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FSCA Statement on Consumer Vulnerability

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FSCA
Financial Sector Conduct Authority

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Contents

1. INTRODUCTION

The Financial Sector Conduct Authority (FSCA) is responsible for, among other things, protecting financial customers[1] by promoting their fair treatment by financial institutions. The FSCA is also responsible for promoting financial inclusion. It therefore aims to further embed a culture of treating customers fairly by developing an approach to help identify and address the needs of vulnerable consumers.

The Organisation for Economic Cooperation and Development (OECD) High Level Principles[2] on Financial Consumer Protection recognise that some consumers may experience financial vulnerability due to a combination of personal characterises, behavioural biases and market conditions.

Customer vulnerability can take different forms and be applicable in different circumstances, requiring a nuanced understanding of the subject. Just like the rest of the world, South Africa has experienced significant events that resulted in increased levels of consumer vulnerability. The COVID-19 pandemic saw people struggling with shocks such as loss of income, unexpected deaths, increased expenses, and the need to call on savings. The country's recovery following the COVID-19 pandemic, measured using Gross Domestic Product (GDP), has been sluggish when compared to other countries[3]. In July 2021, along with a third wave of the pandemic, the country experienced civil unrest that increased vulnerability in affected regions, as infrastructure was damaged and access to basic goods and services was impacted. Natural disasters such as the flooding in KwaZulu-Natal during April 2022 continue to add financial pressures on households and SMMEs. Research from the OECD supports the widely held belief that adverse climate change will disproportionally impact the poor and worsen their poverty burden[4].

More recently, consumers are grappling with a cost-of-living crisis,[5] as the effects of the Russian invasion of Ukraine, increased climate shocks and the increased cost of food and energy make

[1] This report uses "Consumer" and "Customer" interchangeably and should be interpreted to refer only to the retail market, including Small Medium and Micro Enterprises (SMMEs).
[2] https://web-archive.oecd.org/2022-12-12/648348-G20_OECD%20FCP%20Principles.pdf
[3] https://www.statssa.gov.za/?p=15690
[4] https://www.oecd.org/env/cc/2502872.pdf
[5] "Cost-of-living crisis" is defined as cost of everyday essentials like energy and food is rising much faster than average household incomes

themselves felt. The cost-of-living crisis is globally pervasive and affecting several of South Africa's key trading partners. It directly increases the financial vulnerability of consumers and households. Data from Numbeo[6] shows that South Africa is ranked as the ninth most expensive country to live in on the African continent when measured using a Cost-of-Living Index. Although the headline consumer price index (CPI) has moderated and is now within the SARB's target range, the cost of food and non-alcoholic beverages, housing and utilities, miscellaneous goods and services and transport, continue to be the main contributors for the country's annual inflation rate of 5.3%[7]. The overall instalment-to-net income ratio for all credit active South Africans was reported at 47% for the fourth quarter of 2023, with the picture looking bleaker for the middle class who use 79% of their net income to service debt[8].

The concept of financial "*resilience*" is closely related to that of vulnerability and considers the extent to which consumers can financially prepare for, experience, and recover from adverse events. Resilience levels in South Africa are undoubtedly affected by the triple challenge of poverty, unemployment, and inequality, which remain obstacles to inclusive and equal economic development. According to Stats SA's Quarterly Labour Force Survey, the unemployment rate in South Africa was 32.6% in the second quarter of 2023[9], which is amongst the highest in the world. Furthermore, the Human Sciences Research Council (HSRC) 2020 financial literacy baseline survey found that 46% of South Africans struggle to make ends meet and are unable to cope with unexpected expenses. More recently, the Sanlam Benchmark report highlighted that 63% of South Africans are anxious about their finances and 87% of the respondents indicated that they felt financially stressed[10].

This document examines the concepts of consumer vulnerability and reviews how market conduct regulators in other jurisdictions consider these issues. In doing so, it recommends a deeper understanding and monitoring of consumer vulnerability, to respond proactively and pre-emptively to emerging financial consumer threats. Understanding consumer vulnerability may therefore be

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https://costofliving.redbridge.gov.uk/cost-of-living-crisis/#:~:text=A%20cost%20of%20living%20crisis,faster%20than%20average%20household%20incomes.

[6] https://www.numbeo.com/cost-of-living/rankings_by_country.jsp?title=2024&region=002 [Sourced on 13/03/2024]

[7] https://www.statssa.gov.za/publications/P0141/P0141January2024.pdf

[8] https://www.eighty20.co.za/app/uploads/2024/03/Eighty20_XDS_Credit_Stress_Report_2023_Q4.pdf

[9] https://www.statssa.gov.za/?page_id=16408

[10] https://www.sanlam.co.za/corporate/retirement/benchmarksurvey/Documents/Benchmark%202023_Insights.pdf

an important practical step towards operationalising and embedding Treating Customers Fairly (TCF) principles and driving positive consumer outcomes with maximum impact.

