power of the Crowd:** This chapter sets out a new vision for supporting collective purchasing and collaborative consumption, a new approach towards supporting public sector comparison sites; new measures to facilitate the development of consumer feedback sites in the private sector; and opening up regulatory data.

**Additional Support for Vulnerable Consumers:** This chapter introduces new measures that will provide additional help for those who need it the most. We will be reforming the post-transaction redress system which will help consumers, and particularly the most vulnerable, to find simpler ways of resolving disputes without the need to navigate the legal system. We have also tasked Citizens Advice and Consumer Focus to set out a new, strategic approach to helping the most vulnerable consumers and we are evaluating access to consumer feedback in stores so that those who are not online can benefit from the views of other consumers.

**A New Role for Business and Government:** This chapter expands our vision of a partnership between business, regulators and consumer groups. It includes extending the Health Responsibility Deal, building on the success of the Every Business Commits framework, launched in December 2010 and supporting business-led professional standards. It also emphasises the importance of effective consumer protection: in essence accelerating the shift towards more informed consumers and responsive markets that rapidly reward good practice and service, whilst using strong enforcement to tackle abusive practice and rogue traders at the earliest possible moment.

# Chapter 1: The Power of Information

# Chapter 1: The Power of Information

## Chapter 1 key facts and figures

If consumers used price comparison sites as effectively as they could they would stand to gain £150-240m per annum.<sup>15</sup>

Only 13% of people who use price comparison sites purchase from the lowest price retailer.<sup>16</sup>

One of the possible reasons for this is that consumers do not always have accurate information about their past usage and therefore may find it difficult to predict their future usage.<sup>17</sup>

A recent EU survey has found that UK consumers show some of the lowest activity in Europe, in terms of comparing prices, reading terms and conditions and showing interest in consumer information.<sup>18</sup>

Businesses can take advantage of this. For example, a US study found that late fees accounted for up to 20% of video rental stores' revenue.<sup>19</sup>

There is also evidence that individuals may not need more information: too much choice and information can be overwhelming.<sup>20</sup>

It is often suggested that we are living in an 'information age', in which information is freely exchanged, and that individuals are able to access knowledge in a way that would have been difficult or impossible prior to the advent of the computer, mobile phone and the internet.

Information is much more readily available than it was even five or ten years ago and there has been

an exponential growth in digital data, driven by a rise in automated collection methods and greater capacity for storage processing. The recent advent of the smartphone has introduced a new era of applications and tracking technologies, which enable businesses and individuals to use data in new and exciting ways.

15 Office of Fair Trading (2007) *Internet Shopping – an OFT market study, OFT921*. London: Office of Fair Trading

16 Baye M, Morgan J and Scholten P (2004) Price Dispersion in the Small and in the Large: Evidence from an Internet Price Comparison Site. *The Journal of Industrial Economics* 52(4) 463-496

17 Della Vigna S and Malmendier U (2006) Paying Not to Go to the Gym. *American Economic Review* 96: 694-719

18 European Commission (2011) *Consumer Empowerment: Eurobarometer 342*. Brussels: European Commission

19 Ayres I and Nalebuff B (2003) In Praise of Honest Pricing. *MIT Sloan Management Review* 45(1): 24-28

20 Schwartz B (2004) The Tyranny of Choice. *Scientific American* 290: 70-76



Modern information processing technologies mean that businesses can now actively collect data about consumers' purchasing decisions and individual characteristics, for example through loyalty cards or internet purchasing history. This is allowing ever more sophisticated 'customer management', enabling businesses to segment and tailor their offers – suggesting products that particular consumers might be interested in, discounts on goods that are relevant to them, as well as the potential to identify the most profitable, and sometimes vulnerable and disadvantaged, customers.<sup>21</sup>

Many of these changes are to be welcomed, since they have provided consumers with a wealth of information about the choice, quality and cost of products and services, which has driven down prices.<sup>22</sup> In many cases, the growth of personalised purchasing data has also enabled businesses to improve the service they provide: "if you liked this movie, book or hotel, you might also like X...". However, this knowledge can create what economists call an 'information asymmetry', whereby businesses know more about consumers' habits than they do.<sup>23</sup> For example, a credit card company might know more about a consumers' likelihood of not paying their bill on time than the consumer does. In some cases, the business may then use this informational advantage to construct offers or tariffs that the consumers will over-value.<sup>24</sup>

Access to more information does not necessarily help on its own. Research has shown that a good deal of information required by regulation does not reach its target audience. This is often because there is too much information or it may be provided in a way that dissuades consumers from reading it.<sup>25</sup> Too much information can also lead to

'choice overload' which makes it difficult for consumers to make decisions.<sup>26</sup> Information should therefore be provided in easy to understand forms (to reduce 'cognitive costs'), and in a way that makes it easy for consumers to act upon (to reduce 'action costs'). In recent years we have seen intermediaries and online platforms emerge to undertake this role, for example analysing complex information on mobile phone tariffs or insurance premiums and helping consumers switch to get a better deal.

We need to create an environment where businesses (and Government) provide information to consumers in simple and relevant ways, and where consumers are readily able to access, control and use information that businesses hold about them.

**In this chapter we set out two Government priorities for information to empower consumers, alongside a set of proposals that we will be introducing to take these principles forward. These are:**

- 1. Access to personal data: enabling consumers to access and use data held about them by businesses: 'mydata'**
- 2. Enriching information: new proposals to ensure that consumers are given richer and more relevant information about the goods and services that they use**

21 Ayres I (2007) *Supercrunchers: Why thinking-by-numbers is the new way to be smart*. New York: Random House

22 Kamenica E, Mullainathan S and Thaler RH (2011) *Helping consumers know themselves*. Available at SSRN: <http://ssrn.com/abstract=1742505>

23 Ayres I (2007) *Supercrunchers: Why thinking-by-numbers is the new way to be smart*. New York: Random House

24 Kamenica E, Mullainathan S and Thaler RH (2011) *Helping consumers know themselves*. Available at SSRN: <http://ssrn.com/abstract=1742505>

25 Better Regulation Executive and National Consumer Council (2007) *Warning: Too much information can harm*. London: BIS

26 Schwartz B (2004) The Tyranny of Choice. *Scientific American* 290: 70-76

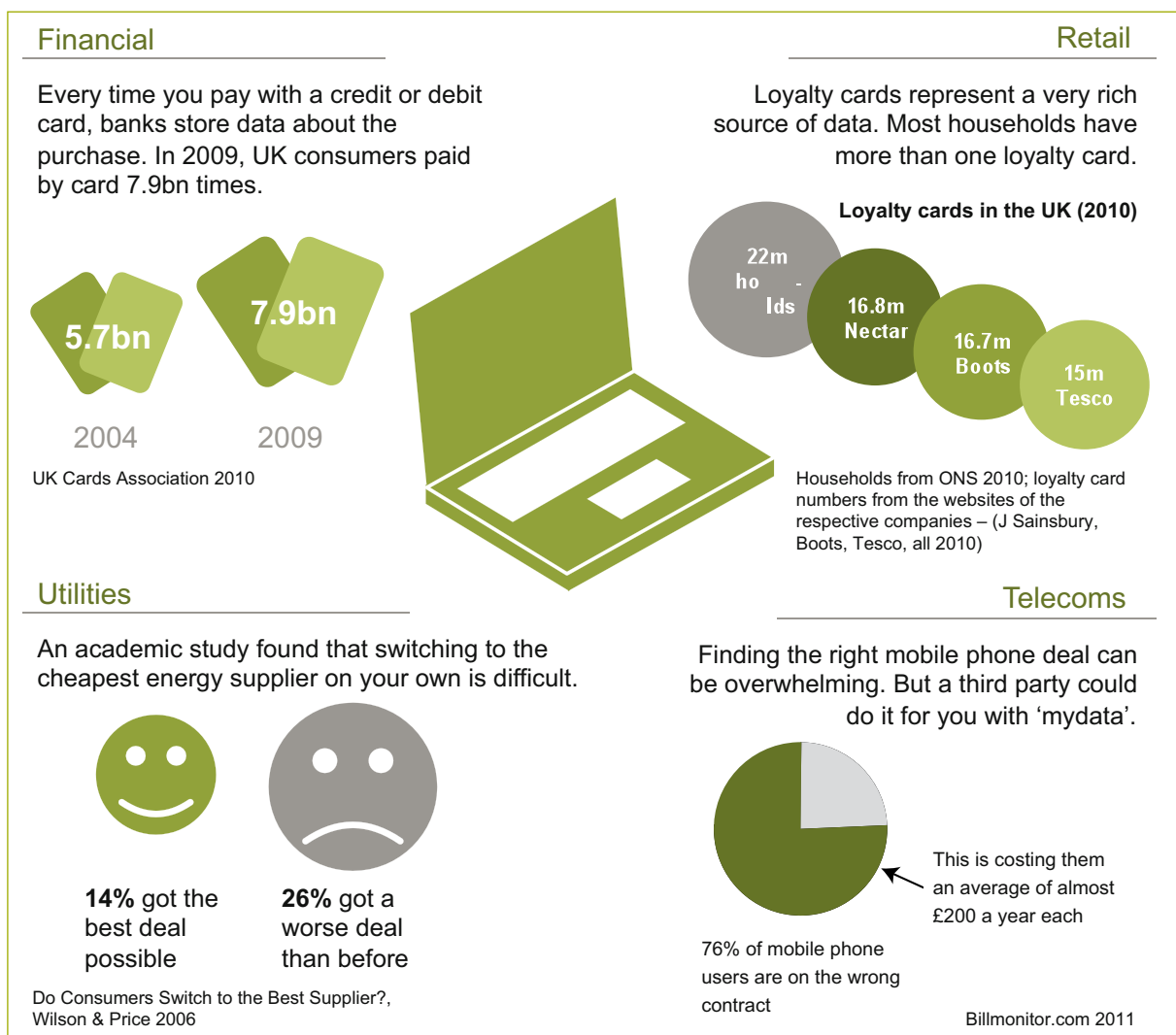
## Enabling consumers to access and use data held about them by businesses: 'mydata'

The Government's transparency and open data agenda has so far focused on datasets held by public bodies – in particular through a new 'right to data' that enables members of the public to request and use datasets held by the Government.<sup>27</sup> The next stage of this agenda will also focus on data held by businesses about individuals, providing consumers with more ways to access, control and use their personal data. By making it easier and simpler for consumers to

access data held about them, intermediaries will be able to combine (or 'mash') data from different sources to enhance consumers' understanding of their purchasing choices. This will drive improvements in consumer value and choice by promoting competition, and reducing problems with information, searching, and switching costs. It will therefore act as an important stepping stone towards a world where consumers make decisions on the basis of accurate information of their past usage of a service and competitive offers made by sellers.

