

CMA Digital Comparison Tools Study

This document sets out money.co.uk's response to the initial questions posed by the CMA's Digital Comparison Tool Study.

THEME 1: CONSUMERS' PERCEPTIONS, USE AND EXPERIENCE OF DCTS

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

Consumers are most likely to use DCTs when a renewal notice or life event means they need to take out a new financial product.

The extent consumers use DCTs varies depending on the type of financial product they are looking for.

Consumers are far more likely to visit a DCT to compare general insurance products (car, home and travel), energy and savings accounts than credit products or more complex financial products like mortgages, pensions and investments.

In general, consumers see DCTs as a trade off between trust and speed and convenience. The level of trust in DCTs depends both on the sector a comparison site operates in and on brand awareness; companies with a recognised brand presence achieved through media advertising are generally more trusted than those without.

Consumers will generally trust the validity and accuracy of the results presented to them by a DCT and assume the DCT has conducted suitability screening of the companies included.

Those with low financial capability or straightforward financial circumstances are more likely to rely solely on the product information provided by DCTs as a basis for making a suitability decision than those with more complex or non-standard circumstances. Those with non-standard circumstances are more likely to supplement the information sourced from a comparison site with more in depth information direct from the supplier.

Common concerns relate to the breadth of the comparison, the influence of commercial relationships on the order of search results and whether the personal data they enter will be shared with third parties.

2. How do consumers choose which and how many DCTs to use?

Brand advertising, incentives and prominence in search engine results are the biggest drivers of choice of DCT.

Consumers will typically check two or more DCTs when searching for a financial product as a safeguard to make sure they are being shown the best deals. Those that do not may compare the results against a direct quote or information from a trusted supplier which they use as a benchmark.

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

From our experience, consumers expect DCTs to offer true 'whole of market' coverage which includes all suppliers of a given type of product or at least have a sufficient breadth of coverage to ensure they will be able to find a suitable product at a competitive price. This is despite marketing by companies like Direct Line which has publicised the fact not all insurers can be found on insurance aggregators.

There is a general expectation that DCTs are independent and operate separately to the companies they compare. Consumers also expect to be able to access the same deals, receive the same quotes and pay the same price when applying via a DCT as they would by going direct.

4. 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?

DCTs have normalised shopping around for financial products and saved consumers a great deal of money in doing so. They have promoted competition within industries previously dominated by a small number of large suppliers, provided challenger brands with a cost-effective way to take their products to market and empowered consumers to demand more from their financial services.

DCTs have also helped highlight that false assumption that loyalty in financial services is rewarded and it is now widely accepted that you will likely lose out by staying with the same company year after year. They have also made it quick, easy and hassle free to shop around for a new financial product and check whether the deal you have or are offered by a supplier is competitive.

The DCT industry's new focus on personalisation is resulting in the creation of innovative new tools that will make it easier for consumers to make an informed choice about the right deal for their circumstances; for instance eligibility checkers which allow you to check your chance of acceptance for financial products before you apply.

Improvements that could be made within the industry include more sophisticated search tools that focus on gathering a greater understanding of a user's circumstances and requirements and matching them with products accordingly, wider and more transparent market coverage (with whole of market being the ideal) and greater clarity about product features.

Agreed cross-industry standards for DCTs which included screening suppliers before listing, robust calculations for savings figures and calculations and a guarantee that deals and prices will be the same as going direct alongside clear and fair regulatory boundaries would also be incredibly beneficial.

THEME 2: IMPACT OF DCTs ON COMPETITION BETWEEN SUPPLIERS OF THE SERVICES COMPARED

5. What factors influence suppliers' use and choice of DCTs, and why?

Suppliers check DCTs are regulated and meet compliance requirements as a baseline, but the volume of traffic and how well it converts are the biggest influence in suppliers' choice of a DCT. Brand awareness, relationship management, and data accuracy are all secondary.

