



## **Mystery Shopping Guide**

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# A Guide to Mystery Shopping in Retail Financial Services

This short guide explains how and why we – the Financial Services Authority (the FSA) – conduct mystery shopping and use the findings.

*The Supervision Manual in the FSA Handbook (section 2.4) gives further background on mystery shopping: <http://fsahandbook.info/FSA/html/handbook/SUP/2/4>*

## **What is mystery shopping?**

The Market Research Society (MRS) defines mystery shopping or ‘mystery customer research’ as:

*‘The use of individuals trained to experience and measure any customer service process, by acting as potential customers and in some way reporting back on their experiences in a detailed and objective way.’*

Mystery shopping is a long-established research technique and is used extensively in many industry sectors, such as retail and the motor trade, to measure the quality of service provided.

We are not alone in undertaking financial services mystery shopping. Many large financial services providers use mystery shopping to research their competitors and their own sales staff, to improve customer services and to help ensure they are treating customers fairly.

## **Why does the FSA use mystery shopping?**

Mystery shopping gives us a detailed insight into the way financial products are sold to consumers.

We use a range of tools to measure policy impacts and assess levels of compliance with our rules among firms. We typically conduct mystery shopping because it fills the gap between retrospective consumer research – e.g. among those who have recently bought a particular product or used a specific sales process to discover their experiences – and formal supervisory visits to regulated firms to assess their advice and sales documentation.

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In an evolving regulatory environment, there is an increasing need for us to gather evidence on whether our retail policy initiatives have had the intended outcomes and whether retail firms treat their customers fairly. In particular, we need to measure and evaluate the impact of FSA policy, assess levels of firms' compliance with our rules and examine the experience consumers have of the retail market.

We regard mystery shopping as a necessary means of gathering such information. This is because of the problems inherent to surveying those who have recently bought products – consumers don't always accurately recall all the details and it is impractical to gather the regulated disclosure material firms give them. Our supervision visits to firms capture formally documented information about sales processes, but they do not provide the unedited version of what firms actually say in an ostensibly 'real sales' situation.

### **What might prompt the FSA to undertake a mystery shopping exercise?**

We typically use mystery shopping for two reasons – either to carry out research in an area that has been identified as potentially high risk, or where we already have concerns about compliance and wish to confirm and identify the key issues so we can conduct more focused supervisory work. We would not choose to conduct mystery shopping speculatively, on the off-chance that we might discover problems. Instead, we often use mystery shopping to complement our policy and thematic work, or to help evaluate the effectiveness of our policies and assess the extent to which our statutory objectives are being met. We ensure there is a clear business need for mystery shopping and consider alternative approaches if these are more likely to achieve the intended purpose.

### **How do we select firms to be mystery shopped?**

Where we decide it is necessary to carry out a mystery shopping exercise, we take steps to ensure it is conducted in a way that is proportionate to what we are trying to achieve.

The way in which individual firms are selected depends on the nature of the market we are investigating. Sometimes we will need to capture a good cross-section of firms providing advice and products in the market under scrutiny. This means getting a mix of small and large firms, including direct sales and independents. There may be other instances where we only need to focus on the major players in the market. We might also wish to use retail market intelligence to sample particular types of firms that are more likely to exhibit non-compliant behaviour. Ideally, we try to minimise the number of times a given firm is 'shopped', but in more specialist markets and for very large firms, repeat shopping is sometimes unavoidable.

*The key to successful mystery shopping is having simple, believable scenarios for the shoppers to follow.*

## **How does the FSA use mystery shopping findings?**

Mystery shopping evidence does not intend to give us representative data on an individual firm, unless we were to conduct a large scale mystery shopping exercise. However, it can provide our supervisors with invaluable feedback to share with their firms. Our supervisors may have a discussion with the firms they regulate, sharing the examples of good and bad practice that the mystery shopping identified. We will present this anonymously, although for larger firms it may be possible to mention the branch(es) concerned. We need to protect the identity of the mystery shopper so they can carry out mystery shopping in the future. So, we tend not to give precise details of when a particular mystery shop took place or the name of the individual adviser concerned.

We will not make public details of the firms concerned in any mystery shopping as it is a basic proposition in FSMA that the FSA should not make a public finding of fault on the part of a regulated firm without following due process. That is the issue of a Warning Decision and, following any reference to the Financial Service and Markets Tribunal, a Final Notice. FSMA prohibits us from publicising any Notice other than the Final Notice.

## **Can mystery shopping results be used in any referral to enforcement against a firm?**

Where mystery shopping indicates compliance problems within a firm, we will do follow-up work to establish why these failings occurred and the potential risks to consumers. Ultimately, this may lead to enforcement action being taken, though it is unlikely in practice that a decision to investigate will be based solely on such results.

Under very rare circumstances, we could, if we wished, carry out more in-depth mystery shopping work focusing on a particular firm. For example, we might want to quantify the extent to which certain selling practices prevail or to help distinguish between failings that are attributable to a small number of under-performing individuals and those that are more systemic.

## **How does mystery shopping work?**

The key to successful mystery shopping is having simple, believable scenarios for the shoppers to follow. The scenario is made as realistic as possible so it mimics natural consumer behaviour in the market concerned and can be enacted convincingly by the mystery shopper. Mystery shopping is unlikely to work if the issue to be researched is not clearly defined.

