October 2018

Financial Wellbeing Remains Challenged in Canada

Highlights from the 2018 Financial Health Index study

Financial Health index

About us

Seymour Consulting is a purpose-driven social enterprise, with a vision to help create financial resilience for Canadians and their families.

Our mission is to help measurably improve the financial health of Canadians, by bringing visibility to factors that most impede or improve their financial wellbeing. We collaborate with committed financial services innovators, government and non-profit partners to create true innovation in the financial marketplace at scale.

Through our Financial Health Index research, consulting practice and thought leadership, we work enable and inform innovation to help improve Canadians' financial health and resilience. We recognize that consumers are ultimately in charge of their financial wellbeing, and our work is part of a much wider trend towards financial wellbeing around the globe.

We are excited to bring forward findings and insights from year two of the Canadian Financial Health Index study, which builds on many of the insights shared in our inaugural three-part whitepaper series. www.financialhealthindex.org.

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Acknowledgement

Center for Financial Services Innovation [CFSI] is a non-profit organization with a mission to advance consumer financial health in America by shaping a more robust and innovative financial services marketplace with higher quality and more accessible products and services. We are deeply grateful for the engagement and contribution of CFSI for their on-going collaboration, advice and for permitting us to incorporate their eight financial health indicators into our research to help support financial health measurement across North America.

Introduction

The Financial Health Index study is Canada's most comprehensive investigation into consumer financial health and wellness, and the role financial institutions can play to improve the financial wellbeing and resilience of Canadians.

Our study is framed by our holistic framework for financial wellbeing. Financial wellbeing is impacted by many factors, including behaviours, financial knowledge, confidence and experience, attitudes and motivations and environmental factors. Measures that relate to the three inter-related constructs of financial health, wellness and financial resilience include:

- The extent to which people feel comfortable with their financial situation and current and future financial obligations;
- The ability to meet financial commitments such as living expenses, bill and loan payments; and
- Resilience for the future based on peoples' ability to weather unforeseen life events, financial stressors and 'shocks'.

In 2017, we provided an overarching picture of the current financial health and wellness landscape of Canadians. Financial health and wellness are inter-related constructs, and both are vital to people's overall emotional and physical wellbeing, family stability and ability to realize their life goals.

We highlighted regional differences in financial stress and resilience, and identified several potentially underserved and vulnerable segments of the population. These include: millennials, renters, women, low income earners, and small business owners. Through engagement with many like-minded organizations and industry partners, our financial health research continues to help raise awareness and appreciation for the importance and modern relevance of focusing on the financial wellbeing.

Results from our 2018 study suggests that levels of financial stress remain high and persist across the Canadian population. The vast majority of Canadians report feeling additional pressures of year over year increases to their cost of living. Many have resorted to increasing borrowing to help make ends meet. Managing overall household debt is something that one quarter of all Canadians worry about frequently.

Whereas Canadians report spending one-quarter to 40% of their household's monthly take-home income on housing (rent or mortgage), their confidence in their ability to manage their debt, particular in the likely scenario of interest rate increases, has deteriorated. Canadians are finding themselves in increasingly precarious situations.

Methodology

The 2018 Canadian Financial Health Index study is an online survey of over 5,000 respondents across each of Canada's provinces, excluding Quebec and the three Territories.

Data was weighted to be representative of the Canadian population by province, gender, age and household income. Stratified sampling across Canada's 31 largest census metropolitan areas was employed to reduce disproportionate samples, particularly in the case of Ontario. Additionally, quota samples of rural populations from within each province rounded out the sampling plan.

Respondents ranged between 18 and 70 years old, and are all primary or joint financial decision-makers. The study was conducted between May 23 and June 14, 2018.

About the Study

The national Financial Health Index study examines multiple aspects related to consumer financial health (consumer and financial behaviours and money management practices), consumer financial stress and wellness and consumer financial resilience, across the Canadian population and for demographic groups.

This study is developed based on Seymour Consulting's holistic framework for financial wellbeing. Multiple financial health indicators support financial health measurement and benchmarking, and provide gaps and opportunities from the consumer, financial provider and financial ecosystem perspective.

The study examines consumers' financial knowledge and confidence levels; financial and money stressors, financial capability aspects and financial management behaviours and practices (across the financial services spectrum). The study also explores external or environmental factors such as income variability and the extent to which Canadians have access to and lever their social capital (i.e. their family and friends who can provide financial advice and/or support in times of hardship).

