

## Assessment of the parties' sales data

1. In this appendix we provide a preliminary analysis of the sales data received so far from the large distributors in our inquiry.

### The data

2. The distributors were asked to provide information on their sales and prices of PPI and credit products over the period from January 2002 to December 2006 inclusive. The distributors have experienced considerable difficulties in providing reliable data at a product level. In total 12 distributors provided information on 97 personal loan products, 62 credit card products, 9 first charge mortgage products and 15 second charge mortgage products.<sup>1</sup> The data collection process is ongoing; however, to date we have usable data on a relatively small number of products, as discussed below:
  - (a) *Personal loans.* The findings within the paper are based on 42 personal loan product combinations from ten distributors. The selection criterion applied was the availability of reliable data on: the number of new loans issued during a month with PPI and in total, the insurance premium rate for one-year loan term and typical interest rate on loan. For some products less than 60 observations were available.
  - (b) *Credit cards.* The findings within the paper are based on 34 credit card product combinations from five distributors. The selected criterion applied was the availability of reliable data on: the number of credit cards issued during a month with PPI contracts and in total, the price of PPI per £100 of outstanding balances and the interest rate on purchases. For some products less than 60 observations were available.

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<sup>1</sup>We refer to individual combinations of PPI and credit products as one 'product' in this appendix.

(c) *First charge mortgages.* For first charge mortgages, four distributors provided information on nine products. Out of these products only one distributor provided complete information on quantities of mortgages and PPI policies sold each month together with data on the price of PPI cover and the standard variable interest rate on the loan. Data on the price of PPI per £100 of cover was provided for eight products and information on standard variable interest rate for five products.

(d) *Second charge mortgages.* For second charge mortgages, three distributors provided information on 15 products. Out of these products only three have complete information on the number of new loans issued during a month with PPI contracts and in total, as well as on the insurance premium rate for one year by loan term and typical interest rate on loan. For a small number of products information was provided on either PPI prices or loan rates, but no information was available on sales.

## **Summary**

3. Our analysis of the parties sales data has so far revealed the following patterns:
  - (a) the general trend over time is for PPI prices to increase, or stay flat;
  - (b) price changes on PPI are infrequent; and
  - (c) at a product level, PPI prices appear to vary less frequently over time than credit prices for most products. This appears to apply to all four of the main categories of PPI; however, we have very limited data on first and second charge mortgages.

## **PPI and credit prices over time**

4. In this section we look at the movement of PPI and credit prices over time. In particular we compare the following aspects of PPI and credit prices:
  - (a) how PPI and credit prices have been moving over time; and

(b) the degree of variation in PPI and credit prices over time.

### ***Price movements***

5. In this section we analyse price movements and the dispersion of prices for PPI and credit. For each category of credit and PPI we look at how prices of PPI and credit change over time and the apparent variation of those prices across products.

### *Personal loans*

6. From the information provided to us, we found that the general trend over time is for PPI prices to increase, or stay flat. There are very few instances of PPI prices falling over the five-year period that we observed. In addition price changes on PPI are relatively infrequent. PPI price changes typically happen no more frequently than once per year, whereas changes in credit prices are more frequent, often on a monthly basis.
7. We intend to explore the causes of variation of prices across products. For the moment we note that both PPI and personal loan prices exhibit a wide dispersion in pricing.

### *Credit cards*

8. We observe a similar pattern in prices for credit card PPI,<sup>2</sup> measured as £ per £100 of outstanding balance. Price changes are relatively infrequent and in most cases PPI prices have risen over the five-year period. There are no examples of a price cut. In contrast to this, credit prices (the interest rate applied to new purchases) appear to vary more frequently and price changes in both directions can be observed.

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<sup>2</sup>We noted that one product displays a very low premium rate and have asked the distributor [§<] for conformation that the premium rate has been reported correctly.

