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RESULTS OF "ONLINE INVESTMENT SUBSCRIPTION" MYSTERY SHOPPING CAMPAIGN

Mystery shopping

AUTORITÉ DES MARCHÉS FINANCIERS

AMF

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SUMMARY

At the end of 2017, ahead of the coming into effect of the Markets in Financial Instruments Directive II (MiFID II), the AMF wanted to gain a clear picture of the practices of internet operators, online banks and fintech companies, and to measure the progress that traditional retail banks have made in relation to the subscription of online investments.

The results were broadly in line with those from the previous mystery shopping campaign:

- Procedures for opening an account online remain varied and, for the most part, are not paperless. This said, these are smoother and quicker at online operators than at traditional providers.

- Online questionnaires used to collect *know your customer* (KYC) information could be more instructive. Whether this is done online or face to face, the way in which knowledge is assessed remains too dependent on the customer's own self-assessment.

Nevertheless, progress had been made regarding informing the customer why the information is being collected and also to certain elements of the questionnaire. Several years of discussions with institutions seem to have finally, albeit only partially, borne fruit in relation to MiFID I requirements[1].

Institutions must now bring themselves into line with the requirements of MiFID II, which took effect on 3 January 2018 and are supplementary to those of MiFID I.

[1] MiFID II brings additional investor protection measures to those in MiFID I by introducing a suitability statement, more in-depth customer knowledge, long-term advice and disclosure of all costs and fees.

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1. BACKGROUND, OBJECTIVES AND METHODOLOGY OF THE STUDY

The Autorité des Marchés Financiers (AMF) has carried out mystery shopping at **bank branches** since 2010, using recurring scenarios based on risk-seeking and risk-averse profiles and more specific scenarios, such as a young, risk-seeking , working person. The aim is to gain a clear picture of banks' sales practices, including making sure that the **profile of the prospective customer** is successfully identified, the products offered are suitable for this profile and the information provided about these products is of high quality.

In view of the growth of online selling, an initial **online mystery shopping** campaign was carried out at the end of 2014 in order to determine how French institutions approached a "**new customer**" from a sales perspective. Moreover, in 2016 and 2017, there were several mystery shopping visits to platforms offering Forex and binary options in order to observe the customer identification process, how it is implemented when this involves the marketing of high-risk products and the terms and conditions for withdrawal funds invested.

Faced with fewer people going into bank branches, growth in online investments and the arrival of new fintech players (such as robo-advisors), in the final quarter of 2017 the AMF conducted a new mystery shopping campaign in order to observe sales practices for online investment subscription. The aim of these visits was to gain a better understanding of the customer experience and observe the practices, both good and poor, of the institutions in question.

This campaign was the final round of mystery shopping visits before MiFID II came into force. This study reveals how companies implement MiFID I rules, measures the prospective difference between the practices in place at the end of 2017 and the new MiFID II requirements and, therefore, maps out the steps that financial institutions still need to take.

This online investments mystery shopping campaign aimed to verify:

- new customer relationship practices and online account opening methods;
- good KYC practice by observing the questionnaires and how they were presented and explained (from both a regulatory and sales practice perspective);
- the suitability of the investment advice given based on the profile in question, where applicable;
- the quality and clarity of the information provided about the funds and investment services on offer.

AMF'S ONLINE MYSTERY SHOPPING CAMPAIGN IS NOT AN OFFICIAL SUPERVISORY EXERCISE BUT ONE OF MERELY OBSERVING THE SALES PRACTICES OF 20 ONLINE OPERATORS.

The campaign was conducted from "**new customer**" rather than potential customer perspective.

The scenario used for the mystery shopper was one of opening a securities account and signing up to funds[2] online with traditional banks on the one hand and online banks on the other. As far as the former were concerned, it was about testing the possibility of investing remotely without having to go into a

[2] Subscription to non-complex financial instruments: a euro area equity fund, a tracker replicating the performance of the CAC 40, a bond fund and a US equity fund.

branch. In the vast majority of cases, the prospective customer of the traditional bank was invited to go into a branch, so the mystery shopper[3] went into a branch in their local neighbourhood[4]. Mystery shopping visits were also made to three new fintech companies.

