

ANNEX 2

RESPONSE TO THE ACCENT CUSTOMER SURVEY

1. INTRODUCTION

This Annex sets out Barclays response to the market research report produced by Accent titled "Consumer Attitudes to Payment Protection Insurance", upon which the Commission had based many of its conclusions in the Provisional Decision ("PD"). The response first makes general comments and then deals with specific sections of the report.

2. GENERAL COMMENTS

2.1 Critical error in analysis

The Accent survey found that there was a preference for taking out the PPI at the point of sale of the credit ("POS") (in particular for PLPPI (60% of respondents, as to 50% of MLPPI respondents).¹ A significant proportion – around one third for both PLPPI and MLPPI² – expressed a preference for buying PPI some time after the purchase of credit. The survey found that the preference of those who want to buy later is stronger than that of those who prefer to buy at POS, such that, overall, there is a willingness to pay for a delay.

Thus, the conclusion reached by the Accent survey and adopted by the Commission is that the loss of convenience that would be experienced by those who prefer to buy at POS (at least so far as PLPPI is concerned) would be outweighed by the stronger preferences of those who prefer to delay – such that overall there is no quantifiable net loss of convenience if the credit point of sale option was taken away. Indeed, overall there is a willingness to pay for a delay.

The evidence does not support any such conclusion. The Stated Preference Exercise used by the Accent survey to assess willingness to pay ("WTP") / willingness to accept presented respondents with two options: A and B. Respondents were asked to choose between option A and option B, i.e. they had to make a binary choice between alternative scenarios.

- Those who expressed a preference for buying at the POS were indeed attributing a value to an opportunity which will be lost if the POS prohibition ("POSP") were imposed. This value is something properly to be taken into account by the Commission when assessing the loss of convenience.
- Those who expressed a preference for delay were indicating that – faced with a binary choice between buying their PPI at the POS, or being able to delay – they would decide to delay. Such a decision says nothing about whether or not those consumers would support a POSP since, regardless of whether a POSP is imposed, *those consumers will continue to have the opportunity to*

¹ See 4.14 of the Accent report.

² 31% for PLPPI, 36% for MLPPI – see 4.14 of the report.

delay their PPI purchase for as long as they wish after the credit sale. At best, it is an indication that those consumers are indifferent to whether a POSP is imposed. To suggest – as the Accent survey and the Commission claim – that such an indication amounts to evidence that those consumers would place a "positive value" on a POSP is pure syllogism.

The Commission has been asked by the Tribunal to consider the loss of convenience to consumers which would flow from the imposition of a *prohibition on selling PPI at the POS*. Discounting the illusory counterweight attributed to those consumers voting to retain the option to delay – when it was never going to be taken away from them – removes all foundation for the claim that "on aggregate" consumers associated a positive monetary value with buying PPI at some time after the POS, rather than at the POS.

Further, as Professor Yarrow and Dr Decker point out at paragraph 51 of their report (Annex 1 to the response), the Commission compounds the error by purporting to equate an imaginary "net gain" associated with the (continued) ability to buy PPI after the credit point of sale with an upward shift in the demand curve.

This error of analysis explicitly underpins (and undermines) in whole or in substantial part the Commission's provisional conclusions on the loss of convenience to consumers from not being able to purchase PPI at the same time as credit (paragraphs 7.91 to 7.101 of the PD); its estimate of the possible costs of the loss of convenience to consumers arising from the POSP (paragraphs 9.74 to 9.77); its modelling of a 'base case' for PLPPI, SMPPI, MLPPI and CCPPI (paragraphs 9.86 to 9.92); and whether the imposition of the remedy package set out in the 2009 report, including the POSP, would be proportionate for PLPPI, MLPPI, CCPPI and SMPPI (paragraphs 9.104 to 9.116).

2.2 Inability to draw conclusions on standalone provision

The Accent survey's analysis is designed specifically and expressly to, inter alia:

- understand consumer likes and dislikes *in purchasing PPI at the same time as the loan it is connected to* [emphasis added]
- understand how consumers view the convenience associated *with taking out PPI at the time of the loan*, and any consequent loss of convenience if they have to wait a period of at least 24 hours after the conclusion of the credit sale before they can purchase PPI from the same provider [emphasis added]

The Accent survey data can therefore offer no assistance whatsoever in estimating or drawing conclusions about the loss of convenience to consumers from being stopped from purchasing from a chosen credit provider *standalone PPI or STIP that is not linked to any credit product* until the POSP has been complied with. Indeed, the Commission has altogether failed to consider the loss of convenience to consumers in those circumstances.

2.3 Inability to draw conclusions on all PPI

The report states in section 2.3 that the quantitative findings of the study were the result of pilot research carried out with 26 ML customers and 24 PL customers, and 'main stage' research carried out with 401 MLPPI customers and 405 PLPPI customers. These were the only respondents interviewed for the quantitative research.

