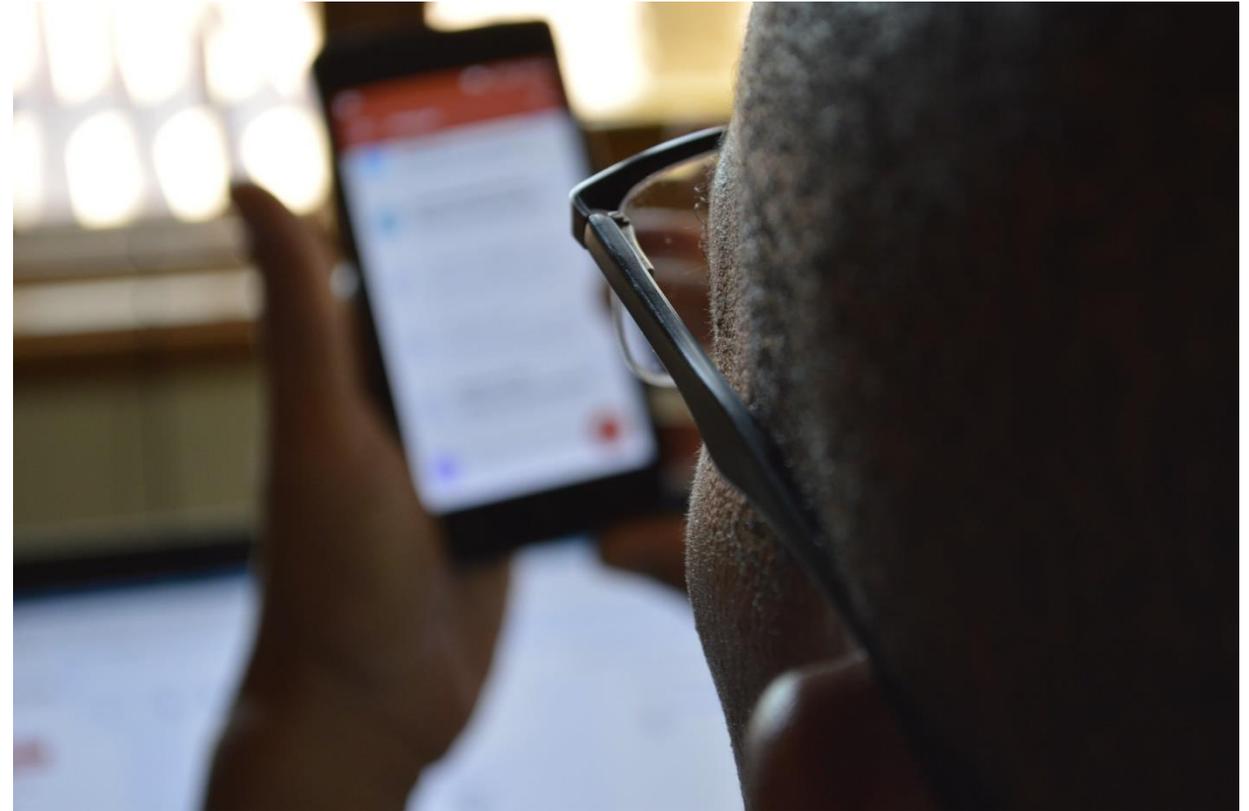


Digital markets and new challenges

The CMA's priorities (2016/17)

1. Consumers' access to markets and barriers to decision-making
2. Online and digital markets
3. Technology and emerging sectors
4. Regulated sectors and infrastructure markets
5. Markets for public services
6. Sectors that are important to economic growth



Demand-side challenges in key markets



**Private Motor
Insurance
(2014)**



**Payday
Lending
(2014)**



**Energy
(2016)**



**Retail
Banking
(2016)**

Public perceptions of DCTs

*“...some energy price comparison sites have been behaving more like **backstreet market traders** than the trustworthy consumer champions they make themselves out to be”*

Tim Yeo MP

Chair, Energy and Climate Change Committee

PRICING SITES TO HIDE HALF OF ENERGY DEALS

The Sun

30 March 2017

SHOULD YOU TRUST COMPARISON SITES? SAVERS FOUND TO HAVE LOST £500 WITH CONFUSED.COM

The Daily Express, 9 June 2015

“Price comparison websites must do what they say on the tin. Consumers expect price comparison sites to shine a light on the whole market, not keep them in the dark and push them into commission earning deals.”

