Reforming Consumer Representation in UK Communications

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Key Messages

- Communications consumers in the UK do not switch provider enough, and when they do they sometimes do so irrationally. As the government conducts a welcome review of the landscape of consumer representation in the UK, they should be aware that there is an ongoing, permanent need for consumer representation that is specific to the communications sector.

- The government’s proposals, by shifting consumer advocacy to the Citizen’s Advice Bureau, are likely to result in an increase in costs to the public purse. Within the current model Ofcom and its consumer panel receive almost half their funding from the private sector. If the body is moved to Citizens Advice, the proportion met by public funding will be higher.

- The fast changing, technical complexity of the communications sector makes a consumer representative particularly important. Consumer advocacy in communications will be most efficient if it is within Ofcom, but has much more effective operational independence from it.
Introduction

Consumers in the UK have reaped huge benefit from the liberalisation of the telecommunications and media sectors over the past three decades. Consumers as well as companies have been the engine of this dramatic transformation: only if consumers are willing and able to adopt new services and take risks will innovation continue, and it is consumers’ spending that drives investment. Ultimately, the success of a liberalised communications sector rests on a multitude of separate consumer decisions: decisions to consume a particular service, to contract or to switch. Active, informed, empowered consumers are a key economic asset and should not be taken for granted.

In these processes of market driven innovation, we are all consumers, and consumer satisfaction is the basic objective for good policy. But consumers are also a means to an end, for if a significant proportion of consumers are not willing or able to switch, to choose and thus to assert their power, then all consumers will suffer, from lower quality, higher prices, and less responsive service. Whilst regulators focus on the structural, legal and economic reasons why markets may not function effectively, they sometimes neglect the human perspective, and fail to examine the reasons why consumers may be unwilling or unable to play their part. This is why they need access to an active, informed consumer representative.

This paper argues that the need for consumer representation is particularly acute in fast changing sectors such as communications. Where new innovations reach the market on a daily basis, and the popularity and utility of products and services is difficult to predict; regulators and public authorities should retreat, focus on areas of market failure, and as far as is possible rely on the market. But they should also monitor and ensure that consumers are able to fulfil the role assigned to them in dynamic markets, and make targeted policy adjustments to enable consumers to play an optimal role.

To a certain extent, the current framework for communications regulation reflects these ideals. Since 2003, Ofcom has successfully ‘mainstreamed’ consumer empowerment, for example through careful monitoring of consumer switching and consumer empowerment in its annual Consumer Experience Reports, and the setting up of an independent consumer advocate, the
Communications Consumer Panel.¹ This paper draws upon the experience of the Communications Consumer Panel in order to assess some of the continuing challenges for communications consumers in the UK.

During 2010 and 2011, Ofcom's role and scope was reduced in the context of wide ranging cost savings, and the question of the role of the Consumer Panel was again put on the agenda for policy discussion.² This paper is an attempt to assess the changing role of consumer representation in this context.
1. The Communications Consumer Panel in UK Regulation

The 2003 Communications Act (Section 16) gave a duty to the UK communications regulator Ofcom to establish appropriate consumer consultation arrangements, and in particular, to establish the Ofcom Consumer Panel as a semi-independent consumer representation body. Part of a range of cross-sectoral reforms to consumer representation as first outlined by the Consumer Protection Green Paper in 1998, the role of the Consumer Panel is to advise Ofcom and other bodies about the interests of consumers and small businesses in relation to electronic communications markets (but not including content).

The remit of the Panel was defined by the Act in a broad way, including for example monitoring and providing information about end user equipment, complaints handling, service quality and dispute resolution, and the Panel had considerable freedom to define how best to interpret these roles and how to spend its budget. Spending declined from £936,000 in 2006 to £743,000 in 2011. Because the Panel works within Ofcom (members selected by Ofcom with Ministerial approval) and has privileged access to Ofcom internal documents, the body has been able to operate effectively as a consumer advocate early in the policymaking process, drawing on Ofcom and operator complaints data, Ofcom research, as well as commissioned research. CCP spending on research was around £260,000 in 2006 but it declined rapidly due to cuts after 2008.

However, the issue of operational independence from Ofcom was problematic, with some stakeholder confusion about the role of the Panel. In 2008, after the first Panel Chair, Collette Bowe became a member of the Ofcom Board, the Ofcom Consumer Panel was re-named the Communications Consumer Panel in order to underline the independence of the body, and a mainly new board and chair (Anna Bradley) were installed.

