

Appendix 1: Initial comments on “Consumer Attitudes to Payment Protection Insurance Report April 2010” prepared by Accent for the Competition Commission.

Here we set out LBG’s comments on the Accent research. At present our comments are limited by the fact we have been unable to review important elements of Accent’s work due to the fact that the CC has not shared the full data sets and documentation that Accent relied upon.

LBG considers that the CC can share the necessary data without breaching data protection rules and we set out below exactly what we need in order to undertake a full analysis.

General comments on the use of ‘stated preference’ approaches.

Stated preference models are typically used in situations where it is necessary to elicit choices from consumers where the product is not available yet and/or there is no other means of examining consumer choices.

Given the general concerns on the accuracy of stated preference techniques which have been recognised by the CC on other inquiries¹, where revealed preference evidence is available (for example from pilot studies) it would be unusual to discount the latter and rely exclusively on the former as the CC does.

Where stated preference models are appropriate, the survey data gathered has to be designed in such a way as to minimise the risk of important potential problems. In particular, a key risk in stated preference is that respondents do not give a true valuation of their preferences either because they do not take the survey seriously, or because they exaggerate some preferences for effect.²

Managing this risk typically involves incorporating checks on consumer understanding and conducting appropriate analysis of demographics and consumer types to ensure the sample is not biased. Without

¹ “(Q)uestions about future intentions (“stated preference” questions) have been generally regarded by economists as less valid and less reliable than questions about past behaviours (“revealed preference” questions);” Competition Commission, Estimating the price sensitivity of long distance coach passengers in Scotland. p.8. http://www.competition-commission.org.uk/our_role/analysis/price_sensitivity.pdf

² Competition Commission, “British Railways Board: Network South East: a report on rail passenger services by the Board in the south-east of England” (Inquiry 216), p. 122. http://www.competition-commission.org.uk/rep_pub/reports/1987/fulltext/216appendices.pdf: “It is acknowledged that stated preference techniques are also subject to difficulty since respondents may not give a true valuation of their preference; either they may not take the survey seriously, or they may exaggerate particular preferences for effect.”

including data on consumers' understanding, and their demographics, the results from stated preference models can be biased.³

Accent methodology

In view of this we have the following key reservations with the Accent work.

First, the Accent research does not appear to address the risks highlighted above.

- In particular, Accent has not employed an approach that allowed it to sense check consumer's willingness to pay valuations (which are surprisingly high – see below) with respondents.
- Accent also does not check respondents' understanding of the questions. Instead Accent collect data on the questioner's impressions of respondents' understanding and does not appear to use this information.
- Accent does not appear to have taken care to ensure that choices available to the respondents reflect the likely set of alternatives in a real world setting. Respondents are asked to state a preference between alternatives that have less relevance for most PPI purchases. For example, unemployment only PPI policies form a very small proportion of PPI policies issued. Asking a respondent to trade off unemployment against other types of cover may therefore produce biased results. This risk is highlighted in the OFT Economics Discussion Paper: *“Moreover, [stated preference] data may contain biases and large random errors if the decision-making protocol employed in a hypothetical situation differs from that used in a real choice context.”*⁴

Second, the results reported in the Report do not address concerns that the sample may be biased (see below).

³ “Switching Costs” Economic Discussion Paper 5, Prepared for OFT and DTI, Annexe B, p. 12. http://www.of.gov.uk/shared_of/reports/comp_policy/oft655aannexeb.pdf “Nevertheless, in order for [stated preference] to be a valid method for estimating consumer preferences it is indispensable for the survey to be designed in a way that minimises the variance of the estimators (i.e. that minimises the matrix of variances and co-variances of the estimators of the parameters of the utility function).”

