

DRIVING COMPLIANCE AT THE FRONTLINE

For regulators and the regulated

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IPSOS VIEWS

GAME CHANGERS



INTRODUCTION

The goal of regulators around the world is to ensure that the markets they regulate are functioning well, that the companies they oversee abide by the law, and that consumers do not suffer the consequences of malpractice. It is, therefore, mandatory for compliance teams to ensure their organisations comply with regulatory requirements – and prove it.

The pandemic has brought the relationship between regulators and the regulated into sharp focus, as organisations have had to react to new legislation at speed and ensure that staff adapt and adhere to rapidly changing regulations. This, in turn, has highlighted the need to monitor performance effectively on an ongoing basis.

In this paper, we show how mystery shopping is a key methodology in the toolkit of both regulators and the organisations they regulate. This is in order to assess compliance, identify weaknesses, and drive the necessary steps to eradicate non-compliant behaviours and processes.

Traditionally, compliance mystery shopping has been widely used to assess face-to-face enquiries in the financial services sector, and more recently as a critical tool in assessing compliance with Covid-19 related legislation. Lately, its use has become more widespread in other industries (including automotive, telecoms and 'restricted product sectors', such as alcohol and gambling), across other channels (including contact centre operations) and to assess how different customer groups (such as vulnerable customers) are treated.

This paper is recommended reading for any organisation – regulators and the regulated – interested in ensuring that frontline staff are adhering to regulatory standards and are treating customers fairly.

WHY MONITOR COMPLIANCE?

If organisations do not perform in line with regulatory expectations, and consumers suffer as a consequence, the commercial impact can be significant:

IMPACT ON THE BOTTOM LINE

- Regulator fines
- Customer claims
- Collapsed share price
- Bankruptcy

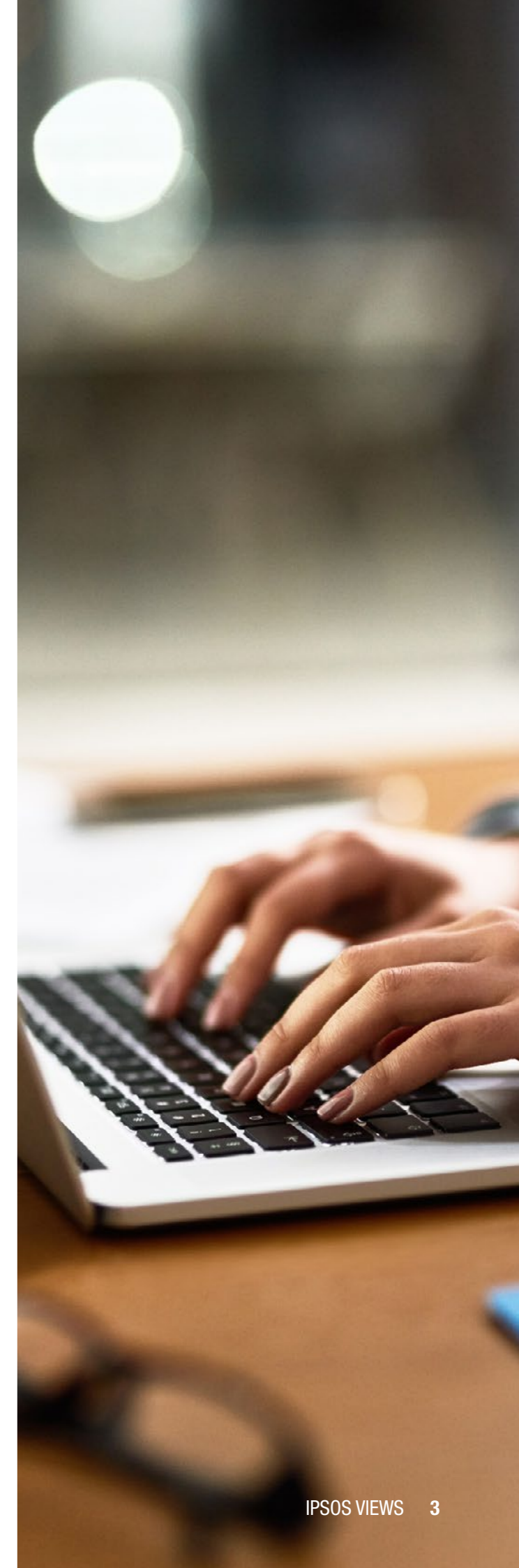
REPUTATIONAL HARM

- Customer acquisition challenges
- Damage to the brand
- Erosion of trust

POOR CUSTOMER EXPERIENCE

- Customer retention issues
- Unfair treatment of customers
- Mis-sold products

In Ipsos' recently published paper, *Putting in the Effort: Why treating customers fairly is key to business success*, we explore the ramifications of such 'unfair treatment'.¹



