Towards a Friendly Payday Loan

by

Raja Mukerjea

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Abstract

In Toronto and Vancouver, the two biggest big cities of Canada there is a large section of the population who have precarious income, living paycheck to paycheck. They usually have poor credit scores and when they suddenly need a loan, usually to cover basic expenses, they have to resort to high-interest payday lending, as banks do not extend loans to them. The payday loans have an inflexible repayment structure that forces the borrower to take another payday loan, eventually pushing many into a negative spiral.

This MRP focuses on understanding the needs of these urban-working-poor borrowers and seek design solutions - to reduce uptake of payday loans and find viable alternatives to payday loans. I have applied the tools of design thinking and behavioral economics to find solutions.

The criteria of success are whether the proposed design strategy solutions decrease the incident and frequency of the uptake of these high-interest payday loans by the urban working poor.

Keywords: Payday loans, urban working poor, short term lending, innovation, precarious job

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CHAPTER 1. Overview

1.1 Introduction

Today, in Canada there is a concerning trend in the job market. There is a decrease in the number of permanent jobs and an increase in part-time and contract jobs that are often minimum wage jobs. These precarious workers, staying in large, expensive cities like Toronto or Vancouver and surviving from paycheck to paycheck are called the “urban working poor”. Without any financial safety net when they suddenly need extra cash urgently, many of them end up taking a payday loan.

Payday loan companies provide small, very-short-term unsecured loans to them quickly without asking too many questions, or checking credit scores but charge interest rate ranging from 300% to 600% pa. The principal and the interest is payable within 2 weeks, that proves to be a daunting proposition. These loans push the already vulnerable borrower to the very edge especially when they are unable to pay the previous loan and then take a new payday loan to pay off the previous loan.

This MRP focuses on unraveling the needs and motivations of the urban working poor who access payday loans and exploring possible solutions to minimize the uptake of these predatory loans. With the knowledge I have gathered in the Program I focused on the various strategies and innovations that can be applied. Besides, I dived into the Behavioral Economics aspects of saving and nudging behavior change to suggest workable solutions.

The criteria of success is whether the proposed design strategy solutions decrease the incident and frequency of the uptake of the high-interest payday loans by the urban working poor. The thrust is on providing practical, low-cost solutions that can be tested and deployed. Besides, government policy interventions have also been suggested.

1.2 What is a payday loan?

A payday loan is an advancement of money in exchange for a post-dated cheque, a pre-authorized debit, or a future payment of a similar nature but not for any guarantee, suretyship, overdraft protection or security on property and not through a margin loan, pawn broking, a line of credit, or a credit card. The typical payday loan is for 1-14 days. (MacDonnell and Lim, 2007). These loans are typically short-term loans of less than $500 that has to be repaid in a lump sum and made in exchange for a post-dated cheque or pre-authorized debit. (Strengthening Ontario's Payday Loan Act - Payday Lending Panel - Findings and Recommendations - Report 2014)

Cheque cashing services cash third-party cheques immediately with adequate personal identification and for a fee, usually a fee per cheque and a percentage of the face value of the cheque. (MacDonnell and Lim, 2007)

1.3 The growing trend of precarious jobs – leading to need of payday loans

Several studies recently have highlighted the decrease in permanent jobs and the corresponding increase in precarious or non-standard jobs in the Canadian economy. In a report published in 2015, the Organisation for Economic Co-operation and Development (OECD) noted a net increase in non-standard jobs in a number of countries, that may have contributed to rising inequality in recent decades. (Precarious Employment in Canada: An Overview of the Situation | HillNotes n.d.)

In a special report released in March 2015, TD Economics stated that precarious employment is a serious issue in the Canadian economy. While precarious employment provides flexibility to employers, enabling them to more easily adjust to economic shocks, the report mentioned that it can also harm the economy. The lack of income security associated with precarious work reduces consumer confidence, leading them to spend less, that in turn reduces business profits and investments, thereby depriving governments of revenue. (Precarious Employment in Canada: An Overview of the Situation | HillNotes n.d.) Further, tax revenues are lower and government expenditure is higher to support those that find themselves frequently without employment or the ability to make ends meet. (DePratto, Brian & Barlettm Randall, 2016)

1.3.1 What is Precarious Work?

According to the International Labour Organization, precarious employment generally refers to a lack or inadequacy of rights and protection at work. This definition can apply to informal work, but also to several types of formal work, including subcontracting, temporary contracts, interim work, self-employment and involuntary part-time work. These types of formal employment are considered more precarious because they are associated with reduced financial security and stability stemming from lower wages on average, less access to benefits such as private pension plans and complementary health insurance, as well as greater uncertainty about future employment income. These types of jobs are also associated with poorer physical and mental health outcomes. (Fleury, n.d.)

1.3.2 Precarious Employment in GTAH (Greater Toronto Area and Hamilton)

The prevalence of precarious employment in the GTA (Greater Toronto Area) and neighboring districts has been on the rise. According to Statistics Canada and PEPSO survey :(Lewchuk and Lafleche, 2013)

- At least 20% of the working population is in precarious forms of employment.
- This type of employment has increased by nearly 50% in the last 20 years.
- Another 20% are in employment relationships that share at least some of the characteristics of precarious employment. This includes full-time employees who receive a wage, but no benefits, workers

who may work variable hours, and workers who believe they are unlikely to be employed by the same firm a year from now

- People who have insecure employment and who live in low-income households are twice as likely to find it difficult to make ends meet or to run out of money to buy food, compared to workers with secure employment in the same low-income category.
- The changing income profile is affecting household well-being. Evictions are on the rise, more families find themselves seriously in debt and more are making use of payday loans facilities.
- Nearly 44% of workers in GTAH aged 25-65 are working in jobs with some degree of precariousness —just over 20% are in temporary or contract employment, while just over 23% are in the "other" category. Those in the "other" category may look as if they are in secure jobs on the surface, but their jobs have many of the characteristics of those in the temporary and contract jobs category.

% of Canadians working in:	1989	2007
Temporary employment	6.5	10.9
Self-employed no employees	6.8	9.8
Total precariously employed	13.3	20.7

Table 1 - Percentages of precarious employment in Canada for workers age 15-64 (Lewchuk and Lafleche, 2013)

1.4 Effects of Precarious Income – Direct, Indirect and Poverty Premium

1.4.1 Direct financial effects

The direct effects of precarious income are quite evident (MacDonnell and Lim, 2007).

- In the Toronto region, applications for evictions due to non-payment of rent rose 26% between 1999 and 2006.

- There was a much steeper rise in the number of consumer insolvencies in the City of Toronto between 2000 and 2005, compared to other areas: a 52.3% increase in the City of Toronto, compared to 16.8% in the country as a whole, and 39.5% in the Province of Ontario.

- Credit Canada's debt management caseloads grew 50% in its Toronto areas offices. As well, the debt loads that clients carried, as a percentage of their total annual incomes, grew from 65% in 1996 to 94% in 2005.

1.4.2 Indirect effects

The indirect effects of precarious income are equally damaging. Research reports have provided a large body of evidence of the serious social and health consequences that have been accompanying these trends. Gun crime in the city, poor school grades and dropout rates, teen pregnancies, and teen births, and low birth weight births correspond to the neighborhoods where poverty is highly concentrated. There is evidence of soaring diabetes rates in the city's lowest income neighborhoods and growing food bank use. (MacDonnell and Lim, 2007)

Studies consistently link precarious employment to negative physical and mental health outcomes. (Gratton and Hajderi, 2012)

- Precarious work is more likely to involve health and safety risks, particularly for recent immigrants who are more likely than Canadian-born workers to be engaged in physically demanding work. Risks also arise from lack of experience or training, lack of knowledge about occupational health and safety rights, and fear of losing one's job or, in some cases, being deported.

- Precarious work can cause significant stress due to job insecurity, the pressure of holding multiple jobs, irregular or long hours, insecure visa status and lack of legal protections.
- Precarious workers may also suffer health consequences as a result of their lower income. Low wages also affect workers' access to safe transportation and sufficiently nutritious food. Low pay often leads to working more than one job and long hours that in turn, increase susceptibility to illness and injury and have negative impacts on family life affecting children and communities.
- Due to low wages and lack of benefits, precarious workers often have difficulty accessing medicine, particularly prescription drugs.
- Pregnant women engaged in precarious work are often not covered by statutory personal emergency leave provisions and, with insufficient time off, may not obtain necessary medical care.
- Precarious workers have limited opportunities to access training or education allowing them to upgrade their skills. Without training, they are less likely to find more stable and better-paid work. This contributes to long -term economic vulnerability and perpetuates the cycle of precarious work.

1.4.3 The 'Poverty Premium' effect of precarious income

'Poverty premium', is a situation in which consumers on the lowest incomes pay more per unit for goods and services than more affluent consumers, e.g. they generally pay higher than average utility tariffs as they are unable to pay on time to avail the discount. This happens as the low-income consumers have limited access to markets due to their profile (low credit score) and lack of financial products suited to their needs. Therefore they are prone to exploitation by businesses and face particular problems obtaining redress, when things go wrong. (Problem Debt: A Report Commissioned by the Consumer Protection Partnership, 2014)

It drives these consumers towards high-cost credit products, as they are only able to access the expensive products and services across the economy. By purchasing essential goods on credit, some low-income consumers end up with much higher bills because of high effective interest rates. This restricts their ability to or prevents them from resolving their problem debts. (Problem Debt: A Report Commissioned by the Consumer Protection Partnership, 2014)

1.5 Who are the at-risk groups for low income, precarious jobs and fall into payday loan trap?

Low income is more prevalent in certain at-risk groups. The recent House of Commons report on poverty identified 10 groups that were most at risk of experiencing low income: children, lone-parent families (particularly female lone parent families), women, unattached individuals, seniors, Aboriginal people, people with disabilities, recent immigrants, visible minorities, and low-wage workers. (Hot Topic: Canada Inequality, 2011). These groups are the most vulnerable to fall into the payday loan trap.

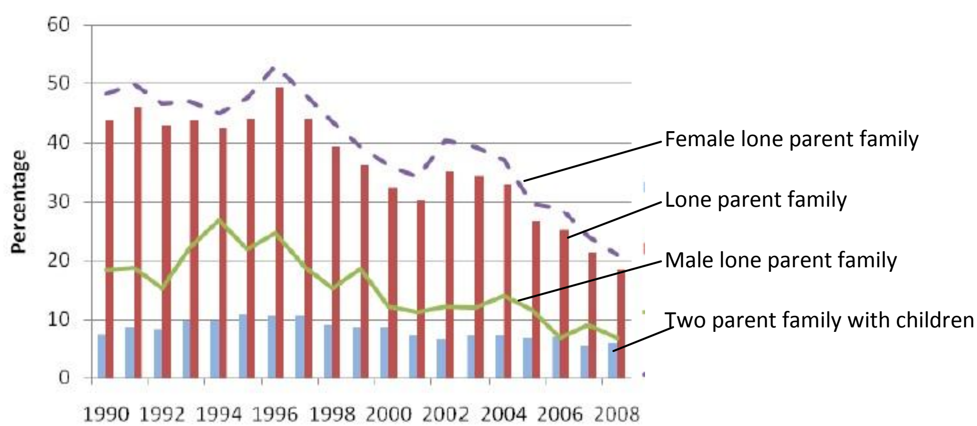

Figure 1 - Low-Income Rates (%) by Family Type, 1990-2008 (Hoeppner, 2010)

Let us examine the sections of the population who are in the working age and are vulnerable to low income and poverty (Hoeppner, 2010):

1. Lone-Parent families: In 2008, the rate of low income among lone-parent families was 18.4%, over three times higher than among two-parent families (6.0%). Female-headed lone-parent families were particularly at risk of low income and had a low-income rate of 20.9%, compared to 7.0% among male-headed lone-parent families. Lone parents may be particularly affected by inflexible work hours, long commutes and limited access to child care, factors that reduce their employment prospects and increase their vulnerability to earnings instability.

2. Women: A gender-based analysis of poverty would show that women are more likely to be poor. If they raise a family alone, their precariousness increases. Other groups of women are disproportionately likely to experience poverty—unattached women under age 65, women with disabilities, and racialized and [A]boriginal women.

3. Unattached Individuals: In Canada, the group with the highest risk of poverty is the single people of working age. In 2008, the low-income rate among unattached individuals was 27.2%, over four times higher than among individuals in economic families (6.3%). This situation was even more prevalent among unattached individuals less than 65 years of age, 31.3.0% of whom lived on low income that year.

4. Aboriginal People: The incidence of low income among Aboriginal people is significantly greater than among the non-Aboriginal population. Of those with Aboriginal identity living in private households, 18.7% of individuals in economic families and 42.8% of unattached individuals experienced low income in 2005. Low-income rates were even higher among the Aboriginal population living in census metropolitan areas (CMAs), where 25.1% of those in economic

families and 48.5% of unattached individuals faced this situation. In comparison, the non-Aboriginal identity population had low-income rates of 8.4% for individuals in economic families and 28.0% for unattached individuals that same year.

The socioeconomic and socio-sanitary indicators that are currently available clearly show the difficulties faced by the First Nations communities of Québec and Canada: poverty, neglect, drug and alcohol addiction, diabetes, obesity, life expectancy, infantile mortality and suicide. These indicators reveal the significance of the social inequalities in health that face First Nations compared to the Canadian population.

5. People with Disabilities: People with disabilities have a lower average income than those without a disability ($28,503 compared to $37,309 in 2006),. Women with disabilities have lower incomes and are less likely to be employed than their male counterparts. Families of children with disabilities are more likely to live on low incomes and financial problems were found to increase with the severity of child disability.

6. Recent Immigrants and Visible Minorities: Recent immigrants, newly arrived, refugee or refugee-like background are more vulnerable to low income than other Canadians. Immigrants who had arrived in the previous five years and who were in economic families had a low-income rate of 32.6% in 2005, while those who were unattached had a low-income rate of 58.3%. This can be compared to rates of 6.9% and 26.3%, respectively, among their non-immigrant counterparts. (Census 2006).

   Research has found that individuals who belong to visible minority groups are also more likely to experience poverty. One study revealed that visible minority immigrants were much more likely than other immigrants to live on a low income, even after being in Canada for nearly two decades.

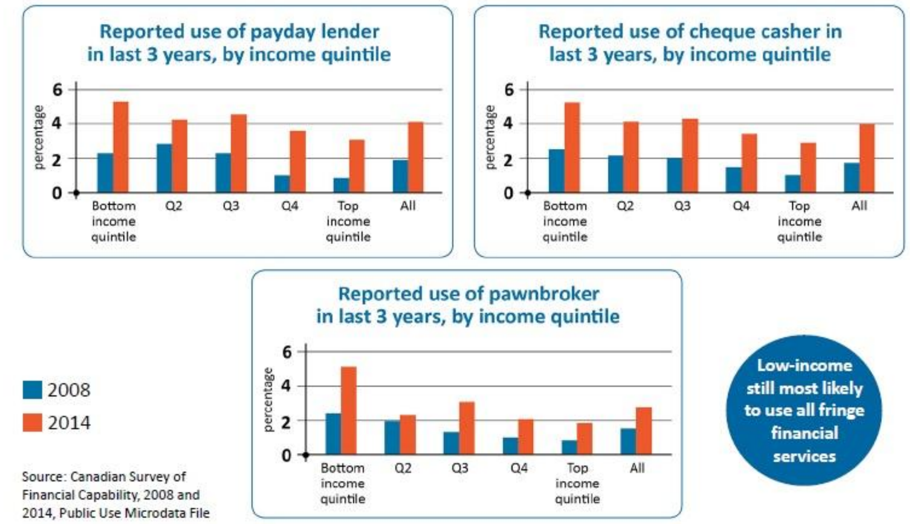

Figure 2 - More Canadians from all income groups are using fringe financial services- (Robson 2015)

1.6 The Urban Working Poor

According to the Metcalf Foundation, a well respected non-profit research establishment, a working poor is someone who has an after-tax income below the Low-income measure (LIM), has earnings of at least $3,000 a year, is between the ages of 18 and 64, is not a student, and lives independently. (Stapleton, Kay, and Metcalf Foundation, 2015)(See Appendix 1)

Toronto has the highest concentration of working poor. It also has the fastest growing percentage of working poor in the nation. The reason is that permanent jobs that offer full-time hours are on the decline , career advancement has become a less frequent option and more entry level jobs become dead- end positions.

