

How can consumer power be harnessed to improve market outcomes?

James Edgar
Strategic Policy Adviser

james.edgar@which.co.uk

Summary

These slides were presented by James Edgar of Which? at the launch workshop of the UKCN consumer remedies project (titled ‘linkages between consumer behaviour and remedies’) held at the Competition and Markets Authority on 20 September 2016.

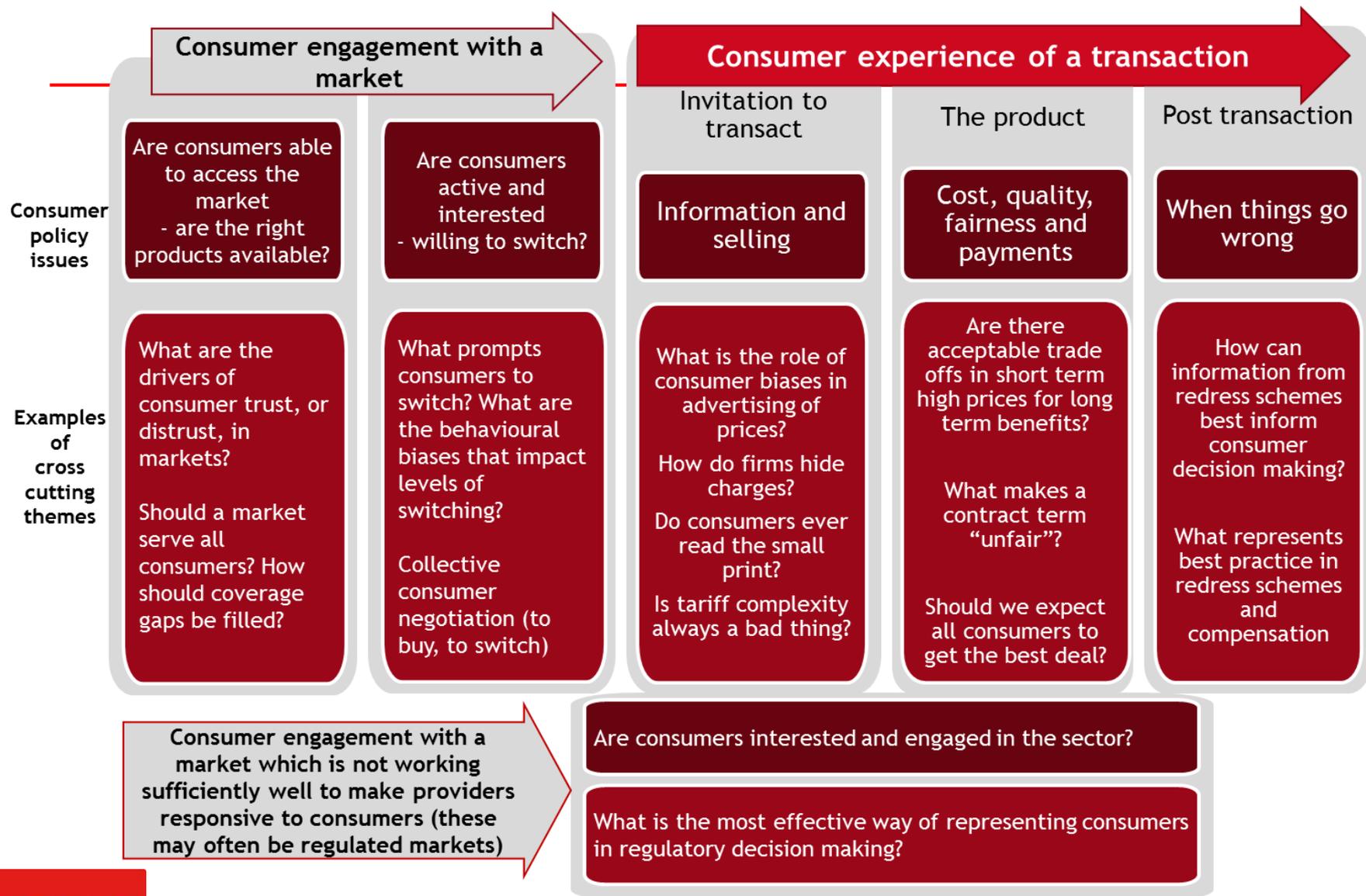
This presentation formed part of a joint presentation that was given together with Amelia Fletcher of the University of East Anglia. This presentation related to the joint work carried out by Which? and Amelia on demand-side remedies.

