

OUTLINE OF RESPONSE BY GOCOMPARE.COM

TO THE COMPETITION COMMISSION'S DRAFT REMEDIES

IN THE PRIVATE MOTOR INSURANCE ("PMI") MARKET INQUIRY

17th January 2014

Introduction

1. Gocompare has submitted detailed comments and responses to previous requests from the Competition Commission ("CC") and intends to respond within the deadline to the Provisional Findings that were also published by the CC in December.
2. This paper is in response to the remedies which are identified in the CC's publication dated 17 December and in particular those remedies which may have a direct effect on Price Comparison Sites ("PCW's") such as Gocompare. The remedies relate to add-ons and wide Most Favoured Nation clauses ("MFNs").
3. This paper provides a summary of Gocompare's views on the Draft Remedies on Add-ons and wide MFNs. It also replies to the specific questions raised by the CC in its Draft Remedies Paper.

Summary of Gocompare's Response on the Draft Remedies Paper

4. Gocompare, is of the view that the remedies considered in relation to **add-ons** would fundamentally change the business in which they are engaged from one where they offer insurers a route to market and consumers a tool to compare policy premiums; to one where PCWs will be asked to bear a significant financial burden and effectively perform the role of a broker. Moreover given the enormous differences among the add-ons offered by the insurers it will be impossible for consumers to compare products effectively and their ability to compare PMI products will be inhibited.
5. Gocompare is of the view that the **wide MFNs** are a valuable tool. They ensure consumers are able to access lower premiums easily and without the need to search several sites. However, Gocompare notes that the CC is not of this view and considers that despite the views expressed by other regulatory authorities including the OFT, that wide MFNs, in conjunction with other market issues, may create an impediment to innovation and an upwards pressure on premium prices. It is understood that the CC considers narrow MFNs do not present the same risk.

Add-ons: Overview of Remedies

6. The CC has suggested a number of potential remedies to address its concerns that consumers are unable to effectively compare or understand add-ons clearly. Whilst it is our aim to assist the consumer in making an informed decision, this must be balanced with the consumers' key requirement; namely that they are able to clearly understand and compare the underlying PMI product. The draft remedies do not reflect this need as they ignore the vast differences between add-ons offered by different insurers and the considerable range of products offered by each insurer.
7. PCWs do not currently offer a comparison of actual add-ons as these vary considerably between insurers and each insurer typically has a range of different levels of coverage within each add-on. To enable PCWs to display this information would mean that a consumer would first of all have to answer many additional questions in relation to each add-on and then the consumer would be presented with a vast array of different premiums.
8. It is our view that the draft remedies, if implemented, would damage consumer confidence, increase the administrative burden on PCWs, insurers and consumers, raise the complexity of the results page significantly and confuse the consumer in their attempt to compare PMI premiums.
9. If these remedies were effected PCWs would be asked to offer a comparison of a series of totally dissimilar products with different levels of cover, this confusion will undermine the essential pro-competitive role played by PCWs.
10. The CC should be aware that if PCWs are asked to collect the necessary information from the consumer, it will take considerable effort and time on the consumer's behalf and on the part of PCWs. PCWs will have to spend a significant amount of time and money changing the way in which they operate. They will be required to collect data from consumers and insurers in much more detail. Finally, PCWs will need to restructure their results pages and introduce significant complexity and potentially confusion to the detriment of consumers.
11. The only way to implement the draft remedy would be to create a confusing matrix of costs and charges that will detract from the consumer's ability to obtain clear assistance from PCWs.
12. In summary, the CC has sought comment on whether PCWs should provide clearer descriptions of add-ons. This is a fundamental misunderstanding of the market as there is not one definition that would cover each add-on. Gocompare supports the objective of providing consumers with clear descriptions and more transparent information where possible. However, as add-ons differ so widely all that can be given is a generic guide to what may be

covered unless the consumer is to be inundated with pages and pages of alternative definitions and subject to a substantial increase in the information required before a quote is provided.

Add-ons: Response to Specific CC Questions

13. The CC also raises the following questions in relation to add-ons to which Gocompare's responses are provided:

“Should PCWs be required to enable consumers to compare the policies offered by different insurers including all add-ons on their websites or are they sufficiently incentivised to do so without such a requirement?”

