Assessing Customer Experience of Financial Advice Services in New Zealand

A Report by

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Disclaimer: This report was commissioned by the principals at Plan B and Rutherford Rede. It reflects the independent views of the author. Please address all questions to the author.

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Summary

In November 2009, *Consumer* magazine reported a study of financial advice services in New Zealand. The report was highly critical of the financial advice industry. It named the companies that were included in the study and gave ratings of the financial advice that was covertly received. The *Consumer* study appeared to follow practice used elsewhere to assess the quality of financial advice. In reality, it did not. The study was seriously flawed. The reporting method was unethical. It probably did more harm than good for the industry. The study received partial financial support from several government agencies. Taxpayer support gave it an undeserved degree of credibility.

Unlike the practice of *Consumer* in earlier surveys, the surveyed financial advisers were given no opportunity to respond before the magazine article appeared. Had it been a more circumspect and considered release this approach may have been understood. In the event, it was extraordinarily sensational, accusing many long-standing and reputable practices of "scandalously poor advice".

Methodologically sound assessments of service in the industry could greatly improve the customer experience of financial advice. Consumers need help to make good use of financial advisers. This report reviews both what to do and what not to do in such studies.

Future assessments of customer experience of financial advice services in New Zealand must be professionally designed and conducted. They should be adequately funded, and at least partial government funding would be justified. However, government funding must be done responsibly. It should be accompanied by close scrutiny of the proposed study design and reporting methods.

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About Plan B and Rutherford Rede

Plan B, formed in 1993, is an Australasian financial advisory practice with offices in Auckland, Perth, Tauranga, and Whangarei. Plan B is distinctive in the wealth management industry because it has its own funds management company, Plan B Trustees Limited, which has over NZ$1.9 billion in funds under management. Plan B advisers undertake continuing professional development to keep abreast of regulatory and legislative changes and adhere to the highest fiduciary standards.

Rutherford Rede, formed in 1986, is a national financial advisory practice with offices in Auckland and Wellington and affiliates in Christchurch. The company offers advice to clients on personal financial planning and retirement planning. The individual practitioners within the group come from a variety of corporate backgrounds and all have tertiary or professional qualifications.

This report was commissioned following the publication in November 2009 of a *Consumer* study of New Zealand financial advisers. Through sharing this report, the principals of Plan B and Rutherford Rede have two goals: (1) To highlight serious flaws in the *Consumer* study and (2) To offer an improved design for assessing service quality in New Zealand's financial advisory sector.

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Introduction

New Zealand, like other developed countries, has an established industry of financial advisers. When people need professional assistance in investment planning, debt management, or other aspects of financial strategy, they can turn to financial advisers. Selection of a financial adviser is often through referrals – other professionals, such as lawyers or accountants, recommend suitable financial advisers to their clients. Recently, there has been heightened interest in the work of financial advisers. This has led to studies, both in New Zealand and other countries, designed to assess customer experience of financial advice services.

This report provides background on the growing interest in the work of financial advisers, with a focus on the New Zealand case. Financial advice, as a service, falls into a specific class of goods. Customers face significant information problems and they often find it difficult to judge the quality of the advisers they select and the quality of the advice they receive. Ironically, customers who have the most financial knowledge are most likely to make the right choice of adviser and receive the best advice. This suggests that potential clients could benefit from independent sources of information that can help them select a reputable financial adviser and manage the relationship to gain the most appropriate advice.

A study reported by *Consumer* in 2009 attempted to provide information to help people select financial advisers and work effectively with them. The study was motivated by good intentions. But the *Consumer* study contained serious flaws. Further, the results of the study were inappropriately presented. The *Consumer* study might have done more harm than good. It created hostilities among industry stakeholders when mutual respect and cooperation would better serve the interests of clients.

This report affirms the importance of assessing customer experience of financial advice services in New Zealand. But care must be taken in the study design and implementation. Assessment practice in New Zealand must be improved. That can be done by following suggestions made here. Those suggestions are based on a review of good practices that have been used elsewhere.

