



Five preconditions of effective consumer engagement – a conceptual framework

Product information, consumer choice and market engagement

Lauren Solomon &
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Behavioural economics - 101



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Rational Choice Theory

Homo economicus – ‘economic man’ (obviously!)
maximises his utility.

- selfish, rational and has stable preferences

Assumptions:

- **Perfect rationality**
- **Perfect information**
- (Perfect competition)



*"Yes, the planet got destroyed. But for a beautiful moment
in time we created a lot of value for shareholders."*

Behavioural approach to economics

- Rational choice theory
 - How ***should***/*will* people respond to incentives – according to rational choice theory **assumptions** (normative)
- Behavioural economics has a different emphasis and approach :
 - ***How*** do people respond to incentives or make risky choices?
 - Necessarily means **trials (evidence based policy)**

Breaking down perfect rationality...

- ***Bounded rationality*** – limited time, available information and cognitive bandwidth (Herbert Simon)
 - Decision-making sometimes results in errors
- “What you see is all there is” (Kahneman)
 - our view of the world is limited by the information that is available at a given moment

Breaking down perfect rationality...

Utility theory (rational choice)

- “the utility theory is assessed by comparing the utilities of two **states of wealth**”
- Gaining \$500 has the same utility as loosing \$500
 - Start with $\$1000 + \$500 = \$1500$
 - Start with $\$1500 - \$500 = \$1000$

Breaking down perfect rationality...

‘Prospect theory’ – Tversky and Kahneman

Problem 1 – which would you choose?

- A) Get \$900 for sure
- B) 90% chance to get \$1000

Problem 2 – which do you choose?

- A) Lose \$900 for sure
- B) 90% chance to lose \$1000

Breaking down perfect rationality...

‘Prospect theory’ – Tversky and Kahneman

Problem 3 – you (personally!) have been given \$1000
Which would you choose?

- A) 50% chance to win a further \$1000
- B) Get \$500 for sure

Problem 4 – you (personally!) have been given \$2000
Which would you choose?

- C) 50% chance to lose \$1000
- D) Lose \$500 for sure

Breaking down perfect rationality...

- ‘**Prospect theory**’ – Tversky and Kahneman

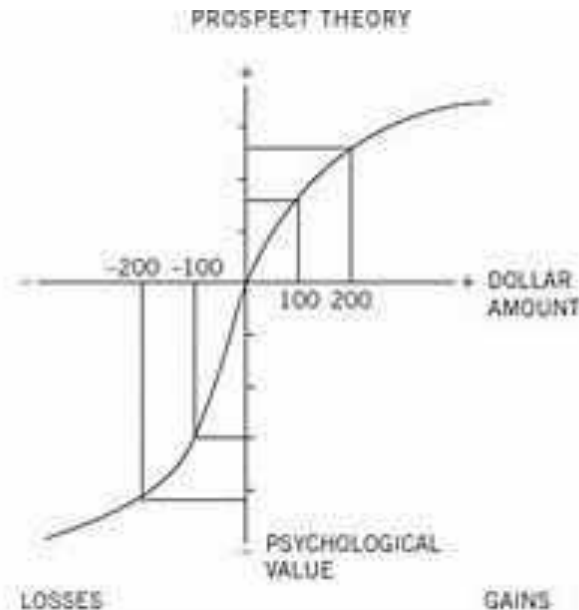
Do you take the gamble? A 50/50 coin toss where you:

- Win \$130 or
 - Loose \$100
-
- What is the smallest gain needed to balance an equal chance to loose \$100?

Breaking down perfect rationality...

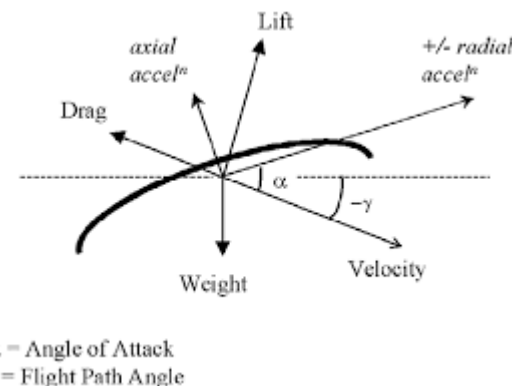
‘Prospect theory’ – Tversky and Kahneman

