MANITOBA PUBLIC UTILITIES BOARD

Re: TO DETERMINE MAXIMUM FEES FOR PAYDAY LOANS

Before Board Panel:

Graham Lane - Board Chairman
Monica Girouard - Board Member
Susan Proven - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
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Pages 3677 to 3980

APPEARANCES

Anita Southall	)Board Counsel
Leo Sorensen	)Sorensen's Loans Till)Payday
Antoine Hacault Michael Thompson Mona Pollitt-Smith	)Rentcash Inc.
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Robert Dawson	) Assistive Financial) Corporation
Steve Sardo (Np)	) Cash X
Kent Taylor (np)	) Progressive Insurance) Solutions

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LIST OF UNDERTAKINGS

--- Upon commencing at 9:06 a.m.

THE CHAIRPERSON: Okay, are we in reasonable shape to begin? Very good. Thank you, Mr. Hacault, for allowing the order to be changed a bit. Welcome back, Mr. Sardo. You're up first. And you have the opportunity to cross-examine the Coalition's panel. Hope you've had an opportunity to see the transcripts up to now.

MR. STEVE SARDO: I've seen most of it.

THE CHAIRPERSON: Oh.

MR. BYRON WILLIAMS: Mr. Chairman, if we could, I think we have just a couple more seconds of set up. I apologize for that.

THE CHAIRPERSON: Okay, no problem. So you've got to see some of the transcripts, and --

MR. STEVE SARDO: Yes.

THE CHAIRPERSON: -- oh.

(BRIEF PAUSE)

THE CHAIRPERSON: Okay, we are ready to go, Mr. Sardo...? Oh, we lost Mr. Sardo.

MS. ANITA SOUTHALL: Mr. Williams, can you just confirm my -- it's my understanding that Dr.

Carter is not going to be present today.

MR. BYRON WILLIAMS: That's right. I believe he has a workshop that he had committed to quite some time ago. So, unless we -- I think it's from 9:30 or -- until 4:00 or something like that.

THE CHAIRPERSON: But Ms. Friesen is here. She has returned.

MR. BYRON WILLIAMS: I'm pretty confident she's here -- here. I hugged her when I saw her, so.

THE CHAIRPERSON: Okay, Mr. Sardo...?

COALITION PANEL:

WAYNE SIMPSON, RESUMED
CHRIS ROBINSON, RESUMED
JERRY BUCKLAND, RESUMED
JOHN OSBORNE, RESUMED
ANITA FRIESEN, RESUMED

CROSS-EXAMINATION BY MR. STEVE SARDO:

MR. STEVE SARDO: Okay, I guess I'm going to start with some questions for Dr. Robinson since he seems the most ill prepared at the moment. No, I'm just teasing.

My first set of questions and -- and I -- I presume that you -- well, you have a computer so if you don't have a computer, a calculator might work presuming you don't know the answer to the question out of the gate.

The first question I have relates to the market size, and I have a series of questions about the -- the Winnipeg market specifically. And I know you've done lots of research, so hopefully some of these answers will be forthcoming. If not, I can take you through my analysis a little bit later.

So my first question is, do you know what the size of the Winnipeg market is in total loan volume?

DR. CHRIS ROBINSON: I can determine my estimate of that, but I don't have it expressed in that form. What I have is an estimate currently of about $101 million. This is in loan volume --

MR. STEVE SARDO: Okay.

DR. CHRIS ROBINSON: -- random for Manitoba. For Winnipeg --

MR. STEVE SARDO: $90 million?

DR. CHRIS ROBINSON: Yeah.

MR. STEVE SARDO: $90 million sound good?

DR. CHRIS ROBINSON: Probably more -- probably is slightly more than $90 million.

MR. STEVE SARDO: Okay. Rough numbers are more --

DR. CHRIS ROBINSON: Yes.

MR. STEVE SARDO: -- than adequate. How about the total number of loans?

DR. CHRIS ROBINSON: Well, that would be information that is within your purview rather than mine. That is all of the organizations put together would be able to sum that up. If you'll give me about sixty (60) seconds, I can probably give you a reasonable estimate.

MR. STEVE SARDO: That would be good. The --

DR. CHRIS ROBINSON: Okay.

MR. STEVE SARDO: -- no problem with the sixty (60) seconds.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: In terms of the number that I'm -- that would be built into what I'm actually doing, it would be about three hundred thousand (300,000) loans for Manitoba.

And, of course, you could get that simply by dividing ninety (90) -- or a 100 million by three hundred and forty-five (345).

I mean, I can explain the mathematics of how --

MR. STEVE SARDO: Yeah.

DR. CHRIS ROBINSON: -- I went around estimating --

MR. STEVE SARDO: Okay, but even if you just take the 90 million loan volume, divide it by three hundred (300) is, you know --

DR. CHRIS ROBINSON: Yeah.

MR. STEVE SARDO: -- in the -- in the range of three hundred thousand (300,000) is a decent number, right?

DR. CHRIS ROBINSON: I'm just counting zeros. Hang on a minute -- hundred thousand (100,000) -- yes.

MR. STEVE SARDO: Yeah, okay. Any idea what the revenue number is for the -- for Manitoba or the -- well, specifically, for Winnipeg I'd be more interested, but if you have both it would be --

DR. CHRIS ROBINSON: Okay, give me another sixty (60) seconds.

MR. BYRON WILLIAMS: And just -- just a reminder that these are estimates, and this information is properly in the -- in the industry's hands and not in -- in our hands.

CONTINUED BY MR. STEVE SARDO:

MR. STEVE SARDO: That's kind of the point I'm making, but let's continue.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: I'm trying to do some numbers in my head. Give me another thirty (30) seconds.

MR. STEVE SARDO: Yeah, no rush, none at all.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Revenue of about 4 1/2 million for Winnipeg and, you know, again, slightly higher for Manitoba. That's -- sorry, that's payday loan revenue.

Of course, some firms, most notably Money Mart, have substantial additional revenues which are coming to them from their cheque cashing. And more firms, including Rentcash, for example, have additional revenues in much smaller amounts --

MR. STEVE SARDO: Right, but I asked the question with respect to payday loans.

DR. CHRIS ROBINSON: Yeah.

MR. STEVE SARDO: And can you just take a quick check on that. If -- three hundred thousand (300,000) loans at fifteen dollars ($15) a piece would be 4 1/2 million dollars, I'd venture to guess that the average loan fee is a lot higher than fifteen dollars ($15).

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Yeah, 15 million, not -- not --

MR. STEVE SARDO: Fifteen (15)? One (1), five (5)?

DR. CHRIS ROBINSON: Yeah. Did I do that right? Did I multiply by thirty (30) here? Yeah, sorry.

MR. STEVE SARDO: Okay, thank you. Any idea about the number of employees employed in the -- in the marketplace, either -- for all of Manitoba or for Winnipeg as a whole?

DR. CHRIS ROBINSON: Somewhere in -- oh no, it's just for some firms. I -- I don't have that knowledge. That's something that only the payday lenders have. There's some information about some of the firms in one (1) of the filings that CPLA made.

MR. STEVE SARDO: You do make some

assumptions with regards to the number of employees per location in your work though, do you not?

DR. CHRIS ROBINSON: Only in one (1) respect, and not with respect to any work that I use for regulation. That is, you're referring to the initial paper that I wrote in September specifically for the Board, which was intended as an educational piece, if you like, about how does this industry work.

So there, of course, I had to create, from bottom up, number of employees, number of hours worked, wage rates et cetera. A picture so that I could see how this business might work when included with cheque cashing.

However, I make no assumptions with respect to the number of employees in my -- in the piece -- in the analysis in which I actually recommend rate caps.

And the reason for that is simply because I'm using the actual dollar figures that are provided by various other sources. That is the total cost of which, you know, wages are part of. A large part of.

MR. STEVE SARDO: You do make an assumption though, therefore, on the wage costs in your calculation for the recommendation, inherently?

DR. CHRIS ROBINSON: No. I'm -- I'm

using the actual numbers. I don't know what the wage rates are. The numbers I'm using are other rates that -- depending on the source of the number, they would be the rates paid by Rentcash, Money Mart, Advance America -- the five (5) firms. Well, I really don't use the material implicitly.

A little bit from Ernst & Young and Deloitte & Touche reports, but they, of course, as I have said elsewhere, not very reliable.

MR. STEVE SARDO: Okay. All right. I'll move on. Any idea about how much loan volume Money Mart does in Winnipeg?

DR. CHRIS ROBINSON: Thirty (30) seconds.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: This will take me about another two (2) minutes.

MR. STEVE SARDO: No problem.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: About $45 million of loan volume in -- in Winnipeg and fifty-four (54) in Manitoba as a whole.

MR. STEVE SARDO: Can I ask you simply how you get that number?

DR. CHRIS ROBINSON: Actually, I may have to change that slightly. I'm still trying to multiply stuff in my head. What's five sixths (5/6) of fifty-four (54)? No, it's forty-five (45).

Okay, I have an estimate in material I filed with the Board, and I'm sorry, I can't give you the reference number in which I estimate the entire Manitoba mark and that's based on a variety of disclosures. Okay, and that -- that's where I got my $101 million total for Manitoba.

Of that, my estimate for Money Mart is $54 million, and then I was simply taking fifteen (15) out of eighteen (18) Money Mart stores in Manitoba are in Winnipeg.

MR. STEVE SARDO: Yeah. I -- I guess my question is, you say it's fifty-four (54) out of 101 million, but I have yet to understand what the basis for that number is?

DR. CHRIS ROBINSON: Oh, you want to go back to the basis for all of Manitoba?

MR. STEVE SARDO: No, no. No, no, no.

DR. CHRIS ROBINSON: That can certainly--

MR. STEVE SARDO: I want to go to the

basis for the Money Mart number.

DR. CHRIS ROBINSON: Oh, yeah. Well, that's what I meant. But you want the Money Mart number for all of Manitoba -- where it comes from. The Money Mart's disclosure -- okay, in another set of disclosures -- PUB-B-3 Revised, I think -- I provided the -- a detailed analysis of Money Mart using the Dollar Financial 10-Ks segmented disclosures.

MR. STEVE SARDO: Mm-hm.

DR. CHRIS ROBINSON: And I then made an allowance for the fact that there are new stores -- net new stores --

MR. STEVE SARDO: Right.

DR. CHRIS ROBINSON: -- opening.

MR. STEVE SARDO: Can I ask a simple question?

DR. CHRIS ROBINSON: Yeah.

MR. STEVE SARDO: Do you use an average?

DR. CHRIS ROBINSON: How do you mean, "an average"?

MR. STEVE SARDO: Did you use an average Money Mart store times the number of Money Mart stores?

DR. CHRIS ROBINSON: Oh, yes.

MR. STEVE SARDO: Okay.

DR. CHRIS ROBINSON: And -- and that --

sorry, and that average figure is 3 million. I think it was 3 million and --

MR. STEVE SARDO: Right --

DR. CHRIS ROBINSON: -- sixty thousand (60,000).

MR. STEVE SARDO: -- that -- that --

DR. CHRIS ROBINSON: -- off the table.

MR. STEVE SARDO: -- exactly. Exactly.

DR. CHRIS ROBINSON: Yep.

MR. STEVE SARDO: Now let me ask you a question. How many Money Mart stores are there in Quebec?

DR. CHRIS ROBINSON: None. Oh, well, none to my knowledge. They may do cheque cashing there. I --

MR. STEVE SARDO: Then -- then --

DR. CHRIS ROBINSON: -- really don't know.

MR. STEVE SARDO: -- did you exclude those when you calculated your average?

DR. CHRIS ROBINSON: Oh, they're not in the numbers in the first place, because they don't do payday lending, so...

MR. STEVE SARDO: Yeah, but they -- but they are in the store numbers -- in the number of stores that they -- that they report for Canada.

MR. BYRON WILLIAMS: If I -- if I might just -- I think it would be helpful for three (3) things. First of all, Dr. Robinson prob -- has his estimates. I think the interrogatory Dr. Robinson's looking for, there's two (2) of them. One (1) is PUB B-15 Revised.

MR. STEVE SARDO: The Dollar Financial one? Is that the one he's referring to?

MR. BYRON WILLIAMS: Well, just let's -- let's --

MR. STEVE SARDO: Okay.

MR. BYRON WILLIAMS: So I -- I think if you want to put accurate information on the record, Dr. Robinson should probably go to --

MR. STEVE SARDO: Absolutely.

MR. BYRON WILLIAMS: And you should also note that Dr. Gould's -- the figure he has used for Money Mart volumes is $3 million -- just -- okay -- just so -- just to help the record.

MR. STEVE SARDO: Sure. I'm -- I didn't get to a chance to talk to Dr. Gould.

MR. BYRON WILLIAMS: So -- so, Dr. Robinson...?

DR. CHRIS ROBINSON: I -- I don't even -- just let me think for a minute. I don't need -- I don't need to actually look at the disclosure. I'm just trying to -- okay, no you're -- I had not thought of that, because I had assumed that Money Mart had no stores. And I don't know how many stores, if any, they have in Quebec that do cheque cashing.

