

Evidence on the extent of PPI search

1. In this appendix we set out the evidence we saw on consumer search behaviour. We assessed evidence on:
 - the extent of search; and
 - the extent to which consumers consider the PPI element of the prices of the credit and PPI combination.

2. The evidence on consumer search might suggest a constraint on PPI prices; this applies both when consumers search for PPI on a stand-alone basis and when consumers search for credit and PPI as a combination. However, in the latter case, in order to conclude that search for the combination of PPI and credit acts as a constraint on PPI prices, we need evidence that consumers are considering the price of the combination (ie they consider the PPI component as well as the credit price) when deciding whether to purchase. If consumers base their choice of the credit and PPI combination on the credit price only, then they are searching on the credit and this is less likely to constrain PPI prices. We therefore needed to couple our analysis with evidence on how consumers view prices before we could draw conclusions from it.

The extent of search

Introduction

3. We identified three ways by which consumers can compare PPI products (on a stand-alone basis or as part of a bundle) prior to the point of sale:
 - (a) reviewing firms' advertised rates;
 - (b) obtaining individual quotes from providers; or
 - (c) using Internet resources such as price comparison websites.

4. There were several approaches customers could take to the search process. They could search for:
 - (a) credit and PPI as a bundled product, either in combinations created by the customer, or in bundles offered by the distributor;
 - (b) PPI on a stand-alone basis, independent from the credit provider; or
 - (c) the credit-PPI bundle *and* stand-alone PPI at the same time.

5. In this section, we assess the extent of search. We analysed price dispersion, looked at consumer usage of price comparison websites, considered whether consumers were aware they could purchase PPI from a different provider, and reviewed survey and oral evidence. To provide further insight into search for the credit and PPI bundle, we also reviewed the oral and documentary evidence on the extent to which consumers search for the underlying credit. In the subsequent section, we consider the extent to which consumers consider the PPI element of a bundled price when searching.

Terminology used

6. We considered several CC and OFT surveys. In addition we were given access to several surveys undertaken by or on behalf of parties. The following abbreviations are used in this appendix for consistency and a description of each survey cited in this appendix is provided in Table 1:
 - ‘CC BMRB 2007’—the PPI customer survey conducted by BMRB on behalf of the CC in October and November 2007.
 - ‘CC GfK NOP 2008 telephone survey’—this is the telephone part of the PPI customer survey conducted by GfK NOP on behalf of the CC in February and March 2008. Interviews were conducted among customers who had purchased PPI since January 2007.

- ‘CC GfK NOP 2008 in-home survey’—those who stated they had shopped around within CC GfK NOP 2008 telephone survey were invited for a follow-up in-home interview. This is the in-home part of the PPI customer survey conducted by GfK NOP on behalf of the CC in February and March 2008. Interviews were completed with 85 MPPI consumers, 92 SMPPI consumers and 81 PLPPI consumers.
- ‘OFT GfK NOP 2006’—the consumer survey conducted by GfK NOP on behalf of the OFT in May and June 2006.

TABLE 1 Survey description

Survey	Date	Number of customers surveyed—by PPI product					Non-PPI customers	Questions
		MPPI	PLPPI	SMPPi	CCPPI			
CC GfK NOP 2008 in-home survey	Feb & Mar 08	85	81	92	-	-	-	Designed to probe search behaviour
CC GfK NOP 2008 telephone survey	Feb & Mar 08	1,257	3,156	2,387	-	-	-	Q2 Before you approached the lender to apply for the [credit product], had you already considered taking out [PPI product], or not? Q3 Did you shop around for the PPI? Q4 Did you compare the cost or features of your PPI against the cost or features of PPI from another provider, or did you not do so? Q5 Did you compare the OVERALL cost or features of your protected loan (that is the ... and repayment insurance together) against the cost or features of a similar package from another provider, or did you not do so?
CC BMRB 2007	Oct & Nov 07	477	588	617	601	-	-	Before you approached the lender to apply for the [credit product], had you already considered taking out [PPI product], or not?
HSBC 2007	07		405 personal loan					Q6 When evaluating whether the loan was the best value for money loan you could get, did you take into account how much the payment protection insurance adds to the interest rate (APR)/monthly repayment amount/total amount you will need to pay over the lifetime of the loan?'
Northern Rock PLPPI	May 07	-	324	-	-	-	-	Had you considered taking out payment protection insurance before you contacted Northern Rock to make your loan application? And which of those lenders did you receive a quotation from? [Multicode]
Alliance & Leicester PLPPI survey	Mar 07	-	400 (weighted to reflect channel mix)	-	-	-	-	Q7 Did you look into the loan payment protection insurance available from other companies before buying from A&L/MBB?
HBOS MPPI 2006	Aug 06	354	-	-	-	74 non-MPPI	-	Q18: Not including the one that you got from the Halifax, how many different quotes did you get before making your mind up on this occasion? [asked to all MPPI holders]
OFT GfK NOP 2006	May & Jun 06	272	294	305	154	150	-	Can you only get [PPI] from the provider of the finance or card when you take this out, or can you get it from other providers? Did you shop around for the PPI?
FLA 2005	Nov 05		295			205 non-PLPPI	-	Q10 And had you obtained quotes for payment protection insurance? [Multicode]
HBOS MPPI 2004	Jul 04	201				160 non-MPPI	-	Q7 How many quotes did you get [of MPPI]? Base: all with HBOS product/arranging elsewhere at time of mortgage
Lloyds TSB	Oct 03	U/K	U/K	U/K	U/K	U/K	-	Questions not provided

Source: CC, OFT FLA and parties.

Note: U/K = unknown.

Price dispersion

7. It is possible for firms to gain market power as a result of consumers' lack of knowledge about prices and quality of a product or products. Limited information can lead to monopolistic prices in what would otherwise be a competitive market. This can be illustrated with a simple example. If all PPI policies supplied by different providers had the same characteristics, then if one provider raised its price above that of others, and all consumers knew it, that provider would lose all its business. In contrast, if some or all consumers did not know that other providers charged lower prices, then they would not switch when the firm raised its prices, the responsiveness of firms demand to changes in price will therefore be lower and firms will, all else being equal, charge higher (and more widely dispersed) prices.

8. Lloyds TSB told us that no reliable inferences could be drawn from evidence of price dispersion as to the extent of search, because price dispersion was consistent with widespread consumer search: consumers might simply value more highly features of the more expensive products which were not revealed by a comparison of the scope of policy coverage. We explored price dispersion in Appendix 5.1 and in Appendix 4.2, where we looked at the relationship between PPI prices and quality. In Appendix 5.1 we found price variation between PLPPI policies, for both PLPPI on a stand-alone basis and the credit-PLPPI bundle. Price dispersion for MPPI appeared to be less pronounced than that of PLPPI. However, stand-alone providers were not contained within the dataset and it is possible that their inclusion could increase dispersion. We observed minimal price variation between CCPPI products but observed significant variation in benefit calculations between policies, which suggested that consumers might still benefit from search. In Appendix 4.2 we considered, using a measure of quality that is publicly available, Defaqto Star

Ratings,¹ whether there was a relationship between price and policy terms. For CCPPI and PLPPI we saw no relationship between the price of PPI and the quality of the policy, as measured by Defaqto Star Ratings, whilst for MPPI some positive relationship was observed, but there was a large variation around this relationship. We therefore considered that we could use the evidence of price dispersion as one indicator of the extent of search.

Consumer usage of price comparison websites

9. The Internet is a popular means by which consumers can access information to compare PPI products. The main resource for search cited by several distributors is the use of price comparison websites.

10. In Appendix 5.1 we considered the facilities offered by price comparison websites and explored whether any imminent future developments in this area would be likely to alter consumer search behaviour. We found that price comparison websites offer only limited information on PPI and credit together and on stand-alone PPI and, with the exception of the FSA comparison tables, we are unaware of any imminent future developments.

