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Dear Adrian

About BIBA

The British Insurance Brokers' Association (BIBA) is the UK's leading general insurance intermediary organisation representing the interests of insurance brokers, intermediaries and their customers.

BIBA membership includes just under 2,000 regulated firms, who employ more than 100,000 staff. General insurance brokers contribute 1% of GDP to the UK economy; they arrange 54% of all general insurance and 78% of all commercial insurance business.

Insurance brokers put the client's interests first, providing advice, access to suitable insurance protection and risk management.

Many brokers have products on price comparison websites and are therefore in a position to give their perspective on the commercial arrangements that sit behind these technologies.

Additionally, BIBA has been working proactively with Government on the use of technology to promote better customer outcomes. However, there are genuine concerns as to the outcomes that many Digital Comparison Tools (DCTs) offer as well as a wider effect they have on consumer behavior and the wider insurance market.

Executive summary

Digital Comparison Tools, otherwise known as Price Comparison Websites, are a popular way for consumers to compare the prices of many providers at the same time.

BIBA believes the term Digital Comparison Tool to be misleading however, as the only factor they allow you to compare is price and deviation in terminology away from Price Comparison Website was therefore puzzling.

BIBA consulted with the membership via various Boards and Committees including the Property Committee, Motor Panel, Large Broker Advisory Board and through all-member communications – calling for inputs as to their experiences of DCTs.

There was a prevalent culture of fear within the broking community of criticising DCTs with one describing speaking up akin to 'commercial suicide'.

Key themes that were brought up by BIBA members were an unhealthy focus on price rather than essential aspects such as coverage on DCTs, a 'hollowing out' of policies in order to achieve the best price resulting in poorer value, a lack of market pressures on DCT fees charged to insurance providers – resulting in inflated costs and lack of new entrants to the market and narrow MFN clauses restricting effective competition to DCTs – strengthening their market position and resulting in a lack of downward pressure on customer acquisition fees. Concerns were also raised that on DCTs where the site has vertical integration, the tied company changes their rate almost immediately after a competitor changes theirs. This seems to suggest that the conflict of interest is not being managed properly.

Calls for action:

- Ban Narrow 'Most Favoured Nation clauses;
- Investigate rate changes on sites with vertical integration;
- Ensure the Insurance Distribution Directive is implemented across DCTs to ensure they are fair, clear and not misleading in their communications to customers.

Barriers to Competition

MFNs

Agreements between insurance providers and DCTs have 'Most Favoured Nation' (MFN) clauses relating to where that same product can appear and at what price-point. This practice is designed to ensure that the price comparison site gets the lowest rate on offer for that product.

MFN clauses were reviewed by the CMA in 2015 and 'wide' MFNs were deemed anti-competitive and were subsequently outlawed, meaning that for the first time providers could now offer the same rate on other DCTs. However, 'narrow' MFN clauses were allowed to continue, meaning that those same insurance providers are not able to offer the same or lower price through their own website. In our opinion, this is anti-competitive and results in poorer customer outcomes. The cost of acquisition through DCTs can be as high as £160 for a broker. BIBA believes a customer who buys an insurance policy directly from a broker or insurers' website rather than through a DCT should be able to benefit from a rate that reflects the fact that the broker/insurer does not have to pay the DCT a substantial acquisition fee. As it stands at the moment, they cannot do this as a consequence of these narrow MFN clauses.

BIBA members report that customers who buy via their own site are effectively cross-subsidising customers who buy their product through DCTs due to the fees charged and the fact that the same product could not be marketed at a lower price on their own site.

When the CMA previously reviewed MFN clauses, narrow clauses were permitted to ensure DCT business models were not undermined. A brokers' role is to act as agent of the customer – seeking the best product they can for the client based upon price and suitability. An unfair playing field and lack of competition to DCTs has resulted in their strangle-hold on the customer, strengthening their dominance whilst reducing market pressure on acquisition and click-through fees. The upshot of this being increased business costs which ultimately cost the consumer more.

