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Introduction

ACORN Canada would like to encourage the Ministry of Finance, within the Bank Act review, to take this unique opportunity in history to revisit the role banks can play in financial inclusion and financial health for all of Canada. We believe that Canada can be a global leader in financial health.

The Problem

Millions of Canadians are excluded and/or underserved by the banking sector. 3% of all Canadians – close to one million – are unbanked, meaning they have no relationship at all with a mainstream financial institution. In addition, 15% – or close to five million Canadians – are underbanked. Underbanked Canadians may have a bank account, but their engagement with the mainstream financial sector remains limited. The millions who are unbanked, or underbanked, are considered to be financially excluded from the mainstream banking sector. Financial exclusion is common due to the following issues:

- Canadians have experienced a gradual decline in their financial health over the past 35 years.

In 1982, we routinely set aside 20 percent of our yearly income in savings¹. Today, household savings are perilously low with the average household saving just 4.3% of its annual income², far below the threshold for financial stability and health. Canadian household debt is also at a historic high – with the average Canadian household now owing \$1.69 for every dollar of income³.

- Exclusion is due to, or based on:

¹ Statistics Canada, Q1 1982 Household Saving Rate for Canada.

² Statistics Canada, Economic Indicators, By Province and Territory (Monthly and Quarterly) (Canada) (Rate for Q1 2017), <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/indi02a-eng.htm>

³ Statistics Canada. Table 2 Households and Non-Profit Institutions Serving Household Sector Indicators (Rate for Q1 2017), <http://www.statcan.gc.ca/daily-quotidien/170614/t002a-eng.htm>

- Consumers being perceived as too risky to access basic credit products, such as lines of credit, overdraft protection, credit cards, no holds on cheques/accounts;
 - Conditions and rules, such as minimum balances for basic credit products like overdraft protection;
 - NSF fees of \$48 at most major banks;
 - Targeted marketing and sales that do not seek to gain business from certain subgroups, often called red-lining;
 - Geographic exclusion. Between 2001 and 2003, 700 bank branches in Canada closed. These closures were mostly concentrated in lower income neighbourhoods, while research has shown that payday lenders moved aggressively to fill the vacuum left by the banks.
- High-interest fringe financial institutions have stepped in to provide services to individuals deemed “too risky” for the financial mainstream. As a result of their exclusion from mainstream financial services, low and moderate income Canadians who are unbanked or underbanked must turn to this fringe financial sector to fulfill their banking needs, often with dire financial consequences.
 - Fringe financial products are relied upon for necessities and, often, when people are in a crisis. ACORN Canada’s recent Fair Banking survey, to 270 ACORN members across the country, revealed that 30% of respondents used fringe financial institutions, such as payday lenders, to pay for food, 17% for housing, 16% for bills, and 10% for poverty in general. The demand is inelastic, so even when people are charged 500% interest they still are willing to pay that price to deal with a crisis. This is why it is crucial for mainstream financial entities, such as banks, to supply fair financial products that meet the needs of all Canadians.

National Conversation and Consultation to Deal with the Complexity of the Problem

We need a national conversation about what Canadians need, and should expect from, their banks in the face of the financial difficulties that so many households are experiencing, and the ongoing financial exclusion of the most vulnerable Canadians.

The Federal Government is uniquely placed to convene and support these processes. Canada’s Bank Act review, and ongoing development of the Consumer Protection Framework, present ideal opportunities to undertake new research and to explore more collaborative, problem-solving approaches.

ACORN, as a membership-based organization of low and moderate income people with over 100,000 members across Canada, is uniquely placed to consult with our membership on inclusion and exclusion in the financial sector. Working with allies and our membership, we have suggestions for ways in which the Federal

Government can strengthen our current financial consumer protection regime and expand financial inclusion.

Our focus is on how the financial sector can better meet the needs, and protect the rights, of low and moderate income individuals across Canada. These reflections are drawn from ACORN Canada's 100,000 low and moderate income members who live in six provinces across the country.