Angus MacNeil MP

Chair, Energy and Climate Change Committee

Why perceptions matter

- They affect outcomes – usage, trust and scepticism
- Consumers need to understand what the service they're getting is and what they are not getting.
 - Shop window?
 - Trusted Advisor?
 - Consumer champion?
 - Commercial enterprise?



What did we do?

Overview: a study in numbers

149
Formal responses

100+
DCTs, suppliers and stakeholders that we have met

4,000
consumers surveyed

32
Detailed face-to-face interviews with consumers

3
Workshops with DCTs suppliers and trade bodies

8
Roundtables with sector regulators

1
Roundtable with charities and consumer groups

31,634*
Words in main report

2
Children born to project team

56
DCTs reviewed as part of mystery shopping

74,000
Words in supporting papers

*At time of writing these slides...

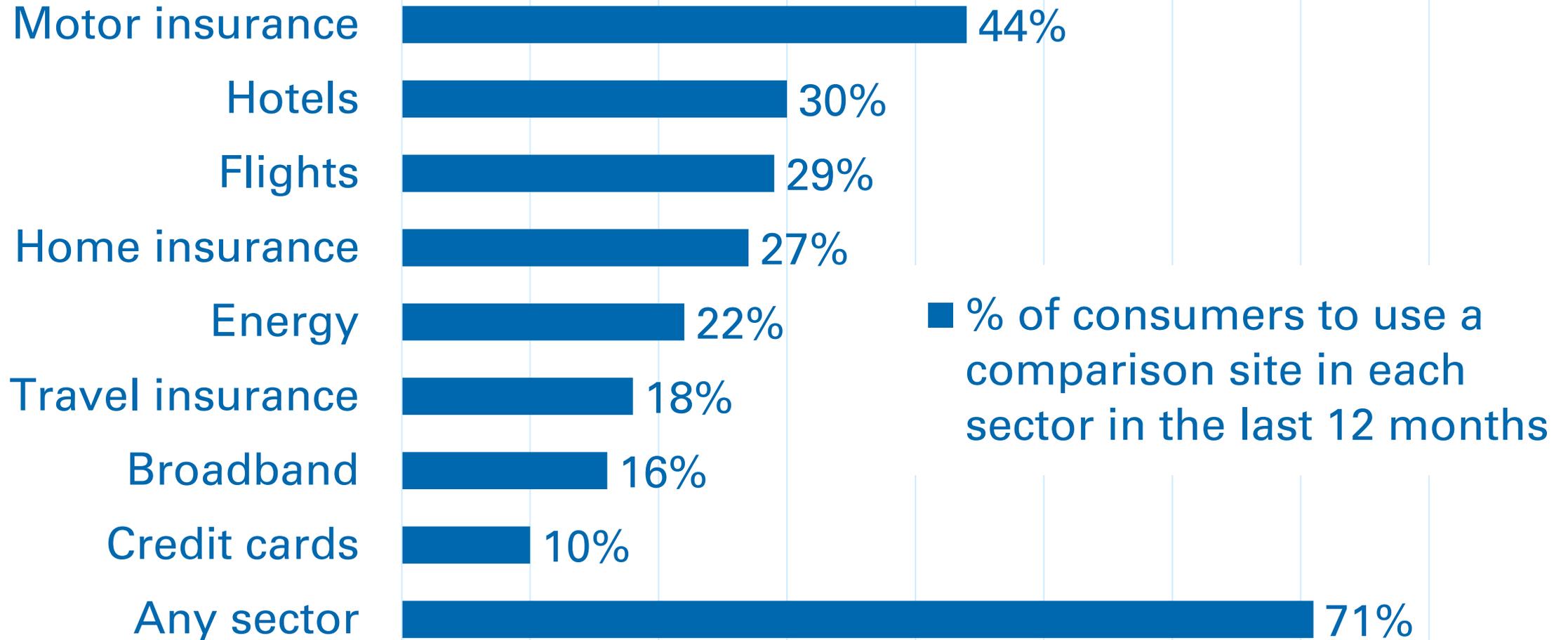
Our report and themes

- “Short” main report with 5 papers exploring themes and evidence in greater depth
 - A – Consumer views, behaviour and experiences
 - B – How DCTs treat consumers
 - C – The application of the law and regulation to DCTs
 - D – How to make comparison easier and more effective
 - E – Competitive landscape and effectiveness of competition
- Consumer research, data tables, web sweep and mystery shopping
- All available on: http://bit.ly/Comparison_Tools



Consumers: trust and behaviour

Which sectors?