Many routes to market are not on DCTs. BIBA finds it inappropriate to allow anti-competitive practices to remain, purely to favour one type of distributor over another, disrupting an effective market from taking place. We would strongly urge the CMA to revisit narrow MFN clauses in this review as they act as a barrier to competition.

Culture of fear

Our members who contacted us with regards to DCTs insisted that we keep their details confidential. DCTs have such a strangle-hold on the online route to market that there is a culture of fear around speaking out. One member who asked for their details to be redacted said *"we could potentially be committing 'commercial suicide' being associated with such information."* Another BIBA member, responding to a draft of our submission, said: *"absolutely agree that this appears to be the case but wouldn't want to be quoted as such!"*

Because of the vast market share DCTs have, many brokers and insurers we have spoken to would not be comfortable in having their names attributed to feedback for fear of this being used against them. This means that extracting specific examples has been difficult and the CMA may find some issues may be under-reported in terms of their prevalence and impact, or worse – not reported at all.

BIBA members have reported DCTs threatening to 'turn off' services with insurance providers when they have raised issues, creating a real, tangible imbalance in negotiating power needed to effect a fully functioning market.

DCTs; the frenemy of the consumer

DCTs are popular with consumers as they are perceived as saving the consumer time in obtaining quotes from a number of insurance providers. DCTs merely rank them in order of price and let the consumer decide. However, as many DCTs present a list of providers ranked by a single criterion – in this case price - it leads to a misconception amongst customers as highlighted in the Financial Conduct Authority's 2014 thematic review TR14/11 of DCTs[1] (or PCWs as they have been termed in the report):

> *"Our customer research also indicated that some consumers believed that the PCW had provided them with advice or guidance. They believed that the PCW had provided them with quotes on the best policy for their needs, had assessed the suitability of the policy for them or gave assurance regarding the security of the provider."*

Further, if the insurance industry is seeing their potential customers making the decision to purchase a policy is based upon price alone, this acts a market driver for providers to deliver stripped-back policies that do not necessarily meet the demands and needs of the consumer, but fulfil the goal of being cheap; both in the financial sense as well as in quality. This is not in the interests of consumers, or the insurance industry.

There may be merits to a purely price-driven DCT approach in for example the energy sector, where the actual product received by the consumer is the same. Consumers don't get 'better' electricity with one provider compared to another. Insurance is different however. Coverage, limits, exclusions, conditions, claims service and levels of assistance often differ between providers. Price is an important component of selecting the right insurance policy; however, a consumer won't have the opportunity to try the product out until the time it is really needed. This is the absolute worst time to find out they bought a poor policy and they or their assets were not protected as expected.

The University of Warwick undertook work[2] to evaluate the impact of introducing DCTs to a market. Their investigation concluded:

> *The analysis shows the introduction of PCWs may not in fact benefit consumers by reducing expected prices. The introduction of a single aggregator facilitates comparison of the whole marketplace for shoppers, exerting competitive pressure on firm pricing. However, the aggregator charges a fee which, in turn, places upward pressure on prices. The net effect is that prices increase for all consumers, who would be better off without the site.*

Add into the mix the variable of heterogeneous (rather than homogeneous) products and BIBA has no doubt that the findings would show an even more unattractive picture of price inflation coupled with mis-perceived information.

The Warwick University research continued:

> *Competition at the aggregator level need not lead to a reduction in fees. There are many equilibria, which I parameterize by the number of PCWs that shoppers check. If shoppers only check one PCW each, consumers are no better off than in the monopoly setting. More aggregators only guarantee to benefit shoppers if they check all of them. If shoppers check an intermediate number, increasing the number of aggregators can lead to higher prices; for a sufficiently high number, all consumers can again be better off without the industry. Hence, when there are many aggregators in the market, how many of them shoppers check is a crucial variable. As a result, regulatory bodies may wish to consider incentivizing consumers*

to check more, alongside stronger actions such as limiting the fees charged by aggregators and limiting the number of PCWs in the market.

