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# Price comparison websites

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Final Report

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## About this document

The UK Regulators Network (UKRN) published phase one of its Consumer Engagement and Switching project in December 2014.<sup>1</sup> That report identified a number of areas which could usefully be explored further. One such area was the role of innovation in intermediaries, recognising that emerging developments in these may offer opportunities to improve market participation for many consumers, including those with lower levels of capability and capacity to engage.

In November 2015, the UKRN agreed to focus the next stage of the Consumer Engagement and Switching project on online intermediaries, in particular price comparison websites (PCWs), taking into consideration the impact of innovations and the regulatory challenges that these developments are likely to present. This report covers:

- the role of PCWs;
- understanding consumer expectations;
- how PCWs are regulated.

Since the project began, it was announced that the Competition and Markets Authority (CMA) would commence an investigation of digital comparison tools – including PCWs – in the autumn 2016. The UKRN has been working with the CMA and, in the light of the findings presented in this report, has made a number of recommendations to the CMA of areas it may wish to consider in its work. These recommendations have been published alongside this report, in an open letter to the CMA.

## Contributors to this document

The project has been led by the Financial Conduct Authority (FCA) with contributions from the Office of Communications (Ofcom) and the Office of Gas and Electricity Markets (Ofgem). The Civil Aviation Authority (CAA), the Legal Services Board (LSB), NHS Improvement, the Northern Ireland Authority for Utility Regulation (UR) and the Water Services Regulation Authority (Ofwat) have participated as observing regulators.

For further information on this report contact the [UKRN team](#)<sup>2</sup>.

## About the UK Regulators Network

The UKRN is a network formed by the UK's economic regulators:

- The Civil Aviation Authority (CAA)
- The Financial Conduct Authority (FCA), including the Payment Systems Regulator (PSR)<sup>3</sup>

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<sup>1</sup> UKRN, [Consumer Engagement and switching, Dec 2014](#)

<sup>2</sup> <http://www.ukrn.org.uk/contact/>

<sup>3</sup> Although it has competition and consumer protection functions, the FCA is not classed by HM Government as an economic regulator.

- Office of Communications (Ofcom)
- Office of Gas and Electricity Markets (Ofgem)
- Water Services Regulation Authority (Ofwat)
- Office of Rail and Road (ORR)
- Northern Ireland Authority for Utility Regulation (UR)
- The Single Source Regulations Office (SSRO)
- The Financial Reporting Council (FRC)

NHS Improvement, the sector regulator for health, participates in the network and its projects as appropriate. The Water Industry Commission for Scotland (WICS) and Legal Services Board (LSB) are contributing members which generally participate in projects as observers.

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## Foreword

Price comparison websites (PCWs) have developed steadily and organically over the last decade, gaining popularity among consumers and becoming the online tool of choice for those who want to secure a good value deal easily. They can help shoppers to feel more empowered by allowing them to compare prices and services from different providers in a matter of clicks. In addition, PCWs can stimulate stronger competition between firms, by helping to remove barriers to growth and encourage new entrants. And that is ultimately good for consumers too.

This report presents the results of collaborative work undertaken by the UK Regulators Network and it consolidates thoughts on how price comparison websites operate in the network members' respective areas. As well as producing a factual overview of PCWs, working together has offered a significant opportunity to learn from one another, in the spirit of knowledge-sharing that epitomises the UKRN.

When we set out to do this piece of work, we wanted to achieve a number of outcomes. First, we were keen to identify the benefits of PCWs for consumers and competition, second, analyse how potential risks could undermine the effectiveness of PCWs, and third, review the different regulatory approaches to dealing with these potential risks. Additionally, we wanted to explore how PCWs might develop in the near future, in terms of scope, reach and business models, and attempt to anticipate the challenges to regulation that we think innovation will bring.

Now that the report has been completed, however, I feel that we have achieved more than this.

Our work has culminated in a document that offers case studies of the three regulators who led the project – the Financial Conduct Authority, the Office of Gas and Electricity Markets and the Office of Communications - and their experience of the role of PCWs, how these are regulated and how they can drive a better understanding of consumers' expectations to ensure consistent service levels between firms. This document paints a picture of how shoppers interact with PCWs and the market at present. We intend it to be a benchmark for other regulators and a way to highlight to consumer groups where the potential provision gaps are, for example with regard to quality of information and accessibility.

The report has also created a number of springboards around topics that have emerged from the work, but that are out of scope of the current project. These key areas include: analysing the risks and benefits of setting up cross-sector principles for PCWs, how we can enhance the benefits of PCWs, for instance by considering the availability, storage and accessibility of personal data, and whether an increasing use of PCWs brings an excessive focus on price to the detriment of quality. We were keen for these points of further interest to be crystallised into a practical action plan and, as the Competition and Markets Authority started planning its investigation of digital comparison tools, we saw this as a unique opportunity to share our insights, which we have now done in an [open letter to the CMA](#).

I am confident that this report, and the emerging themes within, will be a useful reference guide for regulators and for consumer bodies, working to enhance the contribution that PCWs make to competition and consumer outcomes alike.



Dermot Nolan

## I. Executive Summary

- I.1. Price comparison websites have developed steadily and organically over the past ten years or so and have become popular in many countries and industries, in particular for insurance, energy, telecoms and credit cards. They play a key role in these sectors and others, and have become a popular tool with consumers. They not only allow users to cross-check prices and services from different providers in a matter of clicks, they also help consumers feel more empowered and informed by allowing them to:
- **access** information about the various offers available in the market;
  - **assess** these offers in a well-reasoned way; and
  - **act** on this information and analysis by purchasing goods or services that provide best value to them.
- I.2. PCWs offer benefits to consumers, when they navigate potentially complex purchases, and they reduce the search time comparing similar products in one place. There are also advantages for the product or service providers because they bring together shoppers and firms more easily and, in some cases, more cheaply than other acquisition channels. This can reduce the barriers to entry and growth that providers might otherwise face, it can stimulate stronger competition and innovation between firms, and encourage new entrants, resulting in further benefits for consumers.
- I.3. However whilst PCWs can bring benefits, their effectiveness as a tool for enhancing consumer engagement and competition may be undermined if consumers are unable to navigate the information presented to them, if they do not have confidence in the conduct or safety of the websites or if they do not shop around amongst PCWs to find the best deal.
- I.4. This report presents the results of collaborative work undertaken by the UKRN to consolidate thoughts on how PCWs operate in each of the network members' respective areas and to learn from one another.

## Structure of the report

- I.5. **Chapter 2** explains and analyses the approaches to regulating PCWs that are currently available.<sup>4</sup> Price comparison tools exist across a range of sectors under the auspices of regulators who work with diverse toolkits, and abide to different duties and powers. As a result, the way that various comparison activities are regulated is unique to their sector of origin.
- I.6. **Chapter 3** looks at the relationship between consumer experience and engagement with PCWs, as it is often the case that the better the experience of using price comparison sites, the more engaged

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<sup>4</sup> This report has been prepared from the view point of the UKRN and does not reflect the views of any particular member regulator. Therefore some of the content will apply to some regulated markets and not others. It should be noted that the report does not include, nor does it attempt to include, any guidance to a Price Comparison Website regarding any regulated activity it may, or may not be doing. In addition the report does not, nor does it attempt to, outline any expectations regulators may have for how a Price Comparison Website should operate.

the shopper becomes. In many cases firms operating comparison tools work across multiple sectors, and, possibly partly as a result, the way users interact with PCWs has similar features across these sectors, even when checking the prices of different products. Awareness and use of PCWs has been encouraged by regulators and competition authorities in a number of sectors as a tool to enhance the effectiveness of engagement between consumers and a range of suppliers. PCWs can play an important role in helping shoppers to be empowered and informed by enabling them to access information, assess it in a well-reasoned way and act accordingly to secure best value. PCWs can therefore help consumers navigate potentially complex purchases and reduce search costs by comparing products simultaneously and in one place. In some instances, PCWs can even help buyers better understand their consumption needs.

- 1.7. **Chapter 4** focuses on the potential risks that can impact on the effectiveness of price comparison sites. Whilst PCWs can contribute to improved outcomes for consumers and markets, regulators, consumer groups and government bodies have raised concerns about certain operating practices, which may limit the benefit of PCWs and in some situations result in consumer detriment.
- 1.8. **Chapter 5** explores anticipated developments that are likely to have an impact on appropriate regulatory policy towards PCWs, including the challenges posed by innovation, and how these may affect the current approach of regulators to PCWs.
- 1.9. **Chapter 6** concludes the review and sets out a number of themes that have emerged from the work, which may be relevant for regulatory bodies assessing whether and what regulatory steps to take to enhance the contribution that PCWs can make to effective competition and better consumer outcomes in the markets they regulate.

