

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

Via: [comparisontools@cma.gsi.gov.uk](mailto:comparisontools@cma.gsi.gov.uk)

24<sup>th</sup> October 2016

**Input into the CMA Digital Comparison Tools Market Study**

**Your details**

<b>Title*</b>	Mr
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<b>Forename</b>	Greg
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<b>Surname*</b>	Jackson
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<b>Email*</b>	[✂]
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<b>What is your role / profession*</b>	CEO, Octopus Energy Ltd
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<b>Are you representing yourself or an organisation?*</b>	An organisation
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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>	N/A
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**If you are representing an organisation:**

<b>What is the organisation's name?*</b>	Octopus Energy Ltd
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**Please could you briefly explain the role of your organisation, including the sectors in which it operates or has most interest?\***

Octopus Energy is a rapidly growing energy supplier, that started supplying gas and electricity to domestic homes and businesses in Great Britain this year. Our largest investor is Octopus Investments, who over the last decade have also invested £1.6bn in renewables generation, becoming the third largest investor into UK renewable generation in the UK and the largest in solar generation.

As a challenger in the energy market place, we believe that consumers have been underserved and overcharged by incumbents. In order to facilitate real competition that is good for the consumer:

- That the consumer should be given clearer communication about pricing over a longer period: so that they can choose a supplier that is good for them over the long term, not just the fixed term. It should be clear what is a supplier's 'real' price and what is their 'deal' price, akin to the way in which mortgages are marketed with introductory rate and long-term rate.
- That long-term good pricing and service can be enabled by some of the same high-efficiency approaches as the eCommerce sector – which goes well beyond just trading and hedging, but also focus on transparency, low operating cost and outstanding customer experience.
- That the barriers to switching due to the slow and complex nature of the switch process should be systematically eliminated to make switching quicker and easier (as online shopping and services have provided in other sectors)

We have kept our responses to this study to the scope of the domestic energy consumer in Great Britain – and the aspects in relation to the regulation incumbent on suppliers to this market. DCTs also participate in setting up and administering Collective Switches. We have assumed that these are out of scope for this consultation, but are also happy to give input into this aspect, if appropriate.

### 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?

Our experience with consumers is that their use of DCTs is primarily driven by advertising and PR – with the majority commenting that they had first heard of it via TV, but some have then seen digital content that supports the use of DCTs – whether in search, emails or social media content.

Interestingly, the level of trust is high. This is augmented by the fact that in energy (unlike, say, travel) many of the sites are the commercial parts of an organisation or individual who has acted as a consumer champion – and often the previous separation principle of journalistic/consumer content and advertising/business generation has become very blurred for the consumer such that they see the DCT as a service supporting the consumer champion. Additionally, many confuse whether the sites are commercial enterprises or “Government-owned”/Not-for-profit: eg there are a number of consumers who believed that uSwitch and Energy Helpline were Government organisations, because of their frequent role as media ‘experts’ in energy.

The general understanding is that all DCTs collate prices from the whole of the internet to give a full view of the best prices – and hence there is some disbelief that this is not true for travel (which people pick up from signs in hotels & on websites about best rates direct, as well as the Trivago TV advertising), nor for car insurance (which people have said [✂] periodically highlight by saying not available on price comparison websites in their TV advertising, but then confusingly they do seem to be on price comparison websites).

When asked directly how DCTs fund their activity, there is a view that it is a digital service (“they have bots out there collecting all of the information and it does not cost anything”) that is funded by either the Government or by advertising (like Google, Twitter, Facebook, Yahoo etc) and there is generally no understanding that a very significant commission is collected.

In energy this consumer trust has generally been well-placed until now – because regulation has ensured that the whole of the market has to be shown, and the prices of any given tariff are the same and presented according to specific and universal rules, regardless of the channel that it is brought through. However, this is all just about to change in the coming months – with the Whole of Market requirement removed and the final stages of a consultation on the removal of a universal ‘currency’ for comparing different tariffs from different suppliers and DCTs.

