

**COMPETITION COMMISSION  
PRIVATE MOTOR INSURANCE MARKET INVESTIGATION**

**Notes of a joint hearing with Compare the Market, Confused.com,  
Moneysupermarket.com and GoCompare  
held at Competition Commission, Southampton Row, London  
on Thursday, 18 July 2013**

*PRESENT:*

**FOR THE COMPETITION COMMISSION**

Alasdair Smith - Chairman  
Anthony Stern - Member  
Steve Oram - Member  
Robin Aaronson - Member

**FOR THE STAFF**

Andrew Wright - Inquiry Director  
Tony Curzon Price - Economist  
James Jamieson - Economist  
Philip Dixon - Business Advisor  
Kirsty Miller - Legal Adviser

**FOR THE PRICE COMPARISON WEBSITES (PCWs)**

Paul Galligan - Group Director, Compare the Market  
Ron Simms - Director Corporate Services, Compare the Market  
Miles Trower - Partner, TLT Solicitors (Compare the Market Adviser)  
Simon McCulloch - Associate Director of Insurance, Compare the Market  
Steven Sanders - Finance Director, Confused.com  
John Cooper - Commercial Manager, Confused.com  
Greg Steel - Compliance Manager, Confused.com  
Graham Donoghue - Managing Director, Financial Services General Manager, Motor & Home, Moneysupermarket.com  
Steve Sweeney - Insurance, Moneysupermarket.com  
Mark Din - Head of Risk and Compliance, Head of Risk & Compliance, Moneysupermarket.com  
Phil Morgan - Finance Director, GoCompare  
Jennifer Perry - Head of Legal, GoCompare  
Lee Griffin - Co-founder and COO, GoCompare  
Michael Bryceland - Brown Rudnick (GoCompare Adviser)  
Steven Friel - Partner, Brown Rudnick (GoCompare Adviser)

1 |  
2

Email: [mlsukclient@merrillcorp.com](mailto:mlsukclient@merrillcorp.com)

1 THE CHAIRMAN: We are all here and settled down, so let us begin.

2 Thank you very much to all of you for coming in to see us today and to some  
3 of you for coming back to see us today; it has not been very long since we  
4 have seen some of you.

5 Let us start with introductions: I am Alasdair Smith. I am a deputy chair of the  
6 Competition Commission, and I am the chair of the group conducting this  
7 market investigation.

8 Q. (Mr Oram) Steve Oram, panel member.

9 Q. (Mr Wright) I am Andrew Wright, the Inquiry Director.

10 Q. (Mr Aaronson) Robin Aaronson, panel member.

11 Q. (Mr Curzon-Price) Tony Curzon Price, Economist.

12 A. (Mr Simms) Ron Simms. I am from Compare the Market.

13 A. (Mr Galligan) Paul Galligan. I am Managing Director of Compare the Market.

14 A. (Mr Sanders) Steve Sanders, Finance Director, Confused.

15 A. (Mr Steel) Greg Steel, Compliance Manager, Confused.

16 A. (Mr Bryceland) Michael Bryceland, adviser to GoCompare.

17 A. (Mr Morgan) Phil Morgan, Finance Director at GoCompare.com.

18 A. (Mr Donoghue) Morning, Graham Donoghue, Managing Director of  
19 Moneysupermarket.

20 A. (Mr Din) Mark Din, Head of Risk & Compliance at Moneysupermarket.

21 THE CHAIRMAN: Thanks. If anyone who is sitting in the back row (either on our  
22 side or on your side) is going to join in the discussion at any point, it would be  
23 good if you could introduce yourself at that point for the sake of the transcript  
24 writer.

25 Can I also, for the sake of the transcript writer, ask you to speak as clearly as

1 possible so that we have a clear transcript.

2 Let me say some words by way of introduction. As you are aware, we are  
3 structuring today's meeting as a joint hearing. It is not practical, given the  
4 number of parties interested in this industry, for us to have one-to-one  
5 meetings with everyone on the issues that we want to discuss at this stage of  
6 our investigation.

7 We have been mindful in preparing the questions that we are going to cover  
8 and we are having a joint discussion with companies who are competitors, but  
9 I want to remind you at the start that it is primarily your responsibility to ensure  
10 that you do not provide information in the discussion today that it would be  
11 inappropriate for you to share with your competitors. If you do want to provide  
12 confidential information evidence to us on the issues that we have discussed  
13 today, you should do that separately in writing.

14 I particularly want to emphasise that in our questions, we are not seeking to  
15 give you an opportunity to discuss with each other things that you should not  
16 discuss with each other. So, for example, we have a number of questions  
17 about the role of most favoured nation clauses, and we are expecting you to  
18 respond to these in general terms about the most favoured nation clauses  
19 within your industry, not seeking to elicit contractual information about your  
20 individual practices or individual negotiations with providers.

21 I hope that is all obvious, but nevertheless it is worth spelling out at the  
22 beginning of the meeting.

23 I will not take you through our rules of procedures. We have written setting  
24 these out to you, but as I have already alluded to, we are taking a transcript of  
25 this hearing as a record. We are sending a copy of the transcript to you within

1 the next week and we would ask you to check it and correct any errors of  
2 transcription or any slips that you have made in responding to questions.

3 If, on reflection, there are things in the transcript which you would wish to  
4 make a substantial amendment to or a substantial addition to, please do that  
5 in a separate letter rather than by amending the transcript.

6 I have to remind you that it is a criminal offence, under section 117 of the  
7 Enterprise Act, to provide misleading or false information to the Competition  
8 Commission on any occasion, including in a hearing like this. I always feel  
9 slightly awkward telling people that they are supposed to tell the truth to us  
10 because after all, we assume that people are going to tell the truth. But given  
11 that we have all sat at the end of phone lines and been enjoined by insurance  
12 companies that we must always tell the truth, on this occasion, I do not feel  
13 embarrassed about reminding you.

14 I am going to take the lead in going through the questions that we have  
15 prepared, but other members of the panel and members of the CC staff might  
16 chip in with follow-up questions.

17 I am going to open up with a general question, which I hope each of you will  
18 respond to in less than 5 minutes, but then on the subsequent questions I will  
19 ask one of you to lead off and ask anyone else to come in if they have  
20 additional points to make or things that they do not entirely agree with. If you  
21 agree with what the person before you has just said, you do not need to  
22 spend a lot of time telling us that you agree with what has been said before.

23 We have quite a long agenda and I hope we make the best use of our time.

24 Andrew is pointing out to me that in talking about the transcript I missed  
25 saying one thing. What we normally do with these hearings, in relation to

1 publishing what we have done, is publish a summary of the hearing. We  
2 think, for the hearings we are holding this week, the most efficient way of  
3 informing everyone of what has been discussed is to publish the full transcript.  
4 So when you do get the transcript of the hearing, I would ask you to check it,  
5 not just for accuracy of what has been said, but to check that inadvertently  
6 there has not been anything said that is commercial or otherwise confidential  
7 that you would not want published. If there is, let us know so that we can  
8 excise it before the transcript is published.

9 Finally, before I get underway with the questioning, just to emphasise where  
10 we are with our inquiry and why we are holding these hearings; we are still  
11 developing our understanding of the way that this industry works, developing  
12 and focusing on a particular range of questions.

13 We have not made decisions about whether we think there are competitive  
14 problems in this industry. We have not made preliminary decisions,  
15 provisional decisions or any kinds of decisions. We are not at that stage yet.

16 The annotated Issue Statement which you have all received summarises the  
17 current state of our work, and what we want to use these hearings for this  
18 week is to test our developing thinking. What I want indeed to ask each of  
19 you to comment on at the start is whether you think, given your understanding  
20 of the way that this investigation is developing, whether we have things right;  
21 whether we are looking at the right issues; whether we are looking at the  
22 issues in the right way; whether there are things that we are looking at that we  
23 should not be bothering with; whether there are things we seem to be missing  
24 that you think we should be paying attention to. If you think we are in danger  
25 of getting something wrong, what is that and why.

1 So, can I go around the table and ask each of you briefly to address that  
2 general question; perhaps Compare the Market first.

3 A. (Mr Galligan) Firstly, thank you for the opportunity of being able to participate  
4 today.

5 Before I comment on the Annotated Issue Statement, I would firstly like to  
6 revisit the price comparison market as a whole in terms of context, and also  
7 Compare the Market's consumer proposition, because those are the key  
8 elements that inform our view of the annotations that you sent through.

9 Over the last ten years, price comparison websites have radically transformed  
10 the way in which consumers purchase car insurance and other financial  
11 products. The success has been driven by the fact that we operate a  
12 consumer centric model. We offer a quick, easy and reliable way of  
13 comparing a wide number of providers and the respective merits of many  
14 competing products prior to purchase.

15 This transparency has increased competition between providers and has  
16 applied downward pressure on PMI premiums, which of course also benefits  
17 consumers.

18 Consumers using price comparison websites like Compare the Market have  
19 the reassurance of knowing that they are dealing with a regulated entity. We  
20 treat them fairly, their data is secure, our advertising is honest and the  
21 customer experience is satisfying. If I may quote from Ernst & Young's 2011  
22 report into the motor insurance market:

23 "The customer is the winner. There is no doubt that the  
24 advent of aggregators has done a great deal to educate  
25 personal motor customers about price and the choice of

1 provider."

2 Building consumer trust and confidence is absolutely central to Compare the  
3 Market's proposition. It guides the development, both on our site, but it also  
4 guides the relationship that we have with our providers.

5 The trust that we are aiming for comes about as a consequence of four key  
6 things: Firstly, the breadth of providers we offer for comparison; the  
7 straightforward consumer centric nature of how we operate; our interest in  
8 achieving a positive outcome for the consumer; and our ability to reassure our  
9 consumers that they are getting the best like for like price.

10 If we fail on any of these points then confidence would be lost, and without  
11 consumer confidence we believe there would be less competition, less  
12 shopping around and consumer prices would therefore increase.

13 It therefore follows when we look at the annotated issue statement that we  
14 agree with the Competition Commission that although popular price  
15 comparison websites have some bargaining power with PMI providers, it is  
16 limited due to two key factors: Firstly, all of the price comparison websites  
17 combined represent only around 27 per cent of all sales for private motor  
18 insurance. Our scale is actually limited. Secondly, we do operate a consumer  
19 focus strategy. We will always put the customer first, but in order to build a  
20 compelling customer proposition we need a strong panel of insurers and so we  
21 need an insurer strategy that supports our customer focus; and so it creates a  
22 healthy tension. PMI providers want to distribute via price comparison  
23 websites and we need a strong panel of providers giving us their very best  
24 prices.

25 These factors constrain our ability to increase CPAs, as we must ensure we



1 continue to offer an efficient route to market. Equally though, I should also  
2 point out that the impact of CPAs on premiums should not be overstated as  
3 the impact is negligible.

4 We also note that the Competition Commission is undertaking further analysis  
5 in the area of add-ons. We believe our proposition enables consumers to  
6 compare them effectively across insurers.

7 Turning now to MFN clauses, which I am sure have been the subject of much  
8 debate. We know they are unpopular with many insurers, but they are good  
9 for consumers. They reduce search and transaction costs, keep prices lower  
10 and encourage investment. They help deliver the most competitive prices to a  
11 large part of the population. They help ensure that consumer search costs are  
12 kept to a minimum, and without them we would revert to the bad old days  
13 where consumers would have to shop for a wide range of providers over  
14 multiple channels, never really knowing whether they had the best product and  
15 price for them.

16 We are concerned that MFNs are being placed into two different categories;  
17 narrow and wide. This categorisation is in itself misleading, firstly because  
18 each MFN is negotiated on an individual basis. They are very wide ranging in  
19 how they operate. Secondly, even the widest drafted MFN (to the best of our  
20 knowledge) is only relatively narrow in scope and could easily be  
21 circumvented by an insurer via any of the following methods: They could ask  
22 the customer a different set of questions; they could offer a differentiated  
23 product feature set as an example, breakdown cover; they could offer a non-  
24 product incentive, for example, free MOT; they could offer cashback; they  
25 could run a multi-brand strategy offering different brands and/or different cover

1 levels through different channels. And of course each PMI provider has the  
2 discretion not to quote through any price comparison website.

3 These are not theoretical examples. Each of the examples that I have stated  
4 here are in use today by PMI providers to circumnavigate those clauses. So,  
5 while insurers would claim MFNs are problematic, even the widest ranging  
6 offers scope for variation and innovation. We know they are unpopular with  
7 insurers, we know that many of them would sooner have the ability to increase  
8 price and reduce confidence in the price comparison website sector as a  
9 whole. Again, if I could quote from Ernst & Young's review:

10 "The large direct insurers have the highest vested interests  
11 in derailing the price comparison sites."

12 So, MFNs are central to consumer confidence. They are in the customer's  
13 interest and so we believe they should remain a feature of the market. Thank  
14 you.

15 Q. Thanks. Confused.

16 A. (Mr Sanders) It is always hard to follow someone when you agree with much  
17 that they say.

18 I think, in terms of our perspective, we share the view that the industry as a  
19 whole has a very strong story to tell. Both for consumers, when we talk about  
20 transparency, speed, saving, confidence, reduced service costs, all of those  
21 things that we have submitted to you, and that I am sure our colleagues  
22 around the table have submitted. From a business-to-business perspective  
23 and an insurer's perspective, we are a cheap source of acquisition, and a now  
24 accepted and trusted source of acquisition.

25 We have a very strong story to tell, and I will not repeat much of what Paul

1 said. I agree wholeheartedly with the vast majority of it.

