

## **Feedback on Canada's Financial Consumer Protection Framework Consultation Paper**

### **Background:**

Credit Counselling Canada (CCC) is a national association of not-for profit credit counselling agencies. The association oversees member compliance with the CCC accreditation measures that assures high ethical standards and service requirements, including the requirement for credit counsellors to be professionally certified. We are governed by a volunteer board of directors that includes representatives of our member agencies and the community at large. Our 12 member agencies manage over 45 offices in all provinces from coast to coast and provide a wide range of services including:

- Non-judgmental and objective **counselling** in person, by phone and internet to over 25,000 consumers last year.
- **Money management education** through presentations and workshops to schools, community groups and in the workplace reaching another 23,000 consumers.
- **Repayment of debt options** provided to consumers who reduced their debt by over \$61M.
- **Information and referral** to another 650,000 plus Canadians searching for answers to financial questions.

It is the collective experiences of our member agencies that form the basis for our response to the consultation paper.

### **Context and Landscape:**

- Consumers are better protected since the Government of Canada has implemented a number of changes since 2006.
- Consumers are faced with making multiple decisions that impact their financial health and wellbeing on a daily basis.
- Consumers are living in a landscape that is rapidly changing and evolving – making it more difficult for consumers and legislation to keep pace.
- Consumers are living with a high level of consumerism and available credit, resulting in an increase of the number of Canadians finding themselves in financial crisis. This level of consumerism is not sustainable.

### **Our Values and Beliefs:**

- We believe that the Federal Government is dedicated to the protection of consumers, and that the current Financial Consumer Protection Framework is a positive step forward.
- We believe that all Canadians, regardless of income level, require consumer protection.
- We believe that a person's financial decisions and purchasing behaviours are complex and are based on individual beliefs, attitudes, and societal pressure. Thus, a comprehensive consumer protection framework is only one action that must be taken to protect the Canadian consumer.
- We believe some of the issues currently faced by Canadians are due to missing components of legislation/regulation; inconsistent interpretation and/or application of current legislation/regulation; and an overall lack of financial literacy among our population.

**Key Principles:**

- We support the development of a Financial Consumer Protection Framework that is based on a set of umbrella principles as a way to strengthen the current level of protection for consumers.
- The *Key Principles* proposed in the Consultation Paper must be formalized and included in the framework because the experiences of our clients and communities have shown:
  - a) Weaknesses of the current framework
  - b) Overarching importance of these proposed principles
  - c) Need to make enhancements to the existing framework.

**Our Clients and Communities:**

We have evidence which suggests the current framework requires additional levels of *financial stewardship*:

- Clients are paying high bank fees on a continual basis, with no assessment of what type of banking plan may suit their evolving banking needs.
- Clients entering our doors often have multiple lending products from the same financial institution: frequently there are two of the same product (i.e. two credit cards with similar offerings, credit limits, and annual fees from the same institution).
- Clients have credit products with added 'bells and whistles' that add costs with limited benefits.
- Clients have insurances that they are not fully aware of, and there appears little in the way of needs assessment when it comes to credit insurance, particularly credit card insurance.
  - We see people who are not aware that they signed up for insurance, people who do not realize what they are paying for, others who do not know what the insurance covers and people who may not qualify for the insurance they have (i.e. retired people who have purchased loss of income insurance).

We have evidence which suggests the current framework requires additional levels of *access to financial services*:

- Consumers in rural areas and/or consumers residing in economically depressed areas often do not have access to their funds through retail bank locations. They utilize private ATMs, other bank ATMs or payday loan/cheque cashing services. All of these come with a higher cost.
- Some areas, especially in the northern parts of Canada, do not have access to Internet service. In rural areas the access can be unstable, creating limited access.
- Consumers who live in a community with only one bank have no alternative if that relationship dissolves.
- Access to banking is virtually non-existent to people who are transient, homeless or living unstable lives. This leads to alternative lending, such as pawnshops and payday loans - cycles that consumers have a hard time breaking.

We have evidence which suggests the current framework requires additional levels of *disclosure*:

- Many consumers do not read the fine print and do not understand the long term implications of financial decisions, but are instead focused on short term purchasing objectives.
  - This leaves them susceptible to accepting longer term debt, higher interest rates, and consolidation products that are not in their best interests.
- Cross selling at banks leaves consumers confused with the end product and the fees attached for items such as loans and mortgage insurance.
- Credit card insurance terms do not sufficiently spell out exclusions when insurance will not cover a consumer's needs in the event of job loss or other serious circumstances.