The study also explores consumer financial product and service usage, debt management and debt stress, access to financial products, services, advice and tools, usage of more predatory financial services (e.g. payday lending) and perceived levels of support by consumers' primary Financial Institution for their financial wellness. The study also provides benefits of improved support for financial providers improving the financial wellness of their customers – including from a banking share of wallet and brand perspective.

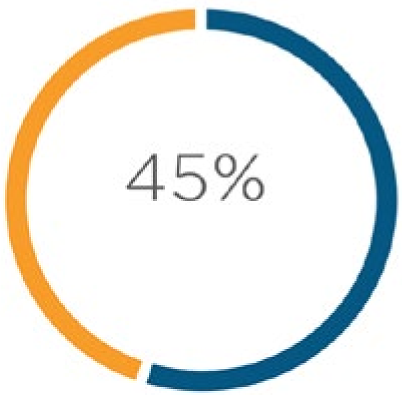
Definitions

Financial Health:
is about your ability to balance your financial needs for today with those of tomorrow, and get through times of financial hardship.

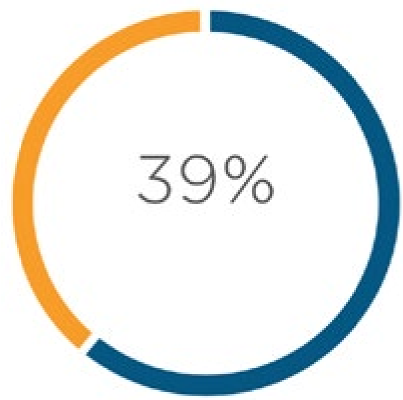
Financial Resilience:
speaks to your ability to weather unforeseen life events, financial stressors or 'shocks'.

Financial Wellness:
speaks to your emotional peace of mind in terms of your financial situation (with the opposite being financial stress).

Financial wellbeing in Canada at a glance



of Canadians agree money worries make them lose sleep at night



of Canadians agree that money worries affect their physical well being

Key behaviours important for financial wellbeing

Not borrowing for everyday expenses

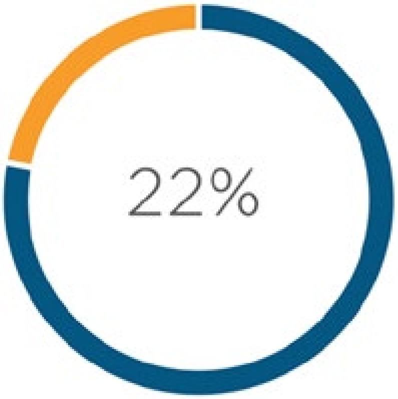
Active saving

70% Canadians agree that housing affordability is a problem where they live and 47% agree it is a problem for them personally

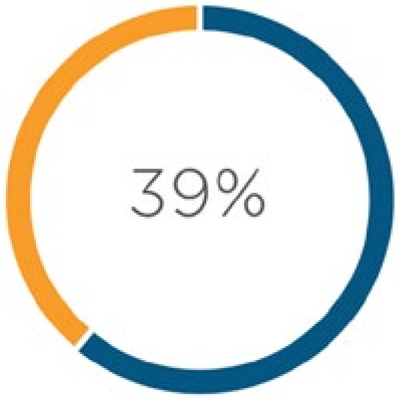
38% have a financial savings buffer of less than 2 months

55% are unconfident they could get through periods of financial hardship

31% don't understand what financial products and tools they need



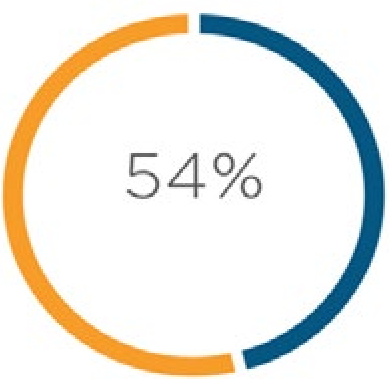
Home owners



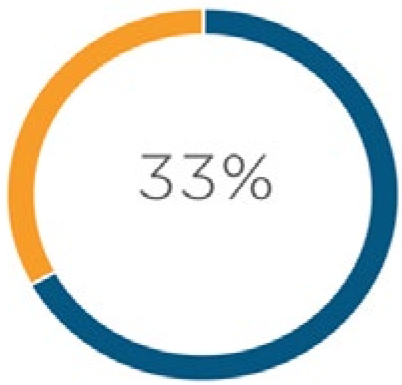
Renters

Proportion of Canadians not able to save any portion of their monthly income

52% have taken steps to change their behaviours to better manage their finances in the past 12 months



