



# Addressing inertia and complexity in New Zealand's telecommunications market

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A review by the Behavioural Insights Team



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# Executive Summary


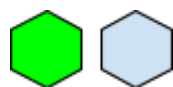
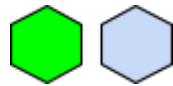


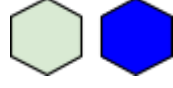
This review provides an overview of ideas from behavioural science to address inertia and complexity in New Zealand’s telecommunication market.

We first provide an overview of the mobile and broadband markets in New Zealand. We focus on the importance of the markets to consumer wellbeing, and on the key changes to each market since our 2019 review into behavioural biases and telecommunications.

We next provide an overview of *inertia* in telecommunications, which describes a person’s tendency to stick with the default option by taking no option. Inertia is driven by three main channels: ease, endowment and endorsement, with ease and endowment being particularly important in the telecommunications market. We highlight that inertia is widespread in the New Zealand market, and we have identified 5 promising solutions to promote consumer welfare by addressing inertia.

We then provide an overview of *complexity*, where we highlight that complexity is relatively high in telecommunications due to the number of options and the frequent bundling of services. In addition, there is evidence providers can deliberately create confusion to increase revenues. Our review suggests comparison tools have potential but can also fail to help consumers navigate complexity in the market. We have identified 5 promising solutions which do help consumers navigate complexity in the market.

Below we outline the solutions we have identified. We indicate the feasibility and impact of each solution, with feasibility referring to the likelihood of implementing the solution and impact referring to the expected impact on consumer wellbeing.

Area	Solution	Feasibility & Impact
	Identify and address potential barriers to switching	
	Make small changes to reduce frictions to switching	
	Provide the cheapest options directly to consumers	
	Take extra effort with ‘sticky’ consumers	
	Consider automatic switching	



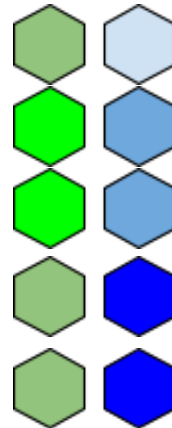
**Follow key guidelines when presenting complex information**

**Test the best ways of presenting information to maximise understanding**

**Test what information should be included in product disclosure statements**

**Ensure information presentation standards are imposed by regulators**

**Hold providers accountable for the outputs of consumer choices**



**Feasibility** - Low Medium High



**Impact** - Low Medium High

# The telecommunications market in NZ

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## 1.1 Importance of the telecommunications market to consumer wellbeing

As we emphasised in our 2019 review, the telecommunications market is important to consumer welfare in New Zealand.<sup>1</sup> Almost all New Zealanders use mobile and broadband services, which are needed to engage with a range of social, economic and government services.

The increasing importance of telecoms raises challenges for consumer welfare in the telecoms sector: the most recent data from the Commerce Commission show that it receives more consumer complaints than any other sector.<sup>2</sup> Key themes of the consumer complaints include:

- Being charged a fee without being informed
- Receiving inaccurate bills, with wrong pricing plans and discounts, and ongoing charges after switching providers
- The salesperson signing the person up to a contract without consent
- The plan being advertised as unlimited, but there were constraints on data usage
- The internet connection being slower than advertised.

Note that some of these complaints may reflect genuine bad practice by the provider, while others may reflect miscommunication and misunderstanding. Either option is a negative for the welfare of telco users.

There are further challenges for consumers navigating the telecommunications market, as highlighted in our 2019 review. First, those least likely to switch to improve their plans tend to be the most vulnerable. For example, an Irish study found that residents living in areas of lower socio-economic status were less likely to search for broadband plans on a comparison website.<sup>3</sup> This suggests that those living in more deprived circumstances are less able to navigate the complexities of the market, and that behavioural biases will be particularly harmful to welfare for this group.

Second, even when consumers engage with the market by switching, they do not always select a better plan. For example, one study from the UK found that a third of energy consumers typically only gained half the gains on offer when switching, and a third actually selected a worse plan.<sup>4</sup> This issue of sub-optimal switching may be amplified in

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<sup>1</sup> The Behavioural Insights Team, op. cit.

<sup>2</sup> The specific number is 727 complaints over July 2018 – June 2019, making up 8.1% of all complaints.

<sup>3</sup> Carthy, P., Lunn, P., & Lyons, S. (2018). Demographic variation in active consumer behaviour: Who searches most for retail broadband services?. MPRA Paper No. 90366

<sup>4</sup> Wilson, C. M., & Waddams Price, C. (2010). Do consumers switch to the best supplier?. Oxford Economic Papers, 62(4), 647-668.

telecommunications, where the products are more complex than energy provision described in the example above.

The importance of telecommunications— and the difficulties in navigation faced by consumers— raises the issue of behavioural biases. Decades of research in behavioural science shows that people use a number of heuristics or mental shortcuts to help navigate the world. These heuristics often make sense, but can lead people astray in predictable ways and lead to behavioural biases.<sup>5 6</sup> We will outline the impact of and solutions to address two particular biases— inertia and struggles with complexity— in the remainder of this report. Before doing so, in the next section we provide an overview of New Zealand’s 2021 mobile and broadband markets as they stand in 2021.

## 1.2 The mobile market in 2021

There are three Mobile Network Operators (MNOs) who dominate the market in New Zealand, as shown in Figure 1. These are Spark and its subdivision Skinny (which together have 40% of the subscriber market), Vodafone (with 40%) and 2degrees (with 19%). There are also five smaller Mobile Virtual Network Operators (MVNOs) who provide mobile services but use infrastructure from the MNOs (i.e. they purchase wholesale and sell retail). These MVNOs are Compass, Kogan Mobile, Trustpower, Vocus and Warehouse Mobile. Together MVNOs comprise 1.4% of the mobile market with 88,500 subscribers.<sup>7</sup>

The cost of telecoms tends to be in line with the OECD average:<sup>8</sup> costs are around the OECD average for mobile,<sup>9</sup>

*Figure 1: New Zealand’s MNOs and MVNOs in 2021 and their share of subscribers.*

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<sup>5</sup> Kahneman, D. (2011). Thinking, fast and slow. Macmillan.

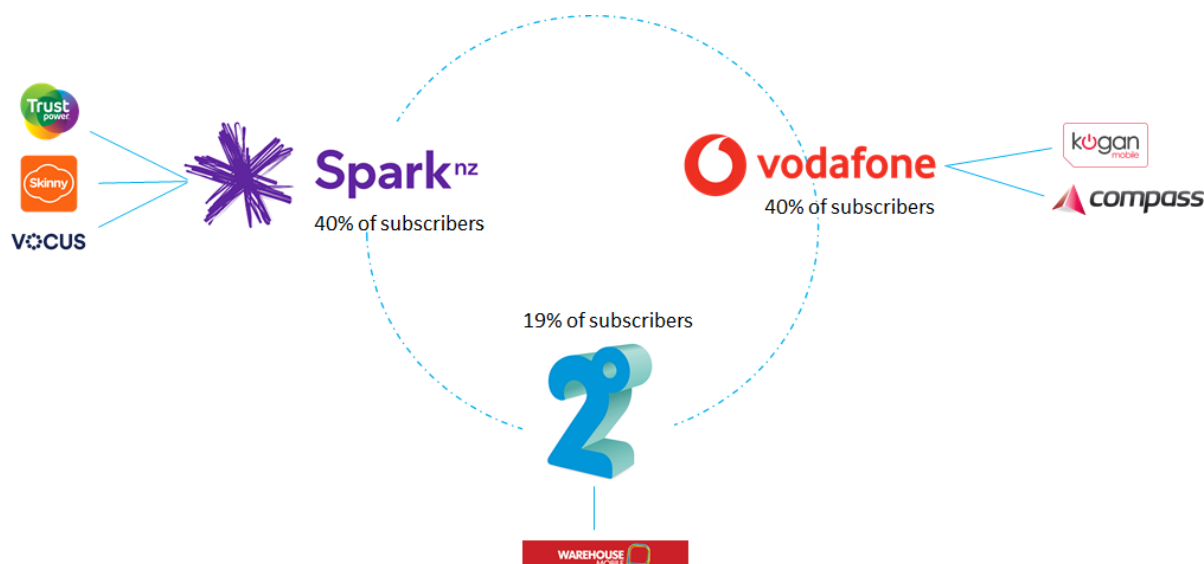
<sup>6</sup> The Behavioural Insights Team (2014). EAST: Four Simple Ways to Apply Behavioural Insights. Retrieved from <https://www.bi.team/publications/east-four-simple-ways-to-apply-behavioural-insights/>

<sup>7</sup> Commerce Commission (2021), op. cit.

