Financial Inclusion and Resilience Through Debt Relief: A Behavioural Intervention for Low-Income Canadians

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Author's Note:

I. Background Research

a. Introduction to the Problem

Canada has one of the highest poverty and household debt rates among G7 countries (Fan et al., 2022; Government of Canada, 2022). While credit enables major purchases by spreading payments over time, household debt in Canada has steadily risen since 2008, exceeding the size of the economy in 2021 (Figure 1; Iorwerth, 2023). This debt burden disproportionately affects low-income households, with the bottom quintile spending 22% of after-tax income on debt servicing, double the share of the highest quintile (Figure 2; Fan et al., 2022). Consequently, many of Canada's lowest earners face greater vulnerability to economic shocks, with roughly half at risk of extreme poverty (Figure 3; Statistics Canada et al., 2025).

Although not all low-income Canadians struggle with debt, studies such as *Save More Tomorrow* (Thaler & Benartzi, 2004) and *Borrow Less Tomorrow* (Karlan et al., 2012) highlight the potential of behavioural interventions to improve financial resilience and reduce debt. Similarly, Atkinson et al. (2013) demonstrate that self-commitment devices can encourage debt repayment among individuals seeking to improve their financial standing. With 28% of Canadians classified as low-income in 2024 (Prosper Canada, 2024) and the wealthiest 20% holding two-thirds of national net wealth (Takagi, 2024), targeted debt reduction and savings programs remain important for supporting financially vulnerable populations.

Poverty reinforces itself through exclusion from healthcare, education, and financial systems (Brookings Institute et al., 2019). During economic downturns, some individuals experience greater financial strain and may turn to payday loans due to limited access to traditional credit (Fotheringham, 2016). Access to bank loans require a credit history, which certain groups, such as immigrants, Indigenous peoples, seniors, and people with disabilities, are less likely to have. Approximately 7.2% of Canadians are considered "credit-invisible" (Statistics Canada et al., 2022; Government of Canada, 2022). Fringe lenders may exploit this gap by offering high-interest loans (Statistics Canada et al., 2022), despite the legal interest rate cap of 35% (Canada Gazette, 2024). Climate-related emergencies can further increase reliance on predatory loans (Xie et al., 2024), trapping vulnerable populations in a cycle of debt.

Existing interventions including cash grants, microloans, and tax benefits are cost-effective but fail to create long-term pathways out of poverty or debt (Sarlo, 2023; Lang, 2021). Even when available, these aids are often difficult to access due to complex administrative processes (Government of Canada, 2022). Financial literacy programs offered by non-profit organizations often target the ultra-poor, but they frequently arrive too late for low-income households facing crises (Despard et al., 2020) and their effects diminish over time without reinforcement (Fernandes et al., 2014). A critical gap remains for interventions focused on debt relief and financial resilience for low-income individuals at risk of extreme poverty *before* crises escalate.

b. Desired Behavioural Change and Impact

Disrupting poverty's self-reinforcing cycle requires addressing financial exclusion and reinforcement of healthy debt management skills. Some low-income and credit-invisible individuals may default to high-interest loans when traditional sources of credit are not available due to systemic barriers in the financial system. These barriers include, but are not limited to, strict underwriting standards (e.g., lenders requiring proof of stable employment or income which certain low-income individuals like gig workers may lack) and minimum account balance requirements of $4,000-$5,000 to waive monthly fees (ACORN, 2023). Furthermore, based on the 2020 Canadian Internet Use Survey, some low-income individuals possess limited access to digital banking and poor digital literacy, especially after the COVID-19 pandemic (Jasiack et al., 2023), which could be preventing them from accessing fair credit.