We are deeply concerned that energy is a category that consumers already back away from engaging with switching due to the complexity and confusion, and it is going to get even more complex and confusing – so much so that even industry experts and participants may be unable to make comparisons between offerings from different suppliers and different DCTs. We strongly believe that regulation needs to be put in place to ensure that:

- 1) There is one place where consumers can go for a trusted view of the Whole of the Market

- 2) Those who are not making a Whole of Market view available must ensure that the warnings to consumers are incredibly clear and they are signposted to where they can get a trusted view of the Whole of Market – we have proposed in the response to the Ofgem consultation on the update to the Confidence Code that this should cover a third of the screen and signpost to the Whole of Market trusted view (eg Citizens Advice).
- 3) There must be one agreed 'currency' for all tariffs to be compared using – just as financial services have APR, telcos have monthly line rental and broadband speed, mobiles have MB of data and minutes of calls.
- 4) In order for consumers to really understand the piecemeal approach of DCTs in Energy in the future, those not giving a Whole of Market view should be renamed Multi-Supplier Sales Agents, as this is what they are (especially as they move to augment their sales by moving into outbound telesales and face-to-face sales, which we are increasingly seeing)
- 5) Sector differences are critical: DCTs work well in “one-shot” markets like travel, where a consumer is buying a single purchase. In “continuous payment” markets like energy, consumers stand to be fleeced by DCTs which rank on “year 1” costs but have no idea that there is a dominant business model which consists of great deals in year 1 and significant price hikes in subsequent years.
- 6) Sector differences also apply between “discretionary” markets like travel, where consumers may choose to travel or not, or between many different travel option. In travel, the consumer needs to go shopping if they wish to purchase a flight or make a hotel booking and there are many many dimensions (flight class, quality of hotel, location time of travel etc). Energy is more akin to financial services with far fewer necessary variables, with many variables introduced by suppliers simply to allow price discrimination.
- 7) **After decades of consumers being exhorted to switch suppliers annually by experts, governments, media outlets and regulators, it is clear that still only a small minority do so – perhaps 5% of consumers switch every year, with another c. 10% switching in any given year for a total switching population of c. 15% in any year. Over a long period, perhaps 50-60% of consumers ever switch at some point. It is critical that the market be made to work for this 45-55% of consumers who switch occasionally, for whom switching is confusing, a hassle and usually leads to a disappointing outcome due to the highly opaque bait and switch business model.**

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

Our understanding of the market share data of the DCTs is that it directly follows the Top of Mind Awareness of that DCT (in the context of the sector – so different DCTs come top for travel, insurance and energy). This is why there was a fundamental issue with the loophole in the Energy Confidence Code and suppliers listing tariffs for free was not a sustainable business model for the DCTs, who have to invest heavily into advertising to generate the traffic to the site.

In energy there is not a habit amongst consumers of checking multiple DCTs (and indeed until now, there has been little or no consumer benefit on the supplier offering from checking different sites – although the service from the DCTs do differ).

Indeed our understanding of consumer behaviour is that whilst consumers have different 'go-to' DCTs for different sectors (travel insurance, energy etc), the habit of checking multiple DCTs on one sector appears low, but to be becoming increasingly common amongst the small number of the most savvy of travel and insurance price comparison on the internet. And indeed recent comment of whether there needs to be a price comparison site of the price comparison sites suggests that this may become the direction of the future, as featured in this BBC Radio 4 Moneybox interview with Dermot Nolan, Chair of the UK Regulatory Network:

<http://www.bbc.co.uk/programmes/b07wmzx8>

That said, these same savvy price comparison shoppers did separate out sites that gave them useful information (eg various options on hotels in an area they had never been to before) and based on their sense of the price and potential for saving (and indeed the level of time pressure that they were under), sometimes they would not do a second stage of price comparison research, but would make the booking right there and then.

Notably, the majority of consumers say that energy switching is confusing. A plethora of different offers on different sites would only increase that, and the idea of using multiple sites would only drive more consumer detriment through ever-sharper competition on acquisition prices at the expense of long-term pricing. Moreover, without regulated basis for comparison, individual DCTs would compete by showing prices in the way which maximise the apparent savings – rather than competing on the actual likely price the consumer will pay.

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

Almost all consumers have not really thought about why DCTs exist and how their business model works. They just expect a simple way to compare the whole market – and they believe the sites do this. They also assume that the site presents all of the market offerings in the order of the savings and best fit for them as a consumer – as they have input their personal information and see the responses listed in order of savings.