- Evaluation of choices is relative to a reference point
- Diminishing sensitivity when evaluating wealth - \$10 to \$20 compared with \$90 to \$100 (\$10 diff in both)
- Loss aversion – “losses loom larger than gains”

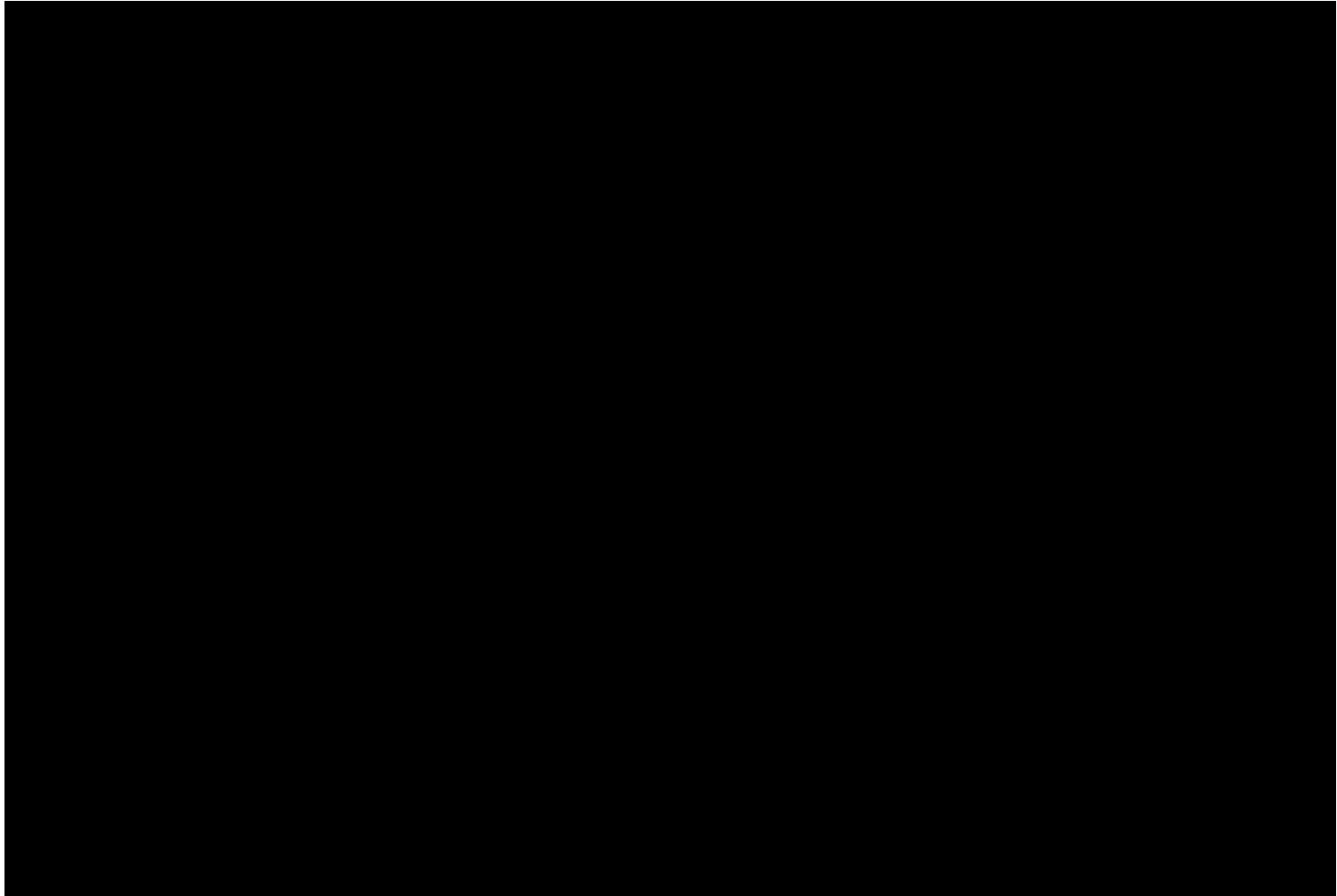


Thinking Fast, Slow - Kahneman

- **System one** – our primary mode of thinking, quick, automatic, intuitive thinking, drawing on *heuristics* and/or experience
 - effortless and *not really conscious*
 - catching a Frisbee - relies on *heuristics*
- **System two** – slow, calculating, deliberative thinking, requires effort and a sense of agency – what “I” do
 - Calculating your tax



