

Overcoming Barriers to Financial Inclusion: Lessons From the Payday Loan Sector

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Overview

- Payday loans – key element of growing alternative financial services sector (AFS)
- PIAC's 2002 survey of payday loan users – what it tells us about barriers
- Overcoming barriers
 - Is it too late?
 - What is needed on policy/regulatory side

Payday Loans

- What are they?
- Who offers them?
- PIAC survey:
 - Demographic characteristics of users
 - Why they use them – what survey/focus groups told us

Payday Loan Users - Demographics

- 2001 – 4.8% of Canadians, 15 yrs and older used AFS in last 3 years (between 1.0 and 1.4 million Canadians)
- AFS user looks like average Canadian in terms of income, employment, education

Payday Loan Users – Reason for Using Service

- Meets cash shortfall for day-to-day expenses
- Concerns about open-ended credit (credit cards)
- Underestimate/don't know cost of loan
- Emphasize service aspects of AFS – confidentiality, welcoming atmosphere

Why the Concern?

- Barriers to financial inclusion much deeper than initially thought
- High costs/hidden costs
- Financial risk
- No assistance re: credit worthiness
- Further removal from financial mainstream
- Illegality

Regulatory/legal Status of Payday Loans

- Federal regulation of interest – s. 347 of *Criminal Code*
- Saskatchewan, Nova Scotia, Newfoundland license payday lenders, but problems re: enforcement
- Civil actions in lower courts
- Class actions
- Federal/provincial/territorial ‘discussions’

Why Is Payday Loan Sector Growing?

- Denial/withdrawal of products and services by mainstream banks that would replace payday loans
- Reduction of bank branches
- Changing financial services culture – ‘virtual banking’, banks no longer part of community
- ‘Light’ regulation of financial services sector

Financial Institutions' Response

- Stay away from payday loans ('illegality')
 - But who finances payday loan capitalization/operations?
- Population deemed too 'credit-risky' for services that would reduce need for payday loans
 - But banks actively solicit any/all customers with credit card offers, increase credit limits

What Is the Solution?

- Is it too late to ‘rein in’ payday lending and AFS overall?
- Regulatory challenge – requires federal and provincial agreement/alignment
- Payday lending – symptom of a wider problem – rapidly changing financial services culture with little oversight