

# **Assessing the wider benefits from OFT's work: Evidence on consumer confidence**

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## **Assessing the wider benefits of the OFT's work**

### **Evidence on consumer confidence**

#### **Executive Summary**

OFT has a target with HM Treasury to demonstrate how it delivers wider benefits to consumers in the form of deterrence of anti-competitive behaviour and increasing consumer confidence. This paper focuses on the evidence available on consumer confidence, building on both research on wider indicators (undertaken mainly by BIS or EC) and OFT evaluations on the effects of specific OFT activities.

Consumer confidence is defined firstly, as the direct effect on consumer behaviour resulting from an increase in awareness and knowledge of consumer and/or competition regulation and enforcement. Secondly, consumer confidence is the product of business behaviour in markets and the wider regulatory and legal environment within which OFT operates. It follows that consumers are likely to be indirectly empowered as a result of OFT actions to improve markets. Such actions deliver better outcomes for consumers, raising confidence and positive expectations in future transactions.

There are a number of indicators worthy of consideration to form a view of OFT's effect on consumer confidence. These indicators track changes in consumer awareness and behaviour, enabling comparisons to be made across countries. The indicators considered are: Consumer rights; Consumer complaints and redress mechanisms, Information provision and Switching. A variety of OFT activities have positively influenced those indicators and, by implication, consumer confidence, providing evidence on the wider benefits of OFT work.

The following highlights key findings for each indicator relevant to consumer confidence:

- **Consumer rights:** Consumer rights in the UK are comparable with the best, giving consumers confidence to participate in markets. However, there is diversity between markets and recognition that regulations can be complex for consumers to interpret. **Skilled to Go** is an example of an OFT initiative designed to build consumers' knowledge of their rights (with learners demonstrating a 13 per cent increase in knowledge levels when tested).
- **Consumer complaints and redress:** There is mixed evidence on complaints and redress mechanisms. Although the EC Scoreboard consistently ranks the UK in the top four of all EU member states, research by BERR suggests the UK has more work to do in terms of redress mechanisms. Access to independent redress is an important feature of the OFT's Consumer Code Approval Scheme (CCAS). OFT's **CCAS evaluation** reports consumers buying from code members in the carpet sector had greater confidence that they had been treated fairly by their supplier (scoring CCAS members 8.6 on a 1-10 scale, versus 7.9 for non-members).
- **Information provision:** The provision of information in the UK is on a par with the best, with Citizens Advice Bureau (CAB) and Consumer Direct (CD) offering sound information and advice to consumers (with the latter also recognised as a valuable data source for Trading Standards Services). There are many examples of OFT improving information provision in particular markets. OFT **Car Warranties and Save Xmas evaluations** highlight how targeted information helps consumers make informed decisions to their advantage. Likewise, the

introduction of point of sale information and cooling off periods in the **extended warranty market** led to more consumers comparing offers (four per cent in 2002, 15 per cent in 2008) and fewer purchasing from the point-of-sale providers (82 per cent in 2002, 68 per cent in 2008), delivering financial benefits to consumers.

- **Switching:** The ease and ability of consumers to switch depends on market characteristics. Encouragingly, evidence suggests UK consumers switch providers much more often than their EU counterparts: one in four UK consumers switched providers in the past two years (compares with EU average of one in seven). OFT's **internet shopping** market monitoring exercise highlights greater consumer knowledge of cancellation rights and increased use of comparison websites with the potential to facilitate greater shopping around between suppliers.

To conclude, this paper does not claim causality but instead assesses the available evidence to form a view on whether key indicators of consumer confidence are moving in the right direction, particularly in markets where the OFT has intervened. Overall, the UK performs well on consumer rights, information provision and switching indicators, with OFT activities positively influencing consumer confidence in specific areas. There is potential to monitor those indicators and thus observe changes to consumer confidence over time.

## Introduction

1. In addition to measuring direct benefits to consumers,<sup>1</sup> the OFT is committed to estimating the wider benefits of its work.<sup>2</sup> In 2007, the OFT published research on the deterrent effect of the merger regime and competition enforcement.<sup>3</sup> This paper further develops the wider benefits evidence base through considering the OFT's impact on consumer confidence.
2. The OFT's mission is to make markets work well for consumers. One way of achieving this goal is to empower consumers to become more confident in participating in markets. Consumers are likely to be empowered in a variety of ways, either directly, for instance through awareness raising campaigns or the provision of advice and support (such as Consumer Direct), or indirectly, by OFT intervening where appropriate to improve business behaviour when outcomes are less than optimal for consumers and other fair dealing businesses. Confident consumers are more likely to know their rights, be more willing to hold suppliers to account and seek the best deal by shopping around between suppliers. This behaviour in turn encourages competition. Consumer confidence in markets is therefore central to making markets work well, delivering better outcomes for consumers and the economy generally.

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<sup>1</sup> The OFT has two high-level performance targets agreed with HM Treasury. Target A is to deliver direct financial benefits to consumers of at least five times its cost to the taxpayer. The Positive Impact Report published in July 2009 reports benefits of 8:1. For more information see: [www.of.gov.uk/shared\\_of/reports/Evaluating-OFTs-work/oft1007.pdf](http://www.of.gov.uk/shared_of/reports/Evaluating-OFTs-work/oft1007.pdf)

<sup>2</sup> The second performance target (Target B) comprises a commitment in each annual report to estimate the additional wider benefits of the OFT's work, for example, increasing consumer and business confidence in markets and deterring future anti-competitive behaviour.

<sup>3</sup> *The Deterrent Effect of Competition Enforcement by the OFT*, November 2007, OFT report 962, available at [www.of.gov.uk/shared\\_of/reports/Evaluating-OFTs-work/oft962.pdf](http://www.of.gov.uk/shared_of/reports/Evaluating-OFTs-work/oft962.pdf)

3. This paper firstly defines consumer confidence for the purposes of this evidence review. Secondly, it considers relevant indicators that, if monitored over time, may help form a view on the OFT's effect on consumer confidence. Thirdly, the paper looks at recent OFT actions and the impact these may have had on the key indicators and, by implication, consumer confidence.