G8. And as far as you remember, when was the last time you visited a comparison site as part of shopping around for the following products or services?
Please select all that apply?

Base: All consumers (4,083)

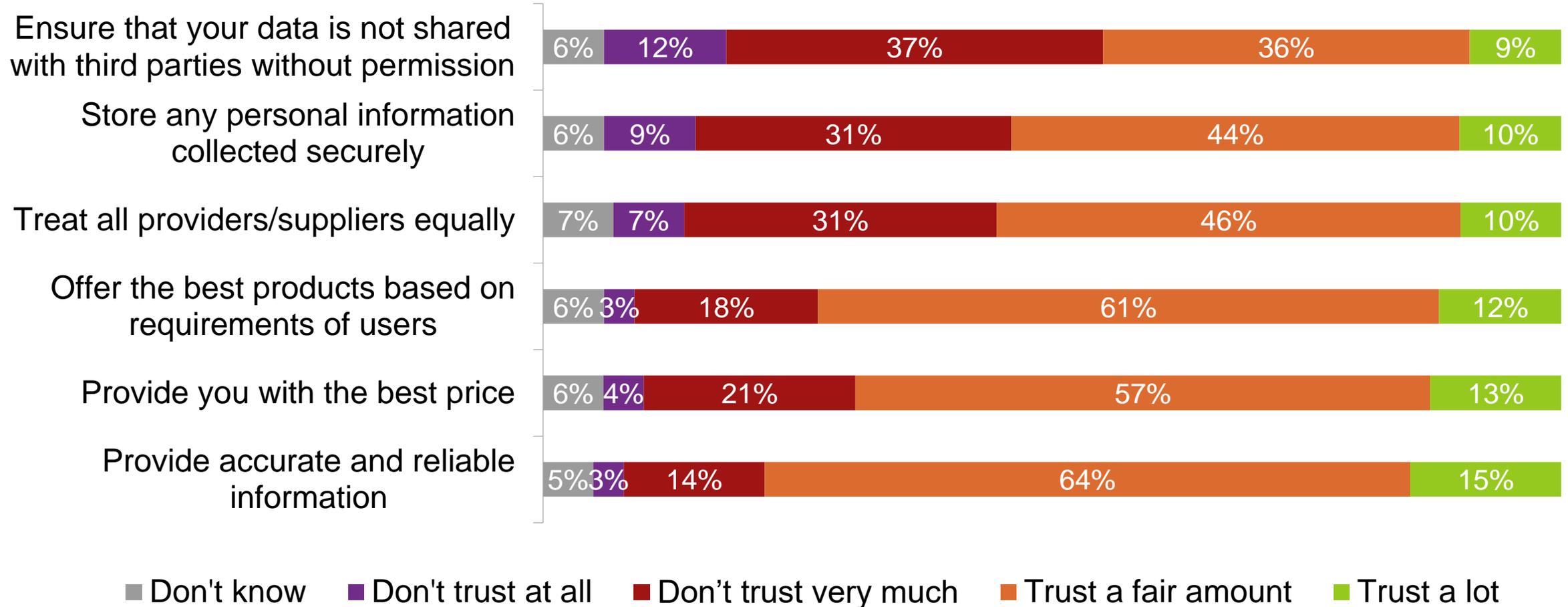
Why do people use DCTs?



M6. Why did you use [a] comparison site on this occasion? Please select all that apply.

