

# The Future of Switching

How open finance will replace  
price comparison



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April 2020

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## About Switchcraft

Switchcraft was founded in 2017 with the mission of using technology to put an end to the loyalty penalty. In order to realise this mission, the London-based startup built its own automated switching infrastructure and supplies switching technology to other businesses via APIs. Switchcraft delivers the most seamless signup journey in the market, through unique data integrations. Today Switchcraft automates energy contract switching for over 30,000 UK households, ensuring that its members never miss an opportunity to save.



# Foreword by Andrew Long, Founder & CEO

The relationship between finance and technology is evolving fast. From mobile banking, through to payment platforms, fintech applications have become indispensable tools in the daily lives of billions of people. With some big players entering the market, such as Apple and Google Pay, it's not yet clear who the winners will be. What is clear is that innovation in fintech is accelerating, raising the bar of what's possible and the expectations of a new generation of consumers.

In this new world customers are won on a battleground increasingly dominated by start-ups and early movers. Size and a physical presence still count for something, but not as much as the proposition that services should be accessible, and customer centric.

Established financial institutions have been rattled by this shift. Attracting new customers and reducing churn requires more effort. In practice, this means accommodating the ideas of smaller, more agile challengers, through product collaborations, and strategic partnerships.

Automatic switching is one idea that's quickly evolved into a game-changing proposition. With the ability to affect how consumers choose and purchase products and services, auto switching has the financial sector on alert. The true power of the technology lies in its potential to engage millions of sidelined consumers in markets they might otherwise have avoided.



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# The switch market at a glance

**> £4 billion**

LOYALTY PENALTY

Forfeited by UK consumers on avoidable household bill payments in the last 12 months

**£1000**

EXTRA PER YEAR

Paid by UK consumers that don't shop around vs. those that do

**£25 billion**

EST. ANNUAL REVENUE

For the global price comparison market (~£4bn for the UK market)

**85%**

UK NET USERS

Have used a comparison site at least once

**> 30%**

UK CONSUMERS

Do not feel confident choosing new tariffs, and do not find it easy to interpret their bills

**> 11 million**

UK CONSUMERS

Are currently out of contract, on expensive standard tariffs

**> 300,000**

UK MEMBERS

Have registered for auto switching services since they started appearing in 2016

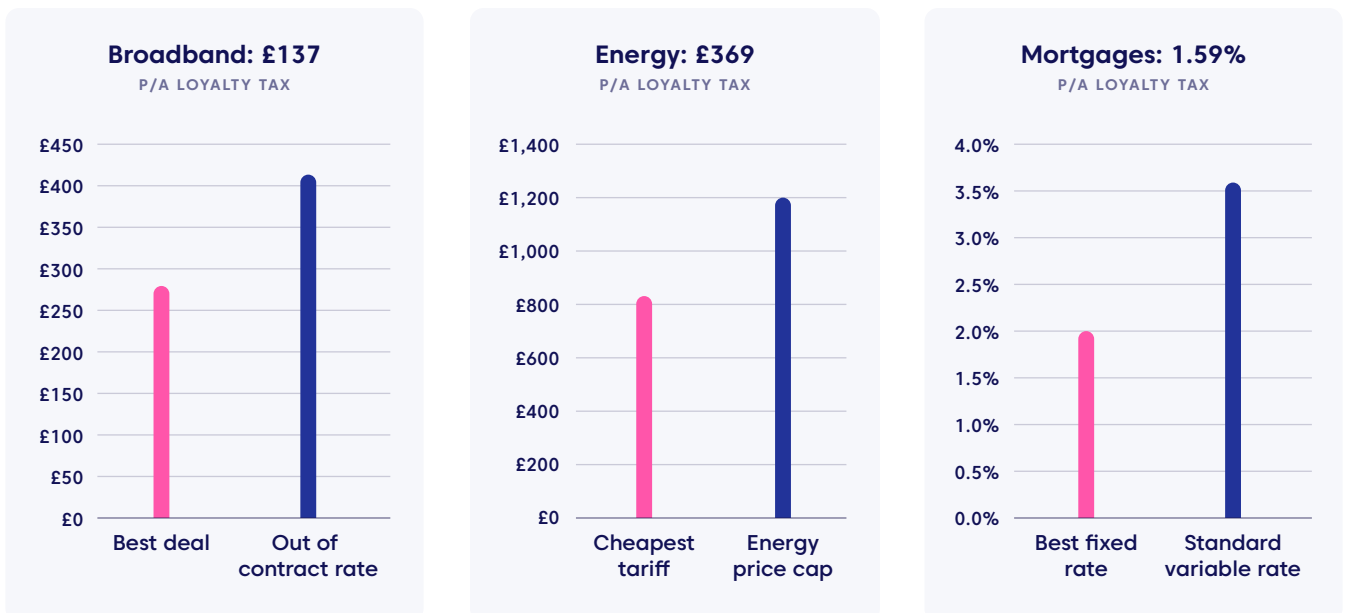
# The loyalty penalty

In the last 12 months UK consumers forfeited £4bn in additional — and 100% avoidable — energy bill payments. That’s an average of £369.20 for each of the 11 million households currently on a lapsed energy contract.

