

Digital Comparison Tools Market Study:

Update Paper - Response form

1. Thank you for taking the time to respond to the questions in the Update Paper for our Market Study of Digital Comparison Tools (DCTs), published on our [website](#) on 28 March 2017.
2. Please download and save this form before completing it. Please submit your response by **5pm on Monday, 24 April 2017**, either by:
 - Email to: comparisontools@cma.gsi.gov.uk.
 - Or by post to: Digital Comparison Tools Market Study
Competition and Markets Authority
7th floor
Victoria House
37 Southampton Row
London WC1B 4AD
3. Please note:
 - You can choose which questions to respond to, but we ask all respondents to provide a small amount of background information at the start of this form. The boxes will 'expand' to accommodate long responses if required.
 - We are particularly keen to receive evidence in support of responses. If you are able to supply evidence please attach this with your response.
 - We intend to publish responses to our Update Paper in full. If you wish to submit information that you consider to be confidential, this should be indicated to us clearly and an explanation given as to why you consider it to be confidential.
 - The CMA may use the information you provide for the purposes of facilitating the exercise of any of its statutory functions. This may include the publication or disclosure of the information. Prior to publication or disclosure, in accordance with its statutory duties under Part 9 of the Enterprise Act 2002, the CMA will have regard to (among other considerations) the need to exclude, so far as is practicable, any information relating to the private affairs of an individual or any commercial information relating to a business which, if disclosed, would or might, in our opinion, significantly harm the individual's

interests or, as the case may be, the legitimate business interests of that business (confidential information). Further information about how the CMA will use information submitted during the Market Study can be found on our [website](#).

4. If you have any questions about our Market Study or this online form please contact the team at comparisontools@cma.gsi.gov.uk.

Your details

(Fields marked * are required)

Title*	Mr
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Forename	Paul
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Surname*	Galligan
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Email*	
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What is your role / profession*	Group Director
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Are you representing yourself or an organisation?*	Yourself / An organisation (please delete as appropriate)
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If you are representing yourself rather than an organisation would you be content for us to include your name when we publish your response?*	Yes / No (please delete as appropriate)
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If you are representing an organisation:

(a) What is the organisation's name?*	Comparethemarket.com (CTM), a division of BGL Group Limited
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(b) Please could you briefly explain the role of your organisation, including the sectors in which it operates or has most interest?*

CTM is a leading price comparison website (**PCW**) founded in 2006. It operates in a number of sectors, empowering consumers to compare prices and other features across a number of different products, notably:

- personal lines insurance products including car, home, van, life, pet, travel and over 50s insurance;
- various professional business insurance products, such as public liability insurance;
- energy/utilities;
- broadband;
- digital TV; as well as
- a range of financial products such as loans, credit cards and ISAs.

CTM operates as a separate and distinct business unit from other divisions within BGL Group Limited, with separate management, staff and premises.

BGL Group Limited is a privately owned financial services company. Founded in 1992 as an insurance underwriter, BGL has since diversified into a range of related activities including, in 1997, switching from underwriting to insurance broking. BGL has grown to become one of the leading personal lines insurance intermediaries, principally in the field of motor insurance, in the UK.

CTM welcomes the CMA's conclusion set out in the Update Paper that many people are likely to be realising significant benefits from DCTs as a popular means, amongst others, to compare different products and services and exercise choice.

For this reason, while CTM acknowledges that further analysis will be useful as part of the second phase of the CMA's study, CTM agrees with the CMA's decision that an in-depth investigation is not warranted.

In this regard, CTM welcomes the opportunity to respond to the CMA's Update Paper and engage, going forward, on the four areas of further focus to assess the optimal way of ensuring that the demonstrable benefits of comparison services reach as many people as possible, while fostering the conditions necessary for further DCT investment and future innovation.

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?

CTM agrees, in principle, with the CMA's proposal to focus its attention on the consumer groups identified in Chapter 5 of the Update Paper (paragraphs 5.82 to 5.95).

While CTM would observe that the consumer reference groups considered by the CMA (energy and broadband customers) may differ in their propensity to use DCTs than other customer groups (within **Group B – Internet users who do not shop around**), CTM would agree that current levels of customer inertia (even for those products where comparison services are used more often) are too high. That said, this relates to product inertia and not to customers switching between DCTs – given that 60% of consumers multi-home.

CTM also agrees with the CMA's observation (paragraph 5.90) that DCTs should be "...regarded as one of a number of commercial and/or public policy tools that can help with disengagement in markets." That said, while DCTs are only one of a number of competing channels which offer customers the opportunity to compare and switch products to achieve better deals, CTM is constantly looking for ways to improve its appeal to customers and is interested in the CMA's research to understand why many consumers still do not use DCTs.

In some instances, the reasons are obvious (the CMA notes, for example, **Group A – Non-internet users**); however, according to Kantar research conducted for the CMA, the most common reason given by **Group B – Internet users who do not shop around** was "...the offer from the supplier being just what they wanted (ranging from 33% for energy to 43% for flights)."¹

[✂] It follows, taking into account the above Kantar research, that many consumers could still be making a false assumption about the competitiveness or otherwise of the offer presented to them by their incumbent supplier, and losing out significantly as a result of failing to shop around. Indeed, Kantar research shows that even customers who are accustomed to using DCTs do not always routinely compare products and services:

"For some respondents, shopping around had become their normal, habituated approach to any purchase, with some saying they like to shop around for everything. Others, who perceived comparison as slightly more burdensome, tended only to shop around for larger purchases, or only in response to external prompts. A key example was being confronted with very high renewal costs with current suppliers – this was effective at overcoming market inertia and prompting even the reluctant consumer to shop around for a better deal."²

If it is the case that customers are often only prompted to compare products when confronted with an abnormally large price increase, renewal quote etc., this would suggest that many savings are being missed.