Base: Consumers who have shopped around using a comparison site in the last three months (1,668)

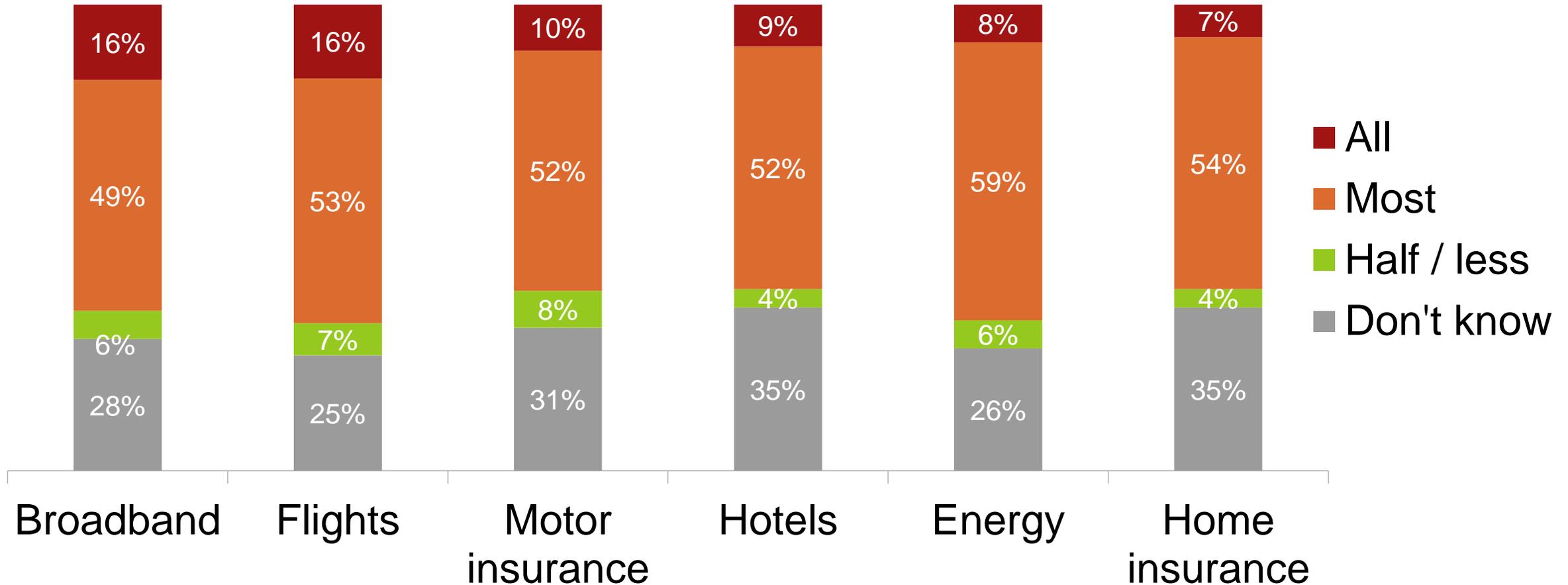
Consumers trust DCTs but less so with their personal data



A3. Based on your experience or understanding of comparison sites, to what extent do you trust them in relation to each of the following?

Base: All consumers who are aware of comparison sites (3,958)

Perceptions of coverage



E14. Now think of all the providers/suppliers who offered this product/service. How many of the providers or suppliers for [PRODUCT] did the comparison site cover?

Base: All who have used a comparison site in the last 3 months (Broadband: 182; Flights: 508; Motor insurance: 235; Hotels: 177; Energy: 267; Home insurance: 210))

Regulation

Regulating price comparison?

“Price comparison websites have helped millions get a better deal on essential services but consumers do not always trust them. To ensure the opportunities they provide are being fully realised, the CMA plans to undertake an analysis of price comparison websites during 2016.

Among the issues to be considered will be whether there is a case for a common accreditation framework; whether lack of access to free, readily-available tariff data is a barrier for innovative and new price comparison websites; and whether price comparison websites in specific sectors should be subject to more rigorous propriety and transparency standards.”

HM Treasury, November 2015 A better deal: boosting competition to bring down bills for families and firms