In the financial services examples shown below, mis-selling by frontline staff had a huge impact on the organisations that employed them and, indeed, the wider economy. In the sub-prime US mortgage example, malpractice led to bankruptcies, job losses and economic recession, with the domino effects felt throughout the world.

countries, an average of just 28% rate banking companies as trustworthy (see Figure 1), albeit compared to 20% in 2018 (see Figure 2). One possible explanation for the rise in trust could be how these sectors have acted during the course of the Covid-19 pandemic.

Such crises led to a collapse in the 'trustworthiness' of banks, which the industry is still living with today. Although data from the Ipsos Global Trustworthiness Monitor² reveals that banking, along with pharmaceutical companies and governments, are now seen as more trustworthy than they were three years ago, actual trust levels are still low. Across 29

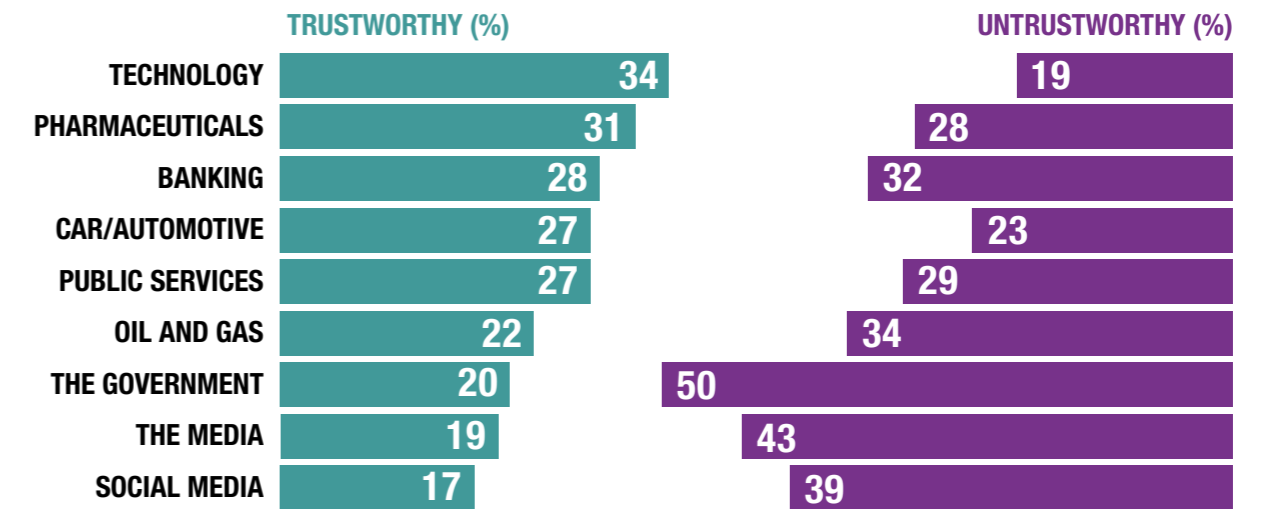
The crises examples below raise two key questions:

1. Could these crises have been avoided if non-compliant behaviours had been identified at an earlier stage, and preventative action taken?
2. If so, what tools are available to regulators and the companies they regulate, to ensure that events, such as these, do not happen again?

| | |
|------------------------|---|
| REGION | US and Global |
| ISSUE | The global financial crisis |
| TRIGGER | Unmonitored mis-selling of sub-prime mortgages to unsuitable customers, encouraged by heavy incentives to sales staff |
| ECONOMIC IMPACT | Recession and the credit crunch, bankruptcies, US stock-market falling by 50% |

