



Consumer Interest Alliance Inc.

Assessing Access to Basic Banking Services for Very Low Income Consumers

By

Consumer Interest Alliance Inc.

For

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The Consumer Interest Alliance Inc. (CIAI) is a coalition of members deeply **concerned with consumer interest through cooperation, discussion and representation with other** players in the Canadian economy. It has been established to fill the existing gaps in active, national grassroots-based consumer representation and research based submissions.

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EXECUTIVE SUMMARY

This project appraises access to “banking” services as available to low-income consumers who receive cheques, often from government agencies and departments. More particularly, we planned to contact consumers who cannot be reached on a regular basis by telephone and / or people who change living accommodation very frequently. The survey was able to include low-income consumers in several different types of missions and shelters and included two respondents living in cardboard boxes.

In designing this project, the Consumer Interest Alliance Inc. (CIAI) was aware that there is a layer of extremely vulnerable and disadvantaged consumers who are not on the radar screen of normal survey processes but who may have ordinary consumer problems with accessing services. Many of these consumers are not only “unbanked” but are likely “unbankable” under most current systems.

Four members of CIAI were contracted to find facilities in provinces that provide services to the consumers we were trying to reach. Working through these facilities, we were able to survey a small sample of some highly vulnerable consumers in BC, Manitoba, Ontario and Nova Scotia. Our questionnaire was designed first, to assess eligibility to complete the survey and then to collect some demographic data. Eligibility to complete this survey was dependent on not being reachable by normal survey methods such as phone, e-mail or door to door canvasses. The questions on access to financial services followed and were intended to see if they were able to get the services they needed from traditional financial institutions and, if not, to identify the problems and alternatives.

This was not designed to be a statistically valid survey as resources were not available to collect data from a large enough sample of target respondents. The aim was to get some actual experience about access to financial services from those who essentially have “no fixed address”. We were able to collect information from a very small sample of 72 consumers in total, from six locations in four provinces. CIAI believes the survey results succeeded in identifying some of the practical problems encountered by “unbankable” Canadian consumers.

The personal identification required by institutions covered by federal regulations on Access to Basic Banking (since 2003) is modest. We did not find evidence that the moral suasion from these provisions had spread to institutions *not* covered by the federal rules. As direct deposit becomes the payment system of choice for many government departments, our consumers report that they face challenges trying to open and maintain an account. Despite the fact that the government has negotiated a low fee of \$4.00 per month at federally regulated institutions, low income consumers do not switch to them. The evidence from the survey is that almost 70% of respondents have chosen to use alternative financial services such as cheque cashing outlets and payday loan companies.

Cheque cashing facilities have devised a system for identifying their clients and they retain this identification in their own files, thus simplifying the system for a set of customers. However, there is a cost for this level of service and it would appear that the most vulnerable consumers - those who can least afford it - are willing to pay a very high premium for cashing a cheque. Several provinces are developing legislation to place some limits on the way in which such outlets operate.

We looked for alternative systems that might be effective for these consumers. First, this market has not been attractive to Canada's major financial institutions. Second, cheque-cashing and related firms are a private sector response to these consumers. Even though many observers feel the price is very high, it is not apparent how public policy can entice new entrants into the market to provide new arrangements that low income consumers find more attractive. We found a few examples of service that can be identified as a "best practice" model from the point of view of these low income customers. One example operating in British Columbia, Pigeon Park Financial, is located on East Hastings in Vancouver – an area of shelters, soup kitchens, pawn shops and cheap hotels. The experiment is subsidized by VanCity Credit Union which provides special services and systems designed to meet the financial needs of the homeless and other extremely vulnerable consumers. Pigeon Park has set up ways in which its clients can use financial services while closing the loopholes that might be open to abuse – at a fee of \$5.00 per month. VanCity has recognized the low literacy among some clients and shows a good understanding of plain language and readability criteria. Pigeon Park clients can use direct deposit to receive their cheques. We looked at some other examples of services aimed at our target group of consumers that were located in Toronto and Winnipeg, but did not find one that operates without a subsidy.

The conclusions that CIAI has drawn from this small survey combined with basic research on existing federal regulations regarding access to basic banking is that there is **not** a lot more that can be done through federal regulations to simplify access to federally regulated financial institutions for this group of consumers. The Volunteer Advisory Group of CIAI felt that the success of fingerprint technology used at some cheque-cashing outlets may mean the measure can be copied at other financial institutions. This raises a question about whether it may be necessary for governments to play a more active role subsidizing an expansion of this type of service to very vulnerable consumers in Canada.

The Board of CIAI, working with the Volunteer Advisory Group (VAG) has made recommendations on dealing with identification requirements and hold periods for cheques that might improve the situation for our target group of consumers. CIAI believes there is a need for further cooperation among financial institutions and the federal and provincial departments that regulate them to develop creative solutions to the banking problems of these consumers. It is important that such cooperation include experienced input from experts at provincial welfare agencies.

Given the finding that most of the respondents are making use of provincially regulated financial institutions, CIAI hopes to use this report to discuss with provincial finance

departments and social services departments, possible improvements to access of financial services for very low income consumers

SOMMAIRE

En concevant ce projet, la Consumer Interest Alliance Inc. (CIAI) était bien au fait qu'il existait une couche de consommateurs extrêmement vulnérables et défavorisés, et dont on ne tient pas compte lors du processus habituel d'enquête. Toutefois, il arrive que ces consommateurs se heurtent à des difficultés courantes en matière d'accès à des services, particulièrement ceux proposés par les principales institutions financières. Bon nombre de ces consommateurs sont non seulement sans compte bancaire mais, selon toute vraisemblance, ils n'ont pas accès non plus à des services bancaires dans le cadre de la plupart des systèmes actuels.

Notre objectif visait à évaluer l'accès aux services bancaires mis à la disposition des consommateurs qui reçoivent des chèques, souvent de la part d'organismes gouvernementaux et de l'État, mais qui ne peuvent être joints régulièrement par téléphone et qui changent très souvent de domicile. Dans cette enquête, il a été possible d'inclure des consommateurs à faible revenu dans plusieurs types de missions et de refuges et celle-ci comprenait certains répondants vivant dans des abris de fortune.

Quatre membres de la CIAI ont été engagés pour chercher des infrastructures dans les provinces qui proposaient des services aux consommateurs que nous tentions de joindre. En travaillant conjointement avec ces infrastructures, nous étions en mesure d'enquêter auprès d'un petit échantillon composé de quelques consommateurs très vulnérables en Colombie-Britannique, au Manitoba, en Ontario et en Nouvelle-Écosse. Notre questionnaire était tout d'abord conçu pour évaluer, d'après les réponses, l'admissibilité à l'enquête, puis pour rassembler quelques données démographiques. Cette admissibilité était dépendante du fait qu'il nous était impossible de joindre les intéressés par les méthodes d'enquête habituelles, notamment la sollicitation par téléphone, par courriel ou par le porte à porte. Les questions portant sur l'accès bancaire ont suivi et ont eu pour objet de brosser un tableau de la situation, à savoir si ce groupe de consommateurs était en mesure d'obtenir les services dont il avait besoin auprès des institutions financières traditionnelles et, si ce n'était pas possible, de cerner les problèmes et de proposer des solutions de rechange.

