

## **ENERGY MARKET INVESTIGATION**

### **Summary of hearing with uSwitch on 19 November 2014**

#### **Background**

1. uSwitch began operating as a price comparison website (PCW) in 2000, when the energy market became deregulated in the United Kingdom (UK). uSwitch believed that the growth of the internet as a search facility would help consumers compare tariffs from various energy suppliers and new entrants in the sector.
2. uSwitch offered comparisons on a wide range of products. Energy was its main focus, but price comparison was also offered on broadband, mobile and financial products, such as credit cards, mortgages and loans and insurance.
3. The majority of uSwitch's products were offered on what it termed a 'click-out' model. This meant that a customer would look at various products and tariffs and once they had made their choice, they would 'click-out' from uSwitch's website and transfer to a partner website and complete the process there.
4. Energy worked on a different model from other products in that uSwitch 'owned' the customer journey. When a customer used the uSwitch website to switch energy providers, they entered information about their current tariff, current supplier and consumption data and were presented with a list of available tariffs. uSwitch would also collect payment details and other information specified by the energy companies to enable the switch to be processed. Once a person had confirmed a switch, uSwitch would forward their details to an energy company, who would process the application through their own systems.
5. For the energy market, uSwitch abided by the Confidence Code, which meant that it had to list all energy providers in the market, irrespective of whether it had a commercial agreement with them or not. uSwitch did not process switches for those suppliers with whom it did not have a commercial agreement. For these products, the customer would see a list of available tariffs and would have to navigate themselves to the website of the product in which they were interested.

## uSwitch's views on the GB energy market

6. uSwitch said that six years ago, switching between providers had been around 20%. Switching levels had declined since, which uSwitch believed was in part due to the ending of doorstep selling.
7. uSwitch believed that current levels of switching were around 10% and of this figure, 58% of switchers moved to a new entrant or smaller supplier. While this indicated that there was some competition within the energy market, overall new entrants and smaller suppliers still had a very small market share compared to the six large energy companies.
8. These early signs of emerging competition were offset by factors that uSwitch believed prevented competition from developing further. These included the actions of suppliers towards consumers and customer apathy. 40% of customers in the energy market had never switched and uSwitch's own data showed that [X]% of customers visiting its website were new to uSwitch.
9. Price comparison websites' (PCWs) share of the total switching market had increased substantially over the last three to four years, due, in part, to the success of PCWs and the large reduction of doorstep sales. However, uSwitch believed that the overall proportion of customers who switched was low and had decreased over the last three or four years.
10. uSwitch believed that just because someone had switched once, it did not mean they would constantly switch. Fixed energy tariffs appeared to have an impact on people re-engaging with PCWs, with around [X]% of people visiting PCWs when their plan came to an end.
11. uSwitch felt it was positive that new customers visited its site, but there was also a negative aspect in that even after using a good service and seeing the financial savings that could be made, some consumers probably lacked the confidence to complete the switch.
12. Encouraging more customers to switch presented a real challenge. Consumer engagement in the energy market had declined, and it appeared that much switching was done by the same people who switched on a regular basis. uSwitch was keen to promote behavioural change among consumers and to ensure that they used the market to their benefit. This would not only be achieved through increased consumer confidence, but by providing the necessary tools and support.
13. Annual energy statements were meant to provide information and be a major enabler to help consumers compare products in the energy market. The latest information that uSwitch had was that around only 50% of people who

received annual statements actually looked at them while the other 50% did not and were unaware that they had had an annual statement. Of the 50% who had seen their annual statement, 60% had used them to make a market comparison. Improving the annual statement so that more people took notice of them would be an important element in empowering consumers.