## 2. Regulation of PCWs

- 2.1. This chapter describes the broad oversight that can be applied to PCWs by using generic consumer protection regulations and competition law. In addition, the chapter reviews the sector-specific regulation that has built up with the development of PCWs.
- 2.2. Price comparison websites enable consumers to compare services and prices online. They can vary significantly in their market share, from the “Big Four” PCWs which, together, have the largest market share,<sup>5</sup> to very small, more targeted sites. They also differ in the range of options they provide: while some offer comparisons on a broad choice of services - from insurance to utilities -, others focus on a specific sector.

### General consumer protection and competition rules applied to PCWs

#### Consumer Protection from Unfair Trading Regulations 2008 (CPRs)<sup>6</sup>

- 2.3. The CPRs include a general prohibition of unfair commercial practices,<sup>7</sup> prohibitions of misleading and aggressive practices,<sup>8</sup> and 31 practices prohibited in all circumstances.<sup>9</sup> In some way this leads to a commonality in standards for PCWs.
- 2.4. There are some specific regulations contained in the CPRs that are of particular relevance to PCWs. Regulations 5 and 6 prohibit commercial practices which are misleading (whether by action or omission) and which cause or are likely to cause the average consumer<sup>10</sup> to take a different transactional decision. This might include, for example:
  - if a PCW were to omit material information in relation to the ranking methodology used by it or the price of the deals it displayed, which causes or is likely to cause the average consumer to take a different transactional decision; and
  - if a PCW were to make misleading claims that caused or are likely to cause the average consumer to take a different transactional decision in relation to:

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<sup>5</sup> The “Big Four” are moneysupermarket.com, gocompare.com, comparethemarket.com and confused.com. A study found that 85% of consumers who had used a PCW in the last two years reported using one or more of the Big Four (Consumer Futures, Price comparison websites: consumer perceptions and experiences, July 2013).

<sup>6</sup> Other consumer legislation could also be applicable to PCWs depending on the facts on any specific case. Relevant legislation could include the Consumer Rights Act 2015, the Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013 and the Electronic Commerce (EC Directive) Regulations 2002.

<sup>7</sup> Defined in Regulation 2 of the CPRs to mean: “any act, omission, course of conduct, representation or commercial communications (including advertising and marketing) by a trader, which is directly connected with the promotion, sale or supply of a product to or from consumers, whether occurring before, during or after a commercial transaction (if any) in relation to a product”.

<sup>8</sup> Regulations 5 to 7 of the CPRs.

<sup>9</sup> See Schedule 1 to the CPRs. To give examples, out of the list of the 31 commercial practices which are in all circumstances considered unfair, the first three are: 1. Claiming to be a signatory to a code of conduct when the trader is not; 2. Displaying a trust mark, quality mark or equivalent without having obtained the necessary authorisation; 3. Claiming that a code of conduct has an endorsement from a public or other body which it does not have. See The Consumer Protection from Unfair Trading Regulations, 2008.

<sup>10</sup> The CPRs define the average consumer in Regulation 2 by reference to the concepts of the ‘average’ consumer, the ‘average member’ of a targeted group of consumers, and the ‘average member’ of a vulnerable group of consumers. These concepts are explained in the OFT guidance adopted by the CMA, (OFT1008, Consumer Protection from Unfair Trading), paragraphs 14.28 -14.37. The first type of “average consumer”, “should generally be assumed to be reasonably well informed and reasonably observant and circumspect”.

- the price of a displayed deal or the manner in which it was calculated;
- the specific price advantage of a deal, for example, where a deal may be displayed higher in a ranking than a cheaper deal; or
- the market coverage of a PCW.

2.5. The FCA, Ofgem, and Ofcom have the power to enforce the CPRs under Part 8 of the Enterprise Act 2002 (“the EA02”) if they thought it was appropriate and in line with their respective duties and functions. For Ofcom and Ofgem, any enforcement action under Part 8 of the EA02 would be conducted in accordance with their respective Enforcement Guidelines.<sup>11,12</sup> Ofgem, Ofcom and the FCA need to go to court to enforce the CPRs.<sup>13</sup> In practice, none of these organisations have brought enforcement cases for potential breaches of the CPRs against PCWs. However, Ofgem has previously liaised with Trading Standards regarding the ability of Trading Standards to use consumer protection law against PCWs.

#### Business Protection from Misleading Marketing Regulations (BPMMRs)

2.6. Where a PCW provides services for Small to Medium Enterprises (SMEs), the Business Protection from Misleading Marketing Regulations (BPMMRs) could apply. Ofgem have powers to enforce the BPMMRs in the energy sector,<sup>14</sup> however Ofcom and the FCA do not.

#### Competition powers

2.7. Ofgem, the FCA and Ofcom have competition law powers in relation to the matters they respectively regulate, concurrently with the CMA.<sup>15</sup>

2.8. Under the relevant sections of the Gas Act 1986<sup>16</sup> and Electricity Act 1989,<sup>17</sup> Ofgem has jurisdiction to apply and enforce breaches of the Competition Act 1998 (“the CA98”) and Articles 101 and 102 of the Treaty on the Functioning of the European Union in respect of matters connected or ancillary to licensable activities. Ofgem has investigated the behaviour of Third Party Intermediaries (TPIs) using its CA98 powers in relation to information sharing and the use of paid advertising. As from 1 April 2015, under the concurrency provisions (sections 234I to 234O) in the Financial Services and Markets Act 2000 (FSMA) the FCA has had competition law powers in relation to agreements and conduct relating to the provision of financial services.<sup>18</sup> Finally, Ofcom has competition law powers

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<sup>11</sup> Ofcom, Enforcement Guidelines, July 2012 see paragraph 2.25

<sup>12</sup> Ofgem, Enforcement Guidelines, Sept 2014

<sup>13</sup> Although they can accept undertakings from the relevant business not to repeat or continue the conduct in question in lieu of an enforcement application.

<sup>14</sup> Ofgem has powers to investigate potential breaches of the BPMMRs (by requiring a person to provide information and documents by notice) and where there has been an offence, Ofgem may accept an undertaking from, or bring injunction proceedings against, a company in breach, subject to notifying the CMA. Other enforcement authorities also have powers under the BPMMRs, including the CMA which can also bring criminal proceedings in certain circumstances.

<sup>15</sup> Concurrency – that is, two or more authorities having the power to exercise certain functions – has been a feature of the competition landscape in the UK for a long time. In the case of the FCA, Ofgem and Ofcom, they are able to exercise certain functions ‘concurrently’ with the CMA.

<sup>16</sup> Section 36A

<sup>17</sup> Section 43

<sup>18</sup> FCA, FG15/8 – The FCA’s concurrent competition enforcement powers for the provision of financial services, July 2015.

(also concurrently with the CMA) under sections 369-371 of the Communications Act 2003 (“the CA03”). However, Ofcom’s functions are limited to “communications matters” as defined in section 369 of the CA03.

## Sector specific regulation

- 2.9. In addition to the general powers that can apply as outlined above, regulators have developed sector specific oversight of PCWs over time. If the firms that operate the PCWs are not regulated, the oversight takes the form of a set of voluntary measures. On the other hand, if the sector is regulated – as is the case for the financial services sector, then the PCWs may be regulated directly. This is explained further below.

