

## Market Research Assessment

**Project: Consumer Attitudes to Payment Protection Insurance: April 2010**

**Original Research by:** Accent

**Original Research commissioned for:** The Competition Commission

**Reviewed by:** Philip Graves      28<sup>th</sup> May, 2010

### About the Author

Philip Graves graduated from Sheffield Polytechnic with a BSc in Applied Statistics. He became Market Research Manager for Eagle Star Life and then, following two years with a traditional market research agency specialising in financial services research, Research and Brand Strategy manager for Pizza Hut. He has more than 20 years experience in the market research industry and his first book *Consumerology* (about market research and consumer behaviour) will be published later this year. He has advised numerous international businesses, including Comet, ITV, Whirlpool, Dr Martens, New Covent Garden Food Company, Camelot, Virgin Media, Hotpoint and Pepsi.

### Introduction

This report was commissioned by HSBC in relation to the Competition Commission inquiry into payment protection insurance. I was asked to review the research that had been commissioned by the Competition Commission with Accent, entitled *Consumer Attitudes to Payment Protection Insurance Report (April 2010)*.

I received the report, which included the discussion guide and quantitative questionnaire, on May 20<sup>th</sup> 2010. Prior to this I had had no involvement with this case or as a consultant to HSBC.

To review the research I first assessed the questions asked in both the qualitative and quantitative phases by reviewing the *PPI Purchase Focus Group Guide*, the *Depth Topic Guide* and the quantitative questionnaire (*2092 Payment Protection Insurance*). I then reviewed the report written on the basis of the data obtained and the conclusions drawn.

After completing my assessment the *Survey Moderator Report (May 2010)* by Sheila Robinson was forwarded to me by HSBC. Nothing in it caused me to revise my own assessment of the original research or the conclusions I have drawn about it.

## Overview of Observations

I have studied this research in detail and do not believe it provides a reliable assessment of consumer opinion for several reasons:

- The Stated Preference test is fundamentally flawed.
- The focus group findings have been used inappropriately.
- I strongly suspect that some of the responses have been inadvertently primed by the questions and question order.
- The quantitative research did not adequately address the importance of peace of mind to consumers.
- The reporting of the results and conclusions drawn are not, in my opinion, balanced given both the data obtained and its limitations.

## Detailed Observations

### The Stated Preference Test

The Stated Preference (SP) test is, in my opinion, invalid for two fundamental reasons.

Firstly, the variables it contains take two forms:

1. Product attributes: these are functional components of PPI that could reasonably be expected to relate to the price consumers pay (type of cover, period of time covered for).
2. Process attribute: when the product might be purchased in relation to the related product (time of purchase).

These require different mental processing. Considering the type of cover and period of time they will be covered for requires a respondent to create a value calculation against his own needs in light of the price being charged. However, contemplating the implications of delaying purchase requires respondents to project how they would act in circumstances that are, for the vast majority of the sample, hypothetical. In one instance customers are considering what they want, in the other they are speculating how they will behave. Three attributes are tangible and one is abstract. In my view, mixing these types of attributes compromises the test.

In its justification of the use of the Stated Preference test “Why Stated Preference” the report says:

*“Stated preference is a very robust mechanism for looking at how people trade off different elements of a service offering. Specifically where cost is involved it can also be used to calculate consumer willingness to pay/accept (WTP/WTA) changes in specific individual aspects of a service.”*

However, the ‘time of purchase’ variable used in the test is not associated with cost and nor is it a service (although, as explained in the next paragraph, given the compound statements used it has been mixed with a service element), it is associated with emotions. I believe that consumers will have reacted to the comparisons with inauthentic rationality because of the format of the research itself and the nature of the other variables being considered. The hugely significant emotional component of consumer behaviour is not reflected by the test.

Secondly, the Stated Preference test is not testing what the report purports and what the research objectives intend. Despite being consistently referred to in the report in terms of the time between PoS and purchase of PPI, the statements used combine both the timing **and** the direction of communication (i.e. if the customer contacts the provider or if the provider contacts the customer). By combining two factors in one statement it is impossible to know what is driving respondents’ responses. Consequently, the results of the SP test could be a consequence of customers valuing the amount of time available to them, or what party is required to initiate contact, or due to some interaction between these two components.