Attention availability



Required effort

- **“Law of least effort”** – we prefer easier ways to resolve problems – reverting to System 1 when we should use system two
 - Thinking is hard! And system 2 is “lazy”
- **Choice overload** – can cause decision-making errors applies to system 2 as well as system 1

Mental shortcuts or rules of thumb – “*Heuristics*”

- **Anchoring and discounting**
 - What is a jacket from Brand XX worth?
 - \$300 50% off sale
 - \$370 60% off sale
 - Particularly problematic with partitioned pricing – which exploits limited attention availability
- **Satisficing** – we make choices based on what is ‘good enough’, rather than optimal – particularly when faced with complexity and uncertainty

Cognitive biases

When our heuristics fail to produce a correct judgment, this may result in a cognitive bias – a tendency to draw an incorrect conclusion in a certain circumstance based on cognitive factors

- **Present Bias** – today/tomorrow matter, next year not so much
- **Optimistic bias** – 90% of drivers think they are above average
 - Confident but confounded (Harrison)
- **Loss aversion and framing**
- **Status quo/inertia**

Uncertainty and *heuristics* – (Gigerenza)

- Should we ever rely on heuristics?
- Decision-making under **risk** – we can calculate probabilities/likely outcomes – requires statistical thinking (system 2?)
- Decision-making under **uncertainty** – we can't calculate probabilities/likely outcomes – requires smart rules of thumb (*heuristics*) and intuition (system 1?)
 - Could/Would you run a cost-benefit analysis of a prospective partner?

Nudge: Improving Decisions about Health, Wealth, and Happiness - Thaler

- “Libertarian paternalism”- preferred as compared with bans/mandates
- Choice architecture is everywhere
- Leveraging defaults – every choice has an implicit default (i.e. where no choice made)
- Nudges are a *tool*, much like a ban or mandate they are neutral

Examples of *nudges*

- Electricity conservation – [Social norms](#)
- Prompts – repaying overdue bills - [hand written notes on envelopes](#) (novelty bias?)
- Reframing - [comparing last year's premium with the forthcoming year at renewal](#)
- Leveraging defaults
 - Organ donation (from *Nudge*)
 - [Swedish social security](#)

Examples of *nudges* - energy switching

- Small Scale Database trial – Ofgem & BIT
 - Increased switching from 6% to 13%, however participant retailer had a price rise mid-trial
- Cheapest letter offer – Ofgem & BIT
 - Increased switching from 1% to 3% - low cost, but demonstrates the issue of scalability
- Basic Plan Information Document – AER & BIT
 - Found medium confidence – but little improvement in comprehension
- Benefit Change Notice Letter – AER & BIT
 - Use of loss aversion – “you will lose your discount”



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Policy environment

Increasing policy & regulatory intervention in deregulated markets

- Royal Commission into Misconduct in the Banking, Superannuation & Financial Services Industries
- Independent Review of Electricity & Gas Markets in Victoria
- ACCC Retail Electricity Pricing Inquiry
- ESC review of hardship programs
- ACCC Monitoring Broadband Australia market study

Technological advancement & data

- Greater focus on data, who owns it, how is it being used
- Productivity Commission Data Availability & Use – sector-specific discussions to follow
- ACCC Data Analytics Unit
- Online marketplace driving disruption
- Push towards personalisation

Stagnant wages growth

- Low wages growth and underemployment placing pressure on household budgets

Declining trust

- In all major institutions – companies, governments, religious and media organisations

Current issues raised across a range of markets

People are disengaged! Can mean:

- People are experiencing barriers to engaged due to *reduced capacity*;
- People aren't engaged due to *perceived costs* > *perceived benefits*.
- People aren't engaging because they have a product that suits needs.

It's complex! Can mean:

- Language & jargon too complex for comprehension;
- Product features too numerous or onerous to enable comparison;
- Product info is presented in a way which is too complicated.

People don't switch! Can mean:

- Customers have a product that meets preferences;
- Perceived search/comparison costs exceed benefits;
- Switching process is costly (time or financial).