We are calling this ambitious programme of work 'mydata'.

### Personal data



27 HM Government (2010) *The Coalition: Our programme for government*

Significant economic value is locked up in the data on individuals held by major retailers, banks, phone companies, utilities, internet intermediaries and other businesses.<sup>28</sup> Under Data Protection legislation, consumers have legal rights to request access to the personal data that businesses hold about them (through 'subject access rights'). In a recent survey by Which?, however, over half of respondents were not even aware of this right, whilst only a small minority of consumers have ever exercised it.<sup>29</sup> In practice, accessing this data does not generally occur in real time (taking up to 40 days) and there is no legal right to access the data in an electronic form.

There are significant disparities between – and within – sectors in the amount of personal data

stored, and whether it is routinely shared with consumers. For example, in the banking, telecoms and online retail sectors it is increasingly common for consumers to be able to see their transaction history. However, often this can only be viewed onscreen, and is not downloadable in a common format. If it were, it could be easily reused by intermediaries and third parties to provide consumers with, for example, clear information on their spending habits or the best tariff given their personal usage. Consequently, intermediaries and third party businesses in these sectors are currently forced to use workarounds, which sometimes rely on consumers providing them with their log-in details to access and 'scrape' this data.

### **'mydata': what it is and what it isn't**

'mydata' is what we are calling a programme of work we are undertaking with consumer groups and leading businesses to give consumers more control and access to their personal data. It aims to enable consumers to get access to their own transaction data in a way that is portable and safe, so that they can take advantage of the growing number of applications which can use this data to find them a better deal, or tell them interesting things about their spending habits.

This does not mean consumers will *have* to share or access their personal data. Not everyone will want to use to use these applications, but those who do, should be able to do so while specifying how and who they share their data with. This does not mean Government seeing or handling the data being shared. It will be up to the market, including large businesses that hold and process data as well as small tech start-ups, to develop the exciting applications that this project will enable. Government does not want to design the process, although we expect that as well as new applications, new tools and technologies may be needed to obviate privacy risks. Government's role will be to: set the vision; help create interest among consumers, businesses and commentators; and help the market operate in an effective and safe way.

The Information Commissioner's Office is the UK's independent authority set up to uphold information rights in the public interest, promoting openness by public bodies and data privacy for individuals. The Information Commissioner has stated:

"I strongly support initiatives to promote greater openness and to increase the control citizens have over their own personal data. The 'mydata' concept is compatible with the requirements of the Data Protection Act. The Consumer Empowerment Strategy rightly points out that the privacy and security dimension will need to be properly managed if both compliance and public confidence are to be maintained. This aspect of the project will require careful attention from the outset, using a 'privacy by design' approach. My office will be glad to help the 'mydata' working group to get this right".


28 Ayres I (2007) *Supercrunchers: Why thinking-by-numbers is the new way to be smart*. New York: Random House

29 Which? (2011) Online Omnibus Survey (1,336 adults aged 16+)

Consumers will rightly be concerned about privacy and security issues. Indeed we hope that 'mydata' will serve the important public policy goal

of stimulating awareness of data access rights and privacy risks, as well as the market for tools and systems that manage these risks.

### 'mydata' and what it might mean in practice

Morning	Afternoon	Evening
 <p>07:00 Have a shower "How much energy do I use a day?"</p>	 <p>12:00 Lunch "How much do I normally spend?"</p>	 <p>19:00 Internet shopping "How much could I save on my weekly shop?"</p>
 <p>08:15 Cash machine "How much money do I usually withdraw and how long does it last?"</p>	 <p>14:00 Phone call "Am I on the best tariff?"</p>	 <p>19:30 Internet banking "How much did I pay in credit card fees this year?"</p>
 <p>08:30 Commute "What is the quickest route?"</p>	 <p>18:00 Supermarket "How often do I get my 5-a-day?"</p>	 <p>23:00 Bedtime "How much does it cost to leave the hallway light on?"</p>

Businesses can use your data to answer these questions...

.... but with 'mydata' you could too

The changes introduced through 'mydata' have the potential to transform the way in which consumers are able to understand their spending patterns. It will personalise and simplify searching, which in turn should support switching to cheaper or more effective goods or services. And it will open up new markets for services that will tell consumers interesting, important or informative things about their purchasing decisions. Crucially, consumers will be more in control of their data, which is currently held by businesses.

This does not necessarily require the consumer to do the hard work in making sense of the data, or working out the best deal. For example, if a mobile phone contract is up for renewal, 'mydata' will allow the consumer to request their previous year's billing history from their mobile phone operator. They would then be able to give this information to a trusted third party, to find out what the optimal tariff across any network – based on actual historical usage.

Consumers would also be able to draw together data from their credit, debit, and loyalty cards, allowing them to understand what proportion of their disposable income they typically spend on particular goods or services. For example, this could range from a breakdown of spending on food between restaurants, supermarkets and online to having the weekly shopping basket analysed to find cheaper deals and products or identifying healthier/greener alternatives. New privacy technology and 'user-centric' architecture can allow this data to be redesigned for new purposes and shared to third parties in a privacy-safe way.

The applications market is growing rapidly. For example, there has been a recent rise in applications and services that include elements of competition, comparison and cooperation between consumers to achieve personal goals, such as in relation to financial management, energy consumption, fitness and travel (this has been described as 'gamification'). One of the most fascinating things about this work, is that we can only imagine some of the exciting and innovative ways in which this data will be used in the future.

Establishing trust in the exchange of information – both for businesses (knowing that they have correctly identified the consumer) and consumers (knowing that the information is protected during the whole process) – is essential to realise the potential of this exciting new project. However we would like to stress that Government's role in this project will *not* include viewing or handling any of the data involved.

Government's role will be to set the vision; to help create interest among consumers, businesses and commentators; and to help the market operate in an effective and safe way. There will also be a role in removing barriers to access, particularly for vulnerable consumers who are not technologically savvy or do not have access to the internet or smartphones, to ensure that everyone who wants to take advantage of these developments can do so. We do not wish to burden or penalise small and medium-sized enterprises (SMEs), so we will explore support for those who do want to be involved. We will work closely with representatives of vulnerable and disadvantaged consumers and interested SMEs to develop this proposal to meet their needs.

Given the potential operational, cost and privacy implications for the ways in which businesses currently store and release data, 'mydata' is not something that can happen overnight. However, we will work with businesses and consumer groups to make this happen as soon as possible.

As explained in the Introduction, the consumer empowerment strategy seeks to achieve its objectives through a non-regulatory approach. Given the positive reaction from many partners so far, we hope a voluntary approach to 'mydata' will establish rapid progress. However, if progress towards our vision is unreasonably slow (such as failing to reach agreement on a standard for the format of data being released), or consumers trying to access information encounter serious difficulties, Government will consider remedies, including appropriate legislation.

So we have established a working group of major businesses from the financial, telecoms, retail, online and utilities sectors, internet security companies, the Information Commissioner's Office, consumer groups and the Government to

drive and co-ordinate 'mydata'. A roundtable was held at No.10 Downing Street in March 2011, where organisations committed to working together to deliver 'mydata'. Leading businesses already signed up include: Barclaycard, Mastercard, HSBC, RBS Group, Lloyds TSB, John Lewis Partnership, Groupe Aeroplan (Nectar) Home Retail Group, Centrica, Southern and Scottish Energy, Everything Everywhere (T-Mobile/Orange) and Google. Other businesses or organisations who wish to become early adopters and partners in the 'mydata' group should contact BIS via: [www.bis.gov.uk/better-choices](http://www.bis.gov.uk/better-choices)

This group is tasked with developing a self-regulatory, voluntary agreement to release personal data in an open, reusable format. The Minister for Employment Relations, Consumer and Postal Affairs will chair quarterly progress checks and formally review progress in one year (April 2012).

The group will come together for these quarterly progress checks, but will initially work in sectoral sub-groups to agree a format and timetable for releasing data. The sub-groups will be chaired by Prof. Nigel Shadbolt, who will co-ordinate and drive progress across the groups.

In addition, a cross-sectoral 'Privacy, Security and Legal' sub-group will work with internet security providers to ensure trustworthy and secure systems are in place to process consumers' data transfers with sufficient levels of protection, and with the Information Commissioner's Office to develop new guidelines and toolkits. This group will also consider if and where in the legal framework appropriate amendments need to be made. Consumer groups, such as Citizens Advice, Which? and Consumer Focus as well as privacy groups, will also be actively involved in providing support and challenge to these groups in order to ensure agreements meet the needs and concerns of consumers.

## New proposals to ensure that consumers are given richer, more relevant information about the goods and services that they use

The information age has made an unprecedented amount of information available to consumers. But the information itself is sometimes presented in a way which makes it difficult to make the right decision. Consumer behaviour is greatly influenced by what their attention is drawn to; for instance people are more likely to notice stimuli that are novel (messages in flashing lights), accessible (items on sale next to checkouts) or simple (a snappy slogan). Simplicity is also important as consumers' attention is much more likely to be drawn to things that are easily understood.<sup>30</sup>

Government is developing examples that show how we can encourage or make information to consumers simpler and more accessible:

### Example One: Annual Credit Card Statements.

Our work to ensure that consumers are aware of the full costs of using their credit cards is leading the way. Evidence indicates that consumer understanding of credit is not universally strong and the way that information is presented on a credit card statement can have a significant impact on consumer repayment behaviour.<sup>31</sup> We have worked with The UK Cards Association (the leading trade association for credit, debit and charge card issuers, and merchant acquiring banks), to roll out Annual Credit Card Statements to all customers. We expect that the first statements will be issued by credit card companies by the end of December 2011, with the remaining credit card companies issuing them in early 2012.

These statements will inform consumers how they have used their card over the previous 12 months, including information about the fees and costs incurred while using their card, giving them a holistic view of their spending. This information is intended to be much more helpful than the current, monthly summary which may have the

effect of underplaying the total costs of these fees. The statement will include some information to help consumers to compare credit cards and facilitate switching.

The key principles for the Annual Credit Card Statements agreed with The UK Cards Association and the credit card industry are:

- The statement will tell consumers how they have used their card over the last 12 months, including what they have spent and what they have repaid.
- The statement will help consumers understand all the fees and costs incurred while servicing their credit card over the last 12 months.
- The statement will include information to help consumers to compare their credit cards and facilitate switching.

In parallel to our work on 'mydata', we are also working with the credit card industry on e-statements that will give consumers full access to all of their transactions over the last 12 months in a portable electronic format. Consumers will then be able to 'plug this in' to price comparison and money management websites and applications.