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Background

The practices of financial advisers have received a lot of attention worldwide over the past few years. The global financial crisis prompted much of this attention. In New Zealand, a series of finance company collapses saw many small-scale investors lose nest-eggs they hoped would guarantee a comfortable financial future. When our investments do not yield expected returns, it is human nature to second-guess our initial decisions. Sometimes, we forget that investing is, by definition, a risky business. For example, finance companies tend to offer higher rates of return on investments because they use the funds they raise to finance activities that are more risky than many others. Stories emerging after the collapse of finance companies showed that some of the small-scale investors hurt had seemed oblivious to the risks they had taken. Yet the higher the return we seek on our investments, the more risk we run that our investments might return losses. When a sizeable group of people simultaneously lose money, it is inevitable that questions will be asked about the kind of advice they got in the first place. This explains the recent scrutiny of financial advisers.

In November 2009, the New Zealand *Consumer* magazine reported a study of the advice provided by financial advisers in New Zealand. The magazine article was highly critical of the financial advice industry. Among other things, it reported that good advice was given by only a handful of the companies it studied.

The *Consumer* study was funded in part by other stakeholders, including the Retirement Commission and the Ministry of Consumer Affairs. This taxpayer support gave it a degree of credibility. The study received attention in a number of media outlets. As the discussion ensued, the methods used in the *Consumer* study were questioned. In particular, the study made use of mystery shoppers. That means people presented themselves to financial advisers as genuine clients, but their real motive was to covertly collect information on the competence and integrity of the advisers. One industry figure described the use of this method as "unethical, disreputable and unreliable." Another said the study revealed "…the state using taxpayer funds to bag unfairly the private sector." However, the Retirement Commissioner defended the study, saying that "…it gives us information with which we can work."[1]

As part of its report, *Consumer* named the companies it studied. They were listed in a table stating how much was paid for the advice, whether a written plan was provided, and the rating that an expert panel gave to the written plans. This strategy had an immediate effect. The Commissioner for Financial Advisers, a member of the Securities Commission, asked for and received the resignations of two members of the committee drafting the professional Code of Conduct for authorised financial advisers. The members both worked for companies whose advice had been subjected to mystery shopping in the *Consumer* study and rated poorly by the expert panel. It is possible that the *Consumer* report did damage to the reputations and revenues of other financial advisers and the companies they worked for. It might also have lowered people's appetite for seeking professional financial advice. Grounds exist for believing the report harmed the industry.

[1] All quotes appeared in "Storm over financial advisors' poor advice" by Amanda Morral. *The Dominion Post* Saturday 5th December 2009, p.C12.

The Nature of Financial Advice as a Service

People seek financial advice when they face financial decisions and fear that reliance on their own knowledge could produce poor decisions and poor outcomes. Seeking advice is motivated by recognition of an information deficit. Importantly, selection of a financial adviser also represents an information problem for a potential client. In the search for a financial adviser, a potential client will ask: Who can be trusted to give sound advice?

Given the information asymmetries between a potential customer and a financial adviser, financial advice falls into a category of services that economists have termed "credence goods."[2] Situations involving the purchase of credence goods are common. They occur whenever an expert knows more than the customer about the type of good or service that the consumer needs. Examples include appliance repair services, many forms of training, health and fitness coaching, and performance of medical procedures. In all instances, the expert seller first examines the customer's case and makes a diagnosis. On the basis of the diagnosis, the expert can then perform the appropriate service and charge for it, or the informational asymmetry can be exploited and the customer defrauded.