It also underlines the importance of fostering conditions that allow DCTs to develop their offerings (technological and commercial) in ways that instil customer confidence in terms

¹ Kantar Public, Digital Comparison Tools: Consumer Research Final Report (**Kantar Report**), page 17

² Kantar Report, page 34

of the DCT being able to offer a demonstrably better deal in a manner which is convenient and user-friendly.

CTM welcomes the CMA's further work in this area, which CTM hopes will encourage greater use of DCTs by consumers who do not currently use these tools.

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?

Certain sectors still show a much lower incidence of DCT use than others (a number of which have already been examined by the CMA). This may be attributed to a variety of different factors (at both demand and supply level) depending on the market in question, for example:

- Retail banking, owing to consumer perceptions (perhaps based on misunderstandings) that the underlying product is fundamentally competitive (i.e. free-if-in-credit banking) and hence switching is not necessary.
- Energy, owing to supplier mistrust (i.e. the perception many suppliers offer an equally poor value service), complexity around the underlying cost of the product and difficulties in accessing information to assess consumption etc., and hence switching, will not necessarily result in any better outcome.
- Energy, owing to the adverse unintended consequences of regulatory change (Whole of Market comparison), which removes DCT incentives to invest in comparison services for customers (as DCTs are obliged to display all products regardless of any return on investment).
- Payday loans, owing to a particularly vulnerable customer base whose focus is on accessing a product, not its competitiveness.

However, it is important to remember that even for those products commonly compared by DCTs, and notwithstanding the clear benefits of DCTs, not enough consumers use them.

In other words, consumer inertia is still a problem in those sectors in which DCTs are popular, with many consumers not actively engaging, or failing to realise sufficiently the potential benefits of price comparison.

In car insurance – the most switched category – according to CTM research more than 60% of consumers do not switch each year, rising to around 85% in energy (whether via DCTs, brokers, going direct or any other competing channel). Therefore, consumers are paying too much for their products and services, with inertia estimated to be costing consumers £7.6bn.³

³ <https://www.sheffield.ac.uk/news/nr/psychological-inertia-contributes-to-financial-hardship-1.510235>

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?

Active consumers who use DCTs regularly or who engage in other forms of comparison or shopping around are savvy and, inevitably, are far more likely to secure a better deal than those that do not.

The use of DCTs, and the focus of those consumers who use them, puts competitive pressure on suppliers. DCTs enable prices and offers to be compared by consumers across many suppliers simultaneously, while providing the information needed to make an informed choice.

It follows that the optimum way of ensuring that more consumers get better deals is by creating conditions which are conducive to more DCT use. Trust is key in this regard, and Kantar research would suggest that the more frequently people use DCTs the more they trust them.⁴

At the same time, as a lower cost acquisition channel, DCTs have, in principle, enabled suppliers to engage in greater price competition generally.⁵

BGL has previously shared research with the CMA (as part of the Private Motor Insurance investigation), which provides some indication of how DCTs have been able to translate supplier profit into consumer savings:

"Focusing on the period 2002 and subsequent, the conclusion is obvious and rather damning: aggregators have encouraged greater price competition... Aggregators cost the UK insurance industry £1 billion in unnecessary price competition, last year..."

Towers Watson, insurance consultancy: 'Why aren't we making money ...',
December 2010

This raises two issues; first, if you remove DCTs from the equation, savings that would otherwise have been passed on to consumers using DCTs are more likely to be absorbed by suppliers as profit (as opposed to being redistributed among all customers through lower prices); second, it underlines the effectiveness of DCTs and suggests that more needs to be done to encourage and enable those consumers (particularly vulnerable consumers) to use DCTs or other comparison/shopping channels to secure better deals for themselves.

In CTM's view, consumers (whether existing users or not) will only use DCTs if the following conditions are met:

- Consumers have to be confident that using a DCT will deliver a demonstrably better outcome for them (even if simply for research, rather than procurement, purposes), whether in terms of cost and/or quality of service, and anything which undermines this trust will reduce the propensity of consumers to use DCTs.

⁴ Kantar Report, fig 65, page 70

⁵ Update Paper, page 31: "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."

- DCTs have to be user friendly, offering an appealing, swift, impartial and relevant consumer journey, where the consumer can assess and prioritise the merits of competing offerings easily, with the consumer being in control.

In this regard, CTM has been encouraged by a number of the positive findings evidenced in the Kantar Report:

In the qualitative interviews we also asked about whether comparison sites were providing information or recommendations, or both. In interviews it was clear that even if respondents initially described comparison sites as providing 'recommendations' (or both information and recommendations), when discussed further they actually often characterised the information provided by comparison sites as unbiased. Though this was sometimes described as recommendation, respondents did not think that the comparison site was pushing any particular supplier or product (with the exception of a few 'negotiators'). comparison sites were often described as 'unbiased', as merely 'aggregators', and in some cases they are characterised as being there for the benefit of the consumer.

