

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*	Mr
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Forename	Alastair
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Surname*	Douglas
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Email*	[]
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What is your role / profession*	CEO
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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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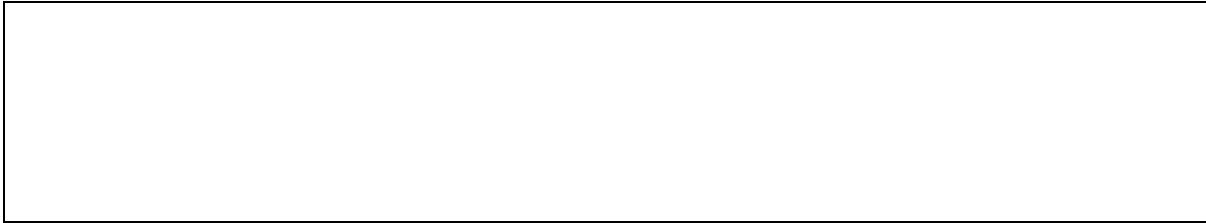
If you are representing an organisation:

(a) What is the organisation's name?*	TotallyMoney.com
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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?*

TotallyMoney.com is a leading consumer credit intermediary via the provision of credit comparison services, principally through the consumer credit comparison site TotallyMoney.com and supply of its comparison technologies to other websites as "white label" credit comparison services. It operates primarily in the comparison of consumer credit cards and instalment loans but also has a retail mortgage comparison tool. The commentary provided below is focused entirely on consumer credit DCTs and should not be regarded as accurate for DCTs operating in other sectors.

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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?

Consumers do not use DCTs enough in credit applications. For example, only 2-3 million new credit cards per year out of 50 million total active accounts are driven by a journey that originates with a DCT. In our view there is insufficient churn (and particularly ‘considered churn’ where product choice is well informed) in consumer credit products to promote optimal price competition between providers. The result is very high average net interest margins, especially in credit cards. In credit cards, the last few years have seen overall only ~10% new accounts p.a (with circa half of those coming via a DCT as described above). The resulting general inertia of 90% of accounts may be a significant factor in the historically large gap between average credit card interest (of ~18% APR over the last 5 years) and cost of funds for credit issuers which is at historic lows due to current monetary policy.

We believe that the lack of churn is driven by lack of consumer awareness of potential savings; the historical difficulty of comparing credit cards (due to opaque eligibility and multiple dimensions of pricing); a lack of marketing of credit comparison services compared to other comparison verticals; and the lack of an annual renewal cycle (compared to general insurance, for example) to emphasise the large annual cost of credit to the consumer.

We do not believe that the lack of utilisation of credit DCTs is significantly due to a lack of trust, particularly in consumer credit where the vast majority of DCTs are not owned or controlled by organisations with an interest in consumer credit (a contrast to the situation in general insurance where several DCTs are aligned to insurance groups). Aligned to the lack of partial ownership, the biggest credit DCTs seem to feature the vast majority of significant credit comparison products.

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

Unlike general insurance, in credit the use of credit DCTs is not an embedded behaviour for the vast majority of consumers. As described above, most consumers never use a credit DCT. We do not have data on this behaviour but think it unlikely that many consumers are using multiple credit DCTs and instead probably use a brand that they have heard of, or one that they encounter through a search or, less often, a promotion.

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

Undoubtedly, consumers would like DCTs to feature and compare fairly every possible credit product. And on the whole, we believe the market works pretty well in this regard. We believe that credit DCTs compete significantly with each other on market coverage. However, as described above and below, the major issue is that most consumers do not use credit DCTs often enough (or at all) to drive enough price competition amongst credit issuers. Whilst most credit issuers cooperate with the DCTs, this is because DCTs are a relatively “cheap” source of new accounts for them. []

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?

DCTs in consumer credit probably now work better than most consumers understand. Given the relatively low levels of churn in consumer credit, it's likely that most consumers have not used a credit DCT recently. Historically consumer credit comparison sites consisted of 'flat' tables of products organised by product features (APR, balance transfer periods, fees and so on). Products could be sorted in order by these features. This type of DCT service was better than nothing since it at least forced greater price competition on some dimensions. For example, over the last 4 years we have seen introductory offers for balance transfer credit cards grow from ~20 months at 0% to ~40 months at 0% (with other product features remaining approximately stable, this clearly represents better value for the consumer). In our view, it's fairly unarguable that competition amongst credit card issuers for position on DCT balance transfer tables has driven this greater consumer value.

