

Digital Comparison Tools Market Study:

Update Paper – Response from Direct Line Group plc

Your details

*(Fields marked * are required)*

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What is your role / profession*	Senior Legal Counsel, Competition & Anti-Bribery
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?*	N/A

If you are representing an organisation:

(a) What is the organisation's name?*	Direct Line Group plc
(b) Please could you briefly explain the role of your organisation, including the sectors in which it operates or has most interest?*	
<p>DLG provides a wide range of general insurance products to consumers through a number of well known brands including Direct Line, Churchill and Privilege. It also provides insurance services for third party brands through its Brand Partners division and partners include: RBS, NatWest, Peugeot and Citroen. In the commercial sector, its NIG and Direct Line for Business operations provide insurance products for businesses.</p> <p>In addition, DLG continues to provide support and reassurance to millions of UK motorists through its Green Flag breakdown recovery service.</p> <p>Further information about DLG can be found at: http://www.directlinegroup.com/.</p> <p>Please note: DLG has responded to these questions as a result of expertise in the markets in which it operates, and therefore insights are limited to general insurance. In addition, DLG has limited knowledge of the wider DCT sectors, and so the response is limited to knowledge of price comparison websites ("PCWs") unless otherwise specified.</p>	

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?

DLG agrees that the consumer groups identified in Chapter 5 are appropriate but care needs to be taken to understand the needs of consumer groups before drawing conclusions. For example, younger customers may have a lower insurance need as they may not own items which require insurance. Lower usage in younger age segments therefore may not mean DCTs are not appealing; simply that consumers within that demographic group have limited use for DCTs at this stage. Furthermore, some consumers will actively choose not to use DCTs, preferring instead to purchase products from the relevant suppliers directly.

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?

DLG has no response to provide to this question.

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?

Insurers are actively taking steps, in line with the regulator, to ensure that "inactive consumers" (assumed to mean consumers who do not shop around) are not discriminated against and are encouraged to engage more actively with the buying process. This is entirely independent of the level of usage of DCTs. In particular, DLG does not believe that consumers who choose not to use DCTs are necessarily 'inactive'; as noted above, many active consumers make a positive decision not to use DCTs and instead compare and ultimately purchase from suppliers' direct sales channels.

4. What factors, if any, have we missed that may be holding back consumers from using DCTs?

DLG would recommend the CMA revisits the Mintel report, *Price Comparison Sites in General Insurance - UK - July 2016*, and in particular figure 8 which DLG feels is responsive to this question.

Barriers to switching, imposed by certain suppliers, may hold 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?

DLG would hope that the majority of these concerns will be allayed by the implementation of the General Data Protection Regulation and current draft ePrivacy Regulation on 25 May 2018. The Information Commissioner's Office has an important role to play in ensuring that customers and businesses are given clear guidance on how both these Regulations are to operate and how they will be enforced.

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?

Filtering and ranking on PCWs could be improved to tailor the comparison to be more relevant to a consumer's requirements. An obvious place to provide more benefit to consumers is by ranking results based on how the consumer normally pays. As part of the quote a consumer states their preferred payment option, yet the results are still ranked on annual premium on most PCWs. This does not provide the customer with the best view of what is the most competitive offering for them and makes high interest rates less visible to consumers that need to compare on that basis.

It would also be more useful for consumers to be able to create a package of covers and compare on the total package, rather than creating their package (core products plus optional extras) solely on that supplier's website. Not being able to compare a package means that consumers can only compare the base premium and select their supplier on that element alone. This exposes consumers to selecting an offer which is not necessarily the most competitive in its entirety. DLG does acknowledge that this would require significant investments into the platform to enable prices for optional extras to be shared. As the current representation of prices on a PCW is at the highest level, and does not focus on the features within the cover, this type of activity could increase customer engagement with the products on the PCW.

Furthermore, consumers cannot always sort by excess. Consumers are encouraged to select a voluntary excess, not a total excess (which includes both the voluntary and compulsory excess amounts), and this figure can often be remembered over the total excess which is presented on the final screen. Enabling consumers to select a total excess rather than a voluntary excess ensures the consumer selects an affordable amount and is not exposed to high voluntary excesses, which can be used by firms to deliver a cheaper core premium.

Inputs to DCTs

7. Have we captured the range of issues that might prevent DCTs from operating effectively?

DLG has no response to provide to this question.

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

DLG has no response to provide to this question.

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

DLG has no response to provide to this question.

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?

The 'big 4' PCWs in the UK predominantly operate in motor and home insurance, and invest heavily in above the line ("ABL") marketing to attract new customers as well as trying to persuade existing customers to return to them year on year. In terms of search and sales share, CTM is the leading PCW in both motor and home insurance which is mainly driven by the success of their ABL marketing which is supported by 'Free meerkat' and '2for1 cinema tickets' offers for customers who choose to buy a qualifying product. The other 'Big 3' PCWs have run different ABL and free offer campaigns of their own in recent years in an attempt to compete with CTM however to date they have been unable to erode their share significantly. More recently some of the other PCWs have tried to move away from character-based campaigns in order to establish their own unique selling point via other means. Fundamentally, success for DCTs active in the insurance sector appears to be driven primarily by ABL marketing spend and point of sale, non-product related giveaways. DLG does not consider that there is evidence that market share is influenced by quality of service, customer experience or even prices available.

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?

Insurance requires tailored pricing from suppliers to aggregate a large number of bespoke quotes, which smaller DCTs may not be able to do. Smaller or new DCTs may struggle to attract brands to join their panels due to the time, resource and cost involved in brands building the capability to do so. In relation to entry and expansion into new and smaller sectors, it will often be a question of economics as improving performance on a larger and more established product will bring better returns than investing in smaller, lower premium sectors.

