FINANCIAL MARKETS AUTHORITY
TE MANA TATAI HOKOHOKO - NEW ZEALAND

September 2020

COVID-19 response insights

This information sheet summarises the FMA's actions to manage the impacts of the COVID-19 crisis up until 31 August, and highlights useful examples we have seen from market participants. It will help financial services entities to understand the FMA's approach and consider ways to improve their own response as the crisis continues.

The COVID-19 pandemic has resulted in unprecedented disruption and volatility in financial markets and the global economy. New Zealand's public health response has included lockdown restrictions that have required the majority of professional services-type businesses to work remotely, and limited face-to-face interaction between businesses and customers.

FMA response

The FMA's overall objective throughout this period has been to ensure continuity of markets and services in a way that is fair, efficient and maintains confidence in the financial sector. We have worked in conjunction with other regulators to actively engage with market participants across a broad range of sectors.

Our COVID-19 related engagement began in February with large KiwiSaver providers and by late March had extended to weekly calls with key market participants. These included life and non-life insurers, KiwiSaver and MIS (managed investment scheme) providers, Licensed Supervisors, DIMS (discretionary investment management service) providers, financial advisers, smaller banks and dispute resolution schemes. We also worked closely with the NZX to assist them when market volatility and large trading volumes impacted their clearing and settlement systems.

We formed an internal COVID-19 Response Committee to review the information received from this engagement, and consider options for regulatory relief, guidance, and warnings where necessary. These initiatives included:

- Working with RBNZ to define which financial services businesses were essential.
- A 'no-action' approach to regulatory relief sought

by market participants, where in approved cases we will not take action against a person for breach of a statutory or regulatory obligation.

- Delaying the planned survey of MIS Managers on their liquidity stress testing systems.
- Delayed various monitoring, investigation and enforcement activities. Each case was assessed on its merits and consideration was given to the current engagement with the entity, whether they were an essential business and the likely immediate harms.
- Issuing extensive guidance for market participants, accessible through our dedicated COVID-19 webpage and promoted in regular FMA Update emails.
- Amending the Identity Verification Code of Practice 2013 to allow electronic verification options for AML/CFT identity verification.
- Changing the legal requirements for hardship withdrawals to enable alternative methods for providing evidence and the required statutory declaration during lockdown.

In April, we wrote to the CEOs of the firms we license, as well as retail banks, insurers, and a range of industry associations, to acknowledge the pressure being felt by the wider financial services sector and the steps they have taken to support customers. We also set out expectations for continued good conduct, including:

- addressing the changing circumstances of customers
- proactive and regular communications
- ongoing monitoring of operational resilience and conduct risk management.

This was followed by a letter to insurance industry bodies to acknowledge insurers' responses and outline our expectations for the industry. We encourage all market participants to read these letters and review their own business processes and practices against our expectations.

We also issued guidance on customer vulnerability, outlining how to understand vulnerability, ensure staff are capable of identifying, assessing, and addressing vulnerability, review vulnerability practices, and communicate with customers.

We continue to engage with entities, closely monitor financial markets, respond to emerging risks for investors, and promote awareness of potential scams.

What we saw from market participants

Operational

Remote working

Most entities handled the shift to remote working well, with only minor problems that were overcome by swift system upgrades, and support for staff to focus on wellbeing and improve their remote working arrangements. Some entities have adopted remote practices permanently, with up to 50% of staff working from home at all times.

Physical locations

Several banks and insurers have reduced the number of physical branches. While change during this time is inevitable, it is important to recognise and respond to the associated risks and impacts on both staff and customers, particularly those who may have difficulty accessing services digitally.

Business continuity plans

Most entities started tracking the impact of COVID-19 from the outset, and some enacted their BCP (business continuity plan) as early as January. Some entities found their BCP was not fit for purpose as it did not consider the full range of impacts, such as the lockdown environment.

One insurer expedited the shift of their call centre back to New Zealand prior to lockdown. Another had their India and Philippines call centres completely shut down for a short period before taking steps to provide an alternative.

Cybersecurity

Multiple entities reported an increase in phishing, malware, and ransomware cyber-attacks. Some entities told us they increased investment in their cybersecurity systems as a result, including staff training and additional review and testing. One entity told us they engaged an auditor to review their video conferencing arrangements, resulting in a low residual risk rating. Our 2019 Cyber-resilience in FMA-regulated financial services report outlines good practice and areas for improvement.

