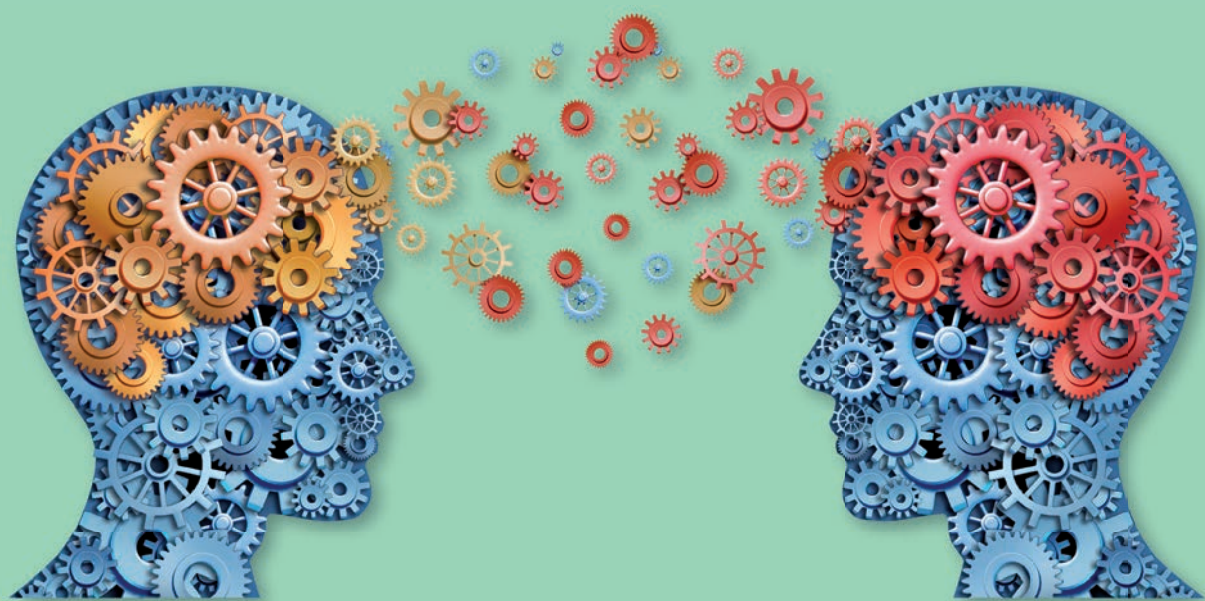




# Protecting Consumers through Behavioural Insights

REGULATING THE COMMUNICATIONS MARKET  
IN COLOMBIA





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**Please cite this publication as:**

OECD (2016), *Protecting Consumers through Behavioural Insights: Regulating the Communications Market in Colombia*, OECD Publishing, Paris.  
<http://dx.doi.org/10.1787/9789264255463-en>

ISBN 978-92-64-25545-6 (print)

ISBN 978-92-64-25546-3 (PDF)

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## Foreword

The use of behavioural insights in the design and delivery of public policy is at the forefront of regulatory policy and governance. This approach aims to improve regulatory outcomes by understanding the way that citizens and businesses actually behave and take decisions.

The OECD has been working at the forefront to understand how behavioural insights can help governments and regulators design policies in such a way that enables citizens to make better decisions and act in line with their interests. This report follows up on the OECD publication *Regulatory Policy and Behavioural Economics (2014)* that offered the first international review of the applications of behavioural economics to policy. It responds to the demand for a better understanding of the actual application of behavioural insights expressed by high level policy makers at an OECD international seminar on behavioural insights organized as part of the OECD initiative on “New Approaches to Economic Challenges” (NAEC) on 23 January 2015 in Paris.

This report uses a multi-layered and multi-disciplinary approach to help Colombia's Communications Regulation Commission (*Comisión de Regulación de Comunicaciones, CRC*) strengthen the consumer protection regime in Colombia's communications market.

For a more inductive approach to regulatory design, CRC worked with the School of Psychology at the Konrad Lorenz University Foundation in Colombia to conduct a variety of exercises that explored the decision making processes of users in a number of scenarios specific to the cultural and contextual characteristics of Colombia across different regions. In total 25 consumer psychology exercises were carried out between 2013 and 2014 across 17 regions of Colombia, which resulted in over 3 700 responses.

This report uses the findings of these exercises and the input of OECD experts in regulatory policy, behavioural economics, digital government and data analytics to provide an analysis of the approach adopted by CRC from the combined policy disciplines and give recommendations on possible directions for the development of the new consumer protection regime in the Colombian communications market, including through additional experiments.

The report's main finding is that there are key moments in consumers experience and use of communications services that are critical junctures of decision making where a responsive regulatory regime can protect consumers in the market. It is at these points that behaviourally informed interventions can be used for better information disclosure, access to customer service, usage and consumption data and understanding of bundled services. Recommendations for such interventions to be tested further are provided within the report.

An initial draft of the report was presented at the fifth meeting of the OECD Network of Economic Regulators (NER) on 4 November 2015 and was submitted to the OECD Regulatory Policy Committee in February 2016.

This report contributes to the work programme on regulatory policy and governance supporting the OECD's NAEC initiative led by the OECD Network of Economic Regulators and OECD Regulatory Policy Committee with the support of the Regulatory Policy Division of the OECD Public Governance and Territorial Development Directorate. The Directorate's mission is to help government at all levels design and implement strategic, evidence-based and innovative policies to strengthen public governance, respond effectively to diverse and disruptive economic, social and environmental challenges and deliver on government's commitments to citizens. The goal is to support countries in building better government systems and implementing policies at both national and regional level that lead to sustainable economic and social development.

## *Acknowledgements*

The report was prepared by a multidisciplinary team, led by Faisal Naru, with the encouragement and support of Rolf Alter, Director, Public Governance and Territorial Development Directorate, and Nick Malyshev, Head, Regulatory Policy Division, Public Governance and Territorial Development Directorate. Faisal Naru developed the methodology and took primary responsibility for drafting the report, with substantive inputs from Filippo Cavassini and Carole Biau. Rieko Tamefuji provided inputs on the the OECD Consumer Policy Toolkit and the OECD Mobile and Online Payments Guidance.

This report compiles the collective knowledge and expertise of an expert panel and the OECD, and represents the combined analysis and recommendations. The expert panel consisted of Dr. Pelle Hansen and Andreas Jespersen (iNudgeyou, Denmark), Dr. Pete Lunn (Economic and Social Research Institute, Ireland), Simon Day and Felicity Algate (United Kingdom Behavioural Insights Team). In addition helpful comments were received from Katie Martin (ideas42). Deborah Barry-Roe lent administrative and organization support. Jennifer Stein co-ordinated the editorial process.

The report would have not been possible without the support of Colombia's Communications Regulation Commission (*Comisión de Regulación de Comunicaciones*, CRC) and its staff. The team would like to thank in particular Pablo Marquez, former CRC Executive Director, and Juan Manuel Wilches, CRC Executive Director, who were instrumental in initiating this work, Yeison Loaiza, Andres Gutierrez, Juan Pablo Vasquez and Juan Sebastián Henao, who shared data and information on the approach taken by CRC to the review of the consumer protection regime, Mariana Sarmiento Argüello, who helped with the overall co-ordination.





## *Table of contents*

<b>Acronyms and abbreviations</b> .....	9
<b>Executive summary</b> .....	11
<b>Chapter 1. Regulatory context and approach</b> .....	15
The communications sector in Colombia .....	16
Approach .....	18
Four-step methodology.....	20
Behaviourally informed responses to market failures .....	22
Understanding social norms .....	24
Applying Better Regulation principles .....	26
Bibliography .....	28
<b>Chapter 2. Applying behavioural insights</b> .....	29
Principle of information .....	30
Customer service mechanisms.....	38
Consumer consumption management.....	46
Bundling of services .....	60
Bibliography .....	65
<b>Annex A. Example of bill using midata</b> .....	71
<b>Annex B. Key bibliographical references</b> .....	73

### Tables

- |      |   |    |
|------|---|----|
| 2.1. | Example: Purchasing a new mobile phone: critical decision points and types of relevant information..... | 34 |
| 2.2. | Example of highly salient component prices in bundled offers .....                                      | 62 |

**Figures**

1.1. OECD methodology: How can CRC change behaviour of users and operators..... 19

2.1. Behavioural biases from too much information ..... 31

2.2. Popularity of mandated communications customer service mechanisms in Colombia ..... 39

2.3. Smileys from the Danish restaurant hygiene report ..... 43

2.4. Screenshot of [www.resolver.co.uk](http://www.resolver.co.uk)..... 44

2.5. Example of simplified presentation of usage information..... 52

2.6. Ongoing feedback indicators (screenshot from the My Vodafone App) ..... 56

2.7. Feedback system combing personalised data with search engine ..... 57

2.8. Example of bundled services from AT&T ..... 61

## *Acronyms and abbreviations*

<b>APIs</b>	Application programme interfaces
<b>CRC</b>	Colombia’s Communications Regulation Commission ( <i>Comisión de Regulación de Comunicaciones</i> )
<b>EC</b>	European Commission
<b>EU</b>	European Union
<b>FCA</b>	Financial Conduct Authority
<b>KLUF</b>	Konrad Lorenz University Foundation
<b>MCA</b>	Malta Communications Authority
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PISA</b>	Programme for International Student Assessment
<b>RCA</b>	Requests, complaints and appeals
<b>SIC</b>	Superintendence of Industry and Commerce ( <i>Superintendencia de Industria y Comercio</i> )
<b>SMS</b>	Short Message Service
<b>TRAI</b>	Telecom Regulatory Authority of India
<b>UK BIT</b>	United Kingdom Behavioural Insights Team



## *Executive summary*

Colombia's Communications Regulation Commission, *Comisión de Regulación de Comunicaciones* (CRC), is currently redesigning its consumer protection regime. It has refocused its regulatory strategy from “protecting rights” towards making the market function best. This new approach involves encouraging the providers to improve the quality of their services and rates offered in the market; and fostering a better understanding by all but mostly by users, of what is being offered and how. The purpose is to enable users to meet their needs and avoid biases in their choices.

The report focuses on four key issues related to the current consumer protection regime in Colombia:

1. Information principle: to explore what type and means of information should be made available to users and when service providers should be mandated to provide the information to users for an effective functioning of the market. The previous consumer protection regime already regulated for simple, useful, salient, timely information from service providers to be made available to users, however with limited success.
2. Customer service mechanisms: to identify the most effective and efficient avenues for customers to seek responses and redress from service providers in a modern well-functioning communications market rather than through physical local offices. This approach acknowledges the cultural and context-specific situation of users and the reasons why they use (or do not use) the various already mandated forms of customer service.
3. Consumer consumption control mechanisms: to identify ways in which consumers can be enabled to make informed decisions based on usable information and evidence of their consumption patterns to select the most appropriate service providers and plans.
4. Bundling of services: to discuss whether the bundling of services should be regulated or addressed in any way by CRC to ensure consumers are paying for the services they need and use.

The report finds that CRC can use a mix of regulation and non-regulatory tools to shape the incentives that could change both provider and user behaviour, with a view of improving consumer welfare in the

communications market. The report identifies those instances where appropriate regulatory interventions are necessary to realise the desired outcome. In particular, the report includes the following recommendations:

#### Information provision

- Implement a system of “summary” and “full” disclosure of information that should be standardised by CRC to be responsive to the circumstances and needs of users in Colombia. In addition, it could reduce regulatory burdens for operators in the long term.
- Increase the use of choice aids, such as checklists or factsheets, to help the end-user make better decisions.
- Information should be provided just in time at key decision points and, where possible, include comparative information on peers in similar situations, such as geographic location, demographic, etc.

#### Customer service

- Customer service information, including on complaints, should be made easily accessible and timely and, where possible, incentives for using them should be developed, such as entering a prize draw or extra call time rewards.
- Incentivise the improvement of customer service through a ranking or grading system that can be provided to consumers at key decision points, such as at the point of purchase.

#### Managing consumer consumption

- Improve feedback mechanisms to consumers about their consumption patterns by (1) simplifying information on invoices, (2) framing opportunity costs, and (3) identifying the most appropriate plan by the service provider. There could be a regulatory requirement for annual statements, and early warning notifications of consumption to be provided to customers that could be personalised according to their needs and data.
- Create a digital-based solution that allows consumers to compare in real time price plans that are on the market with their own consumption data a personalized mobile application. This would require real time market data feeding an online comparison search engine linked to the application.
- Encourage or mandate a default “emergency plan” for consumers who do not respond to prompts about their consumption patterns, where their existing plan is not in their best interest.

### Bundled services

- Provide consumers with salient prices of components within bundled packages and enable them to compare different bundled offers with like for like information available. Consider making operators provide prices of separate services as well provided this does not create choice-overload.