The implications of working poverty in Toronto are many. The working poor cannot buy homes on their wages and many use food banks and other services to meet their basic needs. At the same time, shifts in the labor market suggest declining opportunities for a growing segment of the working poor. It is this segment of household who has trouble covering an unexpected $500 cost and have the highest potential to fall into a payday debt trap. (Robson, 2015)

In Toronto as well as in Vancouver well-to-do knowledge class relies on a large cadre of working poor who pour their coffee, serve their food, and clean their offices. This professional knowledge class relies on the working poor to maintain their gardens, mind their children, and clean their houses. (Stapleton, Kay, and Metcalf Foundation, 2015)

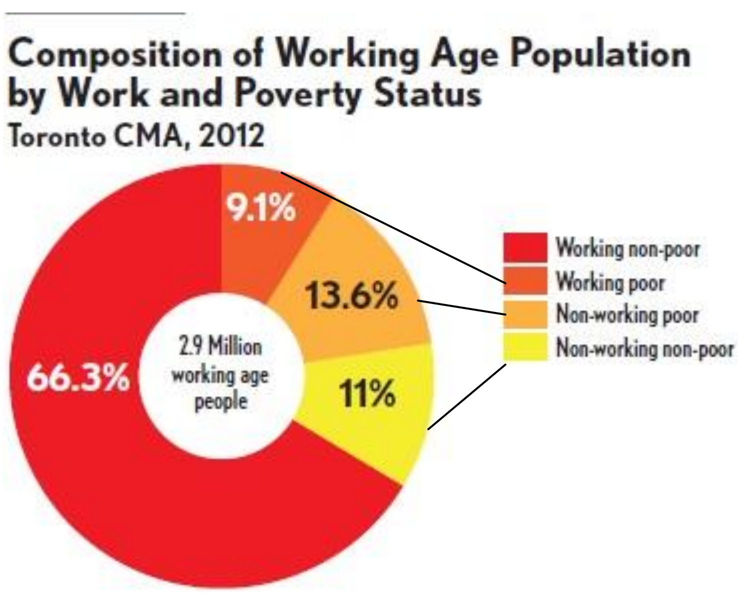

Figure 3 - Percentage of working poor individuals among the working age population
(Stapleton, Kay, and Metcalf Foundation 2015)

1.7 More contractual jobs and less permanent jobs – Trend towards gig economy

According to latest forecast analysis announced by Intuit Canada freelancers, independent contractors and on-demand workers will make up 45 per cent of the Canadian workforce by 2020. This is giving a fillip to the gig economy as illustrated by the emergence of things like Uber, Etsy or Fiverr, all of which really allow people to do self-employed work in a flexible fashion. Plus a lot of new jobs coming into the market are part-time, so people are looking to augment those part-time jobs with self-employment options. (McConnell, 2017).

Currently around half of all jobs in the GTA and Hamilton are now insecure, according to research by United Way and McMaster University. Today, young people entering the workforce increasingly find there is little in the way of stable employment on offer. (Mojtehedzadeh, 2016)

1.8 The Research Goal

The goal of this paper is to present the issues related to payday loans from the borrower's point of view and what steps can possibly be taken to reduce the uptake of these high-interest loans. Using literature review and field interviews and then using design thinking methods and behavioral economics, the objective of the research is to come up with a set of interventions and strategies that can be used to help the payday loan borrower.

For the borrower initially taking the payday loan is extremely simple and hassle free, but when they have to pay the loan back they realize the enormity and the difficulty. In most situations, they do not realize the effective annual rate of interest they are being charged and do not explore other possible alternatives that might have been available to them prior to taking the loan. The intent of the project is to provide a solution that helps the vulnerable, urban working poor borrower and reduce their stress and anxiety.

1.9 The Research Question

The question this paper seeks to answer is:

How might we minimize the uptake of the high payday interest loans by the urban working poor who are present or potential payday loan borrower, (residing in the GTAH Greater Toronto and Hamilton Area)

This question can be broken into three parts:

1. What will an alternative payday loan financial product look like and how can it be structured
2. How the borrowers themselves can be nudged to minimize the uptake of high-interest payday loan
3. What can other stakeholders like government, banks, credit unions and non-profits do to nudge the borrower to dissuade the borrower to take such loans

1.10 Research Methodology

The research design consisted of literature review and one-to-one interviews with actual users of payday loans, investigative journalists, debt counselors and bankers/lenders.

The literature review was done to:

a) Understand the payday loan borrowers

b) Review what steps have been taken by various stakeholders to help the payday loan borrowers – within Canada and internationally

Interviews: Seventeen sets of one-to-one interviews were completed – with actual users of payday loans and experts like investigative journalists, debt counselors, and bankers/lenders. The objective of interviewing debt counselors was to get an expert opinion about the drivers that force people to payday loans and what possible solutions they suggest when a person is already under a payday loan debt. The bankers' perspective was solicited to understand what criteria does a bank adopt to extend unsecured loans. For both groups, a sample size of up to five respondents was sought.

The key understandings from the literature review and qualitative research were synthesized leading to the development of customer journey maps of payday loan customers. Subsequently, key intervention points were identified in the journey maps to suggest design solutions using human-centric, behavioral economics tools.

1.10.1 Demographics of the payday loan borrower interviewed

I worked to choose my actual user respondent samples' age group to represent the statistically relevant age-group sample from a larger study. This was to ensure that I elicit qualitative responses from a representative of important, relevant demographics. Therefore the majority of the respondents I spoke to were in the age group 22-50 years old. In the larger reference study, 72 percent of respondents were between 25 and 54 years of age, with almost equal numbers from 25-34 years (24%), 35-44 years (27%) and 45-54% (21%). (Financial Consumer Agency of Canada, 2016).

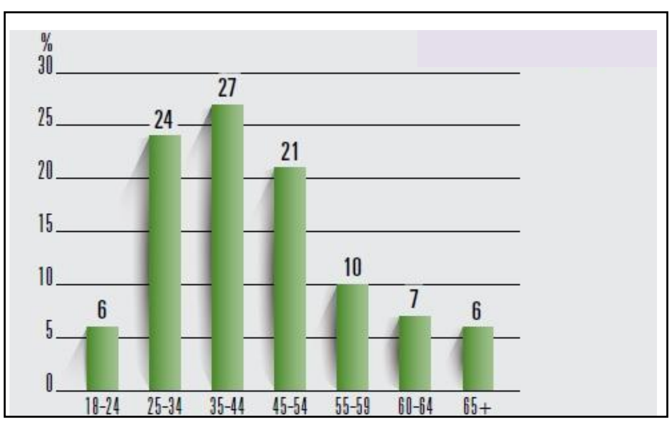

Figure 4 – Borrower Age Group (Financial Consumer Agency of Canada, 2016)

In the context of the family status of the borrower, I interviewed five respondents who were single, some of whom were single mothers and two were married. Again this sampling of my study was based on the facts discussed in Chapter 1.5 – where a House of Commons report on poverty identified groups that had the highest risk of experiencing low income. From this group, I shortlisted the ones who are working and are vulnerable to payday loan borrowing: lone-parent families (particularly female lone parent families), women, unattached individuals and recent immigrants. (Hot Topic: Canada Inequality, 2011).

All of the respondents I spoke to were part-time or contract workers except one who had a permanent job with benefits. This is in tune with the definition of the urban working poor, discussed in Chapter 1.6

CHAPTER 2. Payday Loan Industry

2.1.1 Payday Lending in Canada – History

The payday lending industry supplies short-term credit in small amounts to meet the demand of people who are not served by traditional banks. Ultimately, this trend in the financial sector encourages and fosters a two-tiered banking system: at one level, there's a highly regulated service, strictly monitored by the Financial Consumer Agency of Canada (Financial Consumer Agency, 2010) for the majority of residents, and at another level, there's a loosely (and very recently) regulated service, with unspecified monitoring by provincial ministries offered at a vastly higher cost for those with limited resources or who have a poor credit history.

Up until 2007, payday lending was technically not legal in Canada, because fees exceeded anti-usury law, but the industry flourished nevertheless. The government was aware of the issue and deliberated how to respond to this dilemma. Before any legislative changes, a class-action law suit against one of the largest providers of payday lenders was launched and settled out of court. In the spring of 2007, the Canadian government amended the anti-usury section of the Criminal Code of Canada, section 347, to exempt payday lenders from the maximum 60 % Annual Percentage Rate and to give provinces and territories the authority to implement regulations independently (Ministry of Government Services, 2009).

2.2 The Payday Loan Industry in Ontario

- 4% of Canadians reported that their household resorted to a payday loan in 2013. Nearly 2 million Canadians use payday loans each year. (Payday Loans Market Trends, 2016)

Payday Lending in Ontario: Quick Facts (Butler, 2016):

- 800 Number of payday lending outlets in Ontario
- 400,000 Number of payday loan customers in the province
- $435 Average payday loan in Ontario
- $21 Amount payday lenders can charge per $100 for a two-week loan (since then reduced to $18 from January 2017)
- 546 Percentage annual interest rate that charge represents
- 45 Percentage of payday loan borrowers who use the money for unexpected but necessary expenses
- 41 Percentage use them for recurring and expected expenses such as rent or utility bills
- 53 Percentage of borrowers in households with annual incomes below $55,000
- 20 Percentage with household incomes exceeding $80,000

Ontario's payday lending industry is composed of a mix of several large lenders with many storefronts and a large number of small lenders. Overall, there are about 800 licensed payday lending storefronts, that are operated by 249 different businesses. Deloitte estimates that together, these lenders issue loans worth approximately $1.1 – $1.5 billion annually. (Strengthening Ontario's Payday Loan Act - Payday Lending Panel -Findings and Recommendations – Report, 2014)

In the city of Toronto, there has been an eightfold increase in the number of payday loan and cheque cashing outlets, rising from 39 in 1995, to 317 in 2007. They are heavily concentrated in the city's low-income neighborhoods, and charge borrowers much more than traditional sources of credit. (MacDonnell and Lim, 2007)

2.3 Laws in Ontario – Payday Industry

In Ontario, the interest applicable on payday loans is governed by the Criminal Code which makes it a criminal offense to charge more than 60 percent interest annually. The Ontario Payday Loans Act and Regulation states that amount of a single payday loan cannot exceed $1500. However, it also provides for an exception, where provinces choose to regulate payday loans. Ontario's Payday Loan Act was passed in 2008 and most elements were implemented during 2009 (Ministry of Consumer Services, 2010). The main elements of this Act are as follows: (Marsh, 2010)

- Payday lenders and loan brokers are required to be licensed.
- "Rollover" loans are prohibited.
- Payday loan borrowers have a two-day "cooling off" period to cancel a loan for no reason without incurring a penalty.
- An Ontario Payday Lending Education Fund will be established, paid for by licensees.
- The maximum total cost for borrowing a payday loan in Ontario is $21 per $100 borrowed (reduced to $ 18 per $100 borrowed in 2017).

See Appendix 2.

2.4 The Cost of Providing a Payday loan

The cost of providing a payday loan from a storefront is actually quite high and to a certain extent justifies the amounts charged by the payday loan companies. In a 2016 Deloitte study in Alberta, the cost of providing the loan per $100 was estimated to be $20.74. (Summary of the 2015 survey on the cost of providing payday loans in Alberta, 2016). It is also relevant to note that as per a recent Alberta provincial government legislation the maximum cost per $100 of payday loan has been set to a maximum of $15 including all fees, with the term of the loan being a maximum of 62 days.

Earlier in 2004 in a study done by Ernst and Young, it was found that (The Cost of Providing Payday Loans in Canada, 2004):

- The average (un-weighted) cost of providing payday loans for the industry as a whole is $20.66 per $100 of payday loans ($15.69 on a weighted average basis). The largest single component of costs is operating costs, representing three-quarters of the total cost. Bad debt costs account for approximately 20% of the costs, while the cost of a loan and supplementary capital represent just over 5% of total costs.

- The largest operators have the lowest costs, while small operators have the highest total costs, that are impacted entirely by higher operating costs. However, costs of the individual survey respondents vary from as little as $10 to as high as $35 per $100 of payday loans.

- The cost of providing first-time loans are twice as high as the costs of all loans. This reflects the time and effort required to process first-time loans to new customers. As expected, the cost of repeat, rollover/rewrite loans are significantly smaller than the cost of first-time loans. For every first-time loan, the average payday loan provider transacts 15 repeat and rollover/rewrite loans on average.

Cost of Providing Payday Loans, by Type of Cost, and by Type of Business
Weighted Averages of Survey Respondents

	Cost per $100 of Payday Loans		
	Average of All Firms	**Multi-line Businesses**	**Mono-line Businesses**
Operating cost	**10.58**	**10.25**	**14.22**
Cost of loan capital	0.52	0.51	0.62
Cost of supplementary capital	0.57	0.57	0.60
Bad debt cost	4.02	3.96	4.73
Total	**15.69**	**15.29**	**20.17**

Source: Ernst & Young Sample Survey of Payday Loan Businesses, 2004

Table 2 – Cost of providing payday loans - (The Cost of Providing Payday Loans in Canada, 2004)

The survival of payday loan operators depends on establishing and maintaining a substantial repeat customer base. Statistics compiled by the Centre for Responsible Lending (2009) show that the majority of the industry's profit comes from repeat borrowers who are unable to repay loans on the due date and instead repeatedly borrow, paying fees each time. (Marsh, 2010)

Lower costs of large operators can be attributed in part to economies of scale and to experience, both from a business operations perspective and their ability to assess the risk of loan default. Bad debts are a significant cost in the payday loan industry. Bad debt costs in the industry vary from as low as one-half of one percent of total loan volume to as high as 14%, with the average between 4-5%. This is still much higher than the bad debt experience of mainstream financial institutions.

The fact that operating costs are the largest component of total costs by a wide margin, and are fixed (i.e., any financial transaction, no matter how large or small has an associated fixed transaction cost), has implications for regulating the price of payday loans. An interest rate mechanism is inappropriate since the cost of capital represents a relatively insignificant portion of total costs, which is why many payday loan operators charge a fixed fee per $100 of payday loans plus an interest charge. Put differently, payday loan operators must cover their loan transaction costs over a small loan size (under $300 on average) over a short maturity period (typical maturity period of a payday loan is two weeks), which, if factored as interest, would result in a very high-interest charge to recover the transaction cost. (The Cost of Providing Payday Loans in Canada, 2004)

2.5 Does Canada need payday loan companies, or should they be banned

2.5.1 The case against payday loans

There are many reasons that make a case for heavily regulating or even closing the payday loan industry. Firstly from the borrowers' point of view, it is difficult for them to evaluate the risks and rewards of a payday lending transaction - like the effective rate of annual interest and possible non-sufficient fee if the bank transaction is unsuccessful. To make matters worse, there is every reason to think that common decision-making problems like the availability heuristic and the optimism bias cause the typical consumer to give inadequate weight to the risk that the transaction will turn out poorly.