Meanwhile, a recent investigation by the Financial Conduct Authority found six million home and motor insurance policy holders were being overcharged around £200 each, due to “opaque and complex pricing systems.”

When combining insurance costs with mobile and broadband penalties, charity Citizens Advice worked out that UK consumers who didn’t regularly seek better deals were £1000 worse off every year compared to those that did.

This collective loss of billions of pounds to ‘loyalty penalties’ is not a new problem. But it is one that’s endured the e-commerce revolution of the preceding decades. Price comparison websites have helped ‘unstick’ some customers from bad deals and encouraged competition on price. But most consumers do not engage in the market enough to avoid being regularly shifted onto expensive, default contracts.



# The problem with price comparison

## Price Comparison Websites

Price comparison first appeared in the late 1990s as a type of online classified section. Today the UK PCW industry generates billions of dollars of revenue annually, and covers everything from tourism, to toothbrushes. However, for the last decade how we compare prices online has not progressed, and for all the fanfare and endless campaigning, PCWs have not ended the loyalty penalty.

### Estimated revenue 2019



Money Super Market	£388 million
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Uswitch.com	£200 million
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BGL Group	£660 million
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Admiral Group	£172 million
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Go Compare	£139 million
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## Key issues and concerns

**The PCW customer journey is complex and time-consuming.** Users are expected to have volumes of information to hand, and to interpret and input this information accurately across numerous touchpoints. This heavy processing results in high levels of search terminations, unreliable quotes and faulty switches.

**PCWs require regular customer engagement.** A typical consumer with a portfolio of fixed monthly bills needs to visit a PCW 5-6 times a year, and at exactly the right moment, if they want to avoid penalty rates, exit fees and switch to the best available tariffs.

**PCWs leave many users with a feeling of uncertainty.** PCW's aggregate large amounts of information, but don't help consumers evaluate and act on the information based on their own unique circumstances. Rather, results are often framed in ways that mislead consumers, leading to sub-optimal choices.

# What consumers are saying



\*Based on responses from 1,570 readers of two major UK daily newspapers during October 2019

It's clear a large portion of UK billpayers worry they might be overpaying on energy bills but lack the confidence or knowledge to secure a better deal. Industry data affirms this concern. Energy regulator Ofgem recently reported that 50 percent of domestic energy account holders are on default energy tariffs.

So why are customers struggling to access better deals? The answer, according to Harvard economist Xavier Gabaix, can be found in behavioral economics.

Gabaix argues that firms operating in splintered markets like energy, banking and insurance, intentionally raise 'search costs' for consumers. This is done by increasing the complexity of offers and how they are presented, creating a kind of 'confusopoly'. With so many services, features and contracts to compare, consumers are overwhelmed, leading to random choices, or no choice at all.

In other words, consumers don't need more information to make rational choices, but less information, framed in an easily digestible format.

# The future of switching

## Regulatory Change

Fintech thrives when regulation allows it to. In the UK, progressive regulation has been forthcoming. Today London is recognised as the best place in the world to scale a fintech start up. This accolade is due in large part to support from the likes of the FCA, CMA and HMRC – support that shows no sign of waning.

The advent of open banking and open finance regulation presents significant opportunities for the development of new data-enabled products and services. 2019's PSD2 directive has given fintech companies access to customer account histories and the ability to plug in to the banking ecosystem.

Service	Body	Measure	Launch
Energy	Ofgem	Next day switching for domestic energy customers	Mid 2021
Mortgages	FCA	New policies to encourage mortgage switching	late 2020
Telecoms	Ofcom	Mandatory contract end date alerts for consumers	Feb 2020
Finance	FCA	Announcement: 'Open Finance' review	Dec 2019
Telecoms	Ofcom	Announcement: new rules to ban sale of 'locked' phones	Dec 2019
Telecoms	Ofcom	Announcement: new rules to improve switching between ISPs	Dec 2019
Banking	CMA/FCA	Second 'payment Services Directive (PSD2)	Sep 2019
Finance	FCA	Switching rules for 'mortgage prisoners' relaxed	Oct 2019
Telecoms	Ofcom	'One Text Switching'	July 2019
Energy	Ofgem	14-day 'Automatic Switching Compensation'	May 2019
Banking	CMA/FCA	'Open Banking' regulation	Jan 2018
Insurance	FCA	'Transparency on Renewal'	April 2017
Energy	Energy UK	Energy Switch Guarantee	June 2016
Banking	UKPC	Seven-day guarantee for current account switch service	Sept 2013