Barclays notes that therefore no conclusions whatsoever may be drawn from the survey as regards consumer behaviour in relation to any other form of PPI, e.g. CCPPI. The scope of this study was limited from the outset and it therefore has limited use.

2.4 Presentation of analysis

The analysis in the report is split into two parts: a qualitative section and a quantitative section. The reader of the report only obtains a true depiction of the scale of the issues in the quantitative section. However, by that stage certain themes have already been presented by the qualitative section as having a degree of importance.

For example, the focus of much of the qualitative section appears to be to show that customers would prefer to purchase PPI following a delay (see in particular section 3.8 of the report, discussed in section 3.5 of this response). However, this is not grounded in consumer reality: the quantitative section clearly shows that most customers prefer to buy PPI at the POS (see section 4.14 of the report, discussed in section 4.5 of this response). In Barclays view this insight is of paramount importance, yet it receives little prominence in the report. Indeed, the focus and tone of the report appear to lead in the opposite direction.

In Barclays view this is misleading. The report has given disproportionate significance to certain findings and little weight to others. As a result of this skewed presentation, conclusions are drawn selectively and do not properly reflect the data. Various specific instances of this are cited below.

2.5 Qualitative / quantitative distinction

Barclays understands that Accent first undertook qualitative analysis in order to identify issues, which were then to be sized in the second, quantitative analysis stage. However, on several occasions findings in the qualitative analysis are presented in a way that gives them greater credence than they should have, by making reference to quantitative values, e.g.:

"Most respondents had bought PPI at the same time as taking out their loan or mortgage. Many did so actively though the research also identified some who thought that PPI had to be purchased with the personal loan or mortgage [...]"³

It should be noted that given the small number of groups assessed by the market research at the qualitative stage, it is impossible to scale these issues and it would be

³ Section 3.2 of the report. Emphasis added.

inappropriate to assume that they impact a small or large proportion of customers without quantitative data. Such quantitative data has yet to be obtained and so the repeated use throughout the qualitative section of terms such as "*many*", "*most*" and "*some*" confers a weight to the opinions expressed that cannot properly be quantified.

2.6 Design fault

Barclays refers the Commission to concerns over the design of the questionnaire that Barclays raised in an email to the Commission sent on 15 February 2010 at 13.56, none of which have been addressed in the version of the questionnaire at Appendix C to the report.⁴ As a result, the responses received to the questionnaire are equally flawed.

2.7 Alternative to POSP

Throughout the report, a significant minority of respondents are shown to have mistakenly thought that they were obliged to purchase PPI in order to be granted the credit product (see for example section 4.5 of the report, discussed in section 4.1 of this response)⁵. The research subsequently posits a delay in the sales process as an alternative to this confusion, which is then positively received by respondents. However, the imposition of a POSP is neither a direct nor natural alternative to the misapprehension that PPI is mandatory.

A more natural alternative would be to ensure that PPI were clearly offered at the POS as an option only. This is currently already the case under FSA regulations and is also clear from the Commission's proposed personal quote. This alternative would not frustrate the attempts of customers to gain immediate peace of mind, upon which customers have been shown to place great importance (see section 4.15 of the report), and would alleviate customers' real concerns about forgetting to buy PPI cover at a later date (see sections 3.6 and 4.15 of the report). However, the market research does not offer this alternative. In Barclays view this omission results in an artificial inflation of the appeal of delay in sale.

As the alternative has not been considered in the report, Barclays is unable to quantify the impact of the two factors (i.e. the ability to provide peace of mind and to alleviate concerns of forgetting to buy the cover). However, as these factors have been quantified to be the leading reason that respondents choose to take out PPI at POS (see figure 17 in section 4.15 of the report), it is likely that they would make the alternative highly attractive. It is also likely that their reversion under the POSP would render the overall utility factor of delaying the sale insignificant. Again, such a test has not been included in the market research so this cannot be verified on the data made available by the Commission, but it raises doubts as to the usefulness of the quantitative evidence in support of a POSP.

⁴ Barclays also notes that it also offered to the Commission in this same email the opportunity to arrange a meeting to discuss these comments, which request was ignored.

⁵ Further examples may be found at section 3.2 of the report (see section 3.1 of this response), section 3.5 of the report (see section 3.4 of this response), and section 3.8 of the report (see section 3.5 of this response).

2.8 'Research effect'

Barclays is concerned that some of the answers provided by respondents in the market research process have been affected by the 'research effect', that is, respondents may be making statements based on what they feel they should say in response to certain questions.

There are three clear examples to suggest the presence of the research effect.

