Choice: how real is it and how is it exercised?

Tom Kiedrowski

Managing Director, Cedar Tree Advisory Service

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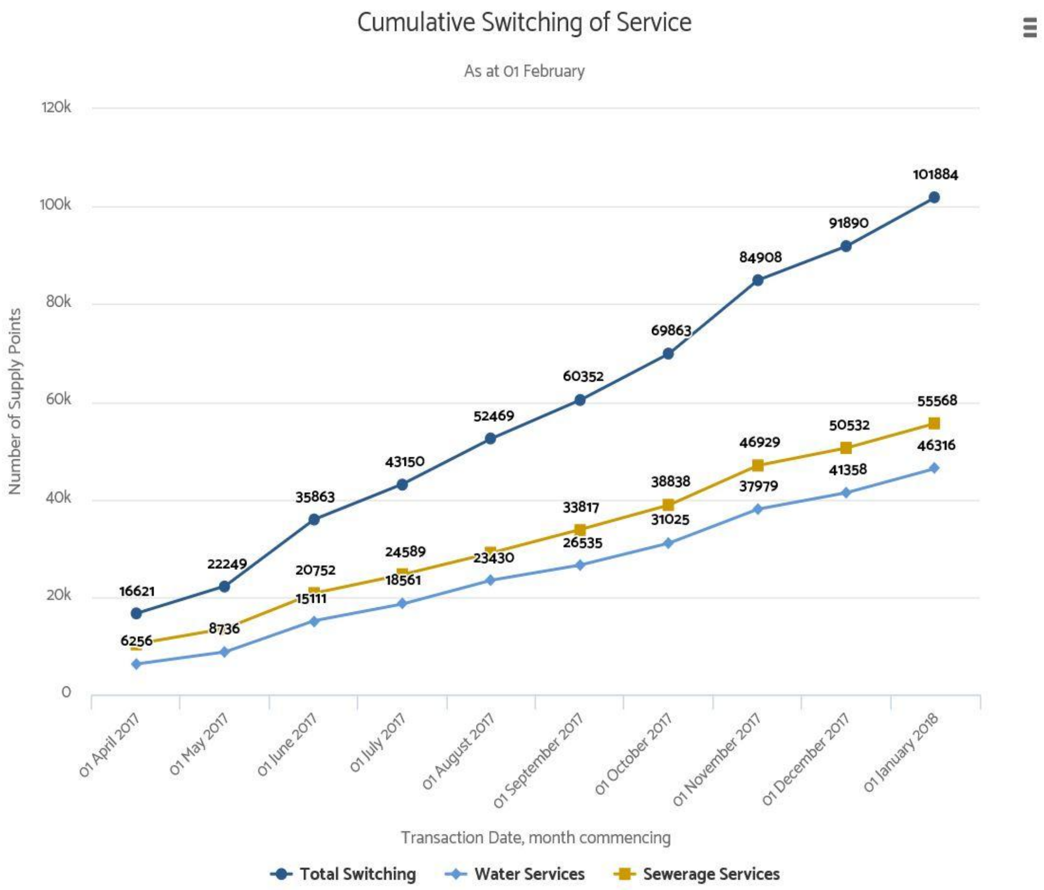
Introduction

- We have now had more than 30 years of competition to promote the interests of the consumer in the UK (piecemeal)
- So how has it worked in different sectors?
- I'm going to take you a whistle stop tour of some of them, focusing on:
    - Water
    - Energy
    - Communications
    - Financial Services
- Finally I will provide a brief assessment of the extent to which competition and consumer choice has delivered and its limitations

Water (I)

- We have had retail non-household competition in Scotland since April 2008 and since April 2017 in England
- Good for non-household customers in number of ways:



Source: MOSL

Water (II)

- What about households?
- As part of Autumn Statement Government asked Ofwat in November 2015 to assess costs and benefits
- Ofwat published its emerging findings in July 2016 and considered it to be a good thing
- It’s all gone very quite though and the margins would be even tighter in the household than non-household market

