

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