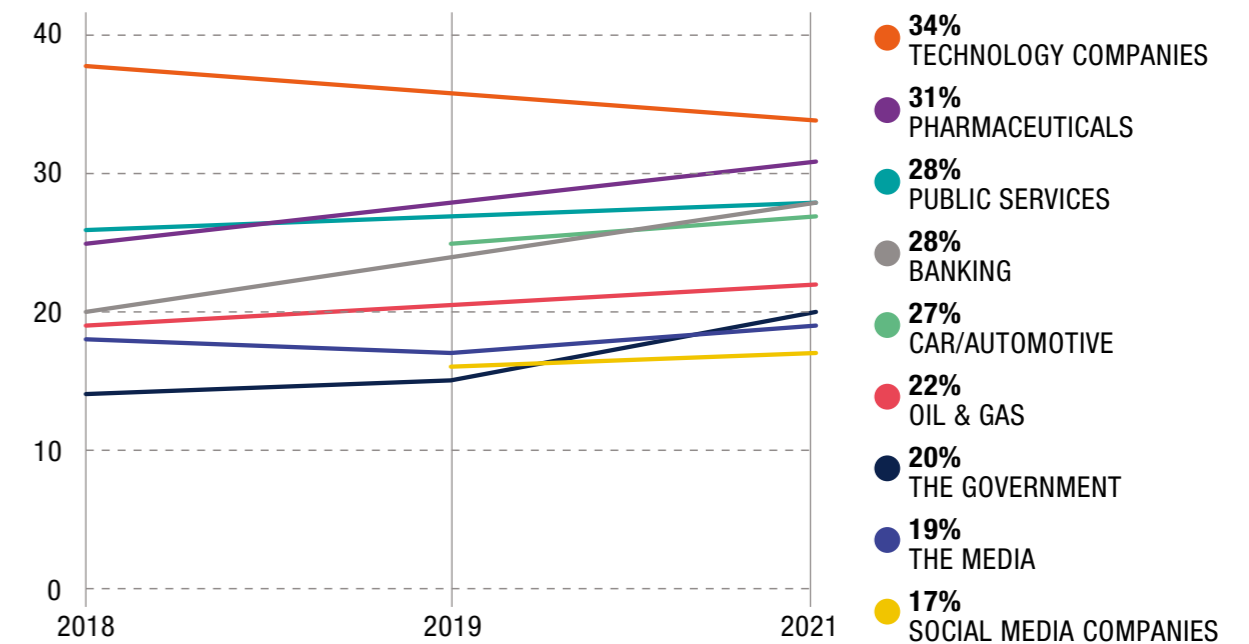
| | |
|------------------------|---|
| REGION | UK |
| ISSUE | Payment Protection Insurance (PPI) mis-selling |
| TRIGGER | Unmonitored mis-selling of PPI on lending products to uninformed customers, encouraged by heavy incentives to sales staff |
| ECONOMIC IMPACT | Significant customer claims leading to pay-outs of over £20bn between 2011 and 2015, and increased distrust in banks |

Figure 1: Trust in sectors



Source: Ipsos Global Trustworthiness Monitor: global country average of 21,503 online interviews across 29 countries, c.500-1000 online interviews per country aged 16/18-65/75, June 25-July 9 2021

Figure 2: Global sector trustworthiness (%) over time



Source: Ipsos Global Trustworthiness Monitor: global country average of 18,000 online interviews across 22 countries, c500-1000 online interviews per country aged 16/18-65/75, 2018, 2019, 2021

HOW TO MEASURE COMPLIANCE

Most, if not all, regulatory-related failings involve poor practices by frontline staff. Individual actions can slip through the net, but of even greater concern are systemic weaknesses which lead to non-compliant behaviours across broad areas of an organisation. However, despite the widespread nature of some of these practices they can be challenging for organisations to monitor effectively, and, most importantly, independently – particularly in face-to-face environments.

Compliance teams have a wide range of tools at their disposal to assess staff performance, including the following:

- Auditing internal finances and paper trails
- Overt in-house audits
- Assessing customer feedback and complaints
- Call listening and online audits for direct channels.

Whilst this suite of approaches should absolutely be included in a regulator's armoury, with their various benefits, none of these tools deliver a truly independent, objective and real-time assessment of compliance at the point-of-purchase (where malpractice commonly occurs).

