

Roundtable on cashback and bundled products

On 11th March 2014, Ofgem held a roundtable discussion on cashback and bundled products in the TPI sector. This is a note of the meeting.

From: Ofgem
To: Gas and Electricity Suppliers, Third Party Intermediaries, Consumer Groups, Interested Parties
Date: 12th November 2014

1. Background

1.1. On 27 August 2013, we published our decision to proceed with licence modifications to give effect to the Retail Market Review (RMR) proposals to deliver a simpler, clearer, and fairer energy market. As part of our RMR tariff rules, we prohibited cash discounts in all but two cases – for dual fuel and online account management. We also required bundled products (including non-cash discounts) to be available to new and existing customers.

1.2. On 19 December 2013, we published an *open letter* (available [here](#)) in which we recognised concerns raised by some Third Party Intermediaries (TPIs) about our rules. In particular, they noted that our rules on cash discounts¹ and bundled products² might constrain their ability to engage gas and electricity consumers and restrict the development of the TPI market.

1.3. In the open letter, we indicated that our desired policy outcome is not to stop TPIs from offering cashback or bundled products where these act as a genuine inducement for consumers to engage and do not materially distort consumer choices between different tariffs. We also indicated our initial view, subject to consultation, that we would be comfortable, for example, where an intermediary offers the same inducement irrespective of the tariff chosen and offers a broad range of tariffs. We invited stakeholders to provide views on how best to achieve our policy intention.

1.4. On 11th March 2014, we held a roundtable discussion with suppliers, TPIs and consumer groups to explore their views on the way forward. Specifically, stakeholders were asked to provide their views on three questions:

- Are the conditions stated in our open letter (eg flat incentive, broad range of tariffs) sufficient to achieve our desired policy outcome?
- What are the risks/unintended consequences of these conditions?
- What role can/should Ofgem play in this area (eg via the Confidence Code)? What role do TPIs/suppliers and other stakeholders need to play to deliver our desired policy outcome?

1.5. In providing their views, stakeholders recognised the complexity of the issues relating to cashback and bundled products. They raised a range of questions which we summarise below and will consider further as part of our policy development in this area.

1.6. Some stakeholders also questioned whether Ofgem should change policy in this area without first following a consultation process. We noted that our rules have not changed, but rather Ofgem's open letter in December 2013 clarified its desired policy outcome for cashback and bundled products and intention to develop policy in this area. We also noted that a policy development process is currently ongoing and that any proposed change in our rules would only be implemented following due process, including consultation when appropriate.

¹ By cash discount, we mean a Discount that is pounds sterling or any other currency, is capable of being directly redeemed for pounds sterling or any other currency, is in any way applied to (rather than incorporated within) a Unit Rate or Standing Charge, or is in any way capable of being applied to a Unit Rate or Standing Charge by a Domestic Customer.

² By bundled product, we mean one or more non-energy products that are combined with a Core Tariff.

2. Flat incentive

2.1. Stakeholders were generally supportive of the idea of having a flat incentive. They suggested that this would be better for trust in the market than differentiated incentives and that different size incentives for different tariffs may distort consumer choice.

2.2. However, some concerns were expressed about flat rate incentives. These included:

- different types of TPI may face different levels of difficulty in offering a flat rate incentive;
- flat incentives may reduce the ability of different TPIs to compete in the market;
- if TPIs offer a flat rate of incentive, but regularly change the level of this incentive, then this may reduce customers' trust in the market and cause them to delay switching decisions in the hope of getting a better deal later.

2.3. A possible approach for TPIs to limit complexity may involve the following: (1) cashback being offered separately from the tariff price; (2) cashback not affecting the level of the supplier in the listing; and (3) the cashback offer being simple to understand.

3. Broad range of tariffs

3.1. It was generally agreed that it would be best for consumers if cashback were to be offered with a broad range of tariffs. However, some stakeholders asked whether a broad range of tariffs would be defined as a fixed number of tariffs or left open to interpretation. They noted:

- a requirement to offer a flat incentive on a *broad range* of tariffs that customers can switch to through a particular site may distort a customer's choice of tariffs;
- a requirement to offer a flat incentive on *all tariffs* (not just those tariffs that customers can switch to through the TPI site) may not be commercially viable for some TPI sites.

3.2. Due to the nature of their business models, cashback sites may find it more difficult to offer a broad range of tariffs than price comparison sites.

3.3. Some stakeholders argued that a broad range of tariffs should include a requirement for a broad range of payment methods. These stakeholders suggested that requiring a broad range of payment methods may address concerns that cashback and other incentives do not promote engagement given they are targeted at customers who are already highly engaged in the energy market.