14. uSwitch was concerned that Ofgem's Retail Market Review (RMR) was not having the necessary impact and that it needed to go further. In addition to the planned benchmarking exercises, Ofgem should be more actively engaged in examining the impact of RMR in the market. Ofgem needed to demonstrate that it was not just 'business as usual', but that it was committed to increased customer engagement.
15. uSwitch was pleased that Ofgem would review how the four core tariff rules would affect innovation and issues around the introduction of smart meters.
16. uSwitch believed that the problem with competition in the energy industry was that not enough consumers were aware of their choices or lacked the confidence to engage in the process. Those that were interested in switching found that the inherent complexity of the market was too high and this presented a barrier to them engaging efficiently with the energy market.
17. Bills were complicated and should serve as a 'spur to action'. During its RMR, Ofgem had considered having a template statement. Though this did not come to fruition, uSwitch believed there was merit in a standardised annual statement which would be used by all suppliers.
18. A large proportion of energy bills were estimated and in 2014 around 12% of bills contained errors. Running a comparison using estimated bills was difficult when a customer did not know how accurate the bills were and whether they were being overcharged or undercharged.
19. A new bill type was issued on 1 April 2014 and research undertaken by uSwitch had found that only 30% of people had found the new bills easier to understand. It was aware of one energy supplier who had gone back to Ofgem for a derogation from the RMR to produce a new type of bill that it believed would be more informative for consumers.

### **uSwitch and its position in the PCW market**

20. uSwitch believed it was important to provide a comprehensive service to its customers. Its core products centred on 'home services', with the focus on energy and communications, which uSwitch felt had a close synergy. This

focus differentiated uSwitch from other well-known PCWs who focused on financial and insurance products.

21. [✂]
22. [✂]
23. [✂]
24. A high number of customers were acquired via paid-for searches on the most prominent internet search engines. 'Search engine optimisation', which was the natural listings underneath the paid listings, was another means of attracting customers. Companies such as Google would promote companies up their rankings based on customer engagement and how successful consumers considered their searches to be.
25. uSwitch had a large email database with which it regularly communicated industry developments and updates on the range of products and services it offered.
26. uSwitch had a free-phone number and call centre to assist customers and it also offered a 'freepost service', by which people who found it difficult to understand their energy bills could contact uSwitch for advice and support.
27. uSwitch used a public relations company to raise consumer issues and encourage consumer engagement. It worked with a number of media channels to provide advice and guidance for consumers and undertook community events to raise awareness of the benefits of switching.
28. uSwitch engaged with a number of partners or 'affiliates'. These were websites that promoted a link to uSwitch and for which uSwitch would pay a fee for every customer that switched using uSwitch's service. Finally, uSwitch used what it termed its 'offline partners'. These were companies who had call centre-based services that promoted uSwitch's service to provide help and support. Around [✂]% of uSwitch's enquiries came via 'non-internet' routes, such as its call centre and freepost service. uSwitch's call centre employed around [✂] people, which increased year-on-year. The demand was driven by a vulnerable, older demographic who needed support through the switching process. People who rang the helpline wanted human interaction to help them navigate the complexities of their bills and understand the choices on offer.

## Collective switching

29. uSwitch had trialled collective switching in 2012 and 2013. Both trials took place around Cornwall and were run in partnership with the Eden Project and Energyshare, a company focused on getting consumers engaged with energy.
30. For the first trial, uSwitch signed up a number of customers who were interested in joining the switch. uSwitch then asked a number of energy suppliers to forward their best tariffs. Having selected what it viewed as the best tariff, uSwitch built a website through which it offered it to the customers and also provided a whole-of-market comparison as an option.
31. The second trial took place in 2013, when uSwitch engaged with five councils, and was able to use funding offered by the The Department of Energy and Climate Change (DECC) for organisations that wanted to trial collective switching.
32. Following its initial trial, uSwitch had noticed a drop in enthusiasm among customers from its initial contact with them and when it returned with its favoured tariff. To address this issue, it requested tariffs from the suppliers before it contacted customers. The tariff that uSwitch offered was already available on the market, but it was very competitive, and cashback was offered as an incentive to switch.
33. uSwitch estimated the volume of sales it expected to achieve and did not make any guarantees to suppliers regarding the number of customers they would sign up.
34. [✂]

## Barriers to entry

35. uSwitch believed that PCWs were extremely competitive and there were about 15 to 20 websites that covered energy. New entrants appeared constantly, with some focused on collective switching.
36. Barriers to entry were low and engagement with consumers was predominately via the internet. The initial start-up spend was confined to website development and marketing and longer term investment focused on service improvements and ensuring compliance with the regulatory regime.
37. uSwitch believed it was important that PCW's signed up to Ofgem's Confidence Code, which would ensure that certain standards were set and maintained.

