

PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

Theory of harm 5: Vertical relationships involving PCWs

Introduction

1. Under theory of harm (ToH) 5, we considered the hypothesis that a private motor insurance (PMI) provider integrated with a price comparison website (PCW) might use the information obtained through the services offered by its PCW to (i) undercut rival PMI providers' quotes or (ii) to manipulate their quotes (eg by including features (such as a lower excess) not requested by the customer). In this paper we discuss these two issues.

Summary

2. It appears to us that the ownership of PCWs by some insurers/brokers may enable these PMI providers to gain information on their rivals' quotes. We note that PCWs sometimes grant PMI providers access to statistical data or sell information/data to subscribing PMI providers. However, it also appears that the two parts of an integrated PCW-PMI provider operate independently.
3. We did not find any evidence to suggest that price information obtained by a PCW would be used by its integrated PMI provider for undercutting the prices of its PMI rivals. More generally, we did not find any evidence to suggest that an integrated PMI provider would benefit from more favourable access to information gathered by its integrated PCW than its rival PMI providers. While it appears that software allowing the manipulation of PCW results does exist, we did not find evidence that it was used by integrated PCW-PMI providers.
4. With regard to quote manipulation, it appeared to us that PCW-PMI providers might have the incentive to manipulate the quotes of their rivals directly to ensure that their

PMI policies appeared at the top of the ranking, and it was not clear that there were effective constraints, such as losing PMI providers or informed customers. In particular, the threat of delisting from a PCW appeared to be a last resort for a large PMI provider and had never been used. However, we also found no evidence that the direct manipulation of quotes had ever actually occurred.

5. [REDACTED].
6. Overall, it appears to us that there is the possibility for a distortion of competition between PMI providers due to the vertical integration of some PMI providers with the large PCWs. However, we have found no evidence to suggest that such a distortion has occurred to date and we have no basis for expecting integrated PCW-PMI providers to engage in the undercutting of prices or the direct manipulation of quotes in the future.

PCW-PMI providers

7. PCWs are a major sales channel for PMI. Many insurers and brokers told us that it was important, or even essential, to sell on a range of PCWs in order to compete effectively in the PMI sector. In fact, the majority of customers search on multiple PCWs. We found that, on average, customers used 2.2 PCWs the last time they shopped around for PMI.¹
8. Among the four large PCWs, there are three which are fully or partly owned by a provider of PMI (insurer or broker), as follows:²
 - (a) Comparethemarket (CTM), [REDACTED], is an independent division of BISL Limited, which is part of the privately-owned BGL Group (BGL) (a large broker);

¹ See the working paper, 'ToH 3: Horizontal concentration in PCWs'.

² We provide more information on insurers, brokers and PCWs in the working paper 'Background to PMI (insurers, brokers and PCWs)'.

- (b) Confused is a wholly-owned subsidiary of Admiral (an insurer); and
- (c) GoCompare is 50 per cent owned by esure (an insurer).

Price undercutting

9. We considered whether an integrated PCW-PMI provider could operate the PCW such that rivals' quotes were gathered before it quoted, so that it could ensure that its price for a policy was slightly cheaper. We noted that this could be done in real time just before the quotes were made available to the consumer.
10. However, price undercutting would be harmful for consumers only if the price quoted by the PCW-PMI provider would have been lower absent the information on its rivals' prices. If, on the other hand, the price would have been higher, customers would benefit from the provider's price-undercutting behaviour, at least in the short term (for an assessment of long-term effects, see paragraph 19).
11. The process of undercutting would rely on having a continuous flow of quoting information within the structure of the integrated PCW-PMI provider. However, this appears to be possible as both Admiral and BGL told us that their integrated PCW could provide them with aggregated statistical data. Admiral explained that it had access to similar statistics/KPIs from other PCWs with which it worked and that it also made occasional ad-hoc data requests to other PCWs.
12. Admiral told us that it had a contract with Confused (its integrated PCW) under which Admiral may ask Confused to provide daily/monthly KPI statistics and, from time to time, it may also submit ad-hoc data requests. Admiral said, however, that it also had access to similar statistics/KPIs from other PCWs with which it worked and it made occasional ad-hoc data requests to them. Confused told us that its contract with Admiral was based on a standard template and the same information would be

available to its other PMI providers. Confused said that all its PMI providers would be treated equally. It told us that the results displayed on its website would be based on premiums and would not be influenced by relationships or agreements with any PMI provider.

13. Admiral told us that it was unaware of any computer software (or other mechanism) which would allow a PMI provider to access a rival's price. Although it would probably be possible for a PMI provider and a PCW operating together to build the necessary software, Admiral said that it had never been party to such an agreement and it was not aware of any PCW-PMI provider with such an agreement. We noted that Admiral had told the OFT that having Confused granting Admiral access to the real time data of its PMI rivals would be 'commercial suicide' for Confused as it needed to offer the broadest range of coverage in terms of PMI providers and such behaviour would make rival PMI providers run away.
14. BGL told us that its PMI intermediary business (IB) and CTM operated within one legal entity but as distinct business units, with processes and procedures in place to prevent the sharing of customer data and quote data between them. BGL told us that CTM provided BGL's IB business simple data that the IB business then analysed in order to identify trends, but this was aggregated statistical data, not customer or quote data, and it was data which was also made available to other PMI providers using CTM. BGL noted that other PCWs offered access to similar information.
15. Esure told us that its participation as a panel member of GoCompare was on a strictly arm's length commercial basis. Esure said that GoCompare was independent and operationally separate from esure, and esure received no information different from that provided to it by other PCWs in which it had no equity stake. Moreover, esure said that it was not aware of any software or other method that would allow a

PMI provider to analyse rivals' prices through any PCW in order to provide a lower quote.

