



EIOPA-IRSG-13-02

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IRSG opinion on Good practices, comparison websites

(Informal consultation of EIOPA-CCPFI-13/018)

The IRSG Consumer Protection Subgroup has provided an opinion to the IRSG about good practices for comparison websites. This opinion has been unanimously agreed by the full IRSG at its April meeting and includes comments from individual members relevant to their respective markets.

The recently published Report on Comparison Tools by the Multi-Stakeholder Dialogue (March 2013) recommended that the European Commission establish guidelines on horizontal principles for transparency, impartiality and reliability of comparison tools. As the Commission may look to EIOPA for advice on developing such guidelines for the insurance sector, there could be a role for EIOPA at some point in the future. However, it is important to bear in mind that discussions are on-going on IMD2, the outcome of which may have a significant bearing on the rules applicable to comparison websites

It is also very important to look at this issue in the wider context of the IMD2 discussions – not just in terms of whether or not comparison websites are brought within its scope, but also the proposals concerning advice and commission. If, for example, consumers have to pay upfront for advice, we may see a further proliferation of comparison websites, as they could be seen by consumers as a cheaper alternative to having to pay upfront for advice. While comparison websites may work well for many consumers and are clearly growing in popularity, EIOPA might also consider potential consumer detriment and heightened risk arising from consumers opting to ‘go it alone’ rather than seeking appropriate advice.

Our initial thoughts are set out as follows:

Introduction

1. Comparison websites have proliferated in recent years as online technologies have developed and consumers have sought fast, easy access to comparative information about financial products. In theory, they represent a cost-effective way for consumers to gain information and to help make them make choices. As a recent Consumer Protection Summit report (*Comparison Tools, report from the Multi-Stakeholder Dialogue, March 2013*) highlighted, they provide consumers with useful shortcuts to price and product information and are a reflection of the digital revolution.

Consumers tend to view such sites positively and their use and popularity have grown.

2. Rapid growth and the proliferation in models and standards have raised important questions around their governance and their ability to deliver consistently good consumer outcomes.
3. Despite their popularity, these sites raise some fundamental questions concerning aspects such as:

- **Transparency of information**

While consumers value access in a quick and easy format to appropriate information, there can be constraints in providing information in this format. The focus on price and the constraints round website presentation may be to the detriment of quality and cover. The information required by consumers to be able to make an informed decision about a policy prior to purchase is often incomplete or misleading. The main rationale for these websites is to provide meaningful comparative information, but often because of the way the information is presented this is not possible. Often, the consumer remains ignorant of the total package, cover, exclusions and other terms and conditions and can, therefore, be left in a vulnerable position, thinking that certain product features and benefits are covered when in fact they are not. It is important that EIOPA investigates/conducts research into the ability (or lack of it) to compare product features in general, not just prices and guarantees. The FCA UK 2013 Conduct Risk Outlook provides some useful insight about comparison website risks and its more general market view that “consumers are prevented from being able to make well-informed financial decisions or compare products because features, costs and incentives are not transparent.”

- **Conflicts of interest**

Consumers tend to think price comparison websites are independent and have consumers’ best interests at heart, because they are focusing on price and ostensibly driving price down – although this can arguably be at the cost of quality and cover. Yet, often these sites are funded or sponsored by providers, other commercial entities or intermediaries, which may raise queries about bias and conflicts. Any conflicts of interests have to be managed so that the consumers’ needs are central. In the UK, the regulator does expect this kind of management and it is likely that IMD2 will extend this obligation to all intermediaries in Europe as well. Effective conflict management is essential.

- **Business Models**

Not all consumers understand that some comparison sites are businesses in their own right, but think they are run by not-for-profits organisations or appropriate regulators. This is a fundamental point – if consumers don't understand that there's a profit being made from the site at all, they certainly won't be looking to see if it is using sponsored links, or has a 'pay per click' model. This might be an appropriate first area for EIOPA to examine.

