

# Chapter 1

## Summary, main conclusions and recommendations

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Active consumers search the market to find the solution that best matches their needs, and they switch providers when it pays off. Consumers who switch providers intensify competition because they force enterprises to do better all the time.

For enterprises trying to gain market shares by developing new, less expensive or better products, it is vital that consumers switch to the enterprises that create most value for them.

The Danish Competition and Consumer Authority wants to make it easier for consumers to switch providers on an informed basis. The Authority has therefore analysed what is important for consumers when switching providers. Two different markets were selected to shed light on the issue of consumers' switch of providers: the mobile market and the insurance market. Despite their differences, the two markets affect almost all Danes and represent a substantial portion of consumer budgets. The mobile market also represents a market of high mobility, and the insurance market a market of lower mobility.

### **Consumers switch mobile and insurance providers to save money**

Every year, just over every third consumer switches mobile company, and almost every tenth consumer switches private household insurance providers.

The desire for a less expensive mobile or insurance solution is the reason for switching providers stated by most consumers: This applies to 44 per cent of mobile customers and 68 per cent of insurance customers.

Of the European consumers, Danes switch mobile subscriptions most frequently. In the insurance market, Danes and Finns rank fourth on the list of European consumers who switch their private household insurance providers most frequently.

### **Price advertising inspires more consumers into switching mobile subscription**

In the mobile market, company advertising of prices and specific offers encourages consumers to switch their mobile subscriptions spontaneously. Mobile companies thereby inspire consumers into switching providers. By contrast, insurance advertising is image-based rather than price-based.

Poor service or the acquisition of new products, such as a car requiring insurance or a new mobile phone, will also induce both mobile and insurance customers to switch providers.

Consumers are also induced to switch insurance company if their life circumstances switch (if they marry, become home owners, etc.).

### **Consumers' lack of involvement in their insurances affects mobility**

While mobile phones are an integral part of consumers' everyday life, most consumers are not involved in their insurances. Every sixth consumer among those who have never switched insurance providers explains that they prefer to spend their time on other things than insurance.

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The insurance companies consider the consumers' poor involvement in insurance one of the most important reasons why mobility is not higher in the insurance market. The analysis seems to show that poor consumer involvement in insurance reduces mobility in the insurance market.

**Consumers find it difficult to identify the right mobile and insurance providers**

Consumers find both markets non-transparent and characterised by high search costs (in terms of time as well as money). As an example, the Danish equivalent of the European Commission's Consumer Market Scoreboard, the '*ForbrugerForholdsIndekset*' (FFI), shows that consumers rate the transparency of both markets as poor. This is of consequence to the consumers' switching of mobile and insurance providers.

Consumers find it difficult to obtain an overview of the solutions available in the markets. This makes every fourth consumer refrain from switching mobile and insurance providers.

Many consumers consider switching providers, but stop somewhere in the process. This applies to 33 per cent of mobile customers and 43 per cent of insurance customers. The analysis seems to show that consumers stop because they experience search costs and other barriers in connection with a switch of providers.

The analysis also shows that many consumers have chosen a solution at random. Firstly, it is not clear whether consumers have an overall view of their present mobile and insurance needs. As an example, consumers often take out insurance based on their existing policies, which do not necessarily reflect their present needs. Secondly, the analysis shows that every second mobile customer (47 per cent) and every third insurance customer (33 per cent) have not searched the market before they switch providers.

Finally, the analysis seems to show that the lack of transparency in the insurance market makes it more difficult for consumers to find a solution to match their needs. The more time the insurance customers spend on studying the market, the more complex it seems.

The analysis indicates that mobile and insurance companies contribute to the increased lack of transparency by, for example, choosing to differentiate their products with a high degree of detail. The analysis seems to show, however, that consumers in both the mobile and the insurance markets would rather have an overview of the products than the highly tailored products offered in the markets today. Excessive product differentiation could have a negative effect on competition, consumer conditions and mobility.

In addition, several mobile companies have stated that, to survive in the market, they find themselves compelled to apply various 'stratagems' in order to make a profit in fields that are not in the consumers' focus, such as high pricing of calls to one's own telephone-answering machine and to corporate service numbers. These stratagems may make it harder for consumers to read the market.

The analysis shows that consumers find the actual switching of both mobile and insurance providers easy.

**Benefits make consumers stay with their present mobile and insurance providers**

According to the analysis, many consumers find that they derive various benefits from their present mobile and insurance providers. Maybe the consumers trust and are satisfied with their present providers. Or they may be able to call friends and family free of charge or take out advantageous insurance policies through their trade unions.

These benefits may be lost if consumers switch either mobile or insurance providers. The benefits therefore constitute switching costs that make consumers hold back from switching providers and reduce mobility in the mobile and insurance markets.

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### **Lack of transparency is probably also one of the greatest obstacles to switching providers in other markets**

Based on the analysis, the Competition and Consumer Authority assesses that the lack of transparency in the markets is one of the most important obstacles to consumers' switching mobile or insurance providers – and to switching after they have searched the markets.

The conclusion of the analysis concerning the significance of the lack of transparency applies to two markets and two types of products with different characteristics. The expectation is therefore that consumers will also find high search costs to be the main problem rendering a switch of providers difficult in other service markets, such as other subscription markets and financial markets.

#### Box 1.1

#### **Main conclusions**

#### **Consumers switch mobile and insurance providers to save money**

- » Every year, just over every third consumer switches mobile company, and almost every tenth consumer switches private household insurance providers.
- » The desire to save money is the reason for switching stated by most consumers. This applies to 44 per cent of mobile customers and 68 per cent of insurance customers.