Agree rising interest rates is a problem for me



Agree they have increased borrowing to pay for things

38% rate their primary Financial Institution poorly in terms of supporting their financial wellness

36% experience income variability month-over-month

36% have money fights with their partner or spouse

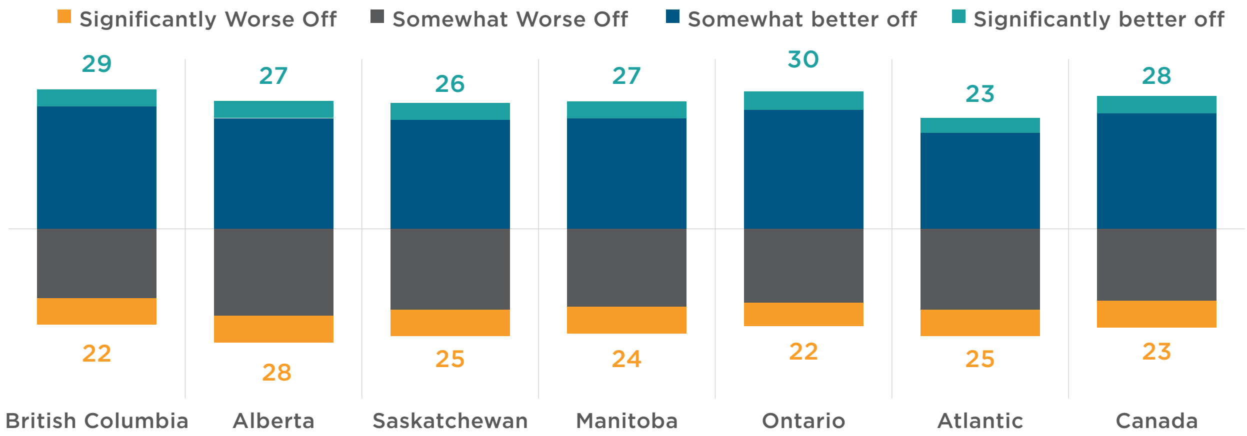
Debt and an increased cost of living is impacting the financial resilience of Canadians

Financial stress continues to be omni-present and mainstream

When asked whether they felt they are in better or worse shape financially compared to 12 months ago, 28% of Canadians overall say that they are "somewhat" or "significantly" better off, while 23% say that they are "somewhat" or "significantly" worse off.

Change in financial situation in last 12 months

Compared to 12 months ago, would you say you are in better or worse shape financially?



This suggests that 2016 may have been a challenging year for Canadians, with some potential improvements to overall levels of financial wellness towards the latter half of 2017, in line with Canadian economic growth over the same period.

Nearly one-quarter of 2018 Financial Health Index survey respondents highlight that their total household income increased (by 5% or more) in 2018 compared to the previous year. The macro-economic momentum, combined with increases in income, may have translated to improved sentiments around financial health for Canadians, at least at the national level.

