Prosper Canada

SUBMISSION ON THE PROPOSED GUIDELINE ON APPROPRIATE PRODUCTS AND SERVICES FOR BANKS AND AUTHORIZED FOREIGN BANKS

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I. Introduction

Founded in 1986, Prosper Canada is a national charity dedicated to expanding economic opportunity for Canadians living in poverty through program and policy innovation. As Canada's leading national champion of financial empowerment, we work with partners in all sectors to develop and promote policies, programs, and resources that measurably improve the financial health of people living in, or at high risk of, poverty.

As such, our comments are concerned with how the proposed Guideline can better protect low-income and other vulnerable consumers including, but not limited to, newcomers, people with disabilities, and members of Indigenous and racialized communities.

Banks ought to ensure all their products and services are fully accessible to all eligible customers and that the specific products and services they offer are appropriate to each customer's needs, but this is especially important for low-income and vulnerable consumers, who are often financially excluded, experience diverse barriers in their interactions with their banks, and frequently end up with products and services that are inappropriate as a result.

There is much work to be done to strengthen trust and confidence among these financial consumers, as many people with lower incomes currently have a low level of trust in their financial institution.[1] This cannot be accomplished if consumers cannot trust that they are being sold financial products and services that are appropriate for their needs and that will not cause them to incur unnecessary costs, fees, or penalties.

Prosper Canada welcomes the opportunity to provide our recommendations to strengthen the proposed Guideline on appropriate products and services for banks. Designing this Guideline with the most vulnerable consumers in mind will ensure it both works for them and provides a better experience for all consumers.

In preparing this submission, we have drawn on insights arising from our experience, and that of our community partners, in delivering financial help services to more than 500,000 low-income and vulnerable individuals over the past five years. We have also drawn on relevant research we and others have conducted on the financial barriers and challenges experienced by low-income and vulnerable groups, effective financial sales practices, and relevant international standards and guidelines.

II. Context

The number of lower-income households in Canada has increased 47% over the pandemic, from 4.6 million in 2018 to 6.7 million in June 2021.[2] Twenty-six percent of Canadian households now report incomes under $25,000, or under $50,000 for multi-person households.[3]

These households have borne the financial brunt of the pandemic. In June 2021: [4]

- **68%** said the pandemic had reduced their financial security
- **65%** were experiencing significant financial hardship, up from **55%** in June 2020
- **68%** said housing affordability was a problem
- **40%** were unable to meet essential expenses, up from **30%** in June 2020.

Racialized households across the income spectrum are also more likely to report financial hardship than non-racialized households with comparable incomes. In June 2021, 29.3% of racialized Canadians and 27.0% of Indigenous people aged 15 to 69 lived in households experiencing financial difficulty, compared to 15.6% of white Canadians in the same age bracket.[5]

Many lower-income households do not trust their financial institution with their financial wellbeing. 69% of lower-income households rate their primary financial institution as 'poor to fair' in helping them to improve their financial wellness and 63% completely/somewhat agree that they do not trust their primary financial institution enough to share their financial stresses or challenges.[6]

Low-income and vulnerable individuals typically experience multiple barriers that may increase their risk of being sold inappropriate products or services by banks. Systemic and institutional barriers may include lack of affordable financial products and services appropriate to their needs[7] and discriminatory or stigmatizing behaviour from financial institution personnel.[8] Other personal barriers may be related to language, literacy, numeracy, digital access, digital literacy, documentation, mobility, housing precarity, child care, mental health, physical or intellectual disability/impairment, fear, mistrust, lack of confidence, not knowing where to go for help, and not understanding what to do.[9,10]

Vulnerable groups are not homogenous, and members experience diverse and often multiple barriers, but there are common barriers associated with different forms of vulnerability. 41%of people living in poverty also experience a disability, and people living with a disability represent 22% of the Canadian population.[11] Some of their common barriers include mobility challenges, cognitive impairment, and lack of digital access.[12] 29% of people living with a severe disability state that Canadian companies are bad or terrible at providing accessible experiences for them.[13] Indigenous people represent almost 5% of the Canadian population (1.67 million people)[14] and may experience additional barriers due to remoteness, high cost of goods, housing, and utilities.[15] Canada is home to about 7 million newcomers and an estimated 34-46% of them experience financial hardship. They frequently experience barriers related to culture, language, literacy, and under-employment.[16] People with low incomes are generally resource constrained, making the cost of products and services a chronic challenge.

