

FIRST PUBLISHED JUNE 2020 | UPDATED SEPTEMBER 2021

Customer vulnerability – our expectations for providers

This information sheet explains the FMA’s expectations for financial services firms to prioritise their customer vulnerability practices, focusing on areas we consider immediate priorities.

Note: In September 2021 we updated this document to include additional information and further emphasis on the importance of firms’ treatment of customers in vulnerable circumstances. Our updates highlight that anyone who provides financial services, no matter the size or business focus, must have business-appropriate support systems for customers in vulnerable circumstances.

There is no ‘one-size-fits-all’ approach to developing and embedding processes and practices related to customer vulnerability. However, a firm’s responses should reflect its scale, size and complexity, and consider the likelihood of its customers experiencing vulnerability.

Understanding vulnerability

Throughout our conduct and culture work we have referred to the UK financial regulator’s definition of vulnerability:

“A vulnerable consumer is someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care.”

As a member of the Council of Financial Regulators (CoFR), we follow the Consumer Vulnerability Framework, which provides industry with a common understanding of the characteristics of vulnerability.

The framework focuses on vulnerability being determined by ‘circumstances’, rather than being specific to any ‘type’ of person. Vulnerability can be the result of an event or set of circumstances, which can differ in length of time and degree of severity. The drivers of vulnerability are not always obvious; income and debt levels are clear drivers, but financial capability and understanding, life events, physical health issues, disability, language and literacy, stress and mental health issues may also play a role.

We encourage firms to take a proactive approach to understanding the cause, nature and extent of different vulnerabilities within their customer base. By identifying drivers of vulnerability, firms can develop an understanding of both their customers’ needs and effective responses.

It is important that a firm has a consistent, comprehensive and evolving understanding of potential customer vulnerabilities and how it expects its staff to address these vulnerabilities.

Example of good practice: Framing vulnerability to suit your business model

When developing their approach to vulnerability, one bank decided to define customers in vulnerable circumstances as 'extra care customers'. According to the bank, by framing it this way they were focusing on the positive role that they play in ensuring good outcomes for customers experiencing vulnerabilities, rather than the potentially negative connotations associated with the word 'vulnerability'.

Appropriate policies and procedures

Central to addressing the needs of customers in vulnerable circumstances is the development and implementation of appropriate policies and procedures across the business. Firms need to embed the fair treatment of vulnerable customers in policies and processes throughout the whole customer journey.

When developing policies and procedures, firms may consider consulting both internally, and externally with community groups. This ensures that what is developed is suitable for the firm's business and meets customers' needs. The extent of consultation will vary according to the size and scale of the firm.

Firms may consider assigning overall accountability for vulnerability policies to executive-level leadership. Consideration should also be given to how success of the policies will be measured and at what level the results should be reported.

We expect firms to be able to demonstrate that policies and procedures for customer vulnerability are in place.

Example of good practice: Constant reflection on policy implementation

A KiwiSaver provider has established a working group consisting of representatives across product, governance, legal, compliance and administration functions. The group discusses how they are tracking against their vulnerability framework objectives and explores possible areas for improvement. The findings of these meetings are reported on at executive level.

Staff capability

Ensuring all customer-facing staff and intermediaries, senior management, and those in product design and development are equipped with the necessary skills and confidence to identify, assess and address customer vulnerability is critical for serving the needs of customers. There should also be a more general organisation-wide awareness of potential customer vulnerabilities.

Central to this is ensuring that policies and procedures are clearly communicated and understood by all staff and intermediaries. Firms may have policies in several areas, but there is a risk to vulnerable consumers if staff do not have the right knowledge or skills to implement these effectively.

Those dealing with vulnerable consumers require access to appropriate support mechanisms such as practical and/or emotional support.

Customer-facing teams, including intermediaries, may need guidance and training on implementing vulnerability processes and procedures. Specific areas of guidance could include:

- how to identify circumstances that result in customer vulnerability
- how to address the needs of vulnerable customers
- how to adapt services when assisting customers who show evidence of vulnerability.

