**JSGS Workshop – Cabinet Decision Items Activities**

Activity: Evaluating Two Versions of a CDI, Part One

This handout contains two versions of a CDI. Decide which version you would prefer to read if you were a member of the Cabinet. Use the following criteria to judge the documents:

1. Are they well-organized, clear, concise and non-technical?
2. Is the information they contain precise?
3. Do you have confidence in the information they contain?
4. Are the documents stylistically consistent?
5. Do they clearly relate to the government’s strategic initiatives?
6. Do they address funding for the decision item? Where is this addressed?

***Version One of a CDI on an Information Disclosure Program***

**From:** Honourable Gordon Wyant Q.C., Minister of Justice and Attorney General

**To:** Honourable Brad Wall, Premier of Saskatchewan and Cabinet

**Re:** Information Disclosure Program

**Issue:** Better decision-making, mortgage loans and credit cards

**Recommendation**

It is recommended that the government approve:

1. Establishment of a task force under SFSC to develop a standardized format based on the provision of information about two kinds of financial products, mortgage loans and credit cards

2. Regulation according to which all mortgage lenders and credit card issuers would be required to present information regarding service charges to their customers in this standardized format.

3. Creating a website, where all mortgage lenders and credit card issuers would be required to import information taking into account the pricing schemes of their various products

**Rationale and Considerations**

* The Financial behavior of Canadians has become increasingly alarming. Borrowing has put a very heavy burden on Canadians, pushing national household debt to a new high.
* People have a strong tendency to spend more than they earn. As of today, in aggregate, Canadian households have accumulated debts that are much higher than they were a generation ago. Between 1982 and 2010, mortgage debt grew exponentially while during the same period consumer debt increased as well.
* A considerable number of people retire with debt. Those who are retired and in debt owe a lot more than their non-retired counterparts.

Compared to Canada, the financial situation of Saskatchewan residents is as onerous. A great many people in Saskatchewan fail to put regular savings away for a rainy day. To prosper in the modern world, which is becoming increasingly complex, families must have the financial capabilities to make important and informed decisions about borrowing, spending, and saving. Chartered banks, credit unions and other financial institutions provide a great many conditions in order to borrow. However, the significant variety of fees, interest rates, and various other charges makes it very difficult for customers to compare available options and choose the contract that serves customers’ needs in the most efficient and effective manner.

Consumers are, of course, permitted to go to multiple institutions and gather together a variety of quotes for the purpose of obtaining an interest rate that reflects the expected lending cost. In practice, however, while some buyers get multiple quotes when shopping for their loan contracts, nearly half of these buyers only get one quote. Many Canadian households treat their primary bank as a “one-stop shop,” where they purchase the majority of their financial services. For example, at this point in time, a lot of Canadian households have secured their mortgage at the same financial institution as their main checking account. goal of IDP is to make mortgage and credit card shopping (the two most significant components of household debt) more efficient and effective. The power of information disclosure lies in the fact that it gives consumers opportunities to compare and evaluate plans from different providers. Consumers will have the opportunity to upload their personal files to a web-site that would use the available information on schemes and calculate which plan is best given their particular needs.

Other alternatives for improving the financial imbalance are as follows:

1. Status quo. Government of Canada provides income support through income supplement programs and tax-deferred retirement savings plans. In Saskatchewan, SFSC protects consumer and public interest by regulating financial products and service providers. Taking into account the current difficult financial situation, the benefits of the status quo are undermined

2. Improving Financial literacy. Through educational advertising campaigns the government will be able to explain all negative consequences of borrowing too much and promote considerations when choosing borrowing plans. This option may benefit the public, but the process of making decisions will undoubtedly remain frustrating

3. Savings promotion. Difficult financial situations depend not only on overspending, but also on under saving. However, when profit from a saving plan is, for example, 7 per cent a year, and a credit card has an interest rate of 19 per cent a year, it is clearly economically efficient to try to solve a borrowing problem first.

On the other hand, the recommended Information Disclosure Program has a great many benefits, which are enumerated below:

* Full and fair disclosure information will empower consumers to ensure that they are able to make better choices and get better deals.
* Helps to predict possible future circumstances of different decisions
* At low cost, it will foster transparency and promote accountability.

