

Guide for mystery shoppers

*BARE International (**BARE**) is working with 2° Investing Initiative (**2DII**) to carry out a mystery shopping campaign in the following target countries: *****

The mystery shopping campaign is to assess financial advisor behaviour in the context of recent changes to the financial advice process.

The purpose of this Guide is to provide mystery shoppers with:

- 1. guiding principles to ensure appointments with financial advisors are effective;*
- 2. background information on the financial advice process;*
- 3. what we want to assess through mystery shopping visits;*
- 4. details of the two mystery shopper profiles we would like mystery shoppers to adopt and the relevant issues which each mystery shopper profile should address; and*
- 5. advice for mystery shoppers in relation to making appointments with financial advisors.*

1. Guiding principles mystery shoppers

NOTE

As explained elsewhere in this Guide, we have constructed two mystery shopper profiles which mystery shoppers should use. Annex [1] sets out further details on each mystery shopper profile and the specific questions and issues that mystery shopper profile should address. Following each appointment with an advisor, mystery shoppers should complete the questions in the online Feedback Form.

Familiarize yourself with this Guide and the Feedback Form questions before the appointment

Section 2 (*Background on financial advice process*) sets out information on what to expect during the appointment with the financial advisor.

Section 3 (*What we want to assess through mystery shopping visits*) details what we want to assess in terms of advisor behaviour and the Feedback Form questions which relate to what we are assessing.

Therefore it is imperative that you familiarise yourself with both this Guide and the Feedback Form before any appointment to you know what to expect and know what to look out for in terms of advisor behaviour.

Create a persona which matches the mystery shopper profile and memorise the specific points which the mystery shopper profile should raise during the appointment

Mystery shoppers must create a persona that matches as closely as possible to one of the mystery shopper profiles included in Annex [1]. The mystery shopper profiles articulate a series of questions and pieces of information which we would like mystery shoppers to address during the appointment.

Complete the Feedback Form immediately after the appointment

Please fill in the Feedback Form immediately after the completion of your appointment with an advisor. This is so that you have in mind the course of the appointment and the phrases you might have remembered.

Be prepared for the advisor not to bring up sustainability preferences without prompting

Mystery shopper profiles are **not** aware of the regulatory changes to the suitability assessment (as discussed in Section 2 (*Background on financial advice process*)) but **are** aware of more sustainable investment opportunities becoming available and would like to invest in a sustainable manner themselves.

As explained in Section 2 (*Background on financial advice process*), the regulatory changes mean that it is now mandatory for advisors to assess client sustainability preferences during the suitability assessment. However, it is entirely possible that some advisors will miss this out and proceed to the financial product presentation/recommendation without having asked about your sustainability preferences.

Please ensure that you allow enough time to form a view as to whether the advisor would have brought up sustainability preferences without any prompting by you and record that this has happened in the Feedback Form. **However, if it is absolutely clear the advisor will not bring up the subject of your sustainability preferences, you should raise the issue yourself.** You can simply say that you would like to invest in a sustainable manner, and you have heard something about sustainability considerations now being assessed in financial advice.

Be prepared that the advisor does not follow the three main steps articulated here

We would ordinarily expect the assessment of sustainability preferences to follow the following three steps:

1. Step 1: Explanation of sustainability preferences
2. Step 2: Identification of client sustainability preferences
3. Step 3: Financial product presentation/recommendation

However, mystery shoppers should be prepared assessing sustainability preferences can be in a different format and different advisors will adopt varying approaches.

If the advisor recommends a financial product, please record the ISIN number

If the advisor recommends a financial product at the end of the appointment, please record the ISIN number. This is a 12-digit code which provides a unique identification for a financial product and is normally in the financial product documentation.

During the appointment and when completing the Feedback Form bear in mind the following themes

1. Whether the advisor brings up the assessment of sustainability preferences without any prompting by you and whether this focus comes after the assessment of financial/investment objectives.
2. The quality of the explanation of sustainability preferences in terms of whether it is understandable, whether it appears to be biased etc. **STEP 1**
3. Whether the identification of your sustainability preferences is independent or done through reference to the financial products which the advisor can recommend. **STEP 2**
4. The advisor's knowledge and expertise on sustainable finance.
5. How the recommendation is made and if the advisor cannot match the sustainability preferences as originally expressed, whether the advisor is transparent that these products may be available elsewhere on the market.
6. How the advisor records information throughout the appointment.

