

Consumer Vulnerability Framework

Members of the Council of Financial Regulators (CoFR)¹ have agreed on a common understanding of the characteristics of a vulnerable consumer.

We are presenting this as a framework to help industry in developing their own approaches to assisting vulnerable consumers. This framework is non-binding and serves as a guideline only. We would anticipate firms to consult widely in developing their own terminology, procedures, and processes for assisting vulnerable consumers. These should focus on the evolving needs of the consumers they serve, should be appropriate for their business and in accordance with any specific legislative requirements.

Consumer vulnerability framework

A consumer can be considered vulnerable when due to their personal circumstances they are especially susceptible to detriment and are therefore at greater risk of experiencing harm.

Focusing on ‘circumstances’ rather than ‘types’ of people is an important distinction. It shifts the focus from vulnerability as something certain ‘groups’ of people experience to vulnerability being a result of a specific event or set of circumstances which can happen to anyone at any time. These events or circumstances are known as ‘drivers’ of vulnerability.

Work by the Ministry of Business, Innovation and Employment (MBIE) and the Financial Markets Authority (FMA) has identified a number of potential risk factors. These have been mapped according to four main drivers of vulnerability².

1. Health and physical factors– health conditions or illnesses that affect the ability to carry out day to day tasks
2. Life events – major life events such as bereavement or relationship breakdown
3. Resilience – low ability to withstand financial or emotional shocks
4. Capability – low knowledge of financial matters or low confidence in managing money

¹ The Council of Financial Regulators (CoFR) contributes to maximising New Zealand’s sustainable economic well-being through responsive and coordinated financial system regulation. The members of CoFR are:

- Reserve Bank of New Zealand (co-chair)
- Financial Markets Authority (co-chair)
- Commerce Commission
- Ministry of Business, Innovation and Employment
- The Treasury

² <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-8.pdf>

Health and physical factors	Life events	Resilience	Capability
Mental health issues	Recently migrated	Low savings	English as a second language
Physical health issues	Caring responsibilities	Loss of income	Low literacy levels
Addiction issues	Bereavement/ending of relationship	Lack of self-confidence	Lack of knowledge of consumer rights
Learning disabilities	Natural disasters	Over indebtedness	Low level of financial capability
Physical disabilities	Non-standard requirements: women in refuge, ex-offenders, children in care	Lack of time	Digital exclusion

The risk factors for consumers may vary over time, and industry should identify additional risk factors relevant to their own products, services, and customer bases.

Summary

Characteristics of consumer vulnerability:

- Not a static group of people
- Can happen to anyone at anytime
- Can be permanent or transient in nature
- Is a personal experience
- Potential for multiple vulnerabilities being experienced at once
- Results in increased risk to harm
- Can be short or long term

Examples of how CoFR members have signalled the need to support vulnerable consumers

Given that customers in vulnerable circumstances are at greater risk of harm, we anticipate the financial sector to exercise particular care where consumers may be vulnerable and to pay attention to current and emerging factors which may be drivers of vulnerability.

We consider having sufficient processes and procedures in place to support vulnerable customers as key to good business practice and have signalled our expectations in reports and guidance including:

- 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: Customer vulnerability - our expectations for providers
- Commerce Commission: Guidance for lenders operating during the Covid-19 pandemic
- Ministry of Business, Innovation and Employment: Update of the Responsible Lending Code