Research findings within an Open University study[3] also suggests consumers do not check multiple DCTs, perceiving them to be 'all the same'.

The Warwick University research continued:

If competing PCWs publicly announce fees, this can result in low-fee equilibria, but it relies on coordination between firms and shoppers. In markets with price discrimination, if shoppers only check one PCW, the monopoly fee level can still be sustained, making consumers worse off. However, with competing aggregators where shoppers check multiple PCWs, there is then the incentive for the sites to undercut each other's fees. As such, regulators may also wish to consider whether it is possible to introduce price discrimination into markets in which it is not currently present. In online markets with non-negligible search costs, even those consumers who rationally start engaging in price comparison may be worse off following the introduction of a PCW. Helpful policies would help erode these costs where possible and encourage more inactive consumers to engage in comparison.

In such an ecosystem, there are weaker incentives to lower acquisition fees levied at insurance providers – leading to weaker incentives to lower other costs. This is evidenced by the huge advertising spend of DCTs – between £20-30m[4], sometimes also offering free gifts to those who use them. Further, a recent report by Citizens Advice[5] cited a correlation between perceived scale and investment in advertising and trustworthiness – a premise that BIBA contends has absolutely no foundation.

DCTs actively encourage churn as it maintains the reliance insurance providers have on the sites in the ecosystem – where they make their money. A by-product of encouraging churn makes it more difficult to reward loyalty as providers go with loss-leading premiums whilst trying to entice new customers. This ultimately is not in the customer interest.

Insurance providers are asked by the DCT to re-market to the customer on their behalf 40 days in advance of renewal, strengthening the hold they have over the customer which disincentives them using any other DCT. When viewed through the prism of the University of Warwick's research above, this again weakens the market's ability to deliver effective competition – providing a model more akin to an oligopoly, with price being the only differentiator between products.

DCTs have significantly contributed to a commoditisation of insurance, moving from a system with many differentiated products to a system based upon undifferentiated price competition. As such, the pricing power of the insurer has been weakened, products offering less cover and there is a dangerous tendency to buy the cheapest. This has led to a 'hollowing out' of insurance policies –

stripping back levels of cover in order to reduce the price and get them to the top of DCT listings. By focusing on price, rather than suitability or value, DCTs are encouraging a race to the bottom.

Further, the constant pressure on price takes away capacity for innovation. Rather than investing in new ways to improve a the value offering or customer's experience, the driver for the market is to lower prices in order to appear at the top of recommendations from DCTs.

Additionally, for those affected by flood, there is often a desire for reinstatement with more resilient materials – reducing the amount of time they would be out of their homes in the event of a subsequent flood, as well as suppressing the cost of repair.

Often, such materials can be more expensive and reinstating at or to an improved standard would be treated as 'betterment' by insurers. Because of the DCT initiated churn in the industry, many insurers are not willing to offer betterment in resilient repair as the real fear is the customer will head on to a DCT at renewal to seek a better rate and the investment from that insurer will be realised by another provider. The role that DCTs play in churn therefore stifles the industry's ability to respond effectively to a policyholder's needs.

Suitability of cover

One example of DCTs not providing suitable cover we are aware of is that of a couple looking to buy insurance for their home.

The applicant answered a series of pre-qualifying questions in the DCT's site, collating information designed to be directed to one or more intermediaries or insurers which, after their own supplementary pre-qualifying data collection, may offer a quotation.

a question for household insurance asked whether the property was located within 400 metres from a river and was answered 'Yes'. When transferred over to the provider's website the question changed to within 200 metres of a river and the answer defaulted to 'No'. As a consequence, the consumer may end up with a policy that was unsuitable for their needs.

When the property flooded, the insurers refused to pay the claim and the insured sought the help of the Financial Ombudsman Service (FOS) to obtain redress.

The FOS decided that the Insured should be permitted to rely upon the answer given to the first question.

Price is an aspect of suitability, the latter being an all-encompassing term which describes if a product is the best one for the customer. It is important to note however that there are many other factors that influence suitability and an unhealthy focus on price works to the benefit of no-one – except the DCT.