11. In addition, in Appendix 3.8 we looked at the extent to which consumers use price comparison websites to search for PPI. For personal loans we found that, when looking at pure volume of traffic on the sites, personal loans with PPI generated fewer searches than personal loans. As well as these basic traffic comparisons, we also noted that PLPPI searches accounted for between approximately 3 and 20 per cent of personal loans searches across the websites we looked at, which was consistently below the penetration rate of PPI for personal loans. In our view the 3

¹A star rating system calculated by awarding scores according to the products' underlying characteristics.

per cent finding is more accurate as this estimate was derived from the largest price comparison website.

12. MoneyFacts.co.uk told us that whilst it was difficult to draw definitive conclusions, in its experience it had not witnessed consumers actively searching for credit products with PPI. It said that consumers tended to search for terms that related to their specific needs, or that related to advertisements they had seen, for example debt consolidation loans, a loan from a specific loan company, cheap loans etc. PPI was then promoted by the distributor during the sale of the credit product.

Consumers' awareness that PPI could be taken out from distributors other than the credit provider

13. As discussed in Appendix 5.1, we found that a significant proportion of consumers did not realize that they could purchase PPI from another provider, and this misperception may limit the extent of search for PPI on a stand-alone basis. A lack of awareness will not, however, alter search for the bundled product.
14. The CC BMRB 2007 survey found that with the exception of MPPI customers, where only 31 per cent thought they could not have gone to another provider, the majority (60.6 per cent of SMPPI respondents, 60.4 per cent of PLPPI respondents and 64.6 per cent of CCPPI respondents) did not believe that they could have gone to a different provider for their PPI cover.
15. This finding is consistent with the findings of the CC GfK NOP 2008 telephone survey.² All non-shoppers were asked whether they were aware that it was possible to buy stand-alone PPI from a different provider, or whether it could only be bought from the credit provider. We found that 42 per cent of MPPI respondents who did not

²CC GfK NOP 2008 telephone survey, question 8.

shop around believed that PPI could only be bought from the credit provider, the corresponding figures for SMPPI and PLPPI respondents being 72 and 73 per cent respectively.

16. Further, the OFT GfK NOP 2006 survey³ and evidence provided from the parties highlight that a proportion of consumers did not realize that they could purchase PPI from another provider. Although many distributors do not sell PPI on a stand-alone basis, it is available on that basis.

Survey and oral evidence

17. In this section we consider a number of surveys that investigated the extent to which consumers search for PPI.
18. There are several issues that must be borne in mind when reviewing this evidence. First, as demonstrated by the CC GfK NOP 2008 telephone survey and in-home surveys, there appears to be some consumer confusion over what is meant by PPI search. Due to the complementary nature of the credit and PPI, it is unclear whether survey respondents are interpreting questions about their search activities as enquiring about (a) comparison of a credit and PPI bundle with other such bundles based on the *bundled price*, (b) comparison of a credit and PPI bundle with other such bundles based on the *credit price only (the APR)* or (c) comparison of PPI policies on a stand-alone basis.
19. One aim of the CC GfK NOP 2008 in-home survey was to establish whether consumers had correctly 'self-categorized' as searchers. It transpired that 11 per cent of MPPI respondents, 26 per cent of PLPPI respondents and 30 per cent of SMPPI

³OFT. 67 per cent of MPPI respondents knew that you could get PPI from another provider for MPPI. Other PPI did not score so highly: 50 per cent of respondents for SMPPI, 45 per cent of respondents for store cards PPI, 37 per cent of respondents for PLPPI and 34 per cent of respondents for CCPPI.

respondents who said that they compared PPI products in the CC GfK NOP 2008 telephone survey (this included a comparison of either PPI or a protected loan including PPI) had actually only searched on the APR or not made a comparison. These respondents had incorrectly identified themselves as PPI searchers; therefore in the analysis set out below we corrected the CC GfK NOP 2008 telephone survey statistics on comparers to allow for this.

20. It could be argued that this is a one-way adjustment potentially biasing our results downwards, since we are discounting respondents who have incorrectly self-categorized as searchers, but not adjusting for those who have incorrectly self-categorized as non-searchers. However, the CC GfK NOP 2008 telephone survey provided respondents with two opportunities to opt-in, ie respondents were asked 'Did you compare the cost or features of your PPI ...?' and 'Did you compare the overall cost or features of your protected loan ...?' and accepted a 'yes' response to either as an indication of comparison behaviour.
21. Therefore we do not believe that the adjustment has introduced a systematic bias. We applied the correction to be rigorous, but this did not alter our overall conclusions because we acknowledge that figures are simply indicators of search and not a precise measurement of it. We did not explicitly correct survey results provided to us by the parties and other regulators, but this issue should be borne in mind as it is likely to hold in general when telephone survey methodologies are used to investigate self-reporting of product search behaviour.
22. The second issue to be borne in mind is that the surveys provided to us by the parties and other regulators did not make an explicit distinction between searching for the combination of credit and PPI and searching for PPI on a stand-alone basis. The CC GfK NOP 2008 research indicates that surveys that relate to search of PPI

may provide better insight into search behaviour on the bundled product rather than PPI on a stand-alone basis as most PPI searches appear to search on the bundle.

23. The third issue is that caution must be taken when interpreting survey results as it is possible that consumers may give 'praiseworthy' responses which overstate their search activity.
24. Fourth, we were careful with the way in which we interpreted the survey responses. Search behaviours measured by the consumer research range from low engagement, passive activities (eg I 'thought about' PPI, I 'considered PPI') to more demanding, active measures (eg I 'shopped around' for PPI or 'I compared products'). Several parties referred to surveys that found that consumers have 'considered', 'heard of' or 'researched' PPI before purchase. It is possible that such findings may provide insight into search behaviour, for example they may provide upper bounds to the extent to which consumers have searched. However, just because a consumer has 'considered', 'heard of' or 'researched' PPI, this does not represent search behaviour; search involves consumers comparing actual policies. We attached more weight to surveys that discuss active measures of search than to those that focus on passive activities.
25. We review the evidence for each PPI product below before reviewing the evidence that refers to PPI on a generic level.

MPPI

26. There was some evidence from the parties that if consumers search for PPI then it is more prevalent for MPPI, for example:
 - (a) Research by Lloyds TSB in 2003 found low levels of shopping around for PPI overall but there was some search seen for MPPI (see tables below). It said that

this was because a high proportion of mortgages were distributed by independent financial advisers who tended to look across the market.

(b) British Insurance told us that there was a difference in the searching patterns of consumers in the prime mortgage market. It was easy to gain access to customers in the prime mortgage market because the policies were paid for by regular monthly instalments, and therefore customers could compare them easily.⁴

(c) Alliance & Leicester said that there were examples of customers comparing stand-alone MPPI through intermediaries or via the Internet.

27. Table 2 displays the statistics we located in relation to the extent of search for MPPI.

TABLE 2 Consumer search in relation to MPPI

Source	Question asked	per cent	
		Did	Did not
CC GfK NOP 2008 telephone survey corrected	Compared	21	(79)*
CC GfK NOP 2008 telephone survey†	Compared	23	64
CC GfK NOP 2008 telephone survey	Shopped around	11	89
OFT GfK NOP 2006 survey	Shopped around	26	(74)*
Lloyds TSB	Shopped around	[35–45]	[55–65]
HBOS 2006 survey‡	Number of quotes	[40–50]	[50–60]
HBOS 2004 survey	Number of quotes	[30–40]*	[65–75]
<i>Related questions</i>			
CC GfK NOP 2008 telephone survey	Considered PPI	61	39
CC BMRB 2007 survey	Considered PPI	52	(48)*

Source: CC, OFT and parties.

*CC estimate equates to 100 per cent—reported figure. It is not necessarily the case that the summation of those who search and those who do not search do not sum to 100 per cent, given that a percentage of respondents do not know or may not respond.