It is important to note that, as in all behaviourally informed policies, the recommendations in this report should undergo pre-testing, trialling and experimentation, and evaluation in order to optimise the intervention and ensure there are no unintended consequences. This will support a better regulatory environment for the communications market, while achieving greater consumer welfare.





## *Chapter 1*

### **Regulatory context and approach**

*This chapter describes the main features of the communications sector in Colombia. It then presents the approach adopted by the regulator to strengthen consumer protection and describes the methodology developed by the OECD to support the use of behavioural insights by the regulator.*

## The communications sector in Colombia

*“Orthodox consumer theory assumes that consumers calculate a utility associated with each of the options before them, on the basis of a utility function that integrates all relevant information in relation to all relevant product attributes. In telecommunications, this process is simply unfeasible from a psychological perspective”* (Dr P. Lunn, ESRI, unpublished).

Since 1994, Colombia's Communications Regulation Commission (*Comisión de Regulación de Comunicaciones – CRC*) has had the responsibility to protect the rights of communication services users in the Colombian communications market. The CRC shares the responsibility for consumer protection with the Superintendence of Industry and Commerce (*Superintendencia de Industria y Comercio – SIC*), which is responsible for enforcing antimonopoly policies, promoting competition and protecting consumers rights in all economic sectors with the exception of finance and air transport. Within the provisions of the Information and Communications Technology Act 1341/2009, the CRC is to *“turn the system of protection of the users’ rights into a real tool in the hands of citizens.”* To date, this has mainly been done through applying the principle of information disclosure by providers to address information asymmetries and empower consumers through *“the exercise as well as effective and agile protection of their rights”* (Act 1341/2009).

Article 6 of Resolution 3066/2011 on the protection of users in the communication sector requires communication service providers to supply *“the user with all the information associated with the conditions of provision of services, rights, duties and rates on services provided.”* Furthermore, *“it shall provide such information in a clear, transparent, necessary, truthful and previous, simultaneous and timely way, sufficient, verifiable, accurate, certain, complete and free of charge manner, and not misleading, to the effect that users make informed decisions about the service or services offered and/or required”.* This approach has had limited success.

The communications market possesses certain attributes that are different from other markets which in turn makes it more prone to strong behavioural biases by consumers. Firstly, often products are *“naturally bundled”*, for instance combinations of hardware, software, network and

services. They are often provided together and are not, or cannot, be separated or distinguished and chosen readily by users.

Second, the final end-user *benefit* is usually not produced by the service provider itself, such as entertainment or communication, and the service provider is rather a gateway to the user's need or want.

Third, purchase decisions are not based on objective consumption information and are susceptible to behavioural influences. For those on post-paid contracts, purchase decisions are made on credit continually throughout the day, often without caps. For those on pre-paid contracts, purchase decisions are made on assumptions of consumption or other factors, such as financial constraints in advance of the actual usage.

Finally, rapid technological changes in the communications market means that purchase decisions are often further complicated, for instance for users to switch service providers or plans or even in having repeat purchases by users. This is due to the dynamic nature of the market with new services and products available on the market at any given time.

Given such complexity of the communications market, consumers are often influenced in their decision-making by emotive values such as recommendations by other users, brand reputation and loyalty (or inertia unless given a good reason to switch) *and not based on objective comparison of product information*. In Colombia this is especially the case for users in the regions such as in Pasto where third party recommendations are the main reason for choice of provider and plans. However in San Andres and Bogota economic reasons (or price) are the main consideration (KLUF, 2014). Advice from family, friends, or colleagues can be more effective in circumstances where other messengers to consumers are not trusted or where there is a suspicion of capture. This is particularly true in instilling a feeling of ownership over choices (Institute for Government, 2010).

As such consumers are more likely to fail to notice when they are paying more than the market rate for a product, to subscribe to products that often fail to meet their expectations and to suffer nasty “bill or invoice shocks”. This phenomena has been empirically evidenced by, among others, Lambrecht and Skiera (2006), Lyons (2006), Xavier and Ypsilanti (2008), Bar-Gill and Stone (2009), Gerpott (2009), Grubb (2009), Xavier (2011), Grubb and Osborne (2015).

In Colombia there are specific contextual issues also that provide challenges in the service provision and consumer protection within the communications sector. There is a difference in the service provision of sparsely populated regions and major cities such that in Barranquilla and

Mocoa the network infrastructure is the main reason for choosing the service provider. There are also perceived differences in the attention given to the regions and major cities by the government and the private sector. This leads to users behaving in different ways and those in major cities more likely to assert their rights than those in the regions who tend to not complain or even contact customer services or the authorities about problems (KLUF, 2014).

According to the OECD PISA scores, Colombia's educational level has been below the OECD average (OECD, 2014a). Over the past decade, the PISA scores have shown that most students do not meet the basic level to understand and take advantage of text. This presents a particular challenge for the CRC when designing a consumer protection system based on information disclosure to empower citizens (KLUF, 2014). The way in which information is presented can help counteract this challenge (Beshears et al., 2011).

## Approach

*“The State shall intervene by order of the Act, in public and private services, among others, in order to achieve improved quality of life of the inhabitants, the distribution of equal opportunities and the benefits of development” (Article 334, Constitution of the Republic of Colombia).*

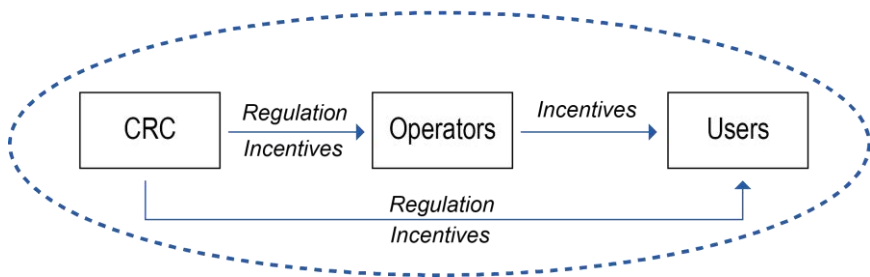
The CRC is currently redesigning its consumer protection regime under Resolution 3066/2011 in co-operation with the SIC. It has refocused its regulatory strategy from “protecting rights” towards making the market function best. This new approach involves encouraging the providers to improve the quality of their services and rates offered in the market; and to foster a better understanding by all but mostly by users, of what is being offered and how. This is mainly for the purpose of improving consumers' decision-making processes, enabling end-users to meet their needs, and avoid biases in their selection.

For a more inductive approach to regulatory design, CRC has studied users' behaviours, bias and their environment, in order to understand their decision-making process better. In 2013/2014 the CRC worked with the School of Psychology at the Konrad Lorenz University Foundation (*Fundacion Universitaria Konrad Lorenz*, KLUF) to undertake field research on users of communication services across Colombia. KLUF conducted a variety of exercises that explored the decision making processes of users in a number of scenarios specific to the cultural and contextual characteristics of Colombia across different regions. In total 25 consumer psychology exercises were carried out across 17 regions of Colombia with over 3 700 responses.

This report uses the findings of the KLUF study and the input of OECD experts in regulatory policy, behavioural economics, and data analytics to provide an analysis from the combined policy disciplines to give recommendations on future experiments and the development of the new consumer protection regime in the Colombian communications market. It focuses on the types of incentives that should be provided to change both provider and user behaviour, and considers where appropriate regulatory interventions are necessary to ensure these incentives are realised (Figure 1.1).

Figure 1.1. **OECD methodology: How can CRC change behaviour of users and operators**

*Improving social welfare in the communications market*



In this report, four key issues are addressed in relation to the current consumer protection regime in Colombia, which have been identified as of particular concern by the CRC and the SIC. These are:

1. Information principle: to explore what type and means of information should be made available to users, and should be mandated to be provided by service providers for an effective functioning of the market. This is within the context that the previous consumer protection regime already regulated for simple, useful, salient, timely information from service providers to be made available to users, which had limited success.
2. Customer service mechanisms: identify the most beneficial and effective avenues for customers to seek responses and redress for service provision by the providers that reflects a modern communications market. This acknowledges the cultural and context specific situation of users and the reasons for their engagement or lack of, with the various already mandated forms of customer services in Resolution 3066/2011.

3. Consumer consumption control mechanisms: ways in which consumers can be enabled to make informed decisions based on usable information and evidence of their consumption patterns to select the most appropriate service providers and plans.
4. Bundling of services: whether the bundling of services should be regulated or addressed in any way by CRC to ensure consumers are paying for the services they need and utilise.

### Four-step methodology

This report is based on a multi-layered and multi-disciplinary approach to provide analysis and recommendations for the consumer protection regime in Colombia's communications market. This has followed a four-step approach using a variety of expertise and tools from the regulatory policy, behavioural science, consumer policy, digital government and data analytics disciplines.

- *Step 1: Identifying the problem to tackle.* Utilising the existing information and knowledge within CRC and the research already conducted to identify the gaps and opportunities in the analysis of the current state of play in Colombia.
- *Step 2: Setting the Objective.* Through applying the Regulatory Impact Assessment framework (see Box 1.1), conducting a deeper analysis to help clarify and fine-tune the policy objective of CRC intervention for consumer protection.
- *Step 3: Enhancing impact.* Provide lessons and experiences from behavioural and policy insights to improve potential options and solutions for addressing the identified problems and achieving the objective.
- *Step 4: Peer Review.* Obtain feedback on the analysis and potential solutions from peers in different policy communities including regulatory, consumer policy, digital and data policy and behavioural insights.

In December 2014, the results of the KLUF study were published in the report “Study for a comprehensive review of the protection system for communication services users’ rights” (KLUF, 2014). The report contributed to the consideration and redesign of the regulatory measures that currently have been adopted in the consumer protection regime. More specifically to review Resolution 3066/2011 and the mandated information to be provided to users, as a means of a more effective, simple, clear and transparent system that contributes to social welfare.

### Box 1.1. Example of the use of Regulatory Impact Assessment framework

#### Problem definition

- Users are unaware of their rights, duties, services, fees and conditions of use:
  - Inadequate information principle (Reg. 3066, Art. 6)
  - Complex/unclear regulation difficult to absorb
  - Providers give inadequate information
- ❖ *Key question for policy makers: why are users unaware of their rights?*

#### Key objective

- Provide users with **basic information** that they can use to effectively exercise their rights and improve decision-making (regardless of education/social/cultural background)
- ❖ *Key question for policy makers: what is “basic” for users in Colombia?*

#### Data and analysis

- Experiment with two groups of 30 people to test capacity to absorb information on regulation
- User survey and focus groups

#### Identified options

- Information specifications for operators and regulators
- Rules/principles that users must know plus mandate operators to provide this information
- Communication strategy
- ❖ *Key question for policy makers: how to ensure compliance?*

#### Expected impacts

- Simplification of language (to be implemented by operators)
- ❖ *Key question for policy makers: greater use of information and better consumer outcomes (through simplified language), not “simplification” per se?*
- CRC budget and resources
- ❖ *Key question for policy makers: what is an appropriate and measurable impact? Budget and resources of the regulator are not and impact...*

An expert panel was created to engage in Steps 2 and 3 of the methodology, consisting of Dr. Pelle Hansen and Andreas Jespersen (iNudgeyou, Denmark), Dr. Pete Lunn (Economic and Social Research Institute, Ireland), Simon Day and Felicity Algate (United Kingdom Behavioural Insights Team). In addition helpful comments were received in Step 2 from Katie Martin (ideas42). This report compiles the collective knowledge and expertise of the expert panel and the OECD, and represents the combined analysis and recommendations.

This report relies on the research results commissioned by CRC which were published in December 2014: the KLUF “Study for a comprehensive review of the protection system for communication services users’ rights” (KLUF, 2014). The KLUF report contributed to the consideration and redesign of the regulatory measures that currently exist in the consumer protection regime and provided insights for the OECD experts to use in the analysis. More this report has been used by CRC to specifically review Resolution 3066/2011 and the mandated information to be provided to users, as a means of a more effective, simple, clear and transparent system that contributes to social welfare.

This report was peer-reviewed at the 5th meeting of the OECD Network of Economic Regulators on 4th November 2015 in Paris. It also is expected to be used in the official public consultation of the revision of the consumer protection regime of the Colombian communications sector in 2016.

## Behaviourally informed responses to market failures

*Behaviourally informed policy or regulation aims at improving the welfare of citizens and consumers through policies that start from an empirically informed conceptualisation of individual decision making.*

*The “behavioural” aspect means that the proposed policies are grounded in a multi-disciplinary approach, where traditional economic strategies are mixed with insights from behavioural economics, cognitive- and social-psychology and, to some extent, cognitive design to create policies that take into account the many ‘irrational’ factors that influence consumers’ decision making on e.g. complex markets. Dr. Pelle Hansen and Andreas Jespersen, ISSP, unpublished*

There has been a growing trend of the application of behavioural insights in the design and implementation of policies and regulations amongst government and regulators from across the world (OECD, 2014b; 2015b). Regarding consumer policy, the *OECD Consumer Policy Toolkit*



notes that behavioural economics could be used to improve understanding of consumers' behaviour and could also be used to improve consumer policy formulation (OECD, 2010). These applications have brought about both successful and unsuccessful attempts to change consumer behaviour using behaviourally informed policies and regulations (Shafir, 2013, pp. 440-465).