In addition, it does not appear that respondents were allowed to select a 'neither' response as is advocated by some experts (and as would more accurately reflect reality). In *Stated Preference Techniques: A Guide to Practice (1990)* Pearman and Kroes state:

*"Improved realism can be built into the context of the exercise, the options that are presented and the responses that are permitted, in a number of ways:*

....

(x) *Allow respondents to opt for a response outside the set of experimental alternatives."*<sup>1</sup>

It is also worth noting that the results of the Stated Preference test are not consistent with consumer behaviour in general. Consumers frequently pay more for convenience or to satisfy desires immediately. Whilst a lot of consumer behaviour is not rational it is hard to conceive of comparable scenario where consumers choose to delay purchase so that they can pay more for the same product subsequently.

## The Focus Group Findings

There is considerable research that shows how focus groups change the way in which people think. The combination of inadvertent priming and social influence are responsible for people saying things that they would not were the other people not present. Crucially, it has been shown that analysing a topic in the way portrayed by the discussion guide (where people are asked to generate advantages and disadvantages) changes what people think.<sup>2</sup>

The section of the report that describes customers “Attitudes towards Prohibition of Point of Purchase of PPI” (section 3.8) reports such an instance of apparent change in position as a result of discussion.

*“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.”*

Another issue is the willingness of the report’s authors to accept respondents’ idealised claims in focus groups. Section 3.8 acknowledges part of the artificiality of the degree of consideration given to the question of prohibition of PPI at the point of purchase. However, it doesn’t acknowledge the artificial priming that takes place if one respondent in the group raises a reason that appears sensible, raises it on more than one occasion (which has been shown to increase persuasiveness) or raises it in an authoritative way.<sup>3,4,5,6,7</sup> Respondents ‘deduced’ an idealised position: i.e. that they would get more time (true) and they would use that time to source PPI from other providers (idealised). When speculating about what they would do in the future people consistently idealise in ways that negate their own experiences of behaving differently and it is unwise to attach any significance to these claims.<sup>8</sup> The fact that a finding is obtained as the result of more protracted analysis or greater introspection doesn’t make it more accurate or representative.

Focus groups can serve to generate ideas from consumers. Any further use of them is, in my view, misguided. Consequently, it is inappropriate for the report to suggest that the focus group findings can support the conclusions drawn from the quantitative research.

## Inadvertent Priming

There are several instances where I suspect that the answers provided have been primed by questions raised earlier in the research.

For example, in the qualitative research section 3.9:

*“I think a couple of days again, because then that gives you the chance to shop around, you know, now that [sic] know that you can do that, I think a couple of days you should be able to shop around in that time, shouldn’t you.” (Glasgow, Personal Loan)”*

The respondent appears to be saying that they have now been made aware (as a result of the discussion) that a delay would provide an opportunity to source alternative PPI providers elsewhere. This seems to be knowledge that has been acquired from the research itself (see also 3.3):

*“Most respondents did not know that it was possible to take out PPI with a different provider at a different time.”*

If consumers in general are unaware of alternatives there is no reason to believe they will proactively acquire knowledge about a subject they find intrinsically complicated.

In the quantitative research the responses to Q18 (importance of four statements) will almost certainly have been primed by the Stated Preference exercise. Having just spent time analysing alternatives that included the time of purchase, and that framed it alongside factors that are inherently important (i.e. price and cover), respondents may have been conditioned to think of this variable as more significant than would be the case otherwise. I am confident that if this question was repeated in isolation it would elicit a different result.

## The Importance of Peace of Mind

From the comments made in the qualitative research (particularly those that were less tainted by discussion) I believe that the importance of peace of mind to consumers has not been adequately represented in the quantitative questionnaire.

