

COMPETITION COMMISSION

PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

Notes of a multilateral hearing with price comparison websites

held at

Victoria House, Bloomsbury Place, London WC1A 2EB

on

Friday, 28 February 2014

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PRESENT:

FOR THE COMPETITION COMMISSION:

Mr Alasdair Smith - Chairman
Mr Stephen Oram - Panel Member
Mr Roger Finbow - Panel Member
Mr Robin Aaronson - Panel Member
Mr Anthony Stern - Panel Member

Ms Erika Lewis - Inquiry Director
Mr Peter Baker - Inquiry Co-ordinator

Mr Graeme Reynolds - Director, Remedies and Business Analysis
Mr Dipesh Shah - Financial and Business Adviser
Mr Philip Dixon - Financial and Business Adviser
Ms Katy Cox - Financial and Business Adviser

Ms Julie Bon - Economic Director
Mr Peter Wantoch - Economic Adviser
Mr Tony Curzon-Price - Economic Adviser
Mr James Jamieson - Economic Adviser
Mr Enrico Alemani - Economic Adviser
Mr Adriano Basso - Economic Adviser

Mr Simon Jones - Legal Director
Ms Charlotta Blomberg - Legal Adviser
Mr Pietro Menis - Legal Adviser

FOR COMPARE THE MARKET:

Mr Paul Galligan - Group Director
Mr Ron Simms - Director, Corporate Services
Mr Miles Trower - Partner, TLT

FOR CONFUSED:

Mr Steven Sanders - Financial Director
Mr Martin Coriat - MD
Mr Greg Steel - Compliance Manager

FOR GO COMPARE:

Mr Phil Morgan - Finance Director
Ms Jennifer Perry - Director of Legal and Compliance
Mr Michael Bryceland - Legal Consultant, Brown Rudnick
Mr Steven Friel - Legal Adviser, Brown Rudnick

FOR MONEYSUPERMARKET:

Mr Darren Drabble - Group General Counsel and Co Sec
Mr Graham Donoghue - Chief Product Officer
Ms Ellis Barlow - Head of Insurance
Mr Mark Din - Head of Risk and Compliance

1 **Friday, 28th February at 10.02 a.m.**

2 PROF SMITH: Well, if we are all here and settled down, then let's
3 start. Welcome to - well, welcome back to the Competition
4 Commission. We are very grateful to you for coming here this
5 morning to help us with our Inquiry, and indeed we are very
6 grateful to all of you for the help you've given us with the
7 work of our Inquiry so far.

8 Let me start with introductions. I'm Alasdair Smith; I'm a
9 Deputy Chair of the Competition Commission, and I'm Chair of
10 this Inquiry Group, and along this table we've got members of
11 our staff team and the other members of the Inquiry Group,
12 and I'll ask them to introduce themselves, starting with Katy.

13 MS COX: Katy Cox, Financial and Business Adviser.

14 MR DIXON: Good morning. Philip Dixon; Financial and Business
15 Adviser.

16 MR SHAH: Dipseh Shah; Financial and Business Adviser.

17 MS BLOMBERG: Charlotta Blomberg; Legal Adviser.

18 MR REYNOLDS: Graeme Reynolds; I'm Director of Remedies and
19 Business Analysis.

20 MR FINBOW: Roger Finbow; I'm one of the members of the Group.

21 MS LEWIS: Erika Lewis; I'm the Inquiry Director.

22 MR ORAM: Steve Oram; Panel Member.

23 MS AARONSON: Robin Aaronson; Panel Member.

24 MR CURZON-PRICE: Tony Curzon-Price; Economist.

25 MR JAMIESON: James Jamieson; Economist.

26 MR MENIS: Pietro Menis; Legal Adviser.

27 PROF SMITH: To save time, let's just do introductions on the

1 front row, and if people on the back row join the discussion,
2 they can introduce themselves when they join the discussion.

3 So -

4 MR SANDERS: I'm Steve Sanders; Financial Director of Confused.

5 MR CORIAT: I'm Martin Coriat; I'm CEO at Confused.

6 MR MORGAN: Phil Morgan; Financial Director at Go Compare.

7 MR BRYCELAND: Michael Bryceland; Legal Adviser to Go Compare.

8 MR DONOGHUE: Morning. Graham Donoghue; I'm the Chief Product
9 Officer at MoneySuperMarket.

10 MR DRABBLE: Morning. Darren Drabble; Chief General Counsel at
11 MoneySuperMarket.

12 MR GALLIGAN: Morning. I'm Paul Galligan; I'm Managing Director
13 at Compare the Market.

14 MR SIMMS: I'm Ron Simms; I'm Corporate Services Director at BGL,
15 [inaudible].

16 PROF SMITH: Well once again, welcome. Let me say a few words of
17 - introductory remarks before asking you for opening
18 statements, and then getting into our questions.

19 As you are aware, today is structured as a joint hearing, and
20 we've had that very much in mind in preparing the questions
21 that we want to discuss with you today, because we don't want
22 to initiate discussions that would be inappropriate for you
23 to have with or in front of your competitors. But it's
24 primarily your responsibility to ensure you don't stray into
25 areas of inappropriate discussions of that kind. If, in the
26 course of the meeting, issues arise in which you would wish
27 to provide us with confidential or otherwise sensitive

1 information, then please do that in a separate communication.

2 I won't take you through our rules and procedure of hearings
3 because you've been sent information about that. But do note
4 that we are taking a transcript of this hearing as a record,
5 and we'll send a copy of the transcript to you in about a
6 week or so. We'd be very grateful if you would then check
7 it, and correct any minor errors of transcription, or any
8 minor slips that have been made in the giving of evidence.
9 If, on reviewing the transcript, you find that there is
10 evidence that you want to make substantial, I mean, changes
11 of substance to, then do that in a separate communication.

12 We normally with our hearings publish a summary of the
13 hearing on our website, but because these are joint hearings
14 we think that the most efficient way of publicising what the
15 proceedings of the hearing, is simply to publish the
16 transcript. As I said earlier, we don't expect anything
17 commercially sensitive to be said in the course of the
18 discussion, but if on reviewing the transcript you see that
19 there is information that is confidential and needs to be
20 redacted from the transcript before it's published, do let us
21 know that as well when you review the draft transcript which
22 is sent to you.

23 I have to remind you that it's a criminal act under Section
24 117 of the Enterprise Act 2002 knowingly or recklessly to
25 provide false or misleading information to the Commission at
26 any time, including at a hearing.

27 What we're going to do is that members of the Panel will

1 actually - given the topics we are covering today - two
2 members of the Panel, Steve and Robin, are going to lead the
3 questioning in their respective two areas that we wish - on
4 which we wish to focus primarily today, and then the other
5 members of the Panel and other members of the staff team will
6 chip in with follow-up questions as appropriate. On each
7 question we'll probably direct the question first of all to
8 one of you, and then invite the others to respond. And to
9 make efficient use of time, I suggest that if what you want
10 to say is that you agree with what someone else has said, you
11 might find a way of saying that quite briefly, so that you
12 use the time to add to what's already been said, or to
13 disagree with - or explain your disagreement, if you disagree
14 with what's been said.

15 And as far as we're concerned, the more free-flowing the
16 discussion is the better, so you know - we're not looking to
17 hold the discussion onto very rigid, predetermined lines.

18 Before we start, let me just remind you of where we are in
19 our investigation. We've - we published our provisional
20 findings; we published a notice of possible remedies and as
21 you know, it's the contents of the notice of possible
22 remedies on which we want to focus the discussion today. We
23 in our work are now at the stage of developing our thinking
24 on remedies further, and the hearings we're having this week
25 and next are an important part of that process, and we hope
26 to be in a position to publish provisional findings on -
27 provisional proposals on remedies in the early summer, so

1 that we're on track to publish our final report in September.
2 I appreciate that at some points in the work of the Inquiry
3 Group, the timetable for responses to us to what we've
4 published has been a bit demanding, especially when it has
5 coincided with times of the year when most of us prefer to be
6 with our families rather than in our offices, but we have a
7 very constrained timetable - we were very grateful to all of
8 you for the efforts you've made to work within it. We hope
9 that, as the rest of the Inquiry proceeds, there will be
10 ample opportunity for you to feed in further views before we
11 produce our final report.

12 So, I am going to start by inviting each of you to make an
13 opening statement, covering in general terms your views on
14 the issues raised by our Inquiry so far. We'd be
15 particularly interested in your views if you think that we're
16 going seriously off the rails in one area or another, or if
17 there are particularly important issues that you want to
18 highlight at the start. I'm going to ask each of you to
19 confine your opening remarks to a maximum of five minutes.
20 In the interests of time-keeping and getting us off to a good
21 start I'm going to enforce that rule. So can we start with
22 Compare the Market.

23 MR GALLIGAN: Certainly, so firstly, thank you for the opportunity
24 to address the Committee. We welcome any initiatives or
25 measures made for improving the consumer experience within
26 the PMI market, particularly where these are focussed on
27 driving transparency, and with it, greater consumer choice.

1 Hence, we therefore endorse the objective from the
2 Commission's proposals in relation to the provision of
3 product information, sharing add-on pricing with price
4 comparison websites, and the publication of no claims bonus
5 scales. The implementation of these proposals would,
6 however, require careful consideration, as poor
7 implementation could result in consumer confusion, and hence
8 defeat the objective. We are, though, supportive of the
9 principles behind the proposal, and would like to work
10 closely with the Commission on how best these can be
11 implemented.

12 I do, however, have grave concerns over the current
13 understanding of proposed remedies relating to wide MFNs.
14 Put simply, this would undermine the crucial role we play,
15 that is ensuring that the provider prices we compare are the
16 best available prices for consumers. In order to focus
17 today's dialogue, I would like to revert back to what I
18 believe is a key question, and that is: 'What does the
19 consumer want from the PMI market?'

20 I believe the answer to that is relatively straightforward.
21 The consumer wants a product that they understand; that meets
22 the legal requirements; that delivers against their
23 expectations, in particular what they need to pay; and one
24 that can be secured easily, at the best possible price. In
25 order to deliver this, consumers need transparency, choice,
26 and a competitive market.

27 So what is the situation today? Well, currently the

1 situation is very positive. I endorse the Commission's
2 findings of strong rivalry in this market, and that price
3 comparison websites enhance competition between insurers.
4 This certainly reflects my experience. I would - if I could
5 quote, perhaps, from consulting groups Towers Watson,
6 'Aggregators cost the UK insurance industry £1 billion in
7 unnecessary price competition'. 'Unnecessary' - in other
8 words, if it wasn't for price comparison websites, insurers
9 would be £1 billion better off. And a further quote from
10 Ernst & Young's 2011 report into the motor insurance market:
11 'The customer is the winner. There is no doubt that the
12 advent of aggregators has done a great deal to educate
13 personal motor insurer - customers about the price and the
14 choice of provider'.

15 Furthermore, it is clear that consumers use price comparison
16 sites in the expectation of finding the best deal. According
17 to research carried out earlier this year from the European
18 Commission on the subject of price comparison tools, I quote:
19 'Finding the best price remains the number one reason for
20 consumers using comparison tools, with many of them using
21 price comparison websites as an information source to find
22 the best deal, even if making the final purchase offline'.

23 The same research goes on to highlight the risks to the model
24 if it isn't the best price that is shown. Again I quote:
25 'One in eight respondents felt that they had been misled by
26 price comparison websites. In most cases, the reason was
27 that they went on to find a cheaper price elsewhere'. It

1 continues: 'Such discrepancies, if not adequately addressed,
2 risk further confusing and misleading consumers, and
3 undermining their overall trust in comparison sites'. It is
4 therefore clear that the proposed remedy risks undermining
5 the very model that has done more for transparency and price
6 competition than any innovation in the insurance industry in
7 the last 20 years.

8 The arguments for the prohibition is based on the conclusion
9 that such clauses are potentially anti-competitive, by
10 restricting entry of the new PCWs, or innovation amongst
11 existing PCWs, and that we have market power. This position,
12 though, does not stand up to detailed analysis. While PCWs
13 have grown very successfully, they collectively continue to
14 be responsible for less than 25% of all PMI sales.
15 Furthermore, PCWs are not a market in themselves: they
16 comprise a diverse range of businesses, each accounting for a
17 market share considerably lower than that of the largest
18 insurers. And of course consumers do not operate in isolated
19 channels. Consumers will often shop for private motor
20 insurance across a range of channels, trying multiple price
21 comparison websites but also going direct to insurers, either
22 via branches, the telephone, or internet, and you only have
23 to type the term 'car insurance' into Google to find
24 insurers, brokers, and price comparison websites all
25 competing for the same consumer.

26 The idea that wide MFN clauses restrict entry or innovation
27 is based upon the presumption that it is these clauses that

1 prevent a new entrant or current incumbent from adopting a
2 pricing strategy based on undercutting CPAs, or implementing
3 innovations to get a better price. However, any such
4 agreement is not, in itself, prohibited by the proposed
5 clause. A further reason cited for potential prohibition on
6 wide MFNs is centred around the perceived market power of
7 price comparison websites: a key assumption leading to this
8 analysis is that there are a significant proportion of single
9 homing customers, in relation to whom PMI providers can only
10 gain access using a specific price comparison site. There is
11 a wealth of independent research that contradicts this, and I
12 will pick just two examples.

13 According to the Competition Commission's own research,
14 consumers on average use 2.2 sites, and the recent Consumer
15 Futures report found that the vast majority of consumers -
16 83% - visit more than one site in the price comparison
17 process. Finally with regards to the findings, no linkage
18 has been found between wide MFNs and the detriment to
19 consumer price. The Commission's findings show that despite
20 the presence of MFNs, CPAs have risen at or below the rate of
21 inflation. This confirms the competitive nature of
22 negotiations between insurers and price comparison websites.

23 I do have a fundamental point to make though, with regards to
24 the future. In addition to the points already raised, we
25 believe that MFNs - wide MFNs, indeed - will become
26 increasingly important within the comparison model to protect
27 consumers from the sophisticated pricing optimisation

1 software being deployed by insurers. These are focussed on
2 margin management at the expense of those customers who are
3 less price-sensitive, or who purchase on the understanding
4 that they are comparing the best available price. This
5 technology, if left unchecked, will result in poorer consumer
6 outcomes, and may undermine Compare the Market's model of
7 developing the most customer-focussed overall approach.

8 I would also like to make sure -

9 PROF SMITH: I'm sorry to interrupt you, but you've been going for
10 a lot more than five minutes already, and I see you've got
11 another whole sheet in front of you.

12 MR GALLIGAN: Apologies. I will just make what I believe are
13 crucial points, because obviously what we're talking about
14 has a fundamental impact on our business model and consumers,
15 and I [inaudible], so I'll keep it brief.

16 I think it's important that in all the legal arguments and
17 jargon, that we do not lose sight of the consumer need. In a
18 PMI market without MFNs, the consumer will no longer have
19 confidence that they can find the best price. The PMA market
20 will rewind 10 years, with consumers having to search a
21 multitude of providers across a range of channels, never
22 understanding whether they can secure the best price. It is
23 inevitable that search costs will go up, and transparency
24 will go down.

25 What we are seeking from the Commission is to be allowed to
26 continue to pursue our transparent, consumer-centric
27 approach, without any new balance of the market in favour of

1 reduced transparency. And before I conclude, I would also
2 like to mention further data that we hold. This shows that
3 between January 2010 and November 2012, 15 brands that didn't
4 use Compare the Market in January 2010 account for 15% of our
5 sales, and far from being anti-competitive, we support
6 greater competition by offering an efficient and low cost
7 route to market for insurers, and bringing ease and
8 transparency to consumers.

9 My final point, therefore, to conclude, is that we would urge
10 the Commission to reconsider their proposed remedies
11 surrounding MFNs. If implemented, these would work in favour
12 of the large insurers and brokers. We believe that a very
13 large proportion of consumers would pay more, search costs
14 would undoubtedly go up, confidence and trust in price
15 comparison websites would reduce, and this cannot be in the
16 insurer - sorry, the consumer's best interests. We are,
17 however, supportive of the proposed measures regarding
18 increasing the transparency of add-on pricing and no claims
19 discount, and we'd welcome the opportunity to discuss these
20 points with the Commission further. Sorry if I have gone
21 over the time.

22 PROF SMITH: Thank you. MoneySuperMarket.

23 MR DONOGUE: So good morning everybody, and thank you for inviting
24 us back. Thank you Chairman. I'll try and give you some
25 time back, because I'm not going to go through the benefits
26 of price comparison website - I think most of that was said
27 last time - and I hope I've made my position, or Company's

1 position very clear on the wide Most Favoured Nation clauses
2 last time, so I am not going to go through most of the things
3 I said last time.