Recovery from misapprehension

The first is that, as mentioned in section 2.7 above, throughout the report a significant number of respondents are shown either to mistakenly believe that they were obliged to purchase PPI in order to be granted the credit product, or to be unaware that they had a choice of PPI product and provider. Through taking part in the market research, these respondents are then made aware that they have acted under a misapprehension (i.e. that there was no obligation to take PPI and that they could have had a choice of providers) and are likely to feel ignorant or foolish as a result. The respondents are then likely to attempt to recover from that position in subsequent responses, by asserting that had they been aware of the voluntary nature of PPI or of the availability of other providers, then they would have exercised a choice and would not have been 'duped' by their credit provider, even if in reality they would still have chosen to take out PPI at the POS.

Payment to restrict choice

The second example is to be found in the stated preference section, which claims that customers would willingly pay £25-£30 a month in order to restrict their choice (sections 4.12 and 4.13 of the report). This suggests entirely irrational behaviour on the part of consumers, which is unlikely to be the case in reality. The Commission itself notes the absurdly high positive value allegedly given by customers to such a constraint of choice (paragraph 7.100 of the PD). As respondents were aware that they were being surveyed as part of an investigation by the Commission into allegedly uncompetitive practices by banks, Barclays suggests that respondents would have felt an expectation that they should reject the status quo and aver a strong preference for shopping around and removing the opportunity of credit providers to offer PPI at the POS. The perverse outcome of this expectation can be plainly seen in this section, where respondents are claiming that they would pay £25-£30 per month in order not to be offered a product. This dubious claim is not borne out in reality.

Reversion of views

The third example of the 'research effect' can be seen in section 3.8 of the report, where respondents are expressly shown to have changed their view as a direct result of being involved in the research process. This phenomenon is discussed in more detail below in section 3.5.

The risk that answers in the above examples are at least partially the result of the 'research effect' is not addressed in the report. Barclays is concerned that conclusions have been drawn based on data that may not accurately represent the actions of consumers in the real world. While the three examples given above suggest obvious

flaws in the research, it is possible that responses throughout the study are biased and do not reflect the views of consumers in reality, in which case the Commission is unable to properly and fairly draw conclusions from those responses.

2.9 Phrasing of questions

Barclays would also like to raise concerns that the line of questioning in the market research may have affected the answers given by respondents.

This is made clear in relation to those respondents who are shown either to have mistakenly believed that they were obliged to purchase PPI in order to be granted the credit product, or to have been unaware that they had a choice of PPI product and provider. In essence, the subsequent questioning can be summarised: "you did not know you had a choice. Would you like a choice?" The expected response to such a line of questioning is of course affirmative. It would be very difficult for a respondent to reflect that actually, given the benefits of immediate peace of mind, ensuring that cover would not be forgotten about and convenience, they would have pressed on with their original choice regardless of the availability of alternative providers, even if this actually describes their view.

Barclays suggests that had the question been phrased differently, e.g. essentially, "you actually have a choice. That means the responsibility for protecting your income is yours alone. You would need to research the market and find other providers of income insurance, and evaluate their offers. Would you like to do that or would you like the work to be done for you at point of sale?" then the response would have been significantly different.⁶

As with the possible presence of the research effect, Accent has made no reference in the report to the possible existence of a directional line of questioning. Barclays is concerned that this risk – which appears very real and would have material consequences on the validity of the report – has been overlooked.

Barclays again refers the Commission to concerns over the design of the questionnaire that Barclays raised in an email to the Commission sent on 15 February 2010, none of which have been addressed in the version of the questionnaire at Appendix C to the report.

⁶ A similar effect may be present in other market studies, such as the ABI survey cited at 7.19 of the PD. If by the time the statement "I would rather my lender offered me PPI two weeks after I arranged the borrowing so I have time to consider my options" was read to the respondents, they had already been told that they could have shopped around, then it is likely that their response to this statement would be to agree strongly (so as to be seen to make use of this new information). This would not be the case in consumer behaviour in reality and so diminishes the credibility of the resultant findings.

3. SPECIFIC COMMENTS – QUALITATIVE ANALYSIS

The following comments are organised by reference to the section of the market research to which they relate.

3.1 Section 3.2

The choice to buy

The research states that:

"Most respondents had bought PPI at the same time as taking out their loan or mortgage. Many did so actively though the research also identified some who thought that PPI had to be purchased with the personal loan or mortgage, and that it was a prerequisite of being granted the loan or mortgage."

It is an important but largely unexplored finding that out of those respondents who purchased PPI at the same time as taking out their credit product (in itself, the majority of respondents), "many" (as opposed to "some", although Barclays notes its earlier remark that the report should properly not include such quantitative terms at this stage) did so who were aware both that PPI did not have to be purchased with the personal loan or mortgage, and that it was not a prerequisite of being granted the loan or mortgage.

This suggests that a significant number of customers choose to purchase PPI at the POS with full knowledge that the PPI must neither be purchased at that time (or indeed at all). In Barclays view, this finding is obscured by the emphasis on the lesser number of respondents who believed PPI to be mandatory, and does not receive proportionate prominence in the report.