†13 per cent Other.

‡Survey statistics do not sum to 100 per cent.

28. In terms of passive measures, ie evidence on whether consumers ‘considered’ PPI, we observed a relatively high level of engagement from consumers. The CC BMRB 2007 survey found that 52 per cent of MPPI respondents had ‘considered’

⁴British Insurance post-issues statement hearing summary, p3, paragraph 21.

purchasing PPI before the loan application whilst the CC GfK NOP 2008 in-home survey found that 61 per cent of respondents had done so.

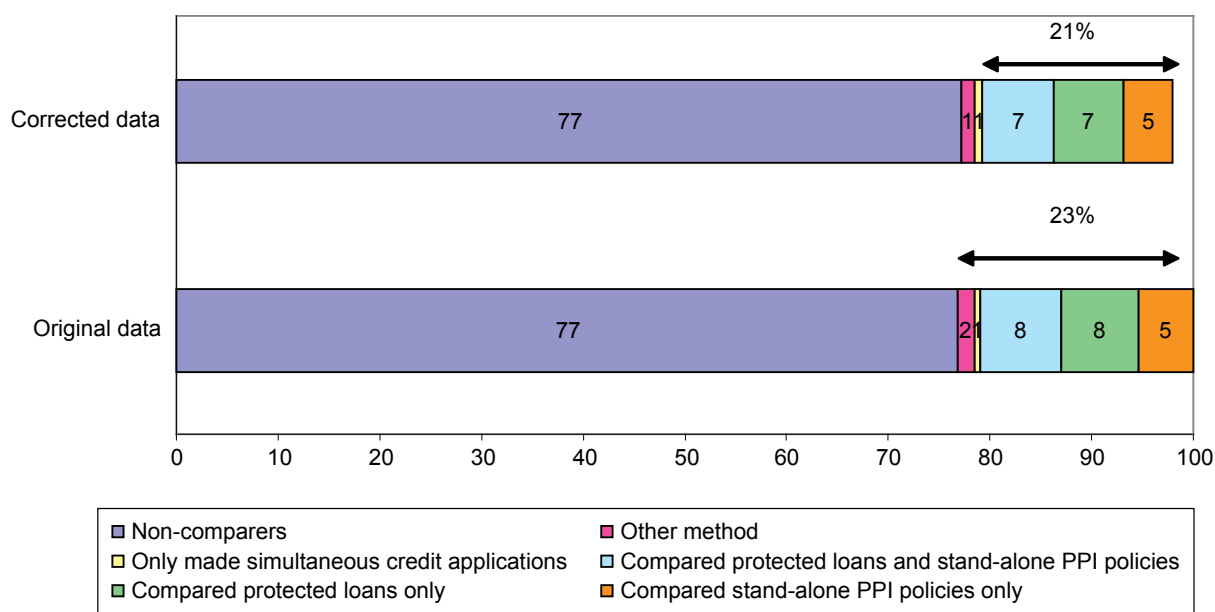
29. As discussed in paragraph 24, we attached greater weight to more demanding active measures of search such as 'shopped around' for PPI or 'compared products'. In terms of statistics, the CC GfK NOP 2008 telephone survey found that 23 per cent of respondents had compared the cost or features of their PPI against that of another PPI policy (this included a comparison of PPI or a protected loan). The CC GfK NOP 2008 in-home survey, however, found that 11 per cent⁵ of respondents who said that they had compared the cost or features of their PPI had actually only searched on the APR or did not make a comparison of PPI. Given that these respondents do not represent PPI searchers, we corrected the CC GfK NOP 2008 telephone survey figure by 11 per cent giving a revised number of comparers of 21 per cent.

30. In Figure 1 we combined data on the level of searchers and non-searchers from the CC GfK NOP 2008 telephone survey with a breakdown of search behaviour from the CC GfK NOP 2008 in-home survey. We observed that of those consumers that searched, most (about 15 per cent of all consumers) were searching on the bundled product in one form or another. To derive the bundled statistic, we included all respondents who compared the protected loan only, compared both the protected loan and stand-alone policies and made simultaneous credit applications. About 5 per cent of respondents stated that they searched for MPPI on a stand-alone basis only.

⁵CC GfK NOP 2008 survey question 4b and 4c. 85 surveyed; 4 did not make a comparison and 5 did not compare the cost and features of PPI.

FIGURE 1

Comparing incidence—MPPI



Note: The ‘non-comparers’ category contains those respondents who stated that they did not compare PPI products and did not compare protected loan bundles.
Source: CC calculations based on GfK NOP 2008 survey.

31. When consumers were asked if they had ‘shopped around’ for MPPI, the OFT GfK NOP 2006 survey found that 26 per cent said that they had, while the CC GfK NOP 2008 telephone survey only found 11 per cent responded positively. An HBOS 2006 survey found that MPPI customers were aware that they could seek alternative quotes but many chose not to do so.⁶ The HBOS 2006 survey found [40–50] per cent of respondents sought one or more other competitor quotes, and an earlier 2004 survey HBOS found that [65–70] per cent of MPPI customers did not get any other quotes. A Lloyds TSB 2003 survey⁷ also found that [55–65] per cent of respondents did not use any organizations to shop around for MPPI, [25–35] per cent used one to two organizations, [5–15] per cent three to four and [0–10] per cent more than five organizations. It is incorrect to deduce that [35–45] per cent of respondents shopped

⁶[50–60] per cent only got a Halifax quote; [5–15] per cent one other, [10–20] per cent two others; [5–15] per cent three others; [0–10] per cent four others and [0–10] per cent five to ten others.

⁷The base includes non-MPPI customers. Lloyds TSB told us that it was investigating whether it was able to provide the original questionnaire.

around because using one to two organizations does not necessarily constitute search behaviour. Respondents need to use at least two organizations to compare MPPI products. Further, we were unable to explore the validity of the Lloyds TSB survey as Lloyds TSB was unable to provide us with a copy of the original questionnaire. On this basis and given that the survey is dated, we were unable to attach much weight to its findings.

32. The FSA conducted research into the mortgage buying process in 2001.⁸ While we note that this research is also dated, it found that most consumers did not seek or think they needed information on other mortgage-associated products (eg life assurance or MPPI). Even those who shopped around for mortgages did not shop around for associated products. The survey also found that consumers often saw associated products as part of the mortgage or as products that could not be declined without jeopardizing the mortgage offer. Appendix 3.5 also found that intermediaries do not appear to search for MPPI to a significant extent.
33. The CC GfK NOP 2008 in-home survey provided further detail on the extent of the search process. Respondents who compared the protected loan compared on average 3.5 companies, a figure similar to an average of 3.4 companies compared by respondents who compared stand-alone policies. Further, in terms of time spent searching, the median⁹ category is 2 to 3 hours both for respondents who compared protected loans and respondents who compared stand-alone PPI policies.

PLPPI

34. Table 3 displays the statistics we located in relation to the extent of search for PLPPI.

⁸FSA *Choosing a Mortgage. Report of a research review and qualitative research on the mortgage buying process*, June 2001.

⁹A median is described as the number separating the higher half of a sample.

TABLE 3 Consumer search in relation to PLPPI

Source	Question asked	per cent	
		Did	Did not
CC GfK NOP 2008 telephone survey corrected	Compared	12	(88)*
CC GfK NOP 2008 telephone survey†	Compared	15	77
CC GfK NOP 2008 telephone survey‡	Shopped around	4	95
OFT GfK NOP 2006 survey	Shopped around	5	(95)*
Lloyds TSB	Shopped around	[20–30]	[70–80]
Northern Rock	Shopped around	[45–55]	[45–55]*
FLA	Obtained quotes	[20–30]	[70–80]*
Alliance & Leicester	Looked elsewhere	[5–15]	[85–95]*
<i>Related questions</i>			
CC GfK NOP 2008 telephone survey	Considered PPI	48	(52)*
CC BMRB 2007 survey	Considered PPI	30	(70)*

Source: CC, OFT, FLA and parties.