Secondly, there is some reason to be concerned that customers will do such a poor job of comparing alternative lending transactions that the market will not force prices to a competitive level. Thirdly, the lenders usually charge the highest rate permissible in their jurisdiction. Fourthly, payday loan lenders make themselves present in low-income neighborhoods and make the process of getting a payday loan extremely simple and hassle free. (Mann and Hawkins, 2006)

In the USA, fourteen states and the District of Columbia have made a definitive statement to prohibit the high costs of payday loans by effectively enforcing rate limits of about 36%. In fact, experiences of consumers in payday-free states show that eliminating the payday debt trap brings a host of positive benefits and they employ a variety of strategies to address a cash flow shortfall at a fraction of the cost of payday loans (Howarth and Davis, 2015). In a recent development payday lenders of US asked a federal judge in Washington, D.C., for emergency relief to stop what they called a coordinated effort by U.S. regulators to stop banks from doing business with them, threatening their survival (Stempel, 2016).

In sum, the best case against payday lending is that the market is plagued by cognitive failures, unlikely to be well policed by competitive forces, and likely to generate external costs borne by the rest of society. (Mann and Hawkins, 2006)

2.5.2 The case for payday loans

Despite its unfavorable reputation, the licensed payday loans industry provides a necessary service for cash-strapped Canadians. Data from the Bank of Canada indicate that credit issued by the licensed payday loans industry represents 4.2 per cent of the $70 billion in total outstanding household consumer credit (excluding residential mortgages) issued by non-bank institutions in 2016. This makes payday loans an important source of credit for Canadians. This industry is characterized by low market power, cannibalization by illegal online lenders, and a high incidence of bad debt. Nevertheless, there is some risk that licensed payday lending could become uneconomical if aggressive policy changes are implemented surrounding fee caps like it is happening in Alberta. Displacement of consumers from legal payday-lending channels can result in a spillover of borrowers into unregulated (alternate) lending channels that cause consumers to incur higher debt costs. (Canadian Consumer Finance Association: Filling the Gap—Canada's Payday Lenders, 2016)

CHAPTER 3. Case Studies - Learning from examples

3.1 Barclays Bank, UK - Exploring Opportunities for early intervention

There is an increasing interest in the UK credit industry, the advice sector and government to explore ways of engaging with potential creditors/borrowers at an early stage with consumers who are at risk of financial difficulties, in order to prevent the escalation of debt problems and avoid the costs of debt recovery. The wider economic and social benefits of this type of early engagement are compelling.

It is estimated that the average cost of a debt problem to the public purse and in lost economic output is over £1,000, with more serious problems costing many times this amount. There is also strong evidence of an association between personal debt and mental health problems.

Barclays offers a pre-arrears service that is available to customers who have a personal unsecured loan or overdraft and who are showing signs of financial difficulty, even though they may not yet have missed a repayment or be over their overdraft limit. A dedicated pre-arrears team called the Customer Review Team (CRT), gives assistance to customers who call in of their own volition as well as proactively contacting customers where Barclays' systems indicate that the customer may be showing early warning signs of financial difficulty.

Barclays CRT offers a range of options to support customers at risk of financial difficulty, including reduced repayment plans and freezing interest and charges. Where appropriate, the CRT recommends that customers seek free, independent debt advice (for example from a Citizens Advice Bureau, National Debtline or CCCS) and allows time for them to obtain that advice in line with the recommended ‘breathing space’ timescales set out in the Lending Standards Board’s Lending Code.

Customers who were proactively contacted by Barclays were generally worried about their financial situation at the time they received the telephone call from the CRT. Customers welcomed the proactive contact by the CRT at the pre-arrears stage. 80% of customers who were proactively contacted went on to work with the CRT to address their financial issues. A minority of customers (20%) decided not to engage with the CRT. Some, in fact, felt that the bank should have contacted them sooner before they had incurred the charges. Despite their ambivalence, all these customers went on to discuss their financial situation with the CRT.

Where customers' financial concerns with overdrafts and personal loans were resolved through the pre-arrears service (which was the case for most of them, as we saw above), they generally reported a positive financial impact. As well as this financial impact, customers reported other positive effects of early engagement. The one most commonly mentioned was a feeling of relief as a result of sorting out their financial concerns with Barclays. Customers also reported changes in their attitudes and behavior. (Collard, 2011)

3.2 Money Advisory Service, UK – the rise and fall

Otto Thoresen, a head of a financial services firm, was asked by the UK Treasury to design a national money guidance service in the year 2007. (Thoresen, 2008)

His review in 2008 suggested that a free money guidance service should be set that would use a sales-free service for significant life events that affect finances, such as starting work, buying a house, having a baby, divorce or retirement.

His report suggested that a free, national service using the telephone, internet and face-to-face advice would help people to budget and understand the technical jargon used by the financial services industry.

The advisory service was recommended to be most effective way of serving different groups of consumers, while ensuring effective targeting of those most vulnerable to the consequences of poor financial decision-making, providing a telephone-based point of contact and the potential for additional face-to-face services.

It was supposed to a preventative service i.e. not designed for those in crisis. The service was to help people budget and plan for both today and the future, to be able to withstand financial shocks, to avoid crisis and to fulfill their aspirations. People who were in crisis were envisaged to contact the service and were to be referred to organizations best able to assist them.

The help that was proposed to be offered by the Service were:

- Budgeting household spending
- Saving and borrowing
- Protecting and insuring the family
- Planning retirement
- Understanding tax and welfare benefits
- Translating financial jargon

According to the recommendations of this report, a Money Advise Service (MAS) was launched in 2010, essentially a financial body. It was funded by a levy on the financial industry. To promote the service an elaborate advertising campaign was rolled out.

In 2016 a review was done by the UK Treasury Department to review the financial services available in the UK and whether MAS was effective or not. It was found that the market delivered high-quality solutions to those who could afford advice. However, not everyone wanted or needed a personal recommendation in respect of every decision, nor did they always need a comprehensive assessment of all of their financial circumstances and requirements. It was clear, though, that people would often like more support in understanding the options that are available to them.

Lack of consumer engagement and demand were important factors that were holding back the development and growth of the advice market. While cost was one factor holding back people to get financial advice another factor was the lack of trust in advisers. Many people were unsure how to go about finding good financial advice.

The primary recommendations suggested were:

1. Lead a task force to design and test a set of rules of thumb and nudges.
2. Work with employers to develop and promote a guide to the top ten ways to support employees' financial health
3. Develop mass-market automated advice models to bring these to market more quickly

Later in 2016 this Advisory service was reviewed and closed. It was decided that it should be spawned off into two separate bodies – one for pensions and other for money support. Looking back the MAS was considered to be badly conceived with far too much emphasis on financial education that was a 'waste of time'. It was concluded that passive education efforts like producing information on pamphlets and posters– and even to an extent websites – don't work. (Sands, 2016)

3.3 Low-cost Payday loans provided by non-profits and credit unions

In November 2016, The Causeway a non-profit organization in Ottawa launched a fund to provide loans of up to $1,500 to low-income residents who turn repeatedly to payday lenders. Those who get loans were charged the prime rate (currently 2.7 per cent) plus two to six per cent interest, and they had up to three years to repay. These loans were aimed at people with low-income, mostly living in poverty, mostly who have a disability or some other barrier to employment. The approach was to provide a payday loan to a person who borrows $500 every two weeks and gives them $1,000, to get them out of the debt and get them out of the rollover payday loan cycle. Causeway developed the fund in partnership with three credit unions: Alterna Savings, Your Credit Union, and Frontline Credit Union. A key part of Causeway's plan is to work with borrowers to improve their financial literacy. (Butler, 2016)

Similarly Canada's largest community credit union Vancity introduced a lower-cost alternative to payday loans in March 2014. Its "Fair & Fast Loan," has more flexible lending criteria, is designed to help members "get out of the cycle of debt" and build their credit history. Under the terms of the loan, if someone borrows $300 for the minimum of two months and pays it off after two weeks, it would cost $2.20, that is a 19-per-cent annual percentage rate. (Butler, 2016). This product initiative was to help the community and specifically the credit union members and not to make a profit, as elucidated by a Vancity representative.

Desjardins in Quebec and Momentum in Calgary have initiated similar projects. This model is prevalent in the USA where the credit union banks extend the loan that is linked with mandatory financial counseling sessions. (MacFarland, 2015), (Insights Into the Financial Lives of Very Low-Income Consumers , 2015)

3.4 How Peer-to-Peer lending helped participants and built their credit score

Lending Circles (LendingCircles.org) a non-profit in the USA organizes and provides a zero-interest loan to help participants build credit and access an affordable, small-dollar loan. Participants have to take the online financial training class before joining a Lending Circle. Six to ten people come together for an in-person formation and decide on an amount for their group loan; for example, 10 participants for a loan of $1000. Each participant has their own need or goal for the money they borrow e.g. paying off debt or paying for tuition. Everyone in the Lending Circle makes the same monthly payment ranging from $50 to $200, which the management of Lending Circles, Mission Asset Fund reports to the credit bureaus. The loan rotates each month to a different participant. In the first month, one participant receives $1000 and each month after that a different borrower will receive the loan until everyone in the Lending Circle has gotten a chance. After completing the program, many participants establish credit scores for the first time or improve damaged ones. This helped participants reduce debt by $1000 and increase credit score by 168 points with an average of $360 saved on interest rates per loan (Lending Circles - MAF n.d.)

3.5 How 'forced self-control' helps people who want to save

In Kenya, an experiment was conducted to increase usage of fertilizer. Initially, it was thought that the farmers do not know the benefits of fertilizer. But after research, it was found that when harvest season came, the farmers did not have enough money saved to buy fertilizer, although they wanted to buy fertilizer. The farmers had self-control problems regarding saving money to buy fertilizer. A solution had to be found to tie their own hands; to keep the money "safe" (from themselves) during the long period between harvest and planting. As a solution, a special account was introduced that let them lock up some of their money, and free it for use at a time of their own choosing. This simple product worked. Farmers given this option bought and used much more fertilizer and other inputs, leading to higher crop sales. (Datta, Saugata, 2012)

3.6 'Nudges' to encourage workers in informal sector to save

In this experiment, the researchers partnered with a savings product provider in Kenya to test the extent to which behavioral interventions and financial incentives can increase the saving rate through a voluntary pension program for informal workers with low and irregular income.

The experiment lasted for six months and included a total of twelve conditions. The control condition received weekly reminders and balance reporting via text messages to have a weekly saving. The treatment conditions received in addition one of the following interventions: (1) reminder text messages framed as if they came from the participant's child (2) a golden-colored coin with numbers for each week of the trial, on which participants were asked to keep track of their weekly deposits (3) a match of weekly savings: The match was either 10% or 20% up to a certain amount per week. The match was either deposited at the end of each week or the highest possible match was deposited at the start of each week and was adjusted at the end. (Akbaş et al., 2015)

Among these interventions, by far the most effective was the coin: Those in the coin condition saved on average the highest amount (100% more than compared to control) and more than twice as those in the control condition. The authors hypothesized that being a tangible track-keeping object; the coin made subjects remember to save more often. In particular, it suggested that in the context of savings, a tangible representation of overall behavior (coin representing overall savings) and small activities (scratches representing weekly deposits) can motivate a behavior with immediate costs and delayed gratification.

It was found that sending a regular reminder and balance report text messages increased average savings about 100% compared to not sending any messages.

These results support the line of literature suggesting that saving decisions involve psychological aspects and policy makers and product designers should take these influences into account.

Figure 5 - Visual of coin – (Akbaş et al., 2015)

3.7 Lottery based saving incentives in the USA

Prize-linked savings (PLS) accounts are becoming popular in the USA. These accounts, that are popular overseas, accrue little to no interest. Instead, account holders get entered into jackpot drawings, earning more chances to win as they invest more in the account. (These kinds of accounts have been legalized in the USA by the federal government in 2014)

PLS accounts attract new people into the banking system who do not have other savings accounts. And those account holders increase their savings by more than the average across all types of savings accounts, including standard accounts. Additionally, PLS accounts appear to reduce the number of people who buy lottery tickets. In other words, PLS accounts offer an attractive alternative to a particularly financially vulnerable population—those with no savings who are one large medical bill or car wreck away from fiscal disaster—while decreasing overall spending on lotteries, where the vast majority of people reap no benefit. (Cole and Iverson, 2015)

The first large-scale prize-linked savings program in the U.S. was created in Michigan in 2009. The program called Save to Win, rewarded account holders for every $25 deposit in year-long certificates of deposit (CD) accounts with entry to a raffle. Winners could receive monthly prizes of up to $3,750 or an annual prize of $10,000. Most of the participants in the program had never saved money before joining

Save to Win, according to the non-profit Doorways to Dreams (D2D) Fund, which helped design the original Michigan program. (Fahey, 2015)

Another Behavioral Economics version of lottery based saving experimented: In this experiment, the researchers hypothesized that framing a lottery based savings product that maximizes regret will increase savings rates compared to an equivalent product that does not mention regret. Accordingly every day the participant received two text messages on phone. The first message that he received in the morning reported how much the subject saved the previous day, how much the subject earned through interest or winnings, and their total balance. An hour later, subjects received a beginning-of-day message encouraging them to save that day.

Prizes were awarded according to how well a subject's lottery numbers matched the winning numbers. If the first or second numbers matched, a 10% match of savings was awarded. If both the first and second numbers matched, a 100% match of savings was awarded. Finally, if all numbers matched, a prize of 200 times daily savings was awarded.

These tickets only became redeemable, however, after subjects had saved a non-zero amount that day. Subjects with winning lottery tickets who did not save that day did not win money from their lottery ticket. However, they were informed of the amount they would have won in their end-of-day message the next morning, leading to a 'regret' factor and encourage saving. (Akbaş and Ariely, 2015)

3.8 What can a municipality do to limit payday lending

Most regulatory steps to control payday loans are discussed and implemented at federal and provincial level. However, municipalities can also take action to minimize payday loan by promulgating relevant bylaws. (Opportunities for Municipal Action on Payday Lending (Alberta) 2014)

One is by making Land Use Bylaw Amendment - Municipal councils can amend the land use bylaw to set a minimum distance between payday lending businesses. In Calgary, this is already done with liquor stores that must be a minimum of 300 meters apart from each other. A land use bylaw amendment designed to address the proliferation of payday lenders could limit their prevalence and contribute to better access to mainstream financial institutions.

The other can be Business Licensing Bylaw Amendment - Municipalities already charge differential business licensing rates across business types. For example, the Township of Esquimalt near Victoria increased license fees for payday loan businesses from $100 to $2000 in 2014. Revenue acquired through the increased license fee could have been potentially been invested in financial empowerment programs to reduce the demand for payday loans.

CHAPTER 4. Insights from interviews

4.1 Payday loans – borrowers' and other stakeholders profile

To get a deeper understanding about payday loans I conducted interviews with payday loans borrowers, debt counselors, bankers and investigative journalists.

