

## Digital Comparison Tools Market Study:

### Response form

1. Thank you for taking the time to respond to the questions in the Statement of Scope for our Market Study of Digital Comparison Tools (DCTs), published on our [website](#) on 29 September 2016.
2. Please download and save this form before completing it. Please submit your response by **5pm on Monday, 24 October 2016**, either by:
  - Email to: [comparisontools@cma.gsi.gov.uk](mailto:comparisontools@cma.gsi.gov.uk).
  - Or by post to: Digital Comparison Tools Market Study  
Competition and Markets Authority  
7<sup>th</sup> floor  
Victoria House  
37 Southampton Row  
London WC1B 4AD
3. Please note:
  - You can choose which questions to respond to, but we ask all respondents to provide a small amount of background information at the start of this form. The boxes will 'expand' to accommodate long responses if required.
  - We are particularly keen to receive evidence in support of responses. If you are able to supply evidence please attach this with your response.
  - We intend to publish responses to our Statement of Scope in full. If you wish to submit information that you consider to be confidential, this should be indicated to us clearly and an explanation given as to why you consider it to be confidential.
  - The CMA may use the information you provide for the purposes of facilitating the exercise of any of its statutory functions. This may include the publication or disclosure of the information. Prior to publication or disclosure, in accordance with its statutory duties under Part 9 of the Enterprise Act 2002, the CMA will have regard to (among other considerations) the need to exclude, so far as is practicable, any information relating to the private affairs of an individual or any commercial information relating to a business which, if disclosed, would or might, in our opinion, significantly harm the individual's

interests or, as the case may be, the legitimate business interests of that business (confidential information). Further information about how the CMA will use information submitted during the Market Study can be found on our [website](#).

4. If you have any questions about our Market Study or this online form please contact the team at [comparisontools@cma.gsi.gov.uk](mailto:comparisontools@cma.gsi.gov.uk).

## Your details

(Fields marked \* are required)

<b>Title*</b>	Mr
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<b>Forename</b>	Paul
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<b>Surname*</b>	Galligan
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<b>Email*</b>	[X] Please also copy all email correspondence to Mr Ron Simms, Director, Corporate Services – [X]
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<b>What is your role / profession*</b>	Group Director, Comparethemarket.com
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<b>Are you representing yourself or an organisation?*</b>	Yourself / <u>An organisation</u> (please delete as appropriate)
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<b>If you are representing yourself rather than an organisation would you be content for us to include your name when we publish your response?*</b>	Yes / No (please delete as appropriate)
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### If you are representing an organisation:

<b>(a) What is the organisation's name?*</b>	Comparethemarket.com (CTM), a division of BGL Group Limited
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<b>(b) Please could you briefly explain the role of your organisation, including the sectors in which it operates or has most interest?*</b>
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CTM is a leading price comparison website (**PCW**) founded in 2006. It operates in a number of sectors, empowering consumers to compare prices and other features across a number of different products, notably:

- personal lines insurance products including car, home, van, life, pet, travel and over 50s insurance;
- various professional business insurance products, such as public liability insurance;

- energy/utilities;
- broadband;
- digital TV; as well as
- a range of financial products such as loans, credit cards and ISAs.

CTM operates as a separate and distinct business unit from other divisions within BGL Group Limited, with separate management, staff and premises.

For completeness, BGL Group Limited is a privately owned financial services company. Founded in 1992 as an insurance underwriter, BGL has since diversified into a range of related activities including, in 1997, switching from underwriting to insurance broking. BGL has grown to become one of the leading personal lines insurance intermediaries, principally in the field of motor insurance, in the UK.

CTM welcomes the opportunity to respond to the CMA's DCT Market Study and to confirm a strong, rational and evidence-based mandate for DCTs.

DCTs are popular consumer champions. Their success is based on encouraging consumers to test the value of various essential household goods and services, from insurance to energy, and securing a demonstrably better deal in a swift and easy way.

At the same time, government-sponsored DCTs aside, DCTs are also commercial undertakings. DCTs have no option but to try to achieve a reasonable return on the investments they make in the expertise, marketing and technology needed to compare products and services effectively. This is all the more important in markets where the underlying products are complex and/or confusing and time is required to understand the optimal way to assimilate and present information as part of a relevant and positive consumer journey, which itself is evolving rapidly through the increased proliferation and adoption of mobile devices etc.

This investment, although a reality, is sometimes missed in political and media commentary, the false premise being that DCTs can sustain a model where any provider who chooses to use them as a complementary route to market (alongside other important channels, both direct and indirect and including the likes of Google) should not be obliged to contribute to the provision of that service.

For example, some commentators have referenced that price comparison sites should be obliged to show the whole market. While DCTs strive to compare as much of the market as possible, BGL would disagree that consumers expect DCTs to offer total market coverage. Furthermore, the obligation to show whole of market could result in consumer detriment, in so far as a DCT loses the ability to ensure that a provider's product or service matches the expectations of its customers, not to mention the commercial model, fundamental to ensuring DCTs continue to exist, would be undermined. CTM therefore welcomes the CMA's examination of this issue, which it hopes will lead to a fair, rational and clear understanding of the benefits of DCTs (while recognising the challenges they face and identifying possible areas for development).