2. WHY DOES VULNERABILITY MATTER?

South Africa has already embarked on a journey towards driving fair customer treatment within the financial sector. This has resulted in, amongst others, the creation of the FSCA in 2018, and the ongoing development of bespoke conduct law in the form of the draft Conduct of Financial Institutions (COFI) Bill. Various Conduct Standards and Joint Standards (issued together with the PA) have been issued in terms of the Financial Sector Regulation Act. Within this context, identifying, understanding, and responding to the needs of vulnerable customers is important to ensure that they are treated fairly. This is because due to their circumstances, vulnerable customers may be more susceptible to poor customer outcomes than other customers. These outcomes stem from unsuitable or harmful financial products, unfair or misleading sales practices, and difficulty accessing and using financial products and services.

Financial customers who experience a change in circumstances that results in a financial shock are particularly vulnerable in their interactions with financial services. This shock could be an unexpectedly large expense or a loss of income, both of which reduce customers' ability to meet financial obligations.

It is, therefore, essential that financial institutions are aware of their vulnerable customers and potential risk factors that may affect their interaction with the financial sector. Appropriate measures should be in place to respond to such customers, in line with ensuring fair treatment. This means that financial institutions should be able to identify and aide their vulnerable consumers if they are to uphold TCF principles. In particular:

- How seriously an entity manages vulnerability can be a valuable indicator of the extent that TCF is central to the corporate culture.
- For financial products and services to continue to meet the needs of financial customers, they should be assessed on an ongoing basis in line with customer circumstances, and the design team should remain live to emerging consumer risks and vulnerabilities, so that products may be tailored or amended accordingly, even if temporarily.

- Customers should be aware of their rights and obligations should their personal situation change, for example how to manage loan commitments if losing a job, and what insurance policies are held that may provide for relief.
- Consumers may need advice tailored to their circumstances; financial institutions should maintain reliable contact with clients to facilitate the flow of relevant information, that will keep them suitably informed.
- The need for financial products and services to meet consumer expectations is amplified for vulnerable consumers, as the impact of taking up an inappropriate or unsuitable product can expose them to extreme distress and poverty.
- Vulnerable consumers may need tailored, face-to-face contact and additional support, relative to other customers. Financial education may be essential to support their financial well-being over the longer term.

Understanding customer vulnerability is also important for financial inclusion because it ensures that all customers, regardless of their circumstances, can access and benefit from financial products and services in a fair and responsible manner. When financial institutions do not understand or adequately address the needs of vulnerable customers, they risk excluding these customers from the benefits of the financial system. This can perpetuate inequality and deepen the financial exclusion experienced by vulnerable customers.

Overall, by identifying and addressing the needs of vulnerable customers, financial institutions can contribute to customer resilience, helping customers better manage their finances, cope with unexpected events, and recover from financial shocks. This, in turn, can lead to improved financial well-being, greater financial independence, and increased participation in the broader economy.

3. UNDERSTANDING VULNERABILITY

While vulnerability is receiving increasing attention by regulators and international standard setting bodies, there is no commonly defined concept of customer vulnerability. Approaches include the “class-based approach”, where specific consumer groups are regarded as inherently vulnerable owing to certain characteristics, such as their age or education level. However, in reality vulnerability is experienced “not only by some consumers, but increasingly by the vast majority of, if not all, consumers"[11] at some point in time, due to dynamic and unpredictable life events and circumstances. This broader conceptualisation of vulnerability as a state of being that can be influenced by a multitude of factors, is increasingly appliable in the South African context.

Internationally, conduct regulators have undertaken bespoke research that underpins understanding of customer vulnerability. The United Kingdom's Financial Conduct Authority (FCA) commissioned a study called "*Vulnerability exposed: The consumer experience of vulnerability in financial services*,[12]" which combined a review of existing evidence and literature, engagement with consumer and advice groups, and analysis of information provided by firms. This study was commissioned to explore and build an evidence base establishing the experiences of consumers in a range of vulnerable circumstances with different financial services providers. It sought to highlight both problematic experiences and good practices, with a view to supporting future decision-making.

The introduction of a vulnerability framework for New Zealand by the Financial Markets Authority (FMA) flowed from the recommendations from the 2018 *Bank Culture and Conduct Review*[13]. The results of the review highlighted significant variations in the approach by the supervised banks towards conduct risks and issues. The Financial Sector Regulatory Authority of Ontario (FSRA) launched a research study to allow the regulator an opportunity to better understand consumer attitudes, engagement with regulated financial services and characteristics including vulnerability.