As examples, whilst overt in-person audits have an obvious and valuable role to play, the actual presence of the auditor may change the behaviours observed. Customer feedback is imperative, giving that true view of the customer, but this will not always identify non-compliant behaviours, especially during detailed discussions, and particularly in relation to complex and often highly nuanced regulated products and services.

THE IMPORTANCE OF MYSTERY SHOPPING

Mystery shopping needs to be part of the regulatory toolkit. Unlike other approaches, mystery shopping delivers an **independent and objective** assessment of compliant procedures and behaviours, as well as providing the following:

- A detailed assessment of **face-to-face** customer enquiries (covertly recorded where possible)
- Testing of very **specific enquiry types**, and even responses to specific customer questions
- Assessments of interactions with **specific customer types**
- The ability to align mystery shopping findings with 'paperwork' and back-end processes, to assess the full **end-to-end journey**.

This type of mystery shopping is complex and, therefore, expertise and experience in this area is vital.

THE IPSOS COMPLIANCE MYSTERY SHOPPING FRAMEWORK

At Ipsos we have been undertaking compliance mystery shopping for many years and have pioneered many of the techniques used today.

We designed the **Ipsos Compliance Mystery Shopping Framework**, which takes into account the following:

1. MARKET AND LEGISLATION UNDERSTANDING

No mystery shopping programme can be truly successful unless the market and business context is fully understood. In compliance mystery shopping, this is particularly important for sample structure (as full networks are rarely assessed), scenario design and data analysis. More specifically, understanding the relevant legislation is key in designing the questionnaire and analysing how the data aligns.

There are three main reasons why compliance mystery shopping is undertaken, and understanding this is important in designing the approach:

1. **New legislation coming**, and the organisation wants to ensure they have the correct processes and behaviours in place.

2. **Recent legislation has been introduced** and there is a need to assess compliance, either as the regulator, to understand performance across the market, or as the regulated firm to understand their own performance, and share the findings with the regulator.

3. **Existing legislation is in place and potential malpractice has been identified**, requiring further investigation. Again, this request may come directly from a regulator or the regulated.

The earlier in the process organisations identify malpractice or non-compliant behaviour, the sooner action can be taken to prevent further escalation. Indeed, regulators will generally look positively on firms undertaking mystery shopping, and even the 'threat' of mystery shopping can have a positive impact on staff behaviour.

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CASE STUDY: ASSESSING COMPLIANCE WITH COVID-19 RELATED LEGISLATION

As governments around the world scrambled to agree and implement Covid-19 related legislation, businesses were mandated to put in place unprecedented health and safety measures to help keep the public safe. Mystery shopping was used by a national health authority to assess whether organisations in key sectors were meeting their obligations.

In order to ensure the data was robust and actionable, the sample structure had to be representative of the market,

the questionnaire structured around the regulation, and the mystery shopper enquiries had to cover a range of typical scenarios. An intimate knowledge of both the market and the legislation was required.

We identified key areas of weakness in certain sectors and regions. As a result, actions were taken, through enforcement and communications at a local level, to prevent malpractice going forward, ultimately helping in the fight against the disease.

Finally, where possible, scenarios should be sales-based. Whilst not feasible for some products (e.g. buying a car or taking out a mortgage) and challenging for others (e.g. where a credit check is required), a full purchase

means that the complete sale can be assessed. If not, the possibility that key processes *would* or *could* have been followed (if the enquiry had gone beyond the point-of-purchase) is left open to challenge.

CASE STUDY: EUROPEAN UNION CURRENT ACCOUNTS STUDY

Our study for the European Union assessed bank account switching (relating to the Common Principles of Bank Account Switching legislation), across all EU countries.

The aim was to monitor and evaluate how effectively the regulations had been implemented by retail banks, specifically in relation to the information provided to customers about bank account switching and the processes involved.

Mystery shoppers were recruited based on strict profiling criteria, including credit worthiness, and instructed to switch their bank account in order to assess the process in full. Weaknesses in the system were identified (that could result in poor customer outcomes) enabling banks to put the necessary improvements in place, from improving information on websites to the provision of literature, and the need for dedicated switching teams.

