

Annexe E

**Summary report of mystery
shopping exercise**

October 2006

OFT869e

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1 INTRODUCTION

1.1 The OFT conducted an in-house mystery shopping exercise between May 2006 and July 2006.

Objectives

1.2 The main objective of this exercise was to search out and assess the upfront information available on Payment Protection Insurance (PPI) and to use that information to identify how easy it would be for a typical consumer to shop around and draw comparisons across PPI products and what the costs might be to that consumer of individual products. More specifically, information sought included:

- The APR of the credit; the total cost of PPI; the monthly cost of the PPI; the total cost of the loan without PPI and; the total cost of the loan with PPI;
- Whether the policy is single or regular premium,
- Key features of PPI products - benefits including how and when it pays out
- Product structure including exclusions, eligibility criteria, excess (qualification) periods)

Methodology

1.3 The providers¹ contacted during the exercise included:

- 24 unsecured loan providers for a £5k unsecured loan over 5 year. Those contacted included nine banks, three building societies, two supermarkets, two standalone providers, two credit brokers, two credit card companies, one insurer and three classified as "others".

¹ NB some loan providers were contacted in respect of more than one credit product.

- 10 mortgage providers for a £100k, 5 year fixed mortgage, over 20 years, on a hypothetical property of £165k – salary £40k. Those contacted included six building societies, three banks and one credit broker.
- 9 secured loan providers for a £5k secured loan over 5 years. Those contacted included five banks, two credit brokers, one building society and one insurer.
- 10 credit card providers. Those contacted included six credit card companies, two banks, one building society and one supermarket.

1.4 The providers contacted represented a cross-section of the industry.

1.5 All providers were contacted by telephone (in most cases more than once) and information was also gathered by accessing provider's websites, promotional literature and policy summaries. Due to the requirements for credit checks on full applications, the mystery shop only gathered information up to the quotation stage.

1.6 Whilst the results of the mystery shop are not to be considered statistically representative of the market, it provides a good picture of the information provided to a typical consumer at an early stage in the process and the ease at which comparisons can be drawn between PPI products.

2 SUMMARY ANALYSIS OF EVIDENCE BY CREDIT TYPE

Unsecured loan providers

Telephone

- 2.1 Nearly all of the unsecured loan providers (87 per cent) automatically included the price of PPI in the loan quote.
- 2.2 Just over half (57 per cent) of the unsecured loan providers attempted to detail aspects of the cover provided by the policy. The remainder had to be prompted by the researcher. None of the unsecured loan providers contacted made an attempt to detail the exclusions of the policy
- 2.3 None of the unsecured loan providers made any attempt (unless prompted) to indicate that the policy would be a single premium and just one third (30 per cent) detailed the criteria required to qualify for PPI at quotation stage.

Website

- 2.4 Generally, information on websites relating to PPI was mixed, with some providing a good level of detail without the researcher having to refer to the policy summary for explanations of the level of cover and exclusions. However, others required reference to the policy summary, which in some cases was obscurely located (often using a small pdf box at the bottom of the screen) and could easily be missed.

Mortgage providers (first charge)

Telephone

- 2.5 Forty per cent of mortgage providers automatically included MPPI in the quote they gave.
- 2.6 Eighty per cent did not mention exclusions to the policy without a prompt. None of the mortgage providers made an attempt to provide detail of the exclusions of the policy

2.7 Half (50 per cent) detailed what the policy covered. The remainder required a prompt.

2.8 All offered to send our researcher details of the policy by post.

Website

2.9 Only three of the 10 mortgage providers' websites provided a summary of MPPI. The information provided by the remaining seven was not easily accessible or clear, and in some instances required the researcher to telephone the provider directly for more information on MPPI.

Credit card providers

Telephone

2.10 None of the credit card providers contacted mentioned PPI without prompting by the researcher. Once prompted, six of the 10 gave details about what was covered and what the key exclusions were.

Website

2.11 All of the credit card websites visited gave an option to select PPI if required and included a policy summary attachment for further detailed information.

Secured loans

2.12 Obtaining quotes for a loan including PPI proved problematic on secured loans. Companies will either not provide information to non-customers, do not provide quotes for their products, will only provide information when you apply for the loan or will only provide a quote in-branch.