38. People sometimes switched when they received a poor service, but price was the main factor. uSwitch had surveyed 2,000 people in 2014 and found that 86% of people who had switched had done so because of price.
39. Higher energy prices accounted for a significant part of a household's income. An annual survey run by uSwitch had found that almost 60% of people would ration their energy use in 2014 because they were worried about price.
40. uSwitch's initial appeal was to the internet-literate individual who used PCWs to save money for other purchases. This demographic had changed as people now used PCWs to manage their finances and find the best deals for these products.
41. Increased television advertising by the larger PCWs had increased consumer engagement with PCWs. Engagement was also motivated by customers using fixed-price and fixed-term tariffs, which served as a spark to re-engage with the market over periods of 12, 18 or 24 months.
42. uSwitch found that at least 10% of customers who switched in the last six months made a saving of at least £385, though the average across all customers was around £200. New, smaller suppliers had recently driven this saving by offering cheaper products.
43. uSwitch identified two types of tariff: fixed tariffs that suppliers used to attract new customers; and standard variable tariffs, which accounted for most suppliers' historic, long-term customers.
44. uSwitch said that it noted an increased price difference between the two types of tariffs when wholesale prices fell. Small suppliers took advantage of this fall to offer cheaper tariffs, benefiting from liquidity of what was available or buying cheaper energy on a spot market or shorter-term contracts.
45. uSwitch did not have data on switching rates for other PCWs. uSwitch and its competitors appeared to use similar marketing channels, though some spent more on television advertising.
46. While car insurance was a key product for the larger PCWs, the last two years had seen a focus on other products, such as credit cards and energy. Smaller PCWs such as Energy Helpline, SimplySwitch, Switch Gas & Electric and Energylinx focused on energy.
47. Collective switching had facilitated the emergence of new entrants such as the Big Deal and iChoosr. Collective switching was outside of the Confidence Code and uSwitch was unsure as to whether consumers benefitted overall. uSwitch did not know whether companies undertook a whole market

comparison in all cases and consumers could disengage from the market in the time taken for the companies to search for a new deal.

48. Other developments in the energy market included:
  - Ovo Energy working with local councils to offer direct switches to its products; and
  - [REDACTED].
49. uSwitch believed that the four largest PCWs for energy, which included itself, MoneySuperMarket (including MoneySavingExpert), Energy Helpline and Energylinx, engaged with customers in quite different ways. One focused on telesales, while another was very strong within personal finance and insurance and used this to attract customers. [REDACTED]. [REDACTED] did not have a strong brand, but it attracted customers through its relationship with other comparison sites, [REDACTED].
50. uSwitch focused on energy and it was known for its work in the energy sector. Its model and reputation were built on helping people who wanted to switch when they were dissatisfied with their energy costs or their fixed-plan was coming to an end.
51. uSwitch saw itself as more than a PCW. It provided help and support across a number of subjects and people often used its website as an information portal.
52. Moving to fixed-tariffs and people moving house were two of the major triggers that led people to switch. [REDACTED].
53. uSwitch's [REDACTED] advertising expenditure was on pay-per-click advertising with Google, a figure of £[REDACTED]. [REDACTED].
54. [REDACTED]
55. [REDACTED]
56. The fees charged by Google were based on a bidding system. There was no guarantee that uSwitch would receive switches in return for this spend and a company with a larger budget could pay to go to the top of Google's search rankings. uSwitch would only cover the cost of payments to Google if a sufficient number of customers used its switching service.
57. Support staff in areas such as its email service, website content and public relations team accounted for most of uSwitch's marketing costs outside of paid search. External public relations companies were also used for media work.

58. Affiliates and offline partners would receive a commission paid out of uSwitch's resulting revenue, [REDACTED].

## Smart meters

59. uSwitch believed smart meters were important for recording accurate usage data, ensuring the accuracy of bills and reducing billing errors. It was vital that companies had access to smart meters' data to realise their full benefits and the midata proposal was a positive first pilot in this area as it would enable companies to obtain a customer's consent to access that information and in turn offer the best deals.
60. One issue that had emerged from meetings with energy companies around the midata initiative was the frequency with which PCWs could access a customer's data. This currently had to be within a 30-minute window following consent from the customer, which made it difficult to provide a regular service based on accurate information and could potentially prevent the midata project from delivering its full benefit.

