

# Overcoming defaults

*Cognitive Biases and Consumer Engagement  
with Local Energy in a Multiple Supplier Model*

**Nicole Watson**

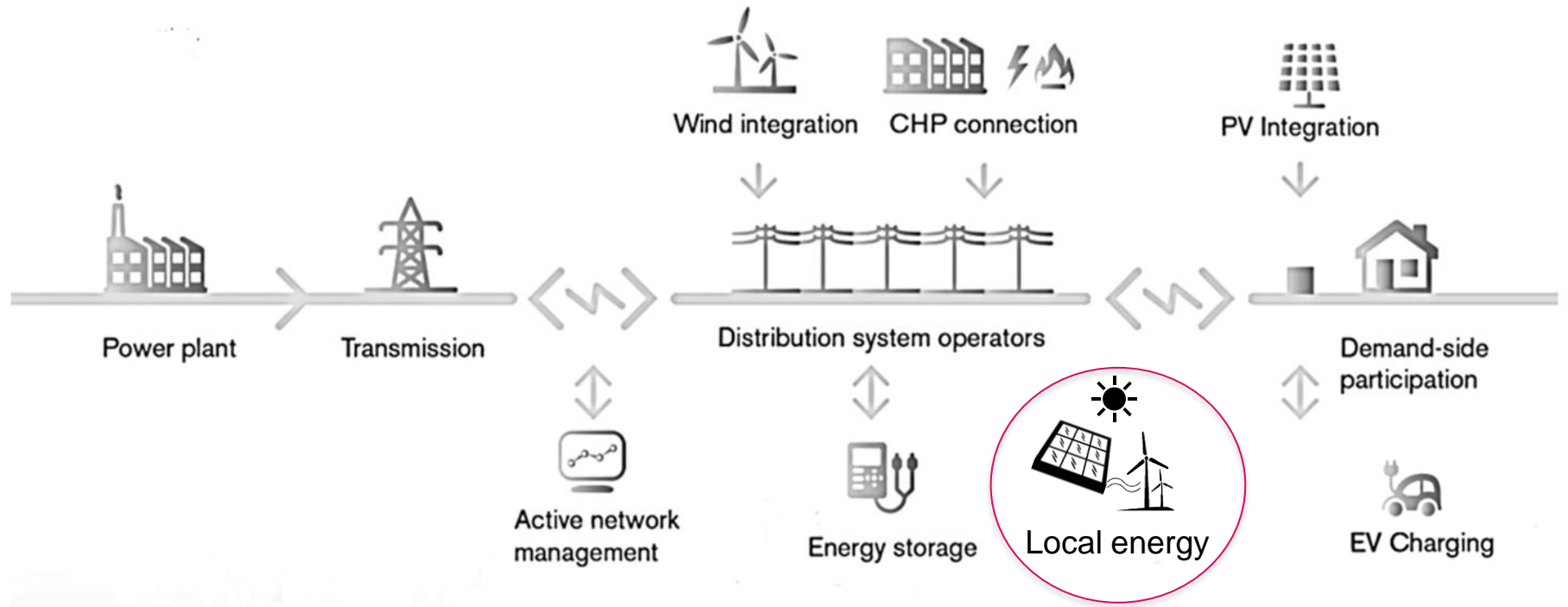
*UCL Energy Institute*

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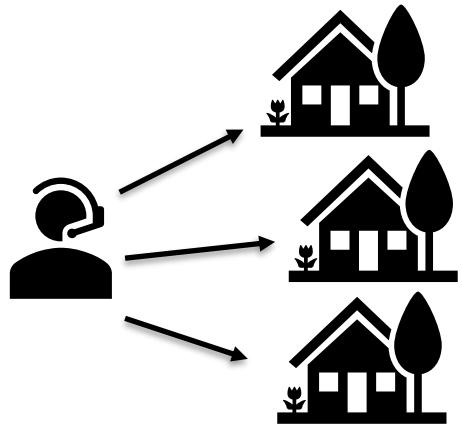
# Energy systems of the past...