In addition to the Annual Credit Card Statements, the credit card industry has also implemented two other policies to improve information to consumers since the beginning of 2011:

- Lenders now send a separate communication to those customers who make repeated low payments on their credit or store card. This explains how the consumer's current behaviour is costing them more money and what they can do to improve their situation, including providing details of independent sources of advice and support.
- The industry has also committed to sending out information to consumers who face an increase to their interest rate at least 30 days before the change occurs. The communication

30 Cabinet Office and Institute for Government (2010) *MINDSPACE. Influencing Behaviour through Public Policy*. London: Cabinet Office

31 Stewart N (2009) The cost of anchoring on credit card minimum payments. *Psychological Science* 20(1) 39-41

explains in clear and simple language how their rate is changing, that they have a right to reject the new interest rate within 60 days, and how they can exercise that right if they want to.

In line with The UK Cards Association's commitment to evidence-based decisions, further behavioural research is underway, which will identify what consumers will find helpful in making their decisions. The Association has agreed to work with credit card companies to consider this research and how it should be delivered. This may, for example, include measures relating to the total cost of the debt (and the total time taken to pay it off) if repayments were to remain at the same level.

The UK Cards Association has committed to work with the credit card industry to review these initiatives over the next two years, providing further insight and evidence into what information is most beneficial to consumers.

**Example two: Lowest energy tariff information.**

Recent research for the European Commission showed that almost a quarter of UK consumers found it difficult to compare tariffs from electricity or gas providers.<sup>32</sup> Research at the University of East Anglia shows that consumer error is often high with less than an eighth of consumers who switch to get lower prices choosing the supplier who has the best deal.<sup>33</sup> More recently, Ofgem's Retail Market Review, published in March this year, highlighted that consumers find it difficult to make a well informed decision about the best tariff for them; and that rather than driving competition, the current complexity of pricing structures is leading to reduced consumer engagement.

Ofgem's proposals to simplify tariff structures and choice are likely to make comparing offers much simpler for consumers. We are working with the Energy Retailers Association and the big six

energy suppliers to provide consumers with clear information about the lowest available tariff. We aim to have a voluntary agreement with energy suppliers to provide this information on consumer energy bills by the end of the summer.

**Example three: Energy Performance Certificates.**

This summer, we will be setting out our view on changes needed to information contained in Energy Performance Certificates (EPC) and how it is presented. The proposals follow on from the recent Ministerial review of Energy Performance Certificates in England and Wales carried out by the Department of Energy and Climate Change (DECC) and the Department for Communities and Local Government (DCLG).<sup>34</sup> At present, anyone seeking to sell or let a property has to acquire an EPC, which sets out information about the energy efficiency of a home, as well as recommendations for measures to take to improve on that rating. Feedback from the recent DECC/DCLG call for evidence suggests that many people find the data currently presented on EPCs difficult to interpret, and research from Consumer Focus shows that only 17% of people act on recommendations.<sup>35</sup>

The Government will, in future, make EPC information much more relevant to consumers, highlighting more clearly how much a home costs to heat on average; this should help to empower individuals to make purchasing and rental decisions based on the costs of running a home. Clear links to the opportunities offered by Green Deal finance should also help to remove the barrier of high upfront costs and encourage householders to undertake the changes that will make their homes both warmer and cheaper to run.

**Example four: Food Hygiene Ratings.** The Food Standards Agency (FSA) launched a food hygiene rating scheme in England, Wales and Northern Ireland in November 2010. Following Lord Young's

32 European Commission (2009) *Consumers' views on switching service providers*. Brussels: European Commission

33 Wilson CM and Waddams Price C (2010) Do consumers switch to the best supplier? *Oxford Economic Papers* 62(4): 647-668

34 In Scotland, proposals arising from the Recast of the Energy Performance of Buildings Directive will be subject to consultation later in 2011. Changes to the presentation of information in Energy Performance Certificates will be part of this.

35 Lainé L (2010) *Room for Improvement*. London: Consumer Focus



review of Health and Safety, roll out of this scheme has been backed by the Government, to be up and running in time for the 2012 Olympics and Paralympics. The scheme aims to make it easier for consumers to choose places with higher hygiene standards when eating out or shopping for food. It does this by providing consumers with clear and easy to understand food hygiene information presented in the form of a simple numerical rating. Outlets are encouraged to display this information in their windows and consumers can look up ratings online. Importantly, a national approach means that consumers can compare businesses like for like not just in their own area but also further afield, with a hygiene rating of '5' meaning the same irrespective of the business' location. In Scotland, the Food Hygiene Information Scheme is based on a two-tier approach – 'Pass' or 'Improvement Required'.

The Behavioural Insights Team is considering ways to build on this initiative in order to help consumers use this new information when they are searching for and booking restaurants in advance. The team will work with the FSA and with consumer advocates such as Which? to assess their role as powerful messengers and to trial alternative ways of presenting the rating information to determine which is the most effective in aiding consumer choice.

**Example five: Car labelling.** The Department for Transport (DfT) and the Behavioural Insights Team have been working on car labelling, with the aim of making the cost of running a vehicle much clearer to consumers. DfT has asked the Low Carbon Vehicle Partnership (a body representing both industry and non-governmental organisations) to bring forward proposals aimed at helping to give consumers much clearer information on how much it will cost them to run a particular car. We believe that improvements could be made to the current voluntary A-G energy fuel economy and emissions label for new cars so that it gives people much clearer information at the point of sale about ongoing running costs, and therefore allows them to make an informed choice. This could help to shift consumers' behaviour and deliver environmental benefits, for example by making it clear what cost savings are achievable when running more

fuel-efficient vehicles. The DfT will work with the Low Carbon Vehicle Partnership on monitoring and evaluating how effective any changes to the label are.

**Example six: Product labelling.** We have facilitated the launch of a research and development programme at the new Behavioural Economics 'Incubator Unit', founded by Professor Nick Chater in the Behavioural Science Group at Warwick Business School and Rory Sutherland, President at the Institute of Practitioners in Advertising. This programme will investigate new ways of providing consumers with product information in two key areas: health and the environment. Building on insights from an initial workshop, the programme will generate ideas about how information may be more effectively presented to empower consumers to make better choices. These ideas will be tested against behavioural economic theory in both controlled and market trials with private sector partners and their customers. The aim is to publish a paper with recommendations for manufacturers, retailers and Government by the end of the year.

## Summary

Better access to information and data has the potential to transform consumers' lives and invigorate the economy. However consumers need the right information at the right time, in the right form to make this happen. Our proposals in this chapter attempt to tackle these issues by:

- enabling consumers to get access to their own consumption data in a way that is portable and safe; and
- ensuring that information provided to consumers is accessible and easy to understand (e.g. Annual Credit Card Statements and greater information about lowest energy tariffs).

In the longer-term, we will review these policies to see how they have influenced and benefitted consumers and we will ensure that these lessons help shape future policy-making.



# Chapter 2: The Power of the Crowd

# Chapter 2:

## The Power of the Crowd

### Chapter 2 key facts and figures

More than nine out of ten UK consumers tell someone else if they have a good or bad experience with a company and leave well over 100 million comments online every year.<sup>36</sup>

The Consumer Direct service collected 850,000 complaints last year,<sup>37</sup> and the Financial Services Authority reported over 1 million complaints.<sup>38</sup>

An empirical study in the US found that 54% of consumers looked through consumer feedback reviews when using a price comparison site.<sup>39</sup>

Estimates in the US found that each shared car that was used lowered the total number of privately-owned cars by up to 25%.<sup>40</sup>

Traditional economic theory says that people are only interested in improving their own outcomes and always make the right choices when trying to do so.<sup>41</sup> In addition, some commentators regard the word 'consumer' as linked to greed and selfishness.<sup>42</sup> However, this view of the consumer as totally selfish is being increasingly challenged. Evidence from behavioural science suggests that

there are a range of non-selfish motivations that may also guide people's decisions.<sup>43</sup> And in practice, new technology has changed the way that consumers act – it is now easier than ever for consumers to work together to get the best deal.<sup>44</sup>

36 Cullum P (2010) *Unleashing the New Consumer Power*. London: Consumer Focus

37 The Office of Fair Trading (2010) *OFT Annual Report and Resource Accounts 2009-10, Annex F*. London: Office of Fair Trading

38 See [http://www.fsa.gov.uk/pages/Library/Other\\_publications/commentary/index.shtml](http://www.fsa.gov.uk/pages/Library/Other_publications/commentary/index.shtml)

39 Chatterjee P (2001) Online reviews: do consumers use them? *Association for Consumer Research* 28(1): 129-134

40 Shareen SA, Cohen AP and Chung MS (2009) North American Carsharing: A Ten-Year Retrospective. *Transportation Research Board Annual Meeting* 23

41 Deaton A and Muellbauer J (1980) *Economics and Consumer Behaviour*. Cambridge: Cambridge University Press

42 Thake S (2008) *Individualism and Consumerism: Reframing the Debate*. London: Joseph Rowntree Foundation

43 Fiske ST and Taylor SE (1991) *Social Cognition*. Singapore: McGraw-Hill

44 Botsman R and Rogers R (2010) *What's Mine is Yours*. New York: HarperCollins Publishers

Behavioural science shows that people often use rules of thumb and shortcuts to make decisions and can be influenced by seemingly unrelated prompts in their environment.<sup>45</sup> Consumers may often feel that they do not have the time and energy required to make informed, logical decisions when purchasing goods. But, when consumers collaborate, they can spread the costs of this effort amongst them.

Organised groups of consumers can work together by combining their buying power to negotiate better deals; by sharing their possessions and consuming them together; or by trading with each other. Active consumers often join together to form groups, based on a common characteristic (i.e. geographic or demographic) or shared interest.<sup>46</sup> They work together to achieve a common outcome, or alternatively hand over their buying power to a third party to work on behalf of the group.

Consumers also collaborate virtually. In a world where the goods and services consumers buy are increasingly complex and experiential, it can be difficult for consumers to acquire useful information about particular goods and suppliers in advance of purchase. If people can use the past experiences of other consumers before making a purchase, they can significantly increase their chances of making the right choice for them. Encouragingly, consumers are increasingly sharing feedback, for example on the quality of their hotel rooms, meals, and consumer electronics. This feedback helps to inform the decisions of people they don't know and may never communicate with directly.

Consumers who collaborate create a form of social capital – they give each other the confidence to connect and trust those in a network. Successful collaborations build further trust between members inside a network or community and also helps them make judgements about those from outside of the network –

including the businesses they purchase goods from.<sup>47</sup>

**In this chapter we explore the role of Government in encouraging consumers to work together, for both personal and collective good. Proposals include:**

- 1. Supporting collective purchasing and collaborative consumption**
- 2. Protecting the integrity of consumer feedback and other private sector online comparison sites**
- 3. Overhauling the way in which the Government helps consumers make choices in public services**
- 4. Opening up regulatory data that the Government holds**

## Supporting collective purchasing and collaborative consumption

In most markets, consumers independently purchase their goods or services from businesses. Overall, those decisions can have an impact on quality and price,<sup>48</sup> but generally consumers do not need to collaborate with other consumers in order to make a purchase.