"With the comparison websites ... [you] reach your own conclusions. Which? is more advisory, whereas the comparison websites are based mainly on results." (W2, broadband, research only)

"I think it's very impartial which I love. It doesn't feel like a sales thing, it's purely a tool to compare and it's up to me how to go about it. And obviously you can also display things in different orders based on what's important to you." (W2, flights, purchased from supplier)

"I would say it's more impartial assessment rather than recommendations. I guess because they're not allowed to make recommendations because they're just there to compare things." (W2, broadband, research only)

The divergence from the quantitative findings suggests that interpretation of 'recommendation' in the survey may have been about a comparison site showing offers that are 'suitable' or tailored to the user. This is explored in the survey results earlier in chapter 5, where a significant proportion of those that described comparison sites as making a recommendation also said that they thought they treated all suppliers equally. Further, it may be that consumers perceive there to be some element of recommendation going on, but the perception of bias is mitigated by a strong perception that the user is in control of the decision. As users felt they could easily circumvent any bias that was present (e.g. by ignoring 'top' or 'featured' results), the impact of this was low.

"It's impartial as you make your own choice - you're not pushed towards one and if you're drawn to one you don't always choose it as it's not always best." (W2, insurance, purchased from DCT)

"I think they're generally impartial. I don't know if some are in partnership, but they get you the best deals" (W2, broadband, purchased from supplier)⁶

⁶ Kantar Report, page 80

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

As indicated in the response to Question 2 above, customer inertia may be driven by a variety of different factors, which may differ depending on the product or service in question.

Consumers will compare prices and bills and look to switch if it is easy and they feel confident that they will end up with a demonstrably better deal. In certain sectors, the ability of consumers to undertake an assessment of the relative merits of different products has been constrained by complexity and a lack of access to information.

Some of the work the CMA has done (e.g. in private motor insurance, energy and retail banking) has been very helpful in this respect, both in terms of highlighting the benefits of switching as well as seeking to open up access to better information; however, it is a slow process, particularly for products, such as energy, which are seen to be inherently confusing or, such as bank accounts, which are perceived to be free or low cost.

The CMA can further encourage consumers to undertake comparison activities, because increased comparison activity leads to better consumer outcomes.

5. What, if anything, should be done about consumers' concerns about data sharing and the extent to which they feel in control?

The introduction of the General Data Protection Regulation (EU) 2016/679 (**GDPR**) will significantly raise the standards of privacy in the UK, reinforcing existing data protection laws in a number of key areas, as well as the sanctions for those who fail to comply.

As these new requirements are implemented, which will regulate how data is used and underline the importance of transparency in relation to consents, consumers will benefit from materially enhanced levels of control and protection.

It stands to reason that while consumer perceptions may take time to change, this legislative development (and the operational changes it drives) will give rise to a positive knock-on effect in terms of consumer confidence around the gathering and use of data. It follows that any additional measures to address current consumer concerns may be premature and, if any issues persist post GDPR implementation, such issues might be addressed most effectively through guidance etc. from the Information Commissioner's Office (**ICO**).

To help develop targeted guidance, CTM (and other BGL Group divisions) have already contributed to the recent ICO consultation on GDPR Consent Guidance.⁷ By way of background, CTM (and other BGL Group divisions) operate in sectors which, inevitably, involve the collection of personal data (sometimes sensitive data) and the use of that data in the administration of insurance policies, offers and processing claims and complaints as well as delivering rewards. This creates a number of challenges for CTM and other

⁷ ICO – GDPR Consent Guidance, consultation closed on 31 March 2017

intermediaries, particularly around the collection and any withdrawal by an individual of consent.

As a general observation, clearer (and more practicable) ICO guidance may be needed taking into account the purposes for which data is collected and needs to be retained. That said, CTM acknowledges that consumer inertia prevails, in part possibly as a result of general discomfort around the collection and use of data, and perhaps reservations about who the information might be shared with.

Indeed, the Kantar research suggests that one concern for consumers is that data gathering may result in them being "*bombarded with marketing materials*"⁸. Naturally, this can be contrasted with the proper and proportionate use of their data for the purposes of seeking and displaying quotes, administering policies and processing/managing claims; however, CTM also considers that many consumers value being reminded of the benefits of comparison services from time to time, and it is clear that periodic reminders can reduce inertia and help consumers manage their household finances more effectively, particularly in circumstances where there is a lack of natural 'trigger points' that might otherwise prompt consumers to shop around.

More generally, CTM places great importance on creating consumer journeys which allow customers to make fully informed decisions about the service they are requesting while achieving the correct balance to ensure that consumers can be provided with the quick, efficient and streamlined journeys they expect.

The key challenge is to ensure that consumers are given clear information about the data use they are consenting to while avoiding the risk that consumers are overwhelmed with information on privacy issues which causes them to switch off from the journey or causes the consumer to tick to confirm consent without fully reading the information available. Time pressured consumers may wish to progress through websites quickly and do not always wish to read detailed data protection information.

GDPR will require that detailed consent wording needs to be provided to the customer, for example where it is necessary to provide a list of named third parties who will be relying on the consent given. Over time, this and other safeguards set out in the GDPR, ought to give consumers greater confidence that their data is being used correctly, which CTM hopes will ultimately encourage more customers to use DCTs.

To summarise, CTM understands that consumers' inertia might be reinforced as a result of the perceived risk that data gathering may result in the consumer receiving lots of marketing materials and similar communications; however, CTM believes that the advent of the GDPR and the changes it will drive should, over time, allay fears.

That said, GDPR aside, it is vital to CTM that consumers feel entirely comfortable about how their data is processed. CTM is continually looking at ways to offer more transparency and certainty.

⁸ Kantar Report, page 95

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?