While there is significant overlap between these groups, people with one or more conditions of vulnerability make up a large percentage of the Canadian population. The UK Financial Conduct Authority estimates that 53% of financial consumers demonstrate one or more qualities of vulnerability.[17] Similarly, in Canada, most people will likely experience vulnerability at some point in their lives, whether through unemployment, illness, age, or other life events. Any guidelines governing bank sales practices, and sales practices themselves, must therefore be designed with these groups in mind.

While Canada's unbanked population is among the lowest in the world at 1-4%,[18] low-income people experience a number of barriers that lead to "underbanked" situations, such as:

- **Expensive fees for simple accounts.** For example, most banks offer a basic account for $3.95 but only offer a maximum of 12 monthly transactions, with additional transactions costing $1.25 and unlimited transactions usually priced at $16.95 per month. These fees are waived if the account balance does not dip below $4,000, but this is unrealistic for most people living on a low income.[19] Other examples include insufficient funds and overdraft fees, which financially vulnerable consumers are more likely to incur. The result is that those in the most precarious financial position are likely to pay more in bank fees than more financially secure customers.
- **No proximity to physical branches**. This makes it difficult to open an account for people living in rural and remote regions. The number of branches available in urban low-income neighbourhoods has also decreased in the last decade.[20]
- **The rise of digital banking services**. Nearly 25% of low-income households do not have a home broadband connection,[21] and most rural, remote, and Indigenous communities do not have internet connections that meet the CRTC's speed requirements.[22] Low-income consumers can typically only afford minimal data plans, limiting their ability to bank online. Public access, for example, at public libraries, may be inappropriate for online banking.
- **ID requirements** that make it difficult for transient and unhoused individuals to open an account.[23]
- **Poor treatment of racialized individuals.** Discriminatory attitudes toward Indigenous and racialized individuals persist,[24,25] making these consumers feel unwelcome by banks and as if these services are for "other people."
- **Limited access to affordable credit** due to no or poor credit history, and/or insufficient income to qualify for mainstream credit products.

These barriers lead to higher reliance on alternative and high-cost financial services such as cheque cashing, payday lending and installment loans by low-income households.[26] Whereas middle- and high-income individuals may have access to lifelines offering more reasonable interest rates, such as consolidation loans and lines of credit, low-income individuals do not have these options. This results in lower-income consumers paying a "poverty premium" for their financial services and, in the case of high-cost alternative credit products, increases the risk of households experiencing ballooning debt.[27]

III. Where appropriateness begins

The question of appropriateness of financial products and services has several critical dimensions, all of which need to be taken into consideration in the proposed Guideline:

- Who has access to mainstream banking products and services
- The availability of appropriate products and services for diverse consumers
- The extent to which individual consumers receive appropriate products and services.

The first two dimensions are as important as the third when it comes to vulnerable Canadians that may experience systemic, institutional, and/or personal barriers that exclude them from accessing mainstream financial products and services that are appropriate to their needs.

If you are unable to access a bank, are made to feel unwelcome when you do, or the bank does not offer financial products/services that meet your needs, then you are *de facto* shut out of our mainstream financial system and forced to rely on alternative financial products and services that are much higher-cost and higher-risk or, in other words, not appropriate.

We would, therefore, argue that "appropriateness" starts with ensuring everyone has real *access to* a spectrum of mainstream bank products and services that includes appropriate products/services for diverse vulnerable consumer groups, giving priority to products/services Canadians require to participate fully in the economic mainstream – a safe and affordable basic bank account and access to affordable small dollar credit (e.g., up to $1,500). From there, it is possible to take additional measures to ensure individual consumers are provided only with products and services appropriate to their needs.

However, the proposed Guideline currently focuses uniquely on this third dimension of appropriateness and is, therefore, incomplete in our view.

Recommendations

1. **We recommend that the Guideline be expanded to require banks to identify and remove barriers wherever possible to vulnerable populations accessing their products and services**, no matter where they live in Canada.

