

MS14/6.2: Annex 7

Market Study

Credit Card Market Study

Interim Report: Annex 7 – A Review of Price
Comparison Websites (PCWs)

November 2015

Executive summary

- 1.1 PCWs play an important role in the credit card market. For consumers they can help navigate complex products and reduce search costs by comparing products in one place and for firms they can help attract customers with good credit ratings in high volumes.
- 1.2 Our survey found that PCWs are used by a significant number of credit card customers (62% of those who shopped around for credit cards). Of those that took out a credit card in the last 12 months after shopping around, 39% said they used one PCW and 27% said they had used two or more, indicating that consumers not only use PCWs to search for suitable credit cards, but that some are also comparing between PCWs. Of respondents that used PCWs, 90% reported that they found them to be either useful or very useful, indicating that consumers value the services.
- 1.3 From the perspective of credit card providers or lenders, we understand that firms want to be in the “top two” on PCW rankings to attract consumer attention and acquire customers.
- 1.4 Our review has, however, highlighted a number of issues that may limit the effectiveness of PCWs in helping consumers navigate product complexity, such as:
 - The presentation of headline rate offers or general prices, such as APR, may not aid the comparison process because it does not account for the fact that a consumer may not be eligible for that rate/offer;
 - Ranking criteria may not be sufficiently personalised to allow consumers to find products that best suit their needs or may be based on assumptions that do not reflect their credit card usage behaviour;
 - Sometimes cards from providers with whom the PCW does not have a direct relationship are ‘hidden’ or difficult to find in search results;
 - Some savings claims are unclear or inaccurate;
 - Several firms offer exclusive deals to PCWs so consumers need to “multi-home” (i.e. look at more than one PCW) to ensure they receive the best deals;
 - Meaningful comparisons are more difficult for some types of credit cards, such as in subprime and rewards segment.

Introduction

- 1.5 A price comparison website (PCW) is a service that brings together firms seeking to attract new customers for their products/services with consumers searching for those products/services. In the credit card market, PCWs typically earn a commission on credit cards that are applied for or opened as a result of a consumer visiting their website.
- 1.6 Our terms of reference stated that PCWs can:
- 1.7 “[...] help consumers assess and compare specific credit card features and are a significant characteristic of this market. However, they may not fully address the problem of product complexity. Because an individual’s interest rate may differ

depending on individual credit scores and personal circumstances, PCWs do not allow consumers to make comparisons based on the actual terms and conditions they will be offered. They also cannot allow for comparisons to be made on the full costs and benefits associated with individual cards, taking into account the full suite of credit card features and the consumer's (past or predicted) credit card usage.

We have investigated the extent to which product complexity, including complex fees and charges, remain a feature of this market and **the role of PCWs in helping consumers cut through such complexity."**

- 1.8 We therefore conducted a review of PCWs that allow consumers to compare credit cards in order to understand the role PCWs may play in consumer shopping around and switching.

Our approach

- 1.9 Our analysis included:
- Desk-based research on 14 PCWs,
 - Testing the search outcomes in fixed scenarios that broadly represented the most common types of credit cards,
 - Analysing firm responses to our strategy questionnaire and the contracts between PCWs and firms that were submitted.

Consumer views of PCWs

Consumer perception of PCWs in general

- 1.10 There have been a number of consumer surveys that have identified what consumers think about PCWs more generally. Although not specific to credit cards, these findings provide a useful insight into the expectations of consumers when they visit PCWs and their attitudes.
- 1.11 According to the Citizens Advice Bureau "PCWs are seen to be offering a highly valuable service to users. They help to streamline a process that might otherwise take considerably longer, while offering the potential to shop around widely for the best offers [...] The benefits are achieved through widening access to a broader range of products than would otherwise have been possible without a substantial amount of searching¹".
- 1.12 Research from Consumer Futures asked consumers why they might want to use a PCW:
- 85% said it was to "help me to find the best deal"
 - 83% to "compare prices for specific service/product"
 - 79% to "save money or reduce costs or outgoings"
 - 69% to "view which companies offer products/services I need".²
- 1.13 The research also indicates that consumers value particular characteristics of PCWs in general. For example the following proportion of consumers reported that these were the most important features when using a PCW:

¹ Citizens Advice Bureau 'Price comparison website accreditation: Research report' (2013)

² Consumer Futures 'Price comparison websites: consumer perception and experiences' (2013)

- Accuracy and reliability of info/deals available from suppliers (52%)
- Ease of use (45%)
- Wide range of deals across the market (31%)
- Impartial results/No paid for influence on results (31%).³

1.14 PCWs are therefore generally perceived by consumers to be a valuable tool that can help them shop around and switch but their expectation is that PCWs will be accurate, reliable and easy to use in order to allow them to use the sites effectively.