4 Nothing has changed on that position: you know, we firmly
5 support your findings 100%; if anything, I think our position
6 has hardened. You know, we believe that wide Most Favoured
7 Nation clauses - a contract between insurers and price
8 comparison websites - as your findings recommended, are bad
9 for customers; they create barriers, reduce innovation, and
10 could lead to higher fees. And I think that's what we said
11 last time, and I think that's what we see at
12 MoneySuperMarket. So I obviously disagree with, you know,
13 most of what Paul said in relation to that.

14 I would also point out that these clauses, although the
15 Commission has been looking very much at PMI, they exist in
16 home insurance, they exist in travel insurance, they exist in
17 other insurance products, so not that I want to increase your
18 workload, but at some point it would be nice if you were to
19 look at those other products as well.

20 I also - or we also strongly support your examination
21 outlined in paragraph 83 of your findings around the tactics
22 to achieve Most Favoured Nation, by threatening or delisting.
23 That is a real concern for us; we could, hopefully - and
24 Steve and Robin, you will have some questions in relation to
25 that - I have a real concern about some of the practices.

26 In relation to [inaudible] 4(a) and 4(b) add-ons and
27 protecting no claims bonus, I think I'll just leave my

1 information and give you some time back when we go through
2 it. We fully support transparency; we have some concerns, as
3 Paul does, about the way that we enforce them, but we think
4 it's good for customers, it increases transparency, we just
5 have to agree exactly the mechanisms in terms of how we could
6 implement them. But I'm sure you have lots of questions on
7 that, and that's it.

8 PROF SMITH: Thank you very much. Go Compare.

9 MR MORGAN: Thank you Chair. I'll hopefully be equally as brief.

10 We are grateful to come and have this first opportunity to
11 meet and respond to your preliminary findings and remedies.
12 We do support transparency, so the findings on add-ons in
13 principle appear to be justified. However, we have equal
14 concerns on the enormous differences amongst the add-ons
15 offered by insurers, and it will be impossible for consumers
16 to compare products effectively and our ability to compare
17 PMI products will be inhibited unless we manage to
18 standardise add-on definitions.

19 In relation to wide MFNs, again I won't go back over old
20 ground that we've covered before. You do know that Go
21 Compare's of the view that wide MFNs are a powerful tool in
22 our market to ensure consumers have confidence that they have
23 access to lower premiums easily and without the need to
24 search several sites. However, we do recognise and note that
25 the Commission is of a different view.

26 The role of PCWs includingincluding the use of wide MFNs is
27 fundamental to the success of the PMI market in relation to

1 transparency and reducing consumer search costs, and that has
2 been recognised by several bodies. We believe the Commission
3 has not fully considered what damage consumers will face in
4 costs and confidence if wide MFNs are actually removed, nor
5 has it assessed the risk that removing wide MFNs may have on
6 the continued existence of a competitive market between PCWs,
7 which we've eluded to before.

8 If wide MFNs are to be removed, the Commission risks removing
9 PCWs from the market, as I believe we touched on at the last
10 hearing, thus denying insurers a competitive and low cost
11 route to market, and denying consumers with the ability to
12 buy PMI with confidence.

13 We also note that in some of the responses to the preliminary
14 findings, there are suggestions that narrow MFNs would
15 ultimately lead to the same function as wide MFNs. We'd like
16 to point out and reemphasise that we agree with the
17 Commission that these are necessary to ensure the PCW
18 business model is viable, and we don't become a mere research
19 tool. And reiterating that we allow consumers access to
20 competitive premium prices, and minimaliseminimalise consumer
21 search costs. We are, at the end of the day, a force of good
22 to the consumer. Thank you.

23 PROF SMITH: Thank you. Finally, Confused.

24 MR CORIAT: Good morning, thank you very much for having us here,
25 first time for me too with this Commission. I am very
26 conscious of time, and of the debate that we'll have in a
27 minute, so I will be very brief.

1 Transparency, consumer information, consumer choices are the
2 heart of Confused.com values since the beginning, and for
3 most other price comparison websites, so - and I think the
4 provisional findings and provisional reports that you issued
5 display the force of good of price comparison sites and
6 comparing the market, and all that.

7 A lot has already been said about the different topic you
8 will discuss today about transparency, about MFN clause and
9 such, and I would like to add to this debate, there is
10 obviously some different opinions around the table that we'll
11 have to discuss. So we're really looking forward to this
12 discussion, and to really bringing all the information in
13 front of the Commission. Thank you very much.

14 PROF SMITH: Good, thank you, and as I said at the beginning we
15 intend to focus our questions on what we call Theory of Harm
16 4 add-on pricing, and Theory of Harm 5, with the MFN clause
17 issue. But I'd like to give you all the opportunity to make
18 comments on the other parts of the investigation, if there
19 are any points that you wish to raise before we get down to
20 the main business.

21 Okay, then let's start with the add-on pricing issues.
22 Steve?

23 MR ORAM: Yeah. I would like to ask a few questions on remedy
24 4(a), which is the provision of all add-on pricing from
25 insurers to PCWS. Do insurance companies provide PCWs with
26 pricing information on all the add-ons they offer? Is the
27 answer yes, but you don't use this, or is the answer no they

1 don't, and if so, why don't they? Maybe I can fire this one
2 at Compare the Market first?

3 MR GALLIGAN: Yeah, so if we don't provide it for all of their
4 products, they provide it to us for the products on which we
5 display the price. So essentially we - in consultation with
6 our consumers, in terms of consumer research, working out
7 what are most popular and are most important to them - we
8 then present the price of add-ons on our price display page.
9 The reason why we don't take the price for all of those
10 add-ons is that if you take a typical insurer, they will
11 offer between eight and 10 various add-ons through their
12 consumer journey.

13 Now obviously, there's not even that much correlation - there
14 is no standardisation - across those products, and so if you
15 can imagine the challenge we would have in displaying those
16 prices, you know: first of all we couldn't be displaying 100
17 core insurance prices, and then a multitude of 10 prices for
18 different add-ons. We would finish up at a price display
19 table that would just be incomprehensible. So what we tried
20 to do was focus on the key add-ons: we show the price of
21 those to the consumer, and if it's included, we provide a
22 simple tick saying, 'This is included in the price you've
23 seen'.

24 MR ORAM: Right. And any additional comments or points to make?

25 MR DONOGHUE: They don't provide it. I mean, we get legal cover,
26 breakdown, person and car, personal accident, windscreen,
27 that's the most common ones on display. They're quite good;

1 we're quite comfortable if we were to get additional
2 information to try and find a way of displaying that
3 information, and it's - you have to think of small screen
4 devices and how you may display it; there may be some sort of
5 challenges. But I don't have it, so therefore I can't do
6 anything with it. If I was to have it, I probably could try
7 and find a way of doing something with it.

8 But the other thing I will just talk about on that, in
9 relation is when we ask customers what's important when
10 they're making a decision to purchase, there's two other
11 things that come in to effect then. One is the excess, and
12 the other one is protected no claims bonus, which I'm sure
13 we'll come on to talk about. Here today we can talk about
14 when we come to talk about 4(b). Excess is an interesting
15 one because that is part of that total - sort of, the view in
16 your decision-making. One of the challenges I think we have,
17 and certainly we have at MoneySuperMarket, is customers want
18 to see the total price but they also want to see the total
19 excess, and the way the industry sort of works today is you
20 select a voluntary excess and then you get a compulsory
21 excess coming back. And depending on the amount of the
22 voluntary excess, that compulsory excess could change, so I
23 assume there's a rating factor. And I think that's an
24 interesting thing for you to consider as well, because yes I
25 would love to display true price, including all the add-ons;
26 I also would love to display true price for excess, because I
27 think that's equally important in decision making criteria.

1 84% of our customers say that's one of the most important
2 points when they're deciding what policy to buy. If we could
3 find a way of asking insurers to give us true excess at the
4 same time for a particular policy, that would be useful.

5 MR ORAM: Any additional comments from Confused or Go Compare, or
6 do you tend to agree with what's been said?

7 MR MORGAN: We support basically what's been said. The add-ons on
8 our side have predefinedpredefined definitions, that insurers
9 provide the price in relation to those specified add-ons.
10 The variability of definition of add-on across the insurance
11 market would make it pretty incomprehensible for the end
12 consumer to actually understand the results page if we were
13 to display all other Add-ons.

14 MR DONOGHUE: We used to display - sorry - we used to display a
15 total price at MoneySuperMarket, and you would add on the
16 different - and so the reason, it would give you total true
17 price. The problem I had is I had to remove it, because
18 customer conversion was dipping, because as we've already
19 heard, people are using more than one comparison website. So
20 you would go to MoneySuperMarket and they say a price of
21 £1,000 including all your additional add-ons. You may go to
22 Paul's website and then it's, you know, £940. And you'd
23 think customers were sort of smart enough, but there's just
24 that thing in your head of how you are comparing it to, so we
25 actually removed the remedy you're asking us to implement for
26 the core, you know, additional add-ons.

27 MR ORAM: So you're saying consumers? Or you're implying that

1 consumers would -?

2 MR DONOGHUE: It's the comparison between comparison sites.

3 MR ORAM: Would put add-ons on, and then look at another product
4 which wouldn't have the add-ons, and then go to that? Is
5 that what you're saying?

6 MR DONOGHUE: What I am saying is we made it really easy and
7 transparent for customers to see when you add on two or three
8 things, and then customers would go around and shop all the
9 different comparison websites and they forget. They forget
10 where they've been to before, and all they're thinking about
11 is that total price and they may not be adding up all the
12 additional facilities on the other comparison website. So it
13 may look like my comparison website is more expensive.

14 MR DRABBLE: So then what Graham is saying is that it will be the
15 same products on each of the price comparison sites. One
16 includes a total with the add-ons, one includes a total
17 without the add-ons, and the consumer thinks 'Okay, £1,000,
18 but I can't remember what that included, and £940. That's
19 what I'm going for'.

20 MR DONOGHUE: And a conversion drop.

21 PROF SMITH: How can - and can I just ask, when you did that, was
22 the ranking that you offered consumers based on the package?

23 MR DONOGHUE: Based on total price.

24 PROF SMITH: Okay, so it wasn't just that - it wasn't just a
25 headline price, but -?

26 MR DONOGHUE: That's what's important to customers, you find this
27 out, 'What's the true price?', but you know, it varies

1 massively depending on the second price. You know, sometimes
2 people want things, sometimes not. But that's what we're
3 looking at together with excess, but equally, you know, I'd
4 love everybody to use one comparison website but they don't;
5 they go to multiple price comparison websites, so it's that
6 comparison between. So whatever we decide to implement, if
7 we are going to implement something, it's how we do it in a
8 consistent, coherent way at the same time more or less. It
9 is - ensures that we're not all disadvantaged.

10 MR CURZON-PRICE: So can I just ask, do you think that the same
11 confusion - so you've got this confusion where you see the
12 1,000 price - the £1,000 price with the add-ons, but 940
13 without the add-ons? And then, what if they were actually to
14 click-through to the insurer website, go through the add-on
15 choice on the insurer website, and come up with the £1,000,
16 would they have the same confusion, your consumers, between
17 what they'd seen on the price comparison website and what
18 they end up paying on the insurer website, because at least
19 the first site would sound like a pretty similar situation?

20 MR DONOGHUE: [inaudible]. Whenever prices don't match -
21 regardless of the situation - when they don't match when you
22 pass through to our website, it becomes a problem, til - you
23 know, the good thing about, you know, some of our partners
24 and the way that we select these add-ons, some of them do
25 pass it through and effectively they are deep linked, some
26 don't. But in every case, if the price matches, generally
27 that's good; when prices don't match, we generally see

1 conversion dropping, what we call bid-to-sale conversion on
2 our partner's website. So we spend a lot of time, as you can
3 imagine, making sure the prices match, and making sure there
4 isn't [inaudible] facilities and all those things bundled
5 into the pricing, because we think that's not good for
6 customers.

7 MR MORGAN: In relation to your question though, we do believe the
8 end consumer would compare the two £1,000 prices. So they
9 would be intelligent enough to realise that the actual
10 add-ons they'd added on at point of sale post click-through
11 was included in the £1,000.

12 MR GALLIGAN: I'd like to come back to the point that Graham made
13 with regard to the outcome of that test that they'd found,
14 because I don't doubt that NCR had reduced. That may well be
15 down to the phenomenon which Graham outlined; that could well
16 be the case. It could also be the case, though, that the
17 consumer was just overwhelmed then by the amount of
18 information that we've shown, and so unless you do a true
19 like-for-like testing which of those it was, just by way of
20 contrast we look on our site as an example: over 40% of
21 customers aren't choosing the cheapest price; they aren't
22 just choosing on price alone. They are looking down that
23 table to find the policy that matches their needs, typically
24 because they can see extra add-ons bundled in with a product.
25 So I think we can distinguish. So the question that you ask,
26 I largely echo the points that I've made: if a price changes
27 on click-through, we know that causes our customers issues.

1 But if they subsequently choose to add in extras, I think
2 they'd understand what's going on through that journey.

3 MR FINBOW: Was there a - if I can ask this question to Graham -
4 was there a further problem when you were doing the complete
5 price, and ordering prices according to the complete price,
6 that you then had further confusion in the sense that the
7 details of some of the add-ons, and the extent of benefits
8 the add-ons gave actually differed, so that you're cheaper
9 one might actually not be offering nearly as good a thing as
10 the one further down?

11 MR DONOGHUE: I think that's a - that is a problem that needs to
12 be addressed because, you know, not all ticks and crosses on
13 the results pages of comparison websites are equal. It is
14 one of the challenges, which is: is a courtesy car from
15 Allianz that's included better from a £24 fee from First
16 Central? And it's difficult to, sort of, compare them. I
17 think that is a separate issue, and I don't think at that
18 point in my decisions I'm necessarily thinking about the
19 value of the individual, and similarly this sort of selecting
20 relatively. I think it's more a case of just going through
21 that decision-making process is 'Okay, what windscreen cover,
22 what window cover?', whatever. But it's hard - it's really
23 difficult to compare. You know, at the moment none of us do
24 a good job; we just have ticks or crosses, or we have a fee.

25 MR FINBOW: But some people have said to us you can make the same
26 point about basic insurance. A basic insurance policy from
27 Direct Line is not necessarily the same as a basic insurance

1 policy from Allianz, and consumers can make their choice.

2 MR DONOGHUE: Unfortunately I totally agree, but you know, unless
3 there's some common standard where we're sort of rating
4 everything, including the policy and the add-ons etc, it is
5 quite difficult to sort of compare that. All we can do, as
6 the price comparison, is just try and allow customers to make
7 an informed choice by giving them as much information as we
8 get. Some of this is about getting the information.

9 MR ORAM: Sorry, I haven't understood the -

10 PROF SMITH: So Steve, we've probably been jumping in - and, a
11 couple of questions you want -

12 MR ORAM: No that's okay. I'm still not clear though because if
13 you can, despite basic premiums - not premiums, basic
14 policies varying, you can actually do a ranking -

15 MR DONOGHUE: On price, total price.

16 MR ORAM: On price.

17 MR DONOGHUE: But not on quality. So, I'll give you an example -

18 MR ORAM: But if the basic premiums differ, and so you do a
19 ranking on price - best price - why can't you do something
20 similar with the add-ons?

21 MR DONOGHUE: Because of all - price is relatively straight
22 forward. It's, you know, it's an addition of various
23 different factors to give you the total price. If you take
24 courtesy car, how do you rank whether a courtesy car that's
25 like-for-like courtesy car, and I don't know, if I drive a
26 Ford Focus I'm going to get a Ford Focus and I'm going to get
27 it for 28 days, versus someone else who will give me a Fiat

1 Cinquecento and I get it for 14 days, versus something
2 different. And my point is a lot of these ancillaries, they
3 all have all incredibly different - price is price, it's
4 quite binary, the way they operate. But within the
5 ancillaries, they're all very, very different in terms of the
6 features and benefits. So I don't - I'm not sure we're
7 qualified as a comparison industry to work out which ones are
8 better.

9 MR ORAM: Yeah, so although - I think I understand what you are
10 saying. So although basic policies will differ, I think what
11 you're saying, or what you're inferring, is that actually the
12 add-ons differ far more in terms of variety than the
13 differences in basic policies, is that your argument?

14 MR DONOGHUE: Yeah, I mean breakdown - windscreen cover, possibly
15 not, although you can get included excesses with the
16 windscreen cover. Breakdown cover, tremendously. The legal
17 cover, don't know, that's [inaudible]. So I don't know - I
18 think when you go through each one of them - courtesy cars
19 definitely do - but we try and spend a lot of time just sort
20 of - that's why making, I guess, policy booklets and
21 information available to customers is important to us, but
22 it's hard to compare that unless we come up with some sort of
23 a standard. I mean, okay, there's people that de facto want
24 [inaudible] but we try to have a go at it, but it's not
25 perfect.