In some markets, however, we are starting to see consumers increasingly come together around a shared interest. When consumers do so, they can either *use* goods together in a way that can bring increased efficiency (collaborative consumption) or *buy* them together to negotiate better prices or quality (collective purchasing).

'Collaborative consumption' is a term that describes groups of consumers who share or trade something that they might have otherwise had to purchase separately. For example, rather than buying their own car, people can join car-sharing services such as Zipcar or Streetcar. These

45 Thaler RH and Sunstein C (2007) *Nudge: Improving Decisions about Health, Wealth and Happiness*. New Haven CT: Yale University Press

46 Botsman R and Rogers R (2010) *What's Mine is Yours*. New York: HarperCollins Publishers

47 Halpern D (2010) *The Hidden Wealth of Nations*. Cambridge: Polity Press

48 Varian HR (1999) *Intermediate Microeconomics: A Modern Approach*. New York: W.W. Norton and Company

individuals do not 'own' the cars in question, but are able to book and access cars parked in city locations as and when they are needed. Car sharing services have the dual benefit of saving money for users (who do not need to pay the whole costs associated with road tax, parking, and vehicle repairs for example), while also providing wider social benefits, such as reducing congestion from parked but rarely used cars.<sup>49</sup>

Collaborative consumption will improve economic efficiency in a way that is not necessarily captured by gross domestic product figures. Many goods, such as cars or bikes, are not used to their full capacity and if consumers have a good way of sharing them, then as a group, they will not need so many of them. This will bring about greater efficiency because it means the resources that would have been used to create these extra cars can be used to make something else instead.<sup>50</sup>

One example of the success of collaborative consumption is the Barclays cycle hire scheme. In July 2010, a public bicycle sharing scheme was launched in central London, with 5,000 bicycles and 315 docking stations. Over one million bicycle trips were made within the first ten weeks of the scheme's launch.

'Collective purchasing' is a related term which refers to groups of consumers combining their purchasing power to buy a good or service together. In many markets businesses have more market power than consumers, who are often a disparate group of individuals.<sup>51</sup> When individual consumers club together they can increase their buyer power in any given market, allowing them

to negotiate a lower price and/or better quality service.

Buying and using goods together can benefit many groups, but has great potential for the more disadvantaged. In order to support this, the Government will work with Locality, a national partner, to encourage Community Organisers to take advantage of information and opportunities relating to collective purchasing and collaborative consumption.<sup>52</sup> Community Organisers will work closely with communities to identify leaders, projects and opportunities, and will empower the local community to improve their local area. They will be able to use collective purchasing and collaborative consumption to bring immediate financial benefits to residents while also creating social capital and acting as a springboard for other kinds of community action.

Community Organisers and Business Connectors will have access to a toolkit to support collective purchasing and collaborative consumption<sup>53</sup>. It will contain advice on those key issues that were identified in a roundtable on collective purchasing hosted by BIS in January 2011. These included information and support in areas such as collective insurance, legal issues that might present barriers to collective action, and case studies of different collective purchasing models (there is no 'one size fits all').

To help encourage more collective purchasing, the Department for Business, Innovation and Skills are collaborating with Co-operatives UK to pilot an Innovation Prize. In line with new work on innovative models of collaboration, the prize is intended to stimulate enterprise and promote

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49 Shareen SA, Sperling D and Wagner C (1998) Carsharing in Europe and North America: Past Present and Future. *Transportation Quarterly* 52(3): 35-52

50 Shareen SA, Cohen AP and Chung MS (2009) North American Carsharing: A Ten-Year Retrospective. *Transportation Research Board Annual Meeting* 23

51 Varian HR (1999) *Intermediate Microeconomics: A Modern Approach*. New York: W.W. Norton and Company

52 The Government has committed to recruit and train 5,000 Community Organisers to help local people develop community projects in deprived areas in England. In February, Locality were awarded the contract to deliver the Government's Community Organisers programme.

53 Business Connectors is a business-led initiative through Business in the Community and more information can be found at [www.bitc.org.uk/business\\_and\\_the\\_big\\_society](http://www.bitc.org.uk/business_and_the_big_society). The Government has challenged business to increase the number of Business Connectors to engage with local communities and make the links between local business and local organisations that need support.

## SILK and R Shop

The Social Innovation Lab for Kent (SILK) has worked with local residents in Maidstone to help them establish their own collective purchasing group. R Shop was set up because families found it difficult to manage the weekly shop with small children and no car. With initial support from SILK, residents established which products the residents most wanted to see the shop stock – nappies, meat and washing powder. R Shop volunteers purchase the products from the local cash and carry and R Shop has been set up in a disused school kitchen.

R Shop is run by local residents, for local residents. The average customer sees savings of 25% on a £5 shopping basket and 33% on a £20 shop. As well as saving money, the community-led project also provides opportunities for volunteers to learn and increase their employment prospects.

shared learning. The pilot prize fund, of up to £30,000, will encourage entrants that build communities by helping people to take part in collective purchasing. Further details about this award will be published in the autumn.

Collective purchasing can potentially benefit businesses too – serving a group of consumers as opposed to individuals can help them to spread overheads and lower costs. For example, it is possible to insulate the homes of (or deliver groceries to) groups of people on the same street distributed at the same time, more cheaply than a randomly distributed but otherwise similar number of people. Such savings can in turn be shared with the consumers.

The Government has been working with businesses that have shown an interest in developing new models of collective purchasing, particularly in relation to the environment, where there is significant potential for businesses to pass some of their cost savings on to consumers in the form of lower prices. As an early test of the approach, B&Q has agreed – in cooperation with Local Authorities – to launch new schemes to encourage and test collective purchasing of goods and services. The schemes will test the impact of offering incentives to groups of people (for example a row of houses or a community group) to come together to make purchases. The trial will have a focus on environmentally-friendly products and domestic energy efficiency measures, such as loft insulation or energy saving lighting. The schemes will be launched in late 2011 and will be evaluated after 6 months with a view to informing the Government's policy relating to Green Deal in

2012. We invite other providers to test similar schemes, and to make these collective deals available to local communities.

The concept of collective purchasing could be applied to a number of other areas, for example to secure the best tariff for domestic energy consumers. In principle, intermediary businesses or organisations could regularly switch consumers who sign up with them and negotiate tariffs on their behalf. Such schemes could provide support particularly for vulnerable consumers who find it hard to engage with the market.

The widespread use of the internet and social media makes collective behaviour possible on a scale that was previously unimaginable. New and innovative forms of collective enterprise are emerging in many areas as a result.

Consumer Focus will carry out work during the next year to establish whether these trends can be applied in ways that enable consumers to come together and switch en masse. This work will identify the markets where this approach has greatest potential and the nature of the intermediary required to facilitate this approach. It will also identify whether behavioural and regulatory barriers to 'collective switching' exist and how they might be removed.

## Co-operatives

The co-operative model allows consumers to take ownership and control of businesses themselves. Co-operative enterprises started in the UK over a hundred years ago, and there are now 12.9 million co-operative members in the UK and close to 5,000 businesses. Co-operatives share profits with their members and work to values and principles – such as open membership and one member one vote – that enshrine the rights of consumers.

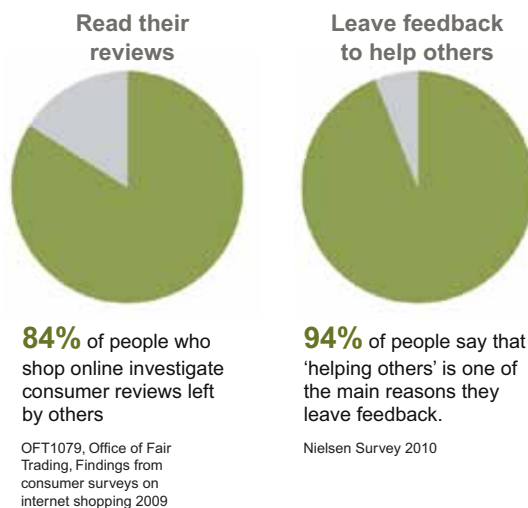
New co-operatives are also starting to emerge. These include the UK's first co-operative pub, the Old Crown in Hesketh Newmarket in Cumbria. Local people joined together to save the pub and have seen it go from strength to strength. Energy4All is supporting people in coming together to establish co-operative wind farms, so that they are generating their own, clean energy on a shared basis. Online co-operatives use the ease of access of new technology to run services, such as for disability living aids that their members want and trust.

Other co-operatives emerging help people to come together around their shared passions. In Manchester, football fans have formed their own co-operative, FC United. It is a model better known in Spain and Germany, where it is fans that own clubs like FC Barcelona rather than millionaire investors.

## Collective purchasing, feedback and complaints and choice tools

UK consumers leave over 100 million online comments each year

Philip Cullum, *The New Consumer Power*<sup>54</sup>



## Protecting the integrity of consumer feedback and online comparison sites

Consumers now have access to a number of online tools that allow them to compare products and suppliers, notably consumer feedback sites and comparison sites. These 'choice tools' provide sources of information and discussion that help consumers to compare and choose between different services and can help consumers to make decisions that lead to better outcomes for them, whilst also putting pressure on providers to improve their product and service offerings and efficiency.

Consumer feedback sites are a type of online tool that allow consumers to share their experiences of products and services. Comparison sites, on the other hand, give consumers information about competing products or businesses that, when presented effectively, make it easier to search the market for the best price. However, the distinction between these two tools is becoming increasingly blurred, with comparison sites increasingly incorporating consumer feedback and vice versa. Importantly, both can make it easier for consumers to find the products they want, and to get a better deal.

Consumer feedback is important because people use the experiences or recommendations of others they think are similar to them to help them make decisions, for example when they are unsure about how good a product is or how well it will suit their needs.<sup>55</sup> It is particularly important when it is difficult to judge the quality without buying the good or service.<sup>56</sup> Companies have long used this to their advantage, for example by using customer testimonials in their marketing materials.<sup>57</sup>

Word-of-mouth recommendations and published guides that assess the quality of a good or service (such as hotel or restaurant guides) have been used by consumers for a long time, and will continue to be valuable. But the internet is making consumer feedback more powerful and timely, with real-time information shared with networks of millions of other consumers. For example, websites such as toptable.com encourage users to provide feedback on every meal they have booked through the website, allowing other users to see near real-time reviews from customers.