Introducing an alternative option to predatory debt in the form of loans with zero or low interest rates, contingent upon participating in financial literacy workshops focused on debt management and repayment (modeled after Australia's *No Interest Loan Scheme* or NILS), could nudge low-income borrowers toward self-commitment strategies, such as savings goals for debt repayment. These practices, in turn, foster long-term financial well-being and establish a new reference point (Kahneman & Tversky, 1979), encouraging future use of low-interest financial products. This approach is also likely to improve the social and health outcomes of low-income individuals by providing them with the means to clear their debts, build financial confidence, and actively engage in the financial system. Such empowerment helps shield them from exploitation and mitigates the risk of becoming trapped in a cycle of debt. In fact, a report published by Good Shepherd Microfinance alongside the National Australia Bank and the Australian Government Department of Social Services quantified the economic value generated by these no-interest loans: for every $1 invested in a NILS loan, $1.59 of economic and social value is created (Centre for Social Impact, 2014). The report also found that 47% of participants in the NILS program had improved their financial capabilities, such as following a budget, paying bills on time, and maintaining an emergency savings fund. Also, 42% of them reported a reduction or complete stoppage of payday loans after participating in the NILS program. To increase cost-effectiveness of this program, low-interest loans with a cap of 9% may be offered to participants, which is considerably lower than the interest on payday loans and traditional sources of credit like overdraft protection on a chequing account or a personal line of credit (Financial Consumer Agency of Canada, 2025a).

c. Context & Analysis and Journey Map

Certain events can precipitate a low-income individual to transition into acute poverty, such as job loss, unexpected expenses due to environmental factors (e.g., a malfunctioning household appliance, extreme weather increasing utility bills, a medical emergency, etc.), and rising living costs. They may also lack sufficient savings to cover their expenses—an issue faced by 61% of low-income Canadians who report either negative or zero household savings (Figure 4; Prosper Canada, 2024)—turning instead to credit and social assistance programs as a means of survival. In 2024, the lowest 20% of income earners in Canada used 105% of their income to pay for essential needs (i.e., shelter, utilities, groceries, transportation), leading them into debt to cover basic expenses (Freestone, 2024). Barriers like lack of awareness, as well as a time-consuming and complex application process prevent 13% of low-income Canadians from accessing social assistance programs (Figure 5; Prosper Canada, 2024; Government of Canada, 2022). Individuals with low incomes, who may face challenges such as limited trust in formal institutions and concerns about stigma, are often more likely to turn to alternative financial options. This tendency can be influenced by the cognitive burden associated with navigating complex social assistance programs (Bertrand et al., 2004; Bertrand et al., 2006.) Moreover, individuals experiencing a sudden financial need are often in a heightened emotional state, which can lead to more impulsive decisions driven by immediate concerns rather than long-term goals; in such cases, payday loans may appear more attractive due to their convenience and the immediate relief they provide, despite the longer-term financial risks associated with their use, including the rapid accumulation of debt (Erta et al., 2013).

There are online resources and non-profits that offer financial education workshops, poverty graduation programs, or grants. Structural barriers like increased distance to a physical branch due to closures or lack of staff training to address the specific circumstances and needs of certain groups, including low-income individuals, limits their understanding of financial products (Financial Consumer Agency of Canada, 2025; Prosper Canada, 2023; Buckland et al., 2020). These institutional factors can amplify cognitive biases like survival bias and a scarcity mindset, leading low-income individuals to prioritize immediate monetary gains over financial education, which they may not view as urgent in the face of more pressing needs since it reduces their mental bandwidth (Government of Canada, 2022; Mullainathan & Shafir, 2013). Furthermore, present bias and hyperbolic discounting—where individuals disproportionately value immediate rewards over future benefits—may contribute to their decision-making (Ainslie, 1975). An immediate loan, even with higher future interest rates, provides more immediate gratification, while the long-term benefits of acquiring financial knowledge and skills may seem abstract and difficult to quantify, particularly when future expenses remain uncertain (Enke et al., 2023). While searching for programs they may qualify for, low-income individuals may also struggle with loss aversion. Loss aversion—the tendency to feel losses more than equivalent gains—has been theoretically and empirically linked to poor financial decision-making and financial status (Benartzi & Thaler, 1995; Odean, 1998; Thaler & Benartzi, 2004; Cardenas & Carpenter, 2013). This cognitive bias may further deter low-income individuals from taking potentially beneficial financial risks, as they focus on the immediate losses (e.g., time and resources spent) rather than potential long-term gains (e.g., financial independence and debt reduction). Consequently, policies designed to encourage saving and debt management behaviors could benefit from emphasizing the potential losses associated with foregoing such practices, thus motivating individuals to take more proactive steps in managing their finances (Saltık et al., 2023).