2. **We recommend that the Guideline be expanded to require banks to identify and address gaps in appropriate priority product and service offerings for vulnerable groups,** ensuring these groups have access to all the financial products and services they need to live financially secure lives.

3. **Where banks cannot feasibly address accessibility barriers or gaps in appropriate product/service offerings for vulnerable customer segments, from a commercial**

perspective, they should advise FCAC so that other avenues can be explored to address these gaps.

IV. Proposed key principles

Prosper Canada supports the principle of effectiveness proposed in the Guideline, but also **recommends adding the principles of fairness, transparency, and accessibility** to ensure that:

- **Vulnerable consumers are treated fairly** in all their interactions with banks. Vulnerable consumers should be treated fairly and with respect to enable an appropriate assessment of products and services. As explained above, this is not currently always the case.
- **Products and services are not designed or delivered in ways that inherently and unfairly disadvantage vulnerable consumers** (e.g., requiring anyone seeking to open an RDSP to go through the Wealth Management arm of the bank, which only serves customers with assets of $100,000 or more to invest).
- **Banks design and deliver products, services, information, and processes in ways that eliminate barriers and ensure access** for people with disabilities and other vulnerable groups.
- **The information banks provide to consumers is clear, concise, accurate, and intelligible** to them, and highlights information critical to their financial decision-making – including terms, rates, <u>all</u> fees, penalties, and warnings.

Recommendation

4. **We recommend that FCAC add fairness, transparency, and accessibility to the principles in the proposed Guideline** to maximize the likelihood that vulnerable consumers:

    - are treated equitably
    - receive the information they need to make optimal financial choices where products and services are concerned
    - can effectively access appropriate banking products, services, and processes.

V. Fairness

It has long been understood that equal treatment and fair treatment are not one and the same. For products and services to be appropriate for low-income and other vulnerable groups, they also need to be delivered fairly, taking into account the diverse barriers and challenges and respecting the particular needs of people with different vulnerabilities, and aiming for access, outcomes, and satisfaction levels comparable to those of non-vulnerable customers.

Only then can we say that real fairness has been achieved and services are delivered appropriately.

In considering how fairness can best be achieved for financial consumers, the OECD stipulates that banks should pay particular attention to the needs of vulnerable consumers,[28] and the World Bank suggests that banks should have to examine the outcome for customers of products and services. [29]

Recommendation

5. **The proposed Guideline should require Canadian banks to establish policies and processes to ensure fair treatment of customers, particularly those with low incomes, belonging to racialized groups, or with other vulnerabilities, and establish, monitor, and report on associated performance metrics to ensure fairness is being achieved**.[30] This should include integrating a culture of fairness toward consumers at all levels of the organization, including ensuring staff have the necessary skills, capability, and incentives to treat consumers fairly. Banks and their staff should have a strong understanding of the distinct needs of diverse vulnerable consumers and put in place processes and systems to meet these needs, with appropriate performance monitoring and reporting mechanisms.[31]

VI. Transparency

Because low-income and vulnerable consumers often face barriers related to confidence, documentation, and literacy, it is vital that banks adopt transparent sales practices.

To be transparent, banks should ensure that:

- Any sales material or advertisement, as well as any verbal or written communication about a product or service, is simple and easy to understand and is not misleading
- Documents about the product or service are provided to the consumer in a format that they can easily keep – e.g., printable documents or paper versions thereof, if requested
- Important features of a product or service are highlighted in any written or oral communications
- Consumers are provided with clear information about applicable benefits, risks, terms, rates, fees, and penalties of all products and services before they purchase them[32]
- All products include information about the internal complaint-handling process and how to access this, as well as their right to contact external complaint bodies with contact information.[33]

Recommendation

6. **Amend the Guideline to include clear transparency standards and require banks to develop a process to measure and report on whether their sales materials and practices meet these standards.** Ideally, banks would assess whether they have met these standards by surveying vulnerable groups, through focus groups, for example.

VII. Accessibility

Vulnerable individuals experience challenges including, but not limited to, language, literacy, mobility, distance, cognition, mental health, culture, and digital literacy and access barriers, as well as low income. These barriers result in their having different needs and may require employees to spend more time with them when discussing products and services. They may also be at greater risk of harm should the process not be effective, and even small losses can have significant impacts on their financial security.