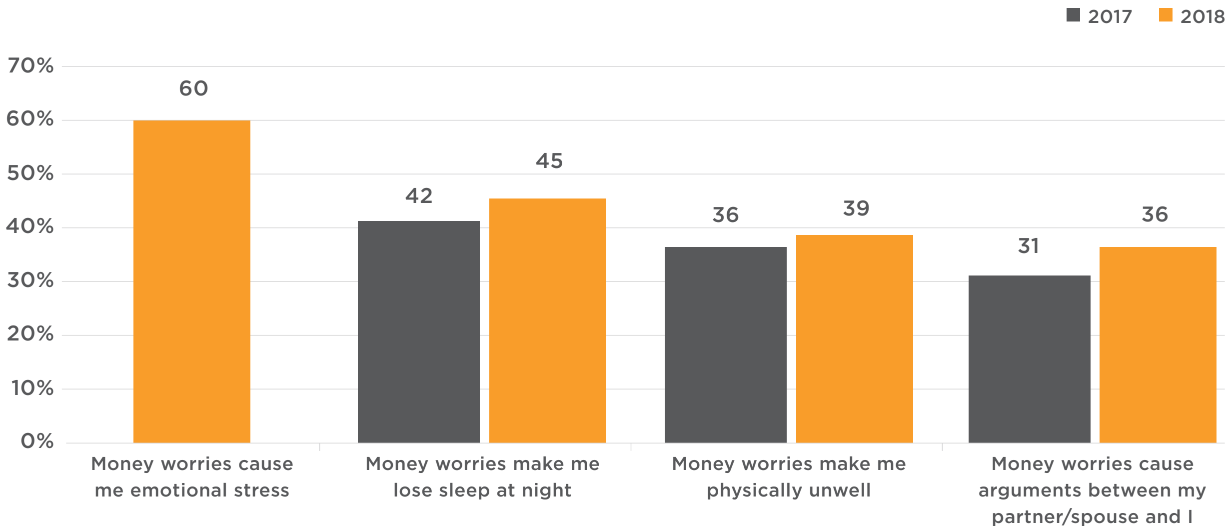
In looking beyond the aggregate financial wellness results however, we find that sentiments have in fact worsened in most provinces, with only B.C. and Ontario bolstering the national average. Financial stress continues to be omni-present and mainstream amongst Canadians. Canadians from Atlantic Provinces, as well as those from Alberta and Saskatchewan, continue to be most likely to report "worsened" financial shape compared to a year ago.

Financial stress amongst Canadians remains at troubling levels in 2018, with 43% reporting higher levels of stress related to ongoing and future financial obligations. Furthermore, these levels persist equally across the country.

Money worries continue to cause 60% of Canadians emotional stress. Money worries also cause nearly half of Canadians (45%) to lose sleep at night (up 3%), and negatively affect the physical wellbeing of 39% of Canadians.

Financial money worries

To what extent do you agree or disagree with each of the following statements? Proportion who somewhat or completely agree



36% of Canadians also agree that money worries cause money fights between them and spouses or partners, another sign of how financial stress contributes to emotional stress for couples and families.

From a segment perspective, while low income individuals, under-employed Canadians, millennials and renters are the most financially stressed segments, financial stress cuts all household income brackets. In fact, 32% of Canadians with household incomes of $100,000 or more report that they are somewhat or extremely financially stressed.

Women are also more financially stressed than men, building on our findings from the 2017 study, with 48% of women agreeing they are financially stressed versus only 37% for men in 2018.

Canadians are struggling with an increasing cost of living and household debt

Canadian households have accumulated an increasing share of debt over the last 30 years, not just in absolute terms, but also relative to the size of the economy. At the end of last year, Canadian households owed just over $2 trillion, and mortgages make up almost three-quarters of this debt . To put this into context, the average Canadian owes about $1.70 for every dollar of income he or she earns per year. Concerns regarding household debt have prevailed this year, as the Bank of Canada has been expected to increase interest rates in 2018.

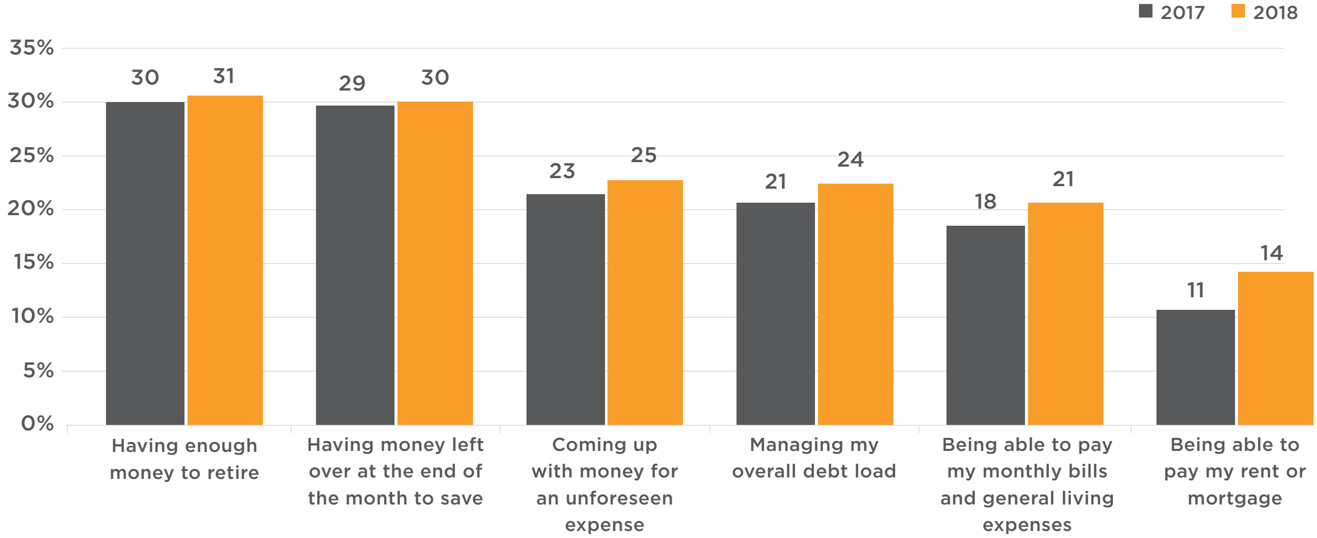
It is clear that the vast majority of Canadians report feeling the added pressures of year-over-year increases to their cost of living. According to the 2018 Financial Health Index study, 86% of Canadians agree with the statement "cost of living has increased for me."

