SUBMISSION

Finance Canada Consultation on Upholding the Integrity of Canada's Financial Sector

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Prosper Canada – Who we are

Prosper Canada is a national charity dedicated to expanding economic opportunity for Canadians living in poverty through program and policy innovation. As Canada's leading champion of financial empowerment, we work with government, business, and community partners to develop and promote financial policies, programs and resources that transform lives and foster the prosperity of all Canadians. **www.prospercanada.org**

Background

The Department of Finance is seeking views on how the federal *Bank Act*, the *Insurance Companies Act,* and the *Trust and Loan Companies Act,* and related legislation, regulations, and policies should respond to emerging financial sector trends, and whether technical changes are needed. In particular, the Department is interested in views on how emerging trends in the financial sector will impact consumers, national security, fair competition, and the safety and integrity of the financial system, and whether any changes are needed to the framework. The Department also invites any additional comments or feedback relevant to the scope of this consultation.

The following submission reflects primarily on questions 4, 6, 7, 8, 9, and 12 and also offers reflections on the broader context affecting financial wellbeing for Canadian households with low incomes.

1. Introduction

Since January 2016, Prosper Canada and its 14 non-profit *Financial Empowerment Champion* partners have helped over 1 million individuals with low and moderate incomes to improve their financial stability and health:

- Supporting 414,000+ people with online financial information, education, and planning tools
- Boosting the incomes of 340,000+ individuals by $1.2 billion through tax and benefit help
- Engaging 209,000+ individuals in financial education
- Providing 60,000+ people with financial coaching
- Training 14,000+ community financial educators and 350+ financial coaches.

Through these efforts, and related research, we have seen firsthand the growing financial vulnerability of Canadian households – a trend that has been building for some time but, exacerbated by the pandemic and ensuing inflation and interest rate increases, has culminated in the current affordability crisis.

According to the Angus Reid Institute, 1 in 3 Canadians overall and 1 in 2 Canadians with incomes under $50,000 say they're now in either "terrible" or "bad" shape financially.[1] Among those in "terrible" or "bad" shape, 94% and 80% respectively say it is difficult to feed their household.[2] More generally:

- 67% of Canadians have cut back on their discretionary spending
- 40% have had to draw down on their savings
- 35% have had to defer RRSP or TFSA contributions
- 13% are borrowing from friends and family, and
- 8% have taken out a bank loan to make ends meet.[3]

In addition, 36% of Canadians report that they are short of money at the end of the month, versus 19% in 2019.[4]

In the context of this deepening crisis, we are taking the opportunity presented by this consultation to encourage Finance Canada, and the Government of Canada more broadly, to widen its policy aperture beyond the financial sector statutes under review and to consider actions that are needed more broadly to help financially struggling households weather the current storm and, over the longer term, rebuild their financial stability, health, and resilience against future economic shocks.

We believe this broader scope is critical because failure to act now will inevitably harm millions of affected households and have important consequences for consumer confidence, the health of our economy, and the stability of our financial institutions.

The sections that follow outline our key concerns and recommendations with respect to:

- Making household financial health a central policy focus for the federal government
- Closing Canada's financial help gap for people with low incomes
- Broadening financial inclusion to better protect consumers
- Accelerating digital inclusion efforts to support financial inclusion.

Prosper Canada consents to the full public disclosure of this submission.

2. Make household financial health a central policy focus

Household financial wellbeing is the foundation on which every Canadian's future rests – their health, relationships, productivity, ability to participate in the social and economic mainstream, their hopes and plans, and their children's prospects.

When households are financially stressed, this strain manifests in every aspect of our society – lost productivity in the workplace,[5] higher rates of physical and mental illness,[6] increased risk of social-emotional issues and diminished life prospects of children,[7] more family violence and breakdown,[8,9,10,11] longer lines at food banks,[12] homeless shelters that can no longer meet demand,[13] increased crime,[14,15] withdrawal from civic life,[16] erosion of social trust and cohesion,[17] and growing polarization.[18]

In short, we all pay the price and Canada as a nation is weaker.

Canadians across the income spectrum are currently struggling with a perfect storm of financial problems that may vary household to household but extend from the lowest income families right up into upper-income households in some cases. These problems include:

- **Insufficient income:** While salaries and wages are increasing, they are not keeping pace with rising consumer expenses.[19] Low-wage jobs do not pay a living wage,[20] provincial/territorial welfare programs consign most recipients to living in deep poverty,[21] and many people with low/moderate incomes struggle to successfully navigate Canada's complex tax and benefit system and, consequently, miss out on much needed income.[22]

- **Income volatility:** 38% of working age Canadians across all income levels experience medium to high monthly income volatility associated with lower levels of financial health than Canadians generally and increased hardship that affect low-income workers more often and more severely.[23]

- **Rising expenses:** While general inflation may be slowing,[24] food,[25] shelter[26] and energy[27] inflation all remain higher than the general rate of inflation. As a result, in February 2023 84% of households reported the cost of living had outpaced any growth in their household income over the past 12 months.[28] This is on top of the unplanned income and expense shocks that all households typically experience but are increasingly challenged to manage and affect low-income households more severely than higher income households.