2 In terms of the Annotated Issue Statement, the broad thrust of that, as  
3 pertaining to the price comparison websites, we accept, we understand and  
4 we acknowledge.

5 I am pleased that I share Paul's comments on horizontal concentration. We  
6 have a small share of a very large market individually, and then collectively.  
7 We compete very openly, very fairly and very honestly with each other. I think  
8 that is important. I think that is important to the providers and that is important  
9 to consumers.

10 With regard to our ownership structure I am very pleased to say that the initial  
11 comments from the Commission around vertical integration and insurer  
12 ownership of price comparison websites are quite anodyne. We are very  
13 confident that we manage that relationship particularly with the degree of  
14 independence and impartiality that all of our other providers, and indeed  
15 consumers, would expect, and we have plenty of evidence to attest to that.

16 The position on MFN obviously is an area of significant focus. I am slightly  
17 more comfortable with the distinction being drawn between narrow and wide  
18 clauses. We have taken a stance to move to a narrowed position and I think  
19 the benefits of this to the consumer are clear.

20 The confidence the consumer then has in all of our propositions are enhanced,  
21 and we welcome a level playing field. Our parents' ethos within direct  
22 insurance is a level playing field and is exactly what we should be working  
23 within. They welcome competitive challenge. We welcome competitive  
24 challenge that the more narrow MFNs, we believe, create. We work very hard  
25 with our partners to bring great benefit to them, to share some of that benefit,

1 and for them to bring benefit to us. A narrow MFN, in my view, allows us, as it  
2 does all of our competition, the ability to leverage those relationships, to share  
3 in endeavours to bring better pricing and better propositions to the customer,  
4 and that is fundamentally what we are about.

5 Q. Thank you. GoCompare.

6 A. (Mr Morgan) Thank you, chair.

7 I start with agreement in both the previous statements. I will not cover off the  
8 same points in any great depth, so as to keep it as short as possible.

9 We would just like to emphasise the price comparison market operates and  
10 functions well. As has been pointed out, it saves the consumer millions of  
11 pounds every year. We offer a simple tool that allows the end consumer to  
12 compare complex financial products and we empower customers to switch  
13 and to save. We offer insurers a very cost effective route to market reducing  
14 their costs also. We offer a shop window for a wide range of insurers, including  
15 niche insurers, to offer their products.

16 GoCompare, at its foundation, led the market by offering consumers the ability  
17 to compare PMI on grounds other than price. Transparency is a key  
18 foundation of the company and it drives consumer confidence and repeat  
19 business.

20 We offer consumers the confidence that, through our website, they will be  
21 searching most of the market and they will find some of the larger savings  
22 possible. The Inclusion of MFN clauses, therefore, is essential to the premise  
23 that consumers must have confidence that by coming to price comparison  
24 sites, they are able to save money.

25 As the Competition Commission has already noted itself, CPAs charged by

1 price comparison sites have not increased over time, despite the wide  
2 fluctuations in insurance premiums. Therefore, GoCompare is fairly confident  
3 that without price comparison sites: costs would rise, both for the insurer and  
4 the end consumer; the current higher rate of switching would diminish; and  
5 transparency would be dramatically reduced in the market, thereby increasing  
6 consumer search costs. The end consumer would be less informed. MFNs  
7 actually do protect the end consumer and help ensure that price comparison  
8 sites can be operated in a transparent and commercial manner to provide a  
9 market view of the available PMI products. Thank you.

10 Q. Thank you. Moneysupermarket.

11 A. (Mr Donoghue) Thank you. I think I may be the controversial one in the room.  
12 First of all, thank you for the opportunity to come today and to go over the  
13 points. I am not going to talk too much over the benefits of price comparison. I  
14 will just add on a few things that may just give a bit more detail to what  
15 Moneysupermarket is about and just some more facts and stats..

16 I think I am in agreement, you know, we are a force for good and the  
17 supermarket believes we are a force for good both for consumers and both for  
18 insurance partners. I remember what it used to be like to get motor insurance  
19 - it was quite challenging. We now compare 139 prices in under 60 seconds.  
20 That allows it to be transparent, to be simple, to be quick and to be efficient.

21 Consumers are always in control - to echo the other panel members - they can  
22 review all policy features and benefits in one place. We pride ourselves on  
23 being really transparent on the information we put in front of our consumers in  
24 giving them tools and the ability to amend what they want to see. Results are  
25 always ordered in price in Moneysupermarket and we provide all those filters

1 to allow the customer to manipulate what they want to see and that includes  
2 add-ons - and I know we will probably talk a bit about add-ons later on.

3 It is also worth noting that with Moneysupermarket only 50 per cent of people  
4 buy the cheapest price for motor insurance. It has changed over the years,  
5 but not everybody is buying the cheapest price, so it is important to recognise  
6 policy features and benefits.

7 So, as an industry, it intensifies competition between insurers, in part, to the  
8 transparency and the ease in terms of what we do. We also believe we are  
9 very cost effective form of acquisition for our insurance partners as well, who  
10 principally are looking to acquire a large volume.

11 It is important to think about how we get paid. We get paid what I would  
12 regard as a small fee by consumers, but it is only consumers that our  
13 insurance partners accept. We only get paid when someone physically buys a  
14 policy, so it is variable cost of sale. It is not based on premiums. So,  
15 regardless of the premiums, the CPA does not change. We do not get paid on  
16 renewals and we do not get paid on add-ons as well. So it is important to  
17 make that point.

18 Fundamentally, if we were not a cost effective model our business model  
19 would cease to exist. We are proud that Moneysupermarket is the only truly  
20 independent price comparison website in the room and we have saved in the  
21 UK a billion last year, and we estimate, on average, 40 per cent of our  
22 consumers are saving £360 on their motor insurance, and that feels like a  
23 good thing. My stats say that roughly 22 per cent of the market is through  
24 price comparison. Slightly different from Paul's stats of 27, but we will not  
25 argue with that.

1 Fundamentally, we are making it easier, cheaper and clear and transparent for  
2 consumers is what we do. However, where we do have a real issue at  
3 Moneysupermarket and I vehemently disagree with some of the things that  
4 have been said in the room (not everything) is around what I could call wide  
5 most favoured nation clauses. I firmly believe and we firmly believe that these  
6 clauses are anticompetitive. For the benefit of the doubt, 'narrow' I am  
7 comfortable with but 'wide' -- the ability for Moneysupermarket to be able to  
8 trade and have different prices across different distribution channels in a wide  
9 form we think is anticompetitive. In fact, we know that is an echo that is not  
10 viewed by our insurance partners and that was evident in some of the  
11 submissions that were made to the panel.

12 We believe that strict competition between price comparison websites  
13 fundamentally are stifling innovation. This is bad for consumers. We think this  
14 is taking the price out of price comparison. As a direct result, stopping  
15 Moneysupermarket today passing on better prices to our customers; this is the  
16 reality. Today, I cannot offer my consumers by investing some of my  
17 commission and some of my margin back into price. I cannot bring the price  
18 down and offer them a better price because these 'wide' clauses are stopping  
19 me from doing that. I have partners that want to do it today, so by default they  
20 are increasing premiums. I am happy to share examples later. There is  
21 obviously some confidential data, but I am happy to show you examples later  
22 from my insurance partners who are willing to say these are stopping us from  
23 giving better prices to consumers today at Moneysupermarket as a result of  
24 joint investment.

25 We do not have a wide most favoured nation clause in the contract. I can

1 fundamentally see no business justification for this and I am keen to hear more  
2 from the other panel members as to why they think this is important because I  
3 do not buy into some of the arguments that are posed so far.

4 We believe that insurance partners should have the freedom to set prices  
5 across price comparison websites as they see fit, and we all offer different  
6 value and different quality of customers, different level of service to insurance  
7 partners, and different level of relationship management and insight. So if I  
8 am offering better value and better service why can I not put that reward back  
9 into price and back into premiums? We think of our business a bit like a  
10 supermarket. We want to operate a bit like an every day low price model and I  
11 cannot do that today. So I think it is really important for the panel members to  
12 ascertain if any panel members here today, or my competitors here today, are  
13 actually enforcing these wide most favoured nation clauses and stopping what  
14 I would call free trade on pricing.

15 This is not happening today, but if I cast my eye forward to some retail  
16 analogies (and I think of market dominance) what is to stop a peer of mine  
17 with a wide most favoured nation clause doubling the commission they charge  
18 insurers and the insurers are then prevented from passing that back into price,  
19 so therefore all premiums go up. I think this could be a reality.

20 To give another retail analogy, you would not expect the supermarkets (the big  
21 four supermarkets) to be here today justifying why they are insisting the retail  
22 price of a commodity product like sugar should be the same from Tate and  
23 Lyle as it in Tesco, Sainsbury's, Asda, Morrison. That is how we think of this  
24 particular clause. I fundamentally think it is ridiculous that our peers have  
25 attempted to lock down some large insurers in what we think is a very harmful



1 way.

2 We think it is no different from the recent Apple eBooks case, which I am sure  
3 you are familiar with, and we think it is no different from the hotels case with  
4 Intercontinental, Expedia and Booking.com.

5 So, I guess I am urging you to say you have the real opportunity to be what we  
6 think is a force for good for the UK consumers and put the price back into price  
7 comparison by removing these wide most favoured nation clauses. Thank  
8 you.

9 Q. Good. Thank you. We will come quite quickly back to the issues of most  
10 favoured nation clauses, but a couple of background things I would like to ask  
11 about first. You all talked in slightly different ways about the way that price  
12 comparison websites have made the motor insurance market more  
13 competitive. Has it led to more switching by consumers? I am going to ask  
14 Graham to lead on that.

15 A. (Mr Donoghue) Fundamentally, yes. The way that we look at the market and  
16 the motor industry is 27 million cars in the marketplace. We think there are  
17 roughly 10 million people in the switching market and there are 6 million  
18 policies approximately (depending on the stats) acquired through or introduced  
19 through price comparison. If you look at that trend from say 2006 over a  
20 number of years, fundamentally it has grown.

21 We believe that approximately 74 per cent of everything that has gone on line  
22 has gone through price comparison. Equally, we have all been spending  
23 hundreds of millions in above-the-line advertising; I would not necessarily say  
24 educating the consumers, but certainly shouting at consumers around the  
25 benefits of price comparison and the ability to save, like I said, up to £360.

1 Q. Anyone disagree with the proposition that there is now more switching than  
2 there use to be?

3 A. (Mr Simms) I would not disagree with the proposition there is more switching,  
4 but I think, going back to the starting point, we are all only talking about a  
5 slither of the market when we are talking about PMI market. I think this is a  
6 point that is really relevant when you start to talk about PMI pricing. The vast  
7 majority of PMI pricing is delivered to consumers as a result of renewals.

8 Q. Sorry, as a result of?

9 A. (Mr Simms) Of renewals. That is the simple fact of the matter. Most of the  
10 insurers are renewing most of their book most of the time.

11 You talk about acquiring customers and the price of acquiring customers being  
12 significant to the cost of that customer's premium. Actually customers on  
13 renewal are acquired for precisely nothing and their renewal price logically  
14 ought to reflect that low cost of acquisition. It does not. Actually, it is more  
15 likely today than it has been historically, and the reason it is more likely is  
16 because of the greater levels of competition, partly driven by the overall impact  
17 of price comparison.

18 I think it is definitely true that there are more switchers, but it is easy to  
19 overstate the level of that number of customers in relation to the entire PMI  
20 market. Graham is actually much more conservative than us in that in saying  
21 we are talking about 22 per cent of the market.

22 A. (Mr Donoghue) Fundamentally, yes is the answer.

23 As I said in my opening remarks, and Paul said as well, we are a small part of  
24 a big market. Insurers are also getting a lot better at holding on. As their  
25 digital market expands they are getting better at holding onto more customers

1 through the renewal process as well, and obviously we see no financial benefit  
2 to introducing a customer in year 1 who then renews in year 2. Financially, we  
3 do not get rewarded in that way.

4 Q. Has the growth of price comparison websites led to the PMI providers  
5 advertising less?

6 A. (Mr Donoghue) It is not an easy thing to measure. I wish I knew the answer to  
7 that exactly. There is no doubt that we, as a group around this table, have  
8 advertised a lot and are spending a lot. We estimate that approximately about  
9 £120 million annually spent in above the line TV advertising. What you cannot  
10 really see is the below the line when we pay for adverts in Google or anything  
11 else, outdoor et cetera.. It is quite difficult to measure that.

12 When we look at brands like Direct Line (and physically the Direct Line brand  
13 as opposed to the group) they are not on price comparison websites. They  
14 are still investing over £100 million in their brand. Aviva are very, very similar,  
15 LV are very similar. There is still a lot of advertising happening direct in the  
16 marketplace because fundamentally there are opportunities and different  
17 routes to the market. There probably is not an insurer today who - there may  
18 be some exceptions - does not also have an aggressive direct strategy.

19 Q. Do you think the PMI providers regard PCWs as a sales channel that is  
20 relatively expensive for them?

21 A. (Mr Donoghue) I am sure they would say that. Again, when we benchmark  
22 what Moneysupermarket charges, so our premiums, our CPAs, have gone up  
23 by approximately 6 per cent over the last three years. Premiums in the motor  
24 insurance industry from 2011 have come down by 19 per cent with a drop by 6  
25 per cent in the last quarter.

1 So, if you look at the cost of direct marketing through TV and through any  
2 other sources, in terms of mass acquisition, we are significantly good value,  
3 and you would expect me to say that, but that is pretty much what most our  
4 insurance partners say as well. I firmly believe if we were not we would not  
5 exist, the business model would not exist.