2. MIRRORING REALITY

Mystery shopping assessments must mirror reality, and this is particularly important where the enquiry relates to a complex product or service. As such, the following three factors must be in-place at the design stage:

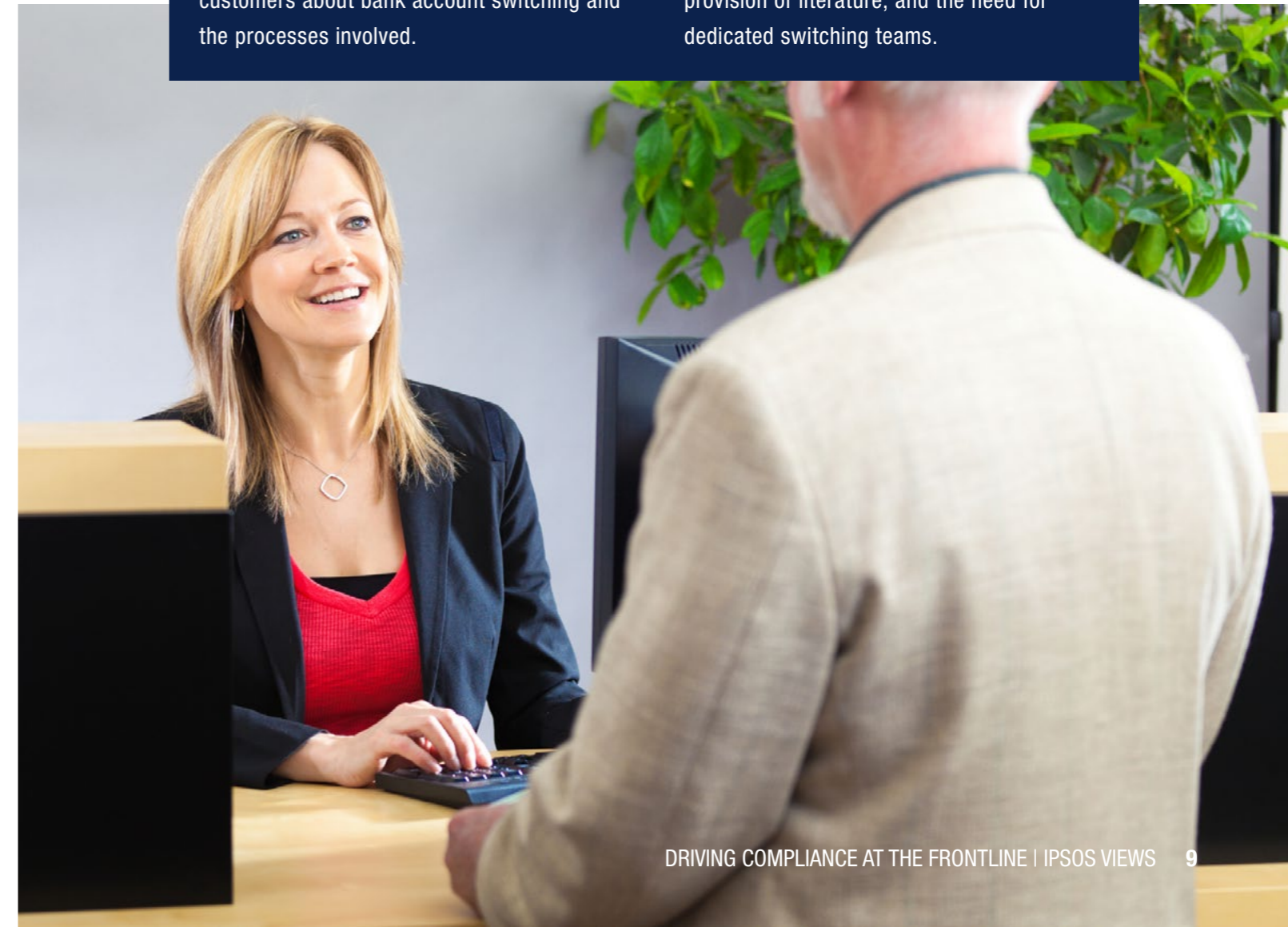
1. **Shopper profiles** must match those of real customers
2. The **enquiry** (and any questions/prompts) must be **realistic**
3. The enquiry should ideally go **through to the sale of the product/service**, or, where not feasible, to the point-of-purchase.