- **Unmanageable debt:** Canadians remain the most indebted population in the G7[29] with an average $1.81 of debt for every dollar of income.[30] Despite this, one third of Canadians have increased their borrowing to pay for essential expenses and 42% have had to draw down on savings to meet their debt obligations as of June 2023.[31] Elevated interest rates mean more and more families are struggling to keep up with their mortgage and debt payments, with insolvencies rising sharply.[32]

- **Insufficient savings:** 37% of Canadians surveyed in June 2023 had either a negative or zero household savings rate and only 50% currently maintained a liquid savings buffer of three months or more, down from 64% in 2017, with 24% having a buffer of less than three weeks compared to 18% in 2017.[33] Lack of emergency savings leaves households with nothing to fall back on when they experience income and expense shocks and increases the likelihood they will experience hardship[34] and/or take on debt they cannot afford.[35] Insufficient long-term retirement savings will have important fiscal consequences as our population continues to age and more people retire without adequate savings.

As these financial pressures are unlikely to abate any time soon, Canadian households need help to restore their financial stability, health, and resilience. To provide effective help though, we need to understand why they have become so financially vulnerable in the first place.

The current affordability crisis, precipitated by steep inflation and interest rate increases, overlies a general decades long trend of steadily rising household debt[36] and declining savings rates[37] (the exception being in the first years of the pandemic, but this was concentrated in upper income levels). The Bank of Canada has identified high household debt as a key financial vulnerability,[38] but little action has been taken to determine what is driving these trends or to reverse them.

Rising rates of financial fraud are exacerbating this situation. In 2019, 2.5 million Canadians reported being victims of fraud in the previous 12 months and 17% of Canadians aged 15+ experienced at least one fraud over the past 5 years, with vulnerable Canadians at greatest risk.[39]

The financial ecosystem in which consumers operate has changed dramatically over the past 30 years, in ways that have contributed to this growing financial vulnerability:

- **Workers are increasingly reliant on non-standard work** that reduces their access to employment insurance, retirement plans, life and health insurance, and other protective benefits that used to come with a job. Consequently, many workers no longer have a cushion against unplanned and costly life events or help to save for retirement.

- **Our 20th century income security system is misaligned with our 21st century labour market**,[40] overly complex, and rife with barriers that make it impossible for many of those who need it most to navigate it successfully[41,42] without expert assistance that is absent in many communities.

- **Financial products and services have grown more complex,[43] as has our income tax system**, but many people cannot afford professional financial help to optimize their resources and plan effectively for their financial future.

- **The high cost of post-secondary education[44] and increasing cost of buying a home[45] have caused individuals to borrow more for these important assets, but incomes have not kept pace,[46]** making it harder to pay down these debts or even to keep up with payments now that interest rates have ballooned.

It is no surprise then that the pandemic and subsequent inflation have triggered an unprecedented wave of household financial vulnerability right up the income scale in Canada.

If we want to help affected households to get through this crisis, restore their financial health and build resilience for the future, we need to take a comprehensive approach that addresses the complex mix of factors that determine financial wellbeing:

- **Increasing individual financial capability** (that must evolve as one's financial context and needs change)
- **Access to appropriate financial products and services** (that are affordable and meet all of one's needs across the life course)
- **Income** (its adequacy, sources, timing, and predictability of flows)
- **Assets** (short-term savings, retirement savings, real property, business, and financial assets)
- **Debt** (types, amounts, interest rates, and debt servicing costs relative to income)
- **Access to relevant, timely and trustworthy financial help and advice** (types of help and sources differ with income level)
- **Government tax, policy, and regulatory regimes and programs** that may affect any and all of the above.

Our federal policy responses to household financial vulnerability should reflect this complexity in terms of the questions we ask, the range of public data we collect, the analysis we undertake, and the solutions we develop.

To date, this has not been the case. Our policy responses have been largely confined to financial education, income security measures, and banking consumer protections – all of which are very important, but not sufficient to address the broader range of financial challenges households are experiencing.

The federal government currently underinvests in dedicated policy capacity, data collection, initiatives, and funding when it comes to tackling household financial health challenges, in comparison to jurisdictions like the US, UK, Australia and even New Zealand. These jurisdictions have conducted extensive research and analysis and have clear national strategies combined with resourced initiatives underway to strengthen household financial health and address mounting debt and declining savings in partnership with their community and financial sectors.

We need to follow the lead of other national governments that have invested real policy capacity, political energy, and resources to understand the complex mix of factors that have eroded household financial wellbeing in their countries and are now working collaboratively with community, research, and financial sector stakeholders to develop and implement scaled national solutions.