2.13 Of those who gave a quote for a secured loan:

- All automatically included PPI

- None attempted to detail either the exclusions or the exclusion/excess periods of the PPI without a prompt at the quote stage.
- Two thirds (66 per cent) detailed the PPI cover type (ASU, U etc) without a prompt.
- Five of the seven websites surveyed provided detail of the PPI (cover and exclusions). The two other websites didn't set out any information on PPI, despite the fact that they do offer it.

3 COMPARISONS BETWEEN PPI POLICIES AND IMPACT ON COST

3.1 In order to try to draw comparisons between PPI policies and assess the impact on cost of the overall deal the researcher looked at the following factors:

- Price of the credit (with and without PPI)
- The type of cover offered (for example accident, sickness, unemployment, life)
- The structure of payment in the event of a claim (including exclusion and excess periods and whether policies pay out by the day), and
- Exclusions to the policy.

Findings

3.2 Overall the researcher had difficulty comparing like with like. PPI products are complex and difficult to compare with each other. This effectively made it difficult for him, and presumably for a typical consumer, to shop around.

3.3 Comparisons between PPI products (for the same loan amount and over the same repayment period) require a great deal of effort on the consumer's part, not least to access all of the required information. A typical consumer would also need to have a reasonable understanding of PPI policies to be able to make an informed judgment.

3.4 In some instances, loans for the same amount, over the same repayment period showed evidence of:

- A wide disparity in the cover available
- A wide dispersion in prices, and
- Some evidence of low APR's against expensive PPI policies.

A wide disparity in the cover available

3.5 PPI cover is not standardised and its terms can vary enormously, particularly in respect of:

- The type of cover (accident, involuntary unemployment, sickness and life)
- The qualification period
- The period over which the policy will pay
- The amount which the policy will pay
- Exclusions, such as existing medical conditions
- Eligibility, such as the age of those seeking cover.

3.6 The researcher gathered detailed policy information on PPI for a £5,000 unsecured loan with a five-year repayment term for 24 different products. In order to aid comparisons information was specifically sought on accident, sickness and unemployment (ASU), however, the PPI cover often varied and included or excluded other items. This made it difficult for the researcher to shop around and, it seems reasonable to assume that a less well informed consumer would find it even more difficult.

3.7 Thirteen of the PPI providers offered more than one level of PPI; these were often classified on a 'bronze', 'silver' and 'gold'² scale or similar. These policies do give consumers a choice of cover for their personal situation. Where only one policy is available, it is unlikely that the consumer will be aware of any non-standard or varied terms, for example, whether accident and sickness was full term or 12 months only, whether critical illness or similar illness was included and if carer cover was included.

² In one such example this was merely that the two 'higher' levels also included an amount of supermarket vouchers.

3.8 The majority of unsecured policies were single premium policies (41 of 50), although we found that this is often not clear as the overall cost of the PPI was generally added to the value of the loan (such that interest is also charged on the PPI); then the total cost of the PPI with interest is divided over the number of months of the repayment term and this is what the consumer tends to be quoted as the monthly cost of PPI.

3.9 Where information was available the researcher noted the length of the qualification period – this is the amount of time that a new PPI holder must wait before he is eligible to make a claim. These typically varied between 14-90 days.

3.10 A summary of the information gathered follows:

Table1 – Unsecured loans

| Monthly i.e. regular premium (Y/N) | Qualification period (days) | Monthly cost of PPI (£) | Total Cost of PPI (£) | What is covered? |
|------------------------------------|-----------------------------|-------------------------|-----------------------|--------------------------------------|
| | 30 | 19.8 | 1,188 | LASU |
| | 30 | | 1,326 | LASU |
| | | 45.14 | 2,708 | LASU, CI, Cr |
| | | 37.6 | 2,258 | LASU, Cr |
| | | 30.24 | 1,814 | LAS |
| | | 18.32 | 1,099 | L, CI |
| | | 15.27 | 916 | U |
| Y | 60 | 4.00 | 240 | ASU |
| Y | 60 | 2.50 | 150 | ASU |
| Y | 60 | 2.50 | 150 | ASU |
| | 90 | 24.89 | 1,493 | L, full term AS, 12 months U |
| | 30 | 25.23 | 1,514 | L, full term AS, 12 months U |
| | 60 | | 4,237 | LASU, CI |
| | | | 3,765 | LASU |
| | | | 3,190 | LAS, 15/30days before you can claim. |
| | None | 14.67 | 880 | Gold – LASU, CI, Cr |
| | 30 | 12.7 | 762 | Silver – LASU, Cr |
| | | 8.4 | 504 | Bronze - LAS |

