

LEGAL FINANCE? PROVE IT!

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GfK Mystery Shopping

The changing face of UK finance

Traditionally, financial service providers have focused their research needs on identifying customer needs and wants – seeing meeting these needs and wants as one route to increased sales and market share. Subsequently, their focus has been very broadly on evaluating the customer journey/experience, particularly for high margin products like loans, credit cards, Payment Protection Insurance (PPI) and investment products. Mystery Shopping, a form of participant observation, uses trained 'evaluators' to act as customers or potential customers to monitor the quality of processes and procedures used in the delivery of a service. In mystery shopping there has been an emphasis on the assessment of customer service of front-line sales staff.

Since 2004, the selling of financial services has been subject to an increasing amount of legislation and industry codes of conduct.

The key pieces of legislation and codes include those under Insurance Conduct of Business (ICOB), the Banking Code, the Consumer Credit Act, the Disability Discrimination Act, Distance Marketing regulations and anti money-laundering laws.

The legislation covers a host of consumer financial products including loans, mortgages, credit cards, current accounts, savings and investments, general insurance (car, house, pet, breakdown etc), private medical insurance (PMI) and life insurance.

Why legislate?

Financial products are typically high-risk complex purchases. Making the wrong choice can have long-term financial disadvantages for individuals. In the UK, we have seen increasing personal levels of indebtedness, insolvency and house repossessions.

The Government appointed an independent body, the Financial Services Authority (FSA) to monitor and regulate financial services and to protect consumer rights. The FSA's stated objectives are to ensure that financial services providers '*pay due regard to the interests of consumers and treat them fairly*'. The FSA has a wide range of rule-making, investigatory and enforcement powers in order to meet its statutory objectives: The FSA now expects regulated firms – including agents and brokers to embed TCF (treating customers fairly) into their culture.

Multiple stakeholders and conflicting objectives

Whilst industry watchdogs and consumer interest groups aim to protect consumer rights, financial providers continue to focus on increasing sales, profit and market share. Often these aims are at odds with those of the regulators. An example would be where staff remuneration is based on sales of PPI policies that are linked to personal loans. This could lead to a shortened 'affordability' assessment of the customer as the sales adviser's focus may be on the completion of the sale and his/her bonus rather than the customer's ability to pay the loan back or their need for insurance.

The impact of non-compliance

Non-compliance has captured the attention of the UK mass media and is often widely covered in the newspapers (front pages as well as financial pages) and on television. Programmes such as BBC Watchdog have no compunction in naming and shaming non-compliant firms. Headlines such as, '**Who killed Richard X**' (feature about a suicide as a result of the desperation of over indebtedness due to a £4,000 credit card debt that spiralled to £130,000 because of over-lending); '**Fury at £70,000 loans to mentally ill man**' (feature about a particular bank not following suitability measures); '**Protection or a racket**' (feature about the financial industry's high margin PPI products being often sold irrespective of individual suitability and affordability 'tests' and the limitations not being clearly explained before the sale); '**Rate Roulette**' (feature about credit card variable interest rates and the huge difference between the advertised and the actual rates for non standard consumers), gained a lot of mass public and *snowballed* media interest.

Such high profile coverage has a negative impact on brand image and reputation and subsequently loyalty levels. It is therefore increasingly in the interest of a financial provider to avoid such damage.

Furthermore, companies in breach of legislation face heavy fines and may have to pay compensation to customers.

The information need

There is an information need from both regulators and financial providers who need to monitor/assess what is actually happening in real time financial selling. Regulators seek (supporting) evidence. Firms need to learn where they have compliance weaknesses so that they can take action.

Whilst much of the regulation relates to 'back of house' functions, increasingly, both of these groups are looking at mystery shopping as a solution to measurement of the customer interface.

Mystery shopping is an effective tool for such information gathering. It allows collection of objective (not recalled) data in real time. It uses real people acting out wholly credible scenarios using their real personal and background details. Unlike customer surveys, this methodology measures the process rather than the outcomes of a service experience.

However, traditionally within the financial sector, we, **GfK Mystery Shopping** have measured an enquiry via observation only using fabricated details.

We needed to find a new way of tracking the whole customer journey – i.e. making an actual successful application and/or purchasing a product. In many cases this would involve our mystery shoppers being credit checked and taking their assessment/application right through to follow up. Often, customers do not remember the detail of the service encounter, they only give an overall impression of the service. We needed to collect facts rather than perceptions.

This meant finding assessors who were willing and eligible, who did not need credit in the near foreseeable future and who were profiled in an appropriate way – matching the client's own customer profiles. We may particularly be looking for *prime* (credit-worthy) financial groups, *sub-prime* (less credit worthy) groups, over 60 year olds who have paid off their mortgages, as well as disabled assessors, particular minority ethnic groups etc. Due to the credit checking element, we have to ask assessors to use their real details. The assessors needed to 'act'/behave as the real customer, so that they would not be 'spotted' as the mystery shopper. They also needed to be willing and able to complete online feedback, more often than not, within 24 hours.

Due to the intensity and length of these scenarios, we needed to find willing assessors who would feel comfortable carrying off these often intense (face-to-face and telephone) and

lengthy scenarios. Telephone credit card applications last approximately 20 minutes. Full face-to-face mortgage enquiries last approximately 1.5 hours.