While the Financial Consumer Agency of Canada (FCAC) has produced an excellent strategy to build household financial well-being in Canada,[47] not enough substantive measures have been taken to advance the strategy and stem widespread and growing financial vulnerability because FCAC's core mandate is limited to financial education, financial consumer protection, and banking regulation.

Household financial health needs to be treated as a critical public policy goal in its own right – not just as one of the many determinants of our macro-economic health or financial sector stability. On this basis, it needs to shift from the policy periphery to become a core policy focus of Finance Canada, alongside Canda's macroeconomic stability and the stability of financial institutions.

Canadians need help now, and for the federal government to be working every day to build financial wellbeing, so that all Canadians – not just those in the top 30% by income – have a meaningful opportunity to build and rebuild their financial stability, health, and resilience. Our financial ecosystem is continuously and rapidly evolving and we need to constantly assess emerging opportunities and threats for households and be ready to address these in a timely and effective way, informed by evidence, sound analysis, continuous learning, and engagement with relevant community and financial sector stakeholders, and Canadians.

Recommendations

1. **Finance Canada should immediately establish a dedicated policy team focused on household financial inclusion, wellbeing, and resilience** that would work in tandem with the FCAC and other federal departments to identify ongoing and emerging threats to household financial wellbeing, as well as opportunities, and promote effective policy, regulatory, tax and program responses.

2. **Finance Canada should work with Statistics Canada and the FCAC to collect more comprehensive, disaggregated, national data** on the financial inclusion, wellbeing, and

resilience of households, and conduct research on related disparities, their impacts on affected groups, and potential solutions.

3. Close Canada's financial help gap for people with low incomes

Research[48] and proven demand for well-designed financial help services show that people with low incomes are motivated to improve their financial capability, planning, and management. More than one million low- and moderate-income people have accessed tailored financial information tools and financial education and help services offered by Prosper Canada and 14 community-based partner organizations over the period 2016-2022,[49] underscoring the high demand in this population for relevant, accessible, and trustworthy financial information, education, and help.

Canada has its own proven service model for delivering free financial help tailored to the needs of underserved Canadians, thanks to large-scale Government of Canada and Government of Ontario funded pilot programs. From 2016 to date, the 14 non-profit Financial Empowerment Champion organizations noted above, selected through competitive public processes, have been delivering a suite of free financial help services to people in their communities, as well as piloting innovative approaches to serve surrounding rural, remote, and Indigenous communities. Their services currently include tax filing assistance, help to navigate and access income benefits, and financial coaching to solve urgent problems and build action plans to achieve financial goals.

Independent evaluations of Ontario community financial help pilots[50,51] show these services address a critical unmet need and are effective at boosting incomes, reducing financial stress, and helping clients to achieve target financial outcomes. Moreover, 96% of surveyed respondents would recommend these services to others.[52]

Tailored financial help services for lower income Canadians are still not broadly available across Canada though or sustainably funded. The services described above are all pilot funded or, where pilot funding has ended, provisionally funded at a reduced level from a patchwork of sources. Employment and Social Development Canada did issue a welcomed one-time funding call for community financial empowerment services through its Social Development and Partnerships Program.[53] However, this failed to flow resources to most leading non-profit providers with the greatest expertise, reach and experience providing one-on-one financial help aligned with the eight core financial help services outlined below. Further, this funding call is unlikely to be repeated.

Consequently, significant financial help needs in Canada's low-income population continue to go unmet.[54] A June 2022 survey of Canadians by the Financial Resilience Institute[55] found that:

- **12.5% (almost 800,000) of lower-income households[1] experienced difficulties in accessing financial help programs or services**, compared to 7% of households overall.

- **A further 9% of households with lower incomes could not access help to file taxes and obtain benefits** they were eligible for, while 9% could not access help in managing their debt.

- **For households that did receive financial help, there was a significant positive impact on their household financial resilience.** For example, the mean financial resilience score of low-income households that gained access to financial help programs or services in June 2022 was 39.06, compared to a score of 24.12 for those who could not access this help.

A combination of circumstances has also dramatically reduced the availability of free non-profit credit counselling across Canada, typically the only safe and affordable debt help available to people with low incomes. While 49% of people with low incomes carried no consumer debt at all in 2020, those with debt were paying 31% of their income on average to service their debts[56] – well above the 15% ceiling considered healthy for any household. In 2019, Google banned ads for predatory consumer debt services and opted not to exempt non-profit credit counselling, rendering them invisible to Canadians seeking debt help. CRA's more recent decision to declare free credit counselling a non-charitable activity has also forced many non-profit organizations to drop this service to protect their charitable status. As a result, Credit Counselling Canada's non-profit membership has shrunk from 17 to just 5 credit counselling agencies offering free credit counselling to people with low incomes in Canada, ceding the field to predatory debt help services.