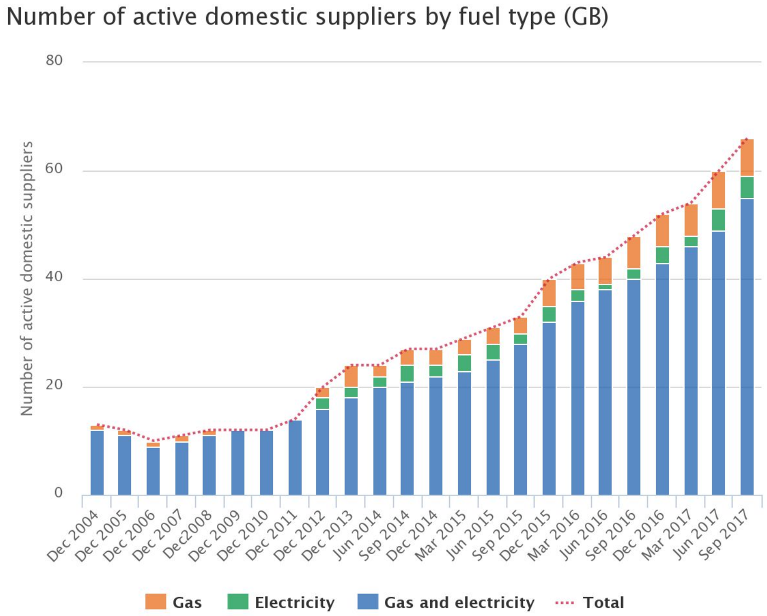
Water and Sewerage Companies	Average Household bill for 2018-19
South West Water	£491
Wessex Water	£479
Welsh Water	£439
Southern Water	£436
United Utilities	£435
Anglian Water	£428
England and Wales Average	£405
Northumbrian Water	£402
Yorkshire Water	£385
Thames Water	£383
Scottish Water	£363
Severn Trent Water	£348

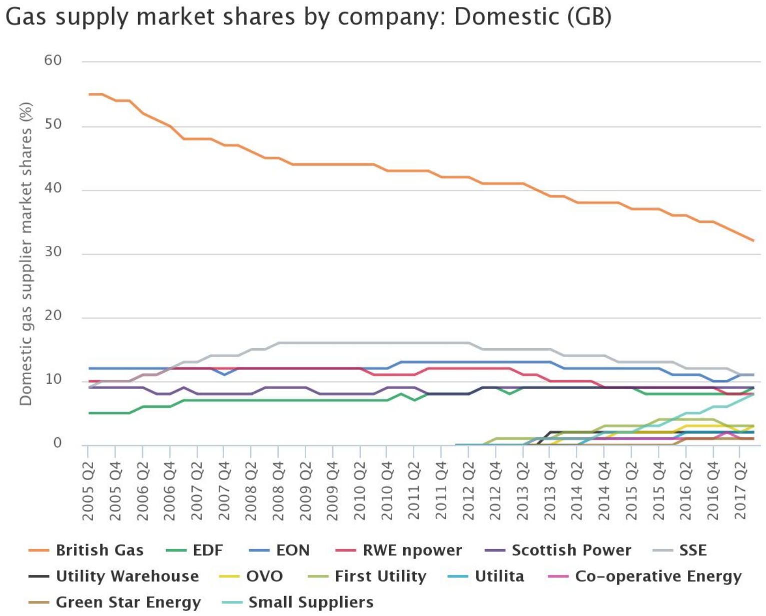
Comparison with English & Welsh water companies based on water.org.uk published average charge

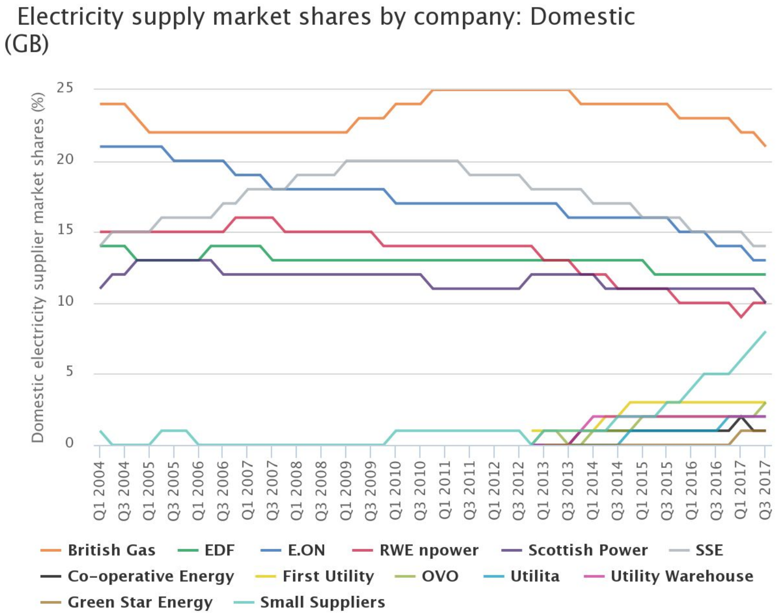
Source: WICS

Energy (I)