### **Defining consumer confidence**

4. Consumer confidence is an ambiguous concept and can be interpreted in different ways. This makes defining and measuring it a difficult task. For example, it is often used to describe confidence in the economy as a whole, with consumer confidence during an economic downturn described as low, reflecting the contraction in consumer spending during such periods.
5. A more focused definition is required, however, for examining the OFT's impact on consumer confidence and this paper proposes the following:

Consumer confidence is defined firstly, as the direct effect on consumer behaviour resulting from an increase in awareness and knowledge of consumer and/or competition regulation and enforcement. Secondly, consumer confidence is the product of business behaviour in markets and the wider regulatory and legal environment within which OFT operates. It follows that consumers are likely to be indirectly empowered as a result of OFT actions to improve

markets. Such actions deliver better outcomes for consumers, raising confidence and positive expectations in future transactions.

6. In practice, the effects on consumer behaviour that we would expect from a change in consumer confidence would be a change in participation in a market or switching behaviour. In this paper we are, therefore, only interested in effects on consumer confidence insofar as the economic behaviour of consumers is also affected. Whilst in practice there are many factors exerting an influence on consumer confidence, the examples presented in this paper are specifically illustrative of how the OFT's work affects consumer confidence.

### **Estimating Consumer Confidence: Key Indicators and OFT Interventions**

7. There are several indicators that are worthy of consideration and further monitoring to form a view of OFT's effect on consumer confidence. These indicators track changes in consumer awareness and behaviour at a relatively high level, enabling comparisons to be made across countries. The indicators considered here are:
  - consumer rights
  - consumer complaints and redress mechanisms
  - information provision
  - switching.
8. Evidence on these indicators and the OFT's impact on them is drawn from a variety of sources, including the following:

- Externally commissioned OFT evaluations and economic research: This includes 2008 Consumer Detriment Research, Consumer Direct complaints data and a range of studies undertaken as part of the OFT's evaluation programme that assess the impact of OFT actions in particular markets.
- *The European Commission's Consumer Markets Scoreboard (first<sup>4</sup> and second<sup>5</sup> editions)*: The Scoreboard investigates markets from a consumer perspective across EU member states, presenting evidence on indicators such as complaints, prices, satisfaction and switching. The Scoreboard offers an opportunity to monitor such indicators over time.
- *BERR's Report on Benchmarking the performance of the UK framework supporting consumer empowerment (produced by UEA)*.<sup>6</sup> This one off study undertaken in 2008 benchmarks the performance of the UK framework with a range of other comparator countries, including Australia, Canada, Germany, Spain and USA.
- *BERR's Consumer Conditions Survey*.<sup>7</sup> This study examines consumer conditions in a variety of UK markets. The survey approach that underpins this study is currently being replicated by

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<sup>4</sup> European Commission (2008) *The Consumer Markets Scoreboard: Monitoring Consumer Outcomes in the Single Market*.

<sup>5</sup> European Commission (2009) *The Consumer Markets Scoreboard: Second Edition*. Unless otherwise stated, findings are presented from the second scoreboard. Not all questions from the first Scoreboard have been repeated or presented in the same way in the second scoreboard so comparisons made in this paper are limited.

<sup>6</sup> BERR (now BIS) (2008) *Benchmarking the Performance of the UK Framework Supporting Consumer Empowerment Through Comparison Against Relevant International Comparator Countries*, prepared by the ESRC Centre for Competition Policy, University of East Anglia.

<sup>7</sup> BERR (now BIS) (2008) *Consumer Conditions Survey*, prepared by Ipsos MORI. A 2009 edition of the Consumer Conditions Survey will be published shortly by Consumer Focus.

Consumer Focus, allowing sector performance to be monitored over time.

9. We examine each indicator in turn, drawing on evidence provided by these different sources to assess the level of consumer confidence in the UK, while considering findings from a range of recent evaluations of OFT interventions and the impact these may have had on those indicators of consumer confidence.

### **Consumers Rights**

Consumer rights in the UK are seen as comparable to the best,<sup>8</sup> giving consumers confidence to participate in markets in the knowledge that their rights are protected. However, there is evidence of some diversity between markets and recognition that regulations can be complex for consumers to interpret in practice. Nevertheless, enforcement of consumer law has the potential to change supplier behaviour and thereby deliver better outcomes for consumers, with implications for improving confidence and expectations of fairness in transactions.

10. The EC Scoreboard highlights British consumers are more confident that their rights are protected than EU consumers as a whole (although confidence is slightly lower than in 2006). Two out of three UK consumers feel adequately protected by existing measures and trust public authorities to protect their rights (66 per cent and 67 per cent respectively - second edition). This compares with 51 per cent and 54 per cent for the EU-27 country average analysed by the

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<sup>8</sup> BERR (now BIS) (2008) *Benchmarking the Performance of the UK Framework Supporting Consumer Empowerment Through Comparison Against Relevant International Comparator Countries*, prepared by the ESRC Centre for Competition Policy, University of East Anglia.

European Commission. Over three-quarters of UK consumers (77 per cent) also trust sellers and providers to respect their rights (compares with EU-27 average of 59 per cent).

11. BERR's benchmarking study suggests that 'the UK is on par with the best in terms of the extent and context of consumers' rights'. It notes, however, that the regulatory environment is still too complex, with the implication being that rights may be inaccessible to some consumers, particularly vulnerable groups.<sup>9</sup> However, even if the legislation is too complex, if consumers are aware that they do have rights this may be enough to instil confidence in them to increase participation in markets. As the report states, it is unrealistic to expect consumers to know the full extent and nature of their rights.<sup>10</sup>
12. The OFT has taken steps to clarify consumer legislation in particular markets with the aim of making it clearer and more accessible to consumers. For instance, the Consumer Direct 'Know Your Consumer Rights' Campaign is one example of clear information and guidance being provided for consumers on their legal rights when purchasing goods or services, covering both before and after purchase.
13. The enforcement of consumer and competition law also has the ability to change business behaviour directly, as well as deterring competitor businesses from similar infringements. Such enforcement activity delivers better outcomes for consumers in particular markets and