In the financial services sector, for example, a student is unlikely to enquire about a mortgage. A low-income consumer will not be eligible for a premium bank account or credit card. Therefore,

if profiling is wrong, a staff member may question the authenticity of the customer and change their behaviour accordingly, resulting in a mystery shop that is not truly representative.

As Ipsos we have access to a wide range of primary research studies across multiple industries which allow us to understand customer profiles, and design our approach accordingly. In addition, our large mystery shopper panels ensure that even niche customer groups can be accessed and allocated.

The enquiry and shopper prompts must be realistic and, as with poor profiling, an unrealistic enquiry or request can also be a red flag to staff. Knowledge of the market is key in designing appropriate scenarios.



3. COVERT AUDIO RECORDING

Covert audio recording is the gold standard when undertaking compliance mystery shopping. This is not permitted in many countries (for example, in France or Canada); however, where covert audio recording is allowed (and the organisation has provided the necessary assurances) this is the recommended approach, as it delivers an unambiguous assessment of the process or discussion under investigation.

However, this approach requires the necessary resources and know-how. Clear shopper guidelines are very important in ensuring that the recordings are of the highest quality, as indecipherable audio can result in an unusable assessment. This means that giving clear guidance on when they should be turned on and where devices should be positioned

(in order to minimise factors such as background noise) is vital.

The shoppers themselves are key. For this type of programme we recommend using mystery shoppers who are experienced in carrying out work of this nature.

Finally, the necessary steps must be taken to ensure compliance with any data protection regulations is in place, such as the 'General Data Protection Regulation' (GDPR).

Where clear audio recorded mystery shops are combined with insightful shopper feedback, as well as documentary evidence, clients will gain a unique perspective into regulated discussions and product purchases.

4. END-TO-END PROCESS ALIGNMENT

The provision of documentation is important in compliance mystery shopping assessments, as it allows compliance teams to match the contents of key documentation with the content of the actual discussion – thus providing the 'full picture'.

In addition, some organisations will align mystery shopping results with internal process metrics to assess whether the information provided aligns with what staff members actually enter into their systems. A disconnect here can highlight a difference in what the customer has been told, versus what has been logged. This approach is often used in programmes relating to vulnerable customers and complaint handling.

CASE STUDY: INTERNATIONAL RETAIL BANK COMPLAINT HANDLING STUDY

This mystery shopping programme into the regulated complaints process of a major retail bank assessed how complaints were handled by frontline staff, and also allowed the bank to assess how the complaint was processed through back-end systems, including the following:

- Whether the staff member had actually logged the complaint
- If they had, how the complaint was categorised
- How long the complaint logging process took, and the identification of bottlenecks
- How the process worked in terms of compensating the consumer.

The programme identified where improvements were required at the front-end, in terms of complaint recognition and the customer experience, drove back-end process efficiencies, and allowed the compliance team to share the data with the regulator to demonstrate the actions they were taking to improve the end-to-end complaints process.



DELIVERING IMPACT

By using Ipsos' framework and following the steps above, the data will be realistic, robust, and reliable; laying the foundation for delivering actionable insights that drive change and, therefore, deliver a commercial impact.

There are four key steps to achieving this:

1. Design the questionnaire and analyse the data against specific elements of the legislation, and identify weaknesses
2. Understand the areas where those weaknesses over-index (e.g. product-level, regional-level)
3. Identify what action should be taken to plug these non-compliant gaps
4. Understand the potential commercial implications of non-compliance and the impact of improved performance.

Where results are effectively translated into actionable insights, organisations can make the necessary business improvements to drive compliant behaviours and processes, which ultimately benefit the customer, perceptions of the brand and help protect the bottom line.

Calculating commercial impact can be difficult, as regulatory action can be challenging to unpick and foresee, however, by reviewing previous fine and claims activity, accurate forecasting is possible. The **return on mystery shopping spend** is significant when the commercial impact can run into billions.

The return on mystery shopping spend can be huge. If the organisations involved in the US sub-prime mortgage and UK PPI mis-selling scandals had used mystery shopping to assess sales practices, they could potentially have saved millions and avoided significant brand damage.

