FUTURE ECONOMIES RESEARCH AND POLICY PAPER #X

November 2019

Understanding Financial Services 'Left Behind Customers'.

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This report is based on research commissioned by a UK trade body.

About Future Economies

Future Economies, a university centre for research and knowledge exchange based at Manchester Metropolitan University, brings together academics from a wide range of disciplinary backgrounds, alongside policy and business practitioners, to conduct research into local, national and global economic challenges, ranging from Brexit, financial crisis, devolution and local industrial strategies to mega-sporting events and trade governance. Future Economies has a particular expertise in political economy and behavioural economics, and also encompasses Future Economies Analytics, the Centre for Policy Modelling and the Sports Policy Unit.

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Executive Summary

This paper considers the case of passive or hard to research customers, and in particular encompasses the characteristics of these customers, why they may be passive and how interventions may be created to encourage such customers to be actively engaged. This research focuses primarily in regulated industry such as the energy and financial markets. Much of the intervention strategies considered in this paper is centred around reducing inertia or passive behaviour, via behavioural marketing tools to encourage switching, reducing the effort associated with choosing another service provider, reducing switching costs and providing key targeting information. Regulatory interventions have also been discussed as a tool to encourage businesses to take action to identify and engage such customers, and to also limit price based discrimination in such groups.

Encouraging engagement for a passive or hard to reach customers is necessary to ensure that such customers have access to the product or service most suited to them, at the best possible price available. This is particularly important as customers who are disengaged, are often vulnerable groups, such as pensioners, or in some cases face barriers such as low financial literacy and a lack awareness of the options available to them. The existence of such groups may encourage price optimisation by some businesses, who charge passive customers more than active customers. There is evidence of such pricing mechanisms in various s sectors, with customers being billed a 'loyalty' charge, as indicated by evidence highlighted by the (Competitions and Market Authority, 2018). The existence of such practices introduces the idea of necessary regulatory input, to protect the interests of disengaged customers.

The existing interventions which aim to target passive customers as illustrated in the paper include the use of incentives and loyalty schemes which been found to be effective tools in encouraging engagement. These could be in the form of monetary incentives or additional products or services, which enhance the value of the service already being received. The rationale behind such an intervention is to provide customers with benefits over and above what they are paying for.

Traditionally strategies to encourage engagement are often are centred around direct communication strategies, an in particular the use of letter in the mail. Despite being a popular first point of call, letters in the mail have been regarded as an ineffective tool, with many such letter being grouped as 'junk mail' and immediately disregarded. This introduces the importance of the designing mail in which maximises

engagement, and encourages action. Such insights can be gleaned from behavioural economic theory, which has long since highlighted the influence of key variables in marketing material to promote action. Evidence suggests simple, easy to understand information is necessary to engage passive customers. Moreover, research has indicated the significant influence of envelope styles, formatting and letter length on engagement. Moreover, researchers such as (BIT, 2016), have gone further to illustrate how behavioural biases, framing effects in particular, can have a significant influence on the decision to switch. This highlights the clear applications of behavioural economics in promoting socially optimal behaviour, in a clear and viable way.

However, when designing intervention to encourage engagement, it is clear businesses need to develop an understanding of the characteristics of their customer base, and types customers to identify their characteristics. This allows businesses to design intervention strategies specific to each group. Tailored intervention would be much more effective in terms of encouraging engagement, by triggering different variables specific to each group. This is illustrated by evidence illustrated by (Hewer et al., 2000) who notes different kinds of customers will be susceptible to different kinds of interventions, indicating the importance of classifying the customer base and creating intervention specific to each group. This would also allow for the creation of specific intervention strategies at different points in the customer's cycle or journey.

Introduction

The aim of this paper is to provide an overview of the existing literature on passive/hard to research customers. These individuals can be broadly defined as those who are disconnected from businesses and the customer journey, and as such are unaware of better or cheaper product options which may be available to them, and often passively remain with an existing product or service for long periods of time. This research will be primarily focused on the UK's regulated industries, with particular emphasis on the energy and financial markets. The research will consider why customers may be disengaged, the importance of discouraging passive behaviour and interventions which may be implemented to limit passiveness. This will be followed by an overview of industry specific strategies highlighted in the literature, as a means to encourage the engagement of passive customers, along with possible regulatory interventions.

The evidence for this research was collated using a systematic process of literature collection based on key search terms, specific to the research question. Academic literature was supplemented by relevant grey literature[1], which was necessary to develop an informed understanding of key variables specific to each sector. The importance of research on the subject of passive customers will be considered, including an overview of the characteristics of such customers and the reasons why their behaviour differs from active customers.