The challenge for a customer seeking financial advice is to reduce the risk that the advice received will produce an outcome that is worse than could reasonably be expected, given the type of case they are presenting. Consider a customer who is a 60 year old single man. He is employed full-time, and receives a salary of $80,000. He has no dependents and no debts. He has come into an inheritance of $250,000 and wishes to invest it in a manner that will allow him to have a comfortable retirement without money worries. How, ideally, would any advice be judged as good? Under the circumstances, good advice would lead to investments that would yield a specific stream of returns. If the return on investment tracked or bettered average market returns for this kind of portfolio, given the risk preference of the client, then we could say the financial advice was good. If the return on investment was much worse than average market returns for this kind of portfolio, again given the risk preference of the client, then we could say that the financial advice was bad. But this is actually too simplistic. It is also possible that observed outcomes were independent of the choices made, given the financial advice that was taken. Sound advice might sometimes produce unfavourable outcomes – that is the nature of investing. Sometimes, poor advice (e.g., try your luck in Las Vegas) might produce a great outcome.

With credence goods, even after the service has been performed, customers cannot tell if the expert performed with competence and integrity. You had your car's gearbox replaced. Now the car runs well. Is that because of what the mechanic did, or would it have run well with a different kind of repair? We can generalise the question: Had the experts been in the same circumstances as us, would they have done what they told us to do? When using a financial adviser, we would like to know that, faced with the same set of personal circumstances and the same financial decision we face, the adviser would do exactly the same thing as he or she is advising us to do. But we can never be sure about this. So, when selecting financial advisers and discussing our decisions with them, how could we increase our confidence that they will serve us with competence and integrity?

[2] See: Darby and Karni 1973; Dulleck and Kerschbamer 2006.

The Need to Assess Customer Experience

Various studies have illustrated that customers can have poor experiences when seeking financial advice.[3] Given the credence good nature of financial advice, this should not surprise us. Using mystery shoppers in a carefully controlled study, Andreas Oehler and Daniel Kohlert (2009) showed that "…advisers put much more effort into collecting information, in providing information, and in their recommendations when their clients' financial knowledge is high. …[T]his group was also presented and recommended a significantly higher number of products" (p.110). This hugely important finding would not have been made without the use of mystery shopping in a theoretically-driven, well-designed study. Potentially, evidence could be found that other factors matter in raising the likelihood that customers will have a good experience working with a financial adviser.

In the New Zealand context, further assessment of customer experience of financial advice services could contribute to the following actions.

1. Firms that offer financial advice could gain insights into things that they can do to improve the likelihood that clients will receive appropriate and useful advice.
2. Consumer advocates could develop effective tips for potential users of financial advice, helping them to understand the kind of issues they should think about before meeting an adviser, and the kinds of questions to ask during a consultation.
3. Consumer advocates could develop report cards on service providers that are based on sound evidence and that allow for regular updates based on changes in the performance of individual firms.
4. Industry regulators could obtain evidence indicating service providers that appear to be systematically offering lower-quality advice than others. Subsequent actions could be taken to address relevant concerns.

In combination, actions of this kind could serve to greatly improve customer experiences of financial advice services. In turn, this could help to expand the market for such services and lead New Zealanders to be more comfortable with diversifying their investment portfolios.

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[3] See, e.g., Australian Securities and Investments Commission (2003, 2006) and Oehler and Kohlert (2009). The 2009 *Consumer* study also illustrated that problems can arise for customers. Some financial plans provided clearly did have problems. However, with the *Consumer* study, we cannot be sure that other customers using the same services would have also experienced negative outcomes. The nature of the experience might have been significantly influenced by the investment decision that the mystery shopper chose to present and the financial knowledge of the mystery shopper.

A Review of the *Consumer* Project of 2009

1. Learning from Previous Studies. High quality research work always builds on what has been learned from approaches taken in previous studies.

The *Consumer* Project. The people who managed this project knew that other studies had been performed in the financial services industry using mystery shoppers. However, they seem to have been oblivious to the care that is needed to produce high quality results from using this technique. To claim that "others have done it" is very different from replicating research methods used by others. The *Consumer* project simply did not learn from previous studies.