How to Create a Financially-Inclusive Canada

In this review of the Bank Act, we encourage the Federal Government to:

➤ Broaden our definition of basic financial products/services

Identify, and find ways to address, key market failures with respect to safe and affordable financial products and services for people with low incomes, and other vulnerable populations. To this end, convene key financial, research, and community sector stakeholders to consider:

- Which basic, or minimum, financial services do all Canadians need to be fully financially included in today's society?
 - Who is currently not able to access which basic or minimum services and why?
 - What steps must be taken, and by whom, to close these gaps?
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- Amend Section 627.02 (a) which set out principles of the Consumer Protection Framework in Bill C-29 to read that "basic banking services (including basic bank accounts and **other financial products and services** that may be deemed essential by the Federal Government or, by mutual agreement, by banks, government and community groups) should be accessible to, and meet the needs of, low-income and vulnerable Canadians."
 - Mandate banks to incorporate accessibility for vulnerable populations (e.g. people living on low incomes, people with disabilities, newcomers, Indigenous peoples, people with mental health challenges) into their broader accessibility training for frontline personnel.
 - Expand Section 627.91(1)(a)(ii) of Bill C-29, which addresses public accountability statements of banks, to include reporting on measures taken by the bank and its prescribed affiliates, to provide products and services to people with low incomes, as well as persons facing accessibility, linguistic or literacy challenges.
 - Make the duty to act in the best interest of the customer at all times, to the best ability of the bank and its employees, a core principle of the Consumer Protection Framework in the Bank Act.

- Permanently expand the Financial Consumer Agency of Canada's mandate and provide them with the necessary resources on an ongoing basis, to investigate, monitor and report on the nature, extent and impact of high-cost, alternative financial services across Canada; conduct research on effective regulatory and consumer education responses (including those used in other jurisdictions), and to regularly convene meetings with their provincial counterparts, as well as with consumer and community stakeholders, to exchange knowledge and experiences and build consensus on solutions that can be implemented by provincial regulators and integrated into federal and community consumer education efforts.
- ACORN members have identified the following key changes to help make mainstream banking inclusive. Fair banking should include:
 - Access to low-interest credit for emergencies;
 - Low-interest overdraft protection;
 - No-holds on cheques;
 - Lower NSF fees, from \$48 to \$10.
- ACORN members would like to see an amendment of the Criminal Code to lower the maximum interest rate from 60% to 30%.
- ACORN also strongly supports other alternatives to predatory lenders like postal banking and credit union credit products geared toward low and moderate income families.
- ACORN would like to see a national anti-predatory lending strategy that seeks to harmonize federal and provincial anti-predatory lending practices and legislation looking at best practices; and dealing with inter-jurisdictional challenges and massive gaps in regulation on products like installment loans and title loans. Both the banks and the high interest fringe lending industry need to be jointly regulated to comprehensively stop predatory lending.
- As part of the Bank Act Review, consult with banks on the feasibility of adopting common consumer health metrics that all banks will measure and report on annually.
- Invest in the sustainable delivery of community financial empowerment supports needed to enable vulnerable Canadians to achieve full financial inclusion and to help advance other key federal policy objectives (e.g. building household financial stability and health, increasing uptake of RESP, increasing uptake of Canada Child Benefit, fostering successful integration of newcomers, etc.)
- Support the creation of a broad-based, well-resourced, self-sustaining, fully independent national Financial Consumer Organization (FCO) and/or Financial Consumer Protection Fund using the method created by Ralph Nader and successfully used in the U.S.

Case Study: Donna Borden - Installment Loan from City Financial

Donna Borden borrowed \$10,000 from Citi Financial in 2003. After 7 years, she had paid \$25,000 in interest and still owed \$10,000. She was misled into getting \$2600 in insurance on a \$10,000 loan. It was rolled into the loan, where she then also paid interest in the insurance. They also flipped her loan several times without telling her and charged her a number of refinancing fees.

Citi Financial was, at that time, owned by Citi Group, a US bank. According to the FCAC in a recent meeting, they are not interested in looking into these types of problems because Citi Financial was sold to Fairstone (not a bank and regulated provincially). Although note there are no provincial regulations on installment loans either! Would Citi Group, a US Bank, be regulated federally and hence fall under the FCAC and the review of banking practice problems? Given that the loan happened during their ownership we believe that they should be investigated. It is this type of inter-jurisdictional problem that we would like to the federal government take leadership on.

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