SEPTEMBER 2023

Supporting customers in financial difficulty

This joint message from the Financial Markets Authority (FMA) and the Commerce Commission (Commission) outlines ways financial service providers (including consumer lenders) in Aotearoa/New Zealand can help support customers who are experiencing, or may experience, financial difficulty.

The potential impacts of Kiwis getting into financial difficulty are not just monetary; it can affect the wellbeing of the individual, their household and the wider community.

Addressing the needs of customers experiencing financial difficulty is fundamental to fostering good customer outcomes and confidence in the financial sector as a whole.

This joint message outlines ways financial service providers (including consumer lenders) can be proactive about dealing with customers in financial difficulty, including through:

- complying with their regulatory obligations in relation to financial difficulties;
- being ready to assign sufficient resources to supporting customers experiencing financial difficulty; and
- always providing customers with fair customer treatment.

This joint message should be read alongside:

- The FMA's customer vulnerability information sheet, which recognises that there is no 'one-size-fits-all' approach to developing and embedding processes and practices related to customer vulnerability, and that any response should reflect a firm's scale, size and complexity.
- The Commission's guidance for lenders on their regulatory obligations. In particular, the requirement for all consumer lenders, no matter their size, to exercise the care, diligence and skill of a responsible lender and to treat borrowers reasonably and ethically when they are in financial difficulty.

OUR EXPECTATIONS

It is good practice for providers to be cognisant of potentially changed circumstances among their customer base, and responsive to any such changes. This includes any increase in the number of customers who become financially vulnerable. Providers should be proactive about identifying and helping customers who are experiencing, or likely to experience, financial difficulty. Providers should ensure staff are trained to recognise signs of difficulty such as:

- a pattern of missed, insufficient or late bill payments or exceeding credit limits;
- requests to refinance or repeated and/or frequent requests to change repayment dates;
- information about a significant change in a customer's circumstances (for example serious illness or injury, recent redundancy, a relationship breakdown, or a death in the family);
- requests to cut expenses, e.g. cancel products, lower premiums, reduce contributions; and
- requests to liquidate investments (e.g. KiwiSaver) or make significant and unusual withdrawals.

If such signs are recognised, providers should be ready and able to assess them in the context of other factors that may indicate or confirm vulnerability, including the customer's record of financial difficulty.

If appropriate, providers should be willing to contact the customer early and directly to provide information about the customer's rights and the consequences of repayment difficulties. Providers should have conversations that help them understand each customer's circumstances, in order to provide tailored support.

If financial difficulty is confirmed, it is important to make it clear to the customer that they have options that can be pursued with the help of the provider and/or a licensed financial advice provider and/or financial mentoring service. Consumer lenders may also need to discuss with the borrower their options regarding unforeseen hardship.

At the same time, all providers should be cognisant that short-term solutions, including those requested and/or preferred by a financially stressed customer, may not be in the customer's best interests. Proper consideration and weight should be given to long-term impacts, and customers made aware of these so that they can make informed decisions.

ASSISTING CUSTOMERS IN FINANCIAL DIFFICULTY

Providers should discuss with customers the range of solutions available to them, with all payment and support options clearly explained to them, including clear information about their potential costs (including long-term costs).

Practical ways customers might be helped could include:

- repayment relief such as payment deferrals or other arrangements that postpone the due date for missed payments (where this will not significantly worsen the customer's position);
- encouraging them to seek professional independent advice from a licensed financial advice provider and/or advice from a financial mentoring service;
- not unfairly penalising payment difficulties;
- working with the customer to avoid the need to cancel necessary products;
- reassessing whether all products or services used by the customer are necessary and/or suitable due to the customer's change in circumstances;
- removing barriers to switching or exiting products or services, if appropriate;

- considering debt consolidation, debt forgiveness, or pro-active write-offs; and
- referring customers to financial mentoring services that can provide support across providers, and working with financial mentoring services to support customers in financial difficulty.

In some cases, the best outcome for the customer may be the suspension or termination of an important product or service, or the liquidation of a significant asset such as property. It may be appropriate for providers to make this clear to the customer, but this should be done with empathy and full consideration of the effect on the customer.

Frontline staff should also know how to identify when a financially distressed customer is making a complaint, and providers should be clear about their dispute resolution process including any obligation to disclose details of their dispute resolution scheme.

FINANCIAL DIFFICULTY POLICIES AND STAFF

Providers should already have policies and plans for meeting the needs of vulnerable customers and dealing with customers in financial difficulty. These policies and plans should be reviewed regularly and updated to reflect current and expected economic conditions.

In April 2021 the Council of Financial Regulators (CoFR) presented its Consumer Vulnerability Framework to help providers develop their own approaches to assisting vulnerable consumers.

CoFR said that it anticipates providers will consult widely in developing their own terminology, procedures, and processes for assisting vulnerable consumers.

In September 2021, the FMA published an updated customer vulnerability information sheet, emphasising that anyone who provides financial services, no matter the size or business focus, must have appropriate support systems for customers in vulnerable circumstances.

This says providers should ensure any such policies and procedures for assisting vulnerable customers are clearly communicated and understood by all staff and intermediaries, and that customer-facing teams may need guidance and training on implementing vulnerability processes and procedures.

PROACTIVE AND REGULAR COMMUNICATIONS

COVID-19 saw numerous examples of providers being proactive and using multiple communication channels to assist vulnerable customers. For example, some proactively contacted customers in specific groups (elderly, new investors, small businesses) to confirm if they needed assistance.

Providers should make reasonable efforts to contact customers in difficulty using their preferred channel of communication and should encourage anyone in difficulty to be proactive about getting in touch early and communicating, openly and honestly with the provider.

Acceptable marketing and advertising standards must be maintained, including not using heightened financial difficulty as a customer acquisition tool.

Lastly, if a provider plans to increase their fees or other costs payable by the customer, customers should receive information about those changes before they take effect. At the same time customers should be provided with additional options if they are facing affordability issues. Providers who are consumer lenders should also ensure fees are reasonable.