The study was carried out between October 2017 and December 2017 at **21 institutions (20 of the visits were successfully completed).**

The table below, which was drawn up **after the mystery shopping visit**, shows the main characteristics of the scenario as it **actually** played out, and of the investment service so far as it was **understood or perceived** by the mystery shopper.

	The online banks (9)	**The traditional banks / their websites (9)**		**The new fintech companies (3)**
The scenario enacted by the mystery shopper	Opening a securities account and subscribing to a fund online	Opening a securities account in branch and subscribing to a fund online	Opening a securities account and subscribing to a fund online	Discretionary asset management or investment advice online
Account opening	Online	In branch	Online	Online
Perception of the investment service provided	Reception and transmission of orders (RTO) or order execution	Investment advice	Reception and transmission of orders (RTO) or order execution	Discretionary asset management or investment advice

[3] 2 investigators, with a similar profile, carried out the experiment, with the first visiting 18 institutions and the second visiting two.
[4] Lille.

2. BANK MYSTERY SHOPPING RESULTS

2.1. OBSERVATIONS OF PRACTICES AND CUSTOMER EXPERIENCE WHEN JOINING AND OPENING AN ACCOUNT

a) Fully online banks

The process of opening a securities account with an online operator was fairly smooth, but in most cases this still involved paperwork.

In the case of fully online investment specialists, a prospective customer did not need to open a deposit account before opening a securities account. Of the nine institutions studied, three offered a 100% paperless, fully autonomous, online account-opening process. With the other six, the prospective customer had to send the contract and supporting documents by post.

The average time needed to open a securities account was 14 days. The quickest was just six days at one of the online banks.

b) Traditional retail banks

It was more complicated and less straightforward to open a securities account with a traditional retail bank than a fully online bank.

At one institution the mystery shopper was unable to complete the assignment because, having started the process online and then followed it up in branch, the bank refused to open a securities account without the customer's salary being paid directly into said bank.

At all the eight other traditional retail banks, the mystery shopper was told they had to open a deposit account before opening a securities account. The methods involved leaned in favour of opening a 100% online account, but the mystery shopper could do this at only one of the eight banks. At the others, the mystery shopper was invited to hold a face-to-face meeting, and at four of these seven a second/further branch meeting was required in order to open the securities account. Even though no subscription to any fund was actually made, the meetings lasted between an hour and an hour and a half, which is longer than observed during mystery shopping visits to branches[5]. Even if the mystery shopper was not coming for investment advice, it would appear that the banks took their time to get to know their new customer.

At these face-to-face meetings, the traditional retail banks seemed to try and enter into a broader relationship, which naturally involves an advisory process and an in-depth assessment of the new customer (including an overview of their financial situation). It is an approach that appears to reveal an investment advice-oriented sales policy. It also doubtless takes into account that the customer is highly likely to perceive a face-to-face meeting as being an advisory relationship. The bank thus chooses to apply the highest MiFID standards to the suitability test.

The average time taken to open a securities account was 4 weeks, with a range of 12 days to 7 weeks.

2.2. VARIED CUSTOMER QUESTIONING

[5] The meetings during the 2015 risk-seeking / risk-averse campaign lasted an average of 44 minutes (ranging from 15 minutes to 1 hr 35 mins).

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a) Fully online banks

In view of the different investment services they are likely to offer, fully online banks chose to gather information at least on their clients' investment experience and knowledge.

Customer information collection - methods were not always clearly explained

All the fully online investment specialists asked the prospective customer to fill in a KYC questionnaire before signing up to the securities account. Five of the nine then supplemented this by asking additional questions when the customer came to invest in their funds.

With regard to the **methods used to collect information** and in compliance with AMF position 2013-02[6], **all the online banks had a message that informed the customer of the regulatory requirement**. This marked an improvement on the previous online mystery shopping campaign in 2014, although some messages did not explain the purpose of the questionnaire or were not sufficiently clear.

AMF position 2013-02 also entails that customer information should be collected using clear, precise and comprehensible questions, which appeared to be the case for all the online banks. Despite having no specific financial expertise, the mystery shopper said he had no particular difficulty in filling out these questionnaires.