Customer education

The market research states that "[any] association of the PPI with the loan request, if not actively endorsed by the financial advisors, does not appear to have been contradicted by them" and that "It was felt that more extensive clarification of what the PPI covered was required". The lack of customer education has been raised previously in earlier stages of the Commission's investigation and is addressed by the Commission's suggested personal quote. Barclays would submit that this problem can be remedied by means other than a POSP.

General comments

The research includes the following quotation from a respondent:

"As I say, I think, see when you go for these loans, they don't explain enough to you."

Barclays suggests that this appears to be a general comment and that it would be unfair to selectively apply a general comment on the nature and process of buying finance products to criticise one product (PPI) specifically.

3.2 Section 3.3

Market awareness

The research states that: *"the research also identified low levels of market awareness around the product."* Barclays again suggests that this problem could be remedied by means other than a POSP. Indeed, as mentioned above, this is already being addressed by means of the personal quote.

Value judgment

This section of the report includes the following text:

"[...] there was some reference to more subtle persuasive techniques used by the PPI providers to encourage them to take out a PPI with the personal loan or mortgage. These persuasive techniques included, for example, querying what would happen to their repayments if they or their partners lost their jobs or recounting scenarios of other problems that might materialise, such as ill health. Implied within this was the opinion that it would be prudent for respondents at that time to take out PPI to protect themselves from any such future problems. For these respondents the concerns that were referenced at this time brought their future possibility into sharp focus."

Barclays is unsure as to the intended purpose of this text. The suggestion appears to be that PPI providers were coercing customers into taking out PPI by scaremongering and that such behaviour is undesirable, unpleasant or unfair and may constitute mis-selling. If this is indeed the suggestion, then it constitutes a value judgement by Accent. Such a value judgement should only be expressed as respondent opinion, not by the agency, and is another example of prominence being inexplicably given to certain findings or, in this case, opinions.

Peace of mind

The research also includes quotations from respondents intended to substantiate the above value judgment:

"I think when we took out the mortgages, we hadn't really thought about it before we went in, but when we went into the bank it was more sold to us, they made it sound quite appealing, this is peace of mind" (Glasgow, Mortgage)"

"I think it was more I remember them just kind of painting scenarios in your head, of, you know, if you couldn't keep up payments, what would you do, that's the kind of questions, what would you do, well if you didn't have this, what would you do." (Glasgow, Mortgage)"

Barclays suggests that the above comments could be applied to virtually any form of insurance. Often, it is only when customers consider the possible consequences of not having cover that they consider purchasing it. The fact that the customers had not previously thought about the need for or benefits of PPI before taking out a credit

product should not be taken to indicate that PPI was not necessary or appropriate for those customers, or that the policy had in fact been mis-sold.

Accent states in section 3.8 of its report that although many respondents were initially opposed to a POSP, when they reflected further on its alleged advantages they came round to the idea. Accent suggests that this second, revised outlook can then be viewed as the respondents' true position. Barclays disputes whether such an interpretation of respondent views is robust, particularly in a research situation (see section 3.5 of this Annex); however, notwithstanding this doubt, it is at least clear that the same interpretation of customer behaviour could be applied here: some customers may not have previously considered PPI, but after exploring the benefits of the product and/or the potential cost of not having cover, they revise their view and purchase PPI cover. Following Accent's style of interpreting respondent views as seen in section 3.8 of its report, this second, informed position should be viewed as definitive and true, and any initial uncertainty as merely preliminary or uninformed.

3.3 Section 3.4

The market research appears to be contradictory here, stating:

"The most commonly cited advantage of purchasing PPI at the credit point of sale is that immediate cover confers on consumers peace of mind from the moment the personal loan or mortgage is taken out."

and

"The most commonly mentioned advantage of taking out PPI at the credit point of sale is that it affords customers a 'hassle free' seamless offering which once completed can then be 'forgotten about' until it is required."

These two statements differ. The first claims that the foremost advantage of purchasing PPI at POS is peace of mind. The second claims that the foremost advantage of purchasing PPI at POS is that it is 'hassle free'. However, the market research only goes on to fully consider the 'hassle free' / 'ease and convenience' benefit, largely ignoring what it earlier claimed was the most commonly cited advantage of purchasing PPI at the POS: immediate peace of mind.

Barclays is concerned that the benefits of purchasing PPI at POS have not been duly considered, as indicated here by the omission to properly discuss or analyse the most commonly cited advantage of purchasing PPI at the POS.

3.4 Section 3.5

Disadvantage

The market research states that:

"The most commonly cited disadvantage of purchasing PPI at the credit point of sale is that it fails to offer consumers sufficient time to fully comprehend what the PPI entails and, as importantly, what it omits to cover."

Barclays notes that the most commonly cited disadvantage of purchasing PPI at the credit point of sale is *not* that it does not allow customers the opportunity to shop around.

In any event, Barclays notes that the sale of PPI is heavily regulated with much of the sales process dictated by the FSA. Market developments over the previous few years have focused on providing customers with sufficient information to make informed choices.

