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Stick or switch? Consumer switching in 14 retail markets across Europe[1]

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INTRODUCTION

Consumer advocates and regulators encourage the public to search for better deals in markets for services like telecoms, energy and insurance, arguing that there are opportunities to save money and get better service by switching. Consumer switching can also help spur competition. Yet rates of switching vary a lot across markets: many people seldom think about changing their package or service provider and fewer still actually switch. If research can identify some of the barriers that deter people from searching or switching in particular markets, maybe policies can be designed to help enable and encourage switching behaviour. This study examines some of the factors that affect switching rates for European consumers across a wide range of markets.

DATA AND METHODS

"Switching" in this research involves either switching supplier or switching the product or service but staying with the same supplier (i.e. switching to a different package). This is a broader definition than many studies employ: it is more common to focus on switching between suppliers.

We used 675,000 questionnaire responses collected in the European Commission's Consumer Market Monitoring Survey (CMMS) from 2010-2013 for our analysis, combining data across years and countries. Consumers from 27 European countries including Ireland were asked about their switching behaviour across 14 markets including bank accounts; loans and credit; investment products; home insurance; vehicle insurance; fixed line telephone; mobile telephone; internet; commercial sport; electricity; natural gas; mortgages; life insurance; and, TV subscriptions. Our research applied statistical methods to these data to relate switching behaviour to consumers' attitudes to the main features of each market and to consumers' socioeconomic backgrounds. Then we focused on a subset of

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markets – energy services – to see if switching in this area was more common among consumers who had switched provider in other markets.

Results

Across the services and years covered by our study, fewer than 15% of consumers report switching. Rates vary widely across type of service, with home insurance and energy services showing the least switching on average (c.10%) and telecoms services somewhat more (c.24%). There are also large differences across countries, with France, Germany and some smaller EU members with average rates below 10% and Denmark, Spain and Lithuania over 18%.

There are strong links between consumers' switching behaviour and their views about particular markets. As expected, consumers who trust their suppliers are less likely to switch, while those who feel that services are poor at meeting their expectations are more likely to switch. People who think switching is easy are more likely to switch. One apparent oddity is that consumers who report that it is difficult to compare services in a market are also more likely to switch in it. The study discusses several possible reasons for this; for example, it could be that the only way consumers form a view that it is hard to switch is by searching the market for a better deal, so those who discover that comparisons are difficult are already in the subset of people more likely to switch. To fully understand the chain of effects from searching to switching, one would need data on whether people searched for a better deal as well as whether they switched or not (for example, identifying people who searched but did not switch).

Having made a complaint about a service is a very strong predictor of switching, as one would expect; for example, the relatively small group of consumers who said they complained to an official third party are over four times more likely to switch than those who did not make a complaint. Availability of information in a convenient form seems to be important too: those reporting they have no access to the internet are much less likely to engage in switching.

Taking the specific example of energy services, consumers who reported switching in one or more non-energy markets are twice as likely to switch in one of the energy markets. Maybe having experience switching your provider for one service makes it easier or less costly to switch for other services, or perhaps there is some other underlying factor such as an aspect of personality or risk preferences that separates people more prone to searching for a better deal across a range of services from those that are less disposed to search and switch.

Policy Implications

Policymakers have long understood that improving ease of switching can help encourage it – this is also described as reducing switching costs. This research suggests there is still scope to reduce these costs in many European retail markets. In addition, most past studies of switching behaviour focus on conditions in a particular market, but we found evidence that switching in one market is associated with a significantly higher likelihood of switching in different markets. In other words, there could be external benefits from policies that reduce switching costs or improve market information that go beyond the specific market in which they are applied. Regulators seeking to boost competition in retail markets should consider the possibility of such cross-market benefits when designing policy measures.

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