Brief profile of respondents:

a) 7 actual payday loan borrowers – working international student, single mother, person on caregiver visa, recently divorced female, married couple with kids and two new immigrants

b) 3 debt counsellors

c) 2 investigative journalists – These Toronto Star journalists had investigated stories about payday lenders and borrowers

d) 4 bankers – Three commercial bank representatives and one from VanCity (that has an affordable payday loan product)

e) 2 expert interviews - One with an ACORN representative. ACORN is a non-profit that has many payday loan borrowers as their members. ACORN lobbies with the government to regulate the payday loan industry and is currently lobbying to legislate banks to provide a payday loan alternative. Another interview was with Mr. Douglas Pawson of Causeway, a non-profit which has launched a payday loan alternative in November 2016. He is the Director Social Business & Social Finance. He is personally involved with the loan appraising and financial counselling process with clients. This initiative is funded by three credit union banks. This project is in its pilot phase. (one telephone and one face-to-face interview)

4.2 Insights from the interviews with borrowers and debt counsellors

A borrower journey map can best illustrate some of the insights gained in this project

4.2.1 The prospective payday loan borrower is a contract part-time worker

Most of the working poor, payday loan borrowers I interviewed had contract part-time jobs and living paycheck-to-paycheck. Almost all of them found it difficult to pay regular bills and expenses and face the habitual challenge of making ends meet, not having enough each month, juggling bills and other payments, but still somehow managed to survive. Moreover, life events like job loss, reduced hours or divorce pushed them to the financial brink.

A borrower I interviewed commented "I work a couple of jobs, and I have my teenagers that I put through high schools. … And then the bills just keep coming, too, just constant bills". Another said "I've had a part-time job like for the last four years after my divorce, [but] the finances aren't like they were. … I got a second job."

The precarious urban working poor has limited savings and is on the verge of a potential financial problem and at that point they need a debt infusion, which in many cases is a payday loan.

4.2.2 Most borrow to meet day-to-day expenses

The majority of borrowers I spoke to have to borrow money not for an emergency but for day-to-day expenses like food, housing and paying bills. As one respondent (single mother) said: "The first (payday loan) was because I had no job, and I was really broke and my kid needed some medication and there were no groceries in the house so I just went (for a payday loan)".

But some life incidents like losing a job or a divorce also act as triggers to reach out for a payday loan. Like one divorced, single female respondent said “Basic needs, I was going through an abusive relationship, was trying to balance two part-time jobs… got divorced and lost one job … that’s when it all started (getting into the payday loan cycle to buy basic needs)” .

These points clearly illustrate that respondents reach for a payday loan because of their inability to pay for basic day-to-day expenses like groceries, utility bill payment, car repair or sometimes triggered by a life incident This was also corroborated in another Toronto study where it was found that the main reasons borrowers were taking a loan were for food 30%, housing 17%, bills 16%, to alleviate poverty 10%, to address bank issues 5%, medical issues 5%, cash liquidity 5%, and other reasons like transportation education, luxuries 12%. (Fantauzzi, 2016)

The trend to depend on a payday loan to fulfill basic needs is an extremely disturbing one. This means that while earning minimum wages the precarious workers are not able to cover the day-to-day expenses. Moreover, this economic trend has a possibility of aggravating as we move into the future because it is forecast that there will be decreasing number of permanent jobs in the economy that will be replaced by low paying contract jobs especially in the lowest paying jobs segment. This will increase the number of people who would be classified as urban working poor. These people will also face a similar situation and most likely end up as a payday loan borrower (earlier explained in Chapter 1.7).

4.2.3 Most borrowers borrow from a payday loan storefront

What I found was that borrowers reach out to family and friends for smaller amounts ($50-$100) if possible, but for anything above that amount, they go for a payday loan. Borrowers chose a payday loan shop either recommended by a friend or the one in the neighborhood. While currently most payday loans borrowers still prefer physical storefronts some opt for the mom-and-pop shops, as they cater to a specific borrower segment on basis of language or country of origin. Like one respondent said that "I went to the Moneymart near my place. Moneymart was recommended by a friend at work" while another said "I went to a payday loan provider who spoke my language… my community friends go to him".

In my interviews, only one respondent said that he went online for payday loans. But looking at the internet friendliness of the younger generation, they will most likely turn to online payday loans when they need one. Looking at this trend at least one online payday company (Lendirect.com) has been advertising heavily on TV channels. Presently legislations assume that even online payday lenders will follow the regulations but online lending is almost impossible to regulate as the online lender may be located anywhere in the world. A viable design solution has to take this into consideration, as it would be unlikely that a payday loan company outside of Canada would follow Canadian government legislation.

Storefronts: I visited a storefront and observed the following: A borrower enters the retail location, provides identification and proof of income, that is checked by the representative. Once approved the borrower signs the loan documents and receives the funds in an envelope.

I also checked out and found that storefronts are mainly concentrated in and around low-income neighborhoods. In fact, as the big-5 banks vacated and closed branches in low-income neighborhoods the same locations were taken up by payday loan companies. (Paperny, 2016), (ACORN, 2004)

Online: An alarming but expected trend that has been more visible since the Payday Loans Act was introduced in 2008 is the increase in online and mobile payday loans givers. A study found that approximately 25 percent of all payday loans in the United States are made online (Pew Research Center, 2012). In the UK 83% of customers take out high-interest loans like payday loans online

(Consumer Council of Canada, 2015). Experts suggest that the current proportion in Ontario may be substantially lower. Some experts estimated that online loans represent only 10 per cent of Ontario's market. However, stakeholders agree that payday loans are increasingly moving online and that this trend is likely to continue. (Deloitte for Ministry of Consumer Services, 2014).

Online and mobile payday loans pose several unique issues for consumer protection (regulated interest rates, full disclosures etc.). First, unlicensed lending is simpler to offer online than through a physical location. Given the low cost of establishing a website and the ability to host their website offshore, persons seeking to offer loans without a license face fewer risks and costs online. Second, borrowers may consider the information received online differently from that provided in brick and mortar stores. The Payday Loans Act requires lenders to disclose certain information to borrowers in their loan agreement. Online lenders are required to have the same information disclosed as bricks and mortar locations. Beyond the payday loan agreement, when online and bricks and mortar locations are required to make information available to borrowers, the method of communication differs. Third, there is concern that the growth of online and mobile borrowing may lead to more spontaneous or impulsive borrowing. Because online services may be easier to access than a physical store, borrowers may be less likely to consider other options before taking out a loan (e.g., identifying lower cost credit options, deferring or reducing expenses).

In a research done in 2015 by Consumer Council of Canada regarding online payday lending in Canada, it was found that there are mainly two kinds of lenders - licensed lenders who show a high level of compliance with regulations and unlicensed lenders who show virtually no compliance with regulations, both at two extremes without a middle ground. In provinces without regulation, consumers who seek a payday loan online are likely to encounter only the least compliant and least consumer friendly lenders. (Consumer Council of Canada, 2015)

4.2.4 Borrowers do not consider borrowing from a bank

None of the respondents went to their banks for a loan as they were wary of revealing their financial situation to the bank and felt that even if they discussed the situation banks would not have helped. This was also corroborated by Doug Pawson "Nobody went to their bank, before coming to me. They felt insecure revealing their financial situation to their banker. But they were completely open with me". Doug Pawson is the project leader, loan appraiser and financial counselor in Causeway, a Canadian non-profit. Borrowers felt that their traditional banks were not meeting their banking needs – were not able to provide overdraft or low-value loans, which was due to their poor credit score.

Analyzing the actual user interview data most respondents did not have a credit card or were already maxed out. Only one respondent had a credit card, but did not use it as she thought it will affect her credit score ``I did not take from my credit card…as if I thought it will affect my credit score…if I keep outstanding balance on my credit card" she said.

A similar trend was exhibited in a survey in Alberta where 67% of the borrower-respondents said that they would consider a payday loan if they needed $300. The other options like asking friends or family were 21%; 12% considered cash advance from a credit card. 15% said that they would wait for the next pay check or withdraw money from savings or investment accounts. (Canada Payday Loan Association, 2013). Most borrowers did not consider a bank and instead considered the high-interest loan because they had no overdraft protection available on their banks. Access to credit was one other major problem - 45.3% of respondents said that did not have a credit card; 43% said that did not have a line of credit; 19.5% had a credit card but was maxed out; 12.5 did not have a prepaid credit card. (Fantauzzi, 2016).

4.2.5 Borrowers are generally unaware of the cost of borrowing

Several interview respondents (borrowers) actually did not comprehend the high-interest rate they were paying, and all of them felt that they had no choice but to take a payday at whatever interest rate. Borrowers shared a number of similar drivers of behavior, most notably the perceived or actual need to access credit quickly and limitations in access to other sources of credit. This behavior was exacerbated due to the fact that speed of access to credit was more important than other factors such as long-term costs. “You don’t think about the cost of funds …. when an emergency hits you,” said one of them. Usually, they were not aware of the high cost of the payday loan as the need of getting the money ‘now’ impaired their ability to do a fair comparison and take a judgmental decision. They relied on the information given by the payday lender. They did not adequately compare different credit products. This entire behaviour pattern is called stress induced cognitive impairment in behaviour economics terms. Many borrowers commented that payday lenders did not explain about the interest rates. “I think it would have helped if they specified what the interest rate is (although later I saw there was a flyer). They just explained in dollar terms and that seemed do-able”. If the borrower understood the interest rate implication (eg 432% per annum instead of $18 per $100 for 2 weeks) they might have borrowed the very least required.

This was in tune with some other studies that found that fewer than half of respondents (43 percent) understood that a payday loan is more expensive than available alternatives. (Financial Consumer Agency of Canada, 2016). Forty percent of those using cheque cashing services did not believe that the service fees that they were paying were any higher than those offered by mainstream financial institutions. (Stapleton, 2014)

4.2.6 It is ‘too convenient’ to get a payday loan but very difficult to pay back.

The insight that I gleaned was that almost all respondents who took the loan for the first time believed that it was a 'short term two week loan' they were taking and would repay in two weeks. They were over-optimistic about their ability to repay and thus did not look at the interest amount too carefully. However, this perception was incorrect as they realized within two weeks how difficult it was to pay back the amount, that forced them to take another payday loan. One borrower commented, "I thought I will be able to pay definitely by the next pay day…did not realize that it's going to take six months."

The complete process of getting the payday loan was too convenient and created a false sense of over-confidence, comfort, and complacency (vis-à-vis the rejecting attitude that banks display). This nudged the borrower to borrow the maximum amount the payday loan borrower approves, maybe over the amount the borrower needed, which aggravated the problem in the long run. "It was simple and solved my problem then …but today, I'm actually worse off. I'm deeper in debt than I was when I first took the loan" is what one borrower commented.

When borrowers borrow they do not consider the long-term perspective and generally do not realize the burden that they are taking on. They have a tendency to be generally optimistic that their live situation will get better, but soon realize that the repayment becomes an additional bill, and forces them to roll over the loan with another payday loan company. This adds to their woes of trying to manage expenses and keep head above waters.

4.2.7 People borrow repeatedly as they over-borrow and there is no installment payment option

There are several reasons why borrowers borrow repeatedly. First is the same over-optimism explained earlier and the other is that taking the subsequent payday loan is as easy as the first one thus they exercise that easy option. This in a way delays the situation but aggravates the gravity of the debt trap. And to extract themselves from this situation they have to look for a large inflow of cash from other sources. Because there is no central database of payday loan borrower it is impossible to check whether a borrower is a repeat borrower or not.

The basic reason why most of the borrowers borrow again is because they do not have enough money on the next payday to repay the loan principal and fees in full. And this is because payday loan terms mandate that the full amount needs to be repaid, without any installment payment option.

“Well, Friday came, you gave them your pay, what you owed them, that cleared off that loan, but now you have nothing, so you have to re-borrow to survive the week or two weeks” summarized a borrower.

My qualitative research is many ways substantiated by other quantitative research that found that nearly 23 percent reported taking out six or more loans in the last 3 years. Some 37 percent reported two to five payday loans. In most provinces, direct rollovers are illegal, requiring borrowers to seek out new lenders. (Financial Consumer Agency of Canada, 2016)

The government of Ontario implemented a legislation to prevent any single payday lender from offering ‘rollovers’ (serial borrowing every two weeks). Nevertheless, there are no measures in place to track repeat borrowers. Plus the payday loan terms do not allow borrowers who cannot pay back the full amount on time to pay it back over a longer period. Hence, borrowers are forced to borrow from more than one place as a way to keep up with repaying their loans. (Marsh, 2010)

4.2.8 Borrowers do not have any savings for the rainy day

The very reason why people borrow is that they do not save for a rainy day. As the urban working poor have fluctuating income they can potentially save only when their income goes above their spending threshold. It is just that their circumstances have conditioned them not to save, even when they have disposable income and they do not have self-control to save even when they do get the opportunity to save. “My earning is very erratic….so I don’t end up saving. Usually, the earnings just cover the bills” as one respondent remarked. Another respondent told me that she spends money on buying lottery regularly with the hope that a lucky ticket will alleviate her from the situation. It means that the money that she could potentially save is just spent away on a lottery where chances of getting returns and extremely slim.

Compared to the general population, the respondents did not have savings. But it does not mean that they are not budget conscious. Their daily income, which itself is fluctuating does not allow them to stick to their budget. This fluctuating income also does not allow them to save a certain percentage or fixed amount every paycheck.

In line with my findings in a payday loan study conducted by FCAC, only 24 percent of borrowers reported household savings of at least $1,500 (the maximum value of a payday loan) that they could access right away to cover unexpected expenses. Nearly half (47 percent) indicated they had no cash savings at all. Even among respondents with savings, many said they would not use their saved funds for unexpected expenses. This is justified by behavioral research that shows that people with savings often turn to high-interest credit if their savings are earmarked for another use. (Financial Consumer Agency of Canada, 2016)

These findings highlight the need for consumers to increase levels of emergency savings, when feasible, that they can access during difficult times. The borrowers also need to be educated that they should access their savings before accessing a payday loan.

4.2.9 Borrowers do not seek financial advice when needed

Availability of good debt advice is important for resolving problem debt, as is the need for borrowers to have the incentive and information to seek this help at the optimal time. Borrowers do have options to seek free debt advice and to help resolve problem debt and it is important that they access these resources at the right time. But they do not because they are not aware of the free service and also because they are time constrained being caught up multiple jobs, commuting and managing the family.

“They (payday loan borrowers) think of seeking debt counseling advice when they are in real trouble. Usually, a friend recommends and then they come to us…it is at that point we give financial education and advice. We also speak to the lenders on their behalf to negotiate … maybe lower interest payment and payment in installments” said a debt counselor I interviewed. Similarly, Doug Pawson of Causeway said, “Borrowers come to us usually when their payday loan debts get unmanageable. We provide counseling and also a new short-term loan to pay it off and then they pay us back in installments (at reasonable interest rates) “.

The debt counselors opined that debt advice seekers are more likely to remain in manageable debt than non-advice seekers. They also reported that even when borrowers have resolved their situation, their past debt problems usually have an impact on their credit rating and the ability to obtain new credit. This means that it is difficult for them to break free of the ‘debt trap’, for example, to gain access to cheaper forms of credit.

This opinion was found to be true in a survey conducted by FCAC, where only eight percent of respondents reported sought financial advice when they felt it was needed. Surprisingly, 27 percent never sought out advice even when they felt it was needed. Getting advice on financial products and services is an important step in achieving financial well-being. For instance, FCAC research indicates that getting financial advice increases the likelihood of saving and financial planning. (Financial Consumer Agency of Canada, 2016). Research also shows that consumers who seek debt advice at an early stage are more likely to resolve their problems. (Competitions and Market Authority, 2014)

An important point highlighted by the debt counselors was that credit scores are a great unknown to many payday loan borrowers. “Some borrowers had no idea what the score is and why it’s important,” said one debt counselor. “If the clients did know what a credit score is, some were afraid to find out what the number is, believing it will make them feel bad about themselves if it’s low,” another counselor said. To aim for a long term solution and financial independence for the borrower the borrowers need to be educated and helped to improve their credit scores. Only then could the borrowers join the financial mainstream and get a loan like overdraft or line of credit from a commercial bank.

