



Consultation response

CMA Digital Comparison Tools Market Study: Update Paper

Response from the Money Advice Service
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About us

- 1.1. The Money Advice Service (MAS) is a UK-wide, independent service set up by Government to improve people's ability to manage their financial affairs. Our free and impartial money advice is available online, and by phone or webchat.
- 1.2. Our core statutory objectives are set out in the Financial Services Act 2010. In 2012, we were also given responsibilities under statute to improve the availability, quality and consistency of debt advice across the UK. We are paid for by a statutory levy on the financial services industry, raised through the Financial Conduct Authority.
- 1.3. As the statutory body for financial capability, MAS has led the work with organisations across all sectors – financial, third sector, government and regulators to develop The Financial Capability Strategy for the UK. This 10-year strategy aims to improve financial capability, giving people the ability, motivation and opportunity to make the most of their money.
- 1.4. Our response relates specifically to consumers' views and use of DCTs, with a focus on how increased consumer engagement, confidence, and capability can drive effective competition. Our evidence suggests that confidence alongside skills and knowledge to interpret and act on information provided by DCTs is critical to driving consumer behaviour. Undue complexity is one area the CMA can focus its attention on in designing remedies as part of this study. This may have knock on effects for 'inactive' and vulnerable consumers, and we encourage the CMA to investigate the impacts of DCT use on these groups in the second part of the study, as proposed.
- 1.5. In our response, we present insights drawn from our Financial Capability Survey that may assist the CMA in its consideration of the issues raised in this update paper, however do not propose specific interventions at this time. If it would be useful to see more detailed data, please let us know. We are happy for our response to be published and referred to in the final document.

Response to the emerging findings

2. Capability, complexity and competition

- 2.1. Consumers regularly face complex choices. Complexity in product design is hard to circumvent in most cases, however some of the complexity that consumers face may not be purely intrinsic to product design, but driven by profit maximising goals, where firms take advantage of consumers' bounded rationality or information asymmetries.¹ In these cases, choice complexity limits effective market competition.

¹ Speigler, R. [Choice Complexity and Market Competition](#), March 2016

- 2.2. DCTs can facilitate accurate value comparisons between products, where information is clear, timely and understandable. Ease of comparison is one aspect to improving consumers' engagement with markets, and therefore, ability to exert competitive pressures through searching, switching and better matching. Financial capability is also important to improving consumers' engagement with markets, as it influences both ability to evaluate information and the desire to do so.²
- 2.3. Evidence shows that more financially capable consumers are expected to be more engaged in the market, e.g. making greater use of educational resources and price comparison websites, to inform switching to better products. Therefore, this greater engagement in the market could lead to greater price competition.³
- 2.4. In the event of a widespread change in capability, Europe Economics' modelling⁴ (commissioned by MAS) shows that increased financial capability, by triggering a series of changes in decision-making, could result in significant gains to consumers. One scenario could see enhanced competitiveness in the industry as it responds to enhanced consumer search, and hence increased price competition, by increasing efficiency. In this way increased consumer financial capability should contribute towards better-functioning markets.

Levels of financial capability and evaluating information

- 2.5. Levels of financial capability in the UK are low.⁵ The 2015 UK Financial Capability Survey shows the importance of financial capability – skills, knowledge, attitudes, motivation and opportunity – on optimising financial behaviour such as managing money well day-to-day, planning ahead and avoiding financial difficulty.⁶
- 2.6. Using data from the Survey, we find that:
- many UK adults (42%) do not describe themselves as being confident managing their money (giving themselves a score of seven or less out of ten);
 - even more (53%) do not describe themselves as being confident choosing financial products; and

² OFT, [Personal Current Accounts in the UK](#), July 2008; Europe Economics [Economic Impact of Improved Financial Capability](#), Nov 2016

³ Europe Economics, [Economic Impact of Improved Financial Capability](#), Nov 2016

⁴ Ibid.

⁵ MAS, [Financial Capability Survey](#), 2015

⁶ Ibid.

- around half agree that their financial situation makes them anxious or don't see that they themselves can make a difference to their situation.⁷

An enabler or inhibitor of financial capability is financial confidence (i.e. the confidence to manage money and make financial decisions) and these results indicate that financial confidence in UK adults is generally low.