Prosper Canada has identified eight financial help services as the most critical to building the financial health of people with low incomes, building on research evidence and the expertise of frontline service delivery partners.[57] These services are:

- Comprehensive assessments of a person's financial situation, needs and goals
- Help to tax file and access income benefits
- Help to solve urgent financial problems
- Help to understand, navigate, select and/or access appropriate financial products
- Help to develop and adhere to a budget or spending plan
- Help to manage debt
- Help to set and pursue saving goals
- Help to build a comprehensive financial plan.

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[1] Defined as all households with incomes under $25,000 and multi-person households with incomes less than $50,000.

With expert input from financial help providers from all sectors, Prosper Canada then assessed:

- the extent to which these services are currently available in the market
- how accessible, affordable, appropriate and trustworthy these services are for people with low incomes
- where there are particular financial help gaps for this population.

Our resulting report[58] concluded that there is a large structural market gap in affordable and trustworthy financial help services for those that need them most for the following reasons:

- People with low incomes have distinct circumstances and challenges that impact their ability to access and afford financial help services.
- They are less likely to trust financial professionals, and people who are both low-income and Indigenous or racialized do not always feel respected by them.
- Mainstream financial information, guidance and advice is often not appropriate for them because it fails to consider their distinct circumstances. Nonetheless, most commercial financial help providers do not tailor their services for people with low incomes. Consequently, there are few appropriate financial help services for this population.
- Financial institutions do offer free basic financial help services, but more comprehensive financial help services typically needed by people with low incomes are not accessible and/or affordable to them.
- Most financial institutions and professionals also lack the understanding, tools, and training to provide relevant and appropriate financial help services to people with low incomes.
- There is no strong commercial business case for seeking and serving clients with low incomes due to limited profit generation opportunities.
- Select community financial empowerment organizations offer free, appropriate, and comprehensive financial help services but do not have the resources or reach to meet the needs of all Canadians with low incomes who need help.

Without access to trustworthy and affordable financial help, financial vulnerability will only continue to deepen and grow more pervasive for people with low/moderate incomes as growing reliance on foodbanks, rising eviction rates and steep increases in insolvencies show.

Canada is not alone in these challenges, but other countries have tackled them with more aggressive strategies and investments. National governments in the UK, Australia, and New Zealand have all invested heavily in community-based financial help services aimed at enabling people to successfully navigate their tax and benefit programs, tackle debt, and better manage their money. While their service models and funding mechanisms vary, they all offer free and trustworthy financial help to financially struggling individuals when they need it.

These governments have used a mix of public and private funding (e.g., levying financial institutions) to pay for government and community delivered services, recognizing that each sector has a role to play in filling the current financial help gap. To illustrate the scope of these investments, New Zealand and the UK have invested CDN$2.68 and CDN$4.40 respectively on an annual basis to provide citizens with financial information, skills, and expert help to navigate government tax and benefit programs, tackle debt, save, plan for retirement, and improve their financial wellbeing.[59]

Canada needs to pursue a similar path and a comparable level of investment if we are to successfully combat unmanageable debt, low savings, and barriers to accessing government benefits. It is urgent that the federal government take action, as other countries have done, to close financial help gaps for struggling households.

Recommendations

3. **The Government of Canada should provide the Financial Consumer Agency of Canada (FCAC) with an expanded mandate, granting authority, and resources to strategically invest in advancing the priorities of the National Financial Literacy Strategy** to prevent further financial vulnerability and to help households to stabilize and begin to rebuild their financial health and resilience.

4. **The Government of Canada should be investing a minimum of $3.00 per capita in additional resources to close financial help gap in Canada and build household financial wellbeing**. These resources should flow through the Financial Consumer Agency of Canada to invest in meeting the objectives of the national financial literacy strategy, and leverage FCAC's relevant research and policy expertise and its extensive and robust relationships with relevant community, research and business stakeholders who will be necessary partners in delivering programs and services.

5. **Proposed new investments to build household financial wellbeing should include sustained multi-year funding for regional tax filing, benefit assistance and financial coaching services across Canada** for people with low/moderate incomes to eliminate the current financial help gap for this population help households to stabilize financially and build and implement plans to restore their financial health and resilience.

4. Broaden financial inclusion to better protect consumers

Canada's improved financial consumer protection framework is helping to ensure that the banking products and services that low-income and other vulnerable individuals' access are appropriate to their needs, and to foster related transparency and accountability.

However, we know that critical gaps remain and there is uneven access to mainstream financial services.

***All* Canadians must be able to freely access the financial products, services, and advice that they need to build their financial wellbeing.** According to the World Bank, financial inclusion is when "individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way."[60] Financial inclusion is a key factor in reducing poverty and a G20 priority,[61] with the ability to make digital transactions increasingly seen as a basic prerequisite for financial inclusion.

Financial inclusion is fundamentally a consumer protection issue because Canadians who are not financially included are more financially at risk than other Canadians due to:

- reliance on high-cost, high-risk, fringe financial services (e.g., cheque cashers, payday, and instalment loans)
- increased likelihood of experiencing financial fraud, abuse, and predation
- diminished access to economic opportunities.