CONTINUED BY MR. STEVE SARDO:

MR. STEVE SARDO: So, well, I think there's a good number, and I'm, you know, without asking the CPLA for that number I'm going to guess it's like at least fifty (50) or sixty (60) stores.

But I guess my point and -- and I'm not complete with this point yet, but part of my point is that -- firstly is that these numbers seem potentially to be in error and I'm not -- and somewhat off in the sense that if you don't exclude the stores in Quebec, you then have a higher than average number of volume per store, which would then forecast out to a larger number.

And -- and again, these -- some of these numbers I do believe you are using in your final analysis. Am I correct?

DR. CHRIS ROBINSON: Well...

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Okay, thank you. I was just checking my thinking with Dr. Simpson. It's a very interesting point, but it goes in the wrong -- the opposite direction to what you're thinking of, because in fact I'm using too large a denominator.

Yes, the accountants on the Board have -- have gotten there before me. I'm using too large a denominator and, so then, my -- the actual volume for a Manitoba store -- if there's a significant number of stores mixed into my calculations, the actual volume for a Money Mart store in Manitoba will be higher not lower. It'd be higher than 3 million and higher across Canada on average. Now, of course, I don't have Manitoba-specific information.

MR. STEVE SARDO: I guess my point is not whether or not the number's higher or lower, it's the accuracy of the number. And if one (1) number is potentially inaccurate, that leads me to believe there could be other inaccuracies. But let's move on.

My next question would be what you anticipate the loan volume is for Rentcash in Winnipeg.

DR. CHRIS ROBINSON: I'm sorry, please repeat the question.

MR. STEVE SARDO: The loan volume for Rentcash in Winnipeg?

DR. CHRIS ROBINSON: There is a dis -- oh, okay, and I can only say for Manitoba, but we have Manitoba figures for Rentcash.

If you work backwards from one (1) of their submissions to an interrogatory, and you -- you come up with about $1.2 million of payday lending. Just let me call up this, make sure I'm saying this correctly. It's got to be up already. What did I say?

Yes, 1.2 million for Manitoba stores -- and you'd have to give me some time to break that down for Manitoba -- 1.2 million per store, 31.2 million for the province. And so, I don't know, 26 million or something or 28 million in -- in Winnipeg.

MR. STEVE SARDO: Okay. So, but that is an actual Manitoba number? That's not an average number, correct?

DR. CHRIS ROBINSON: Oh, yes, that's not using a national average, that's using a Manitoba average according to the disclosure from --

MR. STEVE SARDO: Okay.

DR. CHRIS ROBINSON: -- Rentcash.

MR. STEVE SARDO: Okay. That's great. Thank you.

DR. CHRIS ROBINSON: And, remember, when I say Rent -- did you Rentcash or did you ask for the

Cash Store? Because I'm, of course --

MR. STEVE SARDO: Well, --

DR. CHRIS ROBINSON: -- rolling Instaloans and --

MR. STEVE SARDO: -- I -- I meant rolling Instaloans in, because I consider them one (1) company.

DR. CHRIS ROBINSON: Yes, which I do too.

MR. STEVE SARDO: Okay. Fair enough. How about the revenue for Rentcash?

DR. CHRIS ROBINSON: I've had much more difficulty in determining the specific numbers for Rentcash because of the way that they disclose because their other -- their payday lending store, their -- sorry, their stores. Their payday lending branch is separate from the rent-to-own. So I have that separated.

They have, however, been increasing quite rapidly the revenue from other products. And, of course, I don't have a revenue per store in -- in that -- in that sense so that I haven't calculated that. I mean, an estimate would be that -- give -- give me a couple minutes --

MR. STEVE SARDO: Yeah, yeah, no problem.

DR. CHRIS ROBINSON: -- and I can probably estimate this fairly accurate -- well, reasonably, at least.

MR. BYRON WILLIAMS: And Mr. Sardo, I think some of this information is in First Round response Coalition/PUB-B-18.

DR. CHRIS ROBINSON: No. He doesn't -- he's asking for specific information I didn't disclose in this format. But I can -- I can give -- I can make estimates of it that have the same basis as everything I did previously.

(BRIEF PAUSE)

MS. ANITA SOUTHALL: Mr. Chairman, I wonder whether or not -- oh.

DR. CHRIS ROBINSON: Sorry, I just couldn't -- I couldn't read the number of decimal places properly off the computer; 9.6 million for Manitoba. So slightly under 9 million for Winnipeg. I haven't counted the number of stores separately in doing that, but you get the idea.

And you should realize again, of course, we're -- you know, this is, among other things, based on the information that is available and the accuracy of it as well, so it's, you know, there's a whole chain of things.

CONTINUED BY MR. STEVE SARDO:

MR. STEVE SARDO: I totally appreciate that, and it's kind of my point.

The last one -- and we belabour this, but the -- the reason I'm just on this line of questioning at the moment is simply a number of comments have been made about the -- the largest players and their impact and their -- how much they represent of the market and the fact that they might -- will not likely exit the market and things of that nature. That's why I'm on this line of questioning, just -- just for your own edification. So I will ask the last one, which is -- will -- relates to Cash Money.

And if you could tell me what you feel their loan volume is and their revenue is for Manitoba and Winnipeg?

DR. CHRIS ROBINSON: Okay. Cash Money I don't have any independent information for, so that the best estimate might -- all right I'll -- I'll -- I could -- all right, my best estimate was to take the average from the Ernst & Young -- or sorry, from the Deloitte & Touche study, which, as I've -- as -- as I and the other members of the Coalition already demonstrated, has very severe limitations in almost every direction. But it deals with the non-big stores. That is, Rentcash and

Money Mart are not in it, so that it's likely going to be more representative of Cash Money than the others.

So I took seven hundred and sixteen thousand (716,000). And there are five (5) stores for Cash Money, so I get 3 1/2 million total loan volume for Manitoba and whatever percentage of the stores are in Winnipeg would be.

MR. STEVE SARDO: Sounds to me that -- that number's not a useful number. Can I make that assessment? Only because if Cash Money is one (1) of the larger players, and you're using the Deloitte & Touche, which is highly skewed by non-larger players, then I -- I don't think we can make an assessment about Cash Money here.

I don't -- I don't think we have any good information.

DR. CHRIS ROBINSON: Okay, can you rephrase that as a question?

MR. STEVE SARDO: Sure. Do you feel confident in the accuracy of your Cash Money number?

DR. CHRIS ROBINSON: This is the best estimate I can make. I would -- I agree with you, it's probably biassed upwards.

However, even giving a whacking great bias upwards to it, I would point out that Money Mart sitting, as we've now discovered due to your questioning, at more than 3 million, Rentcash at 1.2 million, and the small players at seven sixteen (716).

So, if you want to claim that Cash Money is bigger, that would seem quite possible. But it doesn't have the same profile that the other two (2) do. So that the number -- the effect on my numbers would be half (1/2) a percent of the total volume.

MR. STEVE SARDO: I really -- that wasn't what I was trying to do. I wasn't trying to com -- I wasn't trying to say that.

I was referring to some comments made yesterday about the four (4) largest players making up 90 percent of the market, and a specific comment I think Mr. Buckland made about them not likely exiting the market.

And -- the way that that was discussed, the inference was that there was very accurate information with respect to those four (4) companies. I didn't get the Number 4 yet, but it certainly seems to me at the moment that Number 3, we don't have very good information.

DR. CHRIS ROBINSON: Yes, but Number 3 has five (5) stores only, as opposed to the forty-four (44) stores of the first two (2) and --

MR. STEVE SARDO: That's fine. That's

not my question, so I'm going to move on.

Okay, my next question is, of the Money Mart stores in Winnipeg, how many of them are twenty-four (24) hour stores?

DR. CHRIS ROBINSON: You'd have to ask the representatives from Money Mart, who are not present, about that.

MR. STEVE SARDO: Okay. Do you know how many stores of the Money Mart stores are five (5) teller stores, four (4) teller stores, or three (3) teller stores?

DR. CHRIS ROBINSON: No.

MR. STEVE SARDO: Okay. Now let me explain why I think that might be important. When you make an assessment of the average volume per store --

MS. ANITA SOUTHALL: Excuse me, Mr. Sardo, you have to -- you have to phrase questions.

MR. STEVE SARDO: Okay, I'm sorry.

MS. ANITA SOUTHALL: Thank you.

CONTINUED BY MR. STEVE SARDO:

MR. STEVE SARDO: Sorry. One of the tenants of the proposal is based on these averages. Is it possible that the averages might be greatly skewed by a variance between a high volume, twenty-four (24) hour, five (5) teller store and a low volume, three (3) teller, non twenty-four (24) hour store?

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Yes, really -- yes, you're really making a statement. I mean, is it possible that -- that the numbers that I have could be better represented by a more complete distribution, okay?

Speaking statistically, I've given you only means. What you're saying is that what I should have is a distribution of stores at different sizes for -- inside each company. And I don't have the information for that. The industry is not willing to provide such information. During the interrogatories, I did, in fact, ask some questions in that direction, but I received no response to them.

DR. CHRIS ROBINSON: Okay. No -- and I appreciate that. I guess what I -- what I'm getting at in -- in the big picture, do you not believe that when you make a statement such as, The large players will not exit the market, and you -- and you're basing that statement on an average volume of 3 million per store...

For example, if we do not know that half the stores are 6 million and the other half are 1 million, would it not be fair to say -- since we don't know that information -- that it's possible that many of those 1 million volume stores, that could be Money Mart's and are of the large players, could exit the market?

DR. CHRIS ROBINSON: Of course, we do see store openings and store closures. We're seeing net store openings. The -- yes, the volume is actually more important even than the rates. Without a sufficient volume, a store simply can't survive. So they would be--

MR. STEVE SARDO: So -- so the answer is yes, then, correct?

DR. CHRIS ROBINSON: It might be yes. Lacking information, all I can say is --

MR. STEVE SARDO: Well -- well based --

DR. CHRIS ROBINSON: -- maybe some would close.

MR. STEVE SARDO: -- based on my -- since neither of us know what the volumes are per store and -- and that you're using an average, if my assessment were true as opposed to your assessment, my assessment being that there are high-volume and low-volume stores, that those low-volume stores under a rate regulation could close, even for Money Mart.

Can you refute that statement?

DR. CHRIS ROBINSON: No.

MR. STEVE SARDO: Thank you.

(BRIEF PAUSE)

MR. STEVE SARDO: Okay, now, can I ask you, I -- I guess, and I have to, because I -- I am -- I have to admit that I haven't attended all the meetings and -- and read every single transcript, so I do apologize for that.

But, let me ask you this question. What is your consideration of a large volume store?

I know you made in your sales store model, which you say is not evidence, you -- you came up with this number of sixteen thousand six hundred and seventy-seven (16,677) -- sixty-seven (67) loans.

Do you still feel that's a large store?

DR. CHRIS ROBINSON: Yes, that would be a large store. Going back -- the word "large" is imprecise, and so we've all been using it in various ways.

Let me return to the Ernst & Young evidence, where in their -- the Ernst and Young study, and the Ernst & Young study used a figure of -- used what it called the "large stores" and their average revenue then.

And, of course, this is considerably skewed by other things that have happened in the industry. At that time it was 1.85 million per store. Ernst & Young -- and I cannot recall if it's in the Ernst & Young study, but at the time that they were doing it, they told me that they had hit at least one (1) store with 7 million of volume, and it didn't belong to any of the large players.

And, so --

MR. STEVE SARDO: Okay, and --

DR. CHRIS ROBINSON: -- you get the idea that somewhere between -- I'm using 3 million as kind of my top volume, because that's Money Mart's, but -- as a top average volume. So in that there'll be some stores maybe with --

MR. STEVE SARDO: Right, my -- my

DR. CHRIS ROBINSON: -- 4 or 5 million.

MR. STEVE SARDO: -- simple question: did you still believe that sixteen thousand six hundred and sixty-seven (16,667) loans represents a large store?

DR. CHRIS ROBINSON: Well, actually, from the PUB-B15 -- PUB-2B-15 Revised, I'm actually using about ten thousand (10,000) loans, which, if we just multiply by three hundred (300) and for -- you know, three hundred (300) gives --

MR. STEVE SARDO: Can --

DR. CHRIS ROBINSON: -- you 3 million.

MR. STEVE SARDO: -- can I ask you why you've revised it down from the sixteen thousand (16,000)?

DR. CHRIS ROBINSON: Well, the sixteen thousand (16,000) was part of a table which was simply a -- I mean, I've been using that ten thousand (10,000) number for about three (3) years. That sixteen thousand (16,000) was a different -- was part of a table that was done to demonstrate how the business, as a whole, might work when including cheque cashing. Okay?

MR. STEVE SARDO: What -- what does cheque cashing have to do with the number of loans?

DR. CHRIS ROBINSON: Doesn't -- I -- I didn't make up an example on which I was basing it on a specific average store or anything else. I simply put together a store.

MR. STEVE SARDO: Okay. Okay, I -- I -- so -- you're -- you're now saying that the large store is not sixteen thousand (16,000) loans, correct?

DR. CHRIS ROBINSON: Well, I -- I said that back in ACORN, I'm saying it now, and so is Ernst & Young, saying that -- that a large store could be smaller than that.