With regard to supporting the customer throughout the assessment process, three out of nine operators included a few explanatory tooltips, but this practice was not widespread. The investment horizon was explained clearly by two of the institutions. At one institution, tooltips in the questionnaire provided more detailed product information. These results are in line with those observed during the 2014 online mystery shopping campaign . Certain operators offered help via a chat window or gave the option of calling an advisor, but this is not part of the MiFID questionnaire.

Taking the questionnaires as a whole, it would appear that the online institutions had not designed a logical question path/sequence, in order to be able to check on one hand responses are consistent with questions asked,but on the other that responses are also consistent via questions asked differently on a recurrent theme/topic..

Further work is still needed since few operators offered customers the chance to open information windows/boxes or easily contact an advisor with a view to gaining a clearer idea of the purpose of the questions they were being asked.[7] However, without human intervention, some questions may call for specific accompaniment to ensure they are not misunderstood or misinterpreted by the customer. As we can see, fully online banks are still not harnessing the full potential of the digital world to make their questionnaires more instructive and perform better consistency checks on the information provided.

Knowledge and experience questionnaires - room for improvement

[6] The providers are obliged to inform the customer that the information is being collected in their interest with a view to delivering a tailored or suitable advisory or investment service.
[7] Position/Recommendation supplementing Position 2013-02 on collecting know-your-client information – DOC-2017-08

In accordance with Position 2013-02 and in light of mystery shoppers' experience, banks must ensure that customers possesses the experience and knowledge required to understand the inherent risks of the specific type of product they are requesting/that interests them.

In order to assess a customer's financial expertise, banks must avoid relying on self-assessment and should make a clear distinction between theoretical knowledge and actual experience of possessing savings and holding investment products.

We found that **2 out of 9 operators did not ask a question about /did not query the mystery shopper's knowledge of financial investments**. These two institutions are only partially performing the test that identifies whether a service is appropriate.

Of the other seven institutions:

- only 4 asked questions leading the mystery shopper to the self-assessment stage;
- 1 offered 'hybrid' self-assessment and a true/false quiz to test theoretical knowledge;
- 2 performed a more in-depth assessment via multiple-choice questions on each product category.

Despite a somewhat mixed bag of outcomes, mixed bag, the results are better than those obtained during the previous 2014 mystery shopping campaign , when only 1 questionnaire out of 17 investigated banks was not declaratory and contained theoretical questions.

With regard to **experience, all the online institutions' questionnaires collected information on whether the customer had previously held savings and investment products** and on the number of transactions carried out. The level of detail requested varied from one institution to the next, with some also asking the amount of money involved in such previous/historical transactions. **2 institutions also asked the mystery shopper whether they had previous experience of losses on savings and investment products, and how they had responded to these losses. This practice is commendable**. Lastly, none of the institutions followed the Position's recommendation of enquiring about the nature of the mystery shopper's previous investment experience (e.g. direct management, discretionary management or advisory management).

Questionnaires going further in order to gain a more complete picture of the mystery shopper's profile and plans

In a more holistic approach to customer relations and probably with a view to being able to offer additional investment services since there is no advance knowledge of the scale of the customer's potential requirements, all the online banks had an online questionnaire aimed at gathering more information than just the customer's knowledge and experience.

They all asked at least one question about the **prospective customer's situation**.

All institutions asked the mystery shopper about marital and family status, eight of the nine online banks also asked about employment status and four asked about tax status.

With regard to assets, all operators asked about the mystery shopper's income (either by income bracket or leaving a blank space to fill in). They also asked whether the mystery shopper had any other savings or investment products. Most operators also asked the mystery shopper about the amount and breakdown of assets, distinguishing between financial and real estate assets.

One in nine banks asked about charges and two enquired about the mystery shopper's ability/capacity to save.

With regard to the mystery shopper's **investment objectives and horizon**, we noticed that **eight of the nine institutions asked at least one question about objectives.** They all suggested a list of objectives of varying lengths/terms (ranging from three to seven objectives). One institution also offered the possibility to choose several objectives, prioritise them and match them against investment horizons.

With regard to **investment horizons, five out of nine operators asked the customer for how long they envisaged holding the investment**.