# ...and the future

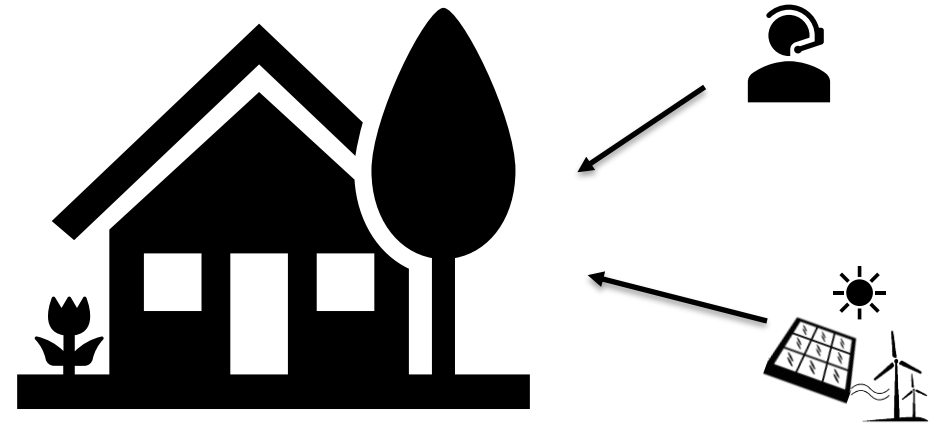


# A multiple supplier model would enable consumers to take on additional contracts with non-traditional suppliers....



Supplier hub:  
1 supplier, multiple consumers

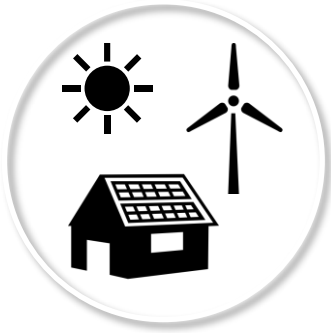
Vs.



Multiple supplier model:  
Multiple suppliers for each consumer

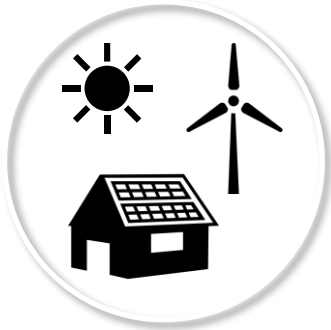
## ...with their current (national level) supplier meeting the rest of their demand

## Aims



Understand whether British adults are more likely to engage with local energy suppliers under a multiple supplier model or the current supplier hub model

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Explore cognitive biases associated with remaining with default suppliers and how they translate to a multiple supplier context

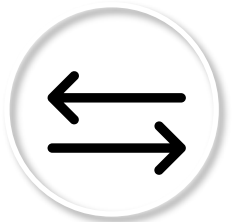
## Consumer engagement in the UK



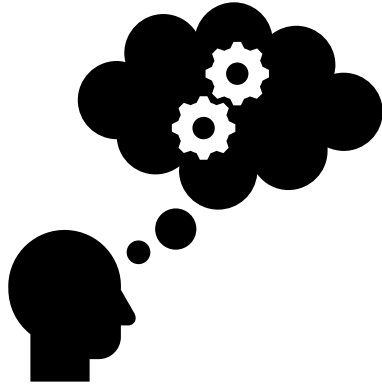
In 2019, 51% of UK consumers did not engage at all with the energy market



An additional 16% compared tariff/supplier but did not switch



**Tariff switches with the same supplier are typically higher than switches to a new supplier**



## Classic economic theory

- We are all rational actors
- Inefficiencies are caused by market failures  
e.g. transaction costs and incomplete information

## Behavioural economics - the default effect

- We apply mental short-cuts (cognitive biases)
- People tend to stick with options automatically assigned to them





# Behavioural economics



# Behavioural economics



## Cognitive effort

*People stick with the default because of the effort required in forming new preferences*

# Behavioural economics



## Cognitive effort

*People stick with the default because of the effort required in forming new preferences*

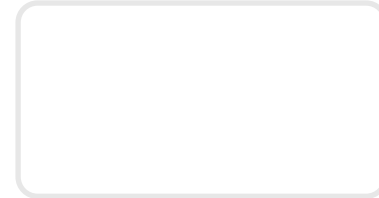
*Samuelson & Zeckhauser 1988  
Thaler & Sunstein 2008*



## Implied endorsement

*People stick with the default because it is perceived as being recommended to them*

*McKenzie et al. 2006*



## Behavioural economics



### Cognitive effort

*People stick with the default because of the effort required in forming new preferences*

