

# SUBMISSION

## FINANCIAL SECTOR REVIEW

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From ACORN Canada

To:

Financial Institutions Division

Financial Sector Policy Branch

Department of Finance Canada

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Thank you for this opportunity to participate in Canada's Financial Sector Framework Review. Below we suggest ways in which it can be strengthened to build a more financially inclusive economy that will benefit all Canadians.

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 80,000 low and moderate income members who live in six provinces across the country.

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 of Canadians who are unbanked or underbanked are considered to be financially excluded from the mainstream banking sector. Financial exclusion is common due to the following four particular areas.

Exclusion is due to or based on:

- 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 like minimum balances for basic credit products like overdraft protection. NSF fees often exceed \$40.00 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 were closed. These closures found they were mostly concentrated in lower income neighbourhoods, where further analysis showed that payday lenders had 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 used 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 people used fringe financial institutions like 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 so important for mainstream financial entities like banks to supply fair financial products that meet the needs of all of Canada.

We appreciate the strides Canada has made in providing more accessible financial services for this population and acknowledge some improvements to our consumer financial protection framework set out in the recently introduced Bill C-29.

It is not enough, however, to protect those who are already accessing mainstream financial services. We need to also ensure that *all* Canadians are able to freely access the financial products, services and advice that they need to build their financial wellbeing.

#### **1. The government convene key financial and non-profit sector stakeholders to consider:**

- **What basic financial services do all Canadians need to be fully financially included in today’s society?**
- **Who is currently not able to access which basic services and why?**
- **What steps must be taken by whom to close these gaps?**

Through this process, the government would aim to identify and find ways to address key market failures with respect to safe and affordable financial products and services for people with low incomes, including but not limited to:

- A dearth of safe and affordable small-dollar credit options;
- The absence of unbiased sources of quality financial advice tailored to the financial needs and realities of people with low incomes; and
- The absence of mainstream financial services in many rural and remote communities.

These failures expose people with low incomes to significantly higher uncertainty, risks and costs than other Canadians when it comes to accessing financial services; and act as barriers to the achievement of a more inclusive economy – a key objective of the current government.

2. **The government 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.** This was a requirement under the prior legislative framework and we believe the ongoing challenge of financial inclusion for people with low incomes requires continued accountability on this issue.
  
3. **The government amend Section 627.02(a) of Bill C-29 which sets out principles to read that “basic financial services should be accessible” (rather than basic banking services) if the term ‘banking’ can be interpreted to mean only basic deposit accounts, rather than a fuller suite of financial services – e.g. including credit.** This is intended to leave open the possibility that the government and relevant stakeholders may deem a broader suite of financial services to be basic in today’s society as per recommendation #1 above; and to encourage banks to undertake broader efforts to meet the financial needs of people with low incomes that extend beyond basic banking accounts.

ACORN Canada members strongly feel that an inclusive financial system includes the following aspects:

- access to low interest credit for emergencies;
- low interest overdraft protection for low income individuals;
- no holds on checks;
- lower NSF fee from \$45 to \$10

ACORN also strongly supports other low interest alternatives to predatory lenders like postal banking and credit union 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.

ACORN members would like to see an amendment of the Criminal Code to lower the maximum interest rate from 60% to 30%.

### **Trends**

The trend of increased fee based income for banks is a problem for low income people. Fees should not be charged on low income and moderate income individuals.

As noted above there is a growing trend of underbanked individuals who face financial exclusion.

The report notes a trend to lower interest rates, but what is missed is the growing trend of high interest fringe lenders like payday, installment, and title loans.

The report concludes that:

“Canada continues to score highly on measures of financial inclusiveness. Roughly 99 per cent of Canadians above the age of 15 have an account at a financial institution.”

This is highly misleading. There is a growth of people being denied basic financial services like credit. According to the recent FCAC report, 4% of households in Canada use payday loans and you need a bank account to get a payday loan. Your report notes there is a growth in subprime mortgages from 6–12 percent. It misses the growth in installment and title loans.

Your report says “people don’t have easy access to traditional short term loans,” - what is missing here is that as a result, they are turning to high interest lenders because they are being denied financial services from the banks.

Fintech lending should be watched and regulated on rates and fees; however, it provides an opportunity to provide lower remittance services to people living in Canada sending money out of the country.

As your consultation document describes, the financial marketplace is becoming increasingly complex and financial products, services and advice are increasingly delivered via technological channels, rather than face-to-face in traditional ‘bricks and mortar’ branch structures. In light of these trends, there is increasing risk that people with low incomes, as well as other vulnerable groups, will be further left out and left behind due to the following barriers:

- Lack of access to local mainstream financial services
- Low or no access to safe and affordable financial products, services or advice that meet their needs
- Lack of access to a secure computer
- Inadequate identification to open bank accounts
- Low English/French language, literacy, numeracy, financial literacy and/or computer skills

The growth of the high interest fringe lending marketing is a risk!

ACORN Canada