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## MYSTERY SHOPPING EXERCISE ON THE OPENING OF BANK ACCOUNTS

Circular addressed to Credit Institutions operating in Malta

The Malta Financial Services Authority ('MFSA') has recently carried out a second mystery shopping exercise ('the exercise'), through the Conduct Supervision function, at a number of branches ('the branches') of the main domestic credit institutions (licensed under the Banking Act, Cap. 371).

The MFSA considers mystery shopping exercises to be one of the effective tools or methodologies used as a mechanism to monitor compliance and best practices in the banking industry, to protect the consumers and identify possible malpractices. During the exercise, supervisors pose as regular 'customers' and test out bank products, services and processes during real-life situations.

This exercise was a follow-up of a Mystery Shopping Exercise carried out in 2018, also conducted by MFSA Officials, to gather first-hand evidence of what a person visiting the branch to open a bank account might experience and identify issues and deficiencies, as well as recognise good players and practices in the market.

The exercise involved:

- (1) the evaluation of the suitability of the products offered by the credit institutions, following a request made by the customer (Maltese or foreign) to open a bank account;
- (2) an assessment of the adequacy of information provided (written and verbal) to the customer and disclosures made by the branch representatives; and
- (3) an assessment on how local credit institutions have implemented the requirements of a number of conduct-related provisions arising from the credit institutions and financial institutions (payment accounts) Regulations ('PAR') and the Payment Services Directive ('PSD').

Mystery shopping exercises are vital to the MFSA to maintain close communication with the banking industry especially when it comes to clarifying regulatory standards.

The aim of this Circular is to share some good practices identified as well as those matters where further improvement is required. In this regard, credit institutions are encouraged to adopt the good practices outlined in this Circular whilst paying attention to issues of concern as revealed.

## Findings

Following the exercise of 2018, the MFSA is satisfied to note considerable improvement in most of the branches of the credit institutions visited.

First and foremost, upon request to open a bank account, in addition to the other bank accounts available at, and being offered by, the credit institution, the majority offered to the customer the Payment Account with Basic Features ('PABF'). This was a significant improvement when compared with the exercise carried out in 2018, wherein the account was not offered. Moreover, it was also noted that, in the majority of the cases, the posters and leaflets provided by the MFSA containing information about the PABF, were displayed in a visible place in the different branches.

In addition to the above, it was noted that, in general, branch representatives were in a better position to provide information to the client, including in writing. Whilst the MFSA recognises the need for further improvement in some situations, it is positively noted that branch representatives assisted the customer in the best of their knowledge, using the supporting tools and documents available for that end.

In so far as good practices, the MFSA noted that some credit institutions created tools to provide a better service to the customer, whilst also helping the branch representatives to provide better support to the latter. Some of these tools include:

- (i) the creation of leaflets with information about each of the different products offered;
- (ii) the creation of booklets summarising the different accounts offered by the credit institution, sometimes even providing the customer with a comparison of those accounts; or
- (iii) the creation of booklets with the tariff of charges, providing immediate access to the charges applied by the credit institution to the different products and services offered by the latter.

The MFSA would also like to highlight that all credit institutions have been very cooperative and receptive of the requirements and suggestions made by the Authority. This approach enhances regulatory standards and works towards the achievement of better customer service levels.

However, some reoccurring weaknesses were identified at the branches as part of the exercise, which can be categorized as follows:

### 1.0 Adequacy of information provided (both written & verbal) to the customer and disclosures made by the branch representatives

Notwithstanding the improvements observed when compared with the exercise carried out in 2018, in some of the branches, branch representatives were not forthcoming with providing the customer with information on the features and characteristics of the bank accounts available at, and being offered by, the respective credit institution. In the majority of cases, information was only provided upon the customer's request. Moreover, this information was sometimes limited (that is, it was not sufficient to allow the customer to make an informed decision) and not consistent across the branches of the same credit institution.

In addition to the above, in some cases, when the customer was a foreign national, the same was immediately directed to a specific branch within the credit institution's branch network simply to be provided with information on the products of the credit institution.

Credit institutions should ensure that any customer-facing branch representatives (including receptionists and cashiers) are in a position to immediately provide any customer approaching them (requesting information on the opening of a bank account), with, at least, basic information (both written and verbal) on the features and characteristics of the different bank accounts available at, and being offered by, the credit institution. In this regard, credit institutions are requested to ensure that the IT systems in the branches are duly updated to provide all the necessary information and documentation to the branch staff. This can always be used as a support to help the latter in providing proper and correct information to customers. In addition, the credit institution's internal procedures should include a description of the information to be provided to customers to ensure consistency in the information being provided across the branch network. The information that is to be provided to customers should include, at least, information on the application process for the opening of a bank account, the Terms and Conditions, the Fee Information Document ('FID') and information regarding the Depositor Compensation Scheme. These documents should always be kept updated.

In addition to the above, any customer seeking for information on the products and services available at and being offered by the credit institution should be provided with the same immediately. Such shall be the case even with foreign nationals, who should not be sent to international centres simply to be provided with information.

