

Comparethemarket.com

Response to Ofgem's consultation on the implementation of the CMA's Whole of Market recommendation

Background

CTMComparethemarket.com (CTM) is interested in the above-mentioned Ofgem consultation because it is one of the UK's most popular PCWs and allows customers to compare energy tariffs, alongside other important consumer products and services. CTM's energy comparison service is provided via an Ofgem Confidence Code accredited partner, Energy Helpline.

It follows that adjustment to Ofgem's Confidence Code, notably the removal of any Whole of Market (WoM) requirement set out in the Confidence Code, will have an indirect impact on comparethemarket.com.

Initial Comments

CTM welcomes any step on Ofgem's part to allow PCWs to play a more active role in supporting consumer engagement and driving greater supply-side competition. CTM therefore welcomes Ofgem's commitment to consult formally on a more comprehensive removal of the WoM requirement. In CTM's view, Ofgem's recently presented proposals on the implementation of the Competition and Markets Authority's (CMA) recommendation to remove the Whole of Market requirement from the Confidence Code are largely positive in terms of their capacity to increase consumer engagement in energy comparison.

CTM agrees that, by removing the WoM requirement, PCWs will have more incentives to invest in encouraging consumers to use their services and to help consumers get a better energy deal. That said, aside from delivering real savings to consumers, it is equally important that any energy comparison journey should be as quick and easy as possible in order to appeal to busy consumers – and it is this consideration that informs a number of CTM's comments below.

Rationale

As identified by the CMA in the Energy market investigation, far too many consumers remain disengaged from energy comparison. This is highlighted by, for example, persistently high levels of customers on the standard variable tariffs of the Big Six suppliers:

"Around 70% of the customers of the Six Large Energy Firms are on the standard variable default tariff and up to 55% of these customers have been on the standard variable tariff with the same supplier for more than three years, up to 10 million customers."¹

Given that the potential savings of switching tariff and/or supplier are significant – the CMA and Ofgem estimate up to £300 per household per year² – it is reasonable to infer, in view of continued consumer inertia, that greater focus on ensuring a simpler, swifter and more efficient comparison and fulfilment process is merited.

Although, according to Ofgem research, consumer engagement is improving (and PCWs along with other intermediaries and suppliers' own channels are contributing to this), Ofgem's own research identifies a

¹ <https://assets.publishing.service.gov.uk/media/576c23e4ed915d622c000087/Energy-final-report-summary.pdf>, para. 232

² <https://www.ofgem.gov.uk/consumers/household-gas-and-electricity-guide/how-switch-energy-supplier-and-shop-better-deal/compare-gas-and-electricity-tariffs-ofgem-accredited-price-comparison-sites>

sizeable rump of consumers, referred to as Hassle Haters³ (alongside Market Sceptics, Anxious Avoiders and Contented Conformers⁴),⁵ whose lack of engagement is driven by an adverse perception of the process:

*"...Hassle Haters' lower levels of engagement in the energy market are linked to negative perceptions of the switching process, thinking that switching takes too long (45% versus 27% average), and is a hassle they don't have time for (60% versus 46% average). They worry things would go wrong (59%) and find it too hard to work out whether or not they would save (53%)"*⁶

It follows, in CTM's view, that the success of any change to the Confidence Code will, to a significant extent, depend on the ability of PCWs to tailor the consumer journey, and its signposting, to the actual demands, practices and lifestyle considerations of the consumers using them.

Ofgem's minded-to option

CTM agrees that PCWs should be given the option of exclusively showing deals that consumers can switch to directly through their website.

CTM agrees that by allowing PCWs to only show deals that they can switch a consumer directly to (i.e. fulfillable deals), this has the potential to increase the number of fulfillable deals on offer, make it easier for consumers to switch, boost switching rates, and encourage PCWs to invest in their energy offering.

CTM believes, like the CMA and Ofgem, that any concerns that might be raised in respect of consumers potentially having less choice, or of increasing PCW bargaining positions, are misplaced or overstated. Aside from the need to drive greater consumer engagement in general and the fact that PCWs represent only one of a number of routes to market, PCWs have a strong natural incentive – in order to make their platforms as appealing to consumers and suppliers as possible – to display as many suppliers and tariffs as possible.

On balance, while CTM agrees with the proposed WoM removal remedy in principle, in relation to the specific requirements of the proposed changes, CTM has several reservations:

1. PCWs will be required under Ofgem's proposals to explain the market coverage of their results in "prominent, clear and intelligible" terms so that consumers understand what they are seeing.

The CMA notes in its Final Report as part of the DCT Market Study that:

"A lack of information about coverage could adversely affect consumers' decisions about which and how many DCTs to use, as well as undermining consumer trust if users find coverage is not what they expected".⁷

CTM agrees entirely that consumers should not be misled as regards PCW coverage; however, the same CMA research indicates that only a small minority (11%) of PCW users ever actually thought that all suppliers were covered on any PCW anyway.⁸ In CTM's view, consumers who use PCWs across the product spectrum are fully aware that no single PCW can give access to every deal in the market, and that even by shopping around between multiple PCWs before switching, they still may not see all the deals available in the market.

³ 20% of the UK population

⁴ 14%, 13% and 20% of the UK population respectively

⁵ https://www.ofgem.gov.uk/system/files/docs/2017/10/consumer_engagement_survey_2017_report.pdf, page 16

⁶ Ibid, page 33

⁷ <https://assets.publishing.service.gov.uk/media/59c93546e5274a77468120d6/digital-comparison-tools-market-study-final-report.pdf>, page 39

⁸ Ibid, page 35

CTM would therefore posit, if any further signposting were needed at all (which may be doubtful), that only the most simple of statements would be appropriate, i.e. that the relevant website may not display all of the tariffs potentially available. However, if Ofgem expects PCWs to explain the market coverage of the results shown on their websites in more detail (which is uncertain based on the proposed text of the amendments to the Confidence Code), PCWs would, in the first instance, need to have confidence in the method(s) used/approved for calculating this value, which would be difficult and unreliable. As highlighted above, CTM considers that further detail above and beyond a simple statement around market coverage could create customer confusion.