<sup>8</sup> Commerce Commission (2021). Annual Telecommunications Monitoring Report: 2020 key facts. Report. Retrieved from

[https://comcom.govt.nz/\\_\\_data/assets/pdf\\_file/0030/247377/2020-Annual-Telecommunications-Monitoring-Report-Revised-version-16-March-2021.pdf](https://comcom.govt.nz/__data/assets/pdf_file/0030/247377/2020-Annual-Telecommunications-Monitoring-Report-Revised-version-16-March-2021.pdf)

<sup>9</sup> At a more granular level, mobile costs are below the OECD average for entry-level and medium user plans, and above the OECD average for high user plans.



Note: Each MVNO is connected to its parent MNO through straight lines in the figure. Note that Skinny is strictly a subdivision of Spark and not an MVNO. MVNOs make up 1.4% of subscribers.

## Recent changes to the mobile market

There are several changes to the market since our 2019 review.

### *Increase in uncapped mobile plans*

First, there has been an increase in uncapped mobile plans with unlimited data, which now make up 14% of residential plans (up from 7% the previous year).<sup>10 11</sup> This means increasing numbers of consumers do not have to worry about their data usage and the associated challenges with estimating usage— which was one of the four challenges for consumer welfare highlighted in our 2019 review.<sup>12</sup> However, we do note that some MNOs can significantly reduce mobile data speeds after a certain amount of data has been used in an uncapped plan— so consumers on uncapped plans who are concerned with high speeds may still need to estimate their data usage.<sup>13</sup>

### *Introduction and expansion of 5G*

The 5G mobile network was first introduced on December 10 2019 by Vodafone and is now available in parts of Auckland, Wellington, Christchurch and Queenstown with Vodafone, and in parts of Auckland, Takapuna, Te Awamutu, New Plymouth, Palmerston North, Christchurch and Dunedin with Spark.

<sup>10</sup> Commerce Commission (2021), op. cit.

<sup>11</sup> Note that MNOs can significantly reduce mobile data speeds after a certain amount of data has been used. Hence there is a sense in which these plans are not truly uncapped or unlimited.

<sup>12</sup> See the 'Consumers are poor at estimating their future needs' section.

<sup>13</sup> Fair use policies are also put in place by MNOs, meaning customers cannot use the service in a way that is overly excessive or unreasonable.

2degrees does not yet have a 5G network. It has announced it is partnering with Ericsson to launch its 5G network in 2021.<sup>14</sup>

The introduction and expansion of 5G should boost consumer welfare, as this innovation is an improvement which provides faster access to online content. However, the introduction of 5G may increase the negative consequences of behavioural biases as some consumers may fail to pick the optimal plan which uses 5G. And as we will note in the subsequent section on *complexity*, the introduction of 5G may increase complexity when choosing between mobile providers and plans, because accessing 5G requires: (1) being in a location offering 5G, (2) having a phone that allows access to 5G, and (3) subscribing to a 5G plan.

### **Upcoming support by MNOs to promote consumer choice**

In recognition of the challenges faced by consumers, the Commerce Commission recently challenged mobile operators to make it easier for consumers to compare and choose the best plan. In March 2021 the three largest mobile providers (Spark, Vodafone and 2degrees) agreed to:<sup>15</sup>

- Provide at least 12 months' usage and spend information to their customers
- Provide an annual usage and spending summary to their customers including a prompt to consider whether they are on the right plan
- Promote the development of comparison tools including a prospective consumer data right (CDR) to make it easier for customers to compare plans and providers.

As we will emphasise in the *Inertia* and *Complexity* sections, there is significant potential for this upcoming support to boost consumer welfare, but some methods of providing information to consumers will be more effective than others. The Commerce Commission expects the MNOs to be providing the support to their customers by the end of 2021.

## **1.3 The broadband market in 2021**

There are five main fixed broadband providers in New Zealand, as shown in Figure 2. These are Spark, Vodafone, Vocus, 2degrees and Trustpower.<sup>16</sup> There are also a number of smaller providers who make up 13% of the subscriber market, and often serve rural households. Broadband costs are somewhat above the OECD average for fixed-line broadband.<sup>17</sup> Access is widespread, with increasing investment in ultra-fast broadband rollout and 5G infrastructure— 87% of New Zealanders should be able to connect to fibre by 2023.

*Figure 2: New Zealand's main internet providers and their 2020 market share in connections*

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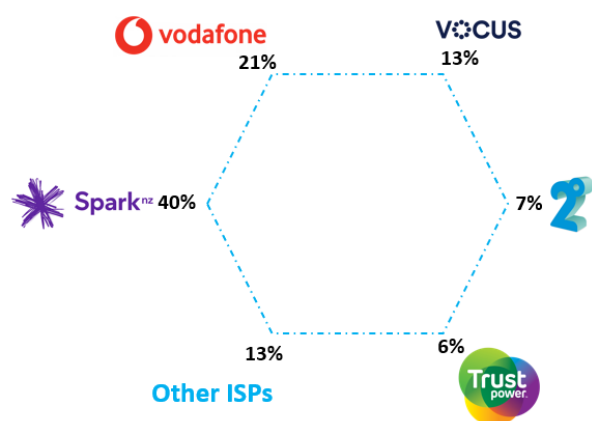
<sup>14</sup> 2degrees (2021). 2degrees selects Ericsson as partner for 5G network launch in 2021. Retrieved from <https://www.2degrees.nz/media-releases/2degrees-selects-ericsson-as-partner-for-5g-network-launch-in-2021/>

<sup>15</sup> Commerce Commission (2021). Telcos step up to support consumer choice. Media release. Retrieved from <https://comcom.govt.nz/news-and-media/media-releases/2021/telcos-step-up-to-support-consumer-choice>

<sup>16</sup> Note that the market share for Spark includes the market share of its sub-brand Skinny.

<sup>17</sup> At a more granular level, broadband costs are above the OECD average for entry, medium and high user plans, but below the OECD average for ultra-high user plans (unlimited data with high 900Mbps speed).





Although access to high-speed and high-usage plans has been increasing, some plans are more likely to be tied to other conditions. For example, Vodafone's \$73 high-user plan can only be purchased if the person also has a monthly mobile plan from Vodafone. Although cheaper deals are beneficial for consumers, tying them to other conditions (also called *bundling*) raises the complexity of the telecoms market for consumers and may be detrimental to consumer welfare. This is a point we return to with more detail in the *Complexity* section.

### Changes to the broadband market since our 2019 review

There are several changes to highlight, which centre around the common themes of increased usage and speed. Increased speed means users can access online content faster, which should promote consumer welfare. Yet these changes have implications for the behavioural biases which impact consumer welfare.

#### Increased broadband usage

There has been a large increase in broadband data usage, partly due to COVID-19 and the lockdown in New Zealand which forced people to spend most of their time at home. Average monthly broadband usage in 2020 increased 37% from 2019 usage, which represents a 77GB increase to 284GB.<sup>18</sup> Increased usage magnifies the impact of all four biases highlighted in our 2019 report: inertia, complexity, present bias and mis-estimation will all have more of an impact on consumer welfare. For example, increased usage raises the stakes of choosing the right plan. If a consumer chooses a plan which is too slow, or with a data cap which is too low, the impact of the slow speed or low cap will be magnified due to increased online activity.

#### An increase in uncapped broadband plans

Most users in New Zealand are on uncapped plans or plans that are flexible depending on data use.<sup>19</sup> This is shown in the plans offered by the largest broadband providers. As of 2021, Spark's main urban plan is the flexible *Unplan* which allows unlimited usage,<sup>20</sup> two of

<sup>18</sup> Commerce Commission (2021), op. cit.

