Darren Jones MP
Chair
Business Energy and Industrial Strategy Committee
House of Commons
London
SW1A 0AA

29th June 2022

The role of third-party intermediaries in the energy retail market

Dear Darren,

Thank you very much for your letter inviting Future plc to respond on the role of third-party intermediaries (TPIs), as part of your Select Committee's investigation into Energy pricing and the future of the retail market. Through GoCompare, Future plc has been helping people save money on a range of services since 2006 via both price comparison and auto-switching.

We were the first comparison site to focus on product features rather than just listing the prices.[1] Further, we believe this approach – putting the consumer first – is what has allowed us to achieve the growth we have: As people who use our services trust us to give them honest advice.

We brought the lessons we have learned in areas like insurance, such as relying on organisations that we felt we could trust, to ensure our energy customers could get good service as well as good deals. That was successful while there were options on the market. As your letter highlights, services like ours were able to drive competition through switching. Which in many cases led to people, particularly disengaged consumers who were most likely to be on poor value standard variable tariffs, being able to make significant savings.

As you also state in your letter, regulation of TPIs in the energy market remains a subject that is of great importance to the energy market. Coming from a Financial Conduct Authority (FCA) regulated background, GoCompare has long noticed the lack of uniformity in regulation of TPIs (and other market participants) across the domestic energy sector. Our view is that there should be a consistent approach to the regulation of TPIs (and other market participants), regardless of the role of the organisation in the switching process and the type of intermediary service offered, in order to avoid confusion for the customer.

We believe the FCA's approach to prudential and conduct regulation to achieve fair customer outcomes should be examined for use in the domestic energy market. Further, we discussed our views with BEIS as far back as 2018 and we reiterated this to BEIS in response to its call for evidence on the future of the energy retail market earlier this year.

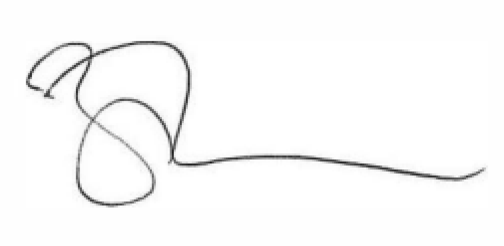
[1] *GoCompare*, About us, link

Future plc is therefore grateful for the opportunity to renew this call to the BEIS Select Committee. So that when conditions in the energy market allow for switching to take place again, consumers receive the right level of protection. That way they can have the confidence that a better deal today will not lead to problems tomorrow.

Our response to your questions can be found in the annexe on the following pages. We have included some commercially sensitive information, in order to provide as full a response as possible to your questions. Your letter mentioned that there is a possibility our response could be published. We would prefer not to have our commercially sensitive information in the public domain. Should you wish to publish our response I would appreciate a conversation with the committee clerks about making suitable redactions.

Once again, thank you for the invitation to respond to your inquiry.

Kind regards,



Zillah Byng-Thorne

Chief Executive Officer

ANNEXE

1. **How many customers have used your services in the past five years and what has been your analysis of how your services are used?**

   GoCo Group acquired EnergyLinx in July 2018 and Look After My Bills (LAMB) in July 2019. The data shown in the table below shows the first month for which we have readily available figures, which is July 2019 to the current date.

   The LAMB service was such that a customer was only switched to a new tariff where they could save an amount greater than £50 as compared to them remaining with their existing supplier. This placed savings for consumers at the heart of the model.

Switches Submitted to ELX (Less Cancellation Rate - applied at an average figure of 25%)				
	2019 (post acq)	**2020**	**2021**	**2022**
LAMB (auto-switch)				
GoCompare (Price Comparison)				
weflip (auto-switch)				
Other ELX (mixed auto-switch and Price Comparison)				
Total				

2. **How much revenue did your organisation make from auto-switching for each of the last five financial years? Please itemise this against each supplier that used your service.**

   The table below shows switch revenue split by supplier from the period since LAMB was acquired by GoCo Group to current date.

		Revenue		
Supplier Name	**Total Revenue**	**2019**	**2020**	**2021**
The People's Energy Company				
Utility Point				
Green				
Avro Energy				
Bulb				
Simplicity Energy				
Together Energy				

TOTO Energy				
iSupplyEnergy				
Nabuh Energy				
Utilita				
Outfox the Market				
GOTO Energy				
MoneyPlus Energy				
Symbio Energy				
npower				
Omni Energy				
Green Star Energy				
Spark Energy				
Neon Reef				
British Gas				
Zebra Power				
Boost				
Total				

The table above shows revenues collected in relation to Auto switching activity and should not be confused with profitability. They are gross figures and exclude all marketing costs, operational costs, customer service and overhead associated with performing this service for those customers that used our site, inclusion of costs would demonstrate that there was heavy re-investment in growth which resulted in negligible contribution to profit.

3. **In your view, what role did third-party intermediaries, particularly auto-switchers, play in fuelling a race to the bottom?**

Future plc can say with confidence that our businesses always prioritise customer benefit. However, we are not in a position to comment on the practices of other businesses.

