



Energy and Climate Change Committee's Call for Evidence: energy price comparison websites

Written evidence submitted by the Citizens Advice Service

1. This submission was prepared by the Citizens Advice Service. It has statutory responsibilities to represent the interests of energy consumers in England, Wales and Scotland. We welcome the opportunity to provide a response to the Energy and Climate Change Committee's call for evidence on energy price comparison websites (PCWs). This submission is entirely non-confidential. A copy of our new research on PCWs compliance with existing consumer regulation and an accompanying policy paper has been submitted with this response.
2. We managed the voluntary Confidence Code for energy PCWs from 2002 until 2013 when it was handed over to Ofgem.¹ Our work over the last few years in the domestic Third Party Intermediary (TPI) market includes research on collective switching², consumer experience of price comparison websites³, next generation intermediaries (NGIs)⁴ and engagement with service providers to understand the emerging issues. We are also involved in the development of a new TPI code for the non domestic energy sector⁵ and have published research on issues affecting the non domestic TPI market. The non domestic market differs as most consumers use brokers as opposed to price comparison websites because the majority of tariff prices are not publically available.⁶

Introduction

3. Consumers have very low levels of trust in suppliers and engagement levels remain limited⁷. The Citizens Advice Service believes that PCWs are an important part of the market and provide a useful service to consumers by making it easier for them to engage in the market. To avoid further undermining consumer confidence in the market, it is essential that PCWs are perceived to be providing a comprehensive, transparent and accurate service.

¹ Citizens Advice and our predecessor bodies energywatch and Consumer Focus ran the Confidence Code, a voluntary co-regulation scheme for domestic price comparison sites until its transfer to Ofgem in April 2013.

² <http://tinyurl.com/prb524s>

<http://tinyurl.com/mzub4yg>

<http://tinyurl.com/l2cfmff>

³ <http://tinyurl.com/mfhylgal>

<http://tinyurl.com/nrrhpyg>

⁴ <http://tinyurl.com/mj5oad9>

⁵ <http://tinyurl.com/lxdg2qo>

⁶ <http://tinyurl.com/k2pl4jb>

⁷ <http://tinyurl.com/pjkmnpw>

4. We think it is important that PCWs are transparent with consumers and make it clear that they are a commissioned based business with a financial interest in encouraging increased levels of switching through their sites. These sites play an important role in encouraging and facilitating consumer engagement in the market. However it is a longstanding concern of our organisation how some PCWs present themselves in the media as ‘consumer champions’ but compromise on providing an impartial and reliable service to consumers.
5. There have also been concerns raised around how and what results are displayed, based on the default search option on sites, and whether this is driven by commission. The key concern is where sites use a filtered version of the results as the default, which means that users may not see the best deals in the market, only those that the site makes money from facilitating. This has the potential to erode consumer confidence. We believe that consumers should be able to see a whole of the market comparison. If the consumer’s preference is to only see results for tariffs that they can switch to via the site then this should be a proactive choice made by the consumer not a choice made for them by the PCW.
6. In our response to Ofgem’s most recent consultation on third party intermediaries (TPIs) in the domestic market⁸, we highlighted other areas where we feel urgent improvements are needed, which included:
 - a) Bringing unaccredited price comparison websites into the Confidence Code. Only one of the Big Four PCWs is currently signed up the Code.
 - a. This should include a new requirement on suppliers to only partner with Code accredited sites. We believe it is critical that this is mandated otherwise sites may choose to leave what is currently a voluntary Code. The disintegration of the Code would drastically reduce consumer protection on energy PCWs– which is clearly not in the long term interests of energy consumers.
 - b) Ensuring all channels used by PCWs are accredited by the Code including telesales and, in the future, face to face sales.
 - c) Ensuring the Code is future proofed to be able to adapt to the development of new services offerings made possible by technological changes.
7. It is worth noting that some of the previous problems associated with non transparent discounts or cashback, which may have previously steered consumers towards poorer value tariffs offered by suppliers, have disappeared as a result of the Retail Market Review rule changes.
8. One area which the Committee may wish to explore further is the suggestion we’ve previously made to Ofgem that it publish all supplier tariff prices on its website⁹. The key barrier to new companies looking to enter this sector is obtaining access to historical tariff data. Companies normally have to enter into arrangements with an existing PCW to get access to the data. If the data