If it was this simple, then Gocompare would be in favour of this as it supports both the company's values and approach to customers. Gocompare was the first PCW to display Defaqto policy information to provide the consumer with greater policy information. However, there are complicating factors:

It is unclear what currently constitutes an add-on and what is covered in PMI policy itself? There would need to be agreement on this point across all insurers, brokers and PCWs before common definitions could be discussed. Gocompare is doubtful that such an agreement could be achieved without significant costs. Moreover, it believes that such efforts would need the detailed input of the FCA. Even, if common definitions could be established, Gocompare is of the view that this will inhibit innovation and evolution within the market as insurers will be dis-incentivised from developing their PMI products, creating new add-ons or from any movement away from the defined add-on as set out in each agreed definition because of the costs involved.

As such, this remedy would have an adverse effect on competition between insurers, inhibit product innovation and consumers will suffer a significant detriment because of it.

Gocompare are also concerned that fixed common definitions for add-ons will make the process through a PCW too complex for consumers and lead to customer detriment as a result of this complexity. The impact will be felt in both the additional information required and the additional information displayed. This latter point is especially important given the changes of devices used to access PCWs, i.e. the fact that more people are now using smartphones/tablets to access PCWs.

The more information PCWs provide (i.e. the more tailored the offering) the closer PCWs move towards acting as a financial advisor or broker. The costs associated with this would be significant for PCWs and insurers and it would involve a significant change to our business model. Together with the attendant increase in the regulatory burden of agreeing set add-on definitions this would be likely to be a significant deterrent to new entrants to the PCW market.

“Should the remedy be extended to brokers?”

Yes, if despite the clear concerns expressed above, such a remedy is to be considered it must apply to brokers. How can any part of the PMI industry be excluded for the remedies to be effective and for there to be a level playing field? Brokers are members of PCWs’ panels and results for them are therefore also displayed.

“Should the remedy apply to all add-ons?”

This begs the question above. What is an add-on? There must be clarity over this. We do not believe that there is currently. There must be consensus on the definition of a standard or common PMI policy, on the add-ons to be included on PCW sites and how it is proposed PCWs should compare dissimilar products without confusing consumers.

“How long would it take for PCWs to alter the design of their web-sites?”

Without clarity of the points above, the most significant of which will be which add-ons are to be included and the extent to which they are defined to a common industry standard to allow meaningful comparison, our view is that this will take a minimum of 12 months as the solution must work on all devices/platforms. The most significant piece of work will be re-writing the robots to ensure all the additional information we require is supplied by the partners and ensuring we can update the quoted prices as customers amend their required add-ons and the levels of cover within those add-ons.

“How much would it cost to make these changes?”

It is not possible to quantify this until the matters referred to in the paragraph above are known.

“What circumvention risks would this remedy pose and how could these be mitigated?”

N/A.

“Would this remedy give rise to distortions or have any other intended consequences?”

See above. The CC should be aware that the standardisation of add-ons will inhibit innovation within the market for add-ons at insurer level.

“Whether the possible remedies under ToH 4 are likely to be more effective in combination with other remedies than alone and, if so, what particular combinations of remedy options would be likely to be effective in addressing the AEC we have provisionally found; and (b) whether the possible remedies under ToH 4 are best made by the CC through an enforcement order or whether the CC should make recommendations to another party to implement the remedies, and if so who that party should be.”

We are of the firm belief that the remedies proposed by the CC are matters of business conduct, which fall squarely within the remit of the FCA. The FCA is better placed to deal with the proposed remedies in the context of their overall regulatory remit, particularly in relation to treating customers fairly. However, it is essential that the CC is confident that any addition in regulatory burden is justified and will not simply lead to higher costs or inhibit innovation.