<sup>19</sup> TUANZ (2020). Working From Home. Webpage. Retrieved from <https://tuanz.org.nz/working-from-home-tech/>

<sup>20</sup> Spark (n.d.). Plans & pricing. Webpage. Retrieved from <https://www.spark.co.nz/shop/internet/plans-and-pricing>

Vodafone's three main plans are unlimited,<sup>21</sup> Vocus' business plans are unlimited,<sup>22</sup> two of 2degrees' three main plans are unlimited,<sup>23</sup> and all of Trustpower's plans are unlimited.<sup>24</sup>

As with the increase in uncapped mobile data plans, the increase in uncapped broadband plans means increasing numbers of consumers do not have to worry about their data usage and the associated challenges with estimating usage— which was one of the four challenges for consumer welfare highlighted in our 2019 review.<sup>25</sup>

### **The introduction of super-fast fibre**

The next generation fast fibre services has recently been introduced by Chorus ('Hyperfibre') whilst the others (Enable and Ultrafast Fibre) have announced the development of these services.<sup>26</sup> Chorus' hyperfibre describes a fibre connection with speeds of up to 8,000 Mbps for households, businesses and education providers, for both downloading and uploading content. This is significantly faster than speeds of up to 900/400 Mbps downloading/uploading speeds for fibre, and 60/10 Mbps for VDSL.<sup>27</sup>

Although the option of accessing hyperfibre should promote the welfare of telecommunications users, it is significantly more expensive than standard fibre (at \$149 - \$199 a month vs. \$65 - \$149 a month<sup>28</sup>), which increases the potential for consumers to overspend if they mis-estimate their needs. There is some online guidance for households outlining whether hyperfibre is right for them— though this guidance includes benefits that are less tangible such as '*Boast about the fastest residential connection*' which may encourage some households to buy the most expensive product even if they do not need the extra speed.<sup>29</sup>

### **Faster internet speeds due to decreasing copper broadband connections.**

The number of copper broadband connections (including high-speed VDSL) dropped to 441,000 in 2020, representing a 24% decrease from 2019.<sup>30</sup> This reflects the uptake of high-speed fibre broadband plans as well as the increase in sales by Spark and Vodafone of fixed wireless services off their 4G mobile networks.

Higher internet speeds should increase consumer welfare by allowing smoother access to online content. If the trend continues it may also lower complexity in the market, as speed becomes less of a differentiating factor for consumers to weigh up across different plans

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<sup>21</sup> Vodafone (n.d.). Broadband. Webpage. Retrieved from <https://www.vodafone.co.nz/broadband/internet-plans/plan-options/>

<sup>22</sup> Vocus (n.d.). Broadband plans. Webpage. Retrieved from <https://www.vocus.co.nz/broadband-plans>

<sup>23</sup> 2degrees (n.d.). 2degrees does NZ Broadband. Webpage. Retrieved from <https://www.2degrees.nz/broadband/plans/>

<sup>24</sup> Trustpower (n.d.). Power and broadband. Webpage. Retrieved from <https://www.trustpower.co.nz/power-broadband>

<sup>25</sup> See the '*Consumers are poor at estimating their future needs*' section.

<sup>26</sup> <https://hyperfibre.co.nz/>

<sup>27</sup> Chorus (n.d.). Hyperfibre - NZ's fastest broadband. Website. Retrieved from <https://www.chorus.co.nz/broadband/hyperfibre>

<sup>28</sup> Chorus, op. cit.

<sup>29</sup> <https://hyperfibre.co.nz/hyperfibre-options/home>

<sup>30</sup> Commerce Commission (2021), op. cit.

(though see the section above on the introduction of high-speed fibre plans which may go the other way and increase complexity).

### ***Increased use and advertising of fixed wireless broadband***

There has been a substantial increase in the number of fixed wireless broadband connections, with 221,000 connections in 2020. This is up from 191,000 in 2019, representing a 15.7% increase. New Zealand's use of fixed wireless is also high by international standards: in 2020 New Zealand had the third highest subscription rate in the OECD, with 4.5 subscriptions per 100 people.

Fixed wireless subscriptions are more likely to be capped, which in turn increases issues with mis-estimation by consumers and the possibility of purchasing a plan with either too much or not enough data. As noted in our past review, if consumers were looking to minimise costs they would select plans that resulted in the lowest *average* invoice, even if that means sometimes paying extra for exceeding it. However, many consumers choose plans so that they rarely or never pay excess charges, and as a result, pay a lot more than needed in the months when their usage is lower, and pay more than needed overall.

One behavioural phenomenon driving this over-estimation is *loss aversion*, which describes our tendency to feel losses more strongly than equivalent gains.<sup>31</sup> In this context, the potential loss of money through excess charges has a disproportionate impact on a customer's choice, and can lead to a plan with more data than needed. Another behavioural phenomenon driving this over-estimation is *ambiguity aversion*, which describes our tendency to prefer options where the probabilities are known and to avoid ambiguity or uncertainty.<sup>32</sup> Buying a large data cap is a way of providing the consumer with certainty that excess charges will not emerge.

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<sup>31</sup> Tversky, A., & Kahneman, D. (1991). Loss Aversion in Riskless Choice: A Reference-Dependent Model\*. The Quarterly Journal of Economics, 106(4), 1039–1061.

<sup>32</sup> Ellsberg, D. (1961). Risk, Ambiguity, and the Savage Axioms. The Quarterly Journal of Economics, 75(4), 643–669.

# Addressing inertia

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## 2.1 Inertia is driven by three key factors

One of the key themes from our 2019 report was that many consumers stick with the default option in telecommunications. When a person faces choices— for example, between different mobile or broadband plans— the default option is the one that occurs if the person takes no action. This tendency to stick with the default is also called inertia,<sup>33</sup> and is driven by three main channels:<sup>34</sup>

1. **Ease.** The default option is often chosen because it is easiest to stay with the pre-selected option. This is particularly the case for telecommunications users, who have to actively change providers to choose another option, while the default option of staying with the current provider requires no action, awareness or attention. There is local and international evidence that ease drives inertia. As highlighted in our 2019 review, inattention is a major driver of low switching rates, where inattentive consumers are those that do not actively consider the best option and instead repeat previous behaviours without further thought. For example, a Norwegian survey found that over 2 in 3 mobile users either look at plans from other providers less than once a year or don't know how often they look at plans from other providers.<sup>35</sup> In New Zealand, surveys suggest 68 percent of consumers 'rarely' or 'never' compare mobile plans offered by other providers.<sup>36</sup> The ease channel also means many consumers only switch in response to a triggering event— receiving a bill that is much higher than expected (*'bill-shock'*) is strongly associated with switching,<sup>37</sup> as are smaller prompts such as a notification of changes to a plan.<sup>38</sup>
2. **Endowment.** The default option can also be chosen because of endowment, which occurs if the person believes the default option reflects the status-quo. This is likely to be a large factor driving inertia in the telecommunications market, because when considering whether to switch to another plan the default option reflects the status quo. There is again evidence for the endowment channel. As highlighted in our 2019 review, consumers who are older and have had a longer tenure are less likely to switch telecom providers— and the endowment channel is stronger for those who are older and with longer tenure. For example, in an Australian study, only 2 of 174 consumers who considered switching but had never switched before proceeded to

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<sup>33</sup> Liu, J., & Riyanto, Y. E. (2017). The limit to behavioral inertia and the power of default in voluntary contribution games. *Social Choice and Welfare*, 48(4), 815–835.

<sup>34</sup> Jachimowicz, J. M., Duncan, S., Weber, E. U., & Johnson, E. J. (2019). When and why defaults influence decisions: A meta-analysis of default effects. *Behavioural Public Policy*, 3(2), 159–186.

<sup>35</sup> Sæthre, M., Reme, B.-A., & Lie Røhr, H. (2018). The Poking Effect: Price Changes, Information, and Inertia in the Market for Mobile Subscriptions (SSRN Scholarly Paper ID 3288472). Social Science Research Network.

<sup>36</sup> Consumer NZ (2018). Telco survey: Mobile and internet service providers.

