

ConPolicy

Institute for Consumer Policy

# Measuring consumer detriment and improving consumer policy

Input to the parallel session on consumer protection

Amsterdam, 16<sup>th</sup> of November 2016

**Prof Dr Christian Thorun**

**Director of the Institute for Consumer Policy**

**Germany**

## Point of departure

A policy area in the making – the need for strategic policy making

- Consumers are of **great relevance** in the European Union: 56% of GDP is generated by consumer spending.
- Consumer policy is of great relevance both for **economic development** and **peoples' individual welfare and prosperity**:
  - **Supply-side effect**: Jointly with competition policy, consumer policy creates a level-playing field on which those companies “win” that provide the best products and services and not those that engage in market abuse and cheating.
  - **Demand-side effect**: Consumer policy ensures that consumers can spend their income to their greatest benefit, reduces consumer detriment and enables consumers to drive the economy by means of their purchasing decisions.
- **BUT**: Approx. 10 years ago there was a recognition among policy-makers that in many European countries consumer policy is still in its **infancy**. There was a **lack of strategic policy making**.
- One essential piece that was considered to be missing was **data**. Without data, policy-makers cannot **prioritize, take sound policy decisions** (assess different policy options ex-ante) and the **impact** of policy interventions cannot properly be **evaluated** (ex-post).

# Objectives of consumer policy

## Seven core consumer rights

According to the *UN Guidelines for Consumer Protection*, consumer policy should provide for the following:

1. **Safety** – by protecting consumers from hazards to their health and safety
2. **Economic interests** – by promoting the economic interests of consumers
3. **Information** – by ensuring that consumers have access to adequate information
4. **Education** – by enhancing consumer awareness and competencies
5. **Redress** – by providing consumers effective redress mechanisms
6. **Consumer representation** – by ensuring that consumers (and their representatives) participate in political decision-making
7. **Sustainable consumption** – by promoting sustainable consumption patterns



**Questions:** How can it be measured whether these objectives are met? How can consumer policy-makers know *which markets* function well for consumers and which not? How can the *harm* caused to consumers by dysfunctional markets be measured?

## Consumer detriment

A concept to measure the extent to which markets work for consumers

***Consumer detriment: „The loss or damage experienced by customers when purchasing goods or services that do not meet their requirements, are faulty, over-priced or sub-optimal in some way.“***

Consumer Strategy Group (CSG), Ireland



### **Detriment data can be used to:**

- understand the extent and value of problems experienced.
- understand the markets, types and sources of problems.
- assist in the prioritization of consumer policy.
- assess the likely impacts of different policy options (ex-ante).
- evaluate the effects of policy interventions (ex-post).

# Consumer detriment as a powerful instrument for policy-makers (1/2)

## Example 1: European Consumer Scoreboard

***„The total estimated ex-post detriment incurred by European consumers amounted to about 0.4% of EU GDP.“*** (Which equals approx. 110 Euro per capita per year)

*Consumer Empowerment in the EU, Special Eurobarometer 342, European Commission (2010)*



Former EU Commissioner John Dalli with BEUC Director General Monique Goyens commit to further collaboration to protect European consumers. *5th EU Consumer Scoreboard (2011)*

## Consumer detriment as a powerful instrument for policy-makers (2/2)

Example 2: German government finances two market watchdogs operated by consumer organisations (digital world and finances)



### Market monitoring system rests upon four methods:

- 1. Early warning network:** Sensor for short-term intelligence
- 2. Complaints monitoring:** Quantitative analysis of complaints data from consumer advice centres (long-term, time series)
- 3. In-depth investigations:** Specific market analyses
- 4. Online portal:** Consumer complaints website

### Key principles:

- 1. Detection of detriment:** By means of the above mentioned methods
- 2. Information:** Authorities, political decision-makers, consumers, media
- 3. Action:** Injunctions, dialog with businesses and public relations