If the individual can overcome survival bias, present bias and loss aversion and attends a financial literacy workshop or applies for a relevant benefit, they must then follow through by applying the skills and knowledge they have gained, continuously reinforcing these positive behaviours over time. A significant behavioural barrier faced by low-income individuals lies in the gap between intentions and actions and the concept of 'sludge' (Financial Consumer Agency of Canada, 2023). Despite the motivation to acquire the necessary skills and knowledge to eliminate debt, many individuals fail to translate their intentions into concrete actions or to apply what they have learned in their daily lives. This failure often stems from the competing demands on their attention and the temptations that undermine self-control; individuals tend to exhibit selective attention, creating a cognitive distance between themselves and their financial difficulties, which may hinder their efforts to address those issues (Olafsson et al., 2018; Stango & Zinman, 2014). Another relevant concept in behavioural economics is 'sludge,' as defined by Richard Thaler and Cass Sunstein in their book, *Nudge* (2009)—the environmental frictions that prevent individuals from acting on their financial knowledge. In this context, sludge manifests in the form of excessive red tape, which complicates and delays the processes through which the individual can access grants, benefits, welfare, or participate in financial education programs. Naive intenders, or individuals who intend to act but postpone doing so, are particularly susceptible to the effects of sludge. These individuals often believe they will take action later but ultimately fail to follow through, as the friction involved in completing the necessary steps becomes a barrier to their success (Soman et al., 2019).

A significant barrier faced by many low-income Canadians is limited access to traditional sources of credit. These systemic barriers could lead to defaulting to high-interest loans and trap individuals in a cycle of debt (ACORN, 2023). This friction can be mitigated by introducing an alternative source of credit that is easily accessible, coupled with educational resources and support from credit counsellors. Such an approach would empower low-income individuals to create a self-commitment device in the form of savings goals to repay their debt, enabling them to break free from debt and poverty. For a summary and journey map, please refer to Figure 6.

II. Solution

a. Proposed Solution

In Australia, the non-profit organization Good Shepherd Microfinance provides low-income individuals with access to unsecured credit through the *No Interest Loan Scheme* (NILS), offering loans between $800 and $3,000 with no interest and a 24-month repayment period. Since its launch in 1999, NILS has reached 125,000 vulnerable individuals and diverted them from predatory lenders, as well as helped individuals manage emergency expenses, build confidence and financial independence, learn budgeting and saving skills, and reduce long-term reliance on government assistance, with a repayment rate of 95% (Centre for Social Impact, 2015).

Canada and Australia are both wealthy nations with high levels of household debt, strong social protection systems, highly concentrated financial markets, a small portion of unbanked citizens, and they both welcome corporate social responsibilities with banks and non-profits to increase financial well-being and resilience of its citizens (Buckland et al., 2020). Given the similarities between Australia and Canada, the external validity of this program and its findings are strong and should be replicable in Canada.

The solution to helping low-income Canadians who would otherwise resort to high-interest loans, is offering them low-interest loans with a requirement to complete a goals-based repayment plan. This solution consists of three key components: 1) applicants are pre-screened by phone or email, where they briefly explain the loan's purpose; 2) participants set savings milestones within a two-year repayment period, aided by credit counsellors; and 3) borrowers receive reminders and a mid-term progress review with a credit counsellor to reinforce healthy debt management habits. This solution combines choice architecture, economic incentives, and persuasion, aligning with the principles of libertarian paternalism (Thaler & Sunstein, 2003), benefiting both the individual and society.

The first component draws from Netzer et. al (2019), which found that loan applications containing certain words (e.g., references to God, family, or urgent needs) were linked to higher default rates. In the context of the proposed solution, applications flagged for such indicators of default would be assessed by a credit counsellor to better understand the applicant's intentions. Additionally, a single phone number or email address for inquiries reduces bureaucratic friction, simplifying access to funds (Zon, 2016). The no-credit-check process addresses poor decision-making stemming from emotional states and loss aversion.