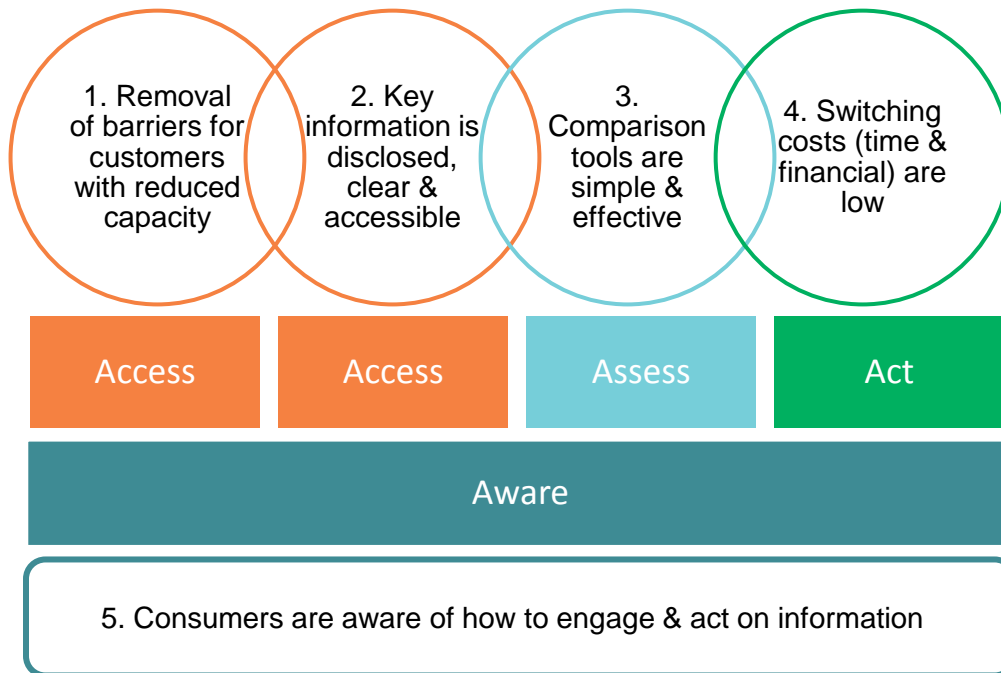
Assumptions of neoclassical microeconomics & consumer choice

Perfect information

- George Akerlof's seminal paper - *The Market for "Lemons"*
- Primary focus of regulators and policymakers to since then – provide more information to consumers and they'll then make a rational choice reflective of preferences.
- Emerging view - information alone while a *necessary* precondition, is not *sufficient* to improve decision-making.



CPRC Conceptual Framework – Five Preconditions



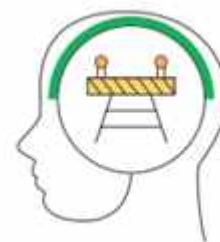
Reflecting a shift towards a more integrated approach to policy & regulatory intervention.

Acknowledging engagement is both about information *AND* behaviour.

Precondition 1 - Barriers to access for consumers with reduced capacity or vulnerability are removed

Ensure consumers experiencing reduced capacity to engage, compare and switch providers can obtain a fair product that meets their needs. Barriers may include:

- Belonging to culturally and linguistically diverse (CALD) backgrounds;
- Temporary trauma or crisis associated with domestic violence, health or an accident;
- Digital exclusion – that is, without access to the internet or digital devices;
- Permanent mental health or learning disability;
- Significant financial distress or a poor credit history



Access



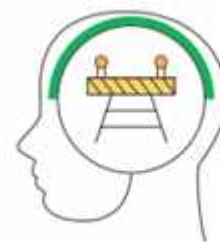
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Precondition 1 - Barriers to access for consumers with reduced capacity or vulnerability are removed

Requires drawing on strengths of different institutions for integrated delivery.

Effective interventions *may* include:

- Guaranteed low/ no fee products for vulnerable consumers
- Default simple, low-cost products for individuals with reduced capacity
 - MySuper
- Fast-tracked debt relief support for individuals experiencing domestic violence across sector
 - WEstJustice Restoring Financial Safety Project
- Outreach programs
- Support for community orgs assisting customers navigate market
 - QCOSS/AGL *Switched on communities program*



Access



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Precondition 2 - Key product information is disclosed in a relevant, clear and comprehensible manner



Access

Consumer can comprehend the information and understand whether the product or service meets their preferences.

Key information may include:

- Price and other costs
- Quality and Features
- Terms and conditions, jargon and language

Comprehension testing should be conducted to ensure consumers understand the information presented or that tools developed improve decision-making.