6 A. (Mr Galligan) I would echo that. On the amount being spent by insurers in  
7 general, I believe we actually provided a number in our initial submission,  
8 which you can get through various agencies that track by category or indeed  
9 by company. So I think there is evidence that that is reduced.

10 I would echo Graham's point. Fundamentally, we have to be an efficient route  
11 to market. If we are not efficient then we would rapidly lose insurers from the  
12 panel and our consumer proposition starts to crumble. So we know our  
13 insurers would say that they would expect our fees to be lower, but  
14 fundamentally we are a very efficient route to market for them, much more  
15 efficient, we believe, than they could acquire customers for themselves.

16 A. (Mr Donoghue) So just to build on the point; I would love to say it is a very  
17 sophisticated marketplace, but it is not. It is still quite a young, immature  
18 marketplace. It is less than ten years old - depending on how you look at it.  
19 The ability to track customers end to end and to work out the profitability of  
20 those customers fundamentally is about profitability. It is something that many  
21 of our insurance partners do not really have that capability to do.

22 I do see over time, the model evolving much more into a model which is more  
23 based on the end value as opposed to what fundamentally is a flat cost per  
24 acquisition.

25 A. (Mr Morgan) I think it is important to note that while we offer large insurers

1 an efficient route to market we also offer some niche insurers a route that  
2 maybe they would not be able to access if PCWs were not in existence. So  
3 for an end consumer it is actually providing greater choice, greater  
4 transparency in the insurance market and without price comparison sites this  
5 simply would not be there.

6 A. (Mr Donoghue) There are some insurance providers that have purely been  
7 set up on the back of the fact that we have created a competitive marketplace,  
8 and they have seen an opportunity to come in really late to the party and take  
9 advantage of technology. There are some panel members where almost 100  
10 per cent of their business is through price comparison.

11 A. (Mr Galligan) Yes. Without doubt, we have reduced barriers to entry and  
12 made it very efficient for new start-ups to reach a very wide section of the  
13 market.

14 I should probably just expand a little on why we can say, with some  
15 confidence, that we are an efficient route to market, aside from the fact that we  
16 have providers on the site which I guess is substantiation in itself.

17 If you consider the ways in which you could go about acquiring business  
18 direct, because you have two main routes which is via above the line  
19 advertising or of course most consumers ultimately finish up going via Google,  
20 and what you would find for any one of the panel members that we have is  
21 that they will tend to operate in a relatively (even the big insurers) narrow  
22 footprint. Therefore, their ability to translate traffic into a sale is much less  
23 than a comparison site with a 100 providers which therefore is able to present  
24 a very competitive price to the vast majority of the market of customers that  
25 visit their site.

1 So what we have done is very efficiently turn marketing spend into a sales  
2 channel, and as we have already talked about, that is a fee that is paid only  
3 when they convert someone into a sale. It is a no-risk option for them. They  
4 know they have a fixed fee for any given customer that they acquire.

5 Q. Paul, in your introductory comments you referred to the bargaining power  
6 between the PCWs and the PMI providers. How do you think that relatively  
7 bargaining strengths have changed over time?

8 A. (Mr Galligan) I think, candidly, we have found ourselves in a stronger position  
9 as price comparison sites have gained in popularity, but the end premise is still  
10 the same. We want the very best price and therefore the negotiations that we  
11 have of all our partners is; how do we justify that price and how do we go  
12 about making sure that we can maintain that very broad panel? So, we enter  
13 tough negotiations around all of those terms, I think.

14 To give you a sense of how little, at the macro level, that balance of power is  
15 shifted, you report in your own findings how little CPAs have increased over  
16 the last few years and we would echo Graham's comments. It has been  
17 negligible, despite a very marked increase in the use of price comparison  
18 sites. There is still not that significant percentage of the market, be it the 20  
19 odd per cent that we have talked about, between us all. That is between  
20 everyone in the room and the other 20 to 30 price comparison sites that there  
21 are.

22 So we do have some influence, but it is not as great as perhaps the insurers  
23 would like to make out.

24 Q. (Mr Wright) Can I just come in just to pose an alternative perspective on the  
25 22 per cent that has been mentioned. An alternative way of looking at things

1 would be that you acquire a customer for an average of say three years and  
2 what you are competing for is that new customer. I think you mentioned  
3 earlier on that there are 10 million new customers and 6 million go through  
4 price comparison websites, so your collective market share is therefore 60 per  
5 cent not 40 per cent. That is the alternative perspective.

6 A. (Mr Simms) That is an alternative perspective, but of course we see the target  
7 market share as every customer switching every year, potentially. If switching  
8 is good and that is the right route to market for those customers then why  
9 would not they come back next year and at least compare to work out whether  
10 they are getting the right deal for them; whether the product should have  
11 moved on in that time; whether other providers are offering better products at  
12 the same price; whether they are offering the same products at better prices.

13 I think that distinction between new business and renewals is one of the  
14 classic motor insurer myths that these customers over here are untouchable  
15 and should not be open to market pricing.

16 Again, the balance of the way in which contracts and our approach to the  
17 market operates is that we do not go ahead and target those customers at  
18 renewal. We do not do that expressly as agreed with insurers in our contracts,  
19 even though we retain the relevant information and data. That is what I mean.

20 When we talk about MFN clauses and I am sure we will talk about them in a  
21 great deal more detail later, that is a single contractual clause in what is a  
22 broad base, certainly for our contracts, set of contractual terms which protects  
23 some interest at our level and certainly protects some interest at the insurers'  
24 level. Because our natural propensity, knowing exactly the renewal date, the  
25 customers details et cetera, for any comparison site would be to go back to the

1 customer and say: "By the way, you should buy again and this is what you  
2 should buy it at and we have good rates for you". We do not do that. What I  
3 am saying is it is a balance.

4 Q. (Mr Curzon-Price) Could I just ask for clarification of what you said, Paul; you  
5 said the tough negotiation you enter has two big objects: one is best price and  
6 the other is the broad panel. Just for clarification: on best price, you mean  
7 CPA or premium price?

8 A. (Mr Galligan) No, premium to the customer. So, as I outlined in our opening  
9 statement, we believe that if we are not comparing the very best price; what  
10 are we doing? Why would a consumer use a price comparison site when we  
11 are just generating essentially a random price, and so we always set out with  
12 all our insurers to say we expect the best price, better where we can, and  
13 therefore, we have to justify that across a number of factors of overall position  
14 and the customer that we introduce them, how efficient a channel that we are;  
15 and of course typically the challenge that is thrown back to us as well is: what  
16 is your cost of acquisition?

17 We actually do not believe that there is a direct link between cost of acquisition  
18 and the premium. If you look at the cost of acquisition versus the other  
19 dynamics in the market, fraud claimants is an example, the opportunity to  
20 reduce price by being more efficient across just those two dynamics is far  
21 greater than that by a small change in the CPA.

22 Q. (Mr Curzon-Price) So, you go in saying, look we really want a lower price on  
23 this particular kind of policy, can you not do a lower price for us?

24 A. (Mr Galligan) Yes. Our start point would always be to want your very best or,  
25 indeed, better prices and we are all competing in that regard in the room to try



1 and justify getting the best price for our customers.

2 A. (Mr Donoghue) Sorry, as you will expect we take offence by some of that. We  
3 are all trying to get the best price for our customers, not CPAs. I think ignore  
4 the CPA, please, if you can. For Moneysupermarket, what we get paid is a  
5 little bit irrelevant. It is about getting the best price for our customers.

6 What I am happy to do today is to invest. If I get paid £50 I am happy to invest  
7 some of that money with my insurance partners to reduce premiums for my  
8 customer. I think that is a good thing. I think it is just a commercial way that  
9 we should trade. Today, I cannot do that because of wide most favoured  
10 nation clauses I am being restricted in doing it.

11 Now, technically we could find a way round it. We can provide a different risk,  
12 the insurer could change their systems, we can do all of that, but why should  
13 they have to?

14 THE CHAIRMAN: Could you elaborate a little bit more because that is one of the  
15 dimensions of MFNs that we are interested in; how it affects competition  
16 between PCWs. That is basically what you are talking about here, is it not?

17 A. (Mr Donoghue) It is competition between PCWs, but our view is it is also  
18 competition between the wider insurance marketplace, because it allows them  
19 to reduce their premiums as well.

20 Q. So when you talk about investing what kinds of innovations are you talking  
21 about that you are inhibited from --

22 A. (Mr Donoghue) Imagine you worked for - I will try and use an example that is  
23 not owned by one of the competitors in the room - Hastings, as an example, or  
24 LV or whatever. My commercial team may sit down and have a conversation  
25 and say: "Our objective is to get the best prices for customers in the UK, that is

1 what we are all about, and it is pointless sitting here negotiating some of the  
2 CPAs because we think that we can lower premiums and have the best  
3 premium for our customers in the UK and that will increase conversion and it is  
4 about increasing conversing and doing the right thing for our customers”.

5 So, instead of paying me £50, pay me £30. Take the £20, that is the  
6 difference in the normal commission, you invest that back into price. Ideally,  
7 you could put £20 in as well to run the premium down by £40. I cannot do that  
8 today. I am being restricted doing that today because of the wide most  
9 favoured nation clauses.

10 A. (Mr Simms) Can we pick that point up because I understand that example; let  
11 us just understand it in the real world.

12 A. (Mr Donoghue) That is the reality.

13 A. (Mr Simms) What would happen in that scenario is the way in which the most  
14 favoured nation clause operates is not to dictate what the price is on your side,  
15 but actually to dictate that a higher price for this identical customer with the  
16 identical customer information should not be placed on my site, for example.  
17 What I am protecting against is not that price you have achieved, because  
18 actually if the insurer can access those customers via your site at that price  
19 that is my ideal customer solution as well. I want the customer to buy at the  
20 lower price on your site in that scenario. What I do not want him to do is to  
21 buy at the higher price from my site because that erodes my customer  
22 proposition.

23 So, actually, that is the way in which MFNs work. No insurer (certainly not  
24 from any MFN that I have every come across, and certainly not that we have  
25 written in) is prevented from doing just what you have asked him to do there.

1 What he is prevented from doing though – based on an identical scenario - is  
2 putting his higher price on my site to attract exactly the said same customer.

3 A. (Mr Donoghue) Thank you. I think that is anticompetitive.

4 A. (Mr Simms) And I do not think it is anticompetitive. It is about customer  
5 outcomes and whether the customer is at the heart of that solution, which is  
6 why we always reference identical customers and identical consumer  
7 information, because what we cannot afford, from our perspective, is to  
8 undermine our consumer proposition. One of the points we should bear in  
9 mind is that not everybody's consumer proposition around this table is the  
10 same. From our consumer proposition what we cannot have is a scenario  
11 where the customer comes back and says: "Actually I put my identical  
12 information into your site and this is what I received. Actually, that was not the  
13 best. I did not have the outcome I wanted".

14 We want to guard against that outcome, and the way in which we guard  
15 against that outcome is to say just do not provide those prices to us. That is  
16 why when Paul lists the number of ways in which the insurer can go about not  
17 providing the wrong price to the customer on our site, that is the exactly what  
18 we are all seeking to do.

19 A. (Mr Galligan) I think I should add that what Graham cannot see is what  
20 happens then on the back of those conversations he has with insurers what  
21 happens then when those insurers come back to Compare the Market and  
22 say: "Here is something that we want to do", and Graham has no visibility of  
23 how we can then go about maintaining that insurer on our site and hopefully,  
24 the preferred outcome being, and therefore securing a better price for all  
25 consumers.

1 A. (Mr Donoghue) The only visibility I have is insurance partners coming back to  
2 me and saying: "I am sorry, Graham, I cannot give your customers a better  
3 price". That is the only visibility I have.

4 A. (Mr Galligan) Yes. So, I think what you will find, Graham, you will have many  
5 circumstances where there will be people on our panel with an MFN clause  
6 that have operated a better price elsewhere. We can see that. We will  
7 engage with those brands, we will try and get the right outcome for our  
8 customer, but the fact is that those clauses do not prevent that. I have talked  
9 about a number of ways in which the insurer can circumnavigate it, and hence  
10 why, if you like, we always enter into those negotiations with insurers that has  
11 kept CPAs very competitive in the market place. Ultimately, we are trying to  
12 secure the very best price for our customer, so it does not prevent that.

13 Q. I was a little bit puzzled by what you said about providers finding ways of  
14 circumventing the MFNs, because on the one hand you are saying you need  
15 the MFN because you need your customer to know that they are getting the  
16 best possible deal when they go to you, but you also know (and you are quite  
17 relaxed about the fact) that actually the PMI providers are finding ways of  
18 getting round that, in other words, of offering. Circumventing the MFN seems  
19 to be finding ways so that a consumer can actually get a better deal, like free  
20 breakdown insurance or fuel, from somewhere else on your website than the  
21 other they have been offered on your website. So, does that not erode the  
22 consumer confidence in you?

23 A. (Mr Galligan) We are definitely not relaxed about it. What we seek to do is  
24 establish: "Look, here is a principle; we expect a customer on Compare the  
25 Market to get the very best price and we will operate in a fashion that will

1 justify that proposition with you". So where we do see circumstances like that  
2 of course we will enter into a discussion with the insurer to make sure that a  
3 customer of Compare the Market is getting the very best value.