According to evidence gathered by the CMA, multi-homing is commonplace. In the Update Paper, the CMA reports that:

*"...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...One-quarter had used four or more sites and, on average, users said they had looked at 2.6 sites (although this varied slightly by sector)."*⁹

Given that the prevalence of multi-homing is already high, CTM’s view is that further actions to facilitate multi-homing are not necessary. This is reinforced by the fact that Kantar Research indicates that, although some consumers focus their research via DCTs, the majority of consumers use a variety of different channels to assess competing products and shop around.¹⁰

CTM notes that in certain sectors, evidence gathered by the CMA could be interpreted as suggesting a lower level of multi-homing (for example, in home insurance), with more consumers than average apparently using only one DCT; however, CTM would make three observations in this regard:

- first, the CMA clearly acknowledges that its evidence is quite inconclusive and may well be under-estimating the degree of multi-homing;¹¹
- second, Kantar research indicates that the use of DCTs (at all) for home insurance is still far below the level that it should be with only 27% of consumers using DCTs to compare home insurance, as against 44% for motor insurance, hence the major concern is not the apparent lack of multi-homing but rather the lack of DCT use altogether;¹²
- third, any barriers to multi-homing on DCTs (whether in relation to home insurance or any other product) are very small in real terms, the only obstacle being a consumer’s willingness to spend a small amount of extra time on subsequent DCTs to compare quotes. Indeed, those consumers who are more frequent users of DCTs do not appear to report any difficulty in using multiple platforms/channels to compare products.

⁹ Update Paper, page 43

¹⁰ Kantar Report, page 21: "Comparison site users and non-users were both asked what other channels they used for shopping around. Whilst both groups mentioned visiting supplier websites, consumer websites, and seeking advice from friends and family, a significant minority of comparison site users (31%) said they only shopped around using comparison sites, and did not use any other source. In contrast, those who did not use comparison sites were more likely than comparison site users to shop around in other ways online: visiting websites of individual suppliers (59% versus 41% of comparison site users), and visiting consumer websites (34% versus 10% of comparison site users)."

¹¹ Update Paper, page 46: "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"

¹² Kantar Report, page 41: "Across all consumers, motor insurance was the sector where comparison sites were most commonly used, with 44% of all consumers having used a comparison site to shop for motor insurance in the past 12 months. Of the four survey case study sectors, comparison sites were most commonly used for flights (29%) and home insurance (27%), followed by energy (22%) and broadband (16%)."

Further, when outlining barriers to consumer engagement,¹³ CMA research would suggest that most issues arise as a result of the underlying features of each product or the switching process operated by the supplier; it does not reveal any obstacle associated with the use of comparison services such as would discourage the use of multiple DCTs to compare those products.

As regards filtering and ranking, CTM (and possibly DCTs generally) are constantly looking for ways to optimise the consumer's journey and put the consumer in control, allowing the consumer to sort products (beyond basic price defaults) and ensure that results are presented in a way that is most relevant for consumers.

¹³ Update Paper, page 33

Inputs to DCTs

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

CTM believes that consumers' experiences of using DCTs are very positive as they afford consumers the ability to:

- save time;
- access a very wide range of providers and offers;
- Compare product features in a transparent way; and
- save money.

DCTs make complex products easier to understand, offering user-friendly mechanisms to sort, rank and compare key features of those products.

That said, as highlighted in previous CMA submissions,¹⁴ there are still issues that might prevent DCTs from operating effectively (ranging from access to information and regulation to customer bias). There are still improvements to be made considering that even in sectors where we see evidence of a lot of switching, there are a large proportion of customers who do not switch (customer inertia).

As indicated above, there are many important sectors where the level of use by consumers (particularly vulnerable consumers) of DCTs is low. This suggests that many challenges still lie ahead, and that it is necessary – from a regulatory perspective - to create conditions in those sectors which are particularly conducive to price comparison.

This will enable DCTs to compete on a better footing with established incumbents whose incentive may be to maintain consumer inertia or to control distribution and weaken the consumer facing proposition that DCTs can provide.

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

DCTs have adapted over time to suit the needs of the consumers that use them, and to ensure as appealing and useful a proposition as possible for potential users to encourage uptake.

According to Kantar research, the main reason consumers use DCTs is still to save money (71%).¹⁵ In order to be able to help the consumer make an informed choice in this respect (and indeed others), particularly in the context of more complex products, where pricing may be complicated and influenced by factors around use or consumption etc., it is naturally important for DCTs to be able to have access to relevant, accurate and up-to-date information.

¹⁴ See, for example, BGL's public submission to the CMA as part of the Retail Banking Market Investigation - Response to CMA's Provisional decision on Remedies (PDR)

¹⁵ Kantar Report, page 88

This issue aside, CTM would observe that DCTs should be free, within the normal bounds of competition law (and the various product/service-specific regulatory regimes that apply to the products they display) to develop and optimise their offerings in a way that allows them to invest, instil consumer trust and tailor their services to their customers' needs.

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

This is a very wide-ranging question and CTM would be happy to engage with the CMA on this issue in more detail.

There are all manner of issues that might merit consideration, but on issues such as access to information, the CMA appears to be heading in the right direction.

On topics such as Whole of Market (**WoM**) comparison, CTM agrees with concerns expressed about the potential distorting effect of WoM requirements. CTM acknowledges the work undertaken by the CMA in the Energy market to try to address this feature and its distortive effects.

That said, CTM remains concerned that Ofgem - by only consulting 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 – has not fully addressed the concerns raised by the CMA at this stage.

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 characteristics and strategies of individual DCTs (both existing and prospective) differ significantly. Each DCT chooses the sectors in which it wishes to invest and grow.