Comparison websites tend not to carry information on who owns them – often the insurers themselves – and tend not to disclose whether they cover the whole of the market, or only certain segments of it. In addition certain insurers have multiple brands aimed at different segments of the market but this is not always clear to the consumer.

It is important that customers should understand the nature of services provided by such websites and also significant relationships with other entities. This kind of disclosure is not already required under IMD I and this is why it is so important to make sure that comparison websites fall under the scope of IMD 2 and disclosure is, as a result, considerably enhanced.

- **Propensity to shop around**

Because of their focus on price, consumers are encouraged to compare and contrast products and tend to do so more often – certainly when purchasing new cover and also when renewing cover. This can be helpful, but there is a perceived risk when renewing that this focus on price leads to hollowing out of products. Customer loyalty becomes more difficult given the way in which decisions are made, although of course consumers have been encouraged to negotiate on price. This may be helpful, provided a focus on price is not at the expense of quality and appropriate cover.

- **Access**

While many consumers are familiar with online comparison websites, some people in society are excluded, whether through choice, age, disability etc. In terms of consumer protection, access issues need to be taken into account.

- **Complaints handling and redress**

It is essential that sites have and are clear about a complaint and redress process and that this is highlighted to consumers at an appropriate time.

A recent report from the UK's Consumer Focus, entitled *Comparing Comparison Sites* emphasised the need to be clear about the relevant complaint and redress process: the way information is presented (whether by price, popularity, relevance, best deals etc.); and the extent of market cover, frequency of updates and pricing.

Consumers would also benefit from meaningful information about complaints ratios (e.g. the number of complaints to market share, preferably for a particular business line) if available.

- **Website versus advice**

While many consumers use such websites as a substitute for advice, there is a concern that they should not be viewed as a replacement/substitute for proper advice rendered

by an intermediary or insurance expert. Many would argue that such websites should only be viewed as an information tool prior to buying or placing an insurance policy. The fact that quick and easy access via the web is fashionable doesn't automatically add value to an individual's decision making process. For instance, consumers do need expert advice in complex areas like life and annuity products.

4. Before providing feedback to EIOPA on its specific questions and before EIOPA issues best practices guidelines, we would ask EIOPA to consider:
 - **Timing issues.** IMD 2 is still under negotiation: is there an argument that some of the BPD may become redundant or try and pre-empt legislation still to be negotiated. Should EIOPA consider waiting for the conclusion of IMD 2 negotiations?
 - **Consumer research and engagement:** Has EIOPA done enough to engage with consumer groups and the industry to better understand consumer experiences and how such websites operate? Engaging with a wider group of relevant stakeholders might give EIOPA a better understanding and evidence base on which to judge best practices. For instance, should EIOPA work more closely with the Commission on the further analysis being conducted on its Comparison Tools report as part of this preparatory research?

The European Commission with ESAs could run meaningful and robust research on comparison websites within financial services. In addition, the Financial Services User Group and Stakeholder Groups could participate or give helpful input to the study.

In answering the following questions from EIOPA, the various comments of individual members have been recorded.

Questions to the IRSG:

1) Are in your view the above description and categories of comparison websites complete or would you see any further types or other relevant aspects that have not been captured? If so, please provide further details.

We think this is a fairly robust description although we have not been in a position to conduct our own research into the extent and nature of the market.

EIOPA might find it useful to look at the "*White Label Websites*" as explained in the FSA Guidance, October 2011 (page 5).

In some markets (ex: UK), price comparison sites are now the dominant route for personal lines customers purchasing Motor and Home insurance. They are extremely powerful. However, as they are relatively new they have not been the subject of any specific targeted regulation.

Questions to the IRSG:

2) Do you agree that “market coverage” as described above may be a potential issue for consumer protection? Have all relevant aspects been captured? If not, please provide further details as well as evidence if available.