When we showed them evidence that other factors that may be more to do with the supplier's relationship with the DCT than what is best for the consumer, consumers were surprised, angry and cynical. This has also been covered in the BBC Radio 4 Moneybox review of the way that energy tariffs are presented on price comparison sites – where the way that the supplier is presented for a tariff where they pay commission is completely different on the same day for a tariff where the same supplier had a different tariff where no commission was paid, as covered in this BBC Radio 4 Moneybox programme: <http://www.bbc.co.uk/programmes/p04ctdjx>

In order to manage this trust issue with consumers, we think that just like PPI in Financial Services, DCTs should have to show what their commission is for each of the consumer offerings that they are making. (This would also have the additional side-benefit of ensuring that the pricing model is not a barrier to entry for newer and smaller suppliers vs the more established players).

**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?**

The consumer experience of the DCT tends to focus on:

- How easy was it to get to the list of quotes quickly
- How easy was it to understand these quotes
- How much personal information did they have to 'give up' to get the list
- The size of the apparent saving (notably –this is hugely driven by the assumptions a DCT makes, and its defaults, rather than a real difference in saving. There is a competitive pressure to show ever bigger savings, even when these are presentational rather than real, which we believe leads to further consumer confusion)

For those who have gone ahead and made the switch for energy, there can be quite some confusion because:

- There are 2 sets of contracts: one with the DCT and then one from the Supplier, which is a lot of paperwork and can create some confusion and even distrust of who is doing what
  - There is usually a 24hr lag (and sometimes more) before the DCT transfers the consumer information to the supplier, so in the event of questions in that first period they can be very confused about who to contact and be bounced through many different calls/communications before they can get to an answer
  - In the event of them having signed up to a DCT that sets out to manage their account for them, they may be receiving none of the information at all about their account and they may have been flipped between many suppliers in a very short time. We have come across customers who did not appreciate that they were signing this away and are completely confused and angry about their supply status.
- We believe that it should be a mandatory requirement for DCTs to make the customer sign-up real-time through the delivery of the data via an always-on API rather than a manual file transfer. This would enable all queries to be managed by the supplier from the moment of sign-up without any lag.
- We also believe that DCTs that are taking over control of their customer's account should require more rigorous contracting (just as carers have to go through to manage the accounts of others). And that this should be a 2-stage sign-up, that confirms with the customer that they are waiving their expectation of the supplier to have any contact with them, because the DCT is managing all aspects of the account billing, payment, service and support in the case of issues. This also then needs to address who is responsible in the case of unpaid bills. These third parties should be subject to many of the same regulatory requirements as laid out in energy Supply Licenses, such as additional services for vulnerable customers, statutory timings for communications and notifications, timely provision of consumption and other data, otherwise there is a real risk of consumer detriment.

**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?**

- Energy suppliers use of DCTs is driven by:
- (1) Commercial considerations:
    - Numbers of customers that they can bring
    - Commission per customer (measured in fuels to separate dual fuel vs one fuel only)
    - Ease to deal with – how many operational issues (and therefore Cost to Serve) come from dealing with this supplier and the customers they acquire.
    - Likely long-term retention (DCTs market themselves to suppliers heavily on this, as suppliers want to work with DCTs who deliver 'sticky' customers)
  - (2) Regulatory/risk considerations:
    - Compliance in sign-up (since the supplier is fully accountable for all of their actions under Supply Licence Condition 25: which is becoming more and more of an issue with more sites and them operating in more channels, including cold-calling and door-to-door sales and via multiple third parties)
    - Risk of reputational damage by working with this DCT

We have stopped working with some DCTs based on these risk factors, as well as refusing to allow them to present us in outbound telesales or doorstep selling due to the compliance risks/issues.

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

When the energy regulator banned doorstep selling in 2011, price comparison websites became the key route for switching. This made it important to the consumer, the suppliers and the regulator alike. The harsh reality is that whilst DCTs have grown dramatically in that time, they have not filled the gap and the absolute level of switching each year is lower now than it was in that period 5+ years ago. This means c.85% of homes do not engage in any given year and leaves over two thirds of homes who have not engaged in switching for well over 5 years – as covered in the CMA Energy sector investigation – leaving them stuck on high tariffs paying many hundreds of pounds too much every year at minimum (more in larger properties). So DCTs have not yet been the answer to the ‘weak consumer response’ flagged in the CMA report, and are a part of creating an environment which the Prime Minister called out as unacceptable in her speech to the Conservative Party conference in September 2016.