Some DCTs focus on developing recognised expertise in certain niches, with a view to expanding their offering subsequently (e.g. Uswitch, which has a recognised profile in utilities, but now also offers comparison services for banking and insurance products); others seek to adopt a wider offering to address more of the day-to-day needs of their users at the outset. Other sites, historically focused on customer reviews (such as TrustPilot), are diversifying their operations to allow consumers to access reviewed suppliers.

DCTs reliance on different marketing channels also varies, with some more heavily focused on above-the-line advertising and others more reliant on online search (Google etc.).

Finally, DCTs choose different and creative ways in which to appeal to consumers and differentiate their offering, while maintaining their underlying comparison services, for example the provision of rewards (meerkat toys, cinema tickets, robots etc.) to create a sense of fun as part of the comparison process and ensure greater brand recognition.

Notwithstanding these differences, there are some common factors which influence how effectively DCTs can compete in a particular sector and how they can grow their business.

In this regard, the following are important:

- Ease of use is key and ensuring that the means by which a DCT presents its comparison service to consumers is relevant (both useful and compatible with their lifestyle) and appealing, hence the need to adapt offerings to align with hand-held devices etc.
- Being able to instil confidence in consumers that their data will be gathered and used correctly.
- Developing a well-known and trusted brand.
- DCTs need to be able to display highly competitive prices and premiums to address one of the main reasons consumers use DCTs – to save money.
- Finally, DCTs need to focus on product range and quality. DCTs need to operate a large panel of suppliers in order to grow as their role is to provide consumers with broad choice at competitive prices. That said, CMA research would suggest that very wide market coverage is not as important to consumers as one might expect.¹⁶

¹⁶ Update Paper, page 6: "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."

Cost effective acquisition is also important. The underlying CPA model adopted by most DCTs is very cost efficient and means that suppliers are incentivised to use as many DCTs as possible. Ensuring competitive CPAs will inevitably encourage more suppliers to a new platform.

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?

CTM believes that there are no fundamental barriers for DCTs to enter or expand in sectors and compete effectively with other DCTs.

As a general observation, CTM agrees with the CMA that barriers with respect to attracting suppliers and technological barriers are not high. The CMA has identified that suppliers (as well as consumers) multi-home and the technological know-how necessary to offer a DCT service appears relatively easy to develop, or white-labelling is available to enable a DCT to overcome these barriers.

CTM would invite the CMA to explore, as part of its further research, the scope for DCT and consumer brand diversification into different sectors (and consider how different suppliers are maximising their brands and offerings e.g. Zoopla/Uswitch) as well as the potential impact of fintech and digital disruptors (e.g. Brolly) on those markets, such as insurance, in which DCTs are present.

It follows that although a high quality marketing strategy and a compelling consumer proposition is important in order to present suppliers with an opportunity to reach new audiences at minimal cost, CTM would not agree that marketing and advertising costs represent an unduly high barrier to market entry and expansion, nor will they shape how the sector develops in coming years.

As recognised by the CMA, DCTs operate within a wider framework where innovative propositions (including Google) to help consumers choose and make informed decisions regarding products and services are constantly emerging, including for example concierge services for insurance policies.

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

An interesting trend in the context of this question is that according to research published by the Association of British Insurers (**ABI**) and reported, for example, by the Retail Motor Industry Federation, there has been no decrease in motor insurance premiums since the ban on wide MFNs.¹⁷

While CTM appreciates that such a trend would take into account a wide variety of factors, it is also arguable that the removal of wide MFNs has not delivered the positive benefits in the private motor insurance sector that the CMA anticipated.

Indeed, in February 2017, the ABI reported that motor insurance premiums hit their highest recorded levels and rose more than five times the rate of inflation in 2016. The ABI has attributed these increases exclusively to "...tax increases, increased repair costs and the rising costs of whiplash style injury claims puts pressure on premiums..."¹⁸ Most importantly, this fact belies claims made by insurer respondents to the present study that MFNs, whether wide or narrow, have had an adverse impact on price competition.

At the same time, CTM notes the CMA's research which indicates that since "...the removal of wide MFNs, in motor insurance, providers started to offer different deals on different DCTs despite narrow MFNs still being in place"¹⁹.

While this might suggest that the removal of wide MFNs had delivered some benefits, in CTM's view, even with the presence of wide MFNs, suppliers were always able to offer a wide range of differentiated products and deals on different DCTs. In CTM's view, there is no clear evidence that removing wide MFNs has resulted in consumer benefits.

CTM understands the CMA's interest in the impact of MFNs (wide and narrow) in the sectors in which DCTs constitute one of a number of ways to compare and purchase products; however, CTM remains of the view that:

- there is very limited empirical evidence as to the harmful effects of MFNs such as to justify any restriction on their use;
- the pro-consumer benefits of MFNs, which CTM believes are significant, have been underplayed by certain suppliers who wish to constrain the competitive pressure DCTs impose on their business. CTM is committed to working with the CMA to ensure that these benefits are properly understood and articulated as part of the second phase of the study.

¹⁷ <http://www.rmif.co.uk/press-room/press-releases/motor-premiums-continue-to-rise-post-cma-investigation-08-08-16/?m=0>

¹⁸ <https://www.abi.org.uk/news/news-articles/2016/12/motor-insurance-premiums-reach-highest-recorded-levels/>

¹⁹ Update Paper: Appendices, page 24

Even for private motor insurance, where DCT offerings are most developed, given only a portion²⁰ of the market used a DCT in the last 12 months there is no credible case for market power on the part of DCTs.

