

Digital comparison tools market study

Update paper

28 March 2017

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The Competition and Markets Authority has excluded from this published version of the market study report information which it considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omissions are indicated by [✂].

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1. Summary

- 1.1 This paper provides an update on our market study of digital comparison tools (DCTs). We are now six months into the project, and are due to publish our final report by 28 September 2017.
- 1.2 DCTs play a major role in a variety of markets, and many consumers use them to shop around. They offer substantial benefits in reducing hassle for people and in increasing competition.
- 1.3 For those benefits to be maximised, a number of conditions need to be met: consumers need to be confident enough and have enough trust to use DCTs; DCTs themselves need the ability to operate effectively; competition needs to be effective; and regulation of DCTs needs to be appropriate.
- 1.4 At this stage, the evidence we have reviewed suggests that many people are likely to be realising significant benefits from DCTs in the sectors we have looked at, but that there is room for improvement.
- 1.5 During the remainder of this study we will consider four types of possible steps we and/or others could take to increase the benefits delivered by DCTs. These steps are:
 - (a) Maximise consumer confidence and build trust.
 - (b) Improve DCTs' access to necessary inputs.
 - (c) Make competition more effective.
 - (d) Improve regulation.
- 1.6 These steps could involve a combination of competition and consumer enforcement cases, recommendations to regulators and/or government, and working with firms in the sector. This could be done either through this project or as a result of considering further action.
- 1.7 We have decided that a market investigation reference is not necessary, as the four types of further action identified above can be pursued through the powers we and others have, without a market investigation.

Introduction ([Chapter 2](#))

- 1.8 On 29 September 2016 we launched a market study into DCTs. By 'DCTs' we mean digital intermediaries that help consumers compare or switch –

including both price comparison websites and apps.¹ DCTs have been an important topic in a number of our previous projects, such as our private motor insurance (PMI), energy and retail banking investigations, or recent competition enforcement work.² We wanted to consider how the benefits of these increasingly important tools could be maximised, but also to consider concerns that had been raised on a range of issues from DCT-supplier contract terms to transparency.

- 1.9 We are looking at DCTs across sectors, starting with those sectors where we already have experience from previous work, such as energy, legal services and motor insurance. We have added some new case studies: credit cards, broadband, home insurance and flights. Together these form our focus sectors. While certain issues may well be specific to particular sectors, we expect many of the themes we are addressing to be common to DCTs beyond our focus sectors.
- 1.10 This update paper sets out our current views in broad terms, based on the evidence we have considered so far, and indicates our proposed focus for the second part of the study. It does not report or evaluate every piece of evidence or view we have received.

What DCTs do (Chapter 3)

- 1.11 DCTs act as intermediaries between consumers and suppliers, presenting a range of products or services to consumers in various digital formats, and helping users choose between options. DCTs may also offer to complete the transaction or switch suppliers on consumers' behalf.
- 1.12 DCTs offer these services in a range of ways, involving a variety of relationships with suppliers, but also including other parties such as affiliate networks or white-label comparison service providers. In our focus sectors, DCTs are mostly commercial businesses, often earning revenues from suppliers on a cost-per-acquisition basis.
- 1.13 Different DCTs offer a variety of services, from simple 'best buy' tables, through to automated switching. Most common, however, in our focus sectors is currently something in between these two – comparison tables, often with various ways of refining a search, and in some sectors with bespoke pricing or eligibility checking.

¹ Our working definition for DCTs is 'web-based, app-based or other digital intermediary services used by consumers to compare and/or switch between a range of products or services from a range of businesses'.

² CMA, [Energy price comparison websites: suspected anti-competitive agreements](#). Case closed 6 October 2016.

The benefits DCTs can offer (Chapter 4)

- 1.14 DCTs can offer several benefits. They can make searching around and switching easier for consumers, and can encourage disengaged consumers to shop around when they otherwise might not have. Shopping around and switching can directly benefit consumers, but they also strengthen competition. DCTs can also make it easier for new suppliers, particularly smaller ones, to enter the market. The overall impact of DCTs should be lower prices, more choice, and better matching between consumers and suppliers.
- 1.15 DCTs appear likely to offer the greatest potential benefits to consumers in sectors where they are not inclined to engage, perhaps because doing so is difficult or unappealing, and where there is a significant amount of money at stake. In sectors where there is deep-seated disengagement, DCTs have the potential to disrupt the status quo, encouraging consumers to become engaged and make decisions that will serve them better, through cheaper prices and/or products that more closely suit their needs.
- 1.16 However, for those benefits to be maximised, a number of conditions need to be met:
- (a) Consumers need to have enough confidence and understanding to use DCTs. If they either do not understand what DCTs do, or do not trust them to do what they say, this is likely to limit use of DCTs.
 - (b) DCTs need access to the right information to be able to offer effective comparisons. Precise requirements vary by sector, but DCTs need enough information about both the products they display, and consumers' needs, in order to offer relevant, accurate comparisons.
 - (c) Competition needs to be effective, both among DCTs and between DCTs and the suppliers whose services they compare – ie between the DCT channel and suppliers' own direct channels.
 - (d) Regulation of DCTs needs to be appropriate; it should support good consumer outcomes while not unduly acting as a barrier to entry or innovation.
- 1.17 In this document we use evidence we have reviewed so far in our focus sectors to illustrate the extent to which these conditions are met, and whether steps could be taken to ensure they are.

Consumers (Chapter 5)

- 1.18 Consumers need to be aware of what DCTs do and trust DCTs to do what they expect. Expectations then need to be matched by the reality of what DCTs offer in practice.
- 1.19 We have gathered information on consumers' use and perceptions of DCTs through a survey of over 4,000 consumers; and we have been analysing what DCTs offer consumers through a mystery shopping exercise and a review of comparison sites and apps.
- 1.20 We found that the large majority (97%) of internet users are aware of DCTs and many (85%) had used one at some stage. Most DCT users said they used more than one DCT to shop around – mainly to check the prices of the same product across different sites.
- 1.21 Very few people (11%) thought the DCT they last used had shown the 'whole of the market' and most were content with the coverage they thought the DCT provided.
- 1.22 Over 90% of recent users said they were very or fairly satisfied with the DCTs they used, and DCT users were also more likely to be very satisfied with their experience than those shopping around in other ways, such as directly on suppliers' sites. Furthermore, most users, but also a substantial proportion of non-users, believed that using DCTs led to, or would lead to, better choices. Two-thirds considered that the results on the main site they had used fully matched their needs, with only 2% saying that they did not match their needs at all.
- 1.23 Most users felt confident using sites and found it easy to re-order or filter results and compare them on a like-for-like basis. However, while in most of the sectors we looked at, DCTs typically first presented results ranked by price and allowed users to filter or re-order them, many users do not do so and many only look at up to three offers.
- 1.24 While overall levels of user trust and satisfaction were high, there were some areas where we identified potential concerns:
- (a) There appear to be areas where sites could improve transparency – particularly around their market coverage, business models and ranking methods.
 - (b) Most consumers trust DCTs to provide accurate and reliable information, offer the best products based on their requirements and provide them with the best price. However, they seem less likely to trust DCTs in terms of

how sites store and use their personal information. Our review of sites suggests that there is room for improvement in how DCTs explain this to consumers and offer users the means to control how their data is shared.

- (c) Finally, consumers have low levels of awareness about what to do if things go wrong when they use a DCT, as well as how the sites are regulated. Low awareness may reflect high levels of satisfaction and low levels of complaints. But we would expect sites to be clear about their complaints policies; we found that the information they provided varied considerably.

Inputs to DCTs (Chapter 6)

- 1.25 In order to be able to offer an effective service, DCTs need a number of inputs. In particular, DCTs must:
- (a) know enough about what a consumer wants, including information on individual consumers' usage where relevant, to be able to provide accurate and sufficiently tailored prices; and
 - (b) have access to data to offer accurate information on prices and service characteristics.
- 1.26 Our initial view is that there are potential concerns in this area in certain sectors – particularly the availability of inputs from suppliers. Issues raised include elements of pricing information, particularly in insurance and flights, eligibility in credit cards, and broadband speed information. In some sectors, notably legal services, DCTs have struggled to get off the ground primarily due to suppliers' lack of willingness to be included. In other sectors we have looked at recently, we have taken action to ensure better availability of data about consumers' usage – notably Open Banking³ and our recommendations to DECC (now BEIS) to improve the Midata programme in energy.⁴

Competition (Chapter 7)

- 1.27 In a well-functioning DCT market, a number of DCTs compete with each other and with suppliers for consumers. They might compete on the effectiveness of their brands and marketing, the relevance, accuracy and user-friendliness of the comparison services they offer, and the deals consumers can get by using them.

³ CMA, *Open Banking revolution moves closer*, 2 February 2017.

⁴ CMA, *Energy market investigation Final Report*, June 2016, paragraphs 13.364 to 13.398.

- 1.28 DCTs deliver the best consumer outcomes when they provide their services at a reasonable cost, and without imposing unduly restrictive terms in their negotiations with suppliers. At the same time DCTs are able to use their position in the market to attract suppliers and negotiate good deals with them. The stronger the competition between DCTs, the more the benefits will be passed onto consumers.
- 1.29 In practice, it appears that competition is generally fairly effective, and serves consumers well, but the picture varies somewhat across sectors. We have explored some specific issues that have been raised with us, both about specific practices and about the effect DCTs have on the markets where they operate.
- 1.30 We are considering four types of practice which might raise competition concerns:
- (a) Wide MFNs ('most favoured nation' or parity clauses). A wide MFN agreement between a DCT and a supplier specifies that a product or service may not be sold more cheaply on a supplier's own website or on any other DCT. These could limit competition between DCTs by limiting suppliers' ability to negotiate lower commissions in return for lower retail prices. We have found specific instances of wide MFNs.
 - (b) Narrow MFNs. A narrow MFN clause requires a supplier to set a price on a DCT which is no higher than the price offered through its own website, but does not stipulate conditions for sales via other channels. Under certain conditions, these could have some similar effects to wide MFNs, but we have heard arguments about potential benefits that may offset these possible negative effects.
 - (c) We have found a range of terms limiting bidding for online search terms – referred to as non-brand-bidding or negative matching arrangements.⁵ Negative matching is likely to have the most significant effect on competition, but we are continuing to explore these terms. Such agreements are unlikely to be limited to DCTs – they may appear in other markets as well.
 - (d) In some sectors, DCTs agree not to re-contact a consumer for a specific period – often just over a year – to offer a comparison for a service for which they had previously facilitated a sale. Again we are exploring the competition effects as well as possible justifications.

⁵ See paragraph 7.64 for an explanation of these terms.

- 1.31 We are also exploring concerns around ‘hollowing-out’ – an undue focus on price to the exclusion of other factors. This can happen when the supplier prominently offers a product with certain features not included, as that allows them to promote lower-priced products. The concern expressed is that this results in consumers not buying the product that suits their needs best.
- 1.32 Some practices under this heading may in fact be beneficial – for instance, price competition resulting in unbundling can benefit those who do not need all the component parts of a previously bundled package. However, consumers could be harmed if desirable higher-quality products are forced out of the market as a result. We are continuing to explore the role DCTs play in this, both in terms of the extent to which they cause an increased focus on price, and the extent to which they have the incentive and ability to help consumers understand the non-price elements of the products they compare.

Regulation (Chapter 8)

- 1.33 A number of key sectors in which DCTs operate are subject to specific regulation – notably financial services, telecoms, energy and aviation. These give consumers additional protection over and above standard consumer and competition law. In some cases, such as financial services, these take the form of statutory regulation, while in other sectors, such as energy and telecoms, regulators have developed voluntary accreditation schemes for DCTs.
- 1.34 Regulation can play an important role in ensuring good outcomes for consumers. But stakeholders raised a range of issues: from regulation contributing to a distortion of competition, to challenges around indirect regulation of DCTs in some sectors and concerns that regulation is inconsistent across sectors or risks constraining innovation.
- 1.35 Some of these concerns appear to have some merit. In particular, we agree with concerns expressed about the potential distorting effect of the ‘whole of the market’ requirement in the energy DCT accreditation scheme on negotiations between DCTs and suppliers. Our survey evidence indicates that coverage requirements are not necessary: a large majority of consumers do not appear to expect full market coverage for the sectors we looked at. A similar issue is likely to apply to telecommunications, where the accreditation scheme also has a comprehensiveness requirement, albeit with a smaller effect due to more limited take-up of the scheme by DCTs.
- 1.36 There appears to be some basis to concerns about the potential for regulation limiting innovation that would benefit consumers, especially in sectors with the potential to change significantly in coming years. Any set of rules with

requirements that are based on a certain model faces challenges as new models develop – for instance specific requirements about how results should be listed on a traditional price comparison website might not work for an automated switching DCT. In addition, concerns about enforcement carry some weight in sectors where the only DCT-specific ‘regulation’ is in fact a voluntary scheme which firms may choose not to sign up to.

- 1.37 In relation to consistency of regulation across sectors, the various schemes and regulations cover some similar ground – for example on transparency, accuracy or rankings – but the manner in which these items are dealt with is particular to each regulatory regime. With DCTs operating across sectors and consumers able to do the same, there may be an argument for considering greater consistency. However, there may be good reasons for some differences, given the distinct features of certain products across sectors. A key question becomes whether it is possible to arrive at DCT-specific principles which could usefully apply across sectors, while not being so high-level as to be ineffective or too hard to interpret. There is a supplementary question about how to enforce something like this if there are limited existing powers covering DCTs.

The future of DCTs (Chapter 9)

- 1.38 It is important that our study should be informed by potential future developments. We are already starting to see newer models of DCT launched in some sectors – notably in energy – which promise greater automation and/or a better understanding of consumers’ individual requirements. The impact of these newer models is as yet unclear, as they are still in their early stages.
- 1.39 Wider developments in the digital economy are likely to have implications for DCTs; such as artificial intelligence, device proliferation, voice activation or tailored pricing. These could have a positive impact, for instance in helping more consumers shop around, but they might also raise questions, for instance over trust or consumer switching. We will be exploring these possible implications further in the second half of the study.

Next steps (Chapter 10)

- 1.40 We have decided not to make a reference for a market investigation (ie a more detailed examination of the market lasting up to 18 months) at the end of this market study. We did not receive any representations suggesting that we should make a reference.

- 1.41 While a market investigation would potentially allow us to impose additional remedies, as set out below, all of the outcomes we are focusing on can be pursued through this study and possible related projects such as enforcement cases. They do not need a market investigation. Please see our Notice to this effect.⁶
- 1.42 We will continue to develop the analysis set out in this document, to refine our understanding of DCTs' roles in the markets where they operate. In particular, we are likely to increase our focus on two issues: the impact of possible future developments in DCT models, and the effects of DCTs on people who do not use them, particularly those in vulnerable circumstances.
- 1.43 We are considering whether there are steps that either we or others should take in order to increase the benefits that DCTs are able to deliver. These fall into four categories:
- (a) **Maximise consumer confidence.** We are considering two possibilities: first, taking enforcement action if consumers are being misled, and second, ways in which regulation could be used to improve consumer confidence:
 - (i) On the first, we will review the case for action, if we have reason to believe that there is a risk of consumers being misled.
 - (ii) On the second, we will consider whether there are steps that could be taken to refine regulation and enforcement, to improve industry practice (for example in relation to transparency or data use) in a way that increases consumers' confidence, without unduly constraining DCTs' abilities to deliver benefits to consumers.
 - (b) **Maximise DCTs' effectiveness.** We will consider the circumstances, if any, in which DCTs could benefit from being provided with greater access to data in order to provide consumers with a more comprehensive – and competitive – service. This could involve building on existing initiatives by sector regulators and government.
 - (c) **Resolve competition issues.** We will consider whether we should launch competition law enforcement cases in any of the areas we are looking at, as well as whether there are other steps that could be taken to make competition more effective.

⁶ CMA, *Market study into digital comparison tools - notice of decision not to make a market investigation reference under section 131 of the Enterprise Act 2002*, March 2017.

(d) **Refine regulation.** We are considering the possibility of a set of cross-sector principles for DCTs. This could include the content of any such principles and the various possible measures to ensure compliance, from self-regulation to certification to full regulation.

1.44 Possible outcomes of this study could include a combination of enforcement cases, recommendations to various bodies including regulators, and working with firms in the sector.

1.45 We invite stakeholder comments on the views set out in this document, particularly around the areas we plan to focus on in the second phase of our study. We ask stakeholders to consider the questions set out in Chapter 11, and request responses by **24 April 2017**.

1.46 We will produce a final report by **28 September 2017**.

2. Introduction

- 2.1 This document provides an update on progress in our market study of digital comparison tools (DCTs). We invite views on our findings so far and the future focus of our work – including where we might consider potential remedies.
- 2.2 DCTs, such as price comparison websites (PCWs), have played an increasingly important role over the past 15 years, in sectors ranging from financial services to utilities and travel. Our consumer survey found that 85% of UK consumers with access to the internet have used a DCT and we estimate that in 2015, consumers made 10.8 million transactions through the largest DCTs in four sectors alone.⁷
- 2.3 Our past work, including on private motor insurance (PMI) and payday lending, found that DCTs can increase competition and offer significant benefits to consumers – allowing them to make better, more informed choices. Our market investigations into energy and banking also highlighted how DCTs could be a way of increasing competition, where low levels of engagement and switching have meant that consumers have not reaped the benefits of cheaper and/or better services.⁸
- 2.4 We have sought actively to provide opportunities for intermediaries to enter markets and assist consumers to make informed choices – for instance in consumer banking, by creating data in a format that should improve DCTs’ ability to compete, and in small and medium-sized enterprise (SME) banking by seeking to establish a new DCT for SMEs through the independent charity, Nesta.⁹ In some past cases such as in payday lending¹⁰ and home credit,¹¹ we or our predecessors have taken direct steps to ensure suppliers place information on DCTs (as was the case in payday lending) or to create DCTs (as was the case in home credit) – again to increase competition and engagement.
- 2.5 However, a range of concerns are sometimes expressed about DCTs. These include concerns relating to competition between DCTs, their relations with and impacts on suppliers, as well the attitudes, behaviour and experiences of consumers in relation to DCTs. In September 2016, the UK Regulators Network (UKRN) published a report on the regulatory framework for PCWs in

⁷ Sales completed in the broadband, credit cards, home and motor insurance sectors via Confused, GoCompare, Moneysupermarket, Comparethemarket, uSwitch, Broadbandchoices and Simplifydigital.

⁸ See Appendix 2 for further details on past projects relating to DCTs.

⁹ CMA, *Retail banking market investigation: Final report*, August 2016.

¹⁰ CMA, *Payday lending market investigation: Final report*, February 2015.

¹¹ Competition Commission, *Home credit market investigation*, November 2006.

financial services, telecoms and energy sectors,¹² alongside an open letter which recommended the CMA explore a number of issues (Box 2.1).¹³

Box 2.1: The UKRN's recommendations to the CMA

In summary, the UKRN recommended the CMA explore five issues:

1. The potential application, benefits and risks of cross-sector principles for PCWs.
2. Whether PCWs lead to an excessive focus on price ('hollowing out').
3. Competition issues, such as the nature of agreements between PCWs and suppliers presented on them.
4. The role access to data plays in the effectiveness of PCWs.
5. How future developments may impact regulators' roles.

- 2.6 We launched our market study on 29 September 2016 to identify ways to maximise the benefits from DCTs for consumers, while ensuring that consumers were suitably protected and that DCTs competed effectively with each other, increased consumer engagement and enabled effective competition between suppliers.¹⁴ Our aims remain to:
- (a) produce an authoritative assessment of the role of DCTs for use by all policymakers and other stakeholders – the benefits that they offer and the merits and extent of concerns that have been raised about them;
 - (b) identify how to maximise the benefits that DCTs can deliver – for example by ensuring that consumers have sufficient and well-placed trust in them, or ensuring that regulation is proportionate and well-designed; and
 - (c) reduce barriers to the effective functioning of DCTs, such as consumer distrust, or DCTs' access to the data they need in order to offer a compelling service.

¹² UKRN, *Price Comparison Websites: Final Report*, September 2016.

¹³ UKRN, *Open Letter to the CMA*, September 2016.

¹⁴ Market studies are conducted under the CMA's general function as set out in section 5 of the Enterprise Act 2002, which includes the functions of obtaining information and conducting research. They are typically examinations into why particular markets may not be working well, taking an overview of regulatory and other economic drivers and patterns of consumer and business behaviour. Outcomes may include a clean bill of health; improving the quality and accessibility of information to consumers; encouraging businesses to self-regulate; making recommendations to government or regulators to change laws, regulations or policy; taking competition or consumer enforcement action; and making a market investigation reference, or accepting undertakings in lieu. For more information on market studies see: *Market Studies Guidance on the OFT Approach* (OFT519) and *Market Studies and Market Investigations: Supplemental Guidance on the CMA's Approach* (CMA3).

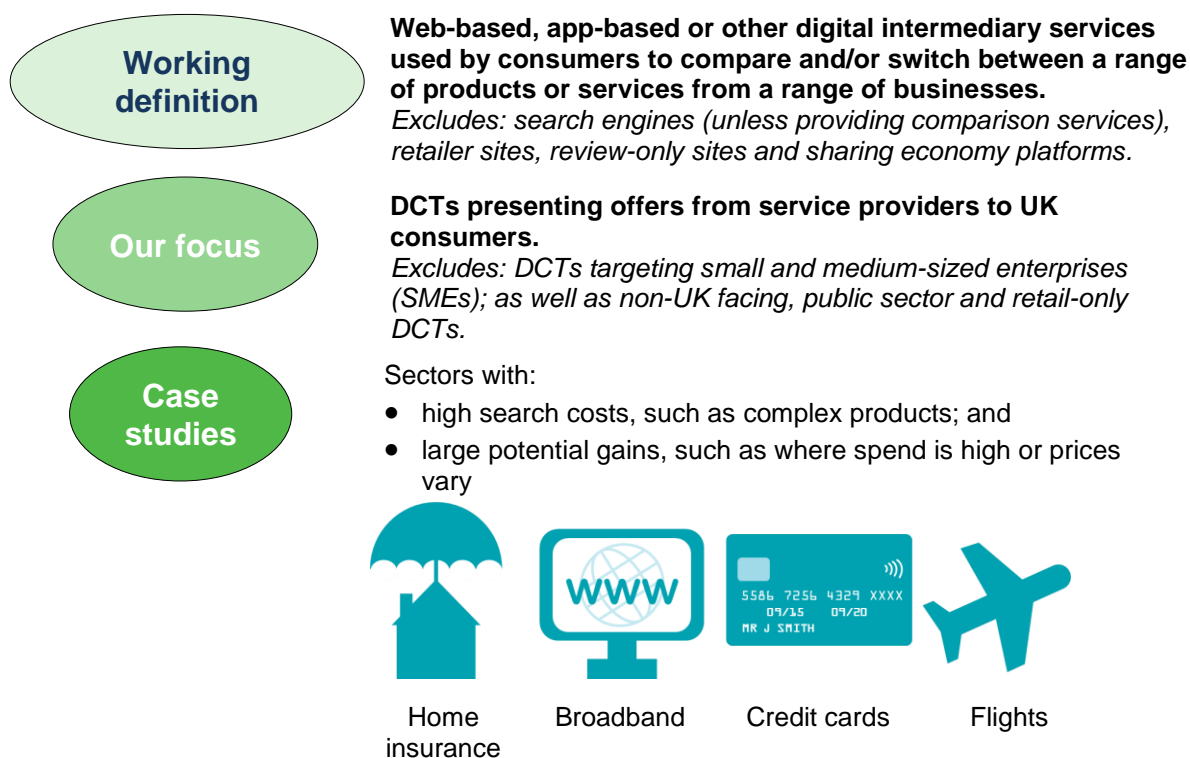
Our scope

- 2.7 Our working definition of a DCT remains ‘Web-based, app-based or other digital intermediary services used by consumers to compare and/or switch between a range of products or services from a range of businesses’.
- 2.8 DCTs act as intermediaries between consumers and suppliers, presenting a range of products or services to consumers and offering a variety of digitally presented ways to choose between them. They may also offer to complete the transaction or switch for the consumer by issuing the relevant instructions to the new and/or existing supplier, or alternatively may redirect the consumer to the supplier for fulfilment.
- 2.9 DCTs operate in many sectors. To keep our scope manageable and ensure that we maximise the transferable lessons from our study, we have focused on where DCTs may have most impact on consumer engagement and thus where we can add most value. In particular, we selected sectors where consumers can experience high search costs, but could make significant gains from engaging or switching.
- 2.10 We have focused on DCTs presenting offers from service suppliers – in particular in utilities, financial services and travel. Within these broad sectors, we chose four case studies for targeted evidence-gathering: home insurance; broadband (including packages); credit cards and flights.¹⁵ Figure 2.1 sets out our scope (as well as what we have excluded) and our Statement of Scope explains our reasoning in more depth.¹⁶

¹⁵ While consumer engagement in flights is relatively high, it represents a large expenditure item, where DCTs play an important role. We therefore included it as a helpful comparator.

¹⁶ CMA, [Market study of digital comparison tools – statement of scope](#), September 2016.

Figure 2.1: Our scope



Source: CMA.

2.11 In addition to these four case studies we have drawn on our existing evidence base in energy, personal current accounts and private motor insurance and, in some cases, gathered additional information in these sectors. We have also taken account of other relevant work we and our predecessor bodies have undertaken – including on home credit, hotel online booking, extended warranties, legal services and the use of consumer data. Appendix 2 provides brief summaries of this work.

The purpose of this paper

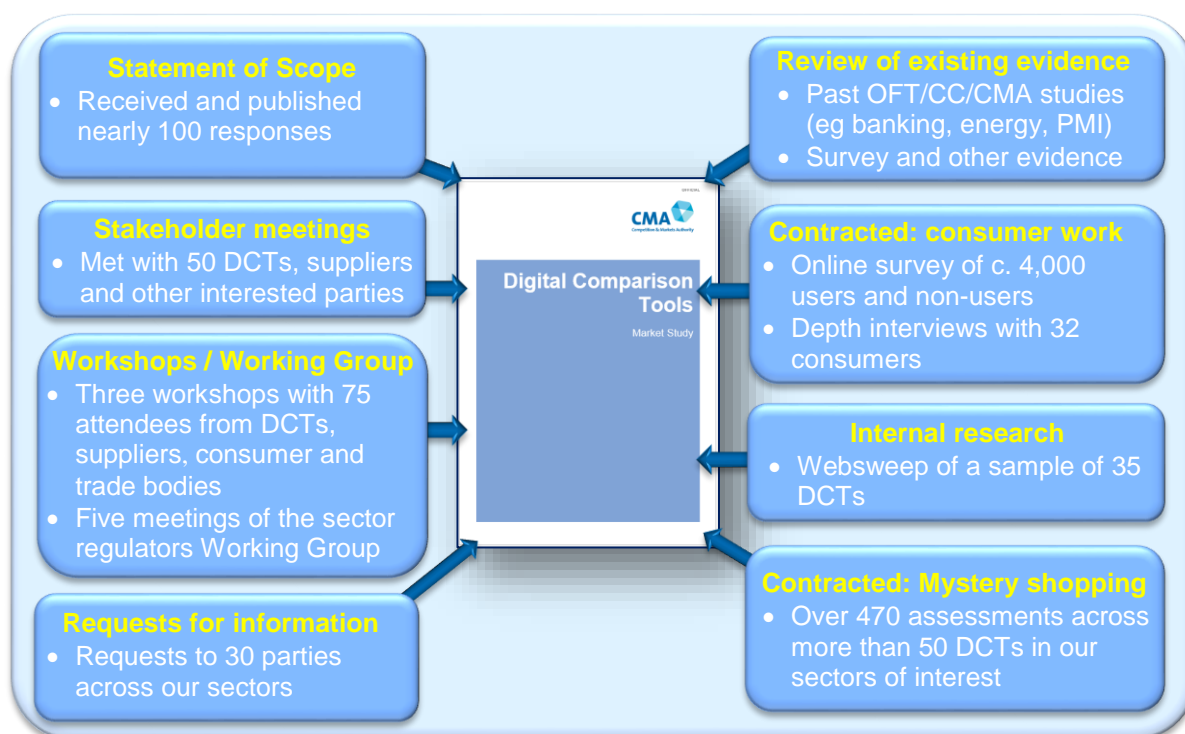
2.12 The market study is ongoing and we are continuing to obtain information and engage with stakeholders to progress our analysis. This update paper sets out, based on the evidence we have gathered and reviewed to date, some of the early findings from our study. We do not report and evaluate all the evidence received, nor seek to cover every issue raised with us. A fuller account will be provided in our final report. The purpose of this update is to indicate our current views in broad terms and provide a basis for the consideration of possible remedial measures.

The first six months of our study

2.13 Since launching the study, we have consulted a large number of parties and gathered a wide range of evidence, including from our commissioned

consumer research and mystery shopping. Figure 2.2 sets out our progress to date in gathering and assessing evidence. Appendix 1 provides further details of our approach.

Figure 2.2: Overview of our methods and evidence sources



Source: CMA.

Note: We expect to publish the results of the websweep and mystery shopping research in due course.

3. What DCTs do

- 3.1 In this chapter we set out some background information on DCTs. In turn we provide an overview of:
- (a) DCT operators in the UK;
 - (b) the use of DCTs by consumers;
 - (c) the functions of DCTs and approaches to comparison; and
 - (d) DCTs' business models and financial performance.
- 3.2 Appendix 3 of this report sets out more detail on the consumer journey in different sectors.

DCT operators in the UK

- 3.3 Our research shows that there are hundreds of DCT brands and websites in the UK that offer a variety of services in sectors that range from skip hire to horse transport.¹⁷ The services offered vary from directory listings of suppliers with either price listings or quote aggregation services through to the most sophisticated DCTs which integrate into supplier IT systems and allow consumers to either purchase or switch directly through the DCT.
- 3.4 In the UK there are four large DCTs which operate in a number of sectors, although predominantly in motor and home insurance, and which have invested heavily in advertising and developing brands. These are Comparethemarket (CTM), Confused, GoCompare and Moneysupermarket (MSM)¹⁸ which we refer to collectively in this document as the 'Big 4'.¹⁹ We use the term 'Big 5' when we also include uSwitch, a predominantly utilities-led DCT.

Use of DCTs by consumers

- 3.5 Data we received from a sample of DCTs indicates that they have become an increasingly important channel for consumers across our case study sectors

¹⁷ We have not sought to identify common ownership or the extent to which certain websites duplicate content under different brands or domains.

¹⁸ Moneysupermarket.com is part of the Moneysupermarket group which also includes MoneySavingExpert and TravelSupermarket.

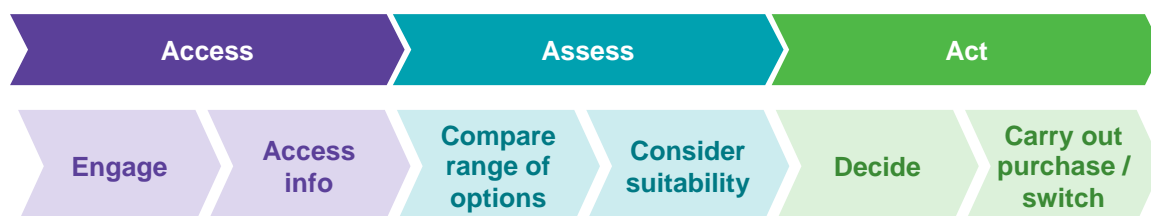
¹⁹ These are not the four largest DCTs that operate in the UK, but are the four largest insurance-led multi-sector DCTs. A number of travel DCTs operating in the UK are brands or subsidiaries of large international travel groups. Where we refer to any DCT it is in relation to the comparison activities carried out under that brand, unless otherwise stated.

and in energy and motor insurance. For example, we observed broadly upward trends, in terms of visits and sales/referrals, in our case study sectors and energy.²⁰ In addition, insurance sales through DCTs, in both motor insurance and home insurance, have increased materially over the last five years – by around 29% for motor insurance and 46% for home insurance.

The functions of DCTs and approaches to comparison

3.6 In this section we outline the functions that DCTs offer in different sectors, the different models and approaches that DCTs have adopted and how DCTs fit into the consumer journey. We can think about this journey in terms of consumer engagement using the ‘Access – Assess – Act’ framework as set out in Figure 3.1.

Figure 3.1: The access, assess, act framework



Source: CMA.

3.7 A number of DCTs engage in extensive broadcast and online advertising. Such advertising (illustrated in Figure 3.2) may itself engage consumers in either choosing to shop around or to use one or more DCTs and forms part of this first step of accessing information.

Figure 3.2: Encouraging engagement through advertising

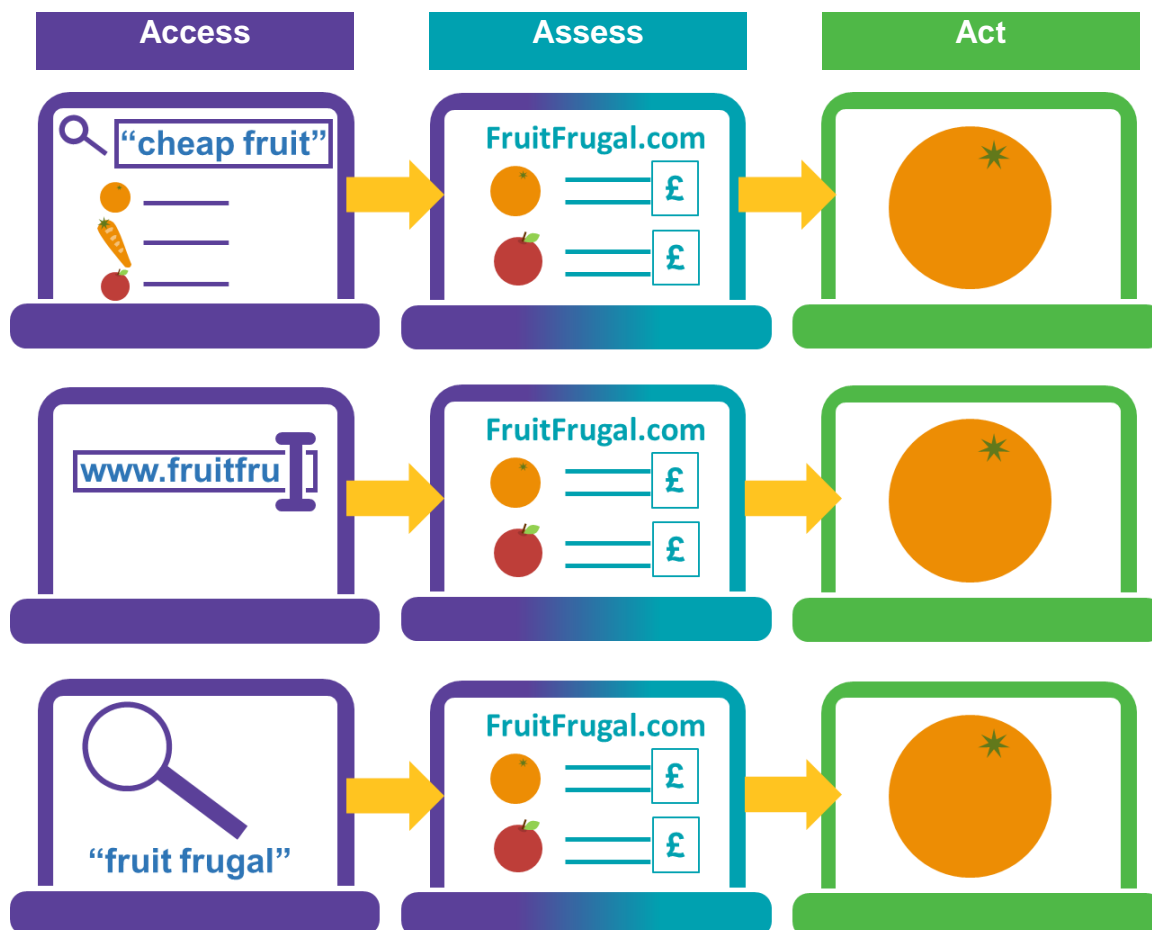


Source: CMA.

²⁰ For broadband, home insurance and energy we have observed these trends in sales and for flights and credit cards we have observed these trends in referrals.

3.8 Consumers reach DCTs in a number of ways as shown in Figure 3.3, affected in part at least by DCTs' marketing efforts. DCTs then typically provide a panel of suppliers and products, completing the access stage. Consumers can then begin to compare (assess) the offers before making a choice and acting.²¹

Figure 3.3: How DCTs can form part of the consumer journey and support engagement



Source: CMA.

The functions that DCTs perform

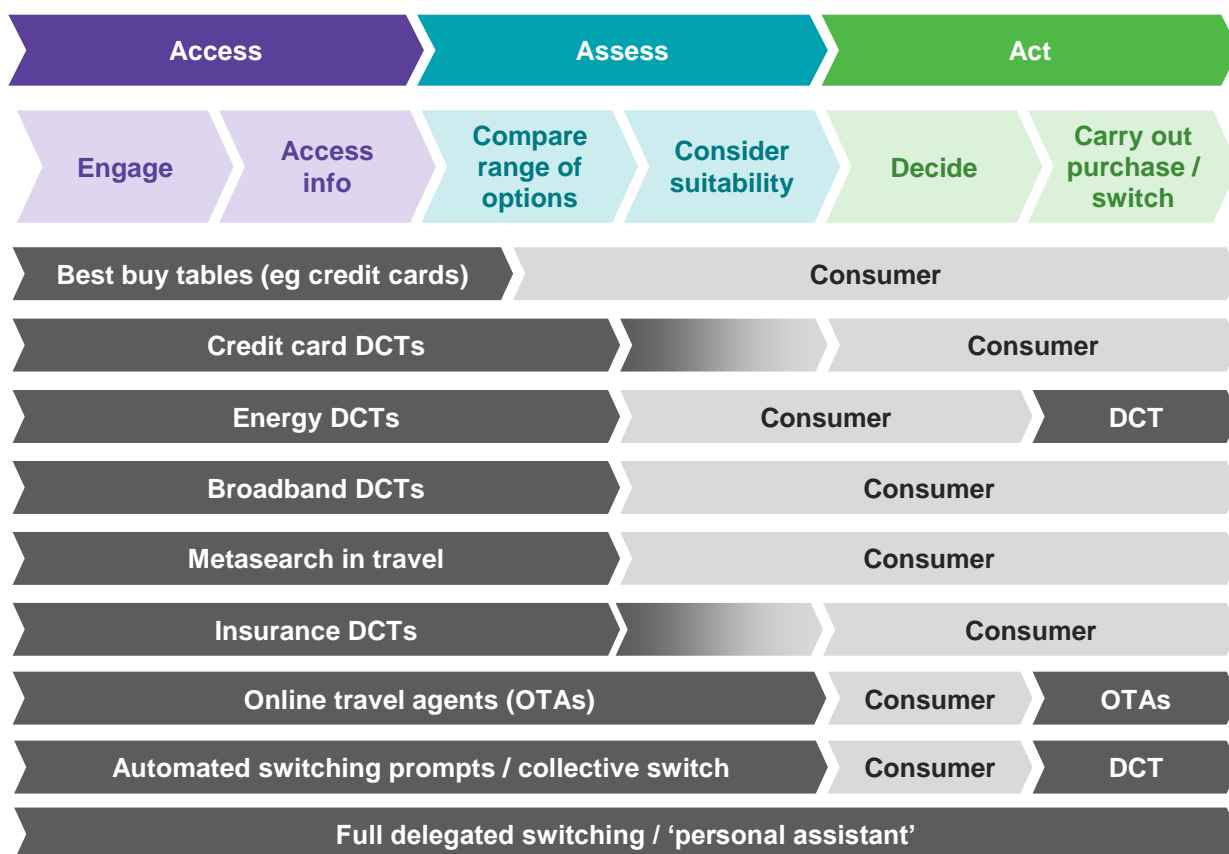
3.9 The role of DCTs and the services they offer consumers varies across sectors, as set out in Figure 3.4 below.

- (a) In most sectors, DCTs provide a comparison of different suppliers and a number of bundles or service offerings from each supplier.

²¹ We expand upon this framework in Figure 3.4 where we consider different models of DCTs.

- (b) For products like insurance, which require tailored pricing from suppliers, DCTs can use a single set of consumer inputs to aggregate a large number of bespoke quotes.
- (c) As a result of DCTs offering filters and the ability to rank product offers, consumers can better identify products that match their needs. In the credit card sector DCTs reduce uncertainty over eligibility by providing tools to better match consumers to credit.
- (d) By integrating with suppliers' systems DCTs can facilitate a smooth consumer journey by either allowing consumers to purchase from the DCT or 'land' the consumer midway through the supplier's sales process.
- (e) New DCT approaches, most notably in energy, have offered a function of prompting consumers when a more suitable offer is available, on an ongoing basis, and facilitating switching.²²

Figure 3.4: DCTs' role in consumer engagement and the purchasing journey



Source: CMA analysis.