26 MR SIMMS: You've have hit the nail on the head. The fact of the
27 matter is that the core policy is, basically, a statutory

1 product. Its core elements, and its broader elements, have
2 developed pretty much universally across in a number of very,
3 very similar propositions. That's how it looks. So the
4 distinctions between the core policies - whilst other people
5 will tell you their products are completely different -
6 aren't very pronounced. An add-on is a completely different
7 matter: we have entirely distinct propositions being sold and
8 that's what makes the price comparison of them - which is at
9 the end of the day what we do, comparing them by price -
10 very, very difficult if the underlying product is not
11 similar.

12 MR ORAM: And any further comments on that particular point?

13 MR MORGAN: Only what's been said. In relation to policy
14 differentials, Go Compare has attempted to address that.
15 We don't just display price and we actually display the
16 DeFacto ratings and the key policy differences between each
17 policy to try and make sure that the end consumer gets the
18 right product as well as the right price.

19 MR GALLIGAN: The only thing I'd add - we do allow the consumer to
20 filter the table by add-ons, so you can already order on our
21 site, for example, if you were to choose MLP, as one example,
22 so you could filter on that. But a challenge would be if we
23 were to do that across all add-ons, so say 10 various
24 add-ons, if you take breakdown as an example, insurers or
25 brokers will typically would offer three to five models of
26 breakdown, and so we could be at great risk of just
27 overwhelming the consumer. But I do think we need to find a

1 way, somehow - either standardise it or find an easy way to
2 inform the consumer what the likely end price is that they'll
3 face. So, you know, it - there is something here to be
4 solved, it's going to take a lot of working through to see
5 how can we do that without just overwhelming what the
6 consumer wants to understand.

7 MR ORAM: Okay. What incentives do PCWs have to use the pricing
8 information provided by insurers to provide consumers with a
9 detailed and accurate comparison of all add-ons? Insurers
10 have told us that they could give you more information if you
11 wanted it, but I understand that - if I'm correct - you don't
12 get commission on add-ons. Is that correct? That's -

13 MR GALLIGAN: We do not get commission on add-ons in our case.

14 MR ORAM: Right, okay. So - but - so what if you don't get any
15 commission on it, what incentives are there for you to
16 provide it?

17 MR GALLIGAN: If I can make a start, I think from our perspective,
18 it's around that consumer transparency and the consumer being
19 satisfied - once they've gone through that end to end
20 journey. It is important that they have been well served by
21 Compare the Market - so, if I could take any one feature of
22 what we do, you know- if a customer's seen a price change on
23 click-throughs as an example - that is bad for ourselves. It
24 might help the insurer's margin, but that wouldn't work for
25 us. The same goes if we felt that the add-on features were
26 not best represented to the consumer, in terms of the
27 features that they wanted. So we've never been paid for

1 add-ons, yet we will display, you know, is an add-on included
2 or not? What is the price of the add-on, etc? So - our
3 business model is built around trying to work out what the
4 consumer wants, and then serving that in the best possible
5 way, that's our primary driver.

6 MR ORAM: Any additional comments?

7 MR DONOGHUE: I agree.

8 MR ORAM: No?

9 MR MORGAN: I agree. TheThe add-ons displayed on our results page
10 are the requirement of our insurance partners. The price
11 they return to us includes the add-ons that they choose to
12 include in that price. So it is all about transparency to
13 the customer at that point. If the insurers would like to
14 pass us more add-on information, at a certain point we'd need
15 to standardise that information and present it meaningfully
16 to the end consumer.

17 MR ORAM: Okay. Okay, let me paint a scenario - hypothetical
18 scenario of a consumer journey. And we've touched on bits of
19 it, but let me just paint a picture of the - a potential
20 journey, and then tell me why it can't be done, or what's
21 wrong with it. And so, I'm a consumer, I go onto a price
22 comparison website, and let's say I'm a single homer, so I
23 just go on one. I feed in my details - personal details -
24 and up comes a list of prices, ranked by price. And I click
25 onto - sorry, which add-ons are in or out. And in my
26 scenario, I've got - let's say I've got more add-ons to look
27 at, and I don't mind that because I just look across and I

1 know which ones I'm interested in and which I'm not, so it
2 doesn't prolong my journey. You know, I just scroll and
3 think, 'Right, let's have a look at that one'. And I get a
4 price, and I think, 'Ah'. And with that price, you know,
5 and I look at - I get some details, basic details, so let's
6 assume our remedy 4(c) is in place, so you know, there are
7 clearer details on that add-on, and I'm still on the PCW
8 website not the direct, so I look at a bit of the basic
9 information; I think 'Right, okay'. Click on that, and my
10 price goes up, and changing rankings, and I look at some and
11 I think 'I don't want those', and then I think 'Ah, I'll look
12 at that'. You know, so I click on that. Same sort of thing:
13 little bit of basic information; price goes up so I think
14 'Ah, right, well', so I've got an informed position there,
15 and I know how much it's going to cost for that particular
16 policy with those add-ons.

17 So it's been - so the webs - the price comparison website has
18 got the best price for the basic policy, and I've looked at
19 the detailed information so I'm not asking the website to
20 choose these variety of terms and conditions in the add-ons.
21 And then I go down to another brand that I'm interested in,
22 so I do the same exercise, and you know, having clicked on an
23 informed choice of the add-ons I get a new price. So I've
24 done a proper comparison, without the price comparison
25 website being a broker. I'm not confused by information,
26 because I've got the basic details of the add-ons, so I can
27 make a proper comparison, and I make an informed choice. So

1 what's wrong with all that?

2 And also, it avoids me going through to the direct website -
3 the point of sale - in order to get the information. So once
4 I've got it all from the price comparison website, I know
5 which one I'm going to go for, then I go through to the
6 direct and pay. What's wrong with that scenario?

7 MR DONOGHUE: Nothing, not at all. I mean, that's what we did, as
8 part of - I was saying before -

9 MR ORAM: Did you do all of that? All - so on your website -?

10 MR DONOGHUE: Yeah pretty much. I mean, it depends what add-ons
11 you were looking for. We restricted it to, you know, the
12 core five, but if you were -

13 MR ORAM: Right. But did you have, did you have - so on your
14 website you had the price and the detailed information?

15 MR DONOGHUE: We had the price, and we had the information saying
16 what's included, but -

17 MR ORAM: But you didn't have the information term - basic terms,
18 the summary of what the terms for that add-on were?

19 MR DONOGHUE: No, because we didn't have access to that
20 information.

21 MR ORAM: Right. But the insurers could give you that
22 information?

23 MR DONOGHUE: Absolutely, yeah. There's nothing [inaudible] in
24 that scenario.

25 MR ORAM: So technically, you could do that? Right, so you had
26 the price, you could have the information, why couldn't you
27 have -?

1 MR DONOGHUE: The question I ask is what is the information you
2 need to make an informed choice about each of those insurers
3 to compare?

4 MR ORAM: Well, sure. I accept that, you know, and in fact I went
5 onto one of the price comparison websites, looked at motor
6 legal expenses, looked for the detailed information; there
7 were nine pages of it. So you know, it needn't be like that.
8 Insurers don't have to be like that. So - but just going
9 back to your example, so, you know, so why didn't you -?

10 MR DONOGHUE: When customers - I mean, you were saying the
11 customer think 'Okay, here's my details, here's my results,
12 here's what I want to buy and add-ons. Now get me to a place
13 that I can compare', and that's what we had.

14 MR ORAM: But you didn't have concise information for the add-ons,
15 and you didn't have -?

16 MR DONOGHUE: It was you had an add-on, or you didn't have an
17 add-on.

18 MR ORAM: Yeah, and you were limited in the add-ons you had. Why
19 didn't you extend to more add-ons?

20 MR DONOGHUE: Because I didn't have the information.

21 MR ORAM: Sorry?

22 MR DONOGHUE: I don't have the information.

23 MR ORAM: But if insurers gave it to you, you would be able to
24 include it.

25 MR DONOGHUE: You could do, but I think we've have to - I mean, to
26 display that information there is the paradox of choice, that
27 the more information we put in front of consumers the more

1 confusing it becomes, and you know, I've been doing this for
2 20 years or so and trust me, you could just snow blind
3 customers with more information. So the challenge we'll have
4 is - it's a business challenge - the challenge you have is
5 how do you do it in a way that is giving the right choice,
6 but also just not stopping customers from picking up the
7 telephone and going off and doing something else, or walking
8 down the high street and killing the price comparison
9 business.

10 MR ORAM: I can understand overload if the customer had to look at
11 the terms and conditions of each add-on but, if the customer
12 is just looking at a line of add-ons and I look, and I think,
13 'Well, I'm interested in foreign cover and I want
14 windscreen,' and I know which ones I don't want, I just
15 scroll along. It's not information overload; it's like a few
16 seconds at looking at selecting which ones I'm going to look
17 at.

18 MR DONOGHUE: I understand what you're saying and I know it sounds
19 really simple, straightforward and easy to sort out.
20 Technically it's not difficult, but I know from all the
21 experience I've had that, the more information you give
22 customers, even if it's information that's only relevant to
23 small owners, the more challenging it becomes to run a
24 commercially viable business.

25 MR ORAM: My scenario is perfectly technically possible, but there
26 are reasons, for example you've given, of customer fatigue,
27 for want of a better word.

1 MR DONOGHUE: I think the skill is understanding what someone like
2 Steve wants, how you pick the right information and make it
3 relevant to Steve, because we know who you are, we know the
4 type of thing you're interested in and we know that European
5 cover interests you. I think as we all learn more about
6 consumers and try to get smarter about the information you
7 put in front of them to make it more relevant, the challenge
8 is just having a table that has 15 different ancillary
9 products in a scrolling order, with limited information or
10 even basic information. It's a very difficult challenge, and
11 I have 40% of my customers today using handheld mobile
12 devices. It becomes even more difficult.

13 MR GALLIGAN: Just a couple of points on that: to a large extent,
14 the scenario that you outlined there would be really
15 desirable for us, insofar as taking greater control of that
16 consumer journey. In many ways, that would be desirable, but
17 I think a few distinctions I would draw, as Graham pointed to
18 on their side, is you would have to restrict it to the key
19 add-ons; you could not extend it to all of the add-ons, for
20 all of the complex reasons that we've outlined.

21 The second point is that I don't believe that the insurers or
22 brokers would actually want that. They will deploy extensive
23 resources to work out how best to sell those add-ons, and the
24 reason why a number of them would operate different add-ons
25 is that that is a margin opportunity for them. The extent I
26 would want to limit that would be I wouldn't, in our consumer
27 journeys, want to be bamboozling a customer with 10 various

1 add-ons or, indeed, if we take that across the board, there
2 might be 15-20 different variants, and so I favour simplicity
3 and transparency.

4 The other point is I am not sure that the scenario outlined
5 results in a different consumer outcome, because the
6 consumer behaviour that we observe, and I expect all of us
7 observe broadly, is the consumer will see the price on our
8 page but click through to the insurer. We do see then
9 customers click back; if they do not like what they see on
10 the insurer's side. They will often come back and they will
11 click through to another site. We will get two or three
12 clicks through to insurers per customer. What's probably
13 happening there is that they are finding their way through
14 the journey. They may get to a stage where they just give
15 up, and then they'll come back and they'll try a different
16 provider with us. I think the scenario you outlined is
17 essentially happening; it's just it's happening on the
18 insurer's website.

19 MR ORAM: Yes, which of course involves point-of-sale companies.

20 MR GALLIGAN: It just makes sense.

21 MR MORGAN: I think the scenario works as long as there is
22 standardisation, so that we can compare like for like across
23 125 brands, for example, on our site. That would be good for
24 the end consumer from a transparency point of view, but would
25 that stifle innovation then, by the insurer, in actually
26 developing the add-ons that the end consumer requires. We'll
27 tell them, 'This is the definition of the add-on you have to

1 price.'

2 MR ORAM: My scenario was not quite what you were saying. It was
3 saying that I was looking to the price comparison website to
4 give me a ranking of basic policies, but I wasn't asking the
5 price comparison website to choose the best add-ons. I as a
6 consumer would do that on the price comparison website, with
7 basic information on the add-ons that I wanted to look at. I
8 would do the comparison myself on the add-ons, which wouldn't
9 necessarily be a difficult journey.

10 MR GALLIGAN: We're doing that today, I would suggest, for the
11 top-five add-ons. They'll all display the price with
12 particular bits included. That's why, as I say, in our case
13 40% of consumers don't buy the cheapest price. They'll look
14 down to see how much they're going to pay. The top-of-screen
15 price might be £350 without some of those features and
16 benefits included. We'll see, time and time again, in
17 usability testing that the consumer's looked down; they'll
18 find the product that includes the add-on that they want.
19 They'll purchase with that basic level of information.
20 That's happening across the top-five add-ons.

21 PROF SMITH: Can I come in, because I think I may be a slightly
22 different consumer from Steve, because I'm not quite sure
23 that I would want to follow the road that he followed, which
24 seemed to involve doing quite a bit of comparisons for
25 himself.

26 MR DONOGHUE: He's got a spreadsheet.

27 PROF SMITH: I suspect I'm not as good at numbers as he. Also, in

1 the way that he described what he wanted, I'm slightly
2 concerned because you're giving him a list of insures ranked
3 by a basic premium and he's then playing around with that
4 list and adding on. I'm not convinced that, if he does that,
5 he actually ends up with the best deal, because if he adds on
6 five add-on products and then, after what sounds like quite a
7 lot of work on his part among the top ten that you've offered
8 him, the top five, he selects the best one with his add-ons,
9 the best offer with those add-ons might not have been in the
10 top ten ranked on basic premium. What I want is to tell you
11 that I am pretty sure that I want motor legal expenses and no
12 claims-

13 MR DONOGHUE: I thought that was what his scenario was. Sorry; I
14 apologise. I misinterpreted your scenario. You put in
15 information. You have 54 questions about you, and then you
16 say, 'I'm interested in legal cover, breakdown cover and
17 windshield cover,' first and then we would display all the
18 products that include that, ranked in price order.

19 PROF SMITH: That's only what this consumer wants and that's what
20 you said you used to offer, and it's technically feasible to
21 offer it. You do your search of the insurer websites after
22 you've had a first indication of which package of add-ons the
23 consumer wants.

24 MR ORAM: Can you just repeat what is the drop in conversion rate?

25 MR DONOGHUE: I would have to check that.

26 MR ORAM: But it was significant.

27 MR DONOGHUE: Yes, absolutely. We firmly do believe it is a good

1 thing. The decision-making process is, 'I need cover. I
2 want some add-ons and what's it going to cost me? I'm
3 willing to accept there's risk on my excess.' We've done a
4 study, which we'll share with you. We just did it a few
5 weeks ago with Ipsos MORI, when we asked consumers and we
6 came up with about 150 different things we could put on our
7 results page. We actually took all the add-ons. There was a
8 long list of all the different ones we could offer, and we
9 got consumers to rank them and say what is the most important
10 when making decisions around how they decide to purchase their
11 policy. Overall value for money is the thing that consumers
12 think about, but different consumers interpret that in
13 different ways. We'll share that study with you.

14 MR ORAM: Before I move on, are there any additional comments from
15 anyone else on that particular point, on my scenario?

16 MR GALLIGAN: I think the last point I would make is not to
17 underestimate the impact an overload of information will have
18 on conversion. Ultimately, I think we'd all conclude that
19 the customer's ability to switch on a frequent basis is a
20 good thing for the marketplace. If we were to overload them
21 with information, we would potentially drive up inertia, so I
22 can see a scenario where the insurers would love to give us
23 all the information on all these add-ons and then they have
24 to deal with the complexity. I just would want to maintain a
25 market where consumers can really switch, so let's just bear
26 that in mind so we don't confuse that point.

27 PROF SMITH: Steve, can I just ask about one other issue? In some

1 of the responses we have had to the suggestion that the
2 rankings should be based on whatever package of basic
3 insurance plus add-ons the consumer wants ranks, some of the
4 responses have said, 'That might require quite a big
5 retooling job on the part of the PCWs.' Graham's just said
6 that they did it and stopped doing it not for technical
7 reasons, but for commercial reasons. Can I ask the other
8 three of you is it the case that you were obliged to price on
9 the basis that we have just been describing, where the
10 consumer chooses a basket of add-ons before you do your
11 initial ranking, would that be a big technical challenge?

12 MR MORGAN: It is how our results page currently displays price.
13 It includes the pricing for the add-ons that you either have
14 ticks or crosses with. It basically already does it for that
15 limited set of five add-ons that we have managed to
16 standardise across all insurance brands, so that there is
17 true comparability when you actually look at that end price.

18 PROF SMITH: The price that you're then reporting includes the
19 package and did you find problems with conversion as a result
20 of that?

21 MR CORIAT: From a technical perspective, it does not seem like a
22 huge problem. IT people always find solutions to the
23 problems we give them. The only problem is more of a
24 strategy in how to make sure we give the best information and
25 the best transparency to the consumer. It may seem a bit
26 easy from your point of view to display all of that in one
27 single screenshot and a mobile screenshot, but it is actually

1 quite complex to do. We'll always make sure the consumers
2 understand and have the best information possible to make the
3 best choice. For me, the main problem will not be on the IT
4 side, but more not the design and user-friendliness aspects
5 of it.