How consumers use PCWs

1.15 Given that PCWs have different relationships with credit card firms, including offering exclusive deals and payment per conversion, in order to get “the best deal” consumer may need to shop around amongst PCWs and credit card providers’ websites in order to get the best deal (“multi-homing”). This may have an impact on search costs if consumers are required to visit several websites to ensure they get the best deal.

1.16 Consumer Futures notes that 83% of consumers use multiple PCWs and feel the need to actively cross-check their findings in searches to ensure they get the best deal⁴. Consumers also reported that they often go one step further and seek out the provider directly either by the telephone or on their website to ensure the terms of the offer are accurate and see if they can get a better deal directly. This may explain the prevalence of agreements where PCWs and firms will track consumers that use their websites to ensure PCWs are correctly remunerated for their service in bringing that provider to the consumer’s attention.

Findings from our consumer survey

1.17 Our consumer survey found that of those that took out a credit card in the last 12 months, after shopping around, 39% had used one PCW and 27% used two or more PCWs, indicating that PCWs are used by a significant proportion of consumers that shop around. Furthermore, the results indicate that some consumers also multi-home (i.e. use more than one PCW).

1.18 Of those consumers that used PCWs, 43% found them very useful and 47% found them quite useful, demonstrating that users of PCWs consider them to be a valuable comparison tool.

1.19 Balance transfer customers were slightly more likely to think PCWs were very useful than respondents as a whole (48% compared to 43% overall), whereas low and grow customers were slightly less likely to consider PCWs to be very useful (39% compared to 43% overall).

Views of credit card providers

Key responses to the strategy questionnaire

1.20 As part of the market study we issued a questionnaire to credit card providers which included questions that sought to understand how they use PCWs. We identified that:

³ Consumer Futures ‘Price comparison websites: consumer perception and experiences’ (2013)

⁴ Ibid.

- Lenders are responsible for providing details on products and for notifying the PCW of any changes so the lenders retain editorial control over the detail of the presentation of products on the PCW, such as the APR or 0% balance transfer period. They typically allow for a 2-3 day turnaround to make changes as requested by the firm;
- PCWs have their own ranking system, which varies by PCW. Some offer additional information to consumers, such as the top three pros and cons of a product, whereas others provide more editorial content. We understand that lenders have no involvement in this;
- PCWs may also promote specific credit card providers or their products in paid-for search and banner advertising and can be included in direct marketing by the PCW. All references to the lender are typically required to be authorised by the lender first;
- Arrangements are in place to ensure that PCWs receive commission for their services even if a consumer does not click through the link they provide (by the use of tracking cookies). There is usually a monthly reconciliation process between the PCW and the lender to ensure commission is correctly allocated;
- There is a range of commission relationships, including payment on the number of click-throughs, a payment per application and payment per acquisition;
- In recent years, PCWs have increased the number of ways a consumer can rank products, such as tables that combine variables like balance transfer length and balance transfer fee.
- Few lenders directly manage the relationship with a PCW, preferring this to be handled by a media agency, often under a broader marketing contract;
- PCW tables are structured to respond to consumer needs/demand;
- Some firms stated they rarely re-adjusted prices in response to changes in a competitor's product, whilst others stated they did alter prices and product features regularly to maintain prominence in the PCW tables;
- Some firms offered products to PCWs on an exclusive basis, but predominantly firms sought to offer products on all acquiring channels; and
- One firm stated they adjusted their score card so it was more suitable for quotation searches on PCWs.

1.21 It is difficult to prove a causal relationship between PCW ranking tables and credit card firm product prices and features given the range of credit card firm business models and differentiation in the way PCWs rank products. However, responses from firms indicated that PCWs played an important role in the way they designed credit card products and acquired customers.

Price relationship agreements

1.22 As part of our review we considered the contractual agreements between credit card providers and PCWs. We examined a sample of contracts which was not necessarily reflective of the wide range of contracts that may be in place. We identified several narrow most favoured nation clauses ("Narrow MFNs⁵") whereby a credit card provider must not offer the product on its own website on more favourable terms than those available via the PCW.

⁵ CMA, *Private motor insurance market investigation, Final report* (2014): https://assets.digital.cabinet-office.gov.uk/media/5421c2ade5274a1314000001/Final_report.pdf

- 1.23 We note that MFNs have been recently examined by the Competition and Markets Authority (CMA) in their study of Private Motor Insurance. The CMA identified a distinction between “Narrow MFNs” (defined above) and “Wide MFNs”, the latter requiring that a provider would not offer their products on more favourable terms on any other sales channel.
- 1.24 The CMA noted that if there were any anticompetitive effects arising from Narrow MFNs in the private motor insurance market they were unlikely to be significant and took no further action. However, the CMA did consider that in the private motor insurance market Wide MFNs “harmed competition between PCWs by preventing price competition, leading to higher commission fees and PMI premiums [...] reduced entry, innovation and competition between PCWs.”⁶
- 1.25 Given that we found overall that the credit card market is working well for most consumers and we found no indication price competition was limited as a result of PCWs, we decided not to conduct a fuller analysis of these contract terms at this time. However, if evidence is brought to our attention that these, or similar, contract terms are having an adverse effect on competition we will revisit this decision.