4 A. (Mr Simms) I think the distinction for us here is between consumer  
5 proposition, which is exactly what Paul made and genuine innovation. So, if  
6 an insurer is going to say: "Actually what I want to do is to offer free  
7 breakdown to this set of customers and that is going to allow me to do X, Y  
8 and Z with that set of customers" that is something that we would say: "Why  
9 do you not offer it on our site as well?" or we would enter into that negotiation.  
10 But equally, at the end of the day we would never stop them and cannot, no  
11 one can stop them doing that for someone else, so they can start there and  
12 they can enter into negotiation with us.

13 That is different to the scenario that we think that insurers would otherwise  
14 utilise, which is wholesale erosion of our customer proposition by basically  
15 returning to a scenario whereby the consumer would have no confidence he  
16 was getting the best price when he arrived on a price comparison site, i.e. you  
17 need to shop around, you need to use more than one comparison site, you  
18 need to use direct sites, you need to go into branches. That would restore a  
19 situation that pre-existed and allowed enormous price inelasticity for our PMI  
20 providers. That erodes our proposition.

21 Q. (Mr Aaronson) Are you saying that the consumer is more interested in the  
22 headline price, the simple, basic pounds and pence number than in whether  
23 there is free breakdown or some add-on?

24 A. (Mr Simms) I think what we are saying is different consumers are interested in  
25 different things and we are happy to understand that there are some segments

1 (I think Graham made the point quite rightly) that by no means need to be top  
2 of the screen to sell. Actually, with my other hat on now, we have brands who  
3 never get to the top, but still sell effectively on price comparison sites.

4 What we are concerned with in terms of MFN clauses is that we know that  
5 they are a multiple brand strategies. For example, there are some really good  
6 examples, so if you take the [X] position or the [X] position, [X], a number of  
7 different approaches, a number of different brands operate in the market in  
8 different ways; we accept that and we accept that that is good and  
9 competitive. What we are simply saying is if you want to offer us that price,  
10 that is the best price for this individual consumer, it is always at an individual  
11 consumer level. If that is the best price for an individual consumer and you  
12 cannot offer it on our site, do not offer a worse price on our site. That would  
13 be the wrong consumer outcome. If the consumer bought at that price, we  
14 would not consider that was the right pricing.

15 I think there is a lot made of how unusual these clauses are in terms of  
16 insurance. Actually, in our broking business, we have exactly the same  
17 negotiation. The brokering business with underwriters where we would say,  
18 actually what we want is for this particular proposition we would like you to  
19 offer the best prices so we do not want you offering a proposition to us for  
20 these consumers through this brand, which you would then offer on a cheaper  
21 proposition of your own brand. We have both negotiations. I do not think  
22 there is anything unusual and necessarily anticompetitive about that.

23 A. (Mr Donoghue) I worry about our market dominant player, and you are market  
24 dominant, and you are doing very well and that is called market dominance in  
25 enforcing those types of clauses in contracts and just where it could end up

1 because it worries me for UK consumers in terms of where it will end up.

2 A. (Mr Galligan) Can I pick up actually a few points quickly? I wish we were  
3 dominant, but we are not. There is a risk that we talk in theoretical language  
4 and also I am conscious that within the room we do not have your average UK  
5 consumer.

6 I think the situation that we have today is that people know in general they can  
7 go to a price comparison website and they are going to get good value; and I  
8 think if you revert to a world where we cannot say to the consumer that you  
9 are going to get the best price, where does that leave the least savvy  
10 consumer who sets out to purchase car insurance? They would find  
11 themselves back in a place where the market was a number of years ago and  
12 how do they set about evaluating that market place, do they go on-line, do  
13 they go on the telephone, do they go into the branch? We would leave them  
14 with such a wide range of options that they could never really know whether  
15 they have the deal that was right for them. I think that would be a big  
16 backward step for your average consumer.

17 THE CHAIRMAN: How do you explain the fact that the typical consumer visits more  
18 than one price comparison website?

19 A. (Mr Galligan) I think firstly consumers are, to a degree, quite smart and all of  
20 us here have spent a lot of time and money saying to consumers, go and  
21 compare, make sure you compare prices. Of course on the one hand that has  
22 helped draw customers into each of our businesses, but equally we know we  
23 are educating the consumer (that is probably not quite the right term) but  
24 certainly there is a behaviour which is: "I should not take something on face  
25 value, I should search the market".

1 That again is why, to a large degree, we need to make sure that we are  
2 presenting very strong prices because in that overall proposition, once the  
3 consumer hits our site (which is I think the point you raised) is it about then the  
4 cheapest price. Actually, I think it is about getting value. Value would be for  
5 any one consumer will be a mix of those features, and our figures are not so  
6 different to Graham's in terms of who does buy the very cheapest.

7 It will be a range of a mix of those features and the price that they are  
8 charged. But if they felt that they were being charged more for the same  
9 product on our site, then really they are not going to have any confidence that  
10 we are delivering that promise that we are a comparison site.

11 Q. Sorry, what I am not understanding is you are saying if a consumer did not  
12 have the confidence they were getting the best price on your site, various  
13 things would happen, which implies that they do have confidence. If  
14 consumers have confidence that they are getting the get price on one  
15 comparison website, why do they typically visit several? That is the issue that  
16 I do not completely understand.

17 A. (Mr Simms) I think there are two points there: Firstly, there is the question of  
18 'typically'. So what you are doing is looking at averages. Some consumers  
19 are visiting all four and then some are visiting one and then we get into a  
20 situation were we say every consumer, on average, visits two. I think that  
21 does not suggest that the consumers are actually purchasing via individual  
22 price comparison sites do not need to have confidence that those price  
23 comparison sites still give the best price. Based on a limited sample, that is  
24 exactly right.

25 A. (Mr Donoghue) Chair, I think you are right. For me it is a bit like Tesco saying



1 to Coca Cola: "The price of Coca Cola in all these supermarkets must be  
2 exactly the same", and if that spiralled and it was the same for all products you  
3 would end up with: what is the point of shopping around and what is the point  
4 of the comparison? All I need to do is go to one comparison because they are  
5 all exactly the same. I think that is where you were heading with your  
6 conversation. It would not make any sense if we all had exactly the same sort  
7 of price.

8 If these clauses are continued to be enforced and acted upon that is where we  
9 will end up.

10 Q. I was not heading anywhere, I was simply trying to understand an argument  
11 that seemed to say that the business proposition of all of you depends on  
12 consumers having confidence that they are getting the best price, yet the  
13 majority of them shop around different websites.

14 A. (Mr Morgan) I think our approach is more that the end consumer has  
15 confidence that they can save money, not necessarily that we can provide the  
16 best possible price. The consumer has confidence that they can save. I do  
17 not think any of us, in our advertising state that you can come to us and get  
18 the lowest possible price. What we advertise is that consumers can come and  
19 save. What we recognise is that the market proposition out there means that  
20 some consumers can save on GoCompare and some can save on  
21 Moneysupermarket to a greater or lesser degree.

22 We are getting caught up on the MFN clause. I agree that is just one clause,  
23 amongst many, that is only part of the bilateral negotiation. However, without  
24 MFNs the search cost for the end consumer, I do believe, would increase. The  
25 ultimate outcome of what we are considering, is that there could be a single or

1 one or two dominant players within the price comparison market and those  
2 would be the PCWs that have the deepest pockets. They could go to insurers  
3 and say, we are willing to drop our CPAs by £20 to £30 if you are willing to  
4 drop your premium by £20 to £30. In the short term, the consumer will save  
5 £20 to £30, but once that has driven all the other price comparison sites out of  
6 the market, those remaining price comparison sites will raise their CPAs again.  
7 So, is that in the interests of the end consumer? While it may be short term  
8 gain, in the medium term to long term, it may be that basically what is, at the  
9 moment, a well functioning market, it may have its balance tipped into a non-  
10 functional market.

11 Q. Let me go back to something you said at the beginning of that intervention;  
12 that you, all of you, typically do not seem to advertise to consumers very  
13 strongly that you have MFN clauses. I understand why you do not put the  
14 phrase more into your television commercials; it does not ring. But other well  
15 known sellers of products make great play of never knowingly undersold. That  
16 is what an MFN clause is about, yet you do not seem to be selling the never  
17 knowingly undersold proposition very strongly; why is that?

18 A. (Mr Morgan) If you consider an MFN clause, yes, GoCompare would  
19 approach any insurer with the proposition of trying to get as wide as possible  
20 MFN because it protects the end consumer stance in the view of GoCompare,  
21 but we also recognise that commercial negotiation means it is one of many  
22 clauses in a bilateral negotiation; the MFN clause is merely one clause  
23 amongst many. So in each negotiation, priorities in that commercial  
24 negotiation it could be that a wide MFN is a priority or it could be that the  
25 priority is having that particular insurance brand on the panel, the CPA could

1 be a priority, or maybe being able to quote to customers on renewal is a  
2 priority. [X].

3 So it is a case of, yes we would like to say to the end consumer that MFN  
4 clauses are there. [X]. I think in our submissions you can see for the majority  
5 of brands on our side, the wide MFN is not in place, so it would be dangerous  
6 for us actually to say to the end consumer that that is a proposition.

7 A. (Mr Sanders) It is simply not possible for feasible to claim lowest price for any  
8 of us. We operate in a commoditised market and we are largely  
9 undifferentiated, frankly, apart from advertising and a little bit of difference in  
10 our customer journeys, Our panels are very similar, but there are some  
11 differences in the providers that we have, and there are also subtle differences  
12 in the way that we each treat risks. The ability to consistently substantiate  
13 and validate that we are the cheapest price comparison site for the average  
14 consumer (and who the average consumer is we do not know) would thus be  
15 an enormous effort for any of us to do; and the ability to hold it, in this current  
16 market, absolutely not.

17 This is why this question is very interesting. We have experience on both  
18 sides, having come from very wide MFNs to being in Graham's position. We  
19 want to innovate and share/work with providers to provide cheaper pricing,  
20 and I don't entirely buy the proposition that we will destroy consumer  
21 confidence by the fact that one or two of the price comparison sites are  
22 potentially cheaper for certain providers than others. We have all worked very,  
23 very hard and the internet business for every industry makes it easy to move  
24 and easy to shop.

25 A savvy end consumer will know all four of us. They probably are on all four of

1 our customer databases. They could probably shop all four sites in ten  
2 minutes, let us be frank. Our customer accounts positions are all identical  
3 including recent prices delivered, you have a view of the market from all  
4 comparison sites in 10 minutes or less, at best guess. It is not hard. This is  
5 not back to the 1980s where you are flicking through 75 brokers, visiting the  
6 high street, talking to your dad, thinking about it, thinking about it, thinking  
7 about it again. This is five minutes, ten minutes on the internet on an Ipad, on  
8 a laptop; done. You could visit the whole market (I would guess) I am not  
9 familiar with returning customer journeys for every site. We have all worked  
10 very, very hard to make it that easy.

11 We are therefore looking for flexibility to work with with partners on more than  
12 just free breakdown cover or free legal cover assistance. If the provider  
13 wants to be cheaper with us, we would like them to be cheaper with us. We  
14 are willing to work with our partners to make that happen.

15 We have evidence (I am not going to share it here, we can share it separately)  
16 where we have run promotions of the sort that Graham referred to earlier,  
17 where the pressure then comes onto the providers to remove that 'give' to us.  
18 We held that advantage for a very short period of time and a very small price  
19 advantage it was. We saw immediate benefit, the consumer saw immediate  
20 benefit. The pressure then comes to remove that because of these very wide  
21 most favoured nation clauses.

22 Q. (Mr Wright) Can I just come on in on the second venture measures? What is  
23 the cost of offering those kinds of second venture measures and why do we  
24 not see them more often?

25 A. (Mr Sanders) Every negotiation is different, depending on the provider,

1 depending on the ancillary that is on offer. The sums are not material. I think  
2 the sums that Graham was talking about earlier are a step change beyond the  
3 smaller things that we are currently trying to do to deliver a better offer to the  
4 customer that is not only based on headline price, but is also based on the  
5 quality of the product.

6 Those things can be done relatively cheaply and we have done them quite  
7 often. We look to provide this as I am sure the rest of the guys do likewise.

8 Moving that headline quoted premium, however, and sharing both by putting  
9 our hands in our pockets, together with the provider - to do that is very, very  
10 difficult.

11 A. (Mr Galligan) I think, firstly, on why it is not being offered as part of the  
12 proposition or in advertising particularly, I agree with the comments that have  
13 been made, but the additional point I would make is our proposition is much  
14 broader than we advertise and which we run.

15 What we have tried to do is deliver some creative entertaining advertising that  
16 gets people to our site, but it is then that we have the moment of truth, that is  
17 why we invest a significant amount of money in getting those customer  
18 journeys as easy as we can. But then, fundamentally, when the customer gets  
19 to that price page we have to see the key providers, they have to know it  
20 represents good value, they have to understand the product features and  
21 benefit. So our proposition goes right from the moment that the customer  
22 sees our advert through to that moment of truth on seeing the price referred to  
23 on the site.

24 Just coming back to Steven's point for the moment; I am not quite in  
25 agreement with what he has outlined there with how easy it is because I think

1 for the average consumer, insurance is quite complex. We saw in some  
2 research recently from the FSA there was a degree of jeopardy in the  
3 consumer's mind when they can purchase. That is why we see very high  
4 retention rates and very high renewal rates within the insurer's books when the  
5 fact is those consumers would save by visiting a price comparison site and  
6 getting a new business price.