Suppliers prefer to have a relationship with a single large DCT or a very small number of larger DCTs which can drive sufficient traffic to meet their needs and targets rather than a greater number of

smaller DCTs. This is for ease of management and reporting, it also negates the need for relationship outsourcing to agencies or affiliate networks therefore saving on commission.

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

DCTs provide new entrants with a quick and cost effective route to market by providing a platform to promote their products alongside those of established brands on a like for like basis.

Being listed on a DCT also buys a brand a certain degree of trust and introduces them into consumers' consideration circle without a significant media spend; this is important as brand recognition is a driving factor in a consumers' choice of product.

Commercially DCTs offer the opportunity to monitor and record sales accurately. They also provide a low risk option as commercial models are performance based and generally require payment on results reducing the need for a big upfront spend without the ability to track the origin of sales.

7. How have DCTs affected competition between suppliers? What impact has this had on the price, quality and range of products offered by suppliers?

DCTs have had a dramatic impact on competition between suppliers, driving them to offer better and more varied products and lower pricing; the credit card 0% balance transfer 'war' is just one example.

We are also seeing suppliers offer an increasing number of exclusive products tailored to suit the needs of particular demographics or a DCT's traffic profile.

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

In some sectors suppliers with larger marketing budgets and larger teams dedicated to servicing relationships and developing products may find it easier to get exposure on DCTs than those with small or negligible budgets and teams with a lesser capacity.

Suppliers that offer non-standard products are also likely to find it harder to get exposure on DCTs because they do not meet the criteria for inclusion in comparisons.

The only infallible way to overcome these challenges would be to make comparison sites to list all products within a given sector and force them to order by a consumer-centric measure. However, as the CMA's previous investigations have found this is not without issue. For instance, the scope of the market would need to be clearly and universally defined leaving little room for product innovation and DCTs' business models would be catastrophically impacted.

9. In what ways, if any, have DCTs changed suppliers' approach to consumers – for instance in terms of whether they treat consumers who use DCTs differently to those who do not?

Suppliers now recognise DCTs as a useful and beneficial means of sourcing customers. Market leading deals, preferential pricing and exclusive offers are typically reserved for new customers sourced direct as well as via comparison services.

Suppliers generally determine the value of a customer acquisition by assuming retention of a customer after the initial deal or term ends. This can impact commercial terms between DCTs and suppliers, with some prohibiting DCTs from retargeting their customers at the end of an offer period.

Suppliers aim to satisfy the needs of existing customers by offering lesser 'existing customer only' deals via DCTs. It's not generally made clear to consumers whether acceptance will be dependent on a new credit search.

In some sectors suppliers may use origin of traffic as one of a number of behavioural metrics they use to determine suitability, cost or terms of a product offered to a consumer.

Theme 3: Competition between DCTs

10. In what ways do DCTs compete with each other - for instance in terms of coverage, the savings consumers can make, the services they provide, their ease of use, transparency and how they protect consumers' data?

DCTs do not generally compete based on ease of use, savings or transparency although most include this within their messaging. Rather, prominence in search engine results and brand awareness are the key factors.

All regulated DCTs should protect consumer data to the same extent, most are simple to use but few are clear about the breadth of the market included within their comparisons and exactly how they decide which results to show to consumers and the order in which they are presented.

11. What factors influence how effectively DCTs can compete - for example, whether they can secure the necessary consumer data, supplier information or other data?

Advertising budgets and positioning in organic search results are generally the biggest determinants of market share. Availability of supplier data and the ability to negotiate commercial arrangements that make maintaining a comparison viable are secondary.

12. If there are barriers to competition between DCTs, how significant are these and how can they be overcome?

Competition is dramatically weighted in the favour of DCTs with the largest marketing budgets.

A larger advertising spend buys brand awareness and this has a significant impact on both position in search engine results and click through rate; it also has a sizeable impact on the cost of paid search advertising.