However, many consumers would have had a relatively imperfect experience using a credit DCT historically. [] TotallyMoney.com are pushing forward ways to have better “overall” comparison of products – firstly by introducing savings calculators that show overall savings of each product according to the consumer's particular circumstances taking account not just one variable but, for example, balance transfer periods, applicable fees and interest rates; secondly by the recent introduction of multi-variable sorting – giving a

better sense of the overall strength of an offer and relevance to the consumer. The second problem has been the overlay of eligibility – many products ranked at the “top” of tables have been necessarily those with tighter credit criteria. Consumers have therefore applied and been rejected in the majority of cases. There is little point in ranking a series of products that the consumer does not qualify for. Over the last four years TotallyMoney.com and a small number of other major players in the credit comparison space have been at the forefront of implementing eligibility screening: this allows consumers to understand which products they are likely to successfully apply for. The accuracy of this screening is improving incrementally and now very significantly increases (for example, typically at least doubles) the likelihood of a consumer qualifying for a product which they choose to apply for by ruling out options that are likely to reject them before the consumer applies. We believe that historically, rejection for credit products, coupled with the negative impact that multiple applications has on a consumer’s credit profile, had a serious negative effect on consumers’ propensity to both use credit comparison websites and to attempt to change credit product for a better deal. It is likely, given that these innovations are relatively recent, that most consumers are not yet aware that credit comparison services offer credit-screened and personalised credit comparison. Clearly, a service that shows consumers which products they are likely to qualify for represents a better start to a consumer’s decision process than responding to a piece of direct marketing for a particular product from a particular credit issuer. [] This latter was the modal start of a consumer credit application as recently as 5 years ago but is now a minority source of new accounts for most credit issuers.

With a large selection of credit-eligible options laid out for them in an easy to understand way and thoughtfully ranked by price and suitability to circumstances, we think it’s clear that the consumer is likely to end up with a significantly better product than if they respond to direct promotions from the issuers – which has historically been the way a majority of consumers have applied for credit. []

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?

Economies of scale dictate that DCTs have to be large enough to warrant the attention of suppliers. Providing a DCT is large enough, almost all suppliers will want their products to feature and rate highly on the DCT. This is because, compared to direct marketing, DCTs represent a relatively "cheap" source of new accounts for suppliers. []

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 certainly make it easier for suppliers of credit to enter the market and attract more consumers. DCTs are very keen for new suppliers of competitive good credit products to appear on their tables. And for suppliers, the information and intellectual property barriers to acquiring new customers on a DCT are very low compared to other sources of new accounts. For example, the use of direct mail or television advertising has high barriers to entry both in terms of absolute investment and in terms of time for experimentation (generation of learning about targeting and collateral). In contrast, a supplier has nearly no barrier to entry beyond agreeing contractual terms and ensuring regulatory compliance when listing its product on a DCT.

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 clearly driven greater competition between suppliers, with this influence increasing as the share of new accounts driven by DCTs has increased (particularly noticeable over the last five years). We have seen ever better pricing in instalment loans over the last five years. We have seen better (longer) 0% balance transfer and 0% purchase offers in credit cards over the last five years. DCTs are an important factor also in increasing the range of products. [] The beneficiary has been the consumer. However, as described elsewhere, the bigger problem is that whilst users of DCTs benefit, most consumers remain inert, keeping the same product that they may have had for many years and failing to benefit from the latest, better value offers of credit.

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

The beneficiary of competition amongst suppliers on DCTs has been the consumer. However, as described elsewhere, the bigger problem is that whilst users of DCTs benefit, most consumers remain inert, keeping the same product that they may have had for many years and failing to benefit from the latest, better value offers of credit.

We believe that this problem is declining. New credit applications and journeys are continuing to move online (where thanks to DCTs price comparison is easier); consumer understanding and awareness of DCTs is growing; as described elsewhere DCTs are improving - for example the introduction and growing accuracy of eligibility screening.

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?

[] DCTs have, as described elsewhere, led to far more price competition between suppliers.

Advanced DCTs, that feature eligibility screening, have also encouraged suppliers to make their acceptance criteria more open and less opaque.

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?

DCTs compete with each other on:

- Coverage – evidenced by promotion of “exclusive” deals not available from other DCTs or directly from the supplier
- Ease of use/functionality – a better user experience will yield more engagement from consumers
- Better, more accurate technology – more accurately forecasting eligibility for example – many credit DCTs do not feature eligibility screening at all.

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

There appears to us to be a fairly fair marketplace for DCTs to compete with each other. Larger DCTs may have more commercial leverage over suppliers and be able to extract better commercial terms – giving them an advantage in promoting their services but there are no structural barriers to competition that we observe.

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

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?

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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?

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?

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Other comments and further contact

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

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Would you be willing for us to contact you to discuss your response?*	Yes / No <i>(please delete as appropriate)</i>
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Thank you for taking the time to complete this form.

Please email it to: comparisontools@cma.gsi.gov.uk.

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