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<sup>9</sup> BERR's 'Benchmarking' report notes a range of factors that may result in a consumer being identified as 'vulnerable'. These are: age; income; physical/mental disability; level of literacy; and some cultural characteristics, such as language and ethnicity'. Pg 52

<sup>10</sup>With Unfair Terms in Consumer Contracts Regulations (UTCCRs) for example, it is likely that consumers will often not read the small print within contracts until they experience a specific problem. See OFT (2009) Evaluation of a sample of Consumer Enforcement Cases: OFT 1139.

indirectly improves confidence, even if consumers are unaware of the legislation that is protecting them. Competitive pressure within markets often result in firms offering rights above the legal minimum, with a view to preserving their reputation as fair dealing businesses and building trust as a means of securing repeat custom.<sup>11</sup>

14. Whilst the UK scores well in relation to consumers' rights as highlighted in the previous two studies, there is still some work to be done to improve consumer confidence in particular markets. BERR's Consumer Conditions report highlights differences in consumer perceptions of markets. As Table 1 illustrates, some markets score highly on the Consumer Confidence Index for 'protecting consumers' rights', including clothing and footwear markets. Other markets perform less well, including the used vehicle, vehicle repair/servicing and estate agent markets. Interestingly, some of these are markets that the OFT has been involved in recently as part of its broad remit, including through undertaking market studies and introducing the Consumer Codes Approval Scheme.<sup>12</sup>

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<sup>11</sup> Trust in Markets event synopsis: see [www.offt.gov.uk/news/events1/markets/proceedings](http://www.offt.gov.uk/news/events1/markets/proceedings)

<sup>12</sup> For more information on Consumer Codes Approval Scheme see [www.offt.gov.uk/news/campaigns/consumercode](http://www.offt.gov.uk/news/campaigns/consumercode)

Table 1: BERR Consumer Conditions Report ratings on 'Protecting Consumers' Rights'

<b>Markets achieving higher ratings</b> Mean scores of 70 to 76	<b>Markets achieving middling ratings</b> Mean scores of 64 to 69	<b>Markets achieving lower ratings</b> Mean scores of 51 to 62
Chemist, pharmaceutical or medical products (76)*	Car or vehicle insurance (69)*	Mortgages (62)*
Clothing or footwear goods*	Personal computers/ software*	Air travel/ plane flights*
Books, newspapers or magazines*	Floor coverings*	Professional services
Garden equipment/ plants	Vets goods or services	Telephone services, fixed line
CDs, videos, DVDs, video games	New vehicles*	Mobile phone network services
Jewellery, silverware, clocks and watches*	Furniture or furnishings*	Vehicle repairs/ servicing*
Small domestic appliances*	Home insurance	Used vehicles*
Food or drink for consumption at home	Betting, gambling, competitions, prize draws, lotteries	Private sector renting
Toys/ games*	Home improvement products	Internet service providers
Hotel or other holiday accommodation in the UK	Personal banking*	Private pension plans
TVs, DVD or MP3 players	TV service providers	Estate agents*/ house purchase services
Toiletries, perfumes, beauty products	Hire purchase, loans or credit* (64)	Home maintenance services
Sports/ hobbies goods/ services		Gas/ electricity
Hairdressing, barbers or beauty treatments		Petrol, diesel or oil (51)
Booking holidays		
Large domestic appliances*		
Bicycles/ repairs		
Drinking/ eating out at pubs, restaurants, cafes, bars		
DIY materials or hardware (70)		

Source: BERR Consumer Conditions Survey, June 2008

Notes: \*These are markets where the OFT has intervened in recent years (see Annex for details). The OFT's mission is to ensure markets work well for consumers and it has a range of tools at its disposal to achieve this goal. This includes tools to enforce competition and consumer regulations, as well as non-enforcement tools, such as providing guidance to consumers and encouraging business-to-consumer codes of practice. Some markets have been the subject of an OFT market study, with the aim of examining how a particular market works in practice, with recommendations made where appropriate to aid competition. Recent market studies include personal banking, new car warranties and the distribution of medicines in the UK.

15. One example of a specific intervention by the OFT designed to develop knowledge on rights amongst more vulnerable consumers is Skilled to Go.

**Skilled to Go** is an OFT consumer education initiative designed to build confidence through increasing consumer's knowledge of their rights whilst simultaneously developing skill levels.<sup>13</sup> A recent evaluation of the pilot phase found the Skilled to Go toolkit effective in improving consumer's confidence and knowledge of their rights.<sup>14</sup>

After participating in the programme, 64 per cent of learners felt confident in knowing their consumer rights (compared with 20 per cent at the start of the course). When tested, learners demonstrated a 13 per cent increase in their

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<sup>13</sup>The toolkit comprises of 3 modules, which aim to develop participants' consumer skills, knowledge and confidence, together with related literacy language and numeracy skills. For more information on Skilled to go see [www.oft.gov.uk/oft\\_at\\_work/partnership\\_working/consumer-alliance/resources/toolkitfront](http://www.oft.gov.uk/oft_at_work/partnership_working/consumer-alliance/resources/toolkitfront)

<sup>14</sup> *Skilled To Go Evaluation*, January 2009, OFT report 1040, available at [www.oft.gov.uk/shared\\_of/consumer\\_education/oft1040.pdf](http://www.oft.gov.uk/shared_of/consumer_education/oft1040.pdf)

knowledge levels. There was also an increase (from 23 per cent to 52 per cent) in how confident the learners felt in finding out about rights for a particular consumer issue.

Since its launch in June 2008 around half of UK further education institutions have registered to access Skilled to Go learning resources (some 4,500 FE teachers). Over 250 primary and secondary schools have also registered to access resources.

### **Consumer complaints and redress mechanisms**

Understanding levels of consumer detriment in markets and consumer complaining behaviour is important for helping OFT proactively target markets to build trust and confidence. There is mixed evidence on the UK's performance in terms of complaints and redress mechanisms. Although the EC Scoreboard consistently ranks the UK in the top four of all EU member states, BERR's benchmarking research suggests the UK has more work to do to be on a par with the best regarding redress mechanisms.