*CC estimate equates to 100 per cent—reported figure. It is not necessarily the case the summation of those that search and those that do not search do not sum to 100 per cent given a percentage of respondents do not know or may not respond.

†1 per cent refused to answer.

‡8 per cent Other.

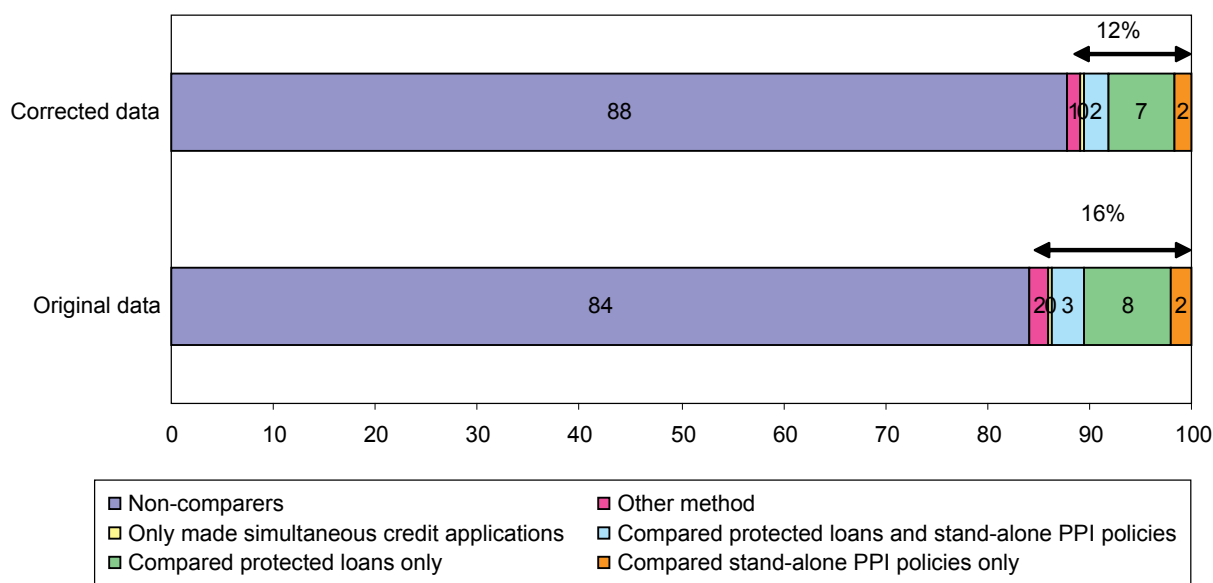
35. We observe that passive measures displayed show some consumer engagement with PLPPI, although these figures fall below those of MPPI. The CC GfK NOP 2008 telephone survey and CC BMRB 2007 survey found that 48 per cent and 30 per cent of respondents had ‘considered’ PLPPI respectively.
36. Turning to more active measures, CC GfK NOP 2008 telephone survey found that 12 per cent of respondents had compared the cost or features of their PLPPI against that of another PLPPI product. This figure has been reduced by 26 per cent¹⁰ to correct for respondents who had incorrectly self-categorized as searchers. Applying the same technique described in paragraph 30, we also observe that of those consumers that search, most (9 per cent of all consumers) will be searching on the bundled product.¹¹ Only approximately 1 per cent of respondents were searching for PPI on a stand-alone basis. This is lower than the 5 per cent of respondents who searched for MPPI on a stand-alone basis.

¹⁰CC GfK NOP 2008 in-home survey question 4b and 4c. 81 in-home surveys; 11 did not make a comparison and 10 did not compare the cost and features of PPI.

¹¹To derive the bundled statistic we have included all respondents that compare the protected loan only, compare both the protected loan and stand-alone policies and make simultaneous credit applications.

FIGURE 2

Comparing incidence—PLPPI



Note: The 'non-comparers' category contains those respondents who stated that they did not compare PPI products and did not compare protected loan bundles.

Source: CC calculations based on GfK NOP 2008 survey.

37. The CC GfK NOP 2008 in-home survey also found that those who compared the protected loan compared on average 4.9 companies, which is slightly higher than an average of 3.1 companies compared for stand-alone policies. Again, the median category for time spent on search is 2 to 3 hours both for respondents who compared protected loans and respondents who compared stand-alone PPI policies.

38. The results of surveys that refer to consumers 'shopping around' were dispersed. The OFT GfK NOP 2006 survey found that 5 per cent of respondents 'shopped around' for PLPPI which is consistent with the CC GfK NOP 2008 telephone survey that found 4 per cent did so. However, an Alliance & Leicester survey conducted in 2007 found that there was limited 'shopping around' for protection insurance finding [5–15] per cent of customers had looked for PLPPI available elsewhere. A Lloyds TSB 2003 survey (cited in paragraph 31) also found that [70–80] per cent of respondents did not use any organizations to shop around for PLPPI, [15–25] per cent used one to two organizations and [0–10] per cent three to four organizations.

As noted above for MPPI, it is incorrect to deduce that [20–30] per cent of respondents shopped around because using one to two organizations does not necessarily constitute search behaviour. Accordingly we did not place much weight on those findings.

39. A Northern Rock 2007 survey, among a sample of its own PPI customers only, explicitly refers to search behaviour of the personal loan bundled product. The survey asked PPI consumers whether they had ‘shopped around’, without specifying for what. The only safe assumption is that here, ‘shopping around’ refers to any part of the credit or insurance offer. It found that [60–70] per cent of respondents ‘shopped around’ to see what was available from other lenders before they applied to Northern Rock.¹² This may not necessarily be regarded as evidence of PPI search. However, the survey also found that [10–20] per cent of respondents compared the price of loans including PPI, [5–15] per cent of respondents compared the price of loans excluding PPI, and [35–45] per cent did both.
40. Finally, an FLA 2005 survey found that [20–30] per cent of PLPPI holders who had heard of/researched PLPPI or taken out PLPPI and [15–25] per cent of non-holders who had heard of/researched PLPPI or taken out PLPPI had obtained quotes for PLPPI (the survey does not specify whether this is one quote or multiple quotes). On a related question, the survey also found that [25–35] per cent of PLPPI holders and [15–25] per cent of non-holders had ‘researched’ PLPPI.¹³ Researching PLPPI, however, does not necessarily reflect search behaviour.

¹²Northern Rock: 324 respondents, 208 shopped around.

¹³Based on 295 holders and 205 non-holders for researched question and based on 271 holders and 180 non-holders for number of quotes. Of those customers who had heard of/researched or taken out PPI, the most popular methods of research were a discussion with a financial adviser ([35–45] per cent holders and [10–20] per cent non-holders), followed by collected literature on PPI ([20–30] per cent holders and [15–25] per cent non-holders), [20–30] per cent of holders and [15–25] per cent of non-holders obtained quotes for PPI; and [10–20] per cent of holders and [0–10] per cent of non-holders looked online for info about PPI.

SMPPPI

41. We did not see any survey evidence from the parties on the extent to which consumers search for SMPPPI. Table 4 displays results from the CC and OFT surveys and shows that passive measures are relatively in line with responses to PLPPI. The CC BMRB 2007 survey found 34 per cent of SMPPPI had considered purchasing PPI before the loan application compared with 49 per cent of respondents in the CC GfK NOP 2008 telephone survey.

TABLE 4 Consumer search in relation to SMPPPI

Source	Question asked	per cent	
		Did	Did not
CC GfK NOP 2008 telephone survey corrected	Compared	11	(89)*
CC GfK NOP 2008 telephone survey	Compared	16	79
CC GfK NOP 2008 telephone survey	Shopped around	5	(95)*
OFT GfK NOP 2006 survey	Shopped around	13	(87)*
<i>Related questions</i>			
CC GfK NOP 2008 telephone survey	Considered PPI	49	51
CC BMRB 2007 survey	Considered PPI	34	(56)*

Source: CC and OFT.