Yes, I mean, your question's inclusive of a store making sixteen thousand (16,000) loans would also be large. It'd be larger than one making ten thousand (10,000).

MR. STEVE SARDO: Well, I'm -- I'm asking for your definition, since it's your work that we're talking about.

DR. CHRIS ROBINSON: But I don't use the word "large," "medium," or "small." I simply use the actual numbers from the tables. I'm using 3 million representing a Money Mart sort of --

MR. STEVE SARDO: Okay --

DR. CHRIS ROBINSON: -- store.

MR. STEVE SARDO: Okay.

DR. CHRIS ROBINSON: One point two (1.2) down to Rentcash, one point six (1.6) for Advance America.

MR. STEVE SARDO: Can I ask this question then? If there's a presumption of the exiting of some locations post-regulation, would it be unreasonable to assume that stores could do sixteen thousand (16,000) after that consolidation?

DR. CHRIS ROBINSON: I can't answer that question, because I don't know what the actual volumes are. You've just pointed out that their -- that their volumes are going to vary store by store. So there may not be a single store in Manitoba making sixteen thousand (16,000) loans, or there may be a number of them. And I simply don't have that information, since the -- the industry has not disclosed it.

MR. STEVE SARDO: Okay, fair enough. Okay, I think you alluded to the three hundred thousand (300,000) loan number and the 90 million number that we spoke about a few minutes ago. My question is -- and again, this is not your evidence, but it's -- it's your single-store model, so it may not be evidence, but you may have an opinion still.

In that work you -- you said that a -- a large store -- and again, that's your definition -- was sixteen thousand six hundred sixty-seven (16,667) loans, was twelve thousand six hundred (12,600) man hours of work, and two and a half (2 1/2) clerks.

Do you still feel that those kinds of numbers make sense?

DR. CHRIS ROBINSON: Well, yes and no. One (1) of the things you must -- let me focus on the last thing you said, two and a half (2 1/2) clerks or whatever number I -- I had. That is --

MR. STEVE SARDO: I'd rather be more interested in the man hours, the clerk system.

DR. CHRIS ROBINSON: Okay. All right. Right. Well, the man hours was -- assuming that -- that Manitobans don't work their people harder than anywhere else, so I simply --

MR. STEVE SARDO: Okay. So it's a --

DR. CHRIS ROBINSON: -- created -- in other words, you could have ten (10) people working in the store, all working part-time.

MR. STEVE SARDO: Yeah. Again, you know, I --

DR. CHRIS ROBINSON: Yes.

MR. STEVE SARDO: So "yes" is the answer, correct?

DR. CHRIS ROBINSON: Yes. Yeah. And -- and those are --

MR. STEVE SARDO: So -- so --

DR. CHRIS ROBINSON: -- as reasonable as I could do in the absence of any information from the industry.

MR. STEVE SARDO: And -- and that's you all you have been asked to answer.

So then on that same premise, leaning a little bit further, you have a store with sixteen thousand six hundred and sixty-seven (16,667) loans and twelve hundred -- twelve thousand six hundred (12,600) man hours, which means -- unless my math is very bad, that's one point three (1.3) loans per hour.

DR. CHRIS ROBINSON: Yes.

MR. STEVE SARDO: Okay.

DR. CHRIS ROBINSON: It's -- when you say it that way, as I found during the time I was doing it --

MR. STEVE SARDO: Which is forty-six (46) minutes per loan. And -- and let me just ask you the question.

Do you feel that that's -- Number 1: Do you feel that that is a fair amount of time, a large amount of time, to do a loan? Too small amount of time to do a loan? Do you have any evidence there?

DR. CHRIS ROBINSON: Okay. We do have some evidence from the mystery shopping. The loan time, first of all, this includes first loans and repeat loans which are --

MR. STEVE SARDO: Yep.

DR. CHRIS ROBINSON: -- widely varying between --

MR. STEVE SARDO: Yes. Yes.

DR. CHRIS ROBINSON: -- firms as well. Second, the evidence that Ms. Friesen provided to the Board on the loans, where she actually took out a loan, were highly variable times. And I can’t remember the exact -- I think it went from ten (10) to thirty (30) minutes.

Third, they don't just make loans. They also have --

MR. STEVE SARDO: But that's about -- but I'm only asking you about loans. I really don't care about --

DR. CHRIS ROBINSON: No, no. Wait.

MR. STEVE SARDO: -- about cheque cashing --

DR. CHRIS ROBINSON: Wait.

MR. STEVE SARDO: -- other costs.

DR. CHRIS ROBINSON: Please wait. Okay. It's -- they don't just make the loan. They have people like Ms. Friesen and Mr. Osborne coming in and asking about the loans but not taking one. They have times when they -- where nothing's going on. I mean, I go -- I look at -- I'm not in the habit of looking at every payday lender I go by, and so sometimes they are -- there are people there.

MR. STEVE SARDO: So you're counting for down timing in that number.

DR. CHRIS ROBINSON: I'm trying to account for what I think would be going on from the evidence I had previously seen from Ernst & Young.

MR. STEVE SARDO: So you think that's an efficient number then, is it? Would that be fair to say?

MR. BYRON WILLIAMS: Can I just ask --

DR. CHRIS ROBINSON: No, that's more like the actual --

MR. BYRON WILLIAMS: Hold on --

MR. STEVE SARDO: Yeah.

MR. BYRON WILLIAMS: -- one (1) second here. Mr. Sardo, I'm trying to be respectful of your approach, and we do want to help you. If you'll -- if you feel that Mr. -- Dr. Robinson is not answering your questions, when he finishes you can certainly --

MR. STEVE SARDO: Okay. Fine.

MR. BYRON WILLIAMS: -- redirect him, and -- and in fairness, if he's way off track, you can cut him off. But it -- it seems like -- if -- I think he is trying to help the Board, so if -- if you could let him finish and then redirect him if he's inappropriately answering. And if I feel he's getting way off track I'll -- I'll send him back to you as well.

CONTINUED BY MR. STEVE SARDO:

MR. STEVE SARDO: I -- I, yeah, for simplicity and time, because there's a lot of people that would like to ask questions, I mean, I -- I --

elaboration is great, but some of these, to my feeling, are -- are simply "yes" or "no" answers.

DR. CHRIS ROBINSON: Okay. What am I answering "yes" or "no" to at this point?

MR. STEVE SARDO: Do you feel that forty-six (46) minutes per loan is efficient?

DR. CHRIS ROBINSON: No, I can't -- I can't really say. I am, in fact -- when I go to the regulation numbers, I'm using gross dollars.

MR. STEVE SARDO: Okay. Fair enough. No -- no is a good answer. I'm -- I'm happy with that.

MS. ANITA SOUTHALL: Mr. Sardo, I am going to give a bit of direction, if I could, because sometimes "yes" or "no" is not a sufficient answer. And if the witness needs to provide additional information to be able to inform the Board, who -- who are the decision makers, there are times, certainly, when, if they're elaborating on something that requires a "yes" or "no," I'm in full agreement with you.

But keep in mind that there are times when the elaboration actually assists in understanding the answer.

MR. STEVE SARDO: That's -- that's correct, I agree with you.

MS. ANITA SOUTHALL: And we're about a

process here of informing the decision makers so that they can made an adequate decision in this case and meet the terms of the legislation.

So I just want to caution everybody to keep that in mind. We're in the sharing views of things, the perspectives won't all match up. There are varying perspectives to this.

But it isn't a litigation process ,and it isn't intended to be an adversarial process. So just a reminder to everybody on that score, thank you.

CONTINUED BY MR. STEVE SARDO:

MR. STEVE SARDO: Okay, so if you want to elaborate on that, Dr. Robinson, go ahead.

DR. CHRIS ROBINSON: I think I elaborated enough. I would just, however, say to -- to the Board, since what you are seeking is information, that Mr. Sardo's questions and the information he provided to the Board before are -- are useful to me.

And in attempting to answer them, they are helping me to clarify information for you, so that I'm not -- if it appears that I'm being adversarial, I'm sorry, because I think Mr. Sardo is -- is really contributing to the proceedings here.

MR. STEVE SARDO: Thank you. Okay. So,

on that wonderful note, back to the three hundred thousand (300,000) loans, I guess.

First of all, just as a matter of opinion, I don't think that forty-six (46) minutes a loan is efficient, by the way.

And -- and I know that -- and the reason I'm down this path is that a large part of this proceeding in terms of the -- the final recommendations and number of things that have been said, at least from my perspective -- and certainly what I would consider a horse and not a rabbit -- is the efficiency argument.

And -- and I think that the -- the Coalition argues fairly strongly that the industry's inefficient. And, you know, but what I'm trying to get at is that if I have three hundred thousand (300,000) doll -- three hundred thousand (300,000) loans -- and I personally believe that an efficient number is closer to four (4) loans an hour, not one point three (1.3) -- that that would take about seventy-five thousand (75,000) man hours to complete. Seventy-five thousand (75,000) is just three hundred thousand (300,000) divided by four (4), which leaves you with thirty-seven (37) employees in the Province of Manitoba doing loans.

And I think that if you were to do some simple math on how many employees there are today, you would find fifty-one (51) locations times -- and I'll be very generous and say two and half (2 1/2), three (3). So a hundred and fifty (150), which would simply mean that about a hundred and twenty (120) people lose their jobs, give or take.

And I was just wondering what you -- if you feel that that's even close to accurate?

DR. CHRIS ROBINSON: Before the Board counsel objects to the failure to ask a question --

MR. STEVE SARDO: No, the question was, do you feel it's accurate? What I just said.

DR. CHRIS ROBINSON: Okay. Now, again, I think this is a useful question and, you know, and useful. What Mr. Sardo is doing is -- is helpful.

First, yes. First of all, the claims about inefficiency are -- the Coalition as -- as a whole, we all support each other. But it's primarily based on the evidence that I specifically prepared myself.

The -- yes, you're right. That is my feeling about those numbers, is that they represent a substantial inefficiency. And I've stated that in various ways, because the major financial institutions are much more efficient, not as a moral choice.

I mean, this is not saying that people who run payday loan stores are incompetent or lazy. It is the nature of the business. It's lumpy. You have to have -- and I've said this explicitly -- you've got to have a body in the store.

If you're carrying a lot of cash, you may only feel comfortable if you have two (2) bodies in the store at all times.

MR. STEVE SARDO: Can I -- can I ask you another question? But the efficiency is required I believe in your recommendations to sustain the industry.

If the -- if the efficiency is -- is not there and the rates are cut, there's carnage. Is that not correct?

DR. CHRIS ROBINSON: I wouldn't have used the word "carnage." We -- we do have, I think, at least one (1) vegetarian present, but the -- okay, the lady who prepared the horse and rabbit cartoon is a vegetarian.

However, yes, you're -- you're quite correct. There is efficiency required. My definition of "just and reasonable rate" says it has to be an efficient provider.

And so, yes, I'm assuming -- not assuming, I am measuring indirectly through the information I have, who are the relatively most efficient producers.

I think it is quite clear to everyone present that if the banks and the credit unions were all to make exactly the loans that the payday lending industry is making, that they could make them at far lower cost.

Not again because of any competence, but simply because they have so much volume going through the branches that it's just a tiny little addition to their work and, therefore, they don't face the same costs.

But the nature of the industry is that we have to allow what might be compared to banks and credit unions a great deal of inefficiency, a great -- many more people per loan. That is the nature of the animal.

So I stated as the Board will recall, I stated up front is this exploita -- I forgot what I said -- rapacious exploitation or business story.

The business story is -- and if there are to be stand-alone payday lenders or alternative financial service providers, they will have to charge a much higher rate just to cover legitimate costs however you're measuring them.

And so what we're talking about is what? So 60 percent per annum, for example; it's completely unachievable, and we all know that. And much higher than that would be unachievable.

MR. STEVE SARDO: Are -- are you saying then that -- it's almost like I'm reading that you're saying at the moment that the rate reduction will put many, many companies and employees out of work.

Is that not what you're saying right now?

DR. CHRIS ROBINSON: No. What I'm saying is that it is likely that some companies -- well, that some stores will close. A store in a large chain has economies of scale that will allow it and, in fact, probably almost obligated to keep more -- keep some of the smaller volume stores open because of the effect that has competitively.

That is you have a store -- you have a store in every location to capture all the business.

MR. STEVE SARDO: Wait -- wait a minute. I mean --

DR. CHRIS ROBINSON: No, just hang on. You have to let me finish, sir.

MR. STEVE SARDO: Yes, sir.

DR. CHRIS ROBINSON: A large volume, single-owner store such as I was anecdotally suggested existed, probably, in Toronto at the Ernst & Young study, would also be able to keep open, because it's now got its two (2) staff all the time. But they've always got business through.

So they're not making one point three (1.3) loans per hour. They're making three (3) or four

(4) per hour per staff member without any additional cost being incurred.

And so, it depends on -- on the makeup. If you want, we -- I can start fooling around with the numbers. I've done some of it but I haven't presented it to the Board as to what would exit.

However, what "exit" means is that those customers -- since virtually all the business is in Winnipeg -- that those customers will then simply migrate to the remaining players, and so that the remaining players will actually become more efficient.