### Accreditation Schemes

- 2.10. Accreditation schemes for PCWs emerged in those sectors where the firms that provide PCWs are not directly regulated. In the communications sector, for example, PCWs do not offer communication services directly, but act as a third party seller. They are therefore not directly regulated by Ofcom. The objective of these schemes is to provide assurance to consumers that accredited sites offer unbiased, reliable price comparisons which will help them make an informed choice.
- 2.11. Ofcom runs a voluntary accreditation scheme called the Accreditation Scheme for Price Calculators (“the Accreditation Scheme”).<sup>19</sup> Ofcom launched the Accreditation Scheme in 2006, relying on the general duty under Art 21(2) of the Universal Service Directive (USD) to encourage the provision of comparable information to consumers.<sup>20</sup> Accreditation may be particularly important for smaller or newly launched PCWs, where there may be lower levels of brand recognition and, therefore, trust, and helps market entry and the promotion of competition among PCWs. There are currently six accredited sites, some of which also provide their services under a white label arrangement. Where affiliated sites use a mirror image of the accredited site, they are permitted to use the Ofcom accreditation logo, and this is currently the case, for instance, for confused.com and gocompare.com’s comparisons of fixed broadband and broadband bundles. The reach of the Scheme is currently wider for fixed broadband and broadband bundles than for mobile services. Ofcom encourages shoppers to check and use accredited PCWs in its relevant guides to consumers, for instance where it provides advice on managing the costs of their communications services.<sup>21</sup>
- 2.12. In the energy sector, PCWs are also not directly regulated, however Ofgem runs a voluntary scheme called the Confidence Code (“the Code”)<sup>22</sup>, which it took over from Consumer Focus in 2013. There are currently 12 accredited sites, some of which also provide their database and calculators to other unaccredited sites under a white label arrangement. Ofgem promotes the Confidence Code accredited sites via the “be an Energy Shopper campaign”,<sup>23</sup> where it actively encourages people to

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<sup>19</sup> Ofcom, Accreditation Scheme for price calculators, Nov 2013

<sup>20</sup> The Code and the Accreditation Scheme are for websites with the Code being extended to cover apps in early 2015. Although some websites accredited under the Code also have corresponding Apps, these Apps are not accredited and no PCW has applied for an App accreditation to date.

<sup>21</sup> Ofcom, Managing the costs of your communications, 2013

<sup>22</sup> Ofgem, Confidence Code, code of practice for online domestic price comparison services, March 2015

<sup>23</sup> Ofgem, Ofgem accredited energy price comparison sites, 2016

check ‘two or three sites’. Ofgem also has information on the Confidence Code for consumers and others on its website.

**Table 1: How accreditation schemes are administered**

Issue	Ofcom	Ofgem
<b>Scope</b>	Sets out minimum standards that a PCW must meet to be accredited. Voluntary scheme; no direct regulatory sector-specific power. Does not apply to business services.	Sets out minimum standards that a PCW must meet to be accredited. Voluntary as no regulatory locus. Does not apply to sites comparing information for commercial customers.
<b>Coverage</b>	Six PCWs accredited under the scheme, none of whom are in the “Big Four”. Three of the big four use the price calculators of accredited members, and two are mirror images of the parent site and are able to display the Ofcom logo. The 2013 review found that, although only six schemes registered, a much larger number are affiliated and used the accredited comparison calculators: at the time this included over 50 non-accredited PCWs using the accredited price calculators.	12 accredited sites have opened up the scheme to apps, but none have applied for accreditation so far.
<b>Scheme administration</b>	Ofcom has a charging process in place to recoup some money back from PCWs for the independent audits of accredited members, but some costs remain.	Ofgem currently bears the costs of administering the scheme and pays for the audits.

2.13. Although Ofgem’s Code and the Ofcom Accreditation Scheme operate under common general principles, such as independence and transparency, they have some smaller, more detailed differences in practice. Table 2 below provides a comparison of the two schemes as they currently stand. However, it is important to note that the CMA has recommended changes to the Code in its report on the energy market and that therefore the areas of similarities and differences may change.<sup>24</sup> The change is for Ofgem to remove the requirement for accredited sites to display information on all tariffs in the market i.e. Whole of the Market (WoM) remedy. This recommendation has generated debate over the role of PCWs in the market and potential consequences of WoM removal. Ofgem is currently considering these issues and has published a consultation<sup>25</sup> on taking an intermediate step to remove WoM requirement to deliver benefits more quickly to consumers.

**Table 2: Issues covered in Ofgem’s Code and Ofcom’s Accreditation Scheme (September 2016)**

Issue	Ofcom	Ofgem	Notes
<b>Rankings</b>	✓	✓	Ofcom: must enable consumers to sort results by price. Default sorting metric by a price measure.  Ofgem: where consumer searches by price, rankings must be presented as best price. Specific requirements about use of filters

<sup>24</sup> CMA Energy Market Investigation, Final Report June 2016

<sup>25</sup> <https://www.ofgem.gov.uk/publications-and-updates/confidence-code-review-2016-consultation>

Issue	Ofcom	Ofgem	Notes
			and rankings. Can assign ratings to suppliers, but methodology must be reviewed by Ofgem.
<b>Market coverage</b>	✓	✓	Ofcom: include a comprehensive number of providers reflecting choice (including key players).  Ofgem: must use all reasonable endeavours to include comparisons for all product types (although this one of the areas the CMA has recommended changing).
<b>Information Provision</b>	✓	✓	Ofcom: price comparison info must be full and comprehensive. Some specific detailed requirements e.g. on traffic management.  Ofgem: must include various market specific information to aid comparison. Must signpost to independent sources of advice.
<b>Quality of service</b>	✓/x	x	Ofcom: must provide info on broadband limits and data usage.
<b>Personalisation/advice</b>	✓/x	✓	Ofcom: should take account of the consumer's location to tailor information about services.  Ofgem: must provide impartial advice and not mislead or confuse.
<b>Ownership and conflicts of interest</b>	✓	✓	Ofcom: should make it clear how it makes money or funds activity. Responsible for white-labelled sites.  Ofgem: must be independent from any energy supplier. Can take commission but must not influence information to consumers. Must clearly identify supplier with whom a commission arrangement is in place. Must provide a description of business model and how commission influences tariffs. Must manage and control own service.
<b>Advertising</b>	✓/x	✓	Ofcom: advertising allowed, but only one, clearly differentiated sponsored deal allowed at the top of the ranking.  Ofgem: supplier advertising must not be on home page or comparison pages.
<b>Accuracy</b>	✓	✓	Ofcom: must be updated at least every two weeks and indicate when last updated. Should reflect deals and upfront charges.  Ofgem: must be accurate and state when last updated.
<b>Complaints handling</b>	✓	✓	Ofcom: must have fair and timely complaints handling. Should provide links to Ofcom information on customer service and complaints handling, including regular information on complaints received by Ofcom.  Ofgem: must operate effective complaints and enquiry procedure and respond within seven working days. Ofgem must be supplied with information about the complaint.
<b>Access</b>	✓	x	Ofcom: PCWs must provide free service or only reasonable charge for consumer access to service. Service must be accessible to all, and provide offline options.

2.14. The Code and the Accreditation Scheme are voluntary. Membership or accreditation is only granted after a PCW has passed an accreditation process. In both cases, this process involves an audit of the results, although the issues covered by the audit, and the nature and frequency of the audit, vary

across both schemes. In addition, Ofgem carries out ad-hoc monitoring, and Ofcom carries out quarterly spot checks. Accredited sites must comply with the requirements of the Code or the Accreditation Scheme. In energy, white label PCWs must also comply with the Code if they reference the fact that they use the calculator or database of an accredited site; in this situation, it is the responsibility of the accredited PCW to ensure that the white label is compliant.

- 2.15. Under both the Code and the Accreditation Scheme, accredited members are committed to meeting the relevant standards for the benefits of their customers. Failure to comply with the standards ultimately results in Ofgem and Ofcom having the ability to withdraw code accreditation. This has happened in practice only once, where Ofcom suspended accreditation (the site eventually exited the market). In relation to both Ofgem and Ofcom, issues are normally resolved before that stage. There is no separate intermediary mechanism between voluntary resolution and suspension or withdrawal, such as the ability to impose penalties for non-compliance.
- 2.16. In practice, consumers' awareness of accreditation schemes is very low, but there is a reasonable degree of trust from consumers towards PCWs.<sup>26</sup> Ofcom's 2013 review of the Accreditation Scheme highlighted that stakeholders were generally satisfied.
- 2.17. The CMA's review of the energy market has resulted in some remedies that will require changes to the Code, as well as other changes that could affect the role of PCWs. For example, this includes giving PCWs access to industry registers of meters to allow them to facilitate transfers.