- 2.7. At the same time, 78% of people check different suppliers or tariffs for best deals on utilities or financial products in the preceding 12 months⁸. Most people are confident accessing the financial system digitally or via an offline channel, with 86% having accessed the internet in the last seven days and 62% being happy to bank online. These findings mean that, despite low financial confidence, UK adults are engaging in some form of searching activity using online channels.
- 2.8. Further analysis of Financial Capability Survey data on financial confidence, consumer switching behaviour and the use of digital comparison tools, shows that⁹:
- there seem to be little difference in financial confidence levels between those that have switched/searched and those that have not;
 - there seem to be little difference in financial confidence between those that switch and those that search but do not switch (though this does vary slightly by product); and
 - there is little difference in financial confidence levels between those who access information using online tools and those who do not.
- 2.9. Analysis of other financial capability enablers or inhibitors (saving mindset, financial numeracy, internet engagement, self-controlled spending, and financial engagement), consumer switching behaviour and the use of digital comparison tools shows that¹⁰:
- there is a greater difference in the levels of financial numeracy and internet engagement between those that have switched/searched and those that have not;
 - there is also greater difference in levels of financial numeracy and internet engagement between those who access information using online tools and those who do not;
 - this pattern seems to be repeated across products.

Therefore, while financial confidence is an important enabler of financial capability, it is not a driver of consumer search activity. Instead, it is consumer's ability to engage with and understand the information on DCTs

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid.

that influences searching activity. These findings lend themselves to some conclusions on the design of remedies, where they may be targeted to ensure that consumers can best act on the information presented in DCTs. As discussed above, there is value in maximising the benefits accrued through DCT use.

Response to proposed next steps

3. Improving Financial Capability and use of DCTs

- 3.1. The evidence base for ‘what works’ to improve financial capability is still developing but we know that making financial capability interventions relevant to people’s current situation or using ‘teachable moments’ improves their effectiveness.¹¹ While DCTs are a useful tool, they currently lack sufficient prompts to ensure that consumers are able to fully evaluate if the recommended product best serves their needs, as recognised in the emerging findings¹². Similarly, where customers have unique needs such that a DCT does not provide sufficient results, they currently lack sufficient prompt to alternative channels. For example, as the CMA acknowledges, in insurance, DCTs can use a single set of consumer inputs to aggregate bespoke quotes. This creates the risk that customers with unique needs generate insufficient or even nil results, discouraging the user from continuing their search altogether. A more active response from a DCT would be a prompt to seek further guidance from BIBA or MAS itself.
- 3.2. In recognition of the limitations of DCTs, MAS’ online guidance pages on the use of comparison websites encourage users to look at multiple price comparison sites (given that no one site is whole-of-market or provides the same information), and to conduct research to ensure the product is best fit (given that price filters and sponsored recommendations may not best match the user’s needs). While useful, this approach relies on consumers investing considerable time when making financial decisions.
- 3.3. This approach may not have fulsome reach, and we support the CMA targeting remedies at ‘Group B’ (internet users who do not shop around) and ‘Group C’ (internet users who shop around but do not use DCTs because of concerns) consumers.

4. Increasing transparency in DCTs

- 4.1. There is a significant proportion of consumers searching or searching and switching who are not accessing money information or advice (31%)¹³. Consumers are also time poor, with one in eight people agreeing that they

¹¹ MAS, [Milestones & Millstones](#), July 2015

¹² CMA, [Digital Comparison Tools Market Study Update Paper](#), March 2017

¹³ MAS, [Financial Capability Survey](#), 2015

are too busy to sort out their finances.¹⁴ Behavioural biases also create inertia in acting to get the best deal.¹⁵ As such, there is risk that these groups of consumers are 'active' in the market (i.e. Group B users in the CMA's emerging findings), but are not *effective* users. There may be room to improve matching between these users and products.