Importance of Research

The importance of research, which considers interventions aimed to encourage engagement in hard to reach customers, can be depicted from two different perspectives. From the perspective of a business it is in the interest of the said firm to have an engaged and proactive customer base. This is to ensure customers remain satisfied with the service they receive, and act as an asset to the organisation. The importance of the value of a customer is illustrated by (Chan et al., 2010) who assesses such value in the financial services industry in Hong King and USA, in an analysis of 348 pairs of customers and

[1] Including, but not limited to, regulator and policy reports, practitioner analysis and think tank publications.

service employees. The authors find that customer participation has a positive effect on performance outcomes (such as customer and employee satisfaction) by creating economic value. The importance of creating value is further illustrated by (Normann and Ramirez, 1993) who state that the role of a business is to encourage the co-creation of value by mobilising new combinations of stakeholders, as opposed to simply creating value for the customers. The idea of value creation is further illustrated by (Prahalad and Ramaswamy, 2004) who note that while company based value creation has been the traditional means of business practice, the concept of co-creating value is becoming the very basis of new and innovative organisational practices. However, despite these clear advantages of having a proactive and engaged customer base, in many industries it is in the interest of businesses to keep passive customers disengaged, in order to limit the chances of them switching to a competitor. This has led to some authorities to recommend various interventions to encourage businesses to identify these customers, and encourage them to engage with the organisation in order to ensure they are getting the best price for their product or service. For example, CMA (2016) provided Ofgem with a number recommendations which included the creation of a central database of passive customers from all companies, allowing competitors to directly target them and encourage them to switch.

The importance of regulatory action is further illustrated indicated by (House of Lords, n.d.) who **state service providers have started to separate customers into active and passive customers, active customers are offered cheaper deals, while passive customers are required to pay more.** This is further illustrated by the (Competition and Markets Authority, 2018) who carried out an investigation as a result of a complaint raised by Citizen's Advice. They find evidence for a loyalty penalty of £4 billion pounds annually in the cash savings, mortgages, households insurance, mobile contracts and broadband markets. The authors continue to note the existence of practices such as annual stealth price rises, costly exit free, time consuming and difficult cancellation procedures, requirements to auto renewal amongst other practices to specifically target passive customers. This is an example of demand based price discrimination, which as indicated by (Shaffer and Zhang, 2000) is prevalent where business charge different prices for different customers. Further evidence is illustrated by (Thomas, 2012) who when studying the insurance markets finds price discrimination based on individual customer data, with renewal prices for existing customers being higher than new customers. Similarly, (Minty, 2016) notes price optimisation in insurance pricing has been highlighted as significant problem, with some US states banning the practice. The author notes a significant negative effect of the activity is the alienation of customers, who have limited knowledge, are vulnerable and less likely to look for an alternative offer. These people often feel unable to cope with the complexity of insurance quotations, and continue with the status quo, which leads to significant discrimination against these customers.

Such regulation is particularly important for passive customers who are vulnerable, and do not have the resources to ensure they are paying the most optimum price for a product or service. For example, (FCA, 2019), note that 50% of respondents surveyed in the Financial Lives Survey displayed at least one characteristic of being potentially vulnerable. This is particularly important as the authors note that customers who are excluded and disengaged with the market are more likely to hold a product for a longer period of time without switching, for example 23% of people with mental health problems avoided switching, they find it overwhelming, and then are more likely to pay a higher price than others.

Explanations of Passive Behaviour

In a financial services context, (Lindholm, 2008) describe passive customers as those with lower levels of uncertainly but little involvement. These customers are disinterested in further information, have little involvement in the consumption process and can therefore be referred to as passive in their behaviour. The authors note that while the behaviour of such individuals may indicate loyalty, it instead represents a situation where the customer will not change their behaviour because there is no incentive to do so. They stick with products they are familiar with and as indicated by (Kotler and Armstrong, 2006) do not search for information or go through the traditional customer behaviour processes. This is further illustrated by (Beckett, 2000) who notes repeat passive customers will make repeat purchases without actively seeking out alternatives.

Behavioural Explanations

Despite the fact it is in the interest of the consumer to remain engaged with the organisation so they can ensure they are receiving the best service, at the best price, this is not always the case. Literature on behavioural biases indicates several explanations of why people may remain passive. For example, research has indicated the presence of status quo bias in customers in various industries. As indicated by (Hartman et al., 1991) while traditional economic theory assumes consumers will maximise their utility relative to all commodity options available, in actual fact the existence of status quo often has a limiting effects on an individual's rationality. This is further illustrated by (Defeuilley, 2009) who when assessing retail competition in energy markets notes as a result of status quo bias, individuals will allocate a higher value to a good they own, and as such would attribute a higher price to this product or service. Moreover, when assessing Finnish residential electricity customers, in terms of their decision-making processes with regards to savings opportunities, (Annala et al., 2013), find that 60-70% of the sample purchase electricity from the default contract from their local supplier, despite the fact significant savings could be achieved by switching contracts. In a similar study focused on the British electricity market, (Flores and Price, 2013) find that attitudinal variables such as status quo have a significant influence on anticipated gains from switching. Moreover, (Ofgem, 2011) highlight the existence of status quo bias using the Customer Engagement with the Energy market Tracking Survey for the UK energy market and note due to these biases consumers are less likely to engage in the market, leading to suboptimal decisions on their part.