CTM would also like to highlight as part of this response, the supply side benefits of DCTs. Many suppliers, large and small, consider DCTs a highly efficient route to market. Of course, the relationship with large market incumbents (insurance, energy etc.) can be an uneasy one. The latter's incentive is often to maintain their existing substantial (and sometimes sticky) customer base, whereas the DCT proposition is based on saving customers time and money through switching. Naturally, CTM accepts that many consumers are happy with / loyal to their supplier or have limited motivation to switch; the

raison d'être of DCTs is simply to help overcome consumer inertia, encouraging consumers to shop around and facilitate the journey for those that wish to do so.

DCTs are, in any event, working hard to improve their messaging to customers. At CTM, we recognise that it is important to ensure transparency and avoid misconceptions about what we can offer. Consumer confidence is absolutely key to our success.

We have been encouraged recently that the CMA has recognised – for example, as part of the recent Energy Market Investigation – the real potential for DCTs to address market dysfunction and offer a better deal for customers. We hope to build on this work as part of this market study and look forward to contributing further to the CMA's research.

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

We will analyse consumers' awareness, understanding and perceptions of DCTs – for instance, how well consumers understand and/or trust DCTs, and what this means for whether they use them.

We also want to understand consumers' behaviour and experiences with DCTs, including what consumers expect to get from DCTs compared with what they actually receive. We will also look at whether they use DCTs just to compare products and suppliers or also to switch; how many DCTs they use; how successfully they use them; and the benefits they derive from doing so. We will also want to understand what happens when something goes wrong and consumers' expectations are not met (knowingly or otherwise). We also plan to understand whether increased use of DCTs results in excessive focus on price, to the exclusion of other factors and to the detriment of consumers' overall decision-making.

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

Please note that for this and all subsequent answers, we will be referring to DCTs that are focused on household finances.

Consumers use DCTs to secure a benefit (whether in terms of cost savings or procuring a product or service that is better suited to their needs); however, consumers also turn to DCTs as an important research tool, which has enabled them to identify products or services and evaluate competing options efficiently across numerous suppliers. In turn, this has had a dramatic effect in the reduction of consumers' search costs.

At a basic level, assuming one or more DCTs are present in a particular market, the following factors influence consumers' use of DCTs whether in terms of research and/or procurement:

- first, each such DCT has to be perceived to offer credible coverage (i.e. cover an adequate number of competing suppliers to make any comparison exercise worthwhile), although consumer feedback would suggest that this does not mean 'whole of market';

- second, DCTs have to present a 'value added proposition' in the sense that although price is important for many consumers conducting research through DCTs, many are also interested in/influenced by quality and other product features. Therefore successful DCTs have to be able to enable consumers (who do not have an infinite ability or appetite to absorb information) to weigh up the relative merits of competing products according to their preferences (which may often be price, but which may also include other quality aspects of the product); and
- finally, the customer journey can also be important (bearing in mind that consumers would often prefer to be doing something else than comparing the cost and features of essential household goods and services).

Consumers particularly like DCTs because they enable them to search quickly, easily and effectively across a wide and qualified range of offers and propositions, at no cost. Furthermore, DCT's have been very effective in helping consumers achieve savings, which are often significant. According to the European Commission's research:

*Comparison tools are so far largely perceived by users to be useful and effective in helping them locate good deals.<sup>1</sup>*

Notwithstanding the benefits of DCTs, not enough consumers use them. Consumer inertia is still a problem, with many consumers not actively engaging in a number of sectors, or failing to realise sufficiently the potential benefits of price comparison. In even the most switched category, car insurance, more than 60% of consumers do not switch each year, rising to around 85% in energy. As a consequence, consumers are paying too much for their products and services, with inertia estimated to be costing consumers £7.6bn.<sup>2</sup>

DCTs are helping to play a key role in overcoming this inertia, making it easier for consumers to save time and money in accessing the product that is right for them. In a matter of minutes, we help consumers compare hundreds of suppliers' prices and products in order to reach an informed choice.

The savings available are significant. [X] data from May 2016 shows that [X] of CTM's customers could have saved [X] on their car insurance and [X] on their home insurance. In energy, according to current CTM usage, CTM considers that 60% of CTM users could save at least £282 per annum on their energy bills. According to 2016 Ofgem data, savings of this magnitude are sufficient to prompt consumers to consider switching supplier.<sup>3</sup>

As indicated above, while price is clearly a key consumer consideration, evidence also shows that consumers are also interested in product and service quality. CTM (and other DCTs) therefore augment the search results with key product features and consumer ratings and reviews, to help customers reach the balance of price and quality that is right for them. As a consequence, almost half of consumers do not choose the cheapest product.