To cope with these increasing costs of living, as many as one-third of Canadians agree that they have had to increase their borrowing to help pay for things, significantly higher than the 26% in 2017. Nearly one-third of Canadians (32%) now also report having more debt than they can manage, up from 28% in 2017.

Furthermore, over the past 12 months, Canadians increasingly report worrying "often" about "managing their overall debt load" (24%), "being able to pay my monthly bills and general living expenses" (21%) and "being able to pay my rent or mortgage" (14%) – all increasing by 3% over 2017. "Having enough money to retire" and "having money left over at the end of the month to save" continue to be the most common worries for Canadians.

Financial Stressors

Over the past 12 months, how often have you worried about each of the following?
% of Canadians who worry 'often about'



1. Canadian Central Bank 2018 report

Housing affordability is a concern for homeowners and renters

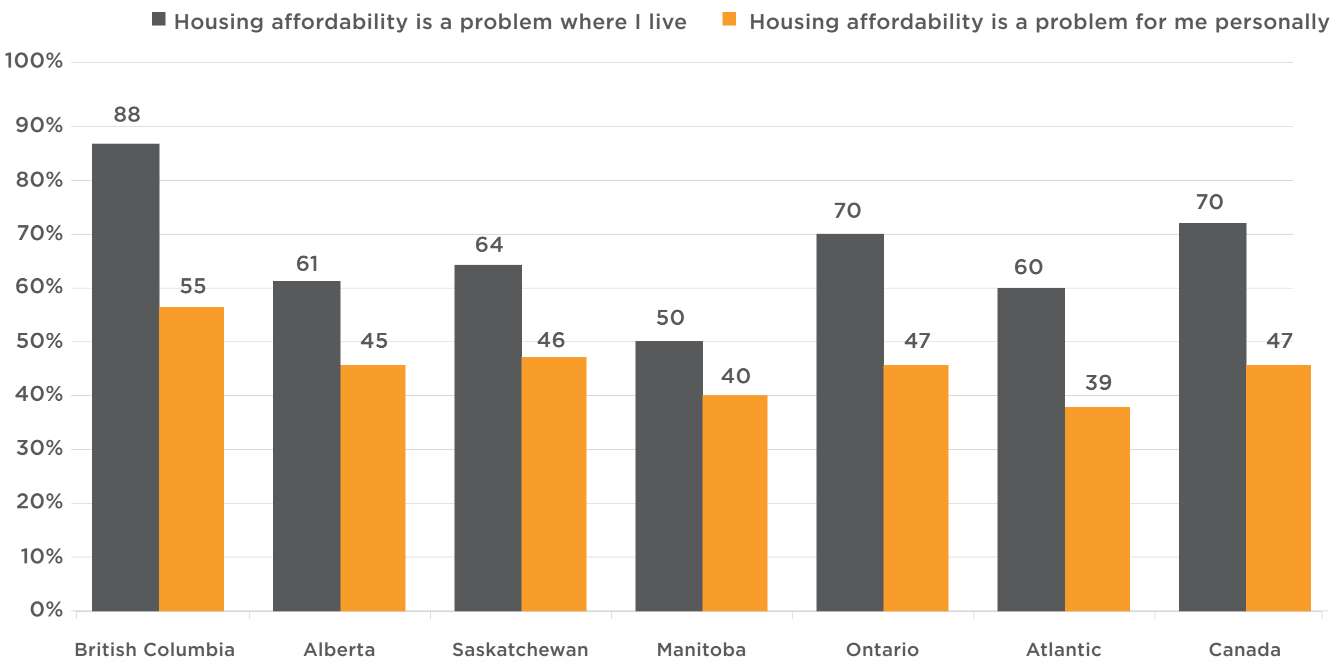
While general cost of living is the predominant issue facing the vast majority of Canadians, housing affordability continues to be a major concern, and one that is growing. Specifically, in the 2018 Financial Health Index survey, 70% of Canadians agree (somewhat or completely) that "housing affordability is a problem where I live," up from 63% in 2017. The issue continues to be most pronounced in B.C. (88% agreement) and Ontario (70%), where housing affordability is a well-documented and often-debated challenge.