Il ne s'agissait pas d'un projet conçu pour être une enquête statistiquement valable puisque les ressources n'étaient pas disponibles pour recueillir

l'information auprès d'un échantillon suffisamment important de répondants ciblés. Le but visé était d'obtenir quelques expériences vécues sur l'accès aux services financiers pour ceux qui sont essentiellement « sans domicile fixe ». Nous avons été en mesure de recueillir des renseignements auprès d'un très petit échantillon de 72 consommateurs au total provenant de 6 emplacements dans 4 provinces. Selon la CIAI, nous croyons les résultats de l'enquête nous avons réussi à mener à bien ce projet en dégagant quelques-uns des problèmes rencontrés par des consommateurs canadiens n'ayant pas accès à des services bancaires.

Il est clair que même avec les exigences en matière d'identification relativement modestes spécifiées dans la réglementation pour les institutions qui son couvert par les reglements fédérale, l'absence d'identification constitue un problème pour les consommateurs qui changent souvent d'adresse. Comme le dépôt bancaire devient le système de paiement de choix pour bon nombre de ministères, ces consommateurs font encore face à de vrais défis en tentant d'ouvrir un compte et de le gérer. Quant aux consommateurs dans notre enquête, à peine 70 % se tournent vers d'autres services financiers de remplacement comme les points de service d'encaissement de chèque et les sociétés de prêt sur salaire afin d'avoir accès à leur argent.

Les infrastructures d'encaissement de chèque ont conçu un système visant à identifier leurs clients et ils conservent cette identification dans leurs propres dossiers, simplifiant ainsi le système pour un ensemble de consommateurs confrontés à des difficultés particulières. Cependant, des coûts sont reliés à ce service et il semblerait que les consommateurs les plus vulnérables, ceux qui peuvent se le permettre le moins, payent une prime très élevée pour un service essentiel. Plusieurs provinces disposent de lois, ou sont en train d'en élaborer, afin de mettre certaines limites au mode de fonctionnement de quelques-uns des points de service.

Nous avons recherché des systèmes de remplacement qui pourraient s'avérer être plus efficaces pour ces consommateurs. Tout d'abord, ce marché ne présentait pas beaucoup d'intérêts pour les principales institutions financières du Canada. Ensuite, les sociétés d'encaissement de chèque et autres entreprises du même type sont une réaction du secteur privé à ces consommateurs, bien que certains observateurs estiment le prix plus élevé que nécessaire. Il apparaît peu évident que la politique gouvernementale puisse attirer de nouveaux participants sur le marché pour proposer des tarifs

plus compétitifs. Nous avons trouvé plusieurs exemples de service à partir desquels la CIAI a identifié un modèle de « pratiques exemplaires » déjà en fonctionnement en Colombie-Britannique. Pigeon Park Financial est situé sur East Hastings à Vancouver – un quartier qui compte des refuges, des soupes populaires, des agences de prêts sur gages et des hôtels bon marché. L'expérience est commanditée et financée par VanCity Credit Union. Cette dernière propose des services et des systèmes spéciaux, conçus pour répondre aux besoins financiers des sans-abris et d'autres consommateurs extrêmement vulnérables. Pigeon Park a mis en place des structures grâce auxquelles ses clients peuvent utiliser les services *financiere*, fermant ainsi du même coup les niches fiscales qui pourraient ouvrir la porte aux abus. La documentation de VanCity est bien conçue et se comprend facilement. De toute évidence, les concepteurs ont réfléchi à l'éventualité de compter les personnes faiblement alphabétisées parmi leurs clients et qu'ils ont une bonne compréhension du langage clair et simple et des critères d'aptitude à la lecture. Grâce à une entente avec le ministère des Services sociaux et communautaires de la C.-B., les clients de Pigeon Park peuvent utiliser le système de dépôt direct pour recevoir leurs chèques. Nous avons recherché plusieurs autres exemples de services visant notre groupe ciblé de consommateurs qui résidaient à Toronto et à Winnipeg. Toutefois, ces services ne semblent pas être aussi bien établis ou être aussi bien « taillés sur mesure » pour répondre aux besoins particuliers.

S'appuyant sur cette petite enquête associée aux recherches de base sur les règlements fédéraux existants sur l'accès aux services bancaires de base ainsi que sur des discussions avec des représentants des consommateurs expérimentés, la CIAI en a conclu que les règlements fédéraux ne peuvent pas faire beaucoup plus pour simplifier l'accès à les institution financiere à ce groupe de consommateurs. Certaines mesures volontaires pourraient être prises par des institutions financières afin d'apporter quelques améliorations au niveau du service. Toutefois, le modèle identifié portant sur les « pratiques d'excellence » fonctionne à l'aide d'un système de coopérative de crédit, à charte provinciale, et agit conjointement avec un ministère provincial des Services sociaux et communautaires.

À partir des faits observés chez les répondants de notre enquête, il s'avère apparemment nécessaire, pour les gouvernements de jouer un rôle plus actif et offrant plus de soutien en autorisant une extension de ce type de service aux consommateurs très vulnérables dans d'autres régions canadiennes.

Le Conseil de la CIAI, conjointement au groupe consultatif du secteur bénévole, a fait des recommandations à propos des exigences en matière d'identification et des périodes de blocage de chèques; des mesures qui pourraient améliorer ainsi la situation de notre groupe de consommateurs ciblés. La CIAI pense également que le besoin d'une coopération entre des institutions financières et les ministères fédéral et provinciaux qui les réglementent se fait ressentir. Cette initiative permettrait de rechercher et d'élaborer des solutions créatives relativement aux problèmes bancaires de ces consommateurs. Cette coopération pourrait aussi impliquer des organismes provinciaux d'assistance sociale.

La CIAI souhaite utiliser ce rapport afin de discuter avec les ministères provinciaux des Finances, les ministères des Services sociaux et communautaires et les institutions financières à charte provinciale sur la possibilité d'inciter la création d'infrastructures similaires à celles de Pigeon Park Financial dans des villes regroupant des populations concentrées de consommateurs vulnérables.

INTRODUCTION

The Consumer Interest Alliance Inc. (CIAI) is a national organization made up of consumer representatives with many years of experience and dedicated to representing policy that is in the best interests of Canadian consumers. Through funding from the Office of Consumer Affairs, we were able to complete this research into access to basic banking for Canada's most vulnerable consumers – those that may be homeless, jobless and/or very transient.

Recently, the Financial Consumer Agency of Canada made laudable advances in providing *many* Canadians with information on the right to have a basic banking account. In its recent report, the FCAC provides the following details about a policy to reach two groups: “With the help of the Canada Revenue Agency, FCAC again was able to distribute its information pamphlets to large numbers of consumers. A total of 5.5 million pamphlets were included in the January 2008 mailing of GST/HST credit cheques and Canada Child Tax Benefit cheques. The pamphlets told consumers about their right to open a bank account or cash a federal government cheque of up to \$1,500 for free. As a result of the mailing, 4,065 consumers got in touch with FCAC's Consumer Contact Centre....”¹ the approach *does not include the difficult-to-reach group covered in this CIAI research* because it is made up of the homeless and persons in temporary shelters or care agencies. These people are not online and they rarely receive mail.

¹ Financial Consumer Agency of Canada; Annual Report 2007-2008, Ottawa, 2009, Available at http://www.fcac-acfc.gc.ca/AnnualReports/2007_2008/eng/3-3-eng.asp

METHOD

The work has several components – a small survey of representatives of our target group, an online scan of current practices and reports on access to basic banking and a study of alternative models financial institutions use to serve our target group. The results of these separate pieces of research were then reviewed by the Board of CIAI and a small group of volunteer members – the Volunteer Advisory Group (VAG). The VAG provided the researcher with input into the conclusions, identification of the “best practice” model and the drafting of recommendations to be approved by the CIAI Board.