As the Financial Conduct Authority stated in its 2014 price comparison website (PCW) thematic review:

<sup>1</sup> European Commission Directorate-General for Health and Consumers (DG SANCO) - "Comparison Tools - Report from the Multi-Stakeholder Dialogue". Report presented at the European Consumer Summit on 18-19 March 2013 – page 18

<sup>2</sup> <https://www.sheffield.ac.uk/news/nr/psychological-inertia-contributes-to-financial-hardship-1.510235>

<sup>3</sup> [https://www.ofgem.gov.uk/system/files/docs/2016/08/consumer\\_engagement\\_in\\_the\\_energy\\_market\\_since\\_the\\_retail\\_market\\_review\\_-\\_2016\\_survey\\_findings.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/08/consumer_engagement_in_the_energy_market_since_the_retail_market_review_-_2016_survey_findings.pdf)

*PCWs are generally regarded by consumers, product providers, trade bodies and other regulators as helping to provide choice for consumers by enabling them to compare products in a simple and accessible way.<sup>4</sup>*

Notwithstanding the demonstrable benefits of DCTs, consumer trust in DCTs is crucial to their sustainability. Any lack of consumer confidence in using DCTs may affect and limit the effectiveness of DCTs.

Consumer Futures, in 2013, commissioned a study into consumer perceptions and experiences of Price Comparison Websites (PCWs). It found that:

*...PCWs occupy a position of trust in consumers' minds and it is clear that PCWs are seen to deliver certain and specific benefits...*

This report also discovered that 46 per cent of those surveyed had recommended a PCW to a family member or a friend.

Based on CTM's experience, trust in DCTs (or at least CTM) is high. That said, CTM cannot afford to be complacent, not least because it believes that consumers are typically not loyal to any given PCW, and may well use multiple DCTs and other channels to research products and services pre-acquisition.

Finally, with regard to sector differentials, CTM's experience is that consumer trust in DCTs can be fragile – vulnerable both to the conduct of product and service providers and sensitive to media or political commentary. Although perhaps less of an issue in sectors (e.g. car insurance) where the benefits of DCTs are proven (and where trust in DCTs' ability to shine a light on product or service providers, who may themselves suffer from a lack of consumer trust, is well known), the need to foster trust in DCTs in less developed sectors (where the use of DCTs as against other procurement channels is more marginal) is much greater. In these less developed markets, DCTs are more vulnerable to any step that undermines their ability to deliver the most competitive consumer offering.

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

The key challenge for any DCT is not so much which or how many DCTs consumers use, but rather to break initial consumer inertia. As mentioned above, far too many consumers fail to use DCTs - to realise the benefits that are potentially available to them - at all.

In terms of what motivates consumers to use one DCT over another, there may be a number of reasons (each carrying different weight with each user). However, we undertake extensive user research to help us understand why consumers use DCTs, or what features/qualities are more important than others. Working with [X] an independent research specialist, we believe these factors include:

- Offering consumers the best customer experience
- Helping consumers to make the right decision
- Making consumers feel confident they are getting the best deal
- Helping consumers to save money
- Being easy to use
- Offering a simpler quote process

<sup>4</sup> FCA: Price comparison websites in the general insurance sector, July 2014, page 3

- Offering consumers access to a wider range of accurate prices and quotes
- Offering consumers an incentive to compare/purchase through their website
- Rewarding loyal customers
- Standing for something unique
- Being responsible in how we store and use personal data
- Having the most useful, interesting and fun content

In terms of how many DCTs a consumer will use, independent research shows that most consumers are not loyal to a single DCT. Based on the UK Regulators Network (UKRN) Final Report (September 2016):

*Consumers appear to use at least two sites before making a decision. A 2013 study by Consumer Futures found that 16% used one site, 57% used two to three, and 26% more, before making a decision. For instance, the FCA's market study on credit cards found that, of those that took out a credit card in the last 12 months after shopping around, 39% had used one PCW and 27% had used two or more, indicating that consumers not only utilise PCWs to search for suitable credit cards, but also that some are comparing between sites.*

It is also worth noting that many consumers use DCTs simply as a research tool, alongside a number of other channels.

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

Although many consumer expectations will be similar, for example, access to quality products that serve the needs of consumers and help consumers to secure a competitive deal (directly or indirectly), individual expectations and priorities may differ.

Whole of market coverage has often been cited in the media as a crucial factor. Clearly, while having a broad range of providers is important, FCA consumer research from 2014 shows that consumers do not demand whole of market and generally understand market coverage:

*There was... a belief that the well-known PCWs are all roughly the same and while none cover the whole market, it was near enough to feel confident.*<sup>5</sup>

The research also reveals that consumers understand that DCTs are commercial undertakings and, amongst other things, have to be able to make money in order to invest in their proposition. That said, the impact of commercial arrangements on the independence of a DCT's rankings continues to be a question in the minds of some consumers, and one that CTM continues to work hard to address – through consistent messaging to reassure users that its rankings are independent and based on the merits (e.g. price) of the relevant product. There does however still remain a challenge, as whilst consumers understand that DCTs make money in order to continue to provide a service, how that model works isn't immediately obvious to some:

*Across the different consumer types, there was an almost complete trust in the PCWs in the context of data entry and many considered that if they answered questions honestly and accurately, the outputs would be reliable and they will be*

<sup>5</sup> Price comparison website: Consumer market research , prepared For the FCA by Atticus, June 2014, p.12



*covered. This view was tempered, however, by an expectation that PCWs are there to make money and some consumers were taking precautions to protect themselves against the outcomes of this fact, including: entering fake phone numbers in the belief the PCW will sell or share contact details; getting a quote direct from a trusted brand before using a PCW to benchmark the price.<sup>6</sup>*

For market coverage, taking the energy comparison sector as an example, CTM recently commissioned consumer research on the number of results that consumers would expect to see in order to have confidence when switching through a DCT. Two thirds (66%) of users said that they would require a panel size of 1-10 providers to have confidence. This demonstrates that DCT users typically value clarity and quality over quantity and suggests that showing the 'whole of market' is not essential.