Note: In insurance and credit cards DCTs do not generally offer 'advice' (in a regulatory sense) on suitability but will identify relevant product offers and may identify eligibility or tailored pricing.

²² For example through services such as [Flipper](#), [Voltz](#) and [AISwitch](#).

Models of comparison

3.10 Over time the services offered by DCTs have developed in function and sophistication. Figure 3.5 summarises some of the key developments in DCT functions (although these are not rigid approaches). In some sectors the nature of the product or service has meant that comparison sites have either bypassed a stage of development or may not have yet introduced similar features. In some sectors a combination of models may be present.

Figure 3.5: Models of DCT service



Source: CMA analysis based on stakeholder responses.

- 1 – **Best buy tables.** In their most basic form, DCTs may simply be a list of products or suppliers ranked by a combination of price and service metrics (such as star ratings).
- 2 – **Comparison tables with filters and the ability to re-order.** Users are able to click through to either buy on site or be redirected to a supplier's website. In some cases this may simply be the home page while in others the landing page may be for the relevant product.
- 3 – **Comparison tables with eligibility or availability checking and bespoke pricing.** Where consumers are asked for personal information DCTs may either:
 - return a quotation (as in home and motor insurance); or
 - exclude products which are either unsuitable, unavailable (such as in broadband where availability of the full range of products is determined by the extent of network roll-out across the UK), or for which the consumer is ineligible (such as in credit cards).

These services may be augmented by additional consumer data held by third parties.

- 4 – **Concierge and automated switching.** These are services which identify whether a consumer is currently receiving the most appropriate product

and recommends one or more products by analysing individuals' consumption patterns. Such services have recently been developed in the energy market, with others currently in development in general insurance and banking.

- 3.11 From our review, models 2 and 3 are the most common, with the nature of eligibility filtering varying in sophistication by the nature of the market; in broadband for example this is based on a user entering their postcode to identify availability of, for example, superfast broadband, but does not present fully detailed assessments of availability.
- 3.12 In the travel sector, DCTs are commonly subdivided into 'OTAs' (online travel agents) and 'MSEs' (metasearch engines). The difference between MSEs and OTAs is in relation to how a transaction is completed and the booking choices presented:
- (a) On an OTA, users are presented with a choice of flights or hotels and complete the transaction on the OTA.
 - (b) On an MSE, users are presented with a choice of flights or hotels but the results include the prices of those flights or hotels for sale through individual OTAs and suppliers. Having chosen a flight or hotel and the booking channel, the transaction is completed on the relevant OTA or supplier website.
- 3.13 MSEs are increasingly offering 'facilitated booking' allowing consumers to complete a transaction on the MSE, with the consumer contracting with either the MSE or the supplier directly.

How do DCTs fit into the consumer journey?

- 3.14 In addition to the roles that DCTs take in supporting the choice of products, some DCTs integrate with suppliers' systems to facilitate the completion of a transaction. We outline different approaches in Box 3.1 below.

Box 3.1: Completing the consumer journey

A successful consumer journey will end with a completed purchase or transaction. However the route from comparison to completion may vary.

There are four common approaches that DCTs have implemented in our case study sectors:

- **‘Call now’** – comparison results are presented with telephone contact details for a supplier, possibly with a product code or reference. This approach is used by some OTAs and in markets where suppliers do not conduct sales online.
- **‘Click through’** – results are presented with a hyperlink to click-through to the supplier’s website. The consumer must then navigate the supplier’s website to identify the corresponding product and complete the purchase or initiate a detailed application process. This approach is common in broadband and credit cards.
- **‘Integrated click through’** – results are presented with a link to the supplier’s website which allows the purchase of a chosen product to be completed on the supplier’s website by integrating into the suppliers’ sales platform with only payment and other personal details required to be entered. This approach is common in insurance and flight metasearch.
- **‘Facilitated purchase’** – on completion of the comparison, consumers are able to complete a transaction on the DCT website or app. This approach is typical for many OTAs where consumers can book and pay for hotels or flights on the OTA platform. Similarly energy DCTs can initiate switches providing a similar outcome by taking appropriate details to complete a switch on a consumer’s behalf.

In addition to these approaches, where consumers have provided a telephone number, and typically subject to a consumer opt-in or opt-out, highly ranked suppliers may contact a consumer directly by telephone to complete the transaction over the telephone.

As concierge and digital assistant type services develop, an additional ‘behind-the-scenes’ approach is emerging whereby a consumer’s services are switched automatically according to a set of preferences.

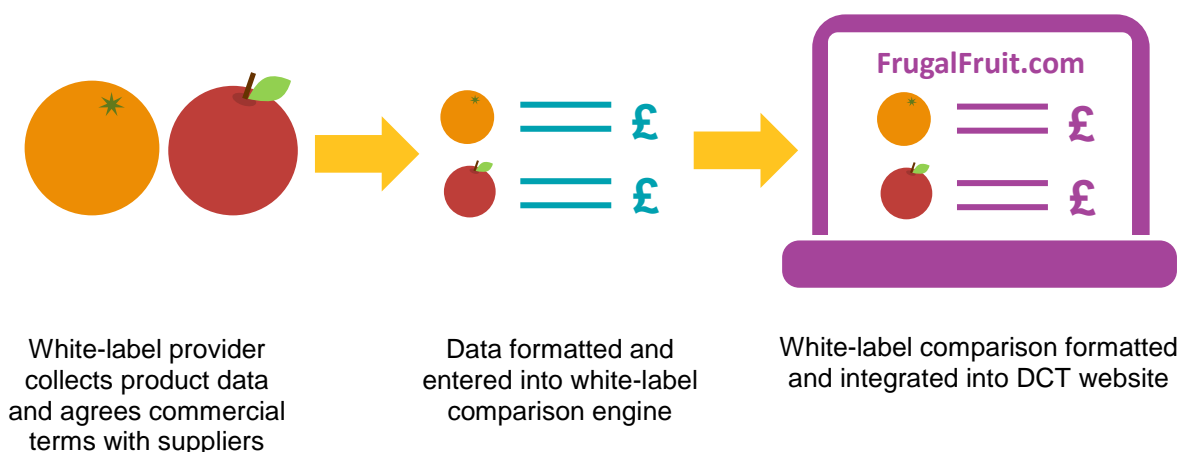
DCTs’ business models and financial performance

3.15 The predominant business model of DCTs is to generate revenue by acting as a lead generator for suppliers, and most typically, from commission paid by suppliers either on referral or on completion of a transaction. The most significant costs incurred by the largest DCTs are the costs of lead generation, primarily through media advertising and paid search.²³

²³ Paid search relates to advertising programmes operated by search engine operators whereby parties can bid on certain keywords or search strings. The cost of keywords can vary significantly. We discuss paid search in Chapter 7 in relation to non-brand bidding and negative matching.

- 3.16 A small number of DCTs generate revenue by charging users for their service, which in some cases may only be incurred where a ‘saving’ of a certain amount is achieved.²⁴
- 3.17 DCT operators can choose either to develop their own comparison engine and aggregate information from suppliers, or use the services of a white-label provider (see Figure 3.6). Where white-label providers are used, the white-label content will be integrated into the DCT operator’s website or app, potentially alongside a range of other comparison services provided in-house or from one or more white-label providers.

Figure 3.6: White-label provision of comparison services



Source: CMA analysis.

- 3.18 White-label providers may be of use to DCTs in entering a range of product markets with relatively little upfront cost. This is of particular use for DCTs which wish to offer comparison services in a wider range of sectors, but want to focus on providing the underlying comparison service on existing core product markets, or for less established DCTs who may struggle to negotiate commercial agreements with suppliers.
- 3.19 Each of the Big 5 DCTs uses white-label services to some extent, as set out in Table 3.1.

²⁴ An example of this is [Flipper](#), which at the time of this report stated on its site that it charged users £25 per year and would not switch or charge its signed-up users to new energy deals until it found them a deal that saved them a minimum of £50 per year. Flipper told us it does not receive any payment from suppliers when it switches consumers. Site visited on 8 March 2017.

Table 3.1: Use of white-label services

DCT	Broadband	Credit cards	Energy	Flights	Home insurance	Motor insurance
Confused	○	●	○		●	●
CTM	○	○	○		●	●
GoCompare	○	○	○	○	●	●
MSM	○	●	●	●	●	●
uSwitch	●	●	●		○	●
Money	○	●	○		●○	●○
Quotezone		○	●		●	●
Simplifydigital	●		●			

● = Active in sector using own comparison service
○ = Active in sector using white-label service

Source: CMA analysis of DCT websites and submissions.

Note: Some DCTs may not currently be offering all services listed. MSM includes a hyperlink to TravelSupermarket in its list of travel products but does not host comparison services on Moneysupermarket.com. Money.co.uk uses a third party to provide home and motor insurance quotations but hosts its own comparison tables outlining key features of insurance products.

3.20 In some sectors, such as broadband or credit cards, suppliers typically do not contract directly with DCTs. Instead a supplier wanting to use online channels to acquire new customers will engage an affiliate network provider to sign up and pay commission to affiliate marketing partners. On successful referral or acquisition, the supplier will pay commission to the affiliate network provider, who will in turn pay commission to the affiliate marketing partner. These partners include not only DCTs but also, for example, cashback and other recommendation websites.

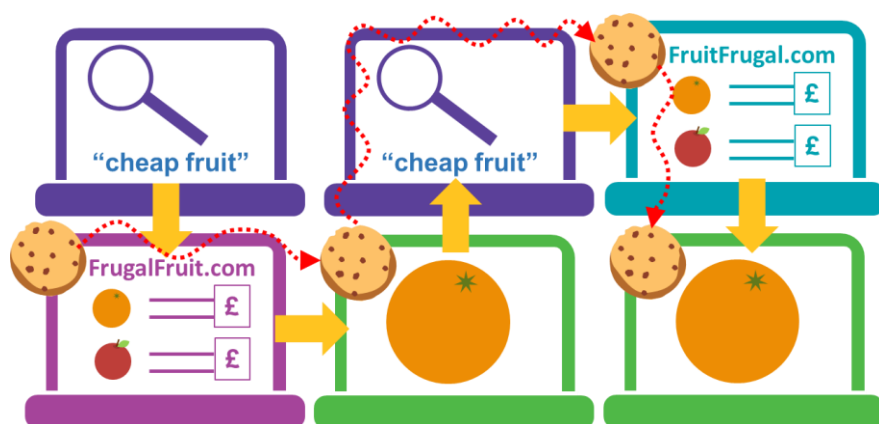
3.21 The supplier will stipulate the terms and conditions under which affiliate network providers sign up partners. These agreements may specify the range of products that can be offered and the prices at which they are offered. If a DCT wants to tailor what it offers on its comparison tool in a way that requires further input from the supplier, then it would need also to approach the relevant supplier directly.

3.22 The affiliate network provider engaged by a supplier monitors through cookies²⁵ all or much of an individual potential consumer’s online research and purchasing journey. A potential customer can be tracked from the moment they enter terms into a search engine such as Google, move between websites as they research the sites, move onto the selected supplier’s website to consider options and finally make a purchase (Figure 3.7). The convention that affiliate network providers currently operate under is that the business which generates the final lead into the supplier’s website would be the one that earns the commission payable in respect of that purchase. It can also be the case that the level of commission payable

²⁵ Cookies are small text files which are stored by a browser to aid website functionality.

depends on whether the consumer has used the chosen supplier's brand term or not when conducting a web search.

Figure 3.7: Affiliates track consumers between DCTs and other recommendation websites and suppliers



Source: CMA analysis.

Financial performance

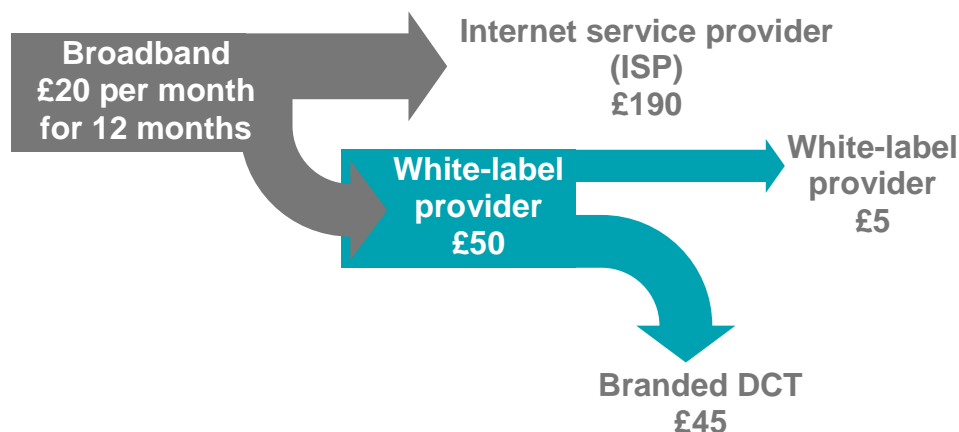
3.23 Each of the Big 5 generated revenues of between £85 million and £330 million in 2016, collectively generating revenues of around £1 billion, of which around £700 million per year relates to motor insurance, home insurance, energy, broadband²⁶ and credit cards. In 2016 around 40% of the Big 5's aggregate revenues related to motor insurance, with a further 10% of revenue from each of energy and home insurance.

3.24 The proportion of each DCT's revenues generated from a given product sector varies significantly. Confused, for example, is very heavily car insurance-led, whereas uSwitch's revenue comes predominantly from energy and broadband.

3.25 Where a white-label provider is used, any commission or remuneration paid by the supplier is typically paid to the white-label provider, which then makes a payment to the branded DCT. The proportion of the commission paid to the branded DCT varies but generally the majority goes to the branded DCT. Figure 3.8 shows an indicative arrangement in broadband.

²⁶ Broadband revenues include telephone and television packages.

Figure 3.8: Example flow of funds



Source: CMA analysis.

Note: Commission may vary significantly by Internet Service Provider (ISP), DCT, channel, new or renewing customer, fibre connection and TV bundles. The commission figures are included only as a broad indicator of scale.

- 3.26 We analysed data on the value of commission that each DCT achieves in a number of markets. Our initial analysis has found that DCTs generate an average commission of between about £45 and £55 for every motor insurance policy purchased following comparison (10 to 13% of the average premium), and about £40 and £50 for every home insurance policy (13 to 16% of the average premium).²⁷
- 3.27 As discussed in paragraph 4.3, this can be substantially lower than the cost per acquisition on other sales channels. In the period 2012 to 2016 average commissions achieved by DCTs increased in nominal terms in the order of £4 to £6 for motor insurance and between £1 and £5 for home insurance. In the same period overall marketing expenditure grew at a greater rate but we have been unable to identify any trends in the cost to DCTs of pay-per-click advertising.²⁸
- 3.28 The single most significant element of expenditure incurred by DCTs is in relation to marketing and advertising costs, and which we refer to as the cost of lead generation. In 2016 the Big 5 collectively spent around £450 million on marketing activities (including broadcast and print advertising and paid search), with aggregate expenditure increasing by 12% each year since 2013. The amount spent on marketing is broadly linked to the scale of revenues generated, and there appear to be scale benefits arising from marketing expenditure. Due to limitations of the data provided by DCTs we have not

²⁷ Commissions in insurance are charged on a fixed price. In 2016 the average motor insurance premium was £440 and the average building and contents premium £308. See: Association of British Insurers, *UK Insurance & Long-Term Savings Key Facts*, November 2016.

²⁸ Adjusting for conversion rates, the cost of pay-per-click advertising might be expected to affect commission rates.

been able to establish whether this scale benefit relates to brand-driven marketing or costs arising from paid search and online advertising activity.

- 3.29 Each of the Big 5 made net operating margins over the past three years of between 15 and 40% based on their reported accounts, although this varied by DCT and by year. However this is an incomplete measure, as it does not take into account all of the upfront investment needed to compete in this market. This investment is likely to be considerable, so the margins are likely to be overstated.
- 3.30 It is conceptually difficult to estimate the level that this investment would need to be and thereby establish levels of financial performance on an all-inclusive basis. Attempting to do so is unlikely to provide more fruitful evidence than we have at the moment. We therefore plan to focus in the next phase of our study on understanding better the reasons for the trends observed in the level of commissions charged to suppliers across our focus sectors.

4. The benefits DCTs can offer

- 4.1 In this chapter we outline the potential types of benefits that DCTs can offer and illustrate these benefits with evidence we have gathered so far. We then discuss where DCTs are likely to have the greatest impact.

Types of benefits from DCTs

- 4.2 DCTs say that they save time and money for consumers; make complicated and boring comparisons simple and fun; and help consumers make an informed choice and find the right product. The CMA and its predecessors (the Office of Fair Trading (OFT) and the Competition Commission (CC)) as well as other regulators (such as the Financial Conduct Authority (FCA)) have looked at DCTs in a number of sectors (such as our private motor insurance, energy and retail banking investigations) and recognised the benefits that DCTs can bring to consumers.²⁹ In the remainder of this section we summarise these potential benefits. We have also heard views that changes brought about by DCTs have not been entirely positive. These views are discussed in Chapter 7 of the report (in the section on ‘hollowing out’).
- 4.3 DCTs have the potential to lower search and switching costs for consumers and to provide an efficient way for suppliers to reach consumers.³⁰ In turn, this increases consumer engagement and, by increasing consumers’ responsiveness to prices, puts greater competitive pressure on suppliers. We would expect this to bring benefits to consumers in the form of lower prices, more choice and better matching between consumers and suppliers’ products. In general, stakeholders were of the view that DCTs had intensified competition and brought benefits to consumers in the sectors where they operate, albeit, to a varying degree. Table 4.1 below gives illustrative examples of the benefits brought about by DCTs. Appendix 4 also provides further information on the benefits of DCTs.

²⁹ DCTs have also been used as remedies in a number of cases – see for example: CMA, [Payday lending market investigation: Final report](#), February 2015. See Appendix 2 for more information on the CMA’s and its predecessor bodies’ work addressing DCTs.

³⁰ Because DCTs make revenue from consumers shopping around and switching, they can also have a greater incentive to invest in advertising the benefits of switching than incumbent suppliers with a large existing customer base. Larger DCTs are also likely to have a bigger advertising budget than some individual suppliers, especially small suppliers. Therefore, DCTs can give greater exposure to smaller suppliers than they would otherwise have.

Table 4.1: Illustrative examples of benefits from DCTs

DCTs can...	For example...
...lower search, switching and transaction costs for consumers	Consumers can get and compare multiple quotes with relatively low effort. For instance, data from larger DCTs show that consumers are presented with 41 to 48 home insurance quotations and compare two to three offers on average when using DCTs. ³¹ Getting quotes for and comparing the same number of offers without DCTs would be likely to take significantly more time and would involve more hassle for many consumers.
...increase consumer engagement	DCTs have made significant investments in advertising the benefits of searching around and switching (see paragraph 3.28). Some DCTs offer rewards to consumers (eg cashback, cinema tickets or toys) which is likely to increase their willingness to search around and switch.
...reduce acquisition costs for suppliers	Multiple suppliers from different sectors (credit cards, private motor insurance and home insurance) told us that their cost per acquisition on DCTs is considerably lower than the cost of 'direct' acquisition. For example, information from one of the large insurance providers shows that its cost of 'direct' acquisition is around 30% higher than the DCT commission both for private motor insurance and home insurance.
...facilitate entry and expansion of suppliers	Examples of smaller suppliers using DCTs to establish a brand and grow have been mentioned in broadband, energy and insurance. ³² The CMA's Energy Market Investigation found that the proportion of acquisitions facilitated by a DCT was generally higher for some small suppliers than for the Six Large Energy Firms. ³³
...increase supplier competition	Evidence from the PMI market investigation showed that the price sensitivity of consumers on DCTs is considerably higher than on other sales channels – putting competitive pressure on suppliers. ³⁴ One of the large insurance providers told us that the difference is even more pronounced in home insurance. One report suggested that the advent of DCTs in insurance in the UK has increased competition to such an extent that the insurance industry had earned £1 billion less over the period 2002 to 2010 due to 'unnecessary price competition'. ³⁵

4.4 Many of the potential benefits of DCTs are dynamic in nature. In particular, if DCTs compete for consumers, we would expect them to invest in better ways of presenting and comparing offers, innovate to improve user experience and to come up with alternative business models to offer comparison services. This can then reinforce the benefits they bring to consumers.

4.5 Most of the benefits mentioned above are direct benefits to consumers using DCTs, either because they switch to, or purchase, a better offer identified on a DCT, or because they can negotiate a better deal with their existing supplier using information obtained on a DCT. Indeed, our consumer survey found that

³¹ Based on information about where consumers click. We consider consumers' use of DCTs in Chapter 5.

³² For example, across different insurance products, CTM has added more than 200 new brands to its panel since 2010.

³³ See CMA, *Energy market investigation Final Report*, June 2016, paragraph 9.171.

³⁴ See CMA, *PMI Final Report*, September 2014, paragraph 6.66.

³⁵ See CMA, *PMI Final Report*, September 2014, paragraph 8.92. Source for the quote was Towers Watson, insurance consultancy: 'Why aren't we making money...', December 2010.

44% of those recently using a DCT for search but not for purchase used the results from the DCT to negotiate a better deal with their existing or new supplier (see paragraph 5.42).

- 4.6 DCTs may also bring benefits to consumers not using them. If suppliers' direct sales channels (or other non-DCT channels, such as brokers) compete with DCTs, the competitive pressures faced by suppliers on DCTs can spill over to these other channels. For example, information from a large insurance provider suggests that products sold through its own channel are the same as on DCTs. This indicates that the impact of increased competition on DCTs could also benefit consumers using the direct channel. Similarly, a credit card provider told us that, in general, its product offerings are the same for consumers across all channels but it sometimes tests new products on the largest DCTs and if a product is successful, the provider launches it on its own site. This is a cost-effective way of introducing new products and results in increased choice and better tailored offers not only for DCT users but also for users of other channels. Another example mentioned by stakeholders was the benefits to consumers using bricks-and-mortar travel agents, because these agents now have access to a wider range of offers with the help of metasearch engines.
- 4.7 On the other hand, DCTs may not be able to help all consumers: there could be situations where consumers who do not use DCTs miss out on these benefits or are made worse off by suppliers. We discuss this in Chapter 5 (paragraphs 5.86 to 5.95).

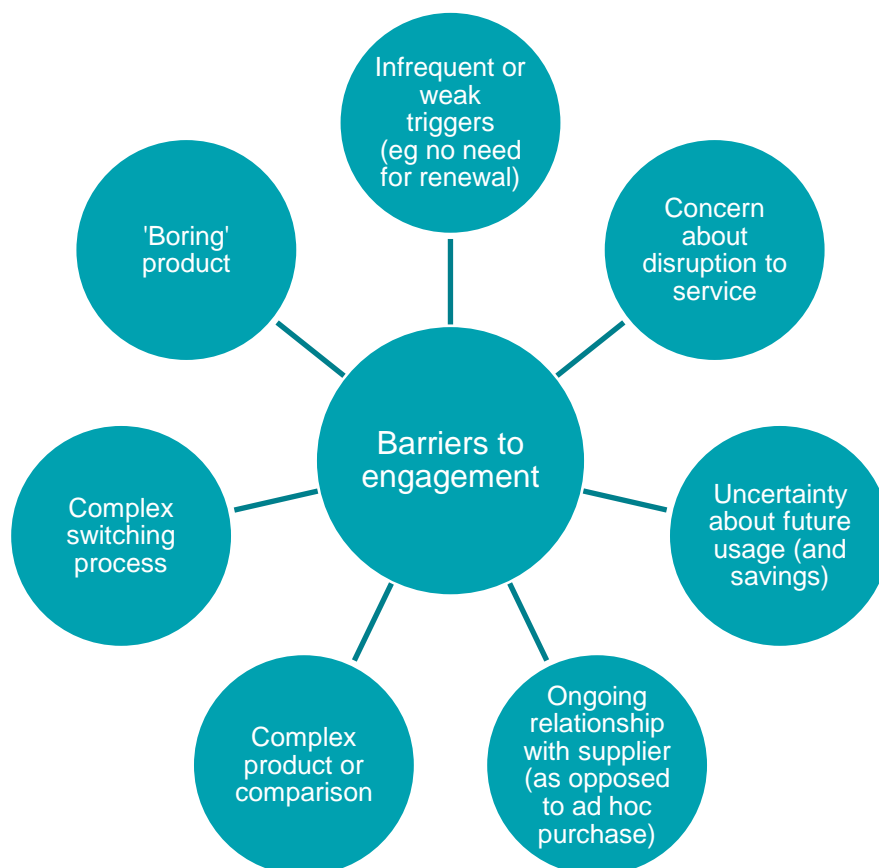
Where can DCTs have the greatest impact?

- 4.8 So far we have illustrated how DCTs can try to make it easier for consumers to search around and, often, to switch. DCTs can offer the greatest benefits in sectors where consumers would otherwise not typically search around (ie there is a high level of consumer inertia) and where the expected benefits of searching around and switching are the greatest (eg because of the value of a typical transaction or the price dispersion in the market).
- 4.9 As summarised in Figure 4.1 below, consumers may not be actively engaged in a market for a number of reasons. For example, they might find some products inherently less engaging than others (such as choosing energy suppliers compared with selecting flights for a holiday), or the information needed to make an informed choice is not readily accessible to them. Products may too complex to understand easily, or there may be a lack of 'trigger points' that would prompt consumers to search around. Consumers may also be concerned about the uncertainty of using a new supplier or, in some cases, about the (perceived) risk of service disruption or (perceived)

complexity of the switching process. In some instances consumers may not even know that switching is possible.

- 4.10 DCTs can lower many of these barriers by helping consumers overcome gaps in their information, making comparisons simpler, reducing search costs and motivating consumers to engage in search and switching (eg by advertising the benefits of searching around, sending reminders or offering incentives to switch).







Figure 4.1: Barriers to engagement



Source: CMA analysis.

- 4.11 Table 4.2 illustrates which of these barriers are likely to be present in our case study sectors and gives an indication of the value of transactions to illustrate the potential benefits of engagement.

Table 4.2: Product characteristics and barriers to consumer engagement in different sectors

Product spend, switching and characteristics	Broad-band	Credit cards	Energy	Flights	Home insurance	Motor insurance
						
Typical annual household spend ³⁶	c.£400 - £450 ³⁷	c.£0 - £100 ³⁸	c.£800 - 1100 ³⁹	c.£300 - £400 ⁴⁰	c.£300 - 400 ⁴¹	c.£500 - 700 ⁴²
Switching (UK data) ⁴³	11%	13-14%	12%	N/A	N/A	36%
Switching ⁴⁴ (EC data)	13%	10%	9-10%	N/A	8%	16%
Weak triggers	✓	✓✓	✓			
'Boring' product		✓	✓		✓	✓
Complex product or comparison	✓	✓		✓	✓	✓
Complex switching process	✓		✓		✓	
Uncertain usage pattern	✓	✓✓	✓✓			
Service disruption	✓		✓			
Ongoing relationship with supplier	✓	✓ ⁴⁵	✓		✓✓	✓

³⁶ These are broad range estimates which draw on the sources indicated, but are intended to be illustrative because their bases, age and timescales differ.

³⁷ Ofcom, *The Communications Market Report*, August 2016, page 9. Average monthly household spend on fixed internet services in 2015 was £15.05. We include the costs of fixed voice services (£22.06), to suggest an average monthly cost of c.£37 for a broadband package.

³⁸ See FCA, *Credit Card Market Study – Interim Report*, November 2015. The FCA found that over 80% of credit card accounts in its sample incurred less than £20 annual interest on purchases in the first two years after taking out the credit card. 92% of credit card accounts in the FCA's sample incurred annual interest of £100 or less on purchases in the first two years after taking out the credit card.

³⁹ Ofgem, *Switching at a 4.5 year high as more people shop around for a better deal*, November 2016. This notes that the cheapest deal currently on the market (£822 per year) is around £250 less than the average large supplier standard variable tariff (£1,066 per year).

⁴⁰ ONS, *Family Spending 2015*, December 2015. See page 11: Air fares were £6.10 per week in 2014.

⁴¹ Association of British Insurers, *UK Insurance & Long-Term Savings Key Facts*, November 2016. See page 8: In Q3 2016 the average premium for a combined building and contents policy was £308. The average premiums for buildings and contents only were £268 and £140 respectively. See the chart on page 5 for average household expenditure on buildings and contents insurance.

⁴² Association of British Insurers, *UK Insurance & Long-Term Savings Key Facts*, November 2016. In Q3 2016, the average premium for private motor was £440. See page 5 for average household spend on motor insurance.

⁴³ Energy and motor insurance: UKRN, *Consumer engagement and switching*, December 2014. Broadband: Ofcom, *Switching Tracker 2015*, February 2016. Credit cards: FCA, *Credit Card Market Study – Interim Report*, November 2015: 13 to 14% of existing customers opened at least one new credit card account in 2014.

⁴⁴ European Commission, *Monitoring consumer markets in the European Union*, Final Report Part I, 2015, page 70. Note that the figure for broadband refers to internet provision; that credit cards includes loans, credit and credit cards; and that for energy, the EC separated this into gas (9%) and electricity (10%).

⁴⁵ Consumers' existing arrangements with their bank or building society may be a factor. See FCA, *Credit Card Market Study – Interim Report*, November 2015, paragraph 4.15. A third of all active credit card holders stated they had a personal current account with the provider of their main credit card, although 42% did not have any prior relationship with the provider of their main credit card.

- 4.12 The UKRN, in its report on consumer engagement and switching, also considered reasons for lack of consumer engagement and identified 12 reasons across four themes that might affect engagement: awareness, attitude, ability and cross-cutting barriers. The UKRN's approach included consideration of consumer bias, behaviour, trust and 'sector literacy' and identified the greatest number of potential barriers in energy markets (6 out of 12) followed (in descending order) by retail banking and telecoms (both 4 out of 12) and general insurance and health (both 2 out of 12).⁴⁶
- 4.13 In setting out our approach above we are conscious that these barriers may affect consumers differently and, in particular, people in vulnerable circumstances. Similarly, consumers may experience these barriers in different ways at different times.

What needs to be in place for DCTs to offer maximum benefits?

- 4.14 So far we have set out at a high level the role of DCTs and the benefits they can deliver. Our current view is that for DCTs to offer maximum benefits there need to be:
- (a) confident consumers with sufficient understanding and trust to use DCTs;
 - (b) sustainable DCTs with the inputs they need to offer an effective service;
 - (c) effective competition, both between DCTs and between DCTs and suppliers; and
 - (d) effective and appropriate regulation.
- 4.15 Over the next four chapters we use our focus sectors to illustrate the extent to which each of these conditions applies in practice.

⁴⁶ UKRN, *Consumer engagement and switching*, December 2014. Tables 1 and 2.

5. Consumers

Introduction

5.1 In this chapter we consider evidence emerging from our research on the extent to which consumers use (and do not use) comparison sites, as well as their reasons. We also consider how consumers use DCTs and their experiences – comparing this to what sites appear to present to consumers. We draw on inputs from stakeholders as well as some of the findings emerging from our research so far:⁴⁷

- (a) Consumer research, conducted by Kantar Public, which comprised:
 - (i) An **address-based online survey** of 4,083 consumers⁴⁸ (users and non-users of DCTs), achieved by sending invitations to randomly-selected addresses inviting up to four adults in the household to respond.⁴⁹ The online survey was supplemented by a face-to-face Omnibus survey conducted to collect reasons for not using comparison sites.
 - (ii) Thirty-two in-depth face-to-face **interviews** with users and non-users of DCTs lasting one hour. This included an observational exercise, where respondents used a DCT and talked through their thought processes.
- (b) A websweep of 35 DCTs conducted by the CMA near the start of the study to identify what general information they provide – for example, whether reviewers could find contact details, information on the site’s market coverage, how often the site updates offers and how it handles complaints.

⁴⁷ Further details of this research can be found in Appendix 1. We have also published a separate report of findings of the consumer research (see Annex A: Kantar, [Digital Comparison Tools: Consumer Research Final Report](#), March 2017) alongside this update paper and we expect to publish the mystery shopping and websweep findings in due course. We will also publish a technical report providing details of the methods used in the consumer research as well as the survey data tabulations shortly. While we set out our initial assessment of the research and some of the key findings emerging from it, the evidence base is large and we will continue to explore it, as well as considering survey and other evidence from third parties during the remainder of the study.

⁴⁸ The results of the survey related to the most recent experience of using DCTs and shopping around and are reported at an overall level and at a sector level (for the sectors where the sample sizes were sufficient to enable separate analysis – ie flights, energy, home insurance, broadband, motor insurance and hotels).

⁴⁹ As the target population for the survey was internet users, all survey results are expressed as a proportion of internet users or a sub-set of internet users. While this survey by definition could not be completed by the one-in-seven consumers without internet access, it ensured that we could focus on consumers who can use DCTs, and either do so, or do not. Survey methods to capture non-internet users would not have enabled us to achieve the necessary sample sizes at sector level without being prohibitively expensive, and would not have allowed us to ask the volume of detailed questions possible with an online survey. We do, however, consider the issues for consumers without internet access in this chapter.

(c) A commissioned mystery shopping exercise, involving 477 assessments across 56 DCTs, where mystery shoppers enacted typical shopping scenarios, looking for particular products, and recorded their experiences – including what information was requested by DCTs, how the results were presented, how suppliers' quotes compared to those on the DCT and what happened when consumers revisited the sites.

5.2 Exploring this evidence helps us to identify possible barriers to consumers' use of DCTs as well as where there may be room for improvement in how DCTs deliver services to consumers.

To what extent do consumers use DCTs?

5.3 In this section we consider the extent to which consumers shop around using DCTs or other methods. We also consider why consumers did or did not use a DCT the last time they shopped around.

Many consumers use DCTs in the sectors we looked at

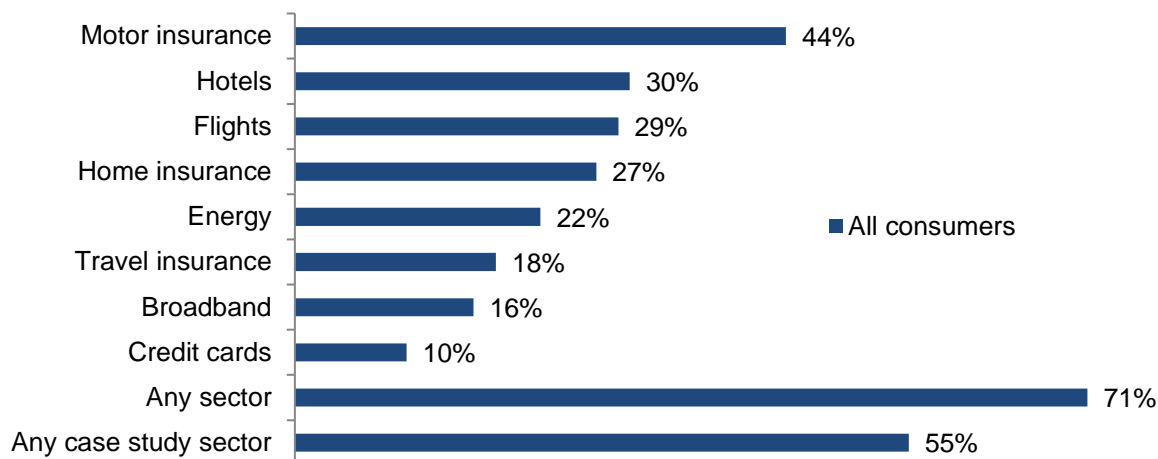
5.4 DCTs are widely used to shop around for different products and services. According to our consumer survey, 97% of internet users were aware of comparison sites and 85% had used a comparison site at some point. Four in ten (41%) of internet users had used a site in one of the sectors mentioned in our survey⁵⁰ in the previous three months.⁵¹

5.5 However, usage varies between the sectors we looked at (Figure 5.1). Across all internet users, motor insurance was the sector where comparison sites were most commonly used, with 44% of all internet users having used one to shop for motor insurance in the past 12 months. Just under a third had used a comparison site to shop around for hotels and flights and about a quarter for home insurance and energy. Usage was lowest for broadband and credit cards.

⁵⁰ Motor insurance, home insurance, flights, hotels, energy, travel insurance, broadband and credit cards.

⁵¹ Page 37 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

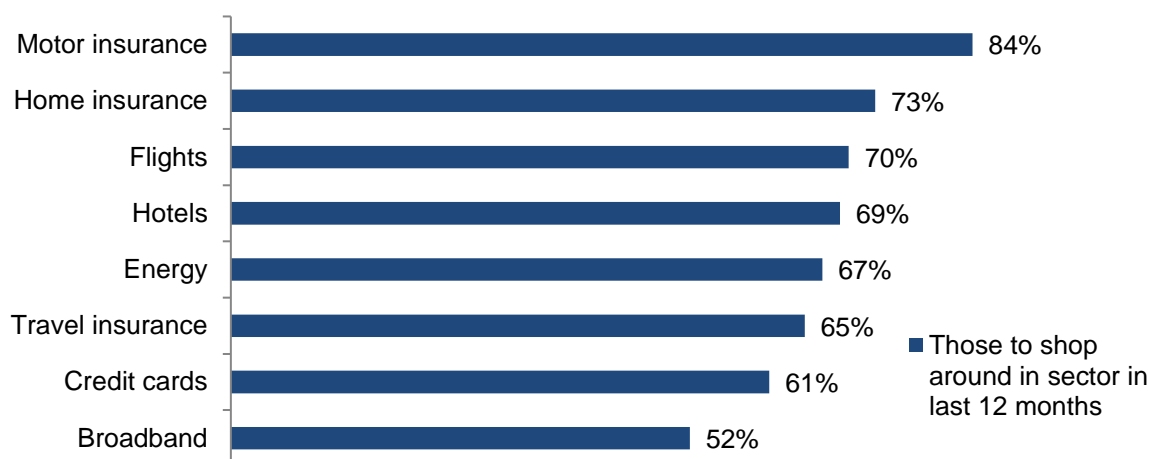
Figure 5.1: Use of comparison sites in last 12 months among all internet users, by sector



Source: Kantar Public survey. G8. And as far as you remember, when was the last time you visited a comparison site as part of shopping around for the following products or services? Please select all that apply?
 Base: All consumers⁵² (4,083).

5.6 DCT usage figures can also be expressed as a proportion of the consumers who have shopped around in each of the sectors we looked at – to provide an indication of how important comparison sites were to them in their search. Figure 5.2 shows that the proportion of DCT users among those who have shopped around in each sector is high, ranging from 52% in broadband to 84% in motor insurance. For credit cards, although only 10% of all internet users used a comparison site in the last 12 months (Figure 5.1), this represents a substantial proportion (61%) of those who shopped around in this sector in last 12 months (Figure 5.2).

Figure 5.2: Use of comparison sites in last 12 months among those shopping around in each sector



Source: Kantar Public survey. G8. And as far as you remember, when was the last time you visited a comparison site as part of shopping around for the following products or services? Please select all that apply?
 Base: Those to shop around in each sector in last 12 months: Motor insurance (2,047); Hotels (1,769); Flights (1,671); Home insurance (1,429); Energy (1,313); Travel insurance (1,088); Broadband (1,246); Credit cards (674).

⁵² Since the survey covered internet users only, 'all consumers' is used as a short-hand term for 'all internet users' here and in other charts in this chapter.

