Annex 2
Glossary of terms

Back-book	The stock of existing or longstanding customers. See also front-book.
Big data	Broadly defined as: the use of new or expanded data sets, new technologies to generate, collect and store data and advanced analytical techniques. In the context of this paper, its ability to gain insights on Choices
Competitive dynamics	The strategic interaction between sellers and buyers in a market that leads to a price being determined.
Cost-based pricing	The practice in which firms set prices solely to reflect costs. More specifically, charging a proportionate mark-up over marginal cost. Costs may vary for different reasons, eg quality of service or differences in how much it costs to serve each customer. Sometimes also called price differentiation. (Cost-based pricing is different to price discrimination, where prices reflect other features such as how much customers are prepared to pay).
Demand-side	Consumers or customers, typically thought of in aggregate terms.
Engaged Consumers	Consumers who understand the market and give time and attention to their decisions about products and services. As a result, they are more likely to shop around, switch providers and negotiate a good deal. The opposite of inert consumers and are often 'front-book' (new) customers.
Front-book	Stock of (relatively) new customers for a given supplier. This also includes the stock of customers who switch to a new product with the existing supplier. See also Back-book.
Inert consumers	People who do not engage actively with their existing financial product provider. For example, they do not review terms, prices or product options at renewal or other 'decision points', such as when a fixed term or bonus rate ends. This could be a rational choice (eg due to time and effort costs) or behavioural (eg limited decision-making due to specific framing or salience) or because they trust their supplier to offer them a fair price. This need not be a permanent characteristic - customers who are inert may become active in the future. Sometimes called inactive or unengaged consumers. There may also be a significant overlap between this group and the group of vulnerable consumers (see below).
Inertia pricing	A particular type of price discrimination where firms charge different prices based on how likely the customer is to switch. For instance, charging higher prices to existing customers than to new customers for similar insurance products.
Loyalty pricing	See Inertia Pricing

Loyalty penalty	Where firms charge higher prices to consumers that stay with them, than they do to new consumers or those that negotiate. It is a form of price discrimination.
Price discrimination	The practice in which firms charge different prices to different consumers based only on differences in price sensitivity and levels of engagement (see price sensitivity, and compare to cost-based pricing).
Price sensitivity	For the purposes of this discussion, propensity to shop around, propensity to switch, willingness-to-pay at an individual level, and a customer's propensity to ask questions or file complaints.
Price-walking	A pricing practice that involves firms setting low (teaser) introductory prices which are later increased with renewals. This can include below-cost introductory prices but not necessarily.
Sludge	Practices that appear intentionally designed to discourage behaviour which is in the consumers' best interests.
Supply-side	Firms or suppliers.
Switching	The process of consumers changing to another service provider.
Vulnerable consumer	Someone whose personal circumstances make them especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care. For details, see Our Approach to Consumers.

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