

October 2016



The Big Deal's response to the CMA's study into digital comparison tools

Summary

- The CMA's investigation is hugely welcome and we hope it brings good news for consumers and competition in the sectors these tools operate.
- Price comparison websites use multi-million-pound ad campaigns to promote a cuddly image of themselves. But the truth is that they are hard-edged companies that make hundreds of millions in profit and there are major concerns about how they operate.
- In recent years, they have been [x] the cheapest gas and electricity deals from consumers online. They were also caught lying over the phone about what the best deals are so they could boost their profits.
- These sites refuse to be transparent over how they operate and the commissions they charge businesses to be on their sites.
- The bigger sites have become [x] in their sectors [x]. For example just two sites - [x] and [x] - do 80% of all energy switches. [x] does 50% of all energy switches. It is well known in the sector that the biggest sites charge the highest commissions to energy companies. Commissions that the smaller suppliers simply can't afford to pay. And if they do, they have to pass them on to consumers in the form of higher prices.
- This [x] behaviour by the biggest price comparison sites stifles competition and boosts the market strength of the incumbent energy companies.
- Too often price comparison sites do what is best for them not what is best for consumers.
- In the energy market, it's clear that price comparison websites have failed to solve the problem of the huge number of people who don't engage in the market. Instead there is now a hard core of people who switch regularly every year while the vast majority (70% according to the CMA) do not engage and pay £200 to £300 too much. Price comparison sites are meant to increase consumer engagement. This not consumer engagement. They have failed.
- It's no surprise though. There has been little to no innovation in the price comparison space. These sites look exactly the same as they did fifteen years ago when they first started and their business model remains exactly the same. Commissions from the suppliers they compare worked out in back rooms without any transparency and accountability. A business model that has proved highly lucrative for these sites who have much higher margins than the companies they compare.
- The public, quite rightly, realises that these sites must be viewed sceptically. Polling from YouGov shows that only 22% of the public say price comparison sites are trustworthy when it comes to providing impartial information.

- These sites need to be considerably more transparent over the way they operate. In particular, there should be much more openness about their business models and the commissions they charge. Transparency is a prerequisite for trust.

About The Big Deal - thebigdeal.com

- TheBigDeal.com is an energy switching site, focused on organising collective switches. We use the collective bargaining power of our 200,000 (and growing) members to deliver unique market beating deals on gas and electricity that people can't get on their own. We have saved the British public £15 million in total with an average saving of £300 per family.
- We reach a segment of the population that has been let down by the Big Six energy companies for too long. Over 60% of our membership are aged 55 or over and 30% are aged over 65. Moreover, 62% of our members have never or hardly ever switched before. We are spreading competition to parts untouched by traditional price comparison sites.
- We have championed working with smaller suppliers with several winning our collective switches including: Places for People Energy, Good Energy, LoCO2 Energy, Robin Hood Energy, First Utility, GB Energy Supply, Bulb and Green Star Energy.
- We provide a whole of market comparison to all our members. And we believe in transparency so we are open about our commission publishing it on our website. Our commission for our most recent switch was £20 per fuel, £40 for a dual fuel switch. This is the same for all suppliers who bid whether they are large or small.
- Our analysis set out in this document is based on our experience of the energy market. While not everything stated will be applicable to all sectors we do believe there are findings that can be applied to numerous other sectors. In particular the broader issues around transparency.

Price comparison websites [x] cheapest deals from consumers online and over the phone

- In October 2014, the Big Deal in partnership with The Sun newspaper published research that showed that the Big Five switching websites (Go Compare, Compare the Market, MoneySupermarket, uSwitch and Confused) all [x] the cheapest deals from users because they didn't get paid by energy companies for them.
- The research involved a 13 week investigation of the results displayed by price comparison sites. They [x] the cheapest deals from consumers for weeks on end. Some of the sites (Compare the Market and GoCompare) simply defaulted to only showing deals that they received money for. Other sites [x] deals via a mechanism we called the "Today button." MoneySupermarket, uSwitch and Confused asked users if they wanted to see tariffs they could switch to "today". Of course your average user would automatically select Yes filtering out all the deals that did not pay them a commission. For further information and the full findings of the research see: <https://thebigdeal.com/blog/research-into-price-comparison-websites>
- The investigation received widespread media coverage and PCWs' actions were condemned by politicians of all parties and Citizens Advice. Ofgem then tightened up the regulations around the Whole of Market view in the Confidence Code.