Many businesses are realising the long-term benefits of allowing consumers to openly comment on and engage with their products and services. Indeed, it may be that the presence of both positive and negative reviews can enhance the credibility of positive reviews. Consumer feedback also stimulates growth by rewarding good companies or traders and by punishing those who perform poorly.

However, it is not always easy for the consumer to know whether they can trust feedback on a website. It is much more difficult when using the internet to judge whether a person is who they claim to be, or to understand what might be the reasons behind their views. While academic

evidence has shown that consumers actively assess the validity of messages from those that they are not personally acquainted with, this is not always easy when using an online feedback site.<sup>58</sup> It is especially difficult when businesses deliberately try to abuse consumer feedback, damaging the trust that consumers have in each other by corrupting, or suppressing legitimate consumer opinion and debate. This can happen in two main ways:

- Deliberately falsifying feedback: businesses may mimic the appearance of genuine feedback, creating a false impression of their product and those of their rivals. This could directly deceive consumers and undermine consumer confidence in genuine feedback.<sup>59</sup>
- Threatening the use of litigation: defamation claims against consumers posting their legitimate opinion, or against websites which aggregate and represent those opinions, are a growing threat to the independence of some consumer information sites.<sup>60</sup>

As with consumer feedback loops, the internet has fostered the creation of comparison sites that allow consumers to compare the price and characteristics of different services and goods. The use of price comparison sites is particularly widespread. More than 62% of the UK population had used a price comparison site in 2008.<sup>61</sup> Some sectors and products are more amenable to comparison sites than others – it is easier to construct comparison sites where the products have just a few important characteristics that are easily measurable. For example, it is easier to provide a comparison site for savings accounts than pension plans.

Just like feedback sites, comparison sites can also be manipulated by businesses and may not always

55 Fiske ST and Taylor SE (1991) *Social Cognition*. Singapore: McGraw-Hill

56 Fiske ST and Taylor SE (1991) *Social Cognition*. Singapore: McGraw-Hill

57 Cialdini RB (2007) *Influence: The Psychology of Persuasion*. New York: HarperCollins Publishers

58 Fiske ST and Taylor SE (1991) *Social Cognition*. Singapore: McGraw-Hill

59 See for example <http://www.ofc.gov.uk/news-and-updates/press/2011/30-11> and <http://www.ofc.gov.uk/news-and-updates/press/2010/134-10>

60 See for example <http://www.telegraph.co.uk/travel/travelnews/7994817/TripAdvisor-faces-legal-action-from-upset-hoteliars.html>

61 Mintel (2009) *Web Aggregators*. London: Mintel Oxygen



provide the consumer with a full and comprehensive set of choices. They can be compromised in a number of ways, including:

- Distorted results: comparison sites and other tools that help consumers choose have to make money. The business models of some tools mean that results are distorted by hidden financial incentives, for example, making products or services that pay higher referral fees appear more prominently.
- Uneven coverage: some comparison sites may not cover the entire market, particularly if the market includes niche providers, thereby restricting the choices available to consumers.

Protecting the integrity of consumer feedback sites and comparison sites is essential in order to ensure that the technology drives growth and productivity. The Government will facilitate the development of a self-regulatory quality mark to promote responsible businesses and to help consumers identify which online tools they can

trust. This will enhance the reputation of those businesses with a positive approach to consumer feedback. Basic features might include a commitment to transparency on financial interests, non-discriminatory presentation of information, and a sympathetic approach to publishing strong consumer opinion.

It is also important that targeted enforcement action is taken against businesses that illegally and deliberately undermine the effectiveness of consumer feedback. Quality marks and self-regulation will support the majority of the market, but enforcement may be necessary to prevent some businesses damaging the trust that consumers have in the market.

### Enforcing the fair use of online tools

The Office of Fair Trading (OFT) looked at comparison sites as part of its Advertising of Prices Market Study. This looked at consumers' understanding of how price comparison sites work, and outlined that comparison sites must comply with the Consumer Protection from Unfair Trading Regulations. Compliance is required both by the trader operating the site and those traders whose products or services are advertised on the site.

The OFT stated that:

- Comparison sites should not mislead consumers as to the identity or independence of the trader operating the site, or the identity of a trader advertising on the site or on whose behalf the comparison site is acting; and
- Comparison sites should not falsely represent themselves as a consumer (for example by posting favourable recommendations from fictitious consumers on its comments board) or fail to identify where a trader has paid for prominence on search returns or on the site more generally.

The OFT has already taken action against a business where positive comments about the company were made on the company's Facebook page by an employee pretending to be an ordinary consumer, as well as action against the operator of a commercial blogging network which did not make it clear that promotions had been paid for.

Trading Standards Services have prosecuted a number of traders, including one based in North Yorkshire who attempted to enhance his reputation by posting positive feedback on his own eBay profile. In Southampton, a discussion with a debt management/advice website around Ministry of Justice compliance requirements eventually led to it being withdrawn.



## Overhauling the way in which the Government supports consumers to make choices in public services

Effective consumer choices are also important in the public sector – such as decisions about what and where to study.<sup>62</sup> However, unlike in private markets, public services are generally:

- Free at the point of delivery, so prices do not give us clues about quality or popularity.
- Not motivated by profits, so there is little incentive to highlight differences and encourage switching.
- Supplied under a universal service obligation, such that they serve a particularly broad range of users, from the very informed to the highly vulnerable.<sup>63</sup>

In the same way that comparison and feedback sites have developed for private markets, some choice-tools have already emerged for public services. For example, parents and prospective students can use league tables to compare school and university performance, while patients can access websites comparing waiting times for treatments across different healthcare providers, and feedback from fellow consumers about the performance of a local GP practice.<sup>64</sup> Their role is likely to become more important in future as public service markets are opened up and there is scope for further choice-tools to be developed.

The OFT and the Cabinet Office Behavioural Insights Team held an evidence gathering roundtable on 14 March 2011 bringing together policy makers and choice-tool providers from both private and public sectors to discuss the emerging issues of providing these in public services. Some of the issues discussed included whether the Government should provide its own choice tools or promote private or voluntary sector provision; how the complexity of public services and choice tools might fit together; the sustainability of private sector business models; how to develop trust in both publicly and privately

provided choice-tools; and what level of trust was required. The OFT will publish a short paper summarising the issues discussed, and highlight relevant competition and consumer protection issues that may emerge in choice tools for public services.

In addition, the Government will:

- Call on public sector providers of choice-tools to re-assess whether alternative methods of provision would be more effective. Even if private provision is considered more appropriate, Government could continue to provide value-added analysis of raw data to ensure it is not misinterpreted.
- Identify barriers to private sector provision of online tools, and adopt cross-government solutions to mitigate them. In particular, it may be that complex and variable data licences and formats across Government make comparison sites difficult. Developing a universal Government data licence could reduce these costs.
- Identify Government assets, such as websites and advice centres that could be used to promote public sector choice-tools. It may be possible to link to a range, promoting diversity and competition in the market.
- Engage with the private and voluntary sector to improve the financial viability of sites for public services. There may be things that Government could do to assist private and voluntary sector providers, such as providing seed-funding to help set up choice-tools or by allowing the payment of referral fees by service providers.
- Encourage greater participation of consumers in online feedback and choice-tools. For example, call on consumers and consumer groups to interact and engage by leaving consumer feedback on sites and recommending some sites over others. We know that websites that proactively solicit feedback in the private sector; have higher

62 Delivery of services in devolved areas will be for Devolved Administrations to decide on.

63 The Office of Fair Trading (2010) *Choice and Competition in Public Services*. London: Office of Fair Trading

64 See NHS Choices (<http://www.nhs.uk/servicedirectories/Pages/ServiceSearch.aspx>)

volume and more evenly distributed feedback profiles than those who simply allow feedback to be posted, where extreme scores are more prominent.

The Government recognises the great potential of feedback in public services to empower users and drive service quality improvements. We expect this to be a major feature of public services and the Government's drive to improve them in the coming years.

## Opening up regulatory data

Consumers are increasingly holding businesses and public sector companies to account as a result of increased government transparency and the effectiveness of consumer feedback sites. This is possible because third parties can use the data to create simple, easy to use choice tools using increasingly sophisticated sources of data.

Ombudsmen and regulatory bodies can improve the effectiveness of these choice tools by publishing the wealth of complaints and performance data that they collect about businesses.

Making performance and complaints data more transparent is a good way of encouraging businesses to improve their performance without the need for heavy-handed legislation, as no company wants to be last in an indicator of performance or customer satisfaction. Clear and consistent information about performance and complaints can also be used to guide regulators' decisions about where to focus their enforcement action, and about where additional guidance to consumers may be valuable. It can also help consumers to understand the types of issues that arise with particular products and how well companies respond to consumer complaints. We will also consider how to encourage businesses to ensure that recalled goods are identified even when sold secondhand or handed down.

Currently, Ombudsmen and regulators release performance and complaints data to a varying degree, and there is a wealth of data that is not currently published. For example, Consumer Focus and Passenger Focus have been developing an application to show how passengers could scrutinise train reliability more effectively, but launching it would require access to performance data that already exists but is not publicly available.

The financial services sector is ahead of the field in releasing some of this data. For example, the Financial Services Authority has recently begun to publish firm-level complaints data every six months.<sup>65</sup> This data can be useful for consumers when making decisions about which financial service providers to use and which products to choose. Consumer groups have also used this information to highlight areas of concern and this information has been widely quoted in the media.<sup>66</sup> However, even here, there may be potential to go further. For example, there may be scope for providing more detailed breakdowns of the data to provide greater clarity on the level of complaints for different products or product types, or to provide more guidance on the types of issues consumers raise.

Ombudsmen and regulators should provide information in ways that allow intermediaries to combine complaints data with other information on companies (such as market shares, profits, corporation tax paid and amount paid in bonuses) that may be of interest to consumers. This can then be presented in a simple format that will inform consumer choices.

Ofcom currently publishes aggregated complaints data and is continuing to explore the possibility of publishing details of the complaints it receives from consumers.<sup>67</sup> In addition, the Civil Aviation Authority is working with the Department for Transport to require passenger airlines to publish complaints information themselves.