### Box 1.2. Empirically or behaviourally informed policies and regulations

#### Successful examples include...

- **Save-More-Tomorrow:** A behaviourally inspired program that utilised a combination of defaults and restructuring of incentives to reduce the feeling of income loss when money is allocated to pension savings. (Thaler and Bernatzi, 2004)
- **Energy efficient appliances:** A large field experiment increased the retail sales of energy efficient appliances by displaying lifetime energy costs for various appliances alongside the purchase price (Kalbekken, Sælen and Hermansen, 2013).

#### Unsuccessful examples include...

- **Overdraft protection:** American banks were mandated to adopt a “no overdraft protection default” (because overdraft protection is a very costly form of credit) on credit and debit cards but consumers switched to overdraft protection regardless (Willis, 2012).

*Source:* Kalbekken, Sælen and Hermansen, 2013; Willis, L.E. (2012), “When Nudges Fail: Slippery Defaults”, *University of Chicago Law Review*, Vol. 80, p. 1155, 2013.

The unsuccessful application of behavioural insights largely stems from two main factors (Willis, 2012) which are:

- *The naïve transferring of behavioural tools from one policy context to another.* Naïve transferring happens when a tool from one policy domain is transferred to another without careful analysis of the behaviours that are sought to be changed and the impact that the new application will have. A default setting can be an effective tool in one domain, e.g. increasing pension enrolment, but ineffective in another, e.g. reducing payday lending take up, because the behavioural factors at the root of the two problems are different in nature.

- *Underappreciating the influence that service providers or private sector firms have over the decision-making contexts or choice architecture in the market.* The practice of service providers or private sector firms has large implications for the choices that users make. For instance making mandatory legal information less salient in advertising to overly bureaucratic procedures for terminating a contract have consequences on the decisions, behaviours and ultimately outcomes for consumers. The common denominator, however, is that consumers are often informed and free to choose in theory, but often tend to choose options that maximise profits, but not welfare. This is often overlooked or dismissed as not appropriate or irrelevant from a governance perspective.

Nonetheless, the risk of failure can be minimised by understanding the ownership of the choice architecture (public or private or a combination) and the impact on the market from any bias (neutral impact or the market profits) as well as the consequences for societal wellbeing from the bias. This will determine in the first instance whether behaviourally informed interventions are appropriate or required. In addition this will assist to understand whether the behaviourally informed intervention addressing the choice architecture requires to be mandated by laws or regulations.

## Understanding social norms

People are heavily influenced by what those around them do and say. These social influences, however, often go unnoticed. Behaviour can be influenced by: demonstrating that most people perform a desired action (social norm – Institute for Government, 2010); using the power of networks (Ormerod, 2010) (e.g. enabling collective action, providing mutual support, and encouraging behaviours to spread peer-to-peer); inserting commitment devices (Institute for Government, 2010) into a process (to voluntarily ‘lock ourselves’ into doing something); social multiplier effects (Glaeser, Sacerdote and Scheinkman, 2003 (where the actions’ of people around us encourage us to adopt a certain option); and information cascades (Ellison and Fudenberg, 1993) (the distribution of relevant information from trusted sources).

UK BIT has used social norms in a number of trials to increase tax compliance. For example, a trial by UK BIT in Guatemala that included a social norm (referring to the 64.5% of taxpayers that had already paid their tax) in letters to late payers increased payment by five percentage points (Behavioural Insights Team, 2014).

Social multiplier effects and information cascades can also be effective. A randomised controlled trial designed to encourage staff to attend a retirement information fair increased attendance rates five-fold in the treatment group (who were given a small financial incentive to attend) and tripled attendance within the control group (many of whom accompanied their friends to the fair). The trial demonstrates the importance of the actions of those around us (in this case colleagues) and how specific information can be cascaded through networks (Duflo and Saez, 2002).

Research on when actions are observable to other people demonstrates the importance of social networks, reputation, and commitment. In a trial in 30 villages in India where individual's saving information was shared with another village member, savings increased by 30%. The increased savings persisted over a year after the interventions ended, and those that participated in the programme responded better to unforeseen changes in their personal circumstances (Breza, and Chandrasekher, 2015).

Encouraging people to commit to a course of action is a powerful way of creating behaviour change. A randomised controlled trial in the Philippines showed that offering a commitment savings account increased saving. The commitment account offered to restrict customers' right to withdraw money until they had reached either a specific month or a savings target (which the individual was free to choose), but offered only the same interest rate as the bank's existing savings account. Those in the (untreated) control group increased their savings by a modest 8% on average in the first six months and to a 12% overall increase after one year. Those offered the commitment account, however, continued substantially to increase their savings, leading to an average increase of 82% overall at the end of the first year (Ashraf, Karlan and Yin, 2006).

Given that users in the Colombia communications market report greater influences in certain choices such as purchasing services and choosing a service operator, are based on social recommendations, it is important to understand the relevance of social norms when designing a regulatory regime.

Finally, it is also important to recognise that given the complexity of the communications sector and the empirical evidence on behaviours, that a different strategy toward regulating for consumer protection is required from the traditional perspective. Namely, that:

- It is misguided to think of regulations as attempts to correct market failure and to move the market back towards the standard competitive market model, because this model assumes a form decision-making that is impossible for users even to approximate;

- Regulators (Governments and Regulatory Agencies) need to adopt a more inductive approach to regulation, through trials and experimentation aimed at improving value in the market while maintaining popular support from the public; and
- That regulation affecting consumer decisions will have redistributive consequences at least in the short term, helping some consumers but not others.

It is also useful to note that most economic regulators use consumer survey data in their own performance appraisal or to monitor and inform their decisions and activities, which are usually quite costly to conduct well. However well designed experimental studies often have similar or even less financial implications and could provide a greater return on investment for market outcomes and therefore consumer wellbeing. So, the use of behavioural science to inform policy and regulatory regimes is likely to increase as the methodologies for applying the science develop to different policy domains and contexts.

In that regard, CRC should be commended for their early adoption of behavioural studies to inform the development of the consumer protection regulatory regime and regulation.

### Applying Better Regulation principles

*“Good Regulation is essential if our economies are to function efficiently, while meeting important social and environmental goals. However achieving good regulation is a demanding task and one that is never over”* (Gary Banks, Chair Regulatory Policy Committee, Foreword of the 2012 OECD Recommendation of the Council on Regulatory Policy and Governance).

The OECD Recommendation of the Council on Regulatory Policy and Governance recommends “to use regulations wisely in pursuit of economic, social and environmental policies”. The principles contained in the Recommendation are fundamentally gearing regulatory bodies to design and implement both regulatory and non-regulatory interventions that will achieve clear policy outcomes. This includes ensuring that the benefits justify the costs, that distributional effects are considered and that net benefits are maximised. In addition there should be mechanisms for transparency and accountability (OECD, 2012a).

The application of behavioural insights in the design and delivery of government interventions, if used appropriately and correctly, adds value to the regulatory process. It can help to define better the causes of problems as well as improve implementation techniques to achieve better compliance and hence assist to achieve better outcomes for society. It is also a useful tool with the “better regulation” agenda as it can support deregulation through measures that are alternatives to traditional regulation. However it can also simplify or streamline existing or new regulatory interventions and in general improve the quality of regulatory proposals (OECD, 2014; 2015b).

The analysis and recommendations in this report take into consideration the principles of good regulation with a focus on known human behaviour. Thus the options and solutions in this report mainly discuss where it may be appropriate to mandate requirements through regulation that may be included in the revision of the consumer protection legislation for the communications sector of Colombia. This is in addition to non-regulatory measures that have not been included in this report. However where non-regulatory options, such as public information campaigns, have little evidence of impact these have been identified. The report does not address directly the issue of self-regulation, defined as instances where groups of firms in a particular industry or entire industry sectors agree to act in prescribed ways, according to a set of rules or principles (OECD, 2015a). Nevertheless, the report does highlight instances where action by operators should be promoted to facilitate the provision of clearer information to consumers. When considering self-regulation schemes, it is however important to take into consideration the following success factors:

- the strength of the commitments made by participants in the scheme;
- the industry coverage
- the extent to which participants adhere to the commitments; and
- the consequences of not adhering to the commitments (OECD, 2015a).

Good regulatory policy is about evidence-based policy making through open and transparent processes. Empirical evidence based on tests and trials is the cornerstone of the application of behavioural science in policy making. Therefore, this report represents a growing trend of the use of behavioural insights.

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## *Chapter 2*

### **Applying behavioural insights**

*This chapter describes key issues, behavioural biases and possible ways to address them for information principle, customer service mechanisms, consumer consumption management and the bundling of services, For each of these four areas, it identifies specific recommendations and some possible experiments.*

## Principle of information

### *Issue: The malpractice of information provision*

The existing regulation (Resolution 3066/2011) had a principle based requirement on information disclosure whereby the service operators were obliged to provide easy to understand and accessible information for consumers. This system has not worked and operators are not providing information in a way that is of benefit to consumer welfare.

In Colombia, users in the communications market are unaware of their rights, duties, the fees they are charged and the appropriate services and conditions of use as permitted by law (KLUF, 2014). This largely stems from an inappropriate information principle in the current consumer protection regulation (Box 2.1). In its current form the regulation is comprehensive to the point of being complex, open to interpretation and as such industry is currently providing inadequate information that is difficult to absorb by end users.

#### **Box 2.1. Republic of Colombia, Article 6 of Resolution 3066/2011: Principle of Information**

At all times, during the provision of services upon the conclusion of the contract and during its execution, through mandatory user support mechanisms referred to in paragraph 11.9 of Article 11 of this resolution, the communications service provider should provide the user with all the information associated with the conditions of provision of services, rights, duties and rates on the services are provided.

For that purpose, it shall provide such information in a clear, transparent, necessary, truthful and previous, simultaneous and timely anyway, sufficient, verifiable, accurate, certain, complete and free of charge manner, and not misleading, to the effect that users make informed decisions about the service or services offered and / or required.

Communications service providers shall comply with all of the duties of information contained in this system, providing the user with access to the information required by this resolution, through the physical customer service offices, the virtual customer service offices (the provider's website and social network page through which the RCAs are shown), and free customer service lines.



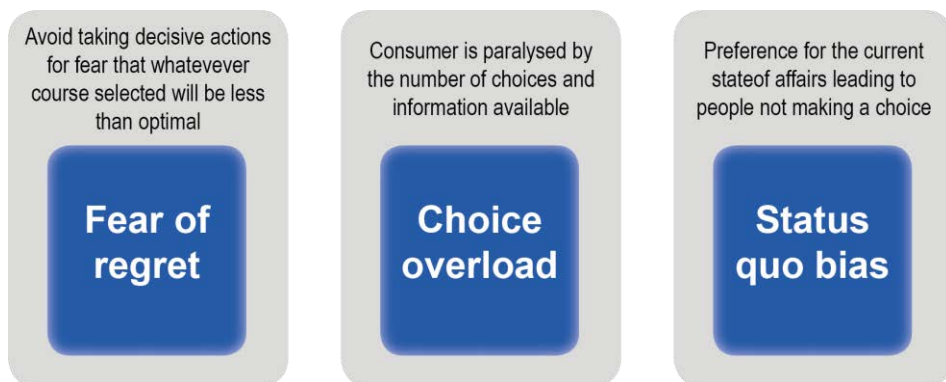
The objective of the new consumer protection regime is to provide users with the basic and essential information that they can use effectively to exercise their rights and improve decision making in the choices for better overall consumer welfare. This is regardless of educational, cultural or social background. Currently there is partial knowledge of the users' rights in the current legislation but this is much lower outside of the major cities and therefore people in the regions are more disadvantaged (KLUF, 2014).

### ***How much information should be provided in the communications sector?***

It is a basic tenet of microeconomics that more information is better, since it reduces asymmetry of information and, in theory, can only improve choice. Behavioural economics, on the other hand, suggests otherwise. Information is a key component of shaping behaviour, and especially important within the consumer domain, where habitual and ill-informed decisions can be costly.

In the communications sector, consumers are faced with a wide range of options and information, both in terms of service providers and payment plans. This can lead to a number of behavioural biases (see Figure 2.1). These biases can lead to reduced consumer engagement, potentially sub-optimal choices (Wilson and Waddams Price, 2005) and equate to a reduction in cognitive ability by 10-20% (Kahneman and Tversky, 1996).