Issues raised by credit card providers

- 1.26 A number of lenders highlighted the benefits PCWs offered and the positive impact they had had on the credit card market. For example, they allow consumers to compare multiple products easily and quickly; PCWs have responded to consumer demand and ensured competition has focussed on features consumers value, such as 0% balance transfer length and they have subjected providers to more competitive pressure (at least in relation to those aspects of credit cards on which consumers appear to focus).
- 1.27 However, several lenders noted concerns they had with the way PCWs operated and their impact on competition in the credit card market.
- 1.28 Some noted that PCWs only reflect the headline rate offer which does not factor in the fact that they may not be eligible for that rate and may be reduced or altered on application (i.e. an increase in interest rate or reduction in length of the balance transfer offer). One lender suggested this caused concern about transparency and could lead to consumers feeling misled.
- 1.29 One lender noted that PCW tools are designed to assess a consumer’s likelihood of being approved for a credit card rather than offering a price quotation. If risk-based pricing were used the consumer would be unlikely to receive the advertised rate. Furthermore, the lender argued that because PCWs sometimes rank by the likelihood of acceptance, rather than the product features, consumers may apply for products with higher prices or less favourable rewards when they may have been approved for a cheaper and potentially more suitable product.
- 1.30 In relation to the way in which consumers search for products on PCWs, it was noted that default settings in PCW calculators may not be clear to consumers or set at an inappropriate level, such as an assumption of a higher repayment that may lead them to select a card that is not suitable for their needs.
- 1.31 Whilst some lenders noted that PCWs can play a significant role in directing customers with a good credit history to appropriate products, it was also commented

⁶ CMA, *Private motor insurance market investigation, Final report* (2014): https://assets.digital.cabinet-office.gov.uk/media/5421c2ade5274a1314000001/Final_report.pdf

that this may not be the case with non-prime customers because a direct comparison of cards in this segment, including product eligibility, is more complex.

- 1.32 One lender noted that credit card providers may over-rely on PCWs as an acquisition channel, thus affecting the bargaining power in favour of PCWs in contract negotiations.
- 1.33 One lender considered it was “wrong” that some providers offered exclusive deals on PCWs because it meant that customers applying through different channels did not receive the same offer, meaning they were inadvertently paying more than those that used PCWs.

Findings from our desk-based research

- 1.34 We reviewed 14 PCWs to understand the consumer experience when using PCWs. We made the following observations:
- Most PCWS did not make it clear to consumers that they do not cover whole of market;
 - On some PCWs, cards for which the PCW did not have a click-through link were sometimes ‘hidden’ in the default listings (i.e. unless the user clicks through to an extended list);
 - Annual fees were often not taken into account when ranking deals or making savings calculations;
 - Savings calculations were not always correct or assumptions were made that ignored how the cards operated in practice;
 - Ranking order did not always appear to be appropriate given the category concerned. For example, ranking deals by ‘popularity’ rather than suitability;
 - There was limited ranking available for rewards cards with a number of providers reverting to ranking by A-Z, thus not helping the consumer navigate the complexity of these products; and
 - For 0% balance transfers in particular, rankings often resulted in consumers having to select either a long 0% period or a low balance transfer fee. Such calculations may depend on consumers having the mathematical skills to complete them, as well as an understanding of the different options and a reasonable prediction of their own future repayment and switching behaviours.

Market coverage

- 1.35 Some PCWs implied that they were comprehensive (for example, “we compare the market”, “we compare hundreds of cards”, but they:
- Did not feature cards from the whole market.
 - Presented their results in a way that relegates or downplays cards from providers with whom they have no click-through agreement. This includes: not providing a link to some providers, missing cards out of the ‘default’ listing, ‘greying out’ certain links, or bringing up a pop-up box asking if you’ve chosen the right card.
- 1.36 We noted that across all PCWs considered it was generally difficult to ascertain how many cards are featured on each website as many websites give no details of market coverage and no list of ‘all cards’.

