



DEBT CRUNCH

POLICY RECOMMENDATIONS FOR ADDRESSING
CANADA'S RECORD LEVEL OF HOUSEHOLD DEBT

THE ACTION CANADA TASK FORCE ON CANADIAN HOUSEHOLD DEBT

Action Canada is a national fellowship program for promising young Canadians. The program enhances fellows' leadership skills, broadens their understanding of Canada and its policy choices, and builds an exceptional network of leaders for our future. The Task Force on Canadian Household Debt is composed of six fellows from the 2010–11 Action Canada program.

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Executive Summary

Since 2008, Canada has not only weathered the recent financial crisis, but also emerged as a global example of fiscal responsibility. However, while our banks, businesses and government remain strong, Canadian households have continued to accumulate debt at an unprecedented rate. In the third quarter of 2010, Canadians' debt-to-disposable income ratio surpassed the United States for the first time since the late 1990s, exceeding 1.5 dollars of debt for every 1 dollar of income per household.¹

While Canadians are enjoying accessible credit at historically-low interest rates, many are living paycheque to paycheque, with significant amounts of their disposable income going to servicing their personal debts. With interest rates expected to rise, Canadian households that have taken on too much debt face a real financial risk. Vulnerability at the household level could easily translate into a larger risk for the economy as a whole.

The current high levels of household debt create two main concerns for the Canadian economy. The first is the danger of increased defaults on debt and mortgage delinquencies from highly-leveraged households. Second, Canadian households would significantly reduce their spending in the general economy if forced to address higher interest amounts.

Personal spending on consumer goods and services accounts for 58% of the Canadian gross domestic product (GDP)² and a reduction in consumer spending could provoke a "home-grown" Canadian recession. The Action Canada Task Force on Household Debt proposes two solutions. First, the Department of Finance Canada, along with Canada's banks and financial institutions, should develop and implement a *Code of Conduct on Lending* focusing on options to improve Canadian consumers' ability to manage and repay debt.

Secondly, *Changing the Culture of Borrowing* focuses on increasing public engagement through a national public awareness campaign and financial self-monitoring options. It should aim to help Canadians gain a greater understanding of their financial well-being and to help introduce a cultural shift in the attitudes and practices around the use of credit and accumulating debt.

Successfully addressing the financial vulnerability associated with household debt requires the participation of all key stakeholders in the financial system, including the federal government, the financial sector, and individual consumers. Introducing public policy measures now would strengthen the nation's economic position for the future.

1 Statistics Canada. No date. *Household sector indicators* (table). *National balance sheet accounts*. Last updated Dec 13, 2010. statcan.gc.ca/daily-quotidien/101213/t101213a2-eng.htm (accessed Jan 26, 2011).

2 Statistics Canada. No date. *Gross domestic product, expenditure-based (quarterly)* (table). *Summary tables*. Last updated Jan 6, 2011. www40.statcan.gc.ca/l01/cst01/gdps02a-eng.htm (accessed Jan 26, 2011).

Canadian Household Debt

Since 2008, the world has witnessed significant volatility and strain on the financial sector. While over-leveraged countries and financial institutions have collapsed under the weight of excessive debt, Canada has not only weathered the storm, but emerged as an example of fiscal responsibility. However, the stability of Canadian banks, businesses and government is not reflected in the balance sheets of individual Canadians.

Canada's total household debt is now three times the size of the national debt—more than 1.5 trillion dollars in total.³ During the recent recession, household debt continued to rise in Canada, contrary to many other nations—including the United States. In recent months, international bodies such as the Organization for Economic Co-operation and Development (OECD) have issued reports about Canada's unprecedented rise in household debt, a message that has been echoed at home by warnings from the Bank of Canada Governor Mark Carney. Despite the warnings, Canadians were still bigger spenders during the 2010 holiday season than in 2009, enjoying the benefits of low interest rates and easy access to credit.⁴

With interest rates poised to rise, Canadian households that have taken on too much debt face a real financial risk. Vulnerability at the household level could easily translate into a larger risk for the economy as a whole. Triggers such as rising interest rates mean more household's disposable income will go to servicing individual debt.