16. When looking across EU countries, there is mixed evidence on the UK's performance in relation to consumer complaints and redress mechanisms. The second EC Scoreboard found that 24 per cent of UK survey respondents reported making a complaint in the previous 12 months (compares with 22 per cent in the first scoreboard - ranking the UK third in both scoreboards). There is a need for care, however, in interpreting complaint figures as whilst a high number may indicate confidence in seeking redress, a low number does not necessarily mean that consumers are not confident, it may just be a result of high consumer satisfaction in a market.

17. Understanding where consumers are experiencing the most problems and incurring the greatest losses is central to OFT proactively targeting markets that are not working well to build trust and confidence. OFT Consumer Detriment research assessed the complaining behaviour of consumers in different markets.<sup>15</sup> The report found that on average, the highest level of financial detriment occurred in the insurance sector, followed by home maintenance and improvement and personal banking sectors.<sup>16</sup>
18. Consumer Direct data illustrates that the number of complaints received varies by market. The top five most complained about goods and services were second hand cars and mobile phones (service agreements and hardware), TVs and car servicing and repair from independent garages.<sup>17</sup> There is some overlap with the Consumer Conditions survey which examines total complaints across markets.<sup>18</sup> As Table 2 highlights, markets with higher levels of total complaints include internet service providers, TV service providers, mobile phone network services, as well as vehicle repair and servicing.

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<sup>15</sup> *Consumer detriment: Assessing the frequency and impact of consumer problems with goods and services*, April 2008, Oft report 992 Available at [www.of.gov.uk/shared\\_of/reports/consumer\\_protection/oft992.pdf](http://www.of.gov.uk/shared_of/reports/consumer_protection/oft992.pdf)

<sup>16</sup> It should be noted that OFT's role as regulator varies across markets.

<sup>17</sup> Consumer Direct Press Release, January 2009, available at [www.consumerdirect.gov.uk/news/press\\_releases/national/2009/toptencomplaints2008](http://www.consumerdirect.gov.uk/news/press_releases/national/2009/toptencomplaints2008)

<sup>18</sup> 'Total complaints' is derived from a combination of consumers who actually made a complaint, plus those who felt they had cause to complain (in the past year or two).

Table 2: BERR Consumer Conditions Report ratings on 'Total Complaints'

<b>Markets with a lower level of total complaints (6% to 15%)</b>	<b>Markets with an 'average' level of total complaints (18% to 21%)</b>	<b>Markets with a higher level of total complaints (23% to 39%)</b>
Betting, gambling, competitions, prize draws, lotteries (6%)	Hire purchase, loans or credit (18%)	Food or drink for consumption at home (23%)
Toiletries, perfumes, beauty products	Used vehicles	Professional services
Chemist, pharmaceutical or medical products	Hotel or other holiday accommodation in the UK	Personal banking
Books, newspapers or magazines	Large domestic appliances	Vehicle repairs/ servicing
Private pension plans	TVs, DVD or MP3 players	Estate agents/ house purchase services
Home insurance	Clothing or footwear goods	Personal computers/ software
Hairdressing, barbers or beauty treatments	DIY materials or hardware	Home maintenance services
Car or vehicle insurance	New vehicles	Gas/ electricity
Garden equipment/ plants	Small domestic appliances	Telephone services, fixed line
Vets goods or services	Air travel/ plane flights	Home improvement products
Floor coverings	Furniture or furnishings (21%)	Private sector renting
Jewellery, silverware, clocks and watches		TV service providers
Petrol, diesel or oil		Mobile phone network services
Mortgages		Drinking/ eating out at pubs, restaurants, cafes, bars
Bicycles/repairs		Internet service providers (39%)
Toys/games		
CDs, videos, DVDs, video games		
Booking holidays		
Sports/hobbies goods/services (15%)		

19. The OFT has been involved in some of these markets with a view to improving service standards and providing access to redress mechanisms should consumers experience a problem.<sup>19</sup>
20. Enforcing consumer protection law is an important part of the OFT's enforcement activities where consumers are found to be experiencing harm. Findings from an OFT **Evaluation of a sample of consumer enforcement cases**<sup>20</sup> suggest that OFT interventions deliver positive benefits for consumers. The overall estimated yearly benefit figure of £243 million compares very favourably with estimated costs to the OFT of £2.4 million. The evaluation highlighted that OFT cases may often raise consumer confidence and as such result in fewer consumers being deterred from complaining. Indeed, some of the interventions considered in this evaluation delivered financial benefits through making consumers more confident and determined to seek redress – reducing the occurrence of deterred complaints (with improved confidence accounting for 19 per cent of the overall yearly benefits estimated by London Economics).

The OFT's intervention on **Section 75** of the Consumer Credit Act 1974 aimed to clarify a point of law regarding liability for redress when consumers used their credit cards to make overseas transactions. Section 75 states that creditors involved in a debtor-creditor-supplier agreement are jointly and severally liable with the supplier to the debtor for transactions made under that agreement of items priced between £100 and £30,000. The OFT intervention sought to clarify that consumer rights under Section 75 apply equally to overseas purchases as to domestic purchases.

<sup>19</sup> For example vehicle repairs/servicing and estate agents are either working towards accreditation or have received accreditation to operate an OFT- approved Consumer Code of Practice. For more information please see [www.of.gov.uk/advice\\_and\\_resources/resource\\_base/approved-codes](http://www.of.gov.uk/advice_and_resources/resource_base/approved-codes)

<sup>20</sup> *Evaluation of a sample of Consumer Enforcement Cases*, by London Economics: OFT1139.

The evaluation of this intervention found that, as a result of the clarification of the law, UK consumers saved approximately £99 million in 2008 alone. According to London Economics, who carried out the independent evaluation, 46 per cent of this was due to improved consumer confidence that had led to fewer deterred complaints.

21. Redress is an important indicator to consider when assessing consumer confidence. Consumers are likely to feel confident when participating in markets if there are systems in place through which they can resolve problems should anything go wrong. 2009 OFT research on the economics of self regulation suggests that the enforcement of consumer law can improve consumer confidence by enabling consumers who have had bad experiences to seek redress through the courts.<sup>21</sup> Of course, this is not always a straightforward process in practice and if consumers are unsuccessful the consequence could be a reduction in confidence, with the potential to result in reduced participation in that market, and perhaps other markets.
  