- It’s been a long and arduous journey with lessons how do promote competition and consumers and how not to!
- State of play currently:





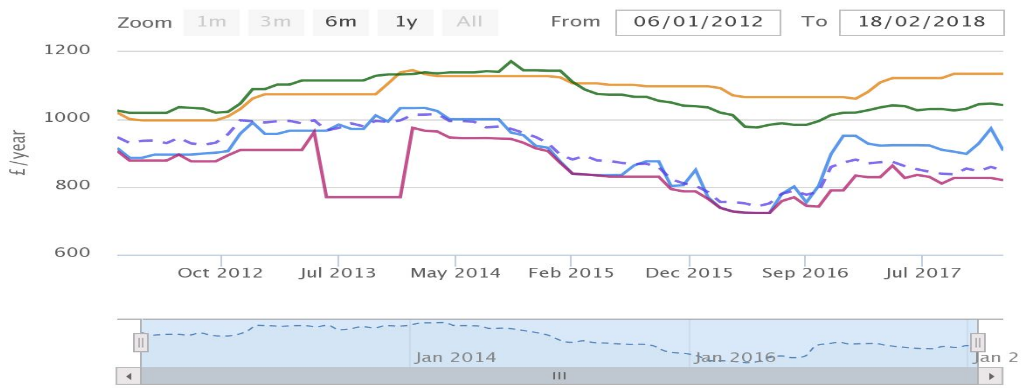


Source: Ofgem

Energy (II)

- What has it meant for consumer?
- A lot of confusion and aggravation, but also savings for those who switch and innovation
- But not without a lot of regulatory intervention both in terms of market design and in demand-side switching

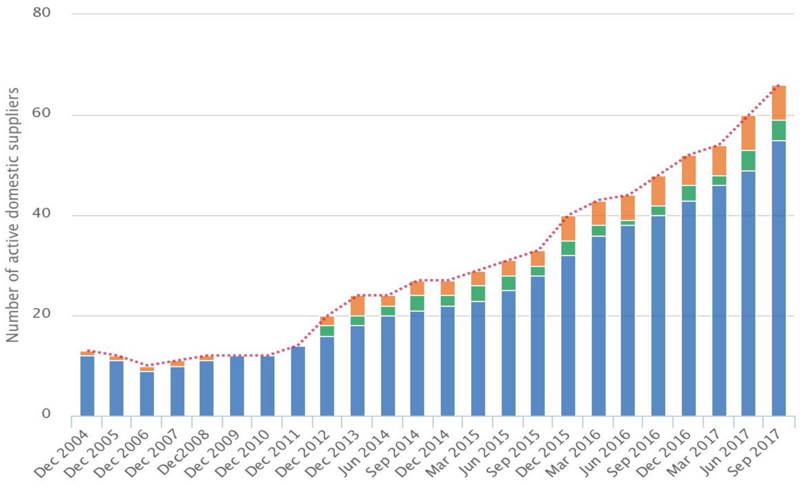
Retail price comparison by company and tariff type: Domestic (GB)



Average standard variable tariff (Six large suppliers)
Average standard variable tariff (Other suppliers)
Cheapest tariff (Six large suppliers) Cheapest tariff (All suppliers)
Cheapest tariff (Basket)

Source: Ofgem

Number of active domestic suppliers by fuel type (GB)

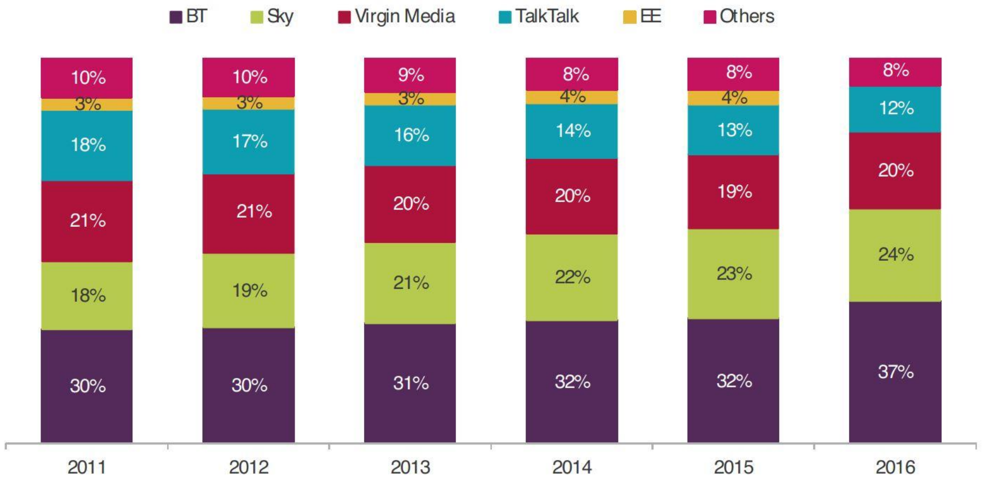


Gas Electricity Gas and electricity Total

Communications (I)

