PPI remittal

HSBC Bank - Supplementary response to Provisional Decision following access to CC data room

1 Introduction and summary

The CC published its Provisional Decision on 14 May 2010, alongside research conducted by Accent intended to understand customer preferences regarding protection products.

HSBC responded to the Provisional Decision document on 4 June 2010, raising a number of serious concerns with the CC's findings, and its use of the customer research in particular.

Following requests for access to the survey data underlying the Accent customer research, the CC allowed access to a data room containing the full set of individual responses to the customer survey. HSBC made use of the data room to review these responses.

HSBC's review has provided further evidence that the CC's interpretation of the Accent market research - and the willingness-to-pay results in particular - is seriously flawed. Moreover, the individual responses to the customer survey reveal that a correct interpretation of the results is actually in line with the evidence from the "real world" experiments that HSBC has previously urged the CC to use. In particular, the individual survey responses offer strong support for the conclusion that the proposed package of remedies would significantly harm consumers:

- The evidence shows that there are a majority of customers who prefer to buy at the credit point of sale (POS). These customers provide consistent and coherent reasons to support this preference, and would be harmed by the introduction of a point of sale prohibition (POSP).

- The evidence shows that a minority of customers prefer to buy after the POS. However, customers are already able to buy after the POS if they so wish. Of the existing customers surveyed, the POSP would only have been of possible benefit to a small subset of existing customers who bought at the POS for reasons other than personal preference.

- While the CC's modelling allows for these two groups, their respective weight in calculating the effect of the package of remedies on consumer surplus is captured using the willingness to pay (WTP) results contained in the Accent research. HSBC has previously submitted arguments to show that these results are counter-intuitive and should not have been used. Ignoring the WTP evidence, the survey evidence indicates that the group of customers who prefer buying at POS feel at least as strongly about their preference as those who prefer to buy after the POS.

As previously submitted, HSBC would urge the CC to reconsider the imposition of the POSP in the light of all this evidence. The imposition of a remedy package including a POSP is disproportionate to the aim it seeks to achieve. HSBC has previously suggested alternative remedies to substantially mitigate the AEC in a proportionate manner (for example, a package of information and transparency remedies coupled with a break in the sales process) which would permit those customers who prefer to delay their purchase of PPI to do so but would have the added significant advantage of not harming what both the Accent survey and the "natural experiments" show is the majority of customers who prefer to buy at the POS.

2 The survey exercise was intended to understand whether people value buying at the POS

The objectives of the Accent research were to:

- "Understand consumer likes and dislikes in purchasing PPI at the same time as the loan it is connected to"
- "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"
- "Quantify any potential loss in convenience from the consumer perspective."

HSBC submits that these were appropriate objectives for the customer research. However, as HSBC has previously argued, the Accent market research (and the CC's interpretation of it) is flawed. In particular, the finding that customers are willing to pay a significant amount in order to delay their purchase of PPI is a counter-intuitive and unreliable conclusion, which is inconsistent with other findings in the Accent survey and the CC's own market analysis.

Within this context, HSBC has reviewed the full survey results made available in the data room. Below we provide an analysis of the evidence that meets the objectives of the survey exercise set out above.

3 The majority of customers value the POS and would be harmed by the POSP

Question 14 of the survey asks customers (who have all previously purchased PPI) whether they purchased their PPI at the credit POS. The vast majority (710 out of 806, 88%) did purchase at the POS.

Question 15 asks those customers who say they took out PPI at the POS why they did so. Of the unprompted responses a number relate to reasons that would be lost or diminished if the opportunity to buy PPI at the POS was removed:

- Convenience/easier;
- Being covered straight away/peace of mind;
- It was offered/explained to me;
- In case anything happened;
- How I've always done it;
- Wanted it from the same provider; and
- Seemed like a good idea at the time.