These findings are in line with the results of Ofgem's consumer panel research for 2015/16, a qualitative research exercise carried out by Ipsos MORI with 57 adults who 'were recruited to broadly reflect the full range of energy consumers in Great Britain'. This research found that respondents generally did not expect DCTs to display whole of market as default. Some respondents suggested that, if a DCT did display every tariff in the market, the results would be overwhelming and mentioned that tailoring the search results to their specific needs would be more important than displaying all tariffs.

In CTM's experience, any successful DCT needs to be able to improve materially the relevant consumer's buying experience (not least because the products in question are important/necessary rather than entirely discretionary).

Of increasing importance, is the ability of DCTs to follow digital (e.g. mobile device) trends, so consumers can conduct comparisons and procure products in the most time efficient way possible. CTM believes this may be an area of particular interest as the CMA's study develops and encourages the CMA to reflect on the need to preserve the appeal and usability of these growing technologies when considering any regulatory requirements relevant to them.

As regards this last point, CTM would welcome regulatory focus that facilitates the development of a predictable and proportionate system of regulation applying standards across all platforms (incumbent and new entrant) in a consistent manner, and ideally into an interface with DCT expertise.

As regards the relationships between suppliers and DCTs, CTM considers that understanding the precise nature of these relationships is not a priority for consumers; instead, the focus is on ensuring that DCTs offer a transparent shop window against which competing offerings can be compared; ranked independently (as highlighted by CTM in its own consumer journeys above) in a way that reflects the consumer's preferences; and, if desired by the consumer, procured by the consumer there and then i.e. the DCT has to be able to commit the supplier to the relevant deal chosen by the consumer.

Conversely, although wide sector coverage is attractive, it is not, in CTM's view, about any guarantee to the consumer that the DCT platform will carry all available products i.e. a whole of market proposition.

#### **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?**

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<sup>6</sup> Ibid, page 33

CTM believes that consumers' experiences of using DCTs are very positive, with the key benefits being:

1. They save time; in just a few minutes consumers can search a very wide array of providers
2. They save consumers money
3. They make complex products easier to understand, offering user-friendly mechanisms to sort, rank and compare key features of those products.

In its 2011 Report on the Motor Insurance industry, Ernst & Young acknowledged that the impact of DCTs for consumers has been beneficial:

*The Customer is the winner. There is no question that the advent of aggregators has done a great deal to educate personal motor customers about price and the choice of provider. Our interviewees have differing views on their benefits to the industry as a whole; however, they are fairly unanimous in seeing customers as the main beneficiary of the rise of the aggregator.*

More generally, DCTs represent the single most effective means of facilitating customer switching and driving greater competition at the retail level. Although still significantly underused by energy and other customers, according to a recent utilities report [8]

Positive consumer outcomes are reflected in our [8]customer satisfaction with our comparison experience. [8]<sup>7</sup> As a consequence, DCTs have seen an incredible rise in popularity, most notably in car insurance.

That said, there are still improvements to be made. In even the most switched category, car insurance, more than 60% of consumers still do not switch each year, rising to around 85% in energy. This is despite the relevant regulator, Ofgem, commenting on DCTs' consumer benefits:

*Evidence shows they [DCTs] save people a lot of money and contribute to a better informed market. We accept that they charge commission and that is how they stay in business.*

Lower levels of use by consumers of DCTs in energy and other sectors, for example banking, suggest that many challenges still lie ahead and, importantly, that it is necessary – from a regulatory perspective - to create conditions in those sectors which are particularly conducive to price comparison and which enable DCTs to compete on a better footing with established incumbents (product or service providers etc.) whose incentive may be to maintain consumer inertia or to control distribution and weaken the consumer-facing proposition that DCTs can provide.

In any event, it is worth exploring further the factors that have meant that DCTs have been much more successful in encouraging consumers to engage in car insurance than other verticals: for example, the effectiveness of an annual prompt (renewal communications).

Further, for consumers to access an even simpler journey, selected product standardisation (and making products easier to understand) could be advantageous. For example, add-ons to general insurance products differ materially so a standard is needed to truly compare important product features for consumers on a like-for-like basis. This does not need to lead to a diminution in product quality.

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<sup>7</sup> [8]

Finally, consumers are increasingly choosing to shop around using their mobile device; today c. 50% of CTM's traffic is from a mobile device. We believe DCTs, product providers and regulators will need to work together to ensure mobile devices continue to offer an attractive way to compare and source household financial products, in order to help overcome consumer inertia.

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

A critical test of DCTs' impact is whether they are improving or hindering competition between suppliers. A major way of improving competition is increasing engagement through reducing search costs. We plan to understand this effect and whether anything may be hindering it.