*Samuelson & Zeckhauser 1988  
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### Implied endorsement

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*McKenzie et al. 2006*



### Loss aversion

*People stick with the default as they take this as a reference point and fear potential losses if they choose to move away from it*

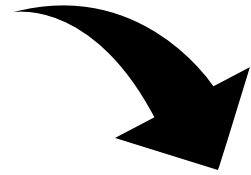
*Tversky and Kahneman 1991*

# Cognitive biases in a multiple supplier model



# Experiment 1 – 1200 participants

Hypothetical letter from current energy supplier



Single supplier default

Multiple supplier default

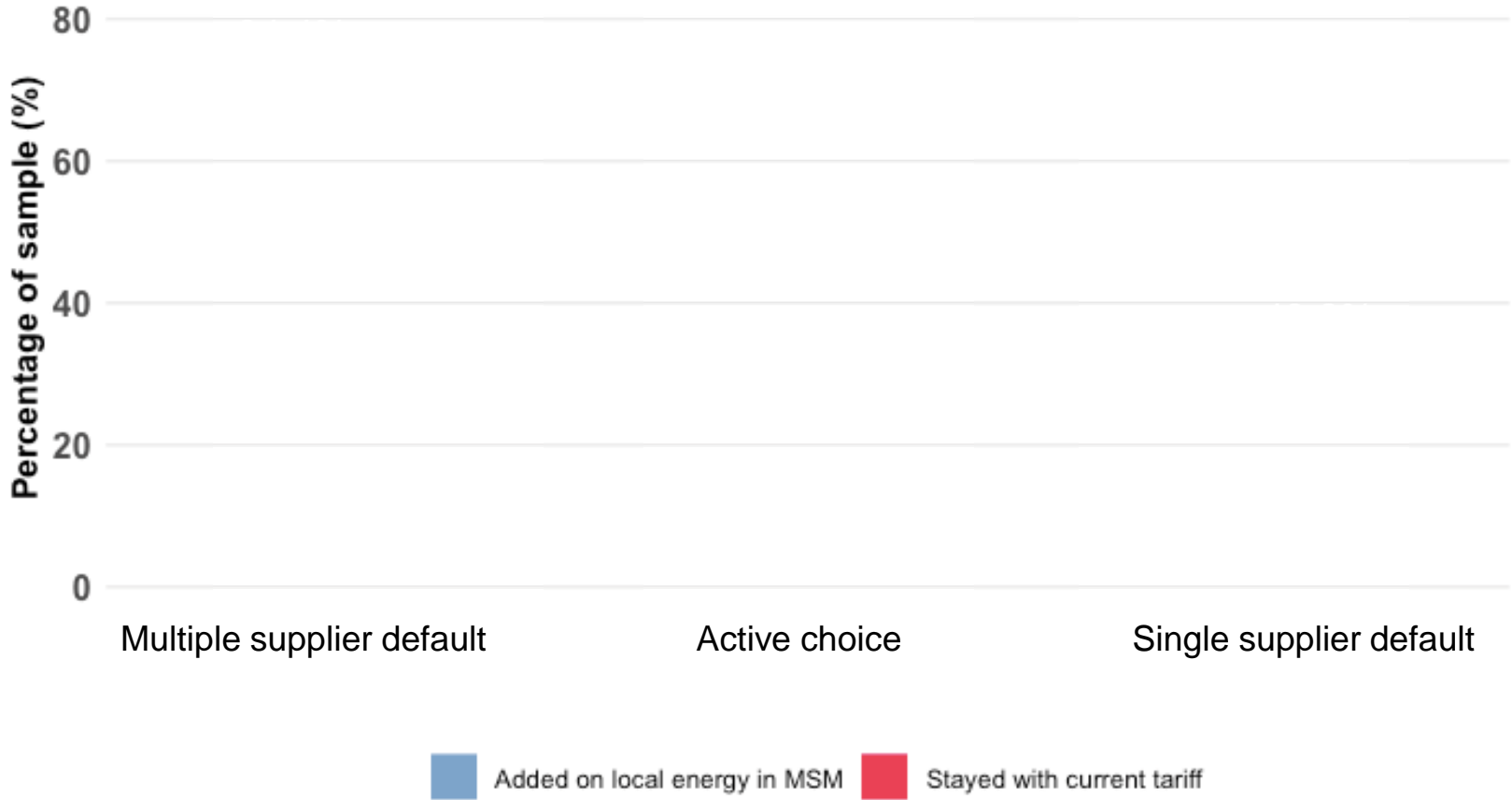
Active choice group

- Stay with the single-provider service
- Switch to the combined-provider service

