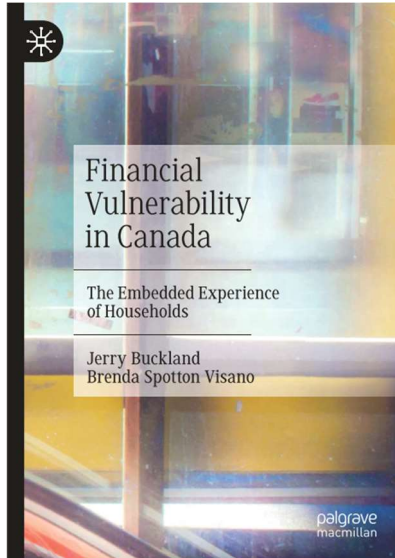


Jerry Buckland · Brenda Spotton Visano

Financial Vulnerability in Canada

The Embedded Experience of Households*



About this book

This book examines financial vulnerability: a state in which a person or household cannot absorb any substantial spending or negative income shock without substantial financial and ultimately broader harm such as job loss, emotional harm, or mental illness. The focus of the book is on the experiences of low income and modest income Canadian families – families which, by virtue of being in the lower income brackets, are particularly at risk of experiencing financial hardship. Looking at vulnerability from a conceptual and empirical lens, this book offers a framework to better understand the complex and interdependent ways in which financial vulnerability emerge and can be addressed. By locating its analysis of individual and household financial management in wider community, cultural, and economic contexts, this book seeks to offer holistic policy recommendations to reduce financial vulnerability, with implications that go beyond Canada and to other developed countries.

Available as an e-book and in hard copy at: <https://link.springer.com/book/10.1007/978-3-030-92581-9>

What others say about this book

“Financial Vulnerability does an excellent job explaining how people’s finances, vulnerabilities, and resiliencies are influenced by both their individual capabilities and behaviours as well as the structures within which they operate. The book clearly describes the multi-dimensional nature of financial vulnerability and how financial decisions are not only influenced by material needs, but also by several emotional and social factors. Buckland and Spotton Visano consider a number of individual and structural variables that influence one’s financial decision-making and well-being, and by doing so, offer a comprehensive, realistic, and compassionate perspective on financial vulnerability in Canada.” **Professor Bettina Schneider**, First Nations University of Canada.

“Financial Vulnerability provides the perfect crash-course on the increasingly pressing question of how governments should tackle the individual and structural drivers of financial vulnerability. The book offers a much-needed overview of the financial lives of low- and moderate-income households at a macro- and micro-level. It is a must read for anyone interested in thinking critically about the principles and policies that will lead to a more equitable Canada.” **Allison Meserve**, Prosper Canada.

“This powerful book significantly improves our understanding of the interrelated dimensions and complexity of financial vulnerability in Canada. Through exposing the lived experience of Canadians struggling to make ends meet, it highlights the critical role played not only by individual choices and behaviours but by social structures and institutional environments in explaining financial vulnerability. In an era of increasing inequalities, this book advocates for more equity-focused policy solutions.” **Dr. Olga Biosca**, Glasgow Caledonian University, U.K.

About the Authors

Jerry Buckland is an Economist and Professor of International Development, Menno Simons College (based at the University of Winnipeg) and Faculty Affiliate with the Redekop School of Business at Canadian Mennonite University, Canada. His specializations include financial livelihoods and regional/community development. He has authored articles and books in these fields including a recent book, *Building Financial Resilience*, and with a transdisciplinary team, currently working on the Canadian Financial Diaries research project.

Brenda Spotton Visano is a distinguished University Professor in Economics and Public Policy at York University in Canada. Her community-engaged, policy-oriented research focuses on advancing access to financial services, enabling access to higher education for non-traditional students, and analysing funding frameworks for community organizations. She is the author/co-author of many scholarly articles and community-focused reports for First Nations organizations, UNESCO and NGOs. Together with Chris Robinson and Jerry Buckland, she coedited the 2018 book *Payday Lending in Canada*, published by Palgrave Macmillan.

TABLE OF CONTENTS

Chapter 1. Introduction

- *Defining financial vulnerability*
- *Financial vulnerability: A multi-dimensional concept*
- *Why be concerned with financial vulnerability?*
- *Nested influences*
- *Chapter outline*

Financial vulnerability defined

Consumer financial vulnerability is the risk of a financial deterioration. The deterioration can happen in both short-term and long-term senses. A person is financially vulnerable if they are at risk of not meeting current financial commitments (liquidity stress), are financially insecure and incapable of making future financial commitments (insolvent), or both. These threats can affect, in turn, the health and overall well-being of people. Because *vulnerability* is about possibility and not certainty, the consequences of financial vulnerability depend on various individual, community, and macro-level factors. If these factors move in a way that assists the household, then the household might become less vulnerable. But if the salient factors move against the household, its members become more vulnerable and perhaps experience a financial crisis. A financial crisis is an actual (not potential) experience and worry about a substantial *deterioration* of one's finances, including more debt, less savings, lower income, and/or higher essential spending (e.g., because of an urgent medical issue).