MFNs are vital to the DCT consumer proposition, even more so in less developed markets where DCT uptake is small. MFNs provide both credibility and help prevent free-riding by suppliers (and other intermediaries).

If consumers are not confident that a DCT can deliver a better deal, the DCT will struggle to increase switching and inertia will prevail. MFNs may also foster better quality products (by encouraging a greater focus on quality as opposed to price).

Finally, the removal of MFNs may allow insurers (and other suppliers) to price discriminate more effectively (and, rather than offering savings elsewhere, simply charge higher prices on the most popular DCTs).

It is particularly interesting to note research very recently published by the European Competition Network (**ECN**) into MFN clauses in the online travel agency (**OTA**) sector.²¹ This research, while supporting the use of narrow MFNs, also appeared to find no clear economic evidence to support the theory of harm that wide MFNs dampen competition between rival DCTs (because such clauses act as an obstacle to a natural competitive process that would ordinarily result in a downward pressure on commission fees and, by extension, retail prices).

The ECN report examined the period after two leading OTAs, Booking.com and Expedia, had removed wide MFNs, so hoteliers were free to negotiate with OTAs and offer cheaper rates through their platform (vis-à-vis rival OTAs) in return for the OTA charging lower commission on sales.

However, according to the CMA's own review of the ECN research, there was *"no clear evidence of commission rates having decreased or of hotels seeking to strike a better bargain on these commission rates with OTAs."*²²

In particular, the ECN Report noted that for the period since Booking.com and Expedia had removed their wide MFNs:

- 90% of hotels that responded said that there had been no change in the basic commission rate charged to them by OTAs; and
- only 3% of the hotels that responded said that they had granted OTAs more favourable room prices in return for a lower commission rate; and
- 79% of the hotels that responded said that they had not price differentiated between OTAs.

In CTM's view, these findings are significant because they cast serious doubt on whether the theory of harm in relation to wide MFNs is borne out in practice. The theory hinges on

²⁰ According to the Kantar survey, commissioned by the CMA, 44% of motor insurance, internet user, customers used a comparison tool in the last 12 months. It is not clear, what proportion of the motor insurance market, internet users account for. CMA (2016), 'Digital comparison tools market study: update paper', 28 March, Figure 5.1

²¹ ECN, Report on the monitoring exercise carried out in the Online Hotel Booking sector by EU Competition Authorities in 2016, 6 April 2017

²² CMA, Online travel agents: monitoring of pricing practices results, 6 April 2017, page 1

the notion that there is a lively and dynamic competitive market for commission rates between competing PCWs that would be stifled by wide MFNs.

As the ECN report (which appears to be first major pan-European study on this subject) suggests, this is not the case, CTM would suggest that there is no reason for competition authorities to take further action to prohibit wide MFNs beyond the limited enforcement action that has been brought to date. This is particularly the case given that DCTs serve an important pro-competitive function as recognised by the CMA.

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)?

CTM believes that narrow MFNs are absolutely vital for the ongoing viability of DCTs as a business model in its current form. Narrow MFNs maintain the possibility of prices and premiums varying on different PCWs.

Without MFNs (narrow or wide), the business model of DCTs is compromised. Suppliers would free-ride on the advertising that DCTs provide.

A narrow MFN provides significant credibility to the proposition that the prices found on the DCT cannot be found more cheaply simply by going to the website of the supplier itself.

Without that reassurance, suppliers would claim that better prices could be obtained directly. Consumers would be led to believe that DCTs do not offer better alternatives to direct search. Suppliers would use DCTs purely as shop windows (zero cost marketing given the CPA model). Demand for DCT services would disappear, DCTs would be unable to invest and, in the medium to long term, consumer inertia would again prevail.

In addition to customer credibility, narrow MFNs deliver benefits by reducing customer search costs - customers do not feel the need to check the suppliers' direct sales channels as well – and this has a strong impact on intensifying competition between suppliers and increasing customer price sensitivity. In the PMI final report, the CMA confirmed that overall without narrow MFNs, there was a risk to the credibility of PCWs and therefore a risk to PCWs maintaining their pro-competitive effects of driving interbrand competition between PMI providers.²³

CTM, and other DCTs, are heavily constrained by financial conduct and other consumer protection regulation in terms of how they market their services to consumers, claims made around the benefits of price comparison and the competitiveness of the deals they offer.

In any event, consumers will only use DCTs, whether based on past experience, recommendation or independent research, if they are confident that the exercise will be worth it in terms of achieving meaningful potential savings (and, crucially, this confidence is borne out in practice i.e. the consumer actually experiences the benefit). An MFN is a very useful and straightforward way of being able to deliver such positive outcomes to consumers, without restricting suppliers (or other DCTs) from offering competitive deals elsewhere.

As for MFNs, CTM considers that there is no alternative way for DCTs to provide consumers with credible offers and outcomes, such as to help address entrenched consumer inertia in a significant way.

²³ CMA's final Report, Private Motor Insurance market investigation, 24 September 2014, section 8.

The CMA considered that narrow MFNs might be necessary in the PMI market to ensure the viability of the current PCW business model, the existence of which had in fact served to drive interbrand competition.²⁴

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?

CTM should be grateful if the CMA would articulate its potential concerns in greater detail in this area, as the Update Paper/Appendices would suggest that the main focus of the CMA's attention is on restrictions applied by suppliers to DCTs. This would seem logical as consumers are, fundamentally, searching for the underlying product, not the comparison tool (with DCTs simply as one of a number of channels for comparison): however, CTM would be grateful for the CMA's further guidance on this question.