Commission

- 1.37 Of the 14 PCWs we reviewed, 13 stated that they receive commission from lenders. However, in several cases this information is hard to find, for example it is only found in 'terms of use' or on an 'investor relations' page.
- 1.38 The types of commission structures varied between PCWs and, sometimes, differed for each credit card provider. However, on the whole commission operated on a (1) pay per click basis (i.e. how many times a consumer clicked through to information about a specific credit card provider, (2) pay per application (i.e. how many customers applied for a credit card as a result of clicking from the PCW) and (3) pay per successful acquisition (i.e. payment once a consumer had been successfully approved for a credit card).
- 1.39 We noted that the type of commission structure operated could influence the incentives of PCWs. For example, a PCW that receives commission on a pay per click basis may seek to make offers more attractive or focus on having the broadest range of credit card providers on their site to generate traffic, whereas a PCW remunerated on a pay per acquisition basis may have more incentives to tailor the way they present rankings in order to ensure the consumer applies for a product they are likely to be successful for.

Ranking of results

- 1.40 When considering how PCWs ranked their results we found that the structure of most PCWs' layout assumes that consumers already know what sort of deal they are looking for before they arrive at the site. Separate sections or pages for 0% balance transfers, 0% purchases, cashback, rewards, low APR, overseas usage, credit-building, bad credit and money transfers are common.
- 1.41 We considered that ranking of credit cards and their offers might not always be helpful for consumers. For example:
- One PCW's tables were ranked in a formula that combines Likelihood of acceptance (Highest first), Balance Transfer Period (Longest Period first), Balance Transfer Fee (Lowest Fee first) and Representative APR (Lowest APR first);
 - One PCWs' default listing showed 'Most popular cards', which is a mixture of different card types, ordered by 'Popularity'. We noted that this could lead to poor outcomes if previous users had made poor choices and meant that consumers were encouraged to choose products based on their popularity rather than their suitability;

Promoted deals

- 1.42 A number of PCWs that we reviewed promoted deals at the top of result pages, even where these are not appropriate to the category shown. For example, some PCWs featured a selected credit card at the top of their results page that was branded as their "expert choice" or "best deal" but did not state whether it would be a suitable card for the consumer.

Savings claims

- 1.43 A number of PCWs provided details of the savings consumers could make by switching providers. However, in some cases the savings figures were inaccurate.

- CompareTheMarket, for example, ranks 0% balance transfer deals by the savings you could make over the 0% offer period of each card compared with a balance of £2,000 on an existing card at 17.9%. However, the savings figure assumes no repayments at all on your old and new cards throughout the 0% period. It also takes no account of annual fees and calculates the interest charge using a direct multiple of the advertised APR, rather than compounding the interest correctly.
- By contrast, for balance transfers Moneysupermarket offers a slider-based tool that allows you to set the balance you want to transfer and how much you can afford to repay each month. It then sorts the cards by the lowest cost, including balance transfer fees and any post-deal interest, as well as showing how long it will take you to repay the debt. This tool includes the cards that are not available through Moneysupermarket (such as the 36-month 0% deal from Barclaycard).

Tools to help consumers shop around

Tools to assess likelihood of acceptance

- 1.44 We did not find any PCWs in our review offering tools that would provide consumers with price quotations (i.e. the precise terms of the product that they would be offered such as rate of APR or length of balance transfer).
- 1.45 Three of the 14 PCWs offer a pre-application tool that is designed to assess your likelihood of being accepted for a particular card. Other PCWs pose the question of whether you'll get the card if you apply, but do not provide adequate tools to assess this, instead providing the basic eligibility criteria for the card or a text-based explanation of the target market.

Future developments

- 1.46 The Government and the BBA has recently launched its Midata initiative⁷ that allows people to compare different bank accounts bases on their actual account behaviour, such as charges, rewards and interest, which will allow them to select suitable products. The service would allow people to download 12 months' worth of transaction history from their bank and upload it to a PCW to look at all products on the market and see personalised results indicating what product(s) might be most suitable. The first PCW to trial this will be GoCompare.⁸
- 1.47 Although the service is initially aimed at the personal current account market, GoCompare has stated that the "provision of more easily accessible data on past spending habits under Midata should help consumers make better choices about their next card."⁹ Midata currently operates on a voluntary basis and not all banks are currently participating. It is not clear whether credit card providers that do not offer current accounts could sign up to the scheme in future.
- 1.48 In light of the above, we can expect continued development in tools to aid consumers' selection of credit card providers that is more reflective of their actual behaviour.

⁷HMT and Andrew Leadsom MP, *Is your bank giving you the best deal? Find out using new online comparison tool* (2015): <https://www.gov.uk/government/news/is-your-bank-giving-you-the-best-deal-find-out-using-new-online-comparison-tool>

⁸GoCompare, *Midata – making comparison better*: <http://www.gocompare.com/money/midata/>

⁹GoCompare, *Midata – making comparison better*: <http://www.gocompare.com/money/midata/#credit-cards>