The Guideline should set clear expectations with respect to banks ensuring they are minimizing barriers for vulnerable consumers. As written, it lacks any reference to how banks should accommodate people with disabilities, people who do not speak English, and other vulnerable groups who may require more support.

Recommendations

7. **Require banks to develop a process to measure and report on whether their sales materials and practices are accessible to consumers**, including vulnerable consumers.

8. **The Guideline should stipulate that, in addition to adhering to legislated accessibility standards (*Accessible Canada Act*) and best practices for persons with disabilities, banks should also periodically gather feedback from people with disabilities to assess the effectiveness and sufficiency of their accessibility measures.** The Guideline should include a section on accessibility for people with disabilities and specify that information on products and services should be available in Braille, large print, audio, and video with sign language, as well as accessible for people who use assisted devices (e.g., screen readers or voice-assisted software). FCAC may wish to seek broader guidance from disability organizations, if it hasn’t already done so, on the extent to which statutory accessibility requirements are sufficient or whether they need to provide more detailed guidance beyond our suggestions to ensure real accessibility for customers with disabilities.

9. **The Guideline should stipulate banks should provide translation and interpretation services for people who do not speak English or French** and do not have access through other means (i.e., a friend, family member, or advocate) to adequate translation and/or

interpretation support.

10. **The Guideline should reference a consumer's right to identify a support person to help them choose appropriate products or services and to request that communications and documents from the bank be copied to any designated individual.** This could be a friend, family member, or representative from a community agency.

VIII. Effectiveness

The proposed Guideline includes important measures to ensure banks:

- Better understand their customers
- Better understand their products and services
- Assess the appropriateness of their products and services
- Inform consumers if products or services are inappropriate
- Ensure their remuneration schemes are not causing them to sell inappropriate products or services.

There are, nevertheless, gaps in the guidance that we fear will not guard against mis-selling of products and services, particularly to vulnerable consumers.

Know your consumer

We are pleased to see that FCAC is requiring banks to collect and update Know Your Customer information to assess their customers' financial situations and needs to be able to determine which products or services are appropriate. The Guideline does not, however, specify how this applies to vulnerable consumers who, as discussed, face a range of barriers that often require specific accommodations. The proposed Guideline does not currently specify the potential vulnerabilities these customers may experience, how this might impact their financial needs and/or access to financial products and services, or what might be considered inappropriate products or services for specific vulnerable groups.

If we consider people with low incomes, for example, we know that they:

- May lack the required two pieces of government identification to open an account
- Are very cost sensitive (e.g., to variable fees, overdraft charges, high interest rates)
- Often need same-day access to deposits
- Are more likely than Canadians generally to have monthly volatility that can make it difficult to save and increase risk of going into an overdraft position and other types of debt
- Are less likely to have or have lower amounts of emergency savings than higher-income Canadians

- May be subject to saving and asset limits if receiving social assistance or disability support
- Are less likely to carry debt than higher-income Canadians, but the 49% who do have debt pay 31% of their income on average to service it[34]
- Are eligible to receive up to $2,000 in federal grants for their children's education if they open an RESP and further savings incentives if they make deposits
- May be reluctant to use their bank account for fear of being garnished if they have an outstanding debt
- Derive no benefit from insurance on credit products if they are on a fixed income
- Risk significant claw backs of their seniors' benefits if they save in an RRSP rather than a TFSA.

This information could yield the following guidance that banks could integrate into their efforts to provide more appropriate products and services to people with low incomes:

- Federal regulations provide for vouching by community organizations when low-income consumers have only one piece of official ID and wish to open an account. Training for frontline personnel should include how to advise these customers of this option.

- The ideal basic bank account for customers with low incomes has a low monthly fixed fee and does not permit customers to accrue other variable fees or to go into overdraft with associated penalties. (For more, see the National Account Standards developed by Bank On in the U.S.)

- Low-income parents of children under 18 and youth aging out of care should be advised that opening an RESP – even without a deposit – will enable them to collect up to $2,000 for their child's post-secondary education through the Canada Learning Bond and further savings incentives should they make future deposits into the account. They should be advised of the option of opening an RESP in the form of an ordinary savings account.

- Low-income customers should be advised of relevant savings tools or apps offered by the bank that they can use to build emergency savings, and which savings tools and strategies are appropriate if they have monthly income volatility.