6 MR ORAM: I understand the point about mobiles.

7 MR GALLIGAN: [Inaudible] we do do that today, but we just do it
8 for those add-ons, so you can choose which ones you want; we
9 will rank on available price. For the key add-ons, we're
10 doing that already. I think the question on significant work
11 would be if we were doing that for add-ons, with the way that
12 the market operates today, that would look complex with so
13 many different permutations from various insurers.

14 A point that we've not touched upon is, often, when you click
15 through to an insurer, as well as them having 10 various
16 options that you might choose, you'll then have options to
17 bundle those and there'll be a discount if you choose a
18 bundle instead of choosing each individual add-on. You can
19 see actually the level of complexity starts to get quite
20 high, then if we started to introduce the key features of
21 each of those options, let's take three bullet points on each
22 and add on for an insurer, all of a sudden, you've got 30
23 additional points across 100 prices. It could quickly become
24 unworkable. Back to if we could get some form of
25 standardisation, and I'm sure that we will welcome it, we
26 need to limit it to the key ones that the consumers want. I
27 think the other benefit with that is it does then allow the

1 insurers to innovate around bundles and new add-ons, or try
2 things on their site that we wouldn't be able to accommodate
3 for one insurer on our site. We couldn't introduce another
4 add-on for just one insurer. It wouldn't work.

5 MR DONOGHUE: I totally agree, which is unusual - sorry, I
6 couldn't help that. I totally agree that, when it comes to
7 the top four or five, I'm sure we can find a way of doing it
8 total price. Technically it isn't difficult, because we have
9 that information; we're all bright enough to do the math.
10 I think the challenge is when we start talking about all the
11 additional, and then trying to bring back all that
12 [inaudible]. That should be up to the individual price
13 comparison websites to decide how they display that
14 information.

15 MR ORAM: So you could do more than you currently do in terms of
16 the add-ons, but you would not want to do all.

17 MR DONOGHUE: Exactly.

18 MR SANDERS: Sorry to interject - there is one final point. We've
19 talked about commoditisation and information overload, and
20 the ability of insurers to be precise - the earlier example
21 of nine pages of legal information is more than enough for
22 any consumer. There is also, however, the add-on
23 underwriting criteria that insurers hold very precious and
24 dear to themselves that I think they would be unwilling to
25 share with us. Personal accident would be a prime example,
26 where our ability to display something like that, whether it
27 is important to the consumer or not - maybe it's important to

1 you, maybe less so to Alasdair - is also restricted by the
2 insurer's willingness to share that underwriting criteria
3 with us, in real time, on our site.

4 There are some commercial sensitivities to this that I'm sure
5 the insurers and brokers would like to hold for themselves.
6 It's another obstacle. I agree with everything else that has
7 been said about focus, simplicity, transparency and what you
8 can do to add to this without weighing down the customer - to
9 our advantage, the customer's advantage and probably to the
10 insurer and broker's advantage, but there is a limit.

11 MR ORAM: I don't think I've got anything else to ask. I don't
12 know whether any of my colleagues have.

13 MR DONOGHUE: You asked about brokers, I think, in your remedies.
14 We make no distinction between brokers or insurers, in any
15 way, shape or form, so everything we talk about today -

16 MR ORAM: Thanks for that clarification.

17 MR GALLIGAN: Perhaps just one additional point that we have
18 touched on is I don't think we should underestimate the
19 challenge that we're going to have with displaying results on
20 mobile devices as a device of the future and indeed a device
21 today. Currently, over 40% of our traffic is now on a mobile
22 device. If we want consumers researching and switching,
23 we're going to have to find a solution that works on mobile,
24 because in another six months it may be at 50% and then we're
25 probably not that far off it being 75%. The market, all of
26 us - insurers, brokers, price comparison sites - are going to
27 have to find a way to inform consumers on devices of that

1 kind of size.

2 MR ORAM: Okay, perhaps we can move on to our remedy 4(b), the
3 transparent information concerning no claims bonus. The
4 first question is: do you think customers understand what no
5 claims bonus protection covers? Maybe I can fire this at
6 MoneySuperMarket.

7 MR DONOGHUE: I think - well, we know because we asked them - I
8 think they think they understand it, but they don't.

9 MR ORAM: Right, is that the general consensus?

10 MR MORGAN: Yes.

11 MR ORAM: The reason I asked was because, of course, they may
12 understand no claims bonus in terms of if they have an
13 accident they'll still get their bonus, but they don't know
14 the impact of a no claims bonus, which takes into account
15 other factors. I'm sure you're right.

16 MR DONOGHUE: The impact of the discount, and the fact that they
17 think premiums will go up if they've had [inaudible] claim.
18 That's just the way the majority thinks. They think it
19 protects everything; it's like some secret invisible shield
20 they buy for 10% of the premium or whatever and they're
21 protected forever.

22 MR ORAM: I suspect you're right. What role could you have in
23 improving the way in which no claims bonus and no claims
24 bonus protection is sold or explained to consumers? Could
25 you do that better? I'll fire this one at Go Compare.

26 MR MORGAN: I think it would need to start with insurers, as
27 you've pointed out in the findings. There is a great deal of

1 variability in definitions, and how no claims bonus and no
2 claims discount works amongst the insurance brands. In
3 exactly the same discussions that are around standardisation
4 of add-ons, if we get to a commonality of presentation to the
5 end consumer, we could certainly present it. The challenge
6 is getting to that commonality.

7 MR ORAM: Inevitably you're reliant on what insurers would give
8 you.

9 MR DONOGHUE: For us, there are two points to it. One is I think
10 you make a very good point in the findings. The way the
11 consumers select today on our website is either through
12 questions that tick or a results page. They can sort of say,
13 'I would like it,' so they can add it on at the results page.
14 I think we probably need to do a better job at
15 MoneySuperMarket when that information is selected, tick, or
16 the radio button, of highlighting that premiums can still
17 increase. This isn't a protected premium. I think there's
18 some messaging we could put on the site to support the
19 customer. Whether they read it or not is a whole different
20 debate, so we'll have to think about the execution of that.
21 We certainly could do a better job than we're doing today.
22 On the second point about the fact that every insurer has
23 different scales that are protected, we don't have any access
24 to that information today. If we had access to that
25 information today, I think it's a good thing to be able to
26 present that information on the results tables to make people
27 aware, dynamically, when they've selected a protected no

1 claims discount. Technically, I don't think it's a terribly
2 difficult thing to do.

3 MR ORAM: Any additional comments on that?

4 MR SIMMS: I may just slightly dissent from the group in that I'm
5 not sure it's that relevant, because no claims discount is
6 not that relevant to pricing. My point is that, really, the
7 objection is that consumers still see, - even though they
8 have no claims discount protection - a change in pricing
9 following a claim. This comes back to the point Paul made
10 initially, which is how insurers go about formulating pricing
11 and the level of complexity of that process. Trying to
12 translate that to a consumer, such that we are trying to
13 inform how they might understand how their price might move
14 next year is really, I think, pretty much, I think,
15 impossible. Yes, I think there is certainly more to be done
16 around it or that could be done around consistency, but how
17 much that helps consumers to inform them about how their
18 price might move going forward, I think we are very much
19 scratching the surface.

20 MR DONOGHUE: I think what other panel members just have a say on
21 research - we tend to think that will increase your premium
22 by 10% roughly.

23 PROF SMITH: What impacts your premium?

24 MR DONOGHUE: If you add it on, there's a 10% premium. If I have
25 an average policy of £600, which is roughly our average
26 policy, this was putting £60 on the average policy. I think
27 it's important to tell consumers that, if they're paying £60

1 for this, what it is and what they've got. I slightly
2 disagree with the sentiment. People think that - then you
3 can make a more informed choice about whether it is worth
4 £60. What impact it has to your future premium is a very
5 difficult thing to be able to calculate. Just tell consumers
6 that they can understand that it isn't this invincibility
7 shield and premiums can go up. That would allow them, I
8 think, to make a more informed choice.

9 MR AARONSON: Do you think anybody would buy it if they were told
10 that?

11 MR DONOGHUE: It depends what you said. What you can't say -
12 because really all we can ultimately say is your premiums may
13 increase, even if you have a non-fault claim. Customers even
14 the non-fault claimers have all different divisions.

15 PROF SMITH: I know that, as soon as you have a fault claim, my
16 premium is going to increase.

17 MR DONOGHUE: It's that 'may'.

18 PROF SMITH: I thought that my no claims discount was based on the
19 number of years with no claims that I had. We have had some
20 suggestions this week that it is more complicated than that
21 and that your no claims discount depends on the number of no
22 claims you've had and possibly other weighting factors.

23 MR DONOGHUE: You're scaling this to imply [inaudible] going to
24 get [inaudible] underwriter but, as I understand, all of our
25 panel members apply different rules and different logic, as
26 to what scaling and how that's given is applied. That's not
27 transparent to us.

1 PROF SMITH: Indeed, the very act of applying for no claims
2 discount protection may change my weighting and, therefore,
3 my premium. When I make what I thought was quite a simple
4 consumer decision, if I don't buy no claims discount
5 protection and I have an actual accident, then whatever my
6 base premium is next year, that is what is going to have to
7 pay whereas, if I have no claims discount protection, it is
8 going to be that less 60%, which is going to take me four
9 years to build back up. Well, no, it might not take me four
10 years to build back up, because maybe men of my age are
11 treated differently from people with different risk factors,
12 in building their no claims discount back up. My basic
13 premium may have changed by the very act of asking for a no
14 claims discount protection, so now I am just completely in
15 the dark as to what I'm buying when I buy this product,
16 because it's changing. It's offering me something that's
17 like quantum mechanics; once you have asked for the product,
18 it's price changes. It's value changes.

19 MR DONOGHUE: When I talked about excess, it's exactly the same.
20 If I select £400 voluntary excess, the amount of compulsory
21 excess could directly change because of the fact that I have
22 just asked for £400. If I ask for £200, it is different.

23 MR GALLIGAN: You are also signalling something else to them so
24 that, when you choose to collect a no claims discount, that
25 might highlight a propensity to take risks, but it's also
26 highlighting a propensity that you have around price and how
27 price-sensitive you are. I touched in my opening statement

1 around price-optimisation software that the insurers are
2 deploying, and that will be taking indications of what you
3 do, where you shop, the channel which you've come through to
4 work out not what your risk price is, but what is the most I
5 can charge you. That will be a factor as well as the risk
6 premium; what is the propensity of the customer to pay. That
7 is a very rapidly emerging piece of technology that's been
8 deployed.

9 PROF SMITH: As a consumer, I've acquired three pieces of very
10 good advice this morning. This product, no claims discount
11 protection, has an uncertain value and the act of asking for
12 it may signal to the insurer that I'm a guy who's actually
13 willing to pay more, rather than less, and that I may be a
14 high-risk driver.

15 MR ORAM: We're all better off with that information.

16 MR DONOGHUE: We see also the [inaudible] example as well, we're
17 seeing on our side when customers are selecting third party
18 fire and theft, you would expect that to be a cheaper premium
19 than fully comprehensive, wouldn't you, but it's not quite
20 often because, again, it's an indication of risk and insurers
21 are [inaudible] up the price and [inaudible].

22 PROF SMITH: I think we probably want to move on to -

23 MR ORAM: I've just got one quick question and that is that a
24 number of insurers have told us that they're introducing the
25 wording that a non-fault accident may increase your premium.
26 Should in your view that information be standardised across
27 the entire industry? Maybe I'll fire this one at Confused.

1 MR CORIAT: It seems the more standardisation and transparency you
2 can bring consumers for important areas as this, the better.
3 I think I explained that it's definitely a good thing, if it
4 helps the consumer in their quest for good insurance. The
5 only concern is what kind of standards we get, so the
6 non-fault claims question - I don't think it's really
7 understood by every consumer in the same manner.
8 Standardisation is a good thing; let's find the right wording
9 to make sure it's really well understood by consumers.

10 MR ORAM: Does anybody want to add to that? Okay, that concludes
11 my questions.

12 PROF SMITH: Robin, do you want to kick off on MFN?

13 MR AARONSON: Sure. Okay, well a number of you have given some
14 views on MFNs in your opening statements and I'm sure we'll
15 come back to those points. Perhaps I could start with a
16 fairly broad question and ask can you describe your basic
17 sales proposition to retail consumers, and what role MFNs
18 play in that proposition? Could I start with Confused?

19 MR CORIAT: Yes. The main proposition to the consumer is that
20 they go to a price comparison website, and you don't have the
21 hassle of going to all the different providers to find your
22 insurance- and you can compare on an equal basis all the
23 different insurers. The main part is to make sure we tell
24 consumers they don't need to go anywhere to find a fair
25 comparison, and they have all the information to make a
26 choice. That's a benefit for price comparison websites and
27 that's why the narrow MFN is so important because without it,

1 the insurers can set a price for the consumers and then
2 state "Actually, come to us directly and we can have a
3 cheaper price than price comparison websites", then why would
4 consumers use price comparison website as prime price
5 comparison. At the same time, we all agree and also you're
6 finding that price comparison websites are for the good of
7 the consumers, helping to save money and beneficial to
8 everybody who is a general consumer. That's what is the most
9 important to us: it's to make sure that our value proposition
10 still remains for consumers, in answer to your question.

11 MR AARONSON: Thank you. Does anybody else want to add?

12 MR MORGAN: The mantra on our site is 'right product, right
13 price', so that is the consumer message that Go Compare
14 embraces. All our research says that the consumers expect
15 the right price. The trust in the price comparison industry
16 could fall away fairly quickly if that trust in the right
17 price slips away. Wide MFNs for us would be our cornerstone
18 to supporting the end consumer in getting the confidence
19 that, when you come to a price comparison site, while it may
20 not be the cheapest price, it will be a lower premium.

21 MR AARONSON: Okay, can I ask you to explain a bit more the idea
22 of a 'right price'? You say it is not necessarily the
23 cheapest price.

24 MR MORGAN: Indeed. When Go Compare first started back in 2006,
25 the price comparison industry displayed insurance premiums
26 purely based on price. Our founder Hayley Parsons worked at
27 a competitor at that point in time, and felt that what was

1 happening in the comparison industry market at that point was
2 insurers were stripping policies back to their bare minimum
3 to reduce the price to a minimum.. Hence, Go Compare was born
4 and introduced key add-ons that are important aspects of
5 policy, so it's right product and right price

6 MR AARONSON: Okay, just to push you a little on what you said,
7 the consumer is not necessarily finding the cheapest price
8 for a given quality on your site.

9 MR MORGAN: The MFNs support us in that, actually, they are a
10 level playing field. The models in the price comparison
11 sector, as the Commission knows, vary from comparison site to
12 comparison site, in particular as it relates to insurance
13 groups. MFNs allow us to have a degree of clarity across the
14 industry to make sure that we can give a comparable price to
15 our competitors.

16 MR DRABBLE: I think our colleagues over there at Confused, the
17 sales proposition is about not being able to get a cheaper
18 price direct. We've heard a lot this morning in the opening
19 remarks about most favoured nation clauses, and how they
20 impact consumer search costs and how they are important to
21 the marketplace. Without them, the price comparison business
22 model is at serious risk of destruction.

23 I think all the arguments so far that I've heard from the
24 opening remarks only really support direct most favoured
25 nation clauses and actually are of complete irrelevant to the
26 wide most favoured nation clauses. As you know, we have
27 never had wide most favoured nation clauses in our contracts

1 with providers, if there's a concern that it's damaging to
2 the long-term sustainability of the business model. I'm not
3 quite sure that we've quite gone the way of the dinosaurs
4 yet, so I think there's life in the old dog yet.

5 MR DONOGHUE: Just to your question around - we made it quite
6 clear that we're a commercial business. We're a public
7 company. I can quote you some of the numbers to give you a
8 feel. We turned over £225 million last year; we made about
9 £84 million profit. We think like a retailer, so today I
10 can't take my £84 million profit and I spend a reasonable
11 amount of money acquiring customers and stop paying Google,
12 which I'd like to do, and start giving that money back to our
13 insurance partners and investing it in price to give us the
14 best price, the cheapest price. The cheapest price is really
15 important to us on a website. Commercially, that's just how
16 you trade. A retailer would trade through a supermarket. I
17 can't do that today; these clauses are wide clauses.

18 MR AARONSON: Okay, but am I right in thinking that none of you
19 actually advertise to your consumers 'you won't find a
20 cheaper price anywhere else'?

21 MR DONOGHUE: Okay, if you have a conversation with the FCA about
22 what we've been trying to do and what MoneySuperMarket has
23 been trying to do with advertising and having the best price,
24 we have been advertising. It's a difficult message to get
25 across, but I'm sure if you talk to your colleagues they'll
26 talk about the work that we've gone through to try to justify
27 why we believe that the cheapest price is important. We have

1 a TV campaign.