### **Direct regulation of PCWs in financial services**

- 2.18. In financial services, in certain circumstances, the FCA regulates PCWs directly. This is where the firm that operates the PCW is undertaking an activity that is defined as a regulated activity under the Financial Service and Markets Act 2000 (Regulated Activities) Order (SI 2001/544) ("the Regulated Activities Order"). The Regulated Activities Order includes activity such as credit brokering and insurance mediation. Firms carrying out these regulated activities, unless they are exempt, are required to be authorised by the FCA (or in some cases by the Prudential Regulation Authority<sup>27</sup>) and regulated by the FCA. They must follow the FCA's rules and, by virtue of this, the FCA has the power to enforce the Financial Service and Markets Act 2000 (FSMA) and its rules against them as with all other regulated firms.
- 2.19. Firms carrying out regulated activities need to adhere to the FCA's 'principles for businesses' which include that a firm must pay due regard to the interest of its customers and treat them fairly (Principle 6), pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading (Principle 7). The FCA also has specific rules which apply to different parts of the financial sector. Generally, where the FCA has standards through rules or guidance which apply, these are not specifically targeted at PCWs. The FCA did,

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<sup>26</sup> Citizens Advice Bureau, Price comparison website accreditation. Research report, Sept 2013

<sup>27</sup> The Prudential Regulation Authority (PRA) was created as a part of the Bank of England by the Financial Services Act (2012) and is responsible for the prudential regulation and supervision of around 1,700 banks, building societies, credit unions, insurers and major investment firms.

however, recently make rules and guidance for PCWs - comparing high-cost short-term credit products - which are due to come into force on 1 December 2016.<sup>28</sup>

## Other principles of good practice

### Legal services

- 2.20. In the legal sector, the Legal Services Consumer Panel (“the Panel” - an independent arm of the Legal Services Board) published a set of good practice standards (voluntary accreditation) for PCWs in the legal services market in 2012. Comparison sites are able to self-assess themselves against the standards and state to the Panel that they adhere to them. So far, eight comparison sites have self-assessed themselves against the Panel’s good practice standards. While the Panel does not actively monitor these websites for adherence, it does publish their name on its own website.

### European principles

- 2.21. In May 2016, the European Commission published guidance on the implementation of the Unfair Commercial Practices Directive which includes the way in which it applies to comparison tools.<sup>29</sup> The Commission also published ‘Key principles for comparison tools’ which built on their previous work on comparison tools and third party verification tools.<sup>30</sup> The principles were developed by a multi-stakeholder group, who have agreed to endorse and disseminate them.
- 2.22. The Council of European Energy Regulators (CEER) is also carrying out its own review of its Guidelines of Good Practice on Price Comparison Tools which they put in place in 2012.

## Wider context

- 2.23. There are a number of recent developments that contribute to regulators’ interest in PCWs as intermediaries helping consumers assess and switch deals.
- 2.24. An on-going priority for the government is helping consumers to get a better deal, boosting competition and encouraging switching. The department for Business, Innovation and Skills Call for Evidence on improving the consumer landscape and quicker switching states that ‘active and assertive consumers are key to creating competitive and dynamic markets’, and sets out that PCWs can play a role in facilitating engagement and switching by enabling consumers to navigate complex markets, and access information about a range of products.<sup>31</sup>
- 2.25. The Government has also been working to enable consumers to access their personal data in an electronic format in order to give them greater insight into their behaviour and facilitate shopping around through the midata initiative.<sup>32</sup> There has been a particular focus on opening access to data in

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<sup>28</sup> FCA, Policy Statement, Feedback on Consultation Paper Consumer credit: proposals in response to the CMA recommendations on high-cost short-term credit, May 2016

<sup>29</sup> European Commission, Guidance on the implementation /application of directive 2005/29 EC on unfair commercial practices, May 2016

<sup>30</sup> European Commission, Key principles for Comparison Tools, Aug 2016

<sup>31</sup> Department of Business, Innovation & Skills, Helping consumers get a better deal: Call for evidence on improving the consumer landscape and quicker switching, May 2016. BIS is now known as the department of Business, Energy and Industrial Strategy (BEIS).

<sup>32</sup> Midata is a programme of work that the Government is undertaking with leading businesses and consumer groups in order to give consumers access to their personal data in a portable and electronic format.

banking in the UK where they have been exploring how an open Application Programming Interface (API)<sup>33</sup> standard could best be delivered.<sup>34</sup>

- 2.26. The CMA is also soon to review the PCWs market. The government's competition plan "A better deal: boosting competition to bring down bills for families and firms" published in November 2015 announced the CMA's plans to undertake an analysis of digital comparison tools 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 innovation, and whether price comparison websites in specific sectors should be subject to rigorous propriety and transparency standards. Prior to this, a number of market investigations undertaken by the CMA have made recommendations which encourage use of PCWs in sectors such as Payday Lending, Energy and Retail Banking.

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<sup>33</sup> Application Programming Interfaces (APIs) allow two pieces of software to 'talk to' one another and exchange information directly in a secure way, without the need for human input each time.

<sup>34</sup> HM Treasury, Call for evidence on data sharing and open data in banking, March 2015

### 3. The consumer experience

3.1. This chapter seeks to understand consumers' use and perception of PCWs to help inform thinking about their effectiveness. By lowering the challenges involved in accessing information, PCWs can encourage more shoppers to engage actively in their purchase decisions, creating benefits through strengthening the degree of pressure placed on suppliers in aggregate.<sup>35</sup> The chapter explores:

- the use of PCWs in different sectors;
- why people use PCWs;
- use of multiple PCWs;
- common problems consumers may have with PCWs; and
- why consumers may not use PCWs.

#### **Use of PCWs in different sectors**

3.2. The usage of PCWs differs depending on the product sector, which is in turn linked to a number of factors, including service characteristics and market conditions. According to a 2013 report by RS Consulting the most searched for category was car insurance, which was selected by 81% of those that used PCWs. This was followed by home insurance (50%), flights, hotels, car rental services (45%) and energy (44%).<sup>36</sup> The same study found that PCWs were commonly used for product categories that were:

- frequently highlighted in advertising (the four largest PCWs by market share - monysupermarket.com; gocompare.com; comparethemarket.com; and confused.com - heavily promoted their use in connection to car and home insurance);
- bought routinely (insurance is renewed at the same time every year);
- relatively expensive (e.g. insurance premiums and utilities).

3.3. Use of PCWs has grown in popularity in recent years. For example, within the energy sector the Ofgem Tracking Survey has observed steady increases in the use of PCWs for searching and switching.<sup>37</sup> Furthermore, the CMA Customer Survey estimates that 71% of respondents who shopped around in the last three years used a PCW to find out information.<sup>38</sup>

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<sup>35</sup> This reasoning has for example been applied in the legal sector, where PCWs are seen as beneficial for competition by enhancing the speed and convenience they offer compared to traditional search tools, thus increasing the likelihood that consumers will shop around. See Legal Services Consumer Panel – Comparison Websites, Feb 2012.

<sup>36</sup> Consumer Futures, Price comparison websites: consumer perceptions and experiences, A report by RS Consulting, July 2013

<sup>37</sup> CMA, Energy Market Investigation, Appendix 8.3: Price comparison websites and collective switching, 2016, Figures 2 and 3.

<sup>38</sup> CMA, Energy Market Investigation, A report by GfK NOP, Feb 2015, see page 26.

## Why people use PCWs

- 3.4. Consumers' stated reasons for using PCWs tend to relate to price, with users indicating that their principal aims are to find the best deal (85%), compare prices for specific products (83%) and save money or reduce costs (79%).<sup>39</sup>
- 3.5. However, price is not the only factor that drives consumer use of PCWs. Studies has found that consumers use PCWs as a research tool to find companies offering relevant services (69%), a significant proportion stated they use PCWs to save time (65%) and to inform them when considering switching providers (62%).<sup>40</sup> Ofgem's March 2016 Consumer First Panel<sup>41</sup> discussed expectations of PCWs and found that one of the underlying views of panellists was that price comparison sites are used to get a 'better' deal and not necessarily the 'best' deal.
- 3.6. Consumers' uses of PCWs can vary by sector, as the following examples, from research carried out by Mintel in 2014, illustrates:
- home insurance – 33% used a PCW for research, 19% purchased or arranged via a PCW;
  - broadband, TV, phone – 21% used a PCW for research, 7% purchased or arranged via a PCW;
  - mortgages – 9% used a PCW for research, 4% purchased or arranged via a PCW.<sup>42</sup>
- 3.7. Evidence on why consumers may differ in their use of PCWs is limited. However, for some products, like insurance for example, consumers may be more likely to use PCWs to make their purchase and complete a transaction. This may be due to two factors: first, with a product like insurance, buyers make frequent choices about their service provider. Second, it may be easier for PCWs to have relationships with insurance providers to complete the transaction. Conversely, products such as mortgages may be more complex, may require professional advice and security checks that are less amenable to being completed in one portal. This may therefore explain why consumers may be less likely to purchase certain products through PCWs and why the use of PCWs in general differs across sectors.

## Use of multiple PCWs

- 3.8. When consumers use PCWs to shop around, they often use multiple sites. This is referred to as multi-homing.