James first describes the cross-sector policy that Which? applied when assessing the functioning of markets and then provides an example of an intervention by Which? into the credit cards market.

James next presents a case study of a past intervention by the Office of Fair Trading in the market for extended warranties for domestic electrical goods.

Finally, James refers to Amelia’s report on demand-side remedies to draw a series of conclusions concerning how regulators should diagnose and remedy issues in consumer-facing markets.

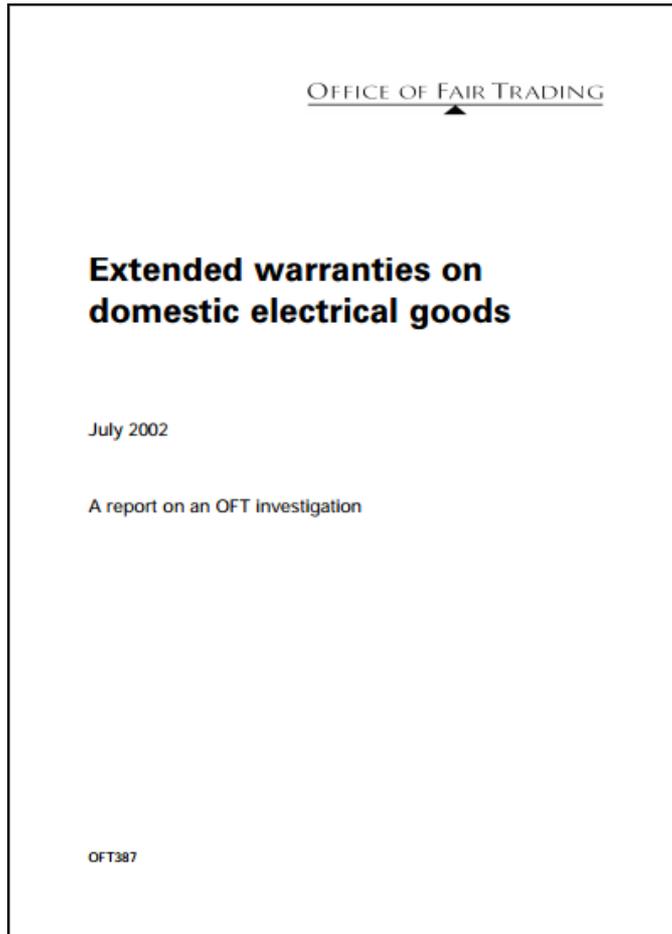
Cross-sector policy



Which?

The screenshot shows the Which? Money Compare website. The top navigation bar includes 'Which?' and menu items: 'PRODUCT REVIEWS', 'CAMPAIGNS', 'OUR SERVICES', and 'ABOUT US'. Below this is a secondary navigation bar with 'Which? Money Compare' and categories: 'Credit cards', 'Mortgages', 'Savings and ISAs', 'Bank accounts', 'Loans', and 'Insurance'. The main content area features a background image of a person holding a credit card. On the left, a 'RELATED ARTICLES' sidebar lists: 'How to find the best credit card', 'Credit card types explained', 'Credit card provider reviews', 'Credit card repayment calculator', 'Credit card balance transfer calculator', and 'How we calculate Which? money ratings'. The main article is titled 'Credit cards: Which? Money Compare' and contains the following text: 'The Which? Money Compare credit card comparison tables let you search all available cards from providers large and small to choose the best deals based on quality of service as well as cost and benefits.' Below this is a sub-headline: 'Whether you're looking for balance transfer deals, credit cards for bad credit or cards that let you make interest-free purchases, we can help.' At the bottom, there is a grey box with a blue credit card icon and the text 'Find me the best credit cards to:' followed by a dropdown menu showing 'Please select...' and a blue arrow icon.