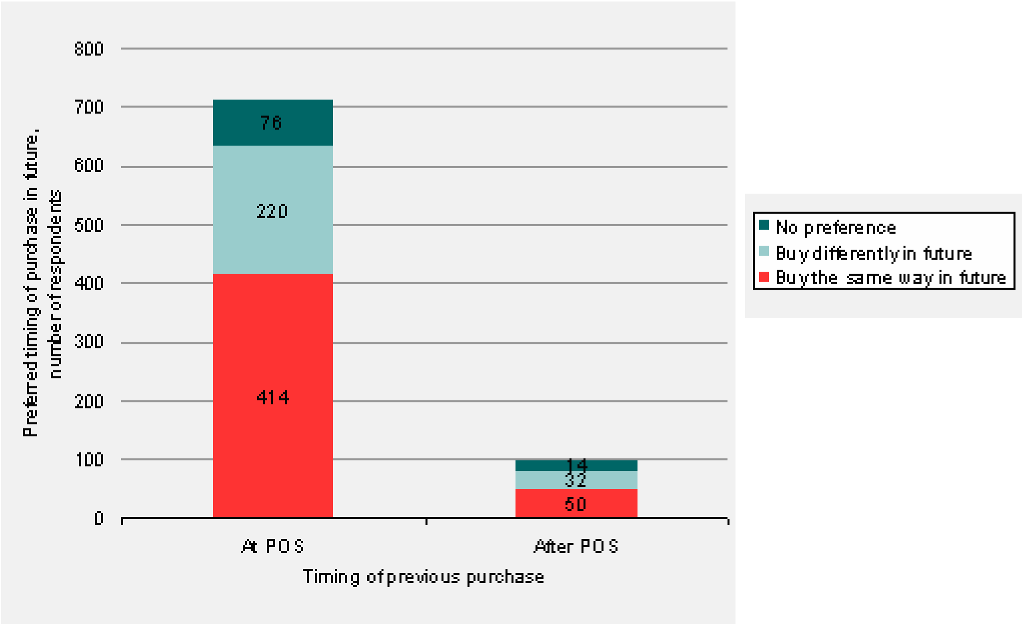
The full survey data shows that 60% of the total sample provided one or more of these responses to the question.

Question 19 of the survey asked if respondents would prefer to take out the PPI at the POS, or if they would prefer to take it out later. A majority of consumers (446 out of 806, 55%) prefer to buy PPI at the same time as they take out a loan.

Customers with experience of having bought at the POS are no more likely to say they want to buy at a later point than customers who bought at a later point are to say they want to buy at the POS. This is shown in Figure 1 below.

Of the 710 respondents who say they took out PPI at the POS, 31% (220 individuals) say they would instead prefer to take it out later. Of the 96 respondents who say they took out PPI later, 33% (32 individuals) say they would instead prefer to take it out at the point of sale. Therefore the time of purchase experienced by customers does not significantly affect their future preferences.

Figure 1. Preferred timing of future PPI purchase, compared with previous timing of PPI purchase



Source: HSBC analysis of Accent survey data

Consequently, the survey evidence informs us that the majority of customers:

- Have previously bought at the POS;
- Report positive reasons for having bought at the POS;
- Would prefer to buy at the POS in the future; and
- Are no more likely to change their preference about the time of purchase than those who previously bought after the POS.

This majority of customers would therefore clearly be adversely affected (e.g. in terms of loss of convenience) by the introduction of a POSP.

4 A minority of customers prefer a delay, but only a small subset would benefit from the POSP

Only one in three customers (270 out of 806, 33%), in response to question 19, expressed a preference to buy PPI later.

Question 17 asks whether there are any disadvantages of buying at the credit POS. A majority of respondents (458 out of 806, 57%) could not think of any disadvantages.

Question 16 asks whether there are any advantages of buying at the credit POS. Only 214 respondents out of 806 (27%) could not think of any advantages. This is fewer than the number who prefer to buy after the POS, indicating that some of those individuals could see some advantages to buying at the POS.

Responses to question 17 indicate a number of disadvantages identified for buying at the POS, such as:

- No time to shop around;
- More expensive (cheaper deals elsewhere);
- Pressured into a decision;
- Unable to make an informed decision;
- Feel I was incorrectly sold the policy/misled; and
- Creates an unexpected rise in initial payments.

However, customers are currently able to buy after the POS if they prefer. Customers can avoid the majority of these disadvantages of buying at the POS, if they are important enough to the customer, by buying later.

There might be an exception in the case of two identified disadvantages. Specifically, customers that reported that they felt pressured into a decision, and customers that reported that they felt they were incorrectly sold the policy.

Only 39 respondents who reported that they felt being pressured was a disadvantage of buying at the POS (5% of the total sample), according to Accent's classification of these responses. However, having reviewed these individual responses HSBC believes that some responses should not have been classified in this way. For example, individual responses included:

- "We disputed having to take PPI because if I hadn't taken it my mortgage would have been cleared earlier";
- "At the time you want to get it finished so you just say yes"; and
- "You just want it all to go through, probably you might not look over all your other options so well".

It is not clear that in any of these cases the respondent was pressured. Moreover, of the 39 respondents, 21 suggest the timing of the purchase is "not very important" or "not at all important" (54%, compared to 43% across all respondents to question 18). And of the 39 respondents, 11 would still prefer to buy at the POS. These results are shown in Table 1 below.