Consumers with degrees, in employment and on higher incomes are most likely to use DCTs

5.7 Our survey found that the level of DCT use varies by demographics, with consumers aged between 25 and 64, those on higher income, those in employment as well as those with higher qualifications most likely to use DCTs. In particular:

- 92% of consumers aged 25 to 44, and 89% of consumers aged 45 to 64, have used a comparison site, compared with 73% of those aged 65+ and 73% of those aged 16 to 24.
- 92% of those with household income of at least £48,000 have used a comparison site, compared with 75% of those with income of under £6,000.
- 91% of those in employment have used a comparison site, compared with 66% of those who are unemployed.
- 95% of those with a university degree have used a comparison site, compared with 68% of those with no qualifications.⁵³

5.8 The level of use of DCTs is also linked to the frequency of using the internet. Among those who use the internet several times a day, 89% had used a DCT compared to only 26% of those who use the internet less than once a week.⁵⁴

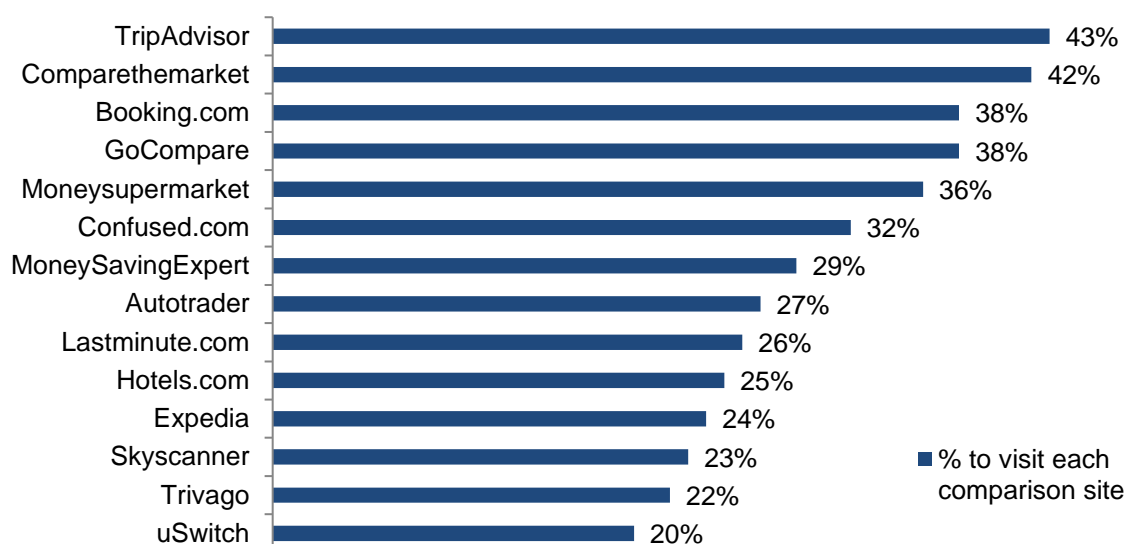
The Big 5 and travel DCTs are the most commonly used

5.9 When all consumers we surveyed were presented with a long-list of named sites and asked which they had used, many selected the 'Big 5' (Figure 5.3). However, sites focused on travel were also particularly commonly used, as well as those with other functions beside comparison – such as TripAdvisor, which also works as a review site, and MoneySavingExpert, which acts primarily a consumer advice site (although it does offer some comparison functions).

⁵³ Source: Kantar Public survey data tabulations.

⁵⁴ Source: Kantar Public survey data tabulations.

Figure 5.3: Comparison sites most commonly used



Source: Kantar Public survey. G6. Which of the following comparison sites have you ever used? Please select all that apply
Base: All consumers (4,083).

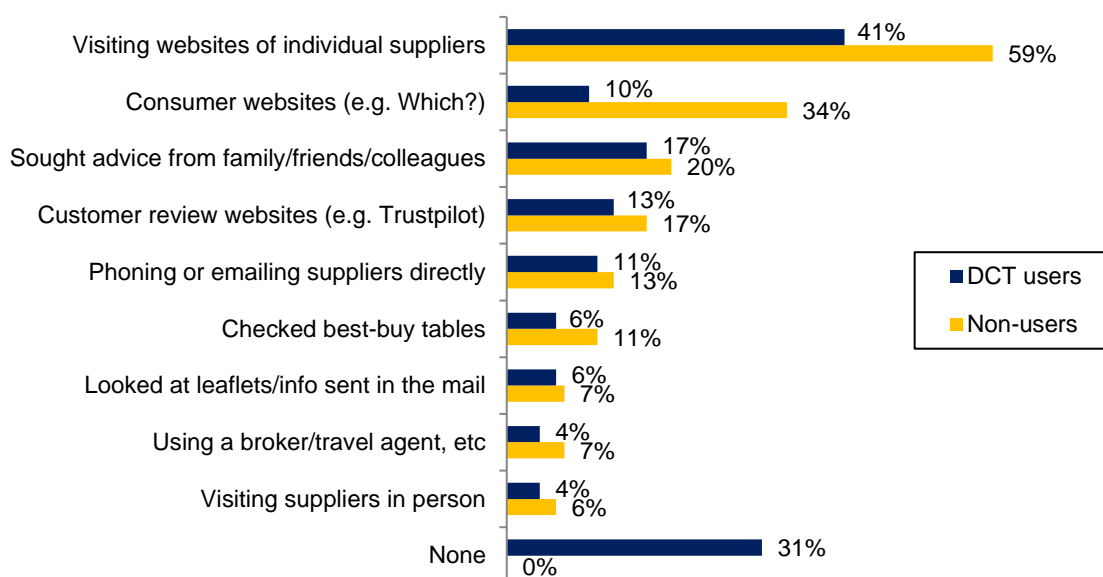
5.10 We also analysed market research commissioned by a number of DCTs on brand awareness. Awareness of individual DCT brands varies over time and brand awareness is demonstrably boosted by television campaigns in particular. The analysis suggested that:

- (a) When provided a list of DCTs ('prompted awareness'), typically around 80 to 95% of people stated they had heard of each of the four largest DCT brands.
- (b) When asked to name DCTs they are aware of ('spontaneous awareness'), between 25% and 70% of respondents named each of the four largest DCTs.
- (c) The proportion of consumers that named a given DCT first ('top of mind awareness') varied between 5% and 40%.

Consumers also often check suppliers' sites

5.11 DCTs are only one tool consumers can use to shop around (Figure 5.4). The main alternative for users and non-users is to visit sites of individual suppliers. Other options include advice from family and friends, as well as checking customer review sites and best buy tables. However, nearly a third of DCT users relied solely on DCTs the last time they shopped around.

Figure 5.4: What other means do consumers use to shop around?



Source: Kantar Public survey. C4. In which ways did you shop around on this occasion? Please select all that apply. / E16. In addition to comparison sites, did you use any of these methods to compare what was available? Please select all that apply. Base: Consumers who have shopped around in the last three months (DCT users: 1,668; Non-users: 1,095).

Consumers use DCTs to save time and money, and to find a better deal

- 5.12 In line with other research findings and stakeholders’ comments, we found that consumers primarily visit DCTs to save money, compare a large number of providers, save time and get a better idea about prices.⁵⁵
- 5.13 Our qualitative research found that users were often looking for a good or better deal, or wanted to confirm that they were getting a good deal already; and comparison sites saved them the time and effort of having to contact individual suppliers. Consumers also suggested that using DCTs could be an educational process by revealing possible options and allowing them to explore and ‘experiment’ with different packages such as broadband ‘bundles’.⁵⁶

Some consumers cannot access DCTs, while a small proportion choose not to

- 5.14 Consumers who have not used a DCT appear to fall into two main camps:
 - (a) Consumers without internet access. Six in seven (86%) of UK adults have internet access at home, but this varies considerably by age and socio-

⁵⁵ Page 88 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.
⁵⁶ Page 94 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

economic group, with less than half (45%) of those aged over 75 and 74% of those in the DE socio-economic group having access.⁵⁷

(b) Consumers with internet access but who sometimes do not use DCTs when shopping around or do not use them at all.⁵⁸

5.15 As discussed in paragraphs 4.6 to 4.7 of Chapter 4 and in paragraphs 5.86 to 5.95 below, the impact of DCTs on non-users, including consumers belonging to the first group defined above (that is those who lack effective or any access to the internet altogether) is not clear. We can assume that a higher proportion of these consumers are more likely to be in positions of vulnerability than the general population – for instance in terms of their age, socio-economic status, physical and/or mental disabilities. Consumers' locations may also affect internet connectivity and usage. For instance, in 2015, 90% of households in the South East of England could access the internet compared with 82% in the North East.⁵⁹

5.16 In terms of the second group (non-users of DCT who have internet access), our Omnibus survey⁶⁰ found that the main reasons consumers cited for not using a comparison site on the recent shopping around occasion were that they had never thought about it or preferred to deal directly with suppliers. Other reasons included always buying from the same provider, being able to find the information they needed elsewhere or that using a comparison site would require too much time or effort (Figure 5.5).⁶¹

⁵⁷ Ofcom, *The Communications Market 2016*, August 2016, page 187.

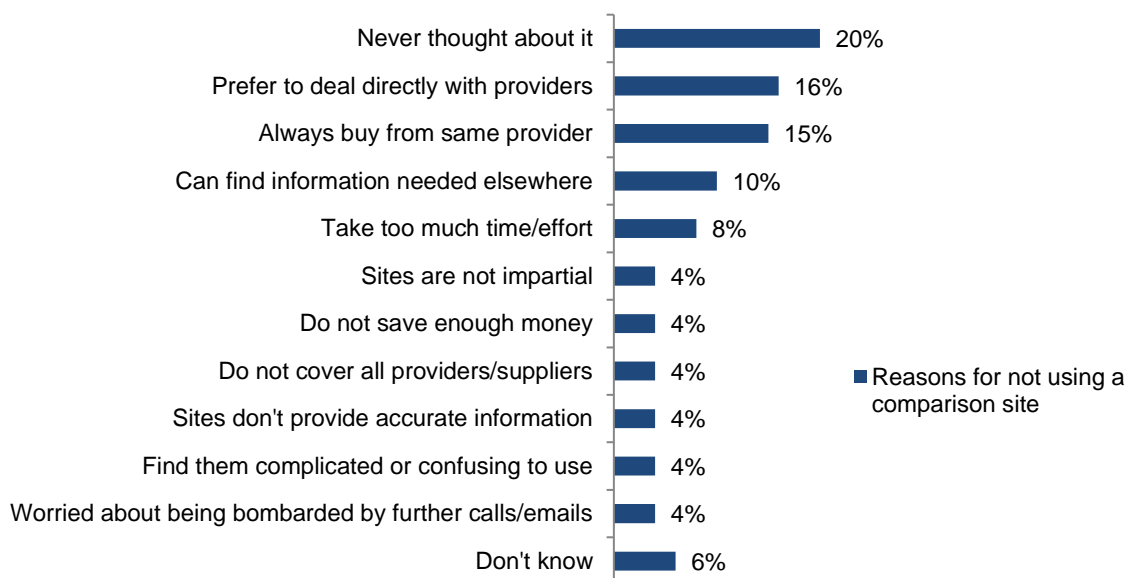
⁵⁸ The results of our online survey suggests that very few online consumers had never previously used a comparison site in any sector.

⁵⁹ Office for National Statistics, *Households with internet access by country and region, 2014 and 2015*.

⁶⁰ Further information on the Omnibus survey will be included in the consumer research technical report.

⁶¹ These findings are similar to those reported by Consumer Futures in 2013, which found that the main reasons why non-users had never used comparison sites was a preference for talking to someone in person, followed by no need or desire to use them and no interest in switching. Consumer Futures, *Price comparison websites: consumer perceptions and experiences: A report by RS Consulting for Consumer Futures*, July 2013.

Figure 5.5: Consumers' reasons for not using comparison sites



Source: Kantar Public survey. Q3 (Omnibus survey). You said that you shopped around for [SECTOR] in the last three months but did not use a comparison site. Are there any particular reasons why you didn't use a comparison site on this occasion?
 Base: Omnibus survey consumers who have shopped around in the last three months but did not use a comparison site (578).

5.17 Our qualitative research also identified a range of reasons why consumers may not use DCTs: general low confidence in using the internet, fear of being overwhelmed by information, a view that the savings would not be worth the hassle, worries about sharing information or entering it incorrectly, as well as suspicions that DCTs are not independent. Some of the concerns raised by non-DCT users are also voiced by consumers who do use DCTs – in particular, worries about sharing data. We consider this evidence further below.⁶²

How do consumers use DCTs and what do they experience?

5.18 In this section, we consider consumers' behaviour and experiences when using DCTs – in particular how many DCTs they use, what factors they focus on when doing so, the extent to which they use the functionality offered by comparison sites and whether they purchase directly through DCTs or from the suppliers.

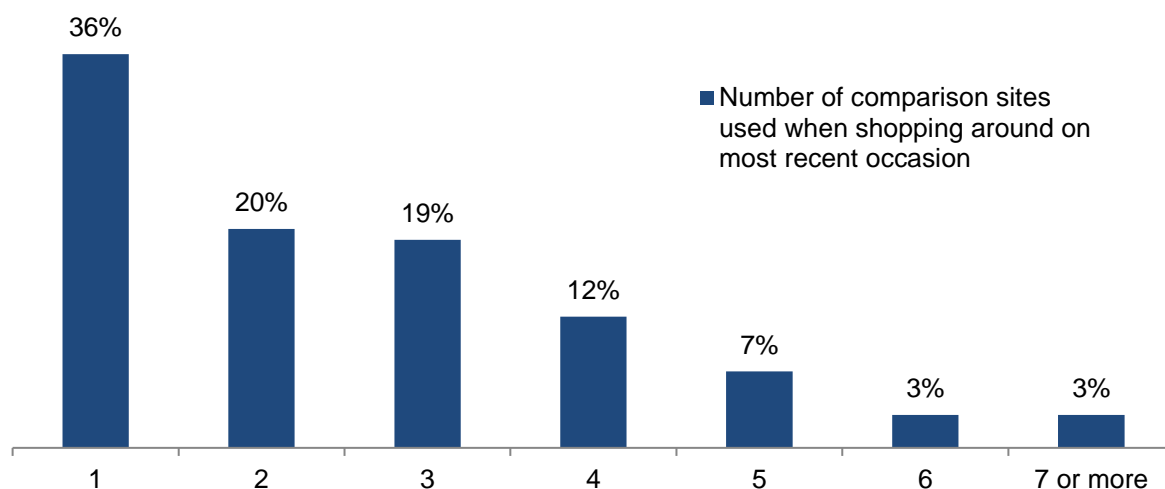
Evidence is mixed but many consumers say they use more than one DCT

5.19 Nearly two-thirds (64%) of recent comparison site users said they used multiple DCTs (ie they 'multi-homed') the last time they searched for a particular product (see Figure 5.6). One-quarter had used four or more sites

⁶² Page 95 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

and, on average, users said they had looked at 2.6 sites (although this varied slightly by sector).⁶³ We consider in Chapter 7 the implications of multi- and single-homing for the relationship between DCTs and suppliers.

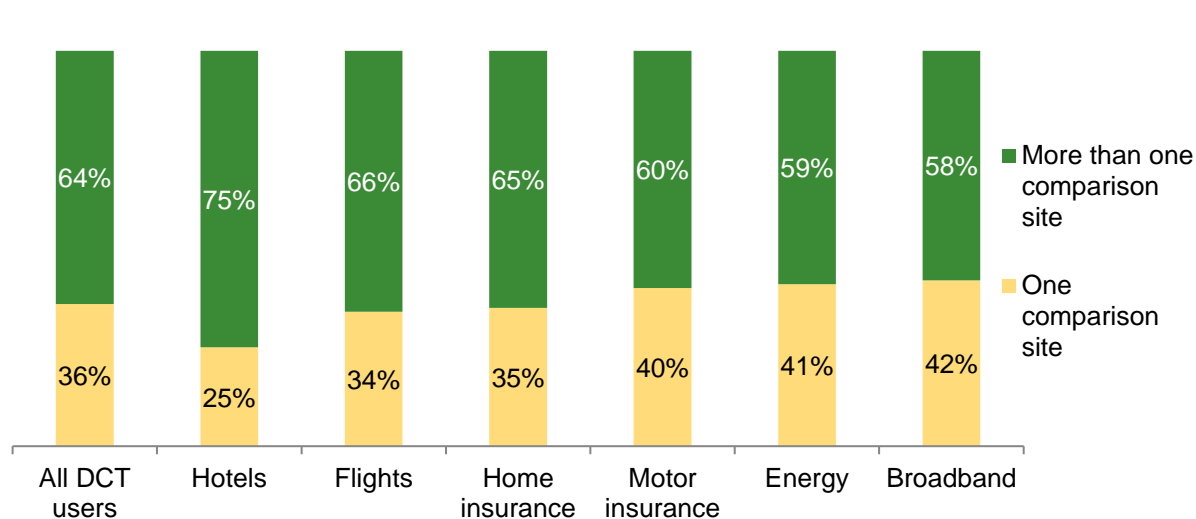
Figure 5.6: How many comparison sites do consumers use?



Source: Kantar Public survey. M10. Which comparison site(s) did you use on this occasion?
 Base: All who have used a comparison site in the last 3 months and could recall site(s) used (1,627).

5.20 Although we found some variation across sectors, with consumers looking for hotels more likely to use multiple comparison sites compared with other sectors, the levels of multi-homing were consistently high across all sectors (Figure 5.7).

Figure 5.7: Levels of single and multi-homing on comparison sites, by sector



Source: Kantar Public survey.
 M9. When you shopped around for [PRODUCT], did you visit...Base: All who have used a comparison site in the last 3 months (All DCT users: 1,668; Home insurance: 210; Flights: 508; Broadband: 182; Energy: 267; Motor insurance: 235; Hotels: 177).

⁶³ Page 109 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

- 5.21 The main reasons recent users cited for using multiple DCTs were: to check prices for the same product across different sites (63%), get the best product/service (51%), as well as see a wider range of products/services (37%) and be able to compare a larger number of providers (37%).⁶⁴
- 5.22 However, other evidence we have gathered shows a different picture on the extent of multi-homing. Our analysis of DCT data in home insurance found that the vast majority (almost 90%) of consumers generated a quote using only one DCT.⁶⁵ Other research we have seen in relation to insurance also suggests higher levels of single-homing than we found in our consumer survey. Moreover, in our PMI report we found significant differences between consumer-reported single-homing and supplier-reported single-homing.⁶⁶
- 5.23 Our consumer research found that around a third of recent users said they had only used one comparison site when they last shopped around (ie they had 'single-homed'). The main reasons they cited were that they got everything they needed on the site, had used it before, found the site easy to use or trusted it.⁶⁷
- 5.24 However some of the consumers who said that they only used one DCT may also use other sales channels.⁶⁸ Figure 5.8 below shows that this is the case for consumers using one DCT across all our case study sectors. Of the 37%⁶⁹ of recent users who said that they single-homed, 57% used one DCT as their sole source of information, and 43% also used other sales channels.

⁶⁴ Page 112 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

⁶⁵ We analysed data on each home insurance quote generated on the four biggest home insurance DCTs in February, May and July 2016. Each quote included the postcode and the date of birth of the customer who generated that quote. Single-homers and multi-homers in each month were distinguished and counted by merging the data of the four DCTs and using the combination of postcode and date of birth as a customer unique identifier. This methodology could slightly overestimate the number of single-homers for two reasons. First, no data on the quotes generated on other DCTs were included in the analysis (however, this could slightly bias the result in both directions; moreover, any bias would be likely to be very small given the share of supply among the four biggest DCTs in home insurance). Second, in each month, any customer who had generated a quote on one DCT at the beginning (end) of the month and generated a quote on another DCT at the end (beginning) of the preceding (following) month would have been counted as a single-homer.

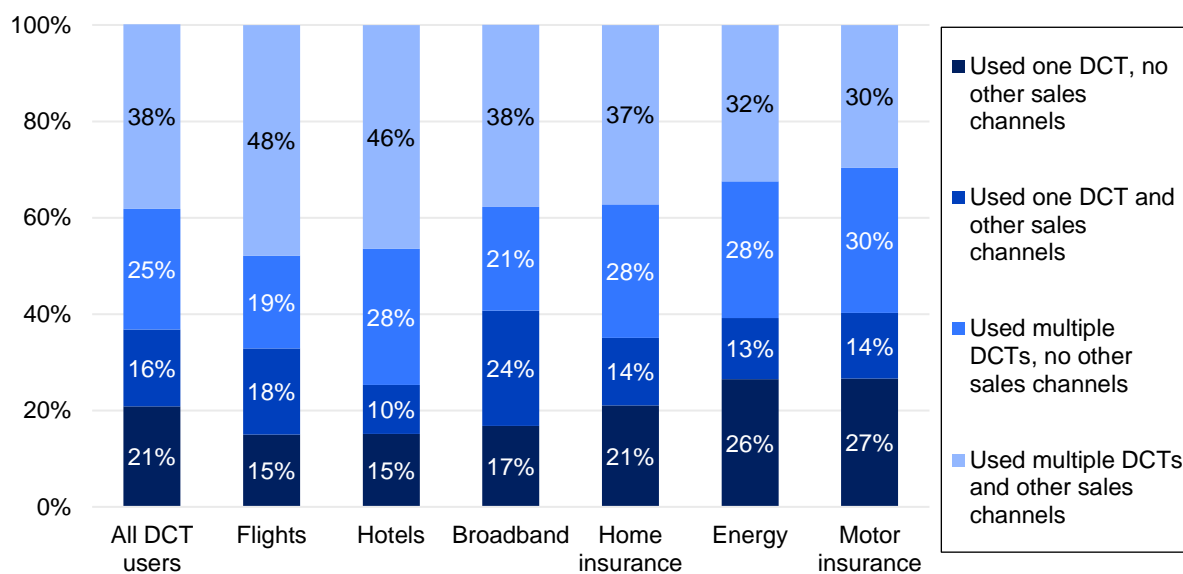
⁶⁶ See CMA, *PMI Final Report*, September 2014, paragraph 8.12.

⁶⁷ Page 111 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

⁶⁸ By 'other sales channels' we mean: visiting websites of individual suppliers, phoning or emailing suppliers directly, visiting suppliers, using best buy tables and using a broker or travel agent.

⁶⁹ The proportion of users who multi and single-home in this chart is slightly different from the corresponding proportions in Figure 5.7 due to different bases (ie in Figure 5.8 'don't know' responses have been excluded).

Figure 5.8: Proportion of consumers checking multiple sales channels



Source: Kantar public survey.

Notes: Derived from M9/E16: M9. When you shopped around for [PRODUCT] did you visit... M16. In addition to comparison sites, did you use any of these methods to compare what was available? Please select all that apply.

Base: Consumers who have shopped around using a comparison site in the last three months, 'don't know' responses excluded (All DCT users 1,615; home insurance: 204; motor insurance 224; flights 492; hotels: 176; broadband 176; energy 256).

5.25 Since the evidence on the extent to which consumers multi-home and single-home is mixed, we interpret it with caution. On the one hand the results of our data analysis may be under-estimating the number of consumers who multi-home (ie representing a lower bound), but on the other hand, consumers may be over-stating the extent to which they are doing so (ie representing an upper bound). The number of consumers that are effectively multi-homing is likely to be between these two levels.⁷⁰

DCTs typically first rank results by price

5.26 In line with evidence provided to us by DCTs, our mystery shopping exercise found that DCTs for most of the sectors examined typically first presented results ordered by price (ie price was the 'default ranking') or level of saving. This was particularly the case in insurance, flights and energy. Credit cards, however varied quite considerably with some DCTs presenting offers ranked on 'representative APR', and others on 'balance transfer offer', 'likelihood to be accepted' and benefits or rewards.⁷¹

⁷⁰ We consider in Chapter 7 the implications of multi- and single-homing for the relationship between DCTs and suppliers.

⁷¹ GfK, CMA Digital Comparison Tools Mystery Shopping and Websweep Research Report (forthcoming).

Consumers compare on price alongside other features; many do not reorder or filter results

- 5.27 While only 7% of DCT users recalled looking at just one offer, 44% said they had looked at two or three offers and a third (34%) considered four or more.⁷² This is broadly consistent with our analysis of DCT data which suggests that consumers compare two to three offers on average when using DCTs for home insurance comparison (see Table 4.1).
- 5.28 When looking at the results, most comparison site users (84%) compared products on the basis of price alongside other factors. Few users (10%) compared offers on the basis of price alone (although 18% of those looking at home insurance and the same proportion of those looking at motor insurance did so).⁷³
- 5.29 Our mystery shoppers found that, although sites and sectors varied, DCTs typically allowed consumers to filter or re-order the results.⁷⁴ However, about a quarter (27%) of recent users said they did not know if they could do this on the main site they had last used.⁷⁵
- 5.30 Of those who were aware that the results could be adapted, two-thirds (67%) said they did one or the other (with a slightly higher proportion filtering than re-ordering).⁷⁶ Consumers shopping around for hotels and flights were most likely to adapt results, whereas those looking for home insurance and energy were least likely to do so.⁷⁷ Our analysis of DCT data suggests that across our case study sectors, consumers seldom reorder results that are first ranked by (lowest) price.⁷⁸
- 5.31 In our qualitative consumer research, users were observed to pay attention to select information and offers – for instance only looking at the top few offers or first page and automatically ignoring unknown suppliers or having specific ones in mind.⁷⁹ Some also assumed that the cheapest deals were shown first, although others thought they were randomised or that the order reflected what

⁷² Page 127 in Annex A: Kantar, [Digital Comparison Tools: Consumer Research Final Report](#), March 2017.

⁷³ Page 129 in Annex A: Kantar, [Digital Comparison Tools: Consumer Research Final Report](#), March 2017.

⁷⁴ GfK, CMA Digital Comparison Tools Mystery Shopping and Websweep Research Report (forthcoming).

⁷⁵ Page 124 in Annex A: Kantar, [Digital Comparison Tools: Consumer Research Final Report](#), March 2017.

⁷⁶ Page 125 in Annex A: Kantar, [Digital Comparison Tools: Consumer Research Final Report](#), March 2017.

⁷⁷ Page 126 in Annex A: Kantar, [Digital Comparison Tools: Consumer Research Final Report](#), March 2017.

⁷⁸ We reviewed data from a number of DCTs across our case study sectors. Note that the only data point provided by one of the DCTs was where results were ranked by price and reordering of other possible default rankings had not been tested.

⁷⁹ Page 140 in Annex A: Kantar, [Digital Comparison Tools: Consumer Research Final Report](#), March 2017.

was ‘best’ for them.⁸⁰ The most confident users sorted and filtered results, but many were unaware of this functionality or struggled to use it correctly.⁸¹

- 5.32 We particularly welcome views on how consumers use DCTs and the implications for them, as well as for DCTs and suppliers.

Many DCTs do not seem to explain their business models or ranking methods

- 5.33 Our qualitative research found that users generally did not know how comparison sites made money. Respondents had rarely thought about this before, but guessed a range of revenue streams, including advertising, that suppliers pay a fee to get on the site, and a commission model.
- 5.34 Respondents estimated commission rates to be in the region of 1 to 5%, and when presented with the average commission in certain sectors, they generally perceived them to be quite high. However, learning that sites earn commission from suppliers appeared to have a low impact on trust in comparison sites: some users considered the importance of getting a good deal trumped possible concerns, while some did not see the cost as being passed on to them since the same deals appeared directly from suppliers.⁸²
- 5.35 Our evidence suggests that some sites could be more transparent about their business models and ranking methods. For instance, our websweep found that about a third of the sites we assessed appeared to provide information on whether financial arrangements with suppliers could influence how results are presented to consumers.⁸³
- 5.36 Most sites in our websweep also appeared to provide little information up-front (ie prior to search) on their approach to ranking offers. Those that did provide some information on their approach also seemed to vary in their explanations and in a number of cases DCTs’ explanations seemed unclear.⁸⁴
- 5.37 Our findings echo those in the Office of Fair Trading’s report on PCWs in 2012, which found that some websites provided only limited information about ranking methods and market coverage. Some websites did not display clear information about the commercial relationships the business had with the vendors of products compared.⁸⁵

⁸⁰ Page 138 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

⁸¹ Page 139 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

⁸² Page 82 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

⁸³ GfK, CMA Digital Comparison Tools Mystery Shopping and Websweep Research Report (forthcoming).

⁸⁴ GfK, CMA Digital Comparison Tools Mystery Shopping and Websweep Research Report (forthcoming).

⁸⁵ Office of Fair Trading, *Price Comparison Websites*, November 2012.

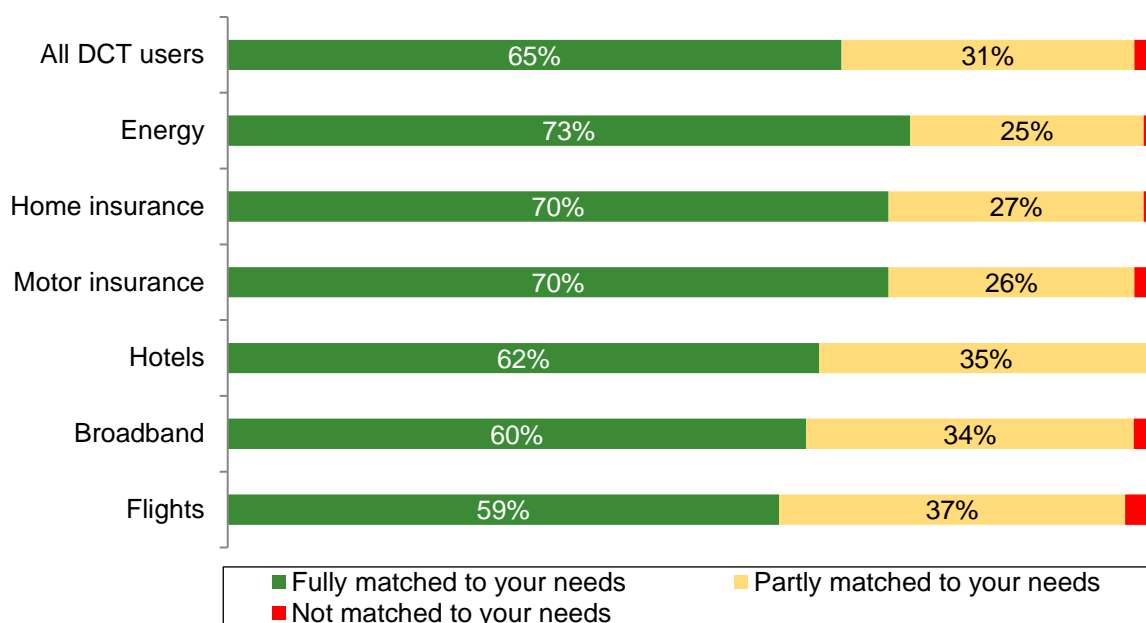
- 5.38 Particularly in our workshop discussions, some stakeholders felt DCTs should inform consumers of not just where a supplier paid them commission, but also the level of commission. We are sceptical of the value of this; indeed it seems more likely to be counterproductive – a 2004 Federal Trade Commission (FTC) experiment found that disclosure of mortgage broking fees led consumers to focus unduly on commission, at the expense of more important factors, such as interest rates, leading to worse consumer outcomes.⁸⁶
- 5.39 We plan to consider further in the next phase of the study the evidence concerning how transparent sites are in terms of their business models and ranking methods (including whether commission or other financial arrangements affects ranking and presentation of results), as well as their market coverage (see paragraph 5.51 below). We particularly welcome comments on these issues, which also relate to our consideration of the regulatory framework in Chapter 8.

Most users consider DCT results match their needs

- 5.40 Two thirds of recent comparison sites users considered that the results presented on the main site they had used fully matched their needs, with only 2% saying that the results did not match their needs. This varied slightly by sector, with those searching for energy more content than those looking for hotels, broadband or flights (Figure 5.9).

⁸⁶ Federal Trade Commission, *The Effect of Mortgage Broker Compensation Disclosures on Consumers and Competition: A Controlled Experiment*, February 2004.

Figure 5.9: How well did users think the comparison site results had matched their needs?



Source: Kantar Public survey. E12. And do you feel the results presented to you on the main comparison site you used were...
 Base: All who have used a comparison site in the last 3 months (All DCT users: 1,668; Home insurance: 210; Flights: 508; Broadband: 182; Energy: 267; Motor insurance: 235, Hotels: 177).

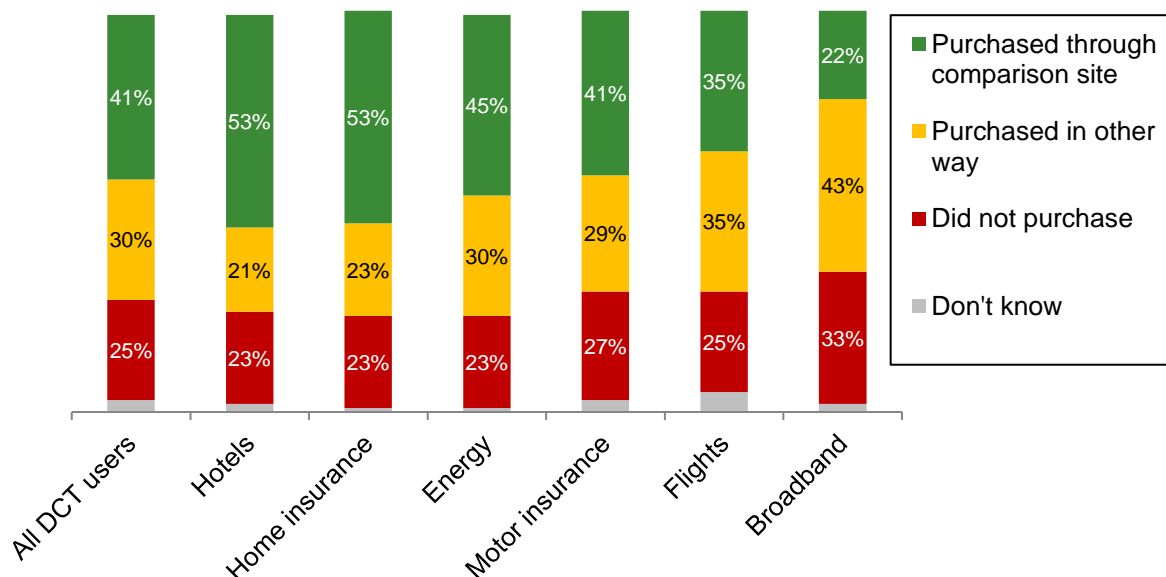
Two-fifths of users purchase through DCTs

- 5.41 Our survey found that some consumers use DCTs to research products but ultimately do not buy the product they have researched through a DCT, or do not buy it at all. Overall, 41% of recent users made a purchase through a comparison site – although this varied across the sectors we have looked at – being highest in hotels and home insurance and lowest in broadband (Figure 5.10).
- 5.42 As we noted in Chapter 4, our survey also found that a substantial proportion of recent users who purchase outside of comparison sites (44%), use the results from the comparison site to negotiate a better deal directly with existing or new provider.⁸⁷ This is consistent with the qualitative research, which suggests that among DCT users there are some highly engaged consumers who use comparison sites flexibly and may negotiate better deals with providers.⁸⁸ We consider the implications of this in Chapter 7.

⁸⁷ Page 156 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

⁸⁸ Page 56 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

Figure 5.10: Do comparison sites users buy what they search for?



Source: Kantar Public survey. P1/P3. P1. Just to check did you [make a purchase/take out a credit card] or switch after shopping around for [PRODUCT]. Please select 'yes' if you [purchased/took out a credit card] or switched either through the comparison site or in any other way. P3. Did you do this... Please select one only.
 Base: All who have used a comparison site in the last 3 months (Hotels: 177; Home insurance: 210; Energy: 267; Motor insurance: 235; Flights: 508; Broadband: 182).

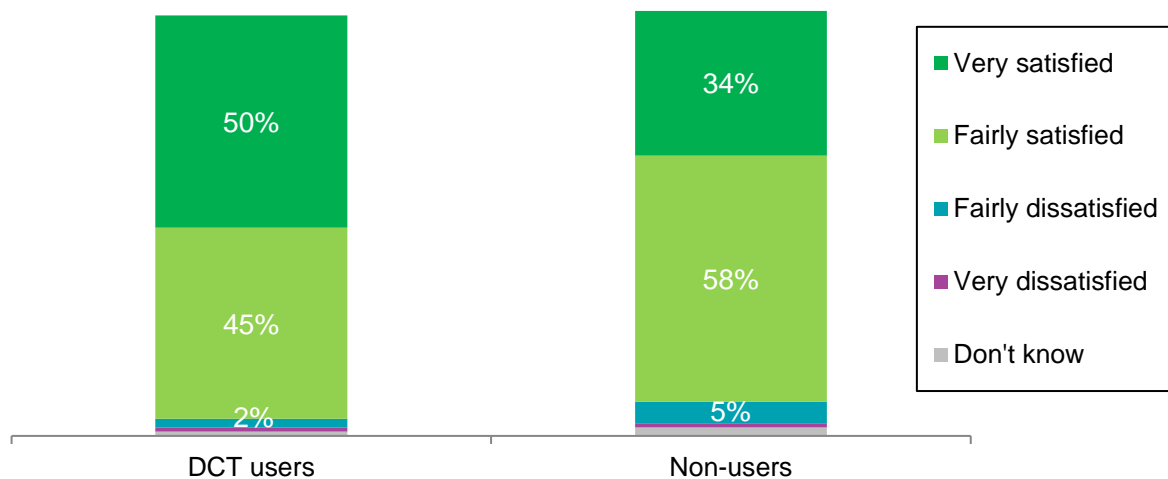
Consumers' perceptions and expectations of DCTs

5.43 In this section we consider consumers' attitudes towards DCTs – in particular, the extent to which they are satisfied and their views on how much of the market they expect DCTs to cover. We also consider the extent to which consumers feel confident using DCTs and their level of trust in them.

Almost all users are satisfied with DCTs

5.44 Our survey found a very high level of satisfaction with the experience of using comparison sites, with over 90% of recent users very or fairly satisfied. DCT users were also much more likely to be very satisfied with their experience of shopping around than non-DCT users (Figure 5.11).

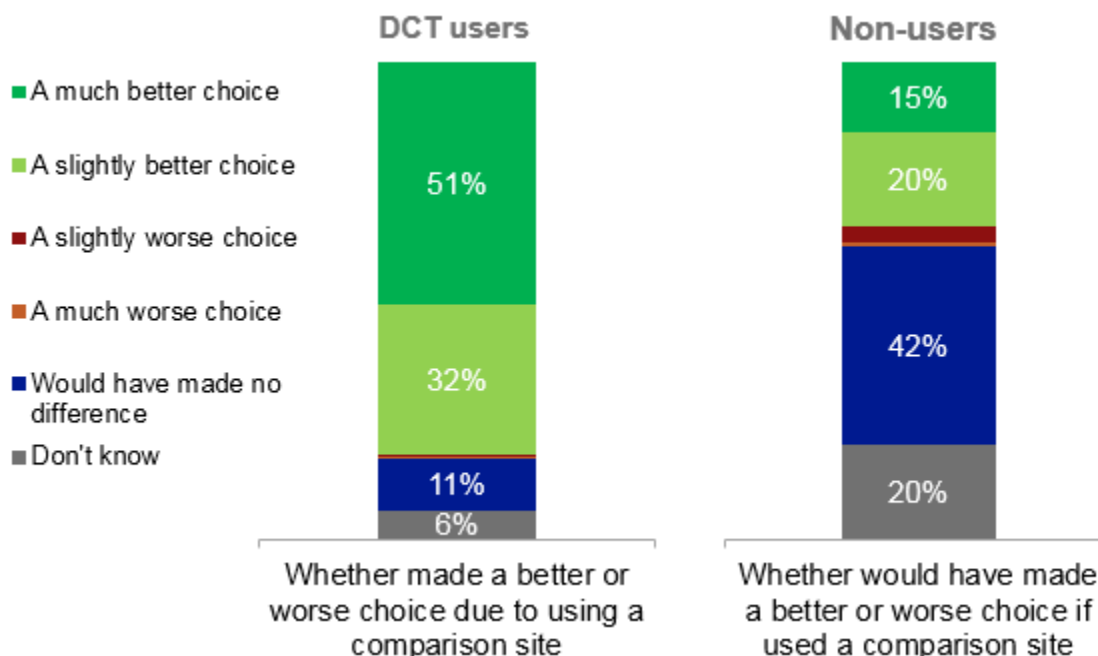
Figure 5.11: How satisfied are users and non-users of comparison sites with their shopping around experience?



Source: Kantar Public survey. P1/P3. P12. Overall, how satisfied or dissatisfied would you say you were with your experience using [a] comparison site[s] on this occasion? Please select one only. / C10. Overall, how satisfied or dissatisfied would you say you were with your experience of shopping around on this occasion? Please select one only. Base: Consumers who have shopped around in the last three months (DCT users: 1,668; Non-users: 1,095).

5.45 Our survey also showed that most users (83%), but also a substantial proportion of non-users (35%), believed that using comparison site(s) meant that they made, or would have made, a better choice (Figure 5.12).

Figure 5.12: Do users and non-users consider comparison sites mean they might make better choices?



Source: Kantar Public survey. P11. Do you think that by using the comparison website[s] or app[s] you made a better or worse choice than you would otherwise have made? Please select one only. Base: Consumers who shopped around using a comparison site in last three months and made a purchase (1,210). C9. Do you think that if you had used a comparison website you made... Please select one only. Base: Consumers who shopped around using a comparison site in last three months and made a purchase (725).