- [x] polling at the time found:
 - 79% think energy switching sites should automatically ensure every user sees the lowest priced tariff whether the site receives a commission or not. Just 7% disagree.
 - 74% think switching sites should publish in full the commissions they receive. Just 5% think it is a bad idea.
- In February 2015, the Big Deal and The Sun published research into activity over the phone that found that all the Big Five switching websites (Go Compare, Compare the Market, MoneySupermarket, uSwitch and Confused) [x] the cheapest deal when talking to customers. [x] <https://thebigdeal.com/blog/PCW-Miselling-Over-The-Phone>
- [x] polling following these investigations found increased support for stopping the [x] deals and low levels of trust in price comparison websites:
 - Huge majority of people (86%) says price comparison sites should ensure every user sees the lowest price tariffs regardless of whether they receive a commission or not from the supplier. Just 3% disagree.
 - 70% say it's a good idea for sites to publish how much money they make in commission per switch. Just 4% disagree.
 - Just 22% say these sites are trustworthy when it comes to providing impartial information.
- Both sets of research led to an official investigation into the behaviour of price comparison websites by the Energy and Climate Change Select Committee and the energy regulator Ofgem also tightened up the rules around comparison websites. Ofgem banned price comparison websites from automatically defaulting users to deals that paid them a commission, they also tightened up the wording around the "today button." This meant that users made a more informed choice before choosing whether to see a "whole of market" view or a partial view of tariffs that paid the price comparison website a commission. These changes greatly improved the transparency of price comparison websites and improved the customer experience.
- In the CMA report on the energy market, it was proposed to remove the requirement for price comparison websites to show a whole of market view. This is bad news for consumers. It will see the return [x] cheapest deals and further reduce consumer's trust in the energy market. It's also bad news for competition. Smaller suppliers who can't afford to pay the very high commissions of the biggest price comparison sites - as much as £75 / £80 - will effectively be excluded from the market. This will benefit the Big Six incumbents who have the highest prices.

Impact of PCWs on competition between suppliers of the services they compare - lack of transparency from price comparison websites damages competition and boosts the incumbents in the market

- In the energy sector there are two sites that do the vast majority of switching. uSwitch and MoneySupermarket account for 80% of all energy switches. And the split between them is not balanced.

uSwitch does 50% of all switches. Our understanding is that in other sectors there is a similar issue whereby there are just two or so sites who do the vast majority of business.

- uSwitch and MoneySupermarket's monopoly on energy switching is much larger than the monopoly than the Big Six have when it comes to supply. This is particularly worrying when the reliance on these sites has dramatically increased in recent years. The amount of people using Price Comparison Websites to compare energy deals has increased from 39% in 2014 to 51% in 2016 according to Ofgem.
- This market dominance means these two sites - in particular uSwitch - charge the highest commissions. It is widely known in the energy industry that the biggest price comparison websites charge £[x]+ per fuel. Such high commissions benefit the Big Six but hurt the smaller suppliers.
- Many smaller suppliers are willing to pay a commission, but are unwilling or can't afford to pay such huge prices. That is entirely understandable when they are producing dual fuel deals that cost just over £700 a year then a £70+ commission is 10% of someone's annual bill. Small firms - who unlike the Big Six don't have a huge customer base on standard variable deals to subsidise their prices - simply can't afford to pay these kinds of prices without passing the cost onto consumers thereby leading to higher bills.
- But these smaller suppliers are willing to pay a reasonable level of commission. For example, GB Energy agreed a deal with the Big Deal at a commission of £[x] per fuel. So have numerous other independent suppliers. Furthermore, many smaller suppliers are on smaller switching sites but not the highest charging ones - in particular uSwitch.
- This situation benefits the bigger price comparison sites as well as the Big Six. Price comparison websites know that they will get more switches - what's known as a higher conversion rate - if they have at the top of the tables deals from brands that are well known rather than a small supplier easily recognisable. More switches means more profit for the price comparison site even if it means the consumer doesn't get as good a deal and they are helping to prop up the incumbents in the market. It's also a win-win for the Big Six as it means more switches to them and less switches to their rivals.
- The total lack of transparency on commission also means that some price comparison sites have a different price for different suppliers. Many in the sector say that this sees smaller suppliers - for similar reasons to the above - facing higher commissions than larger suppliers from the biggest switching sites. [x] The CMA should as a minimum require price comparison websites to provide them with the commissions they charge each supplier to see if this is occurring.
- The lack of transparency means that the only thing price comparison sites really compete on is marketing. Who can come up with the best TV advert or best fluffy toy or pay the most for google search terms.

