



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

28th April 2017

Submission via email: comparisontools@cma.gsi.gov.uk

Digital Comparison Tools Market Study

Dear DCTs Market Study Team,

Thank you for the opportunity to respond to the update paper on your work to date on the DCTs market study.

Please find to follow our responses to a selected number of questions.

If you have any questions or would like to discuss any aspects of our response, please do get in touch.

Yours sincerely

Emma Piercy
Senior Regulatory & Policy Manager



Digital Comparison Tools Market Study: Update Paper - Response form

Your details

*(Fields marked * are required)*

Title*	Mrs
---------------	-----

Forename	Emma
-----------------	------

Surname*	Piercy
-----------------	--------

Email*	
---------------	--

What is your role / profession*	Senior Policy & Regulatory Manager
--	------------------------------------

Are you representing yourself or an organisation?*	An organisation
---	-----------------

If you are representing yourself rather than an organisation would you be content for us to include your name when we publish your response?*	Yes / No <i>(please delete as appropriate)</i>
--	---

If you are representing an organisation:

(a) What is the organisation's name?*	First Utility
--	---------------



(b) Please could you briefly explain the role of your organisation, including the sectors in which it operates or has most interest?*

We are the largest independent supplier to domestic gas and electricity customers in Great Britain, with approximately 900,000 customers.

Answers to selected questions

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?

At First Utility, our customers are by default already much more engaged consumers as all of our customers at one stage have switched to us or another supplier away from the incumbent utilities. The use of DCTs has proved an important acquisition route for us, but we also seek to develop other acquisition channels in order to engage other customer segments.

Regarding consumers who do not use DCTs, these may typically be those on the 'Standard Variable Tariff' with regards the Big 6. However for independent suppliers, the SVT is a transitional tariff which customers are on for only a matter of months before choosing another fixed tariff, once their current one has expired – at any one time, we have approximately 18% of customers on this tariff. This is in contrast to the Big 6, where the average level is around 70% as identified by the CMA during their EMI investigation. In the Big 6, this vast base of inactive customers, where SVT tenure for some is even over 10 years, has led to a practice of deep discounting and aggressive acquisition tariffs. Whilst this has benefited active customers, this has been to the detriment of inactive consumers. This is particularly acute for vulnerable consumers on the SVT who may be unaware of the options available to them and who are also less likely to be engaged in the first place. This is why we have called for all consumers in receipt of the Warm Home Discount (**WHD**) to be automatically placed onto their supplier's cheapest fixed tariff.

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?



Within energy, ranking on the DCTs is based on price. The absence of alternative options on filtering and ranking mean that other factors that can inform the overall value of a 'package' are not included. Whilst we recognise that there is the current range of discounts (e.g. those permitted under RMR rules), which many suppliers offer, other discount types and approaches may now be developed post the CMA investigation. What is key is to make sure that consumers understand the full value of a tariff with all the benefits and discounts that can come with it: if this cannot be effected, customers could lose out. We would therefore welcome more flexibility in this area which will be very important as the market develops new products. For example with Time-of-Use tariffs, it is likely to be difficult to include these in the standard price rankings that we see to date on DCTs.

8. Do the issues identified materially affect DCTs' ability to operate effectively and deliver good consumer outcomes?

Yes – and the most significant influence of suppliers' use and choice of DCT is that of regulation. In the periods of time where Whole of Market (**WofM**) is mandated, there is less drive to enter into a commercial agreement as a supplier will be getting publicity without one. Furthermore, the WofM requirement undermines the revenue streams of PCWs and thus undermines investment into this valuable route to market. We therefore support the CMA's conclusions around lifting the WofM requirement in the energy sector and view Ofgem's proposal of providing consumers a choice between 'partial' and 'full market' view as an important interim step. Of utmost importance is transparency to the consumer – as long as consumers are made aware of what is / is not in the rankings then shown, consumer's expectations and outcomes will be met. Likewise this will help suppliers to meet their obligations under the proposed changes to the Standards of Conduct in the Supply Licence requiring energy customers to be given information that will enable them to make fully informed decisions.