#### **Price advertising inspires more consumers into switching mobile subscriptions**

- » Mobile companies use price advertising to inspire consumers into switching mobile subscriptions. The acquisition of new products or bad experiences also encourage consumers to switch both mobile and insurance provider.

#### **Consumers' lack of involvement in their insurances affects mobility**

- » Consumers are not involved in their insurances. This reduces mobility in the insurance market.

#### **Consumers find it difficult to identify the right mobile and insurance providers**

- » Both mobile and insurance customers find the markets non-transparent. This has several consequences:
  - » Problems of gaining an overview of the solutions in the markets make every fourth consumer refrain from switching mobile and insurance providers.
  - » Of mobile customers, 33 per cent have considered switching providers without going through with it, and the same applies to 43 per cent of insurance customers.
  - » Every second mobile customer and every third insurance customer have switched providers without first searching the market.
- » Mobile and insurance companies increase the lack of transparency by differentiating their products with a high degree of detail. However, consumers would rather have an overview of the products than the highly tailored products offered in the markets today.
- » Consumers find the actual switching of mobile and insurance providers easy.

#### **Benefits make consumers stay with their present mobile and insurance providers**

- » Consumers find that they receive various benefits from their present mobile and insurance providers, such as the possibility of phoning their friends and family free of charge, which they would lose if they switched providers. The benefits therefore constitute switching costs that result in reduced mobility in the mobile and insurance markets.

### **It should be easier for consumers to switch mobile and insurance providers on an informed basis**

The analysis seems to show that there may be a potential for increasing the number of insurance customers who search the market and switch providers. However, it is not possible

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to determine the exact potential on the basis of this analysis. By contrast, it is not expected that the proportion of mobile customers switching providers every year can increase substantially. In the mobile market, the potential consists rather in making more consumers search the market before switching.

Based on the analysis, the Competition and Consumer Authority makes three recommendations and various proposals on how the recommendations can be implemented, see box 1.2 and chapter 3.

Box 1.2  
**Recommendations and proposals to make it easier to switch providers on an informed basis**

***Increased transparency and better basis for clarifying consumers' own needs in the mobile market***

The Competition and Consumer Authority recommends that transparency in the mobile market be increased while giving consumers a better basis for clarifying their own needs.

The following initiatives may, for example, contribute to an implementation of the recommendation:

- » that the industry, working together with other stakeholders in this field, *facilitate consumers' access to data on their actual mobile consumption*. For example, by means of text messages sent at regular intervals by mobile companies to consumers concerning their consumption. This will make it easier for consumers to assess whether they might gain from accepting an offer from another provider. The text message may preferably give the same type of data on the customer's consumption regardless of phone company. It will also be a good idea if the text message can be compared with the consumer's present subscription. Consumers must be able to opt out of such text messages if they do not want to receive the data.
- » that the industry, working with other stakeholders in this field, *'translate'* for consumers *how much data are generally consumed* by reading ordinary websites, such as social networks, listening to the radio, streaming content directly from the Internet, etc. The result may supplement the available consumer information on data consumption on, for example, the websites of authorities and telecommunications companies.
- » that the stakeholders in this field examine the possibility of arranging for commercial *'switch agents'* (for example electronic switch agents) in the mobile market. One possibility might be that consumers sign on and grant the switch agents authority to switch the subscription if the market offers a solution that better matches the consumer's needs.

Specific initiatives to implement this recommendation could advantageously be discussed by the working group of the Danish Business Authority set up to increase transparency in the telecommunications market, see the Danish Government's Consumer Policy Review 'Safe Consumers, Active Choices'.

***Increased transparency and a better basis for clarifying consumers' own needs in the insurance market***

The Competition and Consumer Authority recommends that transparency in the insurance market be increased while giving consumers a better basis for clarifying their own needs.

## Box 1.2 (continued)

The following initiatives may, for example, contribute to an implementation of the recommendation:

- » that the industry, working together with the Danish Consumer Council, *increase the visibility of the insurance guidance website Forsikringsguiden.dk*, for example by having paid links when consumers input the word 'insurance' in a search engine, and by linking to Forsikringsguiden.dk from comparison sites already used by consumers. that the industry, working together with the Danish Consumer Council, expand Forsikringsguiden.dk to enable consumers, on the site:
  - » to compare, in one search, several types of insurance policies, for example, both a house and car insurance policy or the consumer's entire insurance portfolio.
  - » to contact the insurance company with the best offer directly from Forsikringsguiden.dk. On request, consumers could then receive an offer corresponding to the offer appearing from Forsikringsguiden.dk or a telephone call/contact from the company.
  - » to gain a better understanding of their own insurance needs through the electronic services on the website.
- » that the industry examine the possibility of, and the consumers' demand for, a digital overview of the consumers' own insurance terms and conditions. As an example, such overview could be created by collecting the consumers' insurance terms and conditions and list of insurance policies on a joint website which may already exist and be used regularly by the consumers. Consumers might, for example, access the relevant website by means of 'NemID', the Danish secure log-in system.

***Consumers must become more involved in their own insurance policies***

The Danish Competition and Consumer Authority recommends that *consumers be encouraged to become more involved in their own insurance policies*. An initiative that might contribute to the implementation of this recommendation could be, for example, that *insurance brokers consider measures that make them more visible and attractive to consumers*. They could, for example, offer 'no cure, no pay' services where consumers only pay if the broker finds a better insurance solution, or offer to split any gain from switching providers between consumer and broker.