Few users think DCTs cover all the market and most are content with coverage

- 5.46 Whether DCTs should be required to list all suppliers has been an important issue in the last two years. In our Energy Market Investigation (EMI) we considered that the incentives of DCTs to invest in providing comparisons of offers in the energy market were undermined by a Whole of the Market (WotM) requirement in Ofgem's accreditation scheme.⁸⁹ Following our Investigation, Ofgem consulted on an intermediate step to allow accredited sites to show a 'partial view' by default, of only those tariffs the consumer could apply to switch to or enter into contracts for, via the site.⁹⁰
- 5.47 Nevertheless, there remain some concerns about whether or not sites should be listing all possible offers and, in particular, whether or not consumers expect DCTs to list all deals.⁹¹ We have heard mixed views from stakeholders about consumers' views on DCT market coverage. Some stakeholders told us that consumers expect full market coverage and are unaware that often this is not provided. Others stated that while consumers expect DCTs to have a good coverage, they do not expect them to cover the whole market.
- 5.48 We therefore addressed this issue in our consumer survey and sought to ensure that we did not ask questions in a leading way,⁹² by asking consumers firstly about their perceptions of the level of coverage of the site they used and then about whether this was sufficient. In our survey, only a minority (11%) of recent comparison sites users thought that all suppliers were covered, with over half (53%) considering sites covered 'most' providers – although a substantial proportion (30%) did not know.
- 5.49 Although perceived coverage was similar across sectors, the proportion of users thinking all suppliers were covered was highest in broadband and flights. (Figure 5.13). Participants in our qualitative research tended to estimate supplier coverage at around two thirds, with an expectation that the 'main suppliers' would be covered but also recognition that some suppliers do not want to be listed on DCTs.⁹³

⁸⁹ CMA, *Energy Market Investigation*, June 2016.

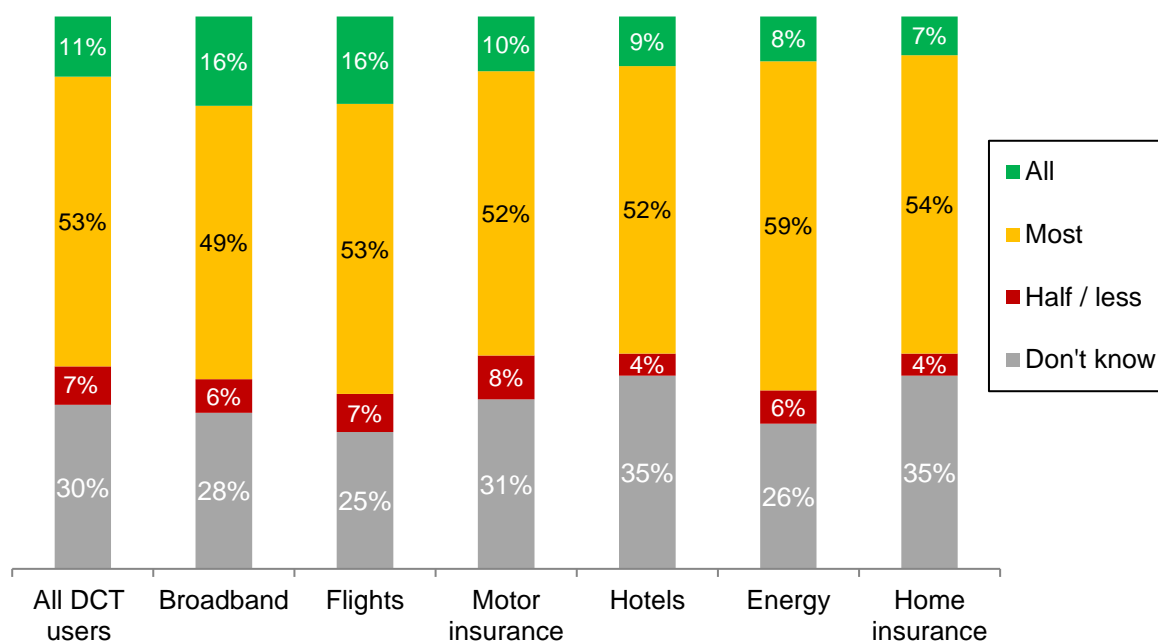
⁹⁰ Ofgem, *Confidence Code Review 2016*, September 2016. We consider further the issues in relation to WotM in Chapter 8 (in particular, the extent to which such a regulatory approach may distort competition),

⁹¹ For instance, House of Commons Energy and Climate Change Committee, *Changes to price comparison websites will undermine trust and competition*, July 2016. Energy and Climate Change Committee Chair Angus MacNeil MP said: "Price comparison websites must do what they say on the tin. Consumers expect price comparison sites to shine a light on the whole market, not keep them in the dark and push them into commission earning deals."

⁹² For instance simply asking consumers whether they want comparison sites generally to list all suppliers is likely to lead to a high proportion saying that they do.

⁹³ Page 79 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

Figure 5.13: How much of the market did consumers perceive comparison sites covered?



Source: Kantar Public survey. E14. Now think of all the providers/suppliers who offered this product/service. How many of the providers or suppliers for [PRODUCT] did the comparison site cover?
 Base: All who have used a comparison site in the last 3 months (Broadband: 182; Flights: 508; Motor insurance: 235; Hotels: 177; Energy: 267; Home insurance: 210).

5.50 Even though most users perceived the coverage not to be complete, a large majority (82%) considered that the level of coverage was sufficient for their needs. Very few users (2%) thought that too few providers were covered.⁹⁴ This picture was broadly consistent across our case study sectors.⁹⁵ Even among users who thought that DCTs covered around a half or less than half of providers, only a minority (14%) thought that this was insufficient for their needs.⁹⁶

5.51 Consumers' views on how much of the market DCTs cover may in part reflect variation in how comparison sites explain their coverage. Our websweep found that many sites we examined appeared silent on the issue (for instance, in broadband only a third of the sites seemed to offer information upfront on coverage), and those that did explain their coverage did so in varying ways. For instance most of the sites offering energy that commented upfront on their coverage appeared to say that they covered all the market, but some only said they aimed to. Some sites in other sectors, where they offered information on coverage, appeared to state the number of suppliers or a

⁹⁴ Page 65 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

⁹⁵ Page 66 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

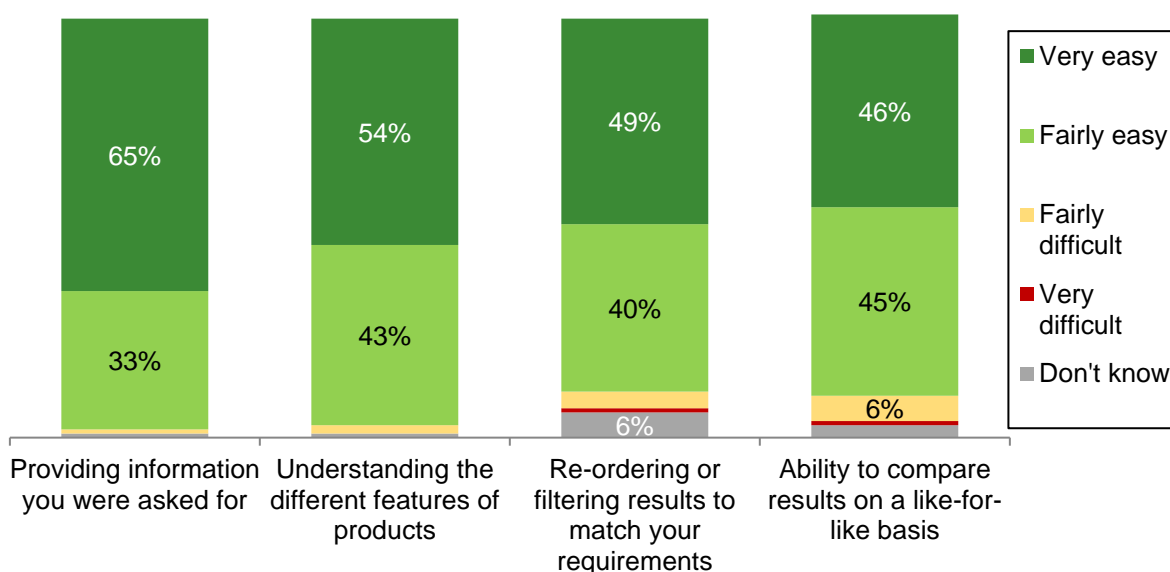
⁹⁶ Source: Kantar Public survey data tabulations.

percentage coverage, while others appeared only to say that they offered ‘many providers’.⁹⁷

Most consumers are confident using DCTs

- 5.52 Nearly three quarters of all consumers (72%)⁹⁸ and nine in ten (89%) of recent users in our survey said that they were very or fairly confident in using comparison sites.⁹⁹
- 5.53 Unsurprisingly, confidence is lower among those groups of consumers who are less likely to have used a comparison site, ie older consumers (65+), those with lower qualifications, those not in employment, and those on lower incomes.¹⁰⁰
- 5.54 Recent users generally found comparison sites easy to use, across a range of activities we asked them about. Almost all users found it very or fairly easy to provide the information requested, to understand the different features of products presented and to re-order or filter results and compare on a like-for-like basis (although a lower proportion found it very easy to re-order or filter, or to compare results) – see Figure 5.14.

Figure 5.14: Consumers’ experience of DCTs, across functions



Source: Kantar Public survey. E13. How easy or difficult did you find it to use the comparison site in relation to each of the following?

Base: All who have used a comparison site in the last 3 months and done each activity (Providing information: 1,627; Understanding: 1,645; Re-ordering of filtering: 1,468; Ability to compare: 1,588).

⁹⁷ GfK, CMA Digital Comparison Tools Mystery Shopping and Websweep Research Report (forthcoming).

⁹⁸ Page 51 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

⁹⁹ Source: Kantar Public survey data tabulations.

¹⁰⁰ Source: Kantar Public survey data tabulations.

Consumers trust DCTs for many aspects, but less so for their use of data

5.55 There are many aspects to consumers' trust in relation to DCTs, and the nature or extent of their trust may affect their behaviour toward comparison sites and the outcomes for them. The implications could be complex. For instance:

(a) Consumers who lack trust in DCTs generally may not use them at all; use them more sparingly than would otherwise be the case; and/or be more likely to use them in combination with other channels (for instance by contacting suppliers directly). In these cases:

(i) consumers who, because of their concerns, use DCTs less than might otherwise be the case may be missing out on the potential benefits from using DCTs. We discuss this in paragraphs 5.86 to 5.95 below.

(ii) consumers who address their concerns not by reducing their use of DCTs but by increasing their use of other channels may benefit more as a result of it. For instance they may identify more and better options than they might have done by relying solely on DCTs, or they may use DCT results to negotiate with suppliers.

(b) Conversely, consumers who trust DCTs a lot may be more likely to rely on one DCT (single-home) and less likely to use other channels and, as a result, make less informed decisions than they might otherwise have made. Indeed, our survey found that for a number of aspects of trust mentioned,¹⁰¹ those consumers who trusted DCTs a lot were less likely to multi-home than those who trusted them a fair amount or did not trust them at all.¹⁰²

5.56 Our consumer survey indicated that consumer trust in relation to a number of aspects of DCT operations is reasonably high (Figure 5.15). Most consumers trust at least a fair amount that DCTs provide accurate and reliable information, offer the best products based on the requirements of users and provide them with the best price (although only a minority trust them a lot).

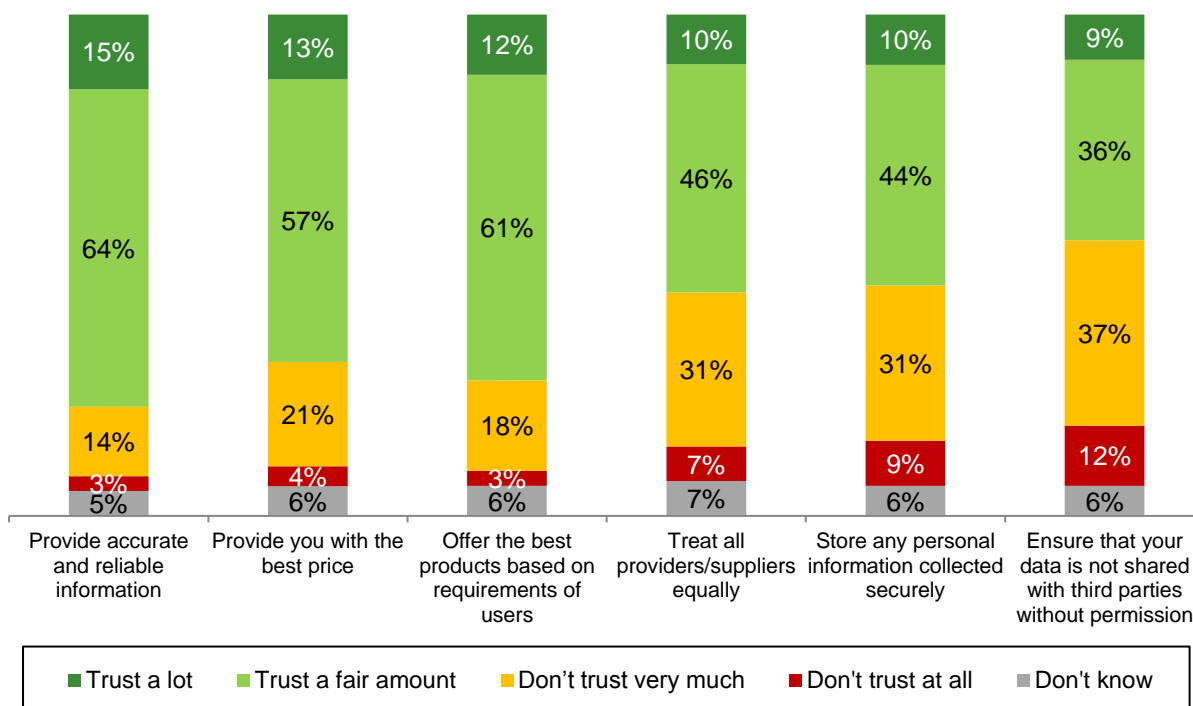
5.57 However, there are some aspects that consumers seem to be more concerned about – particularly relating to the extent to which DCTs treat

¹⁰¹ I.e. trust that comparison sites treat all providers equally, that they offer the best products based on the requirements of users, and that they provide the best price.

¹⁰² Source: Kantar Public survey data tabulations.

suppliers equally and how DCTs store and treat consumers' personal information. We consider these concerns further below.

Figure 5.15: To what extent do consumers trust comparison sites?



Source: Kantar Public survey. A3. Based on your experience or understanding of comparison sites, to what extent do you trust them in relation to each of the following?
 Base: All consumers who are aware of comparison sites (3,958).

5.58 Consumers' level of trust in DCTs seems to be linked to their level of experience in using them. Non-users and less experienced users were more likely to exhibit lower levels of trust compared to more experienced users. In particular, one quarter (24%) of those who had never used a comparison site distrusted these sites across all six measures.¹⁰³

5.59 Consumers also showed higher levels of trust in suppliers' own sites than in comparison sites for all measures except on providing the best price, where roughly equal numbers said they trusted comparison sites more and that they trusted suppliers' websites more.¹⁰⁴

DCTs' treatment of suppliers

5.60 One of the areas where consumers showed lower levels of trust in DCTs related to whether they treat all suppliers equally: just over half of those aware of DCTs trusted them to do so (Figure 5.15). However, our survey also found

¹⁰³ Page 70 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

¹⁰⁴ Page 73 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

that most (62%) of those aware of comparison sites thought that they offered recommendations on what to choose, at least to some extent.¹⁰⁵ Our qualitative work also suggests that consumers might simply be equating 'recommendation' with the presentation of 'suitable' or tailored results rather than 'bias'.¹⁰⁶

- 5.61 This suggests many consumers may anticipate that DCTs could recommend one supplier over another and this might explain why some appear not to 'trust' DCTs to treat them equally.¹⁰⁷ In this sense, consumers may perceive DCTs to be acting much like a retailer that stocks and promotes certain products over others.
- 5.62 Furthermore, participants in our qualitative research suggested that where they did see bias in results, this was mitigated by the perception that they were in control – for instance, they could ignore results they considered to be 'sponsored'.¹⁰⁸
- 5.63 Our provisional view therefore is that whether or not some consumers perceive DCTs to treat suppliers differently may be less material than their behaviour more generally in terms of how they use DCTs. To the extent that DCTs promote some suppliers over others (including not listing some), consumers will benefit from multi-homing.
- 5.64 However, the issues here are complex and we welcome views on them. We also intend to consider in more depth the extent to which multi-homing could benefit consumers in the second phase of our study.

DCTs' secondary use of consumer data

- 5.65 Our mystery shop found that the volume of information DCTs requested from consumers varied by sector, but for insurance in particular they typically aggregated large amounts of personal information and product requirements, often using long online forms, to inform their listing of offers.¹⁰⁹

¹⁰⁵ Page 59 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

¹⁰⁶ Page 80 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

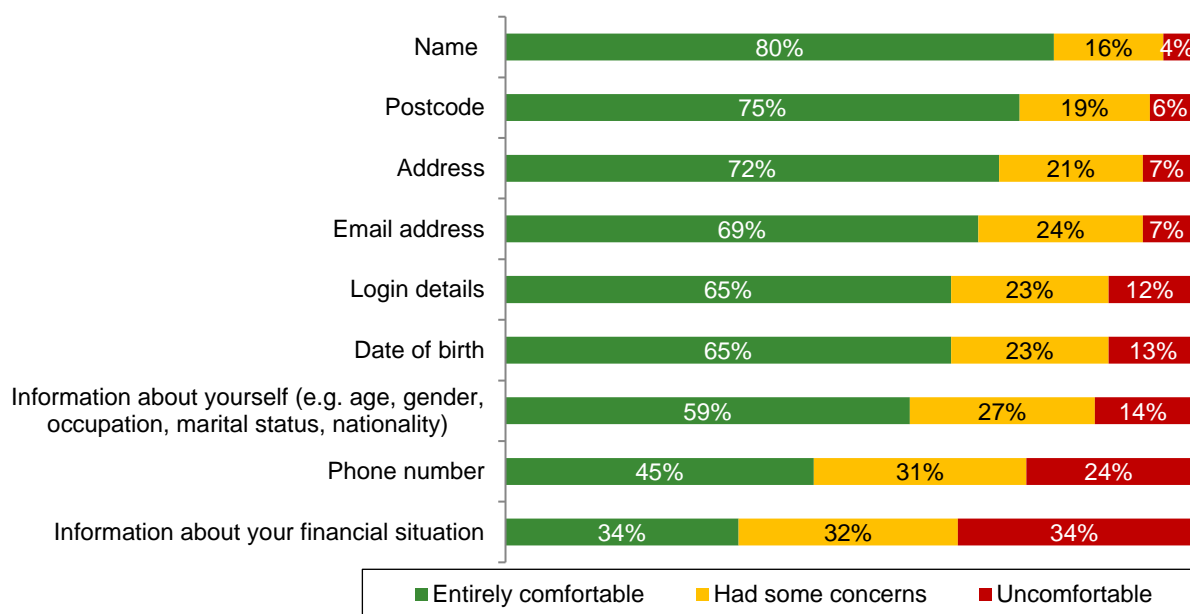
¹⁰⁷ Our survey found that of consumers who thought that comparison sites recommend what to choose a lot, half trusted them to treat all suppliers equally. Trust that comparison sites treat all suppliers equally was much higher among those who did not think that comparison sites recommend what to choose at all (over three quarters of those who thought that comparison sites don't recommend at all trusted them to treat all suppliers equally). Page 68 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

¹⁰⁸ Pages 80-81 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

¹⁰⁹ GfK, CMA Digital Comparison Tools Mystery Shopping and Websweep Research Report (forthcoming).

- 5.66 In collecting and storing this information for their primary purpose of listing offers, DCTs are also collating data that could have value for secondary purposes – in particular to share with third parties for advertising and analysis.
- 5.67 We found that consumers also showed lower levels of trust in DCTs’ storage and treatment of their personal information (Figure 5.15). Only 54% of DCT users trusted such sites to store their personal information securely and 45% trusted them to ensure their data is not shared with third parties without their permission. Our qualitative research suggests that some consumers may be concerned about receiving unsolicited communications from DCTs or third parties.¹¹⁰
- 5.68 The relatively low level of consumer trust that DCTs will not pass on their data is likely to be a reason why many users have concerns about sharing some of their details with DCTs, particularly financial data and phone numbers (Figure 5.16).

Figure 5.16: How comfortable are comparison site users sharing different types of information?



Source: Kantar Public survey. E5. How did you feel about providing the information below on the comparison site(s) you used?
 Base: All who have used a comparison site in the last 3 months and provided information (Name: 1,336; Address: 1,291; Postcode: 1,334; Date of birth: 1,234; Email address: 1,431; Phone number: 1,296; Information about yourself: 1,196; Information about your financial situation: 940; Login details: 1,229).

- 5.69 Consumer concerns about how businesses treat their personal data is not a new issue, nor one confined to DCTs. In 2015, the CMA reported in our study of the Commercial Use of Consumer Data (CUCD) on growing active and

¹¹⁰ Page 95 in Annex A Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

passive collection of data by firms across many sectors.¹¹¹ We noted that data was increasingly being combined with other data for analytical purposes and shared with other parties, often without the awareness of consumers.

- 5.70 We found that survey data suggested many consumers had significant concerns about sharing data. While attitudes varied depending on a range of factors, common concerns include potential data loss, unexpected data sharing and use, as well as fears about exposure to nuisance contacts. Many consumers shared data despite their concerns ('the privacy paradox'), possibly because they felt they had no choice. But we noted that concerns could be inhibiting consumers' willingness to share their data.
- 5.71 We also found that many consumers felt they lacked control over the collection and use of their data and wanted more control. There was some evidence that improving consent mechanisms could increase consumers' willingness to share data. We suggested that companies need to be transparent with consumers about how they use data and what benefits consumers will get from it, as well as giving consumers clear information to allow them to make informed choices.
- 5.72 Consumer concerns do appear to persist and are common across the IT and technology sectors. For instance, the Information Commissioners Office (ICO), in its latest tracker of consumer attitudes to data protection, found that only one in four adults trusted businesses with their personal information, with comparatively lower levels of trust in internet and technology brands.¹¹²
- 5.73 Although such concerns may have a positive impact if they mean consumers stay alert, there are reasons why they may be a particular issue for DCTs:
- (a) Our 2015 CUCD report noted that Price Comparison Websites (PCWs) are key players in the collection and use of consumer data, since sharing data with potential suppliers is a fundamental aspect of their business model. As we noted above, many DCTs require a substantial amount of consumer information to enable comparisons. This means that DCTs are likely to be particularly exposed to any fragility in the level of consumer trust associated with data collection and use.
 - (b) Our consumer survey for this study also found that the level of trust in supplier websites was higher than that in DCTs when it comes to storing and not sharing data.¹¹³

¹¹¹ CMA, *The Commercial Use of Consumer Data*, June 2015.

¹¹² Information Commissioners Office, *Annual Track*, April 2016.

¹¹³ Page 73 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

(c) Our websweep exercise identified apparent weaknesses in the extent to which DCTs explain their use of consumer data and to which consumers can control how it is shared. While DCTs appeared to provide consumers with at least some information on how their data is handled, many appeared to state that they might (or would) pass on data to third parties without explaining to whom they would pass it. Only a few sites appeared clearly to provide consumers with the option of opting out from their information being shared with third parties (beyond service providers), or from future contact by third parties.¹¹⁴

5.74 Again, our findings echo those in the OFT's report on PCWs in 2012,¹¹⁵ which found that some sites could improve their privacy policies by making them clearer, especially with regard to the uses that third parties might make of the data (if it is passed to them) and the identities of those parties. It also found that websites could do more proactively to draw consumers' attention to the privacy policy before they enter, or in the future upload, personal information.¹¹⁶

5.75 We plan to consider further the evidence concerning how DCTs use consumer data and the extent to which sites explain this and offer control to consumers. We particularly welcome comments on these issues, which also relate to our consideration of the regulatory framework in Chapter 8.

Few have complained about DCTs, but sites provide limited advice on redress

5.76 Our consumer research found that of those consumers who had used a comparison site, only 3% had made a complaint (2% directly to the site and 1% elsewhere).¹¹⁷ Of those who had not complained, three-quarters said they did not know who they would complain to and 10% said they would complain to the comparison site itself.¹¹⁸

¹¹⁴ GfK, CMA Digital Comparison Tools Mystery Shopping and Websweep Research Report (forthcoming).

¹¹⁵ Office of Fair Trading, [Price Comparison Websites](#), November 2012.

¹¹⁶ We also note that in relation to general insurance, the FCA found in 2014 that some DCTs did not explain clearly to consumers how they would use their data and that the nature and explanation of opt in/out was not always clear. See FCA, [Price comparison websites in the general insurance sector](#), July 2014. In research accompanying its thematic review, the FCA also found that while consumers' rights are normally included in terms and conditions on DCTs, no consumers were observed to click to read them before ticking them. See Atticus Market Research Consultancy for the FCA, [Price comparison website: Consumer market research](#), June 2014 (page 53).

¹¹⁷ Our analysis of DCTs' complaints data similarly suggested they had received very few complaints. This is also in line with the FCA's finding of a low volume of complaints to DCTs in general insurance and that complaints were mainly made to the supplier – see FCA, [Price comparison websites in the general insurance sector](#), July 2014.

¹¹⁸ Page 75 in Annex A: Kantar, [Digital Comparison Tools: Consumer Research Final Report](#), March 2017.

- 5.77 In itself, low levels of awareness of who to complain to may reflect the fact that consumers appear largely very satisfied with their experience of DCTs and have had few occasions to complain. Nevertheless, we would expect sites to provide clear information on redress in the event that consumers need it. Again, our websweep suggested that some sites could improve in this area. While about two thirds of the DCTs reviewed appeared to provide some information on complaints handling, this varied considerably in terms of depth and details.¹¹⁹
- 5.78 Once again, our findings are similar to those in the OFT's report on PCWs in 2012,¹²⁰ which found that some websites did not have clear complaints and redress policies while some attempted to exclude all liability for the search and comparison services provided.¹²¹

Consumers assume DCTs are regulated

- 5.79 Levels of trust may in part reflect consumers' perceptions of the extent to which DCTs are regulated. Our survey found that six in ten consumers (59%) who have used a comparison site thought or assumed that comparison sites are checked and approved before they can operate, but also that one quarter (25%) did not know.¹²² When prompted with a list of options, consumers who thought DCTs were regulated, were most likely to select sector regulators as being responsible for checking and approving sites (48% did so).¹²³ We consider the nature of the regulatory framework for DCTs in more detail in Chapter 8.
- 5.80 Ofcom and Ofgem have set up badged accreditation schemes for DCTs covering their sectors. We consider the role of these schemes further in Chapter 8. However, our survey found that overall only 12% of recent users could recall seeing evidence of accreditation on their last visit.¹²⁴ Consumers had relatively low awareness of Ofcom and Ofgem accreditation schemes compared with well-established logos such as ABTA (Figure 5.17).¹²⁵

¹¹⁹ GfK, CMA Digital Comparison Tools Mystery Shopping and Websweep Research Report (forthcoming).

¹²⁰ Office of Fair Trading, [Price Comparison Websites](#), November 2012.

¹²¹ In 2014, the FCA also found in relation to DCTs offering general insurance, that guidance to consumers on how to make a complaint was not always easy to find or up-to-date. See FCA, [Price comparison websites in the general insurance sector](#), July 2014.

¹²² Page 74 in Annex A Kantar, [Digital Comparison Tools: Consumer Research Final Report](#), March 2017.

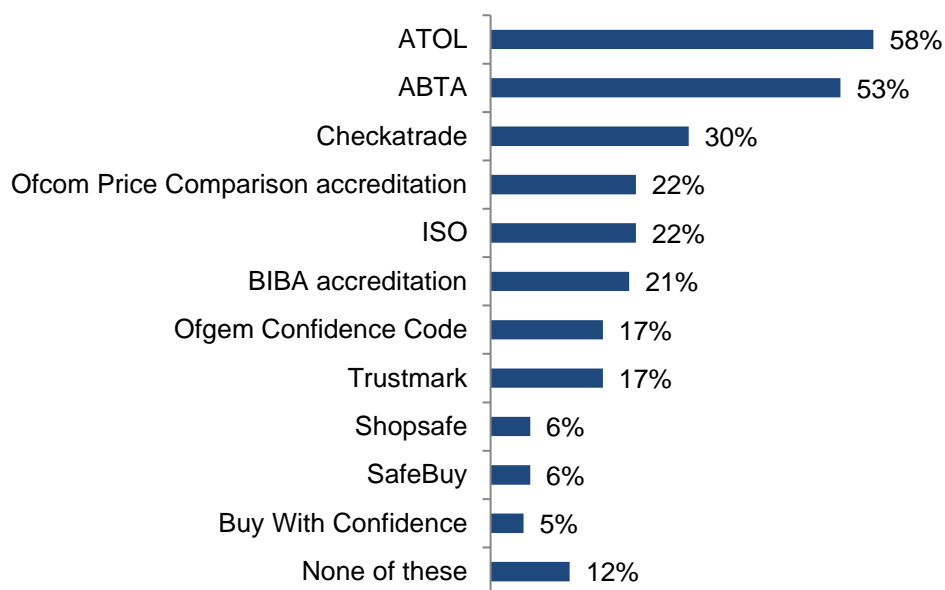
¹²³ Page 77 in Annex A: Kantar, [Digital Comparison Tools: Consumer Research Final Report](#), March 2017; 32% identified the CMA as being responsible, but this figure is likely to be overstated as a result of it being the survey sponsor.

¹²⁴ Page 76 in Annex A: Kantar, [Digital Comparison Tools: Consumer Research Final Report](#), March 2017.

¹²⁵ Even this relatively low level of awareness of accreditation schemes could have been inflated by consumers' recognition of the name of the regulators Ofcom and Ofgem, especially as these names were presented to respondents at one of the previous questions. A Consumer Futures survey found a lower level of

5.81 Our qualitative work identified that consumers did not typically seek out information related to accreditation schemes, but they often simply assumed that there was some regulation and often that the regulation was sector-specific rather than cross-sector. Consumers said that they were reassured by seeing references to the FCA, Ofgem and other regulators, but the less confident wanted accreditation to be more prominent – for instance at the top of the page.¹²⁶

Figure 5.17: Consumer awareness of logos and accreditation schemes



Source: Kantar Public survey. A11. Which, if any, of the following regulatory codes and accreditations are you aware of?
Base: All consumers (4,083).

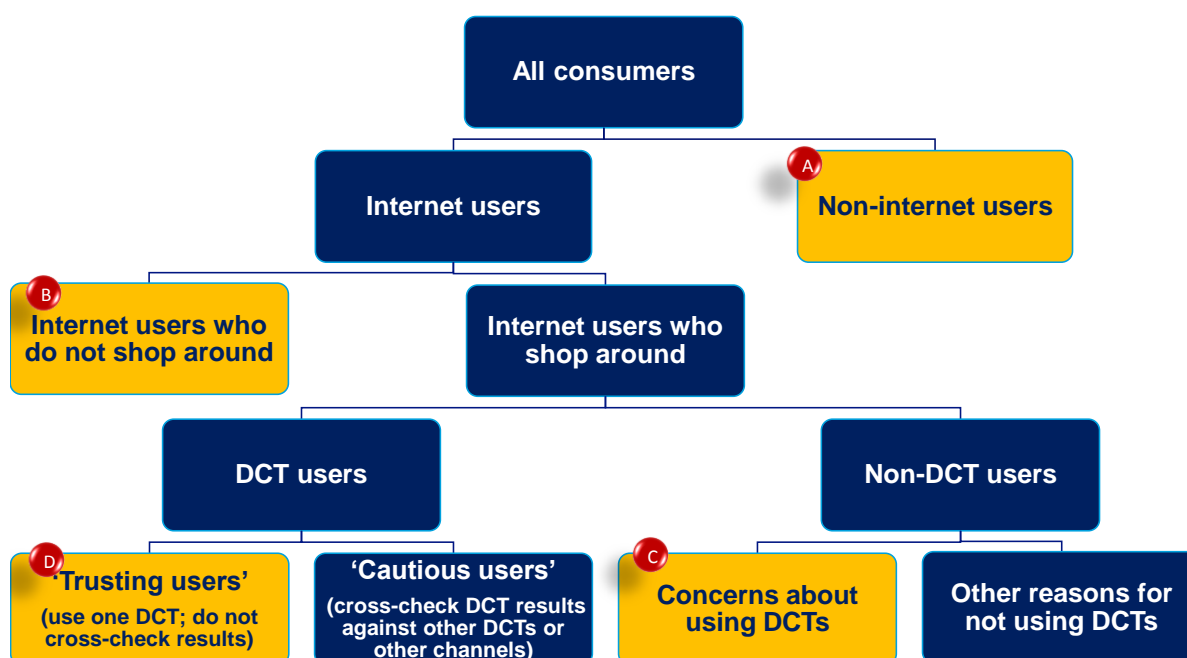
Our assessment of consumers' attitudes and behaviour

5.82 Using the evidence we have gathered, we have mapped out in Figure 5.18 how consumers fall into broad segments in terms of their use of the internet, inclination to shop around, whether or not they use DCTs as well as how they act and why.

awareness of these accreditation schemes, with 16% of those who have used a comparison site in the last two years claiming to be aware of voluntary accreditation schemes for price comparison websites, such as Consumer Focus's Confidence Code and Ofcom's Price Comparison Accreditation Scheme. Consumer Futures, [Price comparison websites: consumer perceptions and experiences: A report by RS Consulting for Consumer Futures](#), July 2013.

¹²⁶ Page 78 in Annex A: Kantar, [Digital Comparison Tools: Consumer Research Final Report](#), March 2017.

Figure 5.18: Mapping consumer attitudes and behaviour



Source: CMA analysis.

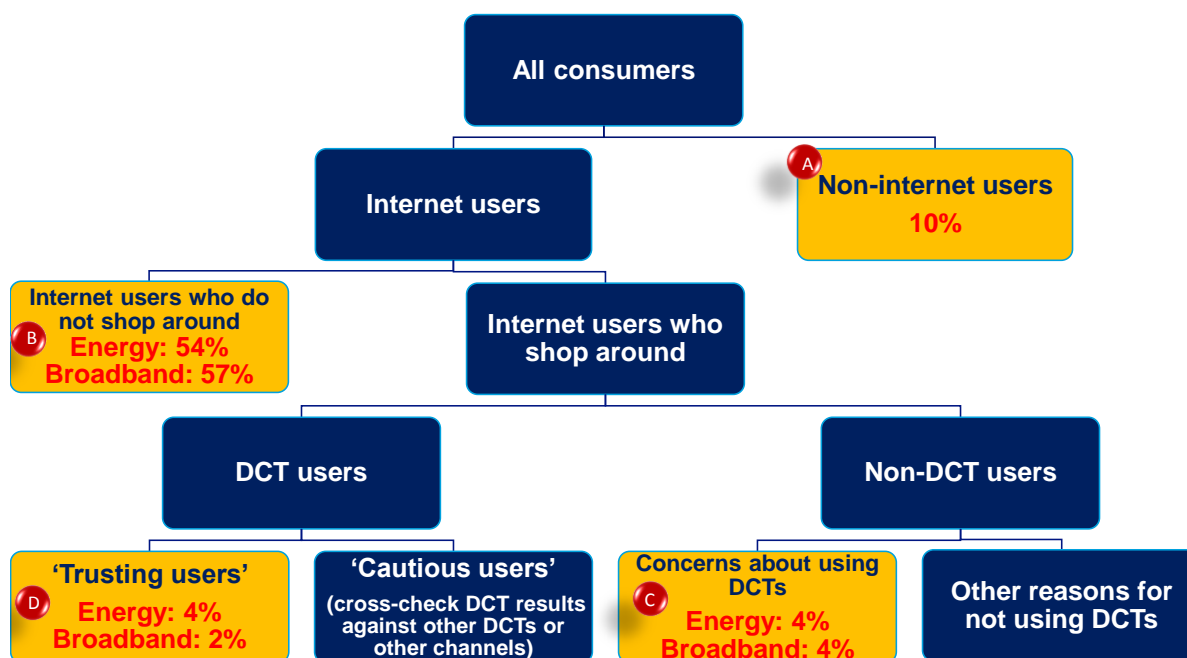
5.83 We have used this mapping to identify where some consumers may be experiencing disbenefits as a result of their perceptions and behaviour and therefore to inform our consideration of where it may be appropriate for us or other parties to take action. In particular, we identify four groups of specific interest (shaded yellow in Figure 5.18):

- (a) **Group A: non-internet users.** As we noted at paragraph 5.14, these consumers may want but lack access to the internet or have made a conscious decision not to use it. Either way, they do not use DCTs, although they may shop around using other methods.
- (b) **Group B: internet users who do not shop around.** There are several reasons why consumers do not shop around: some may have made a considered decision not to do so, some may not have thought about it, others may not be doing so as a result of concerns about doing so, or a perception that any benefits from doing so do not outweigh the costs.
- (c) **Group C: internet users who shop around but do not use DCTs because of concerns.** As with internet users who do not shop around, this may be a result of concerns or perceptions about DCTs that inhibit consumer use of them.
- (d) **Group D: DCT users who tend to use only one DCT ('trusting users').** While some of these consumers may make a conscious informed decision to 'single-home' and may combine this with using other methods to shop

around, others may simply rely on one DCT to inform their decision without considering whether using other DCTs and options could help them make a better choice.

- 5.84 Consumers are unlikely to fall neatly into these groups, eg some consumers may have only used one DCT and no other sources for their most recent shopping around experience but not for previous ones. Furthermore, as we note in paragraph 5.94, some sectors (for example legal services) have relatively few or no DCTs that consumers can use in any case. Nevertheless, this initial and high-level mapping could help us in our consideration of where we and other parties might need to focus our attention.
- 5.85 Figure 5.19 shows our estimate of the size of each of these four groups in the energy and broadband sectors, expressed as a proportion of all consumers. Internet users who do not shop around (**Group B**) is by far the largest of the segments: over a half of all consumers fall into this category. The second largest segment is consumers who do not use the internet (**Group A**). The remaining two segments, ie consumers who do not use DCTs due to concerns (**Group C**), and DCT users who tend to use only one DCT and no other channels (**Group D**) are much smaller.

Figure 5.19: Size of segments of particular interest, energy and broadband¹²⁷



Source: CMA analysis of Kantar Public survey, Kantar Public omnibus survey and Kantar Public analysis of Labour Force Survey data. Definitions: A. Non internet users; UK consumers 18+ who have never used the internet (source: Labour Force survey, Q3 2016) ; B. Internet users who do not shop around – internet users who have not shopped around in the sector in last 2 years (source: Kantar Public survey, q.G2); C. Non DCT users: concerns about using DCTs – internet users who have shopped around in the sector last 2 years but not used a DCT to do so due to concerns about using a DCT (source: Kantar Public survey q.G2 and q.G8 and Kantar Public omnibus survey Q3); D. DCT users who use one DCT and no other sources – internet users who have shopped around in the sector in last 2 years and used only one DCT to do so and no other sources (source: Kantar Public survey q.G2, q.G8, q.M9 and q.E16; proportion among those who have used a DCT in last 3 months was applied to those who have used a DCT in last 2 years).

Non-DCT users

- 5.86 A key objective of this study is to ensure that the benefits of DCTs discussed in Chapter 4 are felt as widely as possible. In part this involves ensuring that people who do use DCTs are able to do so effectively, which is particularly important for **Group D** above. We also noted in paragraph 4.6 that DCTs may bring benefits to consumers not using them. But an important element is also about how to encourage the use of DCTs by people who do not currently use them, where doing so could help them to get a better deal.
- 5.87 DCTs can be an important tool in moving people from being inactive to active – ie reducing the size of **Group B** in particular. If someone is disinclined to shop around, a service which makes it easier to do so can only be helpful in encouraging them to engage in the market. Indeed, unlike large incumbent

¹²⁷ Our analysis of the home insurance and flights sectors has produced very similar results, however it is not appropriate to present them in the same way as the results for energy and broadband. In flights and home insurance consumers are much more likely not to have shopped around merely because they have had no need for the product which means that there are many consumers in Group B (internet users who do not shop around) who we cannot say are missing out on the potential benefits of DCTs.

suppliers in particular, the fact that most DCTs get paid for each switch means that they have a strong commercial incentive to move people from being inactive to active consumers. They may even be more efficient at doing so than other main players with an incentive to encourage switching – such as ‘challenger’ suppliers – because they are likely to be able to use their scale, and their income streams from numerous suppliers, to run substantial marketing campaigns and incentive programmes encouraging shopping around and switching. Encouraging consumer activity is DCTs’ core business.