Figure 2.1. **Behavioural biases from too much information**



*Source:* **Fear of regret:** Ritov, I. and J. Baron (1995), “Outcome Knowledge, Regret, and Omission Bias: Organizational Behavior and Human Decision Processes”, Vol. 64, pp. 119-127; **Choice overload:** Besedes, T. et al, (2012), “Reducing Choice Overload without Reducing Choices”, *Netspar Discussion Papers*; **Status quo bias:** Samuelson, W. and R. Zeckhauser (1989), “Status Quo Bias in Decision Making”, *Journal of Risk and Uncertainty*, Vol. 1, pp. 7-59.

### ***Can you have too many choices?***

Research shows a direct link between the quality of choice made and the number of options available. As the number of alternative choices increases, consumers more readily opt for extreme alternatives, either the basic or fully loaded choices (Gourville and Soman, 2007); this is particularly relevant for non-alignable assortments of products and services. Research shows that people are reasonably good at making choices when the options differ along a single dimension and where the impact on price is linear (for example, you pay more for more texts). However choices are more difficult to make when products differ across multiple, non-compensatory dimensions (for example, you pay more for an option that has more texts but receives fewer calls and has a different handset). Having to publicly justify a choice can also influence behaviours, pushing consumers to either a basic or fully loaded product (Gourville and Soman, 2007).

Larger choice sets tend to result in a “satisficing” process (Brown, 2004) i.e. choosing something “good enough”, or elimination strategies i.e. choosing the most “different” option (Redelmeier and Shafir, 1995), the most neutral (middling) option (Nowlis and Kahn, 2002), the least unknown option (Epstein, 1999), or paying undue attention to more easily understood characteristics (Lenton and Francesconi, 2010). This does not always result in the best outcome for the consumer, especially if companies price their plans with these biases in mind.

A number of studies show that choice difficulty leads to i) an enduring reduction in confidence, ii) increased chance of regret, and iii) further consumer disengagement (Lyengar and Lepper, 2000). Whilst people may appear happier in higher choice scenarios, those facing more extensive choices report greater regret and dissatisfaction with their choices than those in more limited choice settings (Lyengar and Lepper, 2000). Consumers can also face comparison friction (Kling et al., 2011). Encouraging someone to make a choice once is not enough to provoke lasting behaviour change unless their experiences are sufficiently positive and increase their confidence for future occasions (e.g. when the plan is up for renewal again in the future). This is important as any change in consumer behaviour will only succeed if it persists.

### ***The right information, at the right time, in the right format***

Research shows that informational qualities such as style, complexity and framing play a central role in shaping decision-making. And experience from regulators in Ireland shows that consumers are unlikely to consider more than two or three simultaneous factors when deciding among products. The CRC research also shows that participants of the experiments can only

process or retain modest amounts of information even over the short period of the experiments (KLUF, 2014).

Several studies including CRC’s (KLUF, 2014), also demonstrate that simply reducing complexity (Beshears et al, 2011) or applying new frames (Levin, Schneider and Gaith, 1998) do not have a great impact in behavioural change unless it is integrated into the relevant consumer context with the appropriate information.

The distinction between different types of information at different decision-points is important to analyse. In addition a map of critical decision points should include the motivational reasoning, or lack thereof. Table 2.1 provides an example of critical decision points for purchasing a new mobile phone consumers and the information that may be relevant at those points. Different information is also relevant at different times such as i) when purchasing a new phone, ii) when starting to use a new product, iii) when a consumer experiences a problem, iv) when they wish to terminate the subscription, etc.

There are two types of information:

1. *Contextually available information* is the information in front of people when a decision is being made. For instance when purchasing a new mobile phone this could be the different prices with different prescriptions on labels in a shop, or a catalogue or screen of the online supplier, the contractual terms advertised (sometimes in smaller font), the picture of the phone, etc.
2. *Generally available information* is the relevant information that is passively held and may be applied to the decision at hand. This may include the perceived reputation of the service provider, the purchaser’s past data usage or legal information about the contract clauses.

Research shows that contextually available information impacts on behaviour significantly more than generally available information (Kahneman, 2013). Ensuring that key messages are: presented early, clear in their aim, specific, and unnecessary information is kept to a minimum, can also assist choice (<https://www.gov.uk/guidance/good-law>; New Zealand Ministry of Business, Innovation and Employment (2015)).

Regarding information on price, which is one of the most important information for consumers’ choice, initial “headline” prices that are designed to attract consumers by not including additional mandatory charges such as booking, credit card, handling fees could be problematic for

consumers. Such practices, which are often called as “drip pricing”, may mislead consumers as many consumers focus on headline prices when making decision and tend not to change their decisions afterwards even if they realise the additional mandatory charges. *OECD Consumer Policy Guidance on Mobile and Online Payments* suggests businesses to refrain them from doing such practices (OECD, 2014).

**Table 2.1. Example: Purchasing a new mobile phone: critical decision points and types of relevant information**

Critical decision points	Reason for behaviour	Types of information relevant at decision point
I want a new phone	<ul style="list-style-type: none"> <li>• Saw commercial</li> <li>• Friends got new phones</li> <li>• Upgrade with renewal of subscription</li> </ul>	
I need a new phone	<ul style="list-style-type: none"> <li>• Current phone malfunctions or breaks</li> <li>• Current phone unable to handle new apps</li> <li>• Current phone lost or stolen</li> </ul>	Price of phone, discounts, technology information (latest etc.), functions on phone (adequacy vs wanted)
I need service	<ul style="list-style-type: none"> <li>• Current phone malfunctions</li> <li>• Current subscription or service malfunction</li> </ul>	
I want a new subscription	<ul style="list-style-type: none"> <li>• Saw commercial</li> <li>• Friends switch to new subscription</li> </ul>	Coverage, services, customer service, complaints procedures
I need a new subscription	<ul style="list-style-type: none"> <li>• Current subscription too expensive</li> <li>• Current subscription unable to deliver on needed services</li> </ul>	Tariffs and payment plans, discounts and special offers, legalities of contract

### ***Recommendations to improve information to users***

The new consumer protection regime should provide clear direction, possibly through regulatory requirements, to provide information in a number of different ways that are more effective and useful for the purpose of assisting users to make better choices. This would mainly involve service providers to simplify and standardise information made available to users in a timely way.

**I. There could be a requirement for providers to have a “summary” and “full” disclosure system** (see Sunstein, 2011) with templates designed by CRC that could be mandated as part of the new consumer protection regime.

“Full” disclosure consists of service providers presenting the full information as already mandated in Article 6, 11, 12, 13, 17, 37, 69, 70, 92, 95 and 100 of Resolution 3066/2011 or amended as necessary. This information could be made available online and by email or posted to all consumers on request. However given the risk of overwhelming the consumer, this information may not need to be supplied to consumers as a matter of course but only when requested.

“Summary” disclosure consists of mandated, concise summaries of important bits of information. It would not be advisable to detail the exact information required in the new regulations, but rather delegate the authority to produce and update templates by CRC that must be adhered to by the service providers. However the principle of having the necessary information that can be actually absorbed by users in their decision making at that point in time is critical to make the summary effective.

In addition CRC could give clear direction to operators on the maximum length, format and specific content of publications relating to consumers’ rights. The most recent example of this type of analysis can be found in New Zealand Ministry of Business, Innovation and Employment, 2015.

This proposal will also assist in applying the principles of better regulation by reducing the burden of full disclosure by service providers as a default. There will be costs involved in configuring systems to the new two-level system after which there should be efficiencies in operations.

## **II. Increase the use of choice aids focussed on the end user.**

Checklists of actions could be given to consumers at key moments in their decision making process to assist them to understand their needs (e.g. a list of simple questions related to family size and choice of plan) or guide them through a customer service mechanism (e.g. which documents they need to take with them to an operator’s office to change plan). The literature on choice aids and checklists is not as rich as one might expect, with the best examples coming from aviation. Examples in the consumer space, can be found on websites such as [Which?](https://switch.which.co.uk/energy-advice/moving-house-and-supplier.html),<sup>1</sup> where a simple step by step guide helps consumers through certain procedures. It is important that any decision

1. See <https://switch.which.co.uk/energy-advice/moving-house-and-supplier.html>.

aids/checklists clearly spell out the exact action a consumer needs to take to help break processes down into manageable chunks.

In addition there could be mandated provision of information in a standardised form (for instance on one page templates) by CRC. This should be based on how the information may be used or needed such as “What are your rights?”, “How to complain”, “How to use your service”. For ease of understanding they could be named factsheets or something similar to indicate they are easy to use and are simplified forms of information for ease of digestion.

**III. Types of information may also be required to be provided in a timely fashion or *Just in Time*, such that they are present in the context of the critical decision point.**

This is most appropriate for addressing specific scenarios or situations that are faced often by users. For instance information on how to contact customer services as well make an official complaint outside of the service provider could be placed in an easy to find and simple to understand format on bills and invoices. Or it could be a list of legal and illegal charges, as designed by CRC, on bills and invoices in addition to a prompt or “call to action” for consumers to respond. Whatever the *target information* is, it should be direct and suggestive of available options to help minimise decision load and complexity.

Research demonstrates that having arrived at a conclusion, belief, or point of view, however prematurely, consumers may seek evidence to support that position and interpret newly acquired information in a way that confirms their conclusion, thereby strengthening it. Instead of making an effort to test their first thought against other evidence, consumers may focus only on elements in its favour (Nickerson, 1998). The timing of messages is therefore an important aspect of calibrating an intervention to ensure that they are not ignoring important pieces of information related to their decision.

Interventions can have more impact if they are designed to: prompt people when they are most receptive; consider the immediate costs and benefits. Research shows that messages are most likely to be effective when they are sent: i) close to when the desired action should be made; ii) when peoples’ habits are already changing; iii) when they are reminded about previous commitments closer to when the action will be made; and iv) not too frequently.

Delivering messages at a key moment in the life cycle of a plan (e.g. towards the end of a contract or when a top up is needed) and stressing a certain message (e.g. “many people who don’t check their plans are losing

USD 50”) are likely to have a strong impact. Similarly, we have a tendency to discount the future such that savings and costs are much more salient when made in the present. The prospect of saving money in several weeks is therefore less motivating than the prospect of saving money immediately, and as such people might be more tempted to switch plans if their bills decrease sooner rather than later.

#### **IV. General consumer information should use *analogical encoding* to improve the absorption of critical information by users.**

Analogical encoding is a well-researched method in educational psychology. It functions by transmitting the abstract principle along with two informal (or anecdotal) cases demonstrating how the principle is applied to a real world scenario (Loewenstein, Thompson & Gentner, 1999). Recipients of the information are instructed to look for parallels between two cases, and to infer how they relate to a general rule. Analogical encoding is vastly superior to traditional “case based learning” in terms of how well the target audience remembers and applies the information later on, because it forces the recipient to look beyond superficial aspects of the case and focus on similarities (Gentner, Loewenstein and Thompson, 2003).

This could be used by CRC in addressing the core issues identified in their research that consumers forget new information as well as their tendency to learn rules superficially (KLUF, 2014). Practical case studies to accompany the general information campaigns such as informative commercials, online campaigns and social media, could assist overturning these longer-term issues in transferring knowledge and information to consumers about their own rights.

#### **V. Easier information made available to users on comparison to peers.**

CRC could encourage the creation of information that will assist the social awareness of users in what their users are doing. This can help influence the behaviour of users and address issues of inertia or even miscomprehension. The use of comparator websites, accessibility to neutral technical advisors (e.g. at a citizen’s advice bureau or CRC), and printed literature that offer clear advice on what consumers’ in similar circumstances (e.g. geographical area or family size) have purchased could help alter behaviour. This could also assist consumers’ in their decisions between pre-paid and post-paid options (Wilson and Waddams Price, 2010).

CRC should test and experiment the details of any new information obligations for service providers and attempt to minimise the burdens on industry. The options above are not exclusive and may be combined. However they should be experimented and tested before implementing in

the market to ensure that desired behavioural change and outcome in the market is achieved. It would be useful to have industry buy-in and involvement when piloting, in particular to minimise or even reduce any regulatory burdens and compliance costs on service providers.

## Customer service mechanisms

### *Issue: Consumer dissatisfaction with the status quo*

Complaints about the products and services in the telecommunications sector have increased globally in recent years (Xavier, 2011), which is mainly due to services not meeting the expectations of consumers or charging by the operators exceeding the expectation of consumers. This is true for Colombia where in general, the largest problems with service relates to unreliable signals and subsequent call failures while complaints are mainly made about excessive costs in bills and invoices (KLUF, 2014).

In Colombia, operators are mandated by law to provide all types of customer services mechanisms available to consumers to allow for greater access for resolving issues and redress by the operators (Box 2.2). The details of the customer service mechanisms mandated by law are detailed in Chapter III of Article 3066/2011 and must include toll-free hotline, SMS texting service, physical and virtual offices and accept written, electronic or verbal requests, complaints and appeals (RCAs) by users.

#### **Box 2.2. Article 10.1 Rights and obligations of communications services users, Resolution 3066/2011**

Being well informed with regard to your rights and conditions of service delivery.

