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# VULNERABLE CLIENTS

WHITEPAPER

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# Introduction

THE COVID-19 PANDEMIC HAS BROUGHT THE ISSUE OF HOW VULNERABLE PERSONS INTERFACE WITH FINANCIAL SERVICES INTO SHARPER RESOLVE. WITH THE PANDEMIC HAVING FINANCIAL AS WELL AS HEALTH IMPLICATIONS, THE NUMBER OF CLIENTS MEETING THE DEFINITION OF 'VULNERABLE' IS LIKELY TO GROW AND ADVISERS NEED TO BE PREPARED FOR THIS.

Regulators are keen to ensure vulnerable clients have good outcomes when accessing financial advice and products. To this end, the Financial Markets Authority (FMA) published an information sheet in June 2020 outlining its conduct expectations for financial services providers with regard to these clients.

To support the FMA release, Strategi Group has produced:

- a *Vulnerable client guidance note*.
- a *Vulnerable client policy for financial advice providers*.
- a *Vulnerable client training module*.

Identifying vulnerable clients can present challenges for firms as just what constitutes vulnerability can be fluid and complex. Furthermore, the shift towards online services and call centres can also present challenges in relation to the fair treatment of vulnerable persons, making consideration of their needs even more important.

The FMA operates a principles-based regime, which provides flexibility in how financial services businesses choose to help vulnerable clients to achieve good outcomes. Essentially the FMA sets out what you need to achieve,

but you have flexibility concerning how you go about achieving it.

This report aims to help you:

- appreciate your legal and professional obligations as a financial advice provider;
- identify and understand vulnerability and key issues relating to it;
- understand more about vulnerability in the New Zealand context;
- understand what good practice looks like when advising vulnerable clients; and
- develop a framework for developing good practices.



## Legal and professional obligations

The FMA's overarching statutory role is to promote and facilitate the development of fair, efficient and transparent financial markets. The Financial Markets Conduct Act 2013 is the tool it uses to do that, imposing statutory duties on those who give regulated financial advice to clients. These statutory duties include complying with ethical behaviour, conduct and client care standards. This framework serves as a vehicle to help vulnerable clients achieve good outcomes when accessing financial services.

The Code of Professional Conduct for Financial Advice Services (The Code) establishes a duty of care and specifies that advisers should:

- treat clients fairly (Standard 1);
- act with integrity (Standard 2);
- give financial advice that is suitable (Standard 3);

- ensure that the client understands the financial advice (Standard 4);
- Protect client information; and
- have general competence, knowledge and skill (Standard 6).

The FMA identified in its Strategic Risk Outlook (SRO) for 2019 that it anticipates an increase in the number of vulnerable persons in New Zealand due to the country's ageing demographic and an increase in ethnic diversity due to immigration. Furthermore, the information sheet entitled Customer vulnerability – our expectations for providers, mentioned on page one, highlights the FMA's expectation for financial services firms to review the needs of customer vulnerability specifically in light of the Covid-19 crisis.

### **Financial advice providers should be aware that good client outcomes include:**

- treating clients fairly;
- ensuring the advice and product meets the client's needs;
- providing clear information and keeping the client informed at the appropriate intervals;
- providing suitable advice that takes into consideration the client's circumstances;
- ensuring the client understands the advice and/or products, and if not, the product is not sold to them; and
- ensuring it is simple for the client to change the product, switch providers, submit a claim and make a complaint.

# Vulnerable clients - key issues

## Identifying and understanding vulnerability

The definition of a vulnerable client is, *“a person, that due to personal circumstances, is especially susceptible to detriment, particularly when the adviser/business is not acting with the appropriate level of care”*, according to the UK Financial Conduct Authority (FCA). This is the definition also used by the FMA here in New Zealand.

The following table sets out the four drivers for vulnerability with examples beneath each. Please note the examples are not exhaustive and it is crucial to be alert to clients displaying other vulnerabilities. Advisers should also be alert to the fact that multiple vulnerabilities may be present.