Value judgment

Accent again offers a value judgment that should not be included in the report:

"It is certainly an easy option for consumers to say 'yes' to PPI at the point of sale but whether it is always the best option for them is another matter."

As with the previous instance in section 3.2, the tone of Accent's statement is negative: in this case, implying that to say 'yes' to PPI at the POS is not the best option for customers.

In addition to such undertones being unfair and improper (as the views of respondents are not being reported), they are not even verifiably true, as surely whether saying 'yes' to PPI at the POS constitutes the "*best*" option for a given customer depends firstly on how much value that customer places on ease (i.e. being able to take the "*easy option*"), and secondly on the definition of "*best*", a nebulous and vague term that is left entirely unexplored and unqualified in Accent's statement and, in reality, would relate to each customer's specific demands and needs.

Respondent quotations

Barclays is uncertain as to the intended effect of the respondent quotations included in relation to disadvantages of POS purchase in this section, such as the following:

"I probably didn't take as much notice but I would say that that's my fault for just wanting to get it out of the way. And probably the disadvantage is that you don't read the small print." (Manchester, Mortgage)"

and

"The first thing I would do is not just accept it because it's convenient. So in other words I would also want to read the small print before I made a yes or no. Because I really want to know what else it covers not just what I've been told." (London, Mortgage)"

The first quotation seems at least partly to defend the PPI provider, and so while the comment may still implicate a "disadvantage" of the sales process, responsibility for this cannot fairly be attributed to the PPI provider.

The second appears to indicate that when some customers purchase at the POS, they are not doing so for reasons of convenience and only do so after carefully considering the small print, i.e. they make an informed decision.

Customer education

The section includes the following quotation from a respondent:

"Well obviously you are at a disadvantage because you've got to pay whatever it is they're offering with the loan. You don't really have a choice." (Glasgow, Personal Loan)"

Barclays again notes that the problem identified in this comment – a lack of awareness that customers do indeed have a choice – is being addressed with remedies other than a POSP, such as the personal quote.

3.5 Section 3.8

'Research effect'

This section states:

"Initially for some respondents prohibition of the credit point of sale purchase of PPI meant additional inconvenience as they sought out other providers. However, upon further reflection and discussion, as research like this affords respondents greater time and opportunity for reflection than would naturally be the case, the inconvenience was considered to be outweighed by the advantage of being given the time to research other provider offerings."

This indicates that those respondents have only changed their intended behaviour as a result of being involved in the market research process. This unnatural effect is acknowledged by the statement: *"[...] research like this affords respondents greater time and opportunity for reflection than would naturally be the case."* Barclays suggests that this undermines the credibility of the consequent findings, and certainly voids the potential to extrapolate those findings to a wider population.

Considering the statement in more detail, it should also be noted that the respondents clearly state that they would prefer not to *"spend more time trawling through the offerings of other providers and repeatedly verifying their financial information with other providers."* By Accent's own admission, it is only when exposed to a market researcher that the respondents changed their views. Therefore it is at worst misleading and at best irrelevant to say that *"the inconvenience was considered to be outweighed by the advantage of being given the time to research other provider offerings"*, as such a view has been shown to only come about when the customer is interviewed by a market researcher and consequently changes their view.

It should also be noted that this finding is directly contradicted by market studies discussed in Appendix G to the PD: *"The conclusion drawn from [the market research] was 'that the prevention of PPI being sold at the credit point of sales does not fit with consumer needs and is likely to result in those needing protection going unprotected'"* (paragraph 17); *"The research concluded that 'all things considered,*

consumers would be better off having the ability to take out PPI at the credit point of sale rather than rely on consumers taking PPI after the loan or credit card had been purchased. Preventing consumers from buying the credit and protection products together would result in both consumers and financial providers being exposed to the consequences of unprotected credit'' (paragraph 35). Paragraphs 23-25 of Appendix G also discuss the overwhelmingly negative real-world customer feedback received in relation to pilot schemes of POSP-type sales processes, which also contradict the hypothetical customer sentiments claimed in the Accent market research.

Respondent views

The following statement, while noting that other PPI providers may be able to provide a cheaper quote, does not indicate at all that the respondent has changed their view or that the inconvenience of shopping around is outweighed by the advantage of being given the time to research other provider offerings:

""I got my PPI when I got a mortgage and I took this because it was more convenient for me... I did research and I found that it's more expensive than some other companies are giving." (London, Mortgage)"

Further, the most compelling comment quoted by the report is the following:

""None of these issues would inconvenience me now I know I can shop around; I thought they would inconvenience me at first, but if there are opportunities to shop around then they wouldn't inconvenience me." (Manchester, Personal Loan)"

As a result of the 'research effect' identified in the previous paragraphs, this respondent appears to have reversed his original view. This comment is the sole indication that respondents may find that the inconvenience of shopping around is outweighed by the advantage of being given the time to research other provider offerings. However, Barclays would submit that the issue here is one of market awareness, i.e. the respondent knowing that he can shop around. This problem could therefore be rectified with educational remedies, rather than a POSP, so that the respondent could have then chosen whether to purchase PPI at the POS (and receive a convenience benefit) or shop around the marketplace (and *potentially* receive a price benefit).