7 So, I think we do want to make it as easy as we can, but the fact is that  
8 consumers are out there wildly shopping the market as we may like them to.  
9 The fact is, the majority are sticking with their current insurer and are probably  
10 paying a premium as a consequence.

11 Q. (Mr Oram) You mentioned that you do not go back to encourage switching on  
12 the renewal; does that apply to all four; is that situation general?

13 A. (Mr Donoghue) No, we do. We will contact, we will ask the customer's  
14 position and then go back to the customer in say 11 months time or whatever  
15 and we will do a market search for the customer, based on the information  
16 they have given us, so the age of the vehicle and a few more miles. We then  
17 present that information to the customer so they can make informed choice.

18 A. (Mr Simms) That reflects my point for saying that the proposition is not  
19 identical, so again as a broker, which is part of our business, we would see the  
20 customer/consumer value, the acquisition value in that consumer, if he/she is  
21 more likely to be re-solicited next year as different to the consumer value,  
22 acquisition value on day 1, if he/she was less likely to be re-solicited at 12  
23 months.

24 All of that is a factor in the overall negotiation when you are negotiating terms,  
25 but this is between providers and distributors and it is a factor in the pricing.

1 Q. (Mr Curzon-Price) On that, can I ask a question? Since all of your channels  
2 are slightly different, how do you deal with the argument that says different  
3 channels lead to different types of business for the underwriter and different  
4 risks for the underwriter; and that, therefore, there is every reason why there  
5 should be differential pricing across the different customers that you select for  
6 the insurers?

7 A. (Mr Simms) We are comfortable with differential pricing. I think this goes back  
8 the way in which MFNs are constructed. They are not constructed like that.  
9 If actually, for example, we have provider X, Moneysupermarket is a  
10 significantly different, materially different customers - and I think that was the  
11 first point that Graham talked about, a different quality - that were the case,  
12 then we are absolutely happy for insurer X to provide the best prices that they  
13 can to that different quality of business on the website.

14 What we are not happy for him to do is to provide different prices to those  
15 customers – based on the same information - on our site. There will be  
16 distinction between customer. If that distinction between customer exists, that  
17 is great.

18 Q. (Mr Curzon-Price) But the questions could be the same. It could simply be  
19 the customer that one site tends to attract rather than another.

20 A. (Mr Simms) Absolutely, which is why the MFNs all relate to the individual  
21 consumer, so the only thing that the insurer is potentially restricted from doing  
22 is – based on the identical individual consumer proposition - providing a higher  
23 price on our site. If you have different consumers or profiles our proposition  
24 works, there is no potential restriction there.

25 A. (Mr Galligan) This is not heterogeneous; it is the same customer on the same

1 terms, and so the fact is it is not a different risk. We are talking about the very  
2 same individual and proposition.

3 On a collective level, you may take all of the customers coming through, all the  
4 different channels, they may look different, but that clause only relates to same  
5 customer, same question, same brand, same proposition. That is why we talk  
6 about it being a wide MFN. Actually, it is very narrow in its construction, even  
7 the widest of the channels.

8 Q. (Mr Aaronson) How do you police it then; how do you ensure that the insurer  
9 is meeting whatever is written into your contract?

10 A. (Mr Galligan) It is relatively challenging and you have heard from Steven that  
11 many of these promotions that they would have you believe that they cannot  
12 run are being run. What we actually do is we operate with a business called  
13 Consumer Intelligence. They go out and they survey prices across the sites  
14 and what we try and do is pick up through that kind of monitoring.

15 Q. (Mr Aaronson) This is a sort of mystery shopper?

16 A. (Mr Galligan) Mystery shopper. What is happening in the market place and  
17 then when we see something that we do not understand then we will engage  
18 with the insurers and say, look here is something that we have seen.

19 A. (Mr Donoghue) I firmly believe that we do all provide different types of  
20 customers and different qualities and therefore the insurer should have the  
21 ability to price that customer differently.

22 To use the example that Compare the Market have used, if I innovate my  
23 customer by innovation and invest in the customer, be it for various different  
24 propositions, incentive or technically innovating with that sort of a customer. I  
25 guess a new example, because it is the same customer and the same risk if



1 they were then to go to the top of the market they would benefit from all the  
2 investment and innovation I put into that customer.

3 A. (Mr Galligan) Can I come back to the risk point as well because I think no  
4 doubt the insurers will have all focused on the MFN clauses as I have outlined,  
5 we know these are unpopular with insurers.

6 One of the things that we looked at when we were evaluating, and how do we  
7 substantiate our requirement for best price, we were looking at the different  
8 components; how can we influence profitability of insurer, be that renewal rate  
9 or fraud as an obvious option? So, one of the things we did 18 months or so  
10 ago was write out to all the insurers to ask them, actually how can we help  
11 engage with you to help reduce fraud and further improve prices? Despite  
12 following up on numerous occasions (and this was in our initial submission) we  
13 only had seven responses out of 80 or 90 insurers that we wrote to. [✂].

14 So, we do have tools for all the insurers, who may like to point to the MFN  
15 clauses as being quite a challenge. We are trying to innovate for them to  
16 make sure that we can justify our position as part of that broader negotiation,  
17 and yet frequently our attempts to pick some of those bigger opportunities to  
18 reduce prices for customers have been rebuffed.

19 THE CHAIRMAN: I think the focus of this discussion about the effects MFN clauses  
20 has so far largely been on the effect of MFN clauses on competition between  
21 PCWs. What do you think the effect of MFN clauses is on the ability of PMI  
22 providers themselves to compete through other channels with the PCW  
23 channels?

24 A. (Mr Donoghue) Sorry, just to understand the question; the ability for?

25 Q. The ability for the insurer itself to compete by offering a better deal directly

1 than they are offering through the PCW.

2 A. (Mr Donoghue) Fundamentally, we believe that the business model would  
3 cease to exist if what you are referring to is narrow. The business model  
4 would cease to exist if narrow most favoured nation clauses were not  
5 enforced. If we are investing (as I said) over £100 million between us and  
6 probably double that if you had the whole thing stuck together and we believe  
7 we are a force for good for keeping premiums in check and that we are fair  
8 value. If we did not have those favoured nation clauses we will become the  
9 biggest and best advertising website for insurers in the UK, and everybody  
10 would just go and buy direct. There would be no benefit to use price  
11 comparison, so you would kill the price comparison business model.

12 Q. So, you have invested in the website, and if the PMI provider can, through  
13 another channel, undercut the price that is being offered through you that  
14 would be disastrous to your model? But if the PMI provider can go to a  
15 different PCW and undercut you through a different PCW, that is fine, so one  
16 kind of undercutting is a disaster?

17 A. (Mr Donoghue) The clauses are generally narrow so insurance providers  
18 have the ability to, in our contract, to offer different prices across different price  
19 comparison websites, different prices through their broker and channels that  
20 they may have and many others. We are just talking about direct. With ours it  
21 is just purely direct on our own direct website.

22 Q. But what I do not understand is why that particular kind of competition would  
23 be disastrous. You did not use the word fatal, but it sounded as if it was fatal  
24 for your model, but other forms of competition you are completely relaxed  
25 about. That is what I am trying to understand.

1 A. (Mr Donoghue) The business model would die.

2 A. (Mr Simms) I think there is some correlation to what you say there. I do not  
3 see the distinction between the two of them, no. What we have said is we  
4 think that either erodes the price comparison model.

5 There are, of course, major players (Direct Line being the most obvious one)  
6 who do not subscribe to our model at all. They still have been out there and  
7 the two models or the multiple models that there are can successfully co-exist,  
8 which is why we talk about each MFN being part of the broader series of  
9 negotiations.

10 But, yes, eradication, complete eradication of MFN would, for us, eradicate our  
11 proposition. The proposition has a number of basis' but the eradication of  
12 MFNs would see it eroded..

13 Q. So if we did not have MFNs then the PCW model would fade away?

14 A. (Mr Simms) Are there any alternatives? Of course there is an alternative  
15 which says if we are not happy with what you are doing in terms of pricing we  
16 will not operate with you. Clearly, that is an alternative, so it is not just around  
17 the clauses that actually exist in the individual context. But the model  
18 (Graham is right about the model) is based upon us being able to deliver a  
19 service to the consumer to utilise price comparison websites rather than other  
20 routes to market which makes it better for the consumer to utilise those things.

21 A. (Mr Galligan) We are talking about in the context here of the model and  
22 business model, and I would actually turn it round and think, where does that  
23 leave the consumer then; how does the consumer know where they should go  
24 to the get the best price if we are not in a position to offer that to them?

25 As I say, we revert to a world where the consumer is going to have to shop

1 multiple channels, ring the contact centre, go on the website and visit the  
2 branch. It makes a nonsense of the proposition. What we would do is flip  
3 back to the world where the insurers will just take the opportunity to margin  
4 manage and charge as much as they possibly can in every given channel.

5 So that is why, for me, it is multi channel. It is back to the consumer trust, we  
6 believe, is built around, not us versus Direct; it is what price are we comparing  
7 and are we comparing the price that is a competitive price in the market.

8 Q. (Mr Curzon-Price) Can I ask a question about what if you did not have narrow  
9 MFNs and what are the possible alternative ways in which you could protect  
10 yourself? Why do "poaching" clauses not work, why is it not possible to simply  
11 say if the price comparison website originated the search which then led to a  
12 sale then you get rewarded in some form for it. Why are those sorts of clause  
13 not a possible alternative to narrower MFN clauses?

14 A. (Mr Morgan) I think the issue would be how would you track that it actually  
15 originated on a price comparison site.

16 Q. (Mr Curzon-Price) Tracking issues are there for MFNs as well. We know that  
17 tracking is something that is very sophisticated and can be done very well on  
18 line with these on-line services.

19 A. (Mr Morgan) The actual narrow MFNs relate to the insurers' direct website, so  
20 it is the case that we can track that reasonable well. Basically, I think without  
21 the narrow MFNs we would merely become, I think I agree with everybody, a  
22 research tool. The end consumer would come to a price comparison site only  
23 for research. We have invested a lot in advertising to attract that customer to  
24 our site. They have had a view of a reasonable proportion of the market and a  
25 reasonable view of the market but without an MFN they would merely go direct

1 to that insurer and on the premise that there is no direct MFN, that insurer will  
2 say, okay I am going to save myself the price of the CPA and I will take that off  
3 the premium price. The end consumer, again, in the short term, is happy  
4 because they have saved a small amount on their premium, but in the medium  
5 to long term, our business proposition disappears and so would PCWs.

6 A. (Mr Galligan) I think as well the reality would be that the insurer would not  
7 pass on the full cost of the CPA in that discount. The thing that they would do  
8 is offer a price that would be low enough to make sure that the consumer  
9 applied via the direct website. So essentially, we do just become a research  
10 tool and as a consequence the business model is evaporated.

11 Q. (Mr Curzon-Price) But just to be clear; it is because you cannot track that  
12 "poaching" is not an alternative to the narrow MFN?

13 A. (Mr Simms) It is not. It is a broader proposition as far as we are concerned.  
14 At the moment, what we are saying is the reason we are popular is because  
15 we have a consumer proposition that they can trust. Part of that trust, a  
16 fundamental aspect of that trust, is about delivering the best price.

17 The great benefit and one of the reasons why price comparison is more  
18 successful in insurance than it is in other products, currently, is because  
19 consumer trust is absent from insurance, and so there is a huge void. This  
20 talks to a number of the other issues that we will come to about being able to  
21 trust the insurers to pay out the right sums and to put customers in the right  
22 vehicles, to repair their vehicles properly. All of that was absent and that is  
23 one of the reasons why the website is so successful.

24 Our proposition - and I think this probably does count for everyone - is  
25 placed based on bringing a different level of focus to that consumer and that is

1 what makes it engaging. The insurers' drive to suggest the opposite, which is  
2 no you do not need these price comparison sites, and if I am insurer I would  
3 probably want to advertise that and suggest a consumer does not really know  
4 what price they are getting on price comparison websites so come directly to  
5 me. We could see more above the line marketing which would erode the  
6 quality and value of the price comparison sites and that would put insurers  
7 back, not quite to the 1990s, but back into a similar sort of position whereby  
8 they had that pricing flexibility.

9 Q. (Mr Oram) I am still unsure about the awareness of consumers; that they go  
10 to a site and then they get the best possible price. What evidence would you  
11 point us to to support the notion that the consumer is aware?

12 A. (Mr Simms) I think the awareness; probably we would put it less around  
13 awareness and more around expectation. We would point to the Which?  
14 survey. It is not the largest sample in the world, but one of the clearest things  
15 it does say is this is the consumer expectation.

16 Q. (Mr Oram) Sorry, what says that?

17 A. (Mr Simms) A survey actually came out on Monday which broadly said that  
18 where consumers are not receiving the best price when they go to a  
19 comparison site, their view is that that is a failing on the part of the website  
20 because their expectation is that they will receive the best price.

21 Unquestionably, what we are talking about is managing that consumer  
22 expectation. When I talk about trust what we are aiming at is a scenario  
23 whereby a consumer (having purchased their product on a PCW which  
24 presents a series of products, a selection of providers and the products of  
25 those providers that are suitable for the consumer (and suitability is the key

1 point because we are a regulated intermediary)) is not coming back to us six  
2 weeks later and saying, actually there was a product that was equally suitable  
3 for me and actually it was much cheaper, so what is the point of using you.

4 That does not happen currently. It does happen, but it does not happen in  
5 large swathes of scenarios. It is absolutely interesting insurers' interests to  
6 make it happen in lots of situations because that erodes the price comparison  
7 proposition.

