

Mystery shopping: Compliance, culture and consumer outcomes

Speech by Fausto Parente at IVASS Event

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SPEECH

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Introduction

Ladies and gentlemen

Thank you for inviting me to today's discussion on mystery shopping.

I am very pleased to be here, not least because we now have the opportunity to learn more about the mystery shopping exercise carried out by IVASS and DG REFORM and to reflect on the lessons.

I always say that while regulation is vital to keep our financial system stable and to make sure that companies carry out their business to a high standard, we need supervision to check how regulation is applied in practice.

(And I don't just say that because I am a supervisor!)

Mystery shopping: Uncovering hidden practices

And this is precisely where mystery shopping comes into play.

Mystery shopping allows us to see how things are done in real life. How regulation is applied: in spirit and to the letter.

Because we know that companies and intermediaries have policies and protocols in place to make sure that advice is given and the sales process is followed correctly.

And these policies and protocols are nearly always there because we supervisors insist on them. And that is because we believe that they will help protect consumers either from mis-selling or from bad advice.

And I am sure that whenever we ask, without doubt the bank, insurance company, agent, or broker will be able to provide evidence that they followed all the right steps. All the boxes will have been ticked.

But still today, despite all the regulation that we have in place, we continue to see consumers losing out because precisely those policies and protocols that are in place to protect them are not standing up to the task.

How do we change this?

How do we make sure that there is due regard given not only to compliance, but also to consumer outcomes?

Well, we need to understand exactly what happens during the sales process.

And when I say exactly, I mean just that: not what the broker tells us, not what the form says, but the exact conversation that took place, how information documents were shared and explained.

Mystery shopping is the only tool that can do this.

And this is what we have seen from this pilot project.

We saw cases where process were not followed, where key information documents were not provided.

And we also saw cases where processes were followed, but still sales were made even though they were not in the interests of the consumer.

We saw that products were offered, even though it was clear that consumers would not be able to keep to the recommended holding period.

We saw that despite a conversation about risk, products were recommended even though they did not match the buyer's risk profile.

And we also saw products being sold without mention of important exclusions.

Without mystery shopping, we only hear about these practices too late – through complaints.

From compliance to culture

So mystery shopping will help us uncover the poor practices that might be hidden by ticked boxes.

But it will not in itself stop the practices.

But we do believe that – within a comprehensive supervision toolkit – it can act as a deterrent. If insurers and intermediaries know that their sales practices could be checked at any moment, we believe that they will move towards a more consumer-focussed approach.

And as supervisors, while we know that we might not be able to address these issues through enforcement or sanctions, we can engage with insurers and distributors. And it is through this engagement that we will start the culture change to an environment where compliance includes consumer outcomes.

This fits with our wider approach to conduct of business supervision.

Coordinated mystery shopping exercises at the European level will help us to identify the depth and scale of issues, and also to anticipate consumer detriment early.

To address areas of concern, as supervisors we need to have a good relations with firms. We need to help firms internalise their consumer-centric culture and supervisors must be able to challenge firms on their culture as well as their bottom line.

As we said when we set out our expectations to product manufacturers and distributor on our supervisory approach to product oversight and governance, we must put the interests of consumers at the heart of the product lifecycle, from design to distribution.

We believe that mystery shopping is one of the tools that can build a consumer-focused culture. Moving to a culture, where customers play the central role should help us to address various protection gaps we currently see in our society.

If we only think about a few of them - natural catastrophe protection gap, a gap in pensions, cyber risks - it is clear we need right actions to close or narrow at least some of them. And we believe a consumer-centric culture is the best way to achieve that.

Looking ahead

Looking ahead, how do we make the best use of the lessons learnt from this project?

The first thing to say is that the use of mystery shopping certainly has a place within the conduct supervisory toolkit.

The results of this pilot show its effectiveness in looking at areas such as marketing, distribution channels, cross-selling and poor sales practices among others.

We know that legal provisions around the use of mystery shopping vary by country. Nonetheless, this pilot - combined with work done by our other members - has enabled us to answer a number of questions around this tool, and proves that - if done properly - mystery shopping can be useful.

As a next step, we at EIOPA are building on the work done through this project as well as on the experiences from our other members, to develop a methodology that can be used by national supervisors if and when they begin to begin to implement mystery shopping as a conduct supervision tool.

At EIOPA, we will use our coordination role to monitor how mystery shopping is used and to facilitate sharing of good practice and findings.

And, if the need arises and we see that there are risks to be addressed at Europe-wide level, we are ready to coordinate joint actions with our members as appropriate.

In conclusion

Before I close, I would like to extend my thanks to IVASS for the work that they have done on this project and for involving us at EIOPA.

It goes without saying that we find the results very valuable and welcome the

overall positive outcome of the project and I look forward to continuing to work with you on this.

I would also like to thank our colleagues at DG-REFORM for being open and ready to test this approach. The overall work being done by DG-REFORM in the area of financial services – whether in testing pilot projects like this one, by looking at the use of artificial intelligence or in financial education – are very welcome and are also valuable in helping consumers make informed decisions about their finances, while at the same time helping to build a more resilient European financial sector.

Speaking as a supervisor, I sincerely believe that mystery shopping has the potential, if used correctly, to become a key tool in helping us not only to ensure that EU regulation is consistently applied, but also to foster a culture of thinking beyond compliance to foster good outcomes for consumers.

Ladies and gentlemen, thank you very much.

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