Prices <small>(GST exclusive so that you can compare with your bill)</small>				
Summer: 1 Dec – 28 Feb			Other: 1 March – 30 Nov	
Off Peak	10pm-7am Mon-Fri Sat Sun	21.34 cents per kWh	10pm-7am Mon-Fri Sat Sun	21.34 cents per kWh
Semi-peak	9am-5pm Mon-Fri 8pm-10pm Mon-Fri	37.147 cents per kWh	9am-5pm Mon-Fri 8pm-10pm Mon-Fri	33.24 cents per kWh
Peak	7am-9am Mon-Fri 5pm-8pm Mon-Fri	38.588 cents per kWh	7am-9am Mon-Fri 5pm-8pm Mon-Fri	35.147 cents per kWh
Separate meter 1	8pm-8am - 16.61 cents per kWh		8pm-8am - 16.1 cents per kWh	
Separate meter 2	11pm-5am - 22.572 cents per kWh		11pm-5am - 22.572 cents per kWh	
Supply charge	84 cents per day		84 cents per day	



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Precondition 2 - Key product information is disclosed in a relevant, clear and comprehensible manner



Access

Effective interventions *may* include:

Price and other costs:

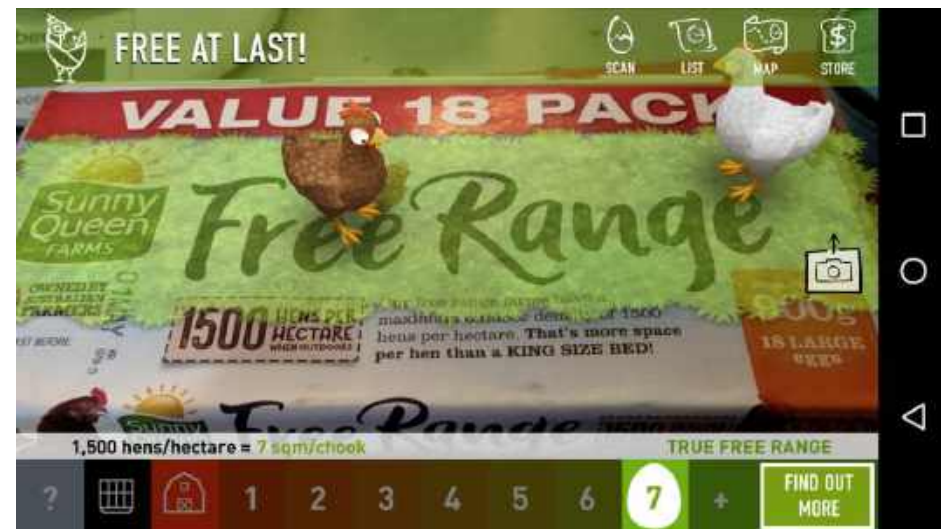
- unit pricing, online price tracking tools, reference prices based aggregate use.

Quality and features:

- Accredited business ratings, measures of customer service quality, technical service quality or feature presentation informed by behavioural insights (e.g. traffic lights for food).

Terms of service, jargon and language:

- cartoons and visual representations of contracts (where possible), digital tools to assist comprehension.



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Precondition 3 - Comparison tools are accurate, simple and effective

Enable consumers to assess and compare products and identify one that suits their preferences.

Information summaries - price fact sheets, critical information summaries & disclosure statements

- Simple, understandable and comparable (Harrison *et al*, 2016)
- Part of consumers' decision-making journey



Assess



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Precondition 3 - Comparison tools are accurate, simple and effective



Assess

Comparator websites and digital tools

- Require consistent information across comparison sites/digital tools
- A platform neutral approach to reform
- CMA principles: Clear, Accurate, Responsible, Easy to use
- Accreditation, direct regulation, or the potential for enforcement
- Awareness

Consumer data availability and transferability

- Improve consumers' access to their data
- Facilitate data portability and innovative comparison services.
 - E.g. mobile phone number porting
- Privacy and consent essential



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Precondition 4 - Switching costs (financial and non-financial) are low