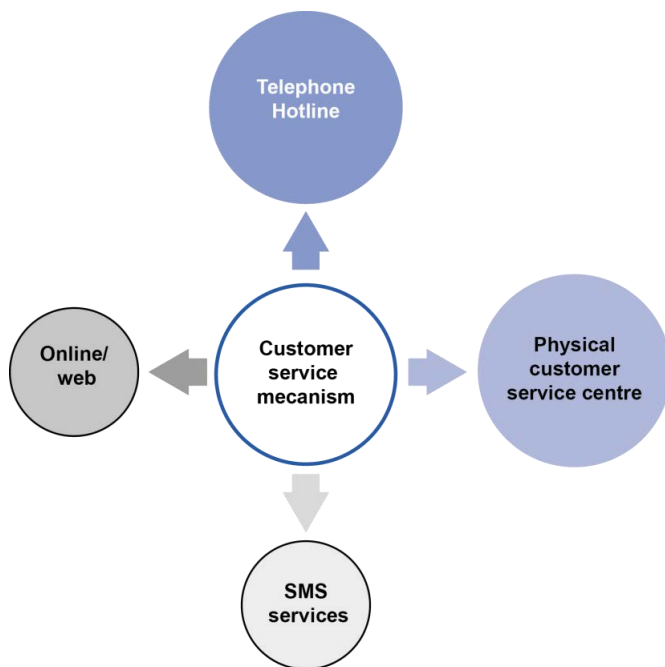
- a) Being attended by your provider in an agile manner and with quality, when required, through the customer service physical offices, virtual offices (website and social network) and toll – free to the customer service hotline.
- b) Easily and without unnecessary requirements submit requests, complaints or appeals in the physical offices, virtual offices (website and social network) and toll - free to the customer service hotline and, in addition, receive comprehensive care and timely response to any kind of request submitted to the provider.
- c) Being able to check online, via the website of the provider or the website of the Superintendence of Industry and Commerce, the state of the process associated with your request, complaint or appeal and the exact time for response to it, as the case may be.



However, it is now apparent that the existing customer service mechanisms provided by operators are not working for a variety of reasons, which according to CRC research, are due to both real and perceived grievances. Consumers are either unaware of cost efficient means, such as SMS services and or have little faith in their effectiveness (KLUF, 2014).

Overall there is a lack of trust by users in the operator’s ability and or willingness to address complaints. This lack of confidence pushes users to pursue personal contact with operators which is why the majority of consumers choose to only use the hotline telephone services, which are often unsatisfactory, or physical customer services offices across Colombia. This is despite these forms of user-operator interfaces being the most costly in terms of time and effort for both the user and the operator (Figure 2.2). This is more prevalent in the regions outside of major cities. Very few consumers use the online or SMS texting mechanisms partially due to misconceptions about the cost to consumers of using them and also due to a lack of confidence in them working (KLUF, 2014).

Figure 2.2. **Popularity of mandated communications customer service mechanisms in Colombia**



High quality customer services are traditionally developed by service providers to ensure a competitive advantage, because it increases the customer's perception of product or service quality, increases their willingness to pay and thus ensures a high degree of brand loyalty. In general, customer services being viewed negatively<sup>2</sup> can indicate low degrees of competition amongst operators. Alternatively it can indicate that customer services are not viewed as viable parameters to compete on by the operators themselves, typically because consumers are highly price sensitive (Brady and Cronnin, 2001).

The situation for CRC is more complex as users have very low expectations of services that they will receive from providers. For instance, pre-paid users believe they will receive poor service, where contract provisions will be breached, and users will not receive the contracted services but they will still have to pay the cost (KLUF, 2014). Therefore there is a strong imbalance of power between users and providers, and little incentives for providers to have well-functioning customer services care.

Article 42 of Resolution 3066/2011 stipulates that service providers cannot “demand payment of a bill as a condition for receiving, attending, processing and responding to request, complaints and appeals (RCAs)”. However in Colombia it seems to be the case or at least perception that customer services of providers only respond to users after payments of bills have been received. Users also feel as though they are inadequately passed around from one customer service mechanism to another without the RCA being resolved. In Baranquilla and Pasto most users contact the telephone hotline, in Bucuramanga they prefer to visit the physical offices. In Bogota many simply do not even bother complaining (KLUF, 2014).

### ***Recommendations for better customer service mechanisms***

Despite the lack of awareness amongst users of the available mechanisms and their potential utility, there is little evidence that a public information campaign would be the best use of resources or strategy to address this. Indeed there would still be a high risk that consumers would resign to not complaining unless there was a dramatic increase in customer service quality. Therefore the recommendations below concentrate on creating the environment and incentives to enhance the customer service mechanisms.

2. Notwithstanding low customer service association with discount brands.

### **I. Make information about how to complain easy and timely.**

In line with the information principle, the complaints mechanisms should be communicated in an easy and attractive manner and made available at key points in the experiences of the user. For instance a one-page fact sheet on “How do I make a complaint?” could be made available at the point of purchase and in with written communications (e.g. invoices, advertising and letters) as well as online in a web and mobile friendly manner.

The information made available should detail the expected complaints procedure and timeframe for responses, and to lay out the expectations of users of the service standards they should be receiving. This disclosure of provider’s obligations could be mandated or incentives could be developed to make operators deliver this.

### **II. Develop a ranking or grading system for operators’ customer service.**

The provision of customer service could be made a key consideration of users’ assessment of operators, especially at the point of purchase.

Often when constructing performance metrics for customer services and complaints, there are arguments from industry on the relevance and appropriateness of such data as a true measure of customer services. Indeed it could be argued that in the current Colombia context, having high number of customer complaints would be a good sign of the customer services mechanism working better than before.

There are also arguments put forward by industry in relation to the impact on innovation and competition of releasing complaint data specifically, as initial teething problems usually occur with the introduction of new products or services or by new entrants to the market. However the potential benefit and incentivising effects from such a metric outweigh the limited accuracy and potential distortions to market activity in Colombia.

The performance metric that could be developed, may contain data on the number of complaints received, the proportion that are resolved within a recommended or regulated timeframe, and the proportion that meet a set standard of customer satisfaction. It could use customer satisfaction services and could even add an assessment of the service provider’s performance and provision of different customer service mechanisms. Operators could also be mandated to provide key choice criteria in an agreed template (e.g. signal strength; customer service commitments; and availability of network coverage).

### Box 2.3. Approach to complaints data reporting by the Financial Conduct Authority, United Kingdom

#### **Complaints data helps the FCA monitor how individual firms are handling consumer complaints and highlights any emerging issues or risks.**

We believe that being transparent about the number of complaints firms receive is helpful for the industry and consumers. Firms are able to compare their performance against their peers and consumers have an additional source of information about the firms we regulate.

We publish two different types of data: at firm level for individual firms; and aggregate (or total) figures for the industry.

The firm-level complaints data includes data from individual firms that have reported 500 or more complaints in a six-month period. This accounts for around 97% of complaints that firms report to us. We publish the complaints data in both a sortable online table in which you can search the data by firm and a downloadable table in which you can search the data by product group.

You can search for:

- the number of complaints opened and closed by the firms, and
- the proportion of complaints closed within eight weeks and the proportion upheld (where the firms agreed with the complainant)

The aggregate complaints data includes all the complaints that firms report to us. By aggregate we mean the total number of complaints split into different categories:

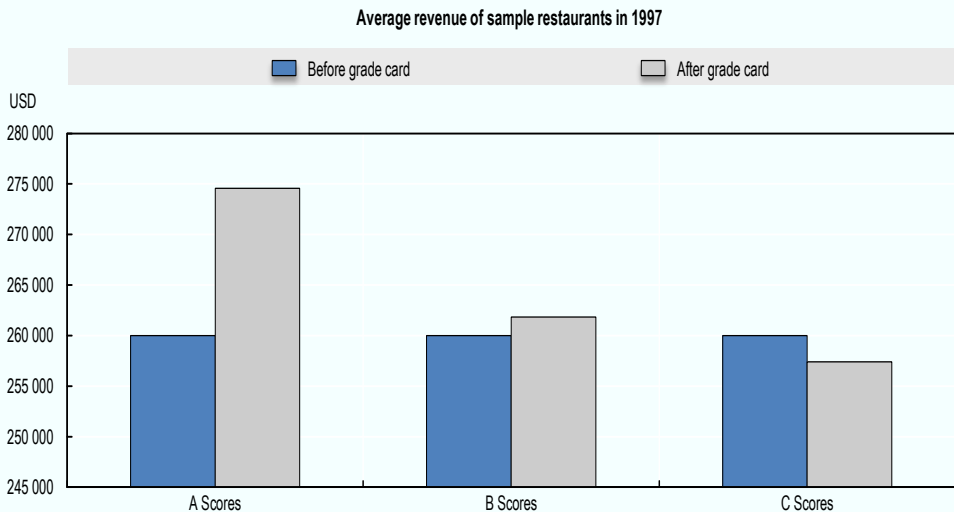
- products – like banking or home finance (mortgages)
- type of firm – like bank or investment manager, and
- the nature of the complaint – like advice or customer service

Source : [www.fca.org.uk/firms/systems-reporting/complaints-data](http://www.fca.org.uk/firms/systems-reporting/complaints-data).

For the ranking or performance system to be “easily used” and therefore used at all by consumers, it should be salient and timely. The most appropriate time to provide this information is at the point of purchase when consumers are initially deciding on the service provider. In addition by reducing the complexity of the assessment to a single core descriptor makes it easy for consumers to understand and input into their decision making. There aren’t any international experiences with these types of score cards in the telecommunications market, however the strategy has been successfully applied in other areas. The most prominent example is the hygiene grade cards for restaurants (Box 2.4).

### Box 2.4. Hygiene Grade Cards for Restaurants

The hygiene grade card is an easy overview of a restaurant’s hygiene standards based on the mandatory inspections from the US National Department of Health. The introduction of the grade cards meant that all inspections were translated into a score based on the restaurants hygiene standards, and then translated into an A, B or C rating which must be prominently featured at the entrance of the restaurant. The introduction of hygiene grade cards in California meant an instant increase in hygienic standards, and subsequent analysis has demonstrated that customers rewarded restaurants with A and B scores while those with C scores lost business compared to before the cards were introduced.



Source: Jin, G.Z. and P. Leslie (2003), “The Effect of Information on Product Quality: Evidence From Hygiene Grade Cards”, *The Quarterly Journal of Economics*, Vol. 118/3, pp. 221-234.

Instead of scores such as A, B, C, there are other pictorial ways of displaying the score of operators, such as the Danish restaurant hygiene faces (Figure 2.3).

Figure 2.3. Smileys from the Danish restaurant hygiene report



The marking system should be displayed at key decision points and could be mandated to be on the products and in-store and online displays of operators. Such a system would not be effective if for instance the ranking is placed on the CRC’s website. This provides the incentive for operators to improve their customer service provision.

### III. Encourage the development of a shared internet based platform for complaints.

Encouraging the use of shared internet based resources, such as <http://defensoriadelcliente.com/> or [www.resolver.co.uk](http://www.resolver.co.uk), to aid in the dissemination of information and build collective action on the performance of telecom operators can be a useful way of harnessing social influences to affect change. Users of pre-paid mobile phone services could report instances of receiving less airtime than they paid for and post-paid users could identify rate increases that are occurring without their prior authorisation or charges for unauthorised messages.

Figure 2.4. Screenshot of [www.resolver.co.uk](http://www.resolver.co.uk)

**Telecoms complaints**

If you want to contact or resolve an issue with your telecoms provider, whether for your home phone, broadband, cable/satellite TV services, mobile or mobile broadband, use resolver to easily set up and manage your issue from start to finish. It's free and you'll ensure your voice is heard!

You can also search for cheaper broadband deals over at MoneySavingExpert.com.

**Helping you with the Telecoms sector**

COMPANIES   YOUR RIGHTS   FAQs   HOW WE CAN HELP

You can raise issues with 61 companies in the Telecoms sector

Key companies include:

EE, BT, Vodafone, O2, Orange, Sky, T-Mobile, Virgin Media

**How does resolver work?**

- Explains your rights to you  
We keep it simple, so there's no confusion
- Bespoke consumer guides  
You'll find no legal jargon in our simple, comprehensive consumer rights sections. Our guidance is tailored specifically for every type of issue.
- Helps you prepare your emails  
Our templates are proven to get responses
- Lets you record all your communications  
Keep a copy of everything that's said with your issue
- Creates a case file for you  
Save and upload all relevant communication and documents

Source: [www.resolver.co.uk/complaints/telecoms-complaints](http://www.resolver.co.uk/complaints/telecoms-complaints).

The CRC could work with the private sector to encourage the development of online platforms that allow consumers to: i) understand their rights; ii) use templates to interact with operators; iii) record communication

with the operator; iv) create a case file; and v) escalate the issue. This could be similar to the UK website [www.resolver.co.uk](http://www.resolver.co.uk) (Figure 2.4) which offers these services and then sells complaints data back to companies. A platform like this could be funded by a levy on the operators.