HEALTH	LIFE EVENTS	RESILIENCE	CAPABILITY
Physical disability	Caring responsibilities	Low or erratic income	Low knowledge or confidence in managing financial matters
Severe or long-term illness	Bereavement	Over-indebtedness	Poor literacy and numerical skills
Hearing or visual impairments	Income shock	Low savings	Low English language skills
Poor mental health	Relationship breakdown	Low emotional resilience	Poor or non-existent digital skills
Low mental capacity or cognitive disabilities	Having non-standard requirements such as ex-offenders, care leavers, refugees	Lack of support structure	Learning impairments

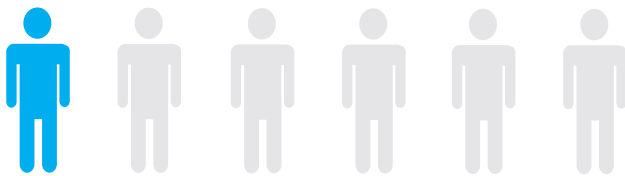
**Source:** *Guidance Consultations, FCA Guidance for firms on the fair treatment of vulnerable customers (July 2019).*

# Vulnerability in the New Zealand context

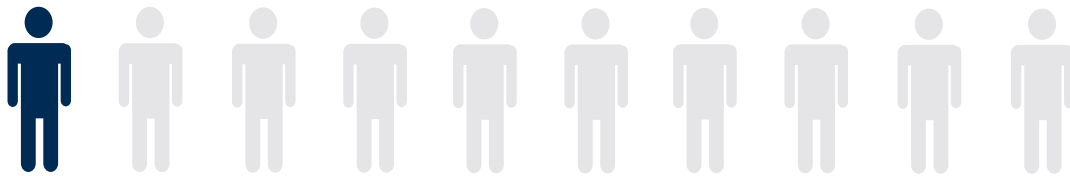
Below are some key statistics about the New Zealand population and how people may experience vulnerability here.



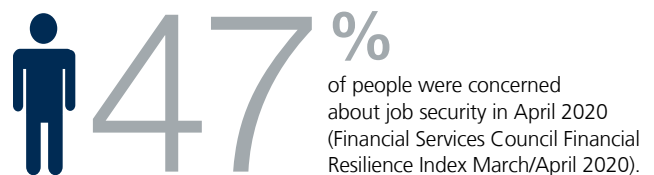
1 in 4 adults have literacy difficulties in everyday life (Literacy Aotearoa).



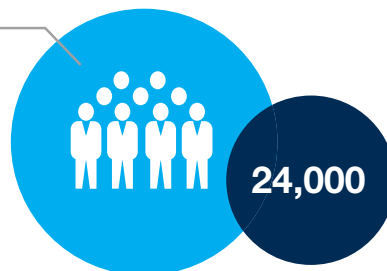
1 in 6 are diagnosed with a common mental health disorder (New Zealand Health Survey 2016/2017).



1 in 10 people aged over 65 years will experience some form of elder abuse (The New Zealand Longitudinal Study of Ageing 2014).



Over 24,000 people were diagnosed with cancer in 2019 (Cancer NZ, Annual Report)



## Current economic concerns

Covid-19 is likely to result in a greater proportion of the population displaying vulnerable characteristics, both through income shock (e.g. job losses) and health implications, for example, mental health issues.

According to Statistics NZ, unemployment in Q3 of 2020 is expected to rise to 9.5 percent, this is a 5.5 percent increase from Q1 of 2020. If we consider one of the drivers of vulnerability to be income shock, then it is likely that a greater proportion of financial service provider clients are at risk of becoming vulnerable. Therefore, it is more important than ever to define your approach to treating vulnerable clients fairly and with the appropriate level of care to help them achieve good outcomes.