MR. STEVE SARDO: Thank you for that. Let -- let me just give you this quick math. Sixteen thousand six hundred and sixty-seven (16,667) loans per store times eighteen (18) stores equals the three hundred thousand (300,000) loans in the entire province. There's currently fifty-one (51) locations in the province.

Would it not be fair to say that, given that type of efficiency which is required to make good profits or profits almost at all, that you would lose thirty-three (33) locations out of the fifty-one (51)?

DR. CHRIS ROBINSON: No. that -- you're over simplifying that, and I'm not assuming in the regulation sixteen thousand (16,000). I was assuming ten thousand (10,000) loans for the 3 million stores, for the stores doing 3 million.

So, of course, the smaller stores are doing much less. In fact, my regulation is designed to make a chain -- well not -- "designed" is the wrong word.

The place where I choose to start setting them is $1.2 to $1.6 million of volume. So that in fact, a chain -- no point in pretending we don't know it is -- that it seems quite possible that Money Mart would make significant excess profits under the -- they might under the regulations that I'm providing and that an efficient chain of stores at 1.2 million would be -- or -- or single stores even at 1.2 million would be sustainable.

Stores making 4 (four) -- selling four hundred thousand (400,000) haven't got a chance. I don't even see how they can survive now.

MR. STEVE SARDO: Okay. Hang on a second, I lost my page. In your research, Dr. Robinson, how many single-store financial statements have you received or reviewed for the Province of Manitoba?

DR. CHRIS ROBINSON: I have never been permitted to see such a statement for anywhere in Canada, let alone Manitoba. I'm sorry, I take that back.

You're -- I've seen --

MR. STEVE SARDO: You've seen mine.

DR. CHRIS ROBINSON: Yeah. I've seen

yours. There are certain -- sorry, thank you.

MR. STEVE SARDO: No that -- it wasn't intended to try to catch you in that, that really simply was not the question.

I -- I guess, you know, that one (1) of the things I -- I worry about a little bit in -- is that if you haven't seen a single-store financial statement and you're using averages for the number of loans based on a 10-K report from the US and you're using averages for the expenses of -- of companies, that you don't know specifically what their branches in Manitoba look like.

Does that not influence the accuracy and the ramifications for the projections that you've made?

DR. CHRIS ROBINSON: Yes. I can only deal with the data that I have available. I made all the allowances that I can to adjust to Manitoba numbers. Among other things, I've taken very -- from the point of view of the industry, very generous allowances.

For example, I've been taking average cost figures from the published reports. I've taken the highest one in every case. I could make quite a legitimate case for much lower rates than I have if I had not made such assumptions.

I would point out that both the CPLA and Rentcash studies, Ernst and Young, Deloitte and Touche, all the evidence that they're providing is, in fact, relying on exactly the same sort of material. Dr. Gould is using the same sort of values.

It is inevitable in this kind of work. As I said, if you had wanted, when I originally started work the Federal Government back in 2004, I said, let me have the numbers, I'll sign confidentiality. And they were not willing to allow that even though I have the expertise to do it.

So, this has been a choice by the industry. And you're right, I would have more accurate -- I would be able to more accurately estimate who might not survive or how many might not survive any given rate regulation cutoff. But I don't have that data.

MR. STEVE SARDO: Okay. That's -- that was my question.

In your 1.2 mill -- I -- if I take your most recent recommendation at the 1.2 million rev -- loan volume, which is a -- a number that's going back and forth here, and -- let me say this, if you have fifty-one (51) locations producing about 90 million, and you say that the Money Mart stores are approximately 50 percent with the sixteen (16) stores, and somewhere I get the number of around 48 million, you said 45 million.

I think you and I are both pretty much on the same page mathematically. That leaves you with -- in the range of 42 to 43 million left over that's non-Money Mart business of the 90 million, maybe forty-five (45) in -- in your case with a remainder of stores of thirty-five (35) other than Money Mart, which then brings you to an average of 1.2 million for those remaining stores.

The -- the problem with that average, obviously as we know, is that some of those stores will be greater than the one point two (1.2), and some of them will be less. In -- in your numbers, if I plug in 1.2 million of volume in your most recent projection and recommendation, I believe I'm going to come up with a hundred ninety-seven thousand dollars ($197,000) worth of revenue for payday loans.

And I'm going to come up with a hundred seventy thousand, two hundred and ninety-seven dollars ($170,297) of cost. You previously had in your ACORN Model a hundred of sixty-six thousand (166,000) of cost for 1.2 million, and in your single store model cost for 1 million you had two hundred and thirty-three thousand (233,000) of cost.

I guess what I'm trying to figure out is I've got three (3) numbers that are not really that close together in terms of what it might cost to run a $1.2 million store, yet all the remaining stores other than

Money Mart are averaging 1.2 million.

So if they can't make money at 1.2 million, and we know that many of them will be low and many of them will be above, again, I think there's this potentially big risk for carnage, and I'm not sure that we can quantify that risk.

Would you agree -- well, first of all, can you explain to me why we have those three (3) variations, the two hundred and thirty-three thousand dollar ($233,000) cost in your single store model, the hundred and sixty-six dollar ($166,000) cost in your ACORN model, and the hundred and seventy thousand dollar ($170,00) cost in your most recent model?

DR. CHRIS ROBINSON: Okay. Let me deal with -- okay, so there are three (3) sets of data. I -- I would like to reiterate as I have in my evidence previously to the Board, that the single store model was my first crack at trying to incorporate both cheque cashing and payday lending into one (1) because of the joint cost problem; that is, we know that Money Mart is going to have considerably greater efficiency due to economies of scope and scale combined. So, we know that that's going to happen.

Consequently, I was trying to find a way to capture that and I guess if I can suggest what I was -

- what I had in mind at that point was then having had my chance - I mean, I had a limited time to do this of course - that I could then, in fact, expand that and try to do my recommendations to the Board by, in fact, incorporating both at once.

Even though the Board's already made decisions on cheque cashing, that I could, in fact, incorporate both and try to avoid a very serious joint product cost which none of us can, in fact, completely avoid.

Now I -- later on you may -- it's sort of evident that we can avoid it in some ways. I concluded that I wasn't going to get any better results out of that. So I didn't pursue that line. I simply went back to allocating costs and just looking at payday lending and accepting that I'm not getting the joint costs dealt with perfectly.

The numbers for the ACORN report and the report -- the material I provided to the board directly - - you might recall, the ACORN report was not written to a Board, it was not written for Manitoba and was written using older data. Okay?

That is, the material for the Board has got considerably more recent data and all the expert experience that I have in dealing with this including, of course, I might point out, Mr. Sardo's comments to the Board and Rentcash and so, you know, I've had a great deal more information provided to me and a great deal more thinking.

You should be glad that I'm not sticking at ACORN report levels because if you've -- and you've obviously read -- you may not have read everything, but you've read a lot, I would remind the Board that my ACORN report proposes considerably tighter rate caps.

And I'm now -- I'm in -- I don't believe that those rate caps were appropriate either for Canada or for Manitoba. I believe that the rate caps that I'm providing now are -- are suitable.

I've done -- I've got more data. I've in fact got more recent data than Dr. Gould did just because I reported, in some cases, just a few days after he did and the data came out.

So, you're right, the numbers are not totally consistent. This has been a process where we have very incomplete disclosure information. We keep getting new disclosures.

Advance America's has an impact on my recommendations and, of course, I didn't analyse them until well after the Board had started its hearings.

So yes, the numbers are changing and, in fact, the 1.2 and 1.6 million firms monoline payday loans for the first time I had evidence that would be reason -- would -- would I felt fit reasonable test of being useful here and that was the Advance America costs.

So that my cost per loan is lower for a 3 million store -- or cost per dollar of loan than it is for the 1.2 or 1.6 million and that figure of eleven dollars ($11) is the highest figure of the recent information of the various disclosures from Advance America.

So that -- so you -- so I think you can see what I'm getting at that it's inevitable that my recommendations could change. And indeed, if you'll give me a few more months, I'll get more data and we can start this over.

MR. STEVE SARDO: I'm not sure that --

THE CHAIRPERSON: Okay; we'll take our morning break earlier then. Be back at 10:15.

--- Upon recessing at 10:00 a.m.

--- Upon resuming at 10:25 a.m.

THE CHAIRPERSON: Apparently all systems are -- are working. So we're back to you, Mr. Sardo.

CONTINUED BY MR. STEVE SARDO:

MR. STEVE SARDO: Thank you very much. I think I just have a couple of last quick questions for Dr. Robinson. You just mentioned something about Advance America costs, that you were using those costs in -- in some of your calculations.

Are those Manitoba costs?

DR. CHRIS ROBINSON: No. No.

MR. STEVE SARDO: Okay.

DR. CHRIS ROBINSON: Those are -- those are the US costs. Of course, everything's adjusted for currency.

MR. STEVE SARDO: How relevant do you think those are to the Manitoba market?

DR. CHRIS ROBINSON: Advance America clearly thinks they are.

MR. STEVE SARDO: I think they're sadly mistaken. I mean, we -- we -- I think we've seen lots of testimony here about the differences between the United States and Canada and with respect to banking and just enormous rents and taxes and all kinds of issues there I would -- I would place in my opinion.

Don't you see that there's a lot of differences there?

DR. CHRIS ROBINSON: There are, however,

let me point out something to you. As the screen is now showing, okay, you see over here, operating costs per hundred dollar ($100) loan, eight dollars and fifty-one ($8.51) cents. That's the highest value to be taken out of Money Mart -- out of any of Money Mart -- and that is Money Mart's Canadian operations. So -- and that's 3 million.

Do the same operations -- and the information is in front of the Board for Advance America, and you come up with a variety of numbers as well, the highest of which is ten dollars and ninety-one ($10.91) cents, I think. So I used eleven (11) here.

So if I put in eleven (11) there, and what you see is that the excess -- excess profit, given that set of assumptions -- so I've dropped it now to much lower -- the excess profit is seven hundred and thirty dollars ($730) -- that's per store, which, for all intents and -- that's excess.

MR. STEVE SARDO: That's break even?

DR. CHRIS ROBINSON: No. No --

MR. STEVE SARDO: Oh, I'm sorry.

DR. CHRIS ROBINSON: -- let me explain again. Excess profit means after allowing for profit.

MR. STEVE SARDO: Okay, and -- now --

DR. CHRIS ROBINSON: So this is a -- this is a fair or just and reasonable rate of return, is incorporated as an expense.

MR. STEVE SARDO: Since I can't see your spreadsheet, my eyes are not that good -- well, not without my -- well, maybe there with my glasses.

What have you got for -- for revenue there?

DR. CHRIS ROBINSON: This is -- this is, well, 1.2 million. This is under one of my recommendations. So the total revenue for this store is a hundred and ninety- seven thousand dollars ($197,000).

MR. STEVE SARDO: Correct, okay, and what's your expense number?

DR. CHRIS ROBINSON: Well, seven hundred and thirty dollars ($730) less: hundred ninety-six three fifty-one (196,351). As you can see, as we know, most of the costs are operating costs, which is everything but capital cost and bad debt cost.

MR. STEVE SARDO: Right. Again, no offence to any of your calculations, but I -- I do believe that you have to admit that you are basing your numbers -- all of your costs numbers -- on averages which are predominantly either Canadian overall -- not specifically Manitoba costs -- or US, which, again, are not Manitoba costs, correct?

DR. CHRIS ROBINSON: It's an odd mixture in that I've taken whatever I can for Canadian evidence. The most important evidence is the Money Mart stuff, which is Canadian but not Manitoban. And I've also used -- how do I say it? I mean, for example, the --

MR. STEVE SARDO: But -- but it is averages?

DR. CHRIS ROBINSON: Well, not entirely, because, for example, up here you have revenue -- or sorry, not revenue -- the loans. I'm basing everything on loans as this were an activity-based costing model.

Now, if you come down here, regulatory costs per store, okay, fifty-five hundred dollars ($5,500) per store under Manitoba regulations.

Then for a small store, I don't think there's a -- for a -- a single store there won't be a lot. For a chain, there will be a lot. So Money Mart, I've just added three hundred thousand dollars ($300,000) to its costs -- to its cost structure, which does not appear in any of its financial statements, to allow for it to pay several staff members in head office to collect this.

MR. STEVE SARDO: Correct.

DR. CHRIS ROBINSON: Then these things: cash on hand, loans receivable, capital investment per store. Once again, I was -- I gave the higher number --

MR. STEVE SARDO: Those -- those are balance sheet items, though, they're not costs.

DR. CHRIS ROBINSON: Well, actually that's not true.

MR. STEVE SARDO: They're not financial statement costs, are they?

DR. CHRIS ROBINSON: Just a second.

MR. STEVE SARDO: Cash on hand is not a cost.

DR. CHRIS ROBINSON: Just a second. Okay, hang on. It's unfortunate you weren't here when I went through the spreadsheet line by line. But I think the Board will find this helpful to recognize.

These enter into costs. The loans receivable is, of course, a cost, because it costs capital. So down here --

MR. STEVE SARDO: Can -- can I just ask a quick? Sorry to interject.

DR. CHRIS ROBINSON: Yeah.