The existence of bias is further documented in research carried out by (White and Yanamandram, 2004) who used an interview based qualitative method, as well as quantitative data to assess the determinants of inertia, which encourages passive behaviour in customers. As indicated (White and Yanamandram, 2007) inertia can be defined as a phenomenon which occurs as a result of a factor such as switching costs, which lead to inertia, which leads to customers thinking alternatives are unattractive. Alternatively, the authors offer another definition of inertia, which describes it as a behavioural characteristic, for this example it is the passivity of the customer which causes them to not switch. These definitions provide an understanding of how inertia works in the decision-making process and provides insights into how interventions may be designed. Moreover in an exploratory study of switching behaviour in the Dutch energy market after liberalisation, (Wieringa and Verhoef, 2007) find evidence for inertia governing decision-making processes of a number of customers. These individuals exhibited low levels of switching, and their decision to switch is not dependant on switching costs, alternatives or usage rates. They were in fact are passive to any alternatives, even if they might offer a better deal. This finding is further replicated by (Lee and Neale, 2012) who find that in indifferent customers, switching costs were not related to retention, but it is the existence of inertia which discourages people from switching. Similarly, in a questionnaire based research project of 686 auto liability insurance holders in Taiwan, (Lai et al., 2011) concluded that customer satisfaction; inertia and switching costs all have a positive effect on customer retention. The authors note that the barriers of switching costs, and behavioural lock-in effect produced by inertia created a pullback effect, discouraging customers from switching to an alternative service provider, even if it is in their best interests. Moreover, as indicated by (Polites and Karahanna, 2012) the use of one specific product or service becomes a habit, and as such continue use transitional costs all encourage the development of inertia.

Barriers to Switching

Much of this desire to stick to the existing product or service is due to the friction associated with having to carry out research to assess alternatives. When assessing the Green Deal customer journey, (Department for Energy and Climate Change, 2014) noted the barriers to energy saving home improvement included the cost in terms of time and money. There was also a belief that it would take too long to make the energy savings benefits and customers did not want to pay the initial high costs. People also cited lack of knowledge and lack of information availability on how to actually make energy improvement, and believed the process would be complex and take a long time. Discussions during focus groups also identified that respondents collectively agreed that that there was no clear pathway for making energy savings improvements. Moreover, trust in word of mouth communications of energy savings installation companies was key in terms of overcoming these barriers. Moreover, in an explanation of remaining passive is illustrtaed by (Li, 2015) who in an analysis of barriers which discourage switching behaviour notes that due to it being taking up too much time and effort. The idea of people remaining passive customers due to the hassle of having to change is further illustrated in Figure 1, which depicts the results from a survey of customers in the banking sector carried out by (DMA, 2016) who were asked why they have not changed their bank for more than a year. 41% suggested it was because it was convenient and easy to stay, while 28% responded it was because it was too much hassle/effort to change.

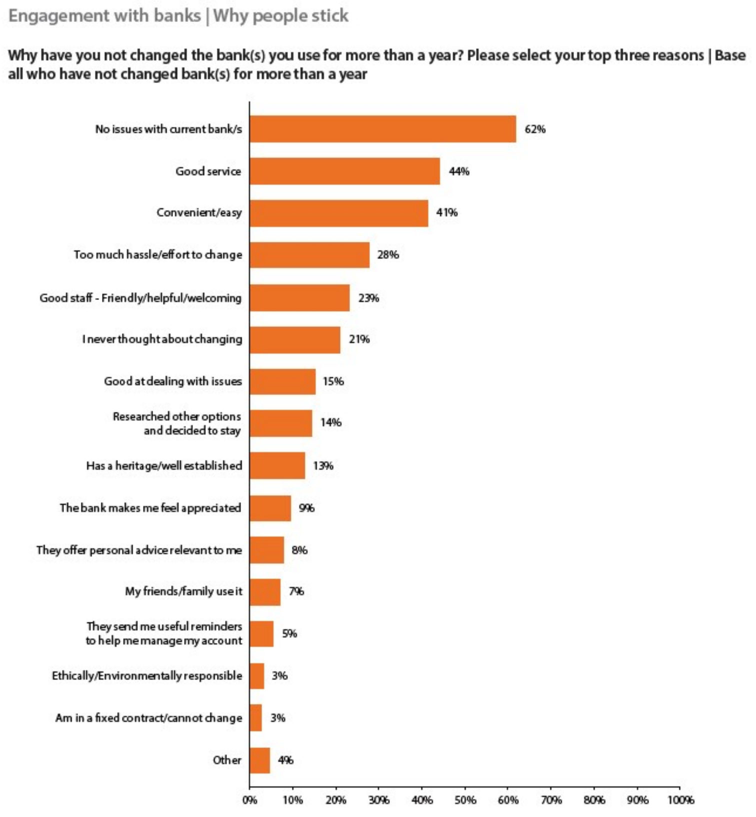


Figure 1: Why People Haven't Changed Banks for Over a year, (DMA, 2016)

How to Encourage Engagement in Passive Customers

Provision of Information

Most strategies which aim to engage hard to reach or passive customers are centred around the provision of information. This information is directed using various mediums such as direct mail, media campaigns and so forth, which aim to provide the customer with information designed to encourage them to take action. The use of direct mail, and its effect on tariff switching behaviour, was assessed by (Tyers et al., 2019) in a Randomised Control Trial of 140,000 disengaged customers from two energy suppliers in the UK. Customers received letters informing them that they could save money by switching their tariff, the authors found after 1 month there was an increase in switching from 1% to 3.4%, with average savings increasing by £50. In this case it is clear the effectiveness of the intervention was significantly influence by the design of the letter customers received, which was easy to follow with links to key information, and as a result made it easier to switch as all the information required to do so could be found on the letter. This research introduces the concept that irrespective of the medium used to communicate information to customers in order to combat the status quo bias, the format of these letters and the way information is presented is key.

