Consultation Response

Ref 4018

Response to CMA call for views on the loyalty penalty super-complaint

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Age UK

Age UK is a national charity that works with a network of partners, including Age Scotland, Age Cymru, Age NI and local Age UKs across England, to help everyone make the most of later life, whatever their circumstances. In the UK, we help more than seven million older people each year by providing advice and support. We also research and campaign on the issues that matter most to older people. Our work focuses on ensuring that older people: have enough money; enjoy life and feel well; receive high quality health and care; are comfortable, safe and secure at home; and feel valued and able to participate.

About this consultation

In September 2018, Citizens Advice submitted a super-complaint to the Competition and Markets Authority (CMA) on excessive prices for disengaged co

[1] It covers five essential service markets across financial services and telecoms insurance, savings, mortgages, mobile and broadband. The CMA is seeking evidence and views on the super-complaint.[2]

Key points

1. We strongly welcome the super-complaint. Older people are particularly likely to experience the loyalty penalty for a range of essential products and services, and less likely to be aware of it.
2. Many older people face challenges and experiences that make them vulnerable, in the sense of being unable to engage in markets and so more exposed to the loyalty penalty. These include health conditions, disabilities, loneliness and isolation, cognitive impairment, digital exclusion and life experience.
3. However, it is the structure of markets (e.g. complex tariffs, large number of firms, need for consumers to switch constantly) and the conduct of firms (e.g. high renewal price increases, loss-leading prices for new customers) that create the harm caused by the loyalty penalty. The CMA should focus on addressing these.
4. We think the loyalty penalty is fundamentally problematic. The CMA should identify interventions to protect *all* consumers as well as additional protections for the poorest

Older people and consumer vulnerability
Here we briefly outline some of the experiences and challenges many older people face

impossible for them to fully engage in markets and so more likely to experience the loyalty penalty.

Managing health conditions

The landline-only market is a good example of this. In developing a voluntary price cap for BT, Ofcom found

standalone landline customers have never switched provider or considered doing so. They tend to be older and less likely [20]

This last point is particularly important in terms of the *loyalty* penalty. As Citizens Advice shows

-standing customers pay the same price as newer customers for their savings account (34% of those aged 65+ compared to 25% of those aged 18-24). This trend can be observed across other [21]

The case study in Box 2 illustrates some of these points.

Box 2: Mr A, home i nsurance
who managed household expenses, had died. His nephew noticed he was paying £1,400 on home insurance, when he could be paying as little as £150. He had been with his insurer for 15 years, originally paying £200. He had automatically renewed every year and never made a claim. In response, his insurer said the quotes on its own website were much lower due
(Source: Financial Ombudsman Service, 2018[22])

While the challenges and experiences outlined above make it difficult for some consumers to engage in markets, it is the way markets are structured (e.g. complex tariffs, large number of firms, need for consumers to switch constantly) and the conduct of firms (e.g. high renewal price increases, loss -leading prices for new customers) that create the harm caused by the loyalty penalty. The CMA should develop recommendations to reflect this.

Q4. What measures to tackle any 'loyalty penalty' should be considered, including those suggested by Citizens Advice and any others? Please explain how these measures would effectively address the problem.

We agree with Citizens Advice that there are limits to the effectiveness of information remedies. We welcome those remedies that do have some impact, including the recent Ofgem trial that simplified the process and allowed consumers to confirm the switch by phone. This had a higher switching rate than other interventions, including among older people. Nonetheless, the switching rate of 22 per cent shows that further action is needed.[23]

We also agree that there is a need for a cross-sectoral approach. Without this, there is a chance that multiple regulators will develop similar but slightly different or differently named consumer-facing interventions, that risk confusing consumers and causing them to disengage further. A cross-sectoral approach could identify bad practice as well as good practice across markets. Given the well-known barriers to engaging in markets, cross-

make it easier for (some) consumers to engage across multiple markets.

As discussed above, we recommend that CMA particularly look at

multi-product packages, which are particularly common in the telecoms market and present an even higher level of complexity to consumers.

-complaint show that some firms pressure sell products that are not relevant or appropriate to a

and is particularly troubling when the customer is experiencing vulnerabilities such as cognitive impairment. The CMA should consider using its powers to make it clear to firms that upselling products in this way is unacceptable, and take enforcement action under its existing powers (e.g. unfair contract terms, misleading and aggressive sales practices) if necessary. At the very least, there should be a duty on firms to check that the customer actually has a computer or mobile. It should also review whether firms are in breach of the Mental Capacity Act through practices like this, or whether amendments need to be made to the Act.