8 Q. (Mr Oram) Could I ask the other three then, do you have evidence that  
9 consumers are aware of the best price or expect the best price; do you have  
10 survey evidence to support that?

11 A. (Mr Steel) I think it goes back to an earlier question when we actually said  
12 why do consumers go on more than one comparison site. They do not just go  
13 to the first site and then trust that is the price for them or what they needed.  
14 They will go to one or two others, or maybe all four, but then they will go to the  
15 likes of Direct Line, as we have said before. So the trust element varies with  
16 the transparency of the prices which are coming back, as opposed to just  
17 accepting the first website.

18 A. (Mr Sanders) I don't think there is a simple survey that says consumers  
19 expect the best price and which points specifically to your question. What I  
20 would posit back is probably collectively all of us have databases of double  
21 digit millions of customers. Allowing for some degree of overlap, and with, 27  
22 million private UK vehicles probably 20 million of those drivers plus have used  
23 us and probably 1 of us, 2 of us, 3 of us in the last 1, 2, 3 years either to buy  
24 or to go right back to the very start to benchmark us and go away and barter a  
25 better deal with their current provider We see a lot of that, a huge amount of

1 that in this industry.

2 To go right back to your very first question on consumer value; when we were  
3 born as an industry, the insurers tried to swamp us out. Marketing spend on  
4 new business acquisition significantly increased. A number of years later, and  
5 a lot of that spend has now been diverted to retaining business as we are very  
6 transparent benchmark at point of renewal.

7 I do not think there is a single survey that points to consumers expecting best  
8 price, rather it is evidenced in simple usage numbers. The anecdotal  
9 feedback, I suspect we all get from consumer focus groups, tells us that the  
10 consumer expects a good price from us and values the service we provide and  
11 uses us either to buy or as a benchmark to return to their current provider to  
12 keep part of the price down, and we see ever more of that. The new business  
13 / renewal relationship that has been referred to much earlier in the session and  
14 the inertia that used to exist around renewal pricing has fundamentally broken  
15 and I think the reason is that we've shaped that relationship.

16 A. (Mr Donoghue) The reality is they shop around and they do not know --  
17 there is no firm consistency in the consumer's mind that the cheapest place is  
18 to come to Compare the Market, Moneysupermarket, whatever, so they are  
19 quite promiscuous. So a very, very low trust category as well we are operating  
20 in.

21 Q. (Mr Oram) So, in effect, you do not agree with Compare the Market that there  
22 is that expectation?

23 If you are the only ones with survey evidence, could --

24 A. (Mr Galligan) Which one will be open? I think they will probably point to two  
25 statistics, if you like, one is a general market stat, and that was the data



1 monitor report in 2012 where 72 per cent of customers sought the best price  
2 when shopping around. That does not relate to price comparison websites  
3 overall, but we do have our own internal survey that looks at what are the key  
4 components to having a successful comparison proposition, and best price  
5 certainly features within that. Obviously, I would not want to share all the  
6 components of that.

7 Q. (Mr Oram) We do not have that survey, the internal survey evidence, have  
8 we?

9 A. (Mr Galligan) No.

10 Q. (Mr Oram) Would it be possible for us to have that on a confidential basis?

11 A. (Mr Galligan) Yes. We could share those three components with you for sure.

12 Q. (Mr Oram) I just have one last question before we move on.

13 THE CHAIRMAN: Yes. I wanted to make sure if anybody else had any other  
14 questions on MFNs.

15 Q. (Mr Wright) My last one was just going back to this hypothetical, what the  
16 world would look like if there were no MFNs and you were talking effectively  
17 about there being more of an appetising type model for PCWs, and you were  
18 saying at the moment there are lots of customers who use PCWs as a  
19 benchmark against their current provider.

20 In lots of financial products there are lots of forms of advertising against the  
21 Sunday broad sheets there is lots of advertising of financial products, why  
22 would that be a bad alternative to the current PCW model?

23 A. (Mr Simms) We say it is because it is less efficient. It is back to at the  
24 moment when you are acquiring a customer, and certainly we have, the  
25 evidence of our business, broader business, is that price comparison sites are

1 by no means just our own price comparison sites. Price comparison sites  
2 generally are by far the most efficient way and 1.8 million customers log on. It  
3 is by far the most efficient way of acquiring new customers. That is because it  
4 is essentially like having completely targeted marketing spend; you only ever  
5 pay when you have actually acquired a customer.

6 What would happen in the removal of MFN clauses is that you are likely to get  
7 a swing back towards a situation where the providers have to pay simply  
8 because the customer having visited as opposed to the customer has actually  
9 purchased. That makes the entire advertising cost of the acquisition a lot less  
10 efficient and targeted towards those individual customers, and we say the  
11 overall cost goes up.

12 A. (Mr Galligan) So there is another key point as well in relation to what you  
13 outline there because in this market, in the PMI market, that would not be  
14 possible because in contrast to, let us take a product like a credit card, which  
15 is just a headline price that is essentially available to all, actually to get a price  
16 for car insurance you will typically have to answer at least 50 questions. It is a  
17 lengthy process. It is relatively complex and then there are many dimensions  
18 which you need to compare at the end of that processing, add-ons, additional  
19 levels of cover. So the world that exists in some of those other products it just  
20 is not possible in this space, which is why it is complex, which is why there are  
21 higher renewal rates when customers would benefit actually from shopping  
22 around and getting new business and it is why actually the reality is we do not  
23 shop, all of us. Some of the savviest customers will probably try two or three  
24 of us, but your average consumer does not want to spend their Sunday  
25 morning researching car insurance in order to save another £30.

1 A. (Mr Morgan) I think I agree. It is down to efficiency. Without price  
2 comparison sites, the end consumers would face greater search costs in fact,  
3 extremely increased search costs, we would not get the same amount of  
4 switching and they would not be able to get the same amount of savings they  
5 currently get on the price comparison sites.

6 A. (Mr Trower) Just to respond to Steven's questions around consumer trust and  
7 the connection between that and price comparison sites. There was a report I  
8 think in 2010, and that report states that additional factors behind the success  
9 of aggregators in the UK include strong consumer friendly brands that have  
10 won consumer trust. For example, recent monitoringData Monitor research  
11 shows UK consumer trust in price comparison sites is more than any financial  
12 service provider.

13 Q. (Mr Oram) Trust in relation to what?

14 A. (Mr Trower) In relation to a variety of elements, but...

15 A. (Mr Donoghue) So, they trust us more than the banks.

16 Q. (Mr Oram) No. My question is it does not explicitly say it is trust in relation to  
17 an expectation or awareness of the best price?

18 A. (Mr Trower) I think that is self-evident but the report needs to be examined, to  
19 be fair.

20 Q. (Mr Oram) Maybe we will do that.

21 A. (Mr [?])[Not Mr Trower] Just when you asked me around consumer shopping  
22 around any evidence or report, why do you not ask the insurers? They will  
23 be able to provide you with that information to show all the different  
24 consumers and how they move around all the different comparison sites.  
25 They will have that detail.

1 A. (Mr Donoghue) Sorry, I was going to ask a very similar question which Martin  
2 touched on. You asked about switching earlier, our service is you do not  
3 have to switch to save money and a lot of our customers use our service to  
4 get a cheaper renewal price from their current providers which is a huge  
5 benefit. Again, that would also disappear.

6 Q. (Mr Oram) Thank you for that. I think we have probably given the MFN  
7 questions a reasonable run for their money this morning.

8 A. (Mr Donoghue) I can speak longer, if you like.

9 THE CHAIRMAN: I am sure you could. Can I propose that we take five minute  
10 break now and then we will get into the rest of the issues? We probably do  
11 not need to spend quite as much time on other things.

12  
13 (short break)

14  
15 THE CHAIRMAN: I want to ask a question about advertising. Some of you referred  
16 to the well known fact that you are all quite intensive users of advertising.  
17 What would happen if there were some change in your market that led you all  
18 to advertise less; what would be the impact on the demand for PCWs for  
19 private motor insurance?

20 A. (Mr Morgan) Thank you, chair. It is a very difficult question. We measure our  
21 advertising by a number of methods, one of them includes "top of mind"  
22 awareness, which is basically if you go to the average consumer on the street  
23 and ask which price comparison site can you think of on the spot. In general,  
24 the four of us come out fairly regularly. It is well recognised that a means of  
25 actually maintaining that is advertising. If we were to reduce television

1 advertising spend, that awareness of the end consumer would reduce and we  
2 would have to look to invest in other forms of advertising. I would have  
3 thought that the competition within maybe Google paid search and other paid  
4 search mechanisms would increase as we compete within the market with the  
5 end consumers searching for car insurance on the internet. As consumers  
6 invariably type in "car insurance" into the search engine when they search,  
7 the competition between PCWs would just switch to a different form of  
8 advertising maybe.

9 Q. Anyone else have comments?

10 A. (Mr Donoghue) It is a difficult question. Imagine a world of loyalty in price  
11 comparison. I am struggling to see what that is, but I guess that is where we  
12 may end up, so there is no need for us to talk to consumers through salient  
13 advertising methods. It is the advertising day, there is salient, front-line  
14 awareness, spontaneous awareness or potted awareness.

15 As a business model Moneysupermarket absolutely wants to get to that  
16 model, we want to get to the position where we do not have to pay Google the  
17 obscene amount of money that we pay Google, and we do not want to have to  
18 spend the money on above-the-line advertising pretty much acquiring  
19 customers, different types of customers, and in some cases the same  
20 customer year in, year in, year, and customers come back to us.

21 So, this is why price is really important to us, because having the best price  
22 on the website we would be able to invest in the price on the website. I would  
23 happily take today a big proportion of our marketing budget and invest that in  
24 price to give the consumer the best price, but I cannot do that.

25 Q. What do you think would be the reaction of the PMI providers if the PCW

1 industry spent less on advertising?

2 A. (Mr Galligan) I think I would relate it to the first question, to some extent. I  
3 think what would happen if we spent less. I do wonder actually if there would  
4 be less shopping around, but renewal prices would increase. Certainly, I  
5 think, we would all, over time, increase our marketing spend and we have  
6 seen an increase in use of the price comparison sites. For a period we saw a  
7 reduction in renewal rates, so I do wonder if one of the outcomes there would  
8 be a higher renewal rate, but it is difficult to hypothesise on what the outcome  
9 would be.

10 I think the pendulum would swing back to new business acquisition. Some  
11 insurers properly do not advertise. It would be on some brand building, so the  
12 brand stands out in all of the providers, and by doing that we would be back in  
13 a position before we all moved to the stage we are now in where renewal  
14 pricing would be the thing insurers will be relying on - inertia, back ending  
15 their pricing into renewals, relying on customer inertia and lack of shopping  
16 around which would cover that upfront investment.

17 A. (UNATTRIBUTED PCW) I think we would all like business. With the position  
18 that we are in today, like Graham, we would love to not have to spend as  
19 much on advertising, be that on TV or Google, as we do today, and in fact that  
20 is partly why we are investing so much money innovating and investing in  
21 innovating with the likes of our rewards campaign or innovating with a  
22 customer experience to get customer experience so good that customers will  
23 come back and try Compare the Market year after year. But it is an  
24 aggressive market, and so we do find ourselves in the position where we have  
25 to spend a hell of a lot of money advertising until we can really crack that

1 loyalty.

2 Q. Moving onto a slightly different tab, why do you think there has not been large  
3 scale successful entry into your business after the four of you, in particular,  
4 why has not Google itself and Tesco done better in the price comparison  
5 business?

6 A. (Mr Donoghue) I have not taken either one of them by name, but I think what  
7 they have not managed to do yet is crack that overall proposition because you  
8 have to do two things. In its simplest form you have to do two things; you  
9 have to attract consumers to try your position. I think they are both in a very  
10 good position to do that, but then you have to deliver to them the right product  
11 with the right clarity at the right price and complete. I think the core  
12 businesses that are here today are probably here because we have been  
13 better at that than the other entrants. That is not to say that a new entrant  
14 could not come up with a new innovation or something that equally could have  
15 a significant impact on our business. That is again partly why we are  
16 continuing to innovate and spend money to make sure that we can be  
17 successful in the marketplace.

18 A. (Mr Sanders) The barriers to entering this market are the ability to create the  
19 brand. It does require a reasonable amount of money to invest in the market  
20 and to create a brand.

21 My view of Tesco, for what is worth, is just a lack of focus. This is not the  
22 prime or core of what they do. It is something that would be quite interesting.  
23 They are very fixated on becoming a bank and that is what they want to do in  
24 the organisation and becoming a price comparison website is not within the  
25 DNA of the management team.

1 Google, I am more surprised at. They have not made as much a success as I  
2 thought they would have done, but I think that may be down to execution, just  
3 pure execution and possibly an element of lack of focus. But those are two  
4 big brands.

5 A. (Mr Simms) I think the word for us would be "yet." I do not see that either of  
6 them has any insurmountable or even very challenging obstacles to replicate  
7 the services delivered by those sat around this table.

8 We will obviously be trying to run as fast as we can to make that as difficult as  
9 possible in terms of building our own proposition. But I think we struggle to  
10 identify a meaningful obstacle to either of those entrants.

11 Q. Because of the two obstacles, you mentioned that you have to build a brand,  
12 Tesco and Google do have brand, and you have to spend a shedload on  
13 advertising.