Yes, we agree and welcome the aspects which have been covered. They illustrate how crucial it is to have comparison websites within the scope of the IMD 2 in a clear way (not only in the recital). It is important to have as future proofed and as suitable regulation as possible for the developments within the differing European markets over the coming years.

In Germany, for instance, comparison websites exclude insurance products, where insurance companies are not willing to pay fees to the website owner. It is, therefore, essential that clear warnings are given when the whole market is not covered, and that the extent of the coverage is explained. It should always be clear to the consumer when looking at a comparison website exactly who is behind the website and whether the website is covering the whole market or not, i.e. in terms of which providers and products are covered by the comparison website, so that the consumer can have a good idea of whom he or she is dealing with and the extent of the website’s market coverage.

Various business models exist, as indicated in our introduction, from the regulator-led example to the French experience, where a free for customer model is financed by the selling of the lists of the contacts of potential customers to the companies providing the contents to the website. These contacts are used by those companies for their own account afterwards.

In Denmark, there are also comparison websites that are a result of a direct collaboration between industry and consumers, paid in full by the industry. This is based on standards within specific insurance products agreed between the consumers and industry. This initiative gives full disclosure on terms, prices, fees, claims handling and independent customer satisfaction surveys. It gives information on best terms within the different products and highlights where there is derogation from the agreed standards by way of colours. Insurers are obligated to give the consumers the exact product at roughly the stated price and to regularly update/feed information into the system. The system has improved information to consumers and heightened competition in the market.

There are also websites run by external brokers’ auxiliaries, which is a special mediation figure, that could give advice in the selling of the insurance product, if the mercantile contract provides so, but it is not a mediator itself; some of the comparison websites are run by external auxiliaries in Spain. It is not very likely that at least in Spain industry associations would offer comparison websites on insurance products, due to the competition Law problems that may arise.

Clearly, it is essential that EIOPA assesses the different business models operating in Europe, the incentives and potential bias in their offerings, the extent of coverage, the presentation of the information and format of the website design, and both the advantages and risks to consumers from their operation. It is debatable whether the consumer can make a truly informed decision from the use of websites alone. Arguably, he or she will always decide on a reduced selection of predetermined criteria/parameters which cannot cover all queries or the individual nature of demand.

Questions to the IRSG:

3) Do you agree that “presentation of information” as described above may be a potential issue for consumer protection? Have all relevant aspects been captured? If not, please provide further details as well as evidence if available.

Yes, we agree. The way the information is presented has a profound impact on the way consumers are able to compare and contrast information and come to a decision. Many sites provide only headline information and the consumer is left somewhat in the dark as to cover, terms, redress, complaints processes. EIOPA should also consider behavioural economics and how consumers engage with such sites, given that consumers are not always rational and behavioural economics can play a key part, both in how the information is presented by the websites and also how it is received by consumers.

Prices are clearly an important determining factor for consumers but the focus of comparison websites should not be solely on the price, as other factors such as the level of coverage and the guarantees provided are also important for the consumer to consider in choosing the right product.

In many cases the sites are unclear and do not display significant exclusions such as the excess, but instead say “check with Insurer”: some sites also return an excess much higher than that requested by the customer. This can cause consumer detriment: they do not all guarantee their premiums and/or they pre-populate boxes on the website – e.g. a £500 voluntary excess and some use a system of “assumptions” to short cut asking important questions about areas like “who is the main user of the car?”

Too much focus on price is dangerous. In order to have “better” prices, insurers are changing their cover, allegedly producing “poorer” products with less cover. Indeed, many traditional insurers are introducing new “value” brands on these sites, sometimes under different names, so the consumer is not always aware of the provider behind the brand.

As well as the product pricing, EIOPA should also assess the money earned by the website owner from insurance companies and/ or intermediaries. This is important information and has to be given not in the moment of concluding the contract, but at the time when a client is shown the quotes/rankings; e.g. with a “pop up window”.

