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Losing Interest: How Much Can Consumers Save by Shopping Around for Financial Products?

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Abstract

This paper examines consumers' potential loss from buying expensive financial products. There is a lot of evidence that consumers do not shop around between different providers of financial products. One of the reasons why they do not shop around may be that they are unaware of how much they could save. For example, a recent survey found that 39% of consumers thought that "the financial market is so competitive, there is little difference between the charges and costs of different companies". Our work shows that this is not the case and shows that consumers can save money if they shop around for financial products.

In this paper we look at a wide range of different financial products and estimate the loss for consumers who choose an average-priced provider rather than the cheapest. Using detailed information on the types of products that consumers actually buy, we also work out how much "typical" consumers in various life-stages might lose as a result of not shopping around. Finally, we look at the prices that different groups of consumers pay for their financial products. Research has shown that there are systematic differences in the extent to which people shop around; we look at whether this is reflected in the prices that they pay.

We are not saying that consumers should necessarily buy the cheapest product. There are features other than price that are important to them - such as the riskiness of products and firms, the convenience or quality of service or a perception that certain providers will achieve better underlying investment performance. Also, shopping around the market to find the cheapest product on offer takes time that people may prefer to spend doing other things. But we are concerned that many consumers do not currently shop around because they are unaware of the potential cost savings that are available. Knowing how much they could save, consumers will be in a better position to ask themselves whether their provider gives them sufficient extra value in other areas to make it worthwhile for them not to shop around.

Keywords: financial products, consumers, cost, prices, quality of service, cheapest and most expensive products

JEL Classification: D1, D4, D7

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