#### **IV. Provide upfront incentives for complaining such as lotteries to change behaviour.**

Research demonstrates that people tend to overweight small probabilities and that this can influence their choices (Kahneman and Tversky, 1984). Research shows that low and moderate income savers are far more drawn to prize linked savings accounts than accounts that pay traditional interest to all investors proportional to their balances (Kearney et al., 2010). In a study conducted by the World Bank on HIV incidence in Lesotho, a lottery with a small number of high prizes (low expected payments) conditional on negative test results, resulted in a 21.4% reduction in HIV incidence over two years (World Bank, 2015). A similar study on flu immunisations increased uptake from 20% to 29% when a prize draw for a USD 50 shopping voucher was given to those that participated (Webb and Sheeran, 2006).

CRC could use lotteries to encourage consumers to use particular customer service mechanisms. For example everybody who sought advice on mobile phone plans from an online platform or certain organisation like a citizen's advice bureau could be entered into a prize draw. A similar programme in (conducted in in six districts of Beijing and Tianjin) linked to consumers being issued with receipts ensured that taxes were collected and demonstrated a 17.1% increase in declared revenue (Wan, 2006). The prize could be financial (cash back), a new product (e.g. phone), or raising their complaint to a priority position. The key thing is to identify a desired action and also to guard against spurious actions by individuals wanting to enter the draw.

Consumers could be encouraged to use Internet or SMS-based customer service mechanisms by rewarding those who raise a genuine complaint (e.g. a list could be compiled of what is deemed genuine in a similar way to how the European Union has defined customer rights in relation to air transportation delays under EU Regulation 261) through the appropriate channel, for example extra call time.

#### ***Areas for CRC to test and experiment***

In each of the possible solutions above there are areas of future experimentation and testing that will assist in developing the right intervention, and deciding where regulatory intervention is required. The format and type of information that should be made available about the

customer service mechanisms should be trialled for the most effective and efficient way to implement. This may include better signalling to consumers about certain mechanisms such as testing changing “COMPLAINT” to “FREE COMPLAINT” when using SMS customer services to code 85432 as prescribed in Chapter III of Resolution 3066/2011 on “Processing of requests, complaints and appeals – RCAs – And Mandatory Customer Service Mechanisms”. This is to address the misconception that the SMS texting complaint system is chargeable to users.

Clearly there should be testing on the construction of the customer service performance ranking or grading system as well as on the exact method (pictures, size, etc.), timing and place of display in accordance with consumer’s key decision points.

## Consumer consumption management

### *Issue: lack of consumption control for users*

CRC research indicates that overall users do not know what they are paying for – whether they are post-paid or pre-paid users. Users complain most about having excessive costs, billing issues and charges from roaming services. There is limited use of consumption information and the information that is being provided is not consumer-friendly. Both post-paid and pre-paid customers feel as though they are frequently overcharged and yet short changed in the quality of service they receive (KLUF, 2014).

Chapter IV of Resolution 3066/2011 details the requirements that are to be met by service providers in billing users of communication services (Box 2.5).

#### **Box 2.5. Billing, Chapter IV, Resolution 3066/2011**

Article 54. Billing. All communications service providers should inform their users clearly on the invoice, the value for the concept of the establishment of a communication, the consumer unit, the value of the unit of consumption, the number of consumed units in the billing period, the billing period, the cutoff date of the billing period, the timely payment date, the total amount paid in the previous bill and the type of service that is charged as supplementary services, Internet access and other charges that may apply.

Where the provision of invoiced services is subject to plans other than flat - rate or unlimited consumption, they should also indicate the units included in the plan and the unit value of the units additional to the plan.

Likewise, due values and interest accrued should appear, noting the value of the civil penalty interest rate charged.



### Box 2.5. Billing, Chapter IV, Resolution 3066/2011 (cont.)

The invoices from providers that provide landline telephony services should also include the amounts corresponding to the subsidies granted to users.

**Paragraph:** When the contracted service is subject to a flat - rate or unlimited consumption plan, there is no need to report the value of the consumption unit.

**Article 56. Detailed billing.** Communications service providers should detail on the bill to the user the following information: Date and time of call, number dialed, duration or number of units consumed and total value of the call.

Likewise, providers of landline telephony services charging for their distance component should include the city of destination of the call.

When communications services using the landline telephony service as support service, with a fee for additional consumption at the local rate, the communications services rates involved may be independent, having to inform the user the type of service provided and his consumption.

In text messages, there are often unauthorised promotional messages that cost the user, without their knowledge at that time, which affects pre-paid users more than post-paid users. Pre-paid users also feel a discrepancy between the amount they recharge or top up their balance and the value of services applied to their account (KLUF, 2014).

There are various other issues specific to parts of Colombia in relation to services received by users. In Barranquilla and San Andres text messages do not reach recipients, and the internet frequently does not work with low speed and loss of connections frequent. In Pasto, which is close to the border with the Republic of Ecuador, there are complaints for automatic activation of roaming services (KLUF, 2014).

Users of pre-paid and post-paid plans can currently control the consumption of their minutes through calling a dedicated number to receive their account or balance. Also dependent on the plan or mobile device there are Apps that can monitor consumption. In addition pre-paid users receive a text after each call notifying them of their current balance after the call. However it is generally perceived to be easier to control consumption in post-paid plans as there are often charges, discounts and deductions from unauthorised messages received in pre-paid plans, which are difficult to monitor or are unauthorised by users. (KLUF, 2014)

Invoices also fail to provide the right information on consumption and in Granada the bills arrive late causing payment to also be late resulting in users having their services suspended. Billing continues to be made even when services were not provided for both post and pre-paid users. Post-paid

users also face large invoices with unauthorised charges being applied or increases in prices without notice (KLUF, 2014).

### ***Why do people pay too much?***

The international literature on the reasons that consumers of post-paid services frequently pay too much has identified that consumers are attracted to flat-rates and two or three-part plans or tariffs because they i) tend to be miscalibrated, underestimating the likelihood of using only a small proportion of the allowances (of minutes, megabytes, texts, etc.) and the likelihood of going well beyond allowances; ii) seek insurance against high bills; iii) dislike consuming products with the meter ticking (the “taxi-meter” effect); iv) find the pricing easier to understand. The service providers in turn make most of their profits at both ends of the spectrum: from people failing to use their allowances but still paying for the service, or people paying penalty rates for exceeding their allowances.

There is less research that has addressed the decision-making of customers on pre-paid packages, although in many respects the decision-making in this case is dominated by issues of time consistency and self-control, i.e., can users behave (or control their consumption) on a frequent basis in a manner that results in a level of usage and cost that they are happy with over the longer term?

The issues mentioned above highlight the additional difficulty of users being able to manage their consumption with the different charges, discounts or offers applied to them. This is despite receiving SMS text messaging notifications on their balance after making telephone calls or having access to their balance via the service provider’s telephone service, as is the case in Colombia.

Decision aids, choice aids, standardisation of information (e.g. a 5-star system, traffic light code, or ensuring consistency of layout) and having clear default options are proven ways in which to assist low-knowledge consumers by reducing perceived decision difficulty (Morrin, Broniarczyk and Inman, 2012) and friction costs (The Behavioural Insight Team, 2014). In the United States, the Environmental Protection Agency has mandated car manufacturers to have gallons per 100 miles and annual fuel cost labels in addition to miles per gallon (MPG) information. This can be used to help consumers better understand their expected costs as the MPG figure is not linear and does not reflect the actual running costs of the vehicle for most individuals (Larrick and Soll, 2008).

## ***Recommendations to enable consumption management***

### **I. Strengthen regulation on consent and defaults for services that incur charges.**

Research into defaults and their effect on consumer behaviour shows that the default option has a strong tendency to stick regardless of its value to the individual consumer (Thaler, 1980). The *OECD Consumer Policy Toolkit* also points out that framing a decision by setting a default option would have significant impact on consumer's choice (OECD, 2010). The existing regulatory framework of Colombia communications market on consumer protection already refers to “prior consent” of users (Article 56, Resolution 3066/2011). However the study by CRC shows that in Colombia users often prescribe or sign up for services that will be costly, without realising they are prescribing to a chargeable service. Users also receive costly unauthorised promotional messages that they cannot avoid accepting or are not aware they will incur a cost to accept.

To require an active decision from users to receive these messages and services, new regulation could require that at the point of purchase consumers should be provided with an active (“yes” or “no”) choice with salient and clear information on the costs involved such as price per message or call or data used for the service. After the point of purchase they should be defaulted to not take up the chargeable service unless they opt in to the service, and organisations responsible for sending unauthorised messages should have their practices made illegal with the necessary sanctions applied and be liable to compensate users for using defaults to extract payments from consumers (see Box 2.6). Also, cases where automatic renewal of the contract is set as a default that may result in consumers being charged for products that they may not have wanted should be kept in mind. *OECD Consumer Policy Guidance on Mobile and Online Payments* suggests that businesses should inform consumers early in the transaction, if the contract involves negative option billing, which involves a contract or subscription that is renewed unless a consumer takes steps to cancel it (OECD, 2014). This will of course require users to understand their rights and make complaints about such services. This could be done by requiring organisations sending such messages to be required to include details in their message for users to complain about receiving the messages.

The consent and default rules could also be extended to other provisions in regulation such as for blocking premium rate services (Article 81) and the sending of messages for commercial purposes (Article 103).

### Box 2.6. Example of regulating defaults

#### Article 22, European Commission Directive on Consumer Rights (2011/83/EC), 2014

##### *Additional payments*

Before the consumer is bound by the contract or offer, the trader shall seek the express consent of the consumer to any extra payment in addition to the remuneration agreed upon for the trader's main contractual obligation. If the trader has not obtained the consumer's express consent but has inferred it by using default options which the consumer is required to reject in order to avoid the additional payment, the consumer shall be entitled to reimbursement of this payment.

Source : [http://ec.europa.eu/consumers/consumer\\_rights/rights-contracts/directive/index\\_en.htm](http://ec.europa.eu/consumers/consumer_rights/rights-contracts/directive/index_en.htm).

## II. Feedback Mechanisms: Enabling users make better decisions of options based on a better understanding of their actual usage and therefore needs.

Evidence from psychology suggests that learning is most likely to take place when it is salient and occurs in real time. These are principles that need to be kept in mind when devising potential behavioural solutions to a problem. However, recent experience in behaviourally informed policy suggest, in addition, that there are better returns to interventions that are simple and convenient for users. These insights help to explain why customers rarely check their usage via hotlines and websites. The feedback they receive is not real-time (rather, it provides information on usage over a period determined by the billing cycle) and it is often a hassle to obtain it (time, access, security questions, remembering passwords, etc.).

Effective feedback should be designed to make it easy for consumers to react appropriately. For telecommunication the feedback should enable consumers to:

- a) Choose the right subscription type based on previous consumption levels
- b) Avoid excessive additional costs
- c) Have a clear understanding of the service-providers fees and how they relate to personal consumption

Feedback from operators in the US and Europe often make consumer consumption information available to customers. However these are traditionally not on by default but have to be actively chosen by the customer. To address this, service providers could be mandated to provide consumption information unless the user opts out.

Feedback mechanisms have been effective in changing consumption behaviour in other policy domains. The strongest and most mature field is energy consumption, where both live and monthly feedback has been utilised to reduce private energy consumption from 2 – 20 pct. depending on the quality and type of feedback (Allcott and Mullainathan, 2010; Darby, 2006; Nolan et al., 2008).

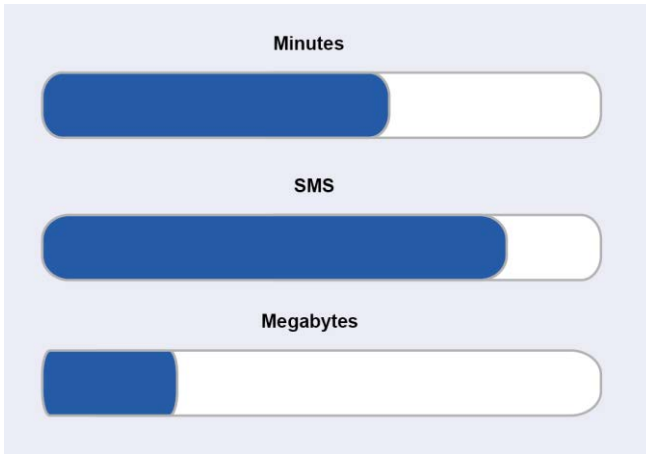
Similarly, two large-scale random-assignment field experiments by utility companies in the United States was designed to provide monthly or quarterly feedback to customers on their energy usage (compared to similar sized properties in their neighbourhood). This resulted in reduced electricity consumption of between 1.2% to 2.1% (depending on geographical location) and a decrease in usage which was sustained over a seven to twelve month period. Crucially the intervention did not lead to those using less than average increasing the amount of electricity they use (Ayres, Raseman and Shih, 2009).