3.4. A related point was the potential impact this additional payment method requirement might have on smaller suppliers who have less than 50,000 customers.³ However, it was also noted that suppliers with fewer than 50,000 customers are still permitted to offer a broad range of payment methods.

3.5. We shall carefully consider the link between a broad range of tariffs and a wide range of payment methods, including any potential implications for competition in the energy market, in the course of our policy development.

4. Impact on competition and consumers

4.1. Some stakeholders were concerned that our current desired conditions for cashback and bundled products may have an adverse effect on TPI competition.

³ Licence condition 27 requires that all suppliers with more than 50,000 Domestic Customers must offer the customer a wide range of payment methods.

4.2. It was suggested that larger TPIs may find it easier to set up commission arrangements with a wide range of suppliers than smaller TPIs, and so would be more able to meet the “wide range of tariffs” condition for offering incentives. It was claimed, therefore, that our proposed conditions for offering cashback and bundled products could reduce competition in the TPI market and leave consumers with less choice about the channels through which they engage.

4.3. Some stakeholders argued that allowing cashback to be offered by TPIs would give an advantage to larger suppliers because they are likely to be more able to afford TPI commission payments. Consequently, smaller suppliers will find it harder to get access to consumers via switching sites.

4.4. Stakeholders also discussed the impact on competition between suppliers and TPIs, with some stakeholders suggesting that allowing TPIs (but not suppliers) to offer cashback may create an uneven playing field and could drive customers to TPI websites.

4.5. Some stakeholders argued that this shift in consumers towards TPI sites could give larger TPIs unfair leverage over suppliers, allowing them to increase commission levels. One stakeholder also argued that some consumers may suffer detriment as a result of switching through a TPI site, since they may not be made aware of government schemes or receive as much information as they would through a supplier’s site.

5. Definition of TPIs and the role of the Confidence Code

5.1. Some stakeholders requested further clarity on the definition of representative and the point at which a TPI becomes a representative when engaging with a consumer. Some stakeholders suggested it would be helpful if Ofgem were to publish some guidance on this issue.

5.2. During the roundtable it was argued that suppliers would find it useful if only Confidence Code accredited TPIs could offer cashback and bundled products. It was suggested that this would make it easier for suppliers to ensure that a TPI is offering incentives in a compliant way that is fair to consumers and to ensure that the information provided by that TPI is helpful and accurate. In response to this suggestion, it was argued that this might damage TPI competition as not all TPIs that may want to offer incentives are accredited by the Confidence Code.

5.3. It was asked exactly who the restrictions would apply to if only Confidence Code accredited sites could offer cashback and bundled products. For example, it was queried whether TPI sites that use the databases and IT infrastructure of Confidence Code accredited sites would be able to offer incentives, or whether only the accredited sites themselves could offer incentives. As part of our Confidence Code Review, we recently published a consultation on the Confidence Code and wider issues around Third Party Intermediaries.⁴

If you would like to discuss any aspects of this note, please contact Barry Coughlan on barry.coughlan@ofgem.gov.uk or Thomas Lydon on thomas.lydon@ofgem.gov.uk.

⁴ Available at <https://www.ofgem.gov.uk/ofgem-publications/89233/domesticthirdpartyintermediariesconfidencecodeandwiderissues.pdf>

Appendix: List of attendees

| Attendee | Company |
|----------------------|-------------------------|
| Alun Rees | Energy UK |
| Andreas Andreou | Quidco |
| Andrew Mensah | Good Energy |
| Anne Pardoe | Citizens Advice Bureau |
| Archna Luthra | Money Saving Expert |
| Caroline Lloyd | Gocompare |
| Claire Lindsay | Seopa |
| Daniel Parry | UPBO |
| David Ford | Green Star Energy UK |
| Eileen Rutschmann | UNRAVELIT |
| Filip Vissers | Ichoosr |
| Florian Ritzmann | Simplify digital |
| Grant Warnock | EDF Energy |
| Hugh Goulbourne | Community energy direct |
| James Edwards | RWE npower |
| James Little | Top Cashback |
| James Padmore | Comparethemarket.com |
| Jane Lucy | Databarta |
| Jenni Lucas-Williams | Consumer Futures |
| Joe Malinowski | The Energy Shop |
| Julie Lawton | Energy helpline |
| Kathryn Grantham | Which Switch |
| Lesley Queripel | E.ON UK |
| Mark Sommerfeld | LOCO2 Energy |
| Martin Brett | Switch Gas and Electric |
| Pamela Mowat | Scottish Power |
| Patrick Whitehead | DECC |
| Paul Hodnett | Utilities direct |
| Roger Hutcheon | SSE |
| Simon Esberger | Incahoot |
| Stephen Murray | Money Supermarket |
| Thomas Lowe | British Gas |
| Thomas Lyon | uSwitch |
| Yves Schwarzbart | IAB |