- When opening a savings account for a customer receiving provincial/territorial social assistance or disability support, frontline personnel should verify any applicable saving/asset limits and offer to set up an automated warning when their savings account balance approaches this limit.

- Provide low-income customers with loans in arrears with information on where they can access local non-profit credit counselling or financial counselling services to help them get back on track.

- Credit insurance is not appropriate for people on a fixed income – e.g., social assistance, disability support or seniors' benefits – and it is prohibited to sell it to them.

- A TFSA is a more appropriate retirement savings vehicle than an RRSP for customers with lower incomes because it doesn't result in claw backs of federal seniors benefits post-retirement.

- Customers with disabilities or who have a child with a disability are provided with information on RDSPs, including the Canada Disability Savings Grant and Canada Disability Savings Bond, as well as the process to access these through the Disability Tax Credit.

We believe there would be value in FCAC conducting and publishing its own research on the financial needs of diverse vulnerable groups and associated best practices in collaboration with banks and organizations comprising and/or providing financial help to low-income and other vulnerable Canadians.

This would give all banks a shared baseline understanding of which Canadians may be considered vulnerable and their needs with respect to financial products and services. Banks could then build on this foundation to generate new insights, improvements, and innovations from their own research and experience, as they become more expert at understanding and serving these customer segments.

Alternatively, banks can individually undertake this work, but it will then take longer to build consensus on what is clearly inappropriate for certain vulnerable customers and to prevent these transactions. It will also take longer to build consensus on new industry best practices.

If banks are to be left to their own devices in this respect, then at a minimum they should be required to formally define specific vulnerable populations for the purposes of determining appropriateness of products and services, to report annually on research they undertook to better understand the needs of these customers, and on actions they have taken to both improve access for these customers to appropriate products and services and ensure the appropriateness of all products/services they receive.

The UK Financial Conduct Authority puts the onus on banks to ensure they can identify vulnerable consumers and accommodate their needs. It states that banks must not only understand the needs of their vulnerable customers but also:

- Ensure their employees can identify signs of vulnerability and provide adequately for the needs of vulnerable consumers
- Take the needs of vulnerable consumers into account when designing products and services
- Ensure customer service is flexible enough to accommodate the needs of vulnerable consumers and that they are communicating effectively and accessibly
- Monitor and assess (using annual audits) whether they are accurately accommodating the needs of vulnerable customers and course correct where they are failing.[35]

Recommendations

11. **FCAC should define key vulnerabilities it expects banks to consider in designing and delivering appropriate products and services and undertake a review of the specific barriers, challenges, and needs of different vulnerable groups with respect to banking products and services, and publish their findings.** This review should include a literature review, as well as consultation with affected groups and relevant experts. This will help ensure financial institutions, government departments, consumer advocacy groups, and other stakeholders have a common understanding of what vulnerability looks like and how it can be accommodated. This could lead to the production of codes of conduct for different vulnerable groups, such as the Canadian Bankers Association's *Code of Conduct for the Delivery of Banking Services to Seniors*.[36]

12. **Banks should be required to embrace a culture focused on vulnerable customers** that would span all levels and all business units, and would include product design, customer analysis and feedback, customer journeys, and complaint handling.

13. **As in the UK, banks should be required to ensure they can identify, understand, and respond to the needs of vulnerable consumers**:
    - Ensure their employees can identify signs of vulnerability and provide adequately for the needs of vulnerable consumers
    - Take the needs of vulnerable consumers into account when designing products and services
    - Ensure customer service is flexible enough to accommodate the needs of vulnerable consumers and that the bank and its employees are communicating effectively and accessibly
    - Monitor and assess whether they are accurately accommodating the needs of vulnerable customers and course correct where they are failing.

14. **Employee training should address systemic racism, specific barriers racialized and Indigenous people experience accessing appropriate financial products and services, and**

clear expectations for fair and respectful treatment of customers belonging to these groups.

15. **Feedback should be sought specifically from vulnerable consumers to identify whether they feel they are being sold appropriate products and services and how the process can be improved.** In addition to gathering feedback from vulnerable complainants, banks should use third-party mystery shoppers, audits, and focus groups to better understand where they are falling short and to identify common barriers and how these might be overcome.

