The PPI Mis-Selling Case: SDL and the Relevance of Marketing Theory

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Introduction

The theme of this year's Academy of Marketing conference is "Marketing Relevance". In the call for papers for the conference the organisers begin to problematize the meaning of relevance, explaining that the conference will explore "the relevance of marketing within the broader disciplinary agenda, as well as academic marketing's relevance to practice." We agree with the organisers that relevance is a multi-faceted concept. In this paper we seek to investigate the meanings of relevance in marketing by exploring a significant recent case study in business practice through an important theoretical lens. The case study selected is the mis-selling of payment protection insurance (PPI) by financial institutions in the UK market. The case will be described in a little more detail below; in summary the conclusion reached by the relevant UK authorities (the Financial Services Authority, the Office of Fair Trading and the Competition Commission) is that large numbers of British consumers were misled by financial institutions into buying insurance that they did not need and possibly could not claim against. It is clearly a case that raises important issues about marketing and selling, particularly if, as some have claimed (e.g. Eriksson & Söderberg, 2010), the financial services sector is particularly suitable for long-term customer relationship marketing.

The theoretical lens through which the case will be viewed is the theory of service-dominant logic (SDL) (Lusch & Vargo, 2006; Vargo & Lusch, 2004, 2008). It is selected because there are good reasons to believe that the theory will prove relevant to the case study, and the theory has been very influential since it was first widely promulgated in 2004. SDL theory has strong academic credentials, is demonstrably influential in the marketing academy by its citation counts (3,491 citations for the 2004 paper at Google Scholar by November 2012) and impact on subsequent research studies, is clearly intended to have general applicability, and therefore should be expected to be relevant in a wide variety of marketing contexts

The following section provides a description of the PPI mis-selling case. This is followed by a section that briefly introduces the theoretical lens of SDL and explores its relevance to the case study. The concluding section then evaluates what can be learned about the relevance of theory in marketing from this analysis.

PPI mis-selling in the UK

The UK Financial Services Authority (FSA) estimated that, by September 2012, financial institutions had repaid over £7 billion to customers who were mis-sold PPI (FSA, 2012). The Financial Ombudsman Service reported that 60% of new complaints received in 2012, or 157,716 complaints, pertained to PPI mis-selling (Financial Ombudsman Service, 2012). For the UK financial services industry the PPI mis-selling case was—and continues to be— a very big deal and it is now commonly referred to by print and online journalists as the PPI mis-selling “scandal”. Reporting of the case in the British popular press has used strongly emotional language. For example Barrow (2011) in the Daily Mail wrote of “ruthless salesmen (who) targeted the most vulnerable in society who bought a policy that would never pay them a penny”, and invoked the image of stay-at-home mothers who were sold PPI insurance even though they had no job to lose and so would never be able to claim on a policy designed to cover unemployment. This kind of reporting was often accompanied by case histories of customers who had bought PPI, at considerable cost, and subsequently found that they could not make a claim against it[1].

Although it is only in the period since January 2011 that repayments for mis-sold insurance policies have occurred, the “scandal” itself predates this by a considerable period. The original research undertaken by the FSA which eventually led to fines on financial services firms and the intervention of the UK competition authorities (the Office of Fair Trading and the Competition Commission) was published in 2005 and 2006 (FSA, 2005, 2006). These investigations were instigated following a “super-complaint” lodged with the Office of Fair Trading by Citizens’ Advice, a designated consumer body. Concerns had been raised far earlier than this, in the late 1990s, by Which? (the UK consumers’ association) and the Daily Telegraph newspaper (Evans, 2011).

PPI mis-selling is a complex, and to some extent contested, concept. Here we attempt to explain it briefly and simply. In essence, payment protection insurance is an insurance product that customers can buy to ensure that, in the event that their financial circumstances change, they are still able to maintain payments on a loan (changes in circumstances generally fall under three categories: accident, sickness or unemployment). The loan may be for any manner of purchase; typical examples are a mortgage on a house, a car loan, or a loan taken out to purchase a consumer durable, and PPI may also be taken out to guarantee payments on a credit card account. PPI is what is known as a secondary product, bought in conjunction with a primary loan. Characteristically, the sales pitch for PPI emphasises “peace of mind” for the consumer, since the payments will be guaranteed (and by implication the consumer will get to keep the car, cooker or house) even under adverse financial circumstances. The sales process for PPI was typically heavily scripted, both for commercial reasons (to ensure consistent delivery of the sales message) and in an effort to conform to the rules governing selling in this industry (falling under the heading of “compliance” and including both self-regulatory and legal restrictions).