⁴ “Switching Costs” Economic Discussion Paper 5, Prepared for OFT and DTI, Annexe B, p. 12. http://www.of.gov.uk/shared_of/reports/comp_policy/oft655aannexeb.pdf

Third, there are material concerns with the way in which the information was collected in the qualitative part of the survey. Although LBG recognises sample size is not the most critical element of a typical qualitative research, it also recognises that there should be minimum acceptable number of groups/participants (not present in this research) to form an acceptable sampling ‘backbone’ on which any research conclusions can be drawn upon. LBG considers that:

- The number of groups held is insufficient, particularly after breaking down overall group numbers and in-depth interviews by relevant variables (e.g. type of product).
- The lack of information on the group composition raises other material concerns. If the composition of the groups is not known, nor kept homogenous, it is not possible to assess the strength of the conclusions from the discussion groups.
- The duration of both grouped and individual interviews appears inadequate and atypical for qualitative research.

Insufficient information to test potential for sample bias

The Accent Report contains insufficient information to test for sample bias. In particular, the report gives insufficient information to assess the representativeness of the sample in terms of such variables as income, age, gender, loan amount, credit risk score, PPI incidence and monthly payment.

- The sample used for the analysis is likely to be biased as it does not appear to address a key concern in relation to insurance products that the research is simply picking up buyer’s remorse from consumers that have not had to claim. Out of the hundreds of thousands of PPI policies issued for both personal loans (PLPPI) and mortgages (MPPI), the sample was only 806 consumers (401 with MPPI, and 405 with PLPPI). Of the 806, only 4 percent (see Figure 5, page 26) actually made a claim on either PLPPI or MPPI. Had Accent over-sampled those who claimed, it might demonstrate that PPI fulfilled its role as cover for the payments on the loan, and that the consumer was satisfied with the policy as it was sold and issued. Essentially this may overstate the desire of consumers to wish that they had shopped around; i.e. it is 20/20 hindsight based on ex post valuation of the product.

Very little information is provided in the Accent Report on the sample itself. For example, the method of selecting consumers to be in the sample, the characteristics of the sample accounting for non-response and the reasons for non-response from those selected to be part of the sample.

- From the statistics provided to LBG (Pygram email of 27 May 2010) it would appear that the initial sample drawn for the survey work was 12489 ("someone in the household was spoken to."). Of the initial sample, 1813 agreed to take part (a response rate of 14.5 percent). A further 775 individuals then dropped out (for unknown reasons), which left a final survey response of 806 individuals (equivalent to a 6.5 percent response rate).
- There is no indication of how the initial sample related to the characteristics of the population, what biases may have been introduced between the first set of responses (to 1813) and then to the second set of responses (to the final sample of 806). Such information is usually supplied as it becomes possible to assess how the sample relates to the whole population and how the sampling uncertainty in the estimates may be quantified.

LBG requests that sufficient data are released to assess:

- The representative quality of the sample with respect to the population. For example there should be characteristics (demographics, details of the PPI policy) that enable the researcher to assess if the sample is representative of the underlying population.
- All details of the method used to select the initial sample (sample size = 12489). What was the actual method employed to select the sample?
- All details of the responses for individuals not wishing to take part in the survey. For example, how many times were sample members re-contacted in an attempt to have them take part in the survey? What were the reasons given for not taking part in the survey?
- All details of the responses from the 775 individuals who initially agreed to take part in the survey, but then declined. For example, how many times were these individuals re-contacted to take part in the survey? What were the reasons for subsequently declining to take part?

- All details of the responses of the 806 individuals who were willing to take part in the survey. In particular, how many times did Accent have to re-contact the participants before they agreed to take part in the survey?

Insufficient information to test robustness of willingness to pay estimates

The willingness to pay (WTP) results detailed in the Accent Report do not appear to pass a ‘common sense’ test which strongly suggests the results may be sensitive to alternative methodologies of deriving the estimates and factors that impact the statistical significance of the coefficients. It is important therefore that a full dataset is provided to enable this robustness checking to take place.