Only 12 respondents who reported that a disadvantage of buying at the POS was "feel I was incorrectly sold the policy / mislead (sic) over policy (unnecessary, does not cover my circumstances)" as classified by Accent (1.5% of the total sample). However, those classified in this way included individuals who responded:

- "Of course if you're not going to use it";
- "You can probably get the wrong type of coverage every now and then";
- "You pay too much for some of the things you don't need";
- "Not that I was aware of, having read about the PPI, I am not sure I necessarily need"; and
- "No not really, I might not do it at all if I didn't do it there and then".

It is far from clear that in any of these cases the respondent had been misled or incorrectly sold the policy. Moreover of the 12 respondents, 6 suggest the timing of purchase is "not very important" or "not at all important" (50%, compared to 43% across all respondents to question 18). And of the 12 respondents, 3 would still prefer to buy at the POS.

Table 1. Responses of individuals who identified "pressured into a decision" or "feel I was incorrectly sold the policy" as disadvantages of buying at the credit POS

Response	Number of individuals	Number reporting that timing unimportant	Number reporting preference to buy at POS
"Pressured into a decision"	39	21 out of 39	11 out of 39
"Feel I was incorrectly sold the policy"	12	6 out of 12	3 out of 12

Source: HSBC analysis of Accent survey data

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Therefore the survey evidence shows that a minority (33%) of customers prefer buying after the credit POS. An even smaller minority of customers (6.5%) identify disadvantages of buying at the credit POS that would be avoided as a result of imposing the POSP. Of these 6.5% of customers:

- Over half felt the timing of the purchase was "not very important" or "not at all important" to their decision;
- Some would still prefer to buy at the POS in future; and
- Some of these customers' responses have been wrongly summarised, indicating that the potential benefit of a POSP is even smaller still.

Of the remaining 26.5% of customers who prefer to buy after the credit POS, many previously bought at the POS, even though the opportunity to buy later has always been available. One possible explanation for this is that these customers do not feel strongly about the timing of their purchase. This is consistent with the responses to question 18, see below.

5 Those customers who prefer buying at the POS feel at least as strongly about their preference as those who prefer buying later

The Accent research report suggested that while a majority of customers value buying at the credit POS, "there was a market segment that argued more strongly for the preference for a short delay." However, this conclusion was based on the willingness-to-pay evidence which HSBC has argued strongly is counter-intuitive and unreliable.

By comparing responses to question 18 with question 19 it is possible to assess the claimed importance of when PPI is bought to people who prefer to buy at the POS, with the claimed importance to those who prefer to buy it later.

- Of respondents who expressed a preference to buy PPI at the POS, 64% said that the timing of purchase was either "very important" or "quite important" (32% and 33% respectively).
- Of respondents who expressed a preference to buy PPI later, 50% said that the timing of purchase was either "very important" or "quite important" (20% and 30% respectively).

This evidence indicates that those customers who prefer buying at the POS feel at least as strongly about their preference as those who prefer buying later. Half of the respondents that indicated a preference to buy later did not consider that the timing of purchase was important.

This result also undermines the willingness-to-pay evidence that has been relied upon by the CC in reaching its Provisional Decision. It also directly undermines Accent's conclusion that "there was a market segment that argued more strongly for the preference for a short delay."

6 Conclusion

In conclusion, HSBC has previously submitted that the Accent market research - in particular the willingness-to-pay results - and the CC's interpretation of it is flawed and that the CC should have taken into account evidence from the "real world" experiments instead. HSBC's review of the individual responses to the Accent survey made available in the data room confirms that the CC's current interpretation of the Accent results is seriously flawed. Moreover, the individual survey responses - in line with the evidence from the "real world" experiments - offer strong support for the conclusion that the proposed package of remedies would significantly harm consumers by demonstrating that:

- The majority of customers value the POS and would be harmed by the POSP.
- A minority of customers prefer a delay but only a small subset would benefit from the POSP.
- Those customers who prefer buying at the POS feel at least as strongly about their preference as those who prefer buying later.

In light of this, HSBC would urge the CC to reconsider the imposition of the POSP, which would be disproportionate to the aim it seeks to achieve. As previously submitted, in HSBC's view, the AEC would be substantially mitigated in a proportionate manner by the implementation of a package of information and transparency remedies coupled with a break in the sales process (albeit that a PPI sale could be made immediately after the conclusion of the credit sale, if the consumer so wished) and the provision of a guaranteed quote which could be taken away by the consumer and would remain valid for a fixed period. This would permit customers who prefer to delay their purchase of PPI to do so but would have the added significant advantage of not harming what both the Accent survey and the "natural experiments" show is the majority of customers who prefer to buy at the POS.