2. Consumer Failure in Telecommunications and Media

The Consumer Panel has had an important role to play in a fast changing sector. Bill Monitor (a price comparison site) recently calculated that the total number of potential mobile telephony deals in the UK in September 2010 was over seven million. Whilst this number may be exaggerated as some of these tariffs may no longer be available, the point of principle remains: with the level of choice and complexity in telecommunications markets, consumers’ rationality may be stretched. The same research suggests that the vast majority of UK mobile telephony consumers are on the ‘wrong’ tariff, and
there is ongoing evidence that consumers, and particular groups of consumers, may not always make the right choices.

2.1 Barriers to switching

Many things may explain the apparent discrepancy between the switching behaviour of communications consumers (illustrated in Figure 1 below from Ofcom’s Consumer Experience Report 2010) and those of other utilities. The fact that consumers are significantly more likely to switch providers of energy and insurance may reflect the different levels of price, choice and competition in those markets.

Figure 1: Proportion of Customers who have switched communications and utilities suppliers

![Figure 1](image)


We do not have comparative data which would confirm whether communications markets constitute a special case, but research on the communications sector indicates that the hassle factor, together with a range of sector specific factors does hinder switching. According to the Consumer Experience report on communications markets for 2010;

“The main reason given for not switching, among consumers of mobile and bundled services, is the perceived lack of difference in cost, while the most common reason in the fixed-line and broadband markets is the hassle involved in switching (twenty-five per cent of fixed-line and 27% of broadband consumers said they were ‘too busy’ do not have time to research the options’). For multichannel TV, the most common reason for not switching was a combination of hassle (30%) and ‘no perceived cost advantage’ (29%”).
It is likely that technical literacy and the related problem of speed of innovation may raise particular barriers to switching in the communications sector.

2.2 Consumer literacy and information

Problems of consumer literacy are highlighted when we examine Ofcom’s Consumer Experience data on trends in consumer perceptions of various services since 2008. In the case of mobile services and bundled services, there has been significant stalling and reversal in consumers’ views on ease of switching provider particularly if those decision-makers who report they don’t know how easy or difficult it is to switch.

Figure 2: Perceived consumer opinion about ease of switching supplier, among those who have never switched.

This kind of survey data is notorious for underestimating consumer difficulties (because they ask consumers to self-report on their lack of ability) but even so, in relation to bundles they still register a reduction in the numbers that perceive switching is easy, (among non switchers) and an increase in those that say it is difficult over the past 3 years. Whilst the numbers involved are small, the direction of travel is significant. As markets mature it might be expected that perceptions would have improved. In this case the opposite is true.
Measures to improve transparency and information are a very important part of how regulators help make markets work more effectively in the consumer interest. But there is more to information and transparency than meets the eye. To what extent do consumers understand the information provided – for example on broadband speeds, or traffic management policies. And to what extent do people act on that information? Are there specific groups that act on this information whereas others do not?

In addition, the economics of networked industries are such that they can tend to be dominated by a small group of players, and have particular tendencies to network effects which accentuate problems of ‘lock in’ when technology standards choices are made. So whilst consumers may value a particular new platform – Freeview for example – their taking up this platform may in fact undermine the market for a technology that delivers superior services. The role of the regulator in ascertaining the value to citizens and consumers of allocating public resources such as spectrum to such a service is very complex and contestable.

Simply improving information on currently available services is only part of the challenge. Regulators and policymakers need to consider how consumers will understand the information and how they will act upon it.

2.3 ‘Vulnerable Customers’?

There are also other questions that should be considered. Are there particular groups of consumers that are unable to benefit from certain types of services, and who are currently peripheral to the market? Is there a role for a consumer champion in attempting to ensure they are more active in the market? Since 2005, Ofcom has been tracking the level of participation of different socio-demographic segments of the population in communication markets.
The Ofcom Consumer Experience report for 2010 in which the figure above appeared shows that 66% of over 65s are passive or inactive in the mobile market. This compares with only 26% of 16-24 year olds who are inactive or passive in the mobile market. It is highly likely that this results in detriment not only for inactive consumers, who are even more likely to be on the wrong tariff, but for all older consumers, because the market does not benefit and is not strategically responding to this potential area of growth.