Feedback solutions should help the consumer better understand individual consumption as close to the actual consumption behaviour as possible, i.e. at critical decision points. This includes consumption overviews or notifications sent directly to the consumer, alerts when a certain percentage of a pre-paid card is used or a certain monetary cost has been applied or reached by a post-paid user, and similar mechanisms.

### *Feedback through invoices or bills*

Users could be given a simple graphical display of their usage relative to allowances in the billing period. A schematic example of the type of simplified information is given in Figure 2.5. This type of information provision gives an immediate indication of usage that may attract the customer's attention and takes no more than a second or two to process the main message. Borrowing some ideas on effective graphical presentation of information from decision science, it would be good to design such feedback and test it for effectiveness. CRC may wish to investigate whether such a requirement should be mandated and then guidance be provided by CRC on the graphic to ensure consistency across service providers. This option frames the opportunity costs of user behaviour in an easy to understand manner.

Figure 2.5. Example of simplified presentation of usage information



Another option could be to mandate operators to disclose when a usage pattern would result in a cheaper bill were the customer to switch to another plan or tariff with that same operator. This could be mandated to appear in a separate box on the same page of the bill that contained the total amount due on that invoice.

Itemised feedback already exists within Article 56 of Resolution 3066/2011. There could be a simplification of the invoice structure, based on experiments, that could improve the design and information transmitted to users. This may include having a summary on the front page with the major cost items and standardising this across service providers.

It may also be useful to have an annual statement provided to users to assess and understand their long term consumption pattern, and inform them when making new purchase decisions based on their actual consumption requirements over the past 12 months. Or statements could be provided at the mid-term point of the contract and encourage users to assess what packages they did not use (through loss framing) and provide advice for change. Users could also be given the power to demand an itemised bill from service providers free of charge at any point in their contract (see Box 2.7).

### Box 2.7. Malta itemised billing system

The Malta Communications Authority (MCA) has passed a decision on the provision of itemised bills in the fixed and mobile telephony sectors that came into effect from 1st April 2014.

In addition to the regular standard bill, which is received by post-paid subscribers on a periodic basis, subscribers may also request access to an itemised bill in order to monitor and control their usage more effectively. Subscribers may choose between two types of itemised bills; the first is the basic itemised bill, which normally provides a summary of the different types of calls made (international calls, calls to same network, etc.) and the total costs incurred for each category of calls.

The second is a detailed itemised bill, which provides information on each transaction made by the subscriber, such as each voice call, SMS, MMS and data used by the subscriber.

The MCA's decision specifies the content that both types of itemised bills must contain, as well as the formats in which these bills can be accessed by subscribers should they require such information. By means of this decision, all mobile and fixed telephony post-paid subscribers can request a basic itemised bill, in either hard copy or electronic format, or a detailed itemised bill, in electronic format, free-of-charge.

Furthermore, subscribers of 65 years or more can request a detailed itemised bill in hard copy format, at no cost. Disabled end-users are entitled to a detailed itemised bill, at no cost, should the service provider be unable to provide such information in the subscribers' preferred medium.

Source: <https://www.mca.org.mt/decisions/decision-itemised-billing>

### *Feedback through notifications*

Notifications are already provided to pre-paid users after making telephone calls. However there could be additional notifications about consumption that could assist both pre-paid and post-paid consumers on overall usage of services (see Box 2.8). Text message feedback in Colombia could be expanded in two ways: i) mandate the operator to interact with the consumer at key points in the life-cycle of consumption (e.g. when a contract is up for renewal, within specific refund periods, or before purchasing more credit); ii) to build a text message based system that would allow users to request updates from operators on key metrics (e.g. such as how many minutes are remaining or data that has been used).

The exact system that will be most effective in Colombia should be trialled with the use of behavioural insights to design the system and messaging with pre-tests, experiments and evaluation to ensure the right outcomes are achieved. The Federal Communications Commission in the United States of America introduced a notification system called the “Bill Shock” nudge, which tried to prevent consumers from receiving bill shocks with warning messages from service providers from 2013 onwards. However Grubb and Osbourne (2015) argue that the measure may have ambiguous consumer welfare consequences. Hence there is a need for experimentation and evidence of impacts.

### Box 2.8. Examples of consumer consumption notifications

The Telecom Regulatory Authority of India (TRAI) has mandated a consumption control system where all providers, at default, must notify customers on data usage, using different types of notifications for different subscription types (500, 100, 10 MB left, or 50, 90, 100 pct. of data plan per month used).<sup>1</sup> These types of consumer consumption control mechanisms, whether provided voluntarily by the service provider or mandated by authorities, function as early warning systems that notify the consumer about data usage.

In Ireland, service providers send a SMS text to users toward the end of the billing period to inform them of their remaining allowances.

Example of early warning text (from Huffington Post):

Verizon Msg: The number ending in 5564 has used about 75% of its data plan(your cycle ends on the 3rd.) You can move to a larger data plan at [vzwmobile.com/usg](http://vzwmobile.com/usg)

Example of early warning text (from Vodafone):

Please be aware it's expensive using data on your iPhone abroad. Browsing the web, watching YouTube videos and using Apps can use over 1MB/min. Using data abroad costs £3/MB in the EU and £6/MB outside. You can monitor how much you use in Settings/General/Usage



Personalising messages have also been found to be effective.<sup>2</sup> In the field of attendance rates at job centres, BIT has found that impersonal messages did not lead to claimants attending their appointments, but that personalised messages that wished jobseekers “good luck” and included the name of the individual that had booked the appointment on their behalf, tripled the rate at which jobseekers attended job fairs (The Behavioural Insights Team, 2015).

Prompts can also be added to (relevant) existing channels of communication. BIT and the UK Department for Work and Pensions sent a total of eight million letters to the recipients of the Winter Fuel Payment to encourage them to investigate alternative energy suppliers. By placing prompts on the outside of the envelopes the information was visible and actionable. Although the programme was not run as a fully randomised evaluation, findings indicated that there was a 20% increase in click through to [goenergysshopping.co.uk](http://goenergysshopping.co.uk) (The Behavioural Insights Team, 2015).

Further personalised feedback on usage could be mandated or encouraged by CRC to be implemented by providers, including the name of the recipient in text messages and further personalising bills (beyond including their name and address) that could help increase engagement. This type of intervention could also use social norms tailored to a specific geographic area or demographic and be linked to a specific moment in a contract (such as the renewal or regular account statement). The Financial Conduct Authority in the United Kingdom ran a large scale trial of 500 000 customers from one bank that demonstrated that signing up to text alerts or mobile banking apps reduces the amount of unarranged overdraft charges incurred by 5% to 8%, and signing up to both services has an additional effect, resulting in a total reduction of 24%. The additional impact of the combination of both services shows the benefit of receiving information upon automatic triggers (possibly defaulting), without having to actively acquire it, as well as having the facility to act quickly upon receiving information. Text alerts and mobile banking apps also reduce current account balances by 17% to 24%, which is beneficial for consumers as they reduce the cost of holding funds in accounts with low credit interest rates (Financial Conduct Authority, 2015).

Text messages are a useful way of contacting people, tying the text message to an existing process can be a particularly powerful prompt to take action. A trial between UK BIT and the UK Courts Service introduced a standard text message at the final opportunity to pay a court fine doubled the value of payments made; personalising the message tripled the payment rate (Behaviour Insights Team, 2012). In Bolivia, Peru and the Philippines, monthly text message reminders were highly effective in increasing individual savings (Karlan, Morten and Zinman, 2012). It is important to

note that the frequency of messages affects their impact. In Kenya, sending weekly text message reminders increased antiretroviral treatment adherence from 40% to 53%, however daily messages had no impact (Pop-Eleches and Goldstein, 2011).

### *Feedback through technology based solutions*

In Colombia, there is an application that allows users to submit requests, complaints or appeals to operators and compare rate plans of telecommunication services called Decide TIC. Many other providers in other countries also have applications that provide consumption data in real time (see Figure 2.6).

Figure 2.6. Ongoing feedback indicators (screenshot from the My Vodafone App)

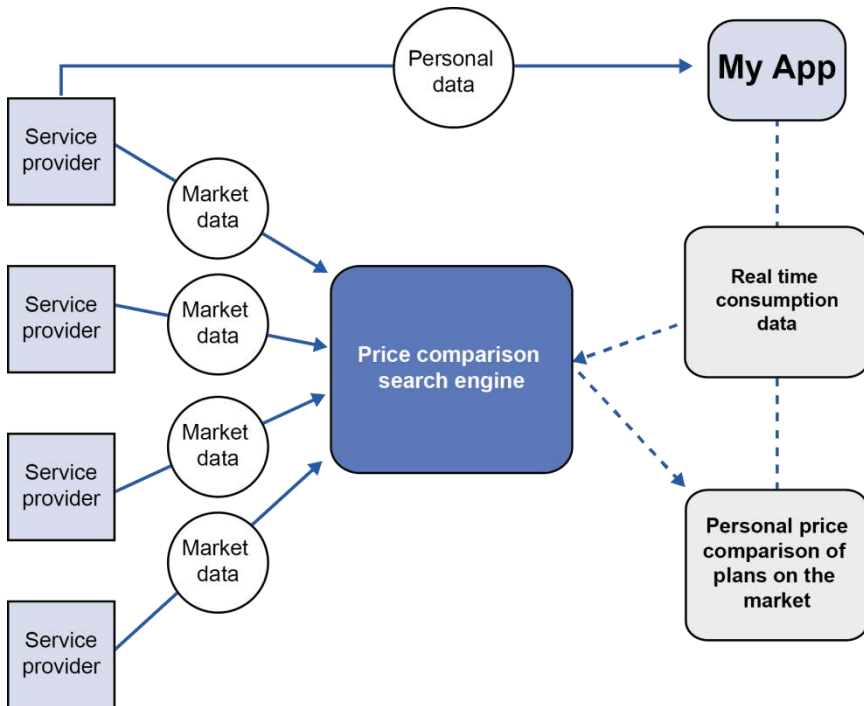


In addition CRC's own website also provides the ability for users to compare rates of different service providers, as well as find out information on cell phones, consumer rights and provide requests, complaints and appeals to service providers. In many other countries, there are online search

platforms that also enable consumers to compare and make decisions on communication services.

Given these potential technological solutions, the CRC could investigate into developing a system that combines the real-time feedback of consumption with a search engine that can assist to identify plans from the market that are the most optimal to users (Figure 2.7).

Figure 2.7. **Feedback system combing personalised data with search engine**



There are different options for CRC to consider in developing such a system. Either the market incentives can be created to encourage the development of such apps by service providers or third party entities as well as independent search engines. The use of sophisticated and well-designed price comparison websites can allow consumers to interact with regulations or choices by reducing the scope of a search to those products that might be most suitable (Dellaert and Haubl, 2012). However, there is a danger of such a system being open to abuse and detrimental to consumer welfare.<sup>3</sup> The system could therefore be mandated with CRC responsible for ensuring the data is available from service providers to make the system function.

Operators could be mandated to provide certain types of information, both relating to individual usage as well as comparative information. For example informing consumers of the consumption of the “average person like you actually uses” (e.g. most people send about # texts a month, make # hrs of calls, and use #data). Information/data on its own is not enough; consumers need help interpreting their information which will require guidance from CRC.

In the United Kingdom and Ireland the “midata” policy and third-party usage apps in the United Kingdom and Ireland (see Box 2.9) are alternative methods of automatically comparing plans with usage patterns. Considering mandating the data to be available in a machine readable format or application programme interfaces (APIs). Making the data more easily available is likely to help facilitate the development of new providers of choice aids. An example of an energy bill with the the midata policy in the United Kingdom is provided in Annex A (The Behavioural Insights Team, 2015). Opower, an energy company, provides a good example of these types of practices. Their latest customer engagement platform, [Opower 6](#), offers three services tailored to the consumer: a high bill alert service related to specific consumption; electronic bills that can provide context on usage; and a more personalised bill advisor who is able to use personalised insights on individual customer consumption to advise them.<sup>4</sup>

### Box 2.9. Decision aids for comparing telecommunications tariffs

In many countries there are now third-party websites and apps for comparing telecommunications plans. These are more sophisticated than normal price comparison sites, since they require the ability to obtain past (or to monitor current) usage for the individual customer in order to compare usage against the available contracts in the market. For instance, in Ireland there is an app called “Killbillier”, which has been designed to retrieve your information automatically from the provider, once you give the app your security information. In the United Kingdom there is the “Billmonitor” website, which does the same but perhaps requires greater effort from the user to provide the essential information. Anecdotal evidence would suggest that these services work well for those that exploit them, who are growing in number.

Following the work of the Behavioural Insights Team in the United Kingdom, the “midata” initiative offers the possibility of standardising the usage data in machine readable form to make these kind of decision aids much easier to use, for instance by simply scanning a QR code. Currently this is a voluntary scheme with a number of industry members already signed up. However there is the potential to do mandate for the application of “midata” under the Enterprise and Regulatory Reform Act 2013.