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<sup>33</sup> Consumers Futures, op. cit.

<sup>40</sup> Consumers Futures, op. cit.

<sup>41</sup> Ofgem's Consumer First Panel is referenced in various places throughout this document. To avoid misrepresentation of the Panel findings, it is important to provide further detail on the context for the Panel. In the March 2016 session, Ofgem asked panellists to talk about their expectations of Price Comparison Tools. The Panel is a deliberative research methodology giving participants the freedom to express their views within a framework, building their knowledge of an issue or topic. Qualitative techniques, including deliberative approaches are intended to be illustrative rather than statistically reliable. As such they do not permit conclusions to be drawn about the extent to which something is happening in the wider population; they provide insight into why participants hold certain views. It is important to note that panellists are recruited to broadly reflect the full range of energy consumers in GB. Many panellists were unfamiliar with the use of PCTs in energy. Their perceptions and assumptions were based on their understanding and experiences of PCTs more generally. Ofgem, Consumer First Panel: reporting on the expectations of Price Comparison Tools, June 2016.

<sup>42</sup> Mintel, Web Aggregators in Financial Services, June 2014

- 3.9. Consumers appear to use at least two sites before making a decision. A 2013 study by Consumer Futures found that 16% used one site, 57% used two to three, and 26% more, before making a decision.<sup>43</sup> For instance, the FCA's market study on credit cards found that, of those that took out a credit card in the last 12 months after shopping around, 39% had used one PCW and 27% had used two or more, indicating that consumers not only utilise PCWs to search for suitable credit cards, but also that some are comparing between sites.<sup>44</sup>
- 3.10. Panellists from the Ofgem Consumer First Panel in March 2016 held the underlying view that it was necessary to use multiple PCWs as they offered different ranges and may have commercial relationships with certain suppliers.

### Common problems consumers may have with PCWs searches

- 3.11. Whilst PCWs can bring benefits to consumers, research has found there are some common problems that reduce their effectiveness and potentially result in poor outcomes. These issues include the following:
- **Consumers can become frustrated when there is no ability to customise and personalise searches** - users typically desire a large amount of information but want to use filters to reduce the number of results.<sup>45</sup> This function increases confidence, as it reinforces the perception that the results are tailored to the specific needs of the shopper.<sup>46</sup>
  - **Consumers prefer a range of ranking options** - studies undertaken by the European Commission indicate that users were less likely to select a PCW when only one default ranking option is offered, as there was a preference for sites that provided a choice of one to three settings in addition to ranking by price only.<sup>47</sup>
  - **Consumers do not always find rankings to be clear** - in some studies consumers have found that the presentation of information on PCWs and the criteria used for rankings can be unclear. An FCA report observed a wide variation in how products were displayed on PCWs, with some websites providing less clarity on the criteria used for default rankings.<sup>48</sup>
  - **Fear that sharing personal data could result in unsolicited marketing communications** - concern and uncertainty over how PCWs use personal details was often linked to a fear that providing such information would result in unsolicited communication.<sup>49</sup> Consumers also expressed concerns over their data being sold onto other companies with some

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<sup>43</sup> Consumer Futures, op. cit.

<sup>44</sup> FCA, Credit Card Market Study, Interim Report, Nov 2015

<sup>45</sup> Consumer Futures, op. cit.

<sup>46</sup> FCA, Price comparison websites: Consumer market research, A report by Atticus, June 2014

<sup>47</sup> European Commission - ECME Consortium, Study on the coverage, functioning and consumer use of comparison tools and third-party verification schemes for such tools, March 2015

<sup>48</sup> FCA, Cash savings market study report, Jan 2015

<sup>49</sup> Consumers were typically more reluctant to share information such as email addresses or phone numbers, in order to avoid unwanted sales calls. See Price comparison websites: consumer perceptions and experiences A report by RS Consulting for Consumer Futures, July 2013.

entering fake phone numbers as a precaution against this.<sup>50</sup> This was also an underlying view of panellists from Ofgem's March 2016 Consumer First Panel.<sup>51</sup>

- **Some consumers find the layout of PCWs difficult to navigate** - one study found some features created issues for consumers.<sup>52</sup> This included: unclear signposting in menus, small text, links and buttons being difficult to identify, creating uncertainty on where to go next, difficulty in locating explanations and definitions of terminology, and the positioning of advertising in such a way that it seems part of the search results.
- **Consumers rarely understand how PCWs work or generate revenue**<sup>53</sup> - when prompted they tend to hypothesise that revenue is drawn from 'advertising', 'commission on sales', 'click-through to providers' sites' or 'access or listing fees'.<sup>54</sup>
- **Some concerns that results may not be impartial due to business models** - the impartiality of PCWs is sometimes expressed as an issue amongst consumers. For example, during Ofgem's Consumer First Panel discussions in March 2016,<sup>55</sup> some panellists were aware that relationships between suppliers and PCWs could be in place, while others were surprised that not all PCWs were independent of suppliers. Those panellists were suspicious about these relationships, and were unsure how or why these were formed; they were cautious about any relationships that might reduce customer choice. Conversely, however, other research shows that few consumers attach any importance to information on PCWs' business models.<sup>56</sup>

#### Trust in PCWs

- 3.12. A key potential problem that may limit the use and effectiveness of PCWs is the extent to which consumers trust price comparison sites and have confidence in using them.
- 3.13. Levels of consumer trust in PCWs can differ across sectors. In the energy sector for example, a survey in the CMA Energy Market Investigation identified levels of consumer confidence and trust in PCWs as being a potential issue: 26% were not confident that they could use PCWs to get the best energy deal; of these, 43% said they were not confident because they did not trust or believe PCWs.<sup>57</sup>
- 3.14. However, in another study, it was found that that a large majority (94%) of consumers recalled PCWs that they had used to be either 'very' or 'fairly' reliable'.<sup>58</sup> Although the majority of consumers

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<sup>50</sup> Price comparison website: Consumer market research (prepared for the FCA by Atticus), June 2014

<sup>51</sup> Please see footnote on page 18 for further context around Ofgem's Consumer First Panel. Ofgem, Consumer First Panel: reporting on the expectations of Price Comparison Tools, June 2016.

<sup>52</sup> Consumer Futures, op. cit.

<sup>53</sup> Consumer Futures, op. cit.

<sup>54</sup> Consumers typically had not considered how PCWs generated revenue before being prompted. See Price Consumer Futures, op. cit.

<sup>55</sup> Ofgem, Consumer First Panel: reporting on the expectations of Price Comparison Tools, June 2016

<sup>56</sup> European Commission - ECME op. cit.

<sup>57</sup> CMA, Energy Market Investigation Final Report, June 2016

<sup>58</sup> Consumer Futures, op. cit.

use multiple sites, only a small minority do so due to a lack of trust. Instead, consumers normally engage in 'multi-homing' to give themselves confidence they have not missed a good deal.<sup>59</sup>

- 3.15. A 2014 study by the FCA<sup>60</sup> found consumers to have a high level of confidence in the well-known PCWs to offer dependable insurance quotes. Furthermore, the trust that the users had in these popular comparison tools led to a "halo effect", whereby even previously unknown providers listed were now seen as trustworthy. This was because of an expectation that these recognised sites would vet and check providers included in their directory.

### **Why consumers may not use PCWs**

- 3.16. Whilst PCWs are used widely across a number of sectors, there are many people who do not use them. Reasons vary from lack of access to the internet, a preference towards alternative methods of comparison and even objection to using these tools.

#### Access to PCWs

- 3.17. Research shows that variances in the uses of PCWs are apparent across different demographic characteristics. One of the reasons cited for lack of usage is inability to connect to the internet. The proportion of households who have access to fixed internet, and internet through a mobile phone, continues to increase: 79% in 2016 have a fixed internet connection (up from 78% in 2015), and 66% in 2016 said they personally used their mobile phone to access the internet (up from 61% in 2015). Overall home internet access (via any device or connection) was 86% in 2016, but this varied by age and, to a lesser extent, socio-economic group (SEG): 45% of those in the 75+ age group have internet at home, compared with more than 90% of those aged under 55; 92% of those in the ABC I SEG have internet at home, compared with 86% of those in the C2 SEG, and 74% of those in the DE SEG.<sup>61</sup>
- 3.18. Across sectors, the majority of consumers use PCWs regularly or occasionally: 82% used them more than once a year, with 59% of consumers using them 1-6 times a year, and 23% every 2-4 weeks or more. Only 8% never used PCWs. Over 55s were the least likely to be monthly users of comparison sites and, along with those in the SEG C2DE, were the least likely to use them at all (13% and 11% say they never use them). In addition, nearly two thirds of consumers (59%) stated that PCWs had "a fair amount" or "a great deal" of influence in their purchasing decisions. Their influence varies by age, with 5% of 18-34s stating they had no influence at all, compared with 15% of over 55s (9% overall said they had no influence at all).<sup>62</sup>

#### Alternative methods of comparison

- 3.19. Some consumers prefer alternative methods of online comparison. A European Commission study found that consumers that opted for a different way of finding deals and only bought from websites they were already familiar with or preferred to compare amongst providers of which they were

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<sup>59</sup> Consumer Futures, op. cit.

