

Why Do More British Consumers Not Switch Energy Suppliers?

The Role of Individual Attitudes

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Abstract Consumers' activities play an important role in determining the extent to which any market may become competitive. Although energy prices and switching tariffs and suppliers become very salient politically over 2013-14 in the UK and the number and share of small suppliers increased dramatically over that period, relatively fewer customers switched suppliers in UK electricity and gas markets despite the potential for financial gains, suggesting that non-price factors may affect switching decisions. Using a unique nation-wide British survey, we investigate the determinants of consumers' switching behavior in electricity and gas markets, by emphasizing the effects of individual attitudes towards energy issues as well as perception of switching cost and benefit. We find that the complexity of household energy tariffs, consumers' lack of attention to issue of energy prices, expectation on the costs of switching process and lack of switching experience discourage switching. Political allegiance also appears to play a role as Labour Party voters are more likely to switch. Few demographic factors are found to affect the likelihood of switching. Higher education qualifications are related to increased activity in energy markets. Households paying by direct debit are more likely to switch than those paying by other ways. Financial hardship a household suffers does not matter for switching decisions, suggesting there is no clear relationship between switching and income. We conclude that policies which emphasize simplification of energy tariffs, increasing convenience of switching, improving consumers' concerns about energy issues, improving consumers' confidence to exercise switch are likely to increase consumer activity.

Keywords Energy markets; switching supplier; household behaviors; logit model

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