It should be noted that the assessment of horizons and time scales vary from one institution to the next and may mislead customers. Two operators described long-term investment as a period of more than eight years, while another said it was a period of more than five years. These periods are not enough to be able to advise on or sell certain asset classes. Another operator described a long-term investment as being one held for more than three years, complicating matters even further. The investment horizon brackets presented to customers do not appear to allow the institutions to pin down the exact period of time over which they wish to hold the investment, particularly if they want to invest over the long term. This distorted view of the investment horizon is not helping to improve levels of financial education, and yet all the actors acknowledge and are in favour of improving financial literacy. How can this be achieved if it is not built in to sales practices and institutions do not play their part?

The issue of **risk appetite was covered at least once in all the questionnaires**. One operator broke down the risk questionnaire by product type. Other banks wanted to gauge the customer’s response when faced with potential losses.

Lastly, at the very least, all the institutions offer customers the chance/possibility to position themselves either in a risk/reward scenario (seven of the institutions) or on a scale of risks or an investment strategy.

In return for the information provided, **three institutions showed mystery shoppers their investor profile**, which is not mandatory for the scenario in question but would be if the institutions wished to provide investment advice. **Four of the nine operators also offered a summary** of the information provided in the questionnaires, which is not compulsory. In the case of one operator, no summary was offered but the information provided remained available in the profile section of the customer's area.

b) Traditional retail banks

Accorgin to the scenario which points to online subscription without the need to contact the institution, banks should have provided an RTO service or an order execution service. This was the case at one bank, where the mystery shopper was able to sign up to his account and funds online.

However, at the seven other traditional banks, the mystery shopper experience and the practices employed were totally different. At these institutions, the customer was invited to attend a physical meeting at a branch and the questionnaire was conducted face to face. During these meetings, it seemed as though the advisor got to know the mystery shopper more generally, adopting an advisory stance. Even if no investment advice was given (the mystery shopper had only opened a securities account), the line of questioning was more complete than just gathering information about the customer's knowledge and experience, with the aim of providing investment advice at a later stage.

Room for more in-depth probing in questionnaires, particularly regarding financial expertise

The subject of financial knowledge was broached by five of the eight institutions.

Only one institution asked true/false questions on financial investments in order to assess the theoretical expertise of the mystery shopper.

The other four operators asked mystery shoppers to assess own knowledge of financial products.

All advisors asked mystery shoppers about financial experience, but questions varied in terms of depth and quality.

At five out of eight banks, the questions were not especially probing and focused on experience via a list of financial investments that the customer may or may not have previously held or subscribed to.

Another operator got a sense of the mystery shopper's experience by asking him whether he had carried out a transaction of more than €1,500 in the last 24 months.

Lastly, two institutions probed more about the customer's experience by asking him about the frequency and number of transactions / orders he had already carried out.

All institutions asked mystery shoppers about marital and family status.

At seven out of eight banks that staged a face-to-face meeting, the mystery shopper was asked about his **employment and tax status as well as his income.**

With regard to the **financial situation**, all the institutions asked the mystery shopper about his assets, including loans and insurance policies (the nature of products held and amounts involved).

No bank, however, enquired as to the mystery shopper's ability to save.

All the institutions bar one asked the mystery shopper about **appetite for risk** in a fairly direct manner, along the lines of "Are you prepared to take risks? ".

One other institution took this issue further by asking the mystery shopper how he responded to losses he has previously suffered and broaching the investment strategy using four risk/reward scenarios.

As part of the more holistic questioning with a view to providing investment advice at a later stage, the traditional banks must now further develop their questions on these topics in order to comply with new MiFID II requirements on analysing customers' risk tolerance and ability to bear losses.

All advisors at the retail banks (bar one) asked at least one question about the customer's **investment horizon and objectives**. Similarly to online banks, the suggested investment horizon brackets seemed to offer no way of pinning down a precise investment horizon of over five years.

At the end of the meeting, all but two of the banks **issued a (non-compulsory) summary of the information collected from the mystery shopper**. Four banks gave feedback on all the information covered in the questionnaire: knowledge, experience, financial situation and investment objectives.

Questioning mystery shoppers - conclusions

Based on this mystery shopping campaign, it would appear as though the online and traditional banks have improved their methods of collecting information about their customers compared with previous campaigns, but there is still room for improvement (some do not collect this information, while others still include too many self-assessment questions).

