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MONEY

PLAYING THE LOOT
ACTOR MICHAEL HAYES RECALLS THE THIEF WHO PINCHED HIS STEREO
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Stubborn loyalty will not get you anywhere

HOUSEHOLD BUDGETING

Consumers are wasting thousands by clinging on to old phone, mortgage and insurance deals. *Mark Channing* explains why we must make a switch

Irish consumers have a tendency to drag their feet when it comes to looking for a better deal

We are our own worst enemy when it comes getting the most from our money, because we are too lazy, loyal or afraid to switch to cheaper deals.

New research published by the Competition and Consumer Protection Commission (CCPC) found that, for all the regular information campaigns and media coverage about the financial benefits of shopping around, the number of Irish people who switch is falling.

The study looked at consumers' experiences of changing providers for 19 everyday services, including electricity, waste, gas and financial services. The CCPC found that, despite the publicity, Irish people have become worse at switching, with the number of consumers saying they had changed at least one service provider in the past 12 months down by 15%.

Fewer than one in four consumers said they regularly switched service provider to take advantage of better deals, showing that most are still not in the habit of changing regularly.

Explaining why we are not switching in greater numbers is a conundrum to economists, who expect consumers to act rationally and move to cheaper deals when they become available.

Dr Pete Lunn, a behavioural economist at the Economic and Social Research Institute, said: "The belief was that if you open markets to competition and have more providers to choose from, consumers will switch to save money. While that has happened to some extent, switching levels remain relatively low. It has proved quite a puzzle to economists."

We find out what is stopping consumers from switching, tell you where the big savings can be found, and offer tips to help you get started.

What stops us from switching?

Though laziness appears to be the biggest barrier preventing us from switching to cheaper deals, experts believe the real reasons are more complex.

When it came to each product and service looked at by the CCPC, the top two reasons consumers gave for not changing were that doing so was more hassle than it was worth and that there was not much perceived difference between suppliers.

Determining whether switching is too much effort depends on the individual, but research shows those who take the time to shop around make big savings – an estimated €240-€360 a year for each service they switch.

Fear is one of the reasons we do not switch more, according to Lunn, because we are afraid of making a mistake and ending up with a more expensive deal.

"Choosing the right product is often a complicated process and can involve weighing up lots of information," he said. "Some people just don't feel competent enough to be able to pick the cheapest deal, and they end up deciding that switching is not worth the risk." Lunn cited a 2014 study by the British consumer group Which? that found nearly two-thirds of consumers could not work out the cheapest energy deal offered by Britain's six biggest energy companies.

"Even though we know there are better deals out there, we don't feel able to find them. So in a way, choosing not to switch is actually rational," he said.

Loyalty is another reason behind consumers' decision not to switch, according to Lunn. "A lot of consumers still have a strong sense of loyalty. If they are getting a good service from a company and feel they are paying a fair price, some people don't feel the need to shop around."

Some consumers are guilty of taking an "ostrich approach" to saving money and would rather not know if they are paying too much.

Emma Kavanagh, associate director at the consumer agency Ignite Research, said: "The ostrich effect relates to a human tendency to bury our heads in the sand when faced with potentially negative information.

"Consumers don't always want to know they are not getting the best deal, because then they will have to act on it."

> "When you start a new contract, make a note in your diary of when it expires, and switch again at renewal

Where are the big savings?

The biggest savings can be made by switching mortgages and financial products, yet these are the things we are least likely to change. A mere 1% of borrowers have changed mortgage provider in the past year, claims the CCPC, despite research from the Central Bank of Ireland showing switching would produce average savings of more than €10,000 over the lifetime of the loan.

This is likely due in part to what Kavanagh terms "hyperbolic discounting", where consumers place greater emphasis on smaller short-term rewards than bigger ones in future.

"Humans tend to think more about the now, rather than the future. Seeing long-term value can be more difficult because it is more abstract," said Kavanagh.

Mortgage protection insurance – a form of life insurance designed to pay off your mortgage should you die – is another big saving ignored by most consumers. Only 3% switched last year, making an average annual saving of €383.

A total of 6% of consumers reported switching their health insurance, with an average annual saving of €393.

We are most likely to shop around for car insurance, says the CCPC, with 28% of us switching insurer in the past year. About 15% changed electricity, gas or broadband provider.

What can help me to switch?

Keeping records in a diary and setting reminders can help you get into the habit of switching.

Aine Carroll, director of communications and market insight at the CCPC, said: "It might sound obvious, but one of the things consumers should do is use their diary or calendar. When you start a new contract, make a note of when it expires, and switch again at renewal.

"Spend half a day every six months pulling all of your paperwork together and see when you're out of contract and have the scope to save money."

Carroll urged consumers to use independent price-comparison sites and apps, which can take the legwork out of switching and give you the confidence to pick the cheapest deal.

The CCPC site consumerhelp.ie compares the costs and benefits of financial products from the main providers in the Irish market, while callcosts.ie is run by the Commission for Communications Regulation and evaluates mobile, home phone and broadband price plans. The Health Insurance Authority compares health insurance plans on hia.ie.

Other independent price-comparison services include Bonkers.ie and Switcher.ie, which are both accredited by the Commission for Energy Regulation for gas and electricity tariff comparisons.

To compare mobile phone plans, download KillBiller, a free app that audits your usage and tells you the best plan.

When it comes to switching, the consumer's best friend is him or herself, according to Carroll.

"Invest just a little bit of your time and you will be rewarded with some really substantial savings," she said.

MARKET MOVER
ANTHONY CONROY

Anthony Conroy is associate director of European equities at Zurich Life, which has more than €20bn of assets under management. He manages European equities for a variety of funds including the International Equity Fund, which is €1.1bn in size.