<sup>37</sup> Lunn, P. D., & Lyons, S. (2018). *op. cit.*

<sup>38</sup> Sæthre, M., Reme, B.-A., & Lie Røhr, H. (2018). *op. cit.*

switch in the next year (relative to 58% of those who had previously switched between 1 and 12 times).<sup>39</sup>

3. **Endorsement.** The default option can also be chosen when it is perceived as being endorsed by a trustworthy authority. For example, if a certain level of risk for a retirement fund (such as conservative) is the default, then people may think the government is endorsing this level of risk and may trust this choice if they perceive the government to be trustworthy and more financially knowledgeable than they are. This is unlikely to be a large factor in telecommunications markets, because there is no endorsement of certain providers over others when choosing a provider or considering whether to switch plans. Though it is possible that a larger market share of a provider creates a sense of endorsement from other people which may provide incumbents an advantage

The fact that ease and endowment drive inertia in telecommunications— but endorsement does not— indicates the types of solutions that are most likely to encourage switching. That is, the most promising solutions to address inertia will increase the ease of switching, and will address our tendency to prefer a provider just because they represent the status quo.

## 2.2 Inertia in New Zealand's telecoms markets is widespread

As highlighted in our 2019 report, in every country in Europe at least a third of consumers have never switched their telecom provider, and the figure is as high as two thirds in some countries.<sup>40</sup> Similarly in New Zealand, surveys from 2018 show that 43% of people had not switched internet providers in the last 5 years and 54% had not switched mobile providers.<sup>41</sup>

The latest 2020 data also suggest switching rates in New Zealand are low. For example, churn<sup>42</sup> for residential broadband connections with a voice plan was 12.9%, while churn for naked broadband connections was 18.8%.<sup>43</sup> Churn for prepaid mobile plans was higher at 54.5%, while churn for on-account residential and business mobile plans was low at 10.3% and 12.8% respectively.<sup>44</sup>

The churn figures above may overstate switching, because they show terminations which do not necessarily imply the user switches to a new provider in New Zealand. Given that most terminations which are not from switching are from people moving overseas, the 2020 churn figures above should give a good picture of switching rates.

Inertia is also higher in the telecom sector than in other similar sectors. For example, 12-month switching between electricity providers was over 20% in April 2021, and has been

<sup>39</sup> Islam, M. Z., D'Alessandro, S., Furner, M., Johnson, L., Gray, D., & Carter, L. (2016). Brand Switching Pattern Discovery by Data Mining Techniques for the Telecommunication Industry in Australia. *Australasian Journal of Information Systems*, 20.

<sup>40</sup> Lunn, P. D., & Lyons, S. (2018). Consumer switching intentions for telecoms services: Evidence from Ireland. *Heliyon*, 4(5).

<sup>41</sup> Consumer NZ (2018). Telco survey: Mobile and internet service providers

<sup>42</sup> Here churn refers to the number of connections or plans that were terminated as a proportion of the total number of connections or plans.

<sup>43</sup> Commerce Commission (2020). Telecommunications Industry Questionnaire: 2020 aggregate responses. Survey.

<sup>44</sup> Ibid.

between 16% and 21% for the last decade.<sup>45</sup> There is evidence that lower inertia in the electricity sector has been boosted by the introduction of a consolidated comparison tool which allows consumers to easily see the potential gains from switching. In 2011 the Electricity Authority introduced the *What's My Number?* website — and boosted the functionality of the *Powerswitch* website which has since merged with *What's My Number?*<sup>46</sup> — to highlight a household's gains from switching electricity providers. The *What's My Number?* and *Powerswitch* initiatives were evaluated in 2013, and were found to: increase residential switching rates from 62,000 to 79,000; increase net welfare by \$500,000 over three years (which is low compared with the \$15 million cost of the initiatives); and to increase competition between providers.<sup>47</sup> Inertia may also be lower in the electricity sector because the product is relatively homogenous, meaning price is the main factor for consumers to consider across plans. In contrast, different telecommunications plans and products are more complex and can be harder to compare, which is a point we return to in the *Complexity* section.

### ***Some providers make use of inertia with 'inertia selling'***

One lesson from our 2019 review was that providers appear aware of consumer biases in telecom markets, and leverage these biases to increase their revenue. One example of this is *inertia selling*, in which a provider offers an unsolicited new product or service, and the consumer has to take action to not receive the new product or service. In 2019 Spark was investigated for contacting customers with a home phone service, encouraging customers to let Spark move them off the copper network and onto Spark's wireless network, and sending customers home phone kits by default which customers were asked to install or return to Spark (at the provider's expense).<sup>48 49</sup>

## **2.3 There are a number of promising solutions to address inertia**

The evidence suggests a number of promising solutions to address inertia and encourage consumers to switch to better telecommunications plans. We outline these below.

### **Solution #1: Identify and address potential barriers to switching**



#### **Identify and address potential barriers to switching**

*Feasibility = high. Impact = low.*

<sup>45</sup> Electricity Authority (2021). Switching trends. Webpage. Retrieved from [https://www.emi.ea.govt.nz/Retail/Reports/R\\_SwT\\_C](https://www.emi.ea.govt.nz/Retail/Reports/R_SwT_C)

<sup>46</sup> Consumer (2019). Price comparison websites What's my Number and Powerswitch merge. Webpage. Retrieved from

<https://www.consumer.org.nz/articles/electricity-authority-and-consumer-nz-merge-price-comparison-websites-whatsmynumber-org-nz-and-powerswitch-org-nz>

<sup>47</sup> Prior, M. (2018). Search and Switching Costs in the Services Sector: Literature Review. MBIE Summer Scholarship Research Paper.

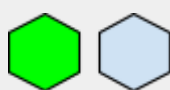
<sup>48</sup> Stuff (2019). Commerce Commission assesses Spark 'inertia selling' complaint. Article. Retrieved from <https://www.stuff.co.nz/business/113457590/commerce-commission-assesses-spark-inertia-selling-complaint>

<sup>49</sup> Stuff (2019). Chorus 'deeply uncomfortable' with Spark home-phone sales move. Article. Retrieved from <https://www.stuff.co.nz/business/113418141/chorus-deeply-uncomfortable-with-spark-homephone-sales-move>

This review, and BIT's previous work, has highlighted the impact of behavioural biases on switching behaviour. However, there may also be barriers to switching that are not behavioural in nature, but rather reflect legitimate concerns that consumers have or structural issues that consumers face. For example, some consumers (particularly those in rural areas) might have legitimate concerns about service quality if they switch providers. Alternatively, there may be concerns about a temporary loss of service while they enact a change in providers.

Further qualitative research to understand what some of these barriers are for New Zealanders, and what can be done to address or overcome them, will prove invaluable in overcoming inertia and helping consumers switch. For example, previous work by Ofgem to encourage switching in energy markets recognised that consumers might have concerns about losing power during a switch - hence communications emphasised the fact that consumers would not see an interruption in their supply if they switched.<sup>50</sup>

## Solution #2: Make small changes to reduce frictions to switching



### **Make small changes to reduce frictions to switching**

*Feasibility = high. Impact = low.*

Comparison tools have the potential to empower consumers and help them find the best mobile or broadband plan. Yet there can be a number of small frictions to using comparison tools, which range from navigating to the website, to entering one's address, to navigating to the results page and interpreting the results. One promising way to promote switching through the use of comparison tools is to make it as easy as possible to use them— for example ensuring only one click is needed to get to and use the tool. Extensive research in behavioural science shows that reducing small frictions can have large impacts on behaviour. For example, our work in the UK has shown that taking people directly to a form (rather than to a website which required another action to go to the form) increased tax response rates from 19.2% to 23.4% — which represents a 22% increase.<sup>51</sup>

Other changes could go further, by making it as easy as possible for users to access their data and use it in the comparison tool. Prior work in behavioural science shows that pre-filling information can encourage people to complete a form. For example, pre-filling the application process for potential university applicants (or their parents) led to an 8

<sup>50</sup> Ofgem (2019). Insights from Ofgem's consumer engagement trials: What works in increasing engagement in energy tariff choices? Report. Accessed from <https://www.ofgem.gov.uk/ofgem-publications/156422>

<sup>51</sup> The Behavioural Insights Team (2014). EAST: Four Simple Ways to Apply Behavioural Insights. Retrieved from <https://www.bi.team/publications/east-four-simple-ways-to-apply-behavioural-insights/>

percentage point increase in university attendance (42 percent vs 34 percent for the control group).<sup>52</sup>