2. Background on financial advice process

Financial advice

When an individual client visits a financial advisor to invest money, the advisor must ask questions to get information about the client's financial position, investment objectives, risk appetite etc. This is to enable the advisor to provide proper advice about how the client should invest. This process is called the *suitability assessment*.

Financial advice must now cover *sustainability preferences*

New regulation which came into force in August 2022¹ now requires advisors to get information on client *sustainability preferences* as well as financial/investment objectives. Advisors should take these sustainability preferences into account when presenting/recommending financial products to clients.

The new requirements on *sustainability preferences* aim to: (1) enhance client awareness of the availability of sustainable financial products and (2) ensure that advisors meet the expectations of clients who want to invest sustainably.

What are *sustainability preferences*?

Client *sustainability preferences* are defined in regulation:

'sustainability preferences' means a client's or potential client's choice as to whether and, if so, to what extent, one or more of the following financial instruments shall be integrated into his or her investment:

- (a) a financial instrument for which the client or potential client determines that a minimum proportion shall be invested in environmentally sustainable investments as defined [the Taxonomy Regulation];*
- (b) a financial instrument for which the client or potential client determines that a minimum proportion shall be invested in sustainable investments as defined in [the Sustainable Finance Disclosure Regulation];*
- (c) a financial instrument that considers principal adverse impacts on sustainability factors where qualitative or quantitative elements demonstrating that consideration are determined by the client or potential client;*

Therefore *sustainability preferences* can be understood in terms of three categories of financial product as shown in the table below.

| | |
|------------|---|
| Category A | Financial instruments which invest in economic activities providing a substantial contribution to one or more of the following environmental objectives: <ul style="list-style-type: none"> 7. climate change mitigation; 8. climate change adaptation; 9. sustainable use and protection of water and marine resources; 10. transition to a circular economy; 11. pollution prevention and control; 12. protection and restoration of biodiversity and ecosystems. |
|------------|---|

¹ Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms

| | |
|------------|---|
| Category B | Financial instruments which pursue sustainable investments more broadly. This is a wider category of financial instruments because it includes economic activities that contribute to other environmental objectives and/or to social objectives. |
| Category C | <p>Financial instruments that consider negative externalities of investments on the environment or society in terms of principal adverse impacts on sustainability. Principal adverse impacts on sustainability are impacts of investment decisions and advice that result in negative effects on environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters.</p> <p>Contrary to category A and B, here the financial instrument does not aim at any positive contribution but merely consider negative impacts of the investment on sustainability.</p> |

WARNING

The definition of sustainability preferences is complicated and involves several concepts (taxonomy, principal adverse impacts etc.) which will be new to many clients. Clients will have varying levels of knowledge and interest in sustainability issues. We consider that this complexity is very difficult for clients to understand and articulate their own sustainability preferences. In addition, for clients to articulate their own sustainability preferences, they must identify the minimum proportion they want to be invested in accordance with the sustainability preference.

Process to assess sustainability preferences

Assessing client *sustainability preferences* should come after the assessment of financial/investment objectives and is through following these three steps:

13. **Step 1: Explanation of sustainability preferences** The advisor should explain the different categories of sustainability preference and other sustainable finance concepts so that the client has sufficient information to make an informed decision about his/her sustainability preferences.
14. **Step 2: Identification of client sustainability preferences** The advisor should ask questions to assess the client's personal sustainability preferences.
15. **Step 3: Financial product presentation/recommendation** The advisor must use the information revealed by the client to make a financial product recommendation.

WARNING

The three steps articulated above are a logical way of assessing sustainability preferences and are indicated by the regulation and guidance. However, assessing sustainability preferences can be in a different format and different advisors will adopt varying approaches.

3. What we want to assess through mystery shopping visits

We are focussed only on advisor behaviour in relation to assessing sustainability preferences (not advisor behaviour in relation to assessing financial/investment objectives). We set out below further details on what we want to assess in terms of advisor behaviour and the Feedback Form questions each relates to.