## Spotting vulnerability and the challenges of dealing with it

Dealing with vulnerable clients can present a variety of challenges due to the potentially diverse range of needs and the nature of those needs. This is why it is critical to take time to gather the appropriate level of information necessary to evaluate a client appropriately if they do appear to display vulnerable characteristics. It is important to appreciate that if the risk of harm materialises, it has a much greater impact on vulnerable clients.

There is also the possibility that the client does not consider themselves to be vulnerable. However, they may be willing to accept they are feeling less able to cope due to their current circumstances.

The fluid and complex nature of vulnerability means that people can move in and out of meeting the definition of vulnerability during your professional relationship with them. This again can make it difficult to identify exactly when extra care needs to be taken.

To address this, staff should be on the lookout for changes in client behaviour or other cues which may indicate vulnerability, for example:

- changes in payment habits, such as late or missed payments;
- a lack of response from the client or the client is uncontactable;
- the client says they don't understand emails/ letters/policy documents;
- the client asks the same question repeatedly;
- changes occur to withdrawal habits, for example, larger amounts are withdrawn more frequently; and

- there is signs of anxiety such as shortness of breath.

There can also be barriers to clients disclosing their vulnerability due to how the service is delivered, for example, clients with poor literacy levels may find information on your website difficult to understand due to use of jargon, and complexity of information.

Staff can feel uncomfortable asking clients questions that may be perceived as personal, for fear of upsetting them. However, with the right training, staff can learn how to ask these questions in a sensitive manner that helps the client feel able to divulge whether the service needs to be adapted for them.



# What does good practice look like?

## Delivery of service

Taking a holistic approach to dealing with vulnerable clients is fundamental to good practice. Every level of your business should understand the role they play in delivering good results to these clients. Vulnerable clients need to be considered throughout the whole client journey and in all interactions. This includes from how you design products, through to how advice is delivered.

The table below sets out the different tiers of an advice business and the role each tier plays in delivering good outcomes for vulnerable clients.

BOARD	MANAGEMENT	PRODUCT DESIGN	FRONT LINE STAFF
Establishes the policy and culture	Embeds the policy, establishes processes to support staff to act flexibly and establish boundaries for them to operate within	Understands how features of products and services, either deliberately or inadvertently, impact vulnerable clients	<ul style="list-style-type: none"><li>• Identifies vulnerable clients</li><li>• Understands policies</li><li>• Implements policies with the flexibility to respond to the needs of vulnerable clients</li><li>• Provides feedback on how the policy and processes can be improved</li></ul>



# What does good practice look like?

continued

## Training

One of the essential features of delivering good outcomes for vulnerable clients is ensuring staff are well trained to identify these clients in the first place. If staff are unable to identify vulnerable clients, then it is unlikely they will be able to meet their needs. They then need to have the skills to deliver good outcomes by modifying the way these clients are dealt with.

As discussed earlier, one of the challenges of dealing with vulnerable clients can be the fear of offending the client by asking personal questions. Therefore, a valuable component of training is helping staff develop the skills to have sensitive conversations with clients to enable them to obtain relevant information about potential vulnerabilities. For example, staff may ask if there is anything that can be done to make it easier for the client to use their services. Once staff can gather the relevant information, they are more able to recognise cues that a client is vulnerable and then make the appropriate modifications to how they are dealt with.

Well trained staff are often able to help vulnerable clients articulate their needs, by asking about their requirements at key stages during the client journey. This might include letting the client know they need to understand a little more about their circumstances when they are considering switching products. This may highlight if the client has had a change in circumstances which makes them more prone to being vulnerable, such as a bereavement. Staff can also learn a great deal from having the opportunity to share their experiences in dealing with vulnerable clients.

In larger businesses, it may be possible to have a specialist team that deals with vulnerable

clients or specific members of staff trained to deal with specific vulnerabilities. There are also opportunities to learn from external organisations, such as charities that provide education around identifying vulnerability and the associated needs.