<sup>60</sup> FCA, Price comparison websites op. cit.

<sup>61</sup> Ofcom, Communications Market Report, Aug 2016, Figures 1.4 and 5.9

<sup>62</sup> Customers in Britain, conducted by Firebrand Insight in 2014. See Ofcom, The Consumer Experience of 2014, Jan 2015

already aware.<sup>63</sup> Another study identified that, of the lapsed users of PCWs (those who have used PCWs before, but not used them in the past two years), a significant minority had been deterred by past negative experiences, with 15% of them believing they failed to get the best deal, 7% distrusting the results and 7% stating they found PCWs hard to use.<sup>64</sup>

#### Some consumer may prefer not to use PCWs

- 3.20. As mentioned earlier, consumers often mention concerns over the use of their personal data by PCWs as one of the key reasons why they prefer not to use PCWs. In research by Consumer Futures, of the consumers who are unwilling to switch via PCWs, 30% stated that this was because they did not wish to provide them with their personal details. Furthermore, of those who had not used PCWs in the past two years, 13% said they had not done so because they were reluctant to provide their personal details. Consumers tended to be concerned that PCWs would use personal details for making unsolicited communications and had concerns over their data being sold onto other companies. Some consumers entered fake phone numbers as a precaution against this. This was also an underlying view of the panellist from Ofgem's 2016 Consumer First Panel.<sup>65</sup>

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<sup>63</sup> European Commission - ECME op. cit.

<sup>64</sup> Consumer Futures, op. cit.

<sup>65</sup> Ofgem's Consumer First Panel, op. cit.

## 4. Potential concerns with PCWs

- 4.1. It has already been noted that PCWs bring potential benefits in the way they can increase competition in markets, by improving consumer engagement and enabling consumers to identify better deals. As previously explained, PCWs do so by allowing shoppers to access information, assess it effectively, and act on it, thus making an educated choice. Despite these clear advantages, however, there are concerns in a number of sectors that PCWs may sometimes restrict or distort consumers' abilities in **accessing**, **assessing** and **acting** on information, such that the potential benefits are not fully achieved, or new risks arise. This chapter explores these issues.

### Accessing Information

#### Quality of information provided

- 4.2. It has been found that consumers' ability to make educated choices could be hindered by a lack of sufficient and good quality information. The FCA's market study on general insurance add-ons found that key information needed to allow a consumer to make a decision is sometimes not presented in a timely manner by the PCWs,<sup>66</sup> while its thematic review of general insurance PCWs suggested that sometimes not enough care is taken to ensure consumers have the appropriate information to allow them to make educated choices.<sup>67</sup> These issues increase the risk that consumers may buy products without understanding key features inherent to the product such as level of cover, excess, main exclusions and limitations. Put simply, where PCWs focus on (or rank by) price, that might mean the overall value of the product is not easy to compare. The FCA's consumer research on PCWs found that it can often be difficult for consumers to find detailed and accessible information on PCWs summarising how the products which they are displaying work, making it difficult to compare policies in a meaningful way.<sup>68</sup>
- 4.3. Regulators can seek to help consumers access and assess relevant information gathered by digital comparison tools. For example, in 2013 Ofcom approved changes to its Accreditation Scheme to require accredited comparison sites to display "up to" speed and data usage limits on the results pages of broadband services searches. This change reflected how broadband speeds (and to some extent usage limits) are likely to be an important aspect of the marketing of, and consumers' transactional decisions in relation to, broadband services.

#### Coverage

- 4.4. Consumers may find a mismatch between their expectations and the information they obtain if a PCW is not transparent about its market coverage, in particular how much of the market it is able to search to compare deals. This could result in consumers believing they have found the best (and generally cheapest) deal when there are better deals available elsewhere which were not picked up by the PCW.

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<sup>66</sup> FCA, General Insurance Add-Ons: Final Report – Confirmed Findings of the Market Study, July 2014

<sup>67</sup> FCA, Thematic review of price comparison websites in the general insurance sector, July 2014

<sup>68</sup> Price comparison website: Consumer market research (prepared for the FCA by Atticus), June 2014

- 4.5. In its Credit Card Market Study, the FCA found that credit card PCWs do not always clearly state how much of the market they cover. For example some PCWs claim to offer a comprehensive search across one or more sectors with statements such as “we compare the market” or “we compare hundreds of cards”, but in reality there is evidence that this is not the case.<sup>69</sup> There have also been two investigations by the Advertising Standards Authority into claims made by two well-known PCWs with regard to how many insurance providers they compare.<sup>70</sup>

## Assessing Information

### Search

- 4.6. We have previously discussed that consumers would value the ability to personalise their searches on PCWs as this helps them process the large volume of information and provide reassurance that the results are likely to meet their needs. We have observed some developments in this area, such as permitting comparisons based on consumption or usage data.
- 4.7. Despite recent innovations, ranking criteria on PCWs may not always be sufficiently personalised to allow consumers to find products that best suit their needs or may be based on assumptions that do not reflect the usage or level of cover needed for a specific product. Research in the high-cost short-term credit market indicates that, where PCWs feature adverts in their search results or give more prominence to some results due to commercial relationships, it can have an impact on consumer decision-making and can result in a user selecting a product that does not meet the specified requirements.<sup>71</sup>

### Ranking

- 4.8. Regulators have identified that:
- **Rankings may be complex** - for example in the credit cards sector, ranking of credit cards and their offers might not always be helpful for consumers – e.g. one PCW’s table ranked in a formula that included the likelihood of acceptance, Balance Transfer Period, Balance Transfer Fee and Representative APR.
  - **Rankings may not be suitable for all customers** - PCWs’ rankings are sometimes ordered by ‘popularity’. This may not be helpful for consumers and it could lead to an unfavourable outcome if previous users have made poor choices or if it is not the most relevant factor for them (e.g. if they are looking to save money).<sup>72</sup>
  - **PCWs may give prominence to suppliers they have a commercial relationship with** - some PCWs give prominence to certain products because of a sponsorship agreement, instead of displaying options that might be better for consumers based on their search criteria.<sup>73</sup> To ensure results are accurate and unbiased, Ofcom’s Accreditation Scheme requires default ranking to be

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<sup>69</sup> FCA, Credit Card Market Study - Interim Report: Annex 7 – A Review of Price Comparison Websites, Nov 2015

<sup>70</sup> ASA Ruling on Gocompare.com Ltd, May 2009 and Moneysupermarket.com Ltd, July 2011

<sup>71</sup> FCA, High-Cost Short-Term Credit Price Comparison Websites (A behavioural study for the Financial Conduct Authority), Oct 2015

<sup>72</sup> FCA, Credit Card Market Study - Interim Report: Annex 7 – A Review of Price Comparison Websites, Nov 2015

<sup>73</sup> FCA, Cash savings market study report, Jan 2015

by price and by a measure of total amount payable for the service. Price ranking means that consumers may avoid the potential risk of using a PCW that ranks deals based on commissions received by Communication Providers (CPs), rather than based on the cheapest total price. The requirement to display a total amount payable can help consumers identify the complete price of their contract. Joint research by the Advertising Standard Authority and Ofcom found that consumers can struggle to identify the total costs of broadband contracts when prices are advertised separately and/or less prominently.<sup>74</sup>

- **Not all products are presented to consumers because of a lack of commercial relationship** - whilst regulators have encountered examples where commercial relationships have given prominence to some results over others, the opposite can also be true. Where a PCW does not have a direct relationship with the supplier, the search results from that supplier can be 'hidden' or difficult to find.
- **The method of ranking may affect which deals consumers use** - the method by which the deals are sorted (e.g. price, contract type, customer ratings) can have an impact on the number of consumers that are likely to select the best product for their needs. The strength of this effect depends on precisely how the products are sorted. For example it has been found that the sorting method that resulted in the most customers identifying the best deal displayed the offers sorted by price (with the cheapest deal being ranked on top).<sup>75</sup> A study undertaken as part of the FCA's work on high-cost short-term credit also highlighted the importance of positioning when consumers used PCWs. When the cheapest deals were listed on top, users selected these deals 63% of the time, compared to 27% of the time when deals were sorted at random.<sup>76</sup>