Chapter 2. Theories and Evidence of Financial Vulnerability

- *Consumer-based explanations of financial vulnerability*
- *Institutional and structural explanations of financial vulnerability*
- *Financial policies and regulations and consumer financial vulnerability*

Chapter 2 surveys the academic literature related to financial vulnerability, covering theories that are rooted in the assumption of individual agency and those focused on social, institutional, or structural processes to explain financial vulnerability. We begin by examining the life-cycle consumption model, which posits that individuals decide their current consumption based on not just their current income but also their past and future income as well. Next, we identify sources of consumer shortcomings that give rise to the need for financial literacy education and better financial literacy skills to avoid making “bad choices.” Behavioral finances and the psychology of the consumer are another area of the literature, rooted in experimental research that finds that human rationality is bounded in different ways. This body of research has been very influential in recent years, but it can reinforce the attribution of financial difficulties to agent errors and downplay the importance of structures. This gap is addressed by the institutional and structural literature, and we consider the importance of social networks in engendering or preventing financial vulnerability. Penultimately, this chapter examines macroeconomic studies of financial vulnerability in Canada. These studies consider issues of income and asset poverty as important factors in shaping financial vulnerability.

Chapter 3. Building a Financial Vulnerability Model

- *The Canadian Financial Diaries project*
- *Agent or structure?*
- *Financial well-being and financial vulnerability*
- *Finances and overall well-being*
- *Analyzing the financial resilience of diary participants*
- *Financial resilience pathways*
- *Conclusion*

Chapter 3 draws on results from Phase 1 of the Canadian Financial Diaries research project to theorize a model of financial vulnerability reflecting the everyday reality of Canadians with low and modest incomes. We posit a nested view of household finances as affected by the household as well as by various institutions at local, market, and policy levels that are further removed but still exert a powerful influence. Drawing on the nested model, we examine how diary participants viewed the relationship between financial vulnerability and financial well-being, and the connection between financial well-being and overall well-being. A “pathway” model of financial resilience illustrates how individuals can either move from one level of well-being to another or become stuck at one level.

Chapter 4. Socio-Cultural and Economic Institutions at the Local Level

- *Migrating poverty from the core to the suburbs*
- *Social exclusion, poverty, social capital, and development*
- *Class, race, and gender in modest-income neighborhoods*
- *Economic issues*
- *Housing, retail, food security, and health*
- *Conclusion*

In **Chapter 4** we “bump up” the scale from the household to the community and examine the literature that ties community dynamics to household finances. We begin with an examination of the inner city, a phenomenon that exists in Canada but is perhaps not as pronounced as in the United States. Notions of social exclusion and social capital can operate in both negative and positive ways on inner cities. The role of race, class, and gender is also relevant, particularly in the context of household finances. Next, we dig into the rich geographic literature about the changing nature of urban poverty, which shows that, particularly in the largest metropolitan centers, poverty is moving outwards. The chapter then explores poverty dynamics in urban centers, examining welfare support rates and the informal economy that is rooted in modest-income neighborhoods. Access to housing, retail, food, and health care are all limited in the inner city, and these factors interact with household finance.

Chapter 5. The Household as Financial Manager

- *Financial vulnerability as over-indebtedness*
- *Financial vulnerability as more than over-indebtedness*
- *Socioeconomic characteristics of vulnerable Canadians*
- *Financial vulnerability as subjective stress*
- *Drivers of financial vulnerability*
- *Conclusion*

Chapter 5 compiles a variety of data on indicators, indexes, and correlates of financial vulnerability, including indicators of illiquidity, insolvency, poverty, and inequality. Given the emphasis in the literature on liquidity and solvency, the data are particularly rich here. We note that debt compared with income has risen, but not so with respect to assets. Poverty indicators improved to 2019 but preliminary evidence is that these have deteriorated through the COVID-19 pandemic. A financially vulnerable household is one in which one or more members struggle to make ends meet, have little financial surplus, have little options for credit, miss an important payment, carry a credit card balance, rely on high-cost credit when faced with a financial shock, and are at risk of bankruptcy. The chapter explores correlates with these indicators, including age, family type, and income. Lone parents are consistently a group that suffers more with financial vulnerability. With respect to age, people struggling the most with household finances are on average younger than those struggling the least.

Chapter 6. Markets and Financial Institutions

- *Financial vulnerability and basic financial services*
- *Landscape of basic consumer financial services*
- *Barriers, benchmarking, and a poverty penalty*
- *Financial technology innovation*
- *Conclusion*

Chapter 6 explores the banking landscape that Canadians with low incomes face. This landscape includes mainstream banks, alternative banks, and fintech institutions. We consider each bank category, identifying its primary products of interest, and then consider its costs, consumer use, and the regulations governing it, thereby exploring the complexity of banking for people with limited options. Two benchmarks, or financial summaries, are presented: one for a middle-income household and one for a low-income household living in Toronto. The chapter finishes by exploring the emerging fintech sector, including services they offer, consumer use of the services, regulation, and competition with the other sectors. Less is known about the connection between fintech and financial vulnerability (as compared with mainstream and alternative banking options). Its online platform is a barrier for some Canadians with low incomes, but its new technologies present the possibility of an important connection.

Chapter 7. Principles and Policy Recommendations

- *Our examination of financial vulnerability*
- *Policy recommendations*
- *Conclusion*

Chapter 7 begins with an examination of why the neoliberal myth that vulnerable people are to blame for their vulnerability must be reconsidered. This myth is deeply rooted in the culture that emanates from the neoliberal economic system, and it is very harmful. We posit the view that instead, individual and household financial vulnerability comes from many sources, including neoliberalism itself. One important outcome of neoliberalism has been an increase in inequality in Canada, and this phenomenon aggravates the vulnerability that people at the bottom end of the income and asset spectrum face. Finally, we recommend a number of policies, at a very general level, to promote equity and reduce vulnerability, including poverty education, targeted income and employment improvements, and improvements to basic banking.