- The current language used is sometimes unclear and requires the consumer to interpret or ask pointed questions to understand the bottom line – for instance, in purchasing a car, some lenders offer a low monthly payment with a ‘balloon’ left at the end of the term. The ‘balloon’ refers to the amount left owing on the principal and could be as high as 30-50% of the purchase price even after 5 years of payments.

We have evidence which suggests the current framework requires additional levels of **responsible business conduct**:

- Consumers are caught in the pattern where they approach a financial institution for one product (i.e. mortgage) and come out with two, as they ‘may’ need a line of credit in the future. This is risky for all consumers given current levels of consumerism and societal messaging to spend.
- Consumers sign up for interest free offers where the fees (i.e. deferral and/or administration) when calculated add up to a substantial interest rate. For example, a fee of \$69 for a \$299 purchase equates to a simple interest cost of 23%.
- Current marketing to consumers focuses on the ‘prize’ rather than the cost/consequences. For instance, regardless of your credit rating, many vehicle dealerships advertise that they can ‘get you into a new car’ presumably with drawn out payments and no consideration given to whether the vehicle will outlive the loan.

We have evidence which suggests the current framework requires additional levels of communication to consumers about **redress**:

- The process of addressing a concern by a consumer is intimidating and complex. The reality is that consumers do not know how to address a problem when they have an issue regarding a banking service or a problem with a payment on a loan.
  - Thousands of consumers call our agencies each year seeking advice on how they should go about addressing a complaint with their bank. For example – ‘why is the bank holding my paycheque’, ‘I’ve told the bank I’m out of work and can’t pay and they tell me my payment is still due and payable and if I don’t pay it will go into collections’ and ‘how come my interest rate on my credit card has increased now that I’m behind on payments’?
- Consumers are often given contact information to file a collection agency complaint and are told they should just pay the debt in order to move on when many can’t immediately meet these demands.
- Consumers feel they are at the end of the line when they go to a bank and they don’t receive a satisfactory answer. They don’t know where else to go to have their concern addressed.

### **Vulnerable Canadians**

We have evidence that suggests certain Canadian populations require additional considerations in order to fully protect their interests:

- Some consumer groups (such as seniors, persons who are illiterate, newcomers, persons with learning disabilities or comprehension barriers, etc.) do not fully understand the impact of entering into a loan agreement or allowing others to have access to their bank accounts.
  - Thousands of consumers have come to us as a result of guaranteeing loans on behalf of family and friends only to learn that they are fully responsible for the debt when it has gone into default.
- Newcomers to Canada are heavily solicited to obtain and use credit and in particular credit cards. We see many consumers who have come to Canada from other countries where they did not have access to credit and they seek out help as they did not understand the risks associated

with using credit. In many instances they viewed credit as money instead of debt and in a short period of time accumulated unsecured debt that was beyond their ability to repay.

- We see vulnerable Canadians who signed contracts without the knowledge or understanding of the implications.
- Seniors are vulnerable to financial abuse by family and friends as they rely on their assistance with banking, technology, etc.

#### **Next Steps:**

Credit Counselling Canada members acknowledge the fine line between the risk the banks take when lending and the need for consumer protection. CCC sits in the middle between the two groups – financial institutions and consumers. Although we don't have all the answers we do understand the problems.

Our Consumer's reality:

- Enforcement cannot rely solely on consumers to bring forth their issues with financial institutions.
- Administration must be simple rather than consisting of multiple layers of bureaucracy that are not well understood by the average person.

Recommendations:

- Consumers in underserved areas (rural, low income) should have reasonable access to their funds and be provided with basic banking services. For example ATMs should not charge fees when there are no other choices available to consumers. Fees should represent the service received.
- Financial lenders (banks, payday loans, car dealerships etc.) should be required to outline the risks as well as the benefits of the various products to address a consumer's need.
- A baseline of consumer rights and protections should be established federally with mandatory implementation through the Provincial Governments.
- Information to consumers must be clear and sufficient to allow for an informed decision.
- Timely and accurate updating of consumer records should be mandated; we recommend updating within a maximum of 30 days.
- Canada does not need a bigger bureaucracy for consumer protection; a broader mandate for the FCAC in handling the compliance of all financial lenders would be a move in the right direction.

Thank you for allowing CCC the opportunity to comment on Canada's Financial Consumer Protection Framework.