2. Convening an Advisory Board or Expert Panel. It is good practice for researchers to make use of an advisory board, particularly when insights from stakeholders could improve the quality of the work being performed.

The *Consumer* Project. An expert panel of three was assembled to review the written financial plans obtained by the mystery shoppers. However, there is no evidence that the experts were consulted when the project was being designed. That is unfortunate because the experts involved would appear to have knowledge and skills that could have been very effectively deployed to help in the design of a high-quality study. Further questions have been raised about the independence of one of the panel members. That member worked for a practice offering investment advice and 4 of the 11 mystery shoppers (36%) were using products and portfolios promoted by that practice.

3. Selecting a Sample of Financial Advisory Services as Test Cases. The quality of the study results will be heavily influenced by the quality of the process guiding selection of a study sample. The closer the match between cases in the sample group and the broader population of interest, the better able the researcher is to make generalisations from the study findings. Sample size also matters. The bigger the sample, the more representative it is likely to be of the population of interest. Further, when bigger samples are used, findings are less susceptible to influence by unusual cases.

The *Consumer* Project. The people who managed the project were aware that the New Zealand Institute of Financial Advisers has 1,400 members. The decision was made to include only 33 firms in the study. "…[B]y covering the big players and the national chains as well as the small firms we've opened a window into the entire industry: we don't expect service quality and costs to vary significantly within an institution or a national adviser chain" (p.14). While it was planned to include 33 firms, only 29 were assessed, because "four plans arrived too late for assessment by the panel" (p.15). Of those 29, another 8 firms were dropped because "there was a mismatch between the shopper's needs and the adviser" (p.15). Of the 21 remaining in the study, another 4 gave only oral advice. In summary, just 17 written responses were put to the expert panel to judge (only 15 of which could actually be called financial plans). The attrition of cases from the original sample of 33 suggests very poor project management. The question must be asked whether *Consumer* pulled in some "limited advice" responses and deemed them financial plans simply to get the numbers up. The mismatch between the shoppers and advisers is clear evidence that the people who managed the project had no understanding of how their own incompetence could bias the results they obtained.

4. Using Covert Participant Observers – "Mystery Shoppers." Using mystery shoppers is a common practice. However, it must be done with great sensitivity. Ethical issues arise whenever research involves human subjects. The notion of "informed consent" is vital. That is why all researchers in universities and other research institutions must apply for approval of their research designs by ethics committees before they can proceed with their fieldwork. It is true that informing people that they might be subjected to mystery shopping could lead them to change their behaviour. But, managed effectively, this need not jeopardise the research findings.

The *Consumer* Project. There is no evidence that the people who managed this project considered the ethic of "informed consent." Nor is there any evidence that the ethical issues involved in using mystery shopper were canvassed.

5. Developing Realistic Character Profiles and Test Scenarios. All studies that make effective use of mystery shoppers devote time and energy to developing realistic character profiles and test scenarios. It is well-understood in the relevant literature that the quality of an advisory session depends both on the knowledge and behaviours of the adviser and the knowledge and behaviours of the client. Given this, well designed studies using mystery shoppers all include a step where details are carefully managed. Good examples of how to perform this step are provided by Australian the Securities and Investments Commission 2006, pp.15-17 and Oehler and Kohlert 2009, pp.107-108.

The *Consumer* Project. It is reported that "eleven mystery shoppers ranging in age from mid-30s to just over 80 visited financial planners…. These were real people with real financial questions" (p.16). There is a fundamental problem here because the diversity of the mystery shoppers is very likely to have affected the quality of the advisory sessions. In a set of additional comments on their methodology, *Consumer* has stated that "[t]he approach was similar to that used by ASIC in 2003 in that we asked real people who were seeking advice about their personal situation to be our shoppers" (see Financial Advisers research FAQs). Actually the Australian Securities and Investments Commission took much more care in its selection of volunteers and the study contained many more observations. The fundamental problem with the *Consumer* study is that hardly any effort was made to control the character profiles and test scenarios. As a result, the quality of the advisory sessions would have been influenced in unknown ways by the knowledge and behaviours of the mystery shoppers, which consumer did nothing to control. Note again what *Consumer* said: In eight of the 33 cases, "there was a mismatch between the shopper's needs and the adviser" (p.15). That points to a major flaw in the study that very likely corrupted the findings.