Evidently, housing affordability may now also be an emerging issue in the Atlantic Provinces and Saskatchewan, where the proportion of Canadians in agreement with this statement increased from 40% to 60%, and 51% to 64%, respectively between 2017 and 2018.

Respondents to the 2018 FHI survey were further asked about the personal relevance of housing affordability. Nearly half of Canadians (47%) agree that housing affordability is a problem for them personally. Again, this figure is highest amongst British Columbians (55%), but followed closely by people from Ontario (47%), Saskatchewan (46%) and Alberta (45%).

Housing affordability

Proportion of Canadians who somewhat or completely agree with the statements



It is no secret that the housing market in Canada has been among the world's most overheated in recent years. Over the past decade, house prices are up by over 75% and the ratio of household debt to GDP has risen close to 30% higher. Historically, many episodes of rapid credit growth have ended abruptly, typically in the form of a financial crisis. This has left many Canadians feeling anxious regarding speculation in housing markets.

While there is unlikely to be a full-scale collapse anytime soon, buying a home is getting more and more expensive. This, coupled with higher interest rates, increasing reliance on mortgages and overall lower access to credit taking is leaving Canadian households vulnerable with lower confidence and resilience levels.

More than half of Canadians responding to the 2018 Financial Health Index survey agree with the statement “rising interest rates is a problem for me” (54%). Further, mortgage-holder respondents were presented with a specific mortgage rate increase scenario, and asked about their level of confidence that they could continue to make their mortgage payments. It was found that 18% of mortgage-holding Canadians in 2018 suggest that they would not be confident that they could continue to make their mortgage payments. This is up from 13% in 2017.

While 85% of Canadian mortgage holders are confident that they could manage up to a 1.0%-point increase in their mortgage rate, the proportion decreases to just 77% of Canadians if rates were to increase by 1.5% or 2.0% points. In other words, this suggests that up to 15% of Canadians would not be confident that they could make their mortgage payment if rates went up by an additional 1%, a real possibility.

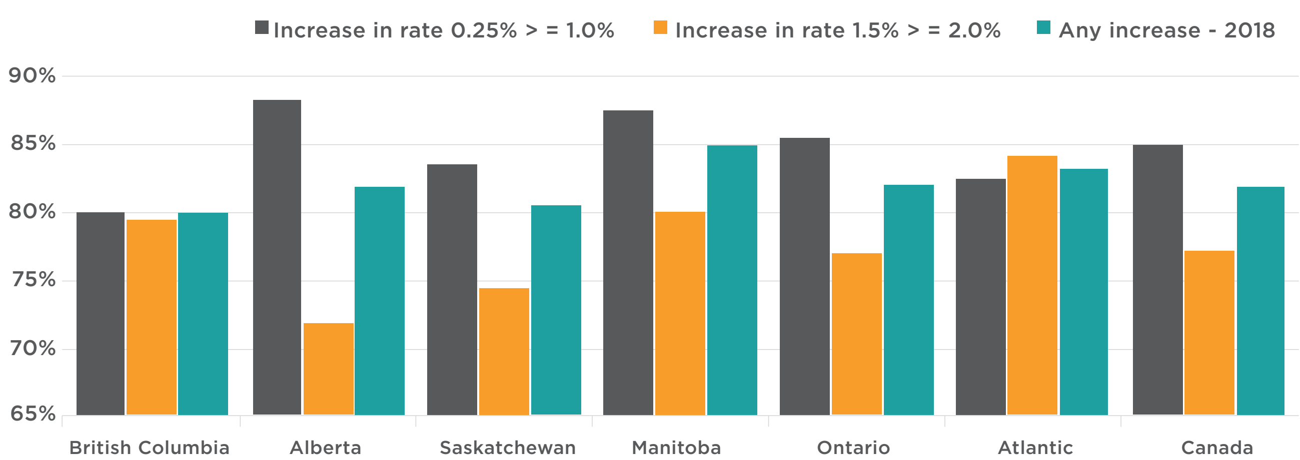
In general, British Columbians and those from Saskatchewan are least confident in their ability to make mortgage payments should rates increase. While a significantly greater proportion of mortgage-holders in Alberta are confident in their ability to manage a 0.25% to 1.0% increase in mortgage rates, that proportion drops steeply with greater rate increases (i.e., of more than 1.5% over the current rate they pay).