14 A. (Mr Galligan) Not necessarily, no. I think the advertising spend is to get  
15 people to our shop window, and of course Google, without spending a Penny,  
16 we could all probably pick up off-line, despite the amount we spend above the  
17 line, a significant and very significant proportion of our traffic comes via  
18 Google. Still, customers even looking for Compare the Market or any of these  
19 brands will still go to Google and type into Google comparethemarket.com, so  
20 they are in an absolute prime position. If they get their proposition right they  
21 could really just suck up this marketplace, that is why they are a forced to be  
22 reckoned with, but they have not done that yet.

23 They do not have the focus right. I do not think they have their proposition  
24 right, but that could be easily fixed, and then they have the biggest shop  
25 window than any of us and much deeper pockets.



1 A. (Mr Sanders) Focus is the main one, resource is another, both financial and  
2 bums on seats. Tesco, they could not quite bridge the gap between direct  
3 insurance, bank insurance, price comparison, despite the obvious strength of  
4 brand. They struggled with resource as well, from our understanding.  
5 Google, probably likewise. They are entering quite cautiously. Consumer  
6 appetite that Google could do more than a simple search. may be limited.  
7 The European Commission are also looking at them very intently right now.  
8 Marketing and IT resource are also spread across the West Coast of the US,  
9 Central London, Europe. It needs a bit of attention from them, but you are  
10 absolutely right, they are a very big and credible threat and potential player in  
11 this market, no doubt.

12 Q. What about cashback websites? Does their emergence challenge the  
13 position of the PCWs; what do you think?

14 A. (Mr Sanders) Potentially, yes, but I think again it comes back to probably the  
15 same questions we just raised about the other two players.  
16 I think we have all probably watched cashback with interest over the last few  
17 years, QuidCo and others. The question for all of them really is the depth of  
18 their pockets; their ability to build a brand and the ability to really grow their  
19 book of business and it is incredible at the moment that they are not. They  
20 are making profit, yes, but they are relatively small. They do not have a big  
21 balance sheet, and this affects the ability of QuidCo and others to really drive  
22 traffic, to be a credible source of distribution for the insurers and, indeed,  
23 then to do the work that we have all done. That is a question mark for them.  
24 They are certainly showing no signs of getting there yet. They have been  
25 around the edges for three or four years.

1 Q. Any other comments?

2 A. (Mr Donoghue) I think they have certainly grown. Quid Pro have grown quite  
3 fast, but they are very broad in terms of what they do and they are not  
4 focused on insurance or financial services. There is awareness that in  
5 general there is a type of customer that uses cashback, there is a type of  
6 customer I think that uses price comparison, there is at type of customer that  
7 ultimately just goes direct and goes to their broker.

8 In our research Moneysupermarket had, when we have looked at the type of  
9 customer that uses cashback in earnest it is quite a small segment of the  
10 marketplace overall. So, in order to break through we clearly have to create  
11 more of a brand, create more awareness, above-the-line TV advertising.  
12 None of them certainly over £100 million a year in TV advertising telling  
13 people about cashback, but they could.

14 A. (Mr Sanders) Graham's point about the different customer demographic and  
15 dynamic is a very interesting one; certainly some of the feedback from the  
16 insurers who we have been asking directly is that the calibre of risk coming  
17 through a cashback site is materially different to the overall calibre of a  
18 customer coming through anyone of our sites where they have answered 50  
19 or 60 questions. These guys are looking for a deal, they are looking for  
20 immediate cashback (subject to terms and conditions). The retention of that  
21 business, the consistency of that business, the ability for the insurer to sell  
22 add-ons to that business is quite constrained relative, I think, to the quality of  
23 the business that the price comparison sites drive. That also therefore affects  
24 their appetite and willingness to participate.

25 A. (Mr Simms) I think that is one of the points about regulation. Price

1 comparison sites and certainly the PMI business are FCA regulated and they  
2 operate pretty much in the same way as another PMI broker. That, I think,  
3 has a completely different challenge. You are asking people (entrants) to take  
4 steps in looking at that and working out whether or not it is the right thing for  
5 their business. Many of us would have grown our businesses out of already  
6 regulated entities.

7 A. (Mr Galligan) It is a very different proposition for them as well. I think; could  
8 they succeed? Yes, they could, rewarding customers with cashback if it is  
9 working in other markets. It is quite different to, notwithstanding the  
10 regulation, the fact that they cannot just present the price with cashback.  
11 They still have to entice the customer in to answer 50 questions and so it is  
12 very different to their traditional model where they can just present a very  
13 clear proposition; here is the product and here is the price for this cashback.

14 A. (Mr Morgan) I think whilst for the end consumer who typically comes to a  
15 price comparison site, it is price that is important. I think the other important  
16 aspect we offer is transparency of terms and conditions, of the product they  
17 are buying.

18 Q. I would like to move onto Northern and ask the question: Why do you think  
19 fewer insurers write PMI in Northern Ireland than in the rest of the UK?

20 A. (Mr Galligan) To some extent, a difficult question for us to answer because  
21 with the price comparison site we are not so clear on the dynamics, if you like,  
22 of any particular market from an insurer's perspective. So, my hypothesis  
23 would be the fact that it is a smaller market. We know that insurers prefer to  
24 operate with scale because of the learnings that can come with that and the  
25 spread of risk. So, my sense is it is a different market to the larger one in the

1 UK. It is smaller and as a consequence, there are fewer operators, but that is  
2 a subject I have less knowledge on.

3 Q. Do any of the rest of you have any views on that, in particular, on the fact that  
4 one insurer, AXA, seems to have quite a strong position in that market.

5 A. (Mr Donoghue) I am not sure of the rationale behind why insurers do.  
6 Moneysupermarket stated looking at it, we operate obviously in Northern  
7 Ireland, and we will submit this data to you but the prices actually seem pretty  
8 competitive and certainly when I compare that to the UK. We have an  
9 average of 49 panel members returning a price for Northern Ireland and that  
10 is versus 70 in the UK, so there are a number of insurers quoting for it. The  
11 premiums actually are very, very similar. The premiums are actually  
12 decreasing faster than the UK and faster year in year.

13 It may be it is our fault in terms of maybe we are not very good at bringing  
14 awareness of price comparison in Northern Ireland.

15 Q. It does seem to be the case that PCWs have less presence in Northern  
16 Ireland than elsewhere in the UK.

17 A. (Mr Donoghue) It is. It certainly is with us and actually it a bit of a decline.  
18 When we look at our customer base there is a bit of a decline in the customer  
19 base.

20 Q. Do the rest of you have the same experience in Northern Ireland?

21 A. (Mr Sanders) I am not sure there is a lack of presence of price comparison  
22 sites, rather less willingness from the insurers to write business in that  
23 jurisdiction. I am not close to the detail and as to why insurers choose to  
24 write the way they do. I could easily make a position about historical legacies  
25 and the 'Troubles' and everything else creating a higher risk area and a higher

1 risk profile, which will then steer insurers away from this market. Our  
2 advertising, and our presence in terms of a shop front, and in terms of  
3 advertising our brand in Northern Ireland is no different to any other part of the  
4 UK. The desire of insurers to participate is entirely at their discretion, not  
5 ours, unfortunately.

6 A. (Mr Morgan) I think I would agree that basically we offer the same service to  
7 consumers in Northern Ireland as anywhere else in the UK.

8 Q. (Mr Aaronson) Do you promote yourself as much, advertise as much?

9 THE CHAIRMAN: Let us move on to add-ons, I mean, things like motor legal  
10 expenses, insurance breakdown cover and no claims bonus protection. We  
11 did not see much on this in our annotated Issue Statement about the analysis  
12 of add-ons, because it is ongoing work, but in the work we have done it  
13 seems to us that the claims ratios on some of the commonly sold add-ons  
14 are generally pretty low, sometimes well below 50 per cent. If you agree with  
15 this, why do you think it is the case that so many of these add-ons have low  
16 claims ratios; do you have a view?

17 A. (Mr Steel) Just so I understand the question; the ancillary products and the  
18 rate of claim focus?

19 Q. Yes, on the face of it they look like products that are very profitable to sell.

20 A. (Mr Steel) Yes. The FSA recently released a paper on the legal component.  
21 I think that gives a very good example about the number of people who are  
22 actually buying that product and adding it on to the policy versus the number  
23 of people who have actually claimed.

24 It is probably again a question to ask the insurers, but from my own  
25 knowledge, some of the ancillary products are underwritten by a third party.

1 So if you make a claim off the main product, the motor insurance product,  
2 then you are referred onto a third party company for your add-on claims.  
3 Sometimes the consumer does not even know they have that product, or they  
4 are not aware of that part of the product at the point of sale, and if they have  
5 had a claim seven/eight months down the line, they may be unaware they  
6 could pursue a loss via the ancillary product.

7 For example, if you have a personal accident product the insurance company  
8 may cover you for a percentage or a level of payment. If you have any  
9 additional add on cover, they might not always refer onto that additional  
10 company. If you are being dealt with by a third party department or company,  
11 such as a claims management companies, they would not always know you  
12 had that ancillary product.

13 I am not sure why the loss ratios are so low, but part of my understanding  
14 would be it is because they are generally paid by third party companies and  
15 awareness that the customer could claim is limited.

16 There are benefits of a lot of these add-ons. I just want to make that clear. I  
17 think the FCA are looking, and will be looking for the next couple of years as  
18 well, about the worth of these.

19 Q. But even if there are benefits from these add ons if claims ratios are very low  
20 that would suggest that prices are too high, which raises the question: what is  
21 about the way that the market operates why do not we have competition  
22 which results in driving down the prices of these products?

23 A. (Mr Steel) It is a good question. I go back to what the FCA are doing where  
24 they are then looking at legal cover, for example. They are looking at it on an  
25 opt in basis versus an opt out basis. So, yes it does actually add to the whole

1 ticket price of the PMI, but if you strip down to a standard base premium and  
2 then set out ancillaries, it might be a detriment to some providers who have  
3 bundled policies.

4 There are a number of providers out there who do not have like-for-like base  
5 premium. Marks and Spencer, for example, have different levels of cover, so  
6 it would be hard to actually give a like-for-like or sell three types of policies  
7 under the one brand if you were to separate it all out.

8 A. (Mr Galligan) We are definitely trying to drive competition in that area, so one  
9 of the core elements of our proposition is how we show the price including  
10 those features, so if you look at our price table you will see firstly the price  
11 ranked initially on an annual basis, but the consumer can then change that to  
12 see monthly, so that we can take into account the APR because we have  
13 have to perhaps drive in some margin. Then we will include within that  
14 whether the add-ons are included with a simple tick or if they are not included  
15 we will put a price and we will put that right upfront on the price display page,  
16 so a customer can understand that before they flick through to an insurer.

17 So we are trying to drive some competition in that area so that the customer  
18 can understand the total price before they go any further.

19 I think that is probably why (Graham alluded to it earlier) a large percentage of  
20 people are no longer purchasing from top of screen. I personally think it is a  
21 bit of a misnomer to refer to us as price comparison websites because price is  
22 a core component, but equally, we have got to show the features and benefits.  
23 It is fundamentally going to finish up in the right product for the consumer. I  
24 personally believe that is why a lot of customers are now flicking further  
25 beyond the top price so that they have taken into account that some of those

1 products are including those features and therefore they will pay more for the  
2 core policy.

3 Q. (Mr Oram) So, not asking your individual circumstances, but for the PCW  
4 industry, in general, MFN clauses do not cover add-ons; is that the case?

5 A. (Mr Galligan) Good question. I think our MFN is restricted to the core price.  
6 So what that would include is if the add ons were included (I think I am right in  
7 saying that would include the add-on) if that is returned as part of the core  
8 premium.

9 THE CHAIRMAN: Who decides whether an add-on is opted in or opted out?

10 A. (Mr Galligan) That is the insurer, so we are simply a shop window. Many  
11 insurers, as an example, will operate two or three different propositions. Many  
12 of them will start with a core policy that does not include add-ons and then  
13 they will have gold or whatever they tend to call it, which will have the add-ons  
14 bundled in. That is is they are trying to appeal to those different segments of  
15 customers. They know that some customers will want to buy the cheapest  
16 policy, but others are going to look for more comprehensive cover, so they  
17 make those choices with just a shop window to the different products that are  
18 available.

19 Q. So, it is the insurers who decide what is in. But what you were talking about  
20 earlier was that you then seek to show clearly what actually is included and it  
21 is up to the website as to who that information is presented to the consumer?

22 A. (Mr Galligan) Correct. What we are trying to do is just show in the most  
23 transparent fashion we possibly can here are the different components of the  
24 price that you will finish up paying.

25 A. (Mr Sanders) Paul's statement I think is a valid one in that we are price and



1 product comparison sites, we are not price setters. I think we have all done a  
2 job of expanding the range of criteria through which policies are compared.  
3 We all have very similar data about who buys the cheapest and who buys  
4 down the list from perhaps a more recognised brand, or for a wider and better  
5 quality product, subject to their own needs.

6 We are also all doing the same things. Where these ancillary products can be  
7 unbundled and sold separately, so breakdown is an obvious example,  
8 accelerated depreciation for gap cover is another obvious example or  
9 warranty cover, for that matter. We probably all have a range of products and  
10 a range of comparison tables to allow the customers to compare and buy  
11 those separately. Where they are bundled in, the setting of that price and the  
12 choice of how the product is initiated is entirely linked to the underwriter. It is  
13 something we cannot affect.

14 Q. In this process, do you have any sense of how well consumers understand  
15 what they are buying? I guess, breakdown cover you would expect most  
16 consumers to understand what they were getting, but motor legal expenses  
17 cover?

