

## About BIBA

The British Insurance Brokers' Association (BIBA) is the UK's leading general insurance intermediary organisation representing the interests of insurance brokers, intermediaries and their customers.

BIBA membership includes just under 2,000 regulated firms, employing more than 100,000 staff. General insurance brokers contribute 1% of GDP to the UK economy, they arrange 52% of all general insurance and 78% of all commercial insurance business. Insurance brokers put their customers' interests first, providing advice, access to suitable insurance protection and risk management. BIBA is a not-for-profit organisation.

## 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?**

We have chosen not to answer this question.

**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?**

We have chosen not to answer 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?**

The effect that Most Favoured Nation (MFN) clauses have had on the personal line insurance market is significant. They are responsible for a price discrimination against customers who choose to go direct. This is due to the fee – referred to as 'cost per acquisition (CPA). Many BIBA members report typical CPAs of around £60, but over £160 for some commercial motor products – adding significant costs which are ultimately born by the consumer. Many BIBA members would like the opportunity to offer the same product on their own website at a discounted rate, however are hamstrung in their ability to do so by these damaging clauses.

MFNs also encourage insurance providers to rely on providing loss-leading premiums in an attempt to recoup the significant CPAs outlaid to gain the customer. Again, this does not work to promote competition.

MFN clauses were reviewed by the CMA in 2015 and 'wide' MFNs were deemed anti-competitive and were subsequently outlawed, meaning that for the first time providers could now offer the same rate on other DCTs. However, 'narrow' MFN clauses were allowed to continue, meaning that those same insurance providers are not able to offer the same or lower price through their own website.

MFN clauses are anti-competitive by their very nature as they severely limit the ability of insurance providers to compete. BIBA members find it illogical that a regulator whose remit is to ‘promote competition’ would not remove such a significant barrier to being able to compete.

If BIBA were to recommend one change that could be made to result in a more-competitive market with better outcomes for customers, it would be to extend the ban to narrow MFNs in addition to wide MFNs.

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

We believe that this question should be centred more around ‘what factors have we missed that promote better customer outcomes’, rather than an approach that is geared to promoting one form of distribution over another.

As referenced in our responses to the CMA’s consultation, we referenced a review the Financial Conduct Authority undertook in to DCTs, which display their results in a list of providers ranked by a single criterion – in this case price. According to the FCA in their thematic review TR14/11, this leads to a misconception amongst customers that they have received advice:

*"Our customer research also indicated that some consumers believed that the PCW had provided them with advice or guidance. They believed that the PCW had provided them with quotes on the best policy for their needs, had assessed the suitability of the policy for them or gave assurance regarding the security of the provider."*

Further, if the insurance industry is seeing their potential customers making the decision to purchase a policy is based upon price alone, this acts a market driver for providers to deliver stripped-back policies that do not necessarily meet the demands and needs of the consumer, but fulfil the goal of being cheap; both in the financial sense as well as in quality. This is not in the interests of consumers, or the insurance industry.

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

The storage and use of data is becoming increasingly important to consumers the more it is used. BIBA also shares these concerns. There have previously been instances where customers’ information has been sold on for marketing purposes.

We share the [Information Commissioner’s concerns](#) that “overwhelming and unwarranted” levels of marketing mail could therefore be sent to households and it would be an “intrusion on individuals’ privacy”.

We believe that plans to enforce data sharing should be shelved, with a greater focus on helping customers understand the products they are buying, rather than a focus on skewing a market to one distribution channel by giving DCTs a commercial advantage.

BIBA has also highlighted issues to do with the way that information is collected by DCTs.

One example of DCTs not providing suitable cover we are aware of is that of a couple looking to buy insurance for their home.

The applicant answered a series of pre-qualifying questions in the DCT's site, collating information designed to be directed to one or more intermediaries or insurers which, after their own supplementary pre-qualifying data collection, may offer a quotation.

A question for household insurance asked whether the property was located within 400 metres from a river and was answered 'Yes'. When transferred over to the provider's website the question changed to within 200 metres of a river and the answer defaulted to 'No'. As a consequence, the consumer may end up with a policy that was unsuitable for their needs.

When the property flooded, the insurers refused to pay the claim and the insured sought the help of the Financial Ombudsman Service (FOS) to obtain redress.

The FOS decided that the Insured should be permitted to rely upon the answer given to the first question.

***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?***

As referenced in our answer to Question 4, we share the belief of the FCA that ranking on a single criterion, price, leads to the impression that customers have been provided advice. Consumers then make a decision based on price under the misapprehension that the products being compared are similar or broadly similar. Unfortunately, products have been made cheaper by the process of hollowing out and policies at different price-points cannot be compared on price alone.

