

[REDACTED]

9 JANUARY 2013

GOCOMPARE.COM

SUBMISSION TO THE COMPETITION COMMISSION RELATING TO THE MARKET INVESTIGATION INTO THE SALE OF PRIVATE MOTOR INSURANCE IN THE UNITED KINGDOM

1. This submission is made by Gocompare.com Limited (“Gocompare”), a price comparison website (“PCW”) which provides consumers within the United Kingdom with information with which to educate themselves in respect of a wide range of financial decisions together with a service comparing a wide range of products offered by financial services companies, insurers and utility companies together with a direct means to contract with said providers. The products offered for comparison include private motor insurance (“PMI”).
2. The Competition Commission (“CC”) is currently investigating the PMI market in the United Kingdom. Gocompare believes it is well placed to offer information to the CC on certain aspects of the markets under review. As part of its investigation the CC has recently issued a Statement of Issues. This refers in several places to PCWs. In particular:
 - a. paragraphs 49-52, which consider the possible effects that the limited number of PCWs might have on the costs to customers acquiring PMI;
 - b. paragraphs 78-86, which consider the impact of vertical integration between PCWs and insurers;
 - c. paragraphs 90-95 on “most favoured nation” clauses; and
 - d. paragraphs 109-114 on barriers to entry in the PCW market.
3. These submissions may be read in conjunction with the response which Gocompare will provide to the CC’s ‘off the shelf’ questionnaire [REDACTED]
4. The CC has stated it only wishes to assess the first two issues at a *high level* and that it does not currently intend to investigate any further points including those paragraphs referred to in 2(c) and 2(d) above. The two areas to be considered at a high level relate to:
 - (i) whether four PCWs specifically identified by the CC (namely Comparethemarket.com, Gocompare, Confused.com and Moneysupermarket.com) have market power and, if so, whether that may

result in harm to consumers and, if so, whether that harm is outweighed by benefits to the consumer, and

- (ii) whether a PCW-integrated insurer might undercut its rivals' prices or manipulate the quotes provided through the PCW in a way which gives rise to harm.