While Canada exceeds most other nations in the percentage of its population who are banked, those who are not banked are most likely individuals with low incomes and some sub-populations are at much higher risk than other Canadians of being unbanked. For example, the unbanked rate for Indigenous Peoples in Canada is estimated to be from 4.2 per cent[62] to as high as 15 per cent.[63]

If we also include the underbanked, the picture gets somewhat starker – approximately 13 per cent of Canadians overall either have no bank accounts or zero-balance accounts, and a majority of these tend to be the urban poor.[64] Even those who are fully banked, however, may still find it difficult to access or benefit from mainstream consumer information and protection resources if they have language and literacy challenges or lack trust in their financial institution. Further, the increased complexity of the financial ecosystem and availability of financial products, can be challenging to navigate even for savvy consumers.

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

Current financial inclusion challenges include:

- **The unbanked:** While 98% of Canadian adults are banked,[65] the proportion of low-income and vulnerable Canadians who have a bank account and a debit card is much lower.[66] 87% of Canadian adults also have a credit card, but the 13% who do not may face limited options to make online purchases[67] or access common services that require a credit card (e.g., hotel accommodation, commercial parking lots).

- **The underbanked:** Members of vulnerable groups are also more likely to be underbanked, meaning they have a bank account, but still face barriers to using it. People who are underbanked are more likely to rely on fringe financial services, such as payday lenders and cheque cashers.[68] These services charge significantly higher interest rates and fees to clients who are typically lower income and/or financially vulnerable, further disadvantaging them. Reasons people are underbanked include cost and quality of banking services, limited financial literacy, and lack of trust in financial institutions.[69] These issues are especially common in vulnerable communities and for persons with disabilities who may also encounter accessibility barriers before or when signing up for financial services.[70] Poor experiences (particularly among Indigenous and other racialized groups)[71] and fear of being garnished for outstanding debts[72] can also be contributing factors.

- **Declining local access to banking services:** The number of bank branches per 100,000 population in Canada has been dropping steadily from 24.6 per 100,000 adults in 2006 to fewer than 20 per 100,000 in 2019.[73] Bank and credit union branches and services are also not evenly distributed across regions. For example, while 97% of urban Canadians have access to an automated banking machine (ABM) in their community, this number drops to 92% for rural Canadians.[74] Bank and credit union branches are generally common in urban and well-populated areas, but have vacated low-income neighbourhoods in some Canadian cities, creating “banking deserts” with fringe financial services filling the gap.[75] In First Nation communities, the median travel distance from band offices to the closest branch of a financial institution is about 25 kilometres, and the median distance to the closest cash source is 3.7 kilometres.[76] Cash sources are not always ABMs, but can include retailers like gas stations and grocery stores, that may charge fees or introduce other frictions to accessing cash. A related study of 49 First Nation reserves located over 100 kilometres from an ABM or financial institution branch show that these areas have much poorer access to cash sources and in-person financial services, as well as limited access to digital payments and electronic banking.[77] These same communities are ranked among the lowest in Canada when it comes to community well-being.[78]

- **Regressive and unpredictable banking fees:** Financial consumers with low incomes in Canada typically pay more in banking fees than higher income consumers, due to regressive fee structures. For example, higher-income consumers who can maintain minimum account balances may be exempted from monthly bank account fees, while consumers with lower balances must pay the full amount. Consumers with the resources to maintain high credit scores also have access to credit at much lower interest rates than people with low incomes who are more likely to have lower credit scores. Lower-cost bank accounts that people with low incomes can afford also come with far fewer free transactions and, consequently, account holders are more likely to trigger costly fees by exceeding transaction limits. For example, many people with low incomes living in urban neighbourhoods with no mainstream bank or credit union branch or ATM are forced to rely on out-of-network ATMS for cash, triggering additional fees. For low-income households on tight budgets, penalty and transaction fees can be difficult to predict and manage and quickly push them into the red and trigger even more expensive NSF charges when they try to put through rent and bill payments. Lack of adequate options to avoid these fees and difficulty managing them cause some people with low incomes to stop using their bank accounts.

- **Sale of junk loan insurance to unsuspecting consumers:** Many banks aggressively market loan insurance to borrowers when they take out a loan. In theory, this protects them from having to pay back the loan in the event of unemployment or other income interruptions. In reality, this product is often promoted aggressively to people whose incomes do not primarily come from employment – e.g., people on social assistance or pensions – who are not at risk of employment loss so derive no benefit from the product. When other purchasers who are employed do lose their jobs or suffer an income interruption, they typically find that for one reason or another (buried in the contract small print) they are not actually eligible for protection and still have to repay their loan.