4.3 Commercial banks cannot launch a payday loan like product

From my interactions with representatives of commercial banks, it was clear that it is unlikely that commercial banks would consider launching a product similar to payday loans – an unsecured small value loan. The reason being that commercial banks as per their corporate policy choose not lend to clients who have poor credit scores (whereas payday loan companies do not consider credit scores as a lending criteria). Moreover, for such a small value loan the cost of processing would be too high per dollar loaned. On the other hand, credit unions can or already have a payday loan like product for the benefit of their members as their guiding policy is different i.e to serve the community.

Theoretically, if a payday loan product were to be launched by a commercial bank the cost of processing the small value loan would be too high. This would mean that the effective interest rate would be out of synch with the regular rate of interest of other lending product. This was cited as another reason the banks would not launch such a product. Therefore the root cause of not offering a payday loan product lies in the governance of the commercial banks.

I also spoke to a Vancity representative (Vancity is a Vancouver-based Credit Union Bank). Vancity has an alternative to a payday loan called Fair and Fast loan, that lends up to $3000, determined by the payback capability of the borrower. The representative said Vancity offers the loan only to its clients who are called members. The reason Vancity offers this loan is because for them “people come before profits”. The representative commented that commercial banks will not offer such a product as commercial banks have a profit motive and these kinds of loans are not a profit-making proposition. He informed that the average loan amount is $1200 with payback over 15 month period. To process this loan a bank official sits down with the borrower, understands his needs, looks at his payback capacity, gives financial counselling and then offers the loan (people with low credit scores can also get a loan, provided they have the capacity to pay back). When the client pays the loan back it enables the borrower to improve his credit history, as the installment payments are reported to credit bureaus.

Although Vancity has a much more favourable interest rates and payback terms there are several reasons many payday loan borrower do not approach Vancity. It might be either because they are unaware of this loan product or do not realize the interest differential or they are convenience seekers – those that need cash immediately and looking for ease that the payday companies offers; open early, close late, multiple locations, fast process time.

Therefore, it is worth exploring how credit unions in Ontario can be leveraged to provide a payday loan alternative. Concurrently the Causeway model (discussed in Chapter 3.3) can also be emulated to provide an alternative. In the interviews I had with the representatives of the commercial banks they said that as far as personal lending is concerned the banks can lend (unsecured loans) only on basis of reasonably good personal credit scores. From that perspective bank already have products like a line of credit, overdraft, and release of funds (to make available funds on hold instantly) for clients who have acceptable credit scores. This reiterates the importance of improving the payday loan borrowers credit score.

4.4 The Journalists' Response

The two investigative journalists I spoke to reiterated the fact how predatory the payday loans are. One of them Jim Rancin had covered the payday loan way back in 2004, and he said that on basis of his investigative article series the provincial government promulgated the initial legislations. David Bruser, who recently covered an investigative story about a payday loan lender catering primarily to Filipino nannies gave an interesting insight. He said that in the claims court more often than not only the lender is present for the court cases as the defendant neither has the time nor money to pursue the case. And therefore the judge gives the verdict in favor of the lender, in most cases.

4.5 Perception Mapping - What do borrowers feel about payday loan

Figure 6 – Random Keywords

Fig 7 - Keyword Clustering Keyword

I used, a thematic clustering method to make sense of data/words collected from interviews. In this instance, I picked the keywords from the conversation I found significant to make a thematic clustering. . I used Post-It notes to create a board that I subsequently segregated on basis of positive, neutral and negative comments.

4.5.1What borrowers thought about payday loans

Positives - Non-judgemental, Accessible, Emergency rescue, Simple, Life saver, Helpful, Friendly, Convenient location

Neutral - Good in emergency but dangerous, Sweet (to take) and sour (pay back), Honest but unfair, Helpful but dangerous

Negatives – Tempting, Worse-off, Expensive, Money hungry, Too easy, Should be abolished, Evil, Mistake, Rip-off, Never ending, Panic (creates panic), Scary

What stood about out from this analysis is the wide spectrum of reactions. While the positives reactions came from borrowers who had taken a payday but were able to payday fairly soon the borrowers who had to roll over the loans had a negative reaction. This reiterates the fact that payday loans are a necessity as in many situations these are the only place a borrower can access emergency loans. But payday loans transform into a burdensome problem when the loan payback becomes a problem and borrower is caught in the trap.

In designing and proposing a solution I have aimed to highlight the positives while minimizing the negatives.

4.6 The Customer Journey Map

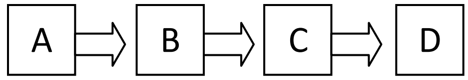

Figure 8 – Customer Journey Map – Diagram A

Diagram A (Followed by B, C and D)

1. The prospective payday loan borrower is in distress as she is unable to make ends meet (grocery, utility bill, rent). She has two part-time jobs that provide irregular hours. She feels victimized by the circumstances. She feels that inspite of working so hard (or willing to work hard) she is still not able to make ends meet. She has had conversations with her regular bank about non-sufficient fund charges and bounced payments. The conversations make her feel that she is doing 'something wrong' and being penalized, and this lowers her self-esteem.
2. Eventual shortfall (crisis point) happens. It can be an unpaid utility bill or ran-out-of-grocery situation or life events like job loss or divorce. This triggers the need for immediate cash infusion/loan. The need is desperate. The borrower does not have any savings to fall back on.
3. Borrower either does not have a credit card or is maxed out on credit card or does not access credit card cash advance as thinks it is more expensive than a payday loan or thinks it will affect

the credit score.

4. The borrower does not want to reach out to friend or family (or does not have friends or family). She is aware that banks will not give her a short term loan and does not even approach banker.

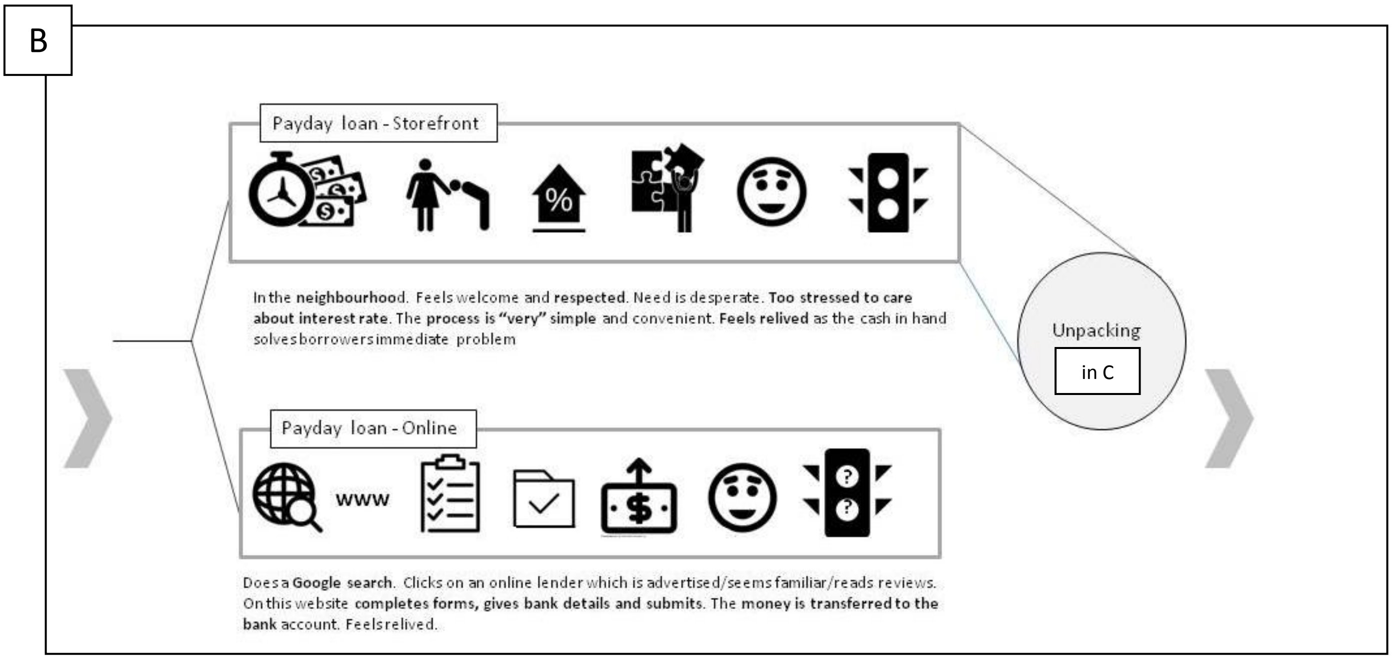

Figure 9 – Customer Journey Map – Diagram B

Diagram B (Followed by C and D) – Storefront and Online

1. Storefront: Walks across to the payday loan facility nearby (asks a friend at work who recommended a brand). Feels welcome and respected. The staff is non-judgemental. As her need is desperate she does not understand the rate of interest and is too desperate and stressed to care about interest rate (cognitive impairment under stress). The process is extremely simple and convenient. Considers that it is a short term loan that she thinks she will pay back next pay check. After getting the loan feels relieved as the cash in hand solves her immediate problem.

2. Online: The borrower goes online and does a Google search. Clicks on an online lender that is heavily advertised. On this website, borrower looks at the details and is in too much stress and hurry to check interest rates. Completes forms, gives bank details and submits. The money is transferred to the bank account. Borrower feels relieved.

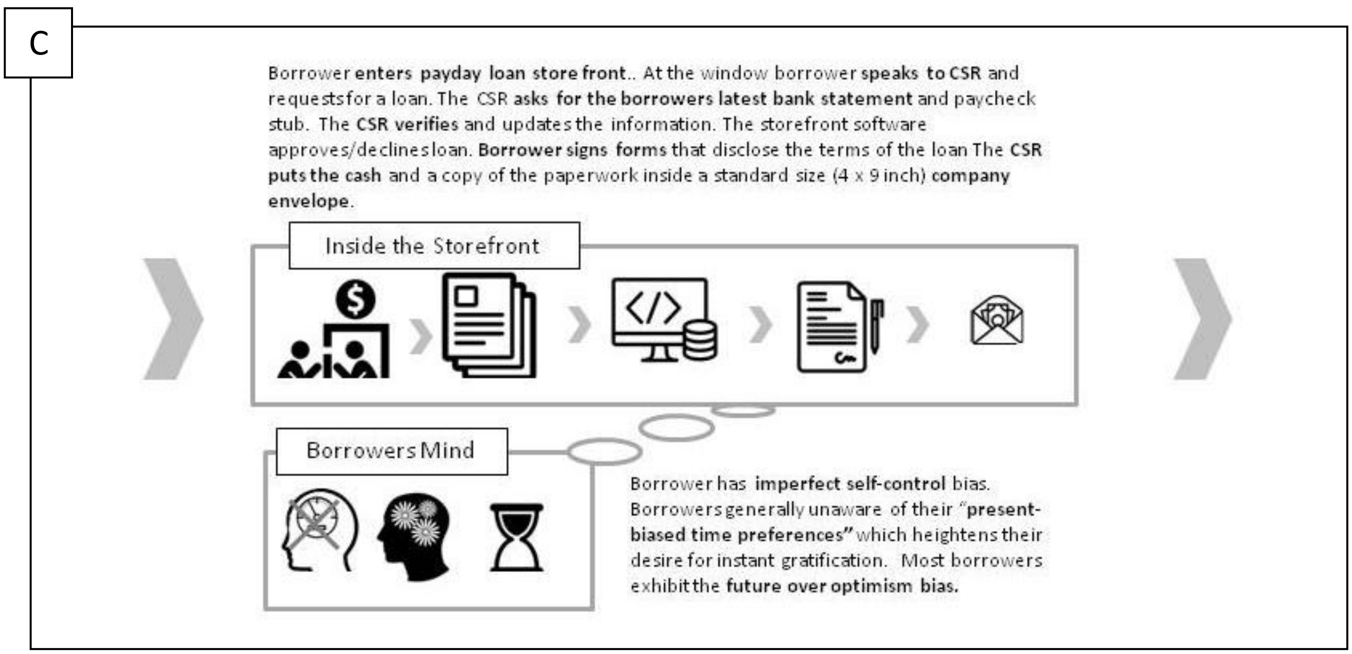

Figure 10 – Customer Journey Map – Diagram C

Diagram C (Followed by D) – Storefront experience explained in detail

1. Borrower enters a nice, well-lit shop…looks like a friendlier bank. Borrower enters store front and approaches a counter to meet the representative (CSR) works or waits on a couch. The person is not a not intimidating, formally dressed. At the window, borrower speaks to CSR and requests for a new loan or a refinancing of an existing loan. The CSR asks for the borrowers latest bank statement (or asks the borrower to log on to the bank account) and paycheck stub.

The CSR verifies and updates the information - employer, income, banking, and personal details. The CSR reviews the information on her computer system and determines how much can be loaned. If approved the cash loan is offered, the borrower signs forms that disclose the terms of the loan and convey the information mandated by state laws, including the APR. The CSR puts the cash and a copy of the paperwork inside a standard size (4 x 9 inch) company envelope and writes the payment due date and the amount due on the calendar printed on the outside of the envelope.