The findings from the 2023 FSCA Customer Behaviour and Sentiment Study[14] show that although there is a general positive to neutral sentiment towards the financial sector, some pain points remain. The respondents in the study shared that they still find that certain products are expensive and that they are settling for products and services that do not precisely meet their needs. Their engagement with the financial sector seems to be life-stage driven and income levels are a strong driver of product take-up. Geographical location, gender and marital status were found to matter and still differentiate how customers view financial products and services. Unmarried women for

[11] https://www.oecd-ilibrary.org/docserver/4d013cc5-en.pdf?expires=1707134115&id=id&accname=guest&checksum=C2706A670AA0DB91E9EFD15878041D42
[12] https://www.fca.org.uk/publication/research/vulnerability-exposed-research.pdf
[13] https://www.fma.govt.nz/library/reports-and-papers/bank-conduct-and-culture-review/#:~:text=Banks%20should%20revise%20incentives%20structures,the%20risks%20of%20poor%20conduct.
[14] https://www.fsca.co.za/Documents/South%20African%20Retail%20Financial%20Customer%20Behaviour%20and%20Sentiment%20Report.pdf

instance, were found to be more likely to report poor treatment by financial providers. The findings of the study clearly identify pockets of financial customers who appear to be more vulnerable when compared to the rest of the population.

4. CONSUMER VULNERABILITY FRAMEWORKS IN OTHER JURISDICTIONS

Regulatory authorities in several jurisdictions have formulated their own definitions of vulnerability or vulnerable customers for the purpose of enhancing protection for these groups. These authorities have also developed guidelines and requirements setting the parameters for their fair treatment.

4.1 Financial Conduct Authority (United Kingdom)

4.1.1 Definition of vulnerable customers

The FCA defines a vulnerable customer as "*someone who, due to their personal circumstances, is particularly susceptible to detriment, particularly when a firm is not acting with appropriate levels of care*." According to the FCA, vulnerability can be temporary, sporadic, or permanent and therefore all customers across all financial products and services are susceptible to becoming vulnerable due to personal circumstances or the actions of regulated entities. Vulnerability exists on a spectrum of risk, meaning that the risk of becoming vulnerable increases as vulnerability characteristics increase. The characteristics of vulnerability the FCA identifies relate to the following four (4) drivers:

- **Health**: health conditions or illnesses that affect the ability to carry out day-to-day tasks.
- **Life events**: life events such as bereavement, job loss or relationship breakdown.
- **Resilience**: low ability to withstand financial or emotional shocks.

  Capability: low knowledge of financial matters or low confidence in managing money. (financial capability). Low capability in other relevant areas such as literacy, or digital skills.

4.1.2 Guidance in dealing with vulnerable customers

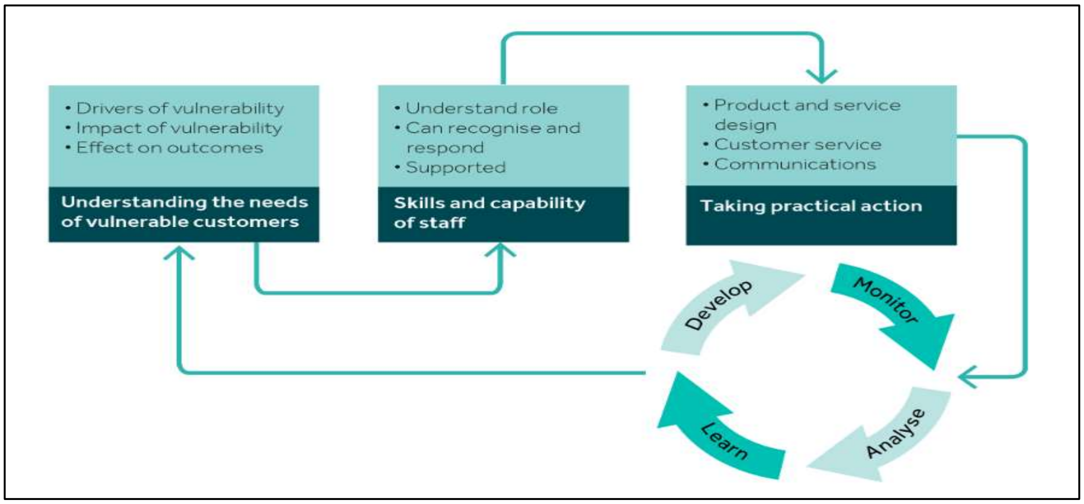
The FCA has developed a framework for customer vulnerability, titled "*Guidance for firms on the fair treatment of vulnerable customers".*[15] This guideline is intended to provide regulated firms

[15] https://www.fca.org.uk/publications/finalised-guidance/guidance-firms-fair-treatment-vulnerable-customers

with guidance on how to comply with their obligations under the TCF Principles and ensure they treat vulnerable customers fairly. It is also key that United Kingdom (UK) firms understand that vulnerable customers may be more susceptible to behavioural biases.