65 See [http://www.fsa.gov.uk/pages/Library/Other\\_publications/commentary/index.shtml](http://www.fsa.gov.uk/pages/Library/Other_publications/commentary/index.shtml)

66 See <http://www.consumerfocus.org.uk/news/response-to-financial-ombudsman-complaint-figures> and <http://www.which.co.uk/news/2011/02/complaints-to-financial-ombudsman-service-rocket-245907/>

67 Ofcom (2010) *A Review of Consumer Complaints Procedures*. London: Ofcom

To support access to this data that empowers consumers and holds public service providers and regulated businesses to account, the Government will:

- Set an expectation that regulators, Government departments, regulated businesses, and public service providers to be open as a default position. They should continue to free the complaint and performance data (in particular on individual businesses) they already own unless they have a good reason to do otherwise.
- Encourage the development of innovative ways of utilising data. From our transparency reforms, we know that simply releasing data is not enough. Therefore we will look to pump-prime or incentivise developers and intermediaries to utilise this data to create innovative applications and information. This will include:
  - Conducting a ‘hack day’ in which a small community of unpaid developers generate ideas for using Government data to create real and meaningful products and services for consumers. There will be prizes for the best ideas. This will take place in June 2011, and results will be uploaded onto the internet for all to see and use; and
  - Launching a competition to generate fully-fledged applications which take forward the ideas generated at the ‘hack day’, turning them into products that consumers can use.

We would be interested to hear suggestions from consumer groups and businesses about other forms of data held by the Government, regulators or ombudsmen that could be released, such as on legal services, transport, or public services.

## Summary

Communities coming together and working for the common good is not new. And the development of internet sites, by and for consumers is already driving consumer power. However we think much more can be done to help consumers help each other and benefit from better choices and better deals. We have focused on encouraging more collective purchasing, increasing trust in websites and better access to performance and complaints data.

# **Chapter 3: Additional Support for Vulnerable Consumers**

# Chapter 3: Additional Support for Vulnerable Consumers

## Chapter 3 key facts and figures

Information and easy comparisons on the internet mean that online prices for some identical products are on average 8% lower.<sup>68</sup>

But 9.2 million adults in the UK have never accessed the internet and only 62% of adults have shopped online in the last year.<sup>69</sup>

Consumers who do not use the internet, pay on average £560 more a year for household services.<sup>70</sup>

This strategy will help all consumers make purchasing decisions that can help them lead healthier, wealthier and happier lives. But it also recognises that not all consumers will be as engaged, capable or technologically 'savvy' as the most active consumers. Government has traditionally avoided defining a 'vulnerable' consumer as we can all be vulnerable at different stages of our lives or depending on the type of goods and services we are purchasing.

However, a recent European Commission survey looked in depth at the consumers who are likely to be the most vulnerable in relation to the different skills that contribute to make consumers empowered (for example knowledge of consumer

law, comparing prices or ability to use numeracy skills).<sup>71</sup> This report found that overall the most vulnerable European consumers are:

- people who have never used a computer and those who are widowed,
- people who have difficulties with paying their bills, those low on the 'social staircase' and retired persons – however this group are more assertive in obtaining redress, and
- consumers vulnerable only in relation to certain areas:
  - over 55s for their limited basic consumer skills and obtaining redress,

68 Brynjolfsson E and Smith MD (2000) Frictionless Commerce? A comparison of Internet and Conventional Retailers. *Management Science* 46(4): 563-585

69 Office for National Statistics (2011) *Consumer Index*

70 Raceonline2012 (2010) *Manifesto for a Networked Nation*. London: Raceonline2012

71 European Commission (2011) *Consumer Empowerment: Eurobarometer 342*. Brussels: European Commission

- 15-24 age-group for their limited awareness of consumer rights, and
- the least educated who left school at the age of fifteen or earlier.

This strategy picks up some of these issues and will address others in further work we announce below. In terms of access to new technologies and use of the internet, we recognise that some consumers will not have access to, or wish to use the new technologies that help them make decisions. Government is working hard to help the less able or confident online; the Race Online 2012 campaign, led by the UK Digital Champion Martha Lane Fox, aims to “make the UK the first nation in the world where everyone can use the web”. Race Online estimates that of the more than nine million adults in the UK who are currently not online, four million are socially and economically disadvantaged. They are currently recruiting a movement of digital champions to support family, friends or neighbours to take their first steps online and develop the skills they need to benefit from being online. Alongside this work, they are also working with partners to develop a low cost PC offer – both recycled and new PCs – combined with mobile broadband and support to meet the needs of the four million most disadvantaged.

Other consumers may not have the knowledge, means or inclination to actively choose to shop around for a better deal or to take action when things go wrong. Some are deterred because they do not wish to pursue a case through the courts, or they may simply not know how to do this.

Still other vulnerable groups, such as children, have been traditionally under-represented in consumer policy. The Department for Education’s forthcoming review of the commercialisation and sexualisation of children will examine, amongst

other issues, how children are targeted and respond as consumers and make recommendations.

This strategy has emphasised that all consumers are likely to suffer from behavioural biases of one kind or another. But as echoed by the European Consumer Empowerment survey, the growing evidence base for behavioural science in the UK suggests that some individuals are more prone than others to suffer from these behavioural effects.<sup>72</sup> We know, for example, that individuals with a relatively low income are more likely than others to choose immediate benefits at the expense of future rewards,<sup>73</sup> which might lead them to be more likely to borrow money at particularly high interest rates. One example of this is store cards and the Government response to the Department for Business, Innovation and Skills/HM Treasury’s Call for Evidence in the Consumer Credit and Personal Insolvency Review will outline the way forward after the May elections.

In some cases, those on low incomes will have their choices curtailed as a consequence of relying on a strict budget, which is why some people prefer the control offered by a (potentially more costly) pre-pay phone or utility pre-payment account over a direct debit. Equally, in spite of awareness raising by consumer enforcement bodies, vulnerable consumers might be more susceptible than others to unfair selling practices, and may not believe they have the resources to use the court-based system of redress.<sup>74</sup>

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72 Lunn P and Lyons S (2010) *Behavioural Economics and ‘Vulnerable Consumers’: A Summary of Evidence*. Dublin: Economic and Social Research Institute

73 Harrison GW, Lau MI and Williams MB (2002) Estimating Individual Discount Rates in Denmark: A Field Experiment. *The American Economic Review* 92(5): 1606-1617

74 Consumer Focus (2009) *Waiting to be heard*

**This chapter sets out proposals that will provide assistance and support to vulnerable consumers before, during and after purchasing goods and services.**

**Specifically:**

- 1. Reforming the redress system to give consumers more options and making it easier to resolve disputes**
- 2. Reviewing support for the most vulnerable consumers in a rapidly changing world**
- 3. Increasing access to online customer feedback in stores**

## Reforming the post-transaction redress system

When consumers, and in particular the most vulnerable, encounter problems with a purchase, they may be deterred from seeking redress by the prospect of navigating the complexity of the legal system. Particularly in the case of small claims, consumers may decide that pursuing redress is not worth the effort.

Government could improve redress in a number of ways. For example, consumers can already share the costs and risks of legal action against large businesses by joining actions together to pursue collective redress. Evidence suggests that an overwhelming majority of UK consumers (87%) would be more willing to defend their rights in court if they could join with other consumers who were complaining about the same thing.<sup>75</sup> However, there are significant time, effort and resource constraints to pursuing actions in this way, which can often make it an undesirable option – especially for those groups with most to lose. The Government could try to ease these constraints by making it easier for intermediaries to bring the actions on behalf of groups of consumers, but we have significant concerns about the potential burdens on businesses and costs of

such regulatory change. We are therefore minded to explore other options first.

Another way the Government could help consumer redress is to look at widening alternative dispute resolution (ADR) mechanisms. ADR offers a way for consumers and businesses to arrive at mutually acceptable conclusions to disputes. One of the best known forms of ADR is Ombudsmen. These are independent organisations that work in a specific sector to reconcile differences between consumers and businesses. In some of the sectors without ombudsmen, businesses have come together to establish Codes of Conduct with independent redress mechanisms.

But not all sectors are currently covered by a form of ADR, and in many of these sectors it will be the more vulnerable and disadvantaged groups who suffer the most from the barriers – or what they may see as barriers – to obtaining redress through the courts system. We will therefore consider new measures to support the development of ADR, when there is a clear consumer benefit at stake.

The first of these areas will be tackling online disputes. The Government will support online retailers to establish a universal resolution scheme for e-commerce disputes. This would be designed to cover all domestic sales and where possible fit into any European scheme for cross-border e-commerce disputes.

The Government will work with industry in putting forward the most appropriate model for e-commerce dispute resolution. One possibility, which we will investigate, is the establishment of a new Ombudsman for e-Commerce, to which consumers could submit complaints. The Ombudsman would have the power to make decisions within weeks, rather than months or years.

<sup>75</sup> European Commission (2010) *Europeans, Development Aid and the Millennium Development Goals, Flash Barometer 299*. Brussels: European Commission

## Voluntary and Government-mandated ADR systems

Businesses in some sectors have agreed to organise a voluntary ADR mechanism to deal with consumer redress. These include:

- Renewable energy installations
- Car selling and servicing
- Will writing
- Removal services
- Suppliers of healthcare and assistive care devices

In other sectors, the Government has helped to create a range of independent Ombudsmen that act to resolve disputes between businesses and consumers, for example:

- The Financial Ombudsman Service
- The Legal Services Ombudsman
- The Pensions Ombudsman

The key principles for success of such a scheme would be:

- Universality – in order to make a real impact on consumer confidence and significantly improve empowerment, the scheme would have to cover the vast majority of online purchases.
- Consumer awareness – membership of the scheme would have to offer advantages to traders, so it would need to be heavily marketed and reinforced through other mechanisms.
- Policing and sanctions – businesses which failed to honour their commitments would have to be investigated and if necessary expelled from the scheme.
- Reinforcing mechanisms could include technological options such as ‘pop up’ warnings or other systems linked to the use of search engines so that consumers could be warned if they try to buy from a trader that is not part of the scheme.
- Further support could be given through the comparison site trust mark identified in Chapter 2. It could be part of the certification of feedback and price comparison sites that such intermediaries would have to draw consumers’ attention to whether the trader was a member of the ADR scheme, and
- Funding – the Government would expect such a scheme to be industry-funded along the lines of the advertising standards regime, but it would be important for a large proportion of the cost to be linked to the companies which were the subject of complaints.



## Building legal capability in Scotland

Consumer Focus Scotland has long advocated the need for a public legal education strategy as a means of overcoming barriers to access to civil justice for vulnerable groups. Its work has focused on the concept of 'legal capability', building consumers' skills and confidence to recognise and deal with their legal problems.

Building consumers' legal capability should help to prevent some of the problems consumers currently experience from arising in the first place. A failure to identify and resolve problems early can have severe long-term consequences. It can result in problems escalating and multiplying and have knock on consequences on wider public services.