Designing the Survey Process

The aim of the survey was to reach a group of people who are normally excluded from surveys due to having no permanent, long term, address and/or a phone number at which they can be reached. A recent study states “There are two common indicators of financial exclusion: *unbanked* and *underbanked*. Being unbanked simply means not having any type of mainstream bank account. Being underbanked implies that the household relies on fringe and or informal financial services for cheque-cashing, credit, savings and payment services.”² CIAI was attempting to reach consumers who are even more vulnerable – those that are essentially “unbankable” under the current system.

We were attempting to gather a small sample of data that would provide a qualitative “snapshot” that would enable us to assess the ability of the most disadvantaged and vulnerable Canadian consumers to access financial services.

Recognizing the resource limitations of the project overall, we were aware that we would not be able to collect sufficient data for a statistically valid analysis but felt that, if we found a way to survey consumers who were essentially “unbankable” and normally “unsurveyable”, we would be able to collect evidence on their experience to get qualitative data on their ability to use the level of financial services that their life-style requires. CIAI focused on designing a survey method to reach our target group of consumers that might be used in future research.

In order to gather the information required, we knew that it would be important to find a way to establish a level of trust with those we wished to survey. We believed that they would not willingly answer questions for a stranger. It was determined that the best way to reach our survey targets was through various facilities that offer services to the consumers in the group we wanted to reach.

² Buckland, J., & Fikkert, A. (2008). *Choosing financial services where the options are limited A report on a survey of financial service choice of residents in inner-city neighborhoods in Toronto, Vancouver & Winnipeg*

To this end, we approached some of our members to find those willing to identify facilities in several locations across the country that would be willing to work with us. We located appropriate volunteers in Nova Scotia, Ontario, Manitoba and British Columbia and they signed on to assist with this project (Appendix 1). These volunteers were asked to identify three facilities that provided a variety of social services in their region that would be prepared to assist us in exchange for a small donation to their programmes. These facilities were provided with a short “project profile”, (Appendix 2) to assist them in explaining our objectives to the facilities they were attempting to engage. Despite some delays due to the illness of one of our volunteers, we were able to engage the help of twelve facilities in six cities in four provinces.

The Sample

The facilities we used offered a wide variety of services to the most vulnerable of consumers. In Nova Scotia the Dartmouth Branch of the Salvation Army actually surveyed some of their clients living in boxes behind a local shopping mall. In addition we collected data from two shelters run by the St. Leonard Society in Halifax, one catering to young women and the others to a broader clientele. In Toronto, Ontario, we engaged the services of a residence for young, unwed mothers, a residence and resettlement facility for native men and a shelter that provides meals and other support services to those in need. In Winnipeg, Manitoba we were assisted by the city food bank, a shelter and a group that helps young people to find jobs and get off the welfare rolls. In Penticton the survey was administered by staff and volunteers at a 365 day a year soup kitchen. We were excited to have this input from a smaller town as this enabled us to see if there may be different problems in this location, although these would not show in the aggregated responses that we are reporting due to the need to meet the privacy assurance provided in the contract with the various facilities. In Vancouver the survey was administered at a selection of food banks serviced by the Vancouver Food Bank Society and by an agency that provides resettlement assistance, information and social advice to young people trying to get off the streets, in addition to assisting them to apply for and find jobs. The full details of all of these facilities are included in Appendix 3

The process that was used for the survey was as follows:

1. The CIAI members – “Facility Coordinators” - identified the facilities willing to administer the questionnaire for us in the various locations and a contract was signed between CIAI and the responsible facility (Appendix 4).
2. A detailed set of instructions were developed, that are attached as Appendix 5. The CIAI facility coordinator trained the workers who were assigned to administer the questionnaire at the facilities where the survey was to be taken.
3. It was critical to our methodology that only those who could not be reached through the usual survey processes answered the questionnaires but it was also important that they required the services of financial institutions. To this end, it was important that those administering the questionnaire understood the importance of the initial

questions that dealt with whether or not people could be reached by telephone and whether they ever actually required the services of a financial institution as criteria in establishing the eligibility of respondents. The training put a lot of emphasis on the need for respondents to meet those two criteria before proceeding with the balance of the questionnaire.

4. In order to encourage qualified facility clients to participate in the survey, they were offered a small gift. CIAI facility coordinators worked with the facilities to identify an appropriate gift certificate or useful item valued at approximately \$20 for each respondent to the survey. Eventually all locations determined that gift certificates were the most appropriate incentive, usually for food stores or stores that sell food in addition to other essential items.
5. Recognizing the limiting eligibility requirements we were imposing on respondents and bearing in mind our limited resource capacity for the provision of gift cards, we asked each facility to ensure that we were provided with a minimum of six completed surveys. While this is a relatively small number, it did provide us with a total sample size of 72 covering a very broad spectrum of facilities.
6. The questionnaire was developed with input from the CIAI facility coordinators. We were advised to keep the survey as short as possible. A maximum of twelve questions was suggested. We were also aware that, given our target group, we may be dealing with some literacy issues and that some respondents may be suffering from mental problems. Addressing these issues forced us to impose some limitations on ourselves in the questionnaire design and to hope that additional comments would provide a more complete picture from which to assess the access to financial services that was available to our respondents.
7. The final questionnaire (Appendix 6) has 16 questions, the initial two to assess eligibility, four to establish some demographics and the remaining ten specific to respondents' experiences with various financial service institutions.
8. In some cases the CIAI facilities coordinators were able to participate in the interview process or actually administer the questionnaire in cooperation with the facility workers. This provided added detail to the additional anecdotal information that was provided.
9. Most of the surveys were administered in October and November of 2008. Due to an unexpected and serious illness of our facilities coordinator in British Columbia, that survey was not administered until March of 2009. The lateness of this survey enabled us to add in a helpful suggestion from officials who reviewed this report on how to use questions to isolate the federally regulated institutions from other financial institutions. Unfortunately this suggestion arrived after most of the interviews had been completed and it is especially difficult (or impossible) to re-find the homeless to re-conduct surveys.

10. Respondents were provided with their gift certificate immediately upon completion of the survey. The small donation cheque was mailed to each facility when the consultant received the completed questionnaires from that facility.

The workers who administered the questionnaires in the various facilities were very diligent and provided us with clearly written verbatim reports of additional comments in addition to the actual data collected on the questionnaire. This has been very helpful in enabling us to establish a picture of the interactions that respondents have with various financial institutions.

The results of all the questionnaires have been aggregated and are reported by sex and by age group. The full detailed tabulation of all the survey results, with summaries of the verbatim comments from respondents is attached as Appendix 7.

After completing our survey, a meeting was held with the banking Ombudsman, Douglas Melville to discuss our results as we were unable to find reference in the annual report to the demographic group with which we are dealing nor was there a reference to the ID problems that were so prevalent in our outcomes. Mr. Melville confirmed that he did not hear from the sector that we had reached with our survey and that he heard little from the unbanked and the marginally banked. His complainants had bank accounts and were often seniors. Seniors did not represent a meaningful section in our demographics.

SURVEY RESULTS

Demographics

While the number of people surveyed in our sample is very small (72), it is important to note that we only sampled 1 male in the “over 65” category. About 60% of the respondents were male to 40% female. Over 70% of the total respondents were between 20 and 50 years old.