By way of preliminary observation, the fact that many suppliers might restrict DCTs in terms of brand bidding or negative matching (as well re-solicitation of customers – discussed below) would indicate, very strongly, that concerns raised by suppliers with regard to the negotiating power of DCTs (even leading DCTs) are exaggerated.

Regarding generic search terms (e.g. cheap energy, lower gas prices etc.) it should go without saying that DCTs should, independently, do everything they can to optimise their proposition and improve their search rankings.

This would naturally include bidding in a competitive but targeted manner with search engines on terms which DCTs consider will deliver the best outcome for them. There is a whole search engine optimisation industry that has grown up to enable advertisers to get the best returns for their advertising spends.

As regards brand specific search terms (e.g. Comparethemarket.com), CTM would be concerned about suppliers or rivals bidding on its terms. This is because:

- CTM wants its customers to find the CTM website as easily as possible. If a customer types 'compare the market' into a search engine, their intention is clearly to access comparethemarket.com and both the customer and CTM could reasonably expect for CTM's site to appear in position 1 of the paid results.
- Fundamentally, CTM considers its brand to be its intellectual property and CTM should be entitled to protect and commercialise it.

That said, the extent to which CTM can protect its brand is confined by intellectual property and competition law. Indeed, the interface between competition and intellectual property law in this area is complex. It follows that while CTM would not enter into any horizontal agreement with a rival to restrict search term bidding (whether on branded or non-branded terms); at least as regards its branded terms, CTM considers that it would be entitled to do so with non-rivals (as such agreements are vertical in nature and permit a wider range of restrictions where they are supported by credible objective justifications).

²⁴ CMA's final Report, Private Motor Insurance market investigation, 24 September 2014, section 8

There is no doubt that bidding on suppliers' (or rivals') search terms can massively increase costs and reduce the efficiencies presented by DCTs. The relevant brand owner has to bid more and more to retain the top spot for its own brand.

While a brand can try to advertise elsewhere to offset its dependence on online search, the flip side is that any success it has only serves to increase the attractiveness of its brand in online search, encouraging third parties to bid on it and increasing the brand owner's own bid costs.

This naturally hurts consumers. If everyone is bidding on each other's search terms, search costs will likely increase, potentially leading to higher consumer prices. Advertisers then must either absorb the spiralling costs, if they can, or increase prices, which ultimately hurts the consumer.

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?

[✂]

For the supplier, the commercial rationale is that the customer is more likely to renew with them at the first renewal date if the DCT does not prompt them to switch, thus giving the supplier the opportunity to recoup any introductory discount. This is particularly important for suppliers in the context of insurance products where cover is time-limited and auto-renewals are common.

[✂]

Indeed, the fact [✂] demonstrates that suppliers have far greater negotiating power with DCTs than anecdotal evidence reported in the Update Paper would suggest. It is absolutely clear to CTM that suppliers are very willing to exercise their negotiating power with DCTs and any suggestion that suppliers feel compelled to accept DCT terms (whether on MFNs or otherwise) is untrue.

Indeed, the only terms which CTM regards as non-negotiable, such as to justify potentially delisting a supplier, would be those relating to how the supplier treats consumers referred by CTM (ensuring that those consumers have a positive experience) as well as those that relate to the legal, regulatory or financial stability of the supplier.

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?

Please see above our comments on MFNs and brand-bidding/negative matching restrictions. CTM suspects the latter to be quite commonplace because suppliers are unlikely to want their online search costs driven up (ultimately resulting in higher prices).

As regards non-solicitation provisions, our observation would be that these restrictions are likely to be more prevalent in those markets where consumers have become increasingly used to shopping around and which are characterised by regular renewal points (e.g. insurance), the reason being that the need for suppliers to suppress switching is less pronounced in markets characterised by greater consumer inertia and fewer trigger points for switching.

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)?

CTM has already provided sample copies of its agreements to the CMA for consideration.

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?

Unbundling can be useful for informed consumers who understand the different features of the products they require and wish to tailor their purchases accordingly. At the same time, the pre-emptive hollowing out of products can also result in consumer detriment where, in focusing exclusively on price, the consumer purchases a product that does not meet the consumer's reasonable expectations.

In CTM's view, hollowing-out is more of theoretical risk than a practice which actually occurs resulting in consumer detriment. Indeed, the incentive for providers to hollow-out products is debateable.

CTM would estimate that [✂] of sales are not from 'top of screen' (i.e. the cheapest product on offer), demonstrating that consumers do not just focus on price. Further, independent research [✂].

With this in mind, it is important that DCTs are allowed to remain able to tailor their services to fit consumer priorities, while offering clear user-friendly guidance. Service quality and value-added product features are important aspects, alongside price.

CTM is working (including with regulators) to offer clearer guidance to consumers. Assuming conditions conducive to DCT investment remain, CTM's proposition will continue to evolve to drive greater consumer insight and to support informed choices.

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?

Alongside accreditation schemes run by regulators such as Ofcom and Ofgem, there is a growing sector of online customer feedback/peer review sites, which are increasingly regarded by consumers as a trustworthy source of information about goods and services.

For example, Consumer Focus research going back to 2012²⁵ recognised that 62 per cent of consumers trust what other consumers tell them more than what companies say.

While these review services can be useful, as a note of caution, it is important – to ensure consumers are not misled - that such sites are absolutely transparent about their role, commercial activities and ownership.

In other words, it goes without saying that certain bodies (such as Which? or Citizens Advice) provide an impartial service; however, it is equally important that other platforms which market themselves as providers of impartial advice are transparent in any consumer campaigning activity they undertake.