⁸ <http://tinyurl.com/k6vzur2>

⁹ <http://tinyurl.com/k6vzur2>

was freely available it could lead to greater competition in this market and the development of innovative new services¹⁰

The role of energy price comparison websites and how they operate

9. The role of energy price comparison websites has become increasingly important in recent years in the energy market and they are now the dominant channel used by consumers to switch supplier.
10. The demise of doorstep selling and the decision by some suppliers to withdraw from unsolicited telesales has increased this trend. Historically consumers who have purchased energy contracts via face-to-face sales, particularly unsolicited doorstep sales, have been disproportionately affected by poor sales techniques and mis-selling, these customers are also more likely to have a low income and/or lack of access to the internet¹¹.
11. Online price comparison sites have transformed the ability of consumers to search the energy market in their own time and without sales pressure from any particular supplier – making it easier to get the best deal. Therefore we agree that it is critical to ensure that consumers can feel confident that price comparison sites are providing households with accurate and transparent information.
12. It is worth highlighting that not all suppliers want their tariffs displayed on PCWs either some or all the time. Some smaller suppliers, such as those with particularly competitive offers, would not be able to handle the volume of new customers switching through sites. For this reason they may restrict the availability of their tariff details on some or all of the sites.
13. Over the past few years third party intermediaries, such as price comparison websites, have established themselves as a key source of the information guiding consumers' purchasing decisions, in addition to offering new services such as facilitating switching. For example according to Consumer Futures' research on consumer perceptions and experiences of PCWs, 56 per cent of consumers declared they have used a PCW in the last two years.¹² Our research found that consumers use PCWs to:
 - bargain hunt to get the best deal (85 per cent)
 - compare prices (83 per cent)
 - save money (79 per cent)
 - switch/purchase (52 per cent declared they have used PCWs to switch provider or purchase products).
14. In particular, the use of PCWs as a switching or purchasing portal has increased in comparison to the OFT's 2010 report when only 15 per cent of

¹⁰ This could include a new service that identifies the offer that best meets a consumer's declared criteria, the consumer can again say 'do it for me' and have the service instigate and oversee the switch to the provider of that offer.

¹¹ <http://tinyurl.com/q89oemv>

¹² <http://tinyurl.com/nrrhpyg>

those surveyed purchased or switched through a PCW.¹³ Of that total, 37 per cent switched their energy supplier.¹⁴

15. Our research suggests that accredited comparison tools are likely to perform better on a number of criteria, and our mystery shopping found that the degree of good performance was higher on accredited sites in comparison to non-accredited ones.¹⁵
16. Work by Consumer Futures on next generation intermediary services suggests that in the near-medium term we are set to see a range of innovative services that bring much greater convenience to consumer engagement with the energy market¹⁶. A key challenge for Ofgem will be to develop a regulatory framework that both anticipates these developments, is flexible enough to respond to them and can ensure that the right consumer protections are in place.
17. In September 2014 Ofgem stated that comparison sites are now the main way that consumers switch supplier. Research published by the regulator at the end of September found that, for 2014, 31% of switchers used a comparison service, increasing from 26% in 2013 and overtaking calling suppliers directly (at 27% of switches).
18. Similarly, recent data from the GfK quarterly energy market monitor reveals that switching energy supplier via the internet remains the most common method of changing supplier. It also highlights that switching via an energy comparison site accounts for just over two thirds of internet switching. Just under a quarter switched directly through their new supplier's website.¹⁷

Transparency of commission received for different energy plans

19. Energy price comparison services are commission based and the commission made from successful switches is their key source of revenue¹⁸. Tariff prices are exactly the same whether a consumer goes direct to a supplier or uses an energy price comparison service to carry out a switch. However, the acquisition costs of acquiring new consumers will be priced into the tariff. We are unaware of the differing acquisition costs by channel and whether PCW commission rates are, on average, higher or lower than other sales channels. Given the volumes of switches now being carried out through PCWs, it is reasonable to say that the overall commission costs being paid by suppliers are considerable.
20. We are advised by energy price comparison services that they are currently unable to show the amount of commission they receive for each completed switch because of contract confidentiality. These arrangements are generally