The approach to advertising most DCTs use is to focus on price rather than suitability. This is demonstrated by the phraseology used such as “save £300 on your car insurance” – rather than focusing on value. Value and cheapness are two entirely different concepts.

Further demonstration of this can be found by looking at the creative agencies employed to deliver advertising campaigns. VCCP – the agency behind the Meerkat campaign for Compare the Market summarise this mindset in a submission for advertising awards[6]:

> *“People were sick of rational stuff and weren’t really listening. How do they know if one claim is better than another?”*

There are lots of ways to differentiate on product; however, the decision to differentiate only on price has delivered poorer customer outcomes.

BIBA members reported that there is pre-population of data based on name and address, however, this can often be wrong and as a result, could invalidate any claim. We tested this out and found pre-population of the age of building to be incorrect. Depending on the type of building, this could be a material fact that an insurer would want to be made aware of before agreeing to cover the risk. BIBA has concerns that pre-population of fields by DCTs may save a customer a few minutes at quote stage, but may end up costing them their claim.

Another issue most DCTs have regarding suitability is regarding excess. BIBA performed sample quotes and observed that a choice of voluntary excess was offered, but in most cases, a compulsory excess was also added to the quote. To gain more information on this, the customer has to click through to a separate page for further information. When the results page is displayed, this is likely to be the first time the customer is made aware of any compulsory excess; however, this was not sufficiently clear as the focus of the results page is on the total premium rather than any other details – a much larger typeface used compared to that for any of the features of the policy. There can often be hidden fees associated with policies which are not apparent until the customer clicks through the varying levels of detail pages of a DCT. BIBA would like these to be displayed in a much clearer and transparent way.

Pet insurance is one area where DCTs have encouraged churn that is likely not to be in the interests of the consumer. Many of the products offered are for accident only, excluding illness cover. The potential impact of this and the importance of illness cover (which is readily available) is not sufficiently made clear to the consumer. If they move provider, usually pre-existing conditions are not covered – effectively meaning that once they move provider, any health condition that pet has had will no-longer be covered. Claims for illness cover can run in to many thousands of pounds and not having cover can leave the owner with a decision of either having to raise the necessary funds, or leave the animal untreated. Promoting churn which has consequences such as these is both unnecessary and unacceptable.

The Financial Conduct Authority led a thematic review, TR14/11, into price comparison sites in the insurance sector. They found:

- DCTs did not always ensure that consumers were given the appropriate information to help them make informed decisions. This is particularly important as the FCA is concerned that consumers' focus on headline price and brand when using DCTs could distract from crucial product features such as policy coverage and terms. By failing to provide clear information, the websites are increasing the risk that consumers may buy products without understanding key features such as level of cover or excess levels and purely focus on the price. While a few websites did provide this information clearly the level of clarity varied significantly depending on the provider.

- DCTs did not make clear their role in the distribution of the product or the nature of service they provided. For example, some consumers mistakenly believe that the price comparison website had provided them with quotes on the best policy for their individual needs and had assessed the suitability of the policy for them.

- Where a DCT had vertical integration they did not always disclose this potential conflict of interest, which is against FCA rules.

- DCTs had failed to fully implement FCA guidance published in 2011.

The UK's financial service regulator are not alone in finding issues with DCTs. The Italian insurance regulator, Istituto per la Vigilanza Sulle Assicurazioni (IVASS), conducted a recent investigation in to DCTs and found many of the same issues[7].

Economics of DCTs

Previously most DCTs charged fees for converted 'clicks' from their website, meaning that a fee was only payable once a customer was directed from the DCT to an insurance provider's website and that visit resulted in a sale.

Recently however, many DCTs have changed their fee structures. Many DCTs have begun charging insurance providers for unconverted visits to their website, with one BIBA member reporting a bill of £18,000 for unconverted clicks. It is our belief that this charge, unique to DCTs, adds nothing to the customer's value, but the cost is ultimately borne by them through increased costs. This fits the general trend of DCTs increasing the cost of doing business. With no effective market to control such fees, there has been both an increase in cost-per-acquisition as well as the introduction of new fees.