The qualitative report states:

*“The main reason for taking out PPI was that it offered consumers ‘peace of mind’, especially with respect to unemployment uncertainty.” (Section 3.3 Reasons for Taking out PPI)*

In the quantitative research this factor is also referenced extensively in the spontaneous answers to Q15: Was there a particular reason why you took out your Payment Protection Insurance at exactly the same time as the mortgage/loan?<sup>1</sup>:

- “By being covered straight away for peace of mind” 23%/28%
- “For job security – the present economic climate” 12%/10%
- “In case anything happened to me/a change in personal circumstances” 15%/5%

However, no prompted question raises the consideration of consumer “peace of mind” as a driver of purchase timing, nor is it referenced in the description prior to the Stated Preference test.

Conversely, the introduction to the SP test does mention the opportunity (or benefit) of additional time (i.e. after explaining the time of purchase delays of 24 hours or seven days: “If you want to take out Payment Protection Insurance from another provider you can do this at any time.”

Having identified a significant issue at the qualitative stage it could be argued that, in addition to its other flaws, the SP test was biased in not drawing respondents’ attention to the potential risk associated with delaying purchase of PPI alongside the potential benefit.

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<sup>1</sup> Since this question was multi-coded it is impossible for me to know what proportion of the sample expressed one or more of these answers.

## The Reporting of Results and Conclusions Drawn

There are instances in the report where I believe the document is contradictory or inaccurate. I also find it impossible to agree with the ultimate conclusions drawn by the author.

The following passages are inconsistent (bold added for emphasis):

*“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.” (Section 3.2)*

And:

*“**Many** respondents were therefore left with the erroneous belief that PPI purchase was simply one stage in the process of getting the loan or mortgage granted by the provider.” (Section 3.2)*

Either some thought that PPI had to be purchased or many did (both statements can't be true).

The reporting on the Stated Preference test makes a fundamental error:

*“This table also shows that, with regard to the time of purchase, there is a statistically significant positive benefit attached to delaying the option to purchase to 7 days and an **insignificant positive benefit** attached to the 24 hour option.” (Section 4.8)*

Statistically-speaking there is no such thing as an “insignificant positive benefit”: the benefit is either statistically significant or it is not. In this case the difference is such that it could be attributable to chance. A similar error is made in Section 4.12 that suggests *“While there were some differences between these groups, none of these differences were statistically significant.”* Again, the report should state that there were no statistically significant differences between groups.

The report makes an unexplained change of reporting style: in Table 5 statistically insignificant WTP amounts are shown along with the t stat. From Table 9 onwards no WTP amount or t stat is shown if the t stat is not statistically significant.

I find the reporting and analysis of Table 10 in Section 4.2 peculiar.

*“Although many MPPI consumers articulate the value of convenience of buying MPPI at the credit point of sale, there was a market segment that **argued more strongly** for the preference for a short delay. The overall effect was that customers would be willing to pay for a delay in MPPI purchase.” Section 4.2*

The use of the phrase “argued more strongly” implies that there is some kind of weight of argument consensus that can be derived from differing opinions obtained in quantitative research. There was no discussion (or argument) taking place: a minority attributed a large significant value for a delay in purchase. However, as previously stated, this paradoxical result may be explained by failures of the

SP test. Also, there is no “overall effect” in consumer terms; this effect exists only in abstract statistical terms.

The contrast in WTP figures for delaying purchase of PPI between Personal Loans and Mortgage customers leads me to suspect that the question is more closely related to how respondents perceive having contact with a financial institution during a complex transaction. In other words, the difference is primarily driven by the direction of communication given the nature of the financial product involved.

The report’s conclusions include the following paragraph:

*“Although many consumers readily articulate the convenience value of buying PPI at the credit point of sale, there is a market segment that argues more strongly for the convenience of a short delay.”*

As stated previously, the author seems to believe that there is a ‘weight of argument’ component involved and uses the phrase “argues more strongly” – which I believe is invalid – to discount the more legitimate finding that consumers articulate the convenience of buying PPI at the credit point of sale:

- Most of them do currently buy at the point of sale (i.e. their Revealed Preference is to buy this way).
- 55% of all respondents have a preference for buying at this time (Vs 33% who prefer to delay).
- 57% of all respondents can think of no disadvantage to buying PPI at the credit point of sale.