18 A. (Mr Sanders) I think the understanding diminishes with those products. The  
19 rate of penetration that we see from market studies, and there are a number  
20 of us participating, the penetration of legal cover and breakdown cover are  
21 pretty strong and sometimes legal is bundled in. I think when you get into  
22 some of the other areas, car hire, et cetera, that is where perhaps  
23 understanding is less pronounced. As Greg rightly referred, it is one of the  
24 reasons why the FCA is looking at this quite intently over the next 12 to 24  
25 months, around suitability, around price and around consumer understanding

1 and awareness.

2 We inevitably, at some point, I suspect, will have a role to play in the help text  
3 and more information that we provide to our customers at point of purchase  
4 and point of leaving the site to transact with the insurer. There will inevitably  
5 be a roll on for us to do more work. We are already doing some of that work  
6 on the legal cover changes we have made to the site, as the rest of the guys  
7 have done, is in part a response to that to help the customer understand a bit  
8 more about each of these products, but there is more to be done.

9 A. (Mr Donoghue) I think just to flip it a little bit, what Paul was describing we  
10 have done for about a year at Moneysupermarket where the information is  
11 passed back from our insurance partners and if it is included we display it, but  
12 if the user wants to interact with filters and add on legal cover, breakdown  
13 cover, whatever, it updates the price and includes it in the full price and it  
14 ranks it, so it is very transparent.

15 Where we have a bit of an issue is when that consumer is then passed  
16 through to the insurance partner. The tactics that sometimes go on with the  
17 insurance partners is to fore sell ancillaries. In some case they may not have  
18 even been selected is something that significantly reduces conversion and we  
19 fundamentally know that consumers do not like it.

20 We see a five point difference in a conversion where a customer selected a  
21 price, it is £100, and gone through to the partner's website and it is £120  
22 because they have fore sold them legal over and the consumer is a bit lost as  
23 to how do I remove that.

24 What we have started to do is the transition between our website and our  
25 insured partner's website where we are aware of those practices we highlight

1 that to the consumer, and we say, "watch out for," or "please be aware of."  
2 We try to do our best to get insurers to match the price, but it is like pushing  
3 water up hill sometimes, so we put that information in the transition to say,  
4 "please be aware." That could be that some of these products are being  
5 purchased and the consumer does not necessarily know they have them.

6 Q. (Mr Wright) You saying there has been a shift to make the selling of add-ons  
7 more transparent through your sites, has that generally been resisted by the  
8 providers?

9 A. (Mr Simms) I do not think we have found that resistance.

10 A. (Mr Donoghue) No. I think we may have already asked for it but E  
11 Benchmark will be able to tell you the penetration level of all the core ancillary  
12 products across the market, and clearly you will have to ask the insurers for  
13 the claims sub-question, but equally they would like us to sell more of those  
14 products and make it more transparent. As they would see it, there is good  
15 margin in those products.

16 Q. (Mr Wright) Yes. The obvious question is be we want you to tell the consumer  
17 the prices of the basic products, but lets leave the add-ons to us, let the  
18 consumer come to us and then we will sell them the others and not put a  
19 price.

20 A. (Mr Steel) A couple of years ago there was a race to get the top ticket price  
21 and then when you click through that is when they, the insurers, gave the sale  
22 of the extra add-ons , but over the last few years its clear the customer does  
23 want more information. We know the customer wants more information so we  
24 display as much information as we can so that the customer can make an  
25 informed decision.

1 A. (Mr Simms) I think it is slightly over cynical to suggest that it is all about price,  
2 to be fair. The insurers that the customers are kicking through from our site  
3 have a regulatory responsibility to get the suitable product to meet the  
4 demands and needs of the consumer. The insurer still has a responsibility for  
5 that and the fact that there are differentials between what happens when a  
6 consumer clicks through our site and what he ultimately ends up with  
7 concerns us less than it would if we thought that a consumer was getting  
8 something that was inappropriate.

9 I think we are talking here of PMI particularly about a very closely prescribed  
10 product and its highly regulated product. The consumer is not buying widgets  
11 here so the idea that there should be some variance from time-to-time. In  
12 terms of that, there will be consumers who click through and then have a  
13 conversation with their insurer, there will be a whole swathe of those  
14 consumers, etc. So, the experience itself is not surprising, if you like, or in  
15 any way particularly necessarily concerning.

16 A. (Mr Donoghue) We try to avoid examples that Swinton have just gone  
17 through recently where they were fined £7.5 million and we think those  
18 practices, be it an off line world or an on line world it is not good.

19 A. (Mr Morgan) I think the approach GoCompare takes is to make sure that the  
20 customer understands what they are buying, so we try and put as much  
21 explanation for the add-ons as possible, so that the end consumer is an  
22 informed consumer before they buy.

23 We have similar experience to Moneysupermarket that on click through add-  
24 ons are added to the price. We have supplied data that shows our  
25 complaints, The numbers show that one of the things that frustrates

1 customers and end consumers the most is the price differential on click  
2 through, and we work closely with the providers to make sure that those add-  
3 ons are clear on click through and what they are and to make it easy for the  
4 consumer to select or deselect them. Primarily we see it as the main focus of  
5 price comparison.

6 THE CHAIRMAN: So a consumer who has deliberately deselected add-ons while on  
7 your site and made a choice and then clicks through would still be liable to  
8 have deselected products, shall we say, re-offered on a click?

9 A. (Mr Donoghue) It is not universal. Some of them take a more ethical stance  
10 than others, but clearly, yes, our one is only an example, but you almost have  
11 to have some medal if you can get through some of the journeys in terms of  
12 how some insurance partners actually keep selling. As a practice obviously  
13 we do not support and we have been quite heavy-handed with some of our  
14 insurance partners, i.e. if you do not change your practice we will remove you  
15 from our panel.

16 Q. (Mr Aaronson) I think you said in your opening that you do not get any  
17 additional fee if add-ons are included. Given that they look rather profitable to  
18 insurers, why do they not give you an incentive to sell the add-on to  
19 customers generally?

20 A. (Mr Donoghue) I think we see add-ons are entirely the customer's choice as  
21 to whether they select add-ons or not and I think for some of the reasons we  
22 highlighted, we need to probably all do a better job at highlighting the the  
23 differences between some of the add-ons.

24 I guess insurers would argue that the premium that they pay us, £50 or  
25 whatever the CP effectively is, they probably have taken into consideration an

1 element of we are selling it, but we do not directly get incentivised to sell more  
2 of those add-ons.

3 This is not the type of conversation I have had with many of my partners.

4 Q. (Mr Aaronson) Which is why you would not want to propose it because that is  
5 not really where you are coming from, but I am surprised that it does not come  
6 from their end?

7 A. (Mr Donoghue) I think it is a dangerous area to go into from a consumer point  
8 of view to start using tactics of pressure in different ways. We want it to be  
9 really simple and transparent. The insurers is going to have the price, the  
10 customer is in control and they they decide whether they do or whether they  
11 do not and we are not going to interfere in that journey.

12 Q. (Mr Aaronson) Anybody else?

13 A. (Mr Galligan) I would echo that comment that we never have and never will  
14 introduce the question with an insurer to earn money on their add-ons. We do  
15 not see it as part of our job to sell a product. It is to present transparency and  
16 make it very easy for the customer to purchase via Compare the Market, but  
17 we will never favour any provider and never favour any add-on. So we like a  
18 simple, transparent model, we will earn one fee if the customer ultimately  
19 purchasers, but we do not want to get into that space and we have similar  
20 challenges, as you have already heard, around trying to drive the right kind of  
21 customer experience post our site.

22 A. (Mr Steel) We get paid when an insurer sells a policy. Whatever makes up  
23 that unit is up to the insurer to decide in terms of the product plus the  
24 ancillaries.

25 A. (Mr Morgan) We have echoed a number of occasions that consumer

1 confidence in our service is vital. I think if we start being incentivised to sell  
2 an add-ons that could erode that consumer confidence quite a lot.

3 THE CHAIRMAN: I have a question about a specific add-on, which is no claims  
4 bonus protection. Anxiety has been expressed both that NCB protection  
5 might be a barrier to switching in the case of a customer who has had an  
6 accident, but had their no claims bonus protected, might then be concerned  
7 that if they switched insurers that the new insurer would not give them them  
8 the no claims discount because they would say you had an accident last year.  
9 Do you have any knowledge of how the insurers keep protected no claims  
10 discounts when consumers switch?

11 A. (Mr Donoghue) Personally, we do not know the underwriting models of our  
12 insurance partners. There are a whole bunch of questions that consumers fill  
13 in and one of the questions is: have you had an accident in three years?  
14 There is information around the type of accident. That is then passed to the  
15 insurer and then they will then decide whether they do a recall on it.  
16 The mechanics of how it works in the underwriting criteria is not our job, and  
17 we have no idea how it works.

18 A. (Mr Sanders) I would add to Graham's comment on the underwriting. I can  
19 only speak from very personal experience. I have an open non-settled claim  
20 and I have just renewed. Having used Confused and shopped, the process is  
21 not dissimilar to a customer who is not in my circumstances and is renewing  
22 on a clean basis. I found a very good price, the panel were still very  
23 competitive, and I found no issues in renewing.  
24 So as a focus group of one I can only give you a very approximate, i.e. 14  
25 days ago experience, that it worked very well for me.

1 How each underwriter treats protected no claims, how they recognise issues,  
2 the type of claim, the length of that claim, settled or otherwise, would be very  
3 difficult for any of us to answer.

4 Q. (Mr Wright) Who creates the wording to describe what that add-on is, so if the  
5 customer says I want motor legal expenses insurance and then the list comes  
6 up, do the providers give you some text to say this is what motor legal  
7 expense insurance is to us or do you take a general view and say, generally in  
8 the market this is what the product is?

9 A. (Mr Steel) If we were to ask the insurers for that wording we would still be  
10 here deciding on that. The wording has a set criteria; So I go back to the legal  
11 cover. The FCA have said that certain things were not mentioned between  
12 ourselves but also the same applied for the insurance industry, the wording  
13 was not there. So if you put some key characteristics in it is up to you how you  
14 want to proceed, as long as you actually have the key criteria in there.

15 THE CHAIRMAN: When you say, "it is up to you," you mean it is up to you?

16 A. (Mr Galligan) Yes. Albeit, of course, we are regulated, so it has to meet our  
17 regulatory requirements and then of course on the insurer's site they have to  
18 disclose the purchase.

19 Q. (Mr Wright) That is the intention. The intention is that the generic description  
20 does not match the one the consumer is actually offered when they click  
21 through to the insurer's website.

22 A. (Mr Galligan) We have a regulatory responsibility to make sure it is  
23 representative enough for the consumer to understand whilst they are on our  
24 site, but then obviously at one stage there could be 100 prices open and so  
25 we cannot make it bespoke that is why then when the customers click through



1 that then becomes the responsibility, pre-purchase, of the insurer or broker to  
2 disclose the specifics of their policy.

3 A. (Mr Steel) You can show the fundamentals and what you could claim for, but  
4 you cannot give all the policy details, such as the levels of cover with each  
5 insurer, for example.

6 THE CHAIRMAN: We have come to the end of the list of issues we wanted to raise  
7 with you. Is there anything that we have not covered that you are dying to  
8 bend our ears about, or is there anything that any of you would like to say by  
9 way of a closing remark? (Pause) If not, thank you very much indeed for the  
10 time you have given us today and we are well aware these meetings involve  
11 not just a time commitment on the day, but involve preparation time and so  
12 on. We are very grateful for the assistance you are giving us in the course of  
13 this investigation.

14 We appreciate it is important to you, but we also understand that the  
15 Competition Commission Market Investigation is a non-trivial burden to the  
16 people involved in the industry being investigated.

17 Andrew, do you want to say something about the timetable?

18 Q. (Mr Wright) I can do, yes. We have, as you know, published two documents  
19 so far, the annotated Issue Statement and the Survey Reports. We have  
20 listed in the back of the annotated Issue Statement, the further working papers  
21 that we intend to publish. We have not managed to get those out quite as  
22 quickly as we would have hoped, mainly because the process to pass these  
23 has taken slightly longer and the responses that we have had coming back in,  
24 therefore, we aim to publish those in the course of the next two or three weeks  
25 or so.

1 When we know precisely the timetable of that publication we will then  
2 reconsider whether the deadline we set of 16 August is reasonable. It may  
3 well be that that deadline gets pushed back because of the delay in publishing  
4 similar working papers; not hugely so, but just a couple of weeks or so.

5 THE CHAIRMAN: Obviously, as you will have seen, there is a working paper on  
6 MFN, which will be coming out as part of that process, which I am sure you  
7 will all read with interest, and obviously we are very keen to have your  
8 comments.

9 As I said at the beginning, further ahead in the timetable, a key milestone is  
10 the publication of a provisional findings report when we will have some  
11 provisional views to share. That should be end of October, possibly beginning  
12 of November.

13 So, once again, thank you very much for your time today. It has been a very  
14 interesting discussion for us.

15

### Key to punctuation used in transcript

|              |   |
|--------------|---|
| --           | Double dashes are used at the end of a line to indicate that the person's speech was cut off by someone else speaking   |
| ...          | Ellipsis is used at the end of a line to indicate that the person tailed off their speech and didn't finish the sentence.   |
| - xx xx xx - | A pair of single dashes are used to separate strong interruptions from the rest of the sentence e.g. An honest politician – if such a creature exists – would never agree to such a plan. These are unlike commas, which only separate off a weak interruption. |
| -            | Single dashes are used when the strong interruption comes at the end of the sentence, e.g. There was no other way – or was there?   |