# Definition of consumer detriment (1/2)

## Different forms of consumer detriment

### Financial Detriment

Inflated prices

Cost of flawed products (e.g. insurance policies that, because of misleading information or misleading omissions, fail to deliver expected coverage)

Cost of repairing or replacing a product

Administrative and travel costs incurred resolving the problem (e.g. telephone costs, petrol)

Cost of expert advice or assistance (e.g. legal costs)

Lost earnings (e.g. due to loss of time or injury)

Damage to property (e.g. electrical fault causing house fire)

### Non-financial detriment

Injury or adverse effect on health

Restricted choice (which can also have financial implications)

Psychological detriment (e.g. stress, anger, embarrassment)

Compromise of personal information or privacy

Time required to address problems

**Important to note:**  
**Certain consumer groups might be particularly susceptible to detriment:**

#### Disadvantaged groups

→ those affected by low education, financial problems, unemployment, language limitations or urban vs. rural population

#### Vulnerable groups:

→ youth, elderly, people with disabilities

Source: OECD (2010), *Consumer policy toolkit*.

## Definition of consumer detriment (2/2)

### Different causes of consumer detriment

#### **Detriment can be caused by:**

- i)* market failure (causing restricted choice or leading to inflated prices);
- ii)* scams and fraud;
- iii)* misleading advertising;
- iv)* Too little information / information overload;
- v)* unfair marketing practices and unfair contract terms;
- vi)* sales of unsafe products; or
- vi)* inadequate redress in response to complaints.

**Personal detriment can be measured** by the negative outcomes that individual consumers experience once a purchase has been made, relative to some benchmark such as reasonable expectations. **Structural detriment** is the overall loss of consumer surplus due to these causes.

Source: OECD (2010), *Consumer policy toolkit*.



## Different indicators can be used to measure consumer detriment

1. Complaints
2. Consumer (dis-)satisfaction
3. Price dispersions
4. Accidents & illness emerging from unsafe products
5. Switching costs
6. Adequateness of redress
7. Occurrences of unfair marketing & misleading advertising practices
8. Occurrences of unfair contract terms

Source: *Europe Economics (2007), An Analysis of the Issue of Consumer Detriment and the Most Appropriate Methodologies to Estimate It.*

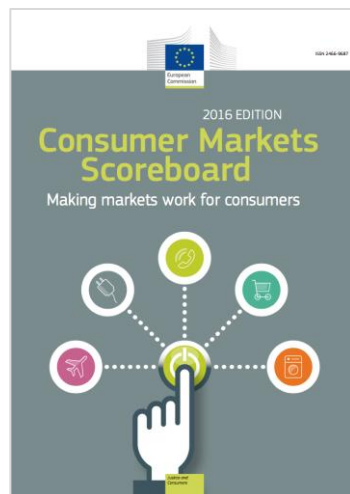
## Methods for assessing consumer detriment

Method	Examples
1) Survey (confirmative method)	European Consumer Scoreboard, <i>European Commission</i> (2008-2016) Consumer Detriment Survey 2014, <i>Irish Competition and Consumer Protection Commission</i> (2014) Consumer Detriment Study, <i>UK Office of Fair Trading</i> (2008)
2) Focus Group (explorative method)	Awareness and experience with scams, <i>UK Office of Fair Trading</i> (2006)
3) Mystery shopping	Geo-blocking of consumers online, <i>European Commission</i> (2016) Study on Digital Content Products in the EU, <i>European Commission</i> (2012) Regular sweeps conducted by the Member States enforcement agencies
4) Complaints Analysis (if data is available)	Consumer complaint initiatives in various countries, OECD (2010) i.e. European Consumer Scoreboard (EU) or Marktwächter (Germany)
5) Comparative testing by consumer organisations	Consumer reports in various countries

# Best Practices: Comprehensive approach (1/5)

## Consumer Scoreboards of the European Commission (1/2)

- The most comprehensive regular consumer detriment monitoring system in the European Union
- Repeatedly conducted since 2008 in two forms: i) **Consumer markets scoreboard** that analyses performance of key consumer markets and ii) **Consumer conditions scoreboard** that monitors consumer conditions.
- The two scoreboards are used to identify key consumer challenges. **In-depth market investigations** follow.