- The sector with the longest record of liberalisation and which has been the subject to the greatest change due to global technological innovation and market developments
- This has led to a very different landscape compared to 1984 when BT was privatised and changing consumer demand and expectations

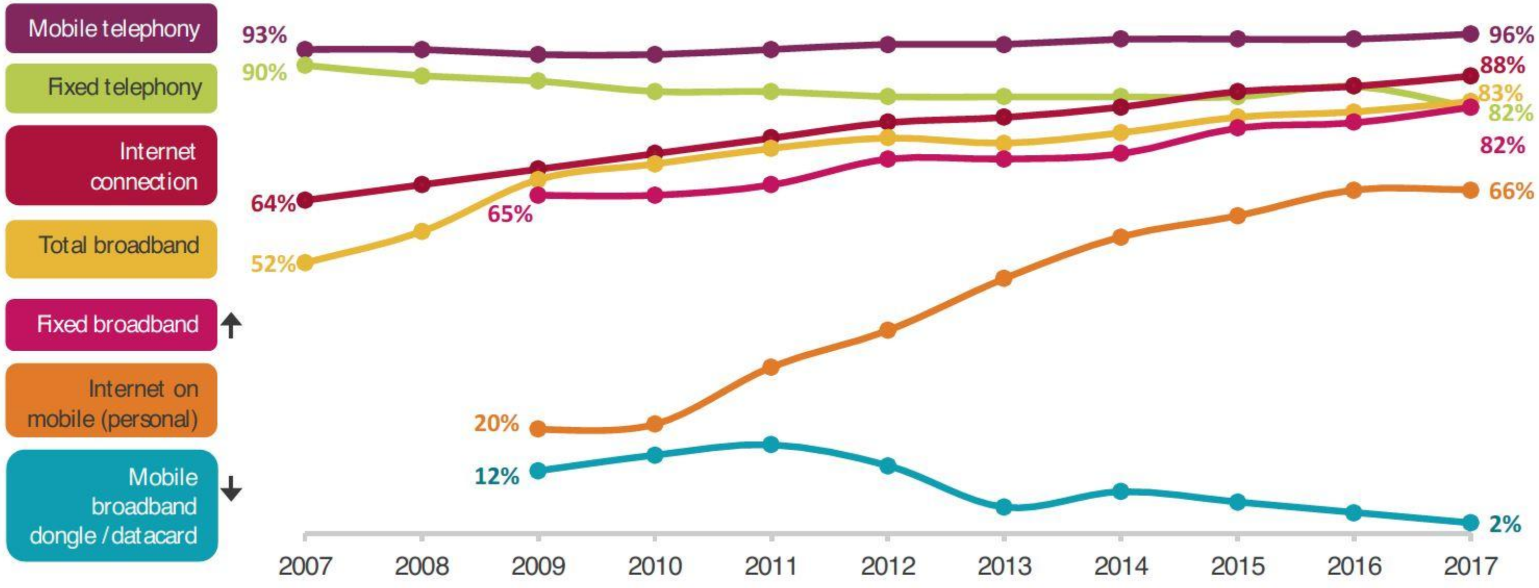
Retail Fixed Broadband Market Share % 2016



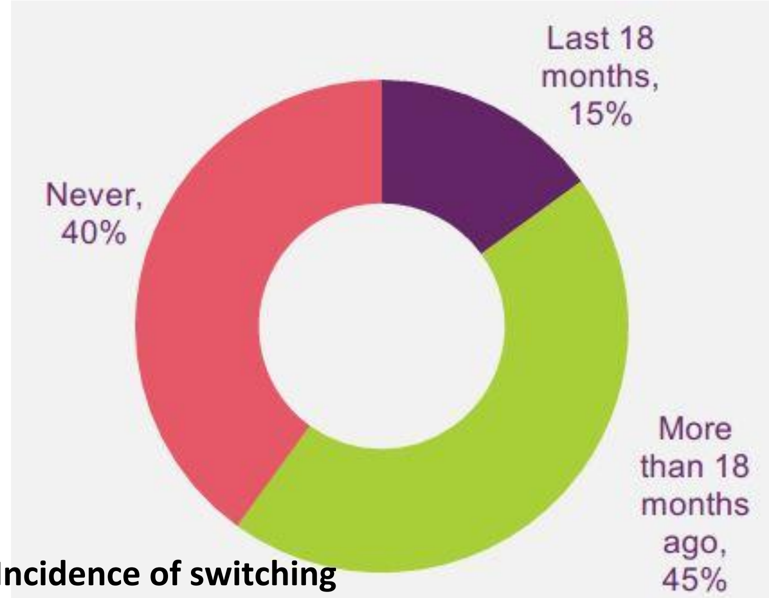
Source: Ofcom / operator data
Note: BT and EE are shown separately up to 2015, as the merger between these two organisations was not completed until 2016.