Behavioral Economics Analyses: The availability of rollovers heightens a borrower's exposure to imperfect self-control bias. Borrowers are unaware of this cognitive predisposition that makes them vulnerable to the over-indebtedness by taking another loan as the original loan effectively remains open-ended. Borrowers are generally unaware of their "present-biased time preferences" which conditions their borrowing habits. It heightens their desire for instant gratification, that can often result in problems in borrowing/ spending. Most borrowers exhibit the future over-optimism bias, which creates a self-belief that they will be able to pay the loan easily. (The behavioral economics terms explained in Appendix 3)

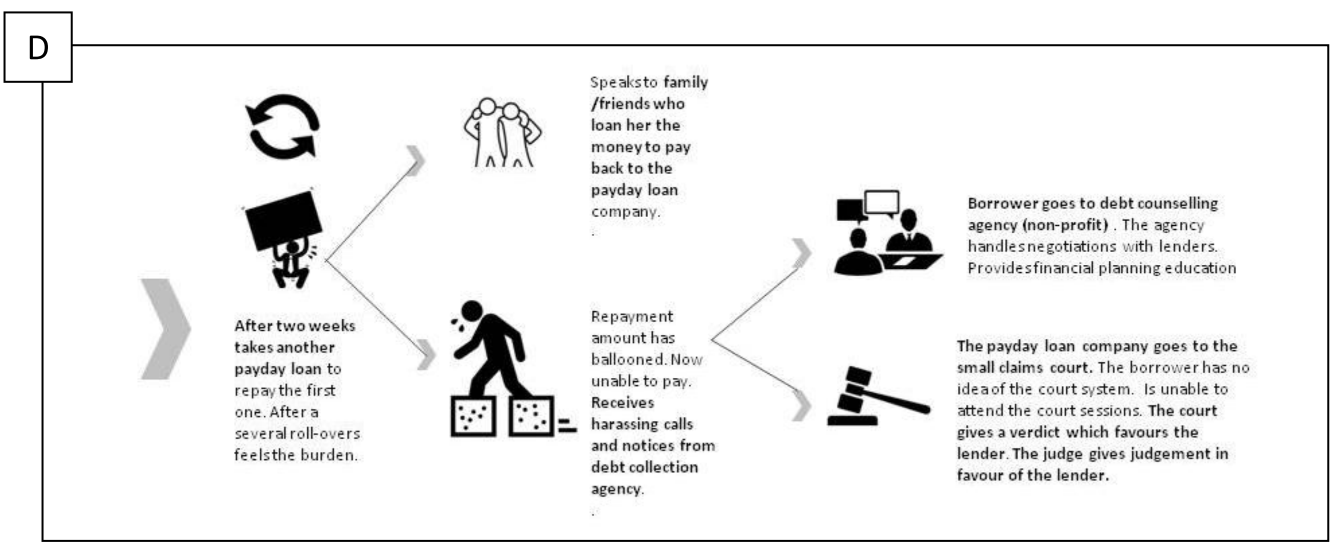

Figure 11 – Customer Journey Map – Diagram D

Diagram D

1. After two weeks on payday when the payday loan company withdraws money as a PAD (pre-authorized withdrawal) from her bank she is again in the same situation - no money and she needs money for another two weeks. Moreover, if the borrower does not have the required funds and the PAD bounces she is charged a non-sufficient fee by the bank. And she in a contract worker and receives her wages as a cheque or in cash by the time it is available in the bank the PAD would have bounced. Realizes how expensive it is ...it was a mistake...and it is a never ending loop. Two optional scenarios:
2. Two optional scenarios:
    a. Scenario 1 : After several such cycles realizes she has to find the money to pay back. Speaks to family who gives her the money to pay back to the payday loan company. She pays back to family in installments.
    b. Scenario 2 : After several such cycles realizes that repayment amount has ballooned and is now unable to pay. Receives harassing calls from debt collection agency. Collection agency also calls her employer and she feels insulted. Two optional scenarios:
        i. Borrower goes to debt counseling agency, suggested by a friend. This agency speaks to the lender and other creditors (banks, utilities) and negotiates a reduced pay back and payments in installments. Also, educates the client about financial planning.
        ii. The lender takes the case to the small claims court. The borrower has no idea of the court system and does not have money to get legal advice and neither has time to attend court sessions. The court gives a verdict that favors the lender. According to the court ruling, it is garnishing wages ...or filing bankruptcy.

CHAPTER 5. The Design Solutions

5.1 Identifying the most effective points of intervention

After analyzing the customer journey map based on the interviews and interactions I had with the various stakeholders I identified the points of intervention to effectively address the design problem - How might we minimize the uptake of the high payday interest loans by the urban working poor who are present or potential payday loan borrower.

5.1.1 Identify the payday loan borrower before she borrows

This is to follow the rule of disease management - prevention is better than cure. If the prospective payday loan borrower could be pre-identified and provided possible alternatives and solutions at the time they are under financial stress, but before they opt for a payday loan, the problem could be nipped in the bud. This is based on the fact that almost all payday loan borrower commented or felt that they would never have taken a payday loan (or at least taken the very minimal amount) if they had known about the long-term consequences and pitfalls.

5.1.2 Minimize the roll-overs of the payday loans

The biggest problem a payday loan borrower faces is the cascading effect of multiple rollover loans to essentially pay the first loan. For the borrower, it is not the high-interest rate that hurts but the way the repayment is structured hurts. The high interest rate combined with the inflexible repayment terms (full repayment within 2 weeks) forces the borrower to rollover. In many cases the borrower is not paid every two weeks or is paid by cheque which is subject to a bank hold policy. A change in this repayment structure would become a very effective intervention point.

5.1.3 Find a friendlier payday loan alternative

The need for a small value, short term loan will always exist from people with low credit scores. The intervention objective would be to collaborate with stakeholders to create a viable alternative – that has friendly interest rates, installment repayment terms and more importantly that would guide the borrower towards a better financial health. Similarly, there are alternatives like peer-to-peer lending and micro-finance that can moulded to suit the needs of the payday loan borrower.

5.1.4 Create empathy for the borrower

When the urban working poor wants to borrow they do not reach out to banks or employers or even family and friends as they feel that asking for a loan is 'bad' and they feel stigmatized. Besides the convenience, the reason they go to a payday loan company is that it is anonymous and they feel respected there. If the stigma about the loan is minimized the borrower will be more open to checking the other possible borrowing avenues. And the potential alternative lenders like their employers will be more empathetic and might provide a wage advance.

5.1.5 Incent the borrower to save

The most challenging intervention would be to find ways to incent the borrower to save. If even a small percentage of the potential borrowers could be nudged to save it would be successful intervention

5.2 The desired customer journey – intervention designs

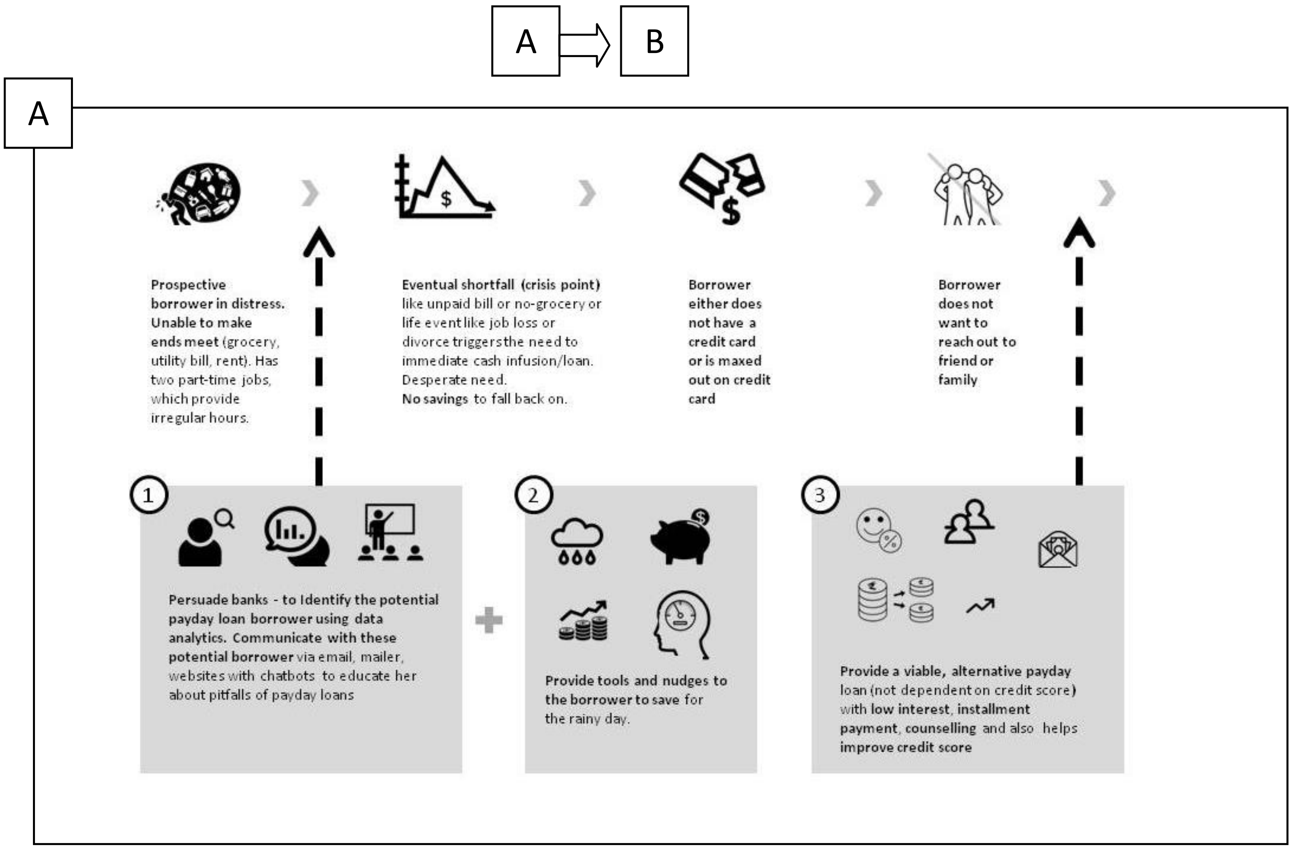

Figure 12 – Desired Customer Journey Map – Diagram A

5.2.1 Intervention 1: Use data analytics to identify potential payday loan borrowers and then communicate with the borrowers to provide options.

When a financial crisis befalls a person it becomes difficult for her to take a rational decision. She opts for the most accessible option which most likely happens to be a payday loan and does not evaluate the comparable rates of interest and fails to realize the problem she is walking into. A pre-warning just before a potential problem would act as a risk-preventative or risk-minimization measure. When a bank sends a communication to the identified potential borrower, she will look at it seriously and possibly act on it. She will get information on available loan options and free financial advisory agencies database. This step would also improve the bank's image amongst potential borrower in specific and the public is general as it will exhibit that the bank is taking active steps to help their vulnerable clients. On the flip side there is a possibility that borrowers might feel that banks are intruding on their privacy, more so because they want to maintain an unblemished history in the bank.

This initiative has already been implemented successfully in the UK where banks have taken the responsibility voluntarily to identify and pro-actively contact the client who might be a potential problem (discussed in Chapter 3.1). This initiative can be taken up by Canadian banks as their social corporate responsibility. The initiative can be evaluated and kick-started by Canadian Bankers Association in conjunction with FCAC (Financial Consumer Agency of Canada). This will reduce the social obligation of the banks which are under constant pressure to provide a payday loan product.

To execute this initiative banks need to adopt a memorandum similar to the Lending Code, UK, an initiative to be taken by the Canadian Banking Association.

In the first phase of implementation, it might be difficult to set up a call center to reach-out these clients as it is done in the UK. Therefore the clients can be sent a mail package and an email series. The mail packages would inform the clients about the possible alternative loan options available, debt counseling agencies and the pitfalls of a payday loan. The email will have similar information with information about to relevant websites and the customized FCAC web pages. The FCAC payday loan webpage itself would have more details about the email information. It would also give information about credit scores – how to access credit scores free from credit bureaus, how to interpret credit scores, steps to improve credit scores. This would be of great value as credit scores are a grey area for most payday loan borrowers. The website can be equipped with a chatbot that can educate and hand-hold borrowers. The chatbot would ensure there is a personalized one-to-one communication with the potential borrower.

5.2.1.1 Evaluating the data analysis parameters to identify a potential payday loan borrower

According to the Statistics Canada data, the age of a household's major income recipient (the person in the family with the highest income before tax) is a significant predictor of payday-loan use. Households with a major income recipient between the age of fifteen and twenty-four are six times more likely to have used a payday loan than those with an income recipient over the age of forty-five, even when controlling for other characteristics such as income and bank balances. Although not conclusive, this is suggestive of poorer financial management and decision making on the part of younger, less-experienced, and more naïve households. Younger households are also generally less asset rich and have less established credit histories that can limit their access to other forms of credit. Additional predictors of payday-loan use include the status of bill payments. When controlling for other characteristics, households that were behind on payments were 4.3 times more likely to have used a payday loan than those who were up to date. While the causal relationship is not clear, demand for credit will inevitably be higher in households that are behind on bill payments, and US-based research has suggested that payday-loan use can lead to increased difficulty paying bills. A Statistics Canada study found that those who had been refused a credit card were more than three and a half times more likely to have used a payday loan than those who had access to a credit card. (Dijkema, 2016)

Therefore for data analytics, the parameters to identify a potential payday loan borrower would be age, refused credit card, NSF (non-sufficient funds charges), fluctuating income, having only checking account (or saving account with zero balance)

5.2.2 Intervention 2 : Legalize lottery based savings product and nudge borrowers to save

The main reason why the urban working poor opts for a payday loan is that they do not have savings for that emergency. To save during the income spikes in their fluctuating income requires self-control which as humans very few have. Therefore a nudge strategy needs to be adopted. The solution here consists of three parts – first identify the person who has a fluctuating income, second legalize and offer a lottery based savings account and nudge the person to save in this special kind of savings account and lastly provide a kit to the potential saver to remind and save as frequently as possible.

Again to effectively implement this person with low but fluctuating income has to be identified using data analytics and then nudged to save.

Canada like USA needs to legalize the lottery based savings account (called prize linked savings account is USA) and the banks and credit unions can be persuaded to launch lottery based savings accounts (these accounts accrue little to no interest; instead, account holders get entered into jackpot drawings, earning more chances to win as they invest more in the account as explained in Chapter 3.7). Clients with precarious, fluctuating income will then have to be nudged to save for themselves when they have excess funds through this account. Lottery based savings accounts have proven to be an extremely effective tool to incent people to save. This account provides a thrill-factor to the saver - that there is a jackpot which they could win to alleviate them from their situation while also saving for themselves.

According to Statscan 46% of households with incomes of less than $20,000 gambled in 2009 and spent an average of $390 per year and 62% in the bracket $20,000 to $40,000 spent an average $415 per year on buying lottery. (Marshall, 2011). The objective of the lottery based savings account will be to divert these spending into savings, that can potentially avert the need for a payday loan for many borrowers.

Once legalized the potential payday borrower will be mailed out a kit that will nudge them to save through the lottery based savings account. This communication activity can be funded by the banks as a part of their marketing or corporate social responsibility initiative. The kits can have a fridge magnet as a reminder to save (like gold color metal coin representing a jackpot discussed in Chapter 3.5 and 3.6. What would be effective for the Canadian target audience needs to be researched). To make this saving loop more effective whenever the client opens this account they will auto-opted-in to receive text messages or email that will announce the weekly winners. These winner-messages will remind and nudge them to save more while participating in the lottery to win the jackpot. The fridge magnet can play the crucial role of the savings reminder tool in an environment where the client is inundated with cues that push them to spend.

Non-profits that work with the working urban poor can also be asked to persuade their clients to open and save in these lottery based savings account. When this savings kit is given by a non-profit counselor, the saver would also be persuaded to receive SMS (through a central server) that will be customized and personalized for each person eg Hi Dad, how much did you save for my University education this week. Mike (son).

Caveat: Lottery generates massive revenues for the Canadian provincial and municipal governments that fund important initiatives like healthcare. Therefore the government would be reluctant to legalize and allow lottery based savings account. However, the government has to weigh the benefits of taking money from vulnerable populations versus dissuading them from spending on a lottery and falling into a debt trap which in turn costs the government system possibly much more to fight poverty.

5.2.3 Intervention 3 : Provide a viable, alternative payday loan (not dependent on credit score)

The root of the payday loan problem is the payday loan product itself. Although it provides many convenient features it comes with a price that adversely affects the borrower. Therefore it is imperative to develop a viable alternative. The new payday loan would ideally have all the features of the present payday loan with the following exceptions – low interest, installment payment option, financial counseling facility and also help the borrower improve their credit score to enable the borrower to seek credit from commercial banks.

To achieve there would be a need to push (persuade or legislate) credit unions in Ontario to offer a payday loan product like VanCity (discussed in Chapter 3.3). Subsequently, the credit unions' branch footprint can be increased to have a viable payday loan option available to borrowers.