Fewer than a third of respondents were in a rented house or apartment, the others were in less permanent dwellings such as hotels, rooming or boarding houses, half-way houses, group homes or other facilities or had no fixed address. Approximately 23% of respondents professed to having no fixed address and only 23% moved less frequently than once a year

We believe these demographic results shows that we managed to collect data from our target audience and supports the value of our methodology in reaching a segment of vulnerable consumers who are generally missed with traditional survey methods. Hopefully this methodology can be used to complete other surveys for this very vulnerable group of Canadian consumers.

Access to Banking Services

There was obviously some confusion regarding whether or not respondents currently had an account with a financial institution. While 60% claimed to have an account, as the survey progressed, it became apparent that they had answered “yes” to that question if they had ever had an account rather than if they currently had one. One respondent had not actually had an account since he was 8 years old.

Although the questionnaire asked for identification of particular types of financial institutions in order to separate out responses that related to those that are federally regulated from those that fall under provincial jurisdiction, in speaking with some of the people administering the questionnaire that this was not possible. It would appear that most respondents do not draw distinctions among the various types of financial institutions – bank, credit unions, caisse populaire, etc. They just think of them as “banks”. One respondent actually referred to Money Mart as his financial institution. This is one of the survey results that speaks to the need to find a way to improve availability of financial information to this vulnerable group of consumers. While this report uses the term “banks” in some places it should be understood that this actually refers to all mainstream financial institutions – whether federally or provincially regulated.

An important point is that over 95% of respondents had attempted to use a financial institution and that over 80% of the total number of respondents (85% of those that made the attempt) were not successful in getting the service they needed.

Many respondents were attempting to use financial institutions for more than one purpose - frequently trying to both open an account and cash a cheque. 75% of total respondents had tried to cash a cheque at a financial institution and 50% had tried to open an account.

As consumer groups had been active in working with the federal finance department in putting together the list of pieces of identification that federally regulated financial institutions can request, we attempted to get an idea of the types of identification that people who moved frequently were being asked to provide and whether or not lack of identification was the reason if service was refused. Over 85% of respondents were asked for their Social Insurance card, just knowing the number was not adequate. Over 50% were asked for a driver's license which was a particular problem with younger respondents who not only had a current address problem but had often never actually had a driver's license.

Those administering the questionnaire managed to gather a long list of other pieces of identification that were being requested including Birth Certificate, Provincial Health Card/Number, General picture ID, Treaty/Status Card, BC Provincial ID, Personal Bill with current address, Passport and Credit Card.

55% of respondents said that lack of adequate ID had been cited as a reason to refuse them financial service. Lost and outdated identification was often a problem and one respondent to this question stated that he refused to carry ID because of his concerns about it being stolen. The social situation in which our respondents have to exist obviously creates some problems with having up to date identification and with maintaining it securely.

Officials who reviewed this report had requested an additional question in our survey to find out whether those that were refused a bank account at a federally regulated institution were provided with notification as expected.³ Unfortunately most of the surveys had already been administered by the time the request was made and, due to the transient nature of our respondents, there was no way to go back and re-survey with this question. However, the questionnaire was administered a lot later in British Columbia and we did add in the question requested by officials who reviewed this report on these 18 questionnaires. None of the 8 respondents in BC who were refused a bank account due to a lack of identification received a letter or other written notification. They were notified verbally at the time of refusal of a bank account that lack of identification was the cause, there was no written confirmation. Given the frequency of change of address for our sample, we are hesitant to lay blame for failure to provide written notification as there is no way to ascertain whether or not a letter was sent after the event to an address that may already have been outdated.

12% of respondents received service at a financial institution, they now had accounts and

were able to cash cheques and use other services. They did not complete the last 3 questions on the survey. In analyzing the completed questionnaires we could see that those not completing these questions were concentrated in certain facilities. Perhaps some of the success results from the focus on improved financial literacy being taught in certain of the residential facilities - or assistance with forms by people working at the agencies.

15% of respondents had received services at a mainstream financial institution but continued to use alternate facilities for financial services so continued to complete the questionnaire.

Using Alternate Financial Service Providers

From this point on, the percentages used refer to the 62 respondents who continued to answer through the remaining questions.

Having covered the questions relating to our target groups use, or attempted use, of “banks” and/or mainstream financial institutions, we went on to assess where they went for financial services when they are not able to use these financial institutions. Remarkably, 75% of the respondents who completed this part of the survey identified Money Mart or similar cheque cashing/payday loan businesses as their alternate service provider. Grocery stores, bars, hotels, friends and family provide help to those remaining unable to cash cheques. Fully 98% reported that they were able to get a cheque cashed elsewhere.

We attempted to assess the difference between ID requested by the mainstream financial institutions³ and that requested by alternate financial service providers. The general list of items requested was very similar, as was the proportion in which it was requested but the rigidity applied with regards to current address, copies versus originals, remembered numbered versus the card in hand, etc. was obviously much looser. Money Mart was the “store of choice” for 55% of our respondents but information provided on the surveys with regard to ID required to use Money Mart was inconsistent. It appears that ID is produced on site at Money Mart locations to facilitate use of their services and that it involves a photo and a thumb print. On-line research failed to produce more precise information on this ID system so we are unable to report whether or not it is consistent in all outlets. The use of fingerprint technology will be important in the immediate future because gradually decreasing costs of the technology may mean that financial institutions can use it to significantly reduce their risks from cashing provincial welfare cheques and serving the vulnerable population.

The research found that 55% of respondents said that fees at alternate facilities were higher and 16% did not know how the charges compared with other financial institutions. Only 6 respondents (10%) said that charges were not higher. Of these, 4 had received

³ Financial Consumer Agency of Canada, 2009. Overview of Obligations - Voluntary codes of conduct and public commitments monitored by FCAC; <http://www.fcacafc.gc.ca/eng/industry/Obligations/CodesCommitment/default.asp>

service at other financial institutions, one had used a friend and the other had found a cheque cashing service that does not charge to cash government cheques. Again, on line research failed to provide clear information on charges.

It was difficult to assess the actual costs of using alternate facilities. There were a lot of different numbers provided on the questionnaire and no information regarding charges is available on the web sites of these various cheque cashing businesses. Either the charges vary according to date and/or location or the information on charges is provided in such a way as to be confusing to the customer. Some reported they were charged a percentage, others a flat fee and some a combination. All numbers reported appear high – one respondent claiming to have only received \$37.50 from a \$50 cheque. Documentation provided during various provincial processes to regulate this industry was also inconsistent regarding the actual cost of using these services.

Some Meaningful Quotes From Respondents

“Institutions other than banks make it easier to obtain your business but make you pay for it with much higher rates. If you’re stuck, where else can you go?”

“You have to pay for service and nothing is free.”

“Cheque cashing services are a scam.”

“Without a bank account or an address, you are unable to cash cheques anywhere.”

ISSUES IDENTIFIED BY THE SURVEY

An attempt has been made to group the issues identified from this survey but recognize that they are often the result of the same or similar underlying problem.

The key issues we have identified as creating serious problems for our respondents are:

- Lack of documentation or ID
- Lack of ready access to financial information
- Lack of permanent address
- Location/transportation
- Closure of Existing accounts
- Holds on cheques
- Charges and Fees

Lack of Documentation or ID

Identification and documentation was a problem for many respondents to our survey and is obviously a serious issue for the section of vulnerable consumers we are addressing in this report. Frequent address changes and/or no fixed address create problems with keeping traditional forms of identification documents up to date. Sending in a change of address form for a driving license may not be much of a priority when you don't have a car, have little opportunity to drive and are worried about where you will sleep and get your next meal.

