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Digital Comparison Tools Market Study
Competition and Markets Authority
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24 October 2016

Dear Sir/Madam,

CMA Market Study on Digital Comparison Tools: Statement of Scope

This is the Financial Services Consumer Panel's comments on the statement of scope for the market study of digital comparison tools (DCTs).

In recent market investigations, the CMA has repeatedly asserted that price comparison websites (PCWs) increase competition and allow consumers to make better choices. However, PCWs and other DCTs lack transparency. Consumers cannot see the basis for rankings, which may be 'paid for' rather than impartial. DCTs can encourage an over-reliance on price alone in assessing suitability. It should be possible for DCTs to produce useful non-price search criteria, without overwhelming consumers with information.

For DCTs to work properly for consumers, they need to be truly independent with no commercial relationships, and it should be possible to compare products, including key features other than price, on a single page.

It is not clear to consumers when they click through to a product from a DCT, that the firm will receive commission. Consumers should be able to trust that the top ranked product or service, based on their specific search criteria, should actually be the best one for their needs.

In a 2014 thematic review on PCWs in the general insurance sector, the FCA found that PCWs encourage consumers to focus on headline price and brand, distracting from crucial product features such as policy coverage and terms, and resulting in choices that were not appropriate for consumers' needs. The same review also found evidence of 'up selling' with consumers offered extras that they had not asked for.

The CMA expects a level of consumer engagement that research consistently shows is not realistic.¹ Consumers are constantly expected to do the hard work of finding, comparing and acting on complex information. While the CMA is seeking to draw conclusions from its market study that apply across multiple sectors, we note that shopping around and switching is particularly low for bank accounts and credit cards. We are therefore sceptical that DCTs will exert competitive pressure on financial services markets.

We would like to see the CMA focus on the business models of DCTs, the terms of commercial agreements between DCTs and suppliers and the extent that they harvest and use consumers' data, including the use of data across sectors. We would also like the CMA to look at ownership structures and potential conflicts of interest. The CMA

¹ See for example, Lowe, J. (2015). *Consumer behaviour and attitudes when shopping around for multiple financial and household services*. Working Paper. Available at: <http://bit.ly/1QF4kLD>

should explore the potential for regulatory gaps between differing models, such as DCTs which act as brokers; those which offer account information services; and those which may develop in the future with the development of Open Banking and the use of APIs in other markets. A site that harvests consumer data to share with or sell to other product providers who may wish to offer their products and services, for example, will operate on a very different business model to a traditional PCW. This DCT is likely to lead to entirely different consumer outcomes, but may be no more or less transparent than a traditional PCW.

The CMA's market study should examine how all of these issues impact on consumer outcomes and consumer trust. For example, are DCTs acting in the interests of consumers; their owners or shareholders; or the firms whose products and services they are promoting? They should have to act with a duty of care towards their customers in order to avoid conflicts of interests.

The most important test for any comparison market is whether it provides real value for consumers through the provision of neutral, accurate and relevant information that enables them to switch to a better value product.

Yours sincerely

Sue Lewis
Chair, Financial Services Consumer Panel

We have only answered the questions where we have substantive comments to make:

Theme 1: Consumers' perceptions, use and experience of DCTs

Q1. When and why do consumers use DCTs? To what extent do they trust them?

According to research carried out for the European Commission² in 2013, 83% of UK consumers had used comparison tools at least once. However, the same research showed that while virtually all users agreed that price comparison tools allowed customers to compare prices, just 34% said they could also be used to find unbiased product information.

Q3. What are consumers' expectations of DCTs – for instance in terms of market coverage and the relationships between DCTs and the suppliers they list?

FCA research, from 2014, into consumers' use of price comparison websites,³ showed that:

"Many consumers took the view that using a PCW would deliver a number of significant outcomes: save money by enabling them to find the cheapest quote; identify the right product and cover for their needs; compare GI products from the whole market (or enough of the market as to make no difference); and raise awareness of new brands or providers."

However, at the end of the research it was clear that these outcomes were not always achieved and many of the consumers reflected that their initial views and expectations might have been misplaced.

Q4. What are consumers' experiences of using DCTs? Do they benefit from using them and, if so, how? What works well and what could be improved?

We believe that consumers would benefit from impartial comparisons which also allow for multiple criteria to be evaluated; full disclosure of price; criteria for ranking; and market coverage. Where PCWs are not impartial, or have embedded conflicts of interest, this should be made clear to consumers. Information on complaints procedures and redress mechanisms should also be clearer.

Theme 2: Impact of DCTs on competition between suppliers of the services they compare

Q6. To what extent do DCTs make it easier for suppliers to enter the market, attract more consumers and engage more effectively with them?