### *First charge mortgages*

9. We were provided with information on prices of PPI for eight first mortgage products.<sup>3</sup> For seven of the products the price of PPI (£ per £100 of the monthly payment) did not vary at all over the five-year period. One distributor ([REDACTED]) increased the price of its MPPI once (by 16 per cent) over the period.
10. We received data regarding the interest rate on mortgages for five first mortgage products.<sup>45</sup> The rates reported by each mortgage provider were identical across their own mortgage products. All of the rates provided to us appear to follow the same trend which seems to be determined by the interest rate set by the Bank of England. The difference in interest rates between two providers ([REDACTED] and [REDACTED]) is marginal while the interest rate charged by the third provider ([REDACTED]) is below the rate charged by the other two providers.

### *Second charge mortgages*

11. As with other product categories, prices of PPI and credit appear to differ significantly across second charge mortgage products over time. PPI price changes appear to be less frequent than changes in interest rates on second charge mortgages. Almost all distributors increased prices of PPI over the time period—several showed three price rises over the period summer 2003 to summer 2005—and there are no examples of distributors cutting prices.

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<sup>3</sup>Data was provided on eight products by four distributors.

<sup>4</sup>Data was provided on five products by three distributors.

<sup>5</sup>It is not clear that the standard variable rate on mortgages is the most appropriate measure of price. However, it was the only price variable on which data has been provided to us.

**Variability of prices over time**

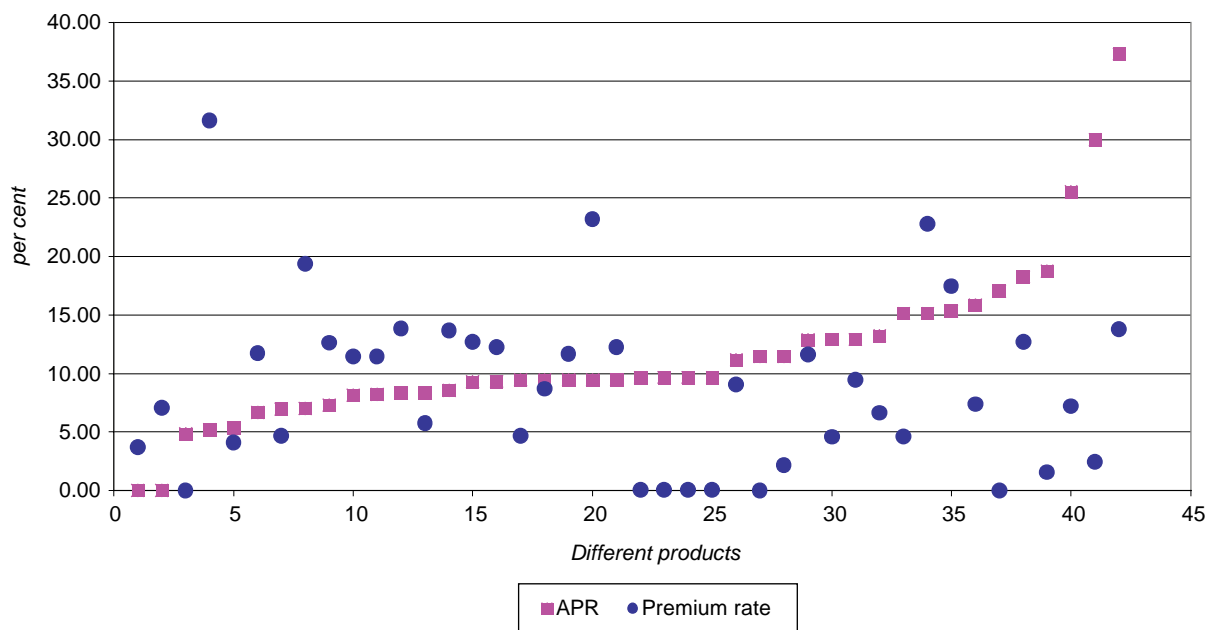
12. To assess price variability we calculated the coefficient of variation. The coefficient of variation represents the ratio of the standard deviation<sup>6</sup> to the mean, and it is a useful statistic for comparing the degree of variation from one data series to another. A figure of 5 per cent tells us that the sample standard deviation is 5 per cent of the value of the sample mean.