2 MR AARONSON: Could I hear a little bit more about this? You
3 would like to advertise 'we provide the cheapest price', but
4 you're constrained by some other regulator from doing that.
5 Is that what you're saying?

6 MR DONOGHUE: It's about how you measure the cheapest price;
7 that's the challenge.

8 MR DRABBLE: And how you communicate it.

9 MR DONOGHUE: And how you communicate that. The regulator, as I'm
10 sure you know, has a different focus from what the regulator
11 had before. There's Clearcast and there's ASA you go through
12 in terms of the approval process when you're doing TV
13 advertising in particular, but there's requirements around
14 Financial Promotions, which I'm sure you're familiar with, in
15 terms of how you communicate that. The point is we've been
16 actively trying to communicate the cheapest price is at
17 MoneySuperMarket. We had a campaign and it was live on TV,
18 so we were doing it. There are some challenges around
19 actually how you measure that, which we'll be dealing with
20 directly with the regulator on. That hopefully gives you
21 indications of how we believe it's -

22 MR AARONSON: So what happened to this campaign? You were pulled
23 up and asked to take it off?

24 MR DONOGHUE: We were asked to change the messaging of the
25 campaign.

26 MR SIMMS: To your original question, we would all do that if we
27 could. There's no question that's what customers want.

1 MR DONOGHUE: The regulator said you can. They're saying you can.

2 MR AARONSON: You can?

3 MR DONOGHUE: You can, absolutely. It's just the definition of
4 how you measure it where there's debate.

5 MR AARONSON: Is this because the insurance world is complex? It
6 depends on risk factors, who you are and where you live.

7 MR DONOGHUE: It's more how you demonstrate that you have the best
8 price across a wide spectrum of risks, more or less
9 sustained, over a period of time. It's about what's the
10 magic number, where you have to always be the cheapest to be
11 able to make a justification claim. The regulator is saying,
12 'Yes, you can do this,' and there are still some hoops to go
13 through, but it's about how you measure it.

14 MR DRABBLE: The campaign strapline was something along the lines
15 of 'More people got cheaper car insurance quotes at
16 MoneySuperMarket than at any other leading price comparison
17 site,' so we were actively marketing a price message: you
18 could get cheaper prices with us.

19 MR AARONSON: Relative to other PCWs?

20 MR DONOGHUE: Correct.

21 MR AARONSON: Not necessarily relative to going direct or applying
22 some other way?

23 MR DONOGHUE: Sorry, I would like to increase that number
24 significantly, but I can't take my profit and invest my
25 profit to increase that number today, because of the clauses
26 that we have. They're restricting me.

27 MR ORAM: Can I just ask Go Compare, because I think, if I

1 understand it correctly, the Go Compare website does actually
2 say words like 'you won't get a better deal direct'? I think
3 I'm right in saying that.

4 MR MORGAN: I would have to double-check on that one.

5 MR ORAM: I'm pretty certain, because I went on to Go Compare. My
6 question is really to the other three: if Go Compare could
7 put something on their website like that, why don't the rest
8 of you, Confused?

9 MR CORIAT: There's no reason why we can't do it, no.

10 MR ORAM: I'm wondering why you don't. If MFNs are so important
11 to you and that would at least address the narrow MFN as
12 being important to you, you would advertise it surely, as Go
13 Compare does.

14 MR SIMMS: For us, it is relatively straightforward. It's because
15 that's exactly where we're trying to get to, but we can't
16 secure a best price right across the board. These are all
17 individual negotiations. If we could secure it right across
18 the board, we would absolutely secure that across the board.

19 MR AARONSON: I see; it's because you don't have an MFN with every
20 insurer on your site.

21 MR SIMMS: Exactly.

22 MR GALLIGAN: We're all competing aggressively to get the best
23 prices. We're offering discounts; we're finding alternative
24 ways. We are aggressively competing to do that. Some of us
25 are winning with one insurer; some of us are winning with
26 another. The fact is we would love to use it, but we can't
27 and none of our competitors can, because none of us have got

1 to that burden of proof where we'd feel confident enough to
2 tell the consumer, 'You're not going to get it cheaper
3 elsewhere.'

4 MR DONOGHUE: That's because we can [inaudible] most favoured
5 nation clause in the contract, so it's not going to be doing
6 it.

7 PROF SMITH: I don't understand then - I've forgotten the wording
8 of your claim - but how you could make that claim without
9 having wide MFNs. The claim that you were making sounded to
10 me like a claim.. 'We have wide MFNs, so we know that other
11 PCWs are not undercutting us.'

12 MR DONOGHUE: Yes, and this is all about where the threshold is.
13 At what point, is it statistically significant enough to be
14 able to make those claims? The advice we had from Clearcast
15 and the ASA, which approve TV advertising, was that you
16 [inaudible] the number. The FCA had a different view about
17 the number

18 PROF SMITH: But you felt able to make that claim without having
19 the protection of wide MFNs.

20 MR DONOGHUE: Yes, but clearly we can't.

21 MR DRABBLE: It's because we were making some of those
22 investments. The challenge in terms of not being able to do
23 it more broadly is because wide most favoured nation clauses
24 exist, if they existed more broadly amongst the marketplace.
25 There are insurers that would love to offer and do a deal and
26 arrangement with us to offer the cheapest price, but don't
27 feel able to because they are constrained by the most

1 favoured nation clauses, in contrast with other PCWs. That's
2 bad for the consumer.

3 MR GALLIGAN: Now that simply isn't correct, and nor is the notion
4 or the line that he would like to take his price, his CPA,
5 and invest it to get a lower price from the insurer. Now
6 presumably you'd need some assurance from the insurer that
7 you're going to secure a better price.

8 MR DRABBLE: To actually do that you need all sorts of different
9 guiding measures.

10 MR GALLIGAN: Essentially contractually, you would want the
11 insurer to commit, as a consequence of you foregoing some of
12 your CPA, that they will then give you a better price.

13 MR DRABBLE: Yes.

14 MR GALLIGAN: How is that different from an MFN?

15 MR DRABBLE: It doesn't apply across the market. It doesn't apply
16 indefinitely.

17 MR GALLIGAN: Versus your competitors, if we just keep it against
18 the other price comparison sites, you reduce your price by £5
19 in return for a £10 discount, presumably, so that you'd be
20 £10 cheaper than my site, as an example. That's your
21 proposition. How is that different from an MFN?

22 MR DRABBLE: The MFN is broadly applied across the market and they
23 apply indefinitely. I think we need to take a step back.

24 MR AARONSON: Is it not different from an MFN in that you would
25 get different retail prices for consumers?

26 MR GALLIGAN: No, because what these guys are saying, essentially
27 what they're admitting, is in exchange for giving up their

1 £5, they would expect a better price than ourselves or the
2 other price comparison sites. Even if we take the definition
3 of an MFN being against these price comparison sites,
4 essentially you're saying that it's a price promotion so, for
5 a period, they would expect a better price than we can offer.
6 It's an MFN. The fact that we've locked them in for a long
7 time isn't true. An insurer can step off our site at any
8 time; they can switch off their pricing.

9 MR DRABBLE: That's simplistic.

10 MR DRABBLE: When you have that market share; that's just
11 simplistic.

12 MR GALLIGAN: Our market share is a point of record for the
13 Commission. You can see our market share. It isn't a
14 dominant market share. The reason why we've been able to
15 secure better prices is that we represent a better
16 distribution channel than our competitors, and we continue to
17 compete on that basis. By way of an example of how might
18 this market operates, in order to protect my position, where
19 I have got these MFNs and it's not across our panel, I have
20 to make sure that I continue to be a more attractive
21 distribution channel than these guys. That will involve
22 investing in consumers and consumer journeys. We're looking
23 at anti-fraud measures and all of the things to do to protect
24 that position, because our market shares aren't substantially
25 different.

26 MR DONOGHUE: What is stopping you doing that?

27 MR DRABBLE: You're asking Tesco, Sainsbury's and Asda to all

1 agree that they won't offer ever cheaper prices to the
2 consumer for sugar.

3 MR GALLIGAN: We're asking for the same thing. Essentially what
4 you shared is that you're offering a £5 discount in return to
5 get a better price than me. I'm saying that, essentially, to
6 take that you would want an assurance from the insurer that
7 they would give you a better price. I assume therefore you'd
8 want a contract. That's an MFN by another name.

9 MR AARONSON: I just can't see how that's similar to an MFN.

10 MR DRABBLE: Let's take that point now. There's no contract. Why
11 not just allow the price comparison site to compete on price?
12 Surely that's got to be the right think for the consumer.

13 MR DONOGHUE: Insight or value or something else we can do.

14 MR DRABBLE: Yes, whatever it is.

15 PROF SMITH: Sorry, can Robin ask his question, please?

16 MR AARONSON: Can you please explain so that this side of the
17 table can understand how the deal that MoneySuperMarket has
18 described is equivalent to an MFN?

19 MR GALLIGAN: Because what Graham is describing is he would go to
20 an insurer and say, as an example, 'I'll give you a £5
21 discount if you give me a £10 better price for my consumers,
22 i.e. match my £5 discount,' so that would result in
23 MoneySuperMarket getting a better price to the tune of £10.

24 MR AARONSON: And charging a lower price or the consumer finding a
25 lower price on that site.

26 MR GALLIGAN: Correct, but then he would need assurance that he
27 was actually going to secure that better price, because I'm

1 sure he wouldn't want -

2 MR AARONSON: You mean if the deal's relative to the other sites.

3 MR GALLIGAN: Otherwise he's giving up £5 for no gain. Graham is
4 going to put £5 on the table to ensure that the insurer is
5 going to discount his price against mine, so he therefore
6 needs to contractually secure that his price is better than
7 mine.

8 MR DRABBLE: The bit that's misleading about all of this is that
9 all we would be asking for is contractually agreeing to offer
10 the consumer £10 off the price otherwise. What we wouldn't
11 be doing is stopping that insurer having a deal with you to
12 say, 'If you sacrifice some of your commission, we can also
13 offer £10 cheaper,' so it's a fundamental difference in a
14 wide most favoured nation clause. It's fundamentally
15 different, because what you're doing is stopping the whole
16 market doing it. What we would be suggesting contractually
17 would be to say, 'Yes, it would be £10 cheaper than your
18 current prices.' We wouldn't be saying it couldn't be
19 cheaper than another price comparison site, so it's a
20 fundamentally different point actually you're making.

21 MR SIMMS: I think it's theoretically different, but actually
22 practically, for that to be effective, it couldn't possibly
23 work in any different way. If actually what happens is you
24 are £10 cheaper than current price for insurer X and, in
25 order to do that, you've discounted your CPA by £5, for
26 example, tomorrow we are £20 cheaper than that price; you
27 have lost the value of your £5 discount. That's the fact of

1 it.

2 MR CURZON-PRICE: But that's competition and it's great.

3 MR SIMMS: That would be theory but, actually, that doesn't
4 happen. The idea, the basis of why you would want to do that,
5 is to be financially better off. But, it wouldn't result in
6 you being financially better off or your customers being
7 better off, there is absolutely no logical case for that
8 situation occurring on any frequent basis.

9 MR DONOGHUE: I think we're actually supporting your findings more
10 than anything. To come back to Steve's question -

11 MR AARONSON: Sorry, can I hear what Mr Simms is saying?

12 MR SIMMS: What we're saying is if, in order to secure that
13 position, so if we wanted to do that we would want to secure
14 it and we would want to say, 'We want to be £10 cheaper,' not
15 £10 cheaper than we were yesterday, but £10 cheaper than we
16 were when that price goes out into the market.

17 MR AARONSON: It's arguable. It seems to be perfectly possible
18 for the deal to be structured either way. The conversation
19 might be, 'I want £10 off the price you've been giving me up
20 until now.'

21 MR SIMMS: I agree it's possible to structure it either way, but
22 it's not possible for it to be effective either way. It's
23 only effective if I'm £10 cheaper than the other prices
24 around tomorrow. It's not effective if I'm £10 cheaper than
25 I was yesterday or I'm £10 more than the other prices are
26 tomorrow.

27 MR DRABBLE: Potentially that will be a bigger deal than tomorrow.

1 MR GALLIGAN: The reality is that we're all competing to be
2 cheaper than one another, not cheaper than we were yesterday;
3 it's being cheaper in the sense of competing. I want to be
4 cheaper than these guys tomorrow, next week, next month.

5 MR DRABBLE: [inaudible]

6 MR GALLIGAN: And that is the basis by which, for all it may be
7 dressed up otherwise, these guys want to give a discount.
8 That's the basis by which, when they have a discount, I've
9 finished offering a discount to people even when they've got
10 an MFN. We have to maintain that the only sustainable way to
11 do that would be in order to make up a more attractive
12 distribution channel. In this example, Graham's using the
13 discount of £5 to make himself more attractive and we have to
14 compete with that.

15 PROF SMITH: But that's called competition isn't it? It's nothing
16 to do with MFNs. If one of your competitors, because of not
17 having MFNs, cuts their price, then the others have got to
18 compete.

19 MR DRABBLE: We can't do that today in a truly [inaudible] way
20 because these bloody things exist.

21 MR DONOGHUE: Another example is that we have lost the insight
22 that we produced in MI data. There is an inherent value in
23 that and, actually, I can't trade that value in any way to
24 get a better deal for my customers, because these clauses
25 exist as well.

26 PROF SMITH: Sorry, I've asked a question, so we'll come on.

27 MR SIMMS: Clauses don't exist in isolation. If only they did,

1 but they don't exist in isolation. Actually, what we seeking
2 protection of our proposition and actually the reason for
3 these clauses is that what you are tracking is the consumer's
4 propensity to buy at a particular price from an insurer. The
5 scenario we are trying to avoid is not a scenario whereby a
6 cheaper price is offered on MoneySuperMarket. It's much more
7 a question of when a more expensive price is offered on our
8 site and the consumer ends up, more frequently, with the more
9 expensive price on our site. That is the premium outcome for
10 the insurer; that's the best possible outcome for an insurer.
11 The best possible outcome is to increase his margin on sites
12 where his conversion is better. That's the logic that makes
13 for the best margins.

14 What we don't want is that proposition basically... For us,
15 the key point here is what the consumer believes they're
16 getting. That's the whole point about whether we can
17 actually advertise it or not. That's slightly beside the
18 point, as some of the research tells us that this is what the
19 consumers think they're getting. Actually, if you start
20 diluting that by being a free-for-all, actually what we're
21 now offering is a scenario whereby we're offering any old
22 price, then that defeats the very purpose for which you're
23 trying to drive.

24 MR AARONSON: Sorry, you make the point that very many consumers
25 visit more than one PCW as part of their search. If PCW
26 prices, the price for a given insurer on a given risk,
27 differed across PCWs, consumers would notice that and they

1 would tend to buy from the cheapest PCW and other PCWs would
2 have to respond, other prices would have to respond. Surely
3 you'd end up with a broad equalisation of prices across PCWs,
4 even without MFNs, so it's not the only way to have broad
5 price parity across PCWs through a broad MFN; it's simply the
6 level at which that would settle would be different.

7 MR GALLIGAN: That's not necessarily the case; that would make
8 sense if insurers were fixing price based at an individual
9 level, but I know how that price optimisation software
10 operates and if you go to the depths of this with the
11 insurers they'll confirm it. What that will work out is what
12 is a consumer's propensity to pay. Now, let's say on my
13 site, as an example, we have the easiest journey and I reward
14 my consumers as a consequence of purchasing from my site.
15 That might mean, if the customer has placed a value on my
16 reward, they are prepared to pay more to purchase via Compare
17 the Market. Now that software will work that out. They will
18 increase their margins, which is happening today. We see
19 time and time again how we have to enforce our clause, and
20 the output of that would be that my consumers would pay more
21 unless I can enforce that clause, simply by virtue of the
22 fact that the insurers' software has worked out that my
23 consumers would pay more.

24 Now, if we look at how that might restrict innovation, why
25 would I be investing in a rewards programme for my customers,
26 as an example, if that's going to result in them showing
27 price elasticity that results in a higher price? The other

1 point I should make, before we get into a debate amongst
2 ourselves, is that the fundamental point is I believe that we
3 have to be offering the best price right across the
4 marketplace. I think consumers would be really shocked to
5 think that we we're not comparing the best price, if this
6 were the case. I'll go back to the European research in a
7 moment. Why don't we start there, while I come back to the
8 other point I was going to make?

