



INSURANCE & FINANCIAL SERVICES
OMBUDSMAN SCHEME

Understanding vulnerability

Case studies from the IFSO Scheme

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Case examples

Vulnerability has many drivers and can take many forms.

The following IFSO Scheme case study examples show how vulnerability can present.

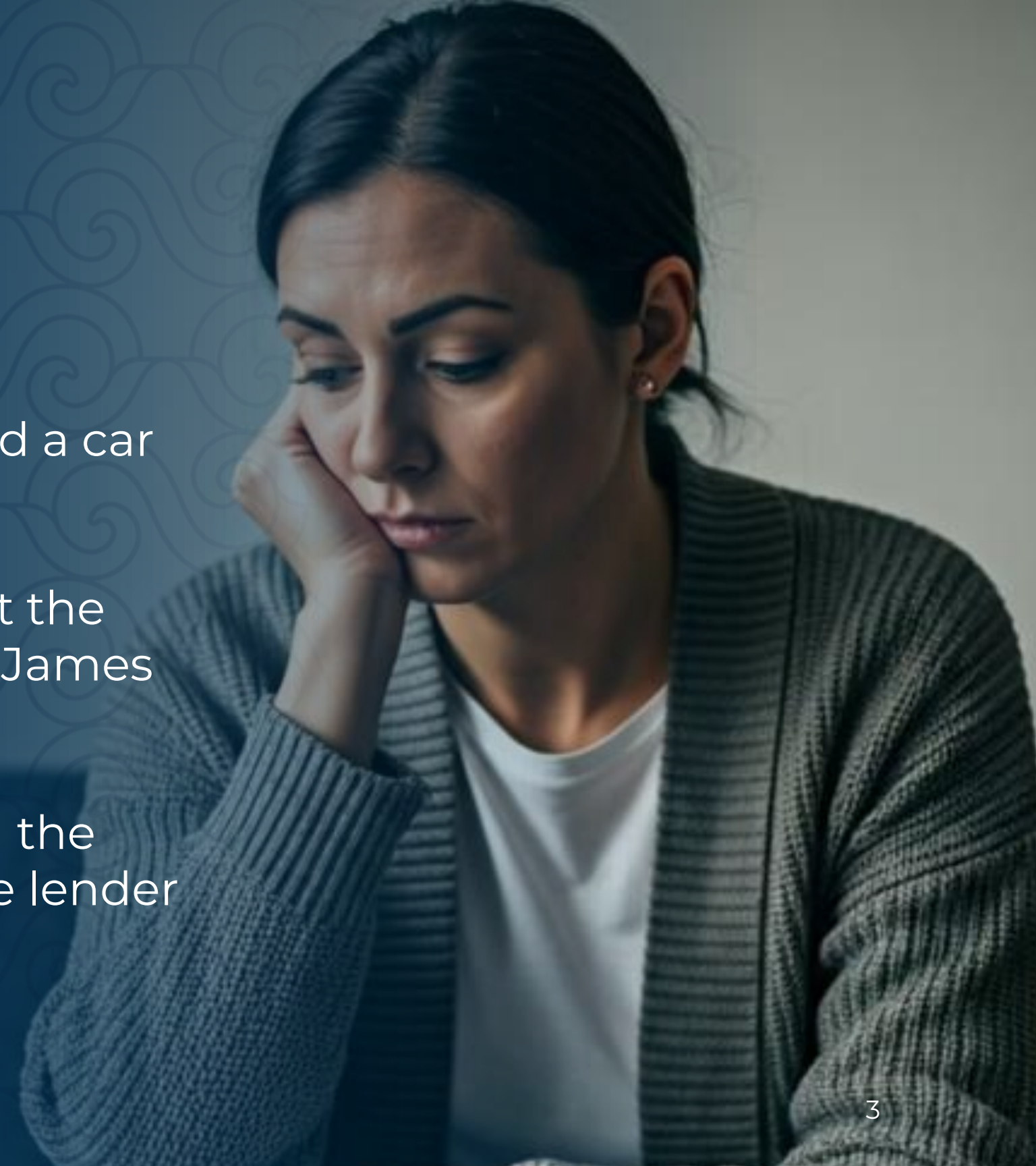
Please note: all names have been changed, and images are for illustrative purposes only - they do not depict real individuals or events.