## Relationships with energy suppliers

61. uSwitch said that it had two types of commercial negotiations with its suppliers. With some suppliers a contractual relationship did not exist at the start of negotiations. For some of the larger energy suppliers, a contractual relationship had existed since 2001.
62. [REDACTED]
63. [REDACTED]
64. [REDACTED]
65. In the past, large or small suppliers had launched very competitive tariffs, but had not offered them through PCWs to avoid paying commissions. Suppliers also benefited from the fact that having voluntarily signed up to the Ofgem Confidence Code, uSwitch was committed to showing all available tariffs. Suppliers benefited from this free advertising and could justify a lower-cost tariff in the hope that customers would see the product on PCWs.
66. [REDACTED]
67. Over 90% of customers who used uSwitch did not switch with uSwitch and uSwitch did not recover any costs from them. A high percentage of customers used uSwitch and then contacted suppliers directly.



68. uSwitch did not take a short-term approach to its customers. If their initial visit did not lead to a contractual relationship, uSwitch hoped they would use its service to switch in the future. uSwitch wanted customers to value it as a service for the long-term, and its website provided advice and information on subjects such as the warm-home discount and the financial aid that was available for energy bills.
69. Those suppliers with which it had a long relationship saw the benefits of engaging in a commercial relationship with uSwitch. For new suppliers with whom it sought to build a commercial relationship, uSwitch could offer its industry expertise and a very significant sales channel that accounted for about [✂] % of the entire switching market.
70. [✂]
71. [✂]
72. Customers were given explanatory text when presented with the ‘Show me tariffs I can switch to today’ option. By clicking ‘yes’ they would be shown the tariffs that they could switch to via uSwitch. If they clicked ‘no’, customers would see all of the tariffs on the market, regardless of whether uSwitch could facilitate the switch. Neither response to the question was pre-selected.
73. uSwitch believed being able to show only the tariffs it could switch people made the switching process easier. People did not have to go through the difficult process of contacting the supplier, particularly when price differences for products could be quite small.
74. As PCWs developed and new types of tariffs, such as bundle tariffs and in particular time-of-use tariffs, emerged, uSwitch believed people might like to be guided to tariffs that best suited their needs. uSwitch had trialled a filter button that would take customers to ‘green’ tariffs and there was scope for repeating something similar in the future.
75. The market share of the six large energy suppliers had decreased, with [✂] % of switchers moving to smaller suppliers [✂].
76. [✂]
77. The six largest suppliers were very nervous about regulatory compliance and had all been fined a considerable amount of money, often on multiple occasions, by Ofgem in recent years. One consequence of this nervousness was that uSwitch often received six different interpretations of regulations and six different sets of requirements from the large suppliers, about various procedures like switching a customer over the phone.

78. Suppliers had the final say over the acceptance or rejection of customers that uSwitch passed on. [X]% to [X]% of customers were rejected, though this figure depended on the supplier, and uSwitch did not receive a commission if the customer was rejected. Reasons for customers not going live included:
- when a customer cancelled the switch;
  - when people failed a credit check,
  - when a customer had an outstanding debt with their current supplier;
  - when a customer's current supplier objected to the transfer; and
  - meter compatibility.
79. Under current regulations, there was a cooling-off period of 14 days before a new supplier could contact the old supplier and request transfer of a customer's details. Under the new three-day switching regime, which was due to come into effect at the end of 2014, the new supplier could contact the old supplier during the cooling off period, potentially enabling the old supplier to 'win-back' the customer by contacting them and convincing them not to switch. [X]

### **Ofgem's confidence code**

80. The majority of uSwitch's contracts with large suppliers stated that it must be accredited by the PCW confidence code (the Code). This meant that a PCW had to be accredited by the code or a PCW used a white-label service that was accredited by the Code. The Code was not well known among consumers and for the larger, well-known PCWs, it was their brand, rather than membership of the Code, that inspired trust.
81. uSwitch believed that all energy PCWs and collective switching schemes should be Confidence Code compliant. The Code was only applicable to uSwitch's website, but uSwitch was more than happy for it to also cover to its call centre and freepost activities.
82. uSwitch was broadly supportive of Ofgem's proposed changes to the Code, but had flagged some points that Ofgem should reconsider. One proposed change regarded the inclusion of seasonality in the estimated calculations for the potential savings for different tariffs. Calculating seasonality would be difficult for uSwitch as there was no industry data set and it did not own an energy company from which it could source seasonality data.