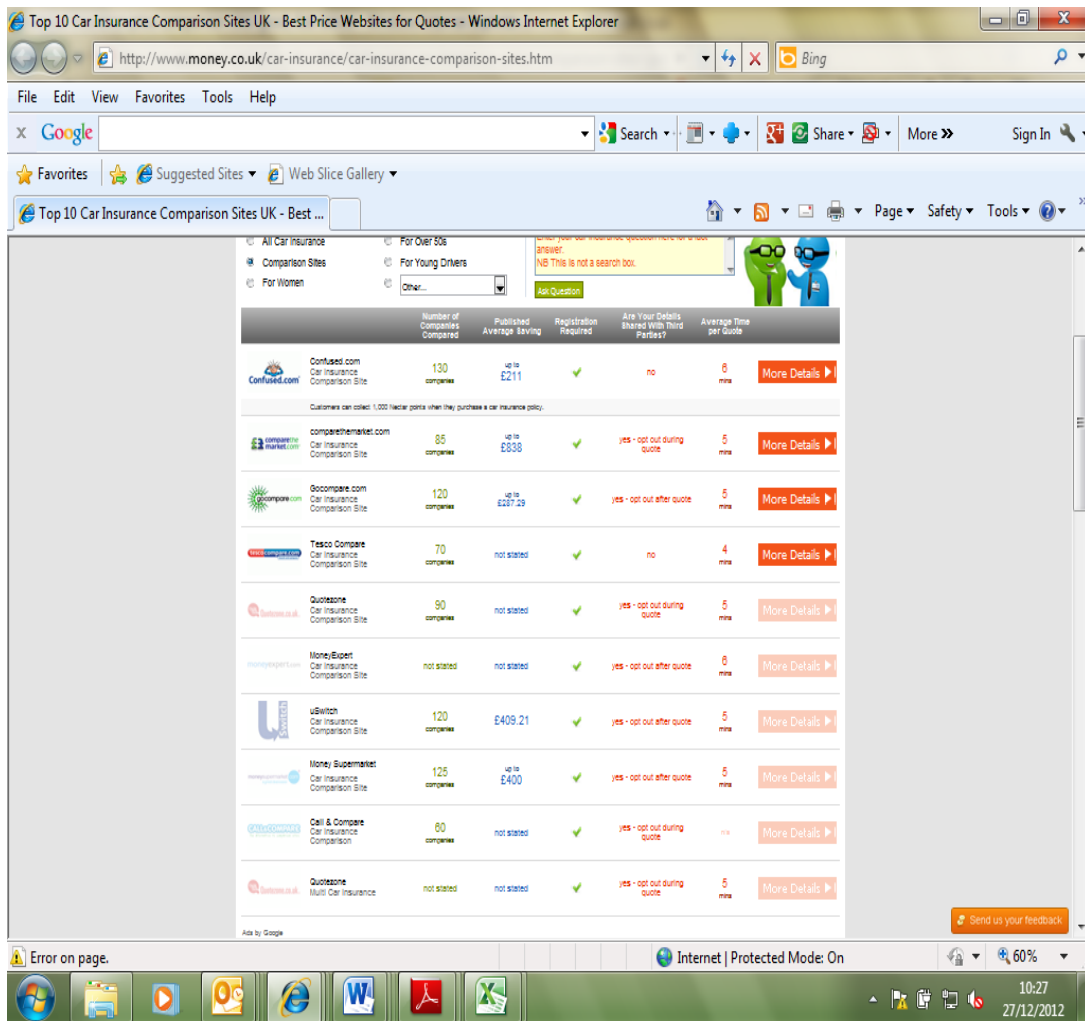
Market Power

5. We note the CC's observation in paragraph 52 of the Statement of Issues that "*there have been few concerns expressed by parties on this issue*". We are not surprised by this point and we consider it an important one to bear in mind. There is a high degree of scrutiny of PCWs by consumers (including consumer associations, as well as the general public) and the press and we believe that if there were valid concerns about abuse of market power by PCWs, these would have been aired by now.
6. We note also in paragraph 52 of the Statement of Issues that the CC is "*unclear whether the four large PCWs have market power*".
7. It is submitted by Gocompare that the four PCWs identified by the CC do not have market power.
8. While there may currently be four major players in the market, there are other PCWs competing in the same space. The [money.co.uk](http://www.money.co.uk) website¹ lists the "*top 10*" PCWs offering PMI² and invites consumers to:

"Compare the car insurance comparison sites & find out which UK car insurance comparison website you can trust to get you the cheapest car insurance quotes. We make it easy to see which price comparison car insurance site will help you compare the most quotes & find the cheapest car insurance quote & the best cover possible".

¹ <http://www.money.co.uk/car-insurance/car-insurance-comparison-sites.htm>

² In addition to the four identified by the CC, money.co.uk lists: TescoCompare, QuoteZone, MoneyExpert, uSwitch and Call&Compare



9. The MoneySavingExpert (“MSE”) website offers consumers advice on which PCWs to use, and ranks them in order depending on the demographic³. When accessed on 6 January 2013, for a typical driver (defined by MSE as a driver over 25, with no claims, and with 3 penalty points or fewer), MSE advise online consumers of the following order of priority: MoneySupermarket, Tesco Compare, Aviva, Direct Line, Confused.com, Comparethemarket, BeatThatQuote/Google, Gocompare, Quotezone.

10. For other categories of drivers, including young drivers, drivers with 4+ points and drivers with past claims, MSE also advise consumers to approach Aviva and Direct Line (who are not listed on PCWs), and also list Tesco Compare, BeatThatQuote/Google and Quotezone in the top 7 PCWs for consumers to look at, sometimes ranking one or other of those three PCWs higher than some of the four PCWs identified by the CC.