MFNs: Overview

14. Gocompare have submitted evidence that wide MFNs do not distort the market and have the pro-consumer effect of reducing search costs for consumers. The use of wide MFNs in this and other comparison markets increases consumer confidence that lower premiums are easy to locate and has a strong downward pressure on prices. The value of a wide MFN is not offset by a detriment to innovation as PCWs can be rewarded through higher CPA if they help insurers innovate or are innovative themselves. Nor has the use of wide MFNs historically resulted in increased costs as can be seen by the CPA levels recovered by Gocompare over time.
15. In the event that the Provisional Findings are upheld and a remedy is sought to deal with the perceived anti-competitive impact of wide MFNs, Gocompare has commented on the specific questions set out in the draft Remedies Paper below. This should not however, be interpreted as an acceptance of the erroneous conclusions that wide MFNs are anti-competitive in any way.

MFNs: Response to Specific CC Questions

16. The CC raises the following questions in relation to wide MFNs to which Gocompare's responses are provided:

“How would this remedy be best specified? Would the prohibition be best described in relation to all MFN clauses except those in relation to insurer’s own web-sites?”

If PCWs are to have restrictions applied to their commercial right to freely negotiate a wide MFN with insurers, this restriction must be narrowly described. The removal of wide MFNs should only have an impact on the insurers' ability to offer lower premiums on the other PCWs. PCWs and insurers should still be free to agree other restrictions. Without this approach, insurers will be able to offer cheaper premiums by telephone and by email once they have the consumers contact details from the PCW.

“Could this remedy take effect immediately (or within a short period to remove the clauses) or would an adjustment period be required?”

An undertaking given by PCWs not to enforce existing restrictions not to offer a motor policy more cheaply on other PCWs websites could be in place very quickly. If a wider undertaking is required or contractual changes need to be made, this may well prompt insurers to instigate broader commercial discussions going beyond the scope of MFNs. The CC should be reminded that agreements between insurers and PCWs cover many products not just motor insurance. To face multiple negotiations within tight timescales will stretch the PCWs limited resources, remove focus from the customer and place PCWs in a disadvantageous commercial position.

“What circumvention risks would this remedy pose and how could these be mitigated?”

It is difficult to see that there are any ways of circumventing the proposed remedy other than the possible way identified of threatening to delist an insurer, the risk of which we consider to have been exaggerated and possible consequences not fully understood.

Under FCA regulation, customers must be treated fairly. PCWs have to give careful consideration to delisting an insurer to ensure that their offering to customers is broad enough to provide customers with meaningful comparisons. The larger insurers have several different brands under which they offer PMI and so delisting an insurer can mean the removal of up to 5 brands from a PCW, this could seriously degrade the customer offering. This is a control significant enough to ensure that delisting an insurer is never undertaken capriciously.

The reasons why a PCW might threaten to delist an insurer are numerous ranging from failing to account for business introduced to failure to remit correct and timely information changes. Any restriction on the circumstances in which a delisting may be effected will have to be very tightly drawn to avoid any restriction on other circumstances in which a PCW has a legitimate right to delist or threaten to delist.

Any restriction on the ability of a PCW to decide with whom it will do business may have other unintended consequences as set out in below.

“In addition to threatening to delist an insurer, what other actions could a PCW take that might have the same effect as a “wide” MFN? How could the risk of a PCW taking these actions be effectively mitigated?”

See above.

“Would this remedy give rise to distortions or have any other unintended consequences?”

In addition to the consequences set out in above and in previous evidence, Gocompare is of the view that there are several other possible adverse consequences.

Insurers that have controlling interest in PCWs will be more likely to ensure that their products appear at the cheapest rates on their subsidiary’s website. This may result in a significant volume moving to their subsidiary, potentially undermining the on-going competitive effect of non-group PCWs on the market.

Restricting a PCWs ability to manage its business by delisting an insurer, who threatens to under-mine the PCW’s ability to compete (by offering significantly lower premiums on other PCWs) could lead to insurers (in conjunction with other aggregators) manipulating the market by targeting a PCW so that it loses volume and may have to exit the market or limit its competitive impact. This would have the effect of erecting further barriers to entry into the PCW market as well as reducing competition. In addition, PCWs must be able to remove insurers that simply flood their site with results and take up space on their web sites and servers without providing a meaningful comparison for consumers because of the high premiums returned.

Gocompare finally considers that the removal of wide MFNs will not necessarily lead to lower premiums, as suggested. Gocompare considers that it is more likely that innovation will lead to higher premiums and CPAs in the longer term and that consumers will suffer if they are removed.