Price comparison sites have failed to solve the problem of unengaged customers in the energy sector

- Price comparison sites have existed for over ten years now and the main problem of the energy sector - the huge number of people on the Big Six's standard tariff paying £200 to £300 too much then they should be - still persists.

- This is despite comparison sites claiming to be the solution to the lack of consumer engagement. Instead what we have is a hard core of people who switch every year while 70% of the market remain with their Big Six supplier on their standard deal.
- What makes this worse is that these people are much more likely to be poorer, older and more vulnerable. In contrast the hard core of switchers and switchers in general tend to be younger, savvier and richer.
- It's ironic that price comparison sites are getting the best deals for the people who need them least. And things don't look like changing. There has been little to no innovation in the price comparison space. These sites look exactly the same as they did fifteen years ago when they first started and their business model remains the same. A model that provides hundreds of millions of profit and a much higher margin than of the companies in the sector they compare.

Data as a barrier to new entrants to the DCTs space

- At the same time as not innovating themselves price comparison sites hold considerable power over data to stop new entrants coming into their sector. For example, TheBigDeal.com relies on a price comparison site to provide us with the hundreds of historic tariff prices, new tariff prices and all their T&Cs. Any new entrant has to pay to gain access to this data, data that is required to be able to carry out a switch.
- This means that challenger digital comparison tools are effectively dependent on incumbent price comparison sites for the data required to disrupt this sector. Little wonder that there has been so little innovation amongst price comparison in the last ten years. Ofgem should instead offer a central database of tariffs making this open data and creating an API for anyone to access it. Furthermore, this would go hand in hand with the CMA proposal to open up the gas and electricity meter databases which should also be opened up to intermediaries too. This would also help encourage innovation in the sector.

How price comparison sites need to change - transparency

- Trust in the energy market is in short supply and must improve. Transparency is a prerequisite to trust. Consumers need to know how things work so they can make informed choices. Unfortunately too many people don't understand how the price comparison websites make money and too often think they are doing what they do out of the goodness of their hearts. YouGov polling found that 30% of people were unaware that price comparison websites make money when someone switches through them.
- We believe that accredited price comparison websites should be required to publish their commissions by supplier and tariff, so that consumers are aware what interests are at play when they switch. We are not suggesting that in the user journey the exact commission level should be provided for each deal - this may confuse a consumer - but they do need to be made more aware of how these sites work.
- Instead commissions at supplier and tariff level should be published by each site so they can be monitored by groups like Citizens' Advice to guard against bias. Price comparison sites would then know that if they tried to push any specific deals that they will be held to account for why they are doing it - because it's the best deal for the consumer or because it's the deal that makes the price comparison website the most money?

- The publication of commissions would also increase competition between price comparison websites driving down commissions rather than them going up as the biggest players solidify their market power. Commissions end up on families' bills so if commissions go down bills will go down.
- YouGov polling found that 70% of people say it would be a good idea for comparison sites to publish the amount of money they make, just 4% disagree.
- At the very least, Govt / Ofgem needs to collect data on commission levels of any accredited price comparison websites, so they can understand if any price comparison websites (uSwitch and MoneySupermarket particularly) are [x] charging more to smaller suppliers than bigger ones.
- Increased transparency and openness about how price comparison sites work should not only apply to the energy sector. It should be applied across the board.

October 2016

The Big Deal - thebigdeal.com

ENDS