

Why Consumers Switch Energy Suppliers: The Role of Individual Attitudes

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Executive summary

After more than two decades of energy market deregulation, UK electricity and gas suppliers are able to enter any market and compete with the incumbent, while households are able to switch electricity and gas suppliers as they wish. Since 2008, fewer customers have switched suppliers in British electricity and gas markets despite the potential for financial gains, suggesting that non-price factors may affect switching behavior.

We try to gain insight into consumer switching by using a unique nation-wide British survey that was conducted by YouGov plc in January 2014. Under a binary choice framework, we empirically explore the determinants of consumers' switching behavior in the energy market, which highlights the role of two categories of psychological factors – attitudes towards energy issues and perceptions of the costs and benefits of switching.

Among the psychological factors found to explain households' switching decisions in energy markets, controlling for demographic and other factors, were: (i) support for simplifying energy tariffs; (ii) professed difficulty in understanding energy bills; (iii) professed attention to energy prices; and (iv) perceived difficulty in changing suppliers. At a time of high saliency, political party voting intention was strongly related to switching. Our analysis provides evidence that some psychological factors can help explain why consumers do not switch even when switching appears rational.

By calculating the size of the probability of switching providers for an “average” group, we identify the group(s) most likely (and unlikely) to change gas and electricity providers, holding all other variables to their median values. In terms of switching experience, the most experienced group in other markets (strong-switchers) is, perhaps unsurprisingly, most likely to switch energy providers. Households that pay their energy bills by direct debit are most likely to switch energy providers. Finally, of all political parties, Labour voters are, by far, most likely to switch, which may at least in part be related to the attention paid to the issue of energy bills by the Labour Party at the time of our survey.

Unlike larger, contemporaneous analyses conducted by the regulator and the competition authority, which rely on bivariate analysis, in our multivariate model, few demographic factors are found to affect the likelihood of switching except for educational level and tariff payment patterns. Remedies aiming to encourage switching cannot be targeted correctly unless the supporting analysis is robust to alternative model specifications.

Keywords: retail energy markets; switching suppliers; household behavior; logit model.

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