In addition, MFNs (both narrow and wide) act as a barrier to entry protecting DCTs that are established in a given market, since a new entrant would not be able to pass on the benefit to consumers of lower commissions being charged to insurers.

Agreements between DCTs and suppliers

12. What has been the impact of the removal of wide MFNs in the private motor insurance sector?

Please refer to DLGs response to question 8 of CMA's request for information dated 9 January, 2017.

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)?

Please refer to DLG's response to question 8 of the CMA's request for information of 9 January 2017 (and the response to question 3 and 11 above).

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?

If a consumer types "Brand A motor insurance" into Google's search bar it is nearly always the case that they are searching for Brand A. Consequently Google assigns a Brand A advert a high relevancy score. This in turn means that the Cost Per Click to win the auction for that search (to be displayed at the top of the ranking) will be comparatively low. (This is because broadly Google displays results based on a multiplier of relevance and bid). This is a highly cost effective means of acquiring customers for Brand A which is logical given that the customer was searching directly for Brand A.

If however Brand B bids on Brand A's search term, Google will assign a low relevancy score to Brand B whereby the required Cost Per Click to win the auction is significantly higher. This is likely to be a relatively expensive way for Brand B to acquire customers but they might be tempted from time to time to hit commercial targets. However in such circumstances Brand A will increase its Cost Per Click bid in order to ensure that this search volume is not lost to Brand B, with the net effect of inflating the cost of acquisition.

In this context the commercial rationale for agreeing to not bid on branded search terms would be to avoid inflated acquisition costs as a result of trying to divert consumers away from their intended destination. In sharp contrast there is fierce competition on generic search terms where the consumer has yet to make up their mind and multiple brands are relevant.

The commercial rationale for negative matching is simply to avoid bidding on keywords that firms do not want to use to acquire customers. This can be for a number of reasons but primarily because the Cost Per Click would be too high or the conversion rate would be too low. Negative matching is simply the ability for a company to exclude itself from any keyword auction. Specifically Google operates an opt-out system, and unless negative keywords are applied, a company is defaulted into the auction for all keywords and can easily waste money on traffic that has no value to its business. These issues were discussed further in DLG's response to question 7 of the CMA's RFI of 9 January 2017.

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?

The focus on delivering cheaper prices for consumers means that, over the past 10 years, the insurance industry has experienced periods of premium deflation set against prolonged commission inflation. This makes it difficult for providers to return competitive prices and return a profit in year 1 after commission is paid to the PCW. Non-resolicitation clause offers insurers an opportunity to offer the customer a competitive renewal product, where it would not incur a commission payment. However, such provisions do not prevent the customer choosing to go back to the DCT they bought their product through to check their renewal price against the market, nor does it prevent other DCTs the customer has used but not bought their policy from in any given

year contacting the customer before their renewal date to recommend running a quote on their site. The clause can also allow a DCT that introduced the sale to contact that customer throughout the year about other products and services.

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?

DLG has no response to provide to this question.

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)?

Suppliers are restricted from using the fact that they can see their customers shopping on DCTs. If suppliers were allowed to use information about the timing and how customers choose to shop, this could lead to better prices for customers. It could also allow suppliers to better identify fraudulent behaviour via DCTs which could generate cost savings, which could also lead to better prices for customers.

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?

DLG has no response to provide to this question.

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?

DLG has no response to provide to this question.

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?

DCTs and suppliers need to ensure that products that provide the consumer with less cover are highlighted by further investment into providing product reviews and quality scores. More focus could be given to key cover limits in the comparisons, but it is important to understand if consumers would find this valuable as this will require investment.

Further thinking should be given to quality scores. Some of the factors which make up quality scores on some DCTs do not provide consumers with much value from a service or product quality perspective. For example, on a particular DCT 'Acceptable no claims discount' ("NCD") years is a factor in Home Insurance product scoring. However, this provides little assistance in determining product value, especially when NCD percentages are not factored in, and it impacts premium, rather than the quality of the product or service provided to a consumer. Furthermore, on some quality scores provided by third parties, points are awarded equally across product features that do

not present equal value in terms of product quality.

Regulation

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

DLG agrees that the existing regulatory regime for financial services is complex. However, much of the complexity arises from the need to protect consumers which is perhaps more important for financial services products with longer term impacts than, for instance, the price of a holiday flight. Similarly, a level of prescription is an aid to the delivery of appropriate customer outcomes and helps to reduce the opportunity for individual firms to 'game' the system. It is important that any changes to the regulation of DCTs should not result in a significant reduction in the quality of customer outcomes.

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?

For existing financial services providers, a cross-sector approach to regulating DCTs appears likely to add complexity to the model. It is also questionable whether a sufficiently detailed cross-sector approach could be developed which would address the specific concerns raised by Citizens Advice (para 8.22) across significantly different marketplaces and which would provide an overall aid to general consumer understanding.

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

For the reasons stated in the response to question 22 (above), this is not an approach DLG would support. If such an approach were to be developed DLG believes that it should be limited to high level principles.

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?

DLG suggests this question would be most appropriately answered by DCTs.

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

DLG suggests this question would be most appropriately answered by DCTs.

Other comments and further contact

We welcome submissions on any of the issues we address in our update paper from interested parties. We would particularly like to hear views, supported wherever possible by evidence, on the following themes if not already addressed above:

- 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.

Do you have any other comments you would like to add?
No.

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

Thank you for taking the time to complete this form.

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

Or post it to:

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