Ex ante and ex post evaluation of the impact of market studies

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Our performance framework sets us a demanding impact target

“The Government expects the CMA to have a beneficial impact on consumers, on business behaviour and on productivity and growth in the economy, and to make robust decisions and implement effective and proportionate remedies.

The CMA will report annually on:

- The delivery of a target of **direct financial benefits to consumers of at least ten times its relevant costs to the taxpayer** (measured over a rolling three-year period).
- The ratio of direct financial benefits to consumers and costs for its principal tools.
- Its assessment of wider benefits of its work, for example on growth, business and consumer confidence in markets, compliance with competition law and deterrence of anticompetitive behaviour.”
Some evaluation takes place at every stage of a market project

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Assessing the proportionality of remedies is an important form of *ex ante* evaluation

- The CMA needs to ensure that its recommendations (and other remedies) are **effective** and **proportionate**.

- A proportionate remedy:
  - Is effective in achieving its aim
  - No more burdensome than necessary to achieve its aim
  - Least burdensome if there is a choice of effective remedies, and
  - Does not produce disadvantages which are disproportionate to the aim

- Proportionality has been a major issue in litigation regarding markets work (eg appeals on Groceries, PPI, BAA, Aggregates, Private Healthcare). Appeals have featured recommendations (eg Groceries) as well as CMA actions.

- Determining proportionality does not necessarily require a detailed quantification of all possible costs and benefits of remedies - but the reasoning and evidence supporting our assessment (quantitative and / or qualitative) must be rigorous.
In *Buses* we assessed the detriment from features of the market...

- In *Buses*, the CC investigated competition in many diverse local markets.

- We identified an adverse effect on competition in these markets resulting from a combination of market features (local concentration, barriers to entry, aspects of operator and customer behaviour).

- We estimated **customer detriment** (across all markets) to be considerably in excess of £72 million a year and likely to fall within the range £115 - £295 million.

- We based these estimates on three main sources:
  - An assessment of the profitability of the main providers; and
  - An econometric model of the relationship between market concentration and market outcomes (in particular service frequency)
  - An analysis of the impact of tender design on prices for contracted services.
...and calculated the costs and benefits of remedies to demonstrate their proportionality

- The remedy package comprised a series of measures (mainly recommendations) that could be adapted to local circumstances.

- We concluded that our remedy package would be effective in addressing the problems we had identified and hence that the estimates of customer detriment indicated the scale of potential benefits of greater competition.

- We judged that the package would have a substantial impact on the competition problems we had identified within **3-6 years** of publication.

- We also identified, but did not quantify wider benefits of remedies (e.g. greater convenience for passengers).

- We estimated up front costs of our remedy package at **£4.0 - £15.9 m** and ongoing costs of **£ 2.0 - £ 4.8 m** per year.

- Given the relative size of costs and benefits and the **timescale** over which remedies would take effect, we concluded the remedy package would deliver **substantial net benefits within six years which would grow over time**.
Our *Home Credit* remedies were targeted at the harm we found in the market

- CC published its final report into the market for home-collected credit final report in **November 2006**. We found adverse effects on competition from: weak price competition, informational shortfalls for customers and incumbency advantages.

- Our remedy package had four elements:

  1. **Data sharing**: Lenders to share payment record data with at least 2 Credit Reference Agencies (CRAs). **Aim**: reduce incumbency advantage.

  2. **Price information**: Establish a new price comparison website, funded by the largest lenders. **Aim**: increase price awareness

  3. **Changes to early settlement rebates (ESR)**: Amend standard regulatory formula for calculating early settlement rebates amended to provide fairer deal for customers. **Aim**: address customer detriment

  4. **Statements**: Amend word of annual statements and require lenders to provide statements on request. **Aim**: enhance impact of other measures
Evaluation showed both their effectiveness and scope for further change in the market

In February 2013, we evaluated the impact of the Home Credit remedies. We looked at data on how the market evolved since 2006 and at market outcomes. We also held interviews with key stakeholders and looked directly how the remedies were working in practice.

We found that the remedies had addressed some of the underlying problems:

- Data sharing, where used, has reduced incumbency advantages;
- LendersCompared website has reduced search costs and increased price awareness;
- Reforms to Early Settlement Rebates had delivered substantial benefits to customers (> £30+million per annum).

There had been few, if any, unintended consequences and the remedies have been proposed as a model for intervention in other markets.

But we also found there was further scope for improved price competition.

- Financial crisis had limited effectiveness of data sharing remedy, as mainstream lenders moved away from this market segment.
- LendersCompared was well-supported but impact could be enhanced.
We have recently evaluated our market study on commercial use of public information

• Found that opportunities in commercial use of public information were not being exploited
• Recommendations included that Government should:
  • Define difference between refined and unrefined information, and account separately for each
  • Price refined and unrefined information according to rules embedded in Information Fair Trader Scheme
  • Boost Office of Public Sector Information to police Scheme and rules

Commissioned evaluation from DotEcon in 2014. Publication imminent
Evaluation report considers:
• How far the recommendations have been implemented
• What has changed in the market and why – what changes are attributable to the market study?
• What residual issues remain?
• What impact did the study have on consumer welfare?
• What lessons should the authority learn?