These consumers also suffer from a serious lack of security. Anecdotal reports from people working with our survey targets point out that it is sometimes hard to get people to sleep in shelters even on the coldest nights as there is nowhere to keep their "stuff" and they fear theft. Some shelters in British Columbia have actually set up "valet parking" for their clients shopping carts in order to provide them with a level of confidence that their possessions will be protected while they get a sheltered night of sleep.

One of the reasons for the success of businesses like Money Mart appears to be that they both create and store documented identification for their clients.

We found a similar process in Pigeon Park Savings, the facility that we have identified in our "best practice" section of this report and at the RBC Cash and Save where, once provided, identification is kept on record at the bank.

Lack of Access to Financial Information

A study conducted in the US by the Public Policy Institute summarizes the research results on why low income consumers are not driven to search for lower cost providers of

financial services: “Geographic isolation and a lack of alternative services, income volatility, a lack of savings, and a lack of consumer information reduce the ability of low-income consumers to be price-driven.”⁴ In a recent study on Financial Literacy, Dr. Jerry Buckland stated “What is arguably common for all people’s financial literacy is their attitude: that people, regardless of their income level, have a sense of some control over their life. That they understand that they can make decisions that can positively affect their future. A person’s future is not completely subject to external forces. One might have sufficient financial knowledge and skills but if one believes she/he is helpless then one cannot put into practice the actions to maintain or improve one’s financial well-being.”⁵

Many of our respondents have little control over their own lives. Control and helplessness as been long recognized as a key factor in determining whether one thinks any action will be meaningless or pay off. However it was obvious from the analysis of the surveys and the clustering of some responses that some facilities were working with their clients to improve their level of financial literacy. The result of these efforts was reflected in a greater ability to access and use main stream financial services demonstrated by respondents from these facilities. It is also clear from our survey that some in our sample may be challenged by language skills, mental health difficulties, etc. and financial literacy is a distant dream. More useful to this group is an informal approach to ensure that they at least have access to the financial information needed to enable them to access the financial services that they need. Financial information should be designed specifically for this group of consumers with assistance from those that understand readability and plain language issues.

One respondent actually identified the problems that such vulnerable consumers have with finding the information they need relating to financial services:

No information is provided on where financial services are available and it is necessary to try to find “information Boards” to do research.

Not only do our respondents not have ready access to web sites and other places where most consumers now do their research, but most of the information documents that are produced by financial institutions are not designed to cater to this group of possible clients.

Lack of Permanent Address

The majority of our respondents moved more frequently than once a year and this creates a problem with maintaining current identification documents. It may also make it difficult to provide the type of supporting ID that financial institutions have asked respondents to produce, such as bills and/or letters with their current address.

⁴ “The Alternative Financial Services Industry” Public Policy Institute, American Association of Retired Persons Issues Brief No. 51 (n.d. 2007?) Washington DC.; p.5. Seven US states use legislation to ensure lifeline accounts are available to low-income consumers.

⁵ *Learning to Stretch a Dollar: Evidence of Financial Literacy among Low-income Canadians* 21 July 2008 Jerry Buckland, Menno Simons College

There may be many reasons for the frequent re-location of our respondents. Those that work with this group of consumers have reported that they often move in order to be near the location of employment due to transportation problems but most of that employment is short term for one reason or another. They end up changing addresses almost every time they change jobs. Money Mart's ability to keep ID on file appears to address this problem.

Location/Transportation

Transportation is a problem for many of our respondents who have to rely on the public transport systems and may not have much budget to allocate to fares. Several respondents cited the closing of a financial institution branch in their area as a reason why they don't have an account they once had.

Branch closures of financial institutions are an issue for many groups of society and do not fall within the scope of any level of regulation but create more of a problem for those who do not have an account and therefore do not have a card that enables them to access an ATM.

Closure of Existing Account

Many of our respondents had had accounts with a bank or another mainline financial institution at one time or another but a lot reported that these accounts have now been closed. For several this occurred because fees and charges were made against their account until any remaining savings were used up. At this point the financial institution either closed the account or it went into an overdraft position and our respondents were never able or willing to deal with this in order to enable them to use the account again. Several respondents did not even know why their accounts had been closed.

Holds on Cheques

Several of our respondents expressed concern about the holds put on cheques. There is no regulation that covers *holds* on Government of Canada cheques, only the *cashing* of those cheques. In the regulation, there is also a requirement that a bank must disclose its hold-on-cheques policy to the consumer, and there is also a commitment by the Canadian Bankers Association on the length of time that hold should be across member financial institutions. Provincial cheques from social agencies and employment cheques are still being held by local financial institutions, driving vulnerable consumers to alternate financial services. Our respondents want to access their money immediately and, while we recognize the need for institutions to ensure that the cheque will be covered, it led us to question how long a hold is actually necessary in this electronic age.

Charge and Fees

For the respondents to our survey, charges and fees are not nearly the issue they are for

most consumers. They almost appear to be a reverse issue – they will pay what it takes to get their cheques cashed and/or to access their money when they need it. This has opened the door for the massive increase in cheque cashing outlets as identified in the 2007 report prepared for OCA by CAC Manitoba “Low Income Consumer Access to Cheque Cashing Services”.

However, transaction fees have often led to the closure of an account for a respondent and the ensuing need to use an alternate financial service provider, regardless of cost.

Face to face interaction with a financial service provider is often important to vulnerable consumers. Our best practice model, Pigeon Park, has the atmosphere of a drop in centre with notice boards and staff and clients who know each other. Unfortunately some financial institutions have now imposed a transaction fee for using a teller rather than an ATM. This adds to the burden for our target consumers in that it is necessary to have at least \$20 (plus any ATM charge) in your account in order to use one of these machines. If you have less than 20\$ available through the ATM, you are forced to use a teller and to pay an extra transaction fee in some financial institutions for using a teller, rather than an ATM.

The CFSC model is predicated on the belief that delivery of such financial services cannot be driven entirely by earned revenues, and that there needs to be recognition that certain important activities will have to be subsidized wholly or in part. At the same time, these services are rooted in the mainstream financial services sector, bridging the “unbanked” or “underbanked” into a relationship with a mainstream financial institution.

While the location of CFSC is not in an area where most homeless or transient consumers are located in Winnipeg, services being offered by the Assiniboine Credit Union within this facility would appear to address some of the needs of those consumers being addressed in this report.

Desjardins Solidarity-based Mutual Assistance Fund, Quebec

This service is primarily for delivering micro loans to the “underbanked” and while CIAI applauds the social responsibility being demonstrated by Desjardins with this fund, it does not appear to be addressing the ordinary everyday financial service needs of our target group of Canadian consumers.

RBC Cash and Save, Toronto

This initiative by the Royal Bank of Canada has been set up as direct competition for the pay-day loan and quick check cashing facilities identified in this report as alternate financial institutions. RBC’s Cash & Save opened its first site in Toronto’s Parkdale area in October 2002 and in 2003, opened a second test site in Toronto’s Regent Park area, in partnership with the Yonge Street Mission.

These facilities are established in areas frequented by consumers who are homeless or

transient and are designed to meet the needs of our target consumers. They have smaller premises, fair pricing, non-traditional banking hours and specialized product offerings. The focus is on the quick delivery of routine transactions, such as immediate cheque cashing, bill payments, money orders and money transfers.

Some examples of services offered by RBC Cash and Save are:

- No 5 day hold on cheques
- ID is stored at the bank and does not have to be shown each time
- No bank account required to cash cheques
- Cheque cashing fee is 1.25% of the cash value of the cheque up to \$1500 with \$4.00 min.
- No fees for Government of Canada cheques or Toronto Social Services

The impetus for this facility came from a local social agency, St. Christopher House and was made possible by the pro-bono input of a private company.

