

Consultation

Canada's Financial Consumer Protection Framework

Submitted by



*Community organization and
Centre for financial education*

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Background

Entraide budgétaire Ottawa (EbO) is a budget counselling community organization that works to curb financial exploitation and indebtedness among vulnerable consumers. As such, EbO supports the federal government's efforts to develop a framework that will ensure better protection for consumers of financial products and services.

Entraide budgétaire Ottawa provides financial education and counselling services to vulnerable individuals who run into problems linked to social or financial conditions that they wish to improve. In fact, we focus on changing attitudes and behaviours in order to inspire our clients to take charge of their financial situation. Our thirty-five-year experience has shown us that sound and efficient budget planning and management increase our clients' ability to make informed decisions and to become better consumers, able to identify what is most financially beneficial to them and their families, while allowing them to improve their quality of life.

Unfortunately, we are greatly concerned by the current financial landscape as it is growing in complexity and imposing undue burdens on consumers. This is the reason for our decision to share our points of view, our experience, and our suggestions. We feel it is part of our role as a model for financial literacy intervention. In 2010, we submitted a brief to the [Task Force on Financial Literacy](#), which outlined our recommendations about the best ways to increase financial literacy levels among the Canadian population. We also seized the opportunity to share our successes in the field and suggest existing models that would be worthy of consideration with a view to develop a national strategy on financial literacy. This strategy would focus on the establishment of a national network of local and regional non-profit financial education centres that provide unbiased advice on money management.

Entraide budgétaire Ottawa strongly believes in the importance of financial education in order for people to acquire the necessary knowledge and tools that will help them make responsible financial decisions... "Because life is much more than just about money...". We hope that at the end of your consultation process, you will be able to provide Canadians with a better framework that protects consumers of financial products. In the meantime, we will be actively striving to inform consumers about their rights and about how they can defend them when needed.

The following pages outline our comments and suggestions about various aspects of your consultation.

4.1 Addressing the Needs of Seniors and Vulnerable Canadians

Firstly, Entraide budgétaire Ottawa finds it essential to define the term “vulnerable”. People of all ages, not only seniors, may face obstacles in understanding or accessing financial services. Ideally, financial education should start from an early age. Our approach is inclusive, because at Entraide budgétaire, **vulnerable individuals that can access our services are those who experience difficult socio-economic circumstances, who struggle to make ends meet, and who are at risk of going through serious financial problems.** Generally, clients who use our services do so because they lost their jobs, are going through a divorce, or because they have health problems.

Secondly, our daily work provides ample evidence of the significant impact of low financial literacy on individuals’ lives. We heard thousands of stories and no matter where these stories begin, they all seem to end where they began: money management. **In our opinion, it is crucial that we address the roots of the problem, people’s financial behaviour, by providing them with impartial counselling related to their financial planning and management.** We need to help consumers understand how to manage their money, in a language they can recognize and using themes with which they are familiar. Currently, average Canadians often consider that financial products and regulations are much too complex, which means they are in a vulnerable position. In fact, these people face numerous risks: making bad decisions, being exploited, incurring debts, and seeing their buying power decrease. Consequences may be quite devastating, both on a personal and social level.

Entraide budgétaire works locally, aiming to increase the financial literacy levels among vulnerable consumers. **We recommend that Canadians from all backgrounds and lifestyles who need support and counselling receive these services... throughout their lives.**

4.4 Innovation

While digital innovations have expanded consumers’ choices related to financial products and services, **organizations such as Entraide budgétaire are proponents of onsite individual consultations. This method is one of the most efficient mechanisms and it is accessible to all.** We must recognize that a vulnerable individual does not always have access to a computer, that he or she is not necessarily comfortable with online content, or that he or she simply does not trust technology when making banking transactions. Moreover, some people may not have the natural inclination to consult Web tools such as those provided by the Financial Consumer Agency of Canada (FCAC), for example. They would rather contact a counsellor by phone or in person.