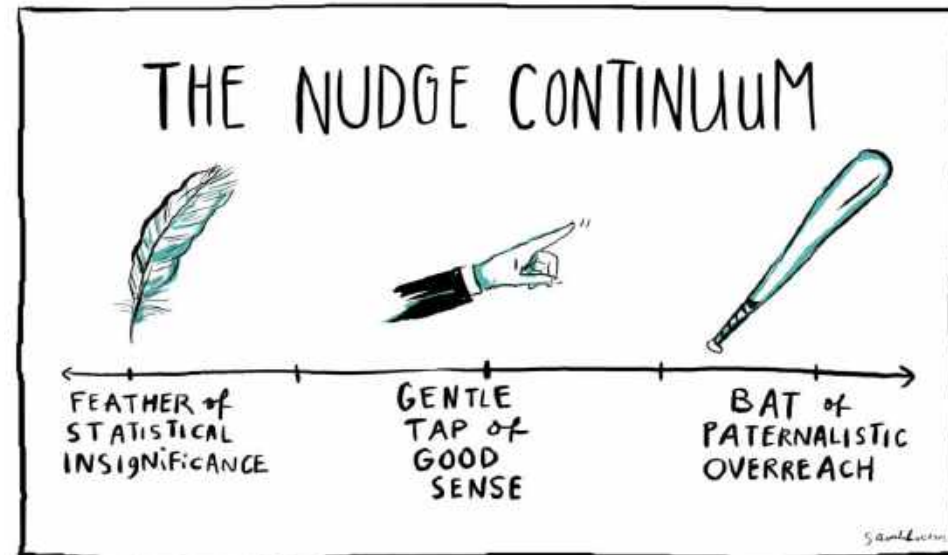


Act

Consumers can switch providers easily, with minimal financial and non-financial barriers (*thinking costs*).

Barriers include:

- Switching costs – financial costs like exit fees for a service provider. These directly diminish the value of switching to an alternative provider
- *Thinking costs* – perception that switching is difficult



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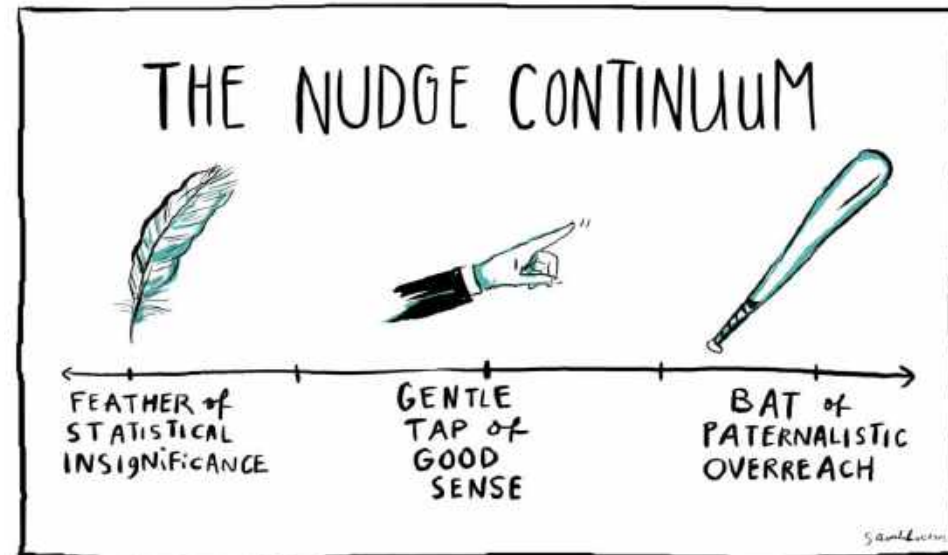
Precondition 4 - Switching costs (financial and non-financial) are low



Act

Effective interventions *may* include:

- Improving comparator switching processes
 - Information-only sites
 - Lead generation sites
 - End-to-end sites
- Encouragement of third-party brokers and collective switching
 - Flipper
- *Nudges*
 - Provide premium from previous year and forthcoming year on renewal notice.



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Precondition 5 - Consumers are aware of how to access, assess and act on information



Aware

Consumers need to be sufficiently aware how they can:

- access assistance and fair products when they have reduced capacity;
- access key information about competing products and services;
- assess which product or service offering best meets their preferences;
- act on information that enables switching to a product where that service offering better meets preferences



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Precondition 5 - Consumers are aware of how to access, assess and act on information



Aware

Effective interventions *may* include:

- Government awareness campaigns
 - Swedish privatisation of social security
- Support and training for frontline staff
 - “Train the trainer”
- Nudges
 - Handwritten notes on overdue bills