This not only increases the risk of default, but with the majority of Canada's GDP tied to consumer spending, it will have an effect on many sectors of the economy. Reducing this risk requires the participation of all key stakeholders in the financial system including the federal government, the financial sector, and individual consumers.

The Action Canada Task Force on Household Debt has explored opportunities to reduce national financial vulnerability due to high household debt levels. After six months of consultation with financial institutions, credit counsellors, government officials, economists, and other stakeholders, the Task Force has prepared the following policy recommendations in an effort to improve financial best practices for both borrowers and lenders.

REAL STORIES ABOUT REAL PEOPLE

To help illustrate the picture of debt in Canada, actual situations provided by Canadian credit counselors are provided in this document. Names and locations of individuals have been changed.

ANDREW & PADMA'S BIG DECISION

Andrew and Padma are a newly-married couple from London, Ontario. Andrew, an engineer, and Padma, a nurse, are looking to buy their first home and to start a family. While they both earn good salaries, they are still carrying significant student loans, a car loan and have limited savings between them. They have been approved for a mortgage, but have realized that their decision to buy a house needs to factor in much more than the just the price of a home. With the average debt-to-income ratio of homeowners nearly four times that of renters, Andrew and Padma aren't alone in making difficult decisions about home ownership.⁵

LEARN MORE ABOUT ANDREW AND PADMA AT DEBCRUNCH.CA

³ Statistics Canada. No date. *Household sector indicators* (table). *National balance sheet accounts*. Last updated Dec 13, 2010. statcan.gc.ca/daily-quotidien/101213/t101213a2-eng.htm (accessed Jan 26, 2011).

⁴ Scotiabank. "Canadians Continue to Spend More on the Holidays in 2010: Scotiabank Study." CWN Group Dec 16, 2010. newswire.ca/en/releases/archive/December2010/16/c5659.html

⁵ Meh, C.A., Terajima, Y., Chen, D.X., and Carter, T. Household debt, assets, and income in Canada: A microdata study. Bank of Canada Discussion Paper. June 2009. bankofcanada.ca/en/res/dp/2009/dp09-7.pdf

HIGH BY WHAT MEASURE?

In the third quarter of 2010, Canadians' debt-to-disposable income ratio surpassed the United States for the first time since the late 1990's, exceeding 1.5 dollars of debt for every dollar of income. In 2008, the Canadian household debt-to-financial assets ratio was the highest among OECD member nations.⁶

BETTY & JOHN'S NOT-SO-GOLDEN YEARS
Betty and John Cyr are an elderly retired couple from Saint John, New Brunswick. They rely on their modest pension incomes and are finding it difficult to make ends meet. With some costly, unanticipated health problems and a recent need to support their youngest daughter and her children who had to move back in with them, Betty and John are finding it harder and harder to pay down their mortgage. With nearly one quarter of Canadians entering retirement with a mortgage on their primary residence, John and Betty are not alone.⁷

LEARN MORE ABOUT BETTY AND JOHN AT DEBTCRUNCH.CA

WHY THE INCREASE?

The increase in Canadian household debt is largely due to the long periods of low interest rates that have occurred since the recent recession. Low interest rates have made the short-term burden of carrying debt, including mortgages, personal lines of credit, automobile leases, credit cards, and personal loans, more manageable. Canadians are also more comfortable with being in debt than they were two decades ago. The accumulation of high levels of debt is seen as normal with less perceived urgency to repay what is owed. At the same time, saving is no longer as culturally valued as it once was. The net effect of these changes has been profound:

⁶ OECD. Stat, Dataset: Financial balance sheets - non consolidated. Household short-term loans, SAFASNC—Household financial assets, Extracted on January 15, 2010.

