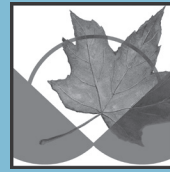


# Election 2016 UNSPUN



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CANADIAN CENTRE  
for POLICY ALTERNATIVES  
MANITOBA OFFICE

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## Regulating Fringe Banking in Manitoba: a work in progress

Since 2007 the Manitoba government has undertaken a series of steps to regulate fringe banks. Arguably this is contributing to the common good, because of the growth of fringe financial services and the process of financialization. Financialization is reflected in the increasing size and importance of financial markets. Consumers are faced with a proliferation of credit products in a rapidly changing marketplace and it is increasingly difficult for financially vulnerable community members to make informed choices.

Fringe banks –payday lenders, cheque-cashers, rent-to-own operators– provide financial services particularly for income- and asset-poor Manitobans who are either unbanked (no services with a mainstream bank or credit union) or partly banked. Generally, un- and under-banked Manitobans rely on fringe banks for some of their financial services. Many of the community members who access SEED Winnipeg’s services have been charged significant fees and interest by fringe banks. Given that these low-income community members are financially vulnerable and that there is limited evidence about the competitiveness of this sector, it is generally accepted that regulation is warranted.

The Province of Manitoba has been a leader among Canadian provinces in regulating this sector. The regulations the provincial government has established for this sector include,

a cap on what companies can charge to cash government cheques; a combination of regulations on payday loans; regulations applying to all companies offering ‘high-cost’ credit products.

In 2007, the Manitoba government established regulations on fees that could be charged for cashing government cheques. The cap is set at \$3 plus two percent of the cheque’s face value. This cap is quite high, so that it precludes only those firms that charge very high rates. In 2008 the Manitoba government, partly through the efforts of the Public Utilities Board, established a series of regulations on payday lending including: a cap on the fees to \$17 per \$100 loaned, a cap on the amount borrowed to 30 percent of net income, limits on fees for extending the loan (\$5 per \$100), and a requirement to provide information about the total fee in both a dollar and an annual percentage rate form.

Finally, in January 2016 the government announced that all ‘high-interest’ loans will be regulated. These regulations apply to “businesses that offer, arrange or provide high-cost credit products, regardless of whether they have a physical Manitoba location or provide their service over the Internet,” although the definition of high-cost is unclear. These regulations require that the fee information be provided and that consumers have the right to cancel and repay the

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loan within 48 hours of taking out the loan, without a penalty.

Regulation is a critical means to protect consumers and ensure that new financial products help, and do not harm, particularly vulnerable consumers. New financial products can stimulate the economy and enable people to build stronger finances for the future, but they can also harm people. That is why, at a minimum, consumers must be able to understand financial products. Restricting fees and loan sizes are also, at times, effective. There is no evidence that the cap on cheque-cashing and payday lending has drastically reduced the number of cheque-cashers and payday lenders in the province. This is evidence that certain businesses can still generate a profit.

An important consequence of the cheque-cashing and payday loan fee cap is that clients will not face above-cap fees to get a payday loan or to cash their government cheque.

In many cases it would be advantageous to the clients to switch financial services to a mainstream bank where fees are cheaper and more 'developmental' services (services such as savings, investments, and credit that enable people to improve their finances) are available. This is an important reason for people to seriously consider opening and maintaining a bank account. Assiniboine Credit Union has established partnerships with SEED Winnipeg and other community based agencies to provide access to basic banking for community members with barriers to financial services. The lack of identification required to open a bank account has emerged as a key barrier to opening a bank account. Investments by the Provincial government Citizen's Bridge and SEED's ID Fund have addressed this issue for some of community members. However, due to limited resources many community members who lack the identification needed to open a bank account are unable to access required

supports. The Provincial government could work with community organizations, relevant departments and mainstream financial institutions to identify avenues for addressing systemic barriers so that financially vulnerable community members have access to safe and affordable financial products.

Other areas the province can work on include additional investments in promoting formal and semi-formal financial literacy to provide financial knowledge and skills. This can be delivered through community-based networks such as the AssetBuilders partnership and the Manitoba Financial Literacy forum. But insights from behavioral economics studies have demonstrated that it is not just knowledge and skills that enable citizens to care for their finances. They also need opportunities and conditions that enable them to apply their knowledge and skills in a timely fashion. This is probably the most challenging aspect of financially empowering Manitobans. One way to provide these opportunities is to inform people using a 'just in time' approach so that they are able to educate themselves when they are in the process of making financial decisions. Research has found that requiring payday lenders to present their fees side-by-side with fees of a mainstream financial product (e.g., a credit card) leads to a reduction in payday loan uptake. The Ontario government requires payday lenders to provide this information.

So while the Provincial government has taken positive steps in recent years with regard to this issue, and is a leader among provinces in Canada, there is still more to be done. In addition to enhanced regulation, the Provincial government has an important role to play by working in partnership with community based agencies and financial institutions to remove barriers to financial inclusion and expanding the scope and scale of financial empowerment initiatives.

*By SEED Winnipeg*

[UNSPUN is the 2016 provincial election commentary from the Canadian Centre for Policy Alternatives Manitoba](#)