The FCA guidance provides the framework within which financial institutions can achieve good customer outcomes for vulnerable customers. Figure 1 below provides a summary of these actions:

Figure 1 : Guidance on fair treatment of financially vulnerable customers



Source: FCA website: https://www.fca.org.uk/publications/finalised-guidance/guidance-firms-fair-treatment-vulnerable-customers

The guidance encourages firms to adopt a customer-focused approach, where they identify and understand the needs of vulnerable customers and take appropriate steps to address them. It provides a summary of activities that firms must take to treat vulnerable consumers fairly and this includes:

- ***Understanding the needs of their target market*** – firms must understand the nature and scale of vulnerability characteristics evident in their target market and the impact of these vulnerabilities and types of potential harms that can affect customers.

- ***Having the correct skills and capability to respond to vulnerable customer needs*** - firms must ensure that all staff across the workforce have a clear understanding of how their role affects vulnerable customers. Firms must also ensure that frontline staff have the correct training and skills to identify and respond to the spectrum of characteristics of vulnerability and offer frontline staff emotional and practical support.

Monitoring and evaluating if they are responding to the needs of vulnerable customers – firms should implement appropriate measures to evaluate whether tasks that should be undertaken in relation to vulnerable customers are completed appropriately. Furthermore, they must produce and review management information on outcomes delivered to vulnerable customers.

- ***Responding to customer needs throughout product design, flexible customer service provision and communications*** **–** firms should assess potential positive and negative impacts of a product on vulnerable customers. They must also account for vulnerable customers at every stage of the design process. Firms should set up mechanisms that give vulnerable customers an opportunity to disclose their needs and ensure that all communication about a product or service is easily understandable to all customers in the target market.

4.2 Financial Markets Authority (New Zealand)

4.2.1 Definition of vulnerable customers

According to the FMA, a customer is vulnerable when, because of their personal circumstances, they are especially susceptible to detriment and, as a result, are at greater risk of experiencing harm. The principles guiding the identification of vulnerable customers include:

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

4.2.2 Consumer Vulnerability Framework

The FMA has developed its Consumer Vulnerability Framework to assist regulated entities in developing their own approaches to assisting vulnerable customers. This framework serves just as a guide. According to the FMA, vulnerability is the result of a set of circumstances/events rather than something that is experienced by certain ‘groups’ of people.

A crucial distinction is an emphasis on 'circumstances' rather than 'types' of people. It shifts the focus from vulnerability as something experienced by certain 'groups' of people – like those that share common demographics - to vulnerability because of a particular event or set of circumstances that can affect anyone. These events or circumstances are referred to as "drivers" of vulnerability. The framework has identified several potential risk factors. These have been mapped according to the four main drivers of vulnerability outlined below:

- ***Health and physical factors*** – health conditions or illnesses that affect the ability to carry out day to day tasks (risk factors such as mental/physical health issues, learning disabilities etc.).
- ***Life events*** – major life events such as bereavement or relationship breakdown (risk factors such as natural disasters, recently migrated etc.).
- ***Resilience*** – low ability to withstand financial or emotional shocks (risk factors such as low savings, loss of income, lack of time etc.).
- ***Capability*** – low knowledge of financial matters or low confidence in managing money (risk factors such as digital exclusion, low literacy levels etc.).

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

4.2.3 The FMA customer vulnerability expectations for providers

In addition to the Consumer Vulnerability Framework, the FMA has published a document titled "*Customer Vulnerability: Our Expectations for Providers*" that outlines its expectations regarding how providers should interact with vulnerable consumers. The FMA expects financial services to prioritize the following customer vulnerability practices:

- ***Understanding vulnerability*** - firms must take a proactive approach to understand the complexities of the vulnerabilities in their customer base. A comprehensive understanding of potential customer vulnerabilities is essential in creating effective responses to customers' needs.

- ***Appropriate policies and procedures*** - firms need to embed fair treatment of vulnerable clients into all policies and procedures. The FMA recommends consulting internally and externally with community groups to ensure meeting both customer and business needs.

- ***Staff capability*** - firms must ensure 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. Central to this is ensuring that policies and procedures are clearly communicated and understood by all staff and intermediaries. Those dealing with vulnerable customers must have access to appropriate support mechanisms, such as practical and/or emotional support. Customer-facing teams, including intermediaries, must be trained in implementing vulnerability processes and procedures including, for example, how to identify circumstances that result in customer vulnerability.

- ***Customer service*** – vulnerable customers are more likely to have different service needs, and, in this regard, firms should consider how their systems support staff and intermediaries in responding to the evolving needs of vulnerable customers. 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 (thereby increasing awareness) and accessible.

- ***Communications*** - firms should ensure that 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 customers, taking into consideration the customer's needs. Where possible, the FMA encourages firms to offer multiple channels so vulnerable customers have a choice.

4.3 European Union (EU)

The EU has established various directives to protect consumers' rights, including the Unfair Commercial Practices Directive (UCPD). The UCPD aims to protect consumers from unfair commercial practices in the EU. It sets out rules for businesses on how they can advertise and sell their products or services, with a focus on preventing deceptive or aggressive practices that could harm vulnerable consumers.