- **Lack of business incentives to serve lower income clients:** While financial inclusion might seem like an obvious aim of the financial system, the imperative to maximize profits among private sector financial institutions does not motivate them to offer services tailored to the unique financial needs and circumstances of lower-income consumers, leaving these individuals largely underserved.[79, 80]

- **Systemic racism and discrimination:** Research in low-income neighbourhoods in Manitoba indicates many vulnerable consumers, especially those who are Indigenous, prefer fringe financial services to mainstream banking services because of past experiences of discrimination. The reasons for this may be structural, in that some particular forms of identification from Indigenous communities are not often accepted by financial institutions, or they may be related to feelings of mistreatment and alienation.[81] Statistics Canada 2019 survey data show that, of the 46% of Black respondents who indicated they experienced discrimination, 51% said they experienced it in a store, bank or restaurant. [82] The same is true for 42% of the 36% of First Nation, Métis and Inuit respondents who experienced discrimination. While these data combine experiences across these three types of businesses, media reports periodically document continuing examples of discrimination in financial institutions.[83]

- **Lack of comprehensive, disaggregated data on who is financially excluded:** The Government of Canada has invested heavily in recent years in the collection of more comprehensive and disaggregated data to provide a clearer view of the disparities in Canadian society. This has included more data on financial health and vulnerability, but not on financial inclusion, digital inclusion and accessibility needs of groups currently excluded or underserved by our mainstream financial system. The federal government has a critical role to play in collecting more comprehensive disaggregated data and sharing analyses publicly to shed light on the financial exclusion/inclusion and experiences of under-served groups. It is only by building our baseline understanding of who is excluded/under-served and why, that we can move forward with solutions and effectively monitor our progress over time.

Recommendations

6. **Finance Canada should undertake research and public consultation (including with key financial, academic, and community sector stakeholders) to determine:**

   - **The basic or minimum financial products/services that all Canadians need** to be fully financially and economically included in today's society
   - **Who is currently not able to access which basic or minimum products/services** and why
   - **Actions needed to close these gaps** and who should take them.

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

   - Low/no access to mainstream financial services in some rural, remote, and Indigenous communities and low-income urban neighbourhoods
   - A dearth of safe and affordable small-dollar credit options
   - The absence of affordable and trustworthy financial help and advice tailored to the financial context and needs of people with low incomes.

7. **The federal government should use the resulting evidence and feedback to define a new minimum standard for financial inclusion in Canada.** This would identify the financial products and services that all Canadians need to be fully financially included, beyond a basic bank account, and key product/service attributes that would ensure these products are universally accessible, safe, and affordable. As some of these products/services may fall under provincial regulatory jurisdiction, the federal government should consult with relevant provincial/territorial counterparts on the proposed minimum standard. The proposed standard could be used to set a clearly defined national benchmark and to engage key stakeholders in helping to develop and implement strategies to meet it. These strategies could include future federal and provincial/ territorial regulation and guidance for financial service providers but should not be limited to this as all sectors have a role to play in filling financial product, service and help gaps.

8. **FCAC and/or Statistics Canada should use this new standard as the basis for a national baseline survey to determine who is not fully financial included and where the most critical gaps are** with respect to affected populations and the products and services they are not accessing. This survey should be repeated every 2-3 years to assess progress in closing financial inclusion gaps.

9. **FCAC should be mandated to work with stakeholders from all sectors to develop and advance strategies for closing financial inclusion gaps.** These initiatives should be

integrated into the next iteration of Canada's financial literacy strategy, which should focus on building financial literacy, financial inclusion, and financial wellbeing.

10. **Create a made-in-Canada Bank On National Account standard. To reduce the number of Canadians who are unbanked or underbanked, and to promote access to low and no cost accounts for vulnerable consumers, the FCAC should work with consumer and financial sector stakeholders to create a made-in-Canada version of the highly successful U.S. Bank On National Account Standards,**[84] which identify critical product features for bank or credit union accounts for low income and vulnerable consumers.

    Inspired by the 2012 Federal Deposit Insurance Corporation's Model Safe Accounts Pilot,[85] **the Bank On National Account Standards include core and recommended account features**. Bank accounts that are certified to meet the Bank On standard are marketed with the Bank On logo and promoted by local Bank On chapters. According to the 2022 report[86] of the Federal Reserve Bank of St. Louis' Bank On National Data Hub:

    - More than **17 million** Bank On certified accounts have been opened to date across 35 reporting institutions, a 24**%** increase from the previous reporting year
    - Bank On accounts have been opened in **87%** of all U.S. ZIP codes
    - Over **145 million** debit transactions were processed per month – an average of **27+** debit transactions per account holder per month (debit transactions help account holders avoid fees and service charges from credit cards and help them stay accountable with their spending)
    - **$120+ billion** was deposited into these accounts in 2022 – an average of **7** deposits per month, and **34%** of account holders used direct deposit.
    - The average monthly balance per account increased from **$1,072** in 2021 to **$1,117** in 2022.
    - **81%** of account holders were digitally active.

    Bank On data can provide a useful window into how consumers use these accounts in the U.S., including the types of transactions that are most common and their frequency. Resulting benchmarks can be used as a starting point for designing a draft safe and affordable account standard for financial consumers in Canada, which could then be adapted in consultation with target users and bank account providers here.

