

Energy price comparison sites are bad news for consumers – here's how to fix them

July 17 2020, by Miklós Antal



Credit: Maria Orlova from Pexels

When it comes to electricity and gas, consumers in many countries choose between a wide range of tariffs. In the UK there are hundreds of options from scores of suppliers, varying up to 30% in price. This is a

difference of hundreds of pounds a year, so consumers' ability to move between tariffs is an important welfare issue.

Price comparison websites promise to help. The UK market for these sites gradually emerged in the 2000s, with the best known including uSwitch, MoneySuperMarket, Comparethemarket, Confused and GoCompare.

Many people probably assume they are a force for good, and that the competition makes them better still. This is how the sites present themselves, and—following extensive investigations and [lengthy reports](#) – the British energy regulator Ofgem [seems to agree](#).

My research has led me to the opposite conclusion. I [looked at](#) the market in Great Britain for commercial sites and also a non-profit alternative [operated by](#) the charity Citizens Advice (CA), and came to the view that private sites are helping consumer welfare much less than is generally believed.

Unnecessary market?

Electricity and gas are the same regardless of supplier, so the cost of tariffs is consumers' top priority. Tariffs use fixed formulas, so the quotes on comparison sites don't fundamentally vary. From a consumer point of view, getting informed does not require competing sites.

The commercial sites make money by charging suppliers for the switches they set up, meaning that consumers ultimately foot the bill in the form of higher tariffs. Non-profits like CA don't currently offer a switching service, but are instead funded by government or charitable donations.

The going rate for switches via commercial sites is £25-£30 per fuel.

With more than 4 million switches on sites per year, British consumers indirectly pay over £100 million for this service. The sites plough much of this into advertising to defend market share.

This advertising is arguably not particularly effective, since it [triggers](#) less [than 10%](#) of [all switches](#). Customers mostly [switch](#) via these sites because their bills are rising or they have been swayed by supplier advertising.

Also, over half the population [rarely or never switches](#), paying the high "standard variable rates" that suppliers often impose when a deal runs out. The price-comparison sites are therefore not engaging most consumers with their advertising, and failing to prevent many from paying high tariffs.

Listed tariffs

People generally don't understand how these sites work. They used to have to list all energy tariffs when someone searched, but the [rules changed in 2017](#) following [recommendations from](#) the UK Competition & Markets Authority (CMA). The CMA argued that consumers would benefit if sites didn't have to list all suppliers on their default list.

Sites now commonly show users a default list that only includes tariffs from paying suppliers, while offering users an option to see all tariffs if they want. MoneySuperMarket, Comparethemarket, Confused and uSwitch all follow this approach. Research [shows that](#) users frequently don't navigate to the page with complete results.



Credit: AI-generated image ([disclaimer](#))

Sites don't always facilitate switches to the best offers on the market. This makes sense from their point of view: if people always found and switched to the cheapest tariffs, being listed on a comparison site would not benefit suppliers, so they wouldn't pay commissions.

The line can seem blurred on these sites between helping consumers and advertising different suppliers, and many people will not realise this. More savvy consumers will check several sites for the best deal, and may still have to contact the energy supplier to switch—a cumbersome process.

An alternative

The CMA's reasons for recommending getting rid of full [tariff](#) lists included concerns that consumers found it annoying to be unable to click through to switch to any tariff, since there would be some on the list that had no deal with the site in question. The CMA also thought that ending full lists would put sites in a stronger negotiating position with suppliers, meaning consumers would get lower tariffs and sites would make more money that could be invested in improving their consumer experience.

I would argue that today's alternative is worse, and that if private sites aren't commercially viable with comprehensive lists, the alternative is obvious: offer just one site for energy comparison that is non-profit, lists all tariffs and handles all switches directly.

This simple, transparent process would probably engage more consumers. Instead of suppliers paying for switches, the site would be financed by a small levy on all consumers' bills.

Supposing this raised £100 million, instead of taking out advertising, the site could help consumers with the worst deals. For people on a standard variable tariff for over three years, for instance, the site could spend £12.50 on helping each of them switch—perhaps letting them know about the best offers with a phone call and handling the switch.

My conclusions about energy comparison don't necessarily apply to other sectors. With products that not everyone needs, there is not the same win for welfare by having one site. Other products also have more variables than just price, so allowing private providers to innovate with things like clever searching tools might be more justified. Nevertheless, similar drawbacks may well apply, so other sectors need to be separately analysed.

Commercial energy-comparison sites are expensive and can be misleading. Some jurisdictions in which they operate try to favour non-

profit alternatives to remedy this. For example, Norway's energy regulator [advises consumers](#) to use a non-commercial site. The government in Victoria, Australia, [paid consumers](#) AU\$50 (£28) to register with a publicly run site.

Better still would be a non-commercial monopoly. The solution is to shut down the private market, preferably in a way that does not discourage useful innovation in other areas. And countries where these (para)sites don't operate should take heed and prevent them from starting up.

MoneySuperMarket said it offered a quick and easy way to save on energy bills, with the average saving nearly £300 a year. It said that if consumers want to see the widest range of energy tariffs on the site, they can do so easily with one click.

It added that the CMA [said in 2017](#) that price comparison sites increased competitive pressure on energy suppliers and that it was cheaper for suppliers to pay fees to sites than to attract consumers directly.

Max Green, energy expert at Confused.com, said: "According to Ofgem, since 2015 the number of people who have switched their energy supplier or tariff has increased consistently, with 49% of [consumers](#) now shopping around... and 81% of them using a comparison site."

The other leading sites did not reply in time for publication.

This article is republished from [The Conversation](#) under a Creative Commons license. Read the [original article](#).

Provided by The Conversation

Citation: Energy price comparison sites are bad news for consumers – here's how to fix them

(2020, July 17) retrieved 28 April 2024 from <https://techxplore.com/news/2020-07-energy-price-comparison-sites-bad.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.