In other words, owing to there not being a single point of reference for all tariffs available online and offline in the entire market, CTM would question the possibility of being able to regularly calculate such a value with a high degree of confidence, on an ongoing basis and in a consistent way across all PCWs. This concern would be in addition to any concerns associated with simply overloading the consumer with additional, potentially complex, information, thus detracting from the customer journey at a more basic level, and thus reducing the opportunity for the customer to achieve the saving opportunity.

Rather than imposing an absolute requirement at this stage, CTM considers that there is merit in market testing this requirement further before requiring PCWs to explain the market coverage of their results to consumers in a prescriptive format, if this is what Ofgem intends by its changes (although further guidance on this would be useful). It is not clear from the Ofgem consultation document the extent to which consumers valued this additional signposting or whether this aspect of the remedy was tested in consumer trials at all.

Before any remedy is adopted, PCWs should be permitted to continue to test the inclusion of different explanations in respect of market coverage to gather insights on consumer perceptions and associated trust levels, with the ultimate aim of delivering better outcomes for consumers in line with the CMA's CARE principles.

2. Where a PCW does not show Wide Results as the default view, under Ofgem's proposals it will be required to display a similarly clear link to the Citizens Advice Comparison Tool (CACT) on the Partial View.

CTM believes such a requirement goes further than that recommended by the CMA (which only considered the inclusion of an indication of the availability of the CACT on accredited PCWs,⁹ rather than requiring a link); more importantly, CTM believes that the inclusion of the CACT link could deliver poor customer outcomes that could ultimately discourage consumers from switching.

In particular, Ofgem has recognised that where consumers have to visit other websites and re-enter their details, this has the potential to put those consumers off switching. More specifically, the proposal to provide a link to the CACT on the Partial View will require consumers to re-enter their details more than once in order to complete their switch application. In other words, as part of the proposed customer journey as anticipated by Ofgem, the same consumer will effectively be asked to provide their details to the PCW, re-enter them all again for a second time in the CACT, and – as the CACT is a 'comparison only' tool (there is no ability for the customer to switch via the CACT) – re-enter all their details a third time in the supplier's own website.

CTM believes that any negative impact on the conversion rate for a PCW will mean ultimately that a lower return on investment can be achieved for their energy business. This lower return will thus decrease the levels of investment that can be made in further developing our propositions and service

⁹ <https://assets.publishing.service.gov.uk/media/57f370f5e5274a0eba000025/cma-response-to-ofgem-confidence-code-review-consultation.pdf>, para. 31. See also paras. 13.281 to 13.283 of the CMA's Energy market investigation Final Report, which appears to dismiss the idea of links to CACT on accredited PCWs

and in promoting these propositions to consumers to drive increased levels of traffic. CTM ultimately believes this will lead to fewer consumers accessing PCWs for their energy comparison and switching needs, thus it will lead to fewer people saving money on energy.

Such a customer journey is only likely to reinforce the concerns of the 'Hassle Haters' (and other less engaged groups) as indicated above, and introduce time and frustration into a process that too many consumers are already reluctant to engage in, despite its obvious benefits.

Questions

Q.1 - Do you agree that our minded-to option is the best means of achieving the benefits and mitigating the risks of removing the WoM requirement?

For the reasons outlined above, while the minded-to option heads in the right direction, CTM considers that – absent further testing - it remains too prescriptive, and is not entirely consistent with the CMA's recommendations. Of the several options considered by Ofgem, CTM believes that Option 3 (rather than the minded-to option) reflects most closely the CMA's recommendations.

Q.2 - Do you agree that our proposed drafting of the Code is the best means of achieving the benefits and mitigating the risks of removing the WoM requirement?

Please see above. Aside from concerns as regards the inclusion of links to the CACT, CTM is concerned about the level of detail that Ofgem expects for the purposes of any signposting (particularly around market coverage). Further guidance would be useful, with a focus on ensuring that any such statements are as short and simple as possible, which in turn will reduce the possibility of consumers being misled.

Conclusion

Taking the above points into account, CTM believes that removing the obligation to display WoM (while retaining the option to show Wide Results should the PCW so choose) will drive consumer benefits and therefore benefits for suppliers.

However, as Ofgem has committed over time to rely on general principles (principles-based regulation) rather than detailed prescriptive rules about how companies should operate their businesses, there may be greater merit in allowing PCWs additional room to test and evolve the features that Ofgem has proposed would accompany such WoM changes to ascertain what best fits those consumers comparing through their service.

As part of this consumer testing, CTM believes that Ofgem might wish to consider a further scenario or option, in addition to those already explored by Ofgem in connection with the removal of the WoM requirement:

Option 5 – Removal of the WoM with no Wide Results obligation, no requirement to describe market coverage, no requirement to display a link to the CACT

Under this option, Ofgem would permit PCWs to show only deals that they can switch consumers to, in line with all other products currently available through PCWs. As mentioned above, CTM believes that explaining the market coverage of their results in detail may be counterproductive (confusing for consumers) and misleading (given the lack of any central point of reference). More research should be conducted by PCWs to identify what messaging meets the needs of their consumers in the most effective way.

Finally, as mentioned above, CTM is also concerned that a requirement to display a link to the CACT on any Wide View results page could result in unintended adverse consumer outcomes that could ultimately result in more inertia rather than less.