*CC estimate equates to 100 per cent—reported figure. It is not necessarily the case that the summation of those that search and those that do not search do not sum to 100 per cent given that a percentage of respondents do not know or may not respond.

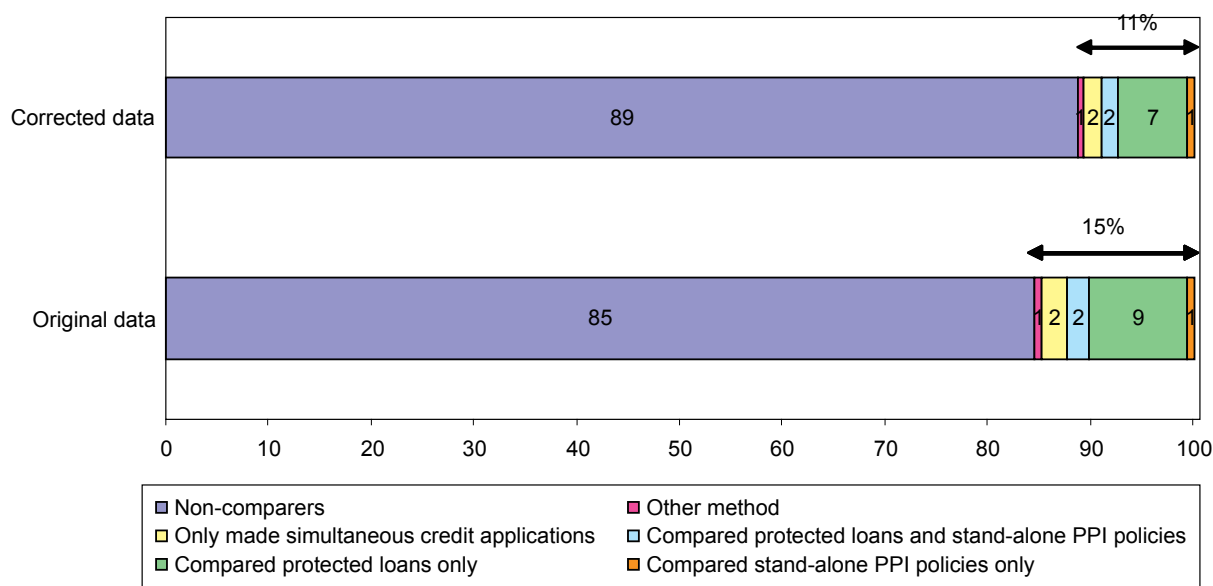
†5 per cent other.

42. In terms of active measures, the statistics display lower levels of search than for MPPI. The CC GfK NOP 2008 telephone survey found that 16 per cent of respondents had compared the cost or features of their SMPPPI against that of another SMPPPI product. 30 per cent¹⁴ of respondents from the CC GfK NOP 2008 in-home survey had miscategorized themselves resulting in a corrected figure of 11 per cent of respondents. As with MPPI and PLPPI, we observe that most consumers (10 per cent of respondents) will compare the bundled product.

¹⁴CC GfK NOP 2008 in-home survey question 4b and 4c. 92 in-home surveys; 11 did not make a comparison and 17 did not compare the cost and features of PPI.

FIGURE 3

Comparing incidence—SMPPI



Note: The 'non-comparers' category contains those respondents who stated that they did not compare PPI products and did not compare protected loan bundles.

Source: CC calculations based on GfK NOP 2008 survey.

43. In terms of 'shopping around', the OFT GfK NOP 2006 survey found that 13 per cent said that they had 'shopped around' whilst the CC GfK NOP 2008 telephone survey found that only 5 per cent responded positively.

44. The CC's GfK NOP 2008 in-home survey also found that those who search appeared to do so quite intensively. Respondents who compared the protected loan compared on average 6.1 companies.¹⁵ Further, the median category for time spent on search was 4 to 5 hours for respondents who compared protected loans. This compares to a median category of 2 to 3 hours for MPPI and PLPPI.

CCPPI

45. Survey evidence on the level of search for CCPPI is thin (see Table 5). On the basis of the statistics, it appears that search is lower for CCPPI than it is for MPPI. On

¹⁵CC GfK NOP 2008 survey—an average of 3.7 companies compared for stand-alone policies but sample base is only 12.

passive measures, the CC BMRB 2007 quantitative survey found that 24 per cent of CCPPI customers had ‘considered’ purchasing CPPI before the loan application. In terms of active measures, the OFT GfK NOP 2006 survey found that 5 per cent of CPPI respondents had ‘shopped around’; and a Lloyds TSB 2003 survey (cited in paragraph 31) found that [80–90] per cent of respondents did not use any organizations to shop around for CCPPI ([5–15] per cent used one to two organizations, [0–10] per cent three to four and [0–10] per cent used more the five organizations. Stating that [10–20] per cent shopped around overstates potential search, as using one to two organizations does not necessarily constitute search behaviour.

TABLE 5 Consumer search in relation to CCPPI

Source	Question asked	per cent	
		Did	Did not
OFT GfK NOP 2006 survey	Shopped around	5	(95)*
Lloyds TSB	Shopped around	[10–20]	[80–90]
<i>Related questions</i>			
CC BMRB 2007 survey	Considered PPI	24	(76)*

Source: CC, OFT and Lloyds TSB.

*CC estimate equates to 100 per cent—reported figure. It is not necessarily the case that the summation of those that search and those that do not search do not sum to 100 per cent given that a percentage of respondents do not know or may not respond.

46. However, as noted in Appendix 4.3, the credit card market is different from those of mortgages and personal loans due to multiple card ownership and balance transfers. CCPPI is typically charged on the basis of a fee per £100 of outstanding balance (ie there is no charge for CCPPI if the balance on the credit card is zero), so it is possible that consumers may hold multiple CCPPI policies. Estimating the level of search or switching is difficult but we found that on the basis of balance transfers there was some movement between providers (see Appendix 4.3).

Generic PPI survey evidence and oral evidence

47. Several surveys did not make a distinction between PPI categories. The CC's BMRB 2007 qualitative research found that there was low awareness among the group participants that it is possible to shop around for a separate or different PPI policy to the one they had been offered with their credit product. Although group participants were aware that it was possible to shop around for other insurance products, they had not thought it possible to do so for PPI. Exceptions to this pattern were PPI customers who had used a financial adviser for the purchase of their PPI (which was mainly MPPI).
48. In its ICOB review, the FSA found that very few PPI customers had made any effort to find out about, or explore the detail of, the product. The FSA's survey¹⁶ supporting its review work showed that 28 per cent of respondents obtained more than one quote (in addition 17 per cent relied on a broker) and the average number of quotes for PPI obtained by respondents was 1.8. Whether quotes were for PPI on a stand-alone basis or the combination of credit and PPI or the credit only is unclear. The FSA also found in its Customer Purchasing Outcomes Survey (CPOS)¹⁷ that [10–20] per cent of those respondents who looked at, or obtained, a summary said that they looked at the policy summary document for comparison (unprompted); this increased to [30–40] per cent of all respondents when prompted. It also found that only [20–30] per cent of customers looked for information about PPI before purchase; and of those customers that looked for information prior to purchase, [60–70] per cent¹⁸ obtained or looked at the policy summary.

¹⁶FSA *ICOB review Interim report: consumer experiences and outcomes in general insurance markets*. Omnibus research, January 2007. 54 per cent of respondents got one quote or just a renewal note 10 per cent got two quotes, 11 per cent three quotes, 7 per cent more than four quotes and 17 per cent relied on a broker.

¹⁷FSA CPOS November 2007.

¹⁸Total base 237: all who looked for information before purchase [30]. [30] looked at policy summary. [30] per cent of looked at policy summary for comparison.