Further, most DCTs have recently implemented penalties on providers who do not achieve a high enough conversion rate – a so-called 'click floor'. This is ultimately a pay-per-click model where the provider pays for the amount of clicks received in addition to the number of conversions. There are also conversion floors established based on panel and peer wide conversions.

What is not clear however is if all providers are on this same charging model. DCTs keep this information confidential, yet the market-wide understanding is that there is a differentiating in fee structure. This means DCTs act as a gatekeeper to the market according to their own financial benefit, rather than to the benefit of the consumer, offering larger providers a better proposition than smaller players. As well as adding extra operating costs to some providers, this acts as a barrier to entry, thus limiting competition. This has been raised to BIBA by members from across the spectrum of insurance; from new entrants to the market to more established house-hold named providers.

Our members tell us the cost-per-acquisition for home policy has been as high as £60 and over £160 in some instances for van or motor policies. This cost is not transparent to the consumer – a cost ultimately borne by them. As per the research from Warwick University referenced earlier, there are no meaningful competitive market forces acting upon these fees. With DCTs owning so much of the market share of insurance sales, we have seen an uncontrolled increase in cost-per-acquisition and click-through fees which significantly increases the cost of business. This market study provides a real opportunity to address this as previously providers have been reticent to address this directly due to the commercial risk of opposing DCTs.

The forthcoming EU Insurance Distribution Directive (IDD) clearly brings DCTs selling insurance in to scope, requiring them to divulge nature and basis of remuneration. It is our belief that this should be done in a transparent way, enabling the customer to make an informed decision when purchasing insurance. Under the IDD, firms within scope, including DCTs, are also required to be fair, clear and not misleading in their communications to customers.

Whilst DCTs may argue the click-for model as an incentive to ensure the product the customer buys matches that advertised, the execution of this policy penalises firms who allow customers to amend their choice pre-sale, for example adding or removing additional coverage or services as each change is viewed as an unconverted sale. Such practice adds further costs to providers which add to the cost of doing business without adding any direct value to the customer.

Conversion fees charged to insurance providers can also regularly out-strip the any profit from providing the insurance. This is also a further driver towards delivering a loss-leading approach with the aim of a return on investment in yeas 2 & 3 – a practice that is far from ideal.

Rate changes by owner companies

There are several insurers that also own price comparison sites featuring their products – so-called vertical integration. BIBA members and insurers report that very shortly, if not immediately, after they change their rate on the DCT, the provider owned by the site also changes their rates. This gives the impression that there is a conflict of interest between the parent insurer and the DCT. There is also a lack of transparency regarding how results are ranked on DCT sites. We suggest that the CMA investigate these relationships to ensure a properly functioning market is able to operate and help to deliver a more transparent regime so customers are better informed as to the financial relationships that DCTs have with providers.

Same providers, different names – the illusion of choice

Many consumers anecdotally cite the ease at which they can search many different insurance providers on one website as the key reason they use DCTs, however that choice is not always as it seems. There are several providers on DCTs that also provide capacity under a different brand-name. The effect of this is the illusion of choice, where it looks as if there are more providers and products than there actually are.

Consumer bodies the Money Advice Service (MAS)[8] and Which?[9] felt compelled enough to warn of the risk of relying on DCTs to deliver a well-functioning market by creating pages on their websites on the topic. They also recommend using more than one DCT, however more work in this area to understand the behavioral economics of customers in delivering the most suitable product for them would be welcome. The DCTs advertising spend – and therefore power over the narrative vs some webpages on a consumer website cannot be understated.

Non insurance staff setting criteria

BIBA members report several DCTs that have non-insurance staff responsible to accepting or refusing products that feature on their sites. BIBA members believe it is crucial that appropriately skilled and competent staff are responsible for this important role given the level of business DCTs transact.

Yours sincerely,

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