Example of good practice: Wide-ranging staff empowerment activities

One KiwiSaver provider developed a specialist customer vulnerability training series for staff. The series was wide ranging and included:

- training staff to identify red flags – certain words, tone etc
- online modules with senior executives focusing on certain areas of vulnerability with relevant examples
- training for call centre staff on the LEAP framework – Listen, Empathise, Ask, Propose.

The provider also empowered ‘vulnerability champions’ – these are staff trained, equipped and empowered to do more to assist vulnerable customers

Customer service

Vulnerable customers are more likely to have different service needs. For example, they may find some channels of communication challenging or stressful, or need more time to understand information and make decisions. Firms should consider how their systems support staff and intermediaries in responding to the evolving needs of vulnerable customers.

COVID-19 has resulted in customer-facing staff and intermediaries encountering changing and more complex examples of customer vulnerability. This has required staff and intermediaries to have sufficient flexibility within their roles to effectively resolve these cases.

The COVID-19 environment has contributed to the acceleration of closing face-to-face contact points such as branches and offices. The impact of these closures can drive increased customer vulnerability in areas where there are no appropriate alternative customer service options. Special focus should be given to the significant role face-to-face interaction plays in a comprehensive approach to customer vulnerability. Failure to recognise and provide support when consumers are struggling to make decisions or act in their own interests can lead to harmful financial decisions and vulnerability to scams.

Firms should consider having specialist support available for vulnerable customers either internally, or externally through charities or third-party providers. This support works most effectively when it is promoted and accessible. Emphasis should also be placed on ensuring all staff can identify complaints and can refer customers to the firm's internal and external dispute resolution schemes.

Example of good practice: COVID-19 customer service response

COVID-19 saw numerous examples of firms being proactive and using multiple communication channels to assist vulnerable and potentially vulnerable 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 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.

Example of good practice: Provision of support services as part of offering

A bank has developed an online tool that helps customers to identify benefits and services that the government provides, including determining their eligibility and how to apply.

Communications

Firms should ensure communications throughout the lifecycle of a product or service are clear and provided to vulnerable consumers in a way they can understand.

Firms should consider how they communicate with vulnerable consumers, taking into consideration the customer's needs. Where possible, we encourage firms offer multiple channels so vulnerable consumers have a choice.

Firms are increasingly using digital communication channels. These can be both a benefit and a barrier for vulnerable customers. Indirect contact can sometimes make it harder to identify lead drivers of vulnerability. However, this risk can be mitigated by, for example, making it easier for customers to disclose their needs through online platforms, or by using data analytics or software to identify drivers of vulnerability.

Example of good practice: Communication campaign risk assessment

A KiwiSaver provider now builds in a vulnerability risk assessment for every communication campaign. As well as ensuring communications are in plain English and planned around key milestones, they have also created process controls to make sure vulnerability is considered. For example, in their campaign reminding people to top up their KiwiSaver contributions so they can receive the full Government contribution, their system flags anyone who has applied for financial hardship so they are not sent this message.

Additional resources

- Council of Financial Regulators: [Consumer Vulnerability Framework](#)
- Financial Markets Authority and Reserve Bank of New Zealand: [Bank Conduct and Culture Report](#)
- Financial Markets Authority and Reserve Bank of New Zealand: [Life Insurer Conduct and Culture Report](#)
- Financial Markets Authority: [COVID response insights](#)
- Financial Markets Authority: [Supervision Insights](#) – An overview of the FMA's supervision activities and findings from our monitoring reviews of regulated entities
- Financial Markets Authority: [Derivatives Issuers Sector Risk Assessment](#)
- Financial Markets Authority: [Insurance conduct and culture fire and general insurers update](#)
- Financial Markets Authority: [Delta blues: latest lockdown shows need for customer vulnerability preparedness](#)