49. The evidence from parties relating to search behaviour for generic PPI was mixed and did not distinguish between search for PPI on a stand-alone basis or the combination of credit and PPI. For example:
- (a) Some respondents told us that there was little or no search activity for PPI. The Post Office,¹⁹ Lloyds TSB²⁰ and Millennium Insurance²¹ told us that customers did not tend to shop around for PPI.
 - (b) Aviva did not think that, in general, customers compared PPI independently.²² However, it said that more customers might compare the bundled price of PPI and the underlying credit product. Aviva also said that customers only considered PPI after the demand for the underlying credit product was satisfied.
 - (c) HSBC told us that customers could and did shop around for PPI. Customers looked at the price of protected credit before making their purchase decision. While some customers may consider the price and benefits of PPI only after deciding on the underlying credit product, a substantial proportion of customers were aware of PPI before choosing their credit provider, and shopped around on this basis.²³
 - (d) Barclays said that the search cost for PPI was low, as the majority of searching was done via the Internet or consumer publications.²⁴ Barclays said that an increasing number of customers researched PPI before making a purchase due to the growing amount of information online.²⁵
 - (e) Northern Rock said that a large number of customers searched on the Internet for information on PPI. Customers also researched via the telephone, but to a lesser extent.²⁶

¹⁹Post Office post-issues statement hearing summary, p2, paragraph 13.

²⁰Lloyds TSB post-issues statement hearing summary, p2, paragraph 11.

²¹Millennium insurance response to Emerging Thinking, p15.

²²Aviva post-issues statement hearing summary, pg 3, paragraph 21.

²³HSBC response to Emerging Thinking, paragraphs 2.3 and 4.19.

²⁴Barclays post-issues statement hearing summary, p3, paragraph 26.

²⁵Barclays post-issues statement hearing summary, paragraph 23.

²⁶Northern Rock post-issues statement hearing summary, paragraph 10.

50. An alternative measure of active search not considered in the analysis above is reviewing the number of quotes consumers sought. This measure was considered by FSA, FLA and Northern Rock's surveys, and despite the fact that the questions asked in each survey were phrased differently; there is a good degree of agreement on the proportion of PPI customers who sought two or more quotes.

TABLE 6 Number of protected loan or PPI quotes sought, by survey source

<i>Number of quotes</i>	<i>FLA 2005</i>	<i>FSA GI 2007</i>	<i>FSA CPOS 2007</i>	<i>Northern Rock [X] 2007</i>
Two or more	[20–30]	27.3	[20–30]	[20–30]
None or single quote	[75–85]	72.7	[70–80]	[70–80]
Base	271	278	[X]	324

Source: CC analysis of survey data provided by regulators and parties.

Notes:

1. FSA GI 2007 question was 'How many quotes did you get?'
2. FSA CPOS 2007 question was 'How many companies did you collect information from?'
3. Northern Rock [X] 2007 question was 'Which of these lenders (including Northern Rock) did you receive a quotation from?'
4. FLA 2005 question was 'And had you obtained quotes for Payment Protection Insurance?'

51. If the responses to the four surveys are aggregated, there are sufficient respondents to investigate differences between the PPI product types. As can be seen in Table 7, the proportion of respondents seeking two or more quotes tends to decrease steadily from the MPPI to the CCPPI product. Statistically, the proportion for MPPI customers was significantly higher than that for PLPPI and CCPPI customers, at a standard 95 per cent confidence level. These estimates fall within the range outlined in the tables above.

TABLE 7 Estimates of proportions of PPI customers seeking two or more PPI quotes

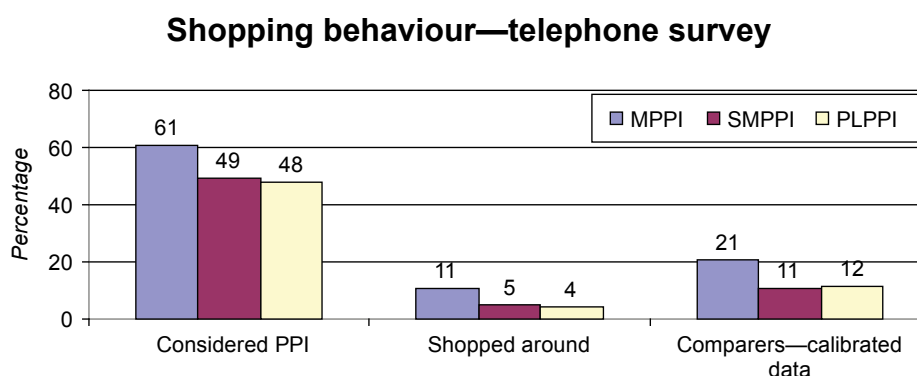
<i>Product (source of estimate)</i>	<i>Estimate</i>	<i>per cent</i> <i>(Confidence interval)</i>
MPPI (previous surveys)	36.6	(15.0, 64.8)
MPPI (CC GfK NOP 2008)	16.4	(11.6, 21.2)
SMPPI (previous surveys)	23.4	(21.3, 25.7)
SMPPI (CC GfK NOP 2008)	9.2	(4.7, 13.7)
PLPPI (previous surveys)	23.0	(21.5, 24.8)
PLPPI (CC GfK NOP 2008)	8.3	(4.7, 11.9)

Source: CC analysis of survey data provided by parties and regulators; CC analysis of survey data provided by GfK NOP.

Conclusions on survey evidence and parties' evidence

52. A few general conclusions might be drawn from the surveys. First, there appears to be a downward trend from passive measures such as 'considered' and 'thought about' to active measures such as 'shopped around' and this is consistent across all PPI products. As discussed in paragraph 24, we put more weight on active measures than passive measures because the latter do not necessarily represent search behaviour. This finding is also reflected in the CC GfK NOP 2008 survey where it was found, as is shown in Figure 4, that the proportion of respondents who stated that they 'shopped around' for PPI was consistently lower than the proportion who stated that they 'compared PPI', both being significantly below the number of respondents who said they 'considered' PPI.

FIGURE 4



Source: CC GfK NOP 2008 survey data.

53. To provide an overview, in terms of active measure statistics:
- (a) For MPPI, the CC GfK NOP 2008 survey estimated that 21 per cent of consumers compared two or more MPPI products. Active search measures ranged from 11 per cent to approximately 40 per cent.
 - (b) For PLPPI, the CC GfK NOP 2008 survey estimated that 12 per cent of consumers compared two or more PLPPI products. Estimates ranged from 4 per cent to approximately 50 per cent.

(c) For SMPPI, the CC GfK NOP 2008 survey estimated that 11 per cent of consumers compared two or more SMPPI products. A range of 5 per cent to approximately 15 per cent is provided.

(d) For CCPPI, survey statistics are thin but the percentage of customers shopping around ranged from 5 to 15 per cent.

54. We could also infer from the surveys that search behaviour was more prevalent for MPPI. This finding is consistent for whichever measure is used.

55. Overall, there was a range of evidence from the parties on the precise level of search. However, we believe that the CC GfK NOP 2008 survey results are robust and provide a good indication of the level of search. As discussed in paragraph 2, to draw conclusions from a number of surveys we needed to couple our analysis with a consideration of how consumers view prices (see paragraphs 78-83).

Extent to which consumers search for the underlying credit

56. To provide further insight into search behaviour for the credit and PPI bundle, we reviewed the oral and documentary evidence on the extent to which consumers search for the underlying credit. If we discover that there is not much search activity for the underlying credit, then, by definition, this would indicate that there is not much search for the credit and PPI bundle (assuming there is no distinction between customers who take out PPI and those who do not). Conversely, if there is evidence of search activity for the credit, this might tell us that consumers are searching for the credit and PPI bundle, but this might mean that PPI prices are being constrained only if sufficient consumers are considering the price of the combination of PPI and credit (ie they are considering the PPI component as well as the credit price) when they are comparing products.