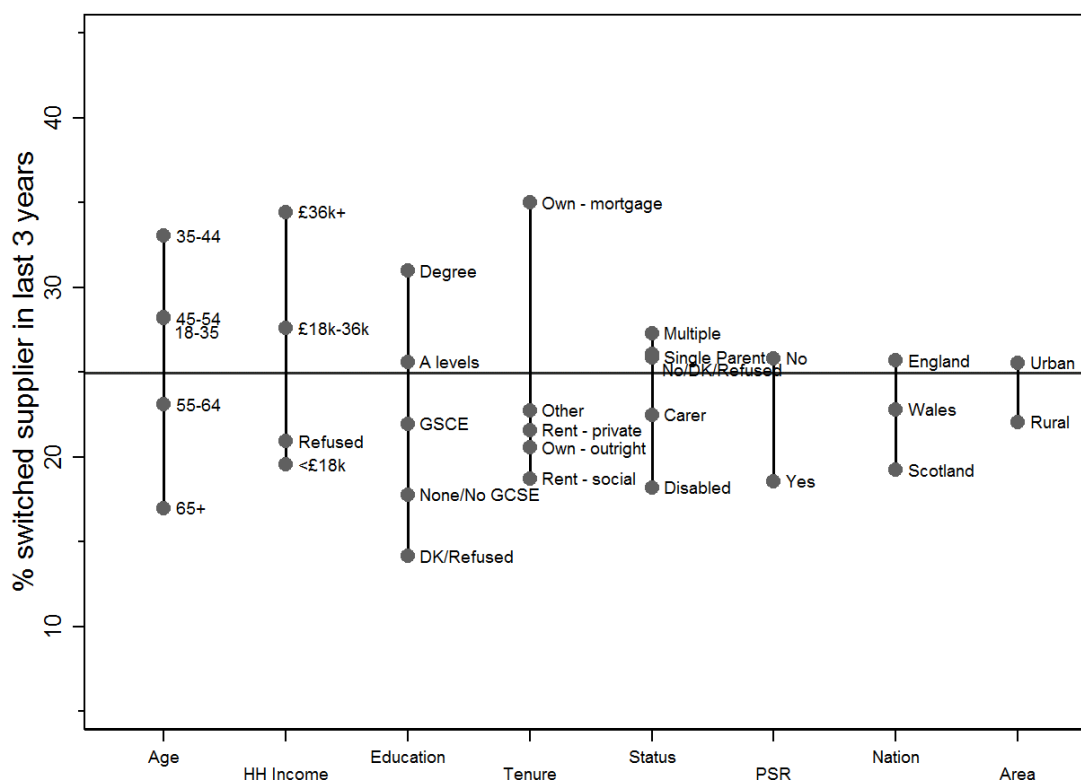
- 5.88 We hope that this project can help reduce the size of **Group C** – people who could use DCTs but do not, as a result of concerns about doing so. Our analysis of consumer survey data did not show that consumers in **Group C** are more likely to be in a position of vulnerability than other non-users of DCTs.¹²⁸ However, as mentioned in paragraph 5.7 our survey found demographic differences between non-users and users of DCTs; in particular that the oldest (but also youngest) consumers, those not in employment and those on lower incomes were less likely to be DCT users.
- 5.89 Similarly we are aiming to contribute to moving people from **Group B** (internet users who do not shop around) to being active consumers. While we found some demographic differences between **Group B** (internet users who do not shop around) and internet users who do shop around, our analysis did not show that consumers in **Group B** are consistently more likely to be in positions of vulnerability.¹²⁹ We have however previously found in terms of likelihood of actually **switching**, that consumers who were least likely to have switched energy supplier in the previous three years were those with household incomes under £18,000 a year; living in rented social housing; without qualifications; aged 65 and over; with a disability or on the Priority Services Register (PSR) – see Figure 5.20. These consumers were also more likely to have never considered switching, less likely to have shopped around in the previous three years, and less likely to consider switching in the next three years.¹³⁰

¹²⁸ Source: CMA analysis of Kantar Public Omnibus survey data.

¹²⁹ Source: CMA analysis of Kantar Public survey data.

¹³⁰ Note this analysis included internet users as well as non-internet users (whereas our analysis in paragraph 5.88 considered internet users only). As mentioned in paragraph 5.15, consumers who lack internet access might be more likely to be in positions of vulnerability and, according to the findings of the CMA energy market investigation (CMA, [Energy Market Investigation](#), June 2016. [Appendix 8.1: CMA domestic customer survey results](#), paragraph 39), the propensity to switch is linked to internet use. Taken together, this could mean that consumers in positions of vulnerability are less likely to switch because they are less likely to use or have access to the internet.

Figure 5.20: Proportion of energy supplier switching in the three years to autumn 2014 by demographic and household characteristics



Source: CMA, *Energy Market Investigation*, June 2016. [Appendix 9.1: CMA domestic customer survey results](#).

Notes:

1. The fieldwork was conducted between September and November 2014.
2. PSR indicates whether respondent is on the Priority Services Register. Those who were unable to respond to relevant questions (ie answered 'do not know') have been excluded.
3. 'DK' indicates responded who answered with 'Don't Know' to the relevant survey question.
4. Base = age 6,901, income 6,999, education 6,665, tenure 6,999, status 6,999, PSR 6,990, nation 6,999, area 6,976.

5.90 While moving people from being inactive to active can deliver the benefits we set out in Chapter 4, clearly DCTs are not the only answer to the question of how to get consumers more engaged in markets; and they are likely to be less good for some consumers than others. Instead they are better regarded as one of a number of commercial and/or public policy tools that can help with disengagement in markets. Other examples include collective switching schemes,¹³¹ or the database remedy we put in place as part of our energy market investigation.¹³²

5.91 The most obvious group to whom DCTs can be of less service is non-internet users (**Group A**). Many of these are likely to lack access to the internet and, as we noted in paragraphs 5.14 to 5.15, these consumers are disproportionately more likely to be in positions of vulnerability. Clearly our project, scoped

¹³¹ These schemes involve third parties coordinating a negotiation with a supplier (typically for utilities) on behalf of groups of consumers, to secure a better group deal than individual consumers could otherwise have secured. In the UK, they have been particularly prominent in the energy sector in recent years – for example [The Big British Switch](#), [The Big Deal](#) and [Bigcommunityswitch](#).

¹³² Competition and Markets Authority, *Energy market investigation: Final report*, June 2016.

as being about digital comparison tools, can do little for those users who for whatever reason do not use the internet. Whether or not these people can use DCTs is a small part of a set of wider public policy questions, such as the digital divide, digital skills and mobile or broadband infrastructure, which are beyond this project to consider. However, while our project is looking at digital tools, some major DCT operators do offer offline versions of, or complements to, their services, which may assist with this group of consumers.

- 5.92 As well as maximising the benefits of DCTs by increasing the number of people that use them, we also need to consider whether the presence of DCTs in a market could actually make things worse for those who do not use them. The main concern we have heard expressed in this context is that the presence of DCTs makes it easier for suppliers to identify active consumers, and as a result to charge higher prices to less active or inactive consumers. While we cannot categorically exclude the possibility that this is happening somewhere, suppliers already had effective tools for making this active/inactive split before the advent of DCTs – in particular, any of the many tools by which suppliers offer new customers a cheaper price than existing customers. For example, the Standard Variable Tariff in energy, to which consumers default if they do not sign up to a fixed-rate deal; similarly the Standard Variable Rate to which fixed-rate mortgages return at the end of their fixed term; or auto-renewals in insurance, which commonly offer a higher price than the previous year.
- 5.93 We have heard anecdotal suggestions that suppliers in some sectors, notably insurance, may be using big data and sophisticated pricing tailored to smaller groups of consumers or even individuals based on their assumed propensity to pay – ie close to personalised pricing.¹³³ However we have heard no suggestion and seen no evidence in our study to date that DCTs are playing any role in this, if it is indeed happening. However, we would welcome any stakeholder views or evidence on this point.
- 5.94 The groups of people who do not shop around and/or do not use DCTs may well be even bigger than this in some other sectors where DCTs are not even available for people to use. Where consumer inertia is strong and the amounts at stake large, there could be significant potential for additional consumer benefits if effective DCTs were to become available. An example from recent CMA work is legal services, where DCTs have struggled to

¹³³ See Office of Fair Trading, *Personalised Pricing - Increasing Transparency to Improve Trust*, May 2013. The OFT found that personalised pricing was technically possible but that firms did not appear to be using information about individuals to set higher prices to them. The OFT reported that firms were offering personalised discounts, and increasingly using information collected about consumers in order to refine their pricing strategies.

establish themselves, but where we have made recommendations to improve their availability.¹³⁴ We would value views from stakeholders on other sectors where DCTs do not currently play a major role but could in principle offer substantial benefits to consumers.

- 5.95 We plan to consider the issue of the effect of DCTs on non-users further in the second phase of our study, as well as how DCTs respond to consumer vulnerability. We would welcome stakeholder views on these points.

¹³⁴ CMA, *Legal services market study*, December 2016.

6. Inputs to DCTs

Introduction

- 6.1 To provide effective comparisons, DCTs need a range of inputs from suppliers, consumers and third parties. In this chapter we set out our initial assessment of the extent to which DCTs have access to these inputs.
- 6.2 In a digital market, the ability to capture and use inputs is driven by developing interfaces and capturing data. DCTs can experience both commercial and technological barriers to building their comparison service.
- 6.3 We have looked at three key inputs for DCTs:
- (a) Access to product information;
 - (b) Access to consumer usage information; and
 - (c) Integration with suppliers to allow consumers to complete their purchases.
- 6.4 We discuss each of these in turn before outlining a number of ongoing or proposed initiatives to address some of the barriers we have identified.
- 6.5 In addition to the factors above, DCTs' effectiveness and the potential benefits they can bring to consumers also depend on how effectively they can and do compete with each other and other sales channels. We go on to assess this in Chapter 7.

Product information

- 6.6 For DCTs to function effectively, they need access to product information. Depending on the nature of the product and the comparison service in question there may be a number of routes to gaining access to this information.
- 6.7 Where suppliers have chosen to use DCTs as a sales channel, there is a clear incentive for suppliers to provide sufficient information to DCTs to attract consumers. There might be instances, however, where the information provided is not as granular as the DCT might like, or might not cover key non-price aspects of a product. This may be due to (i) incentives for suppliers to drive consumers towards direct sales channels or (ii) individual suppliers not

having a unilateral incentive to provide more accurate or complete information than their competitors.¹³⁵

- 6.8 Regulation can help overcome these issues of access to data. For instance, the CMA's package of remedies from the retail banking market investigation included measures to improve access to information about bank services, prices and service quality for consumers and intermediaries.¹³⁶ Through the use of open APIs, intermediaries will have better access to information, enabling them to develop services for consumers that will help them find the best products for their needs.
- 6.9 There have also been cases where policy responses have been needed in order to ensure suppliers list on DCTs, so that consumers can benefit. For example, under the FCA's requirements on payday lenders following the CMA's market investigation, payday lenders have to list on at least one DCT.¹³⁷
- 6.10 From our research and engagement with stakeholders we have identified a number of areas for our case study sectors where DCTs may struggle to access product information they consider they would need to make improvements to their comparison services (Box 6.1).

¹³⁵ Similarly DCT platforms may not facilitate the inclusion of more granular information either due to preferred presentation or technological issues such as data interfaces.

¹³⁶ CMA, *Retail banking market investigation: Final report*, August 2016.

¹³⁷ *CMA Payday Lending Market Investigation Order*, 2015, Article 3.2.

Box 6.1: Access to product data in our case study sectors

Our initial assessment of the ability of DCTs to access to product information is set out below.

- In **broadband**, DCTs have access to information on the range of bundles that ISPs offer and pricing, but only have access to partial information on speed and availability information.
- In **credit cards**, DCTs have access to information on credit card products either from suppliers or third party suppliers. However, DCTs rely on third party services to provide indicators of eligibility for a subset of card providers but cannot provide information on the interest rate that will be offered to a consumer on application.
- In **energy**, DCTs appear able to readily access information on energy tariffs.
- In **flights**, DCTs typically draw data from a range of sources including both airlines and third party data sources such as Global Distribution Systems (GDS).¹³⁸ Some airlines which do not wish to sell flights through DCTs do however make data on their flights available to DCTs. Information on flight schedules, pricing before add-ons and availability is generally accessible by DCTs, but information on the facilities available on flights may either not be available or only accessible through additional specialist data suppliers.
- In **home and motor insurance**, DCTs have interfaces with insurer and broker systems to allow the aggregation of multiple quotes using a single questionnaire and obtaining summary information.

6.11 Separate to the ability to obtain data is whether DCTs can enter the market and offer comparison services in certain sectors. Some DCTs have told us that they have been unable to reach agreements with insurers as a result of being unable to guarantee minimum volumes of consumers, which has restricted entry into certain insurance markets. As discussed in Chapter 7, suppliers tend to list on multiple DCTs, but may limit the number as a result of assessing the relative costs of dealing with an additional DCT and the additional sales that the DCT would bring.¹³⁹

6.12 In flights and insurance in particular there may be issues with accessing information on add-ons. The impact of this across sectors is not clear and may be a temporary issue as DCTs keep pace with changing approaches to

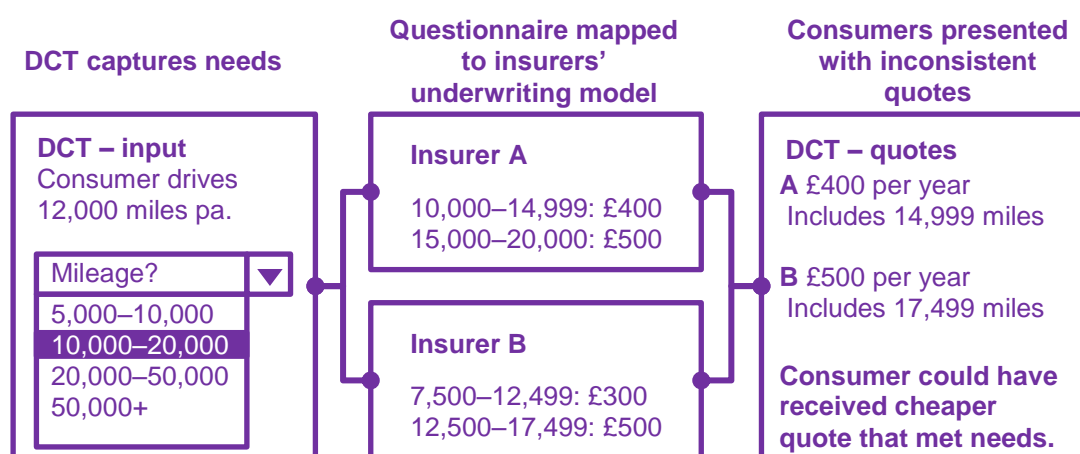
¹³⁸ Global Distribution Systems (GDS) are systems originally created to provide an interface between airlines and travel agents.

¹³⁹ We discuss in Chapter 3 the role of white-label comparison service providers and affiliate networks in enabling DCTs to offer comparisons even if they do not have a direct contractual relationship with suppliers.

unbundling. We further understand that there may be technological barriers in flights due to the legacy format of data feeds from some GDS.

- 6.13 In home and motor insurance stakeholders have noted that the use of a single questionnaire to capture necessary information for a potentially large panel of insurers requires some assumptions in how the DCT questionnaire is mapped to each insurer’s systems. A hypothetical example of how the need to make assumptions may lead to poor consumer outcomes is shown in Figure 6.1. One stakeholder gave the example of how different home insurers may request information about a property in different ways,¹⁴⁰ and other stakeholders noted issues of how consumer preferences on voluntary and/or total excesses are captured and included in quotations.¹⁴¹

Figure 6.1: Mapping consumer needs to DCTs and underlying supplier products



Source: CMA analysis.

- 6.14 The need for coordination in some circumstances may act as a barrier to addressing issues both across suppliers and DCTs.¹⁴² For example DCTs and insurers have needed to cooperate in the general insurance sector to address some of the issues raised by the FCA in its thematic review of PCWs and its market study on add-ons.¹⁴³ Similarly we note the CMA’s involvement in working with stakeholders to facilitate the development of open banking standards to address competition issues.¹⁴⁴

¹⁴⁰ One party gave an example in home insurance of how questions were framed in differing ways by DCTs when capturing information on a property’s distance from a river. Without a detailed review of the policy details ahead of accepting a quote, consumers could inadvertently purchase an invalid policy.

¹⁴¹ The FCA also found, in its thematic review of PCWs in general insurance, instances where the data entered on a PCW was not transferred correctly from the comparison site to the provider, with the possible consequence that the consumer might end up with a policy that was unsuitable for their needs. FCA, *Thematic Review of Price Comparison Websites in General Insurance*, July 2014.

¹⁴² There is no dedicated trade association for DCTs.

¹⁴³ The FCA has published guidance to PCWs to be clear that they should have a process to identify the most common add-ons.

¹⁴⁴ CMA, *Open Banking revolution moves closer*, February 2017.

Consumer usage information

6.15 For many services where pricing is determined by a consumer's usage patterns, DCTs may be able to offer a better comparison service if they can access information on a consumer's consumption or other behaviours relating to use of the product (Box 6.2).

Box 6.2: Access to consumer data by sector

Our initial assessment of the ability of DCTs to access to consumer data is set out below.

- In **broadband**, DCTs do not appear to have access to information to consumer data such as volume of internet traffic or usage of inclusive minutes where bundled with telephone services.
- In **credit cards**, DCTs do not have access to transaction level data on consumer purchase, borrowing or payment behaviours.
- In **energy**, DCTs do not currently have a direct interface with suppliers to obtain consumer energy usage. Consumers can download 'midata' and upload to DCTs but at present very few DCTs offer this functionality. Some DCTs instead obtain access to consumer accounts as a direct result of switching consumers.
- In **home and motor insurance**, an incumbent insurer will issue a renewal quote shortly before a policy is due to expire. At present there is no easy interface to allow DCTs access to the consumer's policy terms to provide like-for-like comparisons. Consumers must instead complete a potentially lengthy questionnaire to receive quotes, the basis of which may differ from the existing level of cover (see paragraph 6.13).

6.16 In addition to information on a consumer's likely future consumption or behaviours (using historic information as an indicator), DCTs may need other information on consumers. One example of this is the use of credit reference agency (CRA) data either on creditworthiness or to support identification and anti-fraud checks.

6.17 In our case studies, the ability to access CRA data has been raised as a significant issue only in relation to credit cards. Due to the principle of reciprocity (ie that third parties can only access the same categories of information on an individual that they also provide), DCTs may not be able to

access CRA data directly.¹⁴⁵ DCTs are able to use third-party tools but these may not offer the functionality that DCTs would like to develop themselves.

- 6.18 While access to CRA data is most likely to be of significance in consumer credit products, there may also be implications in other sectors for whether DCTs are able to offer accurate pricing information for products; such as insurance where a charge is made for monthly payments.¹⁴⁶

Integration with supplier systems to complete transactions

- 6.19 In addition to having access to product and usage data from suppliers, DCTs can play a role in the consumer journey either by allowing consumers to complete their purchase on the DCT or by redirecting a consumer to the supplier's website (Box 6.3).
- 6.20 Where a transaction cannot be completed on a DCT, the consumer experience will be affected by where on a supplier's website they 'land'. The ability to integrate the DCT into the supplier's sales platform will determine whether the consumer has to identify the relevant product, or whether the relevant product as defined in the comparison results is already in the consumer's 'basket'.¹⁴⁷

Box 6.3: Integration with supplier sales platforms in our case study sectors

Our initial assessment of the ability of DCTs to integrate with suppliers' sales platforms.

- In **broadband**, the consumer experience may vary but on selection of a bundle the DCT will redirect the consumer to the Internet Service Provider (ISP) website. Depending on the arrangement between the DCT and the ISP, consumers may land on a specific product page, or the ISP home page.
- In **credit cards**, DCT users are redirected to a supplier's website and generally to the card that they have selected but then must begin an application.
- When a consumer identifies an **energy** tariff they wish to switch to, they are often able to initiate the switch directly from the DCT.

¹⁴⁵ As DCTs do not themselves offer credit, they will not necessarily be able to provide information beyond a consumer's personal details such as name and address.

¹⁴⁶ This may be particularly an issue where the cost of credit charged varies according to a consumer's credit risk.

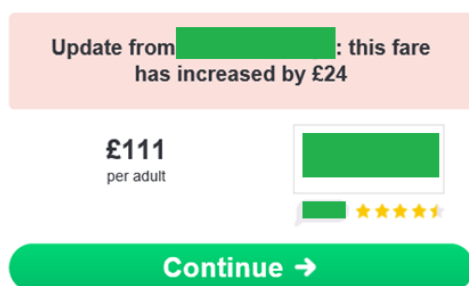
¹⁴⁷ The specific approach will vary by sector. In services where only one service at a time can be purchased, such as in insurance, there may not be a basket. Instead, the consumer is inserted midway through the sales process with previously entered details transferred into the supplier's web forms.

- In **flights**, OTAs have access to booking interfaces either directly through airlines or indirectly through GDS. Due to dynamic pricing and limited inventory DCTs may need to ‘refresh’ results before a transaction can occur, to reconfirm price and availability.
- In **home and motor insurance**, when a consumer chooses to purchase a policy on the basis of a quotation generated through the DCT, they are able to click through to the insurer’s website and complete the purchase of the policy on the basis of information provided. They may however be required to review the basis of the quotation before completing the transaction.

6.21 While DCTs may have access to supplier interfaces, in sectors with finite inventory (eg flights or hotels) or where dynamic pricing is used (notably flights), the results of comparisons can become out of date. When a consumer clicks on a result, an additional delay may occur to refresh price and availability information before either completing the purchase on the OTA or being transferred to the airline or OTA.

6.22 Figure 6.2 below shows a screenshot received as a result of price or availability changing. Improving underlying technology and interfaces may reduce the delay in generating results or being transferred and improve the consumer experience (by reducing the time to refresh) but will not be able to address issues arising from dynamic pricing. However, as noted above, improvements might require pan-industry coordination and cooperation.

Figure 6.2: Consumer unable to complete booking per DCT comparison result



Source: CMA. Visit to Skyscanner on 1 March 2017 searching for flights from London Heathrow to Paris Orly direct for 9 March 2017. This message was received less than five minutes after the initial search was conducted.

Initial views

6.23 In a number of our case study sectors we have identified issues in relation to the ability of DCTs to access the inputs necessary to provide accurate and comprehensive comparisons.

6.24 The areas where improvements could be made include:

- (a) In **broadband** there is a need for access to better quality speed and availability information. Consumers might be able to conduct better comparisons if DCTs considered usage patterns and had access to consumer data.¹⁴⁸ The consumer experience may also be relatively poor due to varied levels of integration with supplier platforms.
- (b) Eligibility and indicative pricing in **credit cards** could help ensure that consumers are able to understand the likely terms that they would be offered in advance of application.
- (c) In **energy** there may be scope for DCTs to have greater access to consumer usage data captured from smart meters.¹⁴⁹
- (d) In **insurance**, where the prices shown on a DCT are already tailored to the requirements of the individual consumer, there is the potential for the listings to reflect a uniform policy excess and/or (minimum) coverage levels across suppliers. This is typically not the case, and as a result the lowest price on offer is likely to reflect a high policy excess and/or lower coverage limit. Controlling for such factors would enable consumers to better assess value for money across suppliers in these regards:
 - (i) Currently the policies listed at the top of the price rankings reflect more basic policy specifications for the insurance product in question.
 - (ii) In general insurance there may be scope for DCTs to access existing policy details to facilitate like-for-like comparisons.
- (e) Add-on pricing and amenity data in **flights**.

6.25 We recognise that in this initial analysis some of these issues may not in practice impair consumer choices, or that if they were to be addressed would necessarily change consumer behaviour. For example, while DCTs might have the ability to obtain consumer data from suppliers, either the process or consumer trust may be a barrier.

6.26 In addition to issues around sufficiency of inputs, in home and motor insurance, some stakeholder feedback suggests there may be scope to either

¹⁴⁸ Specifically, in broadband this might identify data usage and ensure that consumers get a package with an appropriate data cap (to avoid under or over purchase) and in respect of bundled fixed-line and mobile telephony call history and SMS usage including the impact of types of number (especially international calls to specific countries), times of call and number of messages sent.

¹⁴⁹ For example, see the CMA's recommendation to DECC to make changes to the current specification of Midata phase two as set out in Chapter 13 of the [EMI Final Report](#).

(a) coordinate approaches to certain assumptions made by DCTs or (b) frame results either on the DCT or by insurers to ensure consumer engagement.

6.27 In Chapter 8 we note a number of ongoing initiatives that may address some of the issues we have identified. In the second phase of our study we will seek views from stakeholders on:

(a) the impact of the issues outlined on DCTs' ability to offer comparisons;
and

(b) whether the initiatives outlined above will be sufficient to address the issues identified and, if not, what additional barriers exist and how they can be addressed.

7. Competition

- 7.1 In Chapter 6 we considered some of the factors, such as access to data, which determine DCTs' effectiveness. Besides these factors, DCTs' effectiveness and the benefits they bring to consumers also depend on how effectively they can and do compete with each other and with other sales channels.
- 7.2 In this chapter we first give an overview of how DCTs compete with each other and other sales channels for consumers, and look at the competitive constraints faced by DCTs. As part of this analysis, we also consider the negotiations between DCTs and suppliers and the balance of negotiating power in our case study sectors. We then give a brief overview of contract terms we have observed between DCTs and suppliers that could limit the strength of the competitive constraint on DCTs (wide and narrow MFN clauses). Finally, we consider agreements and practices we have heard about that could limit DCTs' effectiveness to bring benefits to consumers ('hollowing out', non-brand bidding and negative matching agreements and non-resolicitation agreements). Our more detailed preliminary assessment of contract terms and 'hollowing out' is set out in Appendix 5.

How does DCT competition work?

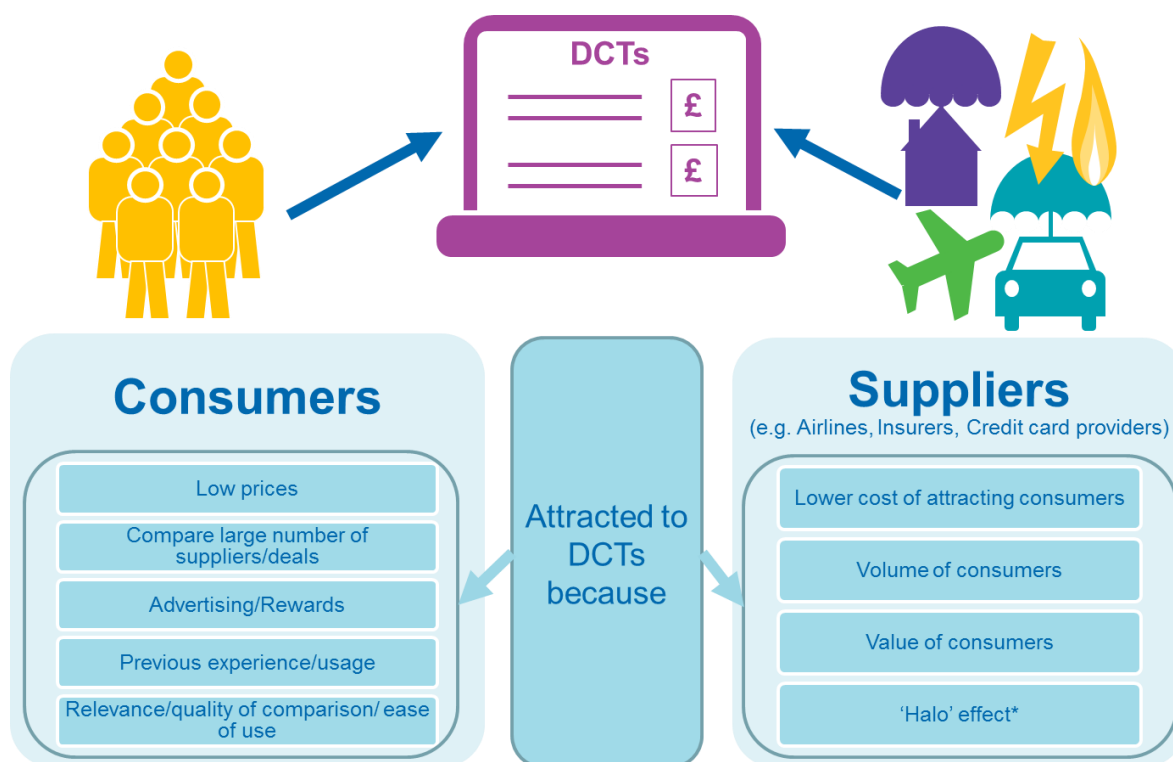
- 7.3 In this section we set out the competitive landscape in which DCTs operate and describe how they try to attract suppliers and consumers. The prices and other characteristics of the products and services that DCTs compare are set by the suppliers that list on DCTs. In that sense, DCTs do not directly set the prices that consumers pay but they can influence the offers listed via their negotiations with suppliers. In addition, most (but not all) DCTs do not charge consumers for using their comparison services. Therefore, the two main processes that affect outcomes for consumers are:
- (a) DCTs competing to attract consumers by investing in marketing, providing a good comparison service and, in some cases, rewarding consumers for using their site; and
 - (b) the negotiations between DCTs and suppliers and their impact on offers to consumers (eg lower prices as a result of lower commissions or exclusive deals).
- 7.4 We discuss these two processes, including the factors that determine the balance of negotiating power between DCTs and suppliers, and the likely effect of negotiating power on outcomes in the market. The factors we consider include the importance of DCTs to suppliers and vice versa, the

availability and efficiency of alternative sales channels that suppliers can use, and the way consumers use sales channels (ie single-homing or multi-homing). Finally, we assess where the balance of negotiating power appears to lie in our case study sectors.

Competition landscape

7.5 Like other online platforms, DCTs operate in so-called ‘two sided’ markets, matching consumers and suppliers together. This means DCTs need to attract both consumers and suppliers to use their sites for their platform to be commercially successful. Evidence from our consumer survey¹⁵⁰ and views from stakeholders show that consumers and suppliers are attracted to DCTs for different reasons, so DCTs have to ensure that they meet the needs of both ‘sides’ (see Figure 7.1).

Figure 7.1: DCTs operate in a two-sided world



Source: CMA analysis based on consumer survey and information from stakeholders.

* Halo effect is when a supplier benefits from being associated with its surroundings. It can come about because of the other suppliers that appear on the DCT or because appearing on the DCT itself provides credibility to the supplier.

¹⁵⁰ See paragraph 5.12.

- 7.6 Both sides of the market can decide whether to single-home (ie use only one DCT) or multi-home (ie use more than one DCT), as transaction costs¹⁵¹ of shopping around/appearing on multiple sites are relatively low.¹⁵² However, given that, in practice, some consumers single home (see Figure 5.7), most suppliers choose to use multiple DCTs in order to get access to as many consumers as possible.¹⁵³
- 7.7 Most DCTs do not charge consumers for their comparison service.¹⁵⁴ Instead, they earn their revenue from charging suppliers when they convert consumer interest into sales (see paragraph 3.15).¹⁵⁵ Not all visits lead to sales¹⁵⁶ so DCTs need to both attract consumers to their site and ensure that attention leads to sales. The factors that affect DCTs' ability to attract and sell to consumers are outlined in Figure 7.2.

¹⁵¹ Transaction costs are the costs that a user incurs for using a DCT. This may include access charges, time (consumers only), or integration costs (suppliers only).

¹⁵² The main DCTs do not charge customers to access their sites. Suppliers do not pay a listing fee to appear on these DCTs, but generally only pay per acquisition or per click (see paragraph 3.15).

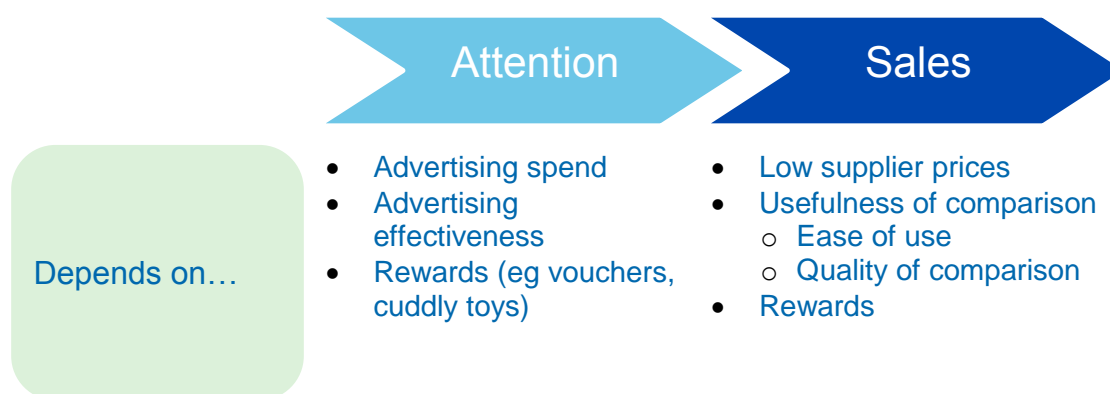
¹⁵³ Data from the large DCTs and suppliers suggest that the majority of suppliers list on multiple DCTs in all our case study sectors. However, not every supplier may appear on every DCT. There are some transaction costs (such as system integration costs) which means that suppliers may choose not to list on every single DCT but will tend to list on every major DCT. For example, a supplier in our workshops told us that there is a fixed cost, in terms of management, to signing up to DCTs, which meant it would not want to sign up to all DCTs. In addition, a DCT highlighted that in insurance, due to the need for DCTs and suppliers to exchange detailed data to get a bespoke quote, suppliers are less inclined to invest in the systems integration if the DCT cannot provide volume. Ultimately, suppliers are likely to weigh up the transactions costs of dealing with an additional DCT and the additional sales that the DCT would bring.

¹⁵⁴ In two-sided markets, one side tends to 'subsidise' the other side. The determinants on which side will be subsidised include (i) which side has the most outside options/most elastic demand; (ii) which side provides the biggest benefit to the other side; and (iii) which side is least willing to multi-home. If these factors lead to consumers being subsidised currently, it is likely that business models which charge suppliers rather than consumers will continue to persist.

¹⁵⁵ Some DCTs convert attention into re-directions rather than sales. This is particularly the case for MSEs in flights. Our considerations apply regardless of whether DCTs are converting traffic into sales or redirections.

¹⁵⁶ See paragraph 5.41 and Appendix 3, paragraph 6. The proportion of visits leading to sales varies by sector and can be affected by how much information consumers need to input at each stage as well as whether consumers want to purchase through the DCT or deal directly with the supplier. For example, the CMA's consumer survey found that 45% of recent users who did not purchase through a DCT did so because they wanted to deal with the supplier directly – see page 151 in Annex A: Kantar, [Digital Comparison Tools: Consumer Research Final Report](#), March 2017.

Figure 7.2: DCTs need to both attract consumers to their sites and turn attention into sales



Source: CMA analysis.

Notes: other factors that may drive attention to a DCT are any access price charged to consumers and site content. However, these are likely to be less important.

Competition for consumers

7.8 DCTs compete for consumers with one another as well as with other sales channels.¹⁵⁷ They appear to compete for consumers in four main ways:

- (a) **Marketing:** DCTs seek to attract consumers through their marketing activity. This includes traditional brand advertising through TV and radio as well as online channels such as paid-for search and email. This advertising may include claims about the level of savings, so the strength of advertising claims can depend on the prices suppliers provide to the DCT. Marketing campaigns aim to increase brand recognition leading to greater numbers of visitors to the DCT.
- (b) **Rewards:** A number of the major DCTs have offered consumers rewards such as toys (eg Comparethemarket and Confused.com), cashback (eg uSwitch¹⁵⁸ and Confused.com) and special deals or promotions on other services (eg cinema tickets). To some extent, these are a form of marketing activity, increasing brand awareness of the DCT. However, they also help DCTs compete with one another (and other sales channels) when seeking to convert attention to sales activity.
- (c) **Usefulness of comparison service:** DCTs need to provide a good comparison service in order to attract consumers and encourage repeat usage. DCTs have told us that the comparison service relies on a number of factors including:

¹⁵⁷ For instance, with suppliers' own channels.

¹⁵⁸ uSwitch has allowed cashback to be offered via third party cashback websites as rewards to consumers to switch using its site.

- (i) Ease of use: including navigating the website, the collection of data, speed of comparison results, and ability to transact easily on DCT or supplier sites.
 - (i) Quality of comparison: including both the number of suppliers and the quality of their offering and relevance of results.¹⁵⁹
- (c) **Low prices, exclusive offers and discounts:** A key factor, especially in converting interest to sales, is the price charged to consumers. DCTs may seek to engage with suppliers to make exclusive offers to consumers, such as discounts versus other channels or only making a product available through that DCT, often in return for lower commission fees.¹⁶⁰

7.9 For a number of these factors, such as marketing, rewards and the usefulness of the comparison, DCTs directly control what consumers see and can compete with one another. However it is the suppliers that control the prices charged to consumers, although the prices, nevertheless, will depend partially on the commission fees DCTs charge suppliers, which are determined by the commercial negotiations between DCTs and suppliers.

Negotiations with suppliers

7.10 A key factor in a DCT's offer to consumers is the price consumers pay for the product being purchased.¹⁶¹ As noted above, DCTs do not set the price to consumers directly, but they can influence the prices suppliers list on them via negotiations and the commission fees they charge to suppliers. This is because the commission fee paid by the suppliers is ultimately the unit cost of selling on a DCT. Hence changes in the commission fee are likely to be passed on to the prices they present on the DCT.¹⁶²

7.11 There is potentially a trade-off between a higher commission fee for the DCT and lower prices for the consumer: a DCT wants to earn a high commission on each sale made through the DCT (which may also increase supplier prices) as this increases its revenues but also wants to incentivise suppliers to set a low price to convert more sales. To the extent that there is such a trade-off, the DCT's focus will depend on the extent to which consumers compare

¹⁵⁹ While having a good range of suppliers is important, few consumers in our survey considered that DCTs covered all suppliers and a large majority considered the current coverage level sufficient for their needs (see paragraphs 5.48 and 5.50)

¹⁶⁰ In paragraph 7.48, we note that since the removal of wide MFNs in motor insurance, DCTs have been able to negotiate exclusive deals (discounts) with suppliers. In particular, one DCT told us that it had agreed these deals now, where previously it could not.

¹⁶¹ Our consumer survey found that consumers primarily visit DCTs to save money (see paragraph 5.12).

¹⁶² See: RBB Economics, *Cost pass-through: theory, measurement, and potential policy implications - A Report prepared for the Office of Fair Trading*, February 2014.

the DCT with other DCTs and sales channels (see paragraphs 7.28 to 7.32).¹⁶³

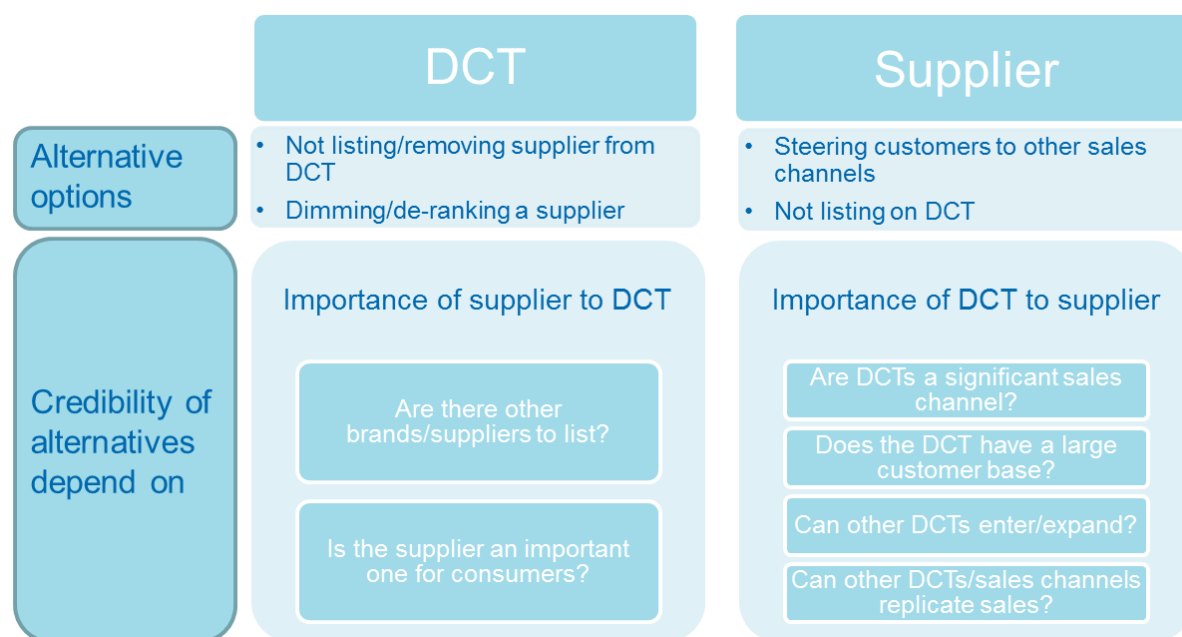
7.12 In the paragraphs below we analyse the factors that affect negotiations between DCTs and suppliers before setting out how the balance of the negotiating power is likely to affect outcomes for consumers.

