

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.
 - Or by post to: Digital Comparison Tools Market Study
Competition and Markets Authority
7th 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.

Your details

(Fields marked * are required)

Title*	Miss
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Forename	Carly
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Surname*	White
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Email*	[]
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What is your role / profession*	Regulatory Risk Manager
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Are you representing yourself or an organisation?*	Y ourself / An organisation (please delete as appropriate)
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If you are representing yourself rather than an organisation would you be content for us to include your name when we publish your response?*	Yes / No (please delete as appropriate)
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If you are representing an organisation:

(a) What is the organisation's name?*	Tesco Bank
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(b) Please could you briefly explain the role of your organisation, including the sectors in which it operates or has most interest?*
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Tesco Bank is one of the UK's leading challenger banks, specifically designed to serve the needs of Tesco customers by rewarding their loyalty and rewarding their trust. We offer a complete range of simple and convenient retail banking and insurance products and services to over 6 million customers, from our locations in Edinburgh, Glasgow and Newcastle.

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?

At Tesco Bank, we understand that customers appreciate great value and straight forward products. We believe that customers choose to use DCTs as they offer a quick and convenient mechanism by which to access and compare these products and aid comparison between providers.

For the reasons set out above, coupled with the noticeable expansion in the number and scope of DCTs currently available, we would infer that customer trust in the information provided on DCT is high and relied upon in their decision making.

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

Tesco Bank has not commissioned any research into customers' selection process of DCTs or the number they use. However, we expect that customer choice is driven by the respective DCTs advertising.

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

We expect customers have a reasonable expectation that DCTs provide whole of market coverage unless there is a prominent disclosure to the contrary. Some DCTs imply whole of market coverage in their business name, for example, Compare The Market. We have also considered the fact that other intermediary channels, such as IFAs, are required to disclose whether they offer whole of market or restricted advice. It would be reasonable to assume that DCTs do not provide an advised service but nevertheless, customers trust and rely on the information provided by DCTs to get 'the best deal' or 'cheapest price'. We think it unlikely that a customer would link the absence of a particular provider in the search

results to the commercial relationships the DCT has in place, and instead assume this was due to their personalised search criteria or eligibility.

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?

Tesco Bank has not commissioned any research into customers' experiences of using DCTs. Therefore, following on from our comments to question 3, we do have suggestions on aspects that could be improved in the interests of transparency and fairness.

First, we feel strongly that prominent disclosure of the extent of market coverage is important to ensure that customers are not misled or place overreliance on the information provided. In not doing so, customers' trust could be misplaced which raises conduct concerns.

Second, clear and prominent explanations detailing the link between the remuneration received by the DCT and how they rank suppliers is needed to increase customer awareness of other factors that influence the presentation of search results. We expect that customers believe they are getting unbiased information on which they make informed decisions, when in reality this may not be the case. An example are the multiple 'featured deals' or 'sponsored results' often pinned to the top of the search results; we would question whether customers appreciate that these appear there as a result of a commercial arrangements with that supplier and based on the commission paid per sale.

Consumers benefit from having all their product and services options in one place rather than having to navigate around multiple websites. There is the added benefit of increased competition which drives down prices.

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?

For Tesco Bank, DCTs offer a combination of scale and cost per acquisition (CPA) that is unavailable elsewhere. As a channel, they provide sales volumes that it would be commercially unpalatable to not use them; our most recent data shows that approximately 36% of our credit card business and 55% of our new home insurance sales are generated via DCTs.

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

As a relatively new entrant in the market with a primarily digital offering, DCTs are an important channel for us. For example, we have used them extensively, although not exclusively, to promote our general insurance products. Due to their collective dominance as a distribution channel, it would not be viable to limit or withdraw our presence.

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

DCTs have undoubtedly affected competition in the markets. At the most simplistic, and cross product level there has been a significant downward pressure on price. While beneficial for customers, we believe this has had a number of unintended consequences, discussed further below, particularly in relation to products offering lines of credit.

In our experience, DCTs have traditionally traded on the value of products; in the credit card market for example, this has stoked competition on features such as duration, APR, rewards and introductory offers. DCTs have shifted their attention to credit quality/eligibility, with the introduction of pre-eligibility indicators such as the smart search tools. This is a marked shift away from traditional lending practice and requires providers to disclose credit risk criteria. We question this direction of travel. Our concern is that in doing so, the concept of a credit rating as well as banks' credit policies become commoditised products. The availability of

credit should be determined by our target model and risk appetite and not used as a feature which will inevitably trigger a race to bottom.