57. Our information on the level of credit search is from the entire population of credit consumers. PPI consumers are a subset of this population. Therefore, to use data on credit search as an indicator of the behaviour of PPI consumers, we needed to assume that there were no substantial differences in the pattern of searching between customers who take out PPI and those that do not. If there were substantial differences, then data from the credit market as a whole would be misleading; and our sample would contain non-PPI consumers whose behaviour would mask that of PPI consumers.
58. We asked the parties whether there were any differences in search behaviour between those consumers who take out PPI and those who do not. Nationwide, Abbey, HSBC, Northern Rock and HBOS did not have any evidence on this issue. Capital One believed that non-PPI customers typically displayed greater searching behaviour but had no evidence to substantiate this. Cattles suggested it was possible that the more typical customer of PPI may have less propensity to search than other consumers, for a variety of reasons. MBNA was unaware of any differences and Barclays told us that it did not generally differentiate between the groups.
59. We considered the available documentary evidence concerning the extent to which customers search for each underlying credit product: mortgages, personal loans, second-charge mortgages, motor finance and retail cards.

General observations

60. The FSA told us that it had not been able to locate research relating to search activity for personal loans, credit cards, second-charge mortgages, retail cards, motor finance and overdrafts. However, the OFT GfK NOP 2006 survey noted that a higher proportion of respondents searched for the underlying credit compared with the PPI. It found that 41 per cent of respondents shopped around for credit.

61. At a general level some respondents told us that customers did search for the underlying credit:
- (a) British Insurance told us that the main focus of customers was to obtain the underlying credit product.²⁷
 - (b) Genworth believed that consumers tended to focus on comparing the different credit products available.²⁸
 - (c) Research by Abbey in 2002 found that the consumer process for choosing a provider of either a credit card, loan or mortgage was broadly similar—in that the rate was the most important factor—but dependent on the amount other factors were then considered, ie the purchase of a mortgage was more complex than a credit card.
 - (d) Northern Rock told us that many customers did search and compare before purchasing a credit product.
 - (e) Nationwide said that customers certainly shopped around for credit products and would make purchasing decisions based on the cheapest deals available—often focusing on the advertised headline typical APR.
 - (f) HSBC told us that it was generally recognized that the markets for the primary credit products (mortgages, personal loans, credit cards) were highly competitive and a significant and increasing number of customers ‘shop around’ for the primary credit product.²⁹
62. Conversely, HSBC noted that there were a number of customers who did not specifically shop around but preferred to rely on a relationship with a particular institution when purchasing financial services products. However, it said that it was not possible to identify precisely such customers.

²⁷British Insurance Limited post-issues statement hearing summary.

²⁸Genworth response to issues statement.

²⁹HSBC response to issues statement.

Mortgages

63. It appears that consumers do search for mortgages, especially given the size of the mortgage purchase.³⁰ HBOS expected that consumers would approach two to three lenders.
64. Some parties told us that intermediaries facilitated or took the place of search behaviour. For example, Abbey noted that many customers used intermediaries, which could facilitate search; Alliance & Leicester told us that [70–80] per cent of its mortgages were sold through intermediaries in 2007; and in 2007 Barclays received [45–55] per cent of mortgages through intermediaries. Appendix 3.5 finds that intermediaries do not appear to search for PPI.
65. The OFT GfK NOP 2006 survey found that 64 per cent shopped around for first-charge mortgages. The FSA conducted some research into the mortgage-buying process in 2001.³¹ This analysis is now dated; however, the research review estimated that around half of all borrowers claimed to shop around either themselves or by using an intermediary.
66. In addition, a []³² 2003 survey found that that 23 per cent of customers did not shop around for a mortgage, and an [] survey on mortgage retention found that 59 per cent switched mortgages, whilst 41 per cent renewed. Of those that switch, 81 per cent shop around and 78 per cent consider several providers. In contrast, of

³⁰Nationwide told us that customers had a wealth of information and that most mortgage customers would spend some time 'shopping around' as a mortgage was usually an individual's single biggest financial commitment.

³¹FSA *Choosing a Mortgage. Report of a research review and qualitative research on the mortgage-buying process*. June 2001. It found that any shopping around tended to be limited and few consumers considered more than three lenders. However, the findings from the qualitative research cast doubt on whether those consumers that claimed to be shopping around themselves were actually able to use the information they gathered to shop around to narrow down their choice of different lenders' products. Around half of consumers went straight to a meeting with a lender or intermediary without having done any investigation of their own into different types of mortgages or the mortgages on offer by different lenders. These were almost evenly split between those using a lender and those using an intermediary. Among those who went straight to a lender, the number of meetings they held with different lenders was limited. The research did not consider the extent of any shopping around carried out by intermediaries.

³²33 per cent looked at one/two firms and 32 per cent looked at three/four and 12 per cent five firms or more. Base sizes = All Mortgages (172).

those that renew, 66 per cent do not shop around and 61 per cent consider only one provider.

67. An academic paper we reviewed attempts to quantify the level of search in different markets, including the mortgage sector.³³ Citing a survey, the paper finds that 94 per cent of consumers are aware of mortgages choices, 17 per cent of consumers' search, with only 10 per cent switching. The average expected time spent on searching was 4.52 hours (standard deviation 13.92 hours).

Personal loans

68. The evidence on the extent to which consumers search for personal loans is mixed. At one end, there appears to be limited search. For example:
- (a) An Abbey survey in 2005 found that the monthly loan repayments was the main factor when choosing a loan but there was not a lot of shopping for loans. The average buyer only considers 1.5 providers and gets 1.3 quotes before buying. [60–70] per cent only considered one provider.
 - (b) The OFT GfK NOP 2006 survey found that 33 per cent of respondents 'shopped around' for personal loans.
 - (c) A Lloyds TSB survey in 2003³⁴ found that [35–45] per cent of customers did not shop around for their loan.
 - (d) A Barclays 2007 customer survey found that customers who took out a loan did not tend to shop around; [70–80] per cent of Barclayloan customers, [60–70] per cent of Barclayloan Plus customers, and [45–55] per cent of Personal Loans from Barclaycard customers had not seriously looked at other loans before taking out a loan with Barclays.

³³*Gain or Pain: Does Consumer Activity Reflect Utility Maximisation?* By Yoonhee Tina Chang and Catherine Waddams, Price ESRC Centre for Competition Policy, University of East Anglia CCP Working Paper 08-15. February 2008.

³⁴[30–40] per cent looked at one/two firms, [15–25] per cent looked at three/four and [0–10] per cent more than six firms. Base sizes = All Loan (180).

69. On the other hand, some parties told us that consumers did search. For example:
- (a) An HSBC 2007 survey found that [65–75] per cent of HSBC customers and [70–80] per cent of non-HSBC customers looked at loans from more than one company when trying to find the best-value loan.
 - (b) HBOS said that there was evidence in the loans market of aggressive competition to win new customers with more than 50 principal lenders.
 - (c) Nationwide told us that customers typically compared two to three suppliers, one of which was usually their current account provider. It found that most people only approached a limited set of suppliers, based on reputable supplier, convenience, and knowledge of/loyalty to existing financial suppliers.
 - (d) Lloyds TSB maintained that there was extensive search for personal loans as demonstrated by research into price comparison websites. A 2007 survey found that [75–85 per cent] customers were using online sources to research loan purchase. Further, Lloyds TSB quoted a 2007 survey that found only [0–10] per cent of UK consumers claimed that they did no research before purchase of personal loan.

Credit cards

70. There is also mixed evidence on the extent to which consumers search for credit cards. At the low end, the OFT found in its 2008 credit card comparison report that approximately 70 per cent of consumers who have taken out a credit card in the last three years did not shop around at all,³⁵ and a Lloyds TSB survey in 2003 found that³⁶ [50–60] per cent of customers did not shop around for credit cards.
71. In contrast, we have also received evidence that there is some search. As outlined in Appendix 4.3, there is evidence of customer movement between credit cards which

³⁵OFT Credit card comparisons report, published 11 February 2008.