Factors affecting negotiating power between DCTs and suppliers

7.13 A key constraint on the amount of commission DCTs are able to charge results from commercial negotiations with suppliers. However, a supplier’s ability to negotiate robustly with a DCT depends heavily on which DCTs and sales channels consumers use and how many they use.

7.14 The outcome of the negotiation depends primarily on whether the DCT and the supplier have credible alternatives they can exercise if an agreement is not favourable to that party. Figure 7.3 sets out what we have learnt so far about the potential alternatives for each party in negotiations, and the factors affecting the credibility of their alternatives.

Figure 7.3: DCTs’ and suppliers’ alternative options in negotiations and what affects the credibility of their alternatives



Source: CMA.

Notes: Dimming is when a supplier is listed by the DCT but the listing has the appearance of looking unavailable so it is unattractive to click through to the DCT.

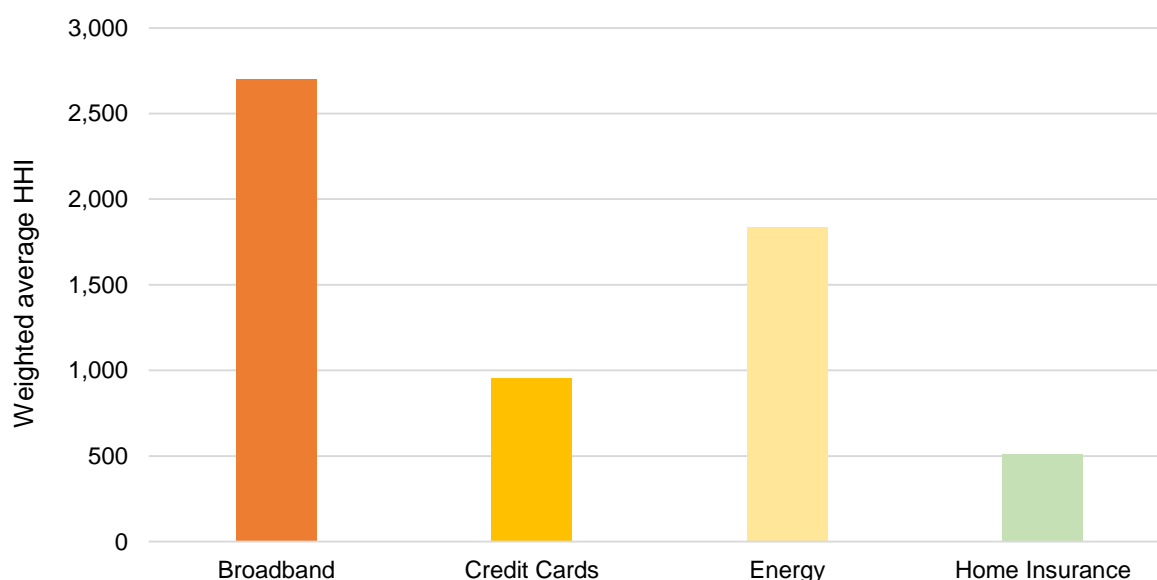
¹⁶³ A wide MFN significantly reduces the DCT’s need to trade off high commissions with low prices. A narrow MFN may also reduce the trade-off. MFNs are also a way of controlling a factor that DCTs do not directly determine. MFNs are considered in paragraphs 7.46–7.56.

Importance of suppliers to DCTs

7.15 In Figure 7.3 we identified that DCTs in the sectors we looked at are in a stronger negotiating position if a supplier's brand is not important for consumers or if there are a number of other strong brands available. Concentration of suppliers is a measure, albeit imperfect, of how important suppliers are to DCTs. In markets with a low concentration of suppliers, we would generally expect DCTs to have a stronger negotiating position because there are potentially many other suppliers a DCT can contract with.¹⁶⁴

7.16 In Figure 7.4 we see that concentration of suppliers on DCTs is lowest in home insurance and credit cards and highest in broadband. This corresponds with data on concentration of the largest suppliers in the relevant sectors in Figure 7.5 below.

Figure 7.4: Indicative concentration (HHI) measures¹⁶⁵ of suppliers on DCTs in broadband, energy, credit cards and home insurance (2015/16)¹⁶⁶



Source: CMA analysis of responses to information requests to DCTs.

(1) Figure shows average Herfindahl-Hirschman Index (HHI) based on sales of suppliers on DCTs weighted by indicative DCT shares of supply based on the volume of sales in each sector from the second quarter in 2015 to the first quarter in 2016.

(2) For credit cards and home insurance suppliers with shares of supply greater than 1% we have aggregated the data to corporate group level, whereas we have not aggregated the data for suppliers with shares of supply less than 1%. This means that some shares of supply are underestimated and therefore our estimates of HHI may be underestimated in these sectors.

However, we do not think this has a material impact.

(3) For broadband and energy all suppliers were aggregated to corporate group level.

(4) For broadband this includes: Broadbandchoices, Confused, GoCompare, MSM, Simplifydigital (including DCTs it provides white-label services to), CTM, and uSwitch.

(5) For energy this includes: Confused, CTM, GoCompare, MSM, and uSwitch.

(6) For home insurance this includes: Confused, CTM, GoCompare, and MSM.

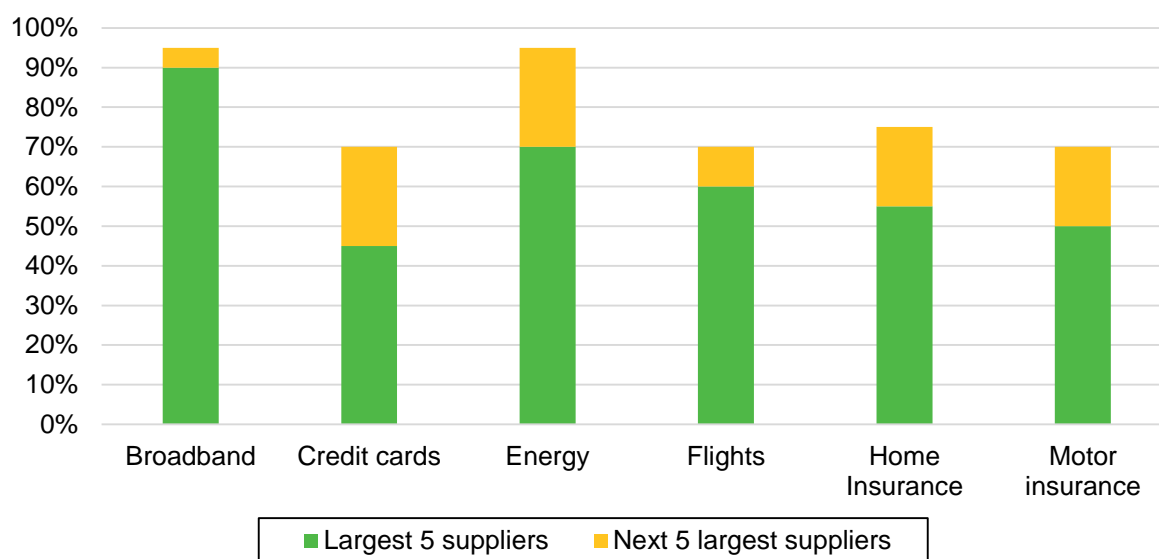
(7) For credit cards this includes: Confused, CTM, MSM, and uSwitch.

¹⁶⁴ In addition, where suppliers are relatively undifferentiated, this is likely to strengthen a DCT's negotiating position.

¹⁶⁵ Consistent with CMA guidance, any market with an HHI in excess of 2,000 is considered highly concentrated, and any market with an HHI in excess of 1,000 is considered concentrated.

¹⁶⁶ We focused on sectors where sufficient data was available to produce the measures.

Figure 7.5: Indicative share of supply of the 5+5 largest suppliers (%)



Source: CMA analysis of: Ofcom, *Communications Market Review, 2016*;¹⁶⁷ Mintel, *Credit Cards*, August 2016; CMA, *Energy Market Investigation*, June 2016; and Association of British Insurers (ABI), *General Insurance Company Rankings*, 2014; and data provided by the CAA.

Note: Due to data availability some figures relate to revenue/premiums and others' customers. Flights based on annual terminal passengers. In some markets multiple brands included in this analysis may belong to a larger group. Data has been rounded to nearest 5%.

7.17 Other factors beyond simple concentration may affect negotiating power. For example, the largest supplier in each of these sectors is likely to have more negotiating power than the smallest suppliers, regardless of the importance of DCTs. In addition, some suppliers are likely to be essential to list, with two DCTs in the broadband sector telling us that consumers would expect to see key suppliers in the sector and our consumer research finding that consumers expect the main brands to be listed.¹⁶⁸ Essential suppliers are likely to be those with a particularly differentiated offering and high brand recognition.

Importance of DCTs to suppliers

7.18 A DCT's negotiating position vis-à-vis a supplier is likely to be stronger in cases where a DCT is a commercially important sales channel to that supplier as it reduces the credibility of the supplier's threat to de-list from the DCT. The following factors are likely to influence whether a DCT is an important sales channel to a supplier:

- (a) Significance of DCTs as a sales channel.
- (b) Significance of an individual DCT to a supplier.

¹⁶⁷ Full report data 'UK data' on [Ofcom's CMR data webpage](#).

¹⁶⁸ See page 79 in Annex A: Kantar, *Digital Comparison Tools: Consumer Research Final Report*, March 2017.

(c) Ability of alternative DCTs to enter and expand (barriers to entry and expansion).

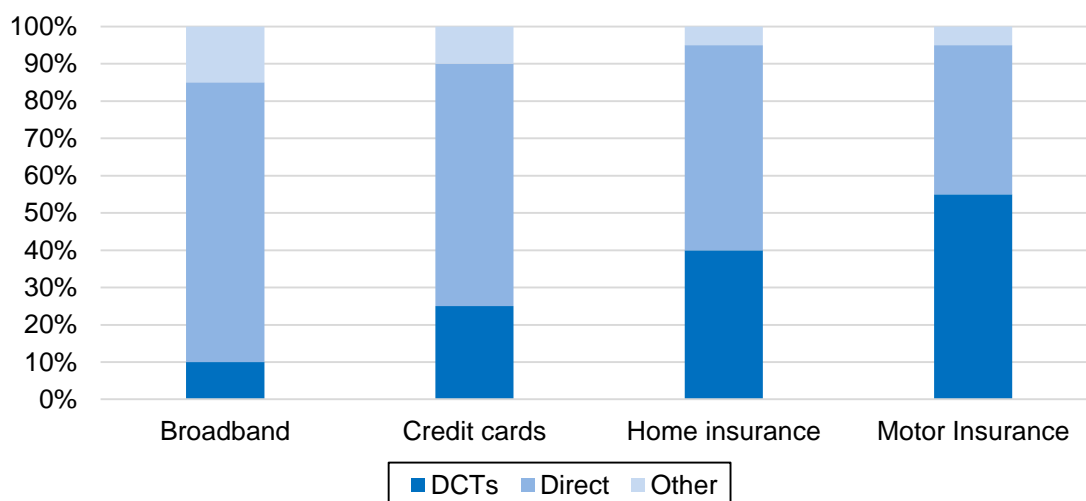
(d) Ability to replicate sales on other sales channels.

7.19 We analyse each of these factors below.

Significance of DCTs as a sales channel

7.20 Where DCTs collectively are an important sales channel to the supplier, this will strengthen each DCT's negotiating position. Figure 7.6 shows that DCTs are a more important sales channel in motor and home insurance than in broadband and credit cards.¹⁶⁹ In broadband and credit cards, we would therefore expect suppliers to be in a stronger negotiating position, even where an individual DCT has a larger share of total DCT sales. In flights, we have been told that MSEs are able to charge higher commissions to OTAs than to airlines because OTAs are more reliant on MSEs than airlines.

Figure 7.6: The significance of DCTs as a sales channel 2013-2015



Source: CMA analysis of data received from suppliers and information from the PMI report.

Note: Based on a simple average of supplier acquisition channels for new business (four suppliers in broadband, six suppliers in credit cards and nine suppliers in home insurance). Each channel is rounded to the nearest 5%. Suppliers provided the proportion of new customers acquired by different channels. The data has not been weighted by volume or revenue and relates to a small number of large suppliers which list on DCTs.

7.21 In addition, where consumers associate more with DCTs' brands than suppliers' brands, this is likely to strengthen DCTs' and weaken suppliers' negotiating positions.¹⁷⁰ One supplier said that its research showed that it is important to consider who consumers think they are buying from. In that

¹⁶⁹ In the energy sector, the CMA found that in 2015, the proportion of total acquisitions to the Six Large Energy Firms facilitated by a PCW ranged from close to zero to around 70% of gas and electricity acquisitions. See CMA, *Energy market investigation: Final report*, June 2016 paragraph 8.163.

¹⁷⁰ This is more likely to occur where the underlying product/service is homogenous, such as energy.

respect the supplier noted that in insurance a lot of people think they are buying from a DCT, so they see their relationship as being with the DCT rather than with the supplier brand.

Significance of an individual DCT

- 7.22 Suppliers are in a stronger negotiating position if there are many other DCTs they can use as an alternative to reach consumers. Based on our analysis of DCT sales volume data in three of the four sectors, the largest DCT has significantly more volume than other DCTs.¹⁷¹ The largest DCT in each of these sectors is therefore likely to have more negotiating power than other DCTs in that sector. They are likely to be particularly strong in sectors where DCTs are a significant sales channel, such as motor and home insurance.
- 7.23 In addition, DCTs which have higher brand loyalty are likely to be more important to suppliers. Analysis from one DCT showed that consumer bonding with its brand (a measure of consumer brand loyalty) was significantly higher than for other DCTs, suggesting that it will be in a stronger negotiating position vis-à-vis other DCTs. The importance of DCTs' brands and the strength of consumer loyalty are areas we would like to explore in more detail in the second half of our study.

Barriers to entry and expansion

- 7.24 Suppliers may also be in a stronger negotiating position if barriers to entry and expansion for DCTs are low. This is because new entrants or expansion by existing DCTs can provide an alternative to incumbent DCTs for suppliers. Our initial assessment of barriers to entry and expansion is set out in Appendix 5.
- 7.25 It appears the main barriers to entry and expansion across sectors are consumer-side barriers, in particular the need for entrants to develop a differentiated consumer brand and incur significant costs similar to (or even more than) incumbent DCTs to attract consumers. This is particularly an issue where incumbents have established brands, so that entrants need to spend more per consumer and have a higher risk of failure than incumbents.¹⁷² This was found to be the case in motor insurance, where advertising and marketing expenditure were found to be the most significant cost for DCTs¹⁷³

¹⁷¹ Comparable data is not available for energy or flights.

¹⁷² Where there is a significant degree of brand loyalty, advertising by incumbents can increase the barriers to entry. However where brand loyalty is lower, the ability to attract consumers through marketing and advertising may enable an entrant to overcome brand loyalty.

¹⁷³ See [PMI Final report](#), paragraphs 8.24-8.25.

and analysis of DCTs accounts appear to show that this is still the case (see paragraph 3.28).¹⁷⁴

- 7.26 Given the need to build a differentiated brand, entry is more likely to come from a DCT operating in another sector (eg an energy-focused DCT moving into home insurance) or from a parallel service (eg TripAdvisor moved from providing hotel reviews into bookings) rather than a brand new entrant, as market players in other sectors have an existing relevant brand which they could use to attract consumers into a new sector.

Ability to replicate sales on other sales channels

- 7.27 Where suppliers are able to replicate sales on other channels, this is likely to strengthen their negotiating position as suppliers will have a more credible alternative when delisting or seeking to steer consumers to other sales channels. This depends on (i) the extent to which consumers use multiple DCTs and sales channels; and (ii) the cost-effectiveness of those sales channels.

- *Consumers' use of sales channels*

- 7.28 In general, when consumers multi-home between DCTs and use other sales channels, it increases the supplier's ability to replicate sales through one DCT and strengthens their negotiating position. However, not all multi-homing has the same impact on a supplier's negotiating position. In Figure 7.7 we outline a range of scenarios to illustrate how differences in consumer behaviour (eg if they use multiple DCTs or if they use suppliers' direct sales channels) affects suppliers' negotiating position.

¹⁷⁴ The nature of advertising expenditure will affect the degree to which it is a barrier to entry. Brand building/display advertising tends to be fixed in nature without an ability to attribute cost directly to sales. Response advertising, such as search engine pay per click, is easier to attribute to sales. If DCTs need to engage in brand building advertising, this is likely to be a more significant barrier to entry than if they need to invest in response advertising.

Figure 7.7: Types of multi-homing and effect on suppliers' negotiating position

		Single-homing			Multi-homing	
		Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Consumers check other DCTs...	...for the same product...	x	✓	x	✓	✓
	...and purchase based on best deal	n/a	x	n/a	✓	✓
Consumers check suppliers' direct sales channel (e.g. website)		x	x	✓	x	✓
Impact on suppliers' negotiating position		👎	👎	?	👍	👍

Source: CMA analysis reflecting findings from our consumer research regarding consumers search and purchasing behaviour. Notes: purchasing the best deal will usually mean the lowest priced product but may include other factors where this varies between sales channels.

- 7.29 Others things being equal, suppliers' negotiating positions are at their strongest where consumers both compare between DCTs and then choose, based on price/deal, which DCT to transact through (scenarios 4 and 5).¹⁷⁵ In contrast, where a consumer does not check more than one sales channel (scenario 1), or checks but does not select the best deal from the best sales channel (scenario 2, eg the consumer selects the best deal from the last DCT they visit), this is less likely to improve a supplier's outside option.
- 7.30 Finally, when consumers check a supplier's direct sales channels (eg supplier's website or by telephoning the supplier) in addition to a DCT (scenarios 3 and 5), it matters whether consumers would have visited the supplier's site independent of the DCT referral or not. For example, where consumers check a supplier's website because the DCT showed the supplier to have a good deal, this does not improve the supplier's negotiating position. In contrast, where the consumer goes to the supplier's website as a result of other marketing activity, this improves a supplier's negotiating position.
- 7.31 Given the impact of single- and multi-homing on suppliers' negotiating positions, we have considered the extent to which consumers shop around in practice (see paragraph 5.19 to 5.25). We found a significant proportion (36%

¹⁷⁵ They would be further strengthened if consumers accessed DCTs through a search engine rather than directly as the consumer would be potentially exposed to other DCTs on the search engine. However, if consumers were just using search engines to navigate to their favoured DCT, this is unlikely to change the supplier's negotiating position.

according to our consumer survey)¹⁷⁶ of DCT users single-home, which would strengthen a DCT's negotiating power. However, some of the consumers who only use one DCT also use other sales channels (43% of single-homers, see Figure 5.8). As discussed in paragraph 7.30 this may strengthen a supplier's negotiating position.

- 7.32 While consumers do multi-home, our consumer survey found that 31% of consumers that visited multiple DCTs and purchased through a DCT choose the DCT they purchased from based on factors such as whether they had purchased through the DCT before or on recommendation of friends and family, rather than because the site provided the best deal or other benefits or because they found the product they wanted.¹⁷⁷ When this occurs, suppliers may find that they are unable to win that consumer through other DCTs when that consumer makes their purchasing decision, despite a consumer multi-homing between DCTs when searching (similar to scenario 2 in Figure 7.7).
- 7.33 Where DCTs are an important sales channel, single-homing by consumers may give DCTs (especially those with a large share of sales) significant negotiating power over suppliers.

- *Cost-effectiveness of other sales channels*

- 7.34 While we identified above that suppliers may be able to replicate consumer traffic through other DCTs and sales channels, they also need to be able to do this in a cost-effective manner.¹⁷⁸ In the CMA's investigation into private motor insurance and energy, acquisition costs on DCTs were found to be cheaper per consumer than other sales channels.¹⁷⁹ As discussed in paragraph 4.3, DCTs appear to be a relatively low-cost acquisition channel for at least some suppliers in some of our case study sectors (home insurance and credit

¹⁷⁶ Other sources indicated significantly higher rates of single homing. In the PMI report, the CMA found even lower rates of single-homing were likely to be a source of negotiating power for DCTs. See PMI report, paragraph 8.13.

¹⁷⁷ 31% of those who used multiple sites and made a purchase on a comparison site did not select any of the following reasons for choosing a comparison site to purchase from: found the product I wanted on this site; site gave best deal/offer; free gifts/benefits/rewards offered. Source: CMA analysis of Kantar Public survey data, P.7 How did you decide which comparison site to [purchase/take out a credit card] from? Please select all that apply. Base: Consumers who shopped around using a comparison site in last three months, visited multiple sites and made a purchase on a comparison site (428).

¹⁷⁸ The cost structure of attracting consumers through different sales channels varies. Sales through DCTs are typically on a cost per acquisition basis, meaning that there are few fixed costs for suppliers, but commission fees will tend to feed through directly into higher prices. For direct sales channels, marketing costs through search engines are likely to feed into prices in a similar way to DCT commission fees, whereas brand advertising (eg TV advertising) tends to be more indirect and fixed in nature. This is less likely to feed directly through into price, although it will increase suppliers overall costs, which would tend to lead to fewer suppliers in the market.

¹⁷⁹ See 'Appendices and glossary' on [PMI Final report: Appendix 8.1, Annex L](#) and [EMI Final Report, Appendix 9.6](#), paragraph 37.

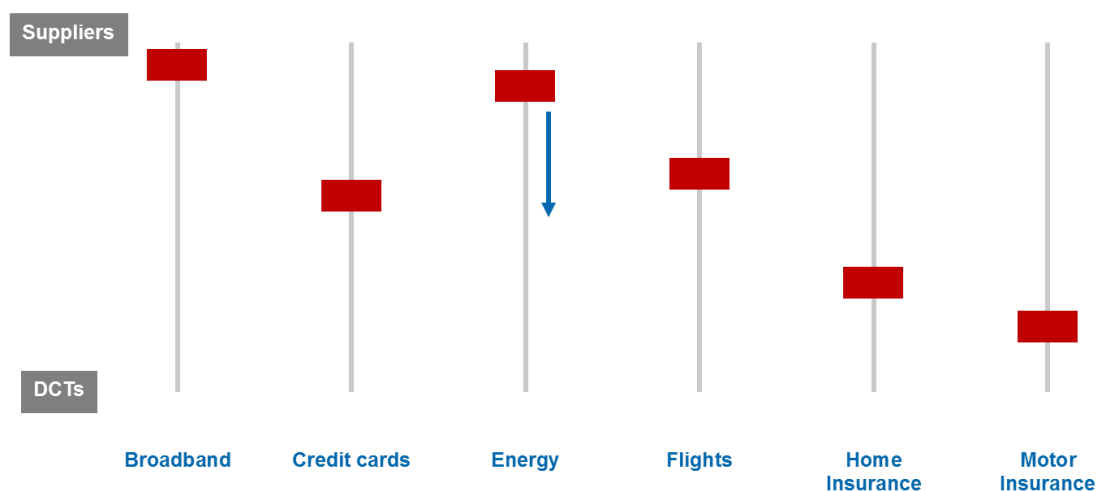
cards). However, the cost-effectiveness of DCTs as a sales channel is likely to vary by supplier.

- 7.35 We would expect that suppliers with well-known brands would find their acquisition costs are lower than those with less known brands. Where suppliers' brands are better known than DCTs, this is likely to strengthen suppliers' negotiating power (see paragraph 7.23).
- 7.36 We would be interested in receiving further evidence from stakeholders on the relative acquisition costs of different sales channels and the cost of replicating 'DCT traffic' on other sales channels.¹⁸⁰

Negotiating power across sectors

- 7.37 Taking the above factors into account, it appears that negotiating power between DCTs and suppliers in general varies by sector. Figure 7.8 illustrates our preliminary high level view on the relative negotiating power between DCTs and suppliers in the sectors we have looked at (although not all suppliers/DCTs will have equal negotiating power within each sector).¹⁸¹

Figure 7.8: Illustration of the balance of negotiating power between DCTs and suppliers



Source: CMA analysis.

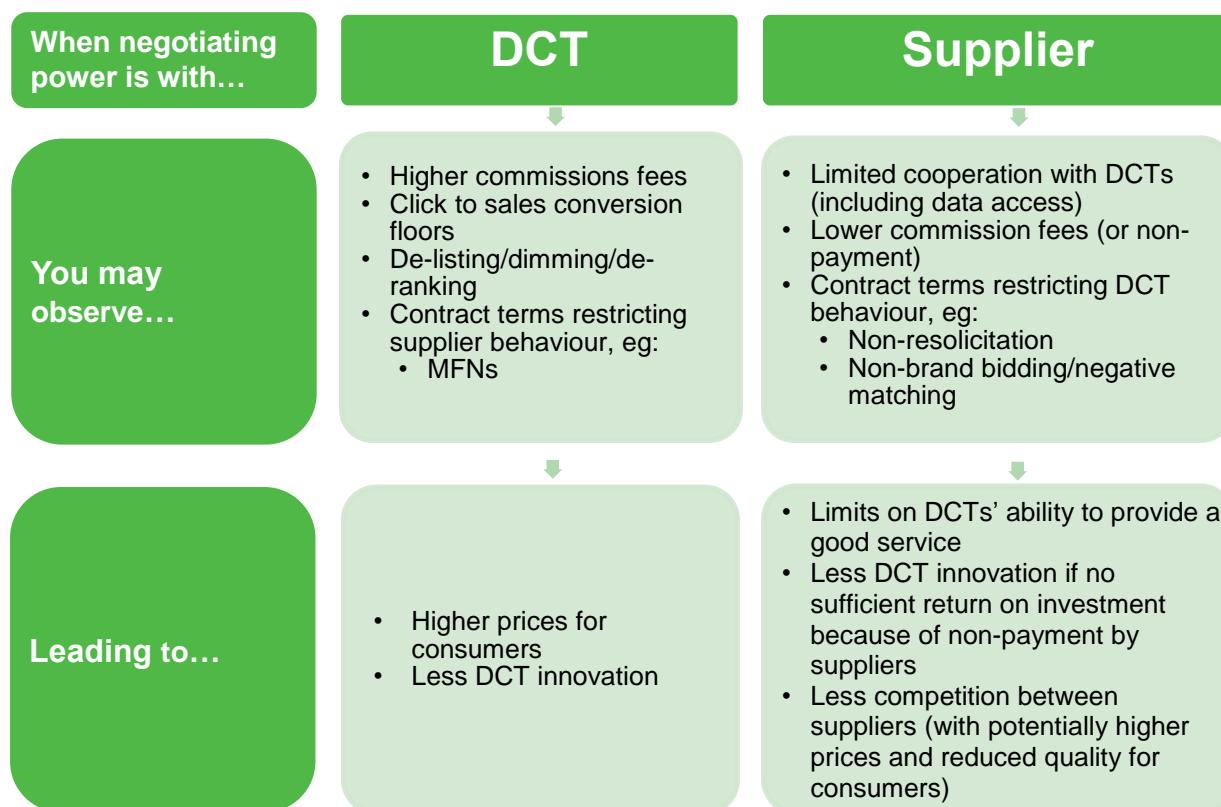
Notes: The energy sector has an arrow to reflect that the proposed removal of the WotM requirement will shift negotiating power towards DCTs.

¹⁸⁰ Suppliers' negotiating positions will only be strengthened if it is both cheaper than DCTs and sales volumes are equivalent. If we find other sales channels are cheaper than DCTs but the other sales channel(s) cannot replicate sales volumes at that cost, this would not improve the supplier's negotiating position.

¹⁸¹ This is primarily based on the concentration of suppliers and DCTs in each sector and the importance of DCTs as a sales channel.

7.38 In Figure 7.9 we outline the types of behaviours and outcomes that result from negotiating power being with either suppliers or DCTs.¹⁸²

Figure 7.9: Likely effects of negotiating power



Source: CMA analysis.

Notes: Click to sales conversion floors are when the commission fee the supplier pays to the DCT is dependant not only on sales but on the supplier achieving a minimum proportion of sales for every click through form the DCT.

7.39 As summarised in Figure 7.9, both too much DCT negotiating power and too much supplier negotiating power could undermine the potential benefits for consumers. In other words, outcomes for consumers are likely to be best when DCTs are most likely to have what they need to operate effectively (eg input from suppliers) and compete effectively for consumers and suppliers.

7.40 As identified in Figure 7.8, in both motor and home insurance, negotiating power appears to lie more with DCTs. This is consistent with our observation of the presence of MFNs in both these sectors (see paragraphs 7.48 and 7.50 below and paragraph 19 of Appendix 5).

7.41 In broadband and energy, it appears negotiating power lies more with suppliers. In broadband, DCTs' difficulty in getting access to data on speed

¹⁸² Given current business models, the negotiation between DCTs and suppliers has a significant impact on consumers. Under different business models (eg DCTs charging consumers), other constraints on DCTs may be more significant. However, the business model of DCTs is to some extent a choice by DCTs, so it is right to assess the constraints on DCTs from suppliers given the current market setup.

(see Box 6.1) and integrating with suppliers' systems to complete transactions (see Box 6.3) are consistent with our view of negotiating power as well as the presence of negative matching agreements in contracts between suppliers and DCTs, restricting the latter's behaviour (see paragraphs 7.63 to 7.69). Similarly, in the energy sector some suppliers have been able to list on DCTs even in the absence of a contractual agreement.¹⁸³

- 7.42 We have considered whether DCTs are competing effectively. In paragraph 7.22 we identified that in four sectors, one DCT (and not always the same DCT) has a significantly larger share of sales than other DCTs. This may be interpreted as DCTs not competing strongly with one another to increase their share in sectors where they are relatively small. However [✂]. The proportion of sales that DCTs account for in the broadband and credit card sectors leads us to have fewer concerns about competition between DCTs at this stage, due to suppliers having more significant negotiating power in these sectors.¹⁸⁴
- 7.43 We would welcome views and evidence on how effectively DCTs compete with one another (and with suppliers). We would also like to understand whether there are any significant barriers to expansion into providing comparison services in particular sectors, for DCTs which are established and important players in other sectors.
- 7.44 In the remainder of this chapter we will discuss a number of contractual restrictions that we identified in Figure 7.9 may result from negotiating power being with either DCTs or suppliers.

Agreements that could affect competition between DCTs

- 7.45 As part of our evidence gathering we have reviewed a number of contracts between DCTs and suppliers. In some of these contracts we have identified so-called 'wide' and 'narrow' MFN clauses. In the following paragraphs we briefly set out our preliminary views of these clauses in the context of our case study sectors. Appendix 5 contains our more detailed preliminary assessment.

Wide MFNs

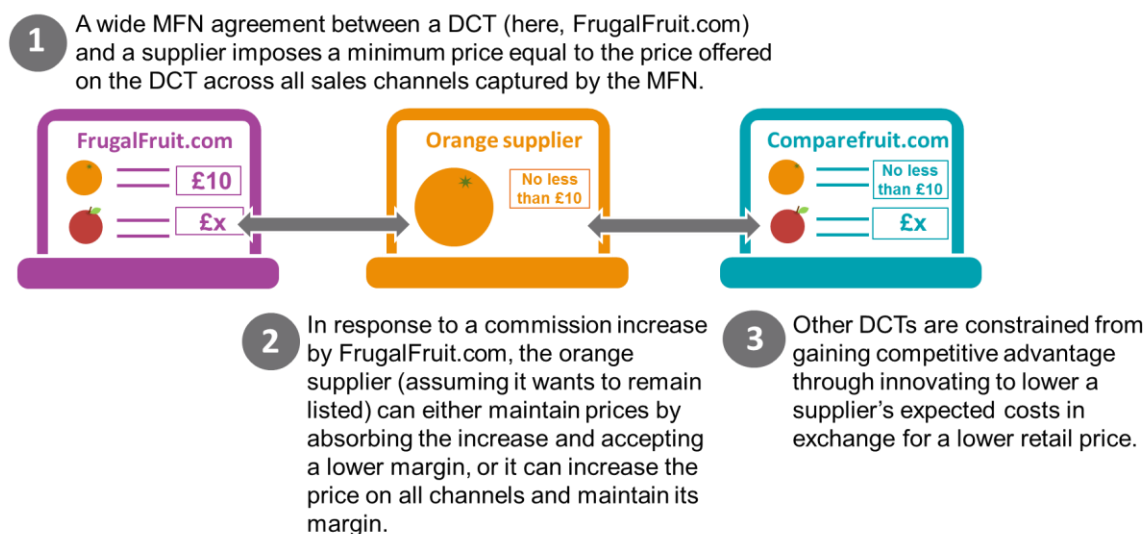
- 7.46 A wide MFN agreement between a DCT and a supplier specifies that a product or service may not be sold more cheaply on a supplier's own website

¹⁸³ This is due to the WotM requirement, which is discussed further in Chapter 8.

¹⁸⁴ In energy, the presence of the Whole of the Market requirement has led to fewer incentives to invest in this sector.

or on any other DCT (Figure 7.10).¹⁸⁵ We have found examples of wide MFN clauses in contracts.

Figure 7.10: A single wide MFN



7.47 The CMA market investigation into private motor insurance (PMI market investigation)¹⁸⁶ found that wide MFN clauses operating in motor insurance had an overall adverse effect on competition by reducing DCTs' incentives to compete on commissions and to innovate.¹⁸⁷ As a result, wide MFNs and behaviour by comparison sites seeking to replicate the anti-competitive effects of wide MFNs were prohibited in relation to private motor insurance.¹⁸⁸

7.48 A number of suppliers have told us that since the removal of wide MFNs in motor insurance, competition in the market for motor insurance has increased and some suppliers have been able to agree exclusive deals (discounts) with selected DCTs, enabling them to test different strategies across distribution channels and better target offers. Other suppliers, however, told us that wide MFNs in contracts with DCTs have been replaced with narrow MFNs which continue to restrict insurers' ability to adjust prices to reflect differences in costs of acquiring and servicing consumers from different channels. We consider narrow MFNs in paragraphs 7.50 to 7.56 below.

¹⁸⁵ Some clauses may encompass other sales channels, including offline sales. Throughout this section MFN is used to refer to a platform MFN, that is an agreement between a platform (the DCT) and a supplier.

¹⁸⁶ The market investigation into PMI was referred to the Competition Commission (CC) by the Office of Fair Trading (OFT) in September 2012. The CMA continued the investigation when it replaced the OFT and CC on 1 April 2014. The investigation was completed in March 2015.

¹⁸⁷ In the PMI market investigation DCTs were referred to as price comparison websites, or PCWs.

¹⁸⁸ See 'Final report' on *PMI market investigation*. These prohibitions apply to comparison sites generating more than 30,000 PMI sales annually. A number of national competition authorities across Europe have also recently taken action to prohibit wide MFNs in the hotel online booking sector.

7.49 In the PMI market investigation, the CMA found that wide MFNs were not necessary to deliver any potential pro-competitive benefits over and above those of narrow MFNs, namely credibility and the prevention of free-riding (discussed below in 7.56). As part of this market study, one DCT has maintained that wide MFNs enable DCTs to offer a ‘strong customer proposition’ and that there is a particularly strong case for wide MFNs being used to instil consumer confidence in markets where DCTs are underdeveloped. We are interested in exploring these arguments, as well as arguments around the potential harm from wide MFNs, in more depth in the next phase of our study.

Narrow MFNs

7.50 A narrow MFN clause requires a supplier to set a price on a DCT which is no higher than the price offered through its own website, but does not stipulate conditions for sales via other channels. We have found examples of narrow MFNs in all of the sectors we examined.¹⁸⁹ The evidence we have received shows that narrow MFNs are more prevalent in the home insurance, credit card and flights sectors, and less prevalent in broadband.¹⁹⁰

7.51 Narrow MFNs may harm competition through:

- (a) lessening or eliminating competition from the direct channel; and/or
- (b) replicating the effects of a wide MFN.

Lessening or eliminating competition from the direct channel

7.52 Our preliminary view is that, under certain conditions, narrow MFNs may give rise to competition concerns through removing a source of competitive constraint on DCTs. The potential for consumer harm depends on, among other factors, the strength of the competitive constraint from the direct channel that the narrow MFN removes and the strength of remaining competitive constraints (including from other DCTs and from suppliers not affected by MFN clauses) which is strongly linked to consumers’ search behaviour.

¹⁸⁹ We did not look at the energy sector as part of our analysis of MFNs; Ofgem’s four-tariff rule and whole of the market requirement in energy (discussed in Chapter 8) have constrained DCTs’ pricing such that MFNs have not been necessary. The four-tariff rule has now been removed and the whole of the market requirement is currently being reviewed following the CMA’s [Energy Market Investigation](#).

¹⁹⁰ We have also found evidence in home insurance and credit cards of provisions attached to narrow MFN clauses that prevent a supplier from offering a proposition on terms that are more favourable than those offered to the DCT (that is, the clauses apply to the product offering as a whole and not just to price). Such terms reduce a supplier’s ability to circumvent a narrow MFN through non-price (eg quality) adjustments.

7.53 Our consumer survey shows that 63% of recent comparison site users had used multiple comparison sites or multiple comparison sites plus other sales channels when shopping around (see Figure 5.8). A much smaller (albeit not insignificant) proportion (16%) used only one comparison site plus other sales channels (including suppliers' own direct channels) when comparing offers. If consumers typically search across DCTs rather than across DCTs and suppliers' own channels, some competitive constraint on DCTs is likely to remain from other DCTs even if the constraint from direct channels is removed. This will be the case unless competition between DCTs is limited, eg by wide MFNs or because narrow MFNs replicate wide MFNs, as discussed below. A more detailed discussion about the conditions under which narrow MFNs are likely to cause consumer harm is set out in Appendix 5.

Replicating the effects of a wide MFN

7.54 Under certain conditions, one or more narrow MFNs could replicate the effects of a wide MFN and give rise to harm as set out at paragraph 7.47 above.¹⁹¹ A narrow MFN between a DCT and a supplier requires that a rise in the price listed on the DCT, eg as a result of an increase in the commission charged by that DCT, be matched by a simultaneous rise in the direct price. Purchasing through the direct channel then becomes less attractive to a consumer vis-à-vis purchasing from a lower-commission charging DCT (assuming cost-reflective pricing by a supplier). A supplier that is concerned with protecting the competitiveness of its direct channel will, in response to a narrow MFN, increase the price set on other DCTs. This effectively has the same implication as a wide MFN by enabling a DCT to increase its commission without becoming less competitive than other DCTs. This outcome is crucially dependent upon a supplier wanting to maintain its direct price as the cheapest offering which, in turn, is likely to depend on a number of factors, as set out in Appendix 5.

7.55 As set out in 7.48, we have been told that as a result of the removal of wide MFNs in the motor insurance sector, providers started to offer different deals on different DCTs despite narrow MFNs still being in place. This suggests that narrow MFNs in motor insurance are not likely to have replicated wide MFNs, at least not for all providers. We are interested in exploring in more detail whether this is indeed the case. We are also interested in exploring whether

¹⁹¹ While a single narrow MFN may replicate a wide MFN, the likelihood of harm increases with the number of narrow MFNs in a given sector.

the conditions for harm arising from a narrow MFN(s) replicating the effects of a wide MFN are likely to hold in other sectors with narrow MFNs in place.¹⁹²

Potential benefits of narrow MFNs

7.56 While narrow MFNs can give rise to competition concerns under certain conditions, they may also deliver benefits to consumers, as found in PMI, by preventing free-riding on DCTs' investments and helping to sustain DCTs' business model by maintaining their credibility. These mechanisms are discussed in more detail in Appendix 5.

What might limit or offset the benefits that DCTs could bring?

7.57 In the previous section we discussed agreements that might reduce competitive pressure on DCTs. We have also been made aware of practices and agreements that could limit DCTs' ability to operate effectively and maximise the potential benefits they could bring to consumers. One such practice is related to how suppliers might change their product offerings as a result of competing with other suppliers on DCTs. We discuss this under 'hollowing out' below. We then turn to agreements that affect the way DCTs can advertise and market their services to consumers – namely non-brand bidding and negative matching agreements and non-resolicitation agreements. Appendix 5 contains more detail on our preliminary assessment of these practices.

Hollowing out

7.58 As recommended by the UKRN,¹⁹³ we have considered whether DCTs are leading to 'hollowing out' in our case study sectors. There are two main types of practice which are often referred to as 'hollowing out': unbundling and pure hollowing out. Unbundling is separating out and pricing separately certain components of the offering. This could allow consumers to tailor products to their needs but could also have a negative impact on consumer decisions if the components are not presented transparently. Pure hollowing out happens when consumers focus on one product feature (typically price) and stop comparing products on other important aspects (typically quality) which could reduce suppliers' incentives to invest in quality. These practices, that are

¹⁹² In the PMI market investigation, the CMA found that narrow MFNs were unlikely to replicate wide MFNs. Our incentives analysis is set out in [Appendix 8.1 of PMI final report appendices and glossary](#).

¹⁹³ UK Regulators Network, [UKRN Letter to the CMA](#), September 2016.

described separately but in practice may be blurred,¹⁹⁴ may lead to different consumer outcomes as explained in more detail in Table 5.1 in Appendix 5.