Communications (II)

- Communications are (almost ubiquitous) and their quality and availability a hot political issues across the UK
- Again, like energy, not without a lot of regulatory intervention in relation to increasing competition and encouraging switching



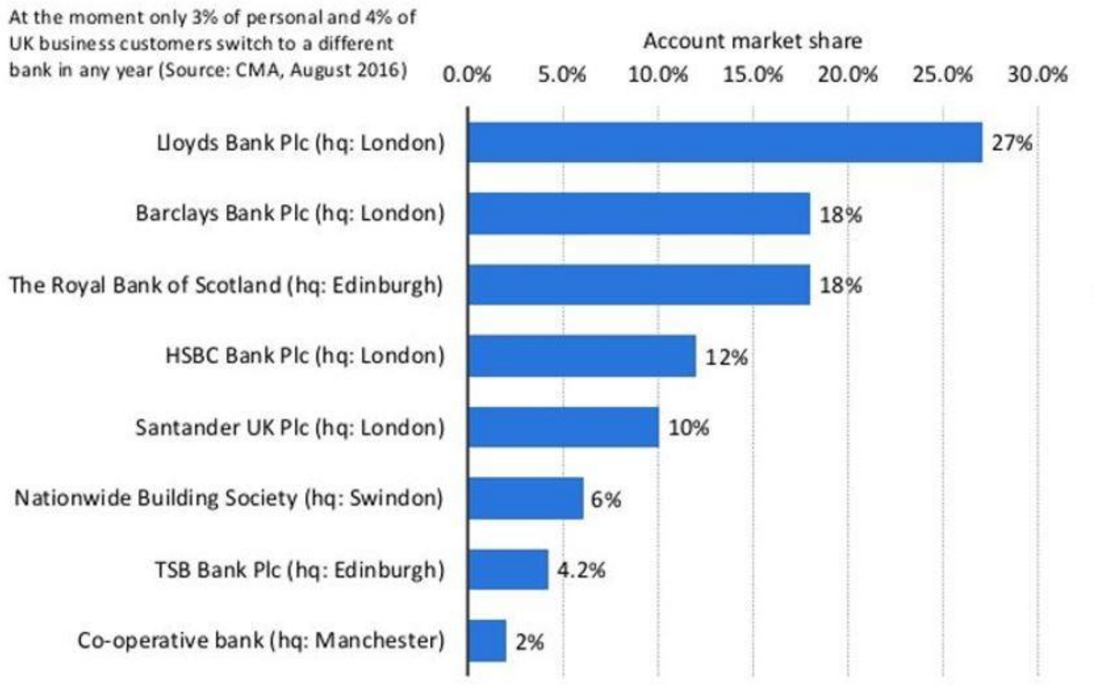
Take-up of communications services in the UK, Source: Ofcom



Incidence of switching mobile provider 2015-16,
Source: Ofcom

Financial Services

- Financial Services while essential has followed a different regulatory path from the other sectors and the current financial regulator, the FCA only reverts to price controls in exceptional circumstances
- More recently, there has been a emphasis on competition by both the CMA and FCA after much talk about among policy makers how to address the UK banking oligopoly: again with an emphasis on encouraging switching



Summary Assessment

- Competition was originally seen as the final destination for regulators to head for following the initial privatisation of state-owned utilities
- In financial services, competition is also seen as way of bring about improved quality and innovation
- Evidence points to the benefits competition has brought about in all the sectors, but only after extensive regulatory intervention
- Evidence also points to the fact that competition between and consumer choice has not and cannot address all the issues that exist, not least for vulnerable consumers
- Long-term investors, while appreciating the desire for better deals for consumers, are looking for greater certainty for their cash and their appetite for regulatory intervention to achieve keener prices and increased choice for consumers at the expense of their returns is finite.