⁷ Royal Bank of Canada. RBC Retirement Myths and Realities poll. April 2010. rbc.com/newsroom/2010/0426-debt.html

Canadians have gone from spending from their savings, to increasingly spending via debt rather than income or savings.

WHY HIGH HOUSEHOLD DEBT IS A PROBLEM

While Canadians enjoy accessible credit at low interest rates, many live paycheque to paycheque—with significant amounts of their disposable income going to servicing their personal debts. In 2010, 59% of Canadians indicated they would have difficulty making financial ends meet if their paycheque was delayed by only a week.⁸ In fact, 1 in 10 state they could not handle an unexpected expense of \$500.⁹ Perhaps most startling is the fact that 63% feel their debt limits their ability to reach their personal and financial goals⁹ such as going back to school or saving for retirement.

With interest rates predicted to rise, corresponding increases in debt servicing costs will further strain the finances of many Canadians. According to a stress test scenario by the Bank of Canada, it would take only a 0.5% increase in interest rates for 1.1 million Canadian households to become at risk of defaulting on their consumer credit or mortgage-related debt.¹⁰ Projected income increases will be insufficient to offset the increases in debt payments that will occur with even such a small increase in interest rates.¹¹

⁸ Canadian Payroll Association (CPA). 2009. National Payroll Week Employee Survey. Sep 14 2009.

⁹ Certified General Accountants Association of Canada. "Where Is the Money Now: The State of Canadian Household Debt as Conditions for Economic Recovery Emerge." May 2010. my.texterity.com/cgaresearchreports/debt2010#pg98

¹⁰ Bank of Canada. Financial System Review. Dec 2009. bankofcanada.ca/en/fsr/2009/fsr_1209.pdf (25% default rate consistent with data on bankruptcy rates)

¹¹ Bank of Canada. Financial System Review. Dec 2010. bankofcanada.ca/en/fsr/2010/fsr_1210.pdf

THE RISK TO CANADA

The current high levels of household debt in Canada present two main concerns at the level of the national economy. The first is the risk of increased defaults and mortgage delinquencies from highly-leveraged households.

VINCENT & SYLVIE: LEVERAGING FOR SUCCESS

Vincent and Sylvie Bouchard are an elderly couple from Lennoxville, Quebec. Vincent owns a small home-based computer repair business and Sylvie works as a school secretary. Vincent wants to hire additional staff and expand his business to an off-site location. He and Sylvie were hoping that their bank would allow them to borrow against the equity of their home to expand the business, even though doing so would significantly increase their monthly debt repayments. Vincent and Sylvie are not alone. Self-employed Canadians have one of the highest debt-to-income ratios. This makes them particularly sensitive to economic shocks and interest rate hikes.⁶

LEARN MORE ABOUT VINCENT AND SYLVIE AT DEBTCRUNCH.CA

The second concern is that over-leveraged households will significantly reduce their spending in the general economy. Personal spending on consumer goods and services accounts for 58% of the Canadian GDP¹² and such a reduction in consumer spending could provoke a “home-grown” Canadian recession. Combined with factors such as decreased government stimulus spending, economic stagnation in the United States, falling exports due to a high dollar, or a reduction in home equity prices, the result could be a severe, negative impact on the Canadian economy.

¹² Statistics Canada. No date. Gross domestic product, expenditure-based (quarterly) (table). Summary tables. Last updated Jan 6, 2011. 40.statcan.gc.ca/101/cst01/gdps02a-eng.htm (accessed Jan 26, 2011).

THE NEED TO ACT NOW

“In the long run we shall have to pay our debts at a time that may be very inconvenient for our survival.”

NORBERT WIENER
PROGRESS AND ENTROPY

Current household debt levels in Canada are a source of financial stress at both the micro and macro levels. A coordinated effort is required to reduce them to more sustainable levels. Changing the underlying attitudes and behaviours that have encouraged debt accumulation will take time: it is much easier to acquire debt than it is to repay it. Taking decisive action today will allow for a gradual reduction in debt levels and address underlying issues that have created the problem.