#### Information provision

- 4.9. PCWs play a role in reducing the problems consumers face when making complex decisions. A study by the University of East Anglia's Centre for Competition Policy explains that "by automating the required calculations, these websites can provide consumers with a more easily comparable set of total prices, across suppliers".<sup>77</sup> In other words, by automating calculations, PCWs reduce the complexity and effort involved in comparing products, which should ultimately reduce people's tendency to take intuitive decisions that are inaccurate. However, there is a risk that such automation could potentially go too far and lead to over simplification, which could result in consumers choosing products that are not best suited to their needs.
- 4.10. In addition to resulting in inaction, having to process substantial amounts of product information (i.e. several different providers and tariffs) can cause consumers to become prone to error.<sup>78</sup> One study observed that consumers will often make intuitive decisions when shopping around, as opposed to engaging in analytical thinking. As intuitive responses to complex decisions are not necessarily

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<sup>74</sup> ASA signals need for change in advertising of broadband prices, Jan 2016

<sup>75</sup> 79% chose the best deal under the price sorting method and 76% chose the best deal under a customer service rating sorting method. This compares to 49% when deals were sorted randomly. See European Commission - ECME Consortium, 'Study on the coverage, functioning and consumer use of comparison tools and third-party verification schemes for such tools', March 2015.

<sup>76</sup> FCA, High-Cost Short-Term Credit Price Comparison Websites (A behavioural study for the Financial Conduct Authority), Oct 2015

<sup>77</sup> Judith Mehta, UEA, Behavioural Economics in Competition and Consumer Policy, 2013

<sup>78</sup> Dr. Pete Lunn and Dr. Sean Lyons, Behavioural Economics and Vulnerable Consumers: A Summary of Evidence, Dec 2010

correct, consumers may not be shopping effectively.<sup>79</sup> Furthermore, excessive information and choice can lead consumers to make quick rule-of-thumb decisions.<sup>80</sup> For example, in order to deal with an overload of information consumers often rely more heavily on brand names as opposed to evaluating all products.<sup>81</sup> Studies also indicate that brand loyalty appears to be greater in the online environment.<sup>82</sup>

#### Accuracy and impartiality

- 4.11. A lack of accuracy on pricing can mean that consumers are not making fully informed decisions. In addition, PCWs do not always provide clarity regarding their role in the distribution of a product or the nature of the services they offer.<sup>83</sup> In a review of annuity comparison sites, the FCA found that PCWs do not always satisfy the key FCA requirement to be 'fair, clear, and not misleading'. For example, PCWs may describe a service as 'free' when commission is actually received by the firm if the user selects that particular product.<sup>84</sup>

### **Acting on a decision**

#### Right information given back to provider

- 4.12. For travel insurance, the FCA found instances where the data entered on PCWs did not always transfer correctly from the comparison site to the provider. Such inaccuracies can mean that a consumer may end up with a policy that is unsuitable for their needs.<sup>85</sup>

### **Other competition issues**

- 4.13. Agreements or commercial relationships between PCWs and product suppliers have the potential to weaken competition between PCWs themselves, between competitors in the upstream markets, or both.

#### Most Favoured Nation clauses

- 4.14. These are agreements that commit a supplier not to sell the same product more cheaply elsewhere. Such agreements have the potential to distort competition through raising barriers to entry and limiting the commercial freedom of suppliers.
- 4.15. In 2015, the CMA investigation into private motor insurance found the existence of price agreements – most favoured nation (MFN) clauses- which they categorised into two classes:

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<sup>79</sup> The Open University, Consumer behaviour and attitudes when shopping around for multiple financial and household services, Nov 2015

<sup>80</sup> Consumer behaviour in a digital environment, produced largely by staff of London Economics, Aug 2011

<sup>81</sup> Helsper, E., Richter, W. and Meyer, E.T., Study on the Social Impact of ITC: Topic Report 3. A report for the European Commission, April 2010

<sup>82</sup> Arce-Urriza, M. and Cebollada, J., Comparing Price and Loyalty Effects between Online and Offline Channels in the Grocery Industry: The Moderating Effect of Product Characteristics, Nov 2008

<sup>83</sup> Comparing Price and Loyalty Effects between Online and Offline Channels in the Grocery Industry op. cit.

<sup>84</sup> FCA, Annuity Comparison Websites Financial promotions review and guidance for firms, June

<sup>85</sup> FCA, Thematic review of price comparison websites in the general insurance sector, June 2014

a) *Narrow MFNs. These clauses state that the price quoted through the PCW to consumers will always be competitive with the price on the PMI provider's own website, i.e. the price on the PMI provider's own website will never be cheaper than the price on the PCW.*

(b) *Wide MFNs. These clauses state that the price quoted through the PCW to consumers will always be competitive with any of the prices available, whether on the PMI provider's own website (as for narrow MFNs) or on other PCWs, i.e. the price on other sales channels will never be cheaper than the price on the PCW.<sup>86</sup>*

- 4.16. The CMA considered that wide MFNs softened competition between PCWs because, with those agreements in place, a PCW with a wide MFN clause would have little regard when raising its commission fees, as “it is safe in the knowledge that this will not make sales through its channel less competitive compared to sales through other PCWs”. This meant that there were also few incentives for competitor PCWs to lower commission fees to insurers because insurers would be unable to pass on a lower price relative to the PCW with the wide MFN.
- 4.17. In contrast to wide MFNs, the CMA found that **narrow MFN** clauses would not usually have the same distortive impact on competition because under those agreements the possibility that premiums would vary on different PCWs would remain.
- 4.18. The CMA also considered that narrow MFN clauses, but not wide ones, might be necessary for the survival of PCWs as a business model. This is because a narrow MFN supports the proposition that the policies found on the PCW have prices that cannot be found more cheaply simply by going to the direct website of the provider. Without that reassurance, the CMA concluded that consumers would start to believe that PCWs could not be trusted to be a better alternative to direct search, and demand for their services might disappear.
- 4.19. The CMA has issued an Order **prohibiting wide MFNs** in the private motor insurance sector. Clause 4.2 explicitly excludes narrow MFNs from the prohibition. The Order came into effect in August 2016.
- “4.1 A PCW and PMI provider must not enter into, or perform, an agreement containing a restriction on a PMI provider from offering or inviting the purchase of a PMI product through any other sales channel at a lower price than the price made available for that PMI product through the PCW.*
- 4.2 The prohibition in Article 4.1 does not apply to an agreement containing a restriction on a PMI provider from offering or inviting the purchase of a PMI product on the PMI provider's own website at a lower price than the price made available through the PCW for that PMI product.”*
- 4.20. The extent to which MFNs – either wide or narrow – operate in other markets is unclear. In the credit card market study, the FCA found a series of narrow MFNs whereby a credit card provider must not offer the product on its own website on more favourable terms than those available via the PCW.
- 4.21. However, because they found overall that the credit card market is working well for most consumers, and found no indication price competition was limited as a result of PCWs, they decided not to conduct fuller analysis of these contract terms at that time. They did, however, note that if

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<sup>86</sup> CMA, Private motor insurance (PMI) market investigation - Final report, Sept 2014

evidence was brought to their attention that these, or similar, contract terms were having an adverse effect on competition they would revisit this decision.<sup>87</sup>

### Other concerns

- 4.22. Networks of agreements – even where no single supplier or PCW holds significant market power, if all or most operators work with similar types of agreements, the cumulative effect of those agreements could make it more difficult for new suppliers or PCWs to enter or grow.
- 4.23. Vertical integration – ownership of a PCW by a supplier can create particular incentives for the PCW to promote that supplier’s products. If consumers are unaware of the relationship, this could lead to some consumers choosing products that are not best-suited to their needs.
- 4.24. In some cases these same agreements can strengthen the incentives and ability of the suppliers and distributors to compete so the impact of any such arrangements or practices will depend on the nature of the product and the particular features of the market(s) affected.

