

DLG RESPONSE – 24 OCTOBER 2016

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	Emma
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Surname*	Hopkinson
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Email*	[]
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What is your role / profession*	Senior Legal Counsel, Competition & Anti-Bribery
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Are you representing yourself or an organisation?*	An organisation
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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?*	N/A (representing an organisation)
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If you are representing an organisation:

(a) What is the organisation's name?*	Direct Line Insurance Group plc ("DLG")
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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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DLG provides a wide range of general insurance products to consumers through a number of well known brands including Direct Line, Churchill and Privilege. It also provides insurance services for third party brands through its Brand Partners division and partners include: Sainsbury's, Nationwide and Prudential. In the commercial sector, its NIG and Direct Line for Business operations provide insurance products for businesses.

In addition, DLG continues to provide support and reassurance to millions of UK motorists through its Green Flag breakdown recovery service.

Further information about DLG can be found at: <http://www.directlinegroup.com/>.

Please note: DLG has responded to these questions as a result of expertise in the markets in which it operates, and therefore insights are limited to general insurance. In addition, DLG has limited knowledge of the wider DCT sectors, and so the response is limited to knowledge of price comparison websites ("PCWs") unless otherwise specified.

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?

DLG is of the view that insurance consumers use PCWs to compare the price of an insurance product, with a comparison of features of the product perhaps being a secondary consideration. PCWs allow consumers to compare results from multiple suppliers based on a single data submission which is likely to save them time.

DLG has no evidence to confirm a lack of trust by consumers in DCTs, and anecdotally consider that consumers have increasingly realised that DCTs are businesses rather than public information services, and treat them accordingly. An increasing number of consumers opt to use this route to compare and purchase products, although DLG has observed a significant number of consumers accessing multiple PCWs and / or comparing a direct quote, suggesting shopping around to find the right deal.

Below are some extracts from data DLG has sourced from [] which we consider are responsive to this question. []

Observation: Consistent level of usage of PCWs in the home insurance channel over the last 12 months.

Source: []

Observation: Slight decline in the proportion of home insurance consumers that think the price quoted is about what they will pay on PCWs indicating trust on price has fallen slightly since the start of 2016.

Source: []

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

PCWs tend to use a variety of traditional media (e.g. TV, print media) and new media (e.g. Twitter, Facebook) to attract customers to their websites. In the insurance markets they tend to rely on 'above the line' advertising (TV advertising, for example) to raise the profile of their brands / services. This activity is supported by SEO¹ and PPC² activity. PCWs also use devices such as free toys, free cinema tickets and other non-product incentives to attract and retain customers.

Below is an extract from data DLG has sourced from [] which we consider is responsive to this question. []

¹ Search engine optimisation: which includes activities by companies to increase optimisation to drive 'click-throughs', such as writing articles on blogs, etc.

² Pay Per Click.

Observation: Comparethemarket.com (“CTM”) continue to have the highest PCW usage levels ahead of Moneysupermarket.com (“MSM”) in 2016.

Source: []

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

This is not an easy question for DLG to answer, since it relies on a detailed assessment of consumers’ expectations. In DLG’s view, there may be some variation in the level of understanding of consumers about the commercial relationships between DCTs and suppliers.

It is not necessarily the case that full coverage should be considered realistic or desirable in all markets, since competition and choice in insurance has, in DLG’s view, been enhanced as a result of some brands not listing on PCWs. For example, DLG’s Direct Line brand is not listed on PCWs and offers competitive premiums in the relevant markets plus a superior service proposition.

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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?

In DLG's view, the majority of insurance consumers are familiar with PCWs and, we assume, find them easy to use. For insurance products, PCWs allow consumers to access a large quantity of quotes, quickly. In addition, it is clear that consumers enjoy receiving rewards alongside a purchase of products, even in cases where the insurance is compulsory (such as motor insurance). Consumers feel empowered to make a purchase decision based on a selection of quotes, and / or potentially challenge a renewal price with an existing provider. However, DLG observes that there are some consumers, such as those with limited access or usage of the internet, who may be less able to access and use DCTs, which may have an impact on their ability to search, purchase and switch via this medium. Additionally, since not all brands are listed on individual PCWs, this could limit a consumer's ability to compare quotes (and this may not be something that is apparent to consumers).

In insurance markets, PCWs continue to focus key messages around saving consumers money, and whilst this is an important consideration, consumers also need to choose the right level of coverage for their needs. It is important for consumers to understand that they might not necessarily be comparing like-for-like products when searching on a number of PCWs, with certain prices including specific benefits, whilst others may not offer the same level of cover.

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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?

Market coverage is a key factor in insurance supply and, with PCWs continuing to mature, customers are increasingly using PCWs in their purchasing journey. This means that suppliers have an increased dependence on PCWs from a distribution perspective.

It is important that PCWs and suppliers have a good working relationship, allowing them to achieve arrangements for the benefit of those with whom they partner, and for consumers. DLG's aim is to make insurance much easier and better value for its customers⁴.

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

PCWs introduce consumers to suppliers where such consumers may not have otherwise been aware of the suppliers' brand offering. DCTs can make it easier for new suppliers to enter a market, where they do not yet have the brand strength of a more established supplier. The PCW channel represents a low acquisition cost for insurance suppliers and is therefore a relatively cheap route to market via 'warm leads' from a PCW. For example, DLG currently does not market the Privilege brand directly; the majority of (new) Privilege business is obtained via PCWs.