There should be greater emphasis on ensuring that customers understand the key difference between products, rather than driving decisions on price alone – something which without doubt, does not provide good consumer outcomes.

Further, BIBA members report that a further unintended consequence of MFNs is they reduce the level of multi-homing as they lead to a 'levelling-out' of premiums across DCTs. Long-term, we believe that this makes consumers less likely to use multiple DCTs as the same premium can be found on multiple sites.

We are pleased that the CMA have acknowledged in the update paper that that consumers believe DCTs compare all or most of the market. This is not the case and the fact that the same providers have different 'badged' products on DCTs further adds to this 'illusion of choice' the is presented to consumers.

We are also aware of some DCTs 'turning off' providers' services if their conversion rate isn't at the level the DCT wants – even if they rank highly in terms of price. This manipulation of ranking criteria promotes some providers over another with little transparency to the customer.

## **Inputs to DCTs**

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

As referenced in our answer to Question 4, we believe that the focus on this study is too heavily skewed in promoting one distribution channel over another – something which is inherently anti-

competitive in its nature. BIBA would like to see a greater focus on better customer outcomes – something which is not dependent on price alone.

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

The issues identified go some way towards deliver good customer outcomes; however, allowing DCTs to operate effectively by discriminating against other distribution channels is not compatible with that approach.

In our response to the last consultation we reported a particular issue with encouraging churn when it came to pet insurance. Many of the products offered are for accident only, excluding illness cover. The potential impact of this and the importance of illness cover (which is readily available) is not sufficiently made clear to the consumer. If they move provider, usually pre-existing conditions are not covered – effectively meaning that once they move provider, any health condition that pet has had will no-longer be covered. Claims for illness cover can run in to many thousands of pounds and not having cover can leave the owner with a decision of either having to raise the necessary funds, or leave the animal untreated. Promoting churn which has consequences such as these is both unnecessary and unacceptable.

As referenced in our answer to Question 3, MFN clauses lead to an ineffective market that restricts the ability of a direct provider such as insurer or broker to offer a more competitive premium. This is not a good customer outcome.

High CPAs with a lack of downward market pressures acting on them lead to an increased cost of doing business which is ultimately borne by the customer. This is also not a good customer outcome.

An undue focus on price leads to hollowed-out policies and customers being mistaken that they are receiving advice on the best product for them. This also results in poor customer outcomes.

Banning all MFNs would go some way to allowing a balanced market to operate, providing genuine choice, reducing the cost of providing products and would give an opportunity to differentiate on factors other than price, such as quality of cover – something which is difficult to do under the current situation.

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

Please see answer to Question 7.

## **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?**

As referenced in our original response to the consultation, we believe there is a strong correlation between media spend and the strength of the DCT. With advertising spends of between £20-30m

per year, this far outweighs bodies such as the Money Advice Service in terms of ability to get a message across.

This huge advertising and marketing spend is funded by the exorbitant CPA fees levied at insurance providers – a cost ultimately borne by the customer.

The grip that existing DCTs have on the insurance sector can be [evidenced by the inability of even firms the size of Google](#) to be able to compete in the market.

**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?**

Please see answer to Question 10.

#### **Agreements between DCTs and suppliers**

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

The removal of wide MFNs, whilst retaining the ability for DCTs to enforce narrow MFNs has led to a situation where the net result has been very similar to that when wide MFNs were in operation.

BIBA members report a growing number of narrow MFNs into in contracts where previously they were not present. Some members feel this is an endorsement of MFNs by the regulator.

Banning narrow MFNs has not enabled greater competition and has continued to mean that premiums are very similar across multiple DCTs. A lack of divergence in price leads to consumers not using more than one DCT, resulting in a breakdown of competition. The only way to remedy this would be to also ban narrow MFNs.

**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 see responses to Questions 3, 6, 8 and 12.

**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?**

We have chosen not to answer this question.

**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?**

We have chosen not to answer this question.

**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?**

We have chosen not to answer 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)?**

We are not aware of any other agreements currently in place that affect competition, however, any regulation must be future-proof to ensure that anti-competitive practices cannot be developed – particularly relating to use and exchange of data.

One fear from the insurance broking sector is that DCTs might offer data on customers in return for other commercial advantages such as guaranteeing that their product wouldn't appear on other DCTs. As data becomes increasingly important, it becomes a currency in its own right and demonstrates that the concerns the Information Commissioners Office has regarding data sharing agreements has foundation.

One large brand-named insurance intermediary recently had to close with the loss of many jobs because of the reliance of the personal lines market on business from DCTs. When the DCT increased their CPA, the business model was no-longer feasible.