This is not a question of special treatment or special pleading for particular groups. It is a question of ensuring that markets work well, and for the benefit of all.

3. What Drives Consumer Choice?

The question of what drives consumer switching, how it can be encouraged, and the extent to which it is ‘rational’ are therefore key questions of broader political and policy import. Such questions are not the preserve of any sector, or a particular regulatory body, they are at the centre of a broader rethinking of the assumptions of regulatory policymaking, embodied in recent academic work in behavioural economics. One of the many insights of this field is that we should not take the rationality of consumers for granted: there may be things that we need to do to protect and promote consumer choice-making, including providing so called ‘nudges’. 7
“In a competitive environment, one effective way for consumers to express their preferences is through the market mechanism. However, market mechanisms are not a panacea. Particular consumers may not be in possession of all the relevant information or have the incentives to collect this information, necessary to make decisions effectively. Such limitations may apply particularly to some consumer groups.”

However dedicated to ‘evidence-based policymaking’ a regulator is, consumers usually appear in evidence as a theoretical construct, or a set of assumptions.

The theoretical consumer is:
- Perfectly rational
- Well informed
- Has time and motivation to study options and switch

In this sense the theoretical consumer is at the very centre of the competitive vision for communication. In many, perhaps most areas, the construct does apply. We sometimes find that real consumers, particularly in fast changing technical areas like communications, do not resemble these theoretical consumers. Rather they have an alarming tendency to be:

- Irrational (or at least subject to systematic forms of bias)
- Lacking in access to information (or, increasingly the time or ability to search for the most useful information in the mire of other information).
- Far too busy/lazy/bored/rich/poor to spend time studying their options and switch service providers.
- And in particular they are often challenged by fast-changing markets.

Unfortunately for regulators, it is difficult to predict when consumers in relation to any particular market, or aspect of consumer satisfaction resemble the latter or the former category. Usually consumers as a whole are divided into different overlapping groups, and the extent to which they are active and effective varies between product markets.
4. Tools and Remedies for a Communications Consumer Champion

Identifying information gaps

A consumer champion should be involved in monitoring and researching the information needs of real consumers. The MyData initiative by the Department of Business Innovation and Skills is one example of an attempt to do this. But the difficulties consumers face are often unpredictable. An example might be the information provided about broadband speed or mobile coverage. Not only are such service quality data very sensitive to topography and geography (even down to differences between buildings and within buildings) but different consumers will have radically different preferences for how they should receive data on service quality.

Information depends not only on the supply side but also on the demand side – the consumers that are to be informed. Understanding the information uses and needs of consumers is an essential part of making markets work. And providing information to consumers is an immensely complex task. Not only is the information likely to be complex and contested (witness the problem of providing information on mobile service coverage) but preferences regarding how the information should best be presented vary among consumers.

Identifying consumer market failure

Conventional market failure analysis focus on the supply side, but some key sources of market failure – such as merit goods, externalities and information problems can be alleviated by consumer literacy and empowerment. The consumer champion should identify and through targeted interventions and ‘nudges’ – rectify such market failures.

Identifying vulnerable groups

One key problem with consumer protection in pro-competition, pro-market regulatory regimes is that many of the measures of market failure tend to assume one type of consumer: highly competent, informed and active.

However there may be systematic differences – to do with dexterity, literacy, ability or preferences that mean that certain consumers and citizens are not adequately reflected in the assumptions.
Identifying citizen and social value: the real citizens’ perspective

It is widely acknowledged that externalities and citizen or social value may lead to market failure: the market may not deliver maximum overall social welfare if some benefits or dis-benefits of the good or service affect third parties rather than producers and consumers. Communications policymaking is often involved in the attempt to isolate those broader social values. 15

Longer-term regulatory strategy and horizon scanning

A consumer champion with sector specific expertise should be able to identify potential future problems based on experience and research. This is more difficult to do simply through analysis of complaints data. By carrying out research on consumers it is possible also to explore how consumers’ needs and the role of communications services in meeting those needs are likely to change. This can include:

• Identifying specific product and service markets where key market mechanisms are not working; because of a lack of information, skills, or coordination problems.
• Identifying potential regulatory failures: for example in ensuring that spectrum allocation policies reflect both consumer demand and social value.
• Identifying those areas where traditional tools, such as ensuring all market segments are adequately competitive and resolving information problems, are not enough to address consumer interests.
• Encouraging decision-makers to focus on consumer outcomes rather than assuming that their traditional tools will work. For example highlighting cases where providing consumers with more information or choice may be unlikely to deliver benefit because of a lack of consumer motivation to seek information.