The fund is open to those who have at least €5,000 to invest or agree to invest at least €75 a month.

Investment philosophy

The fund is actively managed and seeks to maximise growth through capital gains and income from a portfolio of international equities and equity-based financial instruments.

It uses a "top down investment strategy and looks at the overall picture of the economy to select which regions and assets are likely to outperform.

"We use this approach alongside other factors such as valuations, earnings trends and interest rates to decide our regional and sectoral preferences," said Conroy.

Performance

The fund is up 18.8% over the past year, according to fund data provider Longboat Analytics. Over three years, investors have earned an average of 13.7% a year, while over five years the average annual return has been 13.1%.

"We have a consistent long-term track record and, since its inception, the fund has done very well versus its industry peers," said Conroy.

Buying and selling

The fund has turned positive on continental European equities and has added to its position in French toll road operator Vinci, which according to Conroy, *pictured*, is a good proxy to capitalise on an improving European economy.

"Vinci is currently valued at about 15 times earnings and has a good dividend yield. As the European economy improves, so should Vinci's earnings," said Conroy. Shares in Vinci are up about 25% over the past six months.

Conroy is also bullish on European banks. The fund has recently increased its holding in BNP Paribas, Credit Agricole, Unicredit and Santander.

"We believe eurozone bond yields and eventually interest rates will rise from here. Higher interest rates and bond yields, combined with an improving economy, are a positive backdrop for banks," said Conroy.

The fund is underweight on consumer staples, recently selling down its position in Anheuser-Busch InBev, the world's largest beer company which is behind Budweiser, Corona and Stella Artois.

"Anheuser-Busch InBev looks expensive and is also under pressure from the popularity of craft beers. It has been losing market share in the US for in recent years," said Conroy.

The fund is underweight in UK shares due to Brexit.

"Brexit is not going to be a positive for the UK and we think it is going to hurt the UK consumer quite a lot," he said.

Outlook

Conroy believes the global economy and corporate profits are in an expansionary phase which should act as a tailwind for equities.

"Equities are not cheap versus their own history but they are relatively more attractive than holding bonds and cash," said Conroy.

"Global interest rates have started to rise but they are still nowhere close to restrictive levels."

Rory Gillen

Just who is CRH's share strategy designed to benefit?

There is little doubt that the building materials giant CRH is an excellent firm operationally, but in terms of serving its shareholders that is only part of the battle.

What truly matters is not just profit growth, but profit per share growth. The efficient allocation by a board of the capital generated in the business can also have a material impact on profit per share growth over time.

CRH has grown from humble beginnings in the early 1970s – when Irish Cement and Roadstone Holdings merged – to grow into one of the world's largest construction materials groups, with substantial operations in the US and Europe and a growing presence in developing economies.

The group also responded well to the downturn in building activity following the global financial crisis. Almost €2.4bn was cut from costs in response to the crash, of which the company expects at least €1.5bn is permanent savings. Given that CRH's operating profits were €2.1bn just before the crisis, management can take credit for a job well done in difficult times.

While the board can take its share of the credit for directing management, the group has developed a habit of letting the number of shares in issue creep upwards over time, which has impacted growth per share.

From 392m shares in issue at the start of 2000, CRH has lifted its share count to 835m, a 113% increase, through a combination of rights issues and share placings net of share buy-backs (which added 85% to share count), scrip dividends (18%) and shares awarded to management via incentive plans (10%).

CRH delivered €1.50 in earnings per share in 2016. Had the board not issued any shares over the period since 1999, the group would have reported earnings of €3.18 per share in 2016. The equivalent share price for CRH today would be circa of €65, and not €32.50.

Of course, some of the growth achieved over the years would not have been delivered without some new equity, but there's a relatively easy case to be made that a significant amount of growth per share has been lost through a less than optimum allocation of resources.

Few will argue that the group over-extended itself leading up to the global financial crisis. Some 152m new shares were issued in early 2009, or 28% of the then shares in issue.

If that particular rights issue along with the scrip dividend shares and shares awarded to management over the years had been avoided, CRH's share count would be 259m lower today, and earnings per share reported in 2016 would have been 45% higher – €2.18 per share as opposed to the €1.50 reported.

While the then board may argue that it had to protect its credit rating in 2009 due to the high level of debt going into the crisis, shareholders might counter that the board's allocation of capital to acquisitions during a period of overheating construction markets leading up to the financial crisis showed poor judgment.

It's normal practice to reward management success with share incentive schemes. However, there is an alternative to issuing new shares: the board could, instead, buy the required number of shares in the marketplace to satisfy share awards.

In my view, there is little defence for scrip dividends in an era where they offer no tax advantage for shareholders.

All in all, while CRH has a good growth record operationally, the board appears cavalier in its attitude to issuing new shares, which are highly dilutive longer-term.

Another issue worth keeping an eye on is how management treats shares it is awarded. CRH chief executive Albert Manifold, for example, has been with the company almost 20 years, yet the most recent 2016 annual report highlights he owns just under 77,000 shares – and he has been a regular seller of shares awarded to him under CRH's various management incentive plans, and a good deal more than can be justified by any accompanying tax bills.

Do such actions by a chief executive send out the signal that his interests are fully aligned with shareholders? I would keep this in mind when CRH unfolds its next big acquisition – is it empire building or the maximisation of shareholder returns that is driving the decision?

Let's hope the current board learns from the previous boards' sub-optimal record in this area.

Rory Gillen is the founder of GillenMarkets.com, an investment training, investment newsletter and wealth management business