One promising development in the New Zealand mobile market is the promise by the three main MNOs to provide usage data to customers and a prospective consumer data right (CDR) to make it easier for customers to compare plans<sup>53</sup> (see the *Recent changes to the mobile market* section). This would significantly reduce friction, though we note that trust in mobile providers is relatively low in New Zealand,<sup>54</sup> which means the messages from providers may be received with skepticism. Below we highlight four key principles to maximise the impact of the data and CDR provision:

1. **Keep it simple and visually attractive.** Making a message clear and drawing attention to the message— which can include visual cues— often leads to significant increases in response rates to communication.<sup>55</sup> If the MNO messaging is not simple and attractive, it is unlikely to have a large impact on consumer behaviour.
2. **Have a clear call to action.** Having a call to action is another evidence-based strategy to attract attention and increase response rates. For example, research in Australia to encourage people to pay their overdue fines shows that including a red ‘Pay Now’ stamp on the letter (among other changes) led to a 3.1 percentage point increase in payment rates, from 14.7 percent to 17.8 percent.<sup>56</sup> This suggests a similar call to action— such as ‘Check whether you would save money by switching plan’— could boost the impact of the data and CDR provision.
3. **Minimise the steps to use the CDR and comparison tools.** As emphasised above, even small frictions such as an extra click to land on a website can have a disproportionate impact on behaviour. This means it is crucial to minimise the number of steps the customer has to follow, from receiving their CDR to using a comparison website and potentially switching provider. Ideally this would just involve one click to use the comparison tool— which would be pre-filled with the customer’s information— and to see the results.
4. **Draw on social norms.** A large and growing body of evidence shows that drawing on social norms can change behaviour.<sup>57</sup> Drawing on social norms involves stating how others *do* behave or how others think we *should* behave. In the context of the data and CDR provision by MNOs, this could involve highlighting how many other consumers switch plans or use comparison tools, though there is a risk the social norm could backfire if the base rate is relatively low. If the base rate is relatively low, a promising recent strand of research shows

<sup>52</sup> The Behavioural Insights Team (2014), op. cit.

<sup>53</sup> For details, see the *Recent changes to the mobile market* section.

<sup>54</sup> Commerce Commission (2018b). Annual telecommunications monitoring report: 2018 key facts. Report. Accessed at

[https://comcom.govt.nz/\\_\\_data/assets/pdf\\_file/0016/111292/2018-AnnualTelecommunications-Monitoring-Report-18-December-2018.pdf](https://comcom.govt.nz/__data/assets/pdf_file/0016/111292/2018-AnnualTelecommunications-Monitoring-Report-18-December-2018.pdf)

<sup>55</sup> The Behavioural Insights Team (2014), op. cit.

<sup>56</sup> The Behavioural Insights Team (2014), op. cit.

<sup>57</sup> DellaVigna, S., & Linos, E. (2020). RCTs to Scale: Comprehensive Evidence from Two Nudge Units (No. w27594). National Bureau of Economic Research.



that drawing on *dynamic norms* can change behaviour, which involves highlighting that “*More and more*” or “*Increasing numbers*” of consumers are switching plans or using comparison tools.<sup>58 59</sup>

### Solution #3: Provide the cheapest options directly to consumers



#### **Provide the cheapest options directly to consumers**

*Feasibility = medium. Impact = medium.*

Reducing friction can have an impact, but if the ultimate goal is to provide consumers with information about the cheapest options available to them, then the best option may be to actually do just that— provide consumers with information about the cheapest options available to them. This might be most appropriate for consumers who have not switched for some time and could realise large savings from doing so.

This practice has been implemented in other areas, such as energy markets - in the UK, the regulator Ofgem has previously trialled sending the cheapest energy offers directly to consumers,<sup>60</sup> and in the Australian state of Victoria, energy providers are required to alert consumers if they are not on the cheapest plan with that provider given their usage.<sup>61</sup> This can cut out many of the frictions that may act as a barrier to consumers taking action to find out more about switching providers. Notably, whilst this approach has shown benefits in energy markets by tripling switching rates among long-tenured consumers, this comes from a relatively low base (just 1% of people switching without the intervention).<sup>62</sup>

In addition, some key challenges need to be considered. First, there is often low trust in service providers, meaning that messages from them may be regarded with scepticism.<sup>63</sup> Conversely, consumers may be unfamiliar with regulators, meaning that messages coming from regulators are also regarded with scepticism. Second, the way that the message is presented to consumers can make a substantial difference - even small

<sup>58</sup> Sparkman, G., & Walton, G. M. (2017). Dynamic Norms Promote Sustainable Behavior, Even if It Is Counternormative. *Psychological Science*, 28(11), 1663–1674.

<sup>59</sup> Loschelder, D. D., Siepelmeyer, H., Fischer, D., & Rubel, J. A. (2019). Dynamic norms drive sustainable consumption: Norm-based nudging helps café customers to avoid disposable to-go-cups. *Journal of Economic Psychology*, 75, 102146.

<sup>60</sup> Ofgem (2017). Cheaper Market Offers Letter Trial: Research Results. Retrieved from [https://www.ofgem.gov.uk/system/files/docs/2017/11/cm01\\_report\\_0.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/11/cm01_report_0.pdf)

<sup>61</sup> Essential Services Commission (2018). New Standards for Energy Bills and Marketing 2018. Webpage. Retrieved from

<https://www.esc.vic.gov.au/electricity-and-gas/inquiries-studies-and-reviews/electricity-and-gas-retail-markets-review-implementation-2018/new-standards-energy-bills-and-marketing-2018>

<sup>62</sup> Ofgem (2017), op. cit.

<sup>63</sup> The Behavioural Insights Team (2018). Testing the impact of behaviourally informed energy bills and best offers. Report. Retrieved from <https://www.esc.vic.gov.au/sites/default/files/documents/BIT%20Report.pdf>

changes in wording can impact whether people understand that they can save money by switching, and could impact how many people actually switch.<sup>64</sup>

#### Solution #4: Take extra effort with 'sticky' consumers



##### Take extra effort with 'sticky' consumers

*Feasibility = medium. Impact = medium.*

Given that even providing details of the cheapest offers may not be enough to switch some consumers, extra efforts may need to be taken with some consumers to get the best outcomes for them. Longer-tenured customers may be particularly susceptible to inertia, or may be more vulnerable. They may have less experience or ability to navigate the market, particularly if it is a complex decision involving multiple telecommunications products that are bundled together. This may lead to “uncertainty aversion” - a desire to avoid an uncertain, but on average better outcome (i.e., switching to a new, cheaper provider), for a guaranteed, but slightly worse outcome (staying with the current, more expensive provider).<sup>65</sup>

These customers might need extra efforts to get them on to better deals. This could include options such as providing their details to other providers or comparison services to be offered better deals on an opt-out basis.<sup>66</sup>

A more radical idea might involve getting providers to actually compete to serve these customers.<sup>67</sup> For example, disengaged customers could be identified as a group, including details of their current telecommunications plans. Providers would need to ensure that any plans they offer these customers were superior to their existing plan - that is, the new plan would need to be at least equivalent to the existing plan on key metrics (such as service quality at the home address, amount of data or speed, price, etc.) and better on at least one metric.

The right to market to these customers could be reverse-auctioned, with providers “bidding” in the form of better quality of offers or lower prices. Alternatively, all providers could be given a subset of disengaged customers, with providers given permission to approach their allocated customers directly with their best offers. Performance of providers would be measured both in terms of the quality of offers provided, as well as the number of consumers that actually switched. The best performers could then be

<sup>64</sup> Ibid

<sup>65</sup> Klibanoff, P. (2001). Characterizing uncertainty aversion through preference for mixtures. *Social Choice and Welfare*, 18(2), 289-301

<sup>66</sup> Ofgem (2017). Results of research into a database remedy for disengaged energy consumers. Report. Retrieved from

<https://www.ofgem.gov.uk/publications-and-updates/results-research-database-remedy-disengaged-energy-consumers>

<sup>67</sup> Costa, E., King, K., Dutta, R., & Algate, F. (2016). Applying behavioural insights to regulated markets.

given shares of the remaining disengaged customers, in line with their performance. To ensure ongoing competition and efficiency, periodic auctions and re-tests could be conducted. These would help to ensure that providers remained competitive, and would also allow new challengers to enter the market.