¹³ <http://tinyurl.com/lw44ldr>

¹⁴ <http://tinyurl.com/nrrhpyg>

¹⁵ <http://tinyurl.com/mfhygal>

¹⁶ <http://tinyurl.com/plw27d2>

¹⁷ Q3 2014 GfK

¹⁸ Some sites operate price comparison sites on behalf of suppliers or other companies.

at the request of the energy suppliers. One site gets round this is by stating that they earn between £x and £x for a successful switch.¹⁹ This is potentially an option that other energy price comparison services could adopt if deemed necessary, or they could display an average commission level. It is worth noting that full transparency about commission rates may not necessarily lead to a decrease in commission rates – some parties may realise that they have been under-charging. It is therefore important that the potential impact of any changes to the transparency of commission payments is understood.

21. Our research on comparison sites has shown that performance standards of sites varied with regards to the reliability and transparency of the information provided.²⁰ As previously stated we believe that consumers should be able to see all the market (as a default) and if they would like to filter their results then they should make a proactive choice to do so. As Ofgem points out in its recent consultation on TPIs, the way that some sites explain their default and filtering options are confusing, and in some cases somewhat ambiguous. This is not in the spirit of the Confidence Code requirements. We would suggest that any default or filtering options are clearly explained, and the wording used by sites should be agreed and signed off by Ofgem.

Consumer trust in energy price comparison websites

22. TPIs are playing a more important role than ever before by assisting consumers to engage in the energy market. Recent research from Ofgem suggests that 40 per cent of energy switchers found out about the deals they switched to through price comparison sites.²¹ The comparable figure in 2011 was just over 20 per cent.²²
23. Our 2013 research indicated that consumers have a passive degree of trust and assume that the search results returned have been generated in an even-handed way. This research explored consumer use of PCWs across a range of markets, not just the energy sector. For example, 73 per cent of those surveyed who use PCWs describe them as 'fairly reliable', and 52 per cent said they were 'useful' in helping to find a good deal.²³
24. Yet despite a high level of consumer satisfaction indicated by these figures, more in-depth investigation suggests that the trust may be 'on thin ice' as consumers are in the habit of verifying results on other sites or on the phone. Some still have concerns about buying through a 'middleman', rather than directly from the provider. This relates to either consumer preference to speak to their current providers before switching (63 per cent), unwillingness to provide the data that the sites require (30 per cent), or preference to purchase offline (27 per cent). The research also found there is little evidence of loyalty to particular sites; a large majority (83 per cent) of PCW users typically visit

¹⁹ Cheap Energy Club

²⁰ <http://tinyurl.com/mfhygal>

²¹ <http://tinyurl.com/pfp9ofl>

²² <http://tinyurl.com/os2n6b8>

²³ <http://tinyurl.com/nrrhpyg>

multiple sites as part of the process. The findings also indicate that people rely on assumptions about the PCW's pricing details, ranking criteria and benchmarking on which suppliers are selected, rather than accurate information when making purchasing decisions.²⁴

25. Consumers are also unsure about how PCWs operate and how they make a profit. Many scored PCW performance as poor with regard to clarity about whether companies can influence their ranking by paying (54 per cent). The research suggests that most consumers suspect that providers can and do pay these websites in order to influence comparison results. However, half of those who believe this happens say it would not influence their choice of PCW. This finding seems to run contrary to consumer expectation of PCWs to be accurate and reliable, with half of consumers (52 per cent) specifying 'getting accurate and reliable information' as one of the three most important factors when using a PCW. It also implies that consumers have little understanding of how PCWs operate. Hence there is a need to make consumers aware of basic rules when using price comparison tools, and particularly those less savvy consumers who may not be familiar with all the nuts and bolts of the price comparison tool market.²⁵

Arrangements for oversight of these websites, for example through the 'Confidence Code', a Code of Practice that governs independent energy price comparison sites.

