



## **ABI response to CMA update paper on Digital Comparison Tools (DCTs)**

### **The ABI**

The Association of British Insurers is the leading trade association for insurers and providers of long term savings. Our 250 members include most household names and specialist providers who contribute £12bn in taxes and manage investments of £1.6trillion.

### **ABI comments**

The ABI recognises that DCTs have been highly influential in transforming the online sales journey for major insurance products over recent years. They play an important role in the market, providing a convenient way for consumers to quickly compare a large number of similar products and make purchasing decisions. However, the increased use of DCTs has contributed to the negative consequences for consumers which we discuss throughout our response. DCTs should be recognised as one of a range of options available to consumers, rather than the primary distribution channel for all insurance sales.

It is vital that the CMA considers the impact of pricing clauses in detail through the second part of the market study. We would support a full ban of the use of wide MFNs for insurance products sold via DCTs. MFNs limit competition between DCTs, serve to increase prices for consumers, and act as a barrier to entry for new providers. We would also urge the CMA to consider placing additional restrictions on the use of narrow MFN clauses, which have similar negative consequences on competition. A ban on wide MFNs without further action on narrow MFNs would significantly limit the realisation of any expected benefits.

There are some improvements which could be made to both the level of product information available to consumers on DCTs and their ranking facilities. We consider that the FCA is best placed to oversee the implementation of any such developments resulting from this study, following on from its work on general insurance add-ons and its 2014 thematic review of price comparison websites. However, it is unrealistic to expect that DCTs will ever be able to provide full product details for the large range of insurance products listed across the market.

We consider that the CMA's focus on non-DCT users should primarily be concerned with the impact on competition in the interests of consumers. The CMA should not be focussed on driving more consumers towards DCTs, further strengthening the dominance of the big 4 within the market.

## **Response to consultation questions**

### **Consumers**

#### **1. Should we focus our attention on the consumer groups we identify in Chapter 5 (see paragraphs 5.82 to 5.95) and if not, what groups should we focus on?**

DCTs form a significant part of a mature and competitive insurance market. For many consumers, they provide a quick and easy way to compare a range of quotes for insurance policies when considering which product(s) to purchase. However, there are many other distribution channels which may be more suitable for different consumer groups at different times. Some consumers may prefer to access general insurance products direct from a known and trusted provider, particularly where they have had a previous claim settled. Others may choose to purchase face-to-face through an intermediary so that they can ask questions about the policy. Automatic renewals play an important role in ensuring motor and home insurance customers do not inadvertently become uninsured at the end of the policy term. Some consumers will determine that the benefits of shopping around do not outweigh the costs of doing so, and will actively decide to allow the policy to renew with their existing provider. In other instances, consumers may have specialist requirements that cannot be serviced by the major DCTs.

Furthermore, the FCA has already undertaken extensive work on shopping around in various financial services markets, including insurance. This has included introducing a requirement in April this year for insurers to disclose last year's price on renewal notices for all general insurance products, alongside messages encouraging consumers to check the level of cover they have and to consider alternatives. This was a measure first proposed by the ABI for home and motor insurance in July 2014, in order to increase transparency around the renewal process and the existence of introductory discounts. The FCA will review the impact of these measures over time and we consider that it is best placed to consider whether additional interventions are required to protect consumers that may not be shopping around at renewal.

We are therefore of the view that the CMA's attention on non-DCT users should primarily be concerned with the market practices and impact on pricing which is driven by the dominance of DCTs in certain markets. Parts of the update paper make the flawed assumption that DCTs are inherently beneficial to consumers in all circumstances. The CMA should not be primarily concerned with encouraging more consumers towards using DCTs where this may not best serve their requirements, and where other regulatory and industry-led initiatives are targeted towards ensuring good consumer outcomes.