Minimum 'prize'

The contention that, on reflection, consumers would prefer to shop around and lose the convenience of the option to purchase PPI at the POS is therefore highly unreliable. However, the research then qualifies the assertion further by noting that:

"[r]espondents seemed unlikely ultimately to shop around for less than 20% discount and not for less than a £5 monthly differential. This is largely seen as a financial benefit from being 'allowed' to be more reflective rather than as compensation for a loss of convenience."

It is critically important to ascertain whether such a discount is available on the market, because if it is not then there is no benefit to the consumer from a POSP.

3.6 Section 3.14

Lack of awareness

The summary section opens by stating: *"The qualitative research clearly showed a lack of awareness amongst respondents about the PPI product."* This has clearly been borne out in several sections of the report. Barclays notes that a number of the respondents appear to accept the inconvenience of a POSP because it appears to present an alternative to not knowing that they have a choice of PPI products and providers. Barclays would only respond that a POSP does not appear to be a necessary remedy to rectify a lack of awareness.

Research effect

This section continues to make the following statement:

"The initial reaction to point of sale prohibition was one of concern about inconvenience but, after consideration, some respondents cited benefits that outweighed this inconvenience."

This is not substantiated by the evidence in the report (as discussed above in section 3.5 of the Annex in response to section 3.8 of the report). By Accent's own admission, it is only when exposed to a market researcher that the respondents change their views and cite benefits that outweigh the inconvenience. Indeed, throughout the report respondents have cited many other reasons that they prefer to purchase PPI at the POS, which the majority have stated that they prefer to do. These include: a desire to spend as little time as possible researching and buying PPI (section 3.11 of the report); concern about not being covered in the interim period (sections 3.4 and 3.6 of the report); acceptance that a reminder would be needed as they probably wouldn't get round to it (section 3.10 of the report); and the desire to minimise uncomfortable episodes of private financial disclosure (section 3.4 of the report).

Minimum 'prize'

The report then again highlights the minimum 'prize' required by respondents to justify shopping around in the event of a POSP:

"A 20% discount was seen as the minimum 'prize' for delaying the purchase but this was viewed more as a benefit of being reflective rather than compensation for the loss of convenience associated with not being able to facilitate a credit point of sale purchase of PPI."

Whether the prize is seen as a benefit of being reflective or compensation for the loss of convenience is in reality immaterial, as if such a discount is not available on the market (and easily located by consumers) then even those respondents who have indicated that they would shop around and accept a loss in convenience will not receive sufficient incentive to actually do so, rendering the POSP entirely devoid of consumer benefit.

4. SPECIFIC COMMENTS – QUALITATIVE ANALYSIS

4.1 Section 4.5

Presentation of data – advantage of POS

Accent appears to have drawn selective conclusions from the market research. The data in section 4.5 shows that the overwhelming majority of respondents purchase PPI at the POS without feeling in any way obliged or pressured to take it (instead purchasing PPI to receive immediate cover and gain peace of mind, or due to concerns over job security etc.). Yet the report stresses that:

"it is worth noting that almost a tenth of respondents, primarily those who had taken out a personal loan, did so because they felt that they were obliged to [...]"

Firstly, such misapprehension could be remedied by means other than a POSP, such as the personal quote or other educational methods.

Secondly, Accent places an undue emphasis on this confusion, which applies to just 7.5%⁷ of respondents (indeed, "almost a tenth" is a generous view of 7.5%). The corollary is that 92.5% of the respondents who purchase PPI at the POS do so under no such misapprehension, but the data is not presented in this way. Instead, a misunderstanding affecting only a very small minority of respondents receives disproportionate recognition, which Barclays submits is unfair and suggests that conclusions are being drawn without proper consideration of the available data.

This concern is amplified by reference in summary paragraph 6 and main body paragraphs 7.5 and 7.22 of the PD, in which the Commission states that "*some customers do prefer to buy PPI at point of sale*" (para 6, summary), that "[w]hilst *some consumers do prefer to buy PPI at POS [...] many other PPI customers would prefer to buy PPI later*" (para 7.5) and that "*Many customers like buying PPI at the same time as credit. Equally, however, many customers either like the option of being able to buy PPI later [...] and many or most prefer to take it out later [...].*" (para 7.22).⁸

Sections 4.5 and sections 4.14 of the market research show that in reality not just some, but *the majority* of customers prefer to buy PPI at POS. To state that merely "*some*" prefer POS but that "*many*" – a term with a greater quantitative value than "*some*" – prefer a delay is contrary to the evidence provided in the Commission's own

⁷ Out of 100% of PLPPI respondents and 100% of MLPPI respondents (i.e. 200 percentage points), only 11% of PLPPI respondents and 4% of MLPPI respondents (11 + 4 = 15 percentage points) said that they thought that they had to/felt somewhat pressured. Aggregate percentage: 7.5%.