## 2.0 Knowledge of the branch representatives and training

In some cases, the branch representatives responsible for the distribution of the credit institution's products, exhibited limited knowledge when replying to the customer's request and/or any questions being posed by the same. Branch representatives had *inter alia* difficulties explaining:

- the list of due diligence documents required to be submitted for the credit institution to be able to open a bank account. In some cases, the list provided was inconsistent across the branches such that a different list was requested by different branches of the same credit institution;
- the difference between basic banking products, such as the difference between a 'Current Account', a 'Savings Account' and a 'Payment Account with Basic Features'; and
- how basic banking services, such as transfers, credit cards and debit cards, function.

Credit institutions should provide adequate and comprehensive training to all customer-facing branch representatives (including receptionists and cashiers). In this respect any training must be provided on an ongoing basis and every time that there are any new developments such as, for instance, new legislation coming into force or the launch of a new product. Such training can take different formats as considered more appropriate, but credit institutions are to ensure that any format adopted (such as e-learning) is complemented with physical training.

In addition to the above it is strongly recommended that any training provided should be subject to an objective evaluation in order to ensure that the staff members completing the training fully understood the content of the training. Moreover, a record of the staff members completing the training should be duly kept.

### 3.0 Provision of information on the payment account with basic features

As mentioned above, although there was a significant improvement in terms of the offer of the PABF, in some cases the account was only offered upon enquiry and request, and in other instances, the client was informed that such account would be the current or the savings account of the respective credit institution. In addition, when offered, information about the PABF was not complete. Indeed, the customer was incorrectly informed of the below:

- a minimum and maximum balance is required to be held on such an account;
- a Maltese residence card is mandatory for a credit institution to open the account;
- the account does not apply for Maltese nationals;
- the account can only be opened if unemployed;
- the account can only be opened for depositing a salary;
- the process to open such account takes around four weeks.

Credit institutions with a branch network in Malta of five or more branches, have to offer the PABF to all customers (even those of Maltese nationality) requesting information regarding the opening of a bank account. Credit institutions are to ensure that the MFSA posters and leaflets providing information on the PABF (both in Maltese and in English) are displayed prominently in the credit institutions' entire branch network and in an area within the branches that is accessible by any customer entering the branch. Moreover, branch representatives should be knowledgeable about the content of such leaflets, being able to explain those, if so requested by the customer.

In addition to the above, credit institutions are to ensure that the requirements and features of the account are explained in a correct way by the branch representatives. In this respect, credit institutions who are required to offer a PABF are to note that, according to the requirements emanating from the Payment Accounts Regulations, any person legally resident in Malta or in another Member State has a right to open a PABF. Therefore, for a person to be eligible to open a PABF, such person needs to be in possession of a valid identification document issued either by Maltese authorities or authorities in other Member States. Persons holding temporary identification documents are still eligible to open a PABF.

Notwithstanding the above, credit institutions are to note that they are still bound with national and European anti-money laundering legislation and can refuse to open a payment account with basic features for a customer, where to do so would be in breach of said legislation. However, no person shall be refused the right to access a PABF for the mere reason that the due diligence to be conducted by credit institutions would be stricter and, therefore, more costly. In this regard, persons with no fixed address and/or no permanent identification documents, persons who have been residents in correctional facilities and/or rehabilitation centres, who may require stricter due diligence to be carried out by credit institutions, cannot a priori be refused the possibility to open a PABF.

A credit institution may refuse an application for such an account where a consumer already holds a payment account with any credit institution located in Malta, and when that account has at least the same features as the PABF, save where a consumer declares that the credit institution with which the payment account is held has given notice in writing that the payment account shall be closed. In any case, the process to open or refuse to open the account shall be completed without undue delay, and not later than ten business days from receipt of the completed application for the account.

In addition to the above, credit institutions are to ensure that information regarding the application process for the opening of a PABF is provided to the customer. Such information, which shall be made available on the credit institution's website and, if so requested by the customer, on a durable medium, free of charge, shall include an application form as well as a list of any documents required to be submitted with the application.

#### 4.0 Tariff of Charges

In the majority of the branches, no written information on the fees and charges applied by the credit institutions on their products and/or services was found. The credit institution's Tariff of Charges was only provided to the customer upon request.

The Tariff of Charges is a very important tool for the customer to take an informed decision. It should be made readily available by credit institutions in all the branches. Credit institutions are to ensure that an updated copy of such document is always available in all the branches. This information is always to be kept updated. Moreover, the customer should be informed of all the costs that may be incurred when buying a banking product and the credit institution is required to make the Tariff of Charges available to the customer, if so requested, on a durable medium, free of charge.

In addition to the above, the Tariff of Charges should also be made available on the credit institution's website and should be updated on an ongoing basis and every time that there are any amendments to the same.

Conclusion

We trust that the contents of this circular will help credit institutions identify any possible shortcomings and take the appropriate remedial action.

Any queries regarding the subject matter of this circular are to be directed to the [conductbanking@mfsa.com.mt](mailto:conductbanking@mfsa.com.mt)

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