### Box 2.9. Decision aids for comparing telecommunications tariffs (*cont.*)

In principle, this has the feel of a panacea for price comparison in the mobile phone market, but there are issues to be considered carefully.

Firstly, it may be that users who take advantage of these services tend to be those who are already the more sophisticated consumers and who are, therefore, less likely to be paying over the odds for a service in the first place. An evaluation of who benefits most from these services would be useful. Second, the costs to business of providing standardised data have led the UK government to roll out the initiative on a voluntary basis as an alternative to regulating, albeit with the possibility or even threat of compulsion.

Moreover, arguably, companies like Killbiller and Billmonitor are solving the problem without having to resort to mandates, therefore having legal requirements may not be necessary.

The use of such decision aids is a new trend, as evidence begins to emerge about the costs involved and the benefits to different groups of users.

In the United Kingdom and Ireland, regulators endorse or even provide certain price comparison websites, including (including Billmonitor and CallCosts) to assist consumers. The actual provision of sites is expensive for a regulator with a large market. Endorsement is arguably an important part of the trust required for price comparison sites to work well, as consumers typically and reasonably worry about whether price comparison sites are accurate and how they make their money. Some countries encourage such services through grants and prizes, which might be a more cost effective solution for a regulator.

**II. Encourage or mandate providers to apply Emergency Plans:** for those consumers who fail to respond to prompts and allow their contract to automatically continue on the same plan.

CRC could introduce a safeguard plan or tariff that individuals are moved onto after a certain period of inaction. It could be called an “emergency tariff” to make it clear to consumers that this is not a good long term solution. This type of idea is currently under consideration in the United Kingdom (Competition and Markets Authority, 2015) to protect disengaged consumers in the energy market.

## Bundling of services

### *Issue: Getting the best deal for users*

The bundling of different communication services, such as mobile services, broadband, fixed-telephone line, etc., should provide better choices, with simpler access to overall communication services at lower costs and therefore have better outcomes for consumers. However, consumers in Colombia are not provided with the right information for the services that they require and often are paying for services that they do not require. In addition the lack of usable information on their consumption further complicates the choices they make when choosing communications services. Therefore the issue that is of concern to CRC is whether the bundling of services is in the best interest of users in Colombia.

The existing regulation does not have a specific clause for the bundling of communication services and products in Colombia (Resolution 3066/2011). In the past, CRC did intervene in the mobile cell phone industry by requiring service providers to not “bundle” the hardware (cell phone handsets) with the services contract (plans). The intention was to make the pricing more transparent for users to make better informed choices with clarity over the exact costs of each item. However this intervention had negative consequences whereby service providers no longer provided discounts to reward new subscribers to their network, and instead the costs of both contracts and handsets increased.

Bundled services have traditionally been viewed as a pricing strategy that reduces transaction costs for consumers by offering a variety of complimentary goods in one single transaction. From this perspective, which assumes that consumers evaluate the bundled package in a rational manner, researchers have mostly focused on how bundled goods affect the markets by potentially crowding out of new competitors (Pfanner, 2010).

There is no empirical evidence that mandatory “unbundling” could be effective to improve consumer welfare as long as the individual components in a subscription necessarily have to come from the same provider. If consumers could purchase SMS from one operator, telephony from another and so on, then perhaps forced unbundling could be an effective instrument to increase competition between operators, but this would need to be tested and examined.

Conversely, forced unbundling will lead to much higher transaction costs for the individual consumer which in turn would make the consumer much more dependent on the marketing or sales consultants in the individual stores. Research points to bundling being the more profitable strategy but

also requires more from operators and is not fit for all types of goods and services (Derdenger and Kumar, 2011).

### *How do consumers behave in relation to bundling?*

There are a number of behavioural biases which can explain how people's attention is influenced, including: anchoring (Institute for Government, 2010) (relying too heavily on one piece of information); framing (Institute for Government, 2010) (being influenced by the way in which information is presented); overweighting small probabilities (Kahneman and Tversky, 1979) (place more weight on small probabilities than they should); mental accounting (Thaler, 1999) (how individuals organise, evaluate, and keep track of financial activities); and opportunity-cost neglect (Federick et al., 2009) (consumers may not explicitly consider the outside goods that an expenditure may displace).

Behavioural studies have demonstrated that consumers react non-rationally when they evaluate bundled offers, and that they have a tendency to overlook individual component prices when confronted with a bundled offer (Munger and Grewal, 2001). This can happen because consumers over-emphasise the value of singular elements in the bundle instead of all elements taken together. The tendency causes operators to develop bundles with highly salient features that act as promotional features of the bundle. By highlighting certain attractive features of the bundled package the user tends to find the overall package attractive, regardless of the actual benefit or usefulness of the sum of the components. In some instances the information provided for different bundled packages may not be comparable and the composition and selective information provided may not be of benefit to users' actual needs (see Figure 2.8).

Figure 2.8. Example of bundled services from AT&T

		
DIRECTV + Internet	DIRECTV + Internet + Digital Home Phone	DIRECTV + new AT&T Unlimited Plan
.....	.....	.....
<ul style="list-style-type: none"> <li>• DIRECTV® SELECT™ Package</li> <li>• Up to 3Mbps Internet speed</li> </ul>	<ul style="list-style-type: none"> <li>• DIRECTV® SELECT™ Package</li> <li>• Up to 3Mbps Internet speed</li> <li>• 200 anytime minutes</li> </ul>	Get Unlimited Data when you have AT&T wireless and DIRECTV After 22GB of usage, AT&T may slow data speeds.
Prices start at \$34.99/mo. <small>Price per mo. for 12 mos. w/24-mo. TV and 12 mo. Internet agmts. Req's combined billing. Add'l fees apply. Geo. &amp; svc. restr. apply.</small>	Prices start at \$54.99/mo. <small>Price per mo. for 12 mos. w/24-mo. TV and 12 mo. Internet agmts. Req's combined billing. Add'l fees apply. Geo. &amp; svc. restr. apply.</small>	<small>Req's elig. TV svc. If not elig., AT&amp;T will move you to a 10GB plan (coverage charge \$15/GB) or may move to your previous plan (restr. apply). Fees, charges, add'l usage &amp; other restr. apply.</small>
Plus get up to <b>\$250</b> in reward cards	Plus get up to <b>\$350</b> in reward cards	

The tendency of consumers to focus narrowly on information available is particularly strong when consumers are confronted with goods and services where they expect bundles to dominate (e.g. meals deals in fast-food chains, home-entertainment package sets and mobile phone services). Researchers argue that the effects can be explained as a result of shallow cognitive processing in the actual decision situation. Shallow cognitive processing means that the decision maker relies on highly salient features (see Table 2.2) in the decisional context to make a decision, instead of critically assessing all available information. Therefore the information made salient by service providers is important for decisions about bundled services by consumers.

Table 2.2. **Example of highly salient component prices in bundled offers**

Bundle 1	Bundle 2
Component 1 (price a)	Component 1 (price x)
Component 2 (price b)	Component 2 (price y)
	Component 3 (price z)

Shallow cognitive processing in choosing bundled services means that the decision maker is not actively drawing on information in an optimal manner in the actual decision context. If this is the case then it speaks against using public information campaigns as an instrument to increase consumer awareness and sensitivity towards bundled offers. Consumer education programmes also redirect attention from provider behaviour while making little difference to consumer decisions (see Box 2.10).

#### Box 2.10. Effectiveness of information campaigns

Information campaigns remain a popular choice for behaviour change despite clear evidence of their long-term ability to change behaviour. Campaigns can be effective, where simple, single messages are effectively delivered. It is often difficult to evaluate a campaign's effectiveness scientifically because they, by their very nature of broad dissemination, make it difficult to define randomised control and treatment groups.

Most of the research on the effectiveness of campaigns comes from the health sciences. Here, a rule of thumb is that an effective information campaign can change up to five percentage points of actual behaviour (Snyder, 2007).

*Source:* Snyder, L.B. (2007), "Health Communication Campaigns and Their Impact on Behavior", *Journal of Nutrition Education and Behavior*, Vol. 39/2, Suppl, pp. S32-40, <http://dx.doi.org/10.1016/j.jneb.2006.09.004>.



## ***Recommendation to address bundled services***

### **I. Provide users with information on both bundled and separate component prices.**

The limited literature on the effects of bundling products (e.g., Ranganathan, Seo and Babad, 2006; Ofcom, 2010; Prince and Greenstein, 2013; Burnett, 2014) contains some concrete findings. Bundling is linked to lower levels of switching in telecommunications markets, however it is less clear what the causes of this effect are. Many bundled services offer better value compared to the equivalent separate services, but only provided the consumer makes use of the service. But bundling can also increase switching costs, leading consumers potentially exposed to poorer value after a period with bundled services.

There may also be a psychological effect that leads people to want to keep services bundled rather than unbundling them again. If so, then because not all operators offer all bundles, choice in the market becomes more restricted once services are bundled. Work in Ireland by PRICE Lab<sup>5</sup> would suggest that consumers will find it even more difficult to compare bundled products than separate ones, because of the increased complexity of the attributed information they must process.

Research in how consumers evaluate bundled offers demonstrates that price-sensitivity increases when information on individual component prices are made highly salient. When component salience is high, the consumer is pushed into a more critical evaluation of the bundled offer's total price. This is relative to the personal value assessment of each of the individual bundle components. A more critical evaluation increases the probability of consumers rejecting bundles with unnecessary components for them. Critical consumers are less in risk of being “tricked” by cleverly designed bundles, which could indicate the benefit of mandating operators to feature information of component prices in a salient manner when advertising their bundled offers.

It is important that component prices are highly salient at the critical decision point of purchase when consumers are actively deciding between the different bundles. This would include areas such as at the service providers' online store, at physical stores, in digital and print advertisement.

Another option could be to mandate operators to offer separate as well as bundled services and to do so with transparent pricing. However there is no high-quality empirical evidence to suggest this method would be successful and therefore rigorous testing will be required before making such an intervention. However there are experiments ongoing to test the

effects on consumer choice of transparent pricing of the price of handsets in bundles in Ireland.

The implications for providers is that there could be some costs incurred but these could be reduced or marginal through the appropriate use of regulatory policy tools to develop the implementation mechanisms. This measure would effectively force operators to pay a competitive penalty for increasing prices on existing customers with bundles, if they also had to disclose the unbundled price of the service or product. This could be mandated on bills and in marketing literature. Furthermore, it could be part of the information mandated by providers to inform consumers when a cheaper tariff option is available for their usage, by extending this to informing them if their service would be cheaper if purchased separately rather than as part of a bundled package.

## Notes

1. Regulation on Telecom Consumers Protection (Eighth Amendment) Regulations, 2015, TRAI.
2. The World Bank's 2015 World Development Report "Mind, Society and Behaviour" (showed that text message reminders have been tested in at least 73 peer-reviewed papers in recent years.
3. The UK's Financial Conduct Authority conducted review of price comparison websites in the insurance sector from December 2013 to April 2014 and found that they did not always ensure that consumers were given the appropriate information to help them make informed decisions. See <https://www.fca.org.uk/news/tr14-11-price-comparison-websites-in-the-general-insurance-sector>.
4. See [https://opower.com/company/news-press/press\\_releases/117](https://opower.com/company/news-press/press_releases/117).
5. PRICE (Programme of Research Investigating Consumer Evaluation) Lab began in January 2013, PRICE Lab is developing original experiments designed to test the abilities of consumers to choose between complex products. PRICE Lab is supported by the Central Bank of Ireland, National Consumer Agency, the Commission for Energy Regulation and the Communications Regulator (ComReg).

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## Annex A

### Example of bill using midata

Adam Reed  
260 Bath Road  
Slough  
Berkshire  
SL1 4DX



#### Your summer gas & electricity bill

**Bill date**  
12 April 2014

**Bill period**  
12 Feb - 11 April 2014

**Your customer number**  
31 41 59 26 53 58

#### 1 What do I owe?

Your winter  
payment is:

Gas total £102.40  
Electricity total £121.18

**£223.58**

You're on our Standard Tarriff for both gas  
and electricity.

#### 2 Your estimated use

**607 kWh**

Gas total 240 kWh  
Electricity total 367 kWh

#### 3 When do I pay?

Your  
payment is  
due by:

**1st  
May**

#### 4 Compare your tariff and usage

See if you're on the right tariff and  
whether you can improve your  
energy efficiency by scanning the  
code.



You can download a QR code  
reader from your smartphone's  
app store.



## Annex B

### Key bibliographical references

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# Protecting Consumers through Behavioural Insights

## REGULATING THE COMMUNICATIONS MARKET IN COLOMBIA

### Contents

Chapter 1. Regulatory context and approach

Chapter 2. Applying behavioural insights

*Annex A.* Example of bill using midata

*Annex B.* Key bibliographical references

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