22. When it comes to resolving disputes with sellers through arbitration, mediation or conciliation and through the courts, the first EC Scoreboard ranks the UK in the top four out of the 25 member states considered. Likewise, the second scoreboard suggests British consumers perceive it to be relatively easy to resolve disputes with sellers and providers through Alternative Dispute Resolution (ADR)<sup>22</sup> mechanisms (52 per cent) and courts (40 per cent), with both

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<sup>21</sup> The economics of self regulation in solving consumer quality issues, March 2009, OFT report 1059, available at [www.of.gov.uk/shared\\_of/economic\\_research/oft1059.pdf](http://www.of.gov.uk/shared_of/economic_research/oft1059.pdf), pg 34

<sup>22</sup> ADR is the collective term for the ways that parties can settle civil disputes, with the help of an independent third party and without the need for a formal court hearing. ADR includes arbitration, mediation and conciliation.

percentages being above the EU-27 average. In contrast, BERR's benchmarking report suggests the UK has more work to do to be on a par with the best regarding redress mechanisms. In particular, it considers that the provision of ADR needs to be improved.

23. The OFT has been working with industry bodies to improve redress mechanisms in many sectors, for example by encouraging businesses to sign up to an OFT Consumer Code Approval Scheme (CCAS). CCAS is designed to raise service standards and provide signals to consumers in markets where quality may be difficult to observe. In addition, CCAS provides consumers with mechanisms to complain should they experience a problem.

The OFT's **Consumer Codes Approval Scheme (CCAS)**<sup>23</sup> aims to promote and protect consumers' interest and build confidence in markets by helping them identify businesses with higher standards of customer care. CCAS is designed to offer a structured and developed approach to customer service and satisfaction, including speedy redress procedures for handling consumer complaints.

Emerging evaluation findings into the impact of CCAS in the carpet market is that it is effective in raising consumer confidence.<sup>24</sup> In this market, evidence suggests that consumers buying from code members had greater confidence and satisfaction with their purchasing experience.

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<sup>23</sup> For more information on Consumer Codes Approval Scheme see [www.of.gov.uk/news/campaigns/consumercode](http://www.of.gov.uk/news/campaigns/consumercode)

<sup>24</sup> *An evaluation of the impact of CCAS on consumers*, forthcoming OFT Publication.

Consumers buying from code members were more likely to say that their carpet purchase lived up to their expectations (scoring CCAS members 8.3 on a 1-10 scale, versus 7.8 for non members). Those using member businesses also had greater confidence that they had been treated fairly by their supplier (8.6 for members versus 7.9 for those who had purchased from non-members).

Most consumers agreed that the carpet they purchased represented good value for money, but member business customers were more likely to strongly agree and also recommend their supplier to others.

### **Information Provision**

The provision of information in the UK is on a par with the best, with Citizens Advice Bureau (CAB) and Consumer Direct offering sound information and advice to consumers. Some products and transactions, however, are inherently complex, presenting challenges to consumers which may suggest more needs to be done to improve information provision in particular markets.

24. The provision of information and advice to consumers is an important means of increasing consumers' confidence in markets as it is likely that an informed consumer is better able to make well reasoned choices in the marketplace. Information provision is only valuable in increasing consumer confidence if the information is useful and helps to inform consumers when making decisions.
25. BERR's Benchmarking report highlights that the provision of information is a key part of an effective consumer empowerment regime. However, there may be issues relating to the amount of

information provided and the way that it is disseminated. The Benchmarking report states that the over-provision of information may be harmful to consumers. When too much information is presented this may have the effect of obscuring key information needed to make an informed decision. A recent evaluation of OFT Consumer Credit Interventions found that consumers, when presented with a large amount of complex information within credit product advertising, may find it difficult to correctly interpret the information and use it to make an informed decision – although there was also evidence pointing to the value of terms such as ‘APR’ for providing signals to consumers within complex products.<sup>25</sup> Such findings are consistent with BERR’s research.<sup>26</sup>

26. BERR’s Benchmarking report concludes that the UK’s system for consumer information and advice, including Consumer Direct and the Citizens Advice Bureau network, is on a par with the best. These two services are recognised for offering sound information and advice to consumers, enabling them to feel confident about their rights and make informed decisions. One of the key reasons for this is the face to face nature of the Citizens Advice Bureau network and the telephone service offered by Consumer Direct, which are also thought to particularly help vulnerable consumers. CD’s value as a data source is also recognised in recent research with Trading Standards Services.<sup>27</sup>
  
27. Consumer Direct received over 1.6 million calls in 2008. Its quarterly customer satisfaction surveys illustrate the value consumers place on

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<sup>25</sup> [www.of.gov.uk/shared\\_of/reports/Evaluating-OFTs-work/oft1091.pdf](http://www.of.gov.uk/shared_of/reports/Evaluating-OFTs-work/oft1091.pdf)

<sup>26</sup> BERR (now BIS) (2007) *Warning: Too Much Information Can Harm*, Prepared by the Better Regulation Executive

<sup>27</sup> OFT (2007) Usage and efficacy of the CD database for TSS. OFT 871.

using the service and receiving advice on particular issues. A recent satisfaction survey found that 48 per cent of respondents felt more confident in dealing with consumer issues since using consumer direct (while 47 per cent felt as confident).<sup>28</sup> This supports findings from BERR's benchmarking report and highlights the value of well functioning systems for providing information and advice to consumers.

28. The EC Scoreboard did not look at information provision in the same way as the benchmarking report by BERR. The EC Scoreboard assessed how easy it was to compare products in a number of specific markets rather than the provision of information and advice to consumers by central bodies. The evidence suggests that there is diversity among markets, with some markets providing sufficient information to consumers and others that do not. This may reflect the type of products within given markets, for example, some products are inherently complex like mortgages and private pension plans and so the information provided about them may be equally complex and inaccessible to some consumers.
  