The influence of how information is portrayed is illustrated by (Feld et al., 2013) who in a review of 677 direct mail campaigns for non-profit organisations and financial service providers find that the design of the envelope is the predominant driver of opening rates. Moreover, variables such as letter length, personalisation and provision of sender information on the letters are key components in the probability of the recipient keeping the letter. This has significant implications for the design of mail. The importance of informational portrayal is further illustrated by (Holmen et al., 2014) who in an experiment based study of 394 undergraduate students, find that financial information presented in a narrative format has a stronger positive effective emotive response and purchase intention compared to fact based. Moreover, the authors finds that this narrative message format can be used as means of encouraging engagement in passive customers when marketing financial products. Similarly, in the winter fuel switching trial carried out by the UK's Behavioural Insight's Team (BIT, 2016), a partnership with the department for Work and Pension and DECC was designed to encourage older people to switch their energy tariffs and save money. The authors carried out the study with a control group, a social norm message (every year millions save…) and a loss aversion/anchor message framed negative (you could be saving…). The authors find the loss aversion group was the most effective in switching behaviour. **This suggest behavioural insights may be an important tool to encourage switching behaviour via the provision of information.**

Incentives

Incentives has also been found to have a significant influence on customer action. For example, (Vafainia et al., 2019) conduct an experimental analysis of 179,525 customers across 40 Dutch opticians over 9 years. When assessing the effectiveness of call to action direct mailing, the authors find that letters which contained incentives increased the purchase probability of the product compared to those without an incentives. Non-monetary incentives seem to have a higher impact than monetary incentives. The role of incentives is further illustrated by (Bilgihan et al., 2015) who assess the variables which motivate customer engagement, and finds that brand equity, sense of community and monetary incentive has a positive effect on customer engagement. Similarly, (Van Doorn et al., 2010) notes that firms can affect customer engagement behaviour by providing rewards and incentives to its customers. In terms of how these incentives may be designed, one example is that some companies offer customers rewards for recommending products and services. This concept is highlighted by (Biyalogorsky et al., 2001) who notes that encouraging existing customers to generate referrals is an effective way of generating value from existing customers, encouraging such customers to remain engaged and rewarding them to ensure they remain satisfied.

The advantages of such programs are illustrated by (Garnefeld et al., 2013) who when assessing a large scale customer dataset from a telephone communications provider find that participation in the customer referral program increased customers attitudinal and behavioural loyalty. However this was dependant on the size of the reward, small insignificant rewards may even have opposite affects, making the customer feel less valued and important. It is clear that when designing such programs businesses need to tailor the scheme to the organisation, provide appropriate rewards structures, develop an understanding on the return on customer referral programs and accommodate target audience issues, (Garnefeld et al., 2013). One initiative often used to target and engage passive customers, as indicated by (Wirtz et al., 2007) in the case of financial services and credit cards, are loyalty programs designed to promote engagement and loyalty. Such interventions are further illustrated by (DMA, 2016) who note that customers highly value rewards for interactions and loyalty and as such these interventions can encourage engagement. Of the respondents studied 27% of respondents currently receive rewards, but

44% of respondents stated that they would like to receive better returns for their loyalty. They suggests to empower customers to take control of their finances and reward to encourage engagement. Moreover, as indicated by (Lindholm, 2008) value adding promotions which add value to the existing product and service to encourage engagement in such individuals. In terms of intervention strategies, (Beckett, 2000) suggests that offering new combinations of price and quality leads to consumers who were previously passive to become active. The effectiveness of incentives is further illustrated by research carried out by the (Department of Energy and Climate, 2014) who consider the influence of incentives to encourage people to make energy improvements. When the Green Deal cashback scheme was explained to a focus group as an initiative designed to claim money back from the government for making energy savings it appealed to some of the cohort, especially the younger less affluent respondents, though the incentive was considered a 'drop in the ocean' compared to the cost of setting up energy savings. The authors note that in terms of intervention strategies, the most effective will be tailored to a specific industry, region, or business.