There are also several challenges:

* Special attention to legal issues, protection, and privacy issues is required.
* The truthfulness of the information provided by financial institutions should be examined on a regular basis
* Innovation in a form of new mortgage and credit card features will require changing a standardized format of information disclosure
* Product information on the website should be updated in a timely fashion as old products are changed and new ones are released.

Technical development provides the opportunity for IDP to succeed. First and foremost, financial institutions have databases that can be easily transformed into a standardized format and shared with their customers. Second, the government has the technical knowledge and means to create a website where information from financial institutions can be compared.

The benefits of such innovations are guaranteed and supported by theoretical and empirical examples abroad. Richard H. Thaler and Cass R. Sunstein (2010) introduced the idea of a new form of disclosure called RECAP (record, evaluate, and compare alternative prices). Government initiatives along this theory go by the name “Smart disclosure” in US and “Mydata” in UK. “Smart disclosure” is used by many agencies to enable individual consumers of goods and services to make informed decisions based on the released information and data in standardized, machine readable formats. Leading businesses (Clark and Rogers, 2009).

Implementation

In November 2012, SFSC will announce the start of IDP and form a Task Force on Information Disclosure. The task force works on the development of standardized formats and consistent vocabularies that should be comparable across all mortgage lenders and credit card issuers from November 2012 till January 2013. The regulation about the required format of information presentation to the consumers will be passed in February 2013. Mortgage lenders and credit card issuers will have four month of a transition period. At an undetermined date, SFSC will launch the website and institutions will start importing information. Later still the work of the task force will be finished, but SFSC will continue to support its new website and conduct ongoing examination of the information provided by financial institutions.

**Announcement plan**

* November 1st, 2012 – press conference in Regina, SK given by Honourable Gordon Wyant Q.C., followed by a news release as an overview of the IDP. It is anticipated that the audience will include SFSC staff, mortgage lenders and credit card issuers, other financial institutions’ representatives, public and media.
* February 1st, 2013 – the short overview of the regulation on the required format of information presentation at Saskatoon Star-Phoenix and Regina Leader-Post with the reference to the new SFSC website that will be under development.
* June 1st, 2013 – launch of the website accompanied with a big press conference that will introduce the features and possibilities of a website to the general public.

**Due Diligence**

IDP will be developed within the capacity of SFSC. Only technical support for the web-site development will be needed from the outside. Total cost in the amount of $400,000 for the fiscal year 2012-2013 will be reallocated into different proportions from the budgets of five SFSC divisions. For the next five years, SFSC will need an increase of $150,000 of its budget for this specific program. The popularity of the website can be very easily tracked. However, the number of visitors will not provide information about the program’s usefulness and effectiveness. For this purpose, the website will have a tab “Survey”, where visitors will answer questions about the benefits they had received using the website and the program overall.

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***Version Two of a CDI on an Information Disclosure Program***

**Government of Saskatchewan**

**Cabinet Decision Item**

**To:** Honourable Brad Wall, Premier of Saskatchewan, and Cabinet

**From:** Honourable Gordon Wyant Q.C., Minister of Justice and Attorney General

**Re:** Information Disclosure Program

**Issue:** What can be done to help Saskatchewan consumers manage mortgage and credit card debt?

**I recommended that Cabinet agree to:**

Implement an Information Disclosure Program (IDP) to improve consumer access to information on mortgage loans and credit cards:

1. Establish a task force under the Saskatchewan Financial Services Commission (SFSC) to standardize information on mortgage loans and credit cards.
2. Require mortgage lenders and credit card issuers to use this standardized format to convey costs of service and other charges.
3. Create a website where mortgage lenders and credit card issuers must display prices of products and services.
4. Fund the IDP 400k in fiscal 2012-2013 and 150k per year from 2014-2018.

