

CMA: Market Study of Digital Comparison Tools

Submission from Capital One (Europe) plc.

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Capital One (Europe) plc is a credit card specialist in the UK. Our parent company is a top 10 full-service bank in the USA. Our primary involvement in and understanding of the DCT sector relates to the UK based Price Comparison Websites* (PCWs) and our answers below reflect that focus and insight.

*Price comparison websites are those sites which compare financial products. Typically, customers select which product type they are interested in and products are ordered based on the dimension assumed to be of greatest interest to that group. For example, a customer who indicates an interest in balance transfer products will see products ordered by length of introductory period (x months at 0% APR).

All responses are based on Capital One's experience of offering products through DCTs over many years, [] and our own consumer research.

Box 1: Our themes and key questions

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

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

We have identified that consumers use DCTs at several points in the credit card shopping journey;

- When looking for more information about credit cards in general
- when considering which credit card might best meet their needs
- when trying to understand whether they will be accepted for a particular card

Capital One has observed that consumers often assume that whichever product features at the top of the comparison table is the best or most relevant for them. Customers do not, in our experience, consider nuances of availability and price

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Our research also indicates that some consumers who are aware of a commercial relationship between the DCTs and lenders believe that only suppliers with whom the DCT has a commercial relationship are featured - or that products are given greater prominence because of a commercial arrangement.

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

Capital One has observed [] that customers choose DCTs in several ways

1. a consumer knows that they want to research, compare or understand eligibility and uses a search engine to find the site. []
2. a consumer sees/ receives a piece of marketing (email, on-line advertising, TV etc.) which drives them to the comparison site;
3. a consumer has opted to receive newsletters/ offers from a “trusted advisor” who also operates as a DCT.
4. the DCT offers a different product, e.g. credit score. This is marketed through outbound channels e.g. TV. []

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

As a mono-line credit card provider our experience and research is focused on the credit card part of this market, where our research shows us that;

- There is an expectation that DCTs - where they are understood to be PCWs - provide a ‘full picture’ of products for consumers to choose; and
- Consumers expect PCWs to present them with the most relevant or best card for their circumstances and see table ranking as performing this function

We identified that some consumers understand that there is a financial relationship between PCWs and the suppliers, although this wasn’t always apparent to everyone we spoke to. For some customers, there can be an assumption that the commercial relationship is having some effect on the way products are presented

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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?

PCWs provide an easy way for consumers to view a range of products in one place and, when implemented well, offer a clear way for consumers to make good product choices through effective product comparison.

This said, the way that sites are structured and laid out means that consumers do not always find them easy to navigate. It can, therefore, be hard for consumers to understand how to find the most suitable product.

DCTs play an important role in informing consumers and helping them to make good choices, although consumers are not always provided with enough information, in a clear enough format, to be able to choose the best product for them. As explained above, this appears to be caused by:

- difficulty in finding key information about the product (as described above)
- lack of clarity for the consumer in the way tables are presented (leading them to miss key information)

Tables are often ranked on a single primary term – this can be: length of introductory period; price (APR); rewards amount etc. Often, these terms have some conditions or exclusions attached, of which the customer may not be aware and which make proper comparison difficult.

Poor disclosure of non-primary terms can affect the customer's ability to make a good decision on which product to choose e.g. a product may feature at the top of a Balance transfer (BT) table, with a 36 month introductory 0% offer on BTs and a post-introductory period APR (go-to rate) of 19.9%. However, [] up to 49% of accepted applicants may receive a product with less favourable terms.

This lack of clarity has potential to create poor outcomes for the customer:

- they may be unaware of the true cost of credit for them at point of application;
- they can feel as though they are unable to change products once they become aware – because multiple “hard” searches at bureau will reduce their credit rating.

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Some DCTs are presenting more personalised results, which can be useful in simplifying decision-making for consumers. However, there is risk that the lack of clarity of recommendation logic can lead to the set of product offers being inappropriate for the customer. E.g. where product offers are linked to a credit score product, the consumer may assume that the offers are the best available for the individual's credit score. This is not inherently true.

Accuracy of personalisation can vary by DCT e.g. [] where 'Eligibility Checkers'[] are offered. With these tools the customer sees an eligibility for a "product" implying a particular price point - but terms may change at application.

It is possible for lenders to offer a more accurate representation of whether a consumer will be accepted – and on what terms. []

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

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

Capital One's requirements of DCTs we work with include (but are not limited to):

- compliance with all relevant laws and regulations;
- the offer of consumer transparency and value []

In addition, we consider the administrative overhead associated with any individual DCT and may decide not to work with those who attract too few customers to justify the associated contracting, relationship management and compliance costs.

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

DCTs offer an easy way for new suppliers to enter a market in a way that can allow their product to be compared to other providers in the same market. They can provide [] traffic to a new entrant without the need for marketing infrastructure. []

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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 encourage competition on a particular dimension. For example, for some years there has been intense competition on BT introductory periods. There has been proliferation of products intended to attract new customers by maximising exposure in DCTs.

Similarly, there has been competition on price for those customers in the credit building part of the market. Advertised prices in DCTs have reduced, gradually. However, this does not necessarily represent better value for the customer. The limitations of one-dimensional comparison on DCTs mean that increases in other costs may not be transparent to the consumer.

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

Clearer disclosure of product terms and mechanisms for multi-dimensional comparison will help customers to make better choices for their particular circumstances. Increased clarity of disclosure on e.g. range pricing will limit the ability of suppliers to focus on offering value on a single headline term.

Quotation searches are a powerful mechanism for driving firms to innovate to provide the best possible terms for the individual— but there is risk that, if they do not give customers certainty of acceptance and key terms, they will be unhelpful in driving informed choices.

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?

It appears to be [] common for providers to offer a lower price/ longer introductory period in DCTs than in other channels. This can be driven by factors such as the direct comparison against competitor products in these channels.

The emergence of eligibility checkers as a means of comparison has led suppliers to invest in achieving higher scores for eligibility. Capital One has replicated application decisioning for quotations so that we can pre-approve customers. []

Theme 3: Competition between DCTs

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

The degree to which DCTs focus on the credit card part of the market varies a lot. Some of the major PCWs generate only small volumes of credit card customers because their focus has historically been on the insurance market.

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2. []

3. []

4. []

The market is evolving over time. [] Until recently, competition was concerned with appearing top of the list.

In recent years, we have seen a shift towards more personalised forms of product comparison. This has potential to be beneficial in terms of simplifying the customer experience and highlighting the most suitable product for the individual. However, the problem of consumer transparency in how recommendations are made has not yet been addressed.

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

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