29. Table 3 below shows the ratings given in the Consumer Conditions Survey to different markets on the ease of comparing range and choice of products. This should give an indicative view of the level of information provision in different markets to enable comparisons of range and choice to take place. It is interesting to note that the OFT have been involved in markets across categories.

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<sup>28</sup> *Consumer Direct satisfaction survey, Wave 10.*

Table 3: BERR Consumer Conditions Report ratings on Comparing Range and Choice

<b>Markets achieving higher ratings</b>	<b>Markets achieving middling ratings</b>	<b>Markets achieving lower ratings</b>
Mean scores of 82 to 88	Mean scores of 76 to 81	Mean scores of 58 to 73
Toiletries, perfumes, beauty products (88)	Mobile phone network services (81)	Personal banking (73) *
CDs, videos, DVDs, video games	Betting, gambling, competitions, prize draws, lotteries	Professional services
New vehicles *	Hire purchase, loans or credit *	Home maintenance services
TVs, DVD or MP3 players	Home improvement products	Vehicle repairs/ servicing *
Booking holidays	Drinking/ eating out at pubs, restaurants, cafes, bars	Private pension plans
Books, newspapers or magazines *	Home insurance	Mortgages *
Toys/ games *	Hairdressing, barbers or beauty treatments	Vets goods or services
Jewellery, silverware, clocks and watches *	Chemist, pharmaceutical or medical products *	Telephone services, fixed line
Small domestic appliances *	Furniture or furnishings *	Estate agents*/ house purchase services
Garden equipment/ plants	DIY materials or hardware	TV service providers
Clothing or footwear goods *	Air travel/ plane flights *	Gas/ electricity
Food or drink for consumption at home	Internet service providers	Private sector renting
Car or vehicle insurance	Bicycles/ repairs (76)	Petrol, diesel or oil (58)
Large domestic appliances *		
Floor coverings *		
Personal computers/ software *		
Hotel or other holiday accommodation in the UK		
Used vehicles *		
Sports/ hobbies goods/ services (82)		

Note: \* indicates markets where the OFT has intervened in some way. Please see Annex for details.

30. The OFT regularly conducts information and awareness raising campaigns to help consumers make informed decisions. There are many examples of work in this area, such as the awareness campaign carried out as part of the car warranties market study. An independent evaluation of this market study and subsequent actions reported, amongst other things, that the OFT campaign had a positive impact on the market by improving consumer awareness and understanding of their servicing options. Consumers have benefited from these developments, with benefits for the awareness campaign alone estimated at £2million for consumers.<sup>29</sup> Another interesting example of where the provision of information has been used to address competition concerns is with the supply of extended warranties on Domestic Electrical Goods.

The OFT's 2008 evaluation of the ***Supply of Extended Warranties on Domestic Electrical Goods Order 2005*** highlights how information provision in markets can enable consumers to be better informed and lead to changes in consumer shopping behaviour. The 2005 Order sought to stimulate competition and empower consumers through the strengthening of consumer rights, including through the provision of information at the point of sale and the introduction of a 'cooling off' period to enable consumers to reflect on their purchasing decision.

Evaluation findings suggested consumer awareness and behaviour in the extended warranty market had improved since the implementation of the Order. Specifically, more consumers were comparing extended warranty offers (four per cent in 2002, 15 per cent in 2008), whilst fewer consumers were purchasing an extended warranty from the point-of-sale

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<sup>29</sup> *Evaluating the Impact of the Car Warranties Market Study*, June 2006, OFT report 852, available at [www.offt.gov.uk/shared\\_offt/about\\_offt/offt852.pdf](http://www.offt.gov.uk/shared_offt/about_offt/offt852.pdf).

(82 per cent in 2002, 68 per cent in 2008). About 70 per cent of consumers were also aware of their cancellation rights and some consumers were found to be using them.

31. Recently, the OFT has been actively involved in the savings market through its Save Xmas campaign designed to provide consumers with information on different savings options. In contrast, the OFT's Scams Awareness Campaign that also follows below shows how OFT may sometimes seek to challenge consumer overconfidence:

**Save Xmas** is an example of an OFT campaign that has raised consumer knowledge of and confidence in their savings options. The campaign was launched in response to the Farepak collapse, with the OFT working closely with CAB to deliver face-to-face training sessions to consumers to explain the pros and cons of different Christmas saving options, as well as wider issues around personal saving.

Evaluation findings highlight Save Xmas has had a major impact on people's confidence in their options and savings behaviour. nine in 10 people found the training useful and knew more about their savings options by the end of the session. Benefits from the training were found to be sustained over the longer term too. When contacted over one year later, nine in 10 respondents felt confident that they were now making the right decisions when it came to saving for Christmas, while 43 per cent reported making changes in how they saved since the training.

**Scams Awareness Campaign:** The OFT has also been involved in providing information to consumers with the objective of challenging overconfidence in relation to scams. A report published by the OFT found that overconfidence is a factor that contributes to consumers falling victims to Scams.<sup>30</sup> The OFT conducts an Annual Scams Awareness Month, which aims at increasing consumers knowledge and awareness of scams. The OFT recently published an evaluation of the 2009 scams awareness month, which found that consumer knowledge of work from home scams has increased from 49 to 54 per cent. Knowledge of miracle cures and/or slimming scams also increased, up four percentage points to 52 per cent.<sup>31</sup>

## Switching

The ease and ability of consumers to switch is dependent on market characteristics. While in some markets it is relatively easy to switch, in others it is more difficult. The EC scoreboard suggests the UK performs better than comparator countries on switching.

32. The ability of consumers to switch depends on a number of factors relating to consumers' willingness and ability to switch. It is also linked to information provision, either through the marketplace or consumer bodies. Access to the necessary information increases consumers' confidence in being able to judge whether their current supplier is providing the best deal possible and, if not, to switch.

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<sup>30</sup>The psychology of scams: Provoking and committing errors of judgement, May 2009, OFT report 1070, available at:

[www.of.gov.uk/shared\\_of/reports/consumer\\_protection/oft1070.pdf](http://www.of.gov.uk/shared_of/reports/consumer_protection/oft1070.pdf), pg 33.