Me-Dian Credit Union, Winnipeg

Me-Dian is a closed bond credit union servicing only members of Metis and First Nations descent. It has recently closed its branch close to down-town Winnipeg and moved to the a low income area in the North End of the City. This follows the closing of most of the mainstream financial institutions that were established in areas where most homeless and transient consumers gather. Me-Dian Credit Union had hoped to find a location in the area populated by our target consumers, which would also be close to the Aboriginal Centre but was unable to find a space. They will consider installing an ATM in this area of the city.

While this financial institution does not cater specifically to the “unbankable” our survey results show that a large number of Winnipeg respondents used treaty cards as their source of ID. This would suggest that Me-Dian Credit Union would be a likely financial institution to service these consumers.

Pigeon Park Savings, Vancouver

The result of our investigation into the services this financial institution provides and the way in which it interacts with more “mainstream” outlets and the Social Services department in British Columbia, prompted us to identify it as a “Best Practice Model”

Pigeon Park Savings was begun by the Portland Hotel Society, working in cooperation with VanCity Credit Union. The Portland Hotel Society operates in several areas with the people who live in this part of Vancouver helping to provide accommodations, supervised injection sites and other services.

Pigeon Park Savings was set up taking into consideration the problems that had caused the collapse of an earlier similar business, Four Corners. Lessons learned from that experience

were built into the system at Pigeon Park to enable maximum use of regular types of financial services but closing the loopholes that might lead to abuse of the system. The equipment used by Pigeon Park is a “hand me down” from VanCity Credit Union which works with Pigeon Park and provides them with some resources, including some subsidization.

Pigeon Park Financial is situated in an old bank building on East Hastings Street in Vancouver, in an area of shelters, hostels, pawn shops and cheap hotels. The building fits with the neighborhood in that it looks a little run down. Inside there is a vast open space with a very small area taken up with a counter of tellers’ wickets. On a normal day, four staff work at the wickets but five or six staff work on busy days (Fridays and Mondays) and ten or more work on welfare cheque days when the vast, open area is packed like a club. There is a bulletin board in one corner and, despite its size, a very warm and friendly atmosphere. The clientele are obviously comfortable with the facility and the staff and the location is ideal.



Inside Pigeon Park Savings

Pigeon Park operates like a Credit Union. There is a \$5 membership fee to join and then a \$5 a month fee for services. There are no additional transaction charges. The business began operating with a subsidy from VanCity and assistance from the Portland Society but now claims to be paying for its own day to day operations with approximately 6,500 members. There are no plans for expansion at this time.

Pigeon Park is set up to service the population of the East Hastings area of Vancouver. They cater to working street youth, the homeless, those working occasionally through day labour facilities and those on various types of government programmes, precisely the target group of consumers for this report. Through a cooperative arrangement with BC Social Services, it is possible for Pigeon Park clients to receive their government cheques through direct deposit. Staff at Pigeon Park complete the forms (Appendix 8) and send their clients to Social Services with the form and a Polaroid photograph, taken at Pigeon Park when the form is completed. Social services stamp the photo and retain half of it, while returning the other half with a copy of the form to Pigeon Park. There is now adequate ID on file to enable the client to access their Social Services payment immediately it is deposited in their account.



Outside Pigeon Park Savings



Outside Pigeon Park Savings

Documentation provided by Pigeon Park is well designed. The application form (Appendix 9) is simple, clear and easily understood by clients who may have literacy problems. The information material (Appendix 10) is well designed from the perspective of readability with font size and contrast taken into consideration.



Lining up at a Soup Kitchen on East Hastings Street, Vancouver

Pigeon Park clients do not have cheque books to avoid the possibility of overdrafts and/or NSF cheques. If a cheque is needed for a payment, such as rent, it is prepared at Pigeon Park Savings – a little like a money order – and the money is immediately debited from the client account. These cheques effectively work like certified cheques in that, should the client be robbed before delivering the cheque, it becomes useless to the thief.

ATM cards are available from Pigeon Park to facilitate access to cash for their clients. While the ATM cards enable withdrawals, then cannot be used for deposits to prevent “empty envelope” abuse. With the cards, clients receive a foldable leaflet with a map (Appendix 11) that identifies the location of ATMs in the East Hastings area and provides information on the cost of using these machines. This leaflet is designed with colour coding in addition to words to enable it to be used by those with literacy problems but even the colour coding takes into consideration the possibility of colour blindness.

Holders of Pigeon Park Savings ATM cards can use these cards for no charge at Pigeon Park, all VanCity machines and at HSBC. It should be noted that there are more branches of HSBC in Vancouver than in other Canadian cities so this free service is of considerable value to these consumers. ATMs with fees are also identified on the card.

Pigeon Park also provides “micro loans” – they are limited to \$20 but serve to help clients stay away from payday loan establishments.

CONCLUSIONS AND RECOMMENDATIONS

CIAI held a meeting of the Volunteer Advisory Group (VAG) to examine the research for this project and work with the consultant to develop the conclusions and recommendations. The VAG consisted of the Board of CIAI and several of the Facility Coordinators who had set up the survey. All of these had long and extensive involvement with the consumer movement in Canada and most had extensive experience with Financial Service issues.

Regulations

The issue of existing regulations was discussed at length, to see if there were promising solutions in that policy domain. If the goal is to serve transient consumers, there are sound reasons to search for a solution that includes firms with professional inputs, especially if they have branches in many different locations.

Federal rules apply to federally regulated financial institutions, but not to Credit Unions, Caisse Populaire, etc. which may be regulated provincially. Our small sample and the research we did on alternative models indicates that putting additional regulations on financial institutions that are currently provincially regulated may not be helpful or necessary as the current regulations do not appear to be solving some of the problems of our survey target.⁶ Further research may be needed into the various models of alternate financial service provision with a view to encouraging the creation of more facilities designed to meet the needs of our survey targets, similar to those identified in this report.

It was clear from the survey and from the experience of the Volunteer Advisory Group (VAG) members that most consumers do not differentiate between “the banks” and other federally or provincially regulated financial institutions. The VAG discussed the possibility of recommending one set of federal regulations to cover the financial sector, rather than various different pieces of provincial legislation for services such as credit unions.

Three problems were identified that seem to persist despite the existing rules on access to basic banking (ABB) that apply to banks and/or other federally regulated financial institutions. There is little sign of any moral suasion or marketplace shaping effect that the existence ABB rules might reasonably be expected to have on financial services companies not specifically covered:

⁶ *Business Week*, June 1, 2009; p. 059. 8

“Increasingly, nationally chartered banks are partnering with AFS [Alternative Financial Service] businesses to benefit from the profit potential of these high-cost services”. “Public Policy Institute, the Alternative Financial Services Industry; American Association of Retired Persons Issues Brief No. 51 (n.d. 2007) Washington DC; p. 4. The partnership has been a method for avoiding state usury laws

1. Cashing a cheque – related to ID
2. Documentation required to open an account
3. Maintaining an account once it's open

Much thought and discussion was given to Pigeon Park Savings and its relationship with VanCity Credit Union which was identified as our Best Practice model. In some Provinces, Credit Unions are operated by employees and it was difficult to see how such a model might work in these locations or how it might be applied within the current financial services system. For the market segment made of homeless people – many of whom live on welfare payments – there may be no business model that is break-even or profitable for the private sector. If so, a public solution may be needed, perhaps one that takes advantage of the private sector expertise available in a charity oriented solution – such as the successful example provided by Van City and/or the RBC Cash and Save.