The second component builds on Atkinson et. al (2010), which found that individuals who set savings goals during their loan period were more successful in managing debt. Under this plan, participants will work with a credit counsellor to set realistic savings milestones throughout the 24-month repayment period. This commitment device should reduce reliance on payday loans, mitigate information overload, and counter present bias. Participants will receive reminders by phone, email, or mail a week before their savings deadlines and, if necessary, they will be prompted to schedule an appointment with a credit counsellor to troubleshoot missed goals.

The third component is informed by Milkman et. al (2011), which showed that specifying the time, date, and location of appointments increased attendance rates. Habits need to be formed to change the negative repetitive behaviour (Duckworth & Gross, 2020) which can be initiated by the individual (i.e., self-control) and achieved through if-then implementation plans that match goal-oriented responses to anticipated situational cues (Gollwitzer, 1999). Upon sign-up for this program, participants will be prompted to choose a date and time to meet with a credit counsellor, who will help the borrower figure out their goals and recommend strategies to stay on track, reducing the intention-action gap and sludge. If an appointment is missed, participants will receive a reminder in the mail or by email framed with loss aversion about the skills and knowledge they are missing out on and encouraging them to reschedule.

This three-part solution addresses key behavioural frictions that low-income individuals face when accessing credit by reframing it as a loan with no hidden fees or strings attached other than developing sustainable debt management habits—which is self-serving and ultimately benefits them. In terms of changing the choice architecture, this model presents a more attractive default option compared to payday loans. The program also emphasizes the gains of participation and the losses of non-completion, making the decision clearer for applicants. To fund the low-interest loans and credit counselling sessions, two options exist: 1) integrate the loans into existing benefits and programs that tackle debt management or 2) introduce it as a standalone initiative. For the pilot, the Social Innovation and Social Finance Fund (Government of Canada, 2024) and the RBC Foundation (RBC, n.d.) can supply funding, volunteers and credit counsellors. Ideally, this pilot would be scaled and backed by major Canadian banks and credit unions in the future, leading to greater financial inclusion for historically excluded individuals, thus equipping them with financial literacy and resilience.

b. Proposed Method to Test Solution

The pilot project will use a randomized between-participant natural field experiment with four treatment conditions to assess pre- and post-intervention effects. Inspired by the methodology employed by Ashraf et al. (2006), the experiment will also include a marketing group of individuals who enrolled in the pilot but dropped out during the two-year period, and a control group of those aware of the program who disengaged before receiving the intervention. The experiment will test the impact of low-interest loans paired with the factors of reminders and financial training sessions with a credit counsellor. Condition 1 will include both reminders and financial training (guided saving), Condition 2 will include only reminders (self-directed saving), Condition 3 will include financial training without reminders (counselling only), and Condition 4 will include neither (low-interest loan only). The experiment will be conducted in select Canadian cities with the highest poverty rates—Vancouver, Halifax, Toronto, and Winnipeg (Statistics Canada, 2024)—to minimize contamination and selection bias. To ensure internal and external validity, the experiment assumes that low-income individuals across the selected cities are comparable and subject to similar behavioural barriers. This assumption is supported by Ruggeri et al. (2023), who found no significant variation in cognitive biases within or between countries. The pilot will be advertised in those cities through community social services agencies and non-profits to recruit participants, avoiding mainstream media to reduce contamination effects (e.g., Hawthorne effect, experimenter demand, spillovers from control to treatment conditions, etc.).

Interested participants will complete a brief pre-intervention questionnaire on their level of debt, savings, and financial literacy, then be randomly assigned to one of the four conditions. After two years (once the loan is repaid), subjects in each treatment group will complete a similar follow-up questionnaire. Post-experiment, researchers will survey individuals who dropped out either at baseline (control group) or mid-intervention (marketing group) and assess their debt levels and financial resiliency as well. The hypothesis is that the combination of savings reminders, financial assistance, and low-interest loans will significantly improve savings habits and reduce debt, helping participants break the poverty cycle by overcoming default options and the intention-action gap. Success will be measured by increased loan repayment rates (>95%), reduced household debt, increased household savings, reduced poverty rates, and improved self-rated financial resilience. The four treatment conditions will test the interactions between different factors, with the main effects analyzed using ANOVA and regression techniques to calculate the average treatment effect before and after the intervention. A 95% confidence level, standard in randomized experiments, will be applied to ensure statistically significant results and reduce the magnitude of acceptable error and false positive rate.