| | | | | |
|---|-----------------------------|-------|-------|---|
| | 14 | 24.75 | 1,264 | LASU, CI, inc pre-exist conditions |
| | | | 1,687 | L, 18 months ASU, CI |
| | | | 963 | LASU, CI |
| Y | 30 | 29.95 | 1,236 | L, 12 months ASU, CI |
| Y | 90 | | 1,095 | L, full term AS, 12 month U, CI, Cr, Hospitalisation - if retired, (no pre-exist) |
| | 30 | | 1,169 | L, full term AS, 12 months U |
| | 30 | | 921 | LASU – Full term AS, U 12 months, full cover, detailed exclusions. |
| | | 43.44 | 2,606 | LASU, CI |
| | 30 | 40.34 | 2,420 | LASU |
| | | 34.13 | 2,048 | LAS |
| | | 21.72 | 1,303 | L |
| Y | 60 | 5.50 | 330 | LASU, Long Term Illness |
| Y | 61 | 3.95 | 237 | ASU |
| Y | 62 | 2.40 | 144 | AS |
| | 30 | 42.92 | 2,575 | LASU, CI |
| | 30 | 35.10 | 2,207 | LASU |
| | | 30.66 | 1,840 | LAS |
| | | 18.40 | 1,104 | L |
| Y | 14 | 28.73 | 1,360 | LASU, CI |
| | 90 | | 1,265 | L, full term AS, 12 month U |
| | 60 | 25.42 | 1,236 | L, full term AS, 12 month U, CI, disability |
| | 60 | 29.08 | 1,256 | LASU, CI, hospitalisation |
| | 30 | 19.41 | 1,037 | LASU, hospitalisation |
| | | 14.84 | 775 | LAS or LU |
| | | 3.76 | 196 | L |
| | 30 | 37.39 | 2,243 | Gold- LASU, CI |
| | 14 (AS only) | 34.27 | 2,056 | Silver – LASU |
| | | 31.15 | 1,869 | Bronze - LAS |
| | 30 (AS only) 60 (U only) | 16.69 | 832 | L, full term AS, 12 months U, Serious Illness |
| | | 19.11 | 952 | L, full term AS, 12 months U, Serious Illness, £50 vouchers per claim month |

| | | | | |
|--|--|-------|-------|---|
| | | 21.63 | 1,078 | L, full term AS, 12 months U, Serious Illness,, £100 vouchers per claim month and back to work advice |
|--|--|-------|-------|---|

LASU = Life, Accident, Sickness and Unemployment

CI = Critical illness

Cr = Carer cover³

NB: generally ASU is for 12 months only

3.11 In addition it was found that with some policies, if a PPI holder makes a claim the holder will then be subject to an excess period on any future claims. This was typically the first month (30 days) of the period for any subsequent claim period. Furthermore, some insurers will then only pay for whole months thereafter. For example, if you were to make a second (or subsequent) claim and were off work for two and a half months, you may only receive one month's cover as the first month would be excess and the final half would not count as it is an incomplete month. This information has not been tabulated.