Later in the conclusions the author states:

*“There is a quantifiable loss of convenience for PLPPI customers wanting to buy at the credit point of sale but the preference of those who prefer to buy later is stronger.”*

And...

*“Overall there is no quantifiable net loss of convenience in either product if the credit point of sale option was taken away. Indeed, overall there is a willingness to pay for a delay.”*

Again, I disagree that the *weight* of preference of any one group is a relevant factor in the balance of the argument. In theory, had one individual been able to express a sufficiently high willingness to pay to defer purchase of PPI it could have negated the view of the remainder of the sample! However, more importantly I consider the Stated Preference test to be fundamentally flawed and the conclusion that any consumers are willing to pay more for a less convenient purchase is implausible.

## Recommendation for Future Evaluations

I remain unconvinced that a Stated Preference test, even where the variables of delaying purchase from the point of sale of the loan and the method of communication are separated, can provide reliable data in these circumstances. The requirement on respondents goes beyond what people are capable of reporting accurately in interrogative market research:

1. People are unlikely to hypothesise their reaction to an unconsciously experienced emotional driver of behaviour accurately (i.e. the risk felt in delaying purchase)
2. People have a tendency to idealise how they will act in the future and their projections of how they will use the time available from a compulsory delay are, in my view, unlikely to be borne out in practice (particularly given the complexity many attribute to the process and how unrewarding many find interactions with financial products that they only experience a few times in their lives).

I recommend constructing a live trial using a test and control approach. Customers arranging a loan or mortgage in the test cell (or cells if 24 hour and seven day alternatives are to be evaluated) would be informed of the requirement for a delay between taking out the loan and arranging PPI, a control cell would offer PPI on the present basis. The take-up rate for PPI with the institution offering the loan could then be compared to provide real data for the proportion who take out a policy. Follow-up interviews could then be used to establish the behavioural actions of participants, to identify the proportion that claim to have taken out a competing policy and those who have opted against taking out PPI cover entirely. If required, respondents could also be asked about how convenient they found the process (although, to an extent, this could be deduced where customers who opt for PPI cover take out the policy with the institution providing the loan).

The above approach is a significantly purer because it ensures that the emotional components of behaviour are included. Having studied the psychology of consumer behaviour extensively I have developed a set of criteria to evaluate the reliability of any consumer insight (known as AFECT). The more of the AFECT criteria that are met the more dependable any insight obtained is likely to be:

**Analysis of Behaviour:** the data would be an analysis of behaviour not, for the most part, respondents' post-rationalised claims or projections. The data obtained in any follow-up work would focus primarily on reported behaviour (what respondents went on to do subsequently) and any claims made about convenience could be set against a knowledge of how that respondent actually acted.

**Frame of Mind:** participants in the study would be in the same frame of mind as they are when considering PPI cover because the situation is entirely realistic. An unfortunate consequence of market research questionnaires is that the nature of question and answer engenders a particular frame of mind. In this case there is some evidence that customers feel anxious about the complex decisions they are taking; they won't occupy this same frame of mind when answering survey questions.

**Environment:** the environment is, arguably, the biggest influence on consumer behaviour. This approach ensures that the environment is as realistic as possible.

**Covert:** where people know they are being watched or monitored there is a tendency for them to adapt their behaviour. In this case participants would not know they were taking part in a trial until they were contacted subsequently (after the behaviour that is of most relevance has occurred). Unfortunately, it is inevitable that those involved in selling PPI would be aware that they were participating in a trial and may adapt their own behaviour as a consequence.

**Time:** different mental processes occur at different speeds. By placing the test in a live setting the participants would be determining the speed and degree of mental processing they want to apply to the task (and the amount of information they want to reference). In a Stated Preference test participants are making artificial comparisons (because some variables have to be excluded for reasons of practicality) and the time they take is a by-product of the research process and the format used.

Whilst a live trial (test and control methodology) is less convenient than interrogative market research methods, it is the most reliable approach available to gauge how consumers will act in a new scenario.

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28<sup>th</sup> May 2010  
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## References

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