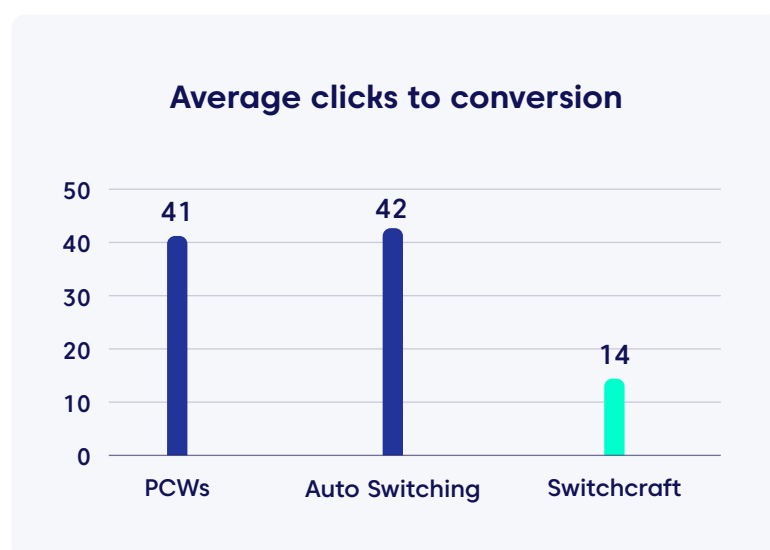


## The data revolution

New digital services are emerging that give consumers the opportunity to be completely rational versions of themselves. By eliminating human problems like inertia, forgetfulness and choice overload from the equation, algorithms can now deliver unparalleled access to underserved markets. This is achieved via a combination of intelligent monitoring and API integrations which can be used to deliver personalised quotes inside mobile applications.

Data enrichment can remove barriers to entry, as a user will no longer need to understand and input details to run a price comparison. This is already starting to appear in the market, for example Switchcraft only need a user's email, address, and postcode to serve a personalised quote. Instead of asking the user for details of their energy usage Switchcraft uses industry databases to autofill the answers.

The energy sector is leading the way on key developments as a result of progressive regulation. However, it won't be long before other markets follow. Already we're seeing moves to increase the ease of switching for mortgages, insurance and telecoms. Companies like Switchcraft are poised to roll out APIs for new sectors.



## Key developments

**Comparison & switch APIs** can now be used to proactively locate and deliver quotes to consumers on sub-optimal plans inside third party apps. In effect this gives consumers instant access to switch markets, without having to visit a PCW or input additional data.

**Data-led personalisation** of financial services means it's now possible to identify and react to stress points in a user's daily, weekly and monthly finances by creating services that sync with financial patterns. This means quotes, alerts and analysis can be delivered at exactly the right moment and with forensic level detail.

**Automation** gives everyday consumers the ability to game retail markets without any prior knowledge of an industry or having to expend additional time on admin. Consumers can maintain an optimised financial portfolio, whilst avoiding loyalty taxes, exit fees, penalty payments and surprise bills.

**Data enrichment** enables a seamless and highly attuned customer journey and onboarding process. Location, property and credit data can be used to autofill applications, align preferences, predict future behaviour and tailor tariffs to include things like government subsidies and disability benefits.

# Conclusion

Competition in retail markets is of little benefit to consumers if they remain dis-engaged. Despite the efforts of policy makers, the best deals are still reserved for those with extra time, knowledge, and determination. Today, fintech tools promise to level the playing field, by delivering tailored financial advice directly to the mobile phones of those who need it.

The benefits of using new digital finance tools like auto switching cannot be overstated. On energy bills alone UK consumers stand to save £4bn a year; on home insurance and broadband, it's another £2.4bn. When 'big ticket' services like mortgage and lending are factored in, annual consumer savings are expected to be in excess of £10bn. That's money that can be repurposed to service debt, purchase other essential goods and services, and improve one's own financial health more generally.

Looking to the future, it's clear the days of the 'one size fits all' approach are numbered. In its place we are seeing the beginnings of something more akin to a personal finance feed, wherein third parties deliver an array of tailored services through social-style interfaces. If you could be paying less your banking app will be able to show you a better deal and switch you in a couple of clicks. Filling out a form for every new utility bill will be a thing of the past. Consumers will be kept on the best deal automatically via a combination of open banking and auto switching technology, ultimately saving billions.



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