The mis-selling aspect of the PPI case study is illustrated in Table 1. The first column summarises the findings from research conducted by the FSA, and the second column identifies the main deficiencies in marketing and sales practices that are inferred to lie behind the adverse effects on customers (these inferences partly emerge directly from the FSA research, and are partly the authors’ own inferences). Many of the problems arose because the products were of an unnecessarily complex design (FSA, 2005). For example, it was partly as

[1] E.g. http://www.dailymail.co.uk/news/article-1378833/4-5bn-victory-banks-insurance-racket-hit-3m-customers.html

a consequence of this that sales-people were poorly trained and could not properly explain the policies to customers or differentiate between suitable and unsuitable policies for particular customers. The sales-people were employed by intermediaries (such as mortgage brokers and retail sales-people in electrical goods stores), and there is evidence that poor management of relationships with intermediaries contributed to PPI mis-selling. Investigations by the UK Financial Ombudsman Service have concluded that high-pressure selling and assumptive selling tactics were employed; assumptive selling is defined in an ombudsman judgement as "where the salesperson assumes a sale has been made but does not, in fact, secure the clear and unambiguous consent of the customer to the sale" (Short, 2009).

Table 1: Principal adverse effects of PPI mis-selling

PPI outcomes: effects on customers	Inferred deficiencies in sales & marketing
• Insufficient information about exclusions & limitations of cover • Risk of inappropriate sales: customer not covered or minimally covered • Poor quality of sales advice • Inducements and targets for sales staff may encourage mis-selling • Failing to make clear to the customer that PPI was optional • Costs (premiums) unclear to the customer • Misleading information in favour of single-premium policies • Poor compliance monitoring • Intermediaries pressured to select a particular type of policy	Product design • Excessively complex contracts, difficult for sales-person to explain in typical selling situation Intermediary (distributor) relationships • Pressured to sell single-premium policies regardless of suitability • Intermediary compliance monitored erratically Selling & sales-support • Insufficient training • Poorly designed sales scripts • Assumptive selling • Selling driven by high bonuses and commission

Source: (Based on information from FSA, 2005; FSA, 2006)

PPI mis-selling and the theory of service-dominant logic

Rather than claiming to devise a new "dominant logic" for marketing, Vargo & Lusch (2004) argued that they were simply codifying a trend in marketing thought previously evident in the work of authors such as Webster (1992), Rust (1998) and Gummesson (1995). Hence the expression in the title of their work: "evolving to a new dominant logic for marketing". The *attributes* and the *foundational premises* of SDL are provided in the appendix. Core propositions of SDL are that operant resources such as skills and knowledge are primary in the value creation process, that value-in-use is more important than value-in-exchange, that value-in-use is determined by the customer and is phenomenological, and that "A service-centered dominant logic implies that value is defined by and cocreated with the consumer rather than embedded in output" (Vargo & Lusch, 2004:6). The ethical implications of SDL have also been investigated; Williams and Aitken (2011) suggest that SDL offers marketing theory a more humanistic aspect by putting the customer on the same level as the firm.

It is clear that SDL provides a theoretical hook onto which many of the issues raised by the PPI mis-selling case can be hung. Four *attributes* and three *foundational premises* of SDL are found to be particularly applicable in the PPI case, as illustrated in Table 2. Perhaps the main question arising out of Table 2 pertains to the phenomenological nature of value in use.

Vargo & Lusch (2008) have emphasised that value in use is phenomenological, determined by customer perceptions (attribute A4).

In the PPI case presumably value in use was positive at the time when the customer signed the contract; the customer's perception of value must have been positive otherwise they would not have signed. However, it was later determined that, for many customers, value in use was objectively negative. No doubt many customers, on finding out (say) that they would *never* be able to claim on an insurance policy for which they had paid a substantial amount, changed their evaluation and concluded that they never obtained any value in return for the money they spent. Philosophically, it is interesting to ask whether value in use was ever positive. Many PPI customers believed that value in use was positive, but were objectively wrong. How is it possible to be objectively wrong about something that is defined to be phenomenological? This appears to be a contradiction. The syllogism "value in use is phenomenological; phenomenological attributes are private, subjective aspects of consciousness; therefore, value in use is a private, subjective aspect of consciousness" is contradicted by the observation that value in use in many PPI cases was objectively negative, a fact that was evident to many consumers once the full facts were explained to them. The contradiction could be lifted by adding the proviso "in the case of a fully-informed consumer" to the first premise of the syllogism. Then, the apparent contradiction can be explained simply in terms of asymmetrical information and the relative ignorance of many consumers in the PPI case. However, there is an obvious and substantial difficulty associated with adding this proviso to what Vargo & Lusch contend is a central tenet of SDL—is it possible to define the meaning of a "fully-informed consumer"? The answer is, almost certainly not (Poiesz, 2004). What consumer is ever "fully-informed" about anything? Certainly, what consumer comes anywhere near being fully-informed when it comes to making complex purchases such as financial services? Poiesz (2004) summarises the considerable evidence that because of psychological limitations consumers often resort to simple heuristics to make decisions, particularly when dealing with complex products.

