



8 September 2014

Mr. David Murray AO
Chair
Financial System Inquiry
GPO Box 89
Sydney NSW 2001

Dear Mr. Murray

Supplementary submission: Comparison sites

At our recent meeting at ASIC, we only had a brief opportunity to respond to your questions about the role of comparison sites in promoting retail banking and insurance competition and facilitating better product disclosure. Thank you for accepting this supplementary submission on the issue.

Comparison sites are firmly part of the retail financial market. In the health insurance market, for example, comparison sites generate more than 20% of sales.¹ A variety of different comparison sites operate across the full suite of banking and insurance products.

CHOICE currently hosts [Compare, Ditch and Switch](#) as part of its Better Banking campaign. The service, powered by [Mozo.com.au](#), enables consumers to objectively compare credit cards, home loans, savings products and transaction accounts. CHOICE does not receive any payments as part of this service. It is designed to provide results that are as close to comprehensive as possible, and results are ranked in a transparent manner, according to relevant product features. We also regularly assess and compare a range of insurance products in reviews available to subscribers of *CHOICE Online* and *CHOICE Magazine*.

Governments and regulatory agencies are also providers of comparison sites through sites such as www.privatehealth.gov.au and www.energymadeeasy.gov.au. These comparison sites operate alongside a range of commercial comparison websites.

¹ Heffernan, Madeleine (15 April 2013) "Brokers 'driving up costs'", *The Age*
<http://www.theage.com.au/business/brokers-driving-up-costs-20130414-2htqd.html#ixzz2QUviJjL>

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Role of comparison sites

Comparison sites have an important role to play to help consumers activate competition and make good personal decisions. This is especially the case as financial products become more and more complex.

A good comparison site will guide a consumer through the product comparison process, highlight key product features (and pitfalls) and explain the range of options available on the market, ideally framed within a customer's specific needs.

Unwarranted claims about comparison sites

We are troubled by APRA's suggestion in its second submission that comparison sites lead to increases in insurance premiums. Customer acquisition costs are a standard part of business in a competitive market. We would expect that those businesses who elect to pay commissions or other referral fees are fully capable of calculating the business case of acquiring new customers through commercial comparison sites as opposed to other acquisition channels. This line of argument is typically heard from vested interests that would prefer not to support commercial switching sites.

Similarly we reject APRA's claim that the competitive pressures that comparison sites bring to the market are not in the interests of consumers. It is equally perplexing that APRA argues against customer switching because of adverse impacts on profit margins.

As long as governments wish to support a competitive market for banking and insurance products they should support the role of high-quality comparison sites and recognise comparison services as an effective market-driven solution to address the pitfalls of overly complex financial markets.

Principles for good comparison sites

There is evidence from the United Kingdom's Financial Conduct Authority that switching sites are not doing as good a job as they could to assist customers to navigate complex financial products.

CHOICE is concerned about the quality of many comparison sites currently in operation in Australia. It is concerning that the Federal Government's

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moneysmart.gov.au needs to issue these strong warnings to consumer using comparison sites:

- Comparison websites are businesses that make money in various ways, sometimes through sponsored or promoted links and commissions.
- Most comparison sites only cover a portion of the market, not the whole market.
- The search results may show sponsored links ahead of non-sponsored results that may offer a better deal.
- Ratings and rankings on comparison sites are sometimes given without a clear explanation, so it's important to find out how the ratings work and compare with other sites.
- When using insurance comparison websites be aware that:
 - Some comparison websites have a relationship to the issuer/provider being compared, and this may not be clearly explained.
 - Price is NOT the be-all and end-all. Price is only one feature. The most important thing is that you have the right type and level of cover.

<https://www.moneysmart.gov.au/borrowing-and-credit/borrowing-basics/using-comparison-websites> accessed 3 September 2014

ASIC's submission outlines current European thinking on best practice in comparison sites. This body of work suggests best practice involves disclosing the basis of recommendations, enabling a balanced listing of product features beyond price and relevant company information.

CHOICE would support regulatory efforts to improve the standard of comparison sites to reflect best practice. We support ASIC's view that at a minimum any such regulation could address the quality of comparison information and the management of conflicts of interests. Ideally, comparison sites would not need to come with the warnings such as those listed above.

Facilitating access to data

ASIC has noted in its submission that specific regulation may be needed to ensure that comparison sites are meaningful and useful. It goes on to note that internationally there is a trend to make machine readable data available to third parties for the express purpose of aggregation into comparison services.

CHOICE agrees that there is a need to make data more readily available.

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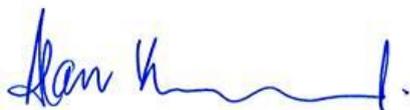
The costs involved in researching and compiling product information act as a barrier to entry. These costs can be relatively low for a comparison site that only includes information on products from providers that are willing to pay to be listed. These costs are, however, significantly higher for a comparison site that seeks to be comprehensive and in doing so comply with best practice standards.

This situation perpetuates the current business model of comparison sites, which in general terms involves only listing products of providers who are willing to pay to be listed and, in some cases, ranking results based on the amounts providers are willing to pay.

In order to overcome these problems and better realise the potential competitive benefits of comparison sites, the FSI needs to address the way in which information on products is made available, so that it is readily adaptable to use in a comparison site.

CHOICE is supportive of the ideas put forward in the *Interim Paper* to facilitate access to insurance data.

Yours sincerely,



Alan Kirkland
Chief Executive

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