CIAI still believes that Pigeon Park provides the best example currently available and we will meet with Credit Union representatives and poverty advocacy groups in an effort to promote examination of the possibility for creating similar facilities in other cities. This will be part of our communications strategy following completion of this report. We recognize that the concentration of our target group is not always as clearly delineated as it is in the East Hastings area of Vancouver but believe that there are some cities, such as Winnipeg, where the Pigeon Park model would be ideal.

The VAG then proceeded through the key issues identified as a result of our small survey:

- Lack of documentation or ID
- Lack of information on financial services
- Lack of permanent address
- Location/transportation
- Closure of Existing accounts
- Holds on cheques
- Charges and Fees

Lack of Documentation or ID

The VAG discussed whether or not having a list of ID for federally regulated financial institutions to ask clients to produce was helping our survey targets with access to financial services. The results of our questionnaire have led us to identify the lack of appropriate ID as one of the problems these vulnerable consumers face in accessing financial services. But we also identify that the list is not really the problem and for this group, what sort of ID is required is not necessarily the issue. The social framework in which these people operate with frequent changes of address and lack of security for their belongings make it difficult for them to retain any valid documentation of their identity. Most respondents were given – verbally - the reason for refusal of a bank account (the ABB regulation for federally regulated financial institutions requires written notification relating to refusal to open a bank account).

The issue of whether or not financial institutions could keep some form of identification on record for clients is an issue that should be addressed by financial institutions and regulators. The way in which Money Mart uses photos and thumb prints and the cooperative arrangements that Pigeon Park has with the direct deposit system of B.C. Social Services should be studied with a view to making it easier for our target group to establish and retain an account with a financial institution in order to access their cash as and when they need it. RBC Cash and Save has also instituted a policy of keeping ID on record to assist their consumers.

RECOMMENDATION 1

CIAI recommends that regulators of financial institutions address the issue of how identification documentation might be created “on site” for very vulnerable consumers and how it might be kept on record at the financial institution, rather than being retained by the consumer.

CIAI believes that with the electronic equipment currently available, systems such as the photo and thumb print method used by Money Mart could be used quite economically by financial institution branches in areas of Canadian cities that have a very high concentration of vulnerable consumers, particularly those that are homeless or transient, in order to enable them to open - and particularly to maintain - accounts with financial institutions.

Cooperation could be sought from both federal and provincial government departments responsible for the regulation of financial institutions to promote the use of such an “in house” identification system. Federal Privacy legislation should not be used as an excuse to negate the possibility of such a system.

Agencies in our sample volunteered that their workers need to assist transients and other clients to understand arrangements. Financial institutions greatly facilitate the operation of government social agencies that issue cheques by enabling direct deposit arrangements. It is crucial that expertise from social welfare units be fully engaged in policy discussions of accounts of transients.

Lack of permanent Address

The lack of a permanent address has two major impacts on our survey sample. Firstly it makes it very difficult to *maintain* up to date identification documents and secondly it normally demonstrates the *absence of secure storage* for all personal belongs, including documentation. The root cause of the lack of permanent address is social and the larger problem cannot be solved by any recommendation in this report; yet regulation can successfully address the identification barrier to getting access to financial services.

Once the identification problem is solved, the rules that apply to cashing government cheques will facilitate access to cash for our survey population without any further effort required by

regulators or financial institutions. In addition, by making it easier for these consumers to have accounts with financial institutions, it may increase the use of direct deposit systems for all levels of government. An increase in the use of direct deposit for welfare and other government cheques may further decrease the use of cheque cashing facilities resulting in less money spent on fees and charges. Direct deposit also adds a level of personal security for street people with nowhere to keep a cheque.

Location/Transportation

There are business reasons for the opening or closure of branches of financial institutions. The impact of branch closures in low income areas is particularly important to the sub-set of society that is highly dependent on public transportation. In most Canadian cities this imposes both a financial burden through the cost of fares and a practical one in finding a substitute. Several of our respondents were refused service at different branches of financial institutions where they had accounts. Several of them went to cheque cashing facilities rather than travel to their “home” branch.

While financial institutions will often leave an ATM in a local retail outlet when they close a branch, it is little help to those who don't have an account which enables them to access the ATM and just want to cash a cheque. Cashing a cheque was the transaction most needed by our respondents.

In the current climate of economic down sizing, it is likely that the transient population will be growing and the number of branch closures of financial institutions may be increasing. The issue of transportation to a mainstream financial institution is going to become more serious.

RECOMMENDATION 2

CIAI recommends that stakeholders be encouraged to research into creative methods of providing services for areas with high populations of very vulnerable consumers, especially where there are few available financial institutions with low fees. This research should consider increased presence of best practice units, mobile facilities, or part time facilities for high volume periods when provincial welfare payments are made.

One development is noted as: “In the face of mainstream bank branch closures in low-income neighborhoods why haven't these banks or other organizations devised new means to deliver services to low-income Canadians?”

Our survey found about 70% of the very low income consumers are choosing alternative financial institutions, and for that reason CIAI and would be willing to work with other stakeholders to explore superior solutions.

Closure of existing accounts

Several of our survey respondents stated that transaction fees had wiped out their account and the financial institution had closed it. Maintenance of an account, once opened appears to be a problem. The issue of account closures was discussed with the Ombudsman who identified national security issues as the most frequent reason for account closures that had come to his attention.

CIAI believes that the problems with maintenance of an account once opened are systemic. With better access to financial information, fewer transaction fees and systems designed to address the issues of our survey target group, this problem can be addressed. Attention is urgently needed.

Holds on Cheques

It was apparent from our survey that holds on cheques are a problem for vulnerable consumers. Responses identified different lengths for hold times. Authority for holds vests with the Canadian Payments Association. Our survey was not able to identify which cheques are being held. The Canadian Bankers Association made a voluntary effort to reduce cheque hold periods but this response has mostly been to businesses⁷ not to individual consumers. The survey did not specify which institutions had long hold periods but a hold of even a day is longer than most of our survey respondents will wait.

The consumer provisions of the federal Access to Basic Banking Act state that there is no hold back of federal government cheques. If ID is inadequate, the “no hold” rule would not help. Many cheques from government social assistance agencies are provincial government cheques, and from the questionnaire, we assume that these are the ones subject to hold periods, as are employment cheques and those from other private sources.

RECOMMENDATION 3

CIAI recommends that the issue of holding periods for cheque clearance be re-examined in light of the increased speed of electronic communications and transactions. This has particular importance for provincial welfare cheques.

The VAG identified hold periods on cheques and electronic payments that impact all consumers but tend to have a greater effect on our target survey group due to their not having the financial flexibility to wait for their money. The Canadian Payments Association should re-examine these hold periods in light of the speed of current electronic communication. Also, provincial government departments or local governments that issue cheques should consider implementing “no hold/no fee” rules.

⁷ Canadian Bankers Association, 2007. See http://www.cba.ca/contents/files/misc/vol_20081023_chequeholdsupdate_en.pdf

Charges and Fees

CIAI recognizes that there is no free ride but is concerned about the impact on vulnerable consumers of the multiplicity of transaction fees applied by financial institutions. The best practices in place require a monthly fee of \$5 to join and \$4 or \$5 a month. Our initial reaction was that this was high, when compared with the cost of using an alternate financial service, yet this fee is the measuring stick that determines whether mainstream financial firms can compete with cheque-cashing firms without a subsidy from the public. Many of the respondents to our survey appeared to have a frame of reference where the money is wanted now, not later. They just want to cash a cheque. They have neither the access to transportation nor the inclination (or, perhaps the access to financial information) to engage in “shopping around”. If the financial institution won’t cash a cheque they go to an alternative financial service provider because of ease of access and the money arrives right away.

