



Digital Comparison Tools Market Study  
Competition and Markets Authority  
7<sup>th</sup> Floor, Victoria House  
37 Southampton Row  
London  
WC1B 4AD

24 October 2016

Dear Sirs,

**Statement of Scope – Nationwide Response - Confidential**

Thank you for your letter of 29<sup>th</sup> September 2016 advising that you have launched a market study to consider the impact of digital comparison tools (**DCTs**) across a range of markets and inviting us to respond to the key themes and issues raised in your Statement of Scope.

Nationwide is the world's largest building society, with approximately 15 million customers. Underpinned by our strong mutual ethos, we are committed to providing a vibrant mutual alternative to the large UK banks. We focus on offering industry-leading levels of customer satisfaction across a broad range of financial services through both digital channels and our branch network and are currently the second largest UK provider of both mortgages and savings with a 7% market share of main current accounts.

Our approach is to do the right thing for our members, operating with fairness, honesty and transparency and we are committed to ensuring that customers are able to make informed decisions about both their financial products and their financial services provider whether taking out a new product or switching to another product. As such, we recognise the ability of DCTs to facilitate this decision-making process.

However, we believe customers still face difficulties in making meaningful comparisons between products and providers. An example of this is in personal current accounts where, despite the fact that we provide a product with one of the lowest costs and high satisfaction levels (as the CMA has recognised), our experience to date shows that, notwithstanding the strength of our offering, many customers either choose a different provider or remain with their existing provider.

We acknowledge that this is not solely a result of issues with DCTs but there are a number of areas of concern which we believe are relevant to this market study, as follows:

- Trust - DCTs need to be genuinely and demonstrably independent and unbiased. There is significant evidence to suggest that this is not the case (see our response to Question 1).

- Transparency – in order to improve trust in DCTs, the methodology of any comparison should be transparent to customers together with a clear explanation of the way in which DCTs are paid by product providers.
- Basis of Comparison - customers need access to the metrics that matter to them. These should include non-economic factors such as satisfaction and service levels as well as economic factors and the results should be given equal prominence. In particular, in retail banking, we believe it is important for customers to have easy access to complaints data about providers. Finally, economic factors should show the value of potential products over the long term to prevent over-representation of the impact of introductory offers.
- Good outcomes for all customers – it is important to acknowledge that not all customers are digitally active and therefore the market study must consider how access to DCTs could be extended to this constituency.

In addition to these over-arching observations, we have set out our response to the specific questions below.

### **Theme 1: Consumers’ perceptions, use and experience of DCTs**

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

[3<] our response to the questions raised in Theme 1 is limited to some high level observations.

Consumers’ use of DCTs will vary depending on the market with some, such as energy (where 71% of those who shopped around for energy in the last three years used a DCT as an information source), showing very high levels of use when compared with others, such as personal current accounts.

As stated in our over-arching observations, there is significant evidence showing that consumers do not trust DCTs. This lack of trust extends across a range of markets, as follows:

- a report produced by Deloitte LLP (entitled “The impact of innovation in the UK retail banking market” – 30 July 2015) states that only 7% of consumers said they fully trust DCTs while 26% of those surveyed said that they do not trust DCTs at all;
- in research commissioned by the CMA from Optimisa in connection with the recent Retail Banking investigation, several issues were identified as concerns that consumers have when using DCTs, including: a) frustration over the belief that the final price was not the one quoted on the site results table; and b) concerns over the impartiality of sites and whether suggestions would truly be optimal to consumers;

- in consumer research commissioned by the CMA in connection with the Energy Market investigation, only 55% believed they could get the right deal for their energy supply by using a DCT with 43% citing a general lack of trust in DCTs.

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

The number of DCTs which consumers use varies from market to market. The consumer research from the Energy Market investigation showed that of the 71% who had shopped around, 76% had only used one DCT, with 24% having used two and 12% having used three. The CMA's findings in the Private Motor Insurance Market investigation showed that a proportion of each DCT's users did not shop with other DCTs. Finally, the FCA's Credit Card market study found that of those consumers who had taken out a credit card in the last 12 months, 39% had used one DCT and 27% had used two or more. Notwithstanding this variety across markets, the predominant trend appears to be single use.