MR. STEVE SARDO: I don't -- I don't want to be rude, but I don't believe I -- oh, maybe I did, but I -- I think we're really going way off what I -- where -- I had two (2) small little questions left.

DR. CHRIS ROBINSON: Okay.

MR. STEVE SARDO: If we have to go into the spreadsheet, fine, I appreciate that but it --

DR. CHRIS ROBINSON: Okay. Well, let me say that there are a mixture of Canadian and US costs. You're quite right; we do not have a -- a set of complete values for every aspect of the cost basis of Manitoba stores specifically. And in any case, it would be difficult to use that since you also then have to make assumptions about whether they are at full volume and whether they are, in fact, reasonably efficient providers.

So, yes, I have made assumptions about where I'm getting it. I'm using the best data that is available, in my opinion.

MR. STEVE SARDO: Okay. Fair enough.

DR. CHRIS ROBINSON: Yeah.

MR. STEVE SARDO: Thank you very much.

Do you have an opinion -- this is my last question, by the way -- do you have an opinion about the number of stores that will close under your proposal?

DR. CHRIS ROBINSON: Okay. It's -- of course there will be stores closing no matter what I do or no matter what the Board does. I'm sorry, I don't get to do anything. But the typical academic doesn't do anything; he just talks.

But, first of all, we have Advance America coming in so that any prediction I make has to be predicated on that. If Advance America comes in and competes heavily, which it is apparently doing, having opened seven (7) stores -- which are not my store counts here because, you know, I mean, they -- they hardly have any volume. They don't affect anything.

If Advance America comes in, unless they magically increase the market to a hundred ten (110) or 115 million, there will be stores closing. So we can't judge that.

Second is a joint cost issue. So do I expect some stores to close? Let me just go down to a different spreadsheet here and -- now, this is not in evidence -- sorry, part of the spreadsheet is in evidence to the Board. This is my copy in which I have added --

MR. STEVE SARDO: Dr. Robinson, no offence, do you have an answer to -- to how many stores you think are going to close?

DR. CHRIS ROBINSON: Well, you have to give me -- you're -- you're asking a question that most economists wouldn't even dare try to answer. So you've got to give me a couple of minutes --

MR. STEVE SARDO: But the answer could be, No, you don't have a -- you don't have --

DR. CHRIS ROBINSON: Well, no, I do have an -- I can make a better estimate than -- than most people.

So here's a guess as to what the market -- okay, see what I'm circling there? Now, this has not been presented formally into evidence to the Board.

MR. BYRON WILLIAMS: Just -- just one (1) second then. I -- because I do have some --

DR. CHRIS ROBINSON: Sure.

MR. BYRON WILLIAMS: -- out of fairness to all parties, some concerns about -- we're -- we're looking at a -- a spreadsheet.

Now if other parties don't have a problem with it, we'll have to find a way to put this into evidence. But I'm just going to slow Dr. Robinson down just for a second to see if other parties do have a -- a problem.

THE CHAIRPERSON: We would like to hear Dr. Robinson answer Mr. Sardo's question.

MR. BYRON WILLIAMS: And I'm fine with that. I just want to make sure that other parties don't feel I'm being unfair to them.

DR. CHRIS ROBINSON: Okay, now --

MR. ALLAN FORAN: See, now he's interested in the answer.

DR. CHRIS ROBINSON: -- this is not -- so this is an attempt to -- to use Mr. Sardo's question to inform the Board, but we are now getting more speculative. This is something which, as I'm sure my economic colleagues here -- well, I'm not really an economist. They wouldn't call me one anyway, but they would say, My God, you must be nuts to try something like this. But this is not unreasonable.

So, what I've got is sixty-seven (67) stores here. Sorry, oh, I forgot I don't know where my laser pointer is. I don't have to worry about that.

Okay, so if you look up to what -- what I've just highlighted; sixty-seven (67) stores, 100 percent of the market. Now suppose what happens is the single stores close, Fast Cash closes. They seem like the most likely ones to close. I think that we would all agree.

Now, you're quite right, Mr. Sardo, that I don't know the volumes. So it could be that some of those single stores, which are -- which are in Winnipeg, in fact, got the best locations and are knocking everybody else silly. But I -- I simply don't know that.

CONTINUED BY MR. STEVE SARDO:

MR. STEVE SARDO: It could also be true

that the large companies have some rotten locations.

DR. CHRIS ROBINSON: Yes, but the large companies, remember, have a -- how do I put it -- it's completing the line, okay? In other words, there's a business issue about how many -- how you spread your stores so that people automatically think Money Mart. It has not escaped my attention, and I put it in evidence, that an inordinate number of Money Mart's competitors use the same colour scheme.

MR. STEVE SARDO: I -- I totally appreciate what you're saying, but in -- in a market of Winnipeg, the size, geographical, and the number of stores that are there, I don't think Money Mart needs to worry about brand name if it has to close five (5) stores. It's not going to lose any brand name.

DR. CHRIS ROBINSON: Oh, no, I'm not saying Money Mart won't. I'm just saying that Money Mart can and will keep a store open and can efficiently and actually make money on a store, but not make as much.

One (1) of the things you must remember -- and it was actually other questioning that made me remember this point -- a zero economic profit for a store, remember, means they're making a fair rate of return.

However, a negative fair rate of -- and I have attempted to do my calculations so as not -- you see, we're in the positions as regulators right. We can cut the legs out from under you, but you're stuck. You can't do anything. So I'm not trying go do that. I'm trying to allow. I've allowed things that nobody else has even thought of.

However, if what you have is several stores which are now not making an economic profit but are providing a positive contribution margin to the corporation as a whole, you don't close them because it costs you money to close a store. In fact Advance America is finding that out -- well, they knew it, but they're finding it out in spades. They've lost a ton of money when they've had to close in Oregon and North Carolina, because they can't collect the bad debts then.

So, consequently, these -- the big guys are not likely to be closing stores. They are likely to keep them open.

And you see what will happen is here -- you see what I've done down here? This is the same volume as I had up above -- well, virtually the same. I dropped 1 million. I said there are going to be some people who just won't now use payday lenders or who will, to Mr. Slee's delight will -- will move to 310-Loan and telephones.

MR. STEVE SARDO: Dr. Robinson, quickly, there -- there seems to be a number there. How many stores did you say are going to close?

DR. CHRIS ROBINSON: So, I'm guess that if twelve (12) that -- that we might lose -- if we lost twelve (12) stores, this is what the market would tend to look like. And, it doesn't really change very much, but this is what I think it might look like. Okay?

But it's really difficult. This bottom part -- part you have to ignore because I'm not presenting it in evidence or commenting on it, because at the moment I don't remember what I was doing. I was trying something.

But, okay, I guess -- but it really is kind of a guess is twelve (12) stores, and that is assuming that it's the small players that tend to exit the market.

MR. STEVE SARDO: Let -- let me ask you one quick question about your spreadsheet. Now we -- we sort of opened up --

DR. CHRIS ROBINSON: Yep.

MR. STEVE SARDO: -- a little bit of a Pandora's box, I think.

DR. CHRIS ROBINSON: Oh, yes.

MR. STEVE SARDO: You've got the Cash

Store there at 1.2 million in revenue, which you indicate is --

DR. CHRIS ROBINSON: No, that's volume.

MR. STEVE SARDO: Sorry, volume. I'm sorry.

DR. CHRIS ROBINSON: That's loan volume.

MR. STEVE SARDO: But that -- that's -- that's, in your opinion, a fairly low volume store, because you have -- it's not a highly profitable store at 1.2 million.

Would -- would that be fair to say?

DR. CHRIS ROBINSON: Well, using the rates that I am proposing, using the rates that --

MR. STEVE SARDO: Yeah, that's correct.

DR. CHRIS ROBINSON: -- using the rates that I'm proposing, an efficient provider -- mono-line provider should be able to make a fair rate of return at 1.2 million.

MR. STEVE SARDO: By your definition. One (1) more question though.

Would it not be fair to say that the Cash Store's cost structure is substantially higher than the Money Mart cost structure?

DR. CHRIS ROBINSON: Cash Store's cash structure, as I have said in evidence to the Board, is very difficult to analyze because of the particular business model that it has. Yes, it -- it does seem -- it's almost certainly much higher. I've tried a number of ways to analyse it but it's really hard to get it --

MR. STEVE SARDO: So -- so therefore it's probably higher than the average cost that you're using in your one point two (1.2) -- in your -- in your model as well then.

Would that not be fair to say?

DR. CHRIS ROBINSON: Yeah, no, that's true. Yeah. Yes, it -- it quite possibly is. There's a difficulty in doing this.

MR. STEVE SARDO: I -- I totally appreciate that. And then would it not be also fair to say that there's a good chance that some of those stores are going to close, too -- especially when you consider that we're looking at an average number, that not all of them do 1.2 million?

Some of them clearly do less. Their cost structure is higher and, therefore, I think it's not prudent to assume that none of those stores will close.

DR. CHRIS ROBINSON: Yes, we don't know. I simply have to take a snapshot, so I chose twelve (12) stores to -- I chose, sorry, twelve (12) stores to close, and I chose all the smallest ones.

MR. STEVE SARDO: Right.

DR. CHRIS ROBINSON: In reality it won't shake out exactly like that.

MR. STEVE SARDO: No.

DR. CHRIS ROBINSON: I would point out that Mr. Reykdal doesn't exactly agree with you though.

MR. STEVE SARDO: If I was CEO of Rentcash, I wouldn't agree with me either. I have to keep my stock price up.

Fair enough. So there is some -- some -- in my opinion, given the information that you've just provided here, there's clearly some that you feel pretty strongly are going to close. And I think we have a very good potential, given a higher cost structure and a variance, given averages in the loan volumes that we could easily see Cash Store locations close.

The way I look at this shaking out, you know, --

MS. ANITA SOUTHALL: Excuse me, Mr. Sardo. If you want him to agree or disagree with that point which, as I think, is a distinct point --

MR. STEVE SARDO: Okay. That's the point. Do you agree or disagree?

MS. ANITA SOUTHALL: -- it's important because he can't possibly answer three (3) or four (4) questions in one (1) go.

MR. STEVE SARDO: Right. I think he did kind of agree with me.

CONTINUED BY MR. STEVE SARDO:

MR. STEVE SARDO: But do you agree with me or not?

DR. CHRIS ROBINSON: Could you rephrase the question that I'm answering? Okay?

MR. STEVE SARDO: Well, how about I rephrase it since I get to ask? The question is: Given that you're using average volumes and the fact that the Rentcash business model has higher cost structure, would it not be true that your analysis here should have some Rentcash stores closing?

DR. CHRIS ROBINSON: I can't make the -- I can't agree with your statement exactly as you've phrased it. But what you really, I think, are asking is, is it entirely possibly Rentcash will have to close some stores and that other small store -- other single-store operators might not close, et cetera?

Yes. Those statements are -- that -- yes, that is true. This is simply --

MR. STEVE SARDO: Okay.

DR. CHRIS ROBINSON: -- a picture.

MR. STEVE SARDO: Okay. I'm going to -- I'm going to let it go at that. I -- I thank you very much, Dr. Robinson. You've been very cooperative and -- and very informative. Thank you.

MR. BYRON WILLIAMS: Mr. Chairman, with the exception of the lines 19 through 23 on that table, which Dr. Robinson has indicated are other experimental efforts, I think that we would -- we will certainly try and provide some form of this to the -- to the Board and other -- other parties, being lines 1 through 17.

But if I could just stand down for a minute and see if Dr. Robinson has any -- but we'll make some -- some document like this available. I just want to talk with him for --

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Mr. Chairman, Antoine Hacault here.

If they're going to be making it available, it would request that they also print it out with a loan loss at 4 percent, which is a number we saw quite often yesterday and when I was asking questions, and this one's only at 3 percent.

THE CHAIRPERSON: I think probably you could make that adjustment yourself. I am kind of hesitant about them playing with the table from the one that they are presenting here. I think I would prefer that they give us what Dr. Robinson was talking about directly.

(BRIEF PAUSE)

THE CHAIRPERSON: Mr. Sardo, do you wish to cross-examine the rest of the panel?

MR. STEVE SARDO: Yeah, I have just a few questions, I think, for Dr. Buckland.

THE CHAIRPERSON: Okay. We will just wait until Mr. Williams is done then.

(BRIEF PAUSE)

THE CHAIRPERSON: Mr. Williams, are you...?

MR. BYRON WILLIAMS: Yes, the discussion, as I understand it, focussed on lines 1 through 17 and columns A through E. So that's what -- that's what we'd be happy to provide to the Board.

THE CHAIRPERSON: Yes, please have it in

a printed form. We will give it an exhibit number. Thank you very much.

MR. BYRON WILLIAMS: Okay.

DR. CHRIS ROBINSON: There was another question from Mr. Hacault?

THE CHAIRPERSON: No, it is fine. I think the Board prefers if we have this printed version. If Mr. Hacault wants to look at it by substituting some other numbers, that is up to him.

But I think we prefer just to have this one, because that is the one you were talking to.

DR. CHRIS ROBINSON: Yes.

THE CHAIRPERSON: Okay, Mr. Sardo, do you want to cross-examine the rest of the panel?