A complex regulatory landscape – sector specific regulation and general law

General law

Competition law

Consumer protection

Data protection

Equality law

+

Relevant sector-specific regulation

Key

Business type

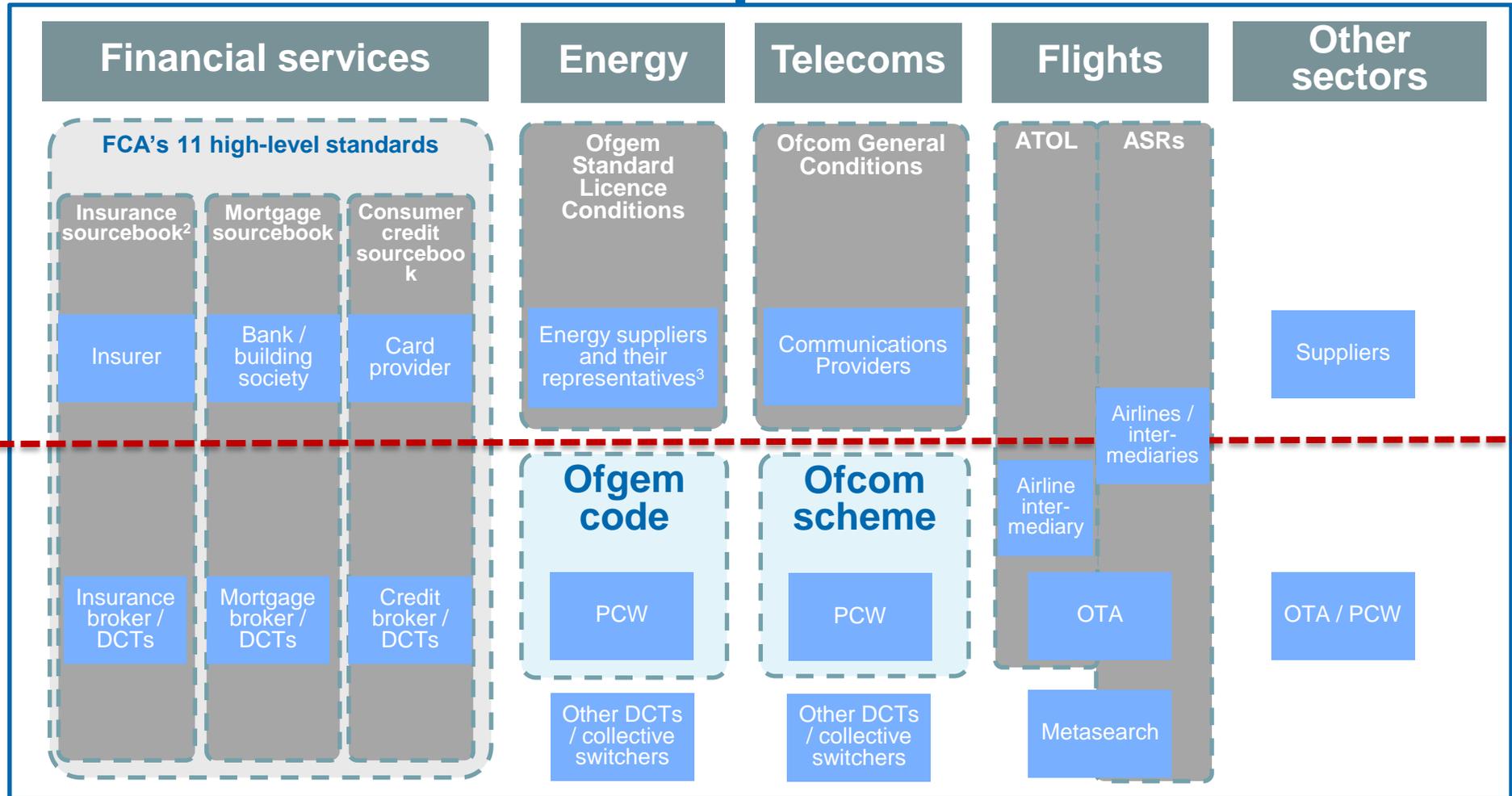
General Standards

Rules

Voluntary scheme

Suppliers

Intermediaries



Voluntary schemes – energy and telecoms

- DCTs are outside the scope of formal regulation...
- ...even though they do similar functions
- The voluntary codes have developed to address this gap
- In energy, in particular DCTs they have effectively become a requirement
- Risk that requirements imposed through a voluntary code can be excessive
- Not subject to the same standards of scrutiny as formal regulation