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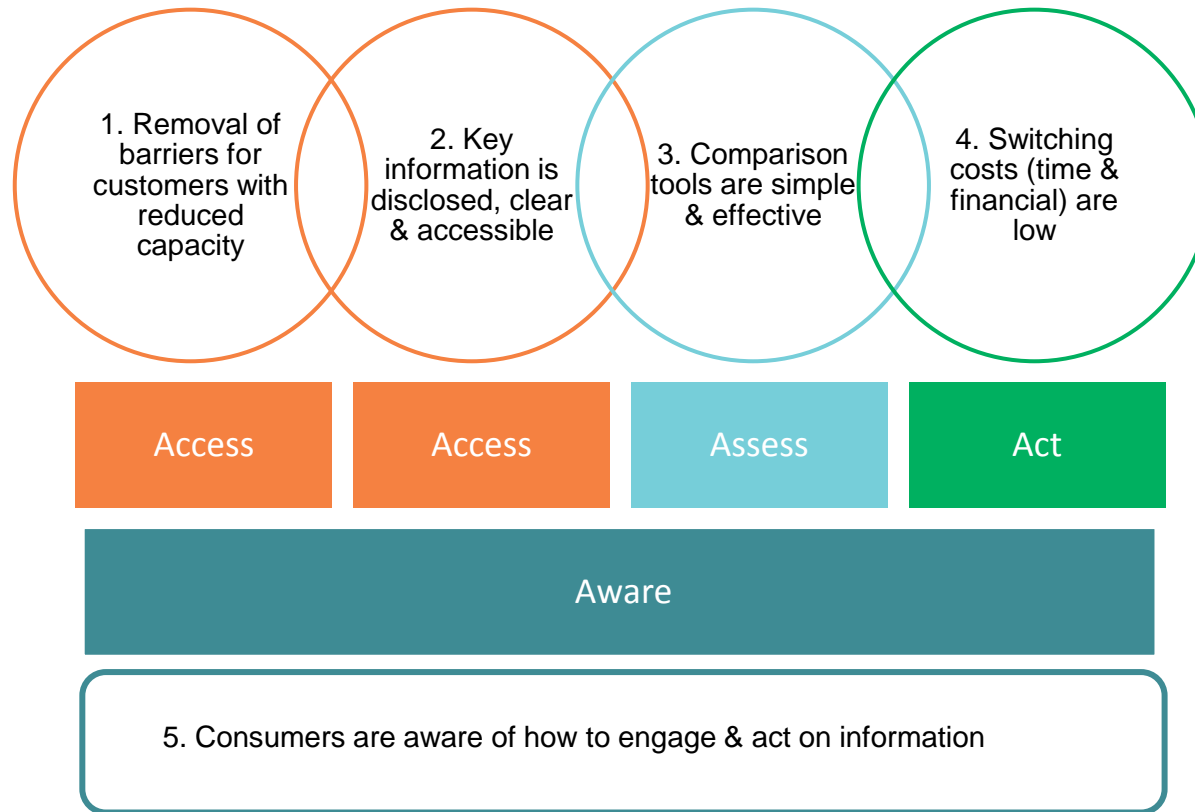
Trialling and implementing interventions

Successful interventions work end-to-end and are reflective of the customer decision-making journey.

Critical to designing effective interventions are:

- Customer journey-mapping of the existing decision-making process for consumers – interventions targeted at key problem areas;
- Baseline data of the awareness across different segments of the community about how to engage, compare & obtain products that suit preferences;
- Trialling interventions to understand the impact on the behaviour change that was being targeted.
- Measuring outcomes – collecting more data on the experience for consumers of accessing, assessing, acting on and awareness of available information & tools.

CPRC Conceptual Framework – Five Preconditions – views?



Hear from our eminent speakers:



Mr. Rod Sims, Chair
Australian Competition and
Consumer Commission



Mr. Ed Santow, Commissioner
Australian Human Rights Commission



Dr Katharine Kemp
Lecturer
Faculty of Law
UNSW Sydney



**Professor James
Arvanitakis**
Pro Vice Chancellor
(Research and Graduate
Studies)
Western Sydney University



Dr Suelette Dreyfus
Lecturer
Department of Computing
and Information Systems
The University of
Melbourne



Dr Monique Mann
Vice Chancellor's Research
Fellow
Faculty of Law
Queensland University of
Technology



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A national conference
on consumer data,
innovation and fairness
in the digital economy

16
07

ZINC Fed Square
Melbourne

July 16, 2018

8:30 AM – 4:30 PM

#DATADIALOGUE18

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