Case study: Extended Warranties for Domestic Electrical Goods



In 2002 OFT published findings and referred the market to the Competition Commission.

CC imposed four remedies through an Order in 2005:

- i. Retailers to display prominently freely-available information leaflets
- ii. Retailers to display price and duration information adjacent to the price of the good
- iii. Requirement for retailers, upon request to provide a written quotation that guarantees that the extended warranty will be available on the same terms for 30 days if the consumer chooses not to buy it at that time
- iv. Increased rights for consumers to cancel a purchased extended warranty

Case study: Extended Warranties for Domestic Electrical Goods

OFFICE OF FAIR TRADING

Evaluating the impact of the Supply of Extended Warranties on Domestic Electrical Goods Order 2005

Prepared for the Office of Fair Trading by LECG

October 2008

OFT1024

In 2008 OFT evaluated the impact of the remedies and found limited impact because of limited compliance:

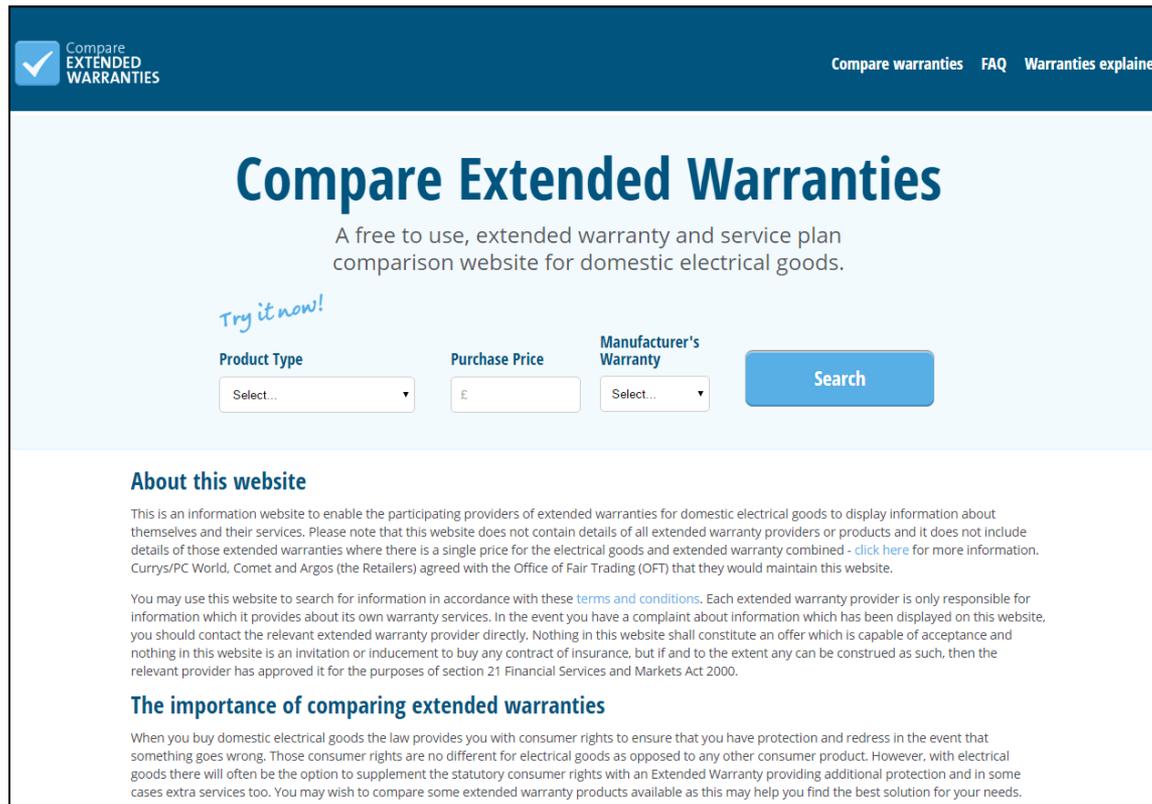
- i. a lack of 'prominently displayed' leaflets
- ii. around 45% of the retailers visited in a mystery shop were not displaying the required information next to any of the relevant products
- iii. up to a third of sales assistants giving the wrong information on consumers' rights