## **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?**

DCTs have significantly contributed to a commoditisation of insurance, moving from a system with many differentiated products to a system based upon undifferentiated price competition. As such, the pricing power of the insurer has been weakened, products offering less cover and there is a dangerous tendency to buy the cheapest. This has led to a 'hollowing out' of insurance policies – stripping back levels of cover in order to reduce the price and get them to the top of DCT listings. By focusing on price, rather than suitability or value, DCTs are encouraging a race to the bottom.

Further, the constant pressure on price takes away capacity for innovation. Rather than investing in new ways to improve a the value offering or customer's experience, the driver for the market is to lower prices in order to appear at the top of recommendations from DCTs.

Additionally, for those affected by flood, there is often a desire for reinstatement with more resilient materials – reducing the amount of time they would be out of their homes in the event of a subsequent flood, as well as suppressing the cost of repair.

Often, such materials can be more expensive and reinstating at or to an improved standard would be treated as 'betterment' by insurers. Because of the DCT initiated churn in the industry, many insurers are not willing to offer betterment in resilient repair as the real fear is the customer will head on to a DCT at renewal to seek a better rate and the investment from that insurer will be realised by another provider. The role that DCTs play in churn therefore stifles the industry's ability to respond effectively to a policyholder's needs.

Price is an aspect of suitability, the latter being an all-encompassing term which describes if a product is the best one for the customer. It is important to note however that there are many other

factors that influence suitability and an unhealthy focus on price works to the benefit of no-one – except the DCT.

The approach to advertising most DCTs use is to focus on price rather than suitability. This is demonstrated by the phraseology used such as “save £300 on your car insurance” – rather than focusing on value. Value and cheapness are two entirely different concepts.

As mentioned previously, the Financial Conduct Authority led a thematic review, TR14/11, into price comparison sites in the insurance sector. They found:

- DCTs did not always ensure that consumers were given the appropriate information to help them make informed decisions. This is particularly important as the FCA is concerned that consumers’ focus on headline price and brand when using DCTs could distract from crucial product features such as policy coverage and terms. By failing to provide clear information, the websites are increasing the risk that consumers may buy products without understanding key features such as level of cover or excess levels and purely focus on the price. While a few websites did provide this information clearly the level of clarity varied significantly depending on the provider.
- DCTs did not make clear their role in the distribution of the product or the nature of service they provided. For example, some consumers mistakenly believe that the price comparison website had provided them with quotes on the best policy for their individual needs and had assessed the suitability of the policy for them.
- Where a DCT had vertical integration they did not always disclose this potential conflict of interest, which is against FCA rules.
- Some DCTs have failed to fully implement FCA guidance published in 2011.

***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?***

There is no evidence to demonstrate that product reviews or product ratings have had any effect on the overwhelming determining factor being anything other than price for the majority of consumers using DCTs. It is also worthy of note that some DCTs default to ranking based on price.

***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?***

A greater focus should be given by DCTs to help explain differences in product – helping to dispel the myth that price is the only differentiator amongst the products listed. Further, banning MFN clauses could enable more providers to either offer the same policy at a heavily reduced rate because they are not paying a CPA to a DCT, or to add more cover for the same price. Under MFNs, it is not currently possible to do this.

In order to prevent un-bundling and hollowing out, more needs to be done by DCTs to enable customers to understand the products that they are buying, rather than focusing on price alone or marketing materials such as cuddly toys. Proper comparison of a product’s features would go some way to achieving this – rather than the tokenistic approach currently employed. BIBA has worked

closely with [redacted] who we have found to be co-operative with regards to addressing wider issues with DCTs. Their approach, and subsequent feedback from BIBA members is encouraging in terms of providing better customer outcomes.

## Regulation

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

Consumer outcomes should sit at the heart of this work. Currently, there is too much focus on how can we provide the cheapest product rather than a focus on what is the best product for the customer – of which price is only one factor of many.

As referenced above, the FCA's research found consumers felt they had been giving advice when in fact – none had been offered:

*"Our customer research also indicated that some consumers believed that the PCW had provided them with advice or guidance. They believed that the PCW had provided them with quotes on the best policy for their needs, had assessed the suitability of the policy for them or gave assurance regarding the security of the provider."*

This demonstrates that DCTs should be subject to a regulatory framework that takes in to account the service that consumers think they are receiving, not just the service that is actually offered.

### **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?**

A cross-sector approach might lead to an un-level playing field as financial services is much more heavily regulated compared to other sectors. As per our answer to Question 22, we believe an approach relevant to the product as well as the expectation of the service that is being offered would be the most appropriate route to take.

### **23. How could a cross-sector approach interact with existing regulatory frameworks? The future of DCTs?**

Oversight should be given by the most relevant regulator, in this case – the FCA. This ensures consistency with other distribution channels.

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?

We have chosen not to answer this question.

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

We have chosen not to answer this question.



Yours sincerely,

Graeme Trudgill

Executive Director, BIBA.