## Best Practices: Comprehensive approach (2/5)

### Consumer Scoreboard of the European Commission (2/2)

Consumer Markets Scoreboard	Consumer Conditions Scoreboard
Ease of comparing goods or services on offer	Knowledge and trust of consumers
Consumers' trust in retailers/suppliers to comply with consumer law	Compliance and enforcement
Problems experienced and the degree to which they have led to complaints	Complaints and dispute resolution
Consumer satisfaction	
Choice of retailers/providers	
Switching of tariffs/providers	

The results of the Scoreboard and the in-depth analyses have concrete impact: New regulations on geo-blocking, access to bank accounts, ease of switching banks, reducing barriers to roaming in telecommunication, new Digital Single Market approach or consumer, environmental claims for non-food products and retailer information campaigns.

Furthermore, behavioural experiments are used to better understand consumer behaviour and the potential impact of policy interventions: Study on consumers' attitudes to terms and conditions; impact of marketing through social media, online games and mobile applications on children's behaviour; and impact of food information on consumers' decision making.

# Best Practices: Complaints based (3/5)

## The UK Financial Ombudsman Service

Financial Ombudsman Service

it's good to get a problem sorted

home about us news and outreach how to complain FAQs publications contact us

Google™ Custom Search

om-buds-man

Something we got from the Vikings!

Click to watch our video!

for consumers

complained to your bank, insurance company or finance firm - but still not happy?

- ▶ can we help?
- ▶ look at the answers to the questions consumers ask us the most (FAQs)
- ▶ watch "my story" video-clips

most popular

- ▶ how to complain
- ▶ our technical approach to insurance, investment and banking & credit complaints
- ▶ financial products and businesses most and least complained about
- ▶ ombudsman decisions database
- ▶ freedom of information and data protection (FOI)
- ▶ careers with us

### Key figures for 2015/16:

- Service answered 1.6 Mio. enquiries – over 5,000 per working day
- 1/5th were taken up for more detailed investigation: 340,899
- 59% of new complaints were about the sale of payment protection insurance (PPI)
- More than half of the total number dealt with involvement of four banking groups

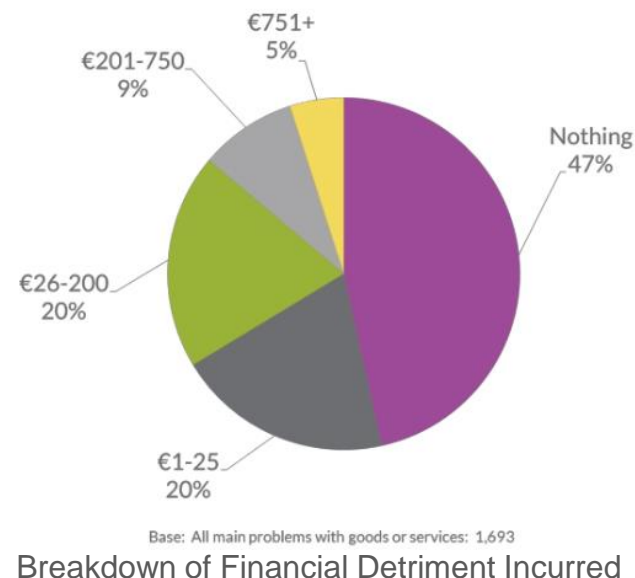
### The impact of all this:

- New laws enacted by the British government particularly on PPI
- Financial Conduct Authority increased surveillance and imposed fines on industry

## Best Practices: Survey based (4/5)

### Consumer Survey Ireland (1/2)

- **44%** of the Irish population have experienced consumer detriment in the previous 12 months amounting to almost € 500 Mio.\*
- **53%** of all problems experienced (more than half) result in a type of financial loss
- **46%** of problems remain completely unresolved
- In **19%** of cases, the respondents indicate that the company or firm had done nothing after being contacted in relation to the problem
- **57%** report that the problem they experienced has affected their likelihood of using the company or firm in the future at least a fair amount