Whilst the DCTs may have been effective at communicating the potential to save money on energy, they have not managed to overcome the inertia from the fear of making a mistake in a complex and confusing set of choices. This is borne out by the number of people who browse the choices on DCTs, but end up not making a switch – even when the average saving is over £300 and can be up to £800. And the concern is that the recent changes laid out in the consultations on the Confidence Code and tariff comparability are likely to further weaken consumer response through considerable increases in complexity and confusion:

- 1) allowing more exclusive deals, that will require a lot more searching and buyer-beware aspects, including excluding groups of customers
- 2) not showing the whole of market, and
- 3) putting the onus on the DCT to make supplier tariffs comparable within that DCT environment (but not across different DCTs).

Indeed the first steps into this area, with just a few exclusive deals from a couple of the biggest suppliers and DCTs, are already creating concern amongst consumers, reducing trust in the DCT as well as the energy suppliers – as covered in this BBC Radio 4 Moneybox programme:

<http://www.bbc.co.uk/programmes/b07wmzx8>

We predict that the energy price comparison will move in the direction of insurance and travel in terms of increasing gaming of the way that the offers are presented to consumers, such that true comparison is very difficult, or practically impossible, for the average person. And given that energy is already a lower engagement area than these (even though the savings are considerably bigger), we think that the consumer is the loser.

Hence our recommendations:

- that any DCT that does not show whole of market is called a Multi-Supplier Sales Agent and has to prominently show a link to a trusted whole of market view
- that their commission from each supplier has to be published (like Financial Services)

- that there must be one common 'currency' across the whole of the energy sector – suppliers and DCTs alike – to compare tariffs on

In terms of whether DCTs have made it easier for new suppliers to enter the market – it is fair to say that the loophole in the Confidence Code has unwittingly made this true. This has been because new entrants can work hard to get a very cost-effective price for the consumer, and this has to be listed (due to the Whole of Market rule) – regardless of whether they pay commission.

We would assert that the majority of the recent new entrants have built their customer base through DCTs, but without paying commissions.

We believe that the business model only works when all suppliers using DCTs pay a sensible level of commission, and are happy to say that we will pay commission when it makes sense in terms of the level and length of time for breakeven.

Notably, the market appears to be changing in favour of incumbents who can launch extremely competitive, loss-leading, offers which often exclude their own customers, and pay high commissions to DCTs. These tariffs are all designed to scoop up customers at pricing and commissions which are unachievable for smaller suppliers and only make economic sense because of baked-in, but hidden, future price rises.

DCTs actively increase the cost of energy to consumers. Their strong advice to suppliers is: "pay us commissions, cut your year 1 prices, and spend more on brand advertising".

#### **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 major issue of the price comparison sites is that they have led to the predominant 'tease and squeeze' business model – where businesses 'tease' consumers in with a low price for the first year fixed price contract, and then 'squeeze' them with the considerably higher deemed Standard Variable Tariff (SVT) tariff that they move onto on their first anniversary unless they take action. The harsh reality of the market dynamic is that all of the savings can be wiped out in just a short period of inattention, and most consumers live with over 3 years at this much more expensive tariff rate.

This widespread market dynamic was covered on BBC Radio 4's Moneybox programme on 9<sup>th</sup> September 2016:

<http://www.bbc.co.uk/news/business-37318534>

And in the Mail on Sunday:

<http://tiny.cc/mail-energy-prices>

Our Octopus Energy blog cover more on the detailed analysis on the 30-50% price increases that consumers can be prone to (even if they do not notice due to the smoothing effect of the fact that their monthly Direct Debit is not changed for a long time, by which time they are significantly in debt and this is a common reason for a switch to another supplier to be blocked – leaving them trapped).

<https://octopus.energy/blog/more-info-octopuss-analysis-tease-and-squeeze/>

<https://octopus.energy/blog/exposing-real-price-energy/>

This 'tease and squeeze' is not just bad for consumers, but also for the DCT model. The reason is that large suppliers with large 'back books' of customers who have been on those much higher tariffs for many years can afford to fund commission that is much higher than simple breakeven analysis – because of the ratios involved. Whilst new entrants do not have that incumbent advantage, so cannot pay the same levels – or even worse, if there is a volume discount such that larger suppliers get a volume benefit that is inaccessible for new entrants.



This is critical because the majority of consumers are currently subsidising the small minority who switch annually.