NOTE

As explained elsewhere in this Guide, we have constructed two mystery shopper profiles which mystery shoppers should use. Annex [1] sets out further details on each mystery shopper profile and the specific questions and issues that mystery shopper profile should address. Following each appointment with an advisor, mystery shoppers should complete the questions in the online Feedback Form.

Are sustainability preferences included in the suitability assessment?

Before testing how well advisors are assessing client sustainability preferences, the more fundamental question is whether advisors have updated their process to cover sustainability preferences.

Feedback Form questions [7 and 8] relate to whether the advisor brings up the subject of sustainability preferences without any prompting and whether this occurred after the assessment of financial/investment objectives.

Note, if it is absolutely clear that the advisor will not be asking about client sustainability preferences, the mystery shopper should raise the issue. Where this is the case the mystery shopper can simply say that he/she would like to invest in a sustainable manner and had heard something about this now being assessed in financial advice.

Step 1: Explanation of sustainability preferences

We want to assess whether advisors provide an explanation of sustainability preferences and what is included in that explanation. As referred to previously, the definition of sustainability preferences is complicated and involves several concepts (taxonomy, principal adverse impacts etc.) which will be new to many clients. Clients will have varying levels of knowledge and interest in sustainability issues. For clients to articulate their own sustainability preferences, they must be provided with an adequate explanation of sustainability preferences.

Feedback Form questions [9 to 13] relate to whether the advisor provides an explanation of sustainability preferences and what was included in that explanation of sustainability preferences. **Q 9-11**

We want to assess whether advisors (inadvertently) introduce unconscious bias in the explanation of sustainability preferences. An unconscious bias can be driven by various factors including the advisor's knowledge and preconceptions about sustainable financial products or relate to different aspects of sustainable financial products (cost, financial return, level of risk etc.). In addition clients can be influenced through an explanation which is linked to the financial products which the advisor could recommend rather than all financial products on the market.

Feedback Form questions [14 to 17] relate to whether the explanation of sustainability preferences is linked to financial products which the advisor can recommend and whether you can perceive any bias in the explanation of sustainability preferences or green financial products generally. **Q 12-17**

We want to assess if advisors check whether the client understands sustainability preferences. As a result of all the above, providing a good explanation of sustainability preferences, in a way which the client genuinely understands, is not a simple exercise.

Feedback Form questions [18-19] relate to whether you understood the explanation of sustainability preferences and whether the advisor checked whether you had understood.

Advisor knowledge and expertise

We want to assess if advisors are knowledgeable and competent in relation to sustainable finance. Advisors are expected to be knowledgeable about what they are advising on – and this knowledge requirement should include sustainable finance knowledge. However, there is a question whether there has been the necessary step change in terms of financial advisor knowledge and expertise on sustainable finance.

Feedback Form questions [20-22] relate to your perception about whether the advisor appeared well trained and competent in sustainable finance generally. **Q20 only**

Step 2: Identification of client sustainability preferences

We want to assess if advisors make a genuine attempt to understand and identify your own sustainability preferences free from any influence by the advisor.

Feedback Form questions [23-24] relate to whether the advisor asks you about your own sustainability preferences and does this before presenting any products to you. **Q21-22**

We want to assess if advisors make a genuine attempt to ask clients about the minimum proportion they want to invest in accordance with their sustainability preferences. The advisor should ask what is the minimum proportion that the client want to invest in accordance with sustainability preferences. However, as revealed by the results of our previous mystery shopping campaign at the end of 2022, this minimum proportion is not assessed in many cases.

Feedback Form questions [25-26] relate to whether the advisor asks you about the minimum proportion to be invested in accordance with sustainability preferences and how this information is recorded. **Q23**

We want to assess how advisors respond when asked about whether it can be guaranteed that human rights are respected by companies which are invested in.

Feedback Form questions [27-28] relate to human rights considerations. **Q D1**

We want to assess whether the advisor is taking an adequate record of your sustainability preferences and whether the advisor makes a genuine attempt to check he/she has understood your sustainability preferences.

Feedback Form questions [29-32] relate to whether the advisor summarises your sustainability preferences and whether this matches your expectations. **Q24-26**

Step 3: Financial product presentation/recommendation

Advisors should take both client investment objectives and client sustainability preferences into account when recommending financial products to clients.