16. **All banks should report annually to their Boards and FCAC on the sales policies and procedures they have set up, how they are measuring their success, and what improvements they are planning to make based on their findings.** This should include a review of each of the principles mentioned above and an overview of consumer feedback from their identified vulnerable groups.[37]

Know your product

FCAC's review on bank sales practices found that frontline employees often could not provide accurate information about the products or services they were selling.[38] This will undoubtedly lead to mis-selling – a particular problem for vulnerable consumers who, as discussed, already face barriers when it comes to understanding financial products and services.

We are pleased that the Guideline directs banks to assess the "features, risks, charges and benefits to consumers" of their products and services and to ensure employees are trained to fully understand the appropriateness of these products and services. This ought, however, to be done with an eye to vulnerability.

Recommendation

17. **The Guideline should specify that products and services should be assessed with a lens to various kinds of vulnerability to ensure that products/services that are clearly not appropriate for sale to certain groups are not permitted or available to be sold to them.** Keeping in mind their potential biases, technology algorithms can help ensure that frontline personnel have clear information on which products/services are potentially appropriate for a consumer and remove the option to sell inappropriate products/services, once the consumer has been identified in the system as having one or more vulnerabilities. We encourage banks to work with community organizations to create and review their training programs so they take into account the needs of vulnerable people.

Assessing appropriateness

FCAC's review found that certain products and services engender higher levels of risk, notably:

- Mortgages sold by mobile mortgage specialists, who rely solely on variable pay and are subject to less oversight
- Cross-selling, which risks employees not having the time to adequately inform the customer about key details of the products or services, obtain express consent, or ensure they meet the customer's needs
- Creditor insurance, for which there is increased sales pressure, significant risk the customer will not adequately understand the terms, and for which banks are not required to seek reconsent after the trial period
- Third-party sellers, who often have ambitious, product-specific sales targets, which can lead to increased sales pressure on consumers, inappropriate product sales, and lack of express consent, and who are subject to much weaker oversight.[39]

The Guideline rightly requires banks to perform an assessment to determine whether a product or service is appropriate for consumers, though this assessment should be designed to identify vulnerable consumers and, in these, cases, more fully explore specific barriers or needs they have in relation to the product/service they are seeking.

Many products and services currently sold to low-income and other vulnerable consumers are inappropriate and costly. For example, banks sell expensive and often unnecessary credit card balance insurance[40] to people on income support programs who have a fixed and steady income and are not likely to need this product. Low-income people are also often sold RRSPs when TFSAs are more appropriate.

Low-income Canadians tend to pay higher fees due to multiple factors.[41] These include monthly fees, excessive transaction fees, over-limit fees, overdraft fees, and insufficient fund fees, among others.

Recommendations

18. **The Guideline should specify that assessments to determine the appropriateness of a product/service for a specific customer should be designed to specifically identify vulnerable consumers** and, in these cases, more fully explore specific barriers or needs they have in relation to the product/service they are seeking.

19. **The Guideline must specify that cost and likelihood of incurring that cost must be factors in determining whether a product or service is appropriate for customers with low or moderate incomes.**

20. **FCAC should conduct thorough analysis of bank fees in Canada, including who tends to pay them, and develop a plan to curtail fees that are excessive for the value and cost of providing the products/services in question.** This is a practice that other financial sector regulators are considering. For example, the U.S. Consumer Finance Protection Bureau recently announced plans to address the $15 billion in overdraft fees collected by U.S. banks in 2019.[42]

21. **FCAC should work with the Canadian Bankers Association to update its 2014 Low-Cost Account Guidelines** to align with new voluntary National Bank Account Standards established in the United States, particularly with respect to features that reduce or eliminate the possibility that account holders will incur unanticipated penalties and fees.[43]

Informing consumers

We are pleased to see that the Guideline requires banks to inform consumers in a clear, simple, and accurate way if products or services are inappropriate for them. It should, however, also address how they present information about these products more generally to ensure customers adequately understand what they are signing up for, the costs, benefits, and any associated risks.