Sarah's situation

Sarah and her partner James obtained a car loan together.

A year later, Sarah told the lender that the vehicle had been stolen, and her and James had broken up.

Unable to make payments, she asked the lender to take her off the loan, but the lender refused.



What Would You Have Done?



Consider Your Process

What would you have done? What processes do you have in place for this?



Important Questions

Would you ask - who stole the car?
Does she need hardship assistance?

The Lender's Response

Daily Contact

1

Over the following 4 months, the lender phoned and texted Sarah daily, telling her she needed to make the loan repayments.

Escalation

3

It lodged a default against Sarah and filed a statement of claim against her in the District Court.

2

Disclosure of Vulnerability

Sarah told the lender she could not pay. She said she was a solo mother and was the victim of domestic violence. The lender thanked her for sharing this information, but offered no assistance.

The Full Picture

People often don't voluntarily disclose the full situation. You get clues. If the lender had asked Sarah questions (rather than just thanking her for sharing information) it would have discovered:

- The car was not hers
- James had taken off with the car
- There was a long history of multiple instances of Police documented domestic violence from James to Sarah, including strangulation when she refused to buy him cigarettes
- Sarah had been coerced by James into signing the loan documentation.

Identifying the Vulnerability

So what was the vulnerability here?

- The relationship break up - the lender should have offered her hardship assistance.
- Sarah also experienced vulnerability due to domestic violence. Because the lender was not aware of the extent or the effects of the domestic violence, it proceeded on the basis that Sarah was responsible for the loan, as a co-borrower. Lenders need to be alert to potential vulnerability and its effects.



Key Insights

Ask Questions

When people offer personal information, don't just thank them. Ask questions. And then do something with the information. In this case, once the lender was aware of the full picture, it agreed the fair thing was not to pursue recovery from Sarah.

Early Support Matters

How much better would the situation have been for Sarah, if the lender had asked questions and supported her earlier?

John's situation

John (age 70, working 60 hours' per week) applied for a loan for his daughter's kitchen renovation. \$35,000, 5 year term.

What would you do?

The lender's response

- Obtained 3 pay slips which showed John had taken sick leave or annual leave for at least 12 hours of the 60 hours each week.
- No questions about why John was getting a loan for his daughter
- No questions about how long John intended to work

What happened



Shortly after the loan was taken out, John was made redundant and couldn't make the loan repayments.



John complained he shouldn't have been given the loan, as he was 70 and working 60 hours per week.



The lender responded that it made reasonable inquiries and could not ask questions relating to John's age, due to the Human Rights Act 1993.

What was the vulnerability here?

Maybe none.

But we decided the lender should have considered whether John was experiencing vulnerability due to the relationship with his daughter - was he making the decision freely?

The outcome

- The Human Rights Act did not prevent the lender making inquiries based on John's age. The lender was required to make an individualised assessment of John's circumstances
- Should have inquired about the sustainability of income and the purpose of the loan
- After discussions with the lender, it offered to refund the interest and fees on the loan, which we found was reasonable in the circumstances.

Joy's situation

Joy was a refugee who could not speak or write English. She went to a shop to buy a cellphone and arranged finance through the shop.

She couldn't afford the repayments and defaulted on the loan.

A financial mentor complained that the lender's affordability assessment was inadequate and incorrect and the lender should write off the debt.



What was the vulnerability here?

Joy could not speak or write English - how could she have agreed to the finance terms?

What happened?

We talked to the lender about whether its agent (the shop) was aware that Joy could not write or speak English and asked how she had managed to sign up for this loan.

The lender agreed to waive the remaining balance of the loan.

Insights

You need to be aware that consumers can experience vulnerability at different points during your relationship with them: when they arrange a loan and afterwards.

What processes do you have in place to recognise vulnerability?
How do you respond?

Thank you.