Problems also arise when there are differences in definitions. It is really important that products compared are very similar when it comes to scope of the coverage. Website providers should ensure sufficient similarity of products so that consumers can readily compare products in a fair and transparent way.

Another potential issue concerns the lack of comparability of products due to differences in definitions and other conditions of the contract. Another issue could be the number and results of complaint processes within internal procedures and within ADR schemes.

Questions to the IRSG:

4) Do you agree that “criteria used to make the ranking” as described above may be a potential issue for consumer protection? Have all relevant aspects been captured? If not, please provide further details as well as evidence if available.

More attention should be paid to the suitability of the compared products and the satisfaction with and quality of the loss adjustment process.

One can only really compare on price when offers or products are the same. Otherwise further details are essential, including the terms and conditions of the product.

Price ratings are also not always simplistic: for instance variations can depend on small but important differences in contract wording or the claims handling attitudes of insurers.

EIOPA would be advised to undertake further research into the rankings used by various sites, their rationale, appropriateness and whether they genuinely aid consumer choice and comparisons or are skewed inappropriately by unseen bias or incentives.

Questions to the IRSG:

5) Do you agree that the “frequency of updating information” as described above may be a potential issue for consumer protection? Have all relevant aspects been captured? If not, please provide further details as well as evidence if available.

It is critical that the information which is provided on comparison websites should be up-to-date (and updated at regular intervals and on the same basis) in order for the consumer to be able to make an informed decision. Frequency of updating will vary according to the product but should always be appropriate to consumer needs and aid relevant comparisons.

There are more claims introduced regarding products distributed by comparison websites than by other distribution channels. (UK)

Questions to the IRSG:

6) Do you agree that “dealing with potential conflicts of interest” as described above may be a potential issue for consumer protection? Have all relevant aspects been captured? If not, please provide further details as well as evidence if available.

7) In your view, is the above list of consumer protection-related issues complete? Would you see any other areas to be addressed? If so, please provide further details.

8) Do you think the order in which the consumer protection related issues are listed is relevant? If so, what order would you recommend?

9) Please specify any other comments and/or suggestions you may have.

Conflicts of interest and bias need to be addressed. These are frequently not obvious but can have a significant impact on the products consumers compare and buy. We think EIOPA should assess all the main topics we have highlighted in our introduction and should also look at the influence of behavioural economics in terms of product selection.

In Germany there is a proliferation of prizes and awards which might imply some kind of consumer benefit. Yet, for consumers it is not possible to verify the result, the process or the expertise of that rating. It is only misleading “non information”!

Consumers may be unable to claim benefits against a policy due to a lack of opportunity to disclose material facts and the sites should take more responsibility for checking the eligibility and that the material risk data collected maps accurately to the policy sold.

Comparison sites should create disclosure documents, sales procedures and terms and conditions, this includes customer eligibility, status disclosure, advice suitability and providing a proper statement of demands and needs.

Excessive information on websites may also mislead the consumer.

It is important that comparison websites can be included within the IMD 2 scope in order to achieve suitable and appropriate levels of consumer protection. While consumers generally applaud the development and use of comparison websites, it is important that they are effectively supervised and that the risks they pose are recognised and mitigated in order to deliver consistently good consumer outcomes. In particular, issues such as transparency, coverage, redress and conflicts of interest/incentives need to be addressed and that the principles of simplicity, transparency and fairness as articulated in Article 9 of EIOPA's remit are taken into account in terms of consumer protection.

In addition, specific points are:

- Sponsored products should be differentiated from the main content of the website.
- It would be beneficial to carry out some research into consumers' usage and experience of comparison websites, and how this can influence consumers' decision-making. This may prove beneficial when it comes to assessing good practices in this area and would give EIOPA a more solid evidence base.
- We suggest that EIOPA also refers to IRSG's feedback on consumer trends as this also gives further detailed information on the opportunities, risks and challenges in Europe relating to comparison websites.