We strongly suggest two potential solutions to give the consumer more useful information:

1) Publishing all tariffs with a 3-year or 5-year view (since despite two decades of being exhorted to switch annually, only 15% of consumers do so, so a multi-year view is much more reflective of what they will actually pay). We illustrate how this may look at:

<https://octopus.energy/blog/exposing-real-price-energy/>

Note that on any digital platform it is easy for consumers to amend the period shown, so we propose a default 3 year view, with the consumer being able to see a longer or shorter view as desired. The default is critical because we know the majority of consumers actually end up switching far less frequently than the 1 year shown on most comparison sites

2) Displaying the SVT as the “standard price” and then showing a fixed period as “introductory” offer. The consumer could choose to sort by either, but would always see both with the SVT being of equal or higher prominence than the teaser price.

Of course, we recognise that SVTs vary, and that therefore these projections are an estimate, but we believe that it is categorically fairer to give consumers a view of long term pricing than to hide it. Notably, annual projections in “end of fixed period” mails show annual projections based on SVT so the precedent is already well established.

**These remedies would still meet the needs of that small minority of consumers who avidly search for the best deal and switch annually, but crucially would solve the problem for the majority of consumers who switch less frequently and whose needs are currently totally unmet. They would build confidence in switching as consumers would be more likely to end up on better deals for longer, making choosing a new supplier a more satisfying experience.**

**Note that the vast majority of submissions will not recommend this, as it is counter to the business model which many suppliers have established, and which many DCTs have become familiar with. However, we believe that the current business model is hugely deleterious to consumers and to the proper functioning of the retail energy market.**

In terms of addressing the competitive access question – publishing the commission rates for the consumer to see would address this.

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

The key barrier to increasing competition is really getting more consumers to engage with energy switching and having a better understanding of what they are signing up to.

In order to try and increase the 15% of homes who engage, many DCTs are starting to use new channels in addition to advertising and PR – including outbound cold calling and doorstep selling. We think that the energy DCT space lies at a crossroads where the sector can choose to work on pushing more competition by shining a light for the consumer through complexity, by making it simple, easy and giving a real view of what will happen. Alternately, DCTs can choose to specialise into segmentation to maximise short term commercial value, using the complexity and changes where comparability becomes much harder to make commercial gains by working in a limited way with the suppliers that will pay them the most. We argue that these gains are unlikely to be long-term, as they reduce consumer trust and will force suppliers to find other channels to market – unless there is a regulatory intervention.

The biggest barrier may well be the poor experience consumers have had of switching, either personally or related by others. Those who switched any more than 12 months ago can look at their bills and be shocked that they're as bad as they were before the switch. They do not realise that switching on a DCT will almost always lead to a bait and switch experience, and so are surprised and disappointed when they do not see long term savings, and conclude that "all suppliers are as bad as each other". This switching disappointment could be largely eliminated by our proposed remedies of DCTs displaying both long term projections by default and SVTs alongside "special introductory offers". This in turn would improve consumer confidence in switching, generating real competition between suppliers on long term pricing as well as short term deals.

**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 have added extra outbound communications for consumers to help them through the confusing initial days of onboarding as one of our customers. Additionally, we do have to handle extra phone calls from people endeavouring to sign-up through DCTs – both at the time of making the contract with the DCT and in the subsequent days through the onboarding with us – which we do not experience at the same volume from people signing up directly with us. Plus each of the DCT teams require different liaison with our teams according to how they are set up – so the complexity leads to extra costs for us, as well as a less seamless experience for the consumer.

This could be improved with real time APsI and we hope that the DCT access to ECOES and DES data will reduce their error rate and reduce the industry level of Erroneous Transfers (ETs)

DCTs have fundamentally driven the tease and squeeze business model in energy. Data suggests that on DCTs websites, rank is critical to consumers rather than price. There is intense competition to be in the top three positions on DCTs, as the number of customers acquired reduces exponentially at lower positions. This intense competition for top spot creates long-term detriment for consumers as suppliers can only recoup their investment in commissions, loss-leading prices and additional marketing by hiking prices dramatically at the end of fixed periods. The price gap now between the price the consumer signs up to on a DCT and the price they pay a year later can be in excess of 50%, and is usually over 30%. The consumer behaviour of being hyper-sensitive to pennies whilst choosing, and then insensitive to hundreds of pounds subsequently, is well understood by DCTs and suppliers – who have the data, but not by consumers themselves.

### 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?**

We would suggest that the primary way that DCTs compete is reach – and that the service aspects are less visible due to the infrequent contact that consumers have (we understand that on average people stay with the same supplier tariff/deemed tariff for 42 months), and the fact that the consumer believes that they are buying the supplier – so issues are usually attributed to the supplier not the DCT.