<sup>31</sup> *Evaluation of Scams Awareness Month February 2009*, May 2009, OFT report 1082, available at [www.of.gov.uk/shared\\_of/scams/oft1082.pdf](http://www.of.gov.uk/shared_of/scams/oft1082.pdf)

33. A Centre for Competition Policy paper suggests that consumers who have successfully switched in one market may be more confident in their ability to switch in another market.<sup>32</sup> So successfully switching supplier, in itself, increases confidence and actions in one market can have positive impacts on consumers' behaviour in other markets. The OFT plays a role in markets, ensuring that barriers to switching are not prohibitive (with recent work on Personal Current Accounts being one example). OFT also works through Consumer Direct to educate and support consumers who may want to switch suppliers, including through providing supporting materials to inform consumers on their website.
34. Encouragingly, the second EC Scoreboard shows UK consumers switch providers much more often than their EU counterparts: one in four UK consumers switched providers in the past two years (compares with EU average of one in seven).<sup>33</sup> Switching may also be more prevalent in certain markets. The first EC Scoreboard found that switching was more prevalent in the Internet services market when assessing the UK compared to the other markets considered in the report, such as fixed and mobile telephony. This is likely to be due to the ease of comparing the prices of different internet providers compared to fixed and mobile telephone providers as the Consumer Conditions Report notes.

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<sup>32</sup> *Gain or Pain: Does Consumer Activity Reflect Utility Maximisation?*, February 2008, Y.T. Chang and C. Waddams Price, CCP Working paper 08-15

<sup>33</sup> The Scoreboard considered switching in a range of markets which have different levels of OFT involvement: gas supply services, electricity supply services, current bank accounts, long term loans, home insurance, savings and investments, fixed and mobile telephone services, internet services and car insurance.

35. BERR's benchmarking report suggests a need for care in interpreting the evidence on switching. For instance, a low level of switching may represent a high level of disempowered consumers who feel unable to switch or it could be due to inertia. At the other extreme it could be due to a high level of satisfaction with current suppliers. The report suggests that compared to other countries such as Germany, Denmark and Spain, the UK performs less well in terms of switching rates.
36. OFT's Internet Shopping Market Study in 2003 found that the internet may be an effective tool in helping to facilitate switching. The report noted that 'search engines and price comparison sites are potentially valuable facilitators of information which, if used effectively, can enable people to compare many products and prices and select the best deal for them – possibly at lower prices than they could otherwise find.'<sup>34</sup> The internet could therefore help to increase consumers confidence, facilitating switching where consumers are willing and able to do so.

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<sup>34</sup> *Internet Shopping: An OFT Market Study*, 2003, OFT report 921, Available at [www.of.gov.uk/shared\\_of/reports/consumer\\_protection/oft921.pdf](http://www.of.gov.uk/shared_of/reports/consumer_protection/oft921.pdf). pg 26

In 2009 the OFT monitored the **internet shopping** market and found evidence of some improvement in consumer confidence in this market since the OFT's market study.

In particular 20 per cent of online shoppers felt more confident now than they were 12 months previously since businesses provided adequate information on their right to cancel (and 76 per cent felt as confident). Also 71 per cent of online shoppers were found to use more than one price comparison site and the main reason cited for doing this was to find the best price.<sup>35</sup> Greater consumer knowledge of cancellation rights and use of price comparison websites is likely to facilitate shopping around and switching between suppliers in search of the best deal.

## Conclusion

37. This paper presents an initial look on the UK's performance on a number of indicators that help forming a view on consumer confidence. It also provides specific examples of recent OFT work that have had an impact on those indicators and, by implication, on consumer confidence. In future, it may be possible to monitor these indicators and consider further OFT interventions that may impact on consumer confidence.
38. This paper does not claim causality but instead assesses the available evidence to form a view on whether key indicators of consumer confidence are moving in the right direction, particularly in markets where the OFT has intervened. It shows that the UK scores well on understanding of consumer rights, as well as the provision of

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<sup>35</sup>Findings from consumer surveys on Internet Shopping, May 2009, OFT report 1079, available at [www.offt.gov.uk/shared\\_offt/reports/Evaluating-OFTs-work/oft1079.pdf](http://www.offt.gov.uk/shared_offt/reports/Evaluating-OFTs-work/oft1079.pdf).

information through Consumer Direct and the Citizens Advice Bureau network. Both the European Commission's Scoreboard and BERR's Benchmarking report show that the UK compares favourably against comparator countries. Whilst there are also encouraging findings for switching overall, it is difficult to reach conclusions on consumer confidence from complaint and redress evidence.

39. The evidence on the OFT's impact on consumer confidence in the specific case studies looked at indicates that the OFT has been successful in influencing it in a number of areas. While we cannot quantify the benefit to consumers of the changes to consumer confidence brought about by the OFT's actions or conclude on the overall impact the OFT has had on consumer confidence in the UK as a whole, it is still worthwhile noting that these OFT activities have positively influenced consumer confidence in specific areas, and as such provide evidence of the wider benefits of the OFT's work.

**Annex A: A selection of key OFT actions undertaken in the markets listed in tables 1 and 3 to illustrate the broad nature of OFT's remit**