The proposed solutions focus on the two primary actors in the acquisition and repayment of debt, credit providers and borrowers. The recommendations for lenders in the first section, *Code of Conduct on Lending*, centre on promoting the development and adoption of lending best practices that assist the consumer to make healthy borrowing choices. The recommendations for borrowers in the second section, *Changing the Culture of Borrowing*, aim to assist the consumer in taking more responsibility for their personal financial situation. The desired impact is to change how credit choices are presented to consumers and to ensure they have a greater understanding of how debt can impact their long-term financial well-being.

The recommendations that follow suggest roles for key stakeholders, including government departments and regulatory bodies, financial institutions, credit counselling organizations, and Canadian citizens. Further consultations with these stakeholders will be important in ensuring the proposed solutions achieve their objective of reducing financial vulnerability associated with household debt.

Solution 1: Develop a Code of Conduct on Lending

The Department of Finance Canada, along with Canada's banks and financial institutions, should develop and implement a set of best practices for lending, focusing on options to improve individual Canadians' ability to manage and repay debt.

PURPOSE

The implementation of a *Code of Conduct on Lending* (CCL) is being recommended to promote standards that would decrease borrowers' financial vulnerability associated with high levels of household debt and ensure that borrowers understand the potential risks associated with mortgage and consumer debt. The CCL would be developed through extensive consultation led by the Department of Finance and engage all major stakeholders in Canada's financial system.

The CCL should be modelled after the *Code of Conduct for the Credit and Debit Card Industry in Canada* recently enacted by the Canadian federal government. Under this scenario, credit providers and insurers would be asked to adopt the CCL voluntarily. Simultaneously, the federal government would introduce a *Lending Best Standards Act*, providing the Minister of Finance with the authority to regulate the conduct of credit lenders and insurers according to the principles of the CCL if necessary.

In addition, this legislation would expand the mandate of the Financial Consumer Agency of Canada (FCAC) to supervise credit lenders and insurers to monitor their compliance with the CCL and with any regulations introduced under the proposed *Lending Best Standards Act*.

SCOPE

The CCL would affect chartered banks, authorized foreign banks, trust and loan companies, Canadian insurance companies, and foreign insurance companies offering credit or lending products in Canada. Credit unions should also follow the CCL, as they are not federally regulated.

Credit providers that choose to adopt the CCL would abide by the policies outlined below. The CCL would be incorporated, in its entirety, into the institutions' contracts, governing rules and regulations.

RECOMMENDATIONS

The following components outline five key areas the CCL should focus on: matching loan products to repayment plans, using more conservative amortization periods to qualify mortgages, offering loans based on need not affordability, offering higher loan repayment methods as the default option, and recognizing financial awareness as a corporate social responsibility.

Some of the recommendations within the CCL suggest a change in the primary or default recommendations made by credit providers. This is done in an effort to help consumers choose borrowing and repayment options that will assist them to reduce and repay their debt. These changes are intended to affect how credit providers recommend options to consumers, without limiting consumer choice. In most cases consumers retain the choice to ignore or opt out of the new default recommendations.

1. LOAN PRODUCTS SHOULD MATCH THE BORROWER'S REPAYMENT PLANS

PROBLEM Personal lines of credit, which have surged in popularity, focus on paying the interest and not the principal amount borrowed.

Over the past 20 years, personal lines of credit have accounted almost exclusively for the surge in total consumer debt. From a consumer's perspective, a significant advantage in qualifying for a line of credit is that, on a monthly basis, the holder is responsible only for the repayment of the interest, and either none or a very small portion of the principal. This arrangement allows the consumer to defer repayment of the principal and gives the illusion that the principal may not need to be repaid. It also puts borrowers at increased financial risk when interest rates rise.

ACTION Credit providers should consult with borrowers on their plans for loan repayment both at the time of lending and on an ongoing basis. Recommended loan products should match the consumers' repayment strategy.