Under the UCPD, vulnerable consumers are defined as a clearly identifiable group, which is vulnerable because of mental or physical infirmity, age, or credulity, and a trader is expected to "foresee" their vulnerability.

The UCPD prohibits businesses from engaging in unfair commercial practices that exploit the vulnerabilities of these consumers. Examples of such practices include using high-pressure sales tactics, making false or misleading claims, or failing to provide clear information about the product or service being offered.

The Consumer Rights Directive is another directive aimed at protecting consumers' rights when buying goods or services. It sets out rules on information that businesses must provide to consumers, the right of consumers to cancel a contract, and the remedies available if goods or services are faulty. The directive also includes provisions specifically aimed at protecting vulnerable consumers, such as children, elderly people, and individuals with disabilities. These provisions require businesses to provide clear and easy-to-understand information to vulnerable consumers and to consider their special needs when selling goods or services.

4.4 Central Bank of Ireland

The Central Bank of Ireland's Consumer Protection Code 2012 sets out the standards of conduct that financial institutions must follow when dealing with their customers, including vulnerable consumers. The Consumer Protection Code defines a vulnerable customer as a natural person who:

a) has the capacity to make his or her own decisions but who, because of individual circumstances, may require assistance to do so (for example, hearing impaired or visually impaired persons); and/or

b) has limited capacity to make his or her own decisions and who requires assistance to do so (for example, persons with intellectual disabilities or mental health difficulties).

The Consumer Protection Code provides that where a regulated entity has identified that a personal consumer is a vulnerable consumer, the regulated entity must ensure that the vulnerable consumer is provided with such reasonable arrangements and/or assistance that may be necessary to facilitate that consumer's dealings with the regulated entity.

Unlike other approaches, the Irish approach takes a more static view of vulnerability, considering it to be a more fixed or enduring aspect of a consumer's circumstances. This means that financial institutions in Ireland are expected to consider a range of factors that may make a consumer vulnerable, such as their age, health, literacy, and financial situation, and to assume that these factors will continue to apply over time.

4.5. Common themes across jurisdictions

Some common themes emerge from the international review. These include:

- While different definitions for vulnerability apply within the surveyed jurisdictions, all definitions consider that aspects of individual characteristics, individual circumstances, and life events, impact on vulnerability.
- Financial Consumer Vulnerability frameworks are part of the consumer protection framework.
- Guidance is provided by regulators to the industry on what constitutes vulnerability and what may be expected of regulated entities in relation to vulnerability.
- The introduction of country approaches tends to be driven by data or research on customer experiences and customer outcomes.
- Supervision of the treatment of vulnerable consumers is part of the general supervisory framework.

5. FSCA CONSIDERATIONS FOR A VULNERABILITY FRAMEWORK

Some of the key considerations for developing a Consumer Vulnerability Framework in South Africa are outlined below:

5.1 FSCA dimensions for consumer vulnerability

While there are differences in how different jurisdictions define customer vulnerability, the definitions generally consider the following three elements:

- **Individual characteristics** - such as age, sex, disability, ethnicity, socio-economic status, etc.;
- **Individual circumstances** - including changes in family structures, grief, divorce, loss of job, etc.; and
- **External conditions** - including distribution of resources, inequality, discrimination, lack of access to services such as health care, retail services, education, or affordable housing.

Following this international practice, the FSCA may adopt a similar approach and consider vulnerability in terms of the following three dimensions:

- Demographics;
- Resilience; and
- Life circumstances.

5.1.1 Demographic dimension

The demographic dimension focuses on personal characteristics' that could contribute to customer vulnerability. It includes indicators such as age, source of income, level of education, digital and financial literacy and capability, health, and geographic location.

This dimension is particularly relevant in South Africa, where nearly half (49.2%) of the adult population lives below the upper bound poverty line[16] (Stats SA, 2020). This indicates that a sizeable proportion of the population may be at increased risk of experiencing harm when accessing financial services, due to their low-income levels and limited financial resources.

[16] https://www.statssa.gov.za/?p=12075.

Furthermore, FinScope (2021) shows a 12% increase in adult dependents on social grants (41%) which are government interventions meant to assist those in the population most vulnerable to poverty.

5.1.2 Resilience dimension

The resilience dimension of customer vulnerability refers to an individual's ability to cope with financial shocks or setbacks, such as job loss, illness, or unexpected expenses. Resilience can be influenced by factors such as income, savings, social support, and access to credit.

According to the OECD, new evidence on the distribution of wealth shows that in OECD countries many people, who are not considered income poor, are still economically vulnerable in the event of a sudden loss of income through unemployment, family breakdown, or disability.

Resilience and vulnerability are different methods of examining the same topic. Holling (1995) observed that vulnerability comes from a loss of resilience, while Franklin and Downing (2004) argues that reduced resilience leads to higher levels of vulnerability.