9 Finding the best price remains the number one reason for
10 consumers using price comparison tools. They go on, as I
11 said in my opening speech; one in eight respondents felt
12 they'd been misled by price comparison sites, in most cases
13 because they found a cheaper price elsewhere. I actually
14 think, if the Commission found that us not being able to
15 offer the best price, if you were to conclude that these were
16 anti-competitive, my proposition becomes you may get a good
17 price; you may not. The consumer's trust that's been built
18 up in sites - I do believe they assume they're getting the
19 best price - would be undermined in one fell swoop if we were
20 to go from a position where it was felt that we'd been a
21 force for good and a force for transparency and, all of a
22 sudden, it was alleged that we'd been operating in an
23 anti-competitive marketplace. That's just not the case. We
24 are out trying to negotiate the best price and, as a
25 consequence of investing and all the various things we do
26 with rewards programmes, customers put their confidence in
27 us. So, although we might have loyal customers, they should

1 not be charged more because they're less price-sensitive.

2 MR AARONSON: If I've understood your argument correctly, you are
3 saying that, without MFNs, insurers will view the different
4 PCWs as, as it were, different distribution channels with
5 different elasticities and different consumer
6 characteristics. They will be trying to price differently,
7 optimally, across the four PCWs, if you like, and across
8 their own direct site, brokers and all the rest of it. Is
9 that what you're saying?

10 MR GALLIGAN: That's essentially that, so their software will be
11 working out how much a consumer is prepared to pay. No doubt
12 you guys will have looked at an awful lot of risk pricing and
13 that would be a factor, but then a lot of brokers in
14 particular and a lot of large insurers will price from the
15 other end, top-down, so I've got my risk price but, actually,
16 the question that insurers will ask is what is the most I can
17 charge a given consumer.

18 MR DONOGHUE: So it's not competitive.

19 MR GALLIGAN: That is my channel.

20 MR AARONSON: But isn't a prerequisite for your argument that
21 consumers actually see a big difference between the four main
22 price comparison sites? In the minds of the consumer, your
23 site is different from MoneySuperMarket, Go Compare or
24 Confused and, therefore, a different price would be
25 sustainable on your website, as against the others.

26 MR SIMMS: That doesn't mean it's the right customer outcome.
27 Simply because you can select that price for the consumer -

1 sorry, to answer your question first - yes, we do think there
2 are differentiating propositions to get consumer perspectives
3 on. To go on to the next point, our point is that it's not
4 the fact that we will not necessarily sell to the consumer;
5 it's actually the fact that we would not necessarily sell the
6 product at the best price from the consumer's perspective.

7 MR GALLIGAN: The consumer would pay more.

8 MR CURZON-PRICE: Can I just challenge that a little bit? What
9 you're incredibly good at as price comparison websites
10 compete against each other. That competition, whatever their
11 pricing methodology, they're competing against each other and
12 you're unbelievably good at extracting the dynamics of that
13 competition. That doesn't change if they have more
14 sophisticated pricing tools so, it seems to me, there's no
15 particular reason why the consumer is going to be
16 ill-affected by this, because you're putting different
17 insurers, with their different pricing models, in competition
18 against each other.

19 MR SIMMS: If the perspective of an insurer was to sell at a
20 lower price then the simple situation would be that insurers
21 could achieve this tomorrow. If an insurer were to take the
22 approach "Actually, what I want to do as an insurer is I want
23 to target X set of consumers at MoneySuperMarket". That's it
24 done. The impact of MFNs is not that I don't sell to those
25 customers at a lower price on MoneySuperMarket; I can do that
26 today. The impact is that I don't sell at a higher price on
27 Compare the Market, say. That is the true impact and the way

1 in which certainly our MFNs work. Do you see the
2 distinction?

3 MR CURZON-PRICE: I have to say I haven't, if you can repeat that.

4 MR SIMMS: What's been posited is that what insurers want to do is
5 - I'm an insurer and I've got a price model specified for the
6 individual consumer. I know that my pricing for that
7 consumer is £300 [inaudible]. MoneySuperMarket - it doesn't
8 have to be MoneySuperMarket - AN Other price comparison site
9 says, 'Actually, if you discount that to 290 for that
10 specific customer, then I will reduce my CPA.' We would all
11 agree that the 290 for that specific customer is the best
12 outcome. The only way to ensure that 290 for that specific
13 customer is the price paid for insurer A not to return 300 on
14 my site, but to return 290 on MoneySuperMarket.

15 MR DRABBLE: That is, just to say, not correct.

16 MR SIMMS: That is the best way of securing that consumer outcome.

17 MR DRABBLE: That's not what we would do commercially.

18 MR DONOGHUE: It's commercially not viable for insurers.

19 MR DRABBLE: To be clear, that's not what we would do. If this
20 was a £10 discount, what we'd be looking for is for it to be
21 a £10 discount from the price that would have been charged to
22 us yesterday. We would not be seeking to prevent Compare the
23 Market doing a deal with the insurer to offer £20 cheaper
24 tomorrow. We believe that's a competitive market and that
25 drives innovation and good outcomes for consumers. That's
26 very different from the existing most favoured nation clauses
27 at the moment, which would prevent us doing that. They are

1 fundamentally different issues.

2 MR SIMMS: They are different issues, but going back to my
3 example, that example is perfectly available to insurers and
4 taken advantage of on a regular basis brand differentiation
5 and a number of other choices exist for insurers even with
6 wide MFNS. Actually what we're looking for is the ability to
7 continue to have all options -

8 MR CURZON-PRICE: Sorry, you're saying it's possible for an
9 insurer to offer £290 on another while they're offering £300
10 on Compare the Market.

11 MR SIMMS: Not while they're offering 300 on Compare the Market.

12 MR DRABBLE: And that's the problem.

13 MR SIMMS: The consumer outcome is that the consumer should buy it
14 for 290. That's the logical consumer outcome. The wrong
15 consumer outcome is that the consumer buys for 300.

16 MR AARONSON: Okay, I don't think we can pursue this through to
17 the ultimate. We'll be here all day if we -

18 MR DONOGHUE: I was going to answer his original question, which
19 was to the consumer direct.

20 MR AARONSON: Actually, I wanted to bring in this end of the
21 bench, whom we've not heard from recently, as to what you
22 would do and how your business model would change in the
23 event that broad MFNS, wide MFNS, were prohibited?

24 MR MORGAN: I would like to make the point that wide MFNS are only
25 one aspect in commercial negotiation; they're not in place
26 for 100% of the contracts we have with insurers and, indeed,
27 not with the majority of insurers we have on the panel, so I

1 think that needs to be taken into context; this is just one
2 of the contractual negotiations we do. In a pricing model,
3 obviously we have considered throughout this process what the
4 implication of removal of wide MFNs may be on our pricing
5 structure.

6 We have kicked around areas such as moving towards a
7 percentage-based commission structure, so we take a
8 percentage of premium as CPA. Obviously that is something
9 that we would prefer not to do. As already said, our
10 commissions are not based on premiums shown on site but it is
11 certainly one of the avenues that we're considering.

12 MR CORIAT: Because we're concerned that wide MFN clauses being
13 removed will be a fundamental change to our business model,
14 an important one to the way we operate, then we'll have to
15 adapt and to change. It's not a minor change either. There
16 are some risks that we have to pay attention to as an
17 industry, risks for consumers to make sure they get the level
18 of transparency and information on our website.

19 The second risk is about the trust and confidence they have
20 today in the way we operate and they still have to get in the
21 future. The third risk is more a business risk of how we
22 prevent the consumer to go on a very different type of
23 customer journey and go through all the four price comparison
24 websites to find the cheapest deal, which may not be the best
25 way to purchase car insurance, because it becomes long and
26 cumbersome for them. Definitely from what we can hear, there
27 might be a cheaper deal by increasing competition around the

1 price comparison websites. To be honest, where I stand, the
2 competition between the four of us is still quite important
3 and quite at the right level. I'm not sure we have to look
4 for an increasing competition field, but it's a game we're
5 ready to play. Yes, it's an important change.

6 It also gives each price comparison website the quality to be
7 a better source of acquisition for insurers, and then we'll
8 fight also on different grounds to be better, not in terms of
9 prices. We hear a lot about CPA and how we keep CPA back,
10 etc., but it's also about being a good provider in terms of
11 quality, in terms of fraud prevention, in terms of the
12 consumer loss ratio for insurers. It will make probably the
13 competition also on different terms.

14 MR AARONSON: Okay, can I just check one factual point? In other
15 forms of insurance, do comparison websites typically have
16 MFNs, either broad or narrow MFNs, in non-motor?

17 MR DRABBLE: We only have narrow.

18 MR AARONSON: That's your general view in all insurance.

19 MR GALLIGAN: [inaudible]

20 MR AARONSON: Are there any insurance products that are sold
21 without MFNs at all on price comparison sites?

22 MR DRABBLE: We think this is an important point that should be
23 looked at.

24 MR GALLIGAN: I think we have, certainly on one product line.

25 MR AARONSON: There's one product line.

26 MR GALLIGAN: I can certainly think of one product line.

27 MR AARONSON: Is that something you could give us a note on,

1 because it may be a little difficult to deal with in this
2 forum anyway?

3 MR GALLIGAN: Yes. What I would say is my competitors are
4 underestimating the impact that it would have if these were
5 to be prohibited- firstly, I think there would be much made
6 about it in the press if these clauses were deemed to be
7 anti-competitive. That would play right into insurers' hands
8 that comparison websites are acting in an anti-competitive
9 fashion, if that were to be intimated.

10 Secondly, if you take a wide MFN and took it outside of how
11 we're all competing, consumers would quickly learn that
12 actually comparison sites are the place to get the best deal.
13 If you look at sites such as martinlewis.com [sic], Martin
14 sends out an email to 8 million every week; he has 13 million
15 users every month and he will tell people how to find the
16 best deal. He'll give you, 'Here's your five steps to the
17 best deal,' and I can see what that would be if we weren't
18 able to offer the best price across all channels. It would
19 be, 'Do your research with a comparison site and then ring
20 them up; get on a telephone and ring them directly or go into
21 a branch,' or whatever the method by which insurers find a
22 way to use as a research tool and then offer a discount to
23 save themselves a CPA. I think we would rapidly become a
24 research tool.

25 MR DRABBLE: That's certainly an argument against not having
26 direct most favoured nation clauses -

27 MR GALLIGAN: Whether that is direct internet or direct

1 all-channel

2 MR DRABBLE: Just to be clear, we publicly announced via the
3 London Stock Exchange that we supported the Competition
4 Commission in December when the announcement was made, so
5 don't have a concern that insurers will make hay from the
6 fact that we don't have wide most favoured nation clauses and
7 we're being anti-competitive. We've actually made a positive
8 statement to say we support it and we don't have those types
9 of clauses, so that's public available. To say that a
10 concern of insurers would make it an issue about price
11 comparison sites being anti-competitive, to my mind, isn't a
12 good enough reason to come to a different conclusion. I just
13 want to come back to the point on the impact on the business.
14 For us, it would give us greater flexibility and greater
15 opportunity to innovate and to work with insurers to offer
16 consumers cheaper prices. We would see that as a very
17 positive change in our business model.

18 MR GALLIGAN: I think the best reason is really going to be
19 consumer-based. Certainly when we looked at the provisional
20 findings, we don't see substantive evidence that these are
21 causing harm. We've had a reference to inflation. There are
22 theoretical arguments and, equally, what these guys won't see
23 is how we have to respond to the offers that we have to make
24 to insurers and, as a consequence, we are competing. I get a
25 sense from some of the discussions today; we are competing
26 aggressively and the market is working well.

27 MR ORAM: If wide MFNs are so important to the business model, how

1 is it that MoneySuperMarket is still in the business and has
2 not collapsed?

3 MR GALLIGAN: I suspect -

4 MR DRABBLE: I'll just check we've just not collapsed.

5 MR GALLIGAN: Well I suspect that consumers believe they're
6 getting the best price from them. If you look at the
7 research, they've asked why they're using us. I think, if
8 they were to find that actually we weren't comparing the best
9 price, what would our proposition become? We'll compare, but
10 what are we comparing? That is quite a worry; I think that's
11 a worrying proposition.

12 MR BRYCELAND: Is it the case that they're currently benefiting
13 from the fact that the rest of the industry has them[wide
14 MFNs]? If everyone has one, then they benefit from them as
15 well, so perhaps that's the reason why it hasn't been
16 undermined. From the perspective of Go Compare, we have some
17 hesitations about the questions that go beyond the scope of
18 the inquiry. Whilst we may be prepared to provide
19 information in respect of other forms of insurance, the panel
20 would probably wish to take their legal advice as to the
21 extent to which they can look at markets outside PMI, which
22 was the subject of the reference made to the panel.

23 MR AARONSON: Sorry, the request I made was not at all intended to
24 investigate other insurance markets; it was merely to give us
25 a point of comparison as to whether motor insurance is
26 unusual.

27 MR BRYCELAND: I think there is perhaps some hesitation on this

1 side of the table for you to enlarge your inquiry to go
2 beyond the scope that's been referred.

3 MR DRABBLE: We would encourage you to open your inquiry, clearly.
4 I suspect you know our views.

5 MR AARONSON: I don't quite know what's the best way to phrase
6 this question but, if wide MFNs are outlawed, are there
7 alternative ways in which you, the PCWs, might put pressure
8 on insurers not to step out of line in terms of differential
9 prices among the websites?

10 MR DONOGHUE: Do you mean like strong-arming?

11 MR AARONSON: The threat of delisting or -

12 MR DRABBLE: Threatening to increase the CPAs, the prices that
13 they charge. Yes, we think there is a serious concern that
14 that kind of behaviour could happen. It may happen today,
15 but certainly could happen and it could be very, very broad
16 and could be lots of different ways for us to delist, because
17 price comparison sites are an important distribution channel
18 for insurers. It could be something like, if you offer a
19 cheaper price through MoneySuperMarket, then your price
20 through us will increase by 25% say or whatever that is, the
21 commercial rate. We have serious concerns that that
22 behaviour could achieve the same outcome, so we certainly
23 support the Competition Commission's view that, however it's
24 introduced, it needs to be broader than most favoured nation
25 clauses, but it also needs to capture behaviour.

26 MR AARONSON: And do you have suggestions as to how that behaviour
27 could be controlled?

1 MR DRABBLE: I think that's a challenge. There are a number of
2 ways you could -

3 MR DONOGHUE: Apply it to insurers as well.

4 MR DRABBLE: Yes, I was going to say you could also have that
5 applied to insurers, so that they also felt that they were
6 enabled to... They would potentially have an avenue to talk to
7 the Competition Commission if they felt that that kind of
8 behaviour was happening, because the undertakings would apply
9 similarly to them. I guess your original question was, 'Do
10 we have concern about that kind of behaviour?' and we have
11 certainly have a concern that that behaviour could happen.
12 How you can stop that is a challenge, but we have a concern
13 that that's what will happen.

14 MR AARONSON: Other views on that?

15 MR SIMMS: I suppose our view on the likelihood of any... I suppose
16 what you're suggesting here is the likelihood that we take
17 action to circumvent by using certain strong-arm tactics.
18 The answer is to start, in the first place, with the question
19 of the strength that we have. If we had that kind of market
20 strength, CPA increases would not be below inflation. Our
21 costs haven't been going up below inflation; CPA increases
22 have been going up at below-inflation rates for five years
23 now. That is the result of a pretty balanced, possibly
24 slightly in favour of the insurers, position in our
25 negotiations with them. After all, we only represent a very,
26 very small single-figure percentage of the markets;
27 significantly smaller than some insurers. The idea that that

1 we can 'strong-arm', to use that phrase, insurers into any
2 sort of practice, particularly a practice that is financially
3 harmful for them thinking, is far-fetched to say the least.
4 The idea that we would is slightly more concerning.

5 When you start to move on to questions about prevention of
6 delisting, particularly given the circumstances, given that
7 you've got a fairly well balanced or slightly in the
8 insurer's favour, negotiating stance, the prevention of
9 delisting, i.e. a situation where we would not only be asking
10 insurers to give us some prices but actually required to put
11 up their prices significantly alters the negotiations. I must
12 as a PCW I am essentially acting as a shop window. This
13 proposal suggests that it displays all these prices. That's
14 essentially what prevention of delisting represents. That
15 starts to erode any commercial negotiation.

16 MR DRABBLE: To be fair, I'm not sure that's right, because I
17 don't think anybody's suggesting that you would ever be
18 allowed to delist an insurer for other reasons not connected
19 to most favoured nation clauses. What we are talking about
20 is that, if you sought to prevent an insurer offering a
21 cheaper price through a price comparison site, in that
22 particular circumstance, you'd threaten to delist the
23 insurer. That's the behaviour that would be allowed, not
24 requiring a price comparison site to show an insurer in all
25 circumstances. I think that's misleading.

26 MR SIMMS: No, it's not misleading. What we're displaying are
27 insurer prices. What you're saying there is that, if an

1 insurer provides us with prices that, let's say they're 10%
2 higher than the market, we think they're not appropriate
3 prices to be displayed to our consumers. Even if our
4 consumers tell us they're not appropriate prices [inaudible],
5 what you're saying is there's some sort of restriction on the
6 ability of price comparison sites, to say, 'Actually, I've
7 entered into this bilateral contract with insurer x, but I
8 can't stop that bilateral contract.' Although of course,
9 insurer X can remove himself from that bilateral contract at
10 any point.