⁸ Similar statements that do not reflect the market research can be found in paragraph 7.19 of the PD, where the word "many" is used to describe the quantity of both those customers who prefer POS and those who prefer a delay (when in reality, these two quantities are not equal, as the majority prefer to purchase at POS and the minority prefer to purchase after a delay). Another example is provided in paragraph 7.95, which summarises the results of the survey as being that "many" customers prefer POS "but many other" customers prefer a delay, again affording the two alternatives an equal billing that the survey evidence does not substantiate. Paragraphs 7.101 and 7.115 provide a further examples.

research. To say that merely "many" prefer to buy at POS while "equally [...] many or most" prefer to buy after a delay is similarly in direct opposition to the research carried out by Accent.

Presentation of data – disadvantage of POS

A similar concern arises in relation to responses to the disadvantages of purchasing PPI at the POS. The research states:

"Between half and two thirds of respondents cannot see any disadvantages with taking out PPI at the credit point of purchase although a significant minority considered that it reduced the opportunity to shop around or to make an informed decision."

Again, this "significant minority" of approximately 18% receives 'equal billing' with the majority view that there do not appear to be any disadvantages of purchasing PPI at the POS.

Barclays suggests that an equally valid way of presenting the above finding would be to declare that even in a market research situation where respondents are being asked to carefully consider their choices, the majority of respondents do not cite any disadvantage whatsoever of taking out PPI at the POS. This suggests that the POSP would remove disadvantages that in reality, to the majority of customers, do not exist.

4.2 Section 4.7

With regard to the methodology used in the Stated Preference Exercise, it should be noted that the key parameter to be tested - the utility score of the delayed purchase of PPI- is the least important factor (coefficient of 0.06 for 24 hours and 0.17 for 7 days) and the weakest driver (willingness to pay values of n/s and 3.70 respectively). While Barclays notes the importance of masking the key aspect with other issues, the subsequent findings are less relevant and ultimately less credible when the aspect supposedly being examined is the least important issue being considered.

4.3 Section 4.8

Accuracy of attribution

Notwithstanding the questions over reliability referenced above, the only quantitative evidence for any preference for delaying sale of PPI comes from the stated preference section. This section states: *"there is a statistically significant positive benefit attached to delaying the option to purchase to 7 days"*. It is not clear that the research can support this statement. This is because this issue contains two combined but distinct benefits: the length of delay before contact and whether the contact is proactive or reactive.

It is therefore impossible on the basis of the available data to say whether the customer is attaching a benefit to the 7 day delay (as opposed to 24 hours) or the proactive comment (as opposed to reactive) from the PPI provider. Someone who wants the hassle taken away and would prefer to be called is therefore required to opt for the 7 day option regardless of whether that specific time period is important to them. While Barclays recognises that the presence of a delay is certainly a key factor

for this combination (as it is the only difference from the base scenario), it cannot be concluded whether proactive contact and a 24 hour delay would have scored more or less positively than proactive contact and a 7 day delay.

This is an error in the questionnaire design and Barclays view, also expressed in the email to the Commission sent on 15 February 2010, is that that these variables should have been separated out so that credible conclusions could have been drawn.

Utility score for delay

Barclays notes that the utility scores for delay (MLPPI: 0.14 for a 24 hour delay and 0.26 for 7 days; PLPPI: 0.06 for a 24 hour delay and 0.17 for 7 days), are the lowest utility scores of any factor. This substantiates Barclays concern that the analysis has been carried out on data where the key issue to be considered has been the least important issue offered for consideration to respondents. The extreme values of 0.26 and 0.17 for MLPPI and PLPPI respectively pale next to the extreme values of the other factors under consideration (0.85, -0.93, -0.93, 0.94, 1.32 and 1.35).

4.4 Sections 4.12 and 4.13

WTP for POS

The research recognises that the majority of respondents, i.e. those who prefer to take out PLPPI at the POS, attribute values to their ability to do so. While the level of values (£7.30 and £9.00) is not as hysterically high as that which a minority of respondents claim they would attribute to a POSP (see "WTP for a delay: 'research effect'" below), Barclays notes that at 24% to 30% of the mean average monthly premium for PLPPI in the survey (£30.50 – see section 4.2 of the report), these values are significant.

Barclays notes that £7.30 as a percentage of £30.50 is 23.934%. In Barclays view this ought to be rounded up to 24% rather than down to 23% (the figure cited by the Commission in paragraph 7.25 of the PD).