We have not seen significant efforts from DCTs to compete on consumer data protection or transparency. Indeed, we find them selling data to suppliers and utilising consumer data for their own marketing purposes.

Fundamentally, in low-touch markets, being top of mind is critical hence the enormous expenditure on TV advertising by DCTs. In addition, they compete heavily on online marketing expenditure and by using their very large email lists and deep data.

We believe that DCTs could provide a valuable service to vastly more consumers in the energy sector if they focused on total value to consumers rather than just price-sorted lists, and generated revenue through long-term consumer value rather than churn of a small market segment. We would welcome moves (such as the requirement to show long term pricing indications) which would encourage DCTs to develop new business models enabling them to compete on who best delivers long term consumer value.

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

We welcome the access of DCTs to ECOES and DES databases of meterpoints – but also believe that they need to be held accountable. This means greater regulation and inspection of the way that they use data, and reporting of the ETs and mis-selling that comes through the DCT channel, rather than all of this onus being on the supplier.

DCTs often have access to more data than suppliers – for example, other products the consumer has bought from them and the data associated.

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

The main barrier comes through the consumer data held by the incumbents – large DCTs sit on tens of millions of consumer records with deep data as well as contact information. This enables an “incumbent” DCT to market to consumers more effectively than incomers at much lower cost. It also gives the DCTs large power over suppliers

**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?**

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

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

We are surprised that there is not more regulatory engagement with this area. We think that the voluntary code is now leading to consumer issues and outages as the model is maturing and the competition is increasing.

- 1) Clarity of communication to the consumer. As covered earlier in this document, all of the evidence is that consumers significantly misunderstand the role and approach of DCTs, not helped by their marketing and communications. This is all regulated for energy suppliers, but not energy DCTs.
- 2) Presentation of price and projection is critical. Currently, the majority of consumers using DCTs to choose an energy supplier will end up with a worse deal than they expect because they are unaware of the predominant “tease and squeeze” pricing. The supplier and DCT business models are predicated on this. DCTs should show comparable pricing projections, and these need to cover multi-year periods by default (we believe 3 years is appropriate). SVTs should be shown with the same prominence as the “introductory discount” price.
- 3) Data usage and protection: We welcome the access of DCTs to ECOES and DES databases of meterpoints – but also believe that they need to be held accountable. This means greater regulation and inspection of the way that they use data, and reporting of the ETs and mis-selling that comes through the DCT channel, rather than all of this onus being on the supplier.
- 4) Mis-selling: We cannot fully understand how the supplier licence condition on sales & marketing can be managed in the cold calling and doorstep selling where a number of suppliers are presented. Surely the DCT needs to take on the regulatory requirements around responsibilities, compliance and audit here, with the supplier only responsible for the correct contracting.
- 5) Consumer communications: Some of the newest entrants in the DCT market take over consumer communications, and have even been making up false email addresses for them in order to screen their emails. We also believe that where DCTs that are taking over control of their customer’s account, this should require more robust contracting (just as carers have to go through to manage the accounts of others). And that this should be a 2-stage sign-up, that confirms with the customer that they are waiving their expectation of the supplier to have any contact with them, because the DCT is managing all aspects of the account billing, payment, service and support in the case of issues. This also then needs to address who is responsible in the case of unpaid bills.
- 6) Service levels: Given that the DCT controls a number of aspects of the service level at the time of switch, we believe that they should carry the same regulatory burden on timing and content of

communications as the supplier. As big supporters of the next day switch programme, we see the absolute requirement of sign-ups from DCTs being delivered through a real-time API.

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?**

We ask that consumer behaviour be put at the forefront of the considerations in energy DCTs – meaning that interventions need to increase transparency, clarity and better outcomes for the consumer (not reduce it with greater complexity and confusion – as this is the biggest barrier to switching).  
We really do believe that this is a crossroads for the energy DCT suppliers, and fear that without regulatory intervention it is likely that the move will be to short-term profit maximisation at the risk of consumer detriment, rather than the long-term mutual benefit for them and the consumer who buys through them.

**Other comments and further contact**

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

We would be happy for members of the CMA team to visit our offices and talk more with our team about the topics covered here. We would also be happy to invite our customers to discuss their experiences directly with the CMA team.

<b>Would you be willing for us to contact you to discuss your response?*</b>	Yes
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