Some provincial legislation in provinces like Quebec and Manitoba has lessened the negative impact of alternate financial service providers. Several other provinces such as Ontario, B.C. and Nova Scotia are developing similar regulations for this sector. However, the consumer’s cost for services is still considerably higher than what a mainstream financial institution charges for similar services. It is chiefly an issue of convenience and location.

“If financial exclusion is seen to be detrimental to poorer groups in society, this may cause some concern in policy circles.”⁸. CIAI notes and praises the social responsibility demonstrated by:

- VanCity Credit Union in working with Pigeon Park to provide appropriate services and reasonable cost to a sensitive area of Vancouver
- RBC in establishing 2 “Cash and Save” branches in disadvantaged areas of Toronto
- Assiniboine Credit Union for opening a part-time branch in the Community Financial Services Centre in Winnipeg
- HSBC in allowing Pigeon Park customers free access to their ATMs

Part of this improved service could come through more appropriate delivery systems, such as mobile and part time facilities. Anecdotal comments from respondents suggest that staff training to improve customer relations to clients in sensitive locations would also be a positive action.

⁸ Analysis of Credit Constraint and Financial Exclusion with Canadian Micro-Data. Dr. J. Buckland and Wayne Simpson, May 2008.

RECOMMENDATION 4

CIAI recommends that financial institutions set up a system of special training for their employees working in low income and/or socially sensitive areas which includes better provision of the type of information necessary to improve the financial literacy of their clients”.

Current regulations are not well designed to highlight service provision to the vulnerable population “... regulations do not require that [institutions] must provide information about, and provision of useful services. Staff must be trained to provide these services in a helpful manner,”⁹ other institutional barriers must be faced.¹⁰ CIAI does not believe that this is an area that should require regulation federally or provincially. It is a customer service that should be part of the policy of financial institutions.

Lack of information on Financial Services

The VAG identified the lack of information on financial services as a general problem for our survey target group, a problem that was specifically identified by one respondent. Even with our small sample group it was evident that improved information on financial services was important to facilitate an increased level of access to such services. It is probable that information solutions are superior to financial literacy programs for transient people, some of whom have mental or physical health challenges. One of the facilities we surveyed identified the improvement of financial capability of its clients as an important part of the facility’s role and mission and, importantly, this facility had a high number of respondents who were no longer “unbanked”. The majority of respondents who did not need to complete the final questions on our questionnaire came from this one facility. CIAI believes this result supports our identification of appropriate ‘information’ as a critical issue for our target consumers.

The Commissioner of FCAC has identified financial literacy as an important issue for the agency to address: "In today's economy, it is more important than ever for Canadians to understand financial products and services so they can make informed decisions that affect their livelihood positively," said FCAC Commissioner Ursula Menke. "Changing demographics and new financial products mean that individuals of all ages need to be able to rely on their own knowledge and judgment to successfully manage their personal finances."¹¹ This is true and very important for most Canadians, but our interviews suggest that more can be done for the vulnerable population through the simplification of information on a few basic services than through longer term financial literacy policies.

⁹ *Banking on the margins in Canada, Buckland and Dong, 2008*

¹⁰ *Learning to Stretch a Dollar -Evidence of Financial Literacy among Low-income Canadians, July 2008, Jerry Buckland, Menno Simons College*

¹¹ *Reaching Higher: Canadian Conference on Financial Literacy Sept 2008*

The VAG also addressed the issue of the quality and accessibility of financial information in the light of the work that CIAI had previously done on readability. The documentation from our Best Practice model, Pigeon Park, met all the criteria for both plain language writing (including the use of visual strategies) to address literacy issues and design to meet readability requirements. It is important to recognize that our target group still needs paper communications. Leaflets that can be handed out by social agencies and posted on bulletin boards are much more valuable to this group than the electronic data now used by many consumers.

CIAI has identified the issue of information on financial services and the provision of information in a design and format appropriate to specific target groups as an area that requires additional research. We believe that both the research and the development of these information pieces should be done as a collaborative effort between regulators, the financial institutions, poverty advocacy groups and representatives of vulnerable consumers, with assistance from those that specialize in plain language and readability design.

It is well known that subgroups with little expertise face special challenges in making financial decisions, and there is some evidence that creative educational efforts can provide learning opportunities that improve choice-making¹². With homeless or other difficult-to-serve consumers, evidence from the study suggests that information measures are superior to policies designed to improve financial literacy. The Financial Consumer Agency of Canada uses both strategies with special success with consumers who use computers. For example, FCAC provides transparent information on the comparative costs of bank fees,¹³ and it initiates as part of its mandate to improve financial capability.¹⁴ Both measures are needed. The two policies are important because, in a recent review of research, well respected experts in consumer economics moved to the view that a more immediately effective strategy is one that emphasizes transparency by decreasing the difficulty posed by the challenge in the first place.¹⁵

Our study of twelve Canadian sites found an example of a highly successful information method. This made effective use of a handout with a neighborhood map showing outlets with zero fees, low fees and fees higher than two dollars. It is a stunning success requiring little literacy from the consumer. The individuals surveyed by CIAI were not interested in the many features of financial services: virtually every respondent was solely focused on cheque cashing.

¹² Annamaria Lusardi, 2008. "Financial Literacy: An Essential Tool for Informed Consumer Choice?" NBER Working Paper No. 14084 June, Washington

¹³ <http://www.fcac-acfc.gc.ca/eng/consumers/iTools/bankingPackage/bandstep3eng.asp?bLang=QC&ageRange=1&x=18&y=11>

¹⁴ The mandate states "Consumer education. This includes activities to help build financial knowledge and consumer awareness of their rights." <http://www.fcac-acfc.gc.ca/eng/about/role/default.asp>

¹⁵ This is a conclusion drawn by experts invited to survey recent research in the field. John Kozup and Jeanne M. Hogarth, 2008. "Financial Literacy, Public Policy, and Consumers' Self-Protection; More Questions, Fewer Answers," *Journal of Consumer Affairs*, Vol. 42 (2), 127-136.

SUMMARY OF RECOMMENDATIONS

1. CIAI recommends that regulators of financial institutions address the issue of how identification documentation might be created “on site” for very vulnerable consumers and how they might be kept on record at the financial institution, rather than being retained by the consumer.
2. CIAI recommends that all stakeholders including regulators, and financial institutions work together to encourage or initiate research into creative methods of providing services for areas with high populations of very vulnerable consumers who are negatively impacted by closures and inadequate availability of mainstream institutions. This research should consider the use of best practice models, mobile facilities or part time facilities for high volume periods, and other possible measures.
3. CIAI recommends that the issue of holding periods for cheque clearance be re-examined by regulators of financial services and that such discussions include provincial welfare expertise.
4. CIAI recommends that the financial institutions set up a system of special training for their employees working in low income and/or socially sensitive areas and develop “very plain” language explanations.

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Financial Consumer Agency of Canada Canadian Conference on Financial Literacy visit the event's website at: <http://www.fcac-acfc.gc.ca/FINLIT-COMFIN/rh-vs/index-eng.asp>

Financial Consumer Agency of Canada Why Financial Capability Matters, visit: http://www.fcac-acfc.gc.ca/eng/Publications/SurveyStudy/Misc/PDFs/SEDI-FCAC_FinCapability_e.pdf

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