5.2.4 Intervention 4: Use a micro finance model or peer-to-peer lending to provide personal loans

While micro-finance is synonymous with providing finance for to person or family to start or expand a micro business a similar option can be explored to provide a personal loan called personal microcredit. The common factor being that both recipients do not have access to traditional forms of credit because of their unique financial situation and low credit worthiness. This personal microcredit model would rely on cooperation models between social enterprises, public authorities and profit-making companies in the provision of affordable personal microcredit. To make this initiative successful it would be essential that the identification of potential clients is done by professionals close to the target population, which allows for a direct check of the requirement conditions. This model would have an important social role embedded in it in the form of personal follow-ups before and during the loan contract and provide clients with financial education training on the importance of savings and a well-managed budget to avoid future credit crises. (Corbucci, 2016)

This is very similar to the Causeway model discussed in Chapter 3.3. To make this model successful the alliances have to be created would be pushing between the financing entity, the public authorities and non-profit like Causeway. Commercial banks can be persuaded by public authorities to take this as a CSR (Corporate Social Responsibility) initiative and be the financing entity. Banks can also be encouraged to partner, collaborate or hand-hold the non-profit to enable them to further lend funds to their members who would be the actual payday loan borrowers (discussed in Chapter 3.3). This initiative will generate a loyal customer base for the banks and also increase brand equity.

The other alternative would be to introduce peer to peer lending circles through credit unions possibly in partnership with non-profits (discussed in Chapter 3.4). While this kind of peer loan will not be available instantly, it would instill the saving habit and more importantly help the borrower improve their credit score.

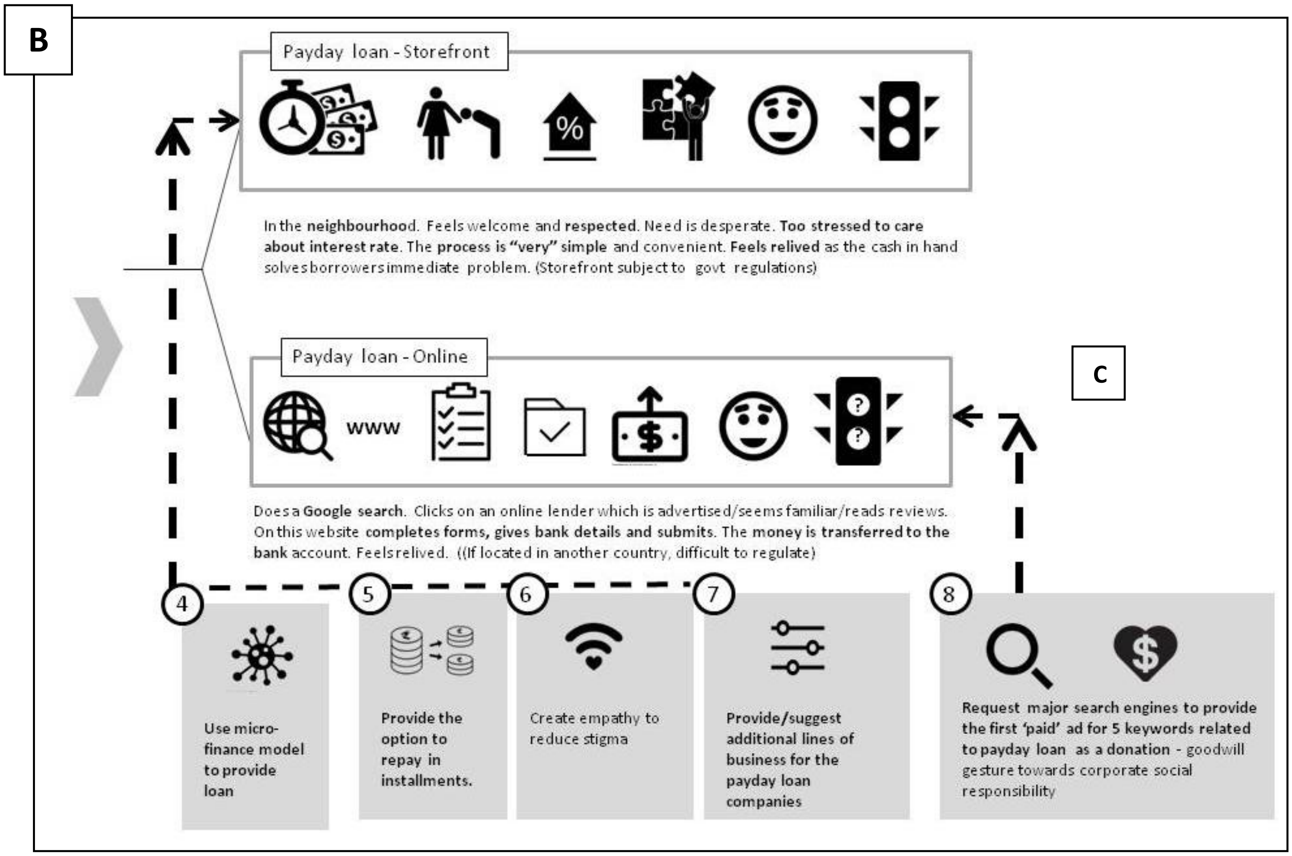

Figure 13 – Desired Customer Journey Map – Diagram B

5.2.5 Intervention 5 : Tinker with the present payday loan product to provide the option to repay in installments.

Once a borrower takes a payday loan for the first time the borrower is over-confident that she will be able to pay off within the stipulated two weeks, the same over-optimism bias. In reality, many borrowers are unable to pay back within the two weeks and are forced to re-borrow from another payday loan company to payback the first. If an installment repayment system is made available it would be much easier for the borrower to repay. To make this happen legislation has to be passed at the provincial level to force payday loan lenders to offer the installment payday loan repayment option. It can be made possible if it is taken by as a lobbying issue by ACORN, the activist non-profit.

5.2.6 Intervention 6: Create empathy for the financially strained urban working poor

To create empathy, the attitude of the banks and employers has to be changed. They have to empathize with the vulnerable situation of the urban working poor. The banks can launch internal communication campaigns for the front-facing staff to create empathy for the client who has a low bank balance, has some NSF (non-sufficient fund) charges and possibly suggest to them options to mitigate their situation. This can be ideally implemented with intervention 1 discussed earlier.

The employers' of the urban working poor should be open to listening to their problems and providing small wage advance. This can be made possible by creating a public discussion in media by the labour unions empathizing with the cause of the non-unionized workers.

5.2.7 Intervention 7 : Provide additional lines of business for the payday loan companies

The objective is to find alternatives for the payday companies generate new revenue sources and dissuade them from pushing for repeat loans and possibly offering installment repayment facility. This option needs to be explored deeply but allowing payday loan companies to sell or even maintain lottery based savings accounts might be one option. These payday loan storefronts are located in poor neighborhoods, exactly at the very places where we want the savings habit to make inroads. Therefore one option would be to promote the lottery based saving products in these storefronts with incentive paid to the payday loan company for each account opened.

5.2.8 Intervention 8 : Request major search engines to provide the first 'paid' ad for 5 keywords related payday loan to as a donation/goodwill gesture/philanthropy.

As more people would go online for payday loans an effective way would be to direct them to an URL web page that discourages them from taking a payday loan and suggest alternatives. To make that possible major search engines like Google and Yahoo (and Facebook) can be requested to provide free ads that will point to a user-friendly FCAC webpage with info, education, and interactivity.

For example one of the most effective would be Google AdWords. It is an online advertising service, developed by Google, where advertisers pay to display brief advertising copy to web users. Google AdWords' system is based partly on cookies and partly on keywords determined by advertisers. Google uses these characteristics to place advertising copy on pages where it is relevant. It is most effective on the search pages, where the first few searches are actually paid ads. Advertisers pay when users divert their browsing to click on the advertising copy. Yahoo has a similar search ad service for advertisers. Google had announced in mid-2016 that it is banning payday loan ads in the USA, therefore as a corporation, Google has already taken a decision to discourage payday loans.

5.3 Intervention implementation plan

The interventions discussed are interlinked and need to be orchestrated to have the optimum effectiveness. To this end, multiple stakeholders have to be brought together to plan a coordinated rollout. The entire effort can possibly be spearheaded by United Way. This organization can then set up a consultative committee comprising of ACORN, FCAC, the Canadian Banking Association and the Canadian Payday Loan Association. This will ensure that there is a common platform where all major stakeholders work towards a common goal. This committee will decide which interventions can be rolled out with least efforts while having the maximum impact. As stated earlier several of the interventions need to be researched and the prototypes experimented to find the best human-centric solution. The research projects can be assigned and conducted by the S-Lab at OCAD University and the FCAC web pages can be designed and tested by the Digital Futures Lab at OCAD University. The final objective of the roll out plan would be to help the existing and prospective payday loan borrower access the funds they need without making their life even more difficult.

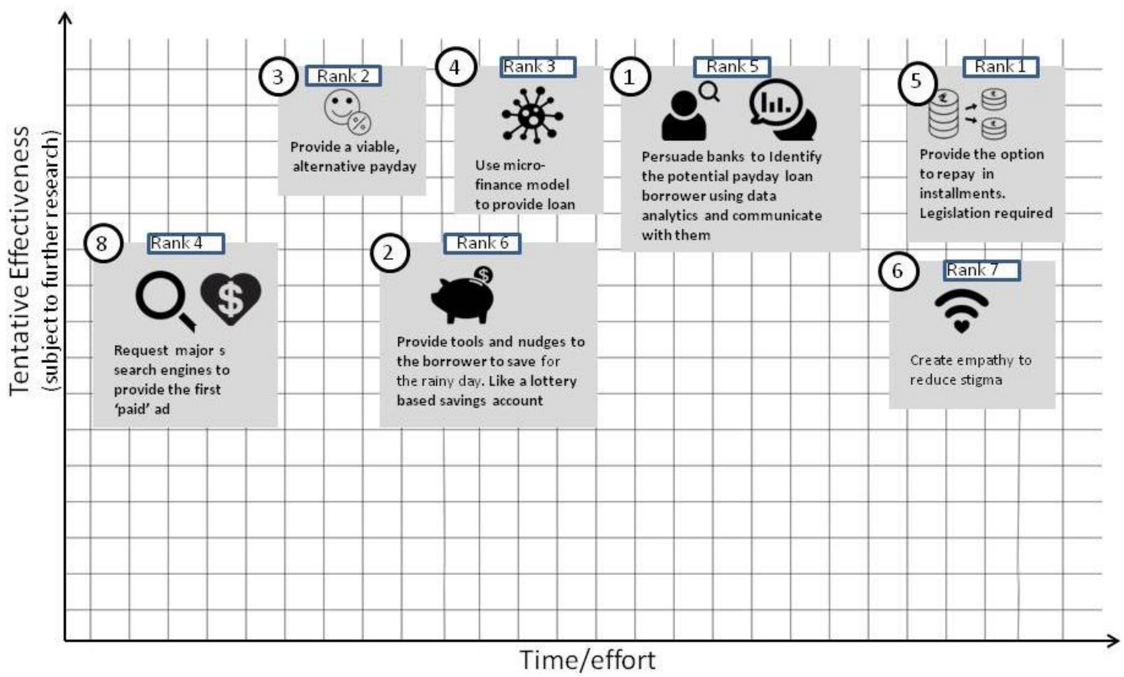

Figure 14 – Tentative Ranking of Interventions (would need further research)

In my view, the first intervention priority should be to make the repayment of the existing payday flexible. Allowing installment payment facility would help the borrowers considerably. The next should be to develop the alternative payday loan facility. Simultaneously the commercial banks can explore the feasibility of identifying the prospective payday loan through data analytics. Once the research is completed and the communication artifacts (the mailer, the emailer and the webpages with chatbots) are ready for deployment, the banks can start sending out the communication.

Having an alternative payday loan (intervention 3) would have a significant impact in mitigating the payday loan borrowers' woe. To successfully implement this intervention process the lead organization can be ACORN. ACORN has in the past worked with VanCity representatives which initiated VanCity to launch the Fair and Fast loan. I would be discussing with ACORN the possibility to speaking to Ontario-based credit unions like Alterna to launch a payday loan alternative. Alterna Credit Union, Your Credit Union and Frontline Credit Union, have already taken the first step to associate with Causeway (discussed in Chapter 3.3) and would most likely be open to directly launch a payday loan alternative.

To get the free/donated online search page ads Google would be the first company to approach. Google had announced in mid-2016 that it is banning payday loan ads in the USA (however Google prescribed certain loan conditions for ads being acceptable and payday loan companies are adhering to those conditions in the ads, not necessarily in practice). This Google corporate policy will make Google more willing to contribute to the cause. Once Google comes on-board the other online giants can be approached.

To propagate my research report interventions amongst the important stakeholders and to start a meaningful discussion I would be looking to participate in conferences and workshops related to the topics of payday loans and precarious workers in Canada. ACORN keeps organizing events related to this topic which I will be attending to present my papers. I would also speak to the investigative journalists I interviewed and gauge their interest in possibly running a story.

CHAPTER 6. Conclusion: Opportunities for Future Learning

Today, the job market is changing rapidly in Canada as in other developed countries. The number of permanent jobs is progressively decreasing and the trend towards low pay, contractual workers is transforming the job market into a gig job economy. Keeping this in perspective in the near future, a larger portion of the workforce will have low, fluctuating income and will feel the need for small value borrowings. Unless viable user-centric solutions are designed, experimented and implemented today the problem posed by payday loans will multiply.

The obstacles being faced by the urban working poor are multifarious that prevent them from being part of the financial mainstream and force them to pay a poverty premium for services they avail of. On the macro level government needs to reduce working urban poor by increasing hourly wages and providing social assistance like child benefit assistance. Currently, payday loans, instead of helping the borrowers enter the financial mainstream push them farther away. A coordinated, multifaceted design approach would be required to overcome the obstacle in which multiple stakeholders have to make a concerted and honest attempt to solve the problem not only for the urban working poor but for themselves and the economy as a whole. It would mean launching new payday loan-like products, changing the current payday loan product, launch new savings products for people with fluctuating incomes and incenting them to save and finally nudging the borrowers away from payday loans.

It is my hope that the eight design interventions outlined in Chapter 5 represent a holistic solution approach towards finding ideas to work towards a coordinated action that could address the payday loan borrowers’ problem. These solutions involve the participation of multiple stakeholders like the government, non-profits, Canadian banks, payday loan companies and other stakeholders. Similarly, I hope that the insights generated in this paper might inspire additional strategies that could enhance the ideas put forth above.

To that end, additional research could be of great benefit to the government, non-profits, banks and other designers hoping to pick up where this paper leaves off. The next set of research which I would have conducted if I had more time would have been in the area of actually designing prototypes of the interventions and testing their effectiveness (impact and time needed to implement) through design workshops and experiments to validate and sharpen the ideas for larger scale deployment. Such exercises could help to refine the insights and mechanics behind some of the existing ideas or to uncover altogether new insights that had not yet been considered.