Characteristics Specific Intervention

A variable which has been found to have an influence on decision-making processes is 'the characteristics of customers', or customer profile, this therefore introduces the concept of organisations developing an understanding of their customer base to be able to effectively design interventions to increase engagement. For example, in a UK based case study analysis of the financial services industry (Hewer et al., 2000) define and classify consumers in the purchase of products and services. The first repeat-passive make decisions without seeking alternatives, and repeat behaviour patterns. Rational-active have high levels of engagement and are typically rationally inclined. No purchase are those who take no action instead of purchasing financial services, and rational-dependant are those who are engaged but are dependent on third parties due to knowledge, as indicated in Figure 2. The author notes that communication strategies for all four types of people will differ, this has implications for the types of ways different types of customers may be engaged. This is further illustrated in an analysis of the Sweden telecom sector, (Awan and Said, 2011) make the distinction between active and passive customers in the context of switching behaviour. Using an exploratory research approach which included interviewing university students, the authors note that when designing communication strategies to encourage engagement in passive and active customers, strategies need to be tailored to each group specifically to maximise effectiveness. The findings suggest that while passive customers are more responsive to communication which focuses on cheaper price options, while active customers would prefer more detailed information on innovative services and packaged, via social media platforms.

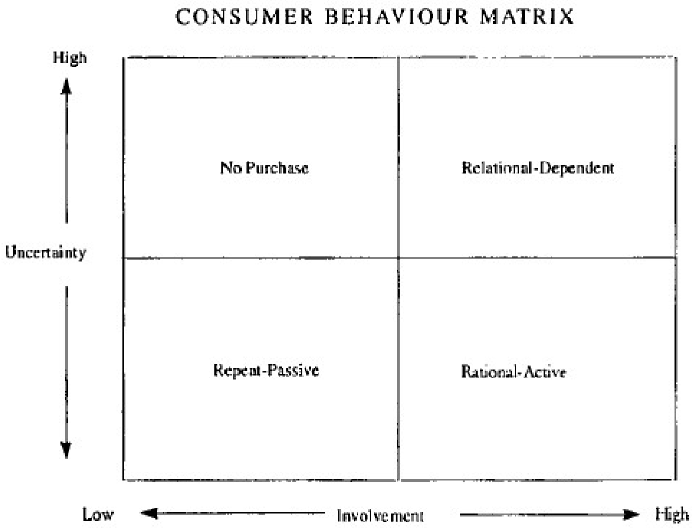


Figure 2: Consumer Behaviour Matrix, (Beckett, 2000)

This is further illustrated by (Gustafsson and Roos, 2011) in a longitudinal study which assesses the role of triggers for active and passive customers in the Swedish telecommunications industry finds that switching decisions are significantly influenced by the characteristics of the customer**. The same trigger affects active and passive customers differently**. Active customers respond to situational (change in customers life situation), influential (change in the market) and reactional (poor customer service) triggers and can be described as customers who scanned the market for a better service. Meanwhile, passive customers respond only to the influential triggers, and exhibit a lack of a defined processes leading up to the switch. As such engagement interventions for active and passive customers will differ. The main finding indicated in this research is that interventions needs to be tailored to the specific groups, with different interventions for each groups.

Similarly, engagement levels are also influenced the type of industry in question For example, in a case study based paper of a large number businesses across several industries (Bowden et al., 2015) finds that level of engagements are significantly influenced by the type of service which is offered by the business. For example for functional/utilitarian services such as banking, insurance, telecommunications and transport engagement is weak, however, for participative/co-creative services such as hospitality, personal services, travel and tourism and transport engagement is much stronger. The author notes that the reason is because while former services can be depicted as a lack of symmetry of power where customers are dependent on the service providers, the latter services have a higher level of interdependence between the organisation and customers, who are expected to engage in terms of action and co-creation. This concept introduces the idea of service providers requiring action from customers as a tool to engage those who are passive. For example, (de Ruyter et al., 2012) uses the association pattern technique to survey 383 customers of a Dutch energy company to assess the relationship between customer participation and desired communication channels. The authors find that making energy users more active by getting them to register energy use themselves, via telephone, internet etc. has a positive effect on engagement. In terms of energy there is a certain do-it-yourself component, which would require the customer to engage and invest cognitive and emotional effort.

Web Based Intervention

As the internet becomes more and more prevalent as a communication tool, the incorporation of online marketing into businesses marketing strategies has become necessary. The use of such practices can also act as a key engagement strategy. As illustrated by (Kirakosyan and Dănăiaţă, 2014) due to the changing nature of communication with the introduction of new technology, businesses need to harness the power of social media, which has become an important tool in terms of communication and establishing good customer relationships. The author outlines the applications of electronic communications to portray the necessary information required by consumers to make decisions, as well as making use of this technology to enhance profitability. The applications of social media are further illustrated by (Dewnarain et al., 2019) who highlight the role of social media in terms of developing effective customer relationship management strategies. The authors note that there is significant evidence which illustrates the applications of social media as a customer engagement strategy.

The Role of Regulation

The findings of the (Competition and Markets Authority, 2018) discussed earlier in the paper highlight the scope and requirement of regulation in place to eliminate price discrimination. For example, an intervention carried out in United States to limit such discrimination is illustrated by (Minty, 2016) who notes that in 17 states price optimisation has been outlawed due to the fact it is contrary to the condition of insurance law which cited "rates shall not be inadequate, excessive or unfairly discriminatory". Therefore when setting insurance rates, they cannot be cost based and therefore do not consider price elasticity of demand, propensity to shop for insurance, retention adjustment and policy holder's propensity to ask questions or complain. This highlights the idea of the replicated on such regulation in the UK and provides best practice guidance for the FCA.

