

Alliance for consumer education event – 23 November 2006

Keynote speech

John Fingleton, Chief Executive, Office of Fair Trading

Good morning everybody. I am going to share a few personal thoughts with you this morning about consumer education, where it fits in to the OFT's work, our long-term agenda and why I think an event like this is so important in terms of achieving our collective objectives. Before I do that I am going to talk about the Alliance and how it is doing, and firstly welcome everybody here today. We have representatives from consumer groups, Local Authority Trading Standards Services (TSS), academia, industry and government. I think those are the principal players in consumer education, and it is really important that we all come together.

The development of the Alliance

We have over 80 members in the Alliance at this stage. It has grown over the last year. Our Planning Group, building on last year's event, has begun to adopt a more strategic approach to what we do, trying to get a picture of what is happening currently on the ground and future development areas - where are the greatest opportunities for us to work together and have the biggest impact? So to do that, our academic colleagues and OFT staff have been thinking about the people who deliver the service on the ground and working with colleagues in industry. Bringing all these people together is hugely important. This event is a celebration of that, but also the event at which we refocus and think: what are we trying to achieve? What do we want to achieve in the next year? Let me put what we are doing in the slightly wider context of the OFT's agenda.

The wider context of the OFT's work

The OFT's mission rather grandly states that it is to make markets work well for consumers. We are both a competition and a consumer agency. You can think about the competition side as being the supply. Does it provide choice for consumers? Does it provide quality? Does it provide good prices? The consumer side is about informed consumers making choices that are in their own interest. The two work together. Well informed consumers, making choices that are in their interest, drives competition in the market place. We all know that if consumers respond to lower prices from certain airlines, that drives airlines to get prices lower. Similarly, if consumers want to fly to a particular airport, airlines will be rewarded for starting up services at that airport. So, it is important that we have informed consumers that

activate competition and make the market process work. However, lots of markets are not functioning well.

Sometimes the problem in the market is on the supply side - a monopoly, a cartel, a merger that is going to restrict competition and reduce consumer choice - and we have a set of instruments to deal with that. Work that we are currently doing includes a big market study on airports, and work looking at cartels and other monopoly problems in the economy.

But we also spend time thinking about how we can get the consumer side to work in tandem with the supply side, and what can go wrong. There are two elements to this. One is vulnerable consumers, and people can be vulnerable for lots of reasons. Sometimes, for example in the health care area, terminally ill consumers can be vulnerable and are susceptible to cure-all claims of bogus medicine products. That is a big area we see and that is one type of vulnerability. Another type of vulnerability is that consumers are not able to process information. We know from work that the FSA and others have done that about 28 per cent of consumers find it difficult to analyse basic percentages. Now, in many cases, those consumers will be protected by the activities of the other 80 or 70 per cent who make the markets work well. But in some cases they will not drive the market for the vulnerable consumers. That is why collectively, we and TSS, take scams so seriously, because they are usually targeted at particularly vulnerable consumers.

But vulnerability can be around many different areas. A good example, in the public domain now, is the Farepak situation where there are two separate issues. One is the customers who have lost out because of Farepak, but there is a wider issue about value for money for consumers in that market: why consumers who are often the poorest end up buying products of this kind, that are actually very poor value for money. Even if Farepak had not collapsed we should ask, was this a market that was working well for consumers? If not, what should we be doing about it? How do we reach those consumers? How do we educate them to make an informed choice that is going to be good for them? And how do we work with suppliers - credit unions or others - to provide better value products and help them get those to consumers?

It is not about us running the markets. We cannot be supplying the service itself. It is about us trying to influence the framework so that the market itself, in many cases, solves those problems. But it is not just vulnerable consumers that we need to worry about. Even sophisticated consumers need help with making choices in markets. We all suffer from information overload. Many of us are over-confident. You get the nice example of 80 or 90 per cent of people who think their driving is better

than average. But 100 per cent of us can not be better than average! If you ask people, 'Are you a sophisticated consumer? Are you well informed?' Most would say, 'Oh yeah. I'm in the top 50 per cent.' So we do suffer from over confidence.