## Supporting the most vulnerable and disadvantaged consumers

Our understanding of how vulnerable consumers are affected by behavioural biases is growing. But we are only just beginning to understand what some of the implications of this research might be for public policy. Research by consumer organisations has identified a number of potential areas where vulnerable consumers need help:

- Information overload – as Chapter 1 outlined, just making information available will not always result in good decisions being made, particularly amongst vulnerable consumers, who are more likely to need help in interpreting it,
- Product design and control – Consumer Focus research over recent years has identified a recurring theme of vulnerable consumers choosing a product or service because they have more control over it and it enables them to budget. This allows them to avoid the risk of default and the associated penalty charges from mainstream providers, which can lead to a spiral of increasing debt.<sup>76</sup> For example, Citizens Advice research has found that 40% of their customers do not have a landline for these reasons.

- Low awareness of alternative products and services – there is some evidence to suggest that people are not aware of options such as basic bank accounts, rent with insurance schemes or credit unions.<sup>77</sup>

Tackling these issues will not be simple. It will require us to understand the ways in which different groups are affected in different markets, and to bring forward – where necessary – new approaches to supporting more vulnerable and disadvantaged consumers. This will take time, and will only be addressed by Government acting in partnership with consumer groups, bodies representing vulnerable individuals, and businesses.

For these reasons, the Government has asked Citizens Advice and Citizens Advice Scotland, working with Consumer Focus, to consider and advise on how they, local and central Government and other organisations could help empower the very vulnerable as consumers. They will undertake a review to identify the groups of people, and the types of transactions, where more help and support for the most vulnerable consumers in society could make the greatest difference. They will report to BIS and present a proposed plan of action for tackling the issues identified by January 2012.

<sup>76</sup> Consumer Focus (2009) *Cost of cash: Qualitative Study of low income consumers in Wales living in the cash economy*

<sup>77</sup> Citizens Advice (2006) *Banking Benefits: CAB evidence on payment into bank accounts*

### Helping the vulnerable: Citizens Advice and partners

As a result of the Citizens Advice report *Do the right thing*, the 'Addressing Financial Difficulties Working Group' is devising a definitive guide to best practice in how creditors and debt collectors can help people manage and overcome periods of financial difficulty. The group will publish a final checklist in Spring 2011, which will set out:

- How creditors and debt collectors should communicate with people in financial difficulty and encourage them to engage and stay engaged with their creditors.
- How creditors and face-to-face debt advice providers can work together as effectively as possible.

### Support with confidence

Developed by Oxfordshire Trading Standards Service, now being picked up across England, this is a service that working with adult social care, audits care providers who are used by vulnerable adults to handle their care budget. The service provides older adults and those with disabilities confidence and peace of mind in their choices.

### Bringing feedback loops to consumers who shop in store

Chapter 2 discussed how useful online feedback can be to consumers considering purchasing new goods and services. However, those who do not use or have access to the internet will not benefit from this. Anecdotal evidence suggests that reading other consumers' feedback has a positive impact on purchasing – whether it's in terms of the business from whom the consumer purchases or the goods themselves. We are keen to evaluate whether this is true in practice and if so, develop ways of supporting those without access to the internet, so that they can benefit too.

Therefore the Government has agreed as a first step to begin a trial with Argos on the provision of online consumer feedback in some of their stores, in order to test whether it might help those who do not normally access the information to make better purchasing decisions. The Argos website contains a large volume of consumer feedback and this is already being used to inform product selection. We will work with Argos to evaluate the results and if successful this will be used as a model of how to improve the information available to vulnerable and disadvantaged consumers.

### Summary

Empowering the most vulnerable and disadvantaged consumers is key to this Government. If we succeed in all the other proposals in this strategy but the vulnerable do not benefit, we will have failed. New measures to make redress easier, specific plans for the most disadvantaged and trialling access to information they normally wouldn't see, are just the start of our work in this area.

# **Chapter 4: A New Role for Business and Government**

# Chapter 4: A New Role for Business and Government

This strategy champions the role that well-informed, well-resourced and active consumers play in supporting economic growth and reducing disadvantage in the UK. It has argued that empowered consumers help to strengthen market discipline by driving innovation in products and services, and sharpening the incentives for businesses to compete keenly on price, service and quality. And it has argued that the Government has an important role to play in supporting the most vulnerable and disadvantaged consumers.

The preceding chapters focused upon how we can support consumers to help themselves and one another in the decisions they take. Many of these initiatives have been put in place thanks to new partnerships that the Government has developed, bringing together consumer groups, businesses and Government departments.

This chapter focuses upon what these changes mean for the Government's approach to consumer empowerment, in particular by recognising the crucial role that businesses play, alongside government and consumer groups in supporting consumer empowerment. This marks a new departure in the way in which the Government has sought to develop policy. Rather than thinking about whether to fund the roll-out of a new initiative, or how to put in place a new legislative framework, we have partnered with and brought together the relevant parties in order to develop new ideas that – when properly put into practice – will help individuals, groups and businesses to respond to changing economic

conditions. Proposed institutional changes to the consumer landscape will be set out in a Government consultation expected to be published in June. The proposals in this consumer empowerment strategy are intended to complement these and further strengthen support to consumers.

**In this chapter, we set out a new role for businesses and Government. This includes:**

- 1. Working in partnership with businesses through the Responsibility Deal – and extending this approach to new areas**
- 2. A fresh approach to corporate social responsibility, building on Every Business Commits**
- 3. Improving customer service through professional standards**
- 4. A shift in the style of regulation and consumer protection**

## Working in partnership with businesses through the Responsibility Deal – and extending this approach to new areas

For many years, businesses have worked with the Government on consumer issues. But there is much more we can do to work constructively with the private sector. That is why the Government has established a Public Health Responsibility Deal, which is a new mechanism to enable a broad range of organisations (industry, the retail sector, the voluntary sector, NGOs, local government and other organisations) to come together to help us all lead healthier lives.

The Public Health Responsibility Deal launched on 15 March this year. It sets out a range of collective pledges to which all partners have committed. These include:

- The display of calories on menus from September this year.
- Reducing salt in food so people eat 1g less per day by the end of 2012.
- The removal of artificial trans-fats by the end of 2011.

This is just the start of the process. Over the coming months, the Government will work with partners to develop more collective pledges in areas that will benefit public health. We will also encourage more partners to join. In addition to these collective pledges, partners have been asked to make individual pledges in areas where businesses want to go further, faster or try an innovative new approach. For example:

- Heineken has pledged to reduce the alcohol content (ABV) of one of its major brands,
- Morrisons will be offering at least 50 fruit and vegetable promotions each week, and
- Asda has pledged to end front-of-store alcohol displays by the end of April in a move which could help to check the impulse purchase of alcohol by shoppers.

The Public Health Responsibility Deal demonstrates how we can work with a range of organisations to bring about results which will

support consumers in ways that are simpler, less costly and quicker to agree and implement than putting in place a new piece of legislation.

In addition to these public health pledges, over the next year, we will be launching a new set of Responsibility Deals. The first of these will work with existing and new Responsibility Deal partners to seek to reduce the levels of carbon emissions in the private, public and voluntary sectors. This will include commitments aimed at encouraging employees to do their part, for example by taking action at home to introduce energy efficiency measures that can both reduce carbon emissions and energy bills.

## A fresh approach to corporate social responsibility; building on the new Every Business Commits framework

The Responsibility Deals sits within a wider deal between the Government and businesses through Every Business Commits, which was launched by the Prime Minister last December. The idea is simple: to foster agreement, clarity and focus around a small number of thematic issues that are important to society and the economy, which businesses have the ability to support.

Every Business Commits encourages businesses to focus on five priorities:

1. Reduce carbon and protect the environment.
2. Improve skills and create jobs.
3. Support your community.
4. Improve quality of life and well-being.
5. Support small and medium-sized enterprises.

The specific actions that businesses will take will vary on their circumstances and sector, and not all businesses will want to do something under every priority. Businesses will decide for themselves what best suits their and their communities' needs. In doing so, consumers will be given the opportunity to make consumer decisions based in part upon the social reputation of a business. We do not believe this form of consumer empowerment can be achieved by a top-down accreditation system

that is imposed on businesses by Government. Rather, the Government will have an important role in convening, supporting and facilitating this idea.

In order to ensure that we can take forward the Every Business Commits framework in a way that encourages innovation and is focused on outcomes rather than process and bureaucracy, we will organise a seminar at No.10 Downing Street, which will bring together social entrepreneurs in this field who will help build the Every Business Commits vision for the future.

The No.10 seminar will explore how social entrepreneurs are already creating reputational currencies that reward both consumers and businesses for making positive contributions to society and being socially responsible. We will work with this group to explore how such reward systems could achieve real scale, ensuring that Every Business Commits develops into a strong, aspirational framework that supports businesses to make socially valuable actions in future.

## Improving customer service through professional standards

This Government is also working in partnership with businesses to improve skills to help provide a quality service to consumers. In *Skills for Sustainable Growth*, the Government made the commitment to encourage and support the development of new, voluntary, industry-led professional standards.

Professional standards, including occupational licensing, can be powerful ways in which businesses can raise their ambition on skills. They can also support consumer confidence in particular industries, where in the past there has been difficulty in distinguishing levels of quality. This will lead to overall improvements in customer service and experience.

Through the new £50 million Growth and Innovation Fund, the Government will support the development of industry-led proposals around professional standards and occupational licensing. The fund invites proposals that consider how to tackle areas of customer detriment or improve consumer protection.

### Changes in Professional Standards in the Automotive Retail Sector

In automotive retail, the poor standard of car servicing and repairs meant that the industry faced the threat of a possible super-complaint to the Office of Fair Trading. In response the industry developed a new consumer code of practice for garages (backed by the Society of Motor Manufacturers and Traders and the Retail Motor Industry Federation, and run by a stand alone body – Motor Codes Ltd) intended to raise standards of customer service. In addition, the Institute of the Motor Industry (IMI), in consultation with the industry, developed skills accreditation for technicians covering a range of activities. Accreditation brought about a step change in the sector's attitudes to maintaining skills, providing the bridge from historically acquired skills to demonstrating current competence, ethically applied.

The automotive retail industry is currently building on this work by developing a professional register, which will reinforce the need for continuous professional development as the key to maintaining professional standards. One of the register's main aims is to improve consumer confidence.

The IMI will work with industry to achieve a 'critical mass' of professionally-registered individuals with businesses promoting their inclusion on the professional register to consumers as a means of assuring ethical behaviour and competent work. Ultimate success will be when consumers demand traders' inclusion on the professional register as an indication of quality.

## A shift in the style of regulation and consumer protection

The approaches described in this strategy will put consumers in charge – making them better able to make choices that are suited to their personal needs and wants. At the same time, the aim is to empower consumers so that their actions can shape markets, making them better able to respond to consumer demands and work to the advantage of consumers.