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

Subject to the significant issues around trust mentioned above, we would expect consumers to require that DCTs provided sufficient market coverage to enable a meaningful comparison to be made which is tailored to the specific circumstances of the consumer in order to allow the consumer to make an informed decision about the choice of product.

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?*

In response to this question, we would like to highlight our concern that DCTs only benefit digitally enabled and confident consumers. Research from the Energy Market investigation shows that 42% of consumers either had no internet access or lacked confidence. Evidence from the Retail Banking investigation showed that 10% of people surveyed had no internet access at all. The interests of these consumer groups needs to be considered.

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

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

Our responses to the questions in Themes 2 and 3 are restricted to our interaction with DCTs in connection with our financial products.

The key factors influencing Nationwide's selection of DCT's to partner with are their size and scale within the market. It is important that any DCT should provide access to the

widest possible audience across the products promoted in this channel. In addition to the above, all DCTs:

- need to be regulated by the Financial Conduct Authority in order to work with Nationwide; and
- [✕]

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

DCT's provide a means for suppliers to gain market visibility for their products alongside established brands. However, this is dependent on the competitiveness of their product being in those factors of comparison covered by the particular DCT. As mentioned in our overarching comments, we do not believe there is sufficient coverage of non-economic factors such as service and satisfaction or complaints data by DCTs.

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

[✕]

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

We do not believe there are any obvious barriers in connection with the financial products that we offer.

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?*

[✕]

### **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?*

In financial services, DCT's operate in a homogenised market. In order to compete with each other, they seek to promote areas of their perceived competitive advantage over other providers. Examples of such perceived competitive advantage include:

- the breadth of their market coverage i.e. the range of suppliers available for particular products; and
- the cost savings achievable through their site.

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

Access to customer data allows certain DCT's to provide personalised results for consumers. As mentioned in our answer to the final question, we believe efficient access to data and, as a consequence, the ability of DCT's to provide ever more tailored results will be one of the key developments in this area.

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

We do not believe there are any obvious barriers in connection with the financial products we offer.

#### **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?*

There is no over-arching legislative framework which covers the governance of DCTs. The law derives instead from generic consumer protection regulations, competition law and, depending on the sector(s) in which the DCT is active, sector-specific regulations which can be mandatory or voluntary.

Given this lack of a coherent regulatory framework, there is a risk that the accountability of DCTs is diminished by the disparate pieces of hard and soft law that apply to their activities and the fact that there is no dedicated regulator or watchdog covering the entirety of their activities. A related issue is that, for the most part, the regulations that apply to DCTs lack teeth.

Further, the regulations and guidance that do exist and apply to DCTs have been adopted piecemeal, in response to the growing popularity of price comparison websites. However, this approach means that it can be unclear whether and how these provisions apply to innovations within the area. A notable example is that OfCom's Accreditation Scheme for Price Calculators does not apply to mobile apps.

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

Given the issues with the disparate legal and regulatory framework described above, we believe it is likely to be difficult, for consumers in particular, to assess whether and when competition and/or consumer protection legislation has been breached

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

As is clear from our earlier answers, the obligations and standards imposed on DCTs are inconsistent between sectors. This has the potential to undermine confidence in DCTs and supports the evidence that there is a lack of trust in providers.

In the interests of promoting confidence and trust, we believe the current regulatory framework should be rationalised such that:

- DCTs are required to adhere to common minimum standards around presentation of information and disclosure of remuneration structures;
- Consumers have clarity about what they can expect and what options are available to them if the appropriate service is not delivered; and
- There is an adequate enforcement framework with one or a small number of regulators tasked with overseeing the sector.

#### **General**

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

The most significant likely development in this area is the move to greater access to information through Open Data initiatives. This will allow DCTs to provide results which are more insightful and relevant to individual consumer needs but a consequence of this is that consumers could place increasing reliance on DCTs which reinforces the need for more effective and consistent regulation in this area.

If there is anything in this letter you would like to discuss further, please let us know.

Yours faithfully,

**Adam Schallamach**

Head of CMA Market Review