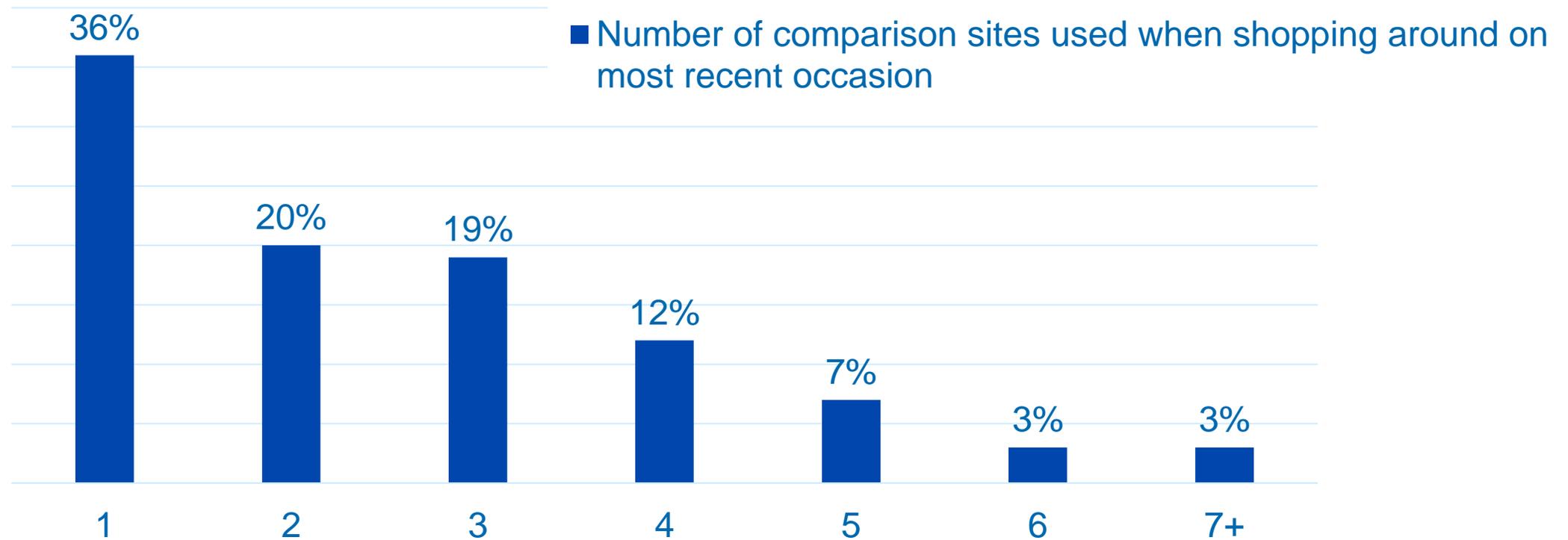
Competition

Benefits to consumers require a competitive market

- Wider impact of DCTs implies that it is important to have confidence that competition is effective
- In a competitive market DCTs have stronger incentives to:
 - increase engagement
 - innovate
 - facilitate price competition
- ***But – there are significant risks if this isn't the case***

How many DCTs do people use?

Around 60-65% of consumers said they were using multiple DCTs to shop around...



But our analysis of quote data showed that only 10-30% of consumers multi-home when looking for insurance

How do DCTs compete?



- Vigorous brand competition between the largest DCTs
 - DCTs with greatest increases in revenue also increased their advertising spend the most
 - Five largest DCTs spent **£438 million on advertising** in 2016
- But, one clear market leader in each sector with 40-60% share of DCT business
- Compete with suppliers' direct channels but are typically a cost effective way of generating business
- White-label providers allows DCTs to offer a broad range of services to their customers

Risks to effective competition?

- **Most favoured nation / price parity**
 - **Wide** – suppliers restricted from offering lower price on any other channel including other DCTs
 - **Narrow** – suppliers restricted from offering lower price on their direct channels
- **Non-resolicitation**
 - DCTs restricted from contacting customers for a fixed period (typically aligns with length of standard contract)
- **Hollowing out**
 - Excessive focus on price leading to under-provision of quality

Wide - Most favoured nation clauses

Case against: Can act as a barrier to entry and growth by other DCTs – rival DCTs can't offer to cut commission in exchange for lower prices.

Case for: Can help credibility of proposition - providing consumer with reassurance that they are getting best prices

Finding: Econometric analysis of commissions in motor insurance shows that since the removal of wide MFNs commissions have been lower than they would otherwise have been supporting the view that they weaken competition between DCTs and can lead to higher prices to consumers.

Narrow - Most favoured nation clauses

Case against: Narrow MFNs have a weaker direct effect on competition, but under certain conditions can replicate the effects wider MFNs.

Case for: Can help credibility of proposition – reassuring the consumer that they are not paying more than they could from going directly to the supplier.