Demirgüç-Kunt et al (2022)[17] defines financial resilience as the ability of adults to cope with a sudden drop in income or the experience of some unavoidable expense.

The FCA (2017) has found that consumers with low financial resilience are at risk of harm, and they are more likely to have a reduced choice of financial products and services. Furthermore, customers with low financial resilience are unlikely to access the financial products they need, and financial products and services are rarely designed with their needs in mind.

The FCA (2017) also found that individuals in the UK with low financial resilience were twice as likely to have used high-cost credit. Finscope (2021) showed a seven-percentage point increase in the percentage of adults in South Africa who acquired credit from loan sharks or "abomashonisa" when compared to 2019. These credit providers often charge exorbitant interest rates, which can lead to individuals becoming trapped in a cycle of debt and exacerbating their financial vulnerability.

[17] Demirgüç-Kunt, A., Klapper, L., Singer, D. and Ansar, S., (2022). Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19. Washington, DC: World Bank. doi:10.1596/978-1-4648-1897-4. License: Creative Commons Attribution CC BY 3.0 IGO

5.1.3 Life circumstances dimension

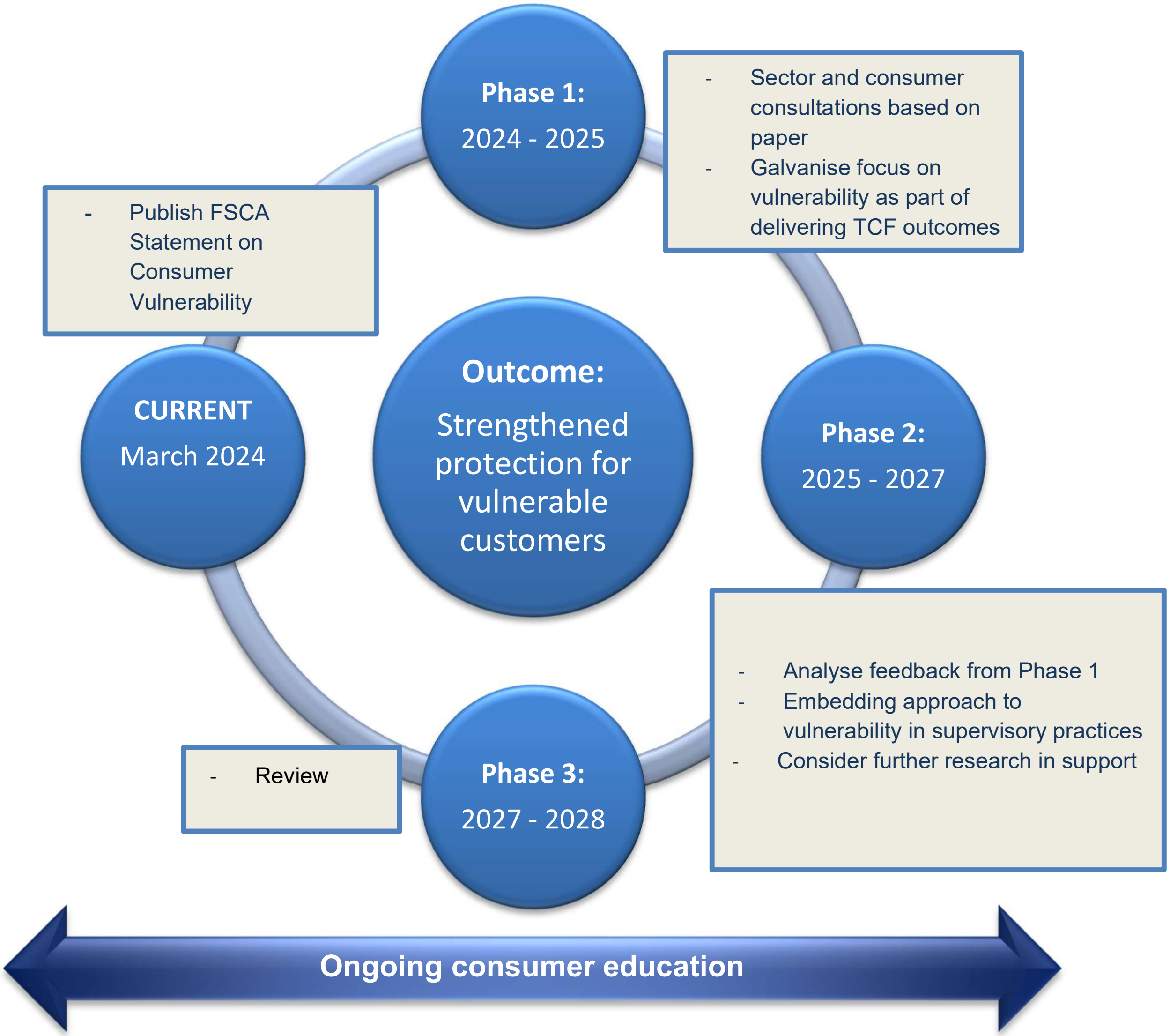
The life circumstances dimension places emphasis on the impact of major life events on an individual's financial well-being. These life events include health threats, loss of income, bereavement, and breakdowns of relationships. A loss of income occurs when loses sources of income such as salary or revenue formal business. This can have a significant impact on an individual's financial stability, making it difficult for them to meet their expenses and maintain their lifestyle. According to FinScope (2021) almost five out of ten adults reported that Covid-19 had a major impact on their livelihoods and/or income thereby increasing vulnerability.