83. In principle, uSwitch was not opposed to including seasonality, but without a consistent approach, it could lead to customers receiving a number of different estimates as to the best tariffs and projected savings. uSwitch would like to work with the energy industry to understand what was the correct seasonality curve and apply it consistently across information sources, which would benefit consumers.
84. The use of midata could enable a customer to provide PCWs continual access to their data, enabling a more accurate and consistent picture of their energy consumption, before smart meter rollout.
85. uSwitch believed that the Code sometimes did not keep pace with innovations in the PCW sector. [✂].

## **Use of PCWs**

86. There were many customer types who had many different approaches to the use of PCWs. With car insurance, uSwitch knew that consumers searched multiple sites. It did not have data, but uSwitch believed that some customers compared prices on more than one energy PCW.
87. Awareness of PCWs was high, particularly in car insurance where uSwitch estimated the industry media spend was around £[✂] million a year. Energy still had some way to go to develop its profile and uSwitch tried to reach as many customer demographic types as possible through its marketing activities. There were a certain portion that were always hard to reach, such as less informed or vulnerable and face-to-face contact would help them engage.
88. About 70% of people who came to uSwitch via its partner sites said they would not have switched energy unless it had been suggested to them. The challenge for PCWs in extending their demographic reach was one of taking the message to customers and not just waiting for customers to come to them.
89. uSwitch said that Ofgem's four core tariff requirement could stifle innovation and did not suit all suppliers. uSwitch was aware of a supplier who could not offer a zero or low standing charge for people who were low energy users because of the four core tariffs rule.
90. Time-of-use tariffs and smart meters would provide new challenges. Working with suppliers could help meet these challenges, particularly if suppliers shared how they intended to innovate on tariffs.

91. Suppliers needed to be in a position to innovate and some of the barriers that prevented this needed to be removed. In the mobile phone sector, uSwitch compared around half a million deals for consumers. Consumers navigated themselves through the many offers available and were not limited by a set number of tariffs. Innovation allowed suppliers to target different market segments and ensured that all demographics had access to the best deals, not just high energy spenders. Suppliers could offer tailored tariffs for specific demographic and consumer types.
92. uSwitch's own data showed that [X%] of people who used its website were able to navigate to the point where they received a quote. People disengaged from the process when they had to confirm that they wanted to switch, which uSwitch felt was due in part to customers not having confidence in the data they had entered onto uSwitch's switching system.
93. Other switching products such as telecoms did not require customers to enter as much information as energy. Energy was also the only product where uSwitch displayed the available deals with regard to the savings made, customised to the customers' circumstances.
94. uSwitch believed that customers had more confidence in products such as car insurance as the amount you were quoted was the amount you paid. Quotes for energy products may not reflect the actual price paid and were dependent on the usage information supplied by a customer.
95. The low level of customer trust and the lack of understanding people had regarding their bills were significant barriers to searching and switching in the energy sector. On a weekly basis, the media reported horror stories associated with switching. People were aware of the rocket and feather effect, where prices rose like a rocket, but fell like a feather, which reinforced peoples' distrust of energy suppliers.
96. Access to the Electricity Central Online Enquire Service (ECOES) database, which tied a meter number to an address, would help uSwitch achieve more successful switches. uSwitch use a third party to gain meter number data for switchers but coverage of this service was around 85%, meaning 15% of switches had to complete these details manually. Only companies with an electricity supplier licence had access to the database. If uSwitch could also have access, then the information that it used as part of the switching application would be the same as that used to switch a customer, eliminating any anomalies.

97. Access to the ECOES database would also allow uSwitch to track the progress of a switch, as it would not be totally reliant on receiving information from a supplier. [✂].

98. uSwitch had tried to obtain access to ECOES, but had been unsuccessful.

### **Levels of switching**

99. Around 80% of people had switched their car insurance, with 68% doing so via PCWs. While uSwitch did not expect energy to reach these levels, it would like to see the switching rate at the level it was six years ago.

100. uSwitch believed there were three key metrics for evaluating switching levels: switching between companies; people switching to a better deal with their existing company; and, comparing the market on a regular basis.

101. uSwitch believed all three were important and it would be helpful to have an overall metric. It hoped one outcome of the CMA's investigation would be to arrive at measures to assess the success of the switching market.

102. [✂]