### Solution #5: Consider automatic switching



#### **Consider automatic switching**

*Feasibility = low. Impact = high.*

Ultimately, the option with the lowest friction would be to remove the friction entirely (or as much as possible), and find ways to automate the switching process. This may be challenging in the telecommunications sector— whilst there are examples in the energy sector, the multiple features of telecommunications products (vs a relatively homogenous product like energy) means that there are not any successful examples that we are aware of.

Nonetheless, it is worth considering what can be learnt from the energy sector— multiple jurisdictions<sup>68</sup> have seen the emergence of third-party services that charge a fixed fee and monitor the market. These services will then automatically switch customers to a cheaper option if it exists. More recently, the UK government released an Energy White Paper, which included recommendations to create the framework to introduce opt-in automatic switching by 2024, and begin consultations on testing opt-out switching in 2021.<sup>69</sup>

In the telecommunications sector, this might involve people selecting preferences or minimum/maximum requirements across specified criteria (such as service quality at the home address, amount of data or speed, price, etc.), and then being switched onto the best option for them. Customers could be notified before a switch, and given the chance to opt out if they wished. To avoid excessive switching, a threshold for improvements or savings might be set, and a cap on maximum switches per year or per quarter could be set.

Whilst this is a relatively different approach to market design, it is worth noting that it is under consideration in other markets and jurisdictions, and that it is the closest to a conceptual “free market”, where consumers have perfect information and do not face transaction costs.

<sup>68</sup> In Australia, the consumer group Choice runs [Bill Hero](#), whilst in the UK multiple services have emerged, such as [Switchd](#), [Flipper](#), and [Homebox](#).

<sup>69</sup> Department for Business, Energy & Industrial Strategy (2020). Government sets out plans for clean energy system and green jobs boom to build back greener. Press release. Retrieved from <https://www.gov.uk/government/news/government-sets-out-plans-for-clean-energy-system-and-green-jobs-boom-to-build-back-greener>

# Addressing complexity

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## 3.1 The telecom market is complex for consumers

### *The mobile market is complex due to the number of options*

One challenge to consumer welfare in the mobile market is the fact that consumers have to choose from multiple providers with different plans, and these plans are often difficult to compare.

For example, mobile customers need to choose between prepaid and monthly plans, and to choose different caps for data, minutes and texts. If customers want to access the small but growing 5G network, they also need to ensure they are with a provider who has 5G in their location, and ensure they have a 5G-enabled mobile phone. Customers also need to decide whether to choose a provider and mobile phone which allows access to the 5G network. On top of this, some providers will offer certain perks such as a free daily data hour and unlimited calls to mobiles with the same provider (2degrees), or 50% off Spotify and the ability to stack 100MB of unused data each month (Spark).<sup>70 71</sup>

### *The broadband market has become complex and unclear*

This complexity is also evident in the broadband market. Broadband customers need to choose between the type of connection (ADSL, VDSL, fibre, hyperfibre or fixed wireless) and the data cap.

Each of these services delivers different service experiences. Each has certain attributes around service quality such as consistency of speed, network congestion, and the simple nature of how fixed wireless networks act when busy. However, these differences are not clearly set out in the marketing and sign-up processes of providers. And although the market has a product disclosure code, it is unclear that this code meaningfully helps consumers compare different plans. A recent report by the Australian Securities and Investment Commission and the Dutch Authority for Financial Markets shows the limits of disclosure schemes, emphasising that '*Simplifying disclosure does not solve complexity*', '*Few consumers pay attention to disclosure*', and '*Warnings can backfire*'.<sup>72</sup>

Providers also offer difficult-to-compare perks such as gaining a \$100 credit for joining a 12-month term (2degrees), or a \$150 in-store voucher and extra entertainment options such as Netflix, Neon, Spark Sport or Xbox All Access (Spark).

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<sup>70</sup> 2degrees (2021). Mobile Plans. Website. Retrieved from <https://www.2degrees.nz/mobile-plans/prepay/>

<sup>71</sup> Spark (2021). Mobile Plans: Prepaid. Website. Retrieved from <https://www.spark.co.nz/shop/mobile-plans/prepaid.html>

<sup>72</sup> ASIC and AFM (2019). Disclosure: Why it shouldn't be the default: A joint report from the Australian Securities Commission (ASIC) and the Dutch Authority for the Financial Markets (AFM). Retrieved from <https://download.asic.gov.au/media/5303322/rep632-published-14-october-2019.pdf>

## 3.2 Bundling makes the telecom market even more complex

Another element of the mobile and broadband markets which creates complexity is the frequent bundling of services. Bundling is where two or more services are offered as a single package. As we highlighted in our 2019 review, there are substantial benefits to bundling—consumers often value the convenience and cost-savings of buying multiple services together, and bundling can drive the uptake of new technologies by consumers.<sup>73</sup> Common examples of bundling include: (1) providing mobile data, minutes and texts together, (2) providing mobile, landline, broadband, power or streaming services together, (3) providing a service with hardware such as a modem or mobile phone, and (4) family bundles where more than one person is on a plan.

Yet bundling makes it more difficult to compare across plans and may thereby decrease switching rates and increase the selection of sub-optimal plans due to complexity. For example, some broadband providers offer broadband plans which bundle together with power or mobile plans. Other providers offer harder-to-quantify savings with bundles, such as a 43-inch TV when bundling broadband and power services.<sup>74</sup> Figure 3 below shows another example of three difficult-to-compare plans.<sup>75</sup> The first plan offers 2 months of free broadband, which would constitute savings of \$139.9 if on a 150GB plan, \$169.9 if on an unlimited fibre plan, or \$199.9 if on an unlimited fibre plan with a fibre speed boost. The second plan offers savings of \$200 but requires power from the same provider. The third offers total savings of \$300 but requires a mobile plan from the same provider.

*Figure 3: Broadband provider offering three plans which are difficult to compare because two involve bundling*

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<sup>73</sup> The Behavioural Insights Team (2019). Behavioural Biases in Telecommunications: A review for the Commerce Commission. Report. Retrieved from [https://comcom.govt.nz/\\_\\_data/assets/pdf\\_file/0026/146681/BIT-Behavioural-biases-in-telecommunications-13-May-2019.PDF](https://comcom.govt.nz/__data/assets/pdf_file/0026/146681/BIT-Behavioural-biases-in-telecommunications-13-May-2019.PDF)

<sup>74</sup> Novaenergy (2020). Create value energy and broadband. Webpage. Retrieved from [https://www.novaenergy.co.nz/broadband?gclid=Cj0KCQjw5PGFBhC2ARIsAIFIMNdEQyV3GxZI6V9rpBr5PQ80dW0eIGlCKyQoPcUGmmqXypLr72edJQMaAi4PEALw\\_wcB](https://www.novaenergy.co.nz/broadband?gclid=Cj0KCQjw5PGFBhC2ARIsAIFIMNdEQyV3GxZI6V9rpBr5PQ80dW0eIGlCKyQoPcUGmmqXypLr72edJQMaAi4PEALw_wcB)

<sup>75</sup> Slingshot (2021). You Call the Shots: Choose from three mind-blowing broadband deals. Webpage. Retrieved from <https://www.slingshot.co.nz/you-choose>

**BROADBAND**  
**CHOOSE 2 MONTHS' FREE BROADBAND**  
with a 24-month broadband plan

**POWER**  
**CHOOSE \$200 OF FREE POWER FOR A MONTH**  
with a 12-month broadband plan

**MOBILE**  
**CHOOSE A FREE \$25 MOBILE PLAN FOR A YEAR**  
with a 12-month broadband plan

Choose this offer

Choose this offer

Choose this offer

New customers only. \$250 exit fee & \$14.95 modem delivery fee apply. [T&Cs apply.](#)

\$200 free power valid for 31 days. New customers only. \$250 exit fee & \$14.95 modem delivery fee apply to broadband plan. [T&Cs apply.](#)

Offer applies to the \$25 VALUE mobile plan. New customers only. \$250 exit fee & \$14.95 modem delivery fee apply to broadband plan. [T&Cs apply.](#)

There is evidence that the lower complexity seen in comparable markets helps consumers pick the optimal plan. For example in the energy market consumers have fewer choices to make, because the product is more homogeneous and consumers do not have to decide about usage caps, 'speeds', or different components of the service (except for the possible addition of gas). It is likely that the relatively low complexity in energy is a factor behind the higher switching rates compared with telecommunications (see the *Inertia* section above).