4.5 Disclosure About Financial Products and Services

Entraide budgétaire Ottawa acknowledges the efforts made by banking institutions in disseminating information in French. However, translations are often inadequate, too formal, and not presented in plain language. **We believe that vulnerable clients must benefit from translations that help them understand the contents, rather than create even more confusion.**

Consequently, **we consider it crucial to popularize the information, to produce summaries of key elements related to financial products and services and lastly, to have the information clearly written in both of Canada's official languages.**

4.6 Access to Financial Services

We would like to share our main concerns and some of the realities facing the socio-economically challenged people with whom we work on a daily basis. We also wish to suggest some ideas and possible solutions to improve the consumer protection framework on financial products and services in Canada.

- Where do people go for a loan of less than \$5,000? When banking institutions stopped approving modest loans to consumers, they created a vacuum concerning these types of financial products. This gap was partly filled by proliferating payday lenders, who to this day, provide loans at usurious rates when fees are converted into annual simple interests. **We believe that banks should be regulated so they do provide these types of loan products (\$5,000 or less), at reasonable rates, to large parts of the Canadian population.** This would automatically make vulnerable consumers less susceptible to being exploited and abused. It would also reduce the propagation of payday lenders in our communities.
- Lower-income consumers find it increasingly difficult to access basic financial services that every Canadian should have a right to use. Our fieldwork shows that they must devote a growing part of their meagre subsistence income to this, at the expense of other budget items, such as food. We believe that consumer should have access, free of charge or for a minimal fee, to basic financial products (bank accounts, chequebooks, overdraft protection, hard copy bank statements, etc.).
- We, and the Canadian population, are witnesses to ever-diversifying and increasing bank fees. In this regard, **we believe that administrative fees resulting from uncovered cheques or insufficient funds should be much less punishing.** For example, we have seen our vulnerable clients being forced by a bank to pay a \$45 fee for a payment of less than \$100 that was not covered because of insufficient funds (sometimes for a difference of less than \$5 to \$25). **We strongly believe that such fees for insufficient funds could be determined according to the overdraft amount, or to the amount of the cheque or bill (2 to 5%), with a maximum cap of less than \$10.** It is important to

note that this \$45, coupled with fees the service provider will also charge (often \$25) may total as much as 10% of the subsistence income of a person who lives alone in poverty! In our opinion, this is intolerable in a society such as ours. These excesses must be regulated and eliminated immediately.

- Even though a person may be provided with overdraft protection, she will frequently have to pay a \$5 fee when she uses the service, even for a few days during a current month. These fees seem abusive, actually not far from extortion! For example :

A five-dollar fee for an overdraft of \$10 (50% of the overdraft) over three days amounts to an annual simple interest rate of 6,000% !!! This largely surpasses payday loans, for which fees can total the equivalent of annual interest rates fluctuating between 100 and 1,000%.

We believe that fees related to the use of overdraft protection must be eliminated and replaced by a reasonable interest rate.

- To this day, user fees for automatic teller machines (ATMs) are excessive, especially when other fees that various players can also charge are added on. Using an ATM in a corner store can cost a few dollars for a simple \$20 withdrawal. We find this disproportionate, particularly for very low-income vulnerable people. **We believe that ATM user fees should at the very least be reasonable for a low-income person using the machine from her banking institution, and that only companies who manage independent ATMs should be allowed to charge user fees.**

Conclusion

In closing, Entraide budgétaire Ottawa would like to underscore that its 35 years of experience has shown, time after time, that all the regulation in the world will not prevent a socio-economically vulnerable person from being exploited or making bad financial decisions, if his or her financial literacy level shows a lack of knowledge, information, tools and unbiased support linked to financial products and services.

This is precisely where we come into play, as an unbiased organization and unique leader in the community, where people come first. We counsel, empower, and support without judgement more and more people who live in a society that provides increasingly complex and diversified financial products and services. When needed, we also defend the interests and rights of the most vulnerable consumers, according to the codes and frameworks that are currently in force.

We thank you for your interest in our presentation. We are confident that the ongoing review process will lead to better protection for Canadian consumers of financial products and services.



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