As noted above, PCWs are extremely popular with insurance consumers, who may not have time to complete and compare individual quotes. PCWs run large marketing campaigns, which drive consumers to their websites and reduce the amount of marketing expenditure required by the supplier to reach a large proportion of consumers. That said, and whilst PCWs are effective at assisting suppliers to enter and attract customers, it isn't necessarily the case that it is easier for the consumer to engage effectively, as noted in the DLG response to question 7, below.

⁴ DLG Annual Report & Accounts 2015, page 2, "...our customers are at the centre of everything we do."

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

In order to remain competitive in insurance markets, it tends to be the case that suppliers need to offer their best possible prices to PCWs. The PCWs' focus on price, including in their marketing campaigns, can make it difficult for suppliers to demonstrate the benefits of the coverage of a product, including where such products carry a higher premium. It can be harder for consumers to compare the value of a product and distinguish between product and service differentiation, rather than simply the price of a product. The focus on headline premium can also result in a difference between the headline figure and the amount consumers will ultimately pay (for example, as a result of APR, fees, add-ons, excesses, etc).

The results pages of PCWs tend to be sorted in decreasing order of price of the core premium; and it will therefore be necessary for suppliers to decrease their prices as far as possible, if they want to obtain a top position in the results. Since price is such a key focus, the policy coverage and other terms may be reduced as a result, which can be less obvious to consumers. The PCWs tend to determine the product features that suppliers are incentivised to offer, through the choice of 'ticks' on the PCW results page, and any other investment in product or service by a supplier may not be immediately visible to a consumer.

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

The four main PCWs each have broad coverage and strong bargaining power and are able to require suppliers to sign up to Most Favoured Nation ("MFN") clauses which prevent lower prices on insurers' own direct online channels. It is DLG's view is that these MFNs and other contractual restrictions in contracts / threats of being delisted from a PCW are barriers to PCWs increasing competition between suppliers, as these can restrict the trading capabilities for suppliers.

If suppliers were able contractually to price differently on their direct websites, for example, they could have more opportunity to explain the differences between price and product combinations, tailored by channel to meet specific consumer needs. PCWs, by contrast, have limited space to convey this message to consumers and PCWs' ranking by price alone means the differences in scope of cover and other additional benefits or restrictions may not feature, or not feature as prominently, as price.

DLG considers that insurance should be purchased based on the level of cover and product features, as well as on the basis of price, and are of the view that the interpretation of what is the 'best deal' as outlined by a PCW, should move away from a focus purely of price. DLG does acknowledge that a different scoring system where consumers could compare across different PCWs may not be straight forward to design, but DLG would be keen to discuss this further with CMA if this was an area of interest, in order to try and achieve the best deal for consumers in terms of scope of the products offered.

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?

Contrary to some other insurance companies, the underlying products offered to both PCW customers and direct consumers by DLG are the same (although the offer may vary).

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 in a variety of ways; mainly in terms of marketing and promotions. In DLG's experience, CTM has a significant advantage in terms of market share, as a result of very successful marketing campaigns. In insurance markets, all of the key PCWs⁵ offer a wide variety of insurance products, including car, home, van, motorbike, landlord, commercial, travel and life insurance. They also offer other lifestyle and financial product comparisons.

PCWs appear to seek to make their websites as easy to use as possible given the range of consumers who choose to use PCWs as part of their market research and purchase journeys. As far as DLG is aware, there is no material difference in the service levels offered by PCWs for insurance. DLG has no information to share with the CMA about the level of awareness consumers may have about the relationships PCWs have with suppliers, or the way PCWs are funded.

For a PCW, data on consumers is paramount to their business model, and so they ensure suppliers comply rigorously with relevant contractual clauses relating to data and data security. This is something of prime concern to suppliers also.

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

DLG has no additional information to provide in response to this question.

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

Costs of entry into a market and the necessity for brand recognition may be barriers to competition, but DLG is not able to state conclusively the significance of these issues. In insurance, the success of CTM's marketing campaigns has resulted in an increase in its market share in both motor and home insurance, which could be a trading barrier for other PCWs who operate in those markets.

⁵ CTM, Gocompare.com ("GoCo"), Confused.com ("Confused"), MSM.

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 DLG's view, PCWs act as intermediaries and should be presented as such to consumers, which will assist in allowing consumers to make appropriate judgments about the use of a PCW in their circumstances.

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

DLG has no specific information to provide in response to this question.

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

DLG has no specific information to provide in response to this question.

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?

DLG would recommend the CMA considers the following likely future developments: increased switching focus from both Government and the Financial Conduct Authority ("FCA"); the FCA's recommendations following work on big data⁶; FCA work on price discrimination / cross subsidisation⁷.

In addition, DLG considers the PCW sector in insurance to be relatively concentrated, and any proposed or planned future consolidations within this sector may have an adverse impact on competition.

⁶ FCA feedback statement following Big Data call for Inputs, published 21 September 2016: <https://www.fca.org.uk/news/press-releases/fca-publishes-feedback-statement-big-data-call-input>

⁷ Occasional Paper No. 22: Price discrimination and cross-subsidy in financial services: <https://www.fca.org.uk/publications/occasional-papers/occasional-paper-no-22-price-discrimination-and-cross-subsidy>

Other comments and further contact

Do you have any other comments you would like to add?
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DLG has no other comments to add.

Would you be willing for us to contact you to discuss your response?*
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Yes

Thank you for taking the time to complete this form.

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

Or post it to:

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