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This is a culmination of more than five years of work by CGAP to pioneer behavioral research methods for consumer protection in emerging markets. This includes technical assistance with consumer protection policymakers in more than 10 jurisdictions and training of hundreds of policymakers on behavioral research and design methods. Please visit cgap.org’s publications page for even more on this topic.

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Fair Treatment

“All financial consumers should be treated equitably, honestly and fairly at all stages of their relationship with financial service providers.”

“Financial services providers and authorised agents should have as an objective, to work in the best interest of their customers and be responsible for upholding financial consumer protection. [They] should also be responsible and accountable for the actions of their authorised agents.”

Three Key Considerations for Fair Treatment and Sales Practices

1. “Fair treatment” will vary by consumer and situation, so research should test several types of consumers and scenarios.
2. Sales staff are impacted by incentive structures, so their conduct should be considered against their financial institution’s official policies in areas such as commissions, approval processes, and mission.
3. Compliance with regulations on fair treatment and sales practices will have a subjective element, so constant market monitoring such as mystery shopping is essential to enforcement.
In India, 55% of consumers seeking to acquire the government-mandated “no-frills” savings accounts were turned away by sales staff who refused to accept valid forms of ID.

For those who did manage to open an account, sales staff demanded unnecessary IDs and documents, withheld key information on product terms and fees, and imposed extra time and effort burdens on consumers.
Sales staff often reflect management’s behavior in advising consumers.

In the United States, the introduction of yield spread premiums and other financial incentives by lenders encouraged mortgage brokers to issue more mortgages to less qualified borrowers, contributing to the 2008 subprime mortgage crisis.
Sometimes (un)fair treatment targets lower-income or vulnerable consumers.

In South Africa, retail chain Shoprite was fined under reckless lending rules for failing to assess whether consumers could afford a loan or not, and for selling occupational disability coverage to pensioners and other government grant recipients.
The Halo Effect

The halo effect is when consumers trust the advice of experts without fully considering their motivations or incentives.

Sales staff may exploit their influence by not offering the best advice or product. For example: Consumers believe that an insurance agent is offering them the best policy for their needs, but the agent may be steering them to a more expensive whole-life policy when a term policy would be a better value.

An experiment in the United States found that disclosing the conflicts of interest of financial advisers did not impact willingness to pay for products or to follow a sales person’s advice.
Default Bias

Default bias is when people choose default options or stick with existing choices, instead of making the effort to change.

For example: Consumers may be more likely to enroll in credit life insurance if the default setting of the loan contract opts them into such a policy.

“To opt out of life insurance coverage, please uncheck the box.”
Present Bias

Consumers tend to focus on the short term and may prioritize immediate benefits over long-term consequences or costs of a financial decision.

Source: CGAP 2018
Behavioral issues in sales processes can be mapped using a range of tools

1. Audit commission and sales incentives of providers to identify where they do not align with consumer best interests

2. Conduct surveys or interviews with sales staff

3. Conduct mystery shopping

4. Test policy reforms to address behaviors of consumers (e.g., not shopping around) and providers (e.g., mis-selling)
Mystery Shopping to Understand Sales Staff Conduct in Peru
Mystery shopping...

- Measures a provider’s processes by having participants play the role of potential customers and report on their experiences in a detailed and objective way.

- Focuses on what happens when participants perform specific tasks, such as purchasing a product, asking questions or shopping around, and registering complaints.

For more information, see “Mystery Shopping for Financial Services”, CGAP (2015).
Use mystery shopping to ...

- Understand compliance with regulations like disclosure of costs and terms.
- Measure whether a recent regulation changed sales staff behavior.
- Measure sales staff knowledge.
- Identify how sales staff treat different types of consumers and make suitable product recommendations.
Design a mystery shopping experiment

1. Identify relevant rules on sales practices and design shopping scenarios that measure how well these practices are followed.

2. Identify key product terms that must be disclosed, and have mystery shoppers record whether sales staff made the proper disclosures.

3. Identify provider types and geographic coverage for your sample.

4. Select products and sales channels (e.g., branch, agent, digital) to include in your sample.
Mystery shopping should reflect actual consumer experiences

- Match key socioeconomic profiles of populations you want to understand. Do information provided, advice given, and regulatory compliance vary according to type of consumer?