11. **Canada's National Account Standards should offer more free transactions (in-branch, digital and ATM) than current low-cost accounts, with the number of transactions determined in consultation with low-income consumers**. The goal would be to provide sufficient free transactions to enable most users to avoid triggering any additional fees. Because banks and credit unions have pulled branches and ATMs out of many low-income urban neighbourhoods, and people in rural and remote communities often have few choices about what ATM network to use, out of network ATM use should not trigger additional fees for these low-cost accounts. The standards should also prohibit NSF fees,

activation, closure and dormancy fees, and outline additional functionality and customer service provisions.

12. **All retail banks and national credit unions in Canada should agree, or be required by regulation, if necessary, to offer at least one bank account that meets this standard** to ensure comprehensive national availability and consumer choice. Consumers must be able to open these accounts in person and online to mitigate mobility, distance, and digital barriers.

13. **Accounts should be made available to any consumer who wishes (subject to current account opening regulations**). The standard should establish a maximum monthly fee, of no more than $5, and include a fee structure that allows for fees to be waived fees for designated groups – e.g., students, GIS recipients, GST HST Credit recipients.

14. **FCAC and participating banks/credit unions should launch the standard with a coordinated national marketing campaign**, with support from interested non-profit stakeholders, to promote certified accounts as the safe and affordable option for budget conscious consumers and to educate target beneficiaries on key account features and benefits. Bank accounts certified to meet this standard should be marketed with a distinctive branded logo promoted through the campaign to help target consumers to readily distinguish them from other account products on offer. These accounts should be actively publicly promoted by FCAC every year during Financial Literacy Month or another designated period. Consumer feedback on the national standard and actual safe and affordable accounts should be collected every 2 years and the account standard updated as needed to effectively address target consumer needs.

15. **FCAC should introduce regulation to ban the sale of loan insurance to anyone whose primary source of income is not employment and review payout rates to employed purchasers who experience employment/earnings loss** to determine if these products offer actual value to these consumers or are simply junk products. If the latter, they should be effectively regulated to offer real value or be banned altogether.

16. **The federal government should work in concert with consumer and financial sector stakeholders to address the current gap in access to safe and affordable small dollar credit**. As Finance Canada currently has another consultation underway on this topic, we will provide further details and recommendations through that process.

5. Accelerate digital inclusion efforts to support financial inclusion

The United Nations defines digital inclusion as "equitable, meaningful and safe access to use, lead, and design digital technologies, services and associated opportunities for everyone, everywhere."[87]

In Canada, people who are digitally excluded may have no, or unreliable, internet access (cellular or wireless), and/or low digital literacy. As a result, they cannot participate in the online economy, mobile banking, and electronic payments, and associated employment, business, and economic opportunities.

Canadians who are digitally excluded are often also financially excluded or under-served if they do not have ready access to a mainstream financial institution branch locally, as is the case in some rural, remote, and Indigenous communities and some low-income urban neighbourhoods.

Unequal access to digital opportunities exposes and amplifies other existing inequalities.[88] In Canada today, the population groups most affected by digital exclusion are:[89]

- **Low-income households/individuals:** Canada's digital access costs are among the highest in the world, limiting the ability of people with low incomes to access broadband, devices, and the skills they need to navigate online.

- **Older population groups:** The adoption of new technologies can be challenging for older individuals (not just seniors but people 45 and older) for diverse reasons, including lack of skills and training.

- **Rural populations:** Despite recent improvements in broadband roll-out, Canada's geography and high costs remain major barriers to digital access for many rural areas.

- **Indigenous Peoples:** Indigenous people have less access to and lower participation in digital society than other Canadians, although we lack sufficient data to determine the differences between on-reserve and off-reserve communities.

- **Racialized Canadians:** While data is limited, the intersectionality of low income and racialized Canadians suggests this group may lag Canadians generally in digital access and skills.

Key digital inclusion challenges include:

- **Internet access and device ownership:** Internet access in Canada depends very much on where you live. Recent CRTC data show that 91.4% of Canadian households have broadband internet coverage, but only 62% of households in rural communities.[90] While the percentage of households with the recommended >100 Mbps speed in 2019 ranged from 93.5% in B.C., to 53.7% in the Northwest Territories, and 0% in Nunavut,[91] rural and Indigenous households are much less likely to have access to even minimum broadband speeds – 46% of rural households and 35% of First Nation households on reserve compared to 87% for Canadians overall.[92] Cost is also a barrier with Canada ranked among the top 5 costliest countries for 100-Mbps plans and 26% of Canadians without internet access citing cost as the reason.[93] In terms of device ownership, 88% of Canadians over the age of 15 have a smartphone, but this number drops to 60% for Canadians aged 65 and over.[94]

These differences remind us that, while aggregate numbers suggest a relatively a high level of digital inclusion, patterns and barriers of digital inclusion may vary greatly due to other factors. These include cost and affordability, quality of services, financial and technological literacy, and trust.[95] As a consequence, we cannot assume that all users have uniform connectivity, similar devices or the same knowledge and habits. Efforts to promote inclusion must look beyond and beneath national aggregate statistics to identify and address less visible barriers at work in the digital landscape.[96]