Regulation as a balance of competition, intervention, regulation by the market and self regulation

Consumer representation in regulatory policymaking has an important role to play, and if it is not adequately supported in the new regulatory framework then it is not only the case that certain groups of ‘vulnerable consumers’ such as older people will suffer as a result. The efficient operation of the market will also suffer.
Ofcom and other regulators are constrained by Treasury Green Book\textsuperscript{16} approaches to intervention, and the overarching framework that suggests that careful market failure analyses should take place before any intervention is made, to determine why the market is failing to respond to any consumer demand, and what the costs and benefits of any proposed intervention might be. Policymakers should also be aware of the scope for regulatory failure (why should they do any better?) and carry out assessments of regulatory impact.

Consumer information and data is very often an important part of those processes, particularly in highlighting the benefits of switching e.g. consumer research on switching supported gaining-provider led processes\textsuperscript{17}, over losing provider led processes. As the examples in this paper demonstrate, it is extremely important that the consumer dimension is not neglected.

5. Proposed Changes to Consumer Representation

The Government Minister responsible for the current reforms, Ed Davy, acknowledges the key, permanent role for consumer representatives:

“The empowerment of consumers is not just about making markets competitive, however, vital though that is. Even the most competitive markets will not always deliver the best results for consumers without a properly enforced framework of regulation to protect the consumer interest.”

Clearly, improvements can be made to the current framework.

“..duplication of effort … leads to waste and inefficiency in the use of public funds. It draws resources from the front line, resources which could better be used driving forward consumer empowerment directly – a key commitment in the Coalition’s programme for Government.”\textsuperscript{18}

There are therefore two key questions to ask of the proposed reforms: are they likely to improve outcomes and are they likely to reduce public spending. Analysis for this paper suggests that for the communications sector they will do neither.

The Government proposes that the Citizens Advice Bureau should become the sole official consumer advocate body, given responsibilities of general and sector specific advocacy. Under the proposal, Consumer Focus and
all existing sectoral advocacy groups would be dismantled and ostensibly recreated within Citizens Advice. BIS would prefer that as many sectoral advocacy groups as possible make the move to Citizens Advice, but acknowledges that the final decision rests with the particular Departments.

BIS briefly mentions the possibility of simply leaving things as they are, though the effect of the “current economic climate” on budgets is presented as such that the status quo is “not a realistic option.” While arguing that the status quo is not an option due to budgetary constraints, the BIS seems to be touting as advantages to their proposal an expansion of customer services.

5.1 Cross-sectoral expertise

Twin goals of the proposed one stop shop are to increase the influence of sectoral advocacy and cut costs by reducing redundant research and organizational roles.

In regard to the influence of sectoral advocacy, the BIS proposal neglects the value of access. An advantage to having the Communications Consumer Panel structurally located within Ofcom is the proximity to the regulator which offers privileged access to Ofcom policy processes and targeted efficient interventions. The proposed changes would eliminate that advantage and create potential obstacles between regulators and consumer advocates.

In order to do its work well, the consumer advocate body will have to go through more time consuming and bureaucratic processes in order to access Ofcom internal data and research. Whilst the consumer advocacy group will still have access to Ofcom data, it will not share staff and resources with the consumer panel, and will not have access to Ofcom staff and internal policies until after they are published.

The Citizens Advice Bureau model does offer the advantage of having frontline staff deal directly with consumers, which could improve services to consumers. It will however be of concern whether frontline staff will be able to cope with the specialist knowledge and training in order to be an effective advocate for the new range of sectors, including communications.

It is, therefore, not clear exactly how the proposed changes would cut costs. BIS suggests that an enlarged Citizens Advice Bureau would allow for a “local presence for sectoral advocacy” and “face-to-face advice services on sectoral issues.” While these sound like potentially good
things, they would require customer-facing personnel familiar with sectoral issues. How exactly these services would be funded is unclear.

5.2 Increasing burden on the public purse

Comparing the funding models between Ofcom and Citizens Advice, it is apparent that under the proposals being advanced by the government, public funding would play a substantially larger role for the consumer advocate. Currently funding for the Communications Consumer Panel comes from Ofcom budgets. Under the proposals, this funding burden would be placed on the Citizens Advice Bureau.