The largest DCTs with the biggest budgets are able to drive traffic to suppliers in such volume they are able to satisfy a sizeable proportion of their marketing requirements. This it less likely they will see benefit in sourcing traffic from other DCTs and so do not share product information or form commercial relationships with them.

Furthermore, suppliers will often test new products exclusively with incumbent DCTs because they are able to generate sufficient traffic in a short amount of time. This gives them a USP they can shout about in advertising and provides consumers with a specific reason to choose them as a portal for comparison over smaller DCTs.

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Working with search engines to address the overreliance of organic search rankings on brand profile and engagement and introducing safeguards based on extent of market coverage, supplier validation, accuracy of results etc. could make it possible for smaller DCTs to gain greater market share based on the quality of their offering to consumers rather than advertising budgets.

Theme 4: The regulatory environment

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

Uniformity in the regulatory standards and guidance across the different sectors in which DCTs operate would be incredibly beneficial as would ensuring each regulator has specific permissions and guidance for DCTs.

Clarity and consensus from all regulators over whether DCTs are expected to compare all suppliers within a specific product area or if it is acceptable to compare a subset is needed. If it is the latter it is imperative that regulatory requirements do not unfairly penalise (either directly or indirectly) DCTs which choose to compare all suppliers for a given area.

Guidance on how DCTs should define scope of market if they do choose to compare all suppliers that offer a given product would be beneficial. However, this would need to account for differences in the way suppliers and DCTs classify individual products and allow for exclusion of suppliers that do not meet the DCT's standards, products that are exclusive to other parties, and those which the DCT do not feel are suitable for inclusions because of concerns over the way the supplier operates.

Other areas in which clarity would be beneficial include how DCTs should indicate suppliers with which they have commercial relationships without drawing undue prominence to their products and the responsibility of DCTs to screen suppliers.

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

DCTs may not be clear about the proportion of the market they cover, the way they show results and which suppliers they have commercial relationships with. Others may claim they cover the whole market but make it very difficult to access full results that include non-promoted suppliers; rather leading the user to elements of their solution restricted to suppliers they have a commercial relationship with.

Many do not fully screen the suppliers they list in their comparisons or the brokers they partner with and some allow members of their panel to sell on leads which is unlikely to be in consumers' interests and could be harmful in the case of vulnerable consumers. In some instances (albeit the minority of cases) users may pay more or get a lesser deal by applying via the DCT than they would direct.

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

The FCA now recognise DCTs as an important part of the financial sector and refer to them in numerous papers. However, DCTs are still regulated in the same way as advisors, brokers and intermediaries. It is our view they should be treated and regulated as separate entities.

To ensure all DCTs operate to the same high standard the FCA should introduce specific permissions and appropriate guidance to ensure all are behaving transparently and in consumers' interests, and suppliers are incentivised to engage with them.

Such guidance should be flexible enough to encourage innovation within this sector so DCTs can continue to develop increasingly useful comparison tools. It should also allow for adaptation of the sector in readiness for FAMR.

It is vital that any such guidance is created with a full understanding of the way DCTs operate, market and sustain their businesses and an appreciation that DCTs are commercial entities which need to be able to generate revenue to make running comparisons possible.

It should also consider whether standard financial promotion rules could be adapted for DCTs. For instance, the repetition of required information such as Representative Examples within a comparison can confuse a user and be detrimental to their ability to compare their options. If a real indication of likely cost and full product information is available, the information within a Representative Example can be surplus to requirements because it's included elsewhere within the promotion.

Consistency between regulatory guidelines (FCA, Ofgem, Ofcom and later Ofwat) for DCTs is also important so consumers have a clear understanding about what they can and should expect from the comparison services they use.

16. Finally and in relation to all of the issues above, what likely developments over the next three years should we take into account and why?

We anticipate FAMR will have a dramatic impact on the way DCTs operate and the type of service they provide. With an increasing number of consumers relying on comparison tools in lieu of financial advice it is vital each is clear about the nature of the service they offer, the extent of their comparison and the benefits and risks associated with choosing any one financial product.