³⁶[20–30] per cent looked at one/two firms, [10–20] per cent looked at three/four and [10–20] per cent more than six firms. Base sizes = All Credit Card (216).

may be indicative of search. Capital One told us that it divided the credit card segment into the open market and the captive market controlled by the established banks. It did not quantify the size of each group but maintained that price comparison websites were a significant driver of new open market applications whilst in the captive market customers did not search. In addition, several parties mentioned that the level of balance transfers is indicative of search.³⁷ Finally, Lloyds TSB told us that, more recently, increasing search behaviour had been demonstrated by the increase in issuance and increase in innovations such as extended balance transfers offers etc.

Second-charge mortgages

72. There is limited evidence in relation to second-charge mortgages. The OFT GfK NOP 2006 survey found that 47 per cent shopped around. Barclays was the only distributor to provide surveys that explicitly referred to second charge mortgages. The Barclays FIRSTPLUS 2007 survey found that [50–60] per cent of customers considered other providers for loans ([15–25] per cent applied for loans from other providers in parallel with Barclay FIRSTPLUS application process). For customers applying for further advances on their second-charge mortgages, the percentage of customers considering other providers was [35–45] per cent ([5–15] per cent applied for loans from other providers in parallel with the application process).³⁸

Motor finance and retail cards

73. With the exception of the OFT GfK NOP 2006 survey that found that 10 per cent of consumers shopped around for retail cards, we saw no evidence on the extent to which consumers of motor finance and retail cards search.

³⁷HSBC and MBNA told us that balance transfers provided evidence on switching and quoted numerous credit card price comparison websites that can facilitate search; Nationwide provided evidence that a large number of balance transfers were made demonstrating that customers are comparing credit cards.

³⁸Barclays FIRSTPLUS 2007 survey found that [60–70] per cent of live retail customers and [35–45] per cent of retail customers applying for further advances considered other distributors for loans. A Barclays 2006 survey found that [50–60] per cent of live customers and [35–45] per cent of customers applying for further advances considered other distributors for loans.

74. The parties provided several surveys that analyse search activity in the mortgage, personal loan and credit card segments. We saw no direct evidence on the extent of consumer searching for motor finance and retail cards.
75. The survey evidence complements our analysis of the survey evidence on switching the underlying credit. The parties provided more documentary evidence in relation to switching. In our view, by definition, if consumers are switching then consumers have compared PPI products. In Appendix 4.3 we found evidence of consumers switching between credit providers for mortgages, personal loans and credit cards. Of these, the switching appeared to be most prevalent for mortgages (although it was particularly difficult to measure the extent of switching of credit cards).
76. In terms of surveys that explicitly refer to search, for mortgages, there was a consensus that consumers appear to search for mortgages but it was difficult to get a precise measure on the extent of search because the survey evidence differed between provider, both in terms of when the evidence was gathered and the base measurement used. For personal loans, similar to mortgages, there was not a precise figure on searching. For example, one survey found that consumers only get 1.3 quotes whilst another survey found that 69 per cent of its customers had looked at loans from more than one company when trying to find the best loan. The credit card market also displayed disparity in search results; a recent OFT survey found that 70 per cent of consumers who had taken out a credit card in the last three years did not shop around, whilst the parties told us that the existence of balance transfers demonstrated movement between providers.
77. Overall, there was some evidence of consumers searching for mortgages, personal loans and credit cards. However, as noted above, evidence on searching for the

underlying credit does not necessarily mean that PPI prices are being constrained. For this to be the case, we must understand how consumers view prices.

How consumers view the bundled price

78. In order to conclude that search for the PPI and credit bundle acts as a constraint on PPI prices, we needed evidence that consumers consider the bundled price (ie they are considering the PPI component as well as the credit price) when deciding whether to purchase. If consumers base their choice of the credit and PPI bundle on the APR of the credit, then they are searching on the credit and this is less likely to constrain PPI prices. We therefore needed to couple our analysis with evidence on how consumers view prices before we could draw conclusions from it.
79. The evidence we received during the hearings was mixed. For example:
- (a) HSBC told us that a consumer survey commissioned in April 2007 suggested that between [65–75] and [70–80] per cent of both HSBC and non-HSBC customers took into account how much PPI added to the cost of the monthly loan repayment and total repayment amount (ie considering the total cost of protected credit) when evaluating whether the loan was the best-value loan they could get.³⁹ The survey asked respondents: ‘When evaluating whether the loan was the best value for money loan you could get, did you take into account how much the payment protection insurance adds to the interest rate (APR)/monthly repayment amount/total amount you will need to pay over the lifetime of the loan?’ The phrasing of the question did not offer a corresponding negative answer (eg ‘or did you not do so?’) and associated a highly desirable outcome, the best value for money loan you could get, with a no-cost behaviour ‘taken into account’. Therefore, the results were heavily biased to ‘Yes’. In addition, HSBC found in a 2006 survey that low interest rates were a key driver influencing consumers’

choice of personal loan provider (PLPPI and non-PLPPI customers surveyed), which was followed by the ease of the application process.

- (b) FLA told us that, when searching, customers tended to look at the price of the loan and PPI together. If the PPI was too expensive it might deter customers from purchasing the loan.⁴⁰
- (c) Barclays said that it did not hold evidence for PPI comparison in isolation but when considering the extent to which customers considered the value of PPI, the complementary relationship between PPI and the credit product was key.
- (d) Nationwide believed that once customers had an initial quote for the underlying credit product and PPI, they were likely to shop around for similar offers.⁴¹
- (e) RBSG told us that many customers considered the total cost of the credit package and selected the supplier who offered the best overall value.
- (f) Aviva did not think that, in general, customers compared PPI independently. However, it said that more customers might compare the bundled price of PPI and the underlying credit product. Aviva also said that customers only considered PPI after the demand for the underlying credit product was satisfied.⁴²

80. Firms' behaviour may give an indication of their perception of how consumers behave. In summary, if firms believe that consumers search or switch PPI plus credit on an assessment of the value of the combined PPI plus credit offering, we would expect to see:

- (a) that firms were conscious that an increase in their PPI price would result in an increase in the bundled price; and consequently
- (b) belief of a relationship between PPI prices and sales of credit, and vice versa.

³⁹[REDACTED]

⁴⁰FLA post-issues statement hearing summary, paragraph 19.

⁴¹Nationwide post-issues statement hearing summary, paragraph 14.

⁴²Aviva response to issues statement, p1, paragraph 2.1.1.

81. We assessed the internal documentation supplied to us by the parties in three key areas (Appendix 3.1 sets out the internal documentation provided by the parties). We looked at documents that showed how the distributors set their PPI prices, how the distributors view PPI internally and how the distributors assess the performance of their PPI businesses internally.

82. In terms of price setting, firms appeared to set PPI prices independently of credit. Most of the PPI pricing documentation did not mention the price of credit. However, some distributors told us that credit was an influencing factor when they set PPI prices. Further, we did not receive any primary documentary evidence that indicated that firms perceived that an increase in PPI prices would have a significant impact on their credit sales (evidence which is not primary documentary evidence but relates to the effect of PPI prices on credit sales is reviewed elsewhere).

83. The CC GfK NOP 2008 in-home survey explored the extent to which consumers searched for credit and PPI together. It found that, of those respondents who searched, the majority were comparing the credit and PPI together. 15 per cent of MPPI respondents searched on the bundle in some form (which included comparing protected loans only, comparing both protected loans and stand-alone, and making simultaneous credit applications), 10 per cent of SMPPI respondents and 9 per cent of PLPPI respondents also searched on the bundle. This corresponds to 21 per cent of MPPI respondents, 11 per cent of SMPPI respondents and 12 per cent of PLPPI respondents who compared two or more products.