6. Pre-testing and Rehearsals of Scenarios. Studies that make good use of mystery shoppers always devote considerable time and resources to pre-testing and rehearsals of scenarios. This is done to reduce the possibility that actions on the part of the mystery shoppers will unintentionally influence the behaviours of the people being studied.

The *Consumer* Project. There is no evidence that the people who managed this project did any pre-testing and rehearsals of scenarios.

7. Collecting Evidence. The instructions given to the mystery shoppers can greatly affect the quality of the evidence that is collected. For example, following a simple instruction can make a big difference to outcomes. In the Australian Securities and Investments Commission study of 2003, "volunteers were specifically instructed to seek a *comprehensive financial plan*" (p.13, emphasis in the original).

The *Consumer* Project. The collection of evidence was poorly handled. This is obvious because only 15 full plans were able to be assessed. In a well-managed study, much more care would have been given to obtaining the evidence needed to do appropriate and unbiased analysis. Were the advisers who provided written plans better or worse than those who did not? There is simply no way to tell.

8. Analysing the Evidence. Good studies, where good evidence has been collected, involve careful analysis of evidence. Often, this involves performing statistical tests and observing the ways that planned differences in the character profiles and test scenarios might have driven outcomes during the adviser sessions.

The *Consumer* Project. The analysis of evidence was performed by an expert panel. Written plans were subjected to careful scrutiny. The problem is that no consideration was given to the factors that might have resulted in the generation of the written evidence. However, we know that the quality of the advice received would have depended on the knowledge and behaviours of the mystery shoppers. Because the study allowed the mystery shoppers to be real people with their own motivations for seeking financial advice, a lot of scope was introduced for factors beyond the professionalism of the financial advisers to influence the outcome.

9. Reporting the Study Findings. Whenever studies are conducted, the people managing them face a lot of choices concerning how to most effectively report their findings. Given the nature of financial advice as a service, doubts can readily emerge concerning the competence and integrity of those giving advice. Of course, problems of this kind can arise in a range of industries. The reporting approach taken will depend a lot on the motivation for the study in the first place. A study intended to raise concerns about financial advising and to suggest strategies for improvement could be reported in a way that used the evidence gathered as a tool for educating advisers on how to improve their services. It could also suggest strategies that clients could use to improve outcomes for them. A study intended to "name and shame" financial advisers judged to be offering poor advice would take a different approach. At a minimum, the base of evidence would have to be very strong to support reporting of this kind. Careful efforts must have been taken to ensure that outcomes were not being adversely influenced by actions on the part of the mystery shoppers. That could be done, for example, through adequate screening and training of the mystery shoppers and through efforts to ensure multiple observations of the same site. A "name and shame" approach would also need to ensure fairness in how financial advisers were selected for inclusion in the study and how those who were selected were treated. Often, it would be useful for those running the project to consult with industry representatives and gain their support for it.

The *Consumer* Project. *Consumer* gave ratings to the financial advisers that supplied written financial plans. The ratings for each firm were applied to financial plans received on the basis of a visit by one mystery shopper whose character and test scenario was not controlled. No effort was made by *Consumer* to rate those firms where only oral advice was given or where there was "mismatch" between the shopper's needs and the adviser. Notice the selection bias here. A firm that gave only oral advice avoided being categorised as "good," "disappointing," or "rejected." Why? Those firms escaped judgement because of a decision made by *Consumer*. Incredibly, the firms that gave more thorough advice actually ended up being subjected to more scrutiny than those who did not. They were not treated fairly.