- Stay with the combined-provider service
- Switch back to the single-provider service

- The single-provider service
- The combined-provider service

# Results of experiment 1



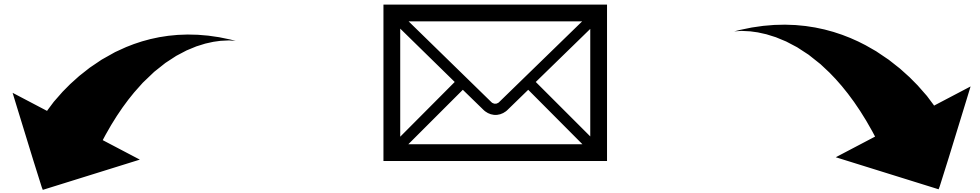
## Cognitive biases

- Strongest evidence for implied endorsement
- Some evidence for loss aversion



## Experiment 2 – 800 participants

Hypothetical letter from new local energy supplier



Single supplier condition

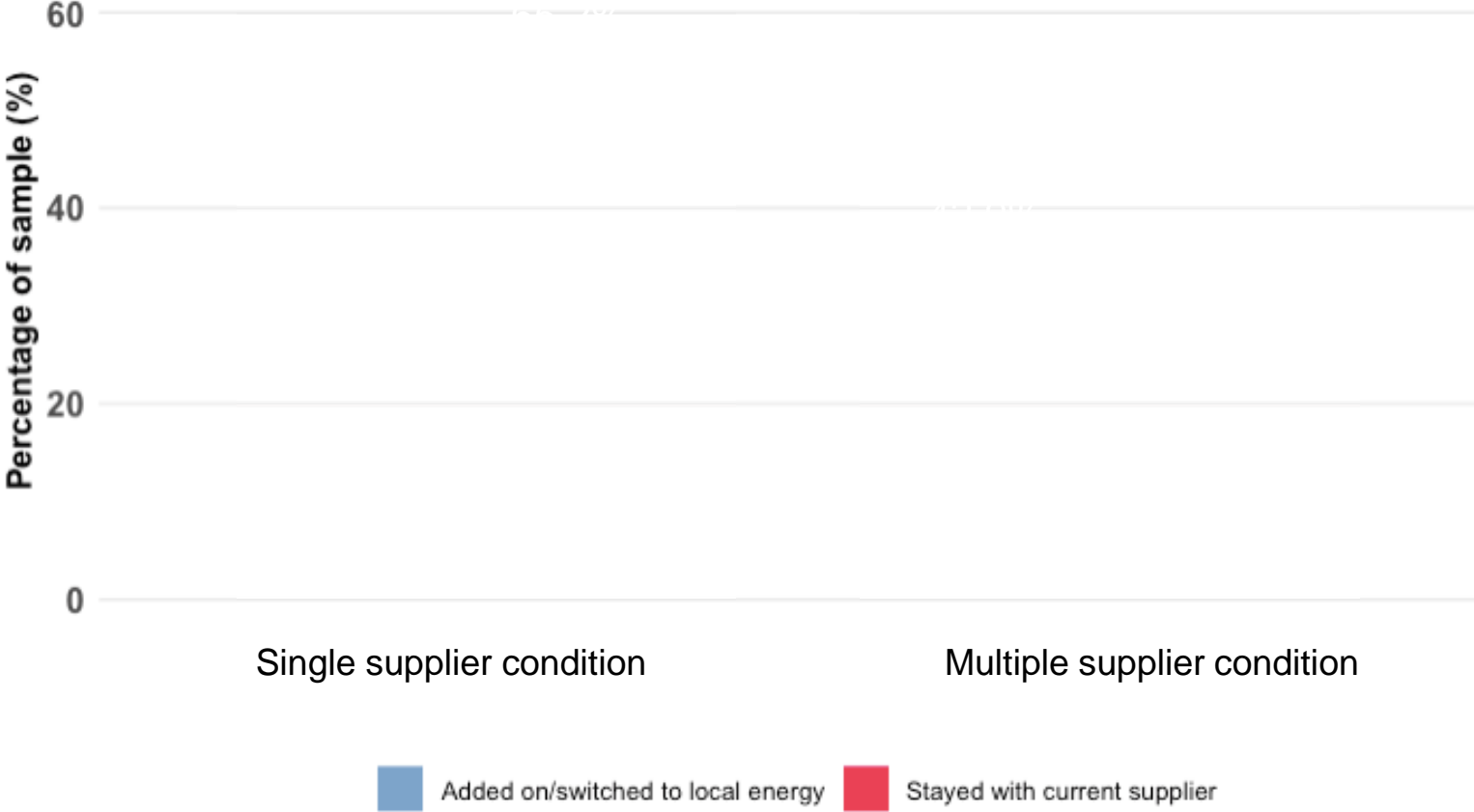
Multiple supplier condition

**What would you do in this scenario?**  
*Please select one only*

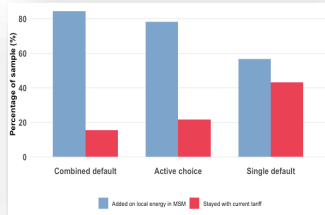
- Stay with my current supplier
- Switch to LocalEnergy

- Stay with my current tariff
- Add LocalEnergy's services to my current tariff

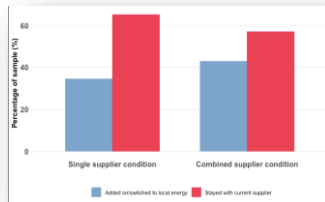
# Results of experiment 2



## Key findings and policy implications



Participants showed high willingness to engage with local energy in a multiple supplier model, even when they had to take action to engage



Participants were more likely to engage with local energy suppliers under a multiple supplier model than the current supplier hub model

**These findings suggest a multiple supplier model is likely to be a promising avenue for driving the growth of local energy and innovation in the GB energy retail market**

## Key findings and policy implications – cont.



Implied endorsement was the main cognitive bias associated with choosing the multiple supplier model

Participants were more likely to switch when approached by their current supplier than the new local supplier