#### **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 no comments.

**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?**

As outlined in response to question 1, we are of the view that this market study should primarily focus on the impact DCTs have on competition within the market. In particular, the existence of MFN clauses, both wide and narrow, have a detrimental impact on pricing competition by restricting insurers' ability to pass on cost savings to consumers not using DCTs. Whilst DCTs have driven an increase in the use of introductory discounts for insurance products, levels of shopping around and switching are high for insurance products in the UK, both compared with other regulated sectors and other national insurance markets. This is clearly evidenced within section 5 of the update paper. The FCA is continuing to review competition in financial services markets and proportionate protection for vulnerable consumers.

We have also published a Code of Good Practice regarding support for potentially vulnerable motor and household customers at renewal alongside the British Insurance Brokers' Association. This provides a basis for insurers and brokers to put a strategy in place that will deal appropriately and flexibly with vulnerability at renewal. The Code was published in January 2016, with participating insurers given 12 months to prepare for its commitments. An implementation report was published in February 2017, outlining some of the business processes and practices firms have introduced in response.

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

We have no comments.

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

The General Data Protection Regulation (GDPR) will apply in the UK from 25 May 2018. This will lead to significant changes in the UK data protection regime with a greater focus on customer control of their data. This includes the need for fair processing notices outlining how personal data will be used, consent for certain types of processing, consent for direct marketing purposes and a right to erasure of personal data held by an organisation. The ABI considers that the application of GDPR in the UK will provide customers with far greater control of their data and suitable safeguards. Therefore, we do not consider any further action by the CMA necessary.

**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?**

The method of ranking used by DCTs is very important in delivering value and sufficient protection to consumers and the ABI would welcome further regulatory intervention in this area. In particular, where consumers select to pay for insurance by monthly instalments, results are still often ranked by the single annual premium, rather than the sum total of the monthly payments. This can lead consumers to inadvertently select a more expensive option,

with lower income households most at risk. We are also of the view that more can be done to help consumers compare the level of cover offered and understand applicable fees, charges and excess levels.

The FCA introduced guidance on information provision for online quote journeys following its GI add-ons market study. This aimed to ensure that consumers are able to compare the total cost of a core insurance policy alongside the most common optional additions. This has driven some improvements in the way insurance products are presented to consumers in order to increase engagement and informed decision making. The CMA update paper recognises the extent to which the balance of negotiating power lies with DCTs for insurance products, and in this context it was vital that there was regulatory pressure and industry support to ensure that the required changes were implemented. If the CMA determines that further changes should be made to the way insurance products are presented on DCTs, we would expect the FCA to ensure that the DCTs, as regulated entities, are compliant.

## **Inputs to DCTs**

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

We have no comments.

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

We have no comments.

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

We have no comments.

## **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?**

We have no comments.

**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?**

Our view is that the primary barrier to entry for new DCTs is the existence of MFN clauses. This prevents DCTs with a lower cost base from competing effectively on price.

## **Agreements between DCTs and suppliers**

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

The banning of wide MFNs in the private motor market has been a significant intervention which has had a positive impact on price competition. We strongly support a full ban on the use of wide MFNs by DCTs. The big 4 DCTs occupy a dominant position in the market, commanding significant commission fees in order to support extremely high marketing costs. These costs are ultimately borne by consumers, whether or not they use DCTs. In the absence of significant price competition, the key differentiator of DCTs for consumers has become branding and brand identity, which does not support good consumer outcomes.

The continued use of narrow MFNs has prevented the full benefits of competition being realised and we would recommend that the CMA strongly considers further action to limit the negative impact of such clauses.

### **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)?**

Narrow MFNs limit the ability for providers to pass on cost savings to consumers where they are able to achieve lower acquisition costs. In order for a provider to maintain a margin it must pass on any fee increase by the DCT to the consumer. Consequently, narrow MFNs have similar effects to wide MFNs in protecting DCTs from competition with firms. There is no detriment to the DCT in increasing its commission as an increase results in an insurer's prices increasing across all traffic sources for the consumer. Furthermore, new entrants and small providers will not be able to achieve the same economies of scale as larger providers when negotiating their MFN rate and as such their margins will be smaller.

Whilst firms could create alternative products for direct sale to customers to circumvent contractual obligations arising from narrow MFNs, this is not practicable as it confuses customers to have multiple products that appear to be so similar, and the market dominance of DCTs would allow them to threaten to delist a firm's products for taking such an approach.