- 7.59 In relation to unbundling, we found that in some sectors the unbundling of products had occurred before DCTs entered the market – typically part of a pricing strategy associated with new business models.¹⁹⁵ In other sectors, such as insurance, it is not clear to what extent the unbundling of products was initiated by DCTs and their comparison model.¹⁹⁶
- 7.60 Nonetheless, the evidence gathered to date indicates that DCTs appear to be working to minimise any potential negative effects of unbundling. They do this by, for example, allowing consumers to specify what elements to bring into the comparison and/or showing ratings, such as Defaqto's,¹⁹⁷ which rate products on the basis of quality and comprehensiveness of the features offered. However, the extent to which DCTs can be effective in solving any issues associated with unbundling depends on a range of factors. The availability of suppliers' data (see Chapter 6), regulation (see Chapter 8) and whether individual DCTs are able to and would find it profitable unilaterally to make changes to the presentation of their results are among the factors that may be holding back DCTs' effectiveness in this area.¹⁹⁸
- 7.61 In relation to pure hollowing out, it is unclear whether DCTs caused and/or exacerbated pure hollowing out as consumers' focus on price may be determined by a range of different factors, making it difficult to identify the importance of any one (such as the role of DCTs). The evidence we have gathered to date on whether consumers using DCTs are effectively focusing mainly (or solely) on price is mixed as are views from stakeholders on whether DCTs mitigate or exacerbate pure hollowing out in practice (see Appendix 5). Although we have heard that some DCTs are working to introduce customer reviews and ratings to provide some indication of products' quality, the extent to which this may reduce the risk and/or occurrence of pure hollowing out in practice is not clear. Moreover, similarly to unbundling, DCTs' ability to mitigate any potential pure hollowing out is affected by the availability of supplier data on quality dimensions of the offers

¹⁹⁴ For example, the stripping out of product components that some customers may consider key (eg flood cover for home insurance) could also be viewed as an overall reduction in quality (eg of the home insurance product), if such components are no longer widely offered.

¹⁹⁵ For example, the entry of budget airlines in flights prompted the unbundling of luggage fees from airline tickets.

¹⁹⁶ For example, one of the DCTs told us that its site was created precisely to make it easier for consumers to understand what is and what is not included in insurance offers in response to changes in the sector.

¹⁹⁷ See [Defaqto's website](#).

¹⁹⁸ In response to the FCA's findings on add-ons in general insurance, DCTs sought to cooperate to develop a standard approach with insurers.

(eg broadband speed data) and whether individual DCTs are able to and would find it profitable to make these changes unilaterally.

- 7.62 As explained in Chapter 10, we propose to investigate further the impact that DCTs may have had on unbundling and pure hollowing out in the sectors where they operate as well as the impact of DCTs' strategies to provide more information on add-ons and the quality of offers. We would also like to understand better what needs to be in place to prevent or mitigate any harmful impact of unbundling or hollowing out.

Non-brand bidding and negative matching agreements

- 7.63 Search engines often display adverts (ads) that appear at the top of a results page (ie above the 'organic' search results). The ads that appear as a result of a particular search term are typically determined by an auction process relating to the words used by the consumer in their search (ie the search term).¹⁹⁹ We have received evidence that indicates that three types of agreement between DCTs and suppliers exist regarding the auction process. These agreements may affect the ads generated in response to search terms used by consumers that include brand names.²⁰⁰

- 7.64 These three types of agreement are:

- (a) **Narrow non-brand bidding** – this is where one advertiser agrees not to bid on another advertiser's brand name when the search term only includes that brand name.
- (b) **Wide non-brand bidding** – this is where one advertiser agrees not to bid on another advertiser's brand name when the search term includes that brand name alone or with other (non-brand related) words.
- (c) **Negative matching** – this is where one advertiser agrees to add another advertiser's to its 'negative keywords', which prevents its ad appearing when the search term includes that brand name alone or with other (non-brand related words).²⁰¹

- 7.65 Although these three types of agreement are similar, they differ in their impact on when a restricted advertiser's ad can appear in response to search terms used by consumers that include brand names. In particular, as set out in







¹⁹⁹ For example, see [Google AdWords](#) and [Bing ads](#).

²⁰⁰ This may include trade names, product names, etc.

²⁰¹ Keywords and negative keywords are used to determine which search terms an ad can appear in relation to. See [Google AdWords](#) or [Bing ads](#) for more information on negative keywords.

Figure 7.11, this is the case when a consumer's search term includes both the brand name and other (non-brand-related) words.

Figure 7.11: Impact of agreements on ads that can appear

Search term	Type of agreement	Can Brand Y's ad appear?	
Brand name only 'Brand X'	Narrow		Brand Y cannot bid so cannot appear.
	Wide		
	Negative matching		Brand Y is automatically removed from the auction so cannot appear.
Brand name and other words 'Compare Brand X widget deals'	Narrow		Brand Y can bid so can appear.
	Wide		Brand Y may appear if it bids on the other (non-brand related) words. (ie 'compare widget deals')
	Negative matching		Brand Y is automatically removed from the auction so cannot appear.

Source: CMA analysis.

7.66 While we have observed that these agreements exist in our case study sectors, particularly broadband (see Figure 5.5 in Appendix 5),²⁰² we have heard mixed views about their impact and the incentives of advertisers absent these agreements.²⁰³ For example, some DCT respondents have stated that they have no commercial incentive to bid on suppliers' brand names due to the costs involved. This is because advertisers have to pay more the less relevant they are deemed by the search engine and for searches involving suppliers' brand names the DCT is generally deemed less relevant by the search engine.

²⁰² This is consistent with our findings on negotiating power, see paragraph 7.38.

²⁰³ For example, one DCT stated that these agreements are a barrier to effective competition. In contrast two DCTs have stated that these agreements have no impact as even in the absence of these agreements they would not engage in brand bidding and would negatively match on brands.

- 7.67 Our preliminary view is that these agreements may lead to a reduction in competition, as they could decrease advertisers' visibility to consumers who make searches using the restricted brand names.²⁰⁴ On the other hand, depending on the context, there may be efficiency justifications for these agreements. In particular, respondents have stated that these agreements may have a free-riding justification (ie preventing rivals benefiting from each other's brand investment) and may reduce the brand owner's advertising costs (which may, for example, lead to suppliers charging lower prices to consumers).²⁰⁵
- 7.68 Based on our current understanding, as set out in Appendix 5, there appears to be a greater scope for consumer harm in the case of negative matching agreements. In particular:
- (a) the likelihood and extent of harm appears to be higher in relation to negative matching agreements than non-brand bidding agreements; and
 - (b) the free-riding justification may be less relevant in relation to negative matching agreements which prevent a rival that has not bid on the brand appearing even when the search engine has independently determined the 'restricted' rival to be relevant to the search term in question.
- 7.69 In summary, our initial view is that these types of agreements, especially negative matching agreements, may have the potential to lead to consumer harm. However, it is not clear to us at this stage and on the basis of the evidence reviewed to date whether any such harm is likely to be material in practice. Therefore we will look to explore the impact of these agreements further in the second half of our study.

Non-resolicitation agreements

- 7.70 Non-resolicitation agreements are clauses in contracts between DCTs and suppliers whereby a DCT agrees not to contact consumers who have purchased a supplier's product from that DCT (in respect of the same product type) for a certain period. Such agreements do not prevent DCTs from undertaking non-specific general marketing. Instead, they prevent a DCT

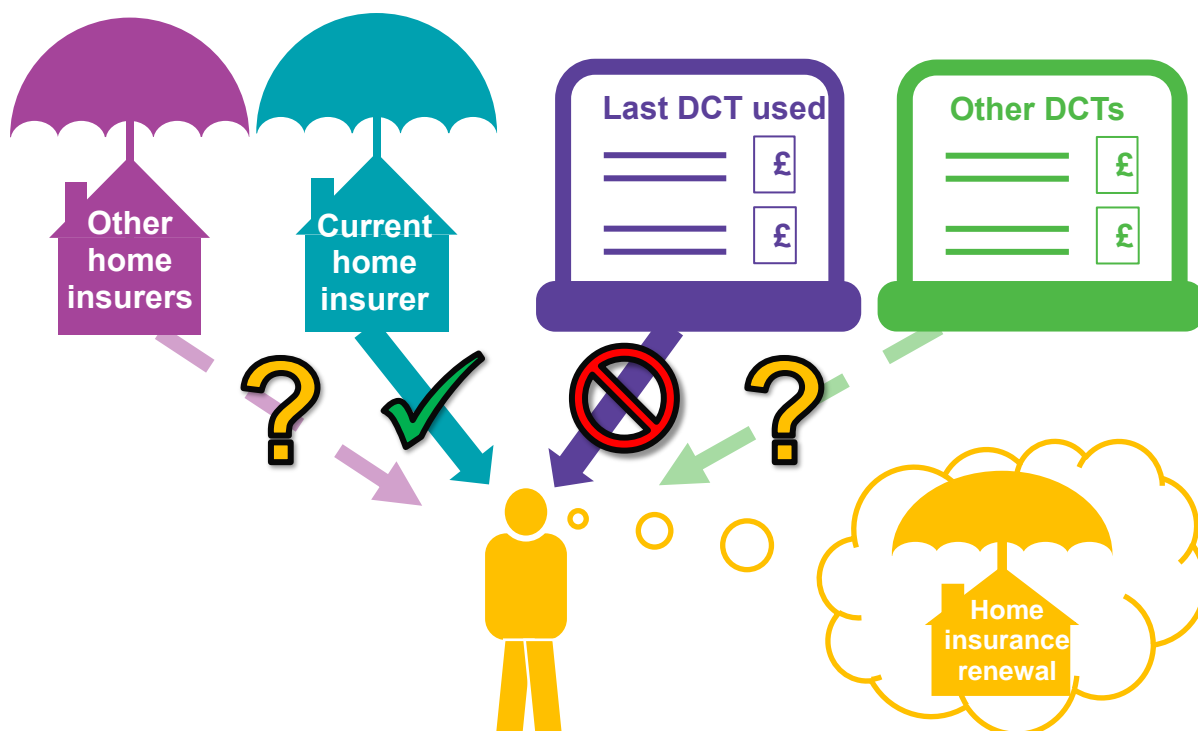
²⁰⁴ See Appendix 5 for a more detailed discussion of when we think these agreements may lead to harm, the factors that may determine the level of that harm and when we consider harm may be more likely.

²⁰⁵ In addition one DCT stated that these agreements had little impact other than increasing a brand owner's advertising expenditure as the appearance of rivals' ads has little impact on where consumers end up, see Appendix 5 for more detail.

through which a consumer has purchased a supplier's product from marketing its services to that consumer for the same product type.

- 7.71 As shown in Figure 7.12 the consumer can still receive specific marketing material from their current supplier. Other DCTs and other/previous suppliers are still allowed to send specific market material to the consumer, however, as reflected in the figure, it is unclear to what extent they are able to do this and actually do this.²⁰⁶

Figure 7.12: Non-resolicitation clauses



Source: CMA analysis.

- 7.72 A number of DCTs raised concerns about such agreements which, based on the evidence we have received, appear to be common in home insurance and also appear in energy, but do not appear in our other case study sectors.²⁰⁷ In particular, DCTs stated that these clauses limit their ability to prompt consumers to seek alternatives to auto-renewal, and also to switch to another supplier or negotiate a better deal (without switching) mid-term.²⁰⁸

- 7.73 Our initial view is that these agreements may lead to a reduction in competition between suppliers and a reduction in innovation by DCTs. The exact impact on competition and the extent of any potential harm resulting

²⁰⁶ For example, other DCTs can only do this where the customer has multi-homed so that they have the consumer's contact details and information about the timing of contract renewal.

²⁰⁷ The specific clauses were typically negotiated as part of a package of terms with suppliers.

²⁰⁸ In particular, one DCT cited research it had conducted into the potential cost to consumers of auto-renewals in car insurance.

from these agreements depends on the facts of the case; we discuss this in more detail in Appendix 5. However, we might expect that some of the impact of non-resolicitation agreements is mitigated because the agreements relate to marketing to consumers who have previously switched using a DCT and such consumers may already be aware of the benefits of DCTs and of switching generally.

- 7.74 Depending on the context, there may be potential efficiency justifications for these agreements. In particular, such agreements may be necessary to ensure a supplier lists on a DCT, by protecting that supplier's investment in acquiring a consumer.²⁰⁹ However, it is not clear to us that non-resolicitation clauses that go beyond the start of the renewal period of the consumer's initial contract with the supplier are necessary to protect the supplier's investment. In this regard, at least in home insurance, the agreements we have seen tend to last longer than a consumer's typical 12-month contract and/or may be specifically targeted at the first time a consumer renews their product.
- 7.75 In summary, while these types of agreements could have potential efficiency justifications under certain conditions, our initial view is that they also have the potential to lead to consumer harm. Therefore we will look to explore these agreements further in the second half of our study and the extent to which any consumer harm is material. In light of this we set out some specific points we wish to explore in Chapter 10.

²⁰⁹ This may be particularly important where a consumer faces low barriers to switching suppliers during their contract and where a supplier incurs upfront the cost of supply for the entire duration of that consumer's contract. For example, see [Appendix 9.3 of the Energy Market Investigation Final Report](#), paragraphs 78–82.

8. Regulation

Introduction

- 8.1 Regulation can help markets to work well by ensuring that businesses compete fairly and consumers are empowered, confident and able to exercise informed choice. However regulation that is not well designed has the potential to lead to negative outcomes.
- 8.2 As part of this study we want to establish whether regulation of DCTs is fit for purpose or whether alternative approaches would deliver better market and consumer outcomes. So far we have asked for views on the regulatory environment in our Statement of Scope²¹⁰ and have explored this theme with a range of stakeholders, including DCTs, suppliers, regulators and trade and consumer bodies. By the end of this study we aim to answer three key questions:
- (a) Is there a need for DCT-specific regulation in addition to general regulation?
 - (b) Do DCTs in different sectors need regulating in different ways?
 - (c) What should the future regulatory framework look like?
- 8.3 At this stage we have not reached a conclusion on the need for any changes to the current regulatory framework but set out the range of views received to date and a number of possible approaches to addressing some of those issues.
- 8.4 In this chapter we provide an overview of:
- (a) the different approaches to regulation;
 - (b) recent and future developments;
 - (c) views and concerns raised by stakeholders;
 - (d) our initial views on the concerns raised; and
 - (e) our proposed next steps.

²¹⁰ CMA, [Market study of digital comparison tools – statement of scope](#), September 2016.

Approaches to regulation

General regulation

- 8.5 General law applies to DCTs in the same way as it does to other businesses. Key pieces of general consumer and competition law include, respectively, the Consumer Protection from Unfair Trading Regulations 2008 (CPRs) and the Competition Act 1998 (CA98).²¹¹ These laws may be enforced by a range of national bodies, including the CMA and sector regulators such as the Financial Conduct Authority (FCA), Ofgem and Ofcom.²¹² Like other businesses, DCTs are also subject to the Data Protection Act 1998 (DPA), enforced by the Information Commissioner's Office (ICO).²¹³ Where relevant to DCTs, competition law affecting trade between EU member states may also be enforced by the European Commission.
- 8.6 In some cases guidance or advice specifically aimed at DCTs on how to comply with general law, has also been produced at a national and European level. Examples include the Office of Fair Trading's 2012 report on price comparison websites²¹⁴ and the European Commission's 2016 key principles for comparison tools.²¹⁵

Regulation specific to DCTs

- 8.7 DCTs are also subject to some sector-specific regulation, the nature of which varies by sector and product. In particular:
- (a) The Financial Services and Markets Act 2000 (FSMA) broadly requires firms to be **authorised by the FCA** before conducting any regulated financial activities.²¹⁶ Although the operation of a DCT itself is not a

²¹¹ Other potentially relevant legislation includes the Consumer Rights Act 2015 (CRA), and the Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013 (CCRs). For this update paper, we are providing a brief summary of the key elements of the regulatory framework, rather than a comprehensive overview. Our focus is on the issues that have been raised with us as well as key developments.

²¹² Local authority Trading Standards Services (TSS) also have enforcement powers in relation to consumer protection law.

²¹³ Advertising in the UK, including by DCTs, is also subject to a well-established system of self-regulatory rules, administered by the Advertising Standards Authority (ASA). The ASA administers the Committee of Advertising Practice's (CAP's) mandatory *UK Code of Non-broadcast Advertising, and Direct Marketing & Promotional Marketing* (the CAP Code).

²¹⁴ Office of Fair Trading, *Price Comparison Websites: Trust, choice and consumer empowerment in online markets*, November 2012.

²¹⁵ The CPRs implement the Unfair Commercial Practices Directive (UCPD), and in May 2016, the European Commission produced a set of '*Key Principles for Comparison Tools*' to assist the operators of comparison tools in complying with their obligations.

²¹⁶ The FCA determines whether a firm is undertaking regulated activity, and considers the activity the firm is involved in. As defined by the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (the *Regulated Activities Order*, RAO). More detailed guidance on what is within the FCA's 'perimeter' can be found in the FCA's *Perimeter Guidance Manual* (PERG) within the *FCA Handbook*.

specified activity,²¹⁷ DCTs are likely to engage in regulated intermediation activities, and if so they must be authorised (or exempt) and comply with the requirements of the FCA Handbook applying to those activities.²¹⁸ The FCA Handbook sets 11 high-level standards for all businesses conducting regulated activities – including to treat customers fairly (Principle 6) and communicate information in a way which is clear, fair and not misleading (Principle 7).²¹⁹ In addition to the Principles, the FCA Handbook contains sets of specific rules which vary according to the activities addressed.²²⁰

- (b) In contrast, DCTs comparing energy and telecoms providers are **not directly regulated** by Ofgem and Ofcom (who regulate only the suppliers DCTs compare). Instead, these regulators have sought indirectly to help consumers to make informed choices and influence the nature and quality of comparison sites by establishing voluntary accreditation schemes.²²¹ Although participation is voluntary, in the energy sector it appears that most DCTs have signed up to Ofgem’s ‘confidence code’²²² as a result of the largest energy companies making accreditation a requirement if DCTs are to list them.²²³ In contrast the reach of Ofcom’s scheme²²⁴ is relatively limited.²²⁵
- (c) If DCTs make available flights plus other services (for example accommodation or car hire), as opposed to just providing consumers with information about them, then they will require an Air Travel Organiser’s **Licence** (ATOL), administered by the Civil Aviation Authority.²²⁶ Applicants for ATOL must meet certain financial criteria and satisfy the CAA that they are fit and competent to hold a licence.

²¹⁷ Following the CMA’s investigation of Payday Lending (see CMA, [Payday lending market investigation: Final report](#), February 2015), the FCA implemented new rules setting out how High Cost Short Term Credit (HCSTC) products are displayed on DCTs (see FCA, [PS16/15: Feedback on CP15/33 - Consumer credit: proposals in response to the CMA recommendations on high-cost short-term credit](#), May 2016).

²¹⁸ The [FCA Handbook](#).

²¹⁹ The [FCA Principles](#).

²²⁰ For example, for consumer credit regulated activities the rules are set out in the FCA’s [Consumer Credit Sourcebook](#) (CONC), while for non-investment insurance regulated activities the rules are in [Insurance: Conduct for Business](#) (ICOBS). These are not the only sections of the FCA Handbook applicable to these sectors, and other regulatory obligations are relevant depending on the circumstances.

²²¹ In the legal services sector, the Legal Services Consumer Panel also established a voluntary code in May 2013 against which comparison sites can self-assess. At the time of this report, the LSCP site reported that 12 DCTs had assessed themselves against the code. See [Good Practice Standards for Comparison Websites](#).

²²² Ofgem, [Compare gas and electricity tariffs: Ofgem-accredited price comparison sites](#).

²²³ Ofgem’s licence conditions for domestic energy suppliers require suppliers to treat consumers fairly. In order to meet their obligations, suppliers must ensure that any organisations that represent them also comply with the relevant standards.

²²⁴ Ofcom, [Accreditation scheme for price calculators](#).

²²⁵ For example, uSwitch, the largest DCT by revenue in the broadband market is not a member of the Ofcom scheme but is a member of Ofgem’s scheme.

²²⁶ Under The [Civil Aviation \(Air Travel Organisers’ Licensing\) Regulations 2012](#) (ATOL Regulations). The ATOL scheme applies to the provision of flights and accommodation (including a cruise), or flights and car hire, and flights, accommodation and car hire. It also applies to flights where a ticket is not given immediately. It does not apply to flights or holidays booked direct with scheduled airlines.

- 8.8 As a result, DCTs that operate in multiple sectors and offer different products may potentially need to take into account a range of voluntary and mandatory regulatory requirements – from self-regulation through to voluntary accreditation, licensing and statutory regulation.
- 8.9 As noted in paragraph 8.2, a key outcome of this study will be to set out our view on whether there is a need for different regulatory approaches in different sectors. In setting out what the future regulatory landscape should look like we may find that sector-specific regulation is justified in some sectors but that more generally there could be benefits from simplifying approaches and increased consistency.
- 8.10 We outline a potential set of principles in Figure 8.1 and Table 8.4 that could form the basis of a cross-sector approach and which could simplify and rationalise the regulatory requirements for DCTs.

Recent and future developments

- 8.11 The regulatory environment for DCTs is changing. Government and sector regulators have taken forward a range of initiatives recently that directly or indirectly seek to improve consumer outcomes when engaging with DCTs.
- (a) The FCA has for example introduced additional standards for payday loan DCTs, including requiring lenders to list on DCTs,²²⁷ worked to improve the availability and quality of information on add-ons in general insurance²²⁸ and as a result of its credit card market study²²⁹ cross-sector work is being undertaken by the industry to develop improved quotation search tools.
- (b) As a result of the recommendations made by the CMA following its energy market investigation, Ofgem is consulting on whether to amend the ‘Whole of Market’ requirements for DCTs in its Confidence Code.²³⁰ Ofgem is due to publish its decision document in May 2017.
- (c) BEIS has conducted a consultation on possible improvements to Midata in the energy sector.²³¹

²²⁷ FCA, *Consumer credit: proposals in response to the CMA recommendations on high-cost short-term credit*, May 2016.

²²⁸ FCA, *General insurance add-ons market study*, July 2014.

²²⁹ FCA, *Credit card market study – final findings report*, July 2016.

²³⁰ Ofgem, *CMA Remedies Implementation Plan*, November 2016.

²³¹ Department for Business, Energy & Industrial Strategy, *Call for evidence: implementing midata in the energy sector*, December 2016.

- (d) The Digital Economy Bill, as currently drafted, would provide Ofcom with greater ability to obtain and, as appropriate, secure publication of data (which might include property-specific speed information) in a specified format.²³²
- (e) The CAA is currently reviewing the information provided to consumers by holiday price comparison websites and the degree to which the deals advertised are available in practice.²³³
- (f) The European Commission has been looking into the market for the distribution of airline tickets.²³⁴

8.12 Stakeholders also highlighted various general and sector-specific regulatory developments which are likely to have an effect on DCTs:

- (a) Reforms to the data protection regime under the General Data Protection Regulation will take effect in May 2018.²³⁵ Of particular relevance to DCTs will be the introduction of new rights for individuals to access and control their data, including a right of data portability; enhanced transparency requirements which should mean individuals being better informed about how their data is to be used; new accountability requirements on organisations; and the strengthening of key areas of the law such as a higher standard of consent (where consent is the condition for processing).
- (b) The European telecoms rules are currently under review, and the European Commission has proposed a new European Electronic Communications Code.²³⁶ The proposals are aimed at ensuring end-users in every member state have access to at least one free and independent comparison tool for communications services, which must meet certain requirements. National regulatory authorities would be required to certify, upon request, that a comparison tool fulfilled the requirements set out in the Code. DCTs will also have rights to use information published by telecoms providers for the purposes of making available such comparison services.

²³² UK Parliament, *Digital Economy Bill*.

²³³ CAA, *How the CAA protects consumers and promotes the legal rights of UK air passengers*, February 2017, page 3.

²³⁴ MLex, *Airline ticket pricing, distribution face EU scrutiny*, April 2016.

²³⁵ See ICO, *Overview of the General Data Protection Regulation* (GDPR).

²³⁶ European Commission, *Proposed Directive establishing the European Electronic Communications Code*, September 2016.

- (c) The Insurance Distribution Directive came into force in February 2016 and must be transposed into national law by February 2018. It includes information and conduct requirements which will apply to DCTs carrying out insurance distribution activities within the scope of the Directive. The FCA has published its first consultation on its proposals to implement the Directive.²³⁷
- (d) The Payment Accounts Directive requires member states to ensure that consumers have access to at least one free and independent comparison website, which must meet certain requirements, where they can compare the fees charged by payment service providers for a number of services linked to payment accounts. The Directive has been implemented in the UK by the Payment Accounts Regulations 2015.²³⁸ To ensure that the UK meets this requirement the Money Advice Service will be required to operate a website comparing payment account fees. The provisions relating to the Money Advice Service are likely to come into force in 2018.

Stakeholders' views and concerns

- 8.13 DCTs, suppliers and other stakeholders broadly agreed that regulation had an important role to play in ensuring good outcomes for consumers, as well as a level playing field between DCTs and between DCTs and other sales channels. Stakeholders also agreed that regulation should focus on ensuring that consumers are given the information they need to make informed choices.
- 8.14 However, in their responses to our Statement of Scope, our discussions with them and the various workshops we have held, stakeholders also expressed a number of concerns about the current regulatory environment. We summarise some common themes in Table 8.1.

Table 8.1: Issues and concerns raised by stakeholders

Issue	Stakeholders told us...
Excessive barrier to entry	The existing regulatory regime is overly complex. In particular, the existence of a number of different sector-specific regimes makes it difficult for DCTs to navigate the regulatory environment and may create barriers to entry and expansion, particularly for cross-sector DCTs.
Inconsistencies and lack of coordination	There are inconsistencies between different sectors and within sectors (such as differing approaches in energy DCTs and collective switching schemes). While DCTs are performing a similar function in each sector, there are differences in regulatory approaches and detailed requirements. Stakeholders raised concerns that complying with multiple regimes could:

²³⁷ FCA, [CP17/7: Insurance Distribution Directive implementation – consultation paper I](#), March 2017.

²³⁸ FCA, [Payment Accounts Directive](#).

Issue	Stakeholders told us...
	<ul style="list-style-type: none"> place a significant regulatory burden on cross-sector DCTs; and cause confusion for consumers who may use one DCT to compare a number of regulated products. <p>Some stakeholders also cited a lack of co-ordination between sector regulators and whether they were sufficiently joined-up when dealing with cross-sector DCTs.</p>
Too prescriptive and not future-proof	Sector-specific requirements applicable to DCTs are overly prescriptive. As a result regulation is insufficiently flexible to accommodate new technologies (eg mobile devices, chatbots and voice activated assistants) and business models (eg digital concierge services) or changes in consumers' attitudes (eg a shift in focus from price to quality and features). In some cases this could stifle innovation in a potentially dynamic area. DCTs might also choose not to engage with voluntary schemes to allow themselves greater flexibility.
Boundary issues	Some sector rules only currently apply directly to suppliers. DCTs might therefore only be caught indirectly, or not at all, despite in some cases carrying out activities which might be somewhat similar to some of those carried out by regulated firms.
Insufficient enforcement	There is a lack of effective enforcement. Voluntary schemes lack formal enforcement mechanisms, and the prospect of losing accreditation may not have a sufficient deterrent effect in relation to poor practices. Concerns were also raised about a perceived lack of enforcement in relation to general legislation, for example the CPRs, and the lack of civil fining powers for breaches of consumer protection law.
Actively distorts competition – 'whole of the market'	Some sector-specific regulation distorts competition. These concerns were largely focused on the 'Whole of the Market' requirement in the Ofgem Confidence Code, although similar concerns were expressed about the 'comprehensiveness' requirement in the Ofcom Accreditation Scheme. Some stakeholders also expressed concerns that the requirements of voluntary accreditation schemes received less scrutiny than legislative rules, and that less consideration was given by regulators to any potential competition implications.

Source: CMA analysis of stakeholder views.

Our initial views on issues raised by stakeholders

Excessive barrier to entry

- 8.15 Stakeholders have told us that regulation can introduce additional operating costs for DCTs and there is scope for greater consistency. This is most likely to be an issue for cross-sector DCTs, where they must comply with multiple different regimes.
- 8.16 In the energy market, suppliers may be unwilling to work with DCTs unless they join the Ofgem Confidence Code (because of suppliers' own obligations to ensure that those representing them meet certain standards). Similarly, expansion of comparison activities into other regulated sectors introduces additional regulatory costs. While we have not seen evidence that these costs

would make entry commercially unviable, we discuss below how specific requirements such as to offer Whole of the Market (WotM) coverage might affect DCTs' incentives to enter and expand.

Inconsistencies and lack of coordination

8.17 Different approaches to regulation have developed over time, particularly in the regulated sectors.

8.18 Both Ofcom's and Ofgem's accreditation schemes set minimum standards for DCTs to secure accreditation and approve membership on the basis of audits. However, although the schemes share some common elements, they were established and have evolved independently of each other and, while they necessarily contain requirements that are relevant only to products in their respective sectors, they also include elements that address common principles differently – such as DCT independence and transparency, as well as market coverage requirements. They also have slightly different methods of administration.²³⁹ Appendix 6 provides a summary of the schemes' key aspects and Table 8.2 lists some examples of how they differ.

Table 8.2: Examples of how Ofcom's and Ofgem's scheme differ

	Ofcom's scheme...	Ofgem's scheme...
Updating offers	...requires DCTs to update their offers at least every two weeks and state when they last did so	...requires DCTs to be accurate and state when they last updated offers
Accessibility	...requires sites to be accessible to all consumers (including the disabled)	...does not address this
Offline service	...requires an offline advice service	...does not address this
Complaints handling	...requires a fair and timely complaints handling process	...sets a 7-working day limit for handling complaints and requires DCTs to copy Ofgem into responses to complaints referred by Ofgem
Business model	...requires DCTs to be clear to consumers how they make money	...requires DCTs to explain their business model if commission-based; and if financial arrangements affect tariffs presented
Coverage	...requires a reasonably comprehensive number of suppliers, including key players (with an expectation suppliers listed cover 90% of subscribers) and of their tariffs	...requires all reasonable endeavours to include all available domestic tariffs (with some exclusions, eg social tariffs) ²⁴⁰
Supplier selection (for	...requires that selection of suppliers is transparent to the auditor and DCTs must not discriminate	... Not applicable - current WotM requirement means DCTs must show all suppliers

²³⁹ For instance, Ofcom has a charging process in place to recoup some costs from DCTs, whereas Ofgem currently bears the costs of administering the scheme and the audits. The nature and frequency of audits also varies across the schemes.

²⁴⁰ As we noted in Chapter 5, Ofgem has been consulting on changing this requirement (see paragraph 5.46).

	Ofcom's scheme...	Ofgem's scheme...
inclusion on the DCT)		
Independence	...requires commercial links and arrangements with suppliers, if any, to be clear	...sets a larger range of requirements, including that DCTs must be independent of suppliers they list

Source: CMA analysis.

8.19 Likewise in financial services, although, where relevant, DCTs must abide by common high-level principles, they must also meet detailed requirements for specific products. For example:

- (a) In consumer credit, if DCTs 'communicate an invitation or inducement' to a potential borrower they must comply with specific rules, including that comparisons must be accurate and presented in a fair, balanced way.²⁴¹
- (b) In insurance, if a DCT carries out certain regulated activities,²⁴² for example where it 'arranges' or 'advises' (eg provides recommendations) on contracts of insurance it must meet specific requirements – for instance, to treat customers fairly (which could mean, for example, taking reasonable steps to ensure that a customer only buys a policy under which they are eligible to claim benefits), explain whether it is financially interested or linked to a given insurer, and provide procedures for making complaints (including the availability of the Financial Ombudsman Service, FOS).²⁴³

8.20 These financial services rules have developed for their specific sectors over time and, since DCTs are only one type of intermediary, have not generally been driven by how DCTs operate. In some cases, these rules cover different factors, which in many cases reflect differences between the sectors.

8.21 As a result the different financial services rules do not necessarily match one another in their details. In addition they do not necessarily cover all the same factors addressed by the two code schemes summarised in Table 8.2 and Appendix 6.

²⁴¹ For consumer credit, the rules are set out in the FCA's *Consumer Credit Sourcebook* (CONC). This is not the only section of the FCA Handbook applicable to this sector, and other regulatory obligations are relevant depending on the circumstances, eg *Dispute Resolution: Complaints* (DISP) sets out the rules and guidance for handling of complaints.

²⁴² The requisite Part 4A FSMA permission for a general insurance intermediary may include the regulated activities of agreeing to carry on a regulated activity, advising, arranging or bringing about deals, making arrangements with a view to transactions in investments and dealing in investments as agent for non-investment contracts.

²⁴³ For non-investment/general insurance, the rules are set out in the FCA's *Insurance: Conduct for Business* (ICOBS). This is not the only section of the FCA Handbook applicable to this sector, and other regulatory obligations are relevant depending on the circumstances.

- 8.22 There is potential for these different approaches to cause confusion for businesses as well as for consumers. In its 2015 report on PCWs, Citizens Advice concluded that ‘...so far, the regulators’ response to improving the functioning of PCWs across markets has been fragmented and disjointed... The lack of a unified regulatory approach to PCWs with specific rules, guidance and varied levels of consumer protection in areas such as remedies and redress, makes it difficult for consumers to effectively and confidently navigate these sites.’²⁴⁴
- 8.23 Given the common themes and objectives between the different approaches, there is merit in considering whether a single set of cross-sector principles could help to ensure that regulators have a clear, consistent and joined-up approach to DCTs, or whether having a common set of cross-sector principles creates any problems for businesses and consumers.
- 8.24 This would be consistent with the recommendation made by the UKRN,²⁴⁵ alongside its report on price comparison websites,²⁴⁶ to consider the risks and benefits of such an approach. We consider further below what cross-sector principles might entail – including the potential to take general consumer protection law as a starting point, and to build on the European Commission’s key principles for comparison tools.

Too prescriptive and not future-proof

- 8.25 In a fast-moving environment, detailed rules can date quickly, and some stakeholders felt this prevented them from adapting their practices to meet what they perceived to be changes in consumers’ expectations or needs.
- 8.26 However, some stakeholders also valued more detailed guidance on how to implement high-level principles in practice, particularly where a product had unique or unusual characteristics. Detailed rules can also help to ensure consistency of presentation between DCTs, although usually only in relation to a single sector.
- 8.27 Some stakeholders thought that high-level principles could allow for greater flexibility while still maintaining a good level of consistency. However, this might need to be complemented by guidance from sector regulators, where the nature of the sector meant that specific guidance was required.

²⁴⁴ Citizens Advice Bureau, *The real deal: how do price comparison websites measure up?*, January 2015.

²⁴⁵ UKRN, *Open letter to the CMA*, September 2016

²⁴⁶ UKRN, *Price Comparison Websites: Final Report*, September 2016.

Boundary issues

- 8.28 The picture on this varies across sectors. It appears not to be an issue in financial services, where regulatory scope is based on the activity a firm is carrying out. We heard different concerns here, relating to the difficulties for a DCT in navigating between the different rules for different types of activity. But at least the boundary is set in a way that means that DCTs appear likely to be regulated on the same basis to those non-DCT firms with which they primarily compete.
- 8.29 In the communications and energy sectors, firms are regulated on the basis of being communications providers and licensed energy suppliers respectively. This means that DCTs are not caught directly. But where DCTs are acting on behalf of suppliers, suppliers may need to place requirements on DCTs, resulting in a possible misalignment between the firm carrying out an activity and the firm responsible for compliance. For example, Ofgem's Domestic standards of conduct require suppliers and any organisations that represent them, such as third party intermediaries like DCTs, to ensure that each domestic customer is treated fairly.²⁴⁷
- 8.30 A specific issue this seems to raise is the risk of DCTs facing numerous different interpretations of the same regulations passed through to them by each different supplier. Alternatively, where DCTs are carrying out an activity which shares some characteristics with activities that are regulated when carried out by suppliers – eg various types of sales and marketing activity – this could result in an asymmetry of regulation and possible gaps in compliance. We are keen to hear views from stakeholders as to the scale and impact of these potential issues.

Insufficient enforcement

- 8.31 The question of enforcement arises both in the context of accreditation and existing cross-sector legislation. In both cases the concerns expressed appear to have some merit. By their nature, voluntary accreditation schemes can only affect behaviour by those firms that sign up to them. In communications, some large broadband DCTs have chosen not to sign up to Ofcom's scheme, so the scheme cannot affect what they do. In energy, most traditional DCTs are accredited, due to the effects described above under

²⁴⁷ Ofgem's licence conditions for domestic energy suppliers include mandatory [Standards of Conduct](#), requiring suppliers to treat consumers fairly. In order to meet their obligations, suppliers must ensure that any organisations that represent them also comply with the relevant standards. Telecoms providers are authorised to provide services as long as they comply with Ofcom's [General Conditions of Entitlement](#). Telecoms providers must ensure that they comply with their obligations even where third parties sell or market their services.

'boundary issues', but not all – for instance DCTs using newer models appear unable or unwilling to sign up, because they do not fit neatly with the scheme.

8.32 In relation to enforcement of cross-sector legislation, the government recently carried out a call for evidence on consumer protection fining powers.²⁴⁸ In its response the CMA highlighted some limitations in the current consumer enforcement regime, which civil fining powers might help to address.²⁴⁹ The views received from stakeholders as part of this study provide further support for proposals to introduce civil fining powers for breaches of consumer protection legislation. In the Spring Budget 2017, the government announced that it will legislate at the earliest opportunity to allow the CMA and other consumer enforcement bodies to ask the courts to order civil fines against companies that break consumer law.²⁵⁰ We will also consider whether other mechanisms might be used to incentivise DCTs to comply with cross-sector principles, for example introducing quality marks or publishing data on complaints.

Actively distorts competition – 'whole of the market'

8.33 Stakeholders' concerns about regulation distorting competition focused on coverage requirements, in particular those relating to full market coverage. Such requirements apply to accredited DCTs in energy and communications, although the latter only with a 'comprehensiveness' requirement.

8.34 As we noted in Chapter 5, we have heard mixed views on whether DCTs should offer full market coverage. Some stakeholders said that full market coverage would benefit consumers and increase their trust in DCTs. DCTs told us that while they seek to be as comprehensive as possible to offer an attractive range of suppliers to consumers, full coverage is often not feasible, necessary or appropriate. DCTs' views can be summarised as follows:

- (a) A requirement for full coverage would have a negative impact on competition between DCTs, which often compete to offer the most comprehensive view of the market.
- (b) Requiring DCTs to offer full market coverage weakens DCTs' ability to negotiate with suppliers.
- (c) The inclusion of all suppliers and products could be difficult or impossible for DCTs – especially in complex markets with many providers. Moreover,

²⁴⁸ Department for Business, Energy and Industrial Strategy, [Terms and conditions and consumer protection fining powers: call for evidence](#), March 2016.

²⁴⁹ CMA, [CMA's response to BIS call for evidence on consumer fining powers](#), May 2016.

²⁵⁰ HM Treasury, [Spring Budget 2017](#) at paragraph 5.9.

even if feasible, including all suppliers would make the comparison process more complex and time-consuming for consumers.

- (d) In some cases, suppliers do not want their brands on DCTs and it would be inappropriate to force them to be listed.
- (e) A requirement for full coverage means that a DCT cannot quality assure the suppliers appearing on its site to ensure they are suitable providers able to match the expectations of consumers.

8.35 In our Energy Market Investigation (EMI)²⁵¹ we considered that the incentives of DCTs to invest in the energy market were undermined by the Whole of the Market (WotM) requirement contained within Ofgem's Confidence Code for DCTs.²⁵² In particular, the WotM requirements required DCTs to list all the prices of all the retail energy suppliers²⁵³ even in the absence of a commercial relationship.²⁵⁴

8.36 In this review, we have been considering whether a WotM requirement undermines DCTs' incentives to enter and invest in relevant sectors and, if so, how.²⁵⁵ Such a requirement potentially:

- (a) Enables all suppliers to receive free exposure on a DCT whether or not they have a commercial relationship with the site – reducing the DCT's ability to earn revenue and a return on investment.
- (b) Shifts the negotiating power towards suppliers, further reducing a DCT's return on investment, with the effect that DCTs are less likely to prioritise energy as a sector for expansion.²⁵⁶
- (c) Reduces the DCT's ability to vet all providers and invest in the switching process, potentially leading to a poor experience for consumers if a

²⁵¹ See para 13.269 to 13.270 in *Energy market investigation: Final report*, June 2016.

²⁵² Ofgem's Confidence Code, '*Compare gas and electricity tariffs: Ofgem-accredited price comparison sites*'.