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Bibliography of visuals/icons used

Ahmed Aneeque, (12/02/2017), Stop hand, (icon in noun project)

AlePio, (12/02/2017), Three sliders, (icon in noun project)

Alfa Design, (12/02/2017), Play sign, (icon in noun project)

AlfredoCreates.com, (12/02/2017), Upward percent arrow, (icon in noun project)

Anbilero Adaleru, (12/02/2017), Judges hammer, (icon in noun project)

Avery Travis, (12/02/2017), Fast forward, (icon in noun project)

Bluth Nick, (12/02/2017), Docs, (icon in noun project)

Breazell Wes, (12/02/2017), Flowers in brain, (icon in noun project)

Camilo Andres Roa Ruiz, (12/02/2017), Graph downward, (icon in noun project)

Creative Stall, (12/02/2017), Human mind, (icon in noun project)

Creative Stall, (12/02/2017), Envelope, (icon in noun project)

Cresnar Gregor , (12/02/2017), Talk blurb with data, (icon in noun project)

Curve, (12/02/2017), Tick mark, (icon in noun project)

Delicti, Corpus (12/02/2017), Empathy, (icon in noun project)

Delmare Bastien, (12/02/2017), Notebook with pen, (icon in noun project)

Dhaka Nakul, (12/02/2017), Smiley and percent sign , (icon in noun project)

Draiman Hans, (12/02/2017), Document checklist, (icon in noun project)

Edward Boatman, (12/02/2017), Heart dollar, (icon in noun project)

Erbe Lass Liliane, (12/02/2017), Piggy bank, (icon in noun project)

Evan Shuster, (12/02/2017), Tick mark, (icon in noun project)

Gan Khoon Lay, (12/02/2017), Speed bump road sign, (icon in noun project)

Gan Khoon Lay, (12/02/2017), Man with burden, (icon in noun project)

Gan Khoon Lay, (12/02/2017), Human solving puzzle, (icon in noun project)

Gan Khoon Lay (12/02/2017), Lives burden, (icon in noun project)

Guilhem, (12/02/2017), Danger, (icon in noun project)

I cons, (12/02/2017), Magnifying glass, (icon in noun project)

Iborra Lluisa, (12/02/2017), Thought cloud rectangle, (icon in noun project)

Icon Island, (12/02/2017), Sand clock, (icon in noun project)

IconDots, (12/02/2017), Display unit with coins, (icon in noun project)

Iconika, (12/02/2017), Organisation structure, (icon in noun project)

Icons Bazaar, (12/02/2017), Cloud Bazaar, (icon in noun project)

Iconsmind.com, (12/02/2017), Envelope with cash, (icon in noun project)

Ker'is, (12/02/2017), Coins and upward arrow, (icon in noun project)
Kevin, (12/02/2017), Two friends, (icon in noun project)
Koul Yuvika, (12/02/2017), Two person talking, (icon in noun project)
Lears Jim, (12/02/2017), Face relived , (icon in noun project)
Lin, Hea Poh(12/02/2017), Virus , (icon in noun project)
Luis Prado, (12/02/2017), Human plus judgement, (icon in noun project)
Najdenovski Zlatko, (12/02/2017), Road signal, (icon in noun project)
Pavel N, (12/02/2017), Credit card broken, (icon in noun project)
Prado Luis, (12/02/2017), Bowing to client, (icon in noun project)
Prado Luis, (12/02/2017), Cash window, (icon in noun project)
Prado Luis, (12/02/2017), Burdened Walk, (icon in noun project)
Rivera Ray, (12/02/2017), Recycle, (icon in noun project)
Rockicon, (12/02/2017), Dollar bank, (icon in noun project)
Rockicon, (12/02/2017), Calculator, (icon in noun project)
Romzicon, (12/02/2017), Globe with magnifying glass, (icon in noun project)
Royyan, (12/02/2017), Tick mark, (icon in noun project)
Salagre Lorena, (12/02/2017), Equal to, (icon in noun project)
Sarmneto Carlos, (12/02/2017), Education blackboard, (icon in noun project)
Shmidt Sergey, (12/02/2017), Dollar upload, (icon in noun project)
Shogreen Mark, (12/02/2017), Two guys bowing, (icon in noun project)
Singh Shashank, (12/02/2017), Human and magnifying glass, (icon in noun project)
Stella Lorenzo, (12/02/2017), Human communication wave, (icon in noun project)
TS Graphics, (12/02/2017), Thought cloud, (icon in noun project)
Uddin Arafat, (12/02/2017), Time and money, (icon in noun project)
Unlimicon, (12/02/2017), Arrow mark, (icon in noun project)

Appendix A – Statistics Canada definition of Low Income Cut offs (LICO)

The low income cut-offs (LICOs) are income thresholds below which a family will likely devote a larger share of its income on the necessities of food, shelter and clothing than the average family. The approach is essentially to estimate an income threshold at which families are expected to spend 20 percentage points more than the average family on food, shelter and clothing. According to the most recent base for LICOs, the 1992 Family Expenditures Survey, the average family spent 43% of its after-tax income on food, shelter and clothing. (Statistics Canada and Income Statistics Division 2015)

Low income cut-offs (1992 base) before tax

	Community size				
	Rural areas outside CMA or CA[1]	Census Agglomeration (CA)		Census Metropolitan Area (CMA)	
		Less than 30,000 inhabitants[2]	Between 30,000 and 99,999 inhabitants	Between 100,000 and 499,999 inhabitants	500,000 inhabitants or more
Size of family unit	current dollars				
2014					
1 person	16,747	19,053	20,822	20,952	24,328
2 persons	20,849	23,718	25,921	26,082	30,286
3 persons	25,630	29,158	31,866	32,065	37,234
4 persons	31,120	35,403	38,691	38,931	45,206
5 persons	35,294	40,153	43,883	44,154	51,272
6 persons	39,808	45,287	49,493	49,800	57,826
7 or more persons	44,319	50,420	55,103	55,444	64,381

Notes:
1. Can include some small population centres.
2. Includes population centres with less than 10,000 inhabitants.

Figure 15 – Low Income cut-offs (1992 base) before tax (Statistics Canada and Income Statistics Division 2015)

Appendix B:– Sample Consumer Protection provisions in Payday Loans Act and Regulation - Deloitte

Category	Consumer Protection Provision	Reference
Restrictions on borrowing	Lenders may not rollover the balance on an existing payday loan agreement into a new payday loan agreement.	Payday Loans Act s. 35
	Lenders may not offer concurrent payday loans (maximum of one outstanding loan per customer).	Payday Loans Act s. 35
Agreement and advance	The borrower must receive a copy of the payday loan agreement and the payday loan advance immediately / no later than upon entering into the agreement.	Payday Loans Act s. 29.
Other goods or services	Licensees are prohibited from offering or providing other goods or services in connection with a payday loan agreement.	O. Reg. 98/09, ss. 27(3)
Price cap	Lenders may charge a maximum of $21 per $100 advanced (e.g., the fee on a $300 loan cannot exceed $63).	O. Reg. 98/09, s. 23
Disclosure requirements	Lenders must disclose certain information about the payday loan agreement on the first page of the agreement. The information that must be disclosed includes the amount of the loan, the loan term and the total cost of borrowing.	O. Reg. 98/09, s., 18
	Licensees must display a poster at their premises that sets out information such as the regulated maximum cost of borrowing and the amount that the lender charges.	O. Reg. 98/09, s. 14 4
No repeat processing charges	Lenders are prohibited from processing a pre-authorized debit (or other instrument) more than once if subsequent processing attempts results in a charge to the borrower.	O. Reg. 98/09, s. 31
Prohibited contacts	No licensee may contact, in respect of a payday loan, a member of the borrower's family, or a relative, friend or acquaintance. Employers may only be contacted to verify employment details or with the prior consent of the borrower.	O. Reg. 98/09, s. 26
Collection practices	No licensee may communicate with a consumer in a manner or with a frequency that constitutes harassment.	O. Reg. 98/09 s. 32

Figure 16 - Sample Consumer Protection provisions in Payday Loans Act and Regulation (Strengthening Ontario's Payday Loan Act - Payday Lending Panel -Findings and Recommendations - Report 2014).

Appendix C – Behavioral Economics concepts explained

Here we some of the principles of Behavioral Economics that have been discussed in the report. Behavioral economics provides a better way to understanding human behavior. Better understanding leads to better diagnosis, which in turn leads to better-designed solutions. It helps us realize that people do not behave as we think they do. The assumptions we make—sometimes without realizing—when we design programs do not match actual psychology. Our intuitions—and those in economic models overlook many of the important things that make people tick. (Datta, Saugata 2012)

a) Stress induced cognitive impairment – People are unable to take cognitive decisions when they are under stress. This induces people to take irrational decisions, without considering all options like not considering the high interest rates of payday loans and the financial stress of being without cash is too high
b) Self control bias – People lack the self control to take an action that will help them in the future. Typical example is not saving for retirement
c) Present bias - The present bias refers to the tendency of people to give stronger weight to payoffs that are closer to the present time when considering trade-offs between two future moments. This bias induces people to borrow today without properly considering how they will pay off
d) Over optimism bias - perceived higher likelihood of occurrence of events with positive, higher utility outcomes. This makes people overconfident about the future ability of repay the loan.
e) Propensity to plan/set goals - There is evidence that those who have a propensity to plan accumulate far more wealth than those who do not and, importantly, that it is unlikely that having more wealth leads to a propensity to plan. Even a fairly minor intervention — asking experimental subjects to write down a plan for some action — can lead to real change in behaviour. The implication is that subjects' propensity to plan can be fairly easily changed.(Schwartz 2011). Visual and vivid goals or "causes" can make the positive outcomes from saving feel stronger.(Fiorillo et al. 2014)
f) Attention constrain -People have Attention Constraints – people get distracted, sometimes despite their best intentions. One implication of this is to help people pay regular attention to and reminding them of their goals in order to ultimately meet them. Regularly paying attention to goals can be important in activities like savings and weight loss. Behavioral economists have found that reminders – in person, using a phone call, or via text message, for example – can have dramatic positive effects on behaviors such as a failure to get tested for diseases, not taking medicines regularly, or even the tendency to incur penalties on high-interest borrowings. In all of these cases, following through on an intention requires a person to remember to take several steps, and it is easy to forget or neglect to do one of them. But missing a single step often derails the whole process. A timely reminder goes a long way towards mitigating these problems. (Datta, Saugata 2012).

Appendix D – Interview Guidelines

INTERVIEW GUIDELINE FOR END-USERS

Now that you have read and signed the consent form, let's start off with the interview

1. What's your age?
   a. 18-22
   b. 22-25
   c. 25-30
   d. 30-40
   e. 40-50
   f. 50-60
2. What's your family status?
   a. Single living alone
   b. Single living with parents
   c. Single parent
   d. Married / Living with a partner
   e. Other

3. Are you a citizen/immigrant (permanent residency)/refugee?

   If latter two: How long have you been in Canada?

4. Do you have dependent children – Yes / No
   a. 1 - Age
   b. 2 - Age
   c. 3 - Age
   d. More than 3

5. Which of the following best describes your status?
   One of these or a combo of these (if you have multiple jobs)
   a. Permanent full time with benefits
   b. Permanent part-time with benefits
   c. Full time contract with no benefits
   d. Part time contract with no benefits
   e. Ad-hoc work / cash
   f. Own business

6. Over the last 1 year have you been able to meet your monthly expenses with your job earnings?
   a. Yes
   b. No
      i. How many months in the year you think you encountered a shortfall?

    ii. Was there a specific event (e.g. medical emergency, car breakdown, etc.) which occurred which triggered the need to borrow?
    iii. Do you think that the shortfall is a constant feature every month?

7. When you are unable to meet the shortfall how do you manage? Do you :
    a. Dip into your savings
    b. Borrow money
    c. Anything else
8. If you borrow/take a short-term-loan, who do you borrow from?
    a. Friends/family
    b. Employer
    c. Bank
    d. Credit card
    e. Payday loan
    f. Anywhere else
9. What is the loan amount you generally look for?

10. Which is your most preferred source for getting a loan …please rate each of the following (1 is most preferred and 6 is least preferred).
    a. Friends/family
    b. Employer
    c. Bank
    d. Credit card
    e. Payday loan
    f. Anywhere else
11. Can you please tell me why you preferred one source over the other?
    a. Convenience
    b. Accessibility
    c. Comfort
    d. Speed
    e. Friendliness
    f. Minimal paperwork
    g. Low interest rate/charges
    h. No questions asked

12. Can you possibly narrate the best borrowing experience you had from a company/bank/shop?

13. Are you able to pay back the loans comfortably?
    a. Yes
    b. No – do you then have to look for loans regularly?
14. What kind of account(s) do you have in bank?
    a. Savings
    b. Checking
    c. Other
    d. None
15. Did you ever try to get a short-term loan from a bank?

    a. Yes
    b. No
16. Have you ever tried to get a loan from a bank or a Credit Union?
    a. No
    b. Yes
17. If yes in previous question, what is your experience when you tried to borrow from a bank
18. What changes would you like to see in banks for you to approach banks more often for loans

INTERVIEW GUIDELINE FOR INTERMEDIARIES

Lets start off with

Can you tell me what kind of help/services do you and your organisation provide to the urban working poor, especially the ones who have to take payday loans or are unable to pay-off their payday loans?

1. Broadly can you tell me what would be their age?
    a. 18-22
    b. 22-25
    c. 25-30
    d. 30-40
    e. 40-50
    f. 50-60
2. And generally their family status?
    a. Single living alone
    b. Single living with parents
    c. Single parent
    d. Married / Living with a partner
    e. Other

3. How many are citizens/immigrants (permanent residencyts)/refugees?

   If latter two: How long have they been roughly in Canada?

4. Do they have dependent children? – Yes / No
    a. 1 - Age
    b. 2 - Age
    c. 3 - Age
    d. More than 3
5. Which best describes the majority of the clients we discussed ?

One of these or a combo of these (if they have multiple jobs)
    a. Permanent full time with benefits
    b. Permanent part-time with benefits
    c. Full time contract with no benefits
    d. Part time contract with no benefits
    e. Ad-hoc work / cash

    f. Own business

6. Broadly, over the last 1 year have they been able to meet their monthly expenses with their job earnings?
    a. Yes
    b. No
        i. How many months in the year you think they encountered a shortfall?
        ii. Was there a specific event (e.g. medical emergency, car breakdown, etc.), which occurred that, triggered the need to borrow?
        iii. Do you think that the shortfall is a constant feature every month?
7. When they are unable to meet the shortfall, how do they manage? Do they:
    a. Dip into savings
    b. Borrow money
    c. Anything else
8. If they borrow/take a short-term-loan, who do they borrow from?
    a. Friends/family
    b. Employer
    c. Bank
    d. Credit card
    e. Payday loan
    f. Anywhere else
    g. …what is the loan amount they generally look for?
9. Which is their most preferred source for getting a loan?
   Pease rate (1 is most preferred and 6 is least preferred):
    a. Friends/family
    b. Employer
    c. Bank
    d. Credit card
    e. Payday loan
    f. Other
10. Do they ever tell you why they prefer one source over the other?
    a. Convenience
    b. Accessibility
    c. Comfort
    d. Speed
    e. Friendliness
    f. Minimal paperwork
    g. Low interest rate/charges
    h. No questions asked

11. Are they able to pay back the loans comfortably?
    a. Yes
    b. No – do they then have to look for loans regularly?
12. To your knowledge, what kind of account(s) do they have in bank?
    a. Savings

b. Checking
c. Other
d. None

13. According to your knowledge what has been their experience, when they tried to borrow from a bank? What changes would you like to see in banks for them to approach banks more often for loans?

INTERVIEW GUIDELINE FOR BANKERS

1. May I know what kind of lending products you offer to your clients?

2. If a client (who is employed and has regular pay-checks) has a short term loan need what choices does the client have?

    a. Release limit of chequing account
    b. Overdraft
    c. Line of credit
    d. Other

3. If a client has a poor credit score what choices does the client have for borrowing?
    a. From bank
    b. From other FI (please specify)

4. What might be the reasons banks are unwilling to advance a small loan to the clients, who have a regular pay check?

5. What changes do you think might be required for banks to consider providing loans to the urban working poor to help them access loans at a reasonable rate of interest?

6. Payday loan companies are offering loans to the clients at a very high interest rate. Is there any way for banks to provide similar offerings?

7. Is there a possibility to design a new loan product for this specific segments that links with your bank's CSR mission?