Some positive impacts, with the evaluation finding:

- an increase from 4% to 15% in the proportion of consumers who considered alternative offers from those offered at the point of sale
- that 5% of consumers had used the improved cancellation rights

Case study: Extended Warranties for Domestic Electrical Goods

- OFT returned to this subject in 2012, because of a persisting advantage for selling extended warranties at point-of-sale and limited shopping around. Took Undertakings-In-Lieu from major players in the market to **establish, maintain and participate in a comparison website and publicise it in prominent positions.**



The screenshot shows the homepage of the 'Compare Extended Warranties' website. The header is dark blue with a logo on the left and navigation links on the right. The main content area is light blue and features a large heading, a sub-heading, and a search form. Below the search form is a section titled 'About this website' with explanatory text, and another section titled 'The importance of comparing extended warranties' with further details.

Compare EXTENDED WARRANTIES Compare warranties FAQ Warranties explained

Compare Extended Warranties

A free to use, extended warranty and service plan comparison website for domestic electrical goods.

Try it now!

Product Type: Select... Purchase Price: £ Manufacturer's Warranty: Select... Search

About this website

This is an information website to enable the participating providers of extended warranties for domestic electrical goods to display information about themselves and their services. Please note that this website does not contain details of all extended warranty providers or products and it does not include details of those extended warranties where there is a single price for the electrical goods and extended warranty combined - [click here](#) for more information. Currys/PC World, Comet and Argos (the Retailers) agreed with the Office of Fair Trading (OFT) that they would maintain this website.

You may use this website to search for information in accordance with these [terms and conditions](#). Each extended warranty provider is only responsible for information which it provides about its own warranty services. In the event you have a complaint about information which has been displayed on this website, you should contact the relevant extended warranty provider directly. Nothing in this website shall constitute an offer which is capable of acceptance and nothing in this website is an invitation or inducement to buy any contract of insurance, but if and to the extent any can be construed as such, then the relevant provider has approved it for the purposes of section 21 Financial Services and Markets Act 2000.

The importance of comparing extended warranties

When you buy domestic electrical goods the law provides you with consumer rights to ensure that you have protection and redress in the event that something goes wrong. Those consumer rights are no different for electrical goods as opposed to any other consumer product. However, with electrical goods there will often be the option to supplement the statutory consumer rights with an Extended Warranty providing additional protection and in some cases extra services too. You may wish to compare some extended warranty products available as this may help you find the best solution for your needs.

What do we think Amelia's findings tell us?

Is the disengaged consumer the problem?

- Why isn't the market engaging consumers?
- Can new entrants disrupt the incumbents?
- Or will outcomes need to be directly controlled?

Regulators may get drawn too far in to the design of remedies

- Can a market for information provision be created?
- What should the regulator be responsible for? Can firms be held to account for outcomes, not process?
- Use Review points, with associated action

What do we think Amelia's findings tell us?

The largest cost to consumers is ineffective remedies, not testing and evaluation

- Testing very important, although only evaluations can tell us about supply side response

Good consumer outcomes are not always driven by switching

- Powerful and incentivised Consumer Challenge Groups