- The calculation of the WTP for various aspects of PPI cover are from a utility model presented on Tables 5 and 6 and in Appendix A. For example, as shown on Table 11, the 31 percent of respondents wishing to see a 7 day extension to purchase PPI are willing to pay £25.20 for the feature, whereas the 60 percent who prefer to buy PPI at the credit point of sale would be required to be compensated £7.30 from their premium payment to make them indifferent to the remedy. The net figure for the 7 day extension is £3.70 (as shown on Table 9). The difference between those who wish for the 7 day extension and those who do not is £32.50. This is almost equivalent to the average monthly premium and raises the question that if a delay and ability to shop around for PPI was worth so much, why did this set of individuals not do so when purchasing PPI in the first place?

The data supplied to LBG (as “100324 file” and “100524 file”) are insufficient to test and estimate if the main results in Technical Appendix A are robust to alternative specifications. The 100524 file only contains the 'Stated Preference' data (Section 2 of the questionnaire contained in Appendix C of the Accent Report) and not the other data collected by Accent as part of the survey (set out in Sections 3: Demographics and 4: Diagnostics).

The only way to be sure that the model as specified by Accent (stated in Appendix A), upon which all of its quantification of the loss of convenience is placed is the correct model is to allow LBG access to the full data set. This would allow LBG to check both the quality of the data in the results (diagnostics) and whether the preferred results in the Accent Report used to estimate the willingness to pay are robust and/or are the optimal results that can be derived from the sample.

- For example, the preferred equation as given by Accent in the Report (Technical Appendix A) shows that individual preference (utility) is the product of choices between characteristics of PPI and the stated cost. There is no inclusion of other demographic variables in the estimated equation. Potentially, the estimated equation may suffer from misspecification bias. For example, let us suppose that income is correlated with the choices made for PPI such that higher income individuals prefer to wait 24 hours or no time at all (POS PPI) to purchase PPI as they are 'financially savvy'. If income is not included in the estimated equation, then the coefficients on the choices reflect both the choice plus the effect of income; in other words, they do not reflect the choice independent of income. As a result, the estimated coefficients may be fundamentally biased.

Finally, LBG has no means to understand how the Accent data was entered into the computer, cleaned, collated, and then used in the analysis. In the Pygram email (dated 27 May 2010), Accent state that the software algorithms they have developed (that work as a sub-routine in the ALOGIT program), are proprietary. However, without knowledge of the algorithms, and how Accent entered and used the data, we have no way of knowing if errors were made in the production of the dataset for analysis that might change the results. Without the ability to check the work of Accent, to see the software algorithms, it is not possible to test if the main results in Technical Appendix A to the Accent Report are correctly estimated.

In view of these concerns, LBG requests that sufficient details on the data and results are released in order to assess:

- The estimation and calculation of the WTP measures as given in the Accent Report; this would include all reports of data entry, data cleaning, estimation of the utility equations, and the estimation of the WTP measures. If the software is proprietary, a text output file of all code and results would be sufficient.
- All data for each of the respondents in the sample who answered a part or all the questions on the questionnaire. This is to include all sections of the questionnaire that can be provided without breaching data protection rules: Section 1 (Recruitment and Main Questionnaire), Section 2 (Stated Preference), Section 3 (Demographics), and Section 4 (Diagnostics). We note that if information is recorded in bands (e.g. income brackets, age brackets) this would appear to allay the concerns the CC has put forward regarding data protection.

- All estimated results from the survey data that were, or were not included in the Accent Report. This is to include all iterations of the model with sensitivity analysis (on the inclusion and exclusion of variables) and all iterations of the 'Jackknife' t-statistics robustness tests.
- Any and all details concerning the pilot study to the quantitative programme (comprising of 50 respondents): questionnaire, initial sample selection, non-response, and sample used, responses (data), along with all interviewer notes that reflect differences in respondents answers to the stated preference questions (as referenced on page 7 of the Accent Report). Any and all drafts of the questions in the questionnaire, interviewer notes, and respondent answers to the different variations in the questions.