With regards to consumer credit, personal lines of credit should be offered only after understanding the intended use of the facility and plan for repayment of the principal by the borrower. In the event that a personal line of credit is not the best fit for the use and repayment of funds, credit providers should suggest alternative loan options, including term loans, in order to assist borrowers in repaying the debt according to their financial plan.

IMPACT This change would increase the due diligence on the part of credit providers ensuring borrowers have a plan to repay loans in a timely manner.

2. MINIMUM STANDARDS FOR MORTGAGE QUALIFICATION SHOULD BE INCREASED

PROBLEM Mortgages are the largest component of debt for the majority of Canadian households.¹³ Due to current mortgage insurance policies, which extend amortization periods and allow lower down payments, individuals have been able to qualify for larger mortgages, and accordingly are spending more on home purchases.¹⁴ The indirect effect of consumers having access to larger mortgages is that the market becomes artificially inflated, and home affordability deteriorates.

ACTION The federal government should introduce more stringent standards for mortgage qualification while still allowing for mortgages with long amortizations.

This could be done by implementing a higher test interest rate or shorter "qualifying amortization". The qualifying parameters would be used to determine the maximum mortgage value a consumer could obtain. Should the consumer then chose to amortize over a longer period, they would not be eligible for a larger mortgage. Instead they would be able to reduce their monthly payment by spreading it out over the extended amortization period.

13 Bank of Canada. Financial System Review. Dec 2010. bankofcanada.ca/en/fsr/2010/fsr_1210.pdf

14 Tversky, A. & Kahneman, D. (1974). Judgment under uncertainty: Heuristics and biases. *Science*, 185, 1124-1130.

Solution 1: Develop a Code of Conduct on Lending

IMPACT Tightening the qualifying criteria for mortgages would have a direct impact on consumers by reducing the total mortgage value for which they may qualify, and by extension, decreasing their overall debt. By maintaining the option to insure the mortgage with longer amortization periods, consumers would have the choice of making smaller monthly payments.

This choice would protect them from financial shock such as interest rate increases, and leave consumers with more disposable income to contribute to the economy. At a macro level, this would also prompt a correction against the artificial inflation in the housing market and improve affordability. These measures could be introduced gradually to promote a gentle correction in the market.

3. HIGHER REPAYMENT AMOUNTS SHOULD BE THE DEFAULT OPTION

PROBLEM Minimum payment amounts on personal lines of credit, even when they include a small portion of the principal, do not encourage prompt repayment of the principal amount owing by borrowers. Since consumers are likely to rely on suggested repayment amounts, or default repayment options, they may be making less progress than they could be on reducing their debt load.

ACTION In the case of open or variable loans, including credit cards and personal lines of credit, higher payment options should be explicitly offered for debt repayments rather than just the minimum payment. The default would be the higher payment option, thereby encouraging consumers to repay the principal in a timely manner. Consumers would retain the option to choose a smaller repayment option.

IMPACT Recent research in behavioural economics shows that the primary option presented to a consumer has a significant influence on choice.¹⁵ Even when stakes are high, such as deciding on monthly payment amounts, most consumers will elect to choose the first option presented. When explicitly offered a mid-range or high-range repayment option as the default, consumers are more likely to make larger payments against their current debt, and thus reduce their household debt levels faster. Importantly, consumers could opt-out of the higher payment option if they desired, assuring that payment recommendations made by the credit provider do not restrict consumer choice.

¹⁵ Thaler, Richard H., Sunstein, Cass R. and Balz, John P., Choice Architecture (April 2, 2010). Available at SSRN: ssrn.com/abstract=1583509

4. LOAN AMOUNTS SHOULD BE OFFERED BASED ON NEED, NOT AFFORDABILITY

PROBLEM The size of a personal line of credit or credit card that may be offered to a borrower is typically based on their ability to service the debt, rather than on their actual need for credit, which may be considerably smaller than the amount offered by the credit provider. While borrowers may be able to afford the repayment of a larger line of credit, obtaining higher credit limits than are actually needed may influence Canadians to use more credit, increasing their debt and putting them at risk when interest rates rise.