We also want to explore the relationships between DCTs and suppliers and to know whether DCTs are having effects on supplier behaviour. For example, we want to explore the impact of DCTs on the range, quality and pricing of their services, and the extent to which this leads to better or worse outcomes for consumers. We also want to understand the extent to which DCTs facilitate supplier entry or expansion.

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

CTM has extensive experience of suppliers in a number of sectors and believe that there are a range of factors that influence a supplier's choice of DCT. However, it is worth noting that most suppliers do not discriminate between larger or more credible DCTs; instead they will often opt to list on all DCTs, albeit they may tailor their offerings differently.

This does not imply any power on the part of individual DCTs (in the sense that by not listing on a DCT the supplier's offering would be compromised); rather, suppliers are motivated to use price comparison where this channel represents an efficient acquisition tool, so suppliers have nothing to lose by listing on as many DCTs as possible.

In assessing the efficiency and effectiveness of DCTs as an acquisition tool, suppliers will consider a range of factors such as:

- having access to large scale distribution;
- the ability to target specific groups of customers allowing them to tailor and balance their propositions;
- low risk acquisition of customers, as the majority of DCT commercial models are CPA (cost per acquisition) based, which means that the supplier doesn't pay anything; unless a sale is made - marketing investment risk is borne by the DCT;
- suppliers with lower brand recognition or appeal are able to gain brand credibility by appearing on well-known DCTs;
- customers using DCTs are more likely to transact online and accept online servicing, which represents a lower cost model for suppliers;
- lower cost per acquisition than other channels such as direct or broker (for example, [3<] data in the 6 months to April 2016 shows for car insurance, non-DCT online marketing channel cost per sale of [3<] versus [3<] cost per sale paid to DCTs)

Suppliers may prefer specific DCTs over others for certain reasons, dependent upon their individual circumstances. Key factors that suppliers will consider include:

- coverage;
- cost per sale that is required by the DCT;

- customer propositions (in that certain DCTs may suit individual suppliers to a greater/lesser extent e.g. a supplier specialising in a particular product niche, or high feature count product will value a proposition that is less focussed on price and provides them with an opportunity to showcase their differentiated products); and
- customer quality (i.e. the cost per sale is only a small part of the picture - providers' fraud and claim experience, as examples, also impact acquisition channel choices).

It should also be noted that in the CMA's PMI Annotated Issues Statement, that over recent years, 'CPA fees have risen near or below the rate of general inflation'.

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

The ability to access new customers at scale is a key consideration for any new supplier trying to access a market. DCT's have made this incredibly easy for new entrants, given they offer a low risk way to access millions of qualified customers, with a fee only payable if a sale is made. Further, [redacted] data in the 6 months to April 2016 shows that DCT car insurance fees are typically [redacted] lower than other online marketing channels, and [redacted] lower for home insurance.

In terms of facilitating new entry and expansion, since 2010, across car, home, van, bike and pet insurance, we have added in excess of 200 brands. In car insurance, the proportion of business now being written by suppliers who were not on our panels in 2010 has been as high as [redacted] These statistics highlight how DCTs have helped facilitate new market entry and have driven greater competition.

Research conducted by [redacted] in respect of UK insurance markets in 2010 offers some explanation and concludes that the DCT model allows

[redacted]

The relationship between DCTs and suppliers is symbiotic. The CTM model (and possibly that of other DCTs) requires as wide a range of qualified suppliers as possible, providing the best possible range of prices. Equally, suppliers want to make sure that they are on CTM in order to optimise coverage.

It is worth noting though that DCTs have been more successful in opening up certain markets (e.g. insurance) to competition than others, for example, energy where there are a range of other structural and regulatory aspects which influence new market entry and expansion.

Nevertheless, DCTs are still helping drive a number of improvements in these less developed sectors. Looking at the energy comparison sector, the latest CTM 'Energy Snapshot' finds that our energy comparison site facilitates more switching away from than switching to, the 'Big Six' energy providers. In June, fewer than 6% of total switches were to the Big Six, while over 56% of switches were away from the Big Six providers. Three of the five biggest 'winners' were suppliers outside of the Big Six, namely Sainsbury's Energy, Flow Energy and First Utility. All of the top five biggest 'losers' were Big Six firms, namely British Gas, E.ON, npower, Scottish Power and SSE.

<sup>8</sup> [redacted]

These findings demonstrate the extent to which DCTs can help new entrants and smaller players to challenge dominant providers in markets, enabling small firms to gain customers they may otherwise have struggled to attract.