**Rationale**

*Trends in Canadian Consumer Behaviour*

* Canadian households owe more than $1.50 for every dollar of disposable income.
* As of July 2012, the national debt was $1.651 trillion.
* From 1982 to 2012, mortgage debt grew from $99 to $994 billion (in current dollars); consumer debt grew from $48 to $460 billion.
* Retired Canadians owe a median debt of $19,000, non-retired $40,000.
* Over 1/3 of non-retired Saskatchewan residents do not save regularly.
* Mortgages and credit cards account for most household debt.
* Nearly 50% of Canadians obtain only one quote when acquiring a loan.
* Many Canadians purchase all (or most) financial services from one bank; 67% have their mortgage and main checking account at the same financial institution.

*Behaviour of Financial Institutions*

* Banks, credit unions and financial institutions impose borrowing conditions, fees, interest rates and charges that are not always transparent and comparable with those of other institutions.

*Rationale for IDP*

* Families need accurate information for borrowing, saving and spending decisions.
* Government regulations could help borrowers find and negotiate better terms.
* IDP’s goals are to simplify the search for mortgages and credit cards and to enable consumers to compare plans from different providers.
* Under IDP, consumers will upload their personal files to a website that would calculate which of the available schemes suits their needs.

**Considerations**

* Financial institutions’ databases are state-of-the-art; technical difficulties are not expected in adopting standardized formats.
* The government has technical expertise to create the website and to monitor information from the financial institutions.
* Other jurisdictions have successfully implemented financial disclosure systems: a new program called RECAP (record, evaluate and compare alternative prices) is used in the US. The White House promotes “Smart disclosure,” and the UK government uses “Mydata” tools to help consumers make financial choices.

*Benefits of the IDP*

 Full disclosure will

* Further the government’s strategic initiative to protect consumers
* Empower consumers to make better rates and choices.
* Predict future financial scenarios when making choices.
* Foster transparency and promote accountability of financial institutions.

*Challenges to implementing IDP*

The government will need to

* Attend to the legal protection of proprietary information and privacy challenge.
* Change the standardized format for financial information disclosure.
* Monitor the information on the website for accuracy and transparency.
* Ensure that information on the website is updated regularly.

*Other Strategies for Alleviating Debt*

1. **Maintain status quo**. Federal income supplement programs and tax-deferred retirement savings plans provide income support. Financial and Consumers Affairs Authority (FCAA) protects Saskatchewan consumers’ interest by regulating financial services providers. (Drawback to status quo: has not lowered household debt.)
2. **Improve financial literacy.** Advertise how to find and evaluate information to make sound borrowing decisions. (Drawbacks: would need to be ongoing to be effective; costs (550k) would exceed cost of IDP.)
3. **Promote the benefits of saving.** Advertise the benefits of savings. (Drawbacks: would need to be ongoing to be effective; costs (550k) would exceed cost of IDP.)

**Implementation Plan**

1. November 2012: SFSC will announce the start of IDP and form a Task Force on Information Disclosure.
2. January 2013: The task force will standardize and release formats and vocabulary to be used by all mortgage and credit card issuers.
3. February 2013: The government will pass the regulation about the required format and vocabulary.
4. March 1 – July 1, 2013: Mortgage lenders and credit card issuers will have a 4-month transition period.
5. June 1, 2013: SFSC will launch the website; mortgage lenders, credit card issuers will start using the website.
6. July 1, 2013: Consumers will begin using the website.

**Announcement Plan**

* November 1, 2012: Honourable Gordon Wyant Q.C. to give a press conference followed by a news release in Regina; expected attendees include SFSC staff, mortgage lenders, credit card issuers, representatives of other institutions, the public and the media.
* February 1, 2013: Overview of required format for standardized financial information plus information on forthcoming website sent to the Saskatoon Star Phoenix and the Regina Leader Post.
* June 1, 2013: Press conference to launch website and introduce its features and benefits to the public.

**Due Diligence**

* IDP will be developed within SFSC.
* External technical support will be required to develop the website.
* $400k will be reallocated in varying proportions from the budgets of 5 SFSC divisions.
* To fund IDP, SFSC’s budget will increase yearly by $150k from 2014-2018.
* IDP’s success will be measured in four ways:
* By tracking the number of visitors to the site;
* By including a survey on the website that asks for feedback;
* By comparing consumer debt 5 and 10 years after the program’s introduction with consumer debt in 2012;
* SFSC will issue a quarterly report on the program’s process.

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