- **Disparate internet usage patterns:** Underscoring this point, patterns of internet use differ across demographic groups and impact users' ability and appetite to access digital payments. According to 2021 Statistics Canada data, the average proportion of users who had accessed the internet in the last three months was 92%, but just 28% for people over the age of 65.[97] A comparison of other demographic groups using the same measure shows less dramatic but still lower rates of internet access – 88% for Indigenous people, 87% for those living outside of a census metropolitan area, 85% for those not employed, and 84% for people with a disability.[98]

- **Digital skills and proficiency**: Statistics Canada research also shows important differences in internet usage based on the activities and skills of those surveyed. According to this work, advanced users account for 33.8%, proficient users 22.2%, intermediate users, 19.7%, basic users 15.6% and non-users 8.7%.[99] Their typology highlights that user experiences change based on the complexity of tasks, with proficiency levels positively related to income and educational attainment. According to Bank of Canada analysis of this data, while basic users might read online news or conduct online searches, they are less likely than more advanced users to use the internet for online banking and to buy goods and services, likely because these tasks are more complex and may involve multi-factor authentication and integration of third-party apps.[100] Looking at users of all proficiency levels, they note that approximately 28% do not participate in online banking and 42% do not make online purchases. This suggests that a much larger proportion of users face barriers than national aggregate statistics on internet access suggest.[101]

- **Public vs. private internet access:** Public versus private access to the internet affects usage, especially for older and low-income Canadians who are more likely to lack digital access and/or devices at home (80.9% of households with incomes < $40K and just 63% of low-income seniors have internet at home[102]). Public libraries provide internet access to those who otherwise lack connectivity,[103] however conducting financial transactions on public computers and networks that are not private or secure creates important risks for consumers.

- **Trust in online banking and payments:** Trust and comfort with online banking and digital payments also impact digital inclusion, especially when it comes to older adults. According to a Financial Consumer Agency of Canada survey, 11% of seniors use online banking daily and 28% use it at least once a week. The main barriers for seniors who do not bank online are safety or security concerns (32%), a preference for in-person banking or telebanking (20%), and no internet use/access (20%).[104] Trust issues are illustrated through interviews with older adults[105,106] and suggest that to gain traction among people facing barriers to digital inclusion, digital banking and payment methods must not only *be* secure and trustworthy, but it must also be *perceived* to be so.[107]

- **Digital literacy** is strongly related to use of and trust in digital payments. "Near-users" are a subset of non-users with varying degrees of interest in accessing the internet but who are unable to due to barriers, primarily affordability and low digital literacy.[108] Similarly, even though Indigenous youth frequently use digital devices, they are 13% less confident in their digital literacy skills than their non-Indigenous peers.[109] These examples suggest that addressing inclusion must go beyond availability and access to services. This is especially relevant when considering digital banking and payments because users with less confidence or know-how are likely to be slower to adopt new technologies for important tasks like payments and banking.

Recommendations

17. **FCAC, in consultation with relevant financial sector, technology sector, payments, and consumer stakeholders should define a minimum standard of digital literacy and digital device and service access** needed for consumers to be fully financially included. This should be incorporated into Canada's national strategies and initiatives to close the digital divide and progress in helping all Canadians to achieve or exceed this minimum standard should be monitored and reported publicly.

18. **The Government of Canada should accelerate investment and efforts by Innovation Science and Economic Development Canada (ISED) to provide rural, remote, and Indigenous communities with adequate internet infrastructure** for reliable delivery of high-speed internet that meets the CRTC recommended standard.

19. **The Government of Canada, led by ISED, should articulate clearer national objectives and targets for its digital literacy efforts and to develop more comprehensive strategies to ensure that every Canadian is building clearly defined minimum competencies** in relation to everyday needs such as financial inclusion and capability, but also social connection, household management, employment and self-employment, education, etc. Strategies and investments should:

    - Give priority to groups that are currently least digitally included
    - Be developed in collaboration with industry and stakeholders from/serving priority populations

- Leverage the unique capabilities, expertise and contributions of these cross-sector stakeholders
- Be accompanied by robust monitoring, evaluation, and public reporting on progress toward achieving target outcomes.

20. **The Government of Canada, led by ISED, should undertake measures to ensure that all Canadians have affordable access to an adequate digital device, internet access, and data to be socially and economically included.** This requires:

    - defining relevant minimum standards in consultation with consumers who currently lack affordable access and other relevant stakeholders
    - undertaking national research with disaggregated data to establish baseline data on who in Canada is not achieving this standard
    - developing a comprehensive strategy in consultation with affected populations, industry, and other interested stakeholders to close identified gaps
    - Establishing robust monitoring, evaluation, and public reporting on progress toward achieving target outcomes.

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