²⁵³ Subject to certain exclusions; see *Energy market investigation: Final report*, June 2016, paragraphs 13.267 & 13.271.

²⁵⁴ In most other markets, a DCT will only show the suppliers it has a contractual relationship with. While the Ofgem code is voluntary, due to the six large energy firms requiring PCWs to sign up to the terms of the code, it has the effect of being mandatory in the energy market. (See paragraph 7, Appendix 9.3 in CMA, *Energy market investigation: Final report*, June 2016). Ofcom's scheme requires 90% market coverage, which could have a similar impact to WotM. However, DCTs can choose to be part of the scheme and therefore do not have to follow this requirement if they are not accredited.

²⁵⁵ We have considered the impact of WotM in the context of price-based listings. The assessment may change where the DCT's listing is by other measures. In addition, a WotM requirement may potentially replicate the impact of Wide MFNs as it significantly reduces the ability of suppliers to have different prices on each DCT. In the energy market, the four-tariff rule (a requirement that suppliers must offer no more than four core tariffs per fuel type per metering arrangement in any region) also had this impact, but has now been *removed by Ofgem* following the EMI. Harm from wide MFNs is highlighted in Chapter 7.

²⁵⁶ The negotiating power is shifted because the supplier's alternative improves if an agreement with a DCT is not reached, namely that they will appear on the DCT even if they are unable to reach an agreement with the DCT.

particular supplier is not able to offer a good service.²⁵⁷ A poor switching experience could lead to reduced consumer trust in the DCT and a reduction in use of that DCT and more generally all DCTs.

8.37 Where DCTs have reduced incentives to invest and attract consumers, they are less likely to engage consumers, reducing competition on incumbent suppliers. In Chapter 3, we saw that a number of DCTs present in other sectors are only present in the energy sector through white-label arrangements (see Table 3.1) and in Chapter 5 we identified that DCT usage by consumers is lower in the energy sector than in a number of other sectors, such as insurance (see Figure 5.1).

8.38 The main arguments for applying a WotM requirement are that it:

- (a) Improves consumer trust in DCTs because consumers expect to see comprehensive coverage on each DCT.
- (b) Reduces barriers to entry and expansion for small or niche suppliers, by enabling them to appear on DCTs and negotiate lower commission fees and thus provide lower prices to consumers.

8.39 The evidence we have seen so far does not suggest that these benefits are clearly proven or outweigh the potential harm from WotM (or similar requirements). In particular:

- (a) Evidence from our survey suggests that only 11% of DCT users think that DCTs cover the whole market. Furthermore a large majority (82%) consider that the level of coverage is sufficient for their needs (see paragraphs 5.48 to 5.50). In addition, as noted in paragraph 8.36(c) a poorer switching experience for consumers, as a consequence of a DCT not being able to vet suppliers, may lead to reduced consumer trust.
- (b) In the absence of WotM, DCTs are likely to facilitate entry for many providers, including small and niche providers²⁵⁸ and may have further incentives to do so in order to strengthen their negotiating position with larger suppliers (see Figure 7.3).

8.40 We noted in Chapter 5 that about many of the sites we examined in our websweep appeared to be silent on their coverage and those that did explain it did so in varying ways.²⁵⁹ Consumers are likely to value knowing what

²⁵⁷ One DCT told us that a supplier it had to list under the WotM requirement struggled with the volumes that the DCT was providing. They claimed that this contributed to the supplier going out of business.

²⁵⁸ We have observed this in the motor insurance market: See PMI final report, paragraph 8.4.

²⁵⁹ GfK, CMA Digital Comparison Tools Mystery Shopping and Websweep Research Report (forthcoming).

coverage is offered by suppliers, because the aggregation of offers from a number of suppliers is one of the main reasons for using a DCT (see paragraphs 5.12 and 5.13). Our provisional view is that consumer trust and engagement, as well as effective competition, is better achieved by ensuring, where necessary, that DCTs are transparent about their market coverage than by requiring DCTs to provide a particular level of coverage.

Scrutiny of accreditation schemes

- 8.41 Generally speaking, formal regulatory interventions are subject to various forms of review and appeal. Due to their nature, voluntary accreditation schemes are not subject to the same level of formal scrutiny (although regulators must still comply with general principles of public law and may be subject to judicial review). The ability of DCTs to ‘vote with their feet’ and leave a voluntary scheme can allow them to influence its content.
- 8.42 However, despite being ‘voluntary’, in relation to energy the Ofgem scheme tends towards compulsory because suppliers require DCTs to adhere to it in order to ensure their own compliance with Ofgem’s Standards of Conduct. The same risk appears reduced for Ofcom’s scheme, in that major DCTs in the sector appear willing not to sign up.

Next steps

- 8.43 We welcome views on all of the issues addressed in this chapter, including on whether and how we and others might address the concerns raised by stakeholders.
- 8.44 In particular, as we noted, some stakeholders suggested that the regulatory framework exhibits inconsistencies, lacks coordination, is too prescriptive and insufficiently future-proofed. In the open letter to the CMA published alongside its recent report on PCWs, the UKRN commented that ‘...Different approaches to regulating PCWs have emerged across the various sectors. There is value in investigating whether these approaches result in issues for consumers, and whether stronger common standards would lead to more positive consumer outcomes.’ It recommended that we should
- ...consider the extent to which such principles need to be backed by a mechanism that incentivises PCWs to follow them formally (considering the link with existing cross-sector regulations) or informally (for instance through an accreditation scheme or kitemark), as well as the potential risks associated with

establishing common principles for the sector-specific regulators.²⁶⁰

- 8.45 At this stage, we have **not reached a view** on whether such a set of cross-sector principles or another cross-sector approach would be appropriate. However, we set out in the remainder of this chapter some of our initial thinking about the potential implications and in very broad terms what such an approach might involve. Our intention here is to stimulate further discussion.

The potential pros and cons of adopting cross-sector principles

- 8.46 A set of cross-sector principles could involve the replacement of the current voluntary accreditation schemes. This would need to take into account the benefits of retaining the existing approaches. The current Ofcom and Ofgem schemes can offer benefits – for instance, they can encourage good practice amongst DCTs on criteria important to consumers, such as transparency and accuracy. Smaller DCTs may be able to use accreditation to help engagement with large suppliers. There are also discrete aspects of the schemes, particularly around price calculation, where even if principles were adopted there might still be a need to maintain specific and tailored sector guidance.
- 8.47 On the other hand, the existing approaches we have seen tend to focus on current comparison services: there is a risk that requirements based on existing models of comparison may be less flexible in the face of the sorts of developments we discuss in Chapter 9. High-level principles could promote greater consistency while avoiding constraining innovation.
- 8.48 A cross-sector approach would have less impact where regulators have existing powers and detailed rules to regulate DCTs' activities, as is the case in financial services. It might not be possible to apply cross-sector principles to financial services in quite the same way as to other sectors, given that existing regulation covering DCTs also covers other types of intermediary. However, it might be possible to take into account a set of high-level principles when reviewing or applying current rules to DCTs. Such principles could still therefore serve the purpose of helping consumers know what to expect and potentially reducing barriers to entry and innovation.
- 8.49 We identify in Table 8.3 a range of potential risks and benefits from a set of principles that might replace elements of the accreditation schemes and fit with the regulatory approach for financial services. We welcome submissions on these and any other aspects we have not yet identified.

²⁶⁰ UKRN, [UKRN Letter to the CMA](#), September 2016.

Table 8.3 Potential risks and benefits of a cross-sector approach

Potential risks	Potential benefits
<ul style="list-style-type: none">• Potential loss of sector-specific quality marks for small or new DCTs.• May be no third party audit or verification.• Possible inconsistency with other regulatory standards.• Possible loss of sector-specific requirements.• Potential loss of 'soft' policy tools, such as information on energy efficiency.• Possible inconsistent interpretation of how principles should be implemented.	<ul style="list-style-type: none">• Potential for one universal quality mark• Simplification of key requirements and greater clarity for all DCTs – especially multi-sector.• Potential to address multi-utility bundles• Lower regulatory burdens.• Easier to explain to consumers what DCTs should be doing.• Sets common expectations that could drive up standards across all sectors.• More flexible – for instance by focusing on outcomes, rather than prescription.• More straightforward for consumers searching in different sectors.

The potential elements of cross-sector principles

8.50 For cross-sector principles to work and not constrain innovation, they need to be sufficiently flexible to function in a range of markets and for different DCT models. As a starting point we reviewed at a high level the requirements of Ofgem and Ofcom's respective accreditation schemes and the principles for comparison tools developed by the EC (summarised in Appendix 6).²⁶¹

8.51 There are some differences between the EC Principles and the two accreditation schemes. For example:

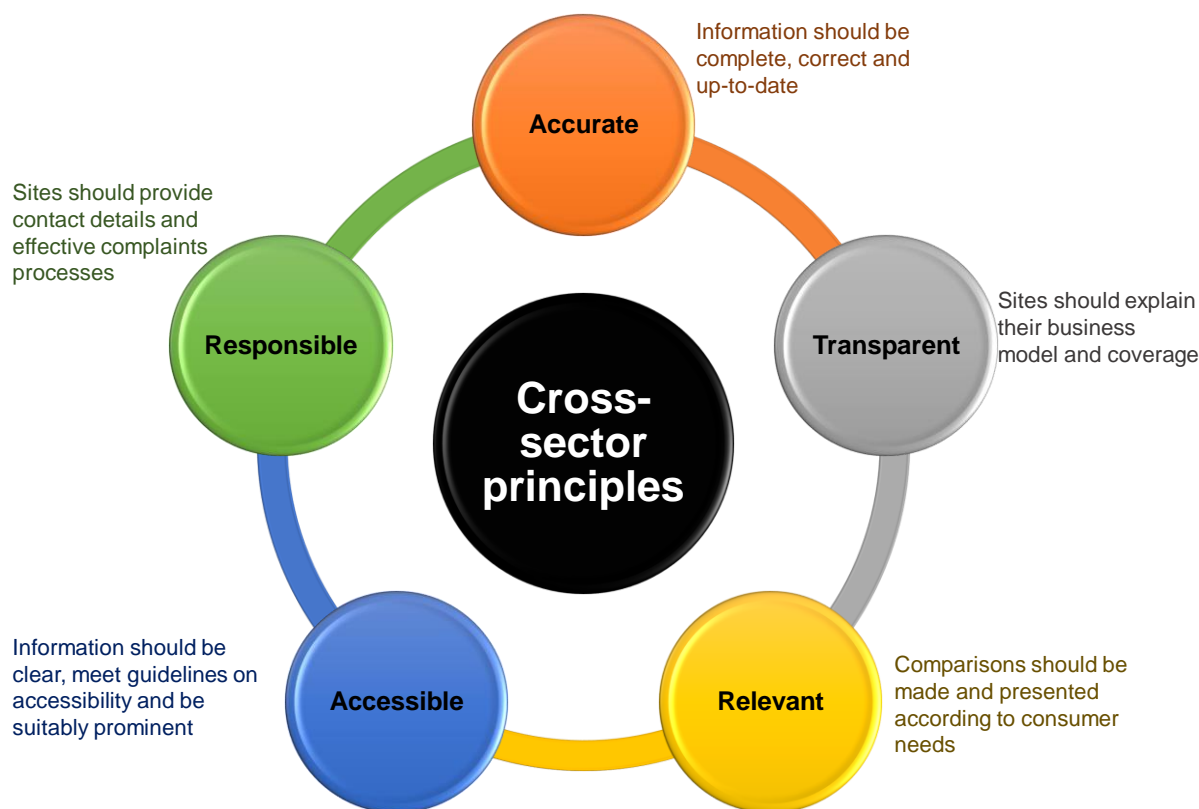
- (a) The EC Principles address some issues not directly addressed by either scheme, such as the need for DCTs to provide contact details, explain their data sources, ensure the trustworthiness of user reviews and be user-friendly.
- (b) Likewise, the schemes include some elements not in the EC Principles. Many of these are sector-specific, such as Ofcom's requirements that DCTs' results must include limits on data usage and that DCTs should link to tools to assess broadband speeds; or Ofgem's requirement that the length of the comparison period defaults to 12 months from the date of comparison. However, the schemes also include some more generic requirements that might fit well with high-level principles – for instance, Ofcom's requirement that assumptions and limitations are clearly set out; or Ofgem's requirement that DCTs provide signposting to independent sources of advice and recognised providers of ratings.

²⁶¹ European Commission, *Key Principles for Comparison Tools*. May 2016.

8.52 Whatever the differences in detail, however, there are also common elements between the EC Principles and the regulators' schemes, as well as elements of the FCA's 11 high-level Principles for Businesses, which would suggest that it should be feasible to introduce cross-sector principles based on the EC ones. In any case, because the EC's Principles reflect the requirements in the Unfair Commercial Practices Directive (UCPD) which has been implemented in the UK through the CPRs, their basis closely mirrors many of the legal requirements on DCTs already in place – including some not directly addressed in the code schemes.

8.53 Our initial analysis, therefore suggests that common cross-sector principles could be based around five themes outlined in Figure 8.1. Such an approach would work alongside and in support of existing mandatory obligations. A higher-level approach would enable the principles to have broad applicability across sectors and types of DCT.

Figure 8.1: Possible themes to use as a basis for cross-sector principles



Source: CMA.

8.54 This could also replace the existing accreditation scheme frameworks summarised in Appendix 6 with a simpler set of requirements, and complement existing sector-specific regulation. A potential set of components of these five themes is set out in Table 8.4. We include these as an initial suggestion to inform the a discussion about the possible contents of cross-

sector principles, were we to conclude in our Final Report that it would be appropriate to take them forward. We particularly welcome comments on what such a set of principles might cover.

Table 8.4: Possible components of a cross-sector principles approach

Accurate	<ul style="list-style-type: none"> • The offer information should be complete. • All offer information (price or otherwise) should be correct and up-to-date. • Inaccuracies should be addressed promptly. • Differences in offers and possible additional costs should be explained clearly. • Promotional offers should be clearly explained. • Assumptions and limitations should be clearly set out.
Transparent	<ul style="list-style-type: none"> • Sites should clearly explain their business model on their home page – including if they receive commission. • Sites should explain their ownership (whether they owned by a supplier or own suppliers) – including if they compare products from their owners or the companies they own on their pages. • Consumers must be informed when financial relationships or arrangements affect the presentation of results. • Sites must prominently explain their default ranking criteria. • Sites must explain their market coverage for each sector they cover.
Relevant	<ul style="list-style-type: none"> • All advertising, endorsements and promotions, should be clearly identifiable. • Users should be asked questions to ensure comparisons relate to their needs. • The results presented should be relevant to consumer's needs. • Users should be able to personalise results by filtering, sorting or both.
Accessible	<ul style="list-style-type: none"> • Sites should present information in a user-friendly way. • Sites should follow international guidelines on accessibility. • Results should be presented in simple language with key terms explained.
Responsible	<ul style="list-style-type: none"> • Sites to be transparent about how personal data is collected and used. • Sites to explain and ensure the trustworthiness of user reviews and ratings. • Sites should display contact details, including postal and e-mail address. • Sites should provide easy-to-find information on how to complain. • Sites should run a speedy and efficient complaint handling system, with the option for alternative dispute resolution.

8.55 We would also consider how this approach could be aligned with data protection requirements and developments, as well as the role of the ICO. We will continue to liaise with the ICO in the next stage of the study.

8.56 In addition we will also need to consider how the principles would fit with existing sector-specific legislation, for example in relation to financial services.

Options for enforcing cross-sector principles

8.57 Regulations, rules, accreditation schemes or any other approach are only effective if firms have incentives to adhere to their requirements and there are means to ensure compliance. In Table 8.5 we set out a range of possible approaches that could be used to introduce a set of cross-sector standards.

8.58 These are not mutually exclusive, and there might be benefits from adopting more than one approach. For example, a self-regulatory scheme based on a set of principles could be a way for suppliers to communicate adoption of

good practice, whilst regulators with concurrent consumer enforcement could use those same principles to base and prioritise enforcement action. Again, we welcome views on these and other options.

Table 8.5: Possible approaches to enforcing cross-sector principles

Possible approach	Explanation	Questions/issues for consideration
Sector-specific statutory regulation	DCTs already fall within the scope of some sector-specific legislation when they carry out certain activities, but in others sector-specific legislation only applies to suppliers.	Altering regulators' scope would need legislation
Regulation by reputation	Review of DCTs' adherence to the principles by an independent third party, and publication of the results, both to drive compliance and help consumers choose DCTs.	Who would act as the independent third party, and how would this be paid for?
Self-regulation	A public commitment from industry players, particularly the largest DCTs, to stick to the principles.	Such schemes are often facilitated by a trade body, which does not exist for DCTs. What are the incentives for compliance and how would they be enforced?
Chartered Trading Standards Institute (CTSI) approved consumer codes	A form of facilitated self-regulation with a code subject to review by CTSI and consumer groups. 'Approved traders' able to use CTSI branding.	As with other forms of self-regulation there would need to be a code sponsor.
Consumer enforcement	Regulators and the CMA could enforce against the CPRs, using the principles as guidelines to the sector (as the current European Commission principles are to the UCPD).	Would this act as a sufficient deterrent?
Cross-sector accreditation	Potential combining of Ofcom and Ofgem schemes and expansion to include other regulated or unregulated sectors.	Who would run and fund an enlarged scheme and would there be incentives to comply?
British Standard and/or Kitemark	Development of (i) a British Standard that DCTs can adopt and be certified for compliance by a third party or (ii) the ability on certification to use a British Standards Institution Kitemark.	How would the cost of development be borne and what would appetite for uptake be?

Source: CMA.

8.59 Other practical issues that would need consideration include:

- (a) How to apply principles where **DCTs may not be able to meet them for reasons beyond their control**. For example, we noted in Chapter 6 how DCTs do not always have access to important information (eg broadband speeds), or may be reliant on suppliers to provide accurate and up-to-date information.

- (b) The **coverage** of the principles – in terms of to which sectors and which types of DCTs they would apply. For example, whether they would be relevant to all the regulated sectors; whether they would be extended to sectors outside our scope for this study (such as retail DCTs); and whether they would apply to all forms of DCT (including non-digital comparison tools, such as phone comparison services).
- (c) Who would **develop and have eventual ‘ownership’** of the principles – in terms of promulgating and promoting them; and ensuring they remain appropriate as new technologies and business models emerge.

8.60 We welcome parties’ comments on these issues. We will be exploring them further with stakeholders, including sector regulators, in the second phase of our study.

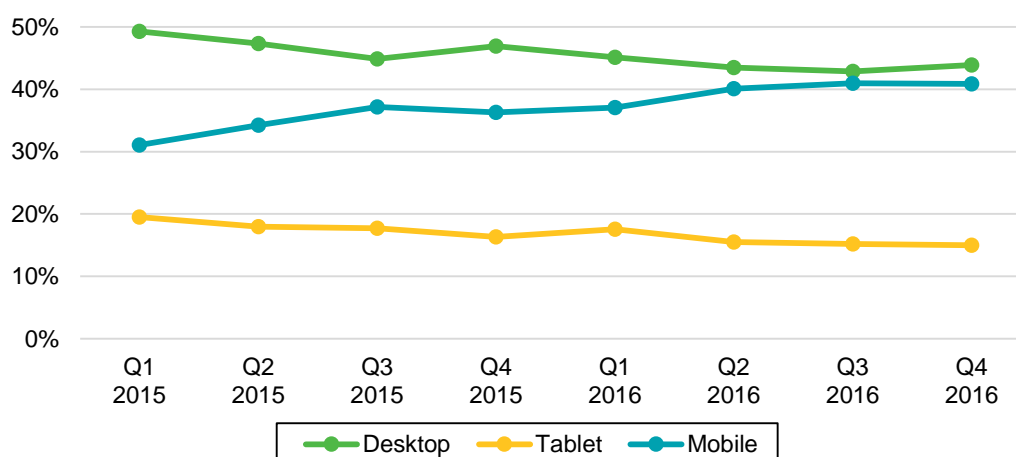
9. The future of DCTs

- 9.1 It is important that our review of DCTs, and in particular any proposals for steps we or others might take, should be informed not just by how DCTs operate in 2017, but by potential future developments. These could affect possible policy responses to any issues we identify through the study.
- 9.2 Some newer models of DCT are already on the market, so we might expect to see their impact in the fairly immediate future. Beyond that a variety of technological developments appear likely to have an impact on the DCT landscape, but the nature of that impact is less certain.

The immediate future

- 9.3 In Chapter 3 we described a variety of DCT models, from best buy tables to concierge and automated switching. After a number of years of promise, we are now seeing DCTs in the market which are closer to the latter model. Many of these appear in energy to date: for instance Flipper,²⁶² AISwitch,²⁶³ Saveawatt (in New Zealand),²⁶⁴ and Voltz.²⁶⁵ They have yet to achieve significant market penetration, so their impact remains uncertain but may become more apparent in the relatively near future.
- 9.4 Our analysis of traffic data provided by DCTs has found that even over a period of two years that there has been a notable upward trend in the use of mobile devices (Figure 9.1).

Figure 9.1: Device usage 2015-2016



Source: CMA Analysis of DCT traffic data from 11 DCTs.

Note: Data relates to visits to relevant broadband, credit card, energy, flights and home insurance sections of websites.

²⁶² [Flipper's website.](#)

²⁶³ [AI Switch's website.](#)

²⁶⁴ [Saveawatt's website.](#)

²⁶⁵ [Voltzapp's website.](#)

- 9.5 We expect the upward trend in mobile use will continue, but the possible limitations of screen size may constrain usage and support the use of multiple devices as part of shopping around. Similarly, the increasing blurring between device form factors (illustrated in Figure 9.2) and mode of input means that the distinction between device types will reduce over time.

Figure 9.2: Device form factors: mobile, phablet, tablet, desktop and hybrid/2-in-1



Source: CMA.

- 9.6 We explored possible future developments in workshop discussions with stakeholders. Many of the points mentioned are in fact already having an impact. For instance increased use of mobile interfaces or the role of Application Programme Interfaces (APIs) in enabling easier data sharing.
- 9.7 Underlying changes in supply markets may of course also have an impact on comparison services, often involving increased complexity in one way or another. For instance time-of-use tariffs in energy, or consumers generating their own energy and feeding into the grid, or pay as you go pricing or telematics in insurance.

Looking further ahead

- 9.8 There are a variety of broader digital technology trends which look likely to have an impact on the way comparison services are offered. Some particularly relevant trends include:
- (a) **Alternative interfaces.** Search and advertising driven by cloud-based processing and storage, voice recognition and processing of natural speech, facilitating faster, easier interaction by consumers compared to traditional keyboard or touchscreen input.
 - (b) **Automated advice/decision-making.** Use of artificial Intelligence (AI), machine learning, cloud deployment, new device capabilities, wearables, telematics and software agents; allowing for recommendations, 'robo-

advice', service combination, decision-making algorithms, setting personalised requirements and enabling automated purchases.

- (c) **Increasing personalisation.** User registration, profiles and device fingerprinting²⁶⁶ allowing consumer journey enhancement and delivery of targeted advertising when using DCTs across multiple devices.²⁶⁷
- (d) **Big data.** Consumer profiling, leveraging the storage of large amounts of previous transaction or monitoring consumption via buy buttons, bar code scanning or radio frequency tags²⁶⁸ combined with personal data. Real-time sensor data facilitated by the Internet of Things; data 'exhaust trails' left by browsing history, data dispersion facilitated by data sharing, smart meters and Open APIs.

Possible implications

9.9 The implications of these changes could be felt in a number of ways. Some of the possibilities are illustrated in Table 9.1 below, inevitably in a somewhat speculative way. We would welcome input from stakeholders, and plan to devote more attention to these issue in the second part of our study.

Table 9.1: Themes for further consideration

Theme	Implications/questions
Consumer engagement	<ul style="list-style-type: none"> • Could more automated/proactive DCTs enable greater engagement among otherwise inactive consumers? • But what if more sophisticated models always leave behind those considered vulnerable, who might stand to gain the most?
Transparency	<ul style="list-style-type: none"> • How to ensure consumer understanding as services get more complex, and interfaces potentially less suited to detailed disclosure (eg voice activation)? • How can consumer understanding be ensured if comparisons are driven by complex and/ or proprietary algorithms?
Input requirements	<ul style="list-style-type: none"> • Will greater complexity of comparison be supported by better availability of information inputs? • Will DCTs generate sufficient levels of trust in use of consumers' data to enable the provision of more personal information?
Switching	<ul style="list-style-type: none"> • Will data portability be sufficient to enable easy switching between 'concierge' services, in the context of highly personalised services based on in-depth understanding of each consumer's requirements? • What if inertia shifts from supply markets to intermediary markets?
Regulation	<ul style="list-style-type: none"> • How can regulation stay flexible to shifting DCT models? • Will it be possible to distinguish between 'comparison' and 'advice'? • How can regulation avoid becoming a barrier to innovation?

Source: CMA.

²⁶⁶ Data such as device type, operating system, apps, and IP address is collected to create a digital fingerprint.

²⁶⁷ Federal Trade Commission, *Cross-Device Tracking: A Federal Trade Commission Staff Report*, January 2017.

²⁶⁸ Used for anti-theft, store, dispatch and inventory control.

10. Next steps

Introduction

- 10.1 As indicated in Chapter 1, we have decided not to make a market investigation reference at the end of this market study.²⁶⁹
- 10.2 In the second part of the study we will continue to develop the analysis set out in this document, to refine our understanding of DCTs' role in the markets where they operate. In particular, we are likely to increase our focus on two issues: the impact of possible future developments in DCT models, and the effects of DCTs on people who do not use them, particularly more vulnerable groups.
- 10.3 We are considering whether there are steps that either we or others should take in order to increase the benefits that DCTs are able to deliver. These fall into four categories:
- (a) Maximise consumer confidence and build trust.
 - (b) Improve DCTs' access to necessary inputs.
 - (c) Make competition more effective.
 - (d) Refine regulation.
- 10.4 In this chapter we explore each of these areas in turn.

Consumers

- 10.5 In Chapter 5, we set out our emerging findings that despite high levels of awareness, usage and satisfaction on the part of many consumers, there are sizeable proportions of consumers that may be missing out on the potential benefits of using DCTs effectively, or at all, for a variety of reasons. We plan to consider this further – including the extent to which some consumers may be in vulnerable circumstances.
- 10.6 We identified a set of concerns on the part of some DCT users about how comparison sites use their data and extent to which consumers can feel in control of this. Our review suggests room for improvement in how DCTs explain this to consumers and offer control over how their data is shared.

²⁶⁹ See CMA, [Market study into digital comparison tools - notice of decision not to make a market investigation reference under section 131 of the Enterprise Act 2002](#), March 2017.

- 10.7 We also found there appeared to be areas where sites could improve their transparency – particularly around their market coverage, business models and ranking methods; as well as in how they explained their redress policies.
- 10.8 We are considering two possibilities: first, consumer enforcement cases, and second, ways in which regulation could be used to improve consumer confidence:
- (a) On the first, we will review the case for action, if we have reason to believe that there is a risk of consumers being misled.
 - (b) On the second, we will consider whether there are steps that could be taken to refine regulation and enforcement, to improve industry practice (for example in relation to transparency or data use) in a way that increases consumers' confidence, without unduly constraining DCTs' abilities to deliver benefits to consumers.
- 10.9 We invite comments on our proposed approach. We have also set out in Chapter 11 some specific questions to which we welcome responses.

DCT inputs

- 10.10 In Chapter 6 we identified a number of inputs that DCTs need in order to be able to operate effectively. We have identified a number of examples either where DCTs experience barriers to providing relevant and accurate comparisons or where the consumer journey is impaired.
- 10.11 In the second half of our study we will continue to liaise with stakeholders to identify the extent to which the issues raised affect the ability of DCTs to deliver good market outcomes. We will also continue our engagement with government and regulators to discuss ongoing initiatives that might address the issues we have identified.

Competition

- 10.12 In Chapter 7 we considered how DCTs compete to attract consumers and gave an overview of the competitive constraints they face, with a particular focus on negotiations between DCTs and suppliers. We found that the general balance of negotiations between suppliers and DCTs varies by sector and we also found that in each of our case study sectors, except for flights, one DCT, but not always the same one, accounts for a significantly larger proportion of sales than other DCTs.

10.13 We then gave an overview of contract terms we had observed between DCTs and suppliers that could limit the strength of the competitive constraint on DCTs (wide and narrow MFN clauses). Finally, we considered agreements and practices we had heard about that could limit DCTs' effectiveness to bring benefits to consumers ('hollowing out', non-brand bidding and negative matching agreements and non-resolicitation agreements).

10.14 In the second half our market study we will do further work to understand the competitive constraints that DCTs face and the impact of the agreements and practices that could limit competition or DCTs' effectiveness. We invite further views and evidence from stakeholders to assist us with this. We are particularly interested in exploring the following areas:

(a) Competitive landscape and negotiations between DCTs and suppliers:

- (i) We would like to explore in more detail the reasons why specific DCTs are particularly strong in each of our case study sectors. We are especially interested in understanding how DCTs are competing to grow their business in sectors where they appear to be relatively small. We would also like to understand whether there are any significant barriers to expansion into providing comparison services in particular sectors for DCTs which are established players in other sectors.
- (ii) We would like to understand better the importance of DCTs' brands for consumers and the strength of consumer loyalty.
- (iii) We are planning to gather further evidence on suppliers' acquisition costs across different sales channels and the cost of replicating 'DCT traffic' on other sales channels.

(b) Wide and narrow MFN agreements:

- (i) We would like to understand whether wide and/or narrow MFN agreements between DCTs and suppliers are in place outside our case study sectors, and any impact that these have.
- (ii) We will do further work to understand the prevalence and impact of these agreements in our case study sectors, including the potential harm from these agreements and any efficiencies.
- (iii) We are interested in exploring any evidence of narrow MFNs replicating the effects of a wide MFN in practice, relating back to our assessment of the conditions required for this to be a likely outcome (Chapter 7 and Appendix 5).

- (iv) We are also interested in receiving further evidence on the impact of the removal of wide MFNs in the private motor insurance sector.
- (c) Unbundling and hollowing-out:
- (i) We would like to receive evidence and specific examples on whether the offering of suppliers in terms of, for example, product features and/or product mix, has changed over time in our case study sectors. In particular, we are interested in hearing stakeholders' views on whether changes have happened as a result of DCTs and how these changes have affected consumers.
 - (ii) We would welcome stakeholder views, supported where possible by evidence, on DCTs' commercial rationale for adding customer reviews and supplier and offer ratings to their comparisons, and the impact of such reviews and ratings.
 - (iii) We would like to understand what needs to be in place to prevent or mitigate any harmful impact of unbundling or hollowing out and how DCTs can contribute to this.
- (d) Non-brand bidding and negative matching agreements:
- (i) We plan to assess further the evidence we have received on advertisers' incentives to engage in brand bidding and the nature, exact terms and coverage of non-brand bidding and negative matching agreements.
 - (ii) We would welcome stakeholders' views on the commercial rationale for any such agreements and their commercial and competitive impact (including their impact on advertising costs and, in turn, the prices paid by and services offered to consumers).
- (e) Non-resolicitation agreements:
- (i) We would welcome submissions, supported where possible by evidence, in relation both to our case study sectors and more generally, on the commercial rationale for such agreements. We are particularly interested in any potential efficiency justifications for non-resolicitation agreements which go beyond the initial fixed-term contract.
 - (ii) We would like to understand, both in our case study sectors and more generally, the commercial and competitive impact of such

agreements, in particular relating to the importance and impact of re-solicitation on consumers' ongoing engagement.

10.15 On the basis of this further analysis, we will consider whether we should launch competition law enforcement cases in any of the areas we are looking at, as well as whether there are other steps that could be taken to make competition more effective.

Regulation

10.16 In Chapter 8 we outlined a range of stakeholder concerns about the current nature of DCT regulation. We are keen to hear parties' views on the issues addressed and any others not yet raised.

10.17 With DCTs operating across sectors and consumers able to do the same, there may be an argument for considering greater consistency; however, there may be good reasons for some differences, due to the distinct features of certain products across sectors. A key question becomes whether it is possible to arrive at DCT-specific cross-sector principles that might replace the existing voluntary accreditation schemes while complementing sector-specific legislation. These would need to be capable of being applied across sectors, while not being so high-level as to be ineffective or too hard to interpret. There is also a supplementary question about how to enforce something like this if there are limited existing powers covering DCTs.

10.18 We are therefore keen to gather further views from stakeholders to understand better the risks and benefits of developing a cross-sector approach to developing DCT standards, as well as the potential elements of such a set of principles and how they might be enforced. In Chapter 11 we ask a series of questions to this end.

10.19 In our Final Report, we expect to reach a view on whether a cross-sector approach for DCTs is appropriate, and if so its potential format and the routes for enforcement. If so, we would consider how it might be developed and implemented and who would be best placed to take this forward.

Possible outcomes

10.20 These steps could involve a combination of competition and consumer enforcement cases, recommendations to regulators and/or government, and working with firms in the sector. This could be done either through this project or as a result of considering further action.

- 10.21 A possible outcome from a market study is a reference for a market investigation – ie a more detailed examination of the market lasting up to 18 months. In order to make a reference we must have reasonable grounds for suspecting that any feature, or combination of features, of a market or markets in the UK for goods or services prevents, restricts or distorts competition in connection with the supply or acquisition of any goods or services in the UK, or part of the UK.
- 10.22 If this test is met, the decision on whether to make a reference rests on the exercise of the CMA's discretion. CMA guidance on market investigation references sets out four criteria that must be met before we decide to make a reference:²⁷⁰
- (a) alternative powers – whether it would not be more appropriate to deal with the competition issues identified by applying CA98 or using powers available to the CMA or, where appropriate, to sectoral regulators;
 - (b) proportionality – whether the scale of the suspected problem, in terms of its adverse effect on competition or customer detriment arising from it, is such that a reference would be an appropriate response to it;
 - (c) availability of remedies – whether there is a reasonable chance that appropriate remedies will be available; and
 - (d) undertakings in lieu – whether it would not be more appropriate to address the problem identified by means of undertakings in lieu of a reference.
- 10.23 In this case, even if the reference test were met, any consumer detriment can be better addressed through alternative measures, as set out in this chapter. A market investigation is not appropriate in this case. We have not reached a firm conclusion as to whether the reference test has been met.

Consumer confidence

- 10.24 It may be appropriate to take action under consumer protection regulations, or to recommend changes to regulation as a tool to improve consumer confidence.

²⁷⁰ OFT, now CMA, *Market investigation references; guidance about the making of references under Part 4 of the Enterprise Act*, March 2006.

Inputs to DCTs

- 10.25 The evidence we have received to date indicates there are currently barriers to effective comparisons with respect to access to data of various kinds. However, we understand from regulators that at least in some cases there is work in progress which may reduce or eliminate these barriers.
- (a) The Digital Economy Bill is expected to give Ofcom greater information-gathering powers and could support for example wider availability of broadband speed data, including to DCTs;
 - (b) In financial services, the FCA is working with insurers and DCTs to improve availability of information on general insurance add-on pricing, and cross-sector work is also being undertaken by the industry to develop improved quotation search tools for credit cards.
- 10.26 As outlined we will reflect further on barriers to effectiveness and possibly identify a framework to support decisions on when intervention by regulators might be necessary. This could involve drawing on our focus sectors as well as others – payday lending for example – to illustrate the circumstances in which it might be desirable to improve inputs to DCTs, and how this could be done.

Competition issues

- 10.27 Most of the specific issues we are investigating further relate to contracts between suppliers and DCTs, which means that a combination of advocacy work and competition enforcement is likely to be the most appropriate means to make progress.

Regulation

- 10.28 We have been working closely with the sector regulators, and plan to continue to do so in order to examine any possible steps in this area, as well as potentially involving other bodies and key industry players. At its most formal this could involve recommendations to regulators or government.

11. Our key questions

Invitation to comment

11.1 We welcome submissions on any of the issues we address in this update paper from interested parties by no later than **5pm on 24 April 2017**. We would particularly like to hear views, supported wherever possible by evidence, on the following themes:

- (a) What DCTs do and the benefits they can offer.
- (b) Consumers' views on and use of DCTs.
- (c) Inputs to DCTs.
- (d) Competition between DCTs and between DCTs and the suppliers whose services they compare.
- (e) Regulation of DCTs.
- (f) The future of DCTs.
- (g) The focus of the second part of the market study.

11.2 In addition to general submissions, we particularly welcome responses to the questions in Box 11.1. Respondents are welcome to address some or all of these questions.

Box 11.1: Key questions

Consumers

1. Should we focus our attention on the consumer groups we identify in Chapter 5 (see paragraphs 5.82 to 5.95) and if not, what groups should we focus on?
2. In which sectors do DCTs not currently play a major role but could in principle offer substantial benefits to consumers? Why have they not become established in these sectors?
3. How has the growing use of DCTs affected suppliers' offers to consumers who do not use DCTs in our case study sectors and more broadly? What impact have DCTs had on suppliers' ability to discriminate between active and inactive consumers? What are the implications for vulnerable consumers?
4. What factors, if any, have we missed that may be holding back consumers from using DCTs?

5. What, if anything, should be done about consumers' concerns about data sharing and the extent to which they feel in control?
6. What actions, if any, are needed to improve the way consumers use DCTs – including multi-homing and using DCTs' functionalities such as filtering and ranking?

Inputs to DCTs

7. Have we captured the range of issues that might prevent DCTs from operating effectively?
8. Do the issues identified materially affect DCTs' ability to operate effectively and deliver good consumer outcomes?
9. Are current or planned initiatives sufficient to address the issues found?

Competition

DCTs' market position and barriers to entry and expansion

10. What explains the strong position of a specific DCT in each of our case study sectors? What do DCTs do to grow their business in sectors where they appear to be relatively small compared to the leading DCT of the sector?
11. What are the barriers, if any, for DCTs to enter or expand into sectors where they currently do not provide comparison services or where they are currently relatively small?

Agreements between DCTs and suppliers

12. What has been the impact of the removal of wide MFNs in the private motor insurance sector?
13. What has been the impact of narrow MFNs in the sectors where we have observed them (home insurance, private motor insurance, credit cards, broadband and flights)?
14. What is the commercial rationale for the non-brand bidding and negative matching agreements we have observed (in all of our case study sectors) and what is their commercial and competitive impact?
15. What is the commercial rationale for the non-resolicitation agreements we have observed (in home insurance and energy) and what is their commercial and competitive impact?
16. In which other sectors, if any, are (i) wide or narrow MFNs; (ii) non-brand bidding or negative matching; or (iii) non-resolicitation agreements in place? What impacts do they have in these sectors?
17. Are there any other agreements in place that may affect the effectiveness of DCTs and/or the effectiveness of competition between DCTs (and competition between DCTs and other sales channels)?

Unbundling and hollowing out

18. How has the growth of DCTs affected product features and/or the product mix in our case study sectors over time? What specific evidence/examples indicate these changes?

19. How widespread is the use of product reviews and ratings on DCTs and what has been the impact, if any, of the use of these tools?

20. What needs to be in place to prevent or mitigate any harmful impact of product unbundling or hollowing out and what can DCTs do about it?

Regulation

21. What are your views on the issues we list in in Table 8.1 and at paragraphs 8.13 to 8.42 of Chapter 8 and how could they be addressed?

22. What is the balance between potential benefits and risks in introducing a cross-sector approach? What would be the most effective approach(es), and why?

23. How could a cross-sector approach interact with existing regulatory frameworks?

The future of DCTs?

24. What future developments outlined in Chapter 9 are likely to have the greatest impact in driving engagement? If there are any important developments we have missed, what are they and why are they important?

25. What future DCT-related technologies might affect or assist vulnerable consumers?

How to respond

11.3 To respond to this invitation to comment, please either:

(a) complete our online response form – see the link to this on our [website](#). This is ideal for people who have specific brief and non-confidential points to make or do not wish to attach documents to their response; or

(b) complete and email or post to us the response form found on our [website](#). Responses by post or email are most suitable if you wish to include supporting charts, tables or other evidence as part of your submission, or where your response includes material that may be confidential.

Submissions by email or in writing should be made to:

Email: comparisontools@cma.gsi.gov.uk.

Post: Digital Comparison Tools Market Study
Competition and Markets Authority
7th floor
Victoria House
37 Southampton Row
London WC1B 4AD

- 11.4 Please respond by no later than **5pm on 24 April 2017**.
- 11.5 We intend to publish responses to this update paper in full. In providing responses:
- Please supply a brief summary of the interests or organisations you represent, where appropriate.
 - Please consider whether you are providing any material that you consider to be confidential, and explain why this is the case. Please provide both a confidential and non-confidential version of your response.
- 11.6 If you are an individual (ie you are not representing a business), please indicate whether you wish for your response to be attributed to you by name or published anonymously.
- 11.7 An explanation of how we will use information provided to us can be found on our [website](#).