**Personal loans**

13. Figure 1 illustrates the coefficient of variation for personal loan PPI prices and credit prices by product.

FIGURE 1

**Personal loans: coefficient of variation by product**



Source: CC calculations based on data provided by the parties.

<sup>6</sup>The standard deviation is a statistic that tells us how tightly all the data points are clustered around the mean in a set of data. When the data points are tightly bunched together, the standard deviation is small. When the data points are spread apart the standard deviation is large.

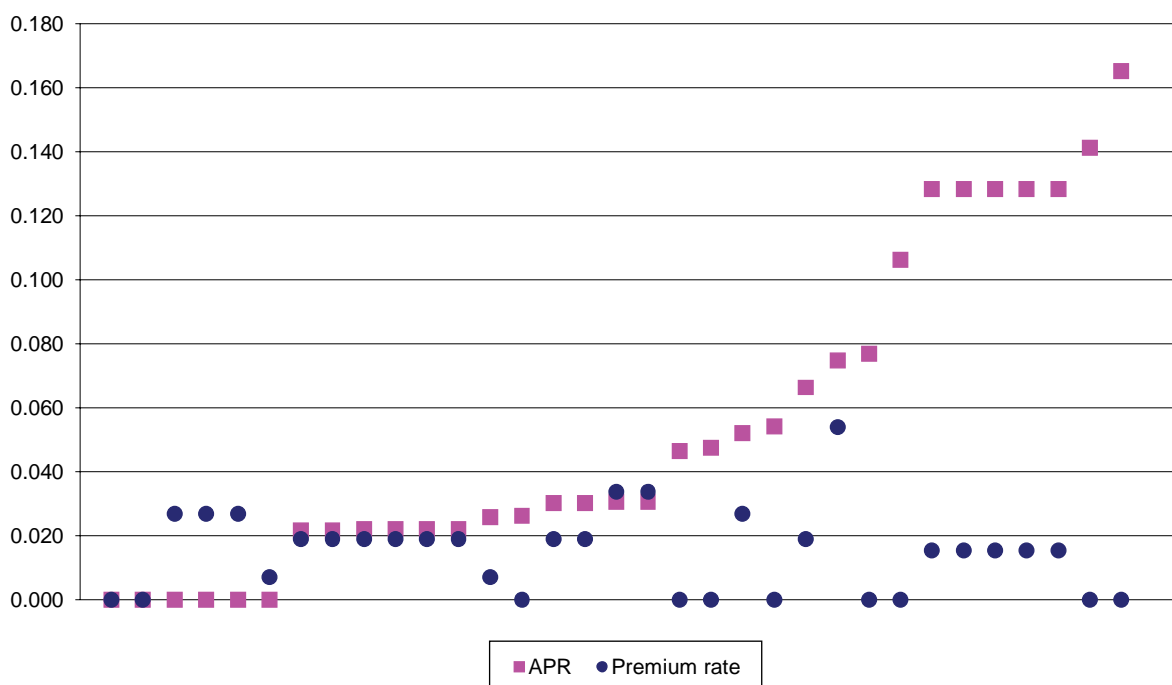
14. We observe no clear pattern in the coefficient of variation of PPI rates and interest rates over time. It would therefore appear that whilst changes in price of personal loans are more frequent, changes in price of PPI may have greater magnitude.

*Credit cards*

15. Figure 2 shows that for the majority of credit card PPI product combinations there is lower price variability over time in the PPI price than in the associated credit price (the credit data points marked as squares lie above the PPI data points, circles).

FIGURE 2

**Credit cards: coefficient of variation by product**



Source: CC calculations based on data provided by the parties.

16. We do not have sufficient data on both PPI and credit price for the same product combination to enable us to complete a similar analysis for first or second charge mortgages.