11. In November 2012, the Office of Fair Trading (“OFT”) published a report to highlight how consumers can make the best use of PCWs. The report says that “*price comparison websites have represented a major step forward for consumers, enabling them to secure better value when buying goods and services*”. The OFT’s press

³ <http://www.moneysavingexpert.com/insurance/compare-cheap-car-insurance>

release at the time of the report states that the OFT has recently been in touch with as many as “100 leading price comparison websites”, after “the OFT conducted a websweep of 55 price comparison sites”⁴, again highlighting that there are clearly more players in the market than the four specifically identified by the CC. In that same press release, Clive Maxwell, the OFT’s Chief Executive, stated: “Price comparison websites help busy shoppers find a good deal” and Consumer Affairs Minister Jo Swinson said: “Price comparison websites have played a huge role in empowering consumers to make better, more informed choices. When a consumer uses these popular and well known sites they believe they are being savvy shoppers.”

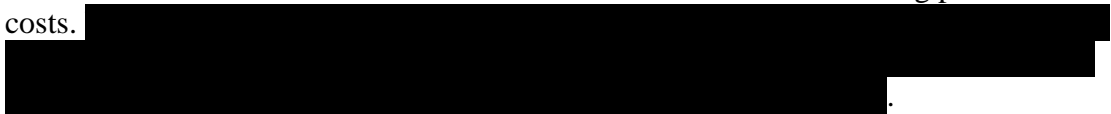
12. Support for the fact that the four PCWs identified by the CC, including Gocompare, have not gained market power can be found in the following:



⁴ <http://www.of.gov.uk/news-and-updates/press/2012/113-12>



15. What the above chart and table show is that CPA is not a factor in rising premium costs.



17. The CC will be aware of the 2011 acquisition of BeatThatQuote.com (“BTQ”) by Google, following which PMI was moved from BTQ to a Google branded and hosted site. See:

http://www.beatthatquote.com/service_moved.php?service=car

and

https://www.google.co.uk/compare/carinsurance/form?_mc=btqweb_carinsurance

18. We note the following points from the OFT's 11 August 2011 decision on the acquisition.

- a. Para 47: Advertisers of consumer finance products (clearly including insurers) list their products on several PCWs concurrently, and switching between them can occur relatively quickly and at low cost.
- b. Para 47: Barriers to entry in the PCW market are relatively low.
- c. Para 51: Consumers switch easily between PCWs.
- d. Para 52: Significant UK brands such as Tesco have entered the PCW market.
- e. Para 58: The emergence of new technologies offers new opportunities to market participants.
- f. Para 112: Many UK consumer finance PCWs have entered the market in the last 10 years.

No Abuse and No Consumer Detriment

19. Even if the main four PCWs (or any other limited number of PCWs) were suggested to have market power, this could not be used to the detriment of consumers for the following reasons.
- a. Insurers have a choice of which PCWs to use. Indeed, as the CC has noted at paragraph 49 of the Statement of Issues, some insurers have chosen not to list on any PCWs. (See also paragraphs 10 and 18(a) above.)
 - b. A PCW that increases the cost-per-acquisition (“CPA”) for any given insurer runs the risk that the insurer will migrate away. Consumer finance providers (presumably including insurers) have told the OFT that a price rise in PCW costs might lead them to relocate their budgets to other advertising channels - see paragraph 20 of the OFT's 11 August 2011 decision on the completed acquisition by Google of BTQ.
 - c. No PCW (certainly not Gocompare) can be guaranteed the business of any insurer. In Gocompare’s experience, insurers are sophisticated and well-resourced negotiators, very capable of pushing back on CPA.
 - d. Consumers have a choice of which PCWs to use. Indeed, consumers have a choice not to use any PCWs and may choose, for example, to approach insurers directly. Consumers may also use a combination of PCWs and/or direct insurers. (See also paragraphs 8 to 10 above.)
 - e. A PCW that loses insurers runs the risk that consumers will, in turn, migrate away. In order to attract consumers, mainstream (as opposed to niche) PCWs, including the four PCWs identified by the CC, have to be able to offer as wide as possible coverage of the market and must therefore seek to list as many insurers as possible. If a PCW does not list enough insurers, or does not list

any given major insurer (or major insurance brand), such a deficiency would become apparent to consumers.