Bereavement is another major life event that can impact an individual's financial situation. The death of a spouse or family member can lead to a loss of income or increased expenses, which can result in financial difficulties. This can be particularly challenging for vulnerable customers who may not have adequate savings or access to financial support.

Breakdowns of relationships, such as divorce or separation, can also have a significant impact on an individual's financial situation, especially for women. While marriages in South Africa decreased, divorces increased by 13,1% since 2020 (Stats SA, 2021). Furthermore, Stats SA (2021) reports that the median age of brides who entered civil marriage between 2018-2021 was 33 years, at which age they would have accumulated assets in their lives. The dissolution of marriage diminishes women’s economic well-being (Kessler, 2018). Pertinently, Leopold (2018) asserts that, in the short-term, divorce increases women’s loss in household income and raises their risk of poverty.

5.2 A phased approach towards embedding vulnerability

A data driven phased approach is contemplated, as outlined below:



5.2.1. Phase 1: Engage stakeholders (2024 – 2025)

To strengthen the level of protection afforded to vulnerable consumers, the FSCA should consult the sector, consumers and other relevant stakeholders to establish current practices towards consumer vulnerability, in turn getting feedback on the FSCA's conceptualisation of vulnerability and its intended phased approach towards more strongly embedding vulnerability within the TCF framework.

Supervised entities should be sensitized on the importance of considering vulnerability throughout the product life cycle from product design stage, through customer on-boarding until exit stage. The pressures brought on by the cost-of-living crisis and the increased risk of climate change necessitate a revised approach to how financial institutions deal with vulnerable customers, as these risks place larger sections of their client base at risk. The traditional approach of derisking through terminating customer relationships or more aggressive collection methods may not be sustainable, as the risk of becoming vulnerable increases to larger sections of the population. It is also not socially responsible.

Phase 1 will provide information on the current state of play and can identify gaps in the market, as well as in regulatory and supervisory approaches. It will be helpful to consider the relevance of vulnerability towards delivering positive TCF outcomes. The data and insights from consultations will be useful in further refining an approach to consumer vulnerability for the South African context.

Design and development of the multi-dimensional Financial Consumer Vulnerability Index (CVI) will begin - see section 5.4 below.

5.2.2. Phase 2: Analysis and embedding of vulnerability approach (2025-2027)

Feedback from Phase 1 should be used to refine the definitions of vulnerability and develop the FSCA's expectations of financial institutions regarding vulnerability. The information from Phase 1 should be supplemented by additional data points, including aspects like complaints data from the Ombuds, and engagements with sector to gain insights on current initiatives, etc.

The FSCA can in this phase consider embedding its approach to vulnerability within the TCF supervisory approach. It can also consider issuing guidance regarding FSCA expectations, as well as more detailed Conduct Standards.

Development of the multi-dimensional CVI may continue and be refined.

5.2.3. Phase 3: Review of interventions (2027)

The FSCA should review its regulatory and supervisory interventions to assess their impact on delivering positive customer outcomes.

All three phases should be underpinned by targeted consumer education.

5.3 Addressing consumer vulnerability through financial consumer education

Vulnerable consumers may lack the financial skills and knowledge required to make informed decisions about financial products and services. As part of its mandate of promoting financial education, the FSCA can develop financial education programs that empower vulnerable customers with the knowledge to help them understand key financial concepts and develop the skills needed to manage their finances effectively.

These programs can take many forms, including seminars, workshops, and community events. Workshops and community events can provide an opportunity for customers to interact with financial educators and ask questions in a supportive environment. Key consideration for the FSCA when developing financial education programs for vulnerable customers include:

- **Understanding the needs of vulnerable customers:** Before developing financial education programs, it is essential to understand the needs of vulnerable customers. This can be achieved through research, surveys, and focus groups. By understanding the specific challenges faced by vulnerable customers, financial education programs can be tailored to meet their needs effectively. The FSCA is already offering financial education for those that are unemployed. This approach may be expanded.

- **Collaboration**: Collaboration with stakeholders in the financial industry is also important in developing effective financial education programs. The FSCA can collaborate with financial institutions, advocacy groups, community organizations and other stakeholders to ensure that financial education programs are tailored to the needs of vulnerable customers and are delivered in an effective and sustainable manner. Community organizations have established relationships with vulnerable customers and can provide insight into their challenges experienced.