### 3.3 Providers can deliberately increase complexity and crease a 'confusopoly'

There are suggestions that telecommunication providers in New Zealand sometimes draw on complexity to create a 'confusopoly' and thereby increase revenue. As highlighted in our 2019 review, the former CEO of (then) Telecom New Zealand was famously recorded saying:

*"Think about pricing. What has every telco in the world done in the past? It's used confusion as its chief marketing tool. And that's fine. You could argue that that's how all of us keep calling prices up and get those revenues, high-margin businesses, keep them going for a lot longer than would have been the case. But at some level, whether consciously articulate or not, customers know that's what the game has been. They know we're not being straight up."*<sup>76</sup> — Theresa Gattung, former CEO of Telecom New Zealand

In our 2019 review we highlighted a potential case of confusing pricing where two plans that seemed to be equivalent were priced differently, with the only difference being that one plan was prepaid and the other postpaid.<sup>77</sup> In 2021 we have identified a provider who appears to be offering identical services for different prices, with the only difference being one is paid weekly and the other monthly. The two plans are shown in Figure 4, with Panel A showing

<sup>76</sup> New Zealand Herald (2006). Gattung admits Telcos not being straight. Article. Retrieved from <https://www.nzherald.co.nz/business/gattung-admits-telcos-not-being-straight/CVL6FXSNGGNID32ZGUPGWPOHTE/>

<sup>77</sup> The Behavioural Insights Team (2019), op. cit.

the price for a 24-month Fibre 100 and Fibre Max service paid weekly, and Panel B showing the price for a 24-month Fibre 100 and Fibre Max service paid monthly. It appears that these two plans are identical, yet for Fibre 100 the weekly-payment service costs \$1,037 a year while the monthly-payment service costs \$959 a year— a difference of \$78. Similarly, for Fibre Max the weekly-payment service costs \$1,297 a year, while the monthly-payment service costs \$1,199 a year— a difference of \$98.

Figure 4: Potentially confusing pricing for the same broadband service in New Zealand.

Panel A: Weekly payment for a Fibre 100 and Fibre Max 24-month plan

**Payment frequency**  
 Monthly  Weekly  
 Mobile plans are only available if you select 'monthly'.

**Fibre speed**

<b>Fibre 100</b> ✓ <b>\$19.95</b> /wk Good for streaming Netflix & YouTube.	<b>Fibre Max</b> ✓ <b>\$24.95</b> /wk Fastest residential internet in New Zealand.
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**Your term**  
 24 months  12 months  No term  
 Use the promo code WEB22 and receive \$10 off for the first 10 weeks

Callouts:  
 - The yearly cost of Fibre 100 with **weekly** payments is \$1,037.4  
 - The yearly cost of Fibre-max with **weekly** payments is \$1,297.4

Panel B: Monthly payment for a Fibre 100 and Fibre Max 24-month plan

**Payment frequency**  
 Monthly  Weekly  
 Mobile plans are only available if you select 'monthly'.

**Fibre speed**

<b>Fibre 30</b> ✓ <b>\$74.95</b> /mth Suitable for residential lower power users.	<b>Fibre 100</b> ✓ <b>\$79.95</b> /mth Good for streaming Netflix & YouTube.	<b>Fibre Max</b> ✓ <b>\$99.95</b> /mth Fastest residential internet in New Zealand.
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**Your term**  
 24 months  12 months  No term  
 Use promo code WEB150 to receive \$150 welcome credit

Callouts:  
 - The yearly cost of Fibre 100 with **monthly** payments is \$959.4  
 - The yearly cost of Fibre-max with **monthly** payments is \$1,199.4

### 3.4 Comparison tools have potential but can fail to help consumers navigate complexity

Comparison tools such as price comparison websites have the potential to help consumers navigate the telecoms market. Comparison tools save time by providing details on different plans in one place, and can make prioritising easier by allowing users to filter plans by conditions such as price, speed or contract type.

Yet comparison tools which are run by private companies— as is the case for mobile and broadband comparison websites in New Zealand— rely on advertising to make revenue. This means there is a tension between helping consumers navigate and find the best deal, and helping providers generate revenue by selling plans. This tension has been highlighted in recent international research, which found that the ability to obfuscate amplifies firms' willingness to pay for a prominent position in a comparison tool, and that when a comparison tool allows firms to pay for prominence they allow for more obfuscation than they would if they were displaying firms randomly.<sup>78</sup>

Some of this obfuscation and lack of clarity is evident in New Zealand's current comparison tools. For broadband:

- *Broadband Compare* presents monthly costs in an inconsistent way. For some plans, it presents the standard monthly price. For others, it presents a discounted price for a set amount of time (such as 12 months), and then a higher price after, making it difficult for consumers to compare the costs of the plans. At the extreme it advertises some plans as being \$0/mo in bold, and then in smaller text highlights that this is for the first 2 months only. A number of other plans are advertised as being a *Royal Deal*, without it being initially clear to consumers what this means, and with the added confusion that the royal deal appears to vary between plans. Other plans are advertised with the wording *Extra Bonus*, with again no clear distinction between the royal deal and extra bonus.
- *Glimp* more clearly represents the total yearly cost for different plans. Yet it is still difficult for consumers to compare plans with bundles such as subscription to Amazon Prime Video (for 2degrees) or an LG Smart TV when bundled with power (for Nova Energy).
- *Canstar* does not compare prices, but is unique in drawing market research to rank providers on overall satisfaction, network performance, customer service, value for money, bill clarity, flexibility of contract and clarity of contract terms.<sup>79</sup>

For mobile plans:

- *Glimp* presents the costs of different plans in an inconsistent way, including costs for 30 days, 7 days, 28 days, 14 days, 'per month' and 31 days. Different plans also include extra perks which are difficult to compare, such as 1 hour of free data every day and unused data carry-over for 90 days.
- *Money Hub* only compares the MNOs, and does not show plans for Skinny or the several smaller MVNOs.<sup>80</sup>
- *Finder* includes helpful guidance on how much data different users may need. However, it compares plans over different billing periods which makes price navigation difficult, and appears to miss key components of certain plans such as the fact that some of Skinny's plans offer unlimited data (at reduced speeds after hitting a lower cap).<sup>81</sup>

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<sup>78</sup> Mamadehussene, S. (2020). The Interplay Between Obfuscation and Prominence in Price Comparison Platforms. *Management Science*, 66(10), 4843–4862.

<sup>79</sup> <https://www.canstarblue.co.nz/phone-internet/broadband/>

<sup>80</sup> <https://www.moneyhub.co.nz/compare-mobile-plans.html>

<sup>81</sup> <https://www.finder.com/nz/mobile-plans>



- *Canstar* does not compare prices, but is unique in drawing market research to rank providers on overall satisfaction, value for money, customer service, accessibility, billing, network coverage and assistance managing data.<sup>82</sup>

### 3.5 There are a number of promising solutions to address complexity

The evidence suggests several promising solutions to address complexity and help consumers choose the best telecommunications plans. We outline these below.

#### Solution #6: Follow key guidelines when presenting complex information



**Follow key guidelines when presenting complex information**  
*Feasibility = medium. Impact = low.*

There are some key guidelines that if followed will ensure that any information presented is easy to understand and is of maximum usefulness to consumers. These guidelines were set out in our previous review, as follows:

- **Prices should be easily comparable between providers and plans.** This means providers and comparison tools should present prices in a consistent manner (for example, per month or annual costs).
- **Providers should use metrics that are consistent across providers.** In addition to comparable pricing, other relevant metrics (such as included features) should be consistent and comparable between providers. This would in turn make comparison tools more useful for consumers.
- **Providers should not offer ‘dummy’ options.** There should not be any options that would never make sense for anyone to purchase (because they would always be better off with another option from the same provider).

Following these key principles will help to reduce complexity and confusion within a market.