Finding: We would have concerns about narrow MFNs becoming broader than is necessary for achieving the efficiencies they can bring.

Non-resolicitation clauses

Case against: May reduce consumer engagement by removing prompts to shopping around and visibility of offer. Restrict innovation in marketing.

Case for: Can support lower introductory prices. Rapid resolicitation could reduce supplier incentives to appear on DCTs if unable to recoup commission. Counteract single-homing on DCTs by preventing incumbent targeting users.

Finding: Evidence suggests that these clauses do not currently have a material impact on consumer behaviour in the sectors we have looked at but potential to do so means they remain of interest.

Hollowing-out and unbundling: DCTs and quality



Do DCTs lead to hollowing-out and a decrease in quality or do they help consumers choose the bundle they want?

- Some insurers have created DCT focused brands, or tiers of cover
- Not clear that DCTs have led to hollowing out – overall quality of cover in insurance appears to have gone up – consumers respond to quality metrics when choosing from results
- Consumers buying insurance on DCTs don't appear to have worse outcomes when claiming.



Inputs

Where could data be freed to make comparison better?

Consumer usage and existing product – broadband, mobile, credit cards, energy and general insurance – making it easier for DCTs to identify the most appropriate deal

Tariff data – mobile telephone & energy – making comparisons more comprehensive and based on up to date prices

Product eligibility – credit cards – making comparisons more relevant

Product or supplier performance – conveyancing, broadband, mobile – making comparisons about more than price

Product data – flights – helping consumers understand what to expected

Next steps and recommendations

- **Sector generally a force for good...**
 - Consumer experience generally favourable
 - Consumers generally “savvy”
- **.....But more can be done to make sure benefits are felt as widely as possible...**

A range of proposals

General themes:

1. **Improving trust** – clearer “ground rules” for DCTs
2. **Regulation** - ensuring that the regulatory framework has adapted to increased role of DCTs
3. **Effective competition** – monitoring risks and enforcing competition law
4. **Consumer protection** – necessary powers for enforcement action
5. **Changing our approach to data** - so that benefits are maximised

Consumer messages

1. Comparison sites can save you time and money
2. Choose carefully between comparison sites, like you would any retailer
3. Not all sites are the same, so try more than one if you can
4. Check how the site has ordered results



DCTs should treat people fairly by being...

Clear

- Explain their services and how they make money

Accurate

- Provide information that is complete, correct, relevant, and up-to-date and not misleading

Responsible

- Protect people's details and be easy to deal with

Easy to use

- Make information easy to find and understand

Clear

Accurate

Responsible

Easy to use

- Prominently provide a general explanation of how they make money
- Clearly explain how much of the market they cover
- Explain any ownership links with the suppliers they show
- **Clearly explain how they have ranked the results presented**
- Clearly state when and how commercial relationships have affected the results presented
- Make the total costs, including any compulsory charges, clear to consumers
- Clearly explain promotional offers
- Ensure all advertising is clearly identifiable

- Enforcement action against a DCT imposing Wide MFN clauses in home insurance
- Recommendations to regulators on effectiveness of quality metrics and promoting multi-homing
- We will keep MFNs, non brand-bidding, negative matching and non-resolicitation agreements under review. **Companies operating DCTs or supplying services via DCTs should review their contracts in light of our comments on these agreements.**

Other regulatory recommendations

- DCTs should be brought within the scope of sector-specific regulation in energy and telecoms
- Changes to Ofgem/Ofcom accreditation schemes
- Implementation of GDPR should be undertaken in a way that encourages multi-homing
- Regulators should be given fining powers for breaches of consumer law
- Regulators should use the CARE principles as part of their enforcement

Changing our approach to data

Working with the regulators to enable intermediaries and other market operators to work even better by:

- **Acting as a catalyst for innovation**
- **Developing infrastructure and interfaces**
- **Improving DCT access to comparable product information**
- **Improving DCT access to consumer information**
- **Facilitating comparison with open data**

What's next?

- Government is committed to responding to CMA recommendations within 90 days
- Work with UKRN and the sector regulators on the use of the CARE principles and other areas
- We have an ongoing programme of consumer law compliance and enforcement work in digital markets, including DCTs
 - Ongoing work with car hire DCTs to improve the information they display
 - We have been considering consumer protection issues in the hotel booking sector and will be announcing our next steps in the coming weeks



Thank you!