3.12 The following tables show the results for mortgages, secured loans and credit cards.

Table 2 - Mortgages

| Monthly i.e. regular premium (Y/N) | Qualification period (days) | Monthly cost of PPI (£) | Total Cost of PPI (£) | What is covered? |
|------------------------------------|-----------------------------|-------------------------|-----------------------|------------------|
| Y | | 45.64 | 10953.6 | ASU |
| Y | | 23.93 | 5743.2 | AS |
| Y | | 31.98 | 7675.2 | U |
| Y | | 41.23 | 9895.52 | ASU |
| Y | | 23.01 | 5522.4 | AS |
| Y | | 29.33 | 7039.2 | U |
| Y | | 22.40 | 5376 | L, CI |
| Y | | 42.00 | 10080 | ASU |
| Y | | 32.47 | 7792.8 | ASU |

³ When you need to stop work to become a carer for a relative.

| | | | | |
|---|----|-------|---------|-------|
| Y | | 37.88 | 9091.2 | ASU |
| Y | | 23.80 | 5712 | L, CI |
| Y | | 44.55 | 10692 | ASU |
| Y | 30 | 54.28 | 13027.2 | ASU |
| Y | 30 | 16.80 | 4032 | CI |
| Y | 30 | 7.73 | 1855.2 | L |
| Y | 30 | 38.32 | 9196.8 | ASU |
| Y | 30 | 20.29 | 4869.6 | U |
| Y | 30 | 18.02 | 4324.8 | AS |
| Y | | 45.64 | | |
| Y | | 23.93 | | |

LASU = Life, Accident, Sickness and Unemployment

CI = Critical illness

Cr = Carer cover

Table 3 - Secured loans⁴

| Monthly i.e. regular premium (Y/N) | Monthly cost of PPI (£) | Total Cost of PPI (£) | What is covered? |
|------------------------------------|-------------------------|-----------------------|------------------|
| Y | 18.88 | 1133.09 | LASU |
| Y | 11.32 | 670.00 | LASU, Cr |
| Y | 44.08 | 2626.80 | LASU, CI |

LASU = Life, Accident, Sickness and Unemployment

CI = Critical illness

Cr = Carer cover

Table 4 - Credit cards

| Monthly i.e. regular premium (Y/N) | Qualification period (days) | Monthly benefit | Cost per £100 in pence | What is covered? |
|------------------------------------|-----------------------------|-----------------|------------------------|---|
| Y | 60 | 10% | 79p | LASU, disability, CI pay off whole balance, business failure. |
| Y | 30 | 3% | 72p | LASU, Cr, disability, |

⁴ It was not always possible to receive quotes for secure loans due to requirements to be either an existing customer or, where applicable, to visit the branch.

| | | | | |
|---|----|-----|-----|---------------------------|
| | | | | retired, medical expenses |
| Y | | 10% | 79p | LASU, CI |
| Y | 90 | 3% | 76p | LASU |
| Y | 90 | 5% | 79p | LASU - disability |
| | 30 | 10% | 79p | LASU |
| | 30 | 10% | 77p | LASU, Cr |
| | | 10% | 77p | |
| | | 3% | 72p | LASU, Cr |
| | | 10% | 79p | |

LASU = Life, Accident, Sickness and Unemployment

CI = Critical illness

Cr = Carer cover

A wide dispersion in prices

3.13 Following from **table 1 to 4**;

3.14 To the extent that we were able to compare like for like, prices for PPI were found to differ greatly which could not be accounted for by differences in quality. This is particularly the case in respect of unsecured personal loans and credit cards, although less so for first charge mortgages. For example; monthly PPI repayments for an ASU policy covering a £5,000 unsecured loan over five years range from £16 for the cheapest policy, to £40 for the most expensive policy, with very little obvious difference in the cover provided. The variation in PPI repayments for a £100,000 20 year mortgage was less extreme with £32 a month for the cheapest ASU policy and £45 for the dearest (though the most expensive is still 40 per cent more than the cheapest). Again these policies showed little notable difference in the quality of cover offered.

3.15 As we said earlier it is very difficult to compare the price of PPI policies given that the cover is so varied. However, there are examples where products with the same cover vary substantially in cost although they essentially seem to provide the same type of cover. For example:

- Life only PPI varied from £196 to £1,303
- LAS ranged from £504 to £3,190

- LASU ranged from £1,188 to £3,765
- LASU with CI or Terminal Illness varied from £330 to £4,237.