26. A voluntary Code of Practice for internet price comparison sites was introduced by Ofgem during the process of energy market deregulation in 2000. It was established to help build consumer confidence as energy switching was, at the time, a new and unfamiliar activity. The internet was relatively new to domestic consumers and poorly understood. The companies offering price comparison services were also new and unheard of. Our predecessor organisation, energywatch, took over responsibility for this area in 2002 and developed the Confidence Code in 2005 to strengthen consumer protection in this area. Responsibility for the Code was passed back to Ofgem in April 2013 due to the impending abolition of the energy consumer body. It remains a voluntary scheme.
27. It is worth noting that suppliers' relationships with PCWs are governed by contractual commercial arrangements and the energy companies are not bound by the Code. When we managed the Code, we received representations from Code members about supplier behaviour. Ofgem will be able to state whether PCWs still believe there are significant problems.
28. We are supportive of Ofgem's recent proposals to strengthen the protections the Confidence Code provides. The Citizens Advice Service also shares the regulator's aim to ensure that the Code reflects recent and potential future market changes so it remains fit for purpose. We would like to see an Ofgem-run accreditation scheme for TPIs accompanied by a new licence requirement

²⁴ Ibid.

²⁵ Ibid.

on suppliers that oblige them to only deal with accredited providers. We believe that this approach will deliver the best outcomes for consumers as it will ensure the largest PCWs are brought within the accreditation scheme.

29. The behaviour and activities of energy price comparison sites are covered by the Consumer Protection from Unfair Trading Regulations (CPUTRs). Ofgem has enforcement powers which enable it to take action against energy price comparison services if it feels it necessary. We are unaware whether Ofgem has written to the unaccredited sites about any concerns.
30. Although we strongly believe that improvements need to be made to the existing Code, it is worth highlighting that the Confidence Code offers by far the strongest protection of price comparison services in any industry. Energy and communications are the only sectors to have a formal accreditation scheme. The other comparable code – Ofcom’s price accreditation scheme for mobile phone, fixed line, broadband and digital television services – does not have such strict requirements. No other comparison service is required to show all products, including those accredited by Ofcom. In the financial services sector, the Financial Conduct Authority has recently expressed its concerns about the performance of PCWs in the general insurance sector.²⁶
31. Despite this, take up of Ofgem’s accreditation scheme is low amongst the so called Big Four PCWs, which have around 85 per cent share of the market. Presently only one of the Big Four – Moneysupermarket – is approved by Ofgem’s accreditation scheme.²⁷ We want to see all energy PCWs brought into the Code to extend its protections to all consumers of this essential service. This could also help improve consumer confidence in switching supplier and improve recognition of the Code and its benefits. We are also pleased that Ofgem is working with other regulators, through the UK Regulations Network (UKRN) to ensure there is a joined approach to the regulation and accreditation of TPIs operating in different sectors.

Consumer awareness of Ofgem’s accreditation scheme

32. Our research suggests that only a minority of customers (16 per cent), who use PCWs, are aware of voluntary accreditation schemes for price comparison websites, such as Ofgem’s Confidence Code and Ofcom’s Price Comparison Accreditation Scheme.²⁸ To the contrary, our research indicates that consumers are likely to be driven to PCWs with big advertising budgets which are not necessarily accredited. We believe there is a need for Ofgem to drive more consumer awareness in its scheme, to encourage consumers to use reliable and trustworthy TPIs, and installing more consumer confidence and trust in the TPIs market.

²⁶ <http://tinyurl.com/lmlj8ml>

²⁷ Gocompare, Confused and Comparethemarket are not members of the Code

²⁸ <http://tinyurl.com/nrrhpyg>

33. We are also pleased that Ofgem is working with other regulators, through the UK Regulations Network (UKRN) to ensure there is a joined approach to the regulation and accreditation of TPIs operating in different sectors. The UKRN could also be a useful starting platform to explore ways of jointly increasing consumer awareness with other regulators operating TPI accreditation in different sectors. This could include the development of a more recognisable 'kitemark' to be used across different sectors to help increase consumer understanding of the benefits of using an accredited PCW.