ACTION Credit providers should be restricted from pre-approving new credit products or increases to existing credit without an explicit request by the credit holders. Credit providers should also be prevented from offering more credit than requested.

IMPACT These changes will protect Canadians by ensuring that they are not influenced to take on more debt than they require. Specifically, the restrictions will protect the most vulnerable segments of society from becoming overly-indebted.

5. FINANCIAL AWARENESS SHOULD BE INCLUDED IN CORPORATE SOCIAL RESPONSIBILITY POLICIES OF FINANCIAL INSTITUTIONS

PROBLEM The current corporate social responsibility (CSR) policies of financial institutions do not explicitly focus on their responsibilities towards consumers.

ACTION Credit providers should include the promotion of consumer financial awareness as an explicit area of their CSR policies. Examples of CSR policies that could directly impact household debt levels in Canada are detailed in the *Changing the Culture of Borrowing* section of this document.

IMPACT Promoting financial awareness has been demonstrated to have an impact on individual credit usage and management, and to reduce household vulnerability from unsustainable debt and lack of saving by individual Canadians.¹⁶ Credit providers continue to be the primary point of contact for consumers seeking financial advice on loans and savings. The inclusion of financial awareness as an explicit area of focus for CSR will create clarity for the consumer around the commitment of financial institutions to consumer well-being, and promote good lending practices by credit providers.

¹⁶ Retirement Commission. Annual Report. 2010. retirement.org.nz/files/file/AR-RC-2010.pdf

Solution 2: Changing the Culture of Borrowing

Under the direction of the Federal Department of Finance, a public awareness campaign should be launched to increase financial awareness and encourage Canadians to reduce current levels of household debt. Canadian credit providers should design and implement more sophisticated and innovative credit and savings tools to assist consumers in their debt management and savings practices.

PURPOSE

Canadians are increasingly accumulating debt rather than spending from their savings. Household debt levels continue to rise while savings rates continue to decrease. These recommendations on *Changing the Culture of Borrowing* focus on measures that will help introduce a cultural shift in the attitudes and practices of Canadians surrounding the use of credit and accumulating debt.

On June 26th, 2009, the Minister of Finance announced the establishment of Canada's Task Force on Financial Literacy (TFFL) that was given the mandate to help create a cohesive national strategy to support initiatives across Canada aimed at improving financial education. By drawing on global "best practices" and building on initiatives already in place in Canada, the TFFL have outlined a focused and concrete plan of action for strengthening financial literacy.

The mandate of the TFFL will be important to helping Canadians become more knowledgeable consumers and investors. The Action Canada Task Force on Household Debt supports this approach and offers specific recommendations in this area. The intentions behind the recommendations proposed here are to increase awareness of the costs and responsibilities associated with the use of credit, to encourage Canadians to reduce current levels of household debt, and to promote savings and investments for improved financial security.

SCOPE

The recommended cultural measures are the result of consultations with chartered banks, credit counselling associations, credit card issuers, mortgage insurers, and government in Canada. They are based on the evolution of consumer practices and attitudes toward the use and acquisition of debt, and take into consideration the concerns and constraints of major stakeholders. The recommendations aim to encourage a change in behaviour of Canadian consumers regarding financial products, while at the same time not limiting their choice or access to financial services.

RECOMMENDATIONS

1. INCREASE PUBLIC ENGAGEMENT THROUGH A NATIONAL PUBLIC AWARENESS CAMPAIGN

PROBLEM While education alone is often not sufficient to change consumer behaviour, it is an important factor. Increased timely exposure to key messages can heighten mindfulness of good financial practices, and change how consumers manage their credit and savings.