Low APR's against expensive PPI policies

3.16 The information collated revealed instances of low APR's on the credit coupled with high prices for PPI (when compared to other PPI policies available). An assessment of these policies showed no discernable reason for the price discrepancy, with cheaper PPI available with the same level of cover from competing providers. Again, the difficulty of making these like-for-like comparisons must be stressed.

NB all examples are based on £5k loan over 5 years ASU unsecured (single premium policies⁵)

Table5

| Real rate⁶ (APR) | Total Cost of PPI (£) | Real interest rate (APR) rank | Cost of PPI rank | Diff in rank |
|--|----------------------------------|--|-----------------------------|---------------------|
| 7% | 2,708 | 12 | 38 | -26 |
| 7% | 2,258 | 12 | 34 | -22 |
| 6% | 1,687 | 8 | 26 | -18 |
| 7% | 2,575 | 18 | 36 | -18 |
| 6% | 1,169 | 1 | 17 | -16 |
| 7% | 1,814 | 12 | 27 | -15 |
| 7% | 2,207 | 18 | 32 | -14 |

⁵ We also had information on 11 monthly premium policies which are excluded from this commentary as information on loan APR was not available and it could be considered that these are not strictly like-for-like policies.

⁶ i.e. the rate offered to the researcher as opposed to the advertised APR

| | | | | |
|-----|-------|----|----|-----|
| 7% | 2,606 | 24 | 37 | -14 |
| 6% | 1,264 | 8 | 21 | -13 |
| 6% | 1,188 | 6 | 18 | -13 |
| 7% | 2,420 | 24 | 35 | -12 |
| 7% | 1,840 | 18 | 28 | -10 |
| 6% | 1,037 | 3 | 12 | -9 |
| 7% | 1,265 | 15 | 22 | -7 |
| 7% | 2,048 | 24 | 30 | -7 |
| 7% | 2,243 | 27 | 33 | -6 |
| 7% | 2,056 | 27 | 31 | -4 |
| 6% | 963 | 8 | 11 | -3 |
| 7% | 1,099 | 12 | 15 | -3 |
| 7% | 1,493 | 21 | 24 | -3 |
| 6% | 775 | 3 | 5 | -2 |
| 7% | 1,869 | 27 | 29 | -2 |
| 18% | 4,237 | 40 | 41 | -1 |
| 18% | 3,765 | 40 | 40 | 0 |
| 7% | 1,303 | 24 | 23 | 1 |
| 18% | 3,190 | 40 | 39 | 1 |
| 6% | 196 | 3 | 1 | 2 |
| 7% | 1,104 | 18 | 16 | 2 |
| 6% | 326 | 6 | 2 | 4 |

| | | | | |
|-----|-------|----|----|----|
| 7% | 916 | 12 | 8 | 4 |
| 8% | 1,514 | 33 | 25 | 8 |
| 7% | 921 | 18 | 9 | 9 |
| 8% | 1,078 | 30 | 13 | 17 |
| 15% | 1,256 | 37 | 20 | 17 |
| 8% | 1,095 | 33 | 14 | 19 |
| 17% | 1,236 | 38 | 19 | 19 |
| 8% | 952 | 30 | 10 | 20 |
| 8% | 832 | 30 | 6 | 24 |
| 9% | 880 | 35 | 7 | 28 |
| 9% | 762 | 35 | 4 | 31 |
| 9% | 504 | 35 | 3 | 32 |

3.17 The results highlighted in the above table indicate that the difference between the rank of the interest rate and the PPI is ten or more places lower. This is not a scientific method but at least a consistent basis on which to try and identify those cases where the interest rate on a loan is reasonably low (in all cases lower than the average for the selection considered) but the PPI rate could be considered high in relation to the interest rate.

3.18 These results are also highlighted in the following chart (the circles). It is not conclusive that all loans with low interest charge high PPI, however, whilst the examples in the bottom left of the chart represent loans with comparably low interest **and** PPI, and those in the top right hand corner are examples with [comparably] expensive interest rates and expensive PPI, there are a number of products that have much higher priced PPI than other loans with similar interest rates. These cases may be

products where a low APR is being cross-subsidised by a high PPI rate which also is much less visible to consumers.

Rank of interest versus rank of PPI on unsecured loan products