Industry cooperation

In multiple sectors, entities engaged frequently via industry groups and associations to discuss emerging issues and share their experiences and ideas of how to deal with the challenges, exhibiting cooperative behaviour despite being competitors. Licensed Supervisors enhanced their engagement with their supervised entities, enabling them to capture and share live insights on the impacts of COVID-19.

Supporting and engaging with customers

Communications

Entities communicated with customers via website updates, email, phone calls, text messages, apps, physical mail and social media. Communications primarily focused on providing relevant, topical updates, and directing customers to additional information. With most entities experiencing call volumes two to three times higher than usual, communications also provided details of alternative contact methods.

Within the insurance sector, a significant number of calls during the initial spike were customers trying to work out what cover they had and if it would be upheld despite the pandemic. This raises the question of how much customers truly understand their policies.

Proactive and enhanced engagement

DIMS providers increased the frequency of contact with customers and reviewed asset allocation models, in several cases revising models for changing market circumstances. Several banks established proactive outbound calling initiatives and redeployed staff to handle increased requests. One bank redeployed a number of back-office staff to work on hardship applications. Financial advisers provided additional client reporting, and increased customer contact, with video calls replacing face-to-face meetings.

KiwiSaver fund switching

Market volatility resulted in KiwiSaver members switching out of higher-risk funds in record numbers during March 2020. Many investors had already made the decision to switch and were not open to advice. There were instances of investors switching funds multiple times and some MIS Managers proactively contacted these investors to provide further guidance. The FMA also issued commentary in March telling investors it is often best to ‘stay the course’ rather than ‘banking your losses’.

In May we issued a formal warning to a financial advisor who made recommendations to clients, via a bulk email, that they urgently move their investments to ‘low-risk’ funds in the wake of COVID-19. The advisor failed to clarify that the email provided ‘class’ financial advice, had limitations, and may not be appropriate for all clients. The adviser also failed to recommend that clients first discuss their personal circumstances and goals with an adviser before acting on the advice. Our decision to issue a warning recognised the need to urgently deal with the matter and send a message to the industry about our expectations for providing suitable advice in extreme market conditions.

Identifying vulnerable customers

Some entities proactively contacted their most vulnerable groups of customers. One insurer called all customers aged 70+, to help identify potential hardship issues. Some MIS managers proactively contacted customer segments such as new investors, those with larger balances, those seeking hardship relief, and those switching funds multiple times, to confirm if they needed assistance. One bank proactively contacted 75% of its business customers prior to lockdown to gauge their need for assistance in advance.

One insurer also recognised that non-English speakers were a potentially vulnerable group in the context of the crisis, and acknowledged that their communications to these customers over lockdown could have been better.

> Non-English speakers have been a target of misconduct during the crisis. In April we successfully requested the removal of two advertorials a financial adviser had posted on Chinese-language social media platform WeChat. These articles cited the cost of COVID-19 hospitalisations in China (in New Zealand dollars) and recommended people living in New Zealand, especially young children and the elderly, get health insurance to avoid the same financial risk. The advertorials failed to mention that in New Zealand, emergency treatment and testing for COVID-19 is free, as it is covered by the public health system.
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> Regardless of the target audience, financial market participants should not be using COVID-19 as a marketing tool.

KiwiSaver hardship withdrawals

The volume of significant financial hardship withdrawal applications increased from 324 applications per week in early February to 550 applications per week since the beginning of June. MIS Managers directly engaged with members to encourage them to consider other options before making an application. MIS Managers are preparing for another possible spike in applications.

Insurance customer hardship

Most insurers experienced a spike in hardship applications, with some reporting up to three times the usual levels. We noted some confusion among customers caused by the lack of consistency in referring to relief options, with the terms ‘holiday’, ‘suspension’, ‘hold’, and ‘relief fund’ being used by various providers. Insurance industry associations may wish to discuss and decide on a consistent set of terms or a glossary for consumers to access. Insurers are also preparing for another spike in applications.

Dispute resolution schemes noted that complaints volumes have been lower than expected, likely due to the hardship relief policies on offer and a decrease in insurance claims over lockdown.