In terms of existing regulation, it is clear action is being taken by regulators to address the problem of passive customers. (UKRN, 2017), which comprises of thirteen UK sectoral regulators highlights several intervention strategies carried out by members to encourage customer engagement, much of these are centred around incorporating customer engagement into core business plans. In the case of energy and water suppliers, (UKRN, 2017) note how Ofwat engaged with customers and creating customer challenge groups which review the quality and effectiveness of engagement. For the FCA in particular (UKRN, 2017) note the mechanisms to encouraging engagement, are centred around consumer research, with consumer organisations provide insights via the consumer network and the regional network along with the support of the Statutory Independent financial services consumer panel. These are key when determining policy and intervention, (FCA, 2019) highlight examples of interventions which include a firm which analysed transaction data to create a customer segmentation model by financial health, or identify patterns of behaviour, stress on their account and identify specific customers which may require additional help and send SMS messages with information on tools and support. This includes how the needs of such customers may be determined, how staff may be trained, and consider these customers when designing new interventions. Whittle et al (2017), notes the use of heuristics as a tool to encourage positive financial behaviours. In terms of interventions specifically for hard to reach groups, (FCA, 2019) note the importance of quality assurance processes through the whole of the customer journey to identify areas in which the needs of the customer can change. In the case of the energy and water industries (New Pin, 2016) note that especially in monopolies, customer centric services are very much in demand.

In the pensions industry, (Institute and Faculty of Actuaries, 2018) noted there has been an emphasis on the encouragement of engagement to build financial capability, promote tools that engage savers with their retirement savings and allow savers to monitor progress towards these goals. The authors note the importance of setting out comprehensive communication strategies for pension saving and they suggest the creation of the Single Financial Guidance Body would be an effective way of promoting such engagement. In particular it will consider how retirement planning information is communication and consider the most effective way to communicate this information with consumers. (Institute and Faculty of Actuaries, 2018) continues to note that communication with customers' needs to be as individual as possible, while considering demographics, risk levels and financial capability, in order to maximise its effectiveness at different stages in an individual's savings journey into retirement.

Energy Market Example

The Competition and Markets Authority (CMA) carried out an investigation on the energy market since its privatisation, and provided a number of recommendations on how to increase engagement. The aim of the report was to establish if the energy market was structured in a way which has an adverse effect on competition. In the report, (CMA, 2016) find 70% of customer of the 6 largest energy firms are on the default standard tariff, which is more expensive than the alternative. These customers could potentially save £300 if they were to switch to a cheaper tariff. In a survey of 7,000 domestic energy customers (CMA, 2016) 36% of respondents did not think or did not know it was possible to change their tariff, payment and/or supplier, and 34% had never even considered switching. Figure 3 below indicates the potential gains from switching by depicting a scenario in which customers were allowed to change supplier, tariff and payment method between Q1 2012 and Q2 2015, with potential savings ranging from 8% to 24%.

Table1: Average savings under scenario 5x for domestic customers of the Six Large Energy Firms on different tariffs and payment methods, Q1 2012 to Q2 2015

Dual or single fuel	*Tariff type*	*Payment type*	*Average savings (£)*	*Average savings (%)*
Dual	Non-standard	All	109	9
Dual	SVT	Direct debit	205	16
Dual	SVT	Standard credit	245	23
Dual	SVT	Prepayment	70	8
Single gas	Non-standard	All	96	14
Single gas	SVT	Direct debit	132	19
Single gas	SVT	Standard credit	142	24
Single gas	SVT	Prepayment	48	13
Single electricity	Non-standard	All	55	9
Single electricity	SVT	Direct debit	95	15
Single electricity	SVT	Standard credit	118	23
Single electricity	SVT	Prepayment	45	8

Source: CMA analysis. Scenario 5x.
Note: SVT = standard variable tariff.

Figure 3: Average Savings Rates, (CMA, 2016)

The authors found a significant number of customers felt disengaged from the energy market. These individuals are often characterised by having a low income, low qualifications levels and living in rented accommodation. For comparison purposes, (CMA, 2016) notes that 35% of people with household income higher than £36,000 had switched supplier in the last three years, compared to only 20% of customers whose household incomes are lower than £18,000. Similarly, of those with degree level qualifications 32% had switched in the last three years but, only 18% of those with no qualifications had done so. In terms of potential gains from savings the authors find that households who live in rented accommodation, with incomes below £18,000 and who receive warm home discount have higher potential gains from switching. This suggests that those who need it most are the ones which have the most to gain from switching. Customer engagement interventions in the energy market have been assessed by (BIT, 2017) who created initiatives such as supporting Ofgem to test and implement ways of encouraging customer engagement in the energy market. This is particularly crucial as the authors finds that some customers have been paying expensive tariffs despite the fact they would have benefited from cheaper products had they switched. (BIT, 2017) note that presenting customers with these cheaper interventions is an effective way to encourage them to consider their alternatives and switch.