Figure 4: Comparison of funding sources for Ofcom and Citizens Advice

Taking the average budget for the Consumer Panel from 2006 to 2011 as a reference point, this comes to an average total cost of £819,400. With the 2009-10 revenue models as a guideline, this would translate into an increase in the average total cost to the public purse of £196,656. However, if, as appears to be likely given the previous assumptions, costs rise, this could result in a more marked rise in the cost to the public of providing cross-sectoral consumer advocacy. This cost profile is not shared with the other sectors that are the subject of this reform.

Given the broader range of issues that Citizens Advice is called upon to deal with, it may be that the role of protecting consumers in the communications sector will be less of a priority. This is likely to result in a significant detriment to consumers, who have in the past benefited from Communications Consumer Panel work for example on broadband speeds and mobile coverage.
Conclusion

Consumer representation has been subject to successive waves of cross sectoral reform in the UK. Over a decade ago the Department for Trade and Industry set out a framework for consumer representation in the network utilities in its green paper: A Fair Deal for Consumers: Modernising the Framework for Utility Regulation (DTI, 1998). This set out duties to promote the interests of consumers ‘wherever appropriate through the promotion of competition’ which were implemented across the utilities and in the Communications Act of 2003. The Green Paper made explicit that as markets became more competitive, it may be appropriate to ‘sunset’ or phase out the clauses supporting consumer representation bodies.

The 2011 Government Consultation: Empowering and Protecting Consumers falls short of advocating the sunsetting of consumer advocacy in communications. The paper underlines the need for supporting consumers as an aspect of a robust competition policy. However, it also proposes to remove most of the sector-specific consumer representation (for example the Communications Consumer Panel) and replace it with a cross-sectoral structure. Whilst this may possibly in the long term reduce overall costs, the Government’s approach would also:

- Increase the proportion of cost met by the public, and possibly also the overall cost to the public.
- Weaken consumer representation by undermining sector specific expertise
- Make consumer representation more remote from the fast changing, technical issues that are peculiar to the communications sector
- Undermine the learning and intelligence gathering on the specific problems faced by consumers in communications markets

In the case of communications, there is an enduring and probably permanent need for a sector specific Consumer Protection and Empowerment Unit, for the following reasons:

- The rapid pace of innovation and change create acute problems of information for consumers.
- Evidence showing that consumers in general and particular groups of consumers are particularly reluctant to switch in the case of communications services.
- Behavioural biases among consumers which endure, but also change and develop as technology changes and should be monitored by specialist research.
- Transparency measures require assessment of consumer demand for information.
- There is a need for sector specific technical expertise in the communications sector.

Regulatory attention of late has focused on how consumer behavioural biases should be incorporated in regulatory decision-making. But to replace the simplification of a rational actor model of the consumer with a construct of a ‘predictably irrational’ one misses the point: consumers learn and adapt, and as new innovations occur they also need to unlearn.

In such reflexive processes the point is not to develop a more perfect theory of the consumer, it is to accept that there is a permanent need for an expert, informed consumer representative body able to monitor developments, make limited predictions of the likely impact of future policy developments and advocate on consumers’ behalf for targeted forms of intervention.

This body should work closely with the Citizens Advice Bureau, Ofcom and other consumer groups who should provide the Consumer Unit with regular updates on complaints, consumer empowerment and consumer welfare issues. Ofcom should work with the Communications Consumer Unit to monitor and evaluate new and existing markets.

Senior officials from Ofcom, providers and the relevant government departments should have an obligation to answer the Communications Consumer Unit’s reasonable questions. The Unit should work both within Ofcom (and have access to internal data and information) and have an independent voice and brand.

The key governance challenge for such a body is to give it sufficient independence from Ofcom, Parliament and Government (DCMS and BIS as the lead Departments) with adequate access to information, data and personnel.
Notes

3. OFT (2010) identified consumer failure as the ‘fourth market failure’.
4. Bill Monitor (2010) About the Maths: “88% of people in the UK are on the wrong mobile phone contract, paying too much money and getting too little value”.
9. The OFT (2010) contrast Homo Economicus with Homo Sapiens to illustrate the limits of these assumptions of rationality and perfect information.
11. See the qualitative research reported in Switched On: An Elaboration of Britain’s Tech Savvy Consumers. Consumer Panel 2008.
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