In addition, with rising rents for many Canadians across the country, particularly in major urban centers, financial stress for renters continues to be a real challenge.

With Canadians are already spending on average 30% of their household’s monthly take-home income on housing (rent or mortgage), the increasing cost of housing is an area of concern.

Confidence in ability to make mortage payments given interest rate increases

If mortgage rates were to increase [X%] over what you currently pay, how confident are you that you could continue to make your mortgage payments?



Many Canadians need to build their financial resilience

The Financial Health Index study explores multiple aspects related to consumer financial resilience – a central construct within the overall construct of financial wellbeing.

As outlined in our 2017 white papers, consumer financial resilience speaks peoples' ability to weather unforeseen life events, financial stressors and shocks, influenced by their:

- Economic resources;
- Financial confidence, knowledge and behaviours;
- Access to and usage of financial products, services, education and support, and
- Social capital – i.e. close family and friends who can provide financial advice, help and/or financial support in times of hardship.

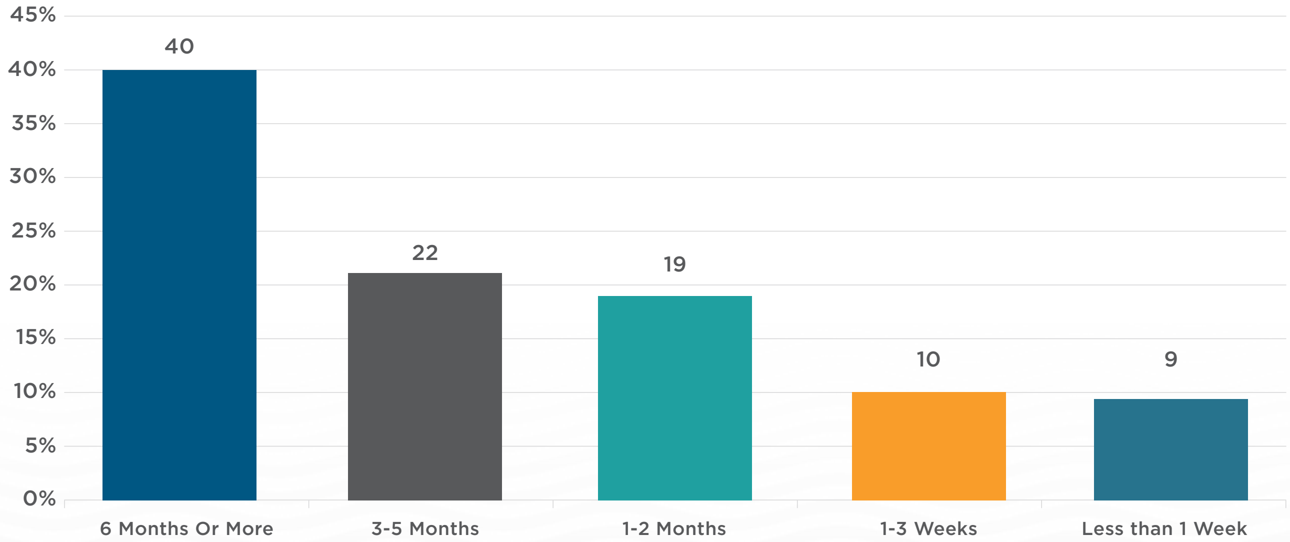
Based on the 2018 Financial Health Index study, the financial resilience of many Canadians is becoming more challenged. For example, 55% of Canadians are unconfident that they could get through periods of financial hardship resulting from unplanned events. These statistics, extrapolated to the population, suggests that millions of Canadians may find themselves in a precarious financial situation. The outlook amongst female, younger, under-employed, and lower income Canadians (i.e., those earning <$25,000 per annum) is even more dire.