16. Although both Admiral and esure told us that they were unaware of any software or other method which would enable the undercutting of rivals' prices, we reviewed some of the internal documents of a number of parties and found that [REDACTED]. These internal documents suggested to us that suitable software might be available or, at least, feasible.

Direct manipulation of quotes

17. GoCompare told us that PMI quotes were generally displayed first to consumers ranked by price, with the cheapest premium at the top. Customers could then re-sort the order according to other criteria or preferences. Customers could also select add-ons, which were usually added prior to the search. However, where the customer left questions relating to add-ons unanswered, it was up to the PMI provider to determine whether to include add-ons in the policy search or not. This choice could clearly affect the resulting ranking.
18. Integrated PCW-PMI providers could have the incentive to manipulate rivals' quotes to ensure that their PMI policies appear at the top of the ranking. This could be achieved, for example, by including in rivals' PMI products some add-on services (eg windscreen cover, breakdown cover, etc) which make them appear more expensive.

Possible consequences for competition in PMI provision

19. In the long term, an integrated PCW-PMI provider might benefit from the additional sales achieved through either the undercutting of rivals' quotes or the direct manipulation of search results to increase its market share to the detriment of its competitors. However, we noted that the ability of the integrated PCW-PMI provider to use its

Consumer awareness of vertically integrated PCW-PMI providers

24. The OFT has considered the importance of disclosing to consumers clear information about the identity of the business operating a PCW, and information regarding the commercial relationships it has with providers of the products it offers. To inform its analysis, the OFT conducted an online consumer survey.³ The survey covered a wide range of products and services offered by PCWs, one of which was PMI.
25. The survey showed that, of all consumers who used PCWs in all markets surveyed, a substantial majority (81 per cent) did not always purchase through a PCW. When asked why, 17 per cent gave the reason that they were not independent, and 13 per cent said it was because some PCWs were owned by the suppliers of the products being compared. Among consumers that used PCWs in 2010,⁴ a substantial majority, 76 per cent (75 per cent for car insurance only), considered them to have at least some drawbacks, and 'not being independent or impartial' was a drawback reported by 39 per cent. Of these consumers who did not consider PCWs to be independent or impartial, 41 per cent (44 per cent for car insurance only) said that this was because 'some of the PCWs are run by the suppliers listed on the site'. Only a small minority (11 per cent)⁵ of those consumers who said that they were aware of the vertical integration between some PCWs and some PMI providers said that they would use the PCW both to compare and to purchase, as opposed to the majority who said that they would use the PCW to compare products or services but would not always purchase on the PCW.
26. Unfortunately, we do not have data on the purchase behaviour of informed consumers specific for PMI. However, shoppers for PMI through a PCW constituted around half of the respondents to the OFT's survey (49 per cent) and we know from

³ www.of.gov.uk/OFTwork/markets-work/advertising-prices/#named4.

⁴ This period represented the last 12 months at the time of the study.

⁵ The number of responses for this question was very small so this result should be interpreted with some caution.

our customer survey⁶ that, among those who compare policies online, the vast majority used one or more PCWs (87 per cent). Moreover, we see no reason why consumers' general behaviour (ie whether they would purchase through a PCW in the knowledge of vertical integration) would vary depending on the product for which they are using the PCW.

27. In our view, the OFT's survey provides a useful insight into consumer awareness of PCWs' vertical integration. However, it does not allow us to assess whether choices by informed consumers could limit or exclude any undercutting or quote manipulation by PCWs. In particular, we do not know the proportion of informed consumers which would not buy a PMI policy from a vertical integrated PCW.⁷

Third parties' views regarding such behaviour

28. Non-integrated PMI providers are aware of the conflict of interest faced by PCWs which are owned by rival PMI providers and, for this reason, we would expect most non-integrated PMI providers to monitor closely their sales performance on each PCW in order to identify any unexpected changes (eg a decrease in sales volumes).

Price undercutting

29. [REDACTED].

Direct manipulation of quotes

30. [REDACTED].

31. Aviva told us that its ability to identify any manipulation of the quotes it offered was limited. It said that, more generally, non-integrated insurers/brokers had no evidence

⁶ See the working paper 'Survey report'.

⁷ The share of consumers, in the OFT's survey results, that did not purchase through a PCW because they had concerns about integration was derived from too small a base to infer general results.

that their products were not being quoted fairly on PCWs, though they were acutely aware that integrated PCW-PMI providers had both the incentive and the ability to do so.

32. Most non-integrated PMI providers told us that they would consider delisting from a PCW if they believed that they were not being quoted fairly on it. However, it appears that this option is typically considered as a last resort and the PMI provider would prefer to rely on good relationship management to resolve any issues, or would consider other options to protect its business and to mitigate any negative impact. As an example, [REDACTED]. We recognized that the decision to delist from a PCW might result in a significant loss of sales for a PMI provider though we noted that many customers visit more than one PCW before making a purchase. We also noted that price is not the sole consideration for consumers when selecting policies on PCWs. We found that, to date, none of the PMI providers which provided us with information had ever delisted from a PCW due to a fear of quote manipulation.
33. RSA told us that it [REDACTED].