- 4.2. DCTs have an incentive to exploit these behaviours by presenting complex information or nudging users to select products based on commission. A study of consumer use of comparison tools commissioned by the European Commission finds that lack of transparency regarding revenues, frequency of price updates and accessibility issues leads to consumer detriment.¹⁶ Improvements can be made through full price publication, accuracy of offers and a guarantee of impartiality. At a minimum, DCTs should clearly distinguish between sponsored or advertising results and those that are not. The CMA could consider how improvements in transparency can influence both 'Group B' and 'Group C' users.
- 4.3. At the same time, consumers do make decisions based on behavioural biases. BIS consumer empowerment research looking at decision styles around choice of supplier for services in regulated markets found that consumers do make choices based on lowest price (i.e. are 'maximisers'), brand recognition or what friends and family use. The influence of these biases may vary across products.¹⁷ The CMA, in the second part of this study, could explore how biases coupled with limited transparency may impact on decision making by Group A, B and C users.

5. Cross-sector standards

- 5.1. In considering further adoption of cross-sector principles, it may be instructive to note our evidence that shows that for customers using DCTs, there are some differences by product between those who searched and those who searched and switched. For example, 40% of those switching their home contents insurance accessed information through a DCT, compared to 26% of those who searched but did not switch. In contrast, 35% of those switching their credit card provider accessed information through a DCT, compared to 44% of those who searched but did not switch. This implies that use of DCTs are not consistently used across sectors and, within sectors, use of DCTs may inhibit action.

Considerations for the second part of this study

We support the CMA's intention to focus on the two issues specified - on impact of possible future developments in DCT models; and the effects of DCTs on people who do not use them, in the second part of the study.

¹⁴ Ibid.

¹⁵ Office of Fair Trading, [What does Behavioural Economics mean for Competition Policy?](#), 2010

¹⁶ European Commission, [Study on the coverage, functioning and consumer use of comparison tools](#), 2013

¹⁷ BIS, [Consumer Empowerment Survey](#), 2015

6. The impact of possible future developments in DCT models

- 6.1. It is valuable for the CMA to consider the impact of open banking and increased access to data as part of its focus on possible future developments in DCT models. Open banking and technology have the power to revolutionise how people manage their money. Opening up information held by banks should benefit consumers through increased competition between banks and non-banks and improved innovation and service quality.
- 6.2. Application Programming Interfaces (APIs) and other technologies have an integral role to play in improving the awareness and effectiveness of money guidance, which can impact on DCTs.
- 6.3. MAS is a member of the Open Banking Implementation Entity Customer Working Group and will continue to work with the Entity to ensure that the API solution the industry develops will maximise opportunities to maximise financial capability.

7. The effects of DCTs on people who do not use them

- 7.1. We support the CMA investigating further the effects of DCTs on people who do not use them, particularly for consumers in more vulnerable circumstances. We take this opportunity to highlight two groups of consumers of relevance, those with limited use of internet (and possibly less digitally connected); and those who have high levels of confidence but low levels of skills and knowledge about financial products.
- 7.2. Our evidence shows that those engaging in searching and/not switching are significantly more digitally connected than those who do not engaging in searching activity¹⁸. 62% of those engaging in searching and/not switching activity used the internet for more than 6 hours in the last week, compared to 30% who did not search and switch. Similarly, those seeking information about money through DCTs are also more likely to spend more than 6 hours online in the last week.
- 7.3. While policy questions such as the digital divide, digital skills and mobile or broadband infrastructure are outside the scope of the CMA's study, there is opportunity for the CMA to refer its findings in regards to vulnerability and access onto the relevant party in its final report.
- 7.4. Turning to overconfidence, 5% of all adults (over 2 million people) have a combination of low skills and knowledge about financial products but high levels of confidence making decisions about financial products and services¹⁹. This group may be at risk of switching to a product that does not meet their needs, or even a product that makes them worse off. The Financial Capability Survey shows that:

¹⁸ MAS, [Financial Capability Survey](#), 2015

¹⁹ Ibid.

- 1/5 of adults could not correctly read the balance on a bank statement;
- Only around 2/3rds knew that if they put £100 into an account with 2% interest per year, they would have £102 at the end of the first year;
- Fewer (60%) knew that if the inflation rate is 5% and the interest rate on their account is 3% they will have less buying power in a year's time;
- 14% of adults answered all three of these skills and knowledge questions incorrectly – equivalent to 7 million adults in the UK; and
- Internet access, usage and willingness to use the internet for financial tasks such as banking are high within the working age population but drop off among older adults.

7.5. The CMA should consider, in the second part of this study, whether current settings leaves these consumers vulnerable to detriment.

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