Strong mediators for this experiment include the attractiveness of less restricted financial assistance (Bettinger et al., 2012) and the long-term benefits of achieving debt-free status (Ong et al., 2019). Moderators include participants' emotional state, purpose for the loan, income stability, and commitment to learning debt management skills. These factors will be mitigated by financial counselling and reminders to keep borrowers on track with their savings goals through positive reinforcement. Likewise, it should increase retention of healthy financial habits to reduce overall debt. If successful, the program is cost-effective, allowing the government to reallocate resources from underperforming programs, and can be scaled by partnering with local organizations and financial institutions to support financial education and assistance—thus increasing the share of low-income Canadians who are financially resilient.

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IV. Appendix

Figure 1: Household debt as a share of GDP for selected countries (2010 vs. 2011).

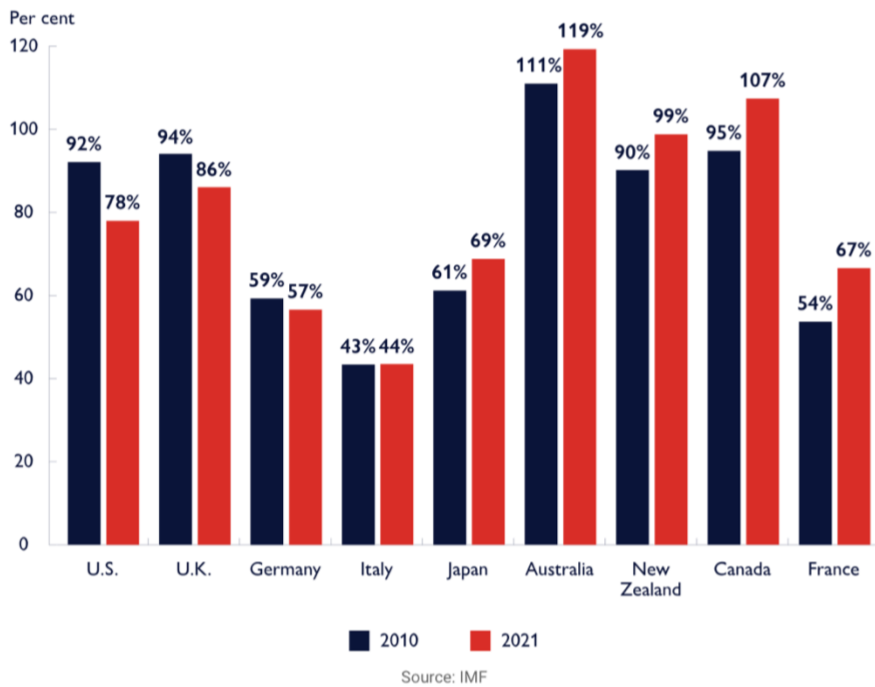


Figure 2: Levels of debt servicing per income quintile (2020 vs. 2021).