#### Solution #7: Test the best ways of presenting information to maximise understanding



**Test the best ways of presenting information to maximise understanding and optimal decision-making**  
*Feasibility = high. Impact = medium.*

<sup>82</sup> <https://www.canstarblue.co.nz/phone-internet/mobile-phone-plan-providers/>

The same information can be made easier or harder to understand, depending on the way it is presented. Research shows that even just the order of the information can change understanding and decision making. For example, when looking at four energy plans, placing the prices table as the first item in a document made consumers less likely to pick the best energy plan.<sup>83</sup> And including the pricing table itself led to higher confidence, but confidence was not correlated with better decision making.

Testing different ways of presenting information would help uncover the optimal way of presenting information— such as the placement, prominence and inclusion of different components of a plan. It is also possible to test whether changes in comprehension flowed through to changes in decision making. The findings would help boost consumer comprehension and would be relevant for providers advertising plans on their websites, and for comparison tools allowing consumers to compare plans.

This testing can be done rapidly and cheaply online. Online testing is ideal for testing comprehension and decision making of this nature - many consumers compare and select providers online already, and it is relatively easy to create a facsimile of a real comparison website or information that consumers will see in the real world. In addition, consumers can be incentivised, to encourage them to pick the best option. In this way, an online trial can closely reflect behaviour in the real world.

### Solution #8: Test what information should be included in product disclosure statements



#### Test what information should be included in a product disclosure statement (PDSs)

*Feasibility = high. Impact = medium.*

There have been ongoing debates in New Zealand about product disclosure by telecom providers. In 2013 the telco industry created a broadband product disclosure scheme (in response to possible regulation). However, the then-TUANZ CEO criticised the scheme for the lack of technical details such as how much international bandwidth the provider is buying, how many customers are sharing the line, or what national backhaul arrangements the provider has.<sup>84</sup>

Others have suggested PDSs should include retail service quality data such as:<sup>85</sup>

- Customer complaints

<sup>83</sup> The Behavioural Insights Team (2018). Final Report: BIT review of Basic Plan Information Document (BPID). Retrieved from [https://www.aer.gov.au/system/files/Review%20of%20Basic%20Plan%20Information%20Document%20-%20Final%20Report%20-%20April%202018\\_0.pdf](https://www.aer.gov.au/system/files/Review%20of%20Basic%20Plan%20Information%20Document%20-%20Final%20Report%20-%20April%202018_0.pdf)

<sup>84</sup> TUANZ (2014). Product disclosure. Article. Retrieved from <https://tuanz.org.nz/2014423product-disclosure/>

<sup>85</sup> Bill Bennett (n.d.). New Zealand's flawed broadband product disclosure regime. Article. Retrieved from <https://billbennett.co.nz/broadband-product-disclosure-regime/>

- Installation issues
- Contract issues
- Billing issues
- Helpline wait times

Product disclosure of retail service quality is increasingly important with the expansion of fibre, as it is a standardised product which broadband providers buy and package with their own support to consumers. This means retail service quality is one of the few factors which differentiates broadband providers.<sup>86</sup>

As with *Solution #7* above, online testing would be a rapid and rigorous method to discover the ideal content of PDSs for mobile and broadband. This could involve presenting different plans and ensuring users are able to identify the best plan, the worst plan, and to do reasonable comparisons for the plans that fall in the middle.

### **Solution #9: Ensure information presentation standards are imposed by regulators**



#### **Ensure information presentation standards are imposed by regulators**

*Feasibility = medium. Impact = high.*

Information presentation standards may need to be imposed by regulators. This is because there is some evidence that having just one firm providing better information has little effect— a study into foreign exchange pricing transparency found that whilst simplified information helped consumers make better decisions, it did not work if only one provider used simplified information (and all others had more complex presentation).<sup>87</sup>

In fact, providers may have a disincentive to provide better information— if providing their customers with better information makes it easier for their customers to switch away, then there is in effect a first-mover disadvantage. Such providers may be hesitant to enact changes to information presentation, meaning there may be a need for regulators to impose standards to ensure that all market players operate under the same conditions and that consumers can get information consistently.

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<sup>86</sup> Ibid.

<sup>87</sup> The Behavioural Insights Team (2018). The impact of improved transparency of foreign money transfers for consumers and SMEs. Final Report. Retrieved from [https://www.bi.team/wp-content/uploads/2018/03/The-impact-of-improved-transparency-on-foreign-money-transfers-for-consumers-and-SMEs\\_WEB.pdf](https://www.bi.team/wp-content/uploads/2018/03/The-impact-of-improved-transparency-on-foreign-money-transfers-for-consumers-and-SMEs_WEB.pdf)

## Solution #10: Hold providers accountable for the outputs of consumer choices



### **Hold providers accountable for the outputs of consumer choices** *Feasibility = medium. Impact = high.*

Although improving the information given to consumers will help, a recent report by the Australian Securities and Investment Commission and the Dutch Authority for Financial Markets highlights that ‘*Simplifying disclosure does not solve complexity*’, ‘*Few consumers pay attention to disclosure*’, and ‘*Warnings can backfire*’.<sup>88</sup>

A promising idea to go beyond disclosure is to hold providers accountable for the outputs of consumer choices (i.e. do they choose the best plan for them), rather than just focusing on the inputs for consumers (i.e. is it possible to make the right choice from the given information?).<sup>89</sup> This could involve taking a random subsample of customers and scrutinising their choices to see how many are on the optimal plan given their activity and usage, and looking at whether there are certain services which would be a bad choice for consumers most of the time.

Armed with this information on consumer outputs, regulators would be in a position to hold providers more accountable, rather than relying on consumers to make the optimal choice in an increasingly complex market.

<sup>88</sup> ASIC and AFM (2019). Disclosure: Why it shouldn't be the default: A joint report from the Australian Securities Commission (ASIC) and the Dutch Authority for the Financial Markets (AFM). Retrieved from <https://download.asic.gov.au/media/5303322/rep632-published-14-october-2019.pdf>

<sup>89</sup> The Behavioural Insights Team (2019). Beyond disclosure. Blog article. Retrieved from <https://www.bi.team/blogs/beyond-disclosure/>

## Appendix — Suggested next steps for each solution

Solution	Suggested next steps
<b>Addressing inertia</b>	
<b>1. Identify and address potential barriers to switching</b>	<ul style="list-style-type: none"> <li>Carry out qualitative research (interviews and surveys) to uncover the range of non-behavioural or structural barriers to switching</li> </ul>
<b>2. Make small changes to reduce frictions to switching</b>	<ul style="list-style-type: none"> <li>Work with the telecom sector to ensure the information provided by MNOs follows key behavioural science principles</li> </ul>
<b>3. Provide the cheapest options directly to consumers</b>	<ul style="list-style-type: none"> <li>Test the ideal messenger to provide the cheapest option to consumers</li> <li>Test the ideal wording of the message and see which wording encourages consumer switching</li> </ul>
<b>4. Take extra effort with ‘sticky’ consumers</b>	<ul style="list-style-type: none"> <li>Work with the telecom sector to explore the idea of getting providers to compete for ‘sticky’ consumers</li> </ul>
<b>5. Consider automatic switching</b>	<ul style="list-style-type: none"> <li>Create a prototype framework for an automatic switching process in New Zealand</li> <li>Share the framework with the sector to galvanise interest and get feedback</li> </ul>
<b>Addressing complexity</b>	
<b>6. Follow key guidelines when presenting complex information</b>	<ul style="list-style-type: none"> <li>Identify any future changes in when or how consumers receive complex information, and advocate for the use of best principles</li> </ul>

<b>7. Test the best ways of presenting information to maximise understanding</b>	<ul style="list-style-type: none"><li>● Use rapid online testing to uncover more insights on how to present complex information</li></ul>
<b>8. Test what information should be included in product disclosure statements</b>	<ul style="list-style-type: none"><li>● Use rapid online testing to uncover the best way of structuring product disclosure statements</li></ul>
<b>9. Ensure information presentation standards are imposed by regulators</b>	<ul style="list-style-type: none"><li>● Work with the Commerce Commission to identify when information presentation standards should be imposed, for maximum cut-through</li></ul>
<b>10. Hold providers accountable for the outputs of consumer choices</b>	<ul style="list-style-type: none"><li>● Work with the telecom sector to explore which consumer outputs are measurable, and explore how to hold providers accountable</li></ul>