We also suffer from myopia: we do not see things in the distance in the same proportionality that we do when we get closer to them. And we are very influenced by framing effects: if somebody says this medicine works well in 80 per cent of cases or it does not work well in 92 per cent, we process that information differently. This really matters to how we make choices in markets. Yesterday the OFT had a conference on competition and consumer issues in health care. The question was asked to Bill Kovacic, US Federal Trade Commissioner, should we be allowing direct advertising to consumers of prescription medicines? This is routinely done in the States. Bill said the key question is: is the advertising truthful? Is what is claimed for the particular prescription medicine what has been clinically shown to be true? And if so, advertising is allowed in the States. That has been the traditional view of the Federal Trade Commission. But now they have gone a step further and they are also asking how consumers process that information. When they see an ad for an antidepressant do they process that as meaning A, I need to talk to my doctor, B, this might help make me better, C, this will make me better? That is going to affect their behaviour and how they respond to it.

How consumers receive and process information has to be part of how we look at consumer education and the OFT will want to invest greater research resources in this area going forward: thinking about how consumers make choices, how they process the information that they receive. It is important in terms of vulnerable consumers, but also more sophisticated consumers who frequently are affected by the effects of framing and too much information. Of course, suppliers will try to exploit this. So, we need to think about how that happens to understand how markets work.

Consumer education in practice

Consumer education also has to relate to the individual consumer and to move away from a model that is a mass-market approach: here is a leaflet, here is a piece of information, and think about consumer education as a bespoke product - something that is handed to a particular consumer in a particular context. FSA, the OFT and other organisations have begun to think about how we can actually reach intermediaries - such as police officers or health workers, who are working in communities with people who have problems in other contexts - and work closely with them to get the message out.

The OFT's role in this needs to be as a wholesaler of information, providing the broad message - the authoritative information - but making that available to people who can deliver it as a bespoke product, integrated with other services being provided. In that way we are touching the experience of the individual consumer, and helping them to help themselves. We are also more likely, rather than giving people information, to give them skills: What questions should I ask? What are my rights? How do I learn from where I have been ripped off in the past? With scams, it is not enough to tell somebody, 'This was a scam', because a lot of people taken in by scams know that! You point it out and they still go and do it. So how do we help people learn the right skills to see that?

Our approach – and this is why this event is so important – is to work with a whole set of stakeholders and partners in delivering this agenda for consumers in the economy. All of this work is becoming more important. The way government policy is moving is towards encouraging consumers to make choices in ever more difficult areas, like financial services, health and education. Yesterday we were discussing how people make choices in health care, how people choose a GP or hospital, what information they go on. There was interesting research published on what medical professionals themselves choose. They are informed consumers and it was not clear why even they were choosing particular health services. So we have a long way to go. On the other hand, the organisations and individuals who are interested [in how consumers make choices] are growing. There are huge benefits to be delivered from doing that together. So going forward, we at the OFT are focusing not so much on outputs – doing this number of investigations, this number of studies – but on outcomes: how is business behaviour changing, how is consumer behaviour changing, how is government behaviour changing? And in terms of achieving those outcomes, working together with the Alliance and many others is a key part of our work. In that way we will achieve good results for consumers in the economy as a whole, and consumer education is one of the instruments that we need to work with.

Of course, we can do a lot on the competition enforcement side, but ultimately the success of that work is going to be greater if we get consumer education working in tandem. So today's workshops focus on building our network, our practical skills, our expertise, and working together to deliver that common purpose for consumers.

Thank you very much.

Facilitator: John, you mentioned bespoke products for consumer education rather than one-size-fits-all. Do you think the private sector will have a bigger part to play in that role alongside public sector organisations?

John Fingleton: Yes. I think we already work very closely with our private sector partners, and many private sector organisations – for example, the banks – invest a huge amount in education on financial literacy in schools. Many other sectors similarly are putting a lot in to developing consumer education, so I do think we need to work with our colleagues in industry in delivering those services. Intermediaries - in the sense of people who provide advice, even people like travel agents - can play very useful roles as well, because people are making a purchasing decision at that time. I find when I go to a travel agent – of course, the travel agent business has changed, a lot of us book online – there are more choices in the market than I am aware of on the internet, and I have to pay a fee for that, I know, but at least I know that I am buying some information there. So I think there is a lot of possibility for working with industry and suppliers to improve consumer education.

Facilitator: And finally, this is the second gathering of Alliance members. What would you like everybody to get out of today's event?

John Fingleton: Last year I think we agreed that we needed to be much more strategic in where we focused, and the Planning Group - I met you in June at a meeting where we were discussing best practice, trying to learn - had a really interesting presentation on the various levels of depth of consumer education and was trying to get all of us up the learning curve to the highest level, evaluating what we do and working together in a co-ordinated way. So I think today is the day for looking at what we have achieved over the last year and developing that strategic approach, seeing how we want to take it forward, working out where the opportunities for having an impact are greatest and together co-ordinating around that.