- f. Market coverage and the ability to advertise as covering as many insurance products as possible are particularly important to Gocompare [REDACTED]. We promote our business on this basis, and consumers are able to see a full list of the PMI insurers and brands that we offer on our site.
- g. It is notable that some of the large insurers have several PMI products which are often offered under different brands. [REDACTED].
- h. As will be clear, therefore, in order to survive, a PCW must be attractive to both insurers and consumers⁵.
- i. This competitive tension ensures that the four PCWs identified (or any other PCWs) have no ability, nor incentive, to abuse market power.

Consumer Benefit of PCWs on the PMI Market

- 20. Gocompare submits that the overall impact of PCWs on the PMI market (and indeed on all relevant markets) is highly pro-competitive. PCWs offer a level of transparency and assistance to customers that would otherwise not be available or would only be available at considerable cost, time and effort on behalf of the consumer. PCWs bring a positive consumer benefit by offering free to consumers an in-depth analysis of insurance and other products, allowing them to consider like for like products, and providing a portal through which consumers can directly contact suppliers.
- 21. It is Gocompare's view that the rise in PMI premiums that has occurred in recent years would have been more significant and less transparent had PCWs not been active in the market. This view is supported by the evidence set out in paragraph 23 [REDACTED].
- 22. Without PCWs, consumers would have to rely on the suppliers of individual products or brokers or possibly a very limited number of consumer advice services for information. It is submitted that these alternatives would not offer an unbiased comparison of the full/majority of the market or they would charge consumers for the service on an individual basis. PCWs offer a single window on the market with an extensive advisory section, which ensures that the consumer is well-informed, is able to compare the products on offer and to make the right decision for themselves before

⁵ This was identified by the OFT in paragraphs 10 and 11 of its 11 August 2011 decision on the completed acquisition by Google of BTQ.

visiting the insurer, bank or utility site. Consumers are not charged for this service directly and prices are negotiated between large insurance groups and PCWs, each side of the negotiation being sophisticated and well-resourced.

23. In addition to direct consumer benefit, we offer an indirect benefit to consumers as we ensure a cost-effective way for insurers to access the market. As set out in [REDACTED], figures from Nielson Media showing the change in industry-wide marketing spend between 2007 - 2010 indicate that as marketing spend shifted from direct insurers to PCWs, total spend has decreased. This demonstrates that PCWs have provided a more efficient and cost effective route to market for insurers and led to a significant reductions in media costs.
24. In driving down their advertising costs on- and off-line, Gocompare enables insurers to compete with each other more effectively on price. Indeed, the focus of most consumers on price ensures that savings offered to insurers in their advertising budgets are likely to be passed on to consumers to ensure market share.
25. We agree with the observations of the CC and the OFT, referred to at paragraph 51 of the Statement of Issues:

“...PCWs are likely to have benefits for consumers since they simplify the comparison of policies offered by different providers and therefore reduce consumers’ search costs. Recently, the OFT produced a market study report on PCWs which highlighted these benefits and, in its reference decision, the OFT noted that the rise of PCWs had intensified price competition between providers of PMI.”

26. See also the OFT's summary of responses to its call for evidence dated December 2011, which states:

"The consensus among insurance companies, brokers and price comparison sites is that the growth in the use of price comparison sites has intensified price competition between private motor insurance providers. Respondents to our call for evidence have told us that the greater price transparency brought about by these sites prevented premiums from increasing as claims costs rose in the period up to 2009. We have also been informed that price comparison sites have facilitated the entry to the market of small and niche private motor insurers by enabling them to reach a large number of potential customers without incurring significant up-front marketing costs."

27. We agree also with the CC’s observation in the Statement of Issues that:

“it is possible that, if there were more PCWs, either fewer consumers would obtain quotes through each PCW, diminishing the beneficial network effects for each PCW (and PMI providers), or consumers would search through more PCWs than they do currently, increasing their search costs”.