Feedback Form question [33] relates to whether the advisor presents a financial product which matches both traditional investment objectives and sustainability preferences. **Q 27-29**

We want to assess whether clients are influenced to adapt their sustainability preferences to the product range of the advisor rather than maintain their original sustainability preferences and seek out suitable financial products elsewhere. Our mystery shopper profiles have ambitious sustainability preferences which are unlikely to be met in most cases. Where an advisor is unable to recommend a product which matches client

sustainability preferences (as originally expressed), the client may adapt its sustainability preferences so that the advisor can recommend a financial product.

Feedback Form questions [34-39] relate to how the advisor deals with clients who adapt their sustainability preferences and whether the advisor tries to influence clients to adapt sustainability preferences. From Q 29-33

NOTE: Annex 1 articulates additional issues we want to assess which are specific to each mystery shopper profile.

Annex 1: Mystery shopper profiles

Financial/investment objectives

All mystery shopper profiles have the same financial situation and investment objectives.

You have received a lump sum of €50,000 in inheritance and would like to invest the entirety of this money for the long term (e.g. saving for retirement). You have no need to access any of this money in the short term.

| | |
|---------------------------------|--|
| Age | 40-50 years old |
| Marital status | Married, 1 child |
| Monthly income | €3100 net per month |
| Partner income | €1800 net per month |
| Financial situation | Apartment fully paid/no credit. No other savings. |
| Investment objectives | Long-term, saving for retirement. |
| Risk aversion/tolerance | <p>You have a balanced approach to risk. You would like to have good returns over the long term and are prepared to invest capital in financial markets and to tolerate that a small part of invested capital might fall due to the evolution of the equity markets.</p> <p>You are prepared to bear a possible loss of up to 15% of the invested capital.</p> |
| Knowledge of financial markets | You have an average knowledge of financial markets. You know how traditional financial savings work: shares, bonds and funds in general. But you have no understanding of complex products and hedging products. |
| Experience of financial markets | You have limited experience of financial investments (sold shares 3 years ago). |

You are not aware of the recent regulatory changes to the suitability assessment but are aware of more sustainable investment opportunities becoming available and would like to invest in a sustainable manner.

Mystery Shopper Profile 1

Key defining characteristics

You want to make sure that human rights are respected by all companies linked to your investment. You are very concerned about climate change, and you want to invest in environmentally sustainable investments with a focus on climate mitigation or climate adaptation. **This means that once you have heard the explanation of sustainability preferences you want to invest in a financial product falling under Category A of the definition of sustainability preferences and you want a minimum proportion of 100% to be invested in environmentally sustainable investments with a focus on climate mitigation or climate adaptation.**

There are very few financial products which have a minimum proportion of 100% invested in environmentally sustainable investments with a focus on climate mitigation or climate adaptation. Many advisors will not be able to recommend a financial product which meets this sustainability preference. The purpose of designing the key defining characteristic of Profile 1 in this way is to see how the advisor responds when they cannot satisfy an ambitious sustainability preference. For example, is the advisor transparent that he/she may not be able to recommend a financial product, but suitable financial products might be available from other advisors or does the advisor try to influence you to adapt your sustainability preferences so that he/she can recommend their own financial products.

Particular points to raise during the appointment

During the part of the suitability assessment when an explanation of sustainability preferences should be provided

1. There are Feedback Form questions about whether the advisor brings up the subject of sustainability preferences without any prompting. Please ensure that you allow enough time to form a view as to whether the advisor would have brought up sustainability preferences without any prompting by you. **However, if it is absolutely clear the advisor will not bring up the subject of your sustainability preferences, you should raise the issue yourself.** You can simply say that you would like to invest in a sustainable manner, and you have heard something about sustainability considerations now being assessed in financial advice.
2. **You should ask the advisor whether investing in green financial products is risky.** The purpose of this question is to see whether the advisor provides a biased response which seeks to dissuade you from green investments or whether the advisor provides a neutral response so as not to unduly influence your own perception of green financial products.

