

Why Do More British Consumers Not Switch Energy Suppliers?

The Role of Individual Attitudes

EPRG Working Paper 1515

Cambridge Working Paper in Economics 1525

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Non-Technical Summary

One of the primary objectives of energy market deregulation is to increase competition among retailers and thereby enrich consumer choice. Customer switching is one measure of the extent to which any market can be said to be competitive. After more than two decades of energy market deregulation, UK electricity and gas suppliers are able to enter any market and compete with the incumbent, while households are able to switch electricity and gas suppliers as they wish. However, fewer British customers have switched suppliers despite greater choice of supplier and the potential for financial gains, suggesting that non-price factors may affect the consumer decision-making process.

Consumers' switching behaviors prove less simple than they appear. We try to gain further insight into consumer switching behaviors by commissioning a nationally representative British survey that was conducted by YouGov plc on 29th and 30th January 2014. The sample of 1942 randomly selected British adults (aged 18 or over), of which 42% had switched electricity/gas suppliers over the previous five years. Under a binary choice framework, we empirically investigate the determinants of consumers' switching behavior in the energy market, by examining the effects of individual attitudes towards energy issues as well as perceptions of the costs and benefits of switching.

Among the factors that are considered potentially relevant to explain households' switching decisions: the perceived complexity of household energy tariffs, consumers' attention to the issue of energy prices, expectation regarding the costs of switching and less switching experience are found to discourage switching,

controlling for demographic and other factors. The findings confirm the important role that non-price factors play in switching behavior.

Few demographic variables are found to affect the likelihood of switching. Higher education qualifications are related to increased activity in energy markets. Households with larger electricity bills are more likely to switch. Households paying by direct debit are more likely to switch than those paying by other methods. Our study differs from others in that we find age and gender are largely irrelevant to switching behavior; moreover, self-assessed financial hardship of higher energy bills (a proxy for income) does not affect switching decisions, suggesting there is no clear relationship between switching and income.

By calculating the size of the probability of switching provider for an “average” group, we identify the group(s) that are most likely (and unlikely) to change gas (and electricity) provider, holding all other variables to their median values. In terms of switching experience, the most experienced group (strong-switchers) is, perhaps unsurprisingly, most likely to switch energy providers, with a probability of 0.691. Further, households that pay their energy bills by direct debit are most likely to switch energy providers, with a probability of 0.603. Finally, of all political parties, Labour voters are most likely to switch, with a probability of 0.616, which may at least in part be related to the attention paid to the issue of energy bills by the Labour Party at the time of our survey, when the Labour leader had made an energy price freeze a central plank in his party’s election campaign.

Our study provides evidence that some non-price factors prevent consumers from switching even when switching appears rational. Specifically, consumers’ attitudes towards energy issues and perceived costs and benefits of switching are essential in their decision-making. We conclude that policies which help consumers understand energy tariffs, increase the convenience of switching, and encourage consumers’ confidence in switching across all markets not just energy are likely to increase consumer activity.

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Financial Support

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September 2015

National Natural Science Foundation of China and
Fundamental Research Funds for the Central Universities

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