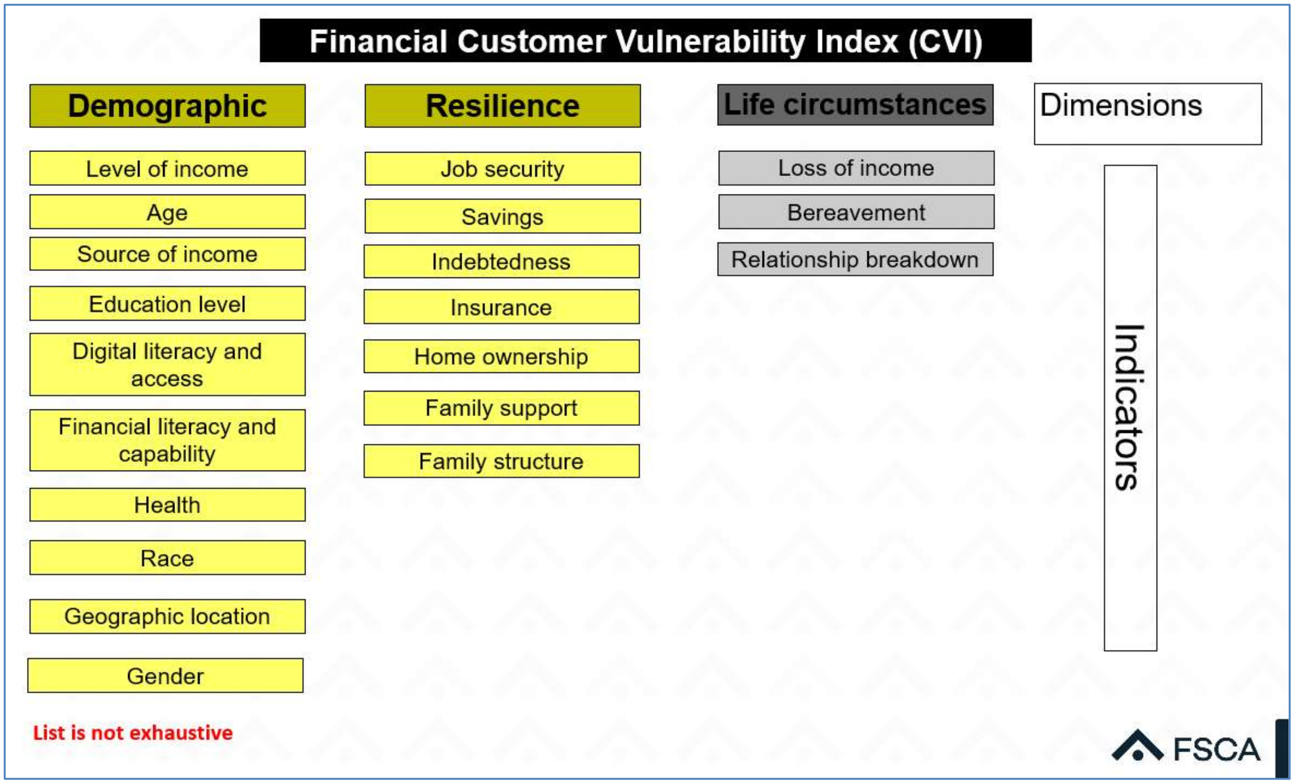
- **Monitoring and evaluation**: It is important to evaluate the effectiveness of financial education programs to ensure that they are having the desired impact on vulnerable customers. The FSCA can use data analysis, customer feedback, and stakeholder engagement to evaluate the effectiveness of financial education programs and adjust, as necessary, and share learnings with the sector.

5.4 Considering development of a Consumer Vulnerability Index (CVI)

A multi-dimensional CVI can be useful to evaluate the incidence and intensity of South African financial consumer vulnerability. This may be considered as part of the ongoing development and refinement of the FSCA's outcome indicators, being developed to measure the extent that the financial sector is delivering positive consumer outcomes and experiences, and how such may be changing over time. To be meaningful to the man-on-the-street, the measurement of these indicators may be anchored around representative personas, be they based on demographics or "state" (like being recently divorced or recently unemployed).

In Phases 1 and 2, the FSCA will explore the development of such an Index. Initial indicators that could be taken into consideration are set out below:

Figure 2: Multi-dimensional CVI



By incorporating multiple indicators, the Index demonstrates that a range of factors can impact on the vulnerability of a customer, and that vulnerability is a dynamic construct.

The Index dimensions and indicators may give financial institutions a basis from which to develop their own vulnerability assessments.[18] The FSCA welcomes engaging the sector to share respective learnings.

[18] Notably, the Index is not meant to be a tool by which financial institutions rate or rank financial customers. Rather it will be able to provide a macro view of the levels of consumer vulnerability in South Africa.