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Improving Assessment Practice

The 2009 *Consumer* study of financial advice services in New Zealand was motivated by good intentions. But it was methodologically flawed and the reporting approach was unethical. Here are some suggestions for improving assessment practice.

- *Learn from the Best Previous Studies*. Some excellent studies have been used to assess customer experience of financial advice services. Any new studies in New Zealand should follow and, if possible, improve on the methods used in such studies. This will make those studies expensive, but cut-price studies risk generating virtually useless findings.

- *Convene an Advisory Board or Expert Panel*. Since quality work requires significant funding, it is worth making provision for convening an advisory board. Members of the board should be able to help the project manager by offering relevant knowledge and raising concerns at milestones in the study. Board members can often help to maximise the usefulness of a study.

- *Take Care in the Selection of a Sample of Test Cases*. The confidence that we can have in any study findings will depend entirely upon the quality of the sample of test cases. Good social science research methods must inform this part of the project.

- *Strive for Informed Consent When Using Covert Participant Observers – Mystery Shoppers.* It is well-known that research subjects often change their behaviours when they know that they are being observed. This suggests that use of covert participant observers is appropriate. However, the widely-used protocol of obtaining the informed consent of research participants cuts against the use of this method of collecting research evidence. In the United States, institutional review boards that grant ethics approval to research studies can waive the informed consent protocol when: (1) the research involves no more than minimal risk to human subjects; (2) the research could not practicably be carried out without the waiver; and (3) the rights and welfare of the subjects are not expected to be adversely affected. The *Consumer* study had adverse consequences for some financial advisers – most obviously, those who were asked to resign from the committee drafting the professional Code of Conduct for authorised financial advisers. All studies using mystery shoppers should at least be required to receive approval from an institutional review board (the equivalent of a university ethics committee). Preferably, informed consent should be obtained from potential participants. For example, the CEOs of firms that offer financial advice and that are included in the sample of test cases should be alerted to the study and asked to give their consent to having their staff members studied covertly. It is a courtesy to tell people when they are subject to monitoring and testing; this does not mean that people will know the precise events in which that monitoring and testing is occurring.

- *Be Alert to How Participant Predispositions and Actions Can Influence the Quality of Financial Advising.* Results of studies that employ covert participant observers can be significantly affected by the actions of the mystery shoppers. Good researchers know this. Indeed, they often structure studies in ways that exploit differences among the mystery shoppers to test for differences in the responses of the people being studied. For example, in their study of financial advisers in Germany, Andreas Oehler and Dabile Kolhert (2009) deliberately trained their mystery shoppers so that, while all had the same financial decision to make, some presented themselves as highly financially literate while others presented themselves as knowing very little about financial matters. These differences greatly affected the quality of the advice that the mystery shoppers received. This suggests some very fruitful avenues for future research. For example, following work by Ian Ayres and Peter Siegelman (1995) that tested for race and gender discrimination in bargaining for a new car, it would be interesting to explore how race and gender differences among mystery shoppers could lead to differences in the quality of the financial advice they receive. Notice, however, that great care must be taken to not let uncontrolled characteristics of the mystery shoppers inadvertently affect the outcomes of an encounter between a financial adviser and a client.

- *Develop Realistic Character Profiles and Test Scenarios*. All studies that make effective use of covert participant observers devote significant time and energy to developing their character profiles and test scenarios. Since the encounter between the object of the study and the mystery shopper can be strongly affected by these things, care must be taken to control them. The exact nature of the character profiles and test scenarios will depend on the primary goal of the study. For example, if the goal was to fairly compare the customer experience across a set of financial advisers, then the same character profiles and test conditions should be presented to all of the financial advisers in the study.

- *Pre-test and Rehearse Scenarios*. When the set of character profiles and test scenarios have been chosen, plenty of effort should go into working with the mystery shoppers to ensure that they perform consistently in a range of settings. Failure to do this can seriously corrupt the study and the conclusions to be drawn from it.