37% of Canadians said they don't feel secure in their job or work situation: highlighting feelings of financial security and potentially also impacting levels of financial vulnerability or stress.

Respondents to the 2018 Financial Health Index survey were asked to estimate how long their household could afford to make ends meet[2].

Financial Resiliency: Canadians' ability to make ends meet

At your current level of spending, how long could you and your household afford to cover expenses, if you had to live only off the money you have readily available, without withdrawing money from retirement accounts or borrowing?



2. CFSI Eight Ways to Measure Financial Health (2016).

Collectively, housing, monthly bills, general living expenses, and outstanding loan payments already comprise 71% of household spending on average. Consequently, nearly half of respondents (49%) are spending as much as, or more than their monthly take-home income respectively. Canadians in the survey report saving on average just 10% of their monthly take-home income in aggregate. Savings rates amongst renters and low-income earners were significantly lower.

Based on small financial buffers, six in ten Canadian households are not confident they are able to cover expenses past five months from their savings alone. It may be alarming to note that nearly one in five (19%) of Canadians report having sufficient savings to make ends meet for one to two months only, at their current level of spending. One in ten (9%) would only be able to cover less than one week's expenses. 14% of Canadians also don't know how they could come up with funds in the case of an emergency.

Struggling to meet day-to-day and short term financial obligations, many Canadians continue to be challenged in terms of saving for the short term, yet alone their retirement. Only 71% of Canadians agree they are confident in achieving their short term savings goals. Many Canadians also continue to find it difficult to know how much money they will need to save to maintain their desired standard of living in retirement, with 35% of the population saying they are not confident in knowing how much they'll need.

In 2018, 43% of Canadians (or nearly half of the population) agree that making financial decisions can be difficult and complex, building on findings from our 2017 study. 37% of Canadians also feel insecure in their job or work situation, and many Canadians worry about money at work, impacting their productivity. In addition, only 69% Canadians say they understand what financial products and tools they need to support their financial wellbeing, with this number having dropped by 11% since 2017.

Income variability also affects 36% of Canadians making it harder for Canadians to manage their expenses and plan for the future. Particularly challenged are the 9% of Canadians who report their income "varied a lot from month to month" or "there were months with no income at all."

Despite these challenges, there is good news that 52% of Canadians have taken steps to change their behaviours to better manage their finances over the past 12 months - such as reducing their spending or debt. Additional insights related to financial and consumer behaviours will be explored further over the coming months.

Emerging conclusions

In summary, through the ebb and flow of economic growth and contraction of our Canadian economy, higher levels of financial stress may be the norm. For Canadians, we have certainly seen personal and household financial health, as well as resilience decline over 2017. Confounded by uncertain macro- and micro-economic trends, many Canadians find themselves in increasingly precarious situations, over-burdened with debt and more vulnerable to interest rate increases, challenged to meet their household expenses.

The Financial Health Index study highlights that nearly one in four Canadians continue to have had challenges accessing financial services, including access to credit or financial advice. More support from the financial ecosystem as a whole is needed to support the financial wellbeing of Canadians, including but not limited to the underserved. More specifically, over the past 12 months, over 8% report not being able to get the financial support or advice that they needed, while 6% could not get the financial information or education that they needed. Predatory financial services continue to be a problem, with 7% Canadians having to use costly temporary payday loans and nearly 9% using cheque cashing services in 2018.

38% of Canadians rate their primary financial institution 1 to 6 out of 10 (i.e., poorly) in terms of helping to improve their financial wellness, with only 1 in 5 people (20%) giving their primary FI a 9 or 10 rating for their support. There is significant opportunity for traditional and non-traditional financial providers – and the wider financial ecosystem, to do more to support the financial wellbeing and resilience of their customers. This will involve targeted efforts and a phased approach, and need to encompass enablers and supports at the Financial Institution institutional and financial advisor levels.

As a social enterprise, and in collaboration with key stakeholders, we will continue to work to help measurably improve financial health, resilience and wellbeing of Canadians. In an era of increased financial insecurity and uncertainty, this is more important than ever: for individuals, small business owners, their families and future generations.

For more information and to download our 2017 Financial Health Index whitepapers, visit **www.financialhealthindex.org**

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