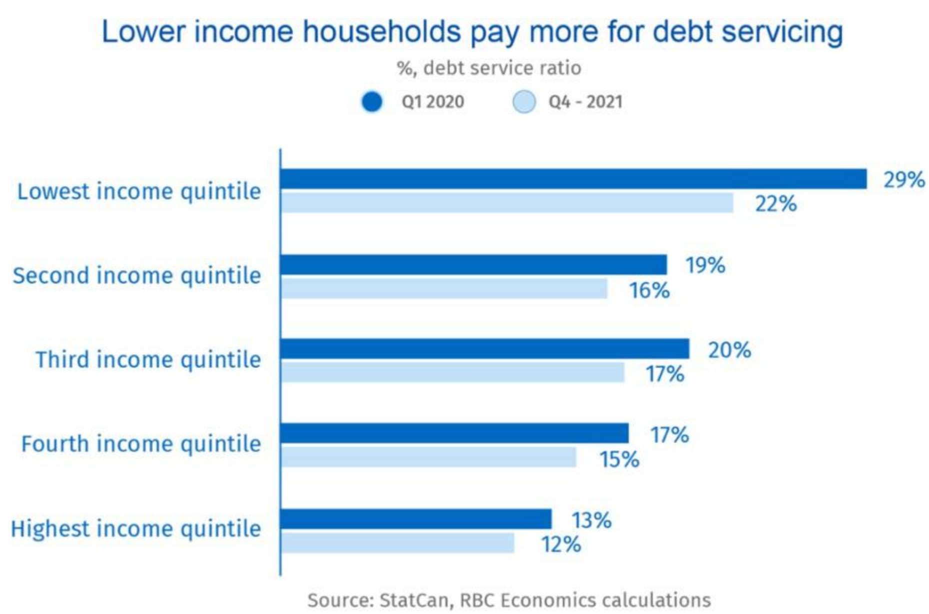
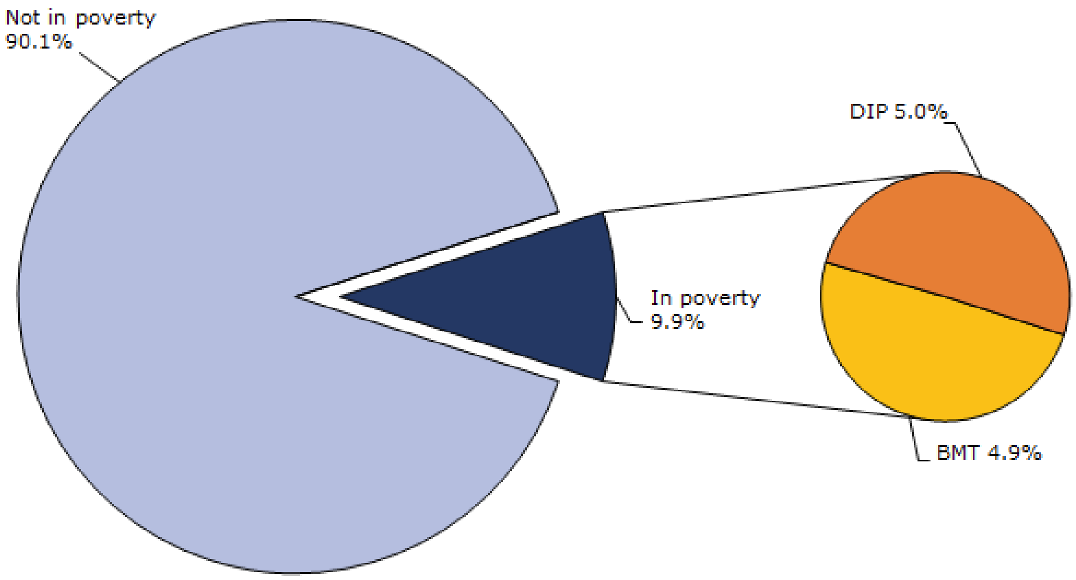


Figure 3: Poverty rates by type of poverty in Canada (2022).



Notes: DIP = deep income poverty. BMT = between the Market Basket Measure and the DIP threshold.
Source: Statistics Canada, Canadian Income Survey, 2022.

Figure 4: Lower-income households have negative or zero savings (2019 vs. 2024).