More generally, it would appear as though all the operators collect more information than is strictly necessary from a regulatory point of view, based on the scenario in question (opening a securities account and investing in non-complex financial instruments). They immediately set out with a broader scope than the initial request and attempt to gain a better understanding of their customer and his/her plans in order to be able to provide other investment services. This is good practice insofar as gathering information is part of the customer journey before any decision is taken. In this regard, there is still room for improvement in their questionnaires and certain topics such as charges, the ability to save and the investment horizon could be probed more deeply by online and traditional banks.

Overall, the results from the traditional banks were better than those from the risk-seeking/risk-averse mystery shopper visits of two years ago. The improvements relate to charges, the tax situation/fiscal statuts and the investment horizon. It is possible that discussions between the AMF and the traditional banks have finally started to bear fruit. This improvement may also be due to work initiated and training carried out in the major banking networks as part of preparing for MiFID II coming into force. Efforts must be sustained so as to comply with both MiFID I and MiFID II.

2.3. FUND SUBSCRIPTION

a) Fully online banks

All online investment specialists offered a wide range of funds. Their websites offered between 500 and 3,000 funds.

In order to choose from these funds, seven out of nine operators offered access to Morningstar-style rankings and classifications.

All fully online banks gave access to the funds' key investor information document (KIID), which could be downloaded or opened in a new window.

To place the order, the customer had to tick a box confirming that they had read the KIID. Only one bank refused to validate the order if the KIID had not actually been opened by the customer. This is a good practice and deserves to be highlighted.

When orders are placed with the fund, six operators out of nine sent out alerts. Given the profile of the mystery shopper, these alerts were non-blocking and concerned the nature of the order (at the market) or the fund (including when it is an order with an ETF) but also the amount in the case of a first order.

Online investment specialists all provided disclosure on fund fees via the product sheet for each fund, which was available online and via the KIID. Four online banks also provided a reminder of the subscription fees when the order was processed or confirmed.

b) Traditional banks

When choosing the funds for subscription, the mystery shopper had access to a search engine on all traditional banks' online areas. Only one institution also offered access to the Morningstar classifications.

With the exception of the two banks offering only in-house funds (fifteen of them) online, the other six banks offered a wider range. However, the in-house funds featured prominently on the websites and in the search engine. In order to subscribe to an external fund, the mystery shopper needed to enter the ISIN code directly, which entails prior knowledge of this.

As for fully online banks, all institutions provided access to the KIIDs of the funds on offer (in HTML or PDF format), and to place the order, the customer had to tick a box confirming that they had read the KIID. To go a step further, traditional banks could force their customers to open the KIID before being able to validate the processing of the order.

Similarly, when certain orders were processed with four of the eight online banks, the mystery shopper received alerts on his online interface. These non-blocking messages mainly concerned the type of product, particularly in the case of subscription to an ETF. At one institution, the alert concerned the unsuitable nature of the order in view of the customer's investment expertise and experience. At two institutions, it was the new and unusual nature of the order that was communicated. Finally, at another institution, an alert was sent out concerning the order's amount , which represented over 20% of the total securities portfolio.

During the meetings with advisors, all banks apart from one broached the subject of fees. The information on fees mainly concerned current-account fees but three banks also provided information on fees for their range of in-house funds. Fees are shown on the fund data sheets upon subscription. Four banks also reminded the customer of the fund fees on the order processing or confirmation screen.

It came as no surprise that there was a real difference between the number of funds on offer at fully online investment specialists and traditional banks. This difference was not as marked in terms of the process and the information given during order processing. Most institutions issued alerts but none of these were blocking. Moreover, institutions would do well to make these alerts clearer and more explicit.

3. THREE FINTECH COMPANIES - OVERVIEW OF RESULTS OF MYSTERY SHOPPING RESULTS

With the Fintechs that were visited, and that offer discretionary management or online advice, investor profiles were consistent with the profile of the mystery shopper, following the online questionnaire. For those operators offering performance simulations, this method and approach, which represents a genuine contrast with the other operators, could have been presented more instructively.

There is room for improvement in questioning the customer about charges, but the questioning on investment horizon and ability to save was satisfactory. It enables the customers' financial expertise to be understood in the context of the products and services being marketed.