- Use actual financial history and income of consumers. Are appropriate services being offered to meet the needs and budgetary constraints of each consumer?

- Develop a range of scenarios for shoppers to test, e.g., financial knowledge (low or high) and product needs.
Mystery Shopping for Credit and Savings Products in Peru

The Superintendence of Banks, Insurance and Pensions in Peru wanted to understand how providers were complying with their consumer protection policies. They partnered with the World Bank and Innovations for Poverty Action to design a mystery shopping experiment to help them gain this understanding. In this case, mystery shopping involved:

- Training 36 low-income consumers
- Testing 2 products (savings and credit)
- Reviewing: 120 savings interactions
- Reviewing: 156 credit interactions
Loan Profiles

- Low Loan Amount: Request a loan of 20% of their household income
- High Loan Amount: Request a loan of 70% of their household income

Savings Profiles

- Day-to-Day Savings Profile: Accumulated savings of US$680 with need for a deposit account that lets them move money
- Investment Savings Profile: Accumulated savings of US$680 that they intend to deposit and leave in place
The exercise also included “signaling” scenarios that shoppers reflected in their roles. Shoppers portrayed one of two scenarios.

**Experienced Shoppers:** Reference shopping around at competitors and use more sophisticated financial terms

**Inexperienced Shopper:** Reference that this is their first time visiting a financial institution for the product they seek and use basic financial terms
Key Findings

1. Poor disclosure of several mandatory key product terms was observed.
2. Quality of information varied depending on the consumer profile, indicating possible differentiated treatment of consumer types.
3. Significant variance whether product offered was best value product available that could have been offered to the consumer.
4. Providers were able to assess capacity to repay and adjust loan sizes accordingly, were much less likely to give similar needs assessment on savings products.
Compliance with rules to disclose product terms varied across consumer profiles and product types.
Compliance with rules to disclose product terms varied across consumer profiles and product types.

**Percentage of Shoppers Informed about Total Cost of Loan**

- **Inexperienced Shopper Profile**: 2.90%
- **Experienced Shopper Profile**: 58.80%

**Percentage of Shoppers Informed about Total Cost of Loan**

- **Low Loan Amount Requested**: 32.40%
- **High Loan Amount Requested**: 28.70%
Even when required by law, sales staff may not provide printed information that does not benefit their interests.
Sales staff advice did not always match consumers’ stated needs and preferences.
Where business and consumer incentives aligned, product recommendations were more suited to the shopper's profile.
Sales Staff Knowledge of Product Terms

Information about sales staff’s knowledge, commission and incentive structures, and other key information may complement the mystery shopping data.

In Peru, 62 sales staff were interviewed to glean insights that would complement findings from the mystery shopping:

- 74% said they “voluntarily provide all information related to the product,” yet mystery shopper reports showed that a much smaller percentage of staff did this.

- They demonstrated strong knowledge of the total annual cost of credit (TCEA) and total annual return on savings (TREA). However, TCEA was mentioned in only 55% of shopping visits, and TREA in 42% of shopping visits.
Mystery shopping revealed behavioral issues in sales practices

- Incentives to staff to disclose product terms did not have a direct connection to product costs and fees.
- Perceived consumer profiles affected the level to which staff were willing to disclose product terms.
- The behavior of sales staff appeared to vary greatly depending on the type of product being sold. Some sales incentives worked to sell products to some consumers, but this did not apply to all products and all consumers.
Tips for Getting Started on Mystery Shopping

- Identify products and target consumer populations.
- Review regulations for all relevant provisions that could be measured in mystery shopping.
- Hire a local market research firm that has mystery shopping experience.
- Develop scripts and questionnaires.
- Recruit and train real-life consumers to be mystery shoppers.
- Ask providers for the full terms and costs for products considered in the mystery shopping exercise. This will help you measure whether a product offered by the provider was the best possible option for the shopper.
What do you do next to improve sales practices for the product you have identified?

1. Review providers’ sales staff training materials and commission and incentive structures.

2. Design and implement a mystery shopping exercise for priority products and sales channels.

3. Design and conduct a sales staff and/or consumer survey to understand sales and shopping behaviors.
CONGRATULATIONS!

You have completed the Fair Treatment and Sales Practices — Mystery Shopping Learning Module
Click on the Learning Module you want to take next:

- Transparency and Disclosure
- Recourse and Complaints Handling
- Financial Capability