MR. STEVE SARDO: Yes. Thank you. I have some -- just some quick questions I hope.

CONTINUED BY MR. STEVE SARDO:

MR. STEVE SARDO: Dr. Buckland, you refer to the market as an oligopolistic market, and I -- I think you mentioned that there are substitute products.

Is that correct in your opinion?

DR. JERRY BUCKLAND: The market -- because we've identified two (2) of the big firms controlling at least 60, possibly 70 or 80 percent, of the outlets and/or loan volumes, does look like an oligopoly.

The question of substitutes, there are some substitutes. For instance, in mainstream banks we've talked about credit cards is something that is not a close substitute, but is a substitute.

We've also talked about some credit unions and banks in the US, in particular, and VanCity in Vancouver offering something that's probably closer to a payday loan.

MR. STEVE SARDO: Okay. So there are some substitute products that may or may not substitute for the payday loan?

DR. JERRY BUCKLAND: Yeah, I think that not specific identical substitutes, but, yeah, there are quasi --

MR. STEVE SARDO: Okay.

DR. JERRY BUCKLAND: -- substitutes.

MR. STEVE SARDO: Sure, thank you. I think we all are pretty much in agreement that Money Mart has the largest loan volume here.

That would be correct as well, would it not?

DR. JERRY BUCKLAND: I would have to rely on Dr. Robinson, and that's what I understand.

MR. STEVE SARDO: Yeah, that's what he said.

DR. JERRY BUCKLAND: We also, I think, and there's evidence been brought forth numerous times, that Money Mart has the lowest fees in the industry -- or sorry, in the -- in the Manitoba market. That would also be correct, would it not? At least -- maybe I should ask Dr. Robinson that question.

They are the lowest fee provider. Is that not correct?

DR. JERRY ROBINSON: There's one (1) exception to that, but we -- we know it's temporary. Right at the moment -- okay, you know about it.

MR. STEVE SARDO: Advance America blah, blah, blah.

DR. JERRY ROBINSON: Okay, Advance America. But other than that, yes, in my experience, not only in Manitoba, any evidence that I've seen -- it's conceivable you could -- could structure some loan at some company where the odd loan, very small or very large, might turn out cheaper.

I haven't actually seen an example. But in general Money Mart's cost -- Money Mart's price is and has been lower than everything I've seen in the market right across Canada.

MR. STEVE SARDO: Thank you. Does it not make sense -- would it not be true that if a market is functioning well that a low price provider would be the largest?

(BRIEF PAUSE)

DR. JERRY BUCKLAND: Well, it would depend on some other circumstances as well. If they're into the market first, they can grow with the growth in that market.

But I think, certainly, being efficient would -- would lend to their ability to be the biggest.

MR. STEVE SARDO: So it's true then that large size does -- would typically correlate with low prices? In a -- in a -- in a properly functioning market.

DR. JERRY BUCKLAND: Well, again, it's -- it seems like the first in is another factor that would be important to consider. So --

MR. STEVE SARDO: Yeah, okay.

DR. JERRY BUCKLAND: -- the fact that Money Mart was first in --

MR. STEVE SARDO: Yeah, okay. So -- but you would say that it's certainly a contributing factor.

DR. JERRY BUCKLAND: I would -- I would agree.

MR. STEVE SARDO: Okay. So I guess -- you know, the only point I -- I think is some relevance there is that there's been a lot of talk about the fact that there's no price competition.

But we know that Money Mart's price is the lowest and we know they do have the largest volume, and so that could potentially contradict the fact that there's no price contra -- competition.

(BRIEF PAUSE)

DR. JERRY BUCKLAND: The -- Dr. Robinson was just reminding me that there is evidence that Money Mart has been raising its prices in the last few years. And -- and that is in evidence. And that's happened instead of other firms lowering their prices.

MR. STEVE SARDO: That doesn't change the fact that they're still the lowest regardless of the fact that they've raised their prices.

It still would mean that people would have the cheaper option. They'd still go to Money Mart.

DR. JERRY BUCKLAND: Well, I think the premise that there is price competition right now is --

is questionable because one (1) of the biggest firms -- let me back up here a minute.

I -- I can't state to you definitively that there are no big firms that aren't try -- charging high fees.

MR. STEVE SARDO: Nor can you state that the largest firm has the lowest price. So, I don't -- I don't gather the -- the -- they're both equal points. I think your -- your point about being first in is valid.

I also think that if you look at the -- the second largest provider, which I think you're referring to which would be Rentcash; a lot of their volume was acquired. So it doesn't have anything to do with price.

They bought Instaloan -- not -- is that not also correct?

DR. JERRY BUCKLAND: I understand that that was the case.

MR. STEVE SARDO: So, you know, it doesn't matter what the price is if you acquire the company?

DR. JERRY BUCKLAND: I'm sorry, could you repeat the question?

MR. STEVE SARDO: I -- I -- in terms of market share, it doesn't matter what the price offering was if you've just acquired the company. It's not like you -- you built those customers on your own. You acquired that company. So, naturally, you have a large market share. You acquired a company.

It has nothing to do with the price, correct?

DR. JERRY BUCKLAND: I -- I have a -- a slight disadvantage, Mr. Sardo, and that is that because we had this anonymity in our price collection process that we can't identify which firm charges what price. I'm at a bit of a disadvantage to talk about the two (2) large firms.

MR. STEVE SARDO: Well, yes, but I --

DR. CHRIS ROBINSON: I --

MR. STEVE SARDO: -- think we both know what the two (2) -- the two (2) large firms are so...

DR. CHRIS ROBINSON: -- yeah, I'm not at such a disadvantage because --

MR. STEVE SARDO: Okay, great.

DR. CHRIS ROBINSON: -- not because I'm unethical, but because all of my information has been collected with full disclosure because it was done for different reasons. And, in fact, the point -- what Dr. Buckland is being coy about saying is -- is that all -- pretty much the highest price operator is -- is Rentcash, and they're second largest.

They raised -- they raised the fees as far as I can determine and it's in a lot of evidence. I couldn't even figure out what fees anybody was charging because they couldn't tell me.

But Instaloan's prices raised once they bought Instaloans. So what we have is, in fact, the complete opposite of what you are asserting; that is we're seeing all the evidence is they don't compete on price and that lowest price doesn't seem to have any affect.

MR. STEVE SARDO: Well, that's -- that's your example with respect to the player that has -- what market share did you say? 20 percent?

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Money Mart, 53 percent; Cash Store/Instaloans, 30 percent. They would of had, before buying Instaloans across Canada -- Instaloans was less than half (1/2) their size, was -- they did not double their size by buying Instaloans. So consequently they were still the largest before they bought Instaloans. And Instaloans was, in fact, the third largest player.

So that in terms of oligopoly, we're now treating the two (2) of them as -- as the same firm. But what we see is no price competition. They be -- should have gotten more efficient by buying a larger -- by buying a large firm, but, in fact, what they did was raise the prices at the Instaloans and not drop their other prices.

And at the same time, Money Mart, instead of continuing to retain the same prices, was doing what we would expect them to do. They were raising their prices since nobody was competing with them on price. So they're, of course, moving up towards Rentcash.

Furthermore, the evidence in the United States is very clear from Advance America. Okay, Advance America competes at whatever the rate caps are. So, consequently, Advance America, in state with less 15 percent, will charge less than 15 percent. And it -- but it's rates, in fact, go as high as twenty-two (22). It doesn't have a national rate.

So, consequently, if you set rate caps, the evidence seems to be that they'll migrate up. And if you don't have price competition, and all the evidence we've seen says they aren't competing on price, the --

MR. STEVE SARDO: Well, okay, I -- I can appreciate that comment, but if -- if I were -- if you were to make that comment, you -- I -- I think a corollary to that could simply be then that Money Mart should charge the same fee as -- as the much higher priced Instaloan/Rentcash, which you -- we both know is not true, correct?

DR. CHRIS ROBINSON: Now you have an interesting strategic matter, which is that since they're already the market leader, if they wish to retain that and retain the enormous advantage of high volumes, then what they do is continue to undercut the competition. But they will incrementally raise their price by small amounts, and they do it in such a way that it is only evident to somebody like me who goes in very deeply.

MR. STEVE SARDO: So, but -- right, but what you're basically admitting, and based on that comment, is that the free market is working in that regard.

Otherwise they would raise their price to the maximum that they could, given the rate cap situation, no?

DR. CHRIS ROBINSON: No, it's a strategic consideration. What you're doing is you're trading off volume against price in this case.

MR. STEVE SARDO: But -- but that's what the free market does.

DR. CHRIS ROBINSON: Well, none of the others are doing it, though. It's not a free market. This is not a -- a competitive market. It is free. There's no restrictions whatsoever on anybody. And what we see is high fees, which I have demonstrated --

MR. STEVE SARDO: Okay.

DR. CHRIS ROBINSON: -- assuming my assumptions are excessive.

MR. STEVE SARDO: Right. Except for the fact that it still remains true that Money Mart is the largest and they do have the lowest fees, which is undeniable.

DR. CHRIS ROBINSON: Yes. Yes. That's -- that's true.

MR. STEVE SARDO: Okay.

DR. CHRIS ROBINSON: But what's your question?

MR. STEVE SARDO: No, I already asked the question relating to that, which I asked Mr. Buckland. All right, I'll move on.

There -- there's a comment that was made about the homogeneous nature of the product and that, you know, we -- I think we all know that the payday lenders offer a variety of services and that, actually, would you also admit that the payday loan product itself is not identical from provider to provider?

And when I say that, I'll give you an example. Do you -- do you think that all payday loan providers allow for an early repayment at a reduced fee such as Money Mart?

Yes, sure, either one. Well, whoever has the knowledge. I'm not sure who has that knowledge.

DR. CHRIS ROBINSON: We -- our analysis of Money Mart versus everybody else and those fees is -- is couched in different terms. And, again, this is actually in my written evidence to the Board, that in fact -- and this is a feeling that's shared by all members -- what Money Mart has done is set up a structure which may appear to provide that -- provide a -- a phenomenal discount if you pay one (1) day early.

The reality of the people who are borrowing on payday loans is that they can't, so that is not an option at all and they're giving --

MR. STEVE SARDO: Do you --

DR. CHRIS ROBINSON: -- no discount.

MR. STEVE SARDO: Do you know how many of their customers pay early?

DR. CHRIS ROBINSON: You'd have to ask Money Mart, who are not --

MR. STEVE SARDO: Then you can't make --

DR. CHRIS ROBINSON: -- testifying --

MR. STEVE SARDO: You can't make that -- you can't make that statement then if you don't know how many customers of theirs pay early.

DR. CHRIS ROBINSON: Well, first, I -- I am a qualified expert in personal finance and financial planning.

MR. STEVE SARDO: Yes. But we're talking about Money Mart's practices and Money Mart's customers, and you're saying --

DR. CHRIS ROBINSON: I'm talking about Money Mart's customers.

MR. STEVE SARDO: Yes. And you don't know whether they pay early or not, do you?

DR. CHRIS ROBINSON: People who are borrowing money from payday loans --

MR. STEVE SARDO: I'm not asking you about people. I'm asking you about Money Mart customers.

DR. CHRIS ROBINSON: Money Mart customers can't afford to pay back early.

MR. STEVE SARDO: You can't say that with any evidence, can you?

DR. CHRIS ROBINSON: What I'm -- what I'm saying is, first of all, what we see is in fact extensions in general --

MR. STEVE SARDO: But I'm asking you a very simple question. Can you or do you have any evidence that Money Mart customers do not pay their loans early?

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Yes. That's a very clever question. In fact there is -- there is direct evidence on that, although I had not realized it, so I thank you for pointing this out.

The direct evidence is simply in the -- in the loan volumes and the revenues, all the modelling I've done. The revenues that Money Mart is taking in would be, if there were any material number of people paying early, the revenues would be much lower and they're not. The revenues are consistent with people holding the loans for the full time.

MR. STEVE SARDO: I -- I have done some consulting for a number of US firms that are investors in -- in Money Mart, in fact, and --

MR. BYRON WILLIAMS: Mr. Sardo, if you're going to go back under oath, I may want to cross-examine you. So I've been -- I've shown a lot of flexibility but just --

CONTINUED BY MR. STEVE SARDO:

MR. STEVE SARDO: Okay. All right. I -- well, I guess I'll ask this last question with respect to that. And you're making an assumption, based on the revenues of Money Mart, that customers don't pay early. And I don't think -- well, I'd like to see the specific evidence that shows the percentage of customers that -- that do pay early and the percentage that don't pay early, resulting in those revenues.

That would be my undertaking that I would like to see.

MS. ANITA SOUTHALL: Actually, just for the record for everybody's information, when the CPLA Panel was up, we asked for a specific undertaking to inquire of Money Mart as to the percentage that actually pay early. No answer to that has been provided to this date, so...

CONTINUED BY MR. STEVE SARDO:

MR. STEVE SARDO: Okay. And -- and on that basis I still make my -- my point and my comment, which is I don't think we can assess, in -- in any accurate way, how many customers from Money Mart pay early, given the evidence that either Dr. Robinson and/or the CPLA has presented.

Would that not be true?

