



2003 FCAC Mystery Shopping Results

Context

FCAC's mystery shopping exercise is one of its many compliance activities¹. FCAC plans to undertake mystery shopping periodically to verify what information Canadian consumers receive when they visit their bank branches.

Objectives

The main purpose of the mystery shopping exercise FCAC conducted recently was to determine how banks are performing with respect to certain legislative disclosure requirements and other branch practices.

The objectives of the exercise were:

- to determine what information is available to consumers who use a bank branch;
- to identify areas for improvement with respect to the performance of specific institutions in meeting certain legislative requirements; and
- to identify best practices in the financial industry.

How FCAC Uses the Results

Mystery shopping is a qualitative research tool used by FCAC to evaluate the performance of financial institutions with respect to legislative requirements, and to review best practices. When particular weaknesses are identified, FCAC can use these results as a basis for further investigations of specific institutions.

FCAC presented to each of the banks involved the findings pertaining to their bank. To address certain weaknesses regarding legislative and non-legislative requirements, FCAC requested action plans from the banks.

¹ Compliance activities can include: reviews of reports, literature and surveys; inquiries following consumer complaints; analysis of reporting by financial institutions; on-site examinations; and other consumer surveys.





Methodology

Mystery shopping is the anonymous observation and gathering of specific information on a particular subject. Early in 2003, FCAC contracted with a market research firm to design and carry out a mystery shopping exercise.

In February 2003, FCAC gave advance notice to the 11 financial institutions whose branches were to be included in the mystery shopping exercise. The notice identified certain elements that the mystery shoppers were to verify and information about the timeframe during which the mystery shopping would be carried out (between mid-March and the end of June 2003).

The mystery shopping activity was carried out by 250 mystery shoppers. At the request of FCAC, the research firm instructed the shoppers to conduct the exercise in a manner that represented the actions of the average Canadian consumer – asking the questions the way a consumer might ask them. For example, mystery shoppers were to ask for “information describing the bank’s involvement in the community” instead of requesting a copy of its “public accountability statement”.

The mystery shopping exercise involved 1,653 bank branches across the country, and covered all 10 provinces. The geographical distribution of these branches were as follows.

Geographical Distribution of Branches	
Province (in alphabetical order)	Number of branches where mystery shopping was carried out
Alberta	173
British Columbia	190
Manitoba	73
New Brunswick	45
Newfoundland	30
Nova Scotia	53
Ontario	709
Prince Edward Island	8
Québec	309
Saskatchewan	63
Total number of branches	1,653



Results were compiled by the research firm and presented to FCAC. FCAC then provided each financial institution with the results in aggregate form, as well as with a detailed breakdown of their respective results. An action plan for improvement was requested for institutions where the mystery shopping identified particular weaknesses.

Overview of the Results

Mystery shoppers verified 12 topics, including both legislative disclosure requirements and other branch practices. A summary of the results is presented in the tables below. A detailed explanation for each requirement or best practice follows.

Summary of Mystery Shopping Results

Legislative Requirements

Topic covered by mystery shopping exercise	Number of branches where mystery shopping took place	Number of branches that had the information available, or that provided the information upon request	Percentage of branches that had the information available, or that provided the information upon request	Details on page
Branch closure postings	37	36	97.3	4
Cashing a federal government cheque free of charge	1,651	1,569	95.0	5
Coercive tied selling	1,653	1,241	75.1	5
Holds-on-cheques policy	1,653	833	50.4	5
Interest rate and frequency of interest paid on savings accounts	1,653	700	42.3	6
Interest rates and terms on loans ²	713	517 ²	72.5 ²	6
Public accountability statements	1,553	1,065	68.6	7
Service charges on savings accounts	1,653	1,414	85.5	7

² Results may understate the true performance of the bank branches because shoppers may have considered credit cards and lines of credit.



Branch Practices

Topic covered by mystery shopping exercise	Number of branches where mystery shopping took place	Number of branches that had the information available, or that provided the information upon request	Percentage of branches that had the information available, or that provided the information upon request	Details on page
Cashing a federal government cheque for a non-customer	1,652	1,417	85.8	8
Complaint procedures	1,653	1,356	82.0	8
Low-fee accounts	1,642	1,387	84.5	9
Supply of brochures available to consumers	1,653	1,306	79.0	9

Detailed Results – Legislative Requirements

Branch Closure Postings

Banks are required, by law, to provide advance notice to their customers – at least four months and in some cases six months – when planning a branch closure. This is to give consumers and communities time to find other service options. Information about the branch closure (location, date of closure, address of branch where the customer accounts will be transferred, etc.) must be posted in an obvious place in a public area of the branch.

Mystery shopping was conducted only in the branches that had filed a notice of branch closure with the FCAC Commissioner around the time of the mystery shopping exercise. The shopper was to look for a poster or notice of the branch closure. Out of the 37 branches involved in the mystery shopping for this question, 36 branches (97.3%) had posted the information related to the branch closure.



Cashing a Federal Government Cheque Free of Charge

Banks are prohibited from charging a fee to cash a Government of Canada cheque.

Mystery shoppers asked branch staff whether or not the bank charged a fee to cash a Government of Canada cheque. Out of the 1,651 branches involved in the mystery shopping for this question, 1,569 branches (95%) agreed to cash a Government of Canada cheque for free.

Coercive Tied Selling

Banks are prohibited, by law, from engaging in "coercive tied selling" – that is, using undue pressure on their customers to obtain one product or service as a condition for getting another.

Banks are required by law to inform consumers of this prohibition. They must describe the prohibition in a plain-language statement that is clearly displayed and available in all branches.

Mystery shoppers were asked to look for a brochure describing coercive tied selling in the financial institution's branches. Out of the 1,653 branches involved in the mystery shopping, 1,241 branches (75.1%) had a brochure available.