The Government wishes to see sectoral and industry regulators and self-regulatory bodies build on the approaches set out in this strategy, for example:

- Working on the presumption that complaints and redress data are published (see chapter 2), actively ensuring that this data is widely available to consumers, and considering how they can facilitate or stimulate the presentation of this data in a meaningful way.
- Ensuring that the full range of tools available to them are used, and in particular, placing greater emphasis on empowering consumers and strengthening the self-regulation of markets. For example, they might actively consider:
  - ‘Prompted choices’ (such as requiring firms to highlight to their customers the options available from providers across the market and information on how to switch),
  - Requiring businesses to collect and publish customer satisfaction data in a standard form to help consumers compare service quality, or
  - Requiring sectors to fund comparison sites with rankings determined independently.

In some cases, there may be a further role for Government. There may be markets where intermediaries and tools such as price comparison sites do not develop, or where they do not meet the needs of vulnerable consumers. In these cases, there may a role for Government to provide funding, backing or investment in intermediaries or tools. There may also be a case for the emerging consumer advocacy and applications industry to develop a ‘responsibility deal’ of its own and Government is open to assisting such an initiative.

Empowering consumers to make good decisions for themselves enables them to not only identify bad practice but also reward good practice. These decisions can also impact on markets quickly, whereas enforcement action requires high standards of proof and can take time. It is therefore important that the approach to regulation and consumer protection captures the importance of empowering consumers as well as enforcing consumer law, and enables effective and early intervention to assist consumers and protect the most vulnerable. In doing so, it should also support innovation and economic growth, by ensuring that consumers are more actively able to identify those businesses offering better value for money, customer service or other qualities they value.

Empowering consumers to make good decisions is an approach already being embraced by consumer protection (and competition) bodies and advocacy groups. For example:

- In its work on personal current accounts, the OFT agreed initiatives with the industry to improve the transparency of charges (such as the provision of annual statements) and to improve the switching process.<sup>78</sup>



The Trading Standards Institute will launch a new search engine (funded by the business participants) in May, which will allow consumers to identify if a website is the official e-commerce store for that brand or how to report it if it is not.

[www.brand-i.org](http://www.brand-i.org)

<sup>78</sup> See <http://www.of.gov.uk/OFTwork/markets-work/completed/personal/>



- In its work on Home Credit, the Competition Commission (CC) required home credit lenders to publish details of each of their available home credit loan products on a website run by an operator accredited by the CC, with the main costs for running the website shared between the large lenders.<sup>79</sup>
- Initiatives such as 'Buy with Confidence', 'Open for Business' and regular updates on changes in the law all initiated by Trading Standards Services help local businesses to improve their reputation and service to consumers.
- The consumer group Which? now offer switching sites – available to all – to help people get the best deal for electricity and gas, and allows manufacturers to use their 'best buy' logos in advertising.

It will still be important to take effective enforcement action against firms that break the law. Effective consumer enforcement will be focused on making legitimate markets work better, ensuring that those markets respond to demands and work to the advantage of consumers.

The Government will shortly be publishing its proposals for changes to the landscape of institutions around consumer protection. As set out in earlier statements, it is our intention to

simplify the sometimes confusing array of government bodies that are involved in consumer protection and market regulation at the national level, while also bringing together the various consumer advisory activities that are spread across various bodies into more of a one-stop-shop around Citizens Advice.<sup>80</sup>

A key objective will be to ensure that the main players in the new landscape continue the trend towards more proactive and consumer-focused interventions, including coordinating with each other to ensure that the types of approach set out in this strategy are taken forward.

## Summary

This strategy represents an exciting departure from normal Government policy. Rather than proposing a traditional regulatory approach, we have worked with a wide range of partners in business, consumer groups and the voluntary and third sector to develop and expand initiatives which we believe will benefit consumers directly. We are not ignoring the importance of consumer protection through regulation, but highlighting the crucial role that businesses play, alongside Government and consumer groups in supporting consumer empowerment.

## Streamlining corporate reporting for businesses, investors and consumers

In a number of countries, there is growing interest in how unique identifiers for businesses can lower regulatory burdens and make it easier for investors and consumers to see what a business does 'in the round'. For example, in the USA, businesses may have to register separately in each state, and fill out similar data for many different regulators.

The use of unique identifiers, and supporting platforms can: enable forms to be prefilled for businesses or to more confidently trade with businesses that they are less familiar with; enable investors and consumers to make the connections between different aspects of what a business does and how it behaves; and can also make it much easier for people to get a sense of what is in 'bundled' investment products such as pensions.

The UK has a potential head start over some other countries in that our system of business and charity numbers lends itself well to digitisation and the solving of this type of informational problem.

79 See <http://www.competition-commission.org.uk/inquiries/current/homecredit/index.htm>

80 See <http://www.bis.gov.uk/policies/consumer-issues>



# Conclusion:

## Consumer empowerment as a driver of growth and fairness

A top priority of the government is to support a strong private sector recovery. The government is also determined to achieve a genuine shift of power to citizens and consumers, and to do so in a way that protects the vulnerable.

Consumers already have access to large amounts of information – helping them to make better sense of it and use it to their own advantage promotes both these key objectives at once, and is a key part of the Government's Plan for Growth.

With the capacity to share and compare information increasing rapidly and sometimes in unpredictable ways – no-one can be sure what the scale of the impact on economic growth will be. But the indications are that it may be substantial – not just as a one-off boost to growth, but as an ongoing catalyst that fosters the most efficient and productive parts of the economy, thereby increasing the underlying growth rate. The more sophisticated consumers become in making good decisions the better it will be for growth.

For consumers, wrestling with tight budgets and rising prices, this strategy is about individuals being able to make better choices and obtain better deals. We will achieve this by;

- making it easier to make informed choices,
- encouraging business to provide richer, more relevant information to help consumers make better decisions,
- facilitating consumers working together for a better deal,

- ensuring consumers can trust web feedback,
- enabling better access to complaints and performance data, and
- helping to empower the least powerful consumers.

These changes can give consumers real power and act as a powerful driver of business efficiency. They can enable consumers to have a greater sense of personal control, allowing them to make choices that are better suited to their needs and wants, with all the benefits that brings.<sup>81</sup>

Empowering consumers in this way will also foster greater market share and higher returns for those businesses that offer the best services and products to consumers, squeezing out poorer quality products and services, and reducing incumbent advantage. Taken together, the proposals in this strategy will result in a better deal for consumers and the economy – a better deal all round.

**The policies and proposals in this strategy represent a starting point for increasing consumer empowerment. We would like to hear your comments on this document. How we can help consumers to feel empowered? We want to make sure that there are no barriers getting in the way and to help where help is needed most. Please go to <http://www.bis.gov.uk/better-choices> to leave your views.**

81 Seligman M and Csikszentmihalyi M (2000) Positive Psychology: an introduction. *American Psychologist* 55(1): 5-14

# Annex A:

## List of proposals

Proposal	Next steps	By when?	By whom?
<b>Mydata</b>	Establish working group and independent chair	Spring 2011	Government
	Hold quarterly Ministerial meetings updating on sub-group progress	Ongoing	Government
	Formally review progress towards 'mydata' project goals	April 2012	Government
<b>Richer, more relevant Information</b>	Roll out annual credit card statements	Commence in December 2011	Credit card providers
	Review credit card initiatives to understand further what information is most beneficial to consumers	By end 2013	UK Cards Association
	Sign voluntary agreement with energy providers to provide consumers with clear information about the lowest available tariff	August 2011	Government, Energy Retailers Association, energy suppliers
	Publish details about the redesign of Energy Performance Certificates	Summer 2011	Government
	Work with the Food Standards Agency and consumer advocates to determine the best way of presenting hygiene ratings so consumers use this information when eating out or shopping for food	December 2011	Government, Food Standards Agency, consumer advocates
	Improve car labelling so consumers have more information about ongoing running costs and understand which cars are energy efficient	December 2011	Government and Low Carbon Vehicle Partnership
	Monitor and evaluate how effective the changes to car labelling have been	December 2012	Government and Low Carbon Vehicle Partnership

Proposal	Next steps	By when?	By whom?
<b>Richer, more relevant Information</b> <i>(continued)</i>	Publish paper, with recommendations for manufacturers, retailers and the Government, on product labelling for consumers in relation to environment and health	December 2011	Behavioural Economics Incubator Unit
<b>Collective purchasing/consumption</b>	Encourage community organisers to take advantage of information and opportunities relating to collective purchasing/consumption	Ongoing	Government and Locality
	Start development of 'toolkit' to support collective purchasing and collaborative consumption including on insurance and legal issues	May 2011	Government and interested stakeholders
	Announce details of £30,000 innovation award for collective purchasing	Autumn 2011	Government and Co-operatives UK
	Launch new schemes to encourage and test collective purchasing of goods and services – focusing on environmentally-friendly products and domestic energy efficiency measures	Winter 2011	B&Q with Local Authorities
	Establish whether technological advances can be used to enable consumers to come together and switch en masse – identifying markets with the greatest potential and whether there are any behavioural and regulatory barriers to 'collective switching'	Spring 2012	Consumer Focus
<b>Choice tools</b>	Facilitate the development of a self-regulatory quality mark for consumer feedback loops and comparison sites	Ongoing	Government
	Publish a paper summarising key issues concerning the use of 'choice-tools' in public services	April 2011	OFT
	Engage with the private and voluntary sector to improve the financial viability of choice-tools for public services	December 2011	Government
	Encourage greater participation of consumers in online feedback and choice-tools	December 2011	Government

Proposal	Next steps	By when?	By whom?
<b>Opening up regulatory data</b>	Set expectation that regulators, Government departments, regulated businesses and public service providers will release the complaints and performance data they own unless they have good reason not to do so	April 2011	Government
	Encourage development of innovative ways of using consumer data, including by conducting a 'hack day' and launching a competition to generate fully-fledged applications	December 2011	Government
<b>Additional support for the vulnerable</b>	Work to establish the most appropriate model for a universal resolution scheme for e-commerce disputes	Autumn 2012	Government with online retailers
	Commence trial providing online consumer feedback in Argos stores	Summer 2011	Government and Argos
	Produce report identifying the groups of people, and the types of transactions, where more help and support for the most vulnerable consumers could make the greatest difference	January 2012	Citizens Advice, Citizens Advice Scotland with Consumer Focus
<b>A new role for Business and Government</b>	Encourage more partners to join the Public Health Responsibility Deal	Ongoing	Government
	Launch Responsibility Deal on carbon emissions	April 2012	Government
	Roundtable at No. 10 Downing Street for social entrepreneurs to develop the Every Business Commits vision	July 2011	Government
	Promote industry-led standards using the Growth and Innovation Fund	Ongoing	Government
	Consumer protection bodies to work together to empower consumers	Ongoing	Enforcement bodies

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