Two out of three fintechs studied offered a fully paperless online account opening process, including uploading supporting documents directly to the website. Account analysis and validation took place within approximately two weeks.

4. CONCLUSIONS

At the close of this campaign, it would appear the three types of operator visited by the mystery shopper still have varied approaches as well as sales policies.

With regard to the products on offer, the differences are marked. The new fintech operators have a single-product strategy with an approach centred on the customer's financial plans. The fully online banks take a more supermarket-like approach and often offer a much wider range of products. The traditional banks seem to primarily push their own in-house products while retaining access to an open-architecture range.

With regard to the signing-up/on-boarding process, neither online nor traditional banks have 100% paperless remote account-opening procedures, and only the fintech companies and three of the fully online banks have a subscription process that is exclusively online.

With regard to the questionnaires and the KYC process, improvements are being made but the approaches remain extremely varied. These differences may result partly from the positioning and sales practices of each individual operator. As the mystery shopping visits were carried out at the end of 2017 on the eve of MiFID II coming into force, too many institutions still had a lot of ground to cover. Strictly speaking, taking into account the chosen mystery shopping scenario, the institutions often went over and above their regulatory obligations. Indeed, they took the potential of the commercial relationship into account, which is a very commendable practice.

In this case, the requirements for their line of questioning should be tightened and enforced more rigorously.

This would mean that, following the assessment process, a customer's financial expertise can no longer be overestimated and the risk profile can no longer be misinterpreted.

These results have been consolidated and presented to the institutions concerned, which has prompted discussion on remaining scope for improvement.

Appendix: Profile of the mystery shopper

Owing to the methodology, and in particular the fact that the mystery shopper had to open an account and supply supporting documents, certain profile data (e.g. age, income, income tax, etc.) belonged to the mystery shopper. Apart from this, the mystery shopper adhered to the scenario set out below. The main elements are set out below:

Personal and financial situation

- Man / woman, aged between 45 and 60.
- Marital status irrelevant.
- An executive earning between €2,000 and €8,000 net per month.
- Does not work, and never has worked, in the financial sector.
- He/she is a homeowner with no mortgage and no plans to move house in the short term.
- He/she opened a securities account in the 2000s and invested €5,000 in equities. He/she has not monitored the performance of this investment but knows there is a latent capital loss of €2,000.
- He/she has two life insurance policies: one is exclusively unit-linked (worth €2,000) and the other is invested exclusively in a euro-denominated fund in the amount of €20,000. The policies are six years old.
- He/she has emergency savings in a Livret A passbook account.
- He/she wishes to initially invest €3,000 in a product with no capital guarantee. He/she wishes to diversify investments and this represents around 6% of total savings.
- He/she has a monthly savings capacity of €500.

Investment objectives

- He/she wants to make the most of savings and diversify by becoming a customer of another institution.
- He/she is already thinking about financing future retirement. He/she is happy for money to be tied up since they will not require access to it in the short term. He/she has a 10-year investment horizon.
- He/she expects investment to seek out returns and take controlled risks.

Knowledge and experience

- He/she has an average/intermediary knowledge of financial products.
- He/she is prepared to invest alone on the basis of own knowledge and any information obtained via the internet and in the general and financial press, etc.
- He/she has already purchased UCIs and shares.
- He/she is not invested in SCPIs (real estate investment trusts) / OPCIs (open-ended property investment funds) but understands them.
- He/she knows that complex products (turbos, warrants, certificates, etc.) are very risky products but has no real understanding of them. He/she has neither experience nor knowledge of currency hedging (spots and futures), interest-rate hedging (swaps and classic options) and commodity hedging (options, forwards, futures, etc.) instruments.
- He/ she monitors investments on a monthly basis.

Appetite for risk / Risk apetite

- He/she can tolerate/is prepared to accept a capital loss of up to 10/20%.
- He/she believes they are capable of taking non-excessive risks.
- He/she prioritises returns over security and accessibility.
- If the market experiences a downturn, he/she does not react and waits calmly. He/she will sell as soon as the losses have been offset.

Desired investments

- He/she wishes to invest alone and divide/spread investment between:
    - a euro area equities fund;
    - a tracker replicating the CAC 40;
    - a euro area bond fund;
    - a US equities fund hedged against foreign-exchange risk.