Where prominence on DCTs is driven by commercial relationships, new entrants may face disadvantages relative to well-established brands due to costs associated with advertising. We note that in its report on payday lending⁴, the CMA found that:

"The ability of new entrants to expand and establish themselves as an effective competitor is likely to be obstructed by the difficulties associated with raising customers' awareness of their product in the face of the barriers to shopping around and switching..., the strength of the well-established brands that already exist in the market and the costs associated with advertising on a sufficient scale to be effective in overcoming these obstacles."

²http://ec.europa.eu/consumers/consumer_evidence/market_studies/docs/final_report_study_on_comparison_tools.pdf

³ <https://www.fca.org.uk/publication/research/price-comparison-website-consumer-research.pdf>

⁴https://assets.publishing.service.gov.uk/media/54ebb03bed915d0cf7000014/Payday_investigation_Final_report.pdf

Q8. What are the barriers, if any, to DCTs increasing competition between suppliers; and how can these be overcome?

Commercial terms between PCWs and suppliers, and conflicts of interest can affect competition between suppliers. In research for Warwick Economics, David Ronayne says that the internet has altered search costs, allowing consumers to compare prices across firms in a matter of clicks, intensifying competitive pricing pressure between firms. However, he says that

Underlying this increased competition are the fees paid by firms who sell their products through the websites. As such, it is not clear whether the central premise that PCWs lower prices is valid.

The BBC, in 2014, said:

There's another cost in the bill. It's hidden, it's kept confidential, and yet it's for a part of the industry that appears to be on the consumer's side. This is the cut of the bill taken by price comparison websites, in return for referring customers. The recommendation to switch creates churn in the market, and it is seen by supplier companies as worth paying high fees to the websites. Whether or not customers choose to use the sites, the cost to the supplier is embedded within bills for all customers.

Theme 4: The regulatory environment

Q13. Are there any areas of regulation or self-regulation applying to DCTs that lack clarity, certainty, consistency, or enforcement?

Different approaches across sectors are emerging. Ofcom and Ofgem have accreditation schemes, the FCA has developed specific rules for HCSTC⁵ and more widely its principles for business require firms to treat customers fairly.

Yet consumer research⁶ has consistently found problems related to the lack of appropriate information to make the right choices, opaque business models, and the lack of clarity about market coverage.

The UKRN⁷ notes that the sector regulators with the powers to enforce consumer protection from unfair trading regulations (CPRs) have not as yet brought any enforcement cases against PCWs for breaches of CPRs.

The European Commission's Study⁸ on the coverage, functioning and consumer use of comparison tools provides a fairly comprehensive list of recommendations addressing transparency and impartiality, quality of information, and compliance and redress which the CMA should consider.

Q14. Do there appear to be any areas where DCTs may not be meeting competition or consumer protection requirements?

As noted in the UKRN's report, certain commercial agreements and ownership structures have the potential to weaken competition.

⁵ <https://www.fca.org.uk/publication/policy/ps14-16.pdf>

⁶ Price comparison websites: consumer perceptions and experiences - RS Consulting July 2013, Study on the coverage, functioning and consumer use of comparison tools and third-party verification schemes for such tools - European Commission - ECME Consortium 2013, Price comparison website: Consumer market research – Atticus Research Ltd June 2014, High-Cost Short-Term Credit Price Comparison Websites – London Economic October 2015

⁷ <http://www.ukrn.org.uk/wp-content/uploads/2016/09/201609027-UKRN-PCWs-Report.pdf>

⁸ http://ec.europa.eu/consumers/consumer_evidence/market_studies/docs/final_report_study_on_comparison_tools.pdf

Consumers should also be aware of how their data is being used, with transparency around the impact that this can have on the products, product features and prices that they are offered.

The European Commission's study on the coverage, functioning and consumer use of comparison tools also found accessibility to be an issue.

Q15. Do any aspects of regulatory approaches to DCTs need to change and, if so, why?

Persistent concerns around the lack of transparency and appropriate information to make informed choices, particularly given the conflicts of interests inherent in some business models, suggest that relying on guidance and the principle of Treating Customers Fairly may not be sufficient to achieve better outcomes for consumers. We believe that DCTs should have to act with a duty of care towards their customers in order to avoid conflicts of interests.

This includes:

- No conflict of interest
- No profit at the expense of the customer without their knowledge and consent
- loyalty to the customer; and
- a duty of confidentiality, preventing firms from taking advantage of information gained from the customer.

As such, comparisons should be impartial, with no commercial relationships.