Training should cover the internal escalation process and support available to frontline staff. Staff should be made aware of any relationships the business has with third parties that can help support vulnerable clients when they are accessing your services, such as dementia support and assessment.

## Responding to vulnerability disclosures

In the event a client discloses they are vulnerable, you may wish to follow the TEXAS protocol below. This was developed by The Royal College of Psychiatrists and Money Advice Trust in the UK to assist with effectively handling client disclosures.

**T Thank** the customer (what they have told you could be useful for everyone involved). E.g. "Thank you for informing me. This will enable us to deal with your account better."

**E Explain** how the information the customer has given you will be used (this is a legal requirement). E.g. "So you are aware, I will now explain how we intend to use this information."

**X Explicit** consent should be obtained (this is a legal requirement). E.g. "in order for us to use this information, I will need your permission to do so. Please could you confirm you are happy to proceed?"

**A Ask** the customer questions to get key information to help you better understand their circumstances. E.g. "Does your mental health problem affect your ability to deal or communicate with us? If so, how?" "Does anyone need to help you manage your finances such as a carer or relative? If so, how?"

**S Signpost** or refer to internal and external help where appropriate.

**Source:** *Insurance and Financial Services Ombudsman*

# What does good practice look like?

continued

## Process design

The 4 Rs framework suggests it is good practice to ensure that four key elements are addressed when designing your vulnerable client processes.



## Recognise

Firstly, there should be a process to recognise potentially vulnerable clients, as discussed above.

## Record

Processes should also be in place to capture and record that a client is vulnerable, with a 'tell us once' policy instituted. Failing to keep good records to ensure all staff interacting with the client are aware of their vulnerable status can negatively impact the client, as the service they receive may not always take their vulnerability into consideration.

## Respond

Good practice includes taking action to respond appropriately to the client's needs.

You should ensure there is sufficient flexibility to respond and that communication with them is suitable for their needs.

## Report

The fourth element is to have good reporting mechanisms in place. This should include processes to evaluate how vulnerable clients experience the service and products delivered to them. You may wish to consider the following.

- Reviewing the clarity and readability of key documents and web pages
- Seeking client feedback
- Seeking anonymous staff feedback
- Implementing mystery shopping audits
- Analysing client complaint data
- Establishing a Quality Assurance process that captures areas requiring improvement
- Carrying out deep dives into management data

The information derived from these sources should be reported and discussed regularly at the appropriate levels. There should also be a mechanism in place to escalate and act on the information appropriately. This way the information gathered can be used to enhance the effectiveness of policies, processes, controls and training, thereby improving the overall outcomes for vulnerable clients and the business itself.

# What does good practice look like?

## continued

### Client communications

Your professional duties require you to be satisfied clients understand the advice being provided. It is therefore prudent to check the client's understanding at key points. If you deem the client's level of understanding to be unsatisfactory, you should not sell the product to them.

Consideration should also be given to the communication channels that you offer your services through and whether they might be excluding or disadvantaging particular clients.

The broader the range of communication channels you offer, the more likely you are able to meet the needs of vulnerable clients. Examples are:

- Those with mobility issues may prefer a video call
- Those with cognitive difficulties might like to receive written follow-ups that they can discuss at their own pace with others

### Key communication channels include the following

- Telephone
- Emails
- Face to face meeting
- Text
- Webchat
- Written
- Video calls

## Conclusion

It is important to remember the regulatory framework firmly places the onus on you, as the financial advice provider, to meet client needs and deliver good outcomes for vulnerable clients.

Due to the Covid-19 crisis, along with existing demographic changes within New Zealand, it is becoming more likely that vulnerable clients will form part of your client base. By ensuring you have well-trained staff who are able to identify and understand these clients' needs and that can use that knowledge to adapt services appropriately, will help to ensure the needs of all your clients and your obligations, are met successfully. To be effective, this needs to sit within a robust framework of policies, processes, and controls.

Strategi can assist with staff training and with developing policies and systems to help you achieve just that.

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