Holds-on-Cheques Policy

When consumers open a personal deposit account, the bank must provide them with information, in writing, about its policy concerning the holds it will place on funds deposited by cheque into their account. The bank must also inform consumers in writing when they request this information.

The mystery shopper was not asked to open a new account with the bank. Instead, he/she was asked to look for information about the holds-on-cheques policy at the branch. If the policy was not displayed, the shopper was to ask a staff member for a copy. Out of the 1,653 branches involved in the mystery shopping, 833 branches (50.4%) had the information displayed in their branch, or made it available on request.





Interest Rate and Frequency of Interest Paid on Savings Accounts

Banks are required, by law, to disclose the applicable interest rate on the savings accounts they offer and the frequency of interest payments to these accounts. They can do this in a number of ways:

- when the customer opens a new savings account;
- on a monthly statement; or
- by posting a notice in the branch.

Because mystery shoppers were not asked to open new savings accounts or to check customers' monthly statements, FCAC reviewed best practices by having shoppers report whether this information could be located in the bank branch without having to open an account.

Out of the 1,653 branches where mystery shopping was carried out, mystery shoppers could locate a notice in 700 branches (42.3%) that indicated both the interest rate and the frequency of interest payments on the savings accounts they offer.

Interest Rates and Terms on Loans

When a bank advertises a fixed-amount loan such as a mortgage or a car loan, and the advertisement refers to the interest rate applicable on that loan, the ad must also disclose the term of the loan.

Mystery shoppers were instructed to look for in-branch advertisements that disclosed interest rates on fixed-amount loans. If the information was available in the branch, shoppers were asked to note whether or not the term of the loan was also disclosed.

In reviewing the results of the mystery shopping exercise on this subject, **some mystery shoppers may have considered advertisements for other types of loans that do not have a term**, such as credit cards and lines of credit.

Therefore, the results of this question (out of the 713 branches that had advertisements on loans, 517 branches [72.5%] had indicated the term of the loan on the advertisement) **may understate the true performance of the bank branches.**





Public Accountability Statements

Financial institutions regulated by the federal government which have more than \$1 billion in equity are required to publish information – in the form of an annual Public Accountability Statement – describing their contribution to the Canadian economy and to Canadian society. This statement includes summaries of the initiatives taken by the bank to improve access to banking services for low-income individuals, seniors and disabled persons, and detailed examples of the financial institution's involvement in community development.

Financial institutions must, by law, make copies of this statement available at no cost to consumers who request it. While visiting the branch, the mystery shopper was to ask for a copy of this document. If the branch staff could not find a copy and offered instead to mail the mystery shopper a copy or to call him/her when the information became available, the shopper was to note that the branch had met the requirements of the mystery shopping exercise.

Out of the 1,553 branches involved in the mystery shopping for this question, 1,065 branches (68.6%) had the information available on the shopper's request, or offered to send it to them.

Service Charges on Savings Accounts

Financial institutions are required, by law, to provide up-to-date information about charges applied to the savings accounts they offer. They must disclose, in writing, all charges on deposit accounts and services normally provided to their customers and to the public. This disclosure must be made available in their branches.

Mystery shoppers were asked to find a brochure describing the service charges on savings accounts. Out of the 1,653 involved in the mystery shopping, 1,414 (85.5%) branches had the information available in their branch.





Detailed Results – Branch Practices

Cashing a Federal Government Cheque for a Non-Customer

At the time of the mystery shopping activity, banks had a voluntary commitment in place to cash a federal government cheque of less than \$1,500 for non-customers.

Mystery shoppers asked branch staff whether they needed to be a customer of the bank to cash their Government of Canada cheque. Out of the 1,652 branches involved in the mystery shopping for this question, 1,417 branches (85.8%) said they would cash a Government of Canada cheque of less than \$1,500 for non-customers.

On September 30, 2003, the *Access to Basic Banking Services Regulations* came into force. Now, banks must, by law, cash a federal government cheque of less than \$1,500 for non-customers who show proper identification.

Complaint Procedures

Every financial institution regulated by the federal government must have in place a complaint-handling procedure for customers who want to pursue a specific complaint about any of the institution's products, services, practices or policies. These procedures usually include access to an independent dispute-resolution body that the financial institution may belong to. Legislation requires a financial institution to provide this procedure to customers when they open a new account.

Mystery shoppers were not asked to open new accounts with the banks. Instead, FCAC asked them to find information in the branch describing the bank's complaint-handling procedure. This was done to verify best practices. Out of the 1,653 branches where mystery shopping took place, 1,356 branches (82%) had the information available in their branch.





Low-Fee Accounts

At the time of the mystery shopping exercise, a Memorandum of Understanding (MOU) was in place between the federal government and certain banks specifying that these banks must offer a low-fee chequing account.

Only those institutions that signed the MOU³ were included in the mystery shopping exercise for this question. To verify best practices, mystery shoppers were asked to find a brochure describing the low-fee account offered by the branch. Out of the 1,642 branches involved in the mystery shopping for this question, 1,387 branches (84.5%) had the information displayed in their branch.

Supply of Brochures Available to Customers

FCAC asked mystery shoppers to evaluate whether the branches had an ample supply of brochures available in their branch for one business day. It was assumed that branches restock their brochures each day. This was done to determine best practices.

At the request of FCAC, the market research firm instructed mystery shoppers to consider that an ample supply of brochures was five of each type. Although the question remains subjective, 1,306 branches (79%) out of 1,653 where mystery shopping occurred were considered to have an ample supply of brochures available for consumers.

³ They included (in alphabetical order): BMO Bank of Montreal, CIBC, HSBC, Laurentian Bank, National Bank, Royal Bank, Scotiabank, and TD Canada Trust.

