

High Cost Financial Services: What's Happening?
Session @
Able Fin. Empowerment Conference
8 May 2018

*An Overview of Payday Lending in Canada*¹
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Presentation Outline

- **Introduction: Is this important?**
- **Who are PDL clients?**
- **What is the business model?**
- **What are some of the ethical issues?**
- **Where are the mainstream banks?**
- **Reining-in payday lenders?**

Introduction: Is this important?

- **Everyday financialization**
 - Change process
 - Consequences:
 - Consumers: credit or debt?
 - Suppliers: corporatization & product proliferation
- **Finances & well-being**
 - Complicated relationship
 - Evidence is mixed

Who are PDL clients?

- **National surveys, within their limitations, find PDL consumers,**
 - **Are from lower but not the lowest income households, and the trend is mildly rising average income**
 - **Have less wealth and smaller assets and debts, and lower rates of home ownership, as compared to non-borrowers**
 - **And a rising share use non-employment income, i.e., government income, to access a PDL**
 - **Also: less formal education, relatively young but getting older, as compared to the non-borrower**

Who are PDL clients?

- **What about other types of studies, e.g., mixed methodologies, experiments, etc.**
 - **Tremendous growth in these types of studies**
 - **Often designed to probe more deeply into the ‘why question,’ i.e., why do people use payday loans**
 - **For instance, recent focus group with 9 Winnipeg PDL consumers found two important groups,**
 - **The ‘repeat borrowers’**
 - **The strategic borrowers**

What is the business model?

- **Small businesses with high operating costs (Robinson 2018)**
- **Short-term and small loan 'secured' on an (employment) income stream**
- **Fees, capped in \$/\$100 borrowed in most provinces, converted into APR start at 500%**
- **Corporatization**
- **Service proliferation**

What is the business model?

- **Volumes (Robinson 2018):**
 - **No. of stores = 1,431**
 - **Average store handles 11 loans/day = average loan volume of \$5,000 & \$1,000 revenue**
 - **Robinson finds that PDL can be profitable at \$15/\$100 possibly lower**

What are some of the ethical issues?

- **‘Poor pay more’**
- **Lower quality, as compared with mainstream banking, services**
 - **Transparency**
 - **Transactions oriented**
- **Repeat borrowing**
 - **Harmful to repeat borrower**
 - **And financing the industry**

Where are the mainstream banks?

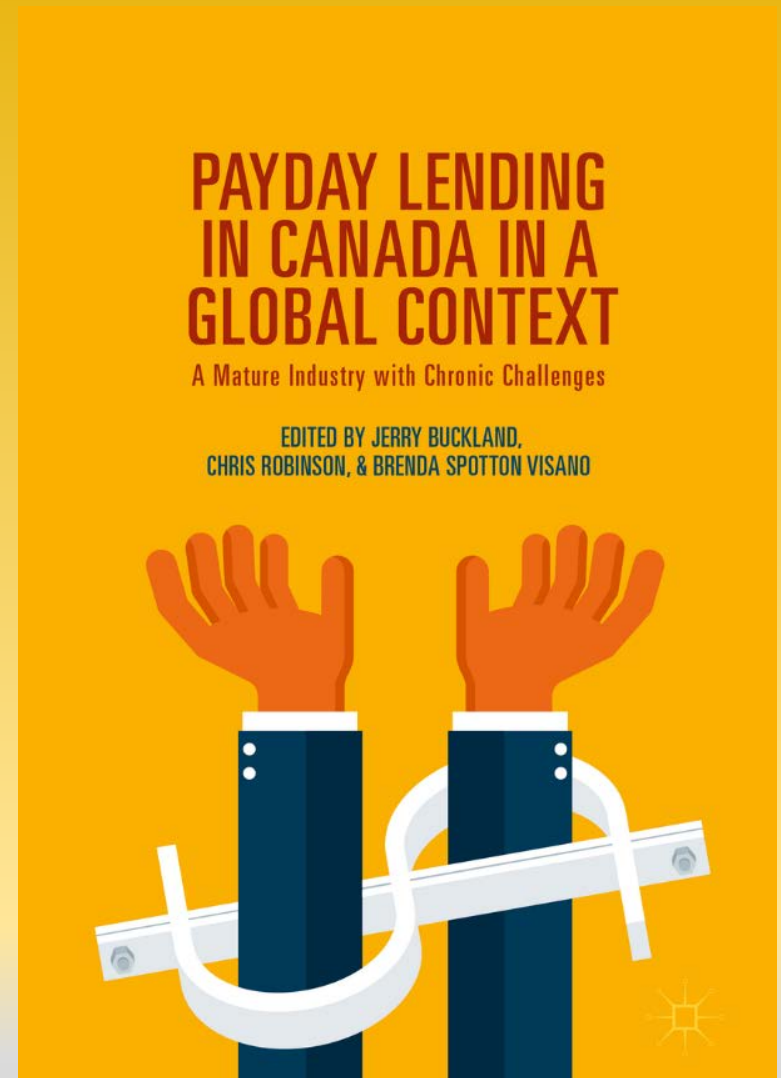
- **Barriers to banking**
- **Federal regulations & postal banking**
- **Product initiatives**

Reining-in payday lenders?

- **Regulatory responses continuum**
 - **Prohibition**
 - Québec
 - **Regulate**
 - Most of the rest of Canada
 - **Permissive**
- **Common regulations**
 - **Capping to enable 'efficient' firms**
 - **Various limits on amount: No. of loans, size of loans, frequency of loans**
 - **Fair disclosure**

1. Source of much of the material for these slides is from: Buckland, Robinson & Spotton Visano 2018.

Payday Lending in a Global Context: A Mature Industry with Chronic Challenges, Palgrave Macmillan. Available from: [Palgrave Macmillan](#) & [Google Books](#).



Thank-you!

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