**This finding suggests that explicit recommendations could be leveraged to drive supplier switching and engagement with innovative offers in the energy market, and highlights the importance of engaging trusted actors**

# Thank you!

## For more on this work see:

Watson, N., Huebner, G., Fell, M. and Shipworth, D., 2020. Two energy suppliers are better than one: Survey experiments on consumer engagement with local energy in GB. *Energy Policy*, 147, p.111891.

<https://doi.org/10.1016/j.enpol.2020.111891>

Blog post: <https://ukerc.ac.uk/news/multiple-supplier-models-show-promise-for-driving-the-growth-of-local-energy/>

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**EPSRC**

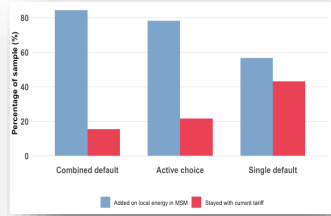
Engineering and Physical Sciences  
Research Council

**LoLo** London-  
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EPSRC CDT

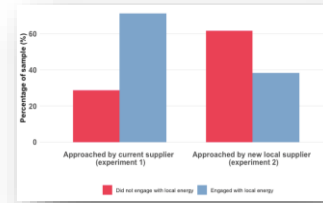
Centre for Doctoral Training  
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*Vision and leadership for a  
sustainable built environment*

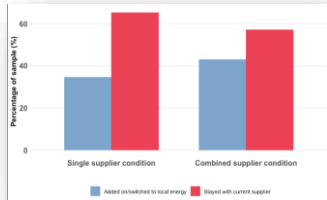
# Key findings



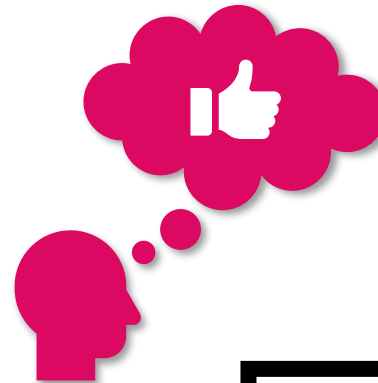
High willingness to engage with local energy in a multiple supplier model



More likely to engage when approached by current supplier than new local supplier



More likely to engage with local energy in multiple supplier model compared to current single supplier model



Implied endorsement most robust cognitive bias