28. If the number of PCWs were to increase then consumers would be faced with additional costs to ensure they had surveyed enough of the market to understand the best deals available to them. Costs would rise further for each PCW as it would not be able to aggregate its cost over a large number of insurers and their products. This in turn could drive up the cost per acquisition to the consumer so they would suffer both in terms of time spent and cost faced when buying PMI. Moreover, insurers would need to contract and interact with a larger number of PCWs increasing their costs and management time.
29. We note that in neither the May 2012 "*Report on the market study and proposed decision to make a market investigation reference*", nor in the September 2012 "*Private Motor Insurance: Decision to make a market investigation reference*" did the OFT make reference to PCWs.

Vertical Integration

30. We note paragraph 78 of the Statement of Issues, which states that there is no suggestion that integrated PCWs engage in the anti-competitive practices referred to. We consider this to be an important point. PCWs engage in a highly regulated and scrutinised environment. PCWs, including Gocompare, are subject to regular FSA supervision, including through the Advanced Risk Response Operating Framework ("Arrow") process, and there has been market-wide FSA scrutiny, e.g. the June to September 2010 thematic work by the FSA. The PCW market has been reviewed by the OFT, both in merger situations (Google/BTQ and MoneySupermarket/MSE) and in the specific context of PMI premiums. The PMI market has also been considered by the House of Commons Transport Committee⁶. None of these enquiries has uncovered any suggestion that integrated PCWs engage in anti-competitive practice. From the perspective of Gocompare at least, that is because there is no such anti-competitive conduct.
31. In a similar vein, we note that the CC's observation at paragraph 89 of the Statement of Issues that there is a "*lack of complaints*" about this issue. We repeat the point made at paragraph 5 above, namely that we are not surprised by the lack of complaints, but we consider it important. If there were valid concerns, we would have expected them to have been vocally aired by this point.
32. Esure currently holds a 50% shareholding in Gocompare's parent company Gocompare Holdings Limited.
33. Esure does not have day to day control or effective control of the strategy of Gocompare, nor controls Gocompare in any other way. In many ways, Esure and Gocompare would not be considered to be in a vertically integrated relationship.

⁶ We note that written evidence submitted to the parliamentary committee by the Lloyd's Market Association (LMA) states: "*The emergence of price comparison websites in recent years has further improved the market for customers, permitting fast and easy comparison and purchase of cover. This increased market efficiency has also created additional pressure on margins for insurers. NB We consider the above issues to be normal functions of a highly competitive marketplace, not public policy issues.*"

- [REDACTED]
35. Gocompare does not manipulate the outcome of comparison searches to favour any insurer, including Esure. [REDACTED]

[REDACTED] This is always going to be the case as this would be detrimental to Gocompare as a business. It would be evident in a very short space of time to the insurers other than Esure, leading to the risk that we would lose those other insurers, with resultant loss of consumer traffic and of course consumer trust. Price remains the primary listing factor for Gocompare and, as far as we know, on all PCWs.

36. Gocompare acts independently of Esure. The independence of Gocompare from Esure is essential for the vast majority of our business partners who compete with Esure in writing insurance policies from leads on our site. If we were suspected of assisting Esure in this manner we would soon find our relationship with our insurers damaged. Any short term benefit to our shareholder would undermine our entire business offering and in due course decimate our profitability.

37. Gocompare in any event is not certain that it has such sensitive information on competitor insurers, and if it does, it is uncertain how Esure could use this to the detriment of consumers. Surely if it was made available, it is more likely to result in lower premiums to consumers as Esure would seek to beat lower competitive quotes. As for the damaged insurer, it would immediately stop passing any such information to Gocompare and remove itself from our platform damaging our reputation with consumers. Even if all vertically integrated PCWs took this approach and the independent insurer then left the market, Esure would still have its prices constrained by direct-to-consumer insurers such as Direct Line and Aviva and insurance offered on other price comparison sites that are not vertically integrated.