11 MR AARONSON: What are the legitimate reasons for delisting an
12 insurer from a site?

13 MR SIMMS: We've touched on a few today. One would be
14 click-throughs to that insurer's site. Insurers would call
15 it price x - as £200 on our site. On click-through,
16 customers are faced with £240. That sort of behaviour is
17 exactly the sort of behaviour that could result in an insurer
18 being challenged. We don't want that outcome; that's the
19 wrong consumer outcome. It's the consumer outcome that the
20 regulator also criticises us for, quite rightly and,
21 therefore, that would be exactly the sort of unacceptable
22 position. These are freely entered into contractual
23 arrangements, most of which are of reasonably short duration,
24 in terms of their contractual obligations, with very, very
25 large insurers for the most part. The idea that you'd
26 intervene to prevent a smaller partner, in certain situations
27 from having the option of trading or not trading with a

1 certain partner, coming back to Paul's point, is potentially
2 threatening to competition and consumer welfare.

3 MR CURZON-PRICE: Can I go back to an example you gave earlier,
4 where Compare the Market is listing at £300; another is
5 offering for £290? I think what you said in that example was
6 that the worst consumer outcome would be for the consumer to
7 buy at £300, when it was available elsewhere for £290. Your
8 suggestion, I think - you were stopped in mid-flow - but I
9 think that your suggestion, therefore, was that the best
10 consumer was to get the product at £290, obviously, but you
11 couldn't make it available for £300 on your site, because you
12 want to list what is the best price and you'd be unable to
13 list the best price, because it was offered for £290
14 elsewhere. Therefore, you'd want to delist that product for
15 the period for which it was available at £290. Did I
16 understand you correctly?

17 MR SIMMS: Yes, so that's how - we don't delist that product.
18 What would happen in that instance is the insurer would
19 delist that product.

20 MR CURZON-PRICE: Okay, so that product is no longer listed so, in
21 a sense, the insurer might then think, 'I'm going to lose
22 some sales on Compare the Market because I'm no longer
23 listing there, and I'm going to gain some sales elsewhere,
24 because I've reduced my price.' For you, you don't need an
25 MFN in order to do that; you could simply delist that insurer
26 for the period during which the Commission's [inaudible]
27 price deal was going.

1 MR DRABBLE: It's fanciful to suggest that an insurer would
2 willingly choose to delist from a price comparison site where
3 it gets X% of its sales. It's just fanciful.

4 MR GALLIGAN: That's fine insofar as, if they want to get a
5 cheaper price elsewhere, that's fine. In that scenario, why
6 wouldn't we get £290, I would ask. That might be because our
7 proposition is not attractive enough to justify £290. Well
8 then, go and acquire those across the other three comparison
9 sites, if we've not been attractive enough to justify £290.
10 That is the reality.

11 MR CURZON-PRICE: Okay, but you would in that case not list that
12 insurer on your results.

13 MR GALLIGAN: That would be an option, yes.

14 MR SIMMS: That would be the optimum position for the consumer
15 outcome.

16 MR CURZON-PRICE: In other words, in a sense, as long as the
17 insurer really wants to be listed on Compare the Market, you
18 wouldn't actually need the MFN in order to stop the insurer
19 from offering £290 elsewhere.

20 MR GALLIGAN: I think what we would need is the ability to say,
21 'If you don't want to give us a best price, we can switch you
22 off and you can go elsewhere.'

23 MR CURZON-PRICE: I just wanted to clarify that that was indeed
24 your -

25 MR SIMMS: A fundamental part of the bargain and it's not a
26 universal part of the bargain in every single contract,
27 because those bargains are all individually negotiated, but

1 it's a fundamental part of the bargain. We're saying, 'Can
2 you give us your best price?' The insurer can say, 'No, I
3 can't give you my best price,' in which case that
4 conversation probably ends fairly soon after that.

5 MR CURZON-PRICE: That doesn't require an MFN clause.

6 MR SIMMS: Where the insurer says, 'No, no, no, what I would like
7 to do is give you my best price; I'm happy to set out in
8 contract to give you my best price,' then I'm not sure why
9 that shouldn't be possible.

10 MR DRABBLE: Just going back to that point, to me that highlights
11 the fact that the concern about the behaviour, if you get rid
12 of the wide most favoured nation clauses, you then allow a
13 situation where one of our competitors can say to an insurer,
14 'If you don't offer us the same price, we're going to delist
15 you.' That comes back to the very point that you effectively
16 have a most favoured nation clause through that behaviour,
17 which is what we think should be absolutely outlawed.

18 MR GALLIGAN: But then we're competing to be proactive enough to
19 list an insurer on its set of given terms.

20 MR DRABBLE: Then you might offer a cheaper price. It's the
21 ability of the insurer to offer a cheaper price; you would be
22 open to do that and that's why you wouldn't need to -

23 PROF SMITH: I think we're probably clear on what the issues are.
24 The cases have been put and heard and we will consider them,
25 but I don't think there's too much to be gained by keeping
26 going over the same ground again. We've heard you. Do you
27 want a five-minute comfort break before we - because we've

1 still got a way to go on MFNs?

2 MR AARONSON: I've got a few more questions.

3 PROF SMITH: Yes, let's have a break.

4

5 *[The meeting adjourned at 12.06 and reconvened at 12.16.]*

6

7 PROF SMITH: Okay, let's return, since we're all back. I think,
8 Robin, you wanted to move on to narrow MFNs.

9 MR AARONSON: Yes, moving from the controversial to the really
10 controversial, some insurers have put out to us that even a
11 very narrow MFN, limited to the price they charge on their
12 own direct website, inhibits the growth of their direct
13 channels, so what would you say to that? Do you agree?

14 MR CORIAT: It is of course a false argument. It's been proved in
15 the last 10 or 11 years that by trading as an aggregator we
16 really provide consumers with a one-stop shop to find their
17 car insurance at the best possible deal. We do find the best
18 possible deals. The success or the raison d'être of the
19 price comparison websites has been built around doing
20 everything, and you don't have to then test every provider
21 website with who can get the cheapest. You cannot get the
22 cheapest going direct, and it's proved to be very successful
23 - very successful for consumer outcomes in the entire
24 industry based on how this now sitting on the table. I don't
25 think the consumer outcome will be better; it will make
26 consumers' life much more complex when it comes to buying the
27 contracts, less transparent, less comparable. It will be the

1 worst... Definitely for consumers, price comparisons and I
2 don't think it would be a better outcome overall.

3 MR AARONSON: Okay, and what about their argument that they would
4 like to develop their direct sales channel and they're
5 inhibited from doing so by the fact that they can't charge a
6 different price; they can't charge a lower price than on your
7 websites.

8 MR CORIAT: I think insurers have a lot of ways to compete within
9 the market for car insurance. The price comparison websites
10 make it even more competitive for them. I don't think it
11 will really make a better business by playing this issue
12 against the direct channels.

13 MR DRABBLE: I think we need to sort of step back and look at what
14 we are trying to achieve in all of this. What's the ultimate
15 outcome? Actually, the ultimate outcome, it seems to me, is
16 that consumers are able to search and get the best possible
17 price for their motor insurance. The narrow most favoured
18 nation clauses give consumers that level of confidence that
19 they don't need to shop with us, each of the four of us, and
20 then go to 110 different insurers to see whether or not they
21 could get a cheaper price. That reduced search cost benefit
22 for the consumer is a really important one. Without those
23 direct most favoured nation clauses, you would effectively
24 allow price comparison sites to become free advertising for
25 insurers. They would be able to offer their services through
26 a price comparison site, but then potentially advertise
27 direct again £5 cheaper. I think that would fundamentally

1 affect the price comparison business model and the viability
2 of the industry in such a way that you would get much worse
3 consumer outcomes by looking at those direct most favoured
4 nation clauses.

5 MR AARONSON: Okay, I want to come back to that issue and that
6 problem but, just sticking with the insurers for the moment,
7 if I'm an insurer and my cost of distribution through my own
8 website is actually lower than the CPA I'm paying you, why
9 shouldn't I be allowed to charge a lower price?

10 MR DRABBLE: At a really simplistic level, I can understand that
11 argument, because price comparison sites charge x as a fee;
12 therefore, I'd have to pay x as a fee. I could offer a lower
13 cheaper price direct, but I think that's really simplistic
14 because, if there weren't price comparison sites, the insurer
15 would have to then spend the advertising money on advertising
16 and so it's false; you're not comparing apples with apples.
17 It's a false comparison.

18 MR GALLIGAN: If they were free-riding on the back of our
19 advertising, if they could get customers to their site for
20 nothing or indeed less, then absolutely. I would say one of
21 the reasons that price comparison websites have been
22 successful is that we are extremely efficient at converting
23 advertising spend into sales, because of the fact that we've
24 got over 100 insurers on our panels, and so the consumer
25 knows that they're going to get good deals. If you look at
26 the economics of acquiring a customer via Google or TV
27 advertising or all those other channels, I don't believe that

1 they can.

2 Clearly some can, because there are other models that exist.
3 Two of the largest insurers in the UK don't use price
4 comparison websites, so you can choose to take that approach.
5 To me, it's very similar to the discussion we had on wider
6 MFNs here. We would just unwind the price comparison website
7 proposition and we would very quickly become a research tool,
8 by which you went to a direct website to get yourself a £20
9 saving and, hey presto, the insurer's zero advertising spend,
10 sucking that volume direct.

11 MR DRABBLE: Part of the reason that insurers use price comparison
12 websites is that we are a more efficient marketing model that
13 didn't exist when they had to acquire consumers through other
14 means. It's a bit like having your cake and eating it
15 frankly for an insurer to say, 'Why shouldn't I be able to
16 offer a cheaper price direct?'

17 MR DONOGHUE: If you go back to 2006 and you look at the marketing
18 spend that insurers had, particularly in the [inaudible] TV
19 spend, and then you look at it today, it's just flipped.
20 We've becoming the marketing vehicle, and the online spend
21 that insurers have has shrunk significantly, because we are
22 that acquisition vehicle for them. If we weren't providing
23 low-cost good-value service to insurers [inaudible] business
24 model, we couldn't achieve that better than they can do it
25 themselves [inaudible].

26 MR AARONSON: So, I mean, is it as stark as that? If narrow or
27 all types of MFN were banned, you wouldn't have a business

1 model or could you adapt? Is there some other business model
2 that you might find?

3 MR SIMMS: Logically, you would still see insurers coming back to
4 us; it would be cheaper. I think it erodes our business
5 model pretty fast. I might have a price on -

6 MR DRABBLE: It's a consumer search cost though. You
7 fundamentally undermine the benefits of price comparison to
8 consumers, because you -

9 MR DONOGHUE: It would increase prices. It would increase prices.

10 MR GALLIGAN: You could envisage models that might exist. As an
11 example, you could show prices without showing actually who
12 was cheapest, and then we'd have to charge the insurer if the
13 consumer clicked to find out who was cheapest. All of a
14 sudden, it's like we're trying to manufacture a commercial
15 model out of a pretty disastrous situation, whereby today
16 it's really straightforward and we've got a really efficient
17 distribution channel for insurers, more transparency to the
18 market and so, 'Here you go; here are the prices' and the
19 consumers aren't incentivised to somehow circumvent what is a
20 market that's operating really effectively.

21 MR ORAM: Isn't there something that you could do? I mean,
22 assuming that we haven't got narrow MFNs, isn't there
23 something that you could establish so that, if a customer has
24 used a price comparison website, because you'll have that
25 detail, but then goes to the insurer direct, surely there's
26 some way of establishing that, if that happens, you get the
27 credit.

1 MR GALLIGAN: It would charge, so on average, they're visiting 2.2
2 price comparison sites - on your own research - and others
3 would suggest more than that - in other research there's
4 three or so. And so, you're going to charge the insurer.
5 It's then how do we -

6 MR DRABBLE: Also, if you're also an insurer, you might say,
7 'Well, I know that the consumer went to these price
8 comparison sites but actually, do you know what? I'm not
9 sure that consumer wouldn't have come to us direct anyway or
10 didn't come to us because we did some other form of
11 advertising or something. It's very difficult.'

12 MR DONOGHUE: I think commercially -

13 MR SIMMS: If it could be mandatory, such that every time a
14 customer touched us we got paid, we would be delighted.

15 MR ORAM: Yes, I understand the point that multi-homing would
16 complicate it.

17 MR JAMIESON: How do you deal with multi-homing at the moment?
18 Presumably there are some customers who, for instance, go
19 through one price comparison website, go through another
20 price comparison website and let's say they get the same
21 price on both and then let's say they go and visit the
22 insurer's website and then eventually go and buy from that
23 insurer. Do you get a commission fee, the CPA fee there?
24 How do you track?

25 MR GALLIGAN: We need to demonstrate that the purchase is a
26 consequence of visiting our site, so we would need to
27 demonstrate they've clicked through. If you look at the

1 market triggers - and I'm sure we submitted these - there is
2 a good degree of leakage within the industry. We would
3 estimate, some of the stats suggest, that 8% to 10% of people
4 ultimately will finish up, having researched the price
5 comparison site and being informed from the price comparison
6 site, and they may have gone direct. That goes on to there,
7 unless we can demonstrate that they've clicked from our site
8 or indeed rang up - a number of our customers will ring up.
9 They ring up and if they don't say, 'I've got your price in
10 Compare the Market; here's my reference number,' we're not
11 going to get paid.

12 MR SIMMS: It's probably useful just to wind back one step. Price
13 comparison sites don't see the customer purchase and then
14 send an invoice in. What happens is that we are reliant upon
15 insurers providing the confirmation of sales accreditation.
16 That's essentially how the model works.

17 MR DONOGHUE: It's very trusting. We have to trust our partners
18 and we do trust them. Okay, we have audit rights and we can
19 go in and we can check, but there's a lot of stuff about
20 trust. In most cases or many cases, it isn't until a large
21 number, anything between 10 and 30 days, before we know
22 whether a customer has actually purchased. There's a lot of
23 trust that happens in that vacuum.

24 MR AARONSON: Are there other ways in which you could be
25 remunerated - a listing fee for each insurer?

26 MR DONOGHUE: We could become an insurer.

27 MR AARONSON: No, but the sort of audit mechanism to see that the

1 customer started on your site and eventually bought direct
2 from the insurer, that's only one option.

3 MR DONOGHUE: The problem is our model works today, because we're
4 a success-based fee. We spent about £100 million on
5 advertising and we only get paid when someone ultimately
6 [inaudible] buys. If there's a fee for the privilege of
7 listing that's not success rates; that's the tenancy-type,
8 sort of, old way of doing your advertising. I think I'd be
9 surprised that the named insurers would be comfortable with
10 that and I have no idea commercially how would you value
11 that.

12 MR GALLIGAN: I think that's a really important point because, if
13 you look at the barriers to entry now for a new insurer or
14 broker to start, they're incredibly low. You're not going to
15 need deep pockets to put together an advertising campaign or
16 reach customers by TV. You know that, for a fee-per-policy
17 basis, essentially a no-risk basis, you can launch and list
18 on a price comparison site and you'll pay us x pounds per
19 fee. Therefore, to some extent, we're aligned in that
20 approach. I think that's a really important point that
21 started to develop in the last couple of years. 15% of our
22 sales now are from people who weren't on comparison sites a
23 couple of years ago. We facilitate new entrants to the
24 market.

25 MR DONOGHUE: I'm assuming the majority of those sales, 80% to 90%
26 of all of those sales, are coming purely from price
27 comparisons, so we've created competitiveness and that's our

1 marketing point. That's what we've got to make sure we don't
2 destroy.

3 MR FINBOW: Can you help me on one thing? Under the contractual
4 arrangements you have with the insurers, would degree of
5 differentiation would there need to be between a policy that
6 they offered direct on their own website and the one they
7 offered through the comparison site for there not to be the
8 argument that they owed you a commission?

9 MR CURZON-PRICE: Or for the MFN not to apply?

10 MR GALLIGAN: For the MFN not to apply, do you mean, for the
11 narrow MFN not to apply?

12 MR FINBOW: I'm just wondering how easy it is for insurers to
13 change something in order to get round the narrow MFN.

14 MR DONOGHUE: I don't know the exact wording in the contract.
15 That's why I've got Darren next to me.

16 MR DRABBLE: Like-for-like.

17 MR DONOGHUE: Yes, we talk about like-for-like risks. If the risk
18 changes in some way, then we don't get credited with the
19 sale. If you were to ring up Privilege and then you get into
20 a dialogue and you suddenly decide you want to add on your
21 additional car, you want to add on your son or whatever, that
22 risk profile is significantly different and so therefore we
23 wouldn't qualify for that sale.