**2008/09 OFT Actions**

<b>Market</b>	<b>Tool Used</b>	<b>Project/Case</b>
Second-Hand car - ongoing	Market Study	Second-Hand Car Market Study
Air Travel/ Plane Flights	Consumer Protection from Unfair Trading Regulations	Jet2.com agreed to make a number of changes to improve the clarity and transparency of its website, following negotiations with the OFT.
Estate Agents/ House purchase services	The Estate Agents Act 1979	The OFT issued prohibition orders against two East London estate agents, Ambreen Gul and Mukshud Ali, banning them from engaging in estate agency work.
Books, Newspapers or magazines	An Opinion	OFT review of competition in the newspaper and magazine distribution in the UK.
Hire purchase, Loans or credit	The Consumer Credit Act 1974	Credit license of Vehicle Seller Ltd revoked under the Consumer Credit Act 1974
Chemist, Pharmaceutical or medical products	Market Study	Distribution of Medicines in the UK
Furniture or Furnishings	Consumer Credit (Advertisements) Regulations 2004	The OFT obtained undertakings under Part 8 of the Enterprise Act 2002 from Land of Leather Ltd
Personal Banking - Personal Current Accounts (PCAs)	Market Study	Personal Current Account Market Study: Identified a number of key concerns in this market including: 1. lack of transparency in the key costs of PCAs – particularly complex charging that consumers have difficult predicting or avoiding, 2. a need for simple mechanisms that would allow consumers to control or opt out of services for which they pay; 3. real and perceived problems in the PCA switching service which can unnecessarily deter consumers from changing providers.
Vehicle Repairs/ Servicing	Consumer Codes Approval Scheme	Motor Codes Ltd (Car servicing and repairs) has completed stage one of the Consumer Code approval Scheme.
Property	Market Study	A study of the homebuilding market.
Property	Market Study	Sale and Rent back market study: A relatively new type of property

		transaction whereby firms buy homes from individuals, usually at a discount, and then allow those individuals to stay on in the property as tenants. The study found that some consumers may be entering into agreements that not be in their best interests to do so and the OFT made recommendations to mitigate these concerns
Residential Property Management Services (in Scotland)	Market Study	After reviewing this market, the OFT recommended the implementation of a voluntary regulation scheme to ensure better accountability within the market.
Property - ongoing	Market Study	Home Buying and Selling Market Study: This study considers the effect of competition between service providers on both price and quality, and the extent to which new business models, including internet-based services, can effectively enter the market. Also, examining whether the existing regulatory framework provides the right balance between protecting consumers and ensuring that the market remains open to competition and innovation.
Transport	Market Study	Isle of Wight Ferry Services Market Study: Considered whether the market was working well for consumers and whether reference to the Competition Commission (CC) was warranted. Decided it was disproportionate to refer to the CC.
Transport	Market Study	Local Bus Services Market Study: This study endeavoured to provide insights into why certain local bus markets operate as they do. The OFT decided to refer this market to the Competition Commission for further investigation.

## 2007 OFT Actions

Market	Tool Used	Project/Case
Personal Banking - Ongoing	Unfair Terms in Consumer Contracts Regulations (UTCCRs)	Personal current accounts - UTCCRs investigation and test case.
Books, Newspapers or magazines	Control of Misleading Advertisements Regulations	Undertakings sought from Book Club Associates under Part 8 of the Enterprise Act 2002
Large Domestic Appliances	Control of Misleading Advertisements Regulations 1988, Unfair Contract Terms 1998, Consumer Protection Act 1987, Supply of Goods and Services Act	Undertakings obtained from Solar Technik Ltd under the Enterprise Act 2002.
Floor coverings	Consumer Code Approval Scheme	The Carpet Foundation received code approval from the OFT
Used Vehicles	Guidance issued	Guidance for Motor Traders.
Used Vehicles	The Consumer Credit (Advertisements) Regulations 2004	Written assurance given to the OFT from Reg Vardy regarding their advertising
Chemist, Pharmaceutical or medical products	Market Study	The Pharmaceutical Price Regulation Scheme- An OFT Market Study
Vehicle Repairs/ Servicing	Consumer Codes Approval Scheme	Bosch achieved approval for its car service code of practice

## 2006 OFT Actions

Market	Tool Used	Project/Case
Air Travel/ Plane Flights - Ongoing	Competition Act 1998 (Chapter 1)	Alleged price fixing between two providers of airline passenger flights, in relation to passenger fuel surcharges for long-haul passenger flights to and from the UK
Jewellery, Silverware, Clocks and Watches	Control of Misleading Advertisements Regulations 1988	Undertakings accepted from Magna Jewellery Ltd
Hire purchase, Loans or credit	The Consumer Credit (Advertisements) Regulations 2004	Undertakings obtained from Personal Loan Phone Ltd under the Enterprise Act

## 2005 OFT Actions

Market	Tool Used	Project/Case
New Vehicles	Guidance issued	Cars and Other Vehicles Sold by Distance means- Guidance on Compliance
Clothing or footwear goods	Control of Misleading Advertisements Regulations 1988	Undertakings given by Basebuy Ltd under Part 8 of the Enterprise Act 2002
Clothing or footwear goods	Control of Misleading Advertisements Regulations 1988	Undertakings given to Court by The Officers Club Limited following OFT action
Personal Computers/Software	Unfair Contract Terms 1998	Undertakings obtained from Bulldog Communications under the Enterprise Act 2002.
Used Vehicles	Guidance issued	Cars and Other Vehicles Sold by Distance means- Guidance on Compliance
Estate Agents/ House purchase services	Consumer Codes Approval Scheme	The Ombudsman for Estate Agents Company Limited (OEA) achieved code approval from the OFT

## 2004 OFT Actions

Market	Tool Used	Project/Case
Mortgages	The Consumer Credit Act 1974	Credit licence of mortgage broker, trading as Caledonia Mortgage Company and J Taylor Mortgages, has had his consumer credit licence revoked by the OFT under the Consumer Credit Act 1974
Mortgages	Consumer Credit (Advertisements) Regulations 1989	The OFT obtained undertakings from Ironmarket Home Loans & Mortgages under the Enterprise Act

## 2003 OFT Actions

Market	Tool Used	Project/Case
New Vehicles	Market Study	New Car Warranties- A Market Study
Toys/games	Competition Act 1998 (Chapter 1)	Hasbro, Littlewoods and Argos.
Chemist, Pharmaceutical or medical products	Market Study	The Control of Entry Regulations and Retail Pharmacy Services in the UK

## 2002 OFT Actions

Market	Tool Used	Project/Case
Small Domestic Appliances	Market Study	Extended warranties on domestic electrical goods
Furniture or Furnishings	Section 7(c) of the Consumer Credit (Advertisements) Regulations 1989	Harvey Furnishings amended their adverts following negotiations with the OFT

## 2001 OFT Actions

Market	Tool Used	Project/Case
Chemist, Pharmaceutical or medical products	Competition Act 1998 (Chapter II)	Napp Pharmaceuticals