ACTION Under the direction of the Department of Finance Canada, a multi-faceted media campaign should be launched to heighten and improve the awareness of Canadians about the importance of careful debt and savings management. Ideally, this campaign would pay particular attention to vulnerable groups, including students, young families, potential new homeowners, seniors, and small business owners.

Tools supporting the key messages of the campaign, and allowing people to calculate their total debt, average interest rate, amortization, and monthly payments, could be offered online and in other accessible formats. The same tools could allow for recommendations on how to best manage debt and savings, based on the information provided.

IMPACT Increased exposure to key messaging on household debt will help to increase the engagement of the Canadian public in improving their personal financial management. This recommendation is modeled after a similar campaign in New Zealand called *Get Sorted* which achieved significant changes in borrowing behaviours. Studies have shown that as a result of the campaign, households increased their net savings, decreased their credit card usage, and changed their attitudes surrounding the usage of debt.¹⁷ The impact of this intervention is evident in the fact that over 20% of New Zealanders use the *Get Sorted* financial tools.¹⁸

As an illustration of how cultural media can impact awareness levels of viewers, the Task Force on Household Debt has produced a 60-second video on Canadian household debt called *Joe's Debt*. It can be viewed on the Task Force website at debtcrunch.ca. Canada's major financial institutions and credit providers should be included in the implementation and funding of such a campaign in partnership with the Department of Finance. These measures would serve to complement the work and recommendations of the TFFL.

¹⁷ New Zealand Retirement Commission. Annual Report. 2010. retirement.org.nz/files/file/AR-RC-2010.pdf

¹⁸ New Zealand Retirement Commission. 2008. retirement.org.nz/webfm_send/-retirement-files-Media-Publications-Helping-NZrs%20-Dec08.pdf

2. PROMOTE SELF-MONITORING OPTIONS

PROBLEM A lack of general awareness around daily financial decisions and transactions is a risk to overall consumer financial well-being. In particular, consumers behave differently when using credit than when using savings to make purchases, making larger purchases with credit without the associated feeling of money “leaving their pockets.”¹⁹

ACTION Easy-to-use financial tools for Canadians that promote spending and saving awareness and management should be established. These “self-control” tools could include financial products like consumer-controlled credit cards allowing consumers to self-impose limits or text reminders to their phone, “save the change” debit cards that prompt saving small amounts with every purchase, and finance trackers. Examples are already in use by financial institutions in Canada and in other countries. The Task Force on Household Debt challenges Canadian financial institutions and credit providers to design more sophisticated and innovative credit and savings tools to assist consumers in their debt management and savings behaviour. Canadian financial institutions and credit providers should exercise their creativity in expanding the mandate of CSR to promote consumer financial awareness and healthy household finances.

IMPACT These measures would help Canadians manage their debt through innovative financial tools and products. Their use will encourage mindfulness in managing finances and promote careful financial behaviours. These would be voluntary measures offering support to households who are trying to make healthier financial choices.

¹⁹ Prelec, D., and Loewenstein, G., “The red and the black: Mental accounting of savings and debt.” *Marketing Science*. Vol 17 No 1. 1998.

A Call to Action

In a time of financial turbulence, the economic choices of Canadians can have dramatic consequences for the future. In the words of Bank of Canada Governor, Mark Carney, “This cannot continue... While asset prices can rise or fall, debt endures.”²⁰ The recommended solutions will assist the nation in reducing its vulnerability from high household debt levels.

Through the *Code of Conduct for Lenders*, institutions can help promote empowering usage of credit, demonstrate their leadership in product innovation, and maintain their position as world-class financial institutions. By *Changing the Culture of Borrowing*, consumers can be encouraged to create stronger financial households and protect their families from economic turbulence and shock.

This is an opportunity to improve the financial well being of Canada. In order to do so, all parties must come to the table to create a strong nation with financially secure citizens, and ensure our prosperity today and in the future.

About the Fellows

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20 Carney, Mark. Current issues in household finances. (December 16, 2009). bankofcanada.ca/en/speeches/2009/sp161209.html

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