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THE FUTURE: NEW SECTORS, NEW CUSTOMER TYPES, NEW CHANNELS

At present, compliance mystery shopping is more commonly undertaken in face-to-face environments and in highly regulated markets; however, programmes are becoming increasingly common in the following areas:

- Sectors beyond the traditionally regulated markets
- Non-face-to-face channels, particularly those managed by contact centres
- Specific customer groups, including the likes of high net worth and vulnerable customers.

TELECOMS

The telecoms sector is regulated in many countries, where companies are expected to provide clarity on contracts and pricing. In the UK, for example, the telecoms regulator (Ofcom) has handed out multi-million pound fines for mis-selling and poor complaint handling.

Our compliance mystery shopping for major telecoms firms typically assesses the provision of information at the point-of-purchase across both face-to-face and contact centre channels, in order to understand whether staff are compliant when selling phone contracts and, as importantly, whether customers understand the information they are given.

AUTOMOTIVE

Increasingly regulators are turning their eye towards the automotive sector, particularly in relation to the financing of vehicle purchases

via credit products. As such, automotive organisations need to be considering mystery shopping to assess how dealerships are communicating finance packages at the point-of-purchase.

FOOD & BEVERAGES

Assessing compliance is also very important in the food and beverages sector, particularly in relation to product labelling and advertising.

Execution measurement is often the preferred approach. This is similar to mystery shopping in some ways, whereby auditors visit locations to ensure products are being sold in a regulatory and, indeed, brand-compliant manner. The focus is not, however, on evaluating the human experience, and the auditors may reveal their purpose (unlike a *mystery shopper*). Execution measurement is a highly effective, and relatively inexpensive, way for regulators to assess whether organisations are meeting their health and safety regulation obligations.

As examples, Ipsos has conducted programmes across Europe to investigate the provision of labelling on meat products to assess whether the information met requirements on environmental and farming standards, and in the UK to assess whether hospitality outlets were correctly displaying required health and safety ratings.

With the explosion of **new channels**³ and payment methods in recent years, many of which are more challenging to regulate via traditional methods, compliance mystery shopping is being used to assess performance across a range of direct channels (telephony, email, live chat, social media) and to assess omnichannel journeys across multiple touchpoints.

Contact centre compliance is predominantly overseen by internal quality teams, with trained personnel identifying gaps in agent behaviour. This is a vital part of any quality assurance process, however, while it is critical to assess whether agents are following scripts (via all channels), this approach cannot identify whether customers are understanding the information they are given. This is the great strength of mystery shopping, as it allows organisations to objectively monitor the information provided by agents (via call recordings) and subjectively assess customer understanding, as any disconnect between the two can have detrimental consequences.

For further information about how a well-designed mystery shopping programme can help evaluate your contact centres – as a standalone, or as part of the omnichannel journey – and drive greater customer loyalty, higher profits, and better returns for shareholders, read our paper, *Mystery Calling: Dialling up your contact centre performance*.⁴

In addition, with a significant increase in mobile and online purchases of regulated products during the pandemic, the need to assess whether customers are accessing and understanding the information they are given online has become increasingly important, as ‘mis-sold’ online products could become a potential mis-selling hot spot. This has led to an increase in web-based mystery shopping, where the online customer journey is assessed without human-to-human interaction. Whilst this approach deviates slightly from the standard compliance framework, the same core principles apply.

Mystery shopping allows organisations to focus on specific customers (whose interactions may be challenging to monitor) ranging from high net worth to vulnerable customers. The Ipsos framework is key in ensuring that shopper profiles reflect the market and that the necessary shopper panels are in place to access often niche groups.

With the pandemic precipitating a rise in consumer vulnerability, the importance of protecting those consumers has not been lost on regulators, and the need to monitor how organisations are handling those customers is likely to increase. As such, mystery shopping can play a vital role in ensuring that vulnerable customers are treated fairly and are able to access the relevant products and services they need.

IN CONCLUSION

This paper highlights the effectiveness of mystery shopping in assessing regulatory compliance, and the impact it can have in identifying areas of weaknesses and the actions needed to improve performance.

The scale of regulator fines and consumer claims over the past decade has been significant and, therefore, the commercial benefits of using mystery shopping cannot be underestimated.

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