As stated above, we do not believe we would have been able to grow as we have without putting our customers first. A person having a bad experience of a switch you provide them with is unlikely to use your services again. That is why, at Future plc, we believe it makes sense to take extra care to ensure that consumers get more than just cheap prices. If cheap prices come with terrible service it reduces the likelihood of us being able to retain the trust of our users.

As referenced above, across the TPIs owned by Future plc, we operate robust transparency practices. We have sought to bring to the energy market the same standards that exist in our FCA regulated business: Providing customers with the information on market coverage and commercial arrangements that they need to secure the best value tariff for them.

Within Look After My Bills, we offered a panel of energy suppliers that went through a strict and regular process for assessing their suitability to remain on panel and take customer switches. This included looking at a supplier's

Trustpilot score, the financial robustness of the supplier, the supplier's size, & its ability to onboard customers.

To initiate a switch, savings needed to exceed £50 (£15 for prepayment customers) and our customers were given the opportunity to cancel the switch within a 14-day cooling off period. Customers were moved to the supplier that yielded the largest saving for them. Where savings could not be achieved, the LAMB service repeatedly looked to check the market until such time as a saving could be made before a switch was initiated.

Future plc is not in a position to say whether our practices were or are replicated by other market participants. However, we believe that were they to be, they would drive up standards in the retail energy market rather than the contrary.

Additionally, consumers have not benefited historically from a lack of choice in the energy market. In the last State of the Market Report completed before the COVID19 pandemic, Ofgem found 53 per cent of electricity and 51 per cent of gas accounts were still on default tariffs. Further, around half of these had been on default tariffs for over three years.[2] Following the issues in the wholesale market recently, which have normalised not switching, it is easy to forget this meant many people – usually the least engaged with the market and therefore most likely to be vulnerable – were paying much more for their energy than they needed to.

At Future plc, across all the sectors we operate in, we take great pride in helping people save money. We were particularly pleased that the bulk of our auto-switching growth came from people previously on a standard variable tariff and that at one point, 66 per cent of new customers were previously with the Big Six (which is indicative of customers who were less engaged with the switching market via traditional price comparison)[3].

We would encourage the BEIS Select Committee to remember the important work TPIs, including auto-switchers, did in helping many previously disengaged customers save money on their bills. Future plc does not disagree more could be done to protect consumers, as our call for regulation based on FCA standards shows. However, we do not believe that TPIs contribute to declining consumer standards.

Research carried out by Ofgem and Citizens Advice in May 2021, before the crisis in the wholesale market took hold, appears to indicate consumers thought TPIs were having a positive impact. According to this research, at the time it was done, 85 per cent of people switching were satisfied with the process, 64 per cent of people used price comparison services to switch and the research highlighted that: 'The use of PCWs appears to improve the switching experience. Significantly more consumers who used a PCW are satisfied with the ease of comparing and the process overall compared to those who did not.'[4]

4. **Can you explain whether your business model is focused on chasing commission from suppliers or on consumers' needs and finding the best outcomes for the customers using your services? Should the commission that third-party intermediaries charge suppliers be regulated, and if so, how?**

For reasons touched upon above, Future plc prioritises the best outcome for our customers over all else.

It cannot be reiterated too many times that trust is essential in the relationships we develop with our customers. Particularly in energy, we have found customers who have been previously disengaged from the market. In part, because their trust in it has broken down. They do not believe that, whatever they do, they will get a better deal. They worry that, for example, if/when they switch something will go wrong. It would be extremely counterproductive for us to switch people, only for all of their worst fears to be realised. Having overcome their initial scepticism, if we matched them with a supplier who provided them with terrible service for the sake of commission, it would be highly unlikely for them to trust us with their business again. Hence, why that is not our way of doing things.

[2] Ofgem, *State of the energy market 2019*, 3 October 2019, p.38, link

[3] GoCo Group, *Flexible and responsive energy retail markets consultation response*, 16 September 2019, pp 1-2

[4] Ofgem/Citizens Advice, *Consumer Perceptions of the Energy Market Q2 2021*, 9 September 2021, p.6, link

That is also why we chose the funding model we have and why we have always been up front about it to our customers. In the same way, for instance, GoCompare tells its insurance customers that we are paid by the companies they switch to, we replicated this practice in energy. A commission payment is only received when a successful switch has been completed.

The purpose of this was two-fold: First, so that people knew that they would not have to pay for our services. Something that might otherwise dissuade them from using them. Second, so that they would know how we get paid and that it would not come from them in some unexpected way.

As in our non-energy businesses, we were always clear that there are some energy suppliers who we do not work with. For example, on our insurance page we tell people we cannot quote for Direct Line and/or Aviva because they do not wish to use our services. Again, this is because we want to be completely honest with our customers. That way they will trust us as a provider. Experience has taught us that anything appearing evasive does not help us grow as a business. For example, had we tried to obscure how LAMB could be free to use, it might have made people suspicious of the service. So we told them.