9. Are current or planned initiatives sufficient to address the issues found?

First Utility supports the conclusions of the CMA's EMI, however given the implementation timeframe, more could be done for disengaged consumers in the shorter term. With a focus on vulnerable customers particularly the fuel poor, all of those on the SVT, but in receipt of the WHD, should be placed onto their suppliers' cheapest fixed tariff. This could be extended to all consumers on the SVT for three years or more as a one-off tariff reset, and would engage consumers in the Fixed Term Expiry communication process which we see as an effective engagement tool.



A further issue to address is around the challenges of an appropriate comparability measure for tariffs. Whilst this will become more complex as the range and amount of tariffs increases, we do not think that enabling DCTs to develop separate methodologies, to each other and to suppliers, is likely to be effective as a means of enabling customers to better understand the impact of available offers on them. We see the most effective method as ensuring that suppliers and PCWs be consistent in how each calculates estimated annual costs across all tariffs and for all customers using the same, albeit amended, methodology, along the lines of the provisions in the pre-2015 code.

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?

Since the commercial model of DCTs is based upon earning commission on every switch, it is in the DCTs interest for customers to change suppliers as frequently as possible.

As noted under Question 6, the absence of alternative options on filtering and ranking mean that other factors that can inform the overall value of a 'package' are not included. Hence, the ranking is based on price alone for the year ahead – with 1 year fixed tariffs (which are also the shortest in term) leading the table. It is in the DCTs interest to maintain this, but it is not necessarily the best outcome for customers. Furthermore, the greater level of churn increases the costs incurred by suppliers in terms of commission, and an increase in overall commission costs will be reflected in tariffs over time.

The use of non-solicitation agreements seeks to address these issues in part by restricting the ability of DCTs to solicit customers whilst they are still within contract.

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

When setting principles for a cross-sector approach, it is important to reflect on the different sales processes / requirements of the different sectors. Whereas for energy the required data input is relatively minimal and straightforward, this is very different for insurance products. As a result DCTs level of involvement in the actual sales process varies to reflect this complexity – from completing the sale on behalf of the supplier in energy, whereas in insurance, passing the customer to the insurers website to complete the sale: the level of responsibility the DCT takes on in respect of sales compliance can therefore vary between sector.

As a result, most energy suppliers require DCTs to be signatories to Ofgem's Confidence Code. Suppliers can then have a degree of confidence that standards are being met,



although concern does remain as suppliers ability to undertake sales compliance monitoring on this acquisition channel is limited. It is certainly the case for energy, that a consistent approach in how DCTs manage sales compliance and how this is reported back to suppliers for monitoring, would be very helpful for all stakeholders (suppliers, DCTs, regulators). Suppliers need to have confidence that obligations are being met in order for the sales channel to keep operating and be effective. This reflects the supply licence conditions around treating customers fairly (SLC 25C) which ‘applies to all activities of the licensee and any Representative which involve, or otherwise relate to, dealings with a Domestic Customer’.

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

Within the energy industry, there is movement towards the creation of an industry-wide Priority Services Register (**PSR**). The Energy Networks Association has a ‘Safeguarding Customers Working Group’ which reports to Ofgem and is making progress in this area. Facilitated by the Digital Services Bill currently underway, the sharing of PSR data will mean that on switching, customers would not have to register for PSR again. This will help make sure there is no gap in service provision on change of supplier, making the switch easier (and encouraging others to follow suit), simply by not requiring such vulnerable customers to re-register on the PSR with their new supplier.

On a cross-sectoral basis, the UK Regulators Network is considering vulnerability, in particular Ofwat and Ofgem. This is a welcome initiative, but it will be important to acknowledge that vulnerability for one service may not be so for another given the services involved and the means of accessing them, the wider definitions of vulnerability and discretion amongst participants applying principles based regulation. In this context, technology should not lead to a reductive default in place of an individualised approach as mechanisms such as data sharing should not prevent suppliers from considering these questions afresh per service.