

Check Against Delivery

Asset Building Learning Exchange November 5, 2013, University of Calgary Honourable Dave Hancock

Thank you Heather Morrison (City of Edmonton) for your kind introduction.

I would also like to acknowledge some of the organizations who are working hard on asset building and financial empowerment:

- Social Enterprise Development Innovations;
- St. John Community Loan Fund;
- Momentum;
- the Home Program;
- the Alberta Asset Building Collaborative (Edmonton Chapter); and
- Calgary's Financial Futures Collaborative.

I also want to thank all of you here today for giving me the opportunity to speak with you.

Given that this is National Financial Literacy Month, I am pleased to be able to take part in this conference.

Poverty is very much on our government's agenda.

We have committed to eliminating it for children in five years and significantly reducing it for the general population in 10 years.

I am the first to admit that those are lofty goals.

They are, but I think they are achievable with the right approaches, the right tools and the right partnerships and collaboration.

I had the pleasure of having a conversation with Commissioner Jonathan Mintz earlier today.

I think you are going to be fascinated by what he has to say about the ability of municipalities to help in reducing poverty - creating financial stability - and asset building.

I wish I could say that Alberta is ahead of the curve when it comes to asset building.

The sad fact is that we're not.

But the fact that Commissioner Mintz is here to speak with us today shows that we believe we must look at and respond to poverty in a different way if we are going to meet our goals related to poverty.

I believe a fundamental first step in engaging the entire population in working to rid ourselves of poverty starts with thinking about it in a different way.

During the summer, a city council in Alberta undertook a discussion about poverty.

One councillor maintained that being poor is the result of choices people make and it wasn't the council's job to be a cushion against the consequences of people's bad decisions.

I wish I could say that he was a lone voice crying in the wilderness.

He isn't.

There are many others who share that point of view.

However, you and I know that no one wakes up one day and decides to be poor.

No one says, “I want a life that is devoid of the opportunity to improve my financial circumstances.”

However, it is true that the poor often make bad choices –especially financial ones.

However, I believe they make bad choices because they are poor.

Bad choices may keep them in poverty, but they are not the root of the problem.

So the question becomes why and how do we work to change that.

If I were to ask a person coming out of a payday loan company how much their loan was costing them, they would no doubt be able to give me a dollar figure.

They might even be able to give me the nominal interest rate.

However, the odds are that they would not be able to tell me the effective interest rate.

I suspect that a lot of people, poor or not would have trouble explaining effective, nominal and compound interest.

And most people, whether they are payday loan customers or not, would be shocked to find out that the effective interest rate was in excess of 1,200 per cent.

So why on earth would someone agree to a loan at that amount of interest?

The answer is complex and frames the discussion in an article called "*Being poor changes your thinking about everything*" that was published in the Washington Post last September.

In the article the authors, who are behavioural economists, talk about the narrow focus of decision making that results from scarcity.

They use the example of a fire.

If your house is on fire and someone hands you a bucket of water, you are going to use it.

You are not going to think about where the water came from, whether the bucket is plastic or metal or who is giving it to you.

You are just going to use it to put out the fire.

The person who goes to a payday loan company because he or she needs money to pay the rent falls prey to the same kind of reaction.

This is what the authors call "tunneling".

If your only option is to either have your family out on the street or to take out the loan, you are going to take out the loan.

You will do that even though your action is likely to produce negative consequences in the future.

As the *Washington Post* article points out, this behaviour isn't unique to any type or class of person.

To some degree, we all react to scarcity the same way.

If you have a deadline to meet, you have a scarcity of time.

You will meet your immediate deadline by putting off other things that need to be done in order to meet your most pressing concern.

And like the person at the payday loan company, you will do that regardless of what future consequences it might create.

An article published by the Mennonite Foundation talks about how people are much less concerned when they are told they have to pay a “fee” rather than interest.

It cites a 2005 study by the Financial Consumer Agency of Canada that indicates convenience is the number one reason for using a payday loan service.

Only 14 per cent of respondent indicated they were forced to do so because of credit and banking issues.

As the article states, a large number of people are using this type of expensive credit even though cheaper options are available to them.

They don't know or they don't care about the high cost payday loan companies charge for their services.

That is one of the best examples of financial illiteracy I can think of.

We need to insure all Albertans are financially literate.

This is especially true for our young people.

We should not be sending them out into the world of high interest credit cards, lines of credit, instant loans and the like without adequately preparing them first.

We also need to look very closely at how we can help those who receive financial assistance develop the kinds of assets that will help them achieve financial stability.

This is going to be an exciting conference and I look forward to hearing about the results and how we might best approach to moving toward eliminating poverty.

Have a productive and enjoyable conference.

Thank you.