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?

Please see response to Question 18 above.

²⁵ Consumer Focus, In My Honest Opinion, November 2012

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?

We believe that DCTs strive to achieve a high degree of regulatory compliance. Some products are more highly regulated; others considerably less so.

Regulators have acknowledged the fundamental role played by DCTs in promoting competition and innovation, as well as in delivering savings to consumers and providing a more efficient and cost-effective channel for new entrants.

Our primary concern relates to new DCTs or technologies that may not be adequately regulated, and therefore put at risk a consistent and level playing field across all DCTs, existing and new.

DCTs have helped to reduce barriers to entry, but there are some regulatory differences between sectors and so different standards are at risk of emerging.

For example, in digital products, DCTs are not regulated directly by Ofcom yet there is direct regulation in financial services.

Regulatory duplication is also a risk and a burden. Given its reach, CTM engages with a series of regulatory bodies. At the same time, it is our impression that DCTs are broadly treated on the same basis as suppliers; however, this does not recognise that our purposes and business models differ materially.

Innovation and pace of change is inevitable in the fast-moving sector of DCTs. The UK Regulators Network has noted how regulators should reflect on the impact of future market improvements and seek to ensure that any steps taken facilitate innovation to support consumers' interests.

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?

While the products which DCTs compare vary significantly (from insurance and credit cards to energy and broadband) and will involve different inputs and investment, the customer-facing function carried out by the DCT is often similar, which is to enable customers to assess the relative merits of competing products and providers.

A set of cross-sector principles relevant to DCTs (perhaps supplemented with sectoral guidance in respect of more complex products), which would support appropriate levels of accuracy and transparency on the part of DCTs without delegating to them supplier responsibilities to meet the standards set by sectoral regulators, could result in a number of benefits (ranging from increased investment to a more consistent consumer offering).

CTM would be willing to engage further with the CMA on this issue.

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

CTM would welcome further engagement with the CMA to discuss ways of achieving more consistent regulation that recognises DCTs' distinct role to that of suppliers. Although DCTs outcomes are the same for consumers - getting the right product at the right price - the levels of disclosure and scrutiny should recognise the different nature of the DCT service against that of a supplier.

Potential solutions to a new regulatory dynamic could include a specialist DCT contact at each regulatory body or a memorandum of understanding between all bodies to ensure consistency.

We believe in targeted, practicable and proportionate regulation where the focus is on the effective functioning of a financial services sector that operates in the best interests of consumers. An effective financial services system should be trustworthy, principled, resilient, transparent, relevant to customer needs and sustainable

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?

The DCT sector is undergoing significant change as highlighted in Chapter 9, and CTM considers that the CMA has identified a number of sector features, ranging from increased mobile use to greater personalisation, which will influence how DCTs evolve and engage with customers.

Established DCTs, such as CTM, will continue to face significant competition, not simply from existing distribution channels (such as traditional brokers or suppliers' own websites) but also from a range of new service providers (e.g. metasearch, review sites etc.).

In terms of the most important potential developments, it is particularly interesting to compare the trend identified by Kantar, which reveals that the most common reason for consumers not 'shopping around' is where "*...the offer from the supplier [is] just what they wanted*"²⁶ and considering whether this trend will become more pronounced as suppliers are able to rely increasingly on Big Data to inform their marketing and pricing.

Indeed, while presenting many benefits, Big Data and increased personalisation may, in fact, have an adverse impact on consumer engagement, unless DCTs are able to market a strong customer proposition themselves (which will be influenced by a range of factors, from access to data to MFNs).

²⁶ See footnote 1 above, Kantar Report, page 17

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

It is clear that technology within the DCT space still has its part to play in assisting these consumers to achieve better outcomes, although technological advances are not the only answer (not least because of varying levels of access to and familiarity with technology²⁷).

Moreover, the effectiveness of any change will, inevitably, be influenced by the regulatory framework in which it operates (for example, the need to strike a careful balance between giving the consumer enough information to enable the consumer to make an informed choice and not overwhelming the consumer with information that, while useful, will result in the consumer becoming bored, confused or otherwise disengaged from the comparison process).

In terms of technological change relevant to DCTs that might help vulnerable consumers going forward, this will be influenced by the following developments:

- ensuring DCTs have greater access to the information necessary from suppliers to make the comparison process as easy as possible for all consumers;
- optimising online journeys (across the online comparison and switching process) so that consumers have enough of the right information, presented in a way that is clear, to make an informed choice quickly and cheaply (which in part relies on conditions which support the current cost-per-acquisition model); and
- more specific advances, such as harnessing conferencing technology to enable customers to chat to advisers remotely, whether via PC, smartphone or tablet to ask questions and refine their requirements (to take into account non-standard or difficult circumstances).

²⁷ For example, the British Banking Association's paper on Improving Outcomes for Customers in Vulnerable Circumstances (February 2016) also highlights the importance of other (traditional) routes to market as a complement/alternative to technological advances for those who prefer not to transact online (for whatever reason).

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?

CTM regards itself as an important consumer champion. While it is a commercial organisation, its success is predicated on delivering real savings for consumers and putting consumers in control, enabling them to differentiate between products and exercise choice where previously such an exercise would have been laborious and uncertain. At the same time, CTM is keen to improve its consumer proposition and welcomes the opportunity to support the CMA in its further work in this area.

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

Yes / No
(please delete as appropriate)

Thank you for taking the time to complete this form.

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

Or post it to:

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