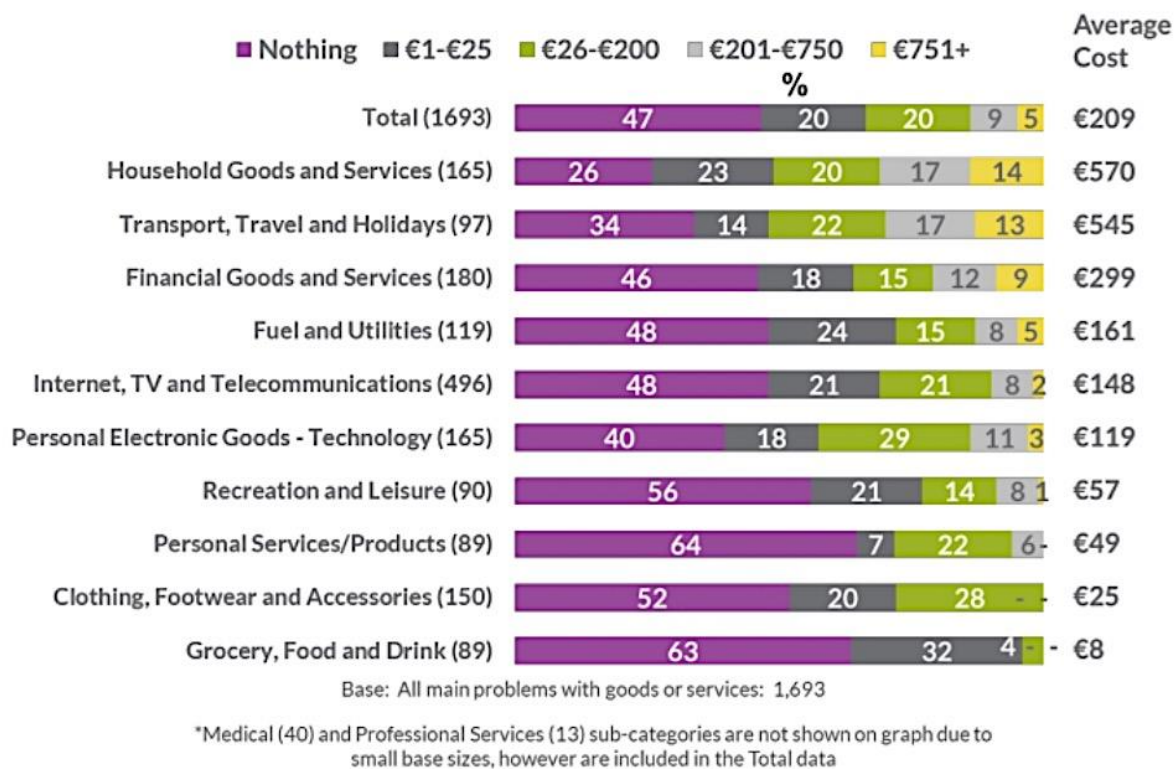


# Best Practices: Survey based (5/5)

## Consumer Survey Ireland (2/2)

### Financial Detriment by Good or Service Category

Household Goods and Services cause the highest average financial detriment to consumers.



Source: *Consumer Detriment Survey Report*, Ipsos Ireland (2014)

## Conclusion

1. A systematic measurement of consumer detriment ...
  - should be a key component for a strategic consumer policy.
  - can raise the profile of consumer policy in the public and in media.
  - is essential for prioritization, ex-ante impact assessment and ex-post evaluations.
2. Consumer detriment can have different forms and causes and there are different indicators that can be used to measure it.
3. To measure consumer detriment different methods can be applied.
4. Various best practices show that the measurement of consumer detriment is not only possible but also useful.