MR. BYRON WILLIAMS: Just on that, Mr. Sardo, if it would assist you, we'd be happy to -- I'll check with Dr. Robinson, but we may, at the break, we'll -- we may be able to do an --

MR. STEVE SARDO: I think --

MR. BYRON WILLIAMS: -- undertaking to do an estimate.

CONTINUED BY MR. STEVE SARDO:

MR. STEVE SARDO: Okay. Anyway, let's -- let's move on. It's not that critical a point that we need to belabour it. I -- I, you know, I'm happy with the answer that I've got so far.

My next question is, do all payday lenders have the same non-sufficient funds charges?

MR. JOHN OSBORNE: In my fee calling there was a variety of -- of -- there's no one (1) set --

MR. STEVE SARDO: Right.

MR. JOHN OSBORNE: -- NSF charge.

MR. STEVE SARDO: Which -- which would also lead to the point that the homogeny of the product mean -- it may not be as homogeneous as -- as I think we're -- we're alluding to.

If the fees are not the same and some

people have early repayment options and -- my last question is, do all payday lenders offer job loss insurance?

DR. CHRIS ROBINSON: I -- the previous question, were you talking about the pricing or the product?

MR. STEVE SARDO: I'm talking about the product and included in the product, in my mind, is -- is the features of the product, which include what happens if you don't pay on time, what happens if you pay early, do you offer job loss insurance. To me, that's part of the product.

DR. CHRIS ROBINSON: You were referring to the pricing. The previous --

MR. STEVE SARDO: I'm referring to the features of the product that -- very much like a mortgage that has an early repayment option, a penalty if you don't pay on time, certain amounts that you can pay, percentages. I mean all of these things.

In my view -- you can call them pricing if you like, but I -- I consider them to be in the contract that the customer signs which, in my view, is the product.

DR. CHRIS ROBINSON: What do you call different NSF charges? Different price.

MR. STEVE SARDO: One (1) customer might pay fifty dollars ($50) if he bounces a cheque at one (1) entity and thirty-five (35) or twenty (20) or sixty (60) or a hundred (100) at another entity.

DR. CHRIS ROBINSON: I think we'd call that a price.

MR. STEVE SARDO: Okay. So you -- so you're not considering that part of the homogeny -- whether or not the product is homogeneous. To you, that's not part of the product?

DR. CHRIS ROBINSON: Maybe I should answer this partly, too. Okay, no. You -- we are not stating that this is a perfectly homogenous product in the sense that you can get two (2) -- two (2) by four (4) spruce lumber, three (3) sides dressed, and have that graded and so on.

We are, however, stating that these are -- that the payday loans from one (1) firm to another are very substantially close substitutes.

It is money. You pay a bunch of money to -- you get some money, you pay a bunch more at the end, and if you take a look just at my modelling -- look at the fees.

Okay, this is just using mine, but you'll get the same result from anything. Virtually, all of the income is coming from the basic payday loan fee. In other words the differentiation of those other different fees to an individual consumer may matter some. But we're modelling --

MR. STEVE SARDO: Can I -- do you know -- do you know what percentage of any of the providers -- Money Mart or otherwise -- what percentage of their revenue comes from NSF charges?

DR. CHRIS ROBINSON: We can make a reasonable estimate based on the evidence from Ernst & Young of how many loans go into replacement.

MR. STEVE SARDO: Right but -- but you didn't model that. You -- you're virtually saying that the entire revenue is based on the admin fee.

DR. CHRIS ROBINSON: Because that's true.

MR. STEVE SARDO: It's not. You're telling me then there's no fee income for NSF charges?

DR. CHRIS ROBINSON: No, I didn't say that.

MR. STEVE SARDO: Well, you said -- you just said that virtually all of the income comes from the admin fee. And I'm asking you --

DR. CHRIS ROBINSON: That's right.

MR. STEVE SARDO: -- if that's true.

DR. CHRIS ROBINSON: That's right.

Because you have to remember that, of course, your bad debt -- a lot of those default charges have been charged to bad debts and never pay you anything.

So a lot of that just goes -- is never -- never appears on the statement in the first place.

MR. STEVE SARDO: I -- okay, I'll rephrase my question quickly. Do you know what percentage of revenue of the -- of the funds that you've analysed is represented by NSF charges?

DR. CHRIS ROBINSON: No.

MR. STEVE SARDO: Okay, thank you, that's great. You -- I guess -- the -- the evidence also shows that payday lenders do offer a variety of other services which is not the product.

I will admit that, but it is the product offering, correct?

DR. CHRIS ROBINSON: Yes.

MR. STEVE SARDO: Okay. So the product offering itself is not homogeneous?

DR. CHRIS ROBINSON: The product line is different. And we, of course, refer to that in the issue of economies of scope, so that if where you're going with this is, would we expect a lower cost structure for Money Mart than for other firms -- yes.

MR. STEVE SARDO: No, that wasn't where I was going.

DR. CHRIS ROBINSON: Okay. But -- I mean we -- we're just -- we're using different words. What we're saying is economies of scope means they've got more products that they're offering and we have different --

MR. STEVE SARDO: I'm -- I'm on the homogeneous product discussion, which -- which I came into this from the evidence presented to me that it was said that it was a homogeneous product.

I'm trying to point out that there are some differences both in the product, the product offering and, as Dr. Simpson pointed out, in the pricing. So --

DR. CHRIS ROBINSON: Yes, I think -- I think we are essentially in agreement. We just don't view the differences among the different payday loans, for the most part, being all that significant. But, no, they are not identical products.

MR. STEVE SARDO: Would it -- let me give you a simple example in a totally different industry and try to make my point maybe a little -- little clearer for other people that are not industry aficionados.

I might decide to go to buy a sweater at a store that sells pants because I want to buy an outfit. And I might go to another store just to buy that sweater because they have a different selection of sweaters, maybe a higher quality sweater or maybe even the same sweater. And I might even be willing to pay more for the sweater where I can buy a pair of pants, because that completes my outfit, and I -- maybe I like the service better or some other things.

So what I'm trying to get at there is that although you may want to say that the product itself is homogeneous, if the product offering is not homogeneous -- and one (1) store offers cheque cashing and payday loans, and the other one only offers payday loans -- I might quite be willing to go to pay more for the payday loan knowing that I also have to cash my cheque or pay a bill or get a money order or some other thing, because that product offering fits better with my liking.

Is that not possible?

DR. CHRIS ROBINSON: Yeah, yes, we -- we agree with your statement. That's what we said with economies of scope. That was where -- where you were going.

MR. STEVE SARDO: Right, but no I'm not -- my point has nothing to do with economies of scope. I'm not talking about what it costs to operate those locations. What I'm talking about is the consumers choice to try to decide in their mind where they want to go. If it's a --

DR. CHRIS ROBINSON: Oh, sorry.

MR. STEVE SARDO: -- if it's a piece of lumber or gasoline for my vehicle, if it's a commodity, then I could easily say -- you know, it would be very true that it doesn't matter where I go. It's a -- it's exactly the same wherever I go, the price is the same, the features are the same, the ser -- the product offering is the same.

And I think it's clear or important to point out that that's not entirely true.

DR. CHRIS ROBINSON: No, we're -- we're -- I think we're -- I think we're just trying to confuse something that isn't confusing here yet. So I think we're actually all in agreement of that; we're just using different words for it.

MR. STEVE SARDO: Okay, perfect, thank you. There -- there's a statement made in -- in some of the evidence that -- that says that -- that there hasn't been any exit of firms yet. The -- the quote is:

> "Although I don't think there's any clear evidence of price competition, in other words that [quote] "loan rates," the price in this industry is falling or that there has been an exit of

firms."

Do you feel that there has been no exit of firms in Manitoba?

(BRIEF PAUSE)

DR. CHRIS ROBINSON: I guess first we would have to ask for the citation. Like, where do you say that we have said "there has been no exit of firms"?

MR. STEVE SARDO: Well, I have the quote. Unfortunately, I -- I believe it's Dr. Buckland's. The full quote, I just read it. And I'd have to go back and get the actual tab, but that is the quote. I mean, I'll be -- I'll certainly be happy to -- to provide it. I'm pretty sure that it was made.

MR. BYRON WILLIAMS: I believe -- and I don't take issue. I -- I think it's relatively accurate. It might be in the rebuttal evidence. I'll just check that.

MR. STEVE SARDO: Yeah, that's -- that's exactly where I believe it is.

MR. BYRON WILLIAMS: If you --

MR. STEVE SARDO: Sure.

MR. BYRON WILLIAMS: -- I'll just help the witnesses to locate it, Mr. Sardo, if I might.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: We're -- we're not going to pursue what -- I mean, we'll -- we'll now answer the question, or Dr. Buckland will answer the question. We're not going to worry about what was exactly said.

CONTINUED BY MR. STEVE SARDO:

MR. STEVE SARDO: Sure.

DR. CHRIS ROBINSON: It's just, after all what you want to know is what we think about the issue.

MR. STEVE SARDO: Yes, exactly -- well, yes.

DR. JERRY BUCKLAND: Yeah, so, if I said that, I would -- I -- I appreciate your comment and I should correct that, if that's the case.

We don't have data about whether firms have exited. What -- I guess, more importantly, the point is the number of firms have been rising over time in Canada, and we do have data for a couple of periods in Manitoba as well. So, I -- I appreciate your correction there.

MR. STEVE SARDO: Okay, and -- and the -- the last point is -- is it not also very clear that the growth of the payday loan business in Manitoba was predominantly from 2001 to 2004, and has not grown substantially at all from 2004 to 2000 and -- well, we can say 2008 now.

I think there's been evidence presented that -- in fact I -- in my evidence, I presented that the growth was seven (7) fold from that first period and 11 percent in the second period.

MR. BYRON WILLIAMS: Just on that point -- just to make the question more precise, are you excluding the Advance America entry?

MR. STEVE SARDO: Yes, I was excluding that. I'm sorry.

DR. JERRY BUCKLAND: Okay, as far as I know, we don't have a longitudinal data on the -- the volume of payday loans over that time period.

CONTINUED BY MR. STEVE SARDO:

MR. STEVE SARDO: I -- I was talking about store openings, not volume.

DR. JERRY BUCKLAND: Okay, and for two (2) time periods, I believe they've grown. That would be in 2001 and when we did our count in -- in -- just in November. So I've got two (2) numbers, but I -- so I cannot disagree or agree with -- with your statement.

MR. STEVE SARDO: Okay, fair enough. I -

- I think the evidence that was -- that I took from other evidence presented in the -- in the Hearing earlier, basically showed that there was a seven (7) fold increase in the first period and about 11 percent increase over the last three (3) years.

So the growth has clearly slowed, I believe, in terms of number of stores with the exclusion of this Advance America.

Does anybody disagree with that?

DR. CHRIS ROBINSON: No, I -- I think you should just say, Do you agree or don't, disagree. I mean if it has a double negative, we get lost.

We would agree that our impression is that in all the Canadian markets that the growth is slower now than it was. However, you can't just exclude Advance America, but they may, of course, lead to other exits.

But yes, you're right. There was a period. I mean the industry's only existed since about 1995, so clearly the growth in almost any industry is much higher earlier than --

MR. STEVE SARDO: Okay. Perfect. That's all I wanted to ask.

DR. CHRIS ROBINSON: Yeah, on a small base. Yep.

MR. STEVE SARDO: Okay. Yes, thank you.

I think some of your evidence says that we should consider the chartered banks, and I'll read a statement:

> "Substitute products or adaptations offered through nationally chartered banks and provincially regulated credit unions must be factored into the debate."

Do you still hold that opinion?

DR. JERRY BUCKLAND: Yeah, we need to look at all the various products that are available from all the various financial service providers, of course, recognizing that there are limitations in terms of access.

MR. STEVE SARDO: So -- so you still think that there are viable competitors to come into this industry?

DR. JERRY BUCKLAND: Again, it -- right now, the competition from national banks and credit unions on the payday -- specifically payday loan product is limited but potentially could grow. So it's more a -- a further substitute, like the credit card, the credit line.

MR. STEVE SARDO: Okay. Just to further that just a little bit and try to see how viable that might be, do you know of any national banks or credit unions that have bulletproof glass?

DR. JERRY BUCKLAND: I -- I don't know that.

MR. STEVE SARDO: I would suggest to you that that's probably unlikely. Have you been to a bank that had bulletproof glass?

DR. JERRY BUCKLAND: I -- no, I haven't been to a bank with -- but I haven't done a -- a study of banks.

MR. STEVE SARDO: Well, no, I appreciate that.

DR. JERRY BUCKLAND: I've been to some payday lenders without -- without bulletproof glass. Some payday lenders don't have bulletproof glass. In fact, one (1) of the payday lenders in our mystery shopping had the clients sit right in -- at a desk, and our mystery shopper was able to look over at files of other payday loan loan clients.

MR. STEVE SARDO: I totally appreciate your statement. My question was if you'd been to a bank that had bulletproof glass.

My -- the next question is -- okay. I'm just losing my train of thought here for a second.

Given that the Canadian charter banks are multibillion dollar organizations -- in fact, for example, I think Scotia Bank is a $25 billion company.

You know, as a prudent business person, if you are a $25 billion company, would you be interested in entering a market of $15 million worth of revenue?