We also note that in relation to the range of products available, again in the credit card sphere, there has been a proliferation of very similar products from the same supplier on search results of DCTs. While this practice may appear to provide customers with more choice, we question the ultimate value to customers and the impact on the understanding of the options available to them. We see this as a negative consequence of competition amongst suppliers on DCTs and believe the purpose is to skew the outcome of search results in the supplier's favour.

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

We believe competition between suppliers using DCTs is already intense. We don't believe there are any barriers.

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?

In the past, we have offered incentives, such as Tesco Clubcard points to encourage customers to buy products direct from us directly. Due to contractual obligations with DCTs, which we elaborate on in question 10, we no longer do this. In terms of after-sale product servicing arrangements, Tesco Bank would not look to treat their customers differently regardless of their channel of choice.

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?

Tesco Bank have observed a number of initiatives by DCTs to compete for customers' business. The vast majority of these focus on improving the customer experience (cross-product) and providing greater certainty around acceptance prior to submitting an application (typically credit line products). Examples we have seen are pre-populated applications where the DCT already has the customers data and therefore speeds up the application process, dynamic 'cost of credit' calculators to help customers make decisions about affordability, and smart search tools to give customers an indication of whether their application will be accepted prior to applying. We also note that some DCTs set themselves an aggregate 'savings target', such as "50% of people could save £249...", and use this as a selling point.

One other way DCTs compete against each other is by using incentives such as free cinema tickets or toys to ensure sales are completed via their websites. Although popular amongst many customers, we have some concerns that these types of incentives divert the customer's attention from a proper assessment of the value of the product or service in question. As well as using these incentives to compete between each other, DCTs make use of Most Favoured Nation (MFN) clauses to ensure suppliers cannot provide incentives in their direct channels without being contractually obliged to also include them in any DCT offering.

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

Tesco Bank is unable to comment on or assess the impact that any restrictions to access to customer data has on DCTs competitiveness, however in terms of what we provide, all DCTs receive the same product information at the same time.

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

We believe the opportunity for new entry and growth for small DCTs is low. There are several well established DCTs, some with significant market share. Those with a significant market share are often better placed to negotiate more favourable contract terms with

suppliers. This allows them to invest more in above the line advertising to reinforce their market position.

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?

In our response to question 4 we put forward our concerns around the lack of understanding of how DCTs make money and how this impacts the information the customer receives from them. Taking this concern and considering it from a purely legal and regulatory perspective we have some concerns about possible future liability of any mis-selling claims. Should a customer claim they have suffered detriment as a result of the information they were shown, particularly due to a lack of transparency around the influence of commission, it remains unclear where future liability for such claims would land.

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

Advertising guidance, such as the UK Code of Non-broadcast Advertising and Direct & Promotional Marketing (CAP code), sets our rules designed to protect customers from potentially misleading advertisements or claims. For the reasons set out in our response to question 13, and the examples provided in response 15, we would question whether DCTs always meet these standards.

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

Tesco Bank would argue that, to date, there appears to be a disparity between the regulatory scrutiny of FCA regulated DCTs, and the regulated suppliers of the products and services they sell. Although the products and services available are of broadly the same nature but sold through a different channel, we have seen examples of regulatory requirements being applied in more relaxed fashion in the DCT channel than we would expect the FCA to consider compliant. Examples include compliance with the FCA GI add-ons market study remedies and the display of representative APR under financial promotion rules in CONC. We feel further clarity is needed regarding liability for DCT sales.

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?

Following the implementation of PSD2 in 2018, third party providers which could include DCTs, may be able to access account payment information, subject to the consent of the customer. While expected to revolutionise the payments industry and promote competition to the ultimate benefit of customers, we have reservations about the impact on banks. One outcome could be that the lender only serves to be the line of credit in the background. Were DCTs to step in between banks and customers, thereby disintermediating them, then the outcome could be an increase in prices or withdrawal from the market, as it is no longer attractive/viable.

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 / No
(please delete as appropriate)

Thank you for taking the time to complete this form.

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Or post it to:

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