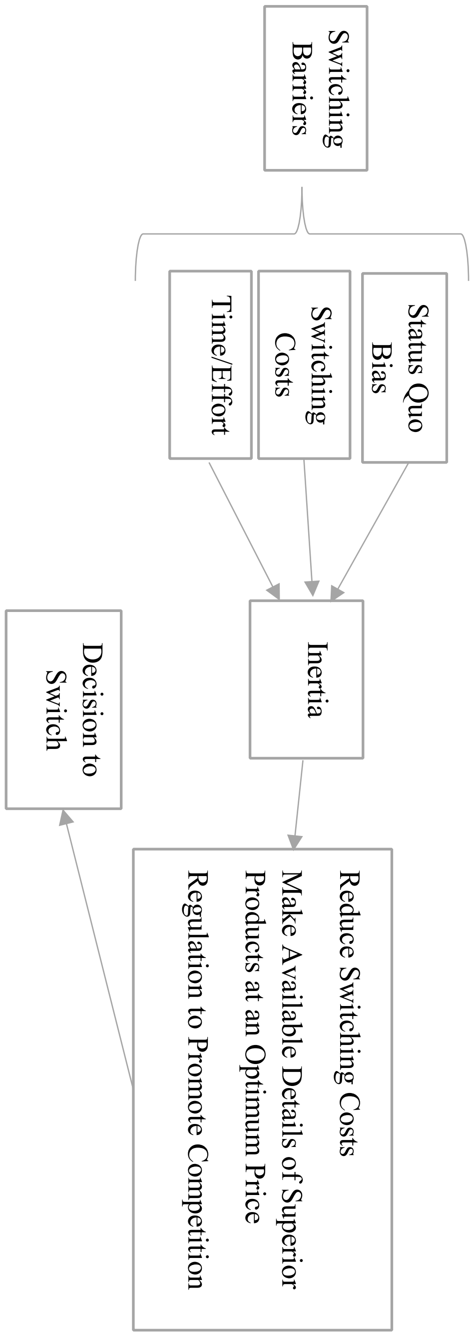
(CMA, 2016) note if customers are to take advantage of a competitive energy market, they need to be engaged. If they are not aware of the options available to them they cannot make informed decisions about switching products. The authors provide key recommendations for the regulator Ofgem, the first is the creation of a programme which provides information to customers and encourages them to engage; secondly the creation of a Ofgem central database of disengaged customers who pay default process to allow competitors to attempt to engage with these people. Ofgem itself will be tasked with monitoring this system and ensuring that it remains an asset to a competitive market. (CMA, 2016) also recommend Ofgem ensure that supplier make single rate tariffs an option for customers on any kinds of meter. It is particularly important that the regulatory authority is tasked with developing such interventions as the author notes that electricity supplies have incentive to keep customer disengaged to keep them from switching Ofgem should facilitate customer engagement with clear easy to understand communications with customer.

Discussion and Conclusion

The research on the subject of passive customers highlights the various different strategies which can act as interventions in the pursuit of high levels of customer engagement. While much of these strategies are based around the concept of provision of information, it is clear how information is presented is key in terms of the effectiveness of the intervention. This has clear implications for the design of documentation aimed at customers, in terms of framing, formatting and comprehension of content. This understanding can be applied to all types of interactions with customers including marketing campaigns and social media interventions. Moreover, when aiming to encourage action from customers it is important that the information provided makes the process as easy as possible. For example, for a mail correspondence which aims to encourage switching tariffs, the inclusion of all the necessary information required to do so, as well as a simple step-by-step process detailing what the customer is to do would maximise the effectiveness of the intervention. The evidence has also indicated how interventions need to be tailored to different industries and indeed different types of customers. This has implications for the requirement of organisations to develop an understanding of the characteristics of their customer base in order to adequately design appropriate interventions. An understanding of the customer base will allow businesses to assess the appropriateness of designing do-it-yourself initiatives or incentives structures to encourage engagement. These interventions are crucial as they account the switching barriers which limit the probability of switching, and lead to inertia.

Moreover, there is a clear role for regulators to eliminate price based discrimination in regulated industries. Aside from limiting switching barriers to encourage engagement, the issue of inertia can be influenced by interventions created by industry regulators. Such interventions would require businesses to ensure that the customer base in engaged in terms of being aware of alternatives available to them, and aim to promote competition in the market. Figure 4 below summarises the literature and indicates the customer journey of the a typical passive customer, with switching barriers such as status quo bias, switching costs and time and effort acting as a cause of inertia. In order to eliminate the effects of inertia and encourage such a customer to switch products, switching costs need to be reduced, details of better products/price need to be made available as well as industry specific regulation to limit price based discrimination.

FIGURE 4: PASSIVE CUSTOMER JOURNEY TO THE DECISION TO SWITCH, CREATED BY AUTHOR



Appendix

Search Criteria

The search strategy for this project was designed based on the aim and objectives of the project. In order to develop an informed, broad and pragmatic understanding of passive customers both academic literature and grey literature was considered for the project. Specifically designed key search terms which input into various journal database in order to systematically collect evidence which was relevant for this project. Research was largely limited to regulated industries with a particular emphasis on the energy, water and the financial markets. These results were screened against a primarily inclusion criteria, and included in the literature review if they were appropriate. Grey literature was also identified as a key source of information, this was particularly relevant in terms of regulators which have previously identified the problem of passive customers and aim to correct for it using various initiatives. Such grey literature was identified using key search terms input into Google Scholar. These results were screened against the primary inclusion criteria, and input into the literature review if they were relevant.