24 MR FINBOW: Would it be sufficient just to ask a slightly
25 different set of questions in entering your personal profile?
26 That wouldn't do it.

27 MR DONOGHUE: If it [inaudible] a different risk.

1 MR SIMMS: But the much easier point, back to the original point
2 made, is simply to call yourselves an insurer on our site and
3 insurer direct on your own site. It's a different brand; and
4 you can sell differently, however you wish.

5 MR FINBOW: Even if the risk were the same, just by calling
6 yourself 'insurer direct' that would do it.

7 MR SIMMS: That is exactly the proposition from larger insurers
8 with a larger market share than us.

9 MR GALLIGAN: That operates extensively if you look at some of the
10 larger insurers now. They've maintained their own brand as a
11 direct brand. They can sign them direct and take the
12 associated margins or benefits we see with that model, and
13 they deploy an internet kind of brand on to our site. That's
14 relatively easy. Setting up a brand, if you look at the
15 panel members on our site, they'll operate more than one
16 brand, just because some of them will have certain
17 propositions under one brand and a basic proposition under
18 another. For a broker who believes that they can acquire
19 business more efficiently direct, they absolutely can; just
20 maintain your direct brand and have a separate internet
21 brand.

22 PROF SMITH: Surely for the insurer to have those two different
23 kinds of brands, they're not really getting many consumers
24 who are shopping on a PCW for - let's not talk about brand
25 names - but to get a quote from a Prime Ministerial brand and
26 then you tell, 'That's the company I want to go to.'
27 'Actually, no they're owned by one of the direct insurers,'

1 so that's going to direct me to the direct insurer. That's
2 not a very plausible consumer journey, is it?

3 MR DRABBLE: That insurer wants to have their cake and eat it
4 though.

5 PROF SMITH: I know, but that's not a method of acquiring
6 consumers through PCWs and then selling direct.

7 MR GALLIGAN: That's absolutely fine so, if they've got the two
8 different brands and we've got many insurers who, as I say,
9 didn't enter into an agreement with us using one brand on our
10 site. The different brand is direct and that's fine. We'd
11 happily say we're not cannibalising; we're not free-riding.
12 What we'd say is, if it was the same brand, we know that
13 consumers will test that direct.

14 MR DRABBLE: Of course, they can advertise. If it's a
15 non-internet-based brand, of course they're free to advertise
16 that and offer whatever price they want to offer.

17 MR AARONSON: Sorry, could you just say a bit more about you know
18 that consumers will test that direct? You have evidence that
19 people look on your site and also look on the insurer's
20 direct site just to be sure that they won't get a better
21 price.

22 MR GALLIGAN: We certainly believe that goes on and we say that,
23 if you follow the market shares, actually what's happened
24 with consumer shopping behaviour and where they finish up
25 shopping that would suggest that's the case. I can't see
26 exactly what's happening on the insurer's side, so I'm not
27 sure whether any of us would have definitive evidence, but

1 you could demonstrate that.

2 One thing we do know is a very large number of consumers use
3 us to shop price and ultimately finish up ringing up their
4 existing insurer and telling them, 'We've seen this new
5 business price cheaper than you've offered me at renewal' and
6 getting their existing insurer to match. We've talked a lot
7 about pricing and competition between ourselves, but insurers
8 are deploying very sophisticated techniques to charge as much
9 as they possibly can. A notion that we can match them to a
10 price yesterday with the pricing network as opaque as it is,
11 there's no way. These aren't refrigerators; they're not
12 fixed-price products. There are complex algorithms that sit
13 there.

14 MR AARONSON: In the situation you described, an MFN wouldn't
15 bite, would it?

16 MR GALLIGAN: No.

17 MR AARONSON: You survived that behaviour, despite not being able
18 to police it, as it were.

19 MR GALLIGAN: Yes, but it doesn't therefore follow that, if
20 consumers felt we weren't offering the best price that
21 somehow we could survive. The consumers' perception, the
22 reason that they're using us, is to get the best price. In
23 fact, there is an argument that the fact that they're seeing
24 a better price on our site and have then gone direct and got
25 the insurer to reduce it, is reinforcing the fact that we are
26 offering the best price. I am frustrated that the customer
27 had not subsequently bought via us, but of course if the

1 insurer does match that price, then we're not getting paid
2 for it. Now, it's currently operating for us; we are
3 surviving that backdrop at renewal. If we were to apply that
4 right across our business model, we haven't got one.

5 MR DRABBLE: I think the point that Paul is making is that there
6 is already competition that exists in the marketplace between
7 price comparison sites and insurers, and that competition
8 could be by creating a separate brand that they advertise
9 directly, and so have a multi-play approach. It could be,
10 and some of the things that, as Paul identified, consumers
11 will search on price comparison sites, but will then phone
12 their incumbent insurer getting it to match. There's already
13 lots of competition that happens at the moment.

14 MR DONOGHUE: Or insurers can offer cash back through a cash-back
15 site.

16 MR DRABBLE: Yes, or they can do it through cash-back sites.
17 There are already lots of mechanisms that exist today. The
18 key point is we [inaudible], what is it all about. It still
19 gives consumers ultimately, the vast majority of consumers,
20 confidence that they only need to look at a price comparison
21 site and know that they don't then need to go and search 110
22 insurance providers to check that they couldn't get it £5
23 cheaper from an insurance provider. I'm not sure that Paul
24 isn't actually saying anything, other than competition exists
25 today and that's not an argument, in my view, to then remove
26 direct most favoured nation clauses. That still is required.

27 MR AARONSON: Go Compare or Confused, have you got anything to add

1 on the narrow MFN?

2 MR MORGAN: I would just support that, if narrow MFNs were to
3 disappear, I totally agree that you would see us become a
4 research tool. Why would an insurer pay us £40 when
5 basically they can use us as a research portal? . Our
6 business proposition would disappear from the face of the
7 planet in 12 months.

8 MR CORIAT: I think we'd all draw a line, which proves that we'd
9 consider it as a real strength for the industry.

10 MR AARONSON: You don't have MFNs covering add-on prices, do you?
11 I think that came up in the earlier discussion.

12 MR SIMMS: We are remunerated by sales. One sale, a number of
13 products is still only one set of remunerations. We don't
14 actually

15 MR AARONSON: Yes, but if you're concerned that the consumer might
16 make a comparison between the price on your website and the
17 price on the insurer's website that would undermine your
18 whole business model. If they're buying an add-on that can
19 happen now, can't it?

20 MR SIMMS: Going back to where we started with the add-on
21 submission, the consumer might buy add-ons that aren't even
22 on our site. different products he purchases, provided he
23 purchases via us, his core product we would expect to be
24 remunerated in that situation.

25 MR AARONSON: It's not the point about can the insurer avoid
26 paying you a fee. It's a question of making the price
27 comparison. If there's no MFN extending across the core

1 policy and the add-on, surely the consumer might be in a
2 position of finding -

3 MR DRABBLE: I think it does. I think if we go back to our most
4 favoured nation clause - I haven't got the wording in front
5 of me, my fault for not bringing it - but I think it's
6 effectively you can't get a cheaper price direct. We don't
7 distinguish between the basic product and the add-ons. Our
8 expectation would be -

9 MR DONOGHUE: It depends on the risk.

10 MR DRABBLE: Yes, so the same product including add-ons would be
11 the same price. The consumer might choose to purchase a
12 different add-on when they go and ultimately choose to
13 purchase. Our expectation is that we were saying -

14 MR SIMMS: Yes, that's exactly it. My point was that we don't
15 have all the add-ons and, therefore

16 MR AARONSON: I see what you mean.

17 MR DRABBLE: It could get really confusing if the insurer could
18 offer cheaper add-ons. From the consumer's perspective, it
19 would be very difficult.

20 MR AARONSON: How do brokers survive without MFNs? Some of them
21 are almost like mini-PCWs, in that they sell through a
22 website, they have a panel of insurers.

23 MR SIMMS: They control the price; that's how they sell. That's
24 the distinction. They control the end user price and so they
25 don't need an MFN, because they are in control of setting
26 that end user price. They can look into a market, often
27 using price comparison websites, and understand where their

1 pricing needs to be in order to get the consumer, - it isn't
2 the same thing, because PCWs essentially are a shop window we
3 have other people that provide the prices. We don't do
4 anything to those prices. The broker of course, what he's
5 doing is adjusting prices for each insurer.

6 PROF SMITH: Not all of them do, do they?

7 MR SIMMS: Not all of them, but all the substantial ones do.

8 PROF SMITH: But isn't a more fundamental question that, if I'm a
9 consumer going to a broker, I'm expecting a broker to offer
10 me the best and most suitable deal for me but, somehow, the
11 brokers can - they're offering the consumer a product that
12 looks very similar to the product that you're offering, the
13 best deal for you, but they're able to do that without MFN
14 clauses.

15 MR GALLIGAN: I would say that they're offering a best deal
16 amongst the limited offering that they've got. The reason
17 why our businesses are more successful, you could say, okay,
18 it's because we have a much broader panel and there's a whole
19 range of other differences. Essentially, we have got a
20 consumer that's got a better chance of securing the best
21 deal, if they use a price comparison website, because the
22 nature of the fact they're comparing 100-odd brands versus -

23 PROF SMITH: But brokers survive without these guarantees.

24 MR GALLIGAN: That's right.

25 MR CORIAT: what they can sell to the consumer, at the end of the
26 day, with all the add-ons that are, as we know, quite
27 profitable.

1 MR CURZON-PRICE: Why doesn't the consumer go to the broker, find
2 out that this insurance product is the best for them and then
3 ring up the insurer direct? That's what a narrow MFN would
4 protect the broker from, but the broker doesn't feel the need
5 to be protected from that.

6 MR GALLIGAN: The broker isn't presenting the end insurer as the
7 end provider. The broker is the provider. Okay, he has a
8 panel that's sat behind him and you'll see often, in the
9 small print, that it's going to be underwritten by X. The
10 consumer proposition looks very different to that person
11 purchasing via the broker, whereas we are saying "Here are
12 all the available providers". It's a significantly different
13 experience, depending on which route you choose.

14 MR DRABBLE: The price is different as well. I'm trying to put my
15 finger on exactly why it doesn't work.

16 MR GALLIGAN: As an example, we are showing brokers for over half
17 of our panel. More than half of our panel would be brokers
18 and they're surviving because the consumer believes that
19 they're purchasing - well, they are purchasing - from that
20 broker. The fact that ultimately the brokers are passing it
21 through further down the chain to an insurer isn't
22 immediately obvious, and it wouldn't be easy for the consumer
23 to access that in terms of the price. Those broker panels
24 are operating in a b2b space, typically, with pricing
25 arrangements between them. It's a very different scenario.

26 MR DRABBLE: It feels like a fundamentally different business
27 model. Brokers are in effect providers of insurance -

1 they're pseudo-manufacturers - whereas we are a comparison
2 site. Simplistically, it feels like we should be the same
3 but, actually when you dig, they're very different businesses
4 offering very different services.

5 MR GALLIGAN: What they'll say actually is, 'Here's our price.'
6 They won't say, 'Here are 10 prices; choose one.' They'll
7 say, 'Here's my price, one price,' and they'll have just
8 selected the cheapest underwriter that sits behind that.

9 PROF SMITH: You're saying it's quite hard for the consumer to
10 spot who is the underlying underwriter.

11 MR DRABBLE: Until they've bought.

12 MR GALLIGAN: They'll find it in the small print. The predominant
13 brand of all these brokers, to a large extent, I would
14 suggest a number of consumers couldn't distinguish them from
15 an insurer. They're just buying an insurance policy.

16 MR DRABBLE: I agree. Brokers are competing with insurers, not
17 with price comparison sites. I think that's the point. They
18 appear on price comparison sites, but they're competing in
19 different markets with different people.

20 PROF SMITH: If all MFNs disappeared, could you not then follow
21 the same strategy? If a broker is surviving by essentially
22 selling the insurance in their own name, even though they're
23 not actually the insurer, and you didn't have MFNs, could -

24 MR DRABBLE: They do contract though with the consumer, for the
25 insurance product. It's just a completely different -

26 MR SIMMS: In order to get to the same place, what you'd do is the
27 customer would put in his details. You would tell him one

1 price. You'd simply say, 'We've looked across 100 prices.'
2 That would kill our proposition, because what the customer
3 wants, part of it, is to see that choice. That's a
4 fundamental point that explains the 40% who do not buy from
5 the top of screen price. It would undo the price comparison
6 proposition..

7 MR GALLIGAN: We're essentially saying, 'Use us as an easy way, a
8 transparent way, to find a range of prices,' and then we
9 essentially put the decision back in their hands. We don't
10 say to the customer, 'Here's the best deal for you,' and a
11 broker will. We'd turn to them and say, 'Here are 100
12 prices. Here are some features and benefits, different
13 levels of NCD, different add-ons included,' and then the
14 consumer makes a choice. I think we go backwards if we were
15 to say, 'Here's one policy for you.' That would be a
16 backwards step.

17 MR DRABBLE: I just fundamentally think that brokers are competing
18 with insurers, not with price comparison sites, in that
19 respect. Brokers appear on the price comparison site
20 listings, because they are a very different business model
21 from a price comparison site.

22 MR GALLIGAN: I would slightly disagree with that, because it is
23 quite an incestuous market to a large extent. It's an
24 incestuous market insofar as the insurers and brokers will
25 appear on our site and then, equally, They'll be competing to
26 get the customers direct. As I said in my opening statement,
27 go to Google, type in 'car insurance', and you'll see the

1 price comparison websites, direct insurers and brokers all
2 bidding to win that consumer direct, so we both cooperate and
3 compete, if you like.

4 MR DRABBLE: Certainly you could say that, comparison sites and
5 the brokers effectively offer the same service and,
6 therefore, if brokers are - you know, [inaudible] most
7 favoured nation clauses - why shouldn't price comparison
8 sites? They're not apples and apples.

9 MR AARONSON: Anybody else?

10 PROF SMITH: Are you done? Are there more questions? Anyone
11 else? Well, it sounds as if we're done then on MFNs. Is
12 there anything we haven't covered in the discussion this
13 morning that you're dying to draw to our attention? I don't
14 want to send you away and then, in the middle of the
15 afternoon, you think, 'Oh, I wish I'd said this.' Have we
16 covered everything you wanted to cover?

17 MR GALLIGAN: I think the only piece - I think we touched on it,
18 but I did want to go over it, if you like. Certainly in some
19 of the document it seems to allude to consumers being either
20 online or offline consumers. Consumers are using a multitude
21 of channels. As I say, the research suggests that consumers
22 research online, ring up etc. A number of customers will
23 want that reassurance from speaking to someone. They operate
24 in a multi-dimensional, multi-channel way.

25 PROF SMITH: Thank you. I've certainly been struck by the
26 information that was new to me of the percentage of your
27 consumers who come through handheld devices.

1 MR DONOGHUE: [Inaudible].

2 MR ORAM: Just a quick question: that insurer optimisation
3 software, how recent is that?

4 MR GALLIGAN: It varies by insurer, so it has been around for six,
5 seven, eight years. It's been unlimited use until relatively
6 recently, so there's one provider in the market who we think
7 has really cracked it, and now most of the large insurers -
8 in fact most insurers are focussed on adopting it. That's
9 maybe something we'd be happy to talk about offline, but that
10 use of data is getting much more sophisticated and I'd say
11 there's been a breakthrough in the last, probably, 6 or 12
12 months.

13 MR DONOGHUE: I think for me it's just it is getting smarter, but
14 it's just risk-based modelling. It's just an evolution of
15 risk-based modelling, with more data going in to drive a
16 different risk-based model.

17 MR GALLIGAN: No, it absolutely isn't. Risk is nothing to do with
18 it.

19 PROF SMITH: I was winding up.

20 MR ORAM: Chairman, I'm sorry I raised this.

21 MR GALLIGAN: It's an important point. If you spoke to insurers,
22 you'll find it's 'propensity to pay'. How much will a
23 customer pay - not linked to their risk profile?

24 PROF SMITH: Can I now wind up and say thank you very much indeed
25 for coming along? It's been an extremely interesting
26 discussion. I should have said at the beginning that,
27 unfortunately, one of the members of the group is not able to

1 be here today, Anthony Stern, so he asked me to convey his
2 apologies and also to assure that he will read the transcript
3 with care. I'm pleased that I'll be able to tell him that he
4 will be able to read a very interesting, and even
5 occasionally entertaining, transcript of this discussion.

6 In my introductory remarks, I gave a brief outline of our
7 timetable for the rest of the investigation. I'd simply, in
8 thanking you for your contributions today and also for the
9 help you've given to the investigation so far, express the
10 hope that we'll continue to receive interesting inputs from
11 you and the hope that you feel that, during the rest of our
12 investigation, you will have adequate opportunity to feed in
13 any further points you wish to make. Thank you very much
14 indeed.

15
16 **(Hearing concluded at 12.50 pm)**
17