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

The advent of DCTs into markets has driven much improved levels of product and service transparency and, as a result, has had highly positive effects on price, quality and range offered by suppliers. The following points highlight these trends:

### **Price**

- [X] data from May 2016 shows that [X] of CTM car insurance customers can make a saving and that [X] could save up to [X]
- [X] data from May 2016 shows that [X] of CTM home (combined) insurance customers can make a saving and that [X] could save up to [X]

### **Quality**

- [X] of sales are not from the top of screen (i.e. the cheapest product on offer), demonstrating that DCT's promote much more than just price.
- Using the service provider BazaarVoice, CTM has made available transparent customer reviews across car insurance, home insurance, life insurance and energy. On average, customers score our service 4.6 out of 5 (where 5 is high). In total, in excess of 50,000 reviews have been shared by consumers using our website.
- Defaqto, an independent financial services research company, commented in a discussion paper on car insurance – the most mature DCT product in CTM's experience – that:

*...we cannot detect any marked change in the overall types and quality of cover being offered" over the period 2009-2014.<sup>9</sup>*

### **Range**

- Since 2010, across car, home, van, bike and pet insurance, CTM has on-boarded 120 groups (216 brands)
- CTM currently offers comparison across 20 products

With regards to competition, the existence of DCTs and particularly their attempts to negotiate the best deals on behalf of their customers are, of course, unpopular with some providers, who would sooner rewind the clock to eradicate or limit the approach of DCTs. This is perhaps captured in the words of insurer consultancy, Towers Watson:

*Focusing on the period 2002 and subsequent, the conclusion is obvious and rather damning – aggregators have encouraged greater price competition without gaining much profitability themselves...Aggregators cost the UK insurance industry £1 billion in unnecessary price competition, last year*

<sup>9</sup> 2015 Star Ratings Car Insurance Discussion paper, page 4

DCTs provide a high volume distribution platform that can be accessed by a high number of suppliers, with well proven and relatively simple connectivity, allowing both existing suppliers (large and small) and new market entrants to quickly and effectively acquire customers at scale, and without needing to invest heavily in building their own brands.

[3]. Service differentiators, like independent (Defaqto) and consumer reviews, aim to ensure the standard of service and product offered by providers is maintained and even raised. Further, we act on any provider complaints data we receive and hold them to account. A selected and highly trusted panel is needed to ensure the very best consumer outcomes.

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

While DCTs offer a compelling commercial package to suppliers (a combination of substantial volume potential and low customer acquisition costs), large suppliers remain in a stronger bargaining position when dealing with DCTs.

In other words, while the removal of barriers to enter the market and access new customers has been facilitated through the development of DCTs, suppliers, especially the large players, have great financial resources to increase their audience and marketing spend through alternative channels, without necessarily depending heavily on DCTs. This competitive advantage can be reinforced to the detriment of DCTs and competition as a result of more limited access to data.

There are suppliers who do not engage with DCTs or offer only a limited number of their services/products to be searched on DCTs.

Recent regulatory interventions, like the CMA's PMI market investigation, have been designed to tackle high prices and premiums. While it is difficult to attribute market trends to different market features, we remain concerned about measures which impinge on the ability of DCTs to offer a strong customer proposition, for example, the removal of wide MFNs. Our concern is that insurers seek to optimise their own profits, rather than pass savings on to the customer. It is our view that there is still a strong case for wide MFNs, particularly in markets where DCTs are underdeveloped, given their need to instil confidence in the mind of the consumer that they can offer the most competitive deals.

We can stimulate competition amongst suppliers though, and we have the flexibility and scale to do this effectively. One example would be that we continue to build new insurers/brokers onto our provider panels, supporting the development of challenger brands, particularly in specialist areas. Encouraging inter-brand competition (as well as intra-brand competition) through increasing the number of market participants is a proven way of helping to increase choice and reduce prices for consumers. Potential developments like commission disclosure could be a significant barrier to increasing competition given its potential to raise doubt in the minds of consumers about the impartiality of DCTs (despite strong assurances from sites like CTM that products are ranked independently).

#### **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?**

We are engaged with suppliers who participate on CTM's platform to understand consumer outcomes, and we receive assurances from them that consumers who use DCTs to access their brands as opposed to other channels are not discriminated against.

DCTs enable prices to be transparently compared by consumers across many providers simultaneously. Alongside this, as a lower cost acquisition channel, DCTs have ensured fair price competition amongst suppliers.

Richer products have also come to market when suppliers seek to differentiate as price is only one factor going into a buying decision (e.g. some add-ons being bundled into the core policy).



### Theme 3: Competition between DCTs

We will aim to establish whether DCTs are competing effectively with each other, as well as facilitating competition between suppliers of the services they compare. If not, we will explore what may be holding back competition in any particular market.

We will explore how DCTs compete both for consumers and for suppliers. We will assess what well-functioning DCT competition looks like, and the potential for DCTs or suppliers to engage in practices that limit this.

#### 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?

Customer engagement is key, particularly when convincing a customer to spend time comparing a product that is a basic requirement rather than a desirable discretionary purchase. Other important factors include ease of use (both in terms of customer journeys and outcomes).

As mentioned, few consumers are loyal to any one DCT. It is a fiercely competitive sector so significant investment has been made in commercial teams (to secure the very best prices for consumers), innovation (like easy-to-use apps to drive engagement and combat consumer inertia), value beyond savings (like reward schemes), user journeys (our Snap app for energy comparison and mobile optimisation for all journeys) and technology.

Marketing is also a key area of competition, where the various DCTs all compete to attract customers. This includes, but is not limited to, television advertising, emails, online search, PR and social media.