Finally, we needed to find ways of interpreting the nuances of compliance and accurately recall large volumes of information.

The solution

Our solution focused primarily on our approach to assessor selection.

The first obstacle was the credit check. It became evident very early on that we would need to provide sufficient information to potential assessors to allow them to make a judgement on whether being subject to credit searches would impact on the real lives in the next 6 months to a year.

We had to be careful not to allocate more than two assessments to each 'shopper' as this would leave a 'footprint' on Credit Referencing databases and result in less likelihood of a loan acceptance. Also, we provided full *scenario impact* (outcome of application) details to potential assessors and gave them details of how to contact Credit Referencing agencies should they need to. We aimed to have assessors 'opting in' to this type of assessment. This issue also meant that we could not use the same assessor for at least 6 months following their last application – which clearly impacted on the overall size of our assessor pool.

We had to find assessors who felt comfortable and confident with what is a highly intense and detailed scenario and which required them to divulge a large amount of personal and financial detail within the 'shop' itself and to us (since we need to look at the feedback in the context of their profile.) This required us to implement telephone briefings on top of the standard on-line training that we do. Speed for assessment feedback via Cybershop (our bespoke data collection tool) was reinforced in these briefings.

We have also had to insist on a degree of flexibility with our clients regarding geographical sampling – we much prefer to select the assessor first and let the regions fall out naturally, rather than the other way round.

Since neither ourselves, nor our assessors, can always predict what might come out within the credit search – we had to build in a degree of over-sampling to all projects. We found that around 15-20% of our perceived prime assessors are rejected for credit from prime lenders.

In many projects, due to the length of the applications we make and the level of detail forthcoming, and at the client's request, we had to use covert digital recording of assessments. We found reliable suppliers of mini digital audio and video recorders for covert face-to-face work. We used developing telephony (Veritel) so that all remote calls (made by our assessors at home) and outbound calls (made by our own mystery shopping Call Unit) were digitally recorded. If necessary, calls could then be output to wav files and transcribed. In reporting, recordings can either be used directly (for regulators or where a client has involved Staff Associations and representative groups e.g. trade unions) or via anonymised transcriptions (for competitor work).

Case studies and real outcomes

The following case studies illustrate some of the projects we have successfully implemented over the last two years:

Equity Release

On this project – we wanted to evaluate the process of applying for equity release. Assessors had to be over 60 years old, some over 70 years old, and own their home outright. We utilised a number of scenarios – some of which should have resulted in the financial adviser suggesting that an equity release product was NOT advisable. Home-based face-to-face

assessment, which typically lasted up to two hours were recorded and transcriptions were made to aid analysis. Real personal and financial details were used.

Credit Card, Loans and PPI

We have evaluated both prime and sub-prime markets for individual companies and for competitor studies. Assessors applied for a loan and took the application right through until they receive the legally binding Loan Agreement document. It is only at that point that they pulled out. For credit card scenarios, the Credit Agreement was completed and signed and the cards were accepted. Both scenarios went through the full interview and credit search. A key constituent of this type of project is whether any PPI element within the quote given is fully explained and whether pressure selling is a factor. Follow-up calls and documentation were also assessed.

Self-certification Mortgages

These projects looked at affordability in the sub-prime mortgage market. Without specifically leading and asking for more money than the assessor could afford to borrow, the assessor asked about the options available for being able to afford a larger house (outside of their budget).

Money Laundering

We have carried out a number of projects looking at the issue of identification (ID) and whether the correct ID is requested in a number of situations such as current account openings and large cash transfers to countries around the world.

Affordability - Basic Bank Accounts

Basic or simple deposit/withdrawal accounts were developed in response to the Government initiative to move away from cash Benefit payments. Customers requiring them do not always represent core target customers. We have developed scenarios utilising assessor profiling such as a Benefit claimant only wishing to deposit and withdraw their Benefit via a simple account; an unemployed young person living in a hostel seeking a home for his Job Seekers Allowance; an abused married woman needing a simple account in her own name following a sudden break up with limited standard ID in her name; a elderly person with no standard ID seeking an account for his/her State pension. These projects were set up to check that basic bank accounts are offered to appropriate customers, how straightforward it was to actually open an account and to assess whether such customers are treated in the same way as all other customers.

Driven by our mystery shopping analysis and feedback, we have assisted our clients in a number of real changes in service delivery.

Examples include:

- Process change: A high street bank placing intermediaries between front-line staff and mortgage advisers to ensure that the Initial Disclosure Document (a compliance document) is always given to the customer.
- Promotion changes: web site revamp to clearly differentiate APR rates between telephone versus web applications in the wake of a public PR battle about APR rate disclosure between key market players.
- Process change: The use of fixed scripts for sales staff and/or recorded messages to cover initial disclosure.

Taking the approach forward

It is likely that there will be an increasing need for compliance mystery shopping projects within the increasingly regulated financial sector. As we develop the methodology, the new challenge is to consider our ability to take products such as loans and mortgages further than the application but through to purchase allowing measurement of the post-sales service and process.