Search Results

Of the 43 papers included in this paper, as indicated in Figure 5 below, much of them are academic journal articles which male up 64% of the sample. This is followed by reports, which make up 33% of the sample, with conference presentations making up only 2% of the sample. This significant skew towards academic articles is not unexpected, as there is a significant depth of evidence of bias which results in passive behaviour, evidenced in the academic literature. However, industry specific evidence which considers evidence of passive customers and interventions designed to increases engagement in such customers is often referenced in grey literature such as regulator reports.

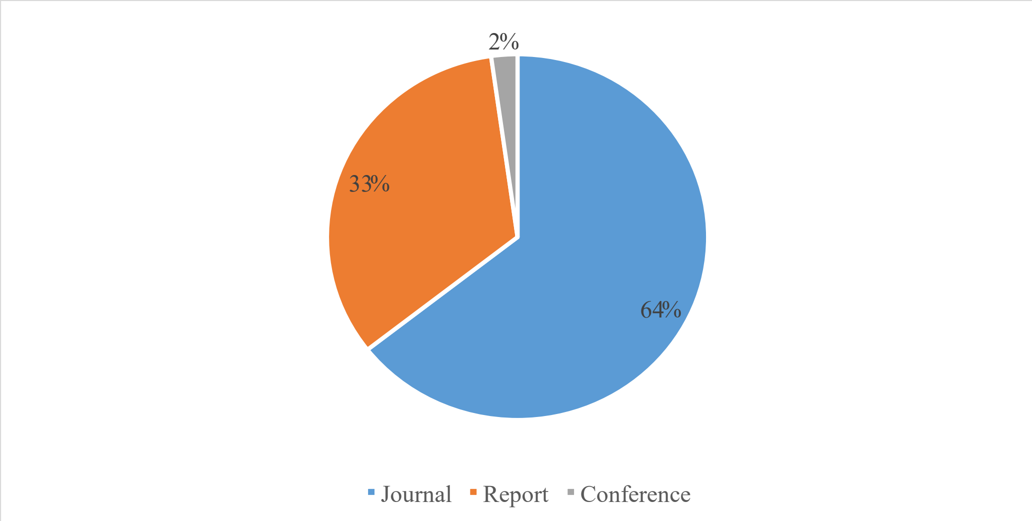


Figure 5: Evidence Paper Split, created by author

The journal articles included in the evidence review, they can be largely divided into six key areas, in terms of the journals the articles can be found in. These areas are economics, energy, insurance, management, marketing and the services industry. As indicated in Figure 6 below, the category with the largest number of papers at 38% of the sample is marketing. This is not unexpected as much of the literature which considers passive customers and engagement interventions is centred around marketing initiatives. Articles in service industry based journal are the second most common at 21%, followed by economics and management in joint third at 14%. Areas which have the lowest proportion of papers are energy and insurance. This provides an indication of the areas which are perhaps considering the case of passive customers and may be assessing how to account for it.

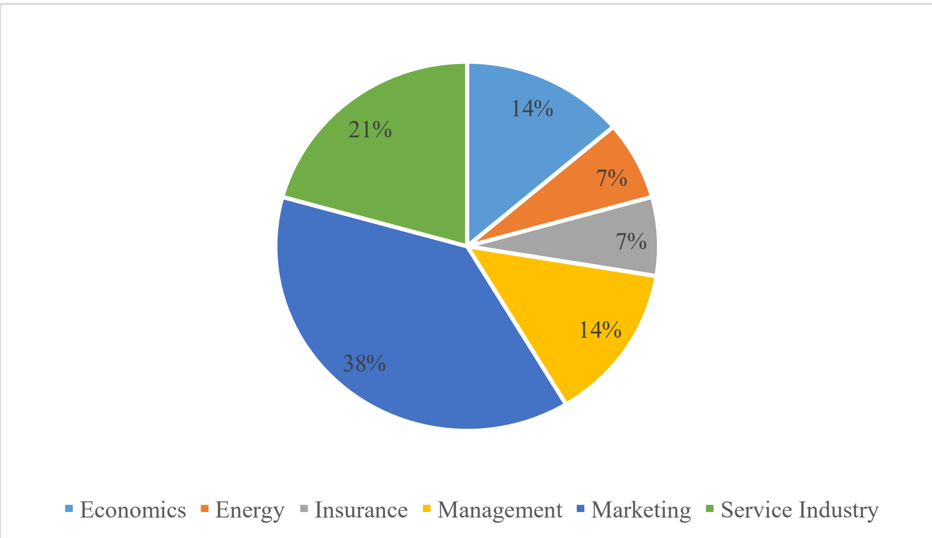


Figure 6: Subjective Areas Evidence was Found in, Created by Author

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