Table 2: Analysis of PPI case using SDL

Attribute or foundational premise	**Discussion in PPI mis-selling case**
A1: People exchange to acquire the benefits of operant resources	Describes well what consumer *believed* they were buying in the PPI case
A3: The customer is a coproducer of service: marketing is a process of doing things in interaction with customers	Direct face-to-face interaction was involved in the PPI transactions; however, many customers did not understand what they were buying and so could not be considered fully active participants; in a sense it was done *by* producers and agents *to* customers
A4: Value is perceived and determined by the consumer (value in use)	For many customers objective value in use was negative, yet at the point of sale phenomenological value was, presumably, positive
A5: The customer is primarily an operant resource	In the PPI case the impression is that customers were often regarded as operand resources
FP4 Operant resources are the fundamental source of competitive advantage	It seems that the value-creating knowledge advantage (operant resource) in the PPI case was the relative ignorance of many customers, rather than knowledge advantages of one competitor over another
FP6: The customer is always a co-	In many cases of PPI mis-selling value was destroyed; the customer

creator of value	was perhaps, therefore, a co-destroyer of value
FP8: A service-centred view is customer oriented and relational	Either this proposition is false, or in the PPI case the providers and agents did not take a service-centred view (even though PPI is as close to a perfectly intangible service as can be imagined)

Conclusion

Relevance is not a straightforward concept, perhaps even less so in marketing than in some other disciplines. To contend that academic research in marketing should be relevant to professional marketing practitioners in a relatively direct, straightforward and uncontroversial manner seems naïve (Starkey & Madan, 2001; Varadarajan, 2003; Weick, 2001). Since marketing is a highly contingent, context-specific activity, one may doubt that this kind of relevance is possible (Cornelissen, 2002; Easton, 2000; Mowles, 2011). Nevertheless, the first conclusion to be drawn from the analysis of the PPI case study is that those marketing practitioners implicated in the events might have benefited from greater familiarity with SDL. If those practitioners had seriously thought about marketing as a process of value co-creation between the customer and the supplier, perhaps they would have reconsidered their strategies. It must have been obvious at an early stage that the strategies adopted would lead to short-term value creation for the company (supplier) at the expense of value-destruction for the customer. It seems as though SDL, as a normative theory of marketing, might have helped.

A question that emerges from this paper is exactly how general marketing theories, such as SDL, are intended to "latch on" to the everyday world of marketing and selling. The PPI mis-selling case is manifestly an important event in the recent marketing history of the UK and important contemporary theories of marketing should have something substantial to say about this case. However, at first glance, it is difficult to get beyond the elementary level: the PPI case study illustrates marketing and sales mal-practice leading to the destruction of value for customers, and SDL tells us that this is not the way things are supposed to be. Other than telling us that marketers should focus during the value co-creation process on customer value as much as supplier value, does SDL have much to contribute? SDL seems to be silent on the question of why, in the PPI case, the insurance providers and intermediaries designed, distributed and sold products that in so many instances destroyed value for their customers. Indeed, one might ask, as did a reviewer of this paper, whether there is any point in trying to apply a framework based on voluntary exchange to the deceptive and manipulative activities associated with PPI mis-selling. On the other hand, for several years this was a prominent part of the financial services marketing mix. Simply to define it as "not marketing", and by implication "not our problem", seems disingenuous.

Finally, there is the question of the nature of value in use as a purely phenomenological attribute. If value in use is phenomenological then consumers, apparently, cannot be wrong about it, yet in the PPI case it seems obvious that many consumers were wrong. Since this contradiction cannot reasonably be eliminated by invoking the "fully-informed consumer", perhaps it exposes a conflation that lies at the heart of SDL and that may be dubious, namely, the conflation of the consumer's own perception of their best interests with the reality of the consumer's own best interests. If one defines the consumers' best interests to be coincident with the consumer's perceptions of their best interests, then SDL may stand. However, if one acknowledges that there may be a gap between the consumer's actual best interests and their perceived best interests, then SDL seems in need of further elaboration.

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APPENDIX: SERVICE-DOMINANT LOGIC

The six attributes of service-dominant-logic

	Traditional goods-centred dominant logic	Emerging service-centred dominant logic
A1 Primary unit of exchange	People exchange for goods (operand resources)	People exchange to acquire the benefits of specialised competences or services (operant resources)
A2 Role of goods	Goods are operand resources and end products	Goods are transmitters of operant resources (embedded knowledge)
A3 Role of customers	The customer is the recipient of the goods; marketers do things to customers	The customer is a coproducer of service: marketing is a process of doing things in interaction with customers
A4 Determination and meaning of value	Value is determined by the producer (exchange value)	Value is perceived and determined by the consumer (value in use)
A5 Firm-customer interaction	The customer is an operand resource; customers are acted on to create transactions with resources	The customer is primarily an operant resource; active participants—relational exchanges, coproduction
A6 Source of economic growth	Wealth from surplus tangible resources and goods (operand resources)	Wealth through application & exchange of specialised knowledge and skills (operant resources)

The foundational premises of service-dominant logic

1. Service is the fundamental basis of exchange.

2. Indirect exchange masks the fundamental basis of exchange.

3. Goods are distribution mechanisms for service provision.

4. Operant resources are the fundamental source of competitive advantage.

5. All economies are service economies.

6. The customer is always a co-creator of value.

7. The enterprise cannot deliver value, but only offer value propositions.

8. A service-centred view is inherently customer oriented and relational.

9. All social and economic actors are resource integrators.

10. Value is always uniquely and phenomenologically determined by the beneficiary.

(Sources: Vargo & Lusch, 2004, 2008; Williams, 2012)