Scenarios are not scripts, but rather a briefing for the shopper that provides a plausible reason for their enquiry. For example, we give the shopper a set of circumstances which we expect would trigger a need for a particular product or service, together with our expectation of what the adviser should do as a result.

We identify the mystery shoppers for a project by matching their personal characteristics and financial circumstances with the requirements of the scenarios to be used. Wherever possible, the shoppers will use their own personal circumstances, as this helps them keep their story consistent and reduces the amount of specific information they have to remember.

*There is no single prescribed sample size for a mystery shopping project. Our aim is always to make the research fit for purpose. In being proportionate, we have to achieve the right balance between the cost to ourselves, the cost to the industry and the level of coverage required to generate useful conclusions.*

To conduct the mystery shopping, we produce two main documents:

- the scenario briefing notes which give the shopper the background and rationale for each scenario; and
- the feedback questionnaire for the shopper to complete following their visit/telephone call.

Our mystery shopping projects will generally include a pilot stage to check that the scenarios make sense in the real world and to test whether the briefing notes and feedback questionnaire cover all the issues adequately. After completing the pilot, we make any necessary changes and the main fieldwork begins.

### **How big are mystery shopping samples?**

There is no single prescribed sample size for a mystery shopping project. Our aim is always to make the research fit for purpose. In being proportionate, we have to achieve the right balance between the cost to ourselves, the cost to the industry and the level of coverage required to generate useful conclusions.

Due to the nature of our research objectives, most of the mystery shopping we have conducted so far has been more qualitative than quantitative in nature. Qualitative research is used to get the range of behaviour or attitudes present in a particular population and NOT to measure the prevalence of these behaviours or attitudes across the market place as a whole. So, qualitative samples are not (and are not meant to be) statistically representative of the population being researched. Instead, they are designed to reflect the target population by comprising a spread of the different types within the population.

In contrast, quantitative research is used to measure the prevalence of behaviours or attitudes and therefore involves large samples that are representative of the target population. Due to the much larger samples required, quantitative research is more expensive and time-consuming than qualitative research and we would only use it if our research objectives dictated it.

In our more recent projects, a sample of around 70-100 mystery shops has provided us with good quality research-based evidence without over-burdening firms and without being too costly for us. These shops are allocated across a range of different firms chosen to reflect the characteristics of the market in question.

These qualitative samples provide an indication of current practices amongst the firms sampled, which themselves reflect the market rather than provide statistically robust findings for the market as a whole. That is, we cannot necessarily assume that all firms behave in a similar way to the research findings.

### **Do we record the shop?**

Yes, many of our mystery shopping projects have recorded interviews with firms.

Once the analysis is completed, we usually publish a written summary report of the research findings on the consumer research publications page of our website:  
[www.fsa.gov.uk/Pages/Library/Other\\_publications/Consumer/index.shtml](http://www.fsa.gov.uk/Pages/Library/Other_publications/Consumer/index.shtml)

We are required to maintain arrangements to determine whether persons on whom requirements are placed under the Financial Services and Markets Act (FSMA), are complying with them. Mystery shopping is one such method mentioned in the Supervision Manual – see sections 2.4.3 and 2.4.4. Therefore, in order to discharge our statutory functions we are permitted to record mystery shopping conversations with regulated firms providing it is not otherwise unlawful.

By recording, we get the actual words spoken by the adviser plus the tone and emphasis with which they are said. This can be very useful for quality assurance purposes. For example, we may need to discover what a comment on the shopper's feedback questionnaire refers to. Or when answers to the questionnaire suggest something untoward happened, we need to know exactly what was said.

The recording can also provide clear evidence for supervision purposes so we can give firms clear and actionable feedback, although we do not share the recordings with firms.

### **How do we analyse and report on the results?**

A fundamental stage in the analytical process is determining how many eligible shops actually took place. For instance, the shopper may think that a shop has been completed, but on closer inspection we may find a different outcome was achieved. For example, a shopper may believe that investment advice was provided when it was not. We exclude any incomplete shops from the final reported sample. We do not delegate responsibility for this aspect of quality control to the research agency as we are best placed to make judgements of this kind.

### **Some popular myths debunked**

**Myth: *The FSA likes to use mystery shopping as a "fishing expedition".***

**Fact:** We will only use mystery shopping if other methods of information gathering would not enable us to achieve our objectives. Our main reasons for undertaking mystery shopping are concerns over potential compliance problems in a given market or sector, or the need to test how well new rules or rule changes have bedded in.

**Myth: *Mystery shopping poses an unnecessary burden on firms.***

**Fact:** Where we conduct a mystery shopping exercise we consider whether it is proportionate, i.e. we weigh up what we are trying to achieve against any burden we are imposing. Between January 2005 and August 2006, we undertook ten mystery shopping projects. In total, we carried out around 1,100 shops across a range of markets. This represents only a tiny fraction of the time spent by advisers meeting the needs of genuine customers.

**Myth: *It is wrong for the FSA to record these shops.***

**Fact:** Recording is the most accurate and fair way we can record what took place during a mystery shopping exercise. It is an important part of the quality assurance process and gives our supervisors unambiguous and actionable information which we can use with firms. Our regulatory powers permit us to record sales situations.