While a healthy number of providers is required to facilitate a competitive offering, the number of providers compared is not a way in which DCTs compete in CTM's experience. The aforementioned Consumer Futures report noted that DCT users typically want to use filters to reduce the number of results.<sup>10</sup>

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

Three key factors influence how effectively DCTs can compete - both with rival DCTs and other competitors:

- **Brand & marketing** – developing a well-known and trusted brand is a common way for DCTs to access consumers
- **Competitive pricing** - highly competitive prices and premiums are needed to address one of the two primary reasons consumers use DCTs: to save time and money
- **Product quality** - selected and trusted providers offer a range of products and features to differentiate from one another and secure new customers

<sup>10</sup> <http://www.ukrn.org.uk/wp-content/uploads/2016/09/201609027-UKRN-PCWs-Report.pdf>, page 17

Cost effective acquisition is also important - competitive DCT CPAs aid providers in securing new customers in a profitable, transparent and consistent way.

The role of a DCT is to provide consumers with broad choice at competitive prices; therefore, the major DCTs each operate a large panel of suppliers.

A DCT that offers significantly less choice than its competitors will lose attractiveness amongst consumers; however, it is important to recognise that other aspects of a DCT's service may also be important to a consumer.

Suppliers' brand strength, product features and overall customer experience are also considerations when comparing suppliers' offers. Equally, a DCT's ease of use may affect a consumer's likelihood to use the service.

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

We believe there are no fundamental barriers to competition between DCTs and that there is healthy competition. Some product lines are still nascent amongst DCTs, largely due to aforementioned consumer inertia.

A high quality marketing strategy and a compelling consumer proposition is important in order to present service suppliers with an opportunity to reach new audiences at minimal cost.

We note that one of the barriers to entry is the ability of a new player to deal with a number of regulators. We are of the view that this could be improved by a single interface regulatory model, where the burden to deal with numerous regulators would be lessened and new entrants could make a bigger impact in the market.

The characteristics and strategies of individual DCTs (both existing and prospective) differ significantly, so we would expect the timeframe to establish a good reputation amongst suppliers to vary accordingly. To the extent that a broad range of DCTs have established relationships with suppliers, however, we would conclude that the barriers to entry in this context are low.

We are aware of several companies in the marketplace that offer white-labelling services for price comparison. This, too, provides opportunity to establish roots as a DCT with minimal upfront cost, both in terms of technological expertise and as a means to building strong relationships with service suppliers in various sectors.

Different DCTs operate different marketing and advertising models, so it is impossible for us to speculate on effectiveness for the category in general.

## Theme 4: The regulatory environment

There is a range of regulation of DCTs in place across our sectors of interest, from full regulation in financial services to voluntary accreditation in the telecoms and energy sectors. We will provide an overview of the different approaches to regulation being adopted and assess whether there are lessons to be learnt from comparing approaches.

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

We believe that DCTs strive to achieve a high degree of regulatory compliance. Some products are more highly regulated, and others considerably less so. Some steps have been made by regulators to acknowledge the fundamental role played by DCTs in promoting competition and innovation, as well as in delivering savings to consumers and providing a more efficient and cost-effective channel for new entrants.

Our primary concern relates to new DCTs or technologies that may not be adequately regulated, and therefore puts at risk a consistent and level playing field across all DCTs, existing and new.

DCTs have helped to reduce barriers to entry, but there are some regulatory differences between sectors and so different standards are at risk of emerging. A report from the UK Regulators Network on DCTs has noted that:

*regulators have developed sector specific oversight of [DCTs] over time.<sup>11</sup>*

For example, in digital products, DCTs are not regulated directly by Ofcom yet there is direct regulation in financial services.

Regulatory duplication is also a risk and a burden. Given its reach, CTM engages with a series of regulatory bodies. At the same time, it is our impression that DCTs are broadly treated on the same basis as suppliers; however, this does not recognise that our purposes and business models differ materially.

It follows that we would welcome further engagement with the CMA to discuss ways of achieving more consistent regulation that recognises DCTs' distinct roles to that of suppliers. Although our outcomes are the same for consumers - getting the right product at the right price - the levels of disclosure and scrutiny should recognise the different nature of our service against that of a supplier.

Potential solutions to a new regulatory dynamic could include a specialist DCT contact at each regulatory body or a memorandum of understanding between all bodies to ensure consistency.

We believe in targeted, practicable and proportionate regulation where the focus is on the effective functioning of a financial services sector that operates in the best interests of consumers. An effective financial services system should be trustworthy, principled, resilient, transparent, relevant to customer needs and sustainable.