- *Use Uniform Templates to Collect Evidence*. In most assessment work, the focus will be on the interactions with the financial adviser and the quality of the advice given. However, other things should be taken into account, and systematic collection techniques must be used. For example, it might happen that a session with a financial adviser scheduled late in the work day or in the evening will be shorter than one scheduled in the late morning or early afternoon. Given this, effort should be made to record the time and place of the encounter and to subsequently test to see if timing of meetings makes a difference to the quality of advice given, holding other factors constant.

- *Practice Fairness When Reporting the Study Findings*. The report of the 2009 *Consumer* study included a table that listed the financial advisory firms that had been mystery shopped and rated the quality of their advice. But because it was poorly managed, the study contained many instances where the actions of the mystery shoppers were likely to have influenced the quality of the financial advice that they received. If a study is launched with the purpose of naming firms and rating their advice-giving performance, then the people managing the project should work very hard to reduce the potential for aspects of the study itself to drive the results. The end-users of the report and the participants in the study all deserve to be treated with respect. Using high-quality research methods and subjecting your research design to ethical review is vital.

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Conclusion

Methodologically sound assessments of financial advice services in New Zealand hold the potential to promote improvements in advising practices. Such improvements would be beneficial to consumers.

The 2009 *Consumer* magazine report was highly critical of the financial advice industry. It named the companies that were included in the study and gave ratings of the financial advice that was covertly received. The study was motivated by good intentions. But the quality of the study was poor, especially when judged by the number of cases involved, the high rate of attrition of cases during the study, and the lack of screening and training of the mystery shopper.

Future assessments of customer experience of financial advice services in New Zealand must be professionally designed and conducted. The strategy of "naming and shaming" firms should be avoided. High quality, robust evidence is needed to support such a strategy. Such evidence is hard to obtain. Further, this does not seem like the most effective strategy to use if the aim is to drive improvements in the industry. Improvements will come by identifying the kinds of people who need most help when selecting and approaching financial advisers. Appropriate forms of assistance should then be made available to these potential customers. Meanwhile, efforts should be made to support members of the financial adviser industry work collectively towards delivering better outcomes for customers. Sometimes, when professionals mostly work with clients who know what they need, it is very hard for them to adapt their practices for novices. Assessments of the customer experience could help to inform us on the things that financial advisers could do better for customers, given their needs and their current knowledge base. These actions could improve the industry. They could be pursued in parallel with regulatory and self-regulatory strategies that are also intended to improve industry practices.

We must question why a survey of this kind, with such potential influence, was left to *Consumer* rather than a professional research house with the experience and background to manage the entire process effectively.

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Appendix: The Mystery Shopper Method and Its Correct Application

Interested readers should consult the following documents for insights into the mystery shopping method and its correct application.

On the use of mystery shopping to improve the quality of customer service, see Wilson (1998) and Van der Wiele, Hesselink, and Iwaarden (2005). Many businesses have used mystery shopping as a tool to improve customer service. In such cases, employees are told they will be mystery shopped on a regular basis. Information collected is analyzed with the goal of finding ways to improve service quality. Some companies have also introduced inter-branch competitions where top performance is judged through regular use of mystery shoppers.

On when use of covert participant observers is most effective, and on appropriate methods and ethical research practice when using them, see Morrison, Colman, and Preston (1997); Finn and Kayandé (1999); and Pager (2007). Researchers need to be very clear about what they are seeking to test when they use mystery shoppers. They also must understand the importance of effectively training the people who will do the mystery shopping. The ethics of this kind of research must also be well-understood by those intending to use it.

On applications in the financial services industry, see Australian Securities and Investments Commission (2006) and Oehler and Kohlet (2009). In each study, considerable care was taken to ensure that the mystery shoppers all had similar profiles, and that variation across profiles was a deliberate and controlled element of the research design. Both studies included sufficiently large numbers of cases that statistical analysis could be performed on the evidence collected.

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