In relation to MLPPI, it seems strange to Barclays that those 50% of respondents who have stated that they prefer to take out MLPPI at the POS would attribute a value to that preference that is *"not statistically different from zero"* (PD, paragraph 7.25).

WTP for a delay: 'research effect'

As discussed in section 2.8 of this response, in Barclays view the values those respondents who prefer a delay attribute to the restriction of their choice (£25-£30 per month) are unrealistically high, which indicates that the respondents are not responding rationally to this question. Barclays believes that this finding is so unreliable as to be disregarded entirely. At the least, the finding should be viewed as an anomalous by-product of the market research process and should not be extrapolated to characterise wider customer behaviour and should not be used as a basis for the modelling, as seen in Appendix I to the PD.

It should also be noted that while the research has elsewhere noted that customers require a 20% discount to incentivise them to shop around (section 3.8 of the report, discussed in section 3.5 of this response), the research now claims here that they

would pay a 24-30% premium for the opportunity to do so. (Though Barclays again notes that customers will always have this opportunity to shop around – removing the POSP will not remove customers' ability to choose to delay.)

The fact that respondents have ceased to respond rationally by this point in the survey also raises concerns as to the reliability of other responses, e.g. to the immediately following question.

4.5 Section 4.14

A key finding of the report, in Barclays view, is presented in this section, namely:

"There were more people that said that they would prefer buying PPI at the credit point of sale than having a delay before taking out the PPI."

60% of PLPPI respondents (65% of those who expressed a preference) and 50% of MLPPI respondents (58% of those who expressed a preference) prefer to purchase PPI at the POS. Again, this finding does not appear to have received the prominence afforded to others elsewhere in the report.

This finding is also not properly reflected in summary paragraph 6 and main body paragraphs 7.5 and 7.22 of the PD, as discussed above in the response to section 4.5 of the report (see section 4.1 of this response).

Barclays also notes that this finding is mirrored in the studies discussed in Appendix G to the PD. The study discussed in paragraph 4 concludes that "[f]or [70-80] per cent of respondents the best time to actually purchase PPI was when applying for the loan"; the study at paragraph 6 notes that "overall the majority of consumers would like to take out PPI when getting a loan [...]"; . This important finding therefore appears to have been repeatedly produced across several surveys carried out on behalf of various parties, which in Barclays view merits a greater significance being attached to it than that currently allowed by the Commission.

4.6 Section 4.15

This section states that, *"in line with the findings of the qualitative research [...] The main reason respondents gave for preferring to buy PPI at the credit point of sale was that it offered 'peace of mind'."* This contradicts section 3.4 on qualitative research (discussed at section 3.3 above), where the report states: *"The most commonly mentioned advantage of taking out PPI at the credit point of sale is that it affords customers a 'hassle free' seamless offering."* This again shows inconsistencies in approach.

Additionally, table 18 shows that the main reason that respondents who prefer to purchase their PPI after a delay choose to do so is so that they are *"[a]ble to make an informed decision (read small print, take time, understand documents)"*. Barclays notes that the next most popular reason – to shop around – is a close second, but it should not be overlooked that the main reason for delaying PPI purchase – as cited by the respondents who do so themselves – is not to shop around, but simply to properly digest the documentation.

5. CONCLUSION

In Barclays view, the market research report contains numerous errors that vitiate the resultant conclusions drawn by the Commission.

- The report places certain aspects in the foreground and others, such as the key findings that the majority of customers prefer to buy PPI at the POS and that 92.5% of the respondents who do so are fully aware that PPI is not mandatory, in the background.
- There are errors in the substance of the report, in making a critical error in the analytical approach and making unsubstantiated value judgments, and errors in the design of the questionnaire, both as previously raised by Barclays and in the inappropriate presentation of a POSP as a direct alternative to a lack of market awareness.
- It is clear that a 'research effect' has significantly affected several of the responses provided, which undermines the reliability of the survey evidence and the related conclusions drawn, and yet which remains largely unacknowledged by the report. The most significant of these is the explicit reversion of respondents views (as a direct and unnatural result of taking part in the research) to claim that the inconvenience of a POSP would be outweighed by the benefits.
- There is also evidence that the lines of questioning used in the research have made it more likely that certain responses would be elicited.
- The report unfairly depicts the sales process of PPI as one of sinister "*subtle persuasion*" and scaremongering and at certain points wholly ignores the consumer benefits of purchasing PPI at the POS (particularly peace of mind), despite the fact that these benefits are quantitatively shown to have far more significance.
- The only quantitative evidence for any preference for delaying sale of PPI comes from the stated preference section, which contains a serious design fault by bundling a 7 day delay along with proactive contact from the seller, thus artificially inflating the appeal of a delay in the sale of PPI.
- The usefulness of the disputed conclusion that consumers on balance prefer a POSP as the inconvenience allegedly outweighs by the benefits entirely relies on the 'minimum prize' of a 20% discount being available on the market, which neither Accent nor the Commission has shown to exist.