### Quality of product

- 4.25. A focus on price has the potential to affect the products and services that are offered, and the way that those products are presented to consumers. It can divert consumers’ attention away from other important dimensions of the product or service quality available, potentially reducing the extent to which suppliers compete on those other dimensions. In fact there may be incentives for firms to achieve high positions on product rankings by reducing the quality of products. One way PCWs can show quality as well as price by user feedback.
- 4.26. A related occurrence is when firms seek to separate component elements from the core product to sell as add-ons in order to achieve a headline price that is as low as possible. As consumers tend to focus less on their options in relation to add-on products, this could lead to them paying higher prices overall. This was found in the FCA’s General Insurance Add-Ons Market Study. Add-on providers have a clear point of sale advantage, which is reinforced by the way consumers respond to the add-on mechanism. Competition between bundles (package of primary product and add-on) is not effective, and standalone products do not generally constrain sales of add-ons. This can lead to poor value and prices significantly above cost for many add-on goods.<sup>88</sup>

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<sup>87</sup> FCA, Credit Card Market Study - Interim Report: Annex 7 – A Review of Price Comparison Websites, Nov 2015

<sup>88</sup> FCA, General Insurance Add-Ons: Final Report – Confirmed Findings of the Market Study, July 2014

## 5. Future developments

- 5.1. PCWs now play a significant role in several regulated sectors. A number of anticipated developments are likely to expand both the scope (in terms of products offered) and reach (in terms of market diffusion) for PCWs.

### Greater use of information

- 5.2. A number of large-scale projects are underway which should give consumers greater access to and control of data relating to their consumption of services. Key initiatives include midata (covering financial products, insurance and energy) and smart energy metering. These have the potential to both empower customers to investigate the market and also to give them more confidence that they are finding the best deals. GoCompare submitted to the CMA's retail banking enquiry that almost a fifth (19%) of current account comparisons carried out through their site are made using customers' midata files, and that people who use midata are almost five times as likely to go on to switch as those who use standard 'best buy' tables. Account aggregation technology is also increasing, which may lead to greater use of information and more personalised recommendations.
- 5.3. Following on from midata has been the development of an open API by PCWs in the financial sector. The use of APIs will permit PCWs to offer bespoke comparisons based on account usage, which may lead to greater use of information and more personalised recommendations, which in turn could enhance the suitability of the products offered and selected.
- 5.4. The success of these programmes depends upon how easily the data is available, its accuracy and how many sites offer the ability to use the enhanced comparison. There are risks that customers with unusual profiles may find their costs increasing. There is also a risk that consumers who are not already engaged may consider a higher volume of data disengaging. Those users who are already mistrustful of giving PCWs data may be less likely to use this solution.

### Technology and new product development

- 5.5. Meta-search engines refer to websites that search both direct providers of products and comparison websites to provide a view of all available offers in the market, and they are particularly common in the travel industry. These search engines typically work by 'scraping' data from other websites allowing consumers to easily compare offerings, but work better for homogeneous products, such as energy. Meta-search engines have the ability to reduce the time a consumer spends searching, which may increase engagement.
- 5.6. While PCWs are not accessible for certain groups of consumers and for those who do not use the internet, there is the potential for face-to-face marketing to use mobile technology to give customers without fixed internet the ability to obtain these same benefits from PCWs and switch.

### Use of PCWs by small and medium-sized enterprises (SMEs)

- 5.7. The use of PCWs in the SME market has lagged behind the consumer sector in popularity, due to greater complexity of requirements and more emphasis on individual negotiation of prices. Typically, search costs are higher for SMEs because their products are more complex or require greater data to generate an appropriate quotation. There can also be a question of SME engagement in switching, where a cost makes up a low percentage of its cost base. This was identified by the FSB in energy

while the CMA highlighted a low level of SMEs shopping around for banking services in its retail banking market investigation. Given the limited usage, there is minimal data on whether the concerns of PCWs are the same as those for domestic customers. One of the CMA's remedies in its banking market investigation requires the largest banks in Great Britain and Northern Ireland to adopt and maintain common API standards through which customers will be able, if they wish, to share data with banks and with third party service providers, including PCWs, account information service providers and payment initiation service providers. This remedy has the potential to reduce or remove several of the main barriers to accessing and assessing product and provider information that the CMA identified. For example, it may help SMEs to compare the likely cost of and their eligibility for products and facilitate the growth of a dynamic intermediary sector with the ability and incentive to help customers obtain better terms from their current providers or switch to new products or providers which offer better value.<sup>89</sup>

- 5.8. There are examples of where this usage of PCWs is increasing. From Ofgem's survey into small business engagement (May 2016), 42% of SMEs surveyed consulted a PCW or telephone service when choosing their current energy deal, up from 38% in 2015. However, only one in ten SMEs (10%; down from 12% in 2014) cites a PCW as a main source when choosing an energy contract. Where SMEs do use PCWs, they are generally pleased, with 75% satisfied with the service and just 4% dissatisfied (down from 9% in 2014).

#### Types of switching model

- 5.9. In addition to offering a single purchase, there are potential developments of intermediaries taking on an on-going relationship with the consumer, monitoring the market and either notifying the customer of better deals when they occur, or (with pre-arranged consent), actively switching them.
- 5.10. Some PCWs in the energy market have been active in offering collective switching arrangements, where customers are grouped together to increase the volume available to a supplier and hence negotiate a better price. This model is fairly popular in energy, but not so much in other sectors. It tends to work better where there is a degree of homogeneity in the products, which explains its usage in the energy market – as it may be more difficult to aggregate demand where the services needed are more diverse, such as broadband or insurance. It is, however possible that the model will be tailored to other markets in the near future.

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<sup>89</sup> CMA, Retail banking market investigation, Aug 2016, Section 13

## 6. Conclusions

- 6.1. This report has presented the results of collaborative work undertaken by UKRN to consolidate thoughts on how PCWs operate in each of the network members' respective areas and to learn from one another.
- 6.2. We have highlighted how PCWs can help consumers navigate potentially complex products and reduce search costs by comparing offers simultaneously in one place. PCWs can also help firms secure new customers, reduce barriers to entry and stimulate stronger competition and innovation between product providers.
- 6.3. We have also found that, whilst PCWs can bring benefits to consumers, firms and competition, their effectiveness as a tool for enhancing consumer engagement and competition may be undermined if consumers are unable to navigate the information presented to them, if they do not have confidence in the conduct or safety of PCWs or if they do not shop around amongst PCWs to find the best deal.
- 6.4. A number of further themes have emerged from this work, which have been summarised below.
  - **The range of regulatory tools available** – different regulators have an array of tools accessible to them, from voluntary measures and schemes, through to statutory powers available under sectoral regulatory powers and consumer law. Regulators can apply these mechanisms in a variety of ways that enhance the potential that PCWs have to be an effective tool for improving consumer engagement and competition.
  - **Sectoral differences** – the usage of PCWs differs depending on the product sector, which is in turn linked to a number of factors, including product/service characteristics, frequency of purchase, and the degree of advertising spend on the comparison service. Consumers use PCWs for a range of purposes in different sectors, notably researching product and supplier information and arranging the transaction via a PCW.
  - **Consumer experiences** – there are some common problems that reduce the effectiveness of PCWs and potentially result in poor outcomes in the markets concerned. These include: the lack of ability to customise searches, poor clarity in the ranking criteria and limited ranking options. Some consumers also have concerns and uncertainties that restrict their trust in the services offered by PCWs, for example about how PCWs may use their personal details.
  - **Hollowing out** – In some cases, the increased use of PCWs and the focus on price intensifies the risk that products are “hollowed out” to the detriment of other factors, such as quality. Conversely, in other areas, not enough attention may be given to price factors, such as a focus on the quick access to consumer credit. We consider that the risk of hollowing-out can have a significant impact on competition where it occurs, and the effects of this may undermine other benefits of PCWs.
  - **Access to data** – To make educated choices, consumers need to be able to access detailed information on the features of the service or product that are important to them, including price. Relevant data for consumers can include their past usage of a service, as well as a broader overview on the product characteristics (such as broadband speed), or quality of service. Lack of

access to appropriate data on the services and on consumers' use of those services may constrain the PCW sector from implementing improvements.

- **Innovation and the pace of change** – The sector is fast moving and we are expecting future developments to change the PCW landscape significantly. When considering taking regulatory steps that affect the role of PCWs, regulators should reflect on the impact of future market improvements and seek to ensure that any steps taken facilitate innovation to support consumers' interests.

6.5. These themes may be relevant for regulatory bodies to consider, when assessing whether and what regulatory steps to take to enhance the contribution that PCWs can make to effective competition and better consumer outcomes in the markets they regulate.