During the early part of the appointment which relates to identifying your sustainability preferences

NOTE: You need to be prepared for the advisor not to have provided a good explanation of sustainability preferences which explains the different categories of sustainability preference. You also need to be prepared for the advisor not asking about the minimum proportion of the investment to be invested in accordance with sustainability preferences.

1. **You should ask the advisor whether it can be guaranteed that human rights are respected by companies which are invested in.**
2. You should say that you are very concerned about climate change, and you want to invest in environmentally sustainable investments with a focus on climate mitigation or climate adaptation. This means that having heard the explanation of sustainability preferences **you want to invest in a financial product falling under Category A of the definition of sustainability preferences and you want a minimum proportion of 100% to be invested in environmentally sustainable investments with a focus on climate mitigation or climate adaptation.**
3. If the advisor has not provided a good explanation of sustainability preferences OR has not asked you about the minimum proportion to be invested in accordance with sustainability preferences, you need

to very specifically articulate that you want your investment to be **“in something environmentally sustainable and ideally focussing on climate mitigation”** and you want to be **“100% invested in these activities.”** Please use these precise terms so that you are referring to the same concepts as are in Category A of the definition of sustainability preferences.

During the part of the appointment which relates to financial product presentation/recommendation

NOTE: We expect that many advisors will not be able to recommend financial products which have a minimum proportion of 100% to be invested in environmentally sustainable investments with a focus on climate mitigation or climate adaptation.

1. If the advisor recommends a financial product to you (without asking whether you want to adapt your sustainability preferences):
 - please record your perception of whether it matches both your investment objectives and your sustainability preferences;
 - if the advisor does not volunteer the information, please ask the advisor how the recommended financial product covers your desire to have a **minimum proportion of 100% to be invested in environmentally sustainable investments with a focus on climate mitigation or climate adaptation.**

OR

2. If the advisor says that he/she cannot recommend a financial product which matches your sustainability preferences (in particular cannot recommend a financial product with a minimum proportion of 100% invested in environmentally sustainable investment with a focus on climate mitigation and climate adaptation):
 - please record what the advisor does next in terms of presenting financial products to you.

At the end of the appointment

1. If the advisor does not provide a summary, please request one and record the outcome in the Feedback Form.
2. If the advisor recommends a financial product, please record the ISIN number. This is a 12-digit code which provides a unique identification for a financial product and will be in the financial product documentation.

Mystery Shopper Profile 2

Key defining characteristics

You want to make sure that human rights are respected by all companies linked to your investment. You are very concerned about the future of the planet, and you want to invest in a way which generates positive impact in the real world. **This means that once you have heard the explanation of sustainability preferences you reiterate your desire to invest in a way which generates positive impact in the real world rather than choosing a category of sustainability preference.**

There are few genuine impact-oriented financial products which would be suitable for clients who want to invest in a way which generates positive impact in the real world. In addition, it is not clear how impact-oriented financial products are accommodated in the definition of sustainability preferences. The purpose of designing the key defining characteristic of Profile 2 in this way is to see how the advisor responds when a client does not fit the categories in the definition of sustainability preferences. For example, is the advisor transparent that he/she may not be able to recommend a financial product, but suitable financial products might be available from other advisors or does the advisor try to influence you to adapt your sustainability preferences so that he/she can recommend their own financial products.

Particular points to raise during the appointment

During the part of the suitability assessment when an explanation of sustainability preferences should be provided

1. There are Feedback Form questions about whether the advisor brings up the subject of sustainability preferences without any prompting. Please ensure that you allow enough time to form a view as to whether the advisor would have brought up sustainability preferences without any prompting by you. **However, if it is absolutely clear the advisor will not bring up the subject of your sustainability preferences, you should raise the issue yourself.** You can simply say that you would like to invest in a sustainable manner, and you have heard something about sustainability considerations now being assessed in financial advice.
2. **You should ask the advisor whether investing in green financial products is risky.** The purpose of this question is to see whether the advisor provides a biased response which seeks to dissuade you from green investments or whether the advisor provides a neutral response so as not to unduly influence your own perception of green financial products.

During the early part of the appointment which relates to identifying your sustainability preferences

NOTE: You need to be prepared for the advisor not to have provided a good explanation of sustainability preferences which explains the different categories of sustainability preference. You also need to be prepared for the advisor not asking about the minimum proportion of the investment to be invested in accordance with sustainability preferences.