<sup>11</sup> <http://www.ukrn.org.uk/wp-content/uploads/2016/09/201609027-UKRN-PCWs-Report.pdf>

Innovation and pace of change is inevitable in in the fast-moving sector of DCTs. The UK Regulators Network has noted how:

*...regulators should reflect on the impact of future market improvements and seek to ensure that any steps taken facilitate innovation to support consumers' interests.*

This last point leads into the question of 'whole of market' comparison, and several issues that need to be considered:

- In a number of markets, the level of consumer inertia is unacceptable, and this is resulting in consumer detriment.
- Significant investment on the part of DCTs is needed in those markets to help open them up to greater competition.
- This investment is only likely where DCTs are confident of a reasonable return on that investment.
- A 'whole of market' comparison requirement undermines that prospect.
- We have experienced what happens in a forced whole market environment (energy), where certain suppliers immediately opt to free-ride on the investments of other suppliers, thus increasing the cost of the participating providers' proposition. Of course, the only other way of addressing this issue is to attach a consumer charge to comparison services, which is likely to be highly unattractive to consumers.
- Finally, as regards consumers, a DCT has to be able: i) to deliver certainty of outcome, i.e. that the consumer can actually purchase the product he/she has chosen; and ii) to protect consumers from sub-standard providers. A whole of market requirement undermines both of these needs, because it undermines the ability of the DCT to exercise scrutiny over the suppliers on its panel.

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

CTM ensures that there are the appropriate measures in place in order to meet all competition and consumer protection requirements and be compliant.

CTM considers that existing consumer protection measures are comprehensive, and so does not see this as a concern. For example:

- Protection exists for consumers under the Consumer Protection from Unfair Trading Regulations 2008 (**CPRs**), which include a general prohibition on unfair commercial practices as well as prohibitions on misleading and aggressive practices, and comprises well articulated standards. These provisions limit, for example, the likelihood of a DCT omitting material information in relation to rankings or making misleading price or coverage claims, in each case prompting an average consumer to take a different purchasing decision.
- In financial services, the FCA regulates DCTs directly in circumstances where the DCT carries on an activity that is defined as a regulated activity under the Financial Service and Markets Act 2000 (Regulated Activities) Order (SI 2001/544), which would include insurance mediation.
- Firms carrying out regulated activities need to observe the FCA's rules and principles for businesses. This would include an obligation to treat consumers fairly, pay due regard to their information needs, and communicate information to them in a way which is clear, fair and not misleading.

- Accreditation schemes also afford consumers additional protection, although the scheme implemented by Ofgem (under the Confidence Code) is currently being adjusted to reflect changes proposed by the CMA.

Of course, this assumes an environment where DCTs can discriminate between which suppliers are admitted to their panel, as it is important to be able to refuse to display the products of suppliers who are not focused on a similarly high level of consumer welfare.

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

We are directionally aligned with various regulatory bodies to drive even better customer outcomes. However, we have some concerns that consumers may become overburdened with the on-going desire to offer even more information relating to their potential purchases.

If we think about the explosion in mobile device usage, too many requirements being presented on a small screen may drive disengagement in the switching process and this could result in no action being taken and further consumer inertia.

We would welcome an on-going balance between transparency (including, but not limited to, the DCT service, products, providers and prices) and the reassurance needed by consumers to have confidence during their decision making process.

A good example of this would be in the energy market. For the reasons outlined in the response to question 13 above, we support the proposed removal of the Whole of Market (WoM) requirement for price comparison websites in the energy sector, as required by the Ofgem Confidence Code for DCTs. The Competition and Markets Authority (CMA) has recommended the removal of the WoM requirement and we believe this should be implemented in full by Ofgem. We would also urge the CMA not to entertain a similar requirement for other sectors, for the reasons already articulated.

As it stands, the WoM requirement obliges DCTs to display all suppliers' tariffs regardless of the quality and suitability of the relevant supplier for the consumer. This could lead to poor customer outcomes in terms of product quality and data security. Additionally, WoM also negates any incentive for DCTs to invest and innovate in energy market comparison services. Its removal will result in DCTs being in a position to work with suppliers to offer tailored tariffs to different consumers, based on their need.

In relation to all of the themes and issues set out earlier, we will look at both the current situation and the effect of likely future developments in the DCT sector.

**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?**

Consumers will continue to want to be well-informed, save time and money to secure the best price on the product that meets their needs.

Future innovation and DCT disruption to the current model is inevitable. Relevant examples include the Internet of Things (e.g. connected car, connected home), further mobile app developments and artificial intelligence (AI). In insurance specifically, how we insure today - typically on an annual basis - may fundamentally shift to real-time cover in small chunks of time (e.g. per car journey). Further, AI has the potential to transform static results pages on DCTs into conversational and even more personalised experiences.

New entrants and start-ups in the FinTech space are seeking to capitalise on changing consumer behaviour and new needs. However, a strong and balanced regulatory framework is needed for all to ensure positive consumer outcomes are maintained and improved upon. We are excellent custodians of data already - arguably better suited to centralise relevant information than other parties - and these high standards must be maintained by others now and in the future. While innovation and disruption is important, regulatory standards and the threshold new entrants must meet to operate in the market should not be lowered.

Overall, the DCT category is a fluid, competitive and evolving space, and significant investment will be required from ourselves and others to ensure a continuing first-class service, likely unrecognisable from today's, delivers even more for consumers.

**Other comments and further contact**

**Do you have any other comments you would like to add?**

[✕]

**Would you be willing for us to contact you to discuss your response?\***

Yes  
*(please delete as appropriate)*

**Thank you for taking the time to complete this form.**

**Please email it to: [comparisontools@cma.gsi.gov.uk](mailto:comparisontools@cma.gsi.gov.uk).**

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Victoria House  
37 Southampton Row  
London  
WC1B 4AD**