However, choosing to be funded by suppliers did not affect our approach. As outlined in our response to question three, our relationship with a supplier could not survive if they failed a creditworthiness test just because of our funding model. Throughout the time that our businesses were active in the retail energy market, the members of our panel changed for a variety of reasons. This, however, did not make us less customer centric. In fact it had the opposite effect.

We continued to innovate to allow customers to express their preferences. For example, to choose only green tariffs if they wanted to support the environment. Or suppliers that could facilitate Warm Home Discount recipients. Attempting to differentiate ourselves through things other than just cheap prices. During the time we were operating a comparison service we continued to evolve the service to highlight those things most relevant to consumers when changing suppliers as the market evolved, for example drawing out the fact that some suppliers asked for a 'double payment' initially, or highlighting where direct debit payments included a 'winter uplift'.

Moreover, again in the name of transparency, we have always been clear that we do not show every deal on the market. We have always accepted, and told users, that we do not show every deal on the market. Signposting people to others e.g., Citizens Advice, where they can get a whole of market view. Future plc has never, through its businesses, claimed that it will always give its customers the cheapest deals. Instead we commit that we will switch people if they can save and make every effort to ensure whoever we switch them to will treat them well. These are values consistent across every sector we operate in, not just energy.

We have always presented our opinion that there should be appropriate regulation for all market participants, not just suppliers. In answer to question six we have expressed again what we believe effective regulation may look like. Arising from our position as a business whose activities in most areas are regulated by the FCA. However, in terms of whether TPI commission should be regulated, it is difficult to understand if this will achieve significantly better outcomes for consumers. For Future plc the most sensible approach is to ensure there is a framework in place to ensure that the auto-switching market is built around the preferences and desires of consumers. As well as to take greater steps to make sure all suppliers in the market are viable and have robust hedging strategies that prepare them for unexpected events, such as Russian gas crisis.

5. **Should money made from switching commissions be recouped from auto-switchers to mitigate some of the cost exposure to consumers from supplier failures?**

Nobody wants to see suppliers fail. That has bad outcomes for everyone, especially consumers. We accept that TPIs have a responsibility to establish, as far as they can, the viability of a supplier. It makes good business sense, as we have outlined above, and should help to ensure that customers are being switched to good quality suppliers.

However, as outlined in our answers to questions three and four, Future plc businesses took steps to try to ensure they were doing this. In the end we do not have the visibility to understand every aspect of a suppliers' business.

Even if we could, there are questions about whether or not we would be able to anticipate the impact of such a widespread crash, such as the one that has been witnessed in the British retail energy market over the past year.

Considering this, Future plc does not believe that auto-switchers should be subject to penalties in the event of a supplier failure. This is not to say that Future plc does not believe that TPIs should not be subject to penalties in any circumstances. In our response to question six we have outlined, based on our experience of running FCA regulated businesses, how we feel energy TPIs should be regulated. Naturally, if our suggested system of regulation is introduced, there should be penalties for TPIs for breaking the rules that would form part of that.

6. What regulations should be placed on third-party intermediaries to protect consumers?

As mentioned above it is our view that, in general, there should be a consistent approach to regulation of TPIs. This should be regardless of the sector they cover and the type of intermediary service offered, in order to avoid confusion for the customer. Clear definitions of TPI types and applicable regulatory requirements are essential along with high-level, principles-based objectives that should apply to all market participants regardless of type or the activities they undertake.

The FCA's approach to prudential and conduct regulation should be considered for the domestic energy market. The scope of regulation should consider the following areas:

- A principles-based approach which focuses on outcomes for customers, fair treatment of customers, integrity of markets, transparency and promotion of competition/switching to benefit customers.
- Level playing field for all market participants. Regulation should be mandatory for all types of TPIs (and not just those that voluntarily choose to maintain Confidence Code accreditation, as Future plc businesses do.)
- Regulatory requirements should be consistent for all parties that provide switching services e.g. domestic suppliers, price comparison websites, auto-switchers, or collective energy switching sites.
- Market participants should be subject to appropriate pre-entry authorisation requirements e.g. financial stability checks, submission of business plans as part of authorisation assessment, fit and proper tests for directors and senior managers along with an assessment of ownership and control.
- Regulatory requirements should be easily accessible in a handbook format and set how they apply along with high-level examples of how to comply.
- Dispute resolution requirements that apply to all market participants, to ensure a consistent approach with a focus on good customer outcomes as a primary objective.
- A single mandatory dispute resolution body covering all market participants to enable a consistent approach to escalation and resolution.
- Funding arrangements should be in place, raised from levies on all market participants, to ensure that the work of regulators is appropriately resourced.

A consistent and market-wide regulatory framework that applies to all retail market participants will help rebuild confidence and trust in the retail energy sector through ensuring principles and standards of transparency and fair treatment, leading to better outcomes for customers. We believe TPIs can continue to play an important role in the system, improving the consumer experience and helping to deliver best value.