Therefore, we do not agree that there is a material difference in practice between narrow MFNs and wider ones, particularly for insurers who are seeking to distribute both directly and through DCTs.

The DCT distribution channel is well established as an outlet for sales of insurance policies. As a result, we question why it should require extra protection through the continued use of anti-competitive narrow MFNs. A full ban on MFNs would make circumvention more difficult and would increase competitive constraints on commission levels, to the benefit of consumers.

### **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?**

Non-brand bidding agreements serve to keep costs down for product providers, which in turn keeps costs lower for consumers. The removal of non-brand bidding clauses would increase marketing spend further without any clear consumer benefit.

**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?**

Non-resolicitation agreements are a proportionate measure to ensure that no single DCT can dominate the market and therefore control the cost base. As identified by the study, levels of shopping around and switching are already high for insurance products. In response to question 1, we highlighted that the FCA has also introduced a disclosure remedy to ensure that consumers are actively engaged with their insurance renewals.

The implication of removing non-resolicitation agreements would be a further reduction in customer lifetimes on products, alongside an increase in marketing spend from DCTs. This would be likely to create an inflationary cost on premiums as consumers would in effect be paying annually for DCT commission costs, where this is currently not always the case.

**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 no comments.

**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 have no comments.



## **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 should be considered a shop front for customers to look at different products in the market. As a simple comparison tool, the amount of information that a DCT can provide a customer regarding product quality will always be limited. For insurance products, it is necessary for consumers to consider the product information presented on a provider's own website before making a final purchasing decision. However, it is important that the comparison provided by a DCT prior to click through provides sufficient information that customers have a fair and balanced idea of the products they are viewing. It is equally important that any products displayed on a DCT are relevant to the demands and needs of that customer. We anticipate that implementation of the Insurance Distribution Directive in February 2018 will further support this requirement.

One consequence of the increased use of DCTs has been to significantly reduce the appetite of firms to develop propositions that cannot be communicated through DCTs. This has led to greater product standardisation and harmonisation. This can act as a restriction on innovation and lead to an undue focus on headline price reduction by firms in order to remain competitive on DCTs. This can result in low headline prices hiding excessive fees, for example cancellation fees or mid-year charges, and high excesses which are not easily visible to the customer on the DCT. Therefore customers may end up paying more for the 'cheapest' product on a DCT than another product with a higher headline price.

### **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?**

We support the intent of rating products on DCTs and would encourage the development of multiple rating systems to stimulate competition. The danger with a standardised rating system is that it can lead to gaming by firms who deliberately set cover levels to gain a particular rating, where this may not best serve the requirements of their intended target market. A lower rated product may meet an individual customer's requirements sufficiently, so it is important that consumers have access to a wider range of product information and are not directed to make decisions on the basis of product ratings alone.

We would also encourage DCTs to display more service quality information as this can reassure customers and also enable greater competition by enabling new market entrants to build brand reputations more easily.

### **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?**

We are supportive of the FCA's work to ensure that common add-ons are presented on DCTs. This allows consumers to compare a wider selection of products before clicking through to a provider's site. We would welcome further developments which allow for a broader range of product information to be displayed on DCTs, although we note the practical challenges this presents where additional products are priced on an individual basis.

The increased use of DCTs has, to some extent, reduced the appetite of firms to develop innovative propositions that cannot be communicated through DCTs. This has led to greater product standardisation and harmonisation. It also leads to a focus on headline price reduction in order to remain competitive on DCTs. However, this low headline price may be offset by fees for cancellation or mid-term adjustments, and high excesses. It is therefore important that DCTs provide sufficient information about the terms of the policy, including potential additional costs, so that consumers can make an informed decision.

## **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?**

We are of the view that it is appropriate for DCTs to continue to be regulated by the FCA as intermediaries for insurance sales. This ensures that they are required to meet the same customer standards as for other intermediated distribution channels.

### **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?**

We have no comments.

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

We have no comments.

### **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 no comments.

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

We have no comments.