The UK Financial Conduct Authority's *Guidance for firms on the fair treatment of vulnerable consumers* states that vulnerable consumers often face information asymmetry, often because they have less information about the bank, product, or service to begin with, or because they are less able to access and understand the information necessary to make an informed choice. This can lead to vulnerable consumers purchasing inappropriate products and services.[44]

It is vital that key information be presented clearly and in a standardized way, as this can help consumers easily understand and compare the costs of financial products and services. Financial product disclosure can positively affect consumer choice[45] and is most effective when short, simple, standardized, and clear about risks and benefits.[46] This can be effectively accomplished through the creation of Financial Facts Labels, which are standardized boxes that present information about a product, similarly to the Nutrition Facts table found on food products.[47]

The Australian guideline on advertising financial products and services provides best practices that FCAC should consider. Specifically, that:

- The overall cost and fees of a product or service must be clearly communicated and that any advertised features should be accompanied by their cost

- When banks are advertising products and services, they must consider the characteristics of the audience that will see it (including demographics and financial literacy), not simply their target audience
- Banks should not state or imply that products or services are appropriate for certain groups of people unless they have performed an assessment to determine this
- If certain products or services will only be appropriate for a limited audience, banks must ensure they are only advertising to that audience
- Banks should make sure they are not using terminology that may be misunderstood, particularly when it does not reflect the meaning most people would understand (e.g., "'free', 'secure' and 'guaranteed'").[48]

Recommendations

22. **The Guideline should provide more specific direction on how banks communicate about their products and services with customers and what information must be included.** Information should be in plain language, preferably Grade 3-6 level, and consistently and accurately communicated. This should include how products and services are advertised to consumers.

23. **FCAC should mandate the inclusion of a standardized Financial Facts Label on the front page of contracts and all advertising materials** for federally regulated financial products/services for which fees, commissions, penalties, and/or interest are charged.

Aligning remuneration

FCAC has found that financial and non-financial incentives offered to bank employees are increasing the risk that customers are being sold inappropriate products and services. Specifically:

- Sales incentives influenced employee behaviour more than the messaging from senior management around prioritizing consumer interest
- Most banks have financial incentives that provide variable income above a base salary
- High sales often lead to promotions to more senior positions
- There is less oversight over non-financial incentives than financial incentives
- High sales targets can lead to mis-selling
- Banks prioritize the sales of more profitable products and services that are not always appropriate for consumers (e.g., premium travel rewards credit cards vs. low-fee and low-interest credit cards).[49]

Bank incentive structures are not geared toward serving and effectively accommodating low-income and other vulnerable people where needed, as they are less likely to buy valuable products and often take longer to serve. While the Guideline instructs banks to ensure that financial and non-financial incentives are not interfering with their ability to offer appropriate products or services, it should also ensure they are considering how they will incentivize frontline staff to more effectively serve harder-to-serve customers.

Recommendations

24. **Banks should review whether their financial and non-financial incentives lead to mis-selling, how they can better incentivize working with vulnerable consumers, and report annually on their findings and corrective actions taken to their Boards and FCAC.** This review should include engaging an independent third party to collect anonymous feedback from a representative sample of employees at different job levels who are engaged in product service/sales. This should also include third party mystery shoppers and client satisfaction surveys.

25. **Banks should be required to have whistleblower policies to protect employees who report undue pressure to increase sales resulting in inappropriate product/service sales** to customers and/or fraudulent sales practices (e.g., forging customer consents and signatures to increase sales).

26. **FCAC should do a baseline study on bank compensation policies/practices** relating to retail consumer banking products and sales so it can monitor how these change over time and the linkage to better outcomes for vulnerable consumers, and consumers generally.

27. **FCAC should create a guideline on fair and appropriate incentive management**, like the draft guideline of the *Autorité des marchés financiers* in Quebec.[50]

IX. Conclusion

Fair, transparent, accessible, and effective financial sales practices are crucial to the financial security of vulnerable consumers and can strengthen trust and confidence among all financial consumers.

We appreciate the opportunity to help strengthen the proposed Guideline on appropriate products and services and, by extension, the financial inclusion and wellbeing of vulnerable consumers. We would be pleased to answer any questions relating to our submission.

We consent to the public disclosure of our submission in whole. We also strongly encourage the government to publish all submissions in full, recognizing that transparency is a hallmark of effective governance and critical to fostering public trust in our public decision-making processes.

NOTES

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