1. **You should ask the advisor whether it can be guaranteed that human rights are respected by companies which are invested in.**
2. You should say that you are very concerned about the future of the planet, and you want to invest in a way which generates positive impact in the real world. This means that having heard the explanation of sustainability preferences **you reiterate your desire to invest in a way which generates positive impact in the real world rather than choosing a category of sustainability preference. You should also ask the advisor what can prove the impact of any investment.**
3. If the advisor has not provided a good explanation of sustainability preferences OR has not asked you about the minimum proportion to be invested in accordance with sustainability preferences, you need to very specifically articulate that you want your investment to **“generate positive impact in the real**

world” and you want to be **“100% invested in these activities.”** Please use these precise terms so that you are referring to the right concepts.

During the part of the appointment which relates to financial product presentation/recommendation

NOTE: We expect that many advisors will not be able to recommend genuine impact-oriented financial products or will be put present other financial products as if they were impact-oriented financial products.

1. If the advisor recommends a financial product to you (without asking whether you want to adapt your sustainability preferences):
 - please record your perception of whether it matches both your investment objectives and your sustainability preferences;
 - if the advisor does not volunteer the information, please ask the advisor how the recommended financial product covers your desire to have a **invest in a way which generates positive impact in the real world.**

OR

2. If the advisor says that he/she cannot recommend a financial product which matches your sustainability preferences (in particular cannot recommend a financial product generates positive impact in the real world):
 - please record what the advisor does next in terms of presenting financial products to you.

At the end of the appointment

1. If the advisor does not provide a summary, please request one and record the outcome in the Feedback Form.
2. If the advisor recommends a financial product, please record the ISIN number. This is a 12-digit code which provides a unique identification for a financial product and will be in the financial product documentation.

Annex 2 Administrative advice for mystery shoppers

Making appointments with an advisor

Each mystery-shopper has a description of their financial/investment objectives and their sustainability preferences (see Annex [1]). Both profiles have received a lump sum of €50,000 in inheritance and would like to invest the entirety of this money for the long term (e.g. saving for retirement).

Appointments can be made by visiting a branch or by telephone. Here is a suggested script for arranging your appointment:

Hello, my name is XXX, I would like to have an appointment with a financial advisor because I have received a lump sum of €50,000 and this is an opportunity for me to look at what is being done elsewhere than in my bank.

Advice on making an appointment

Avoid making more than two appointments at the same branch. Some banking networks have centralized telephone platforms, and you may be asked why you have made two different appointments.

Specify each time the amount of your investment (€50,000) and the source. This may determine the level of the advisor you will be offered to respond to your request.

Appointments can be made visually or by video, but face-to-face appointments are preferred and should be most of your visits.

If the advisor asks you to produce documents for your appointment (by email for example) ignore the request and on the day of the appointment specify that you will provide these documents in due course but that for the moment you are looking for information and to be convinced that this is the right place for your investment.

When asked about the choice of bank, indicate that you live in the area or that you will be moving there. Locate a street in the neighbourhood that will make your appointment at this bank credible.

Duration of your appointment with an advisor

Your appointment can last from 20 minutes to 1 hour according to our experience with the previous suitability assessment framework. It will depend on the advisor, their level of competence, their time, and the interest they will find in pursuing the meeting. Therefore, it is very important to specify during the telephone call to arrange the appointment that you have a sum of €50,000 to invest and that you are looking for advice on how to do so.

Advice for the appointment

Locate a street name in the neighbourhood. Advisers want to know why you have chosen their branch. You must be able to prove that you are located close to the branch you are meeting at (you live in the area, you are going to move there).

Always present yourself in your real identity. You are entitled to make as many bank appointments as you wish. Providing a false identity can be problematic.

Do not leave personal documents. You don't have them on you. You came to get information. You think the request is premature.

Justify why you want to change banks. Your current bank has taken too many charges from you. You have been a customer for a long time but still feel that new customers are better looked after. You want to see what is done elsewhere. You have read an article that discredits your bank in terms of environmental involvement, and this is contrary to what you are looking for.

Do not sign any documents. This would be of no significance unless you have provided a false identity.