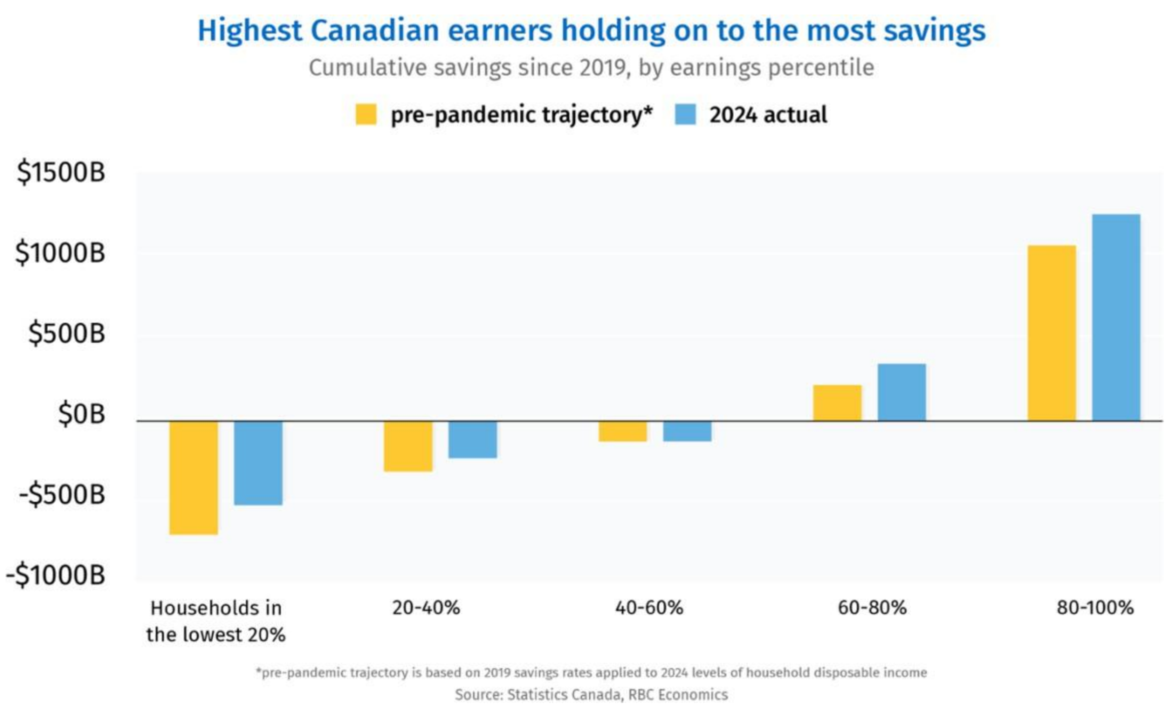


Figure 5: Low-income Canadians cite difficulties in accessing social assistance programs (2023).

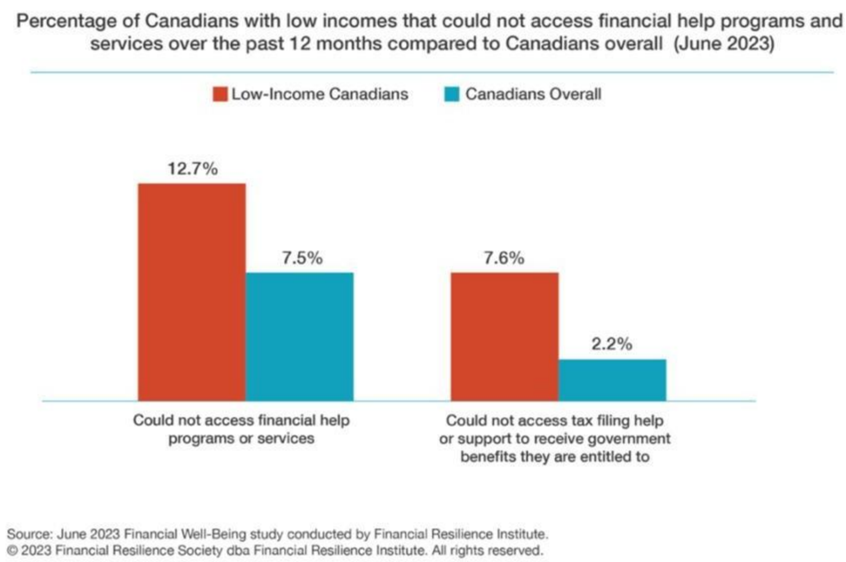


Figure 6: Journey map highlighting the steps and major bottlenecks that low-income Canadians face when accessing credit and managing debt.