Does that make logical business sense to you?

DR. CHRIS ROBINSON: Mr. Sardo is bringing up a very interesting point, one I've thought about a great deal. And I am on the record in the ACORN study as saying, in fact, that the banks especially have -- and Dr. Buckland agrees -- have certain moral obligations in their position in Canadian society to in fact serve everyone.

It is my opinion, and I have done a great deal of work in the retail banking side researching and teaching, that the banks could, in fact, easily offer payday loan products that would be better than any of the payday lending now.

MR. STEVE SARDO: That -- that has no relevance to my question.

DR. CHRIS ROBINSON: You have to let me finish -- you have to let me finish the answer.

I think that Mr. Sardo is right in why they're not going in. I'll phrase it a little differently. Basically, you have -- if you're a big organization, you have lots of different things that you could do with your inventive staff time. You have people who just have jobs that they have to do, and then you have some people who go around making up things. Okay? Universities are entirely composed of people who make up things.

Now, the payday lenders -- that's their business, so that's what they compete in. The banks can choose to do all kinds of things and because this is a small market, even though it's in fact easily served, they haven't chosen to turn their attention to that.

The credit unions are paying attention to that, and we expect, but cannot guarantee, that they will come into this market as they are doing in the US.

But you're quite right. The banks aren't going to jump into this unless something or somebody pushes them because it's a tiny thing to them.

MR. STEVE SARDO: I think it's tiny to -- I -- I don't know what size credit unions would be very interested in a total market of 15 million with two (2) competitors that already have, in your estimation, 80 percent of the market share and it's not growing any more.

And I guess what I'm trying to say is the evidence, I think, points to the fact that any of these medium- and large-sized banks/credit unions have little or no opportunity to open payday loan stores.

And I don't see that happening, I -- and I -- do believe that to be right?

MS. ANITA SOUTHALL: Mr. Sardo, is that a question?

MR. STEVE SARDO: Yeah. I, like --

MS. ANITA SOUTHALL: Are you asking someone on the Panel if they agree --

MR. STEVE SARDO: Yeah, I think I'm asking --

MS. ANITA SOUTHALL: -- or disagree?

MR. STEVE SARDO: I asked Dr. Buckland if he agrees or disagrees with my statement.

DR. JERRY BUCKLAND: Yeah, I -- I disagree, because I think banks could see this as the -- the beginning of a deeper relationship with a client. I mean, a banking relationship is -- it's about a relationship between the client and the bank.

And if you start small, yeah, these are not highly profitable loans if they're going to be charging fees that are under the 60 percent APR criminal rate of interest. They're not going to earn the bank or credit union a lot.

But banks do have -- well, hopefully, some of them -- certainly some credit unions have a longer-term view that by bringing people in the door, getting them started, they'll develop bigger accounts, get a mortgage, et cetera.

So there is that kind of longer-term view that at least some credit unions and banks possibly take and -- and I hope that they will invest in this -- this area.

CONTINUED BY MR. STEVE SARDO:

MR. STEVE SARDO: Okay. Thank you.

Dr. Robinson just recently presented a second ago about the -- there -- there seems to be some element of store closure and I -- I shouldn't say carnage, but whatever you want to call it, reduction in -- in store locations.

Would it make business sense to you, you think, if I had a cheque cashing and payday loan business, and, as a result, I had to close down some locations or earn less return as a result of rate caps, that I might consider raising my cheque cashing fee or my bill payment fee or my mailbox rental fee or my money order charging fee?

As a prudent business person, would that not make some sense to you?

DR. CHRIS ROBINSON: Yes, Mr. Sardo. That's a good question as well and, of course, we don't have regulation on those other items.

First, it can only make any difference in any of the stores that I -- any of the firms that I have examined, with respect to cheque cashing. There simply isn't enough revenue and other things.

So I noticed that Rentcash is moving into, oh crickey. I'm trying to remember which things Rentcash is moving into as Money -- as opposed to Money Mart, but they're attempting to offer more products.

MR. STEVE SARDO: Pre-paid MasterCard.

DR. CHRIS ROBINSON: Yes, exactly. The -- so that, yes, I mean it does make sense, and yes, you -- you're making a point that we had not thought of because of the cross-subsidization.

However, at the same time, somebody who's offering -- got a any significant offering of cheque cashing -- now --

MR. STEVE SARDO: It's about cross-subsidization, if I can help you.

DR. CHRIS ROBINSON: Yes. No, you're making -- you're making a perfectly -- yes, I -- I agree with you to -- partially in that, yes, that is something we'd would see.

However, what Rentcash -- which is making the greatest efforts to diversify -- again, in many firms I have specifically investigated, is to be taken as example, the cheque cashing is not an easy business to enter into now because Money Mart -- A) Money Mart has control, and B) Canadians, unlike Americans -- well, Canadians, like all the rest of the world except the US, are leaving the cheque business. And so we're getting fewer and fewer cheques that there are around to cash.

And this shows in the volumes of all of the multi-line providers in that their payday lending business is expanding.

MR. STEVE SARDO: But it would be true that Money Mart, I believe, is close to 50 percent cheque cashing. Is that not true?

DR. CHRIS ROBINSON: Well, but you don't -- you don't need the specifics. Money Mart is now --

MR. STEVE SARDO: Yeah, I just need the general.

DR. CHRIS ROBINSON: Money Mart is now less than 50 percent cheque cashing --

MR. STEVE SARDO: Okay. But --

DR. CHRIS ROBINSON: -- and it is continuing to drop every year --

MR. STEVE SARDO: Okay.

DR. CHRIS ROBINSON: -- relative.

MR. STEVE SARDO: Would -- would it be fair to say that it's possible, through rate regulation, that other products, the same consumer purchases, could increase and effect the -- what you're attempting to do is to save the customer money.

But in fact, it may not save him money if -- if these other products go up or there could be other ramifications that haven't been, you know, fully flushed through?

DR. CHRIS ROBINSON: Now, first of all, government cheques are now reg -- government -- sorry. Fees for cashing government cheques are now regulated.

But what you're really doing is bringing an issue to the Board, which I think the Board will be interested to think about, as to whether, as I was trying in my single-store example, to deal with the issue of doing both at once. That, in other words, you have to because the two (2) of them tend to fly together, that you might have to regulate both at once.

MR. STEVE SARDO: Well, one's already been regulated, has it not?

DR. CHRIS ROBINSON: Well, no, but it's only for government cheques.

MR. STEVE SARDO: Oh, I see.

DR. CHRIS ROBINSON: Okay, so that -- but yes, I mean, I think -- I don't think we need to -- to answer more. I think that --

MR. STEVE SARDO: You're right.

DR. CHRIS ROBINSON: -- Mr. Sardo has a cor -- has -- has a valid point for the Board to consider. It's -- I don't think it would prove to be large, but we'd have to see.

MR. STEVE SARDO: There's a comment made, and Dr. Buckland, you made a comment about capital. And you said that -- that the consequences of a recap in a market that are similarly structured as today, although oligopolistic, will find similar access to capital.

So you think, if I paraphrase, that rate regulation has -- should have no impact on the ability for firms to raise capital in this industry.

Do you believe that?

DR. JERRY BUCKLAND: I think that was -- if I recall correctly, that was a response to a concern that capital -- access to capital would decline. And I was trying to make the point that that's possible. It's also possible that it might not decline if the -- the new post-regulation scenario allows for significant viable firms.

So I'm -- I'm not trying to make a

definitive argument. We don't know.

MR. STEVE SARDO: Okay, fair enough, thanks.

DR. CHRIS ROBINSON: I -- I can answer that further, because I had to deal with that.

First of all the capital requirements of this industry are -- are negligible compared to -- to, you know, almost any kind of business.

Second, the evidence in the US from the most recent Money Mart 10K-s which are filed are, in fact, that Money Mart is refinancing its high-cost debt -- sorry, not Money Mart -- Dollar Financial, the parent company, is refinancing high-cost debt to much lower cost debt, and is not having difficulty doing so.

I mean it's not some dramatically lower -- it's a huge reduction in costs. The debt they're paying is not the cheapest debt, but there's a huge reduction in costs. And they're doing that given that in Canada -- while they were doing this and the lenders are no idiots -- they know that in Canada they were facing all kinds of, you know, the whole industry was facing a number of lawsuits which could have really damaging effects on repayment of bonds.

And in the United States they are, for the most part, regulated to rate caps which are either they're not allowed to operate at all or they're regulated in rate caps are lower than the ones that I'm proposing.

MR. STEVE SARDO: That's US capital, correct?

DR. CHRIS ROBINSON: Yes.

MR. STEVE SARDO: Okay.

DR. CHRIS ROBINSON: But Canadian firms, I would remind you, borrow hundreds of billions of dollars in the United States.

MR. STEVE SARDO: Not so much in this industry.

DR. CHRIS ROBINSON: Yes, but the lenders are -- are operating on both sides of the border.

MR. STEVE SARDO: Not so much in this industry. Okay, I'll move on. I just wanted to -- and I -- I skipped a whole bunch of stuff, I'm going to end this pretty quickly.

I just want to ask a couple of quick questions about the FCAC studies, because -- and you'll have to correct me if I'm wrong about this -- the study examined payday loan users and non-payday loan users firstly.

Is that correct?

DR. WAYNE SIMPSON: Yes.

MR. STEVE SARDO: Okay. Did it account for the demographics of the two (2) different sets? In other words, there's a lot of information about payday loan users and non-payday loan users, but are they same demographic profile that they were comparing, or are they different demographic profiles?

DR. WAYNE SIMPSON: There are some differences on the basis of age, education, family size, so on, yes.

MR. STEVE SARDO: And -- and would it not -- for example, I think Dr. Buckland referred to the economic life cycle yesterday whereby younger aged people have a tendency to have more debt. And we know, demographically, that payday loan customers have a tendency to be younger.

So is it, you know, good sound science to say that payday loan customers are a certain way and non payday loan customers are another way if, for example -- and I'm just giving an example -- the payday loan customers are very young and the non-payday loan customers are not young.

Would that be good science?

DR. WAYNE SIMPSON: If you're making the case that the payday loan company -- customers are not typical Canadians, which was the term that was used several times, I would accept that.

MR. STEVE SARDO: Okay, thank you. And lastly, are anyone on the Coalition board familiar with the Stats Canada payday loan survey?

DR. JERRY BUCKLAND: Are you referring to the survey on financial security that inserted the question about, Have you taken out a payday loan?

MR. STEVE SARDO: I can't be positive. All I know is there was the one (1) study that was -- if you search the page -- the Stats Canada website under "payday loans," it will only come up with one (1) study. I'm not aware of any more than one (1).

MR. BYRON WILLIAMS: Just -- sorry.

MR. STEVE SARDO: Is there more than one (1)?

MR. BYRON WILLIAMS: Just before I'm -- just so I'm clear, there is -- there might be two (2) sources that you might be possibly referring to --

MR. STEVE SARDO: Okay.

MR. BYRON WILLIAMS: -- Mr. Sardo. One is Ms. Pyper's report; the other is the actual SFS study. But I believe the witnesses are able to answer questions --

CONTINUED BY MR. STEVE SARDO:

MR. STEVE SARDO: Okay. I just have -- this is my last question. What I believe that study found is that if you don't take into account the consumer's savings level, that there is no difference that you can determine between a person who takes a payday loan or doesn't take a payday loan. It says:

"After controlling for other family characteristics, those with five hundred (500) or less in their bank account were significantly more likely than those between two thousand (2,000) and eight thousand (8,000) to have used payday loans. This is not surprising, since having funds readily available to pay expenses likely means that the families do not need to look elsewhere."

So, without that variable, they're basically saying that, you know, it's -- that the differences are -- are minimal which -- and the question is, is it -- is it not true that other demographic characteristics, including the savings rate of the individual, have as much an impact as to whether or not they are, for example, low income?

DR. WAYNE SIMPSON: That's -- that's not

what she's saying though.

MR. STEVE SARDO: What is she saying?

DR. WAYNE SIMPSON: She's saying that when you allow for a variety of factors, including demographic factors and the state of their bank balances, that you don't find significant differences in their -- in their behaviour.

It's not what you said. You -- you focussed on the bank balance issue, but there's a whole series of demographic issues.

MR. STEVE SARDO: Okay.

DR. WAYNE SIMPSON: The contribution of each of those to what they do is -- is unclear without further analysis.

MR. STEVE SARDO: So would it be fair to say that the income level, in and of itself, is not the sole determining factor?

DR. WAYNE SIMPSON: Yes.

MR. STEVE SARDO: Okay. That's all. I have no more questions.

MR. BYRON WILLIAMS: And the -- the reference is to the paper by Ms. Pyper, I believe it's P-Y-P-E-R, and that is on the record of this proceeding.

THE CHAIRPERSON: Thank you, Mr. Sardo.

Okay, now we will move on to Mr. Slee.

CROSS-EXAMINATION BY MR. NATHAN SLEE

MR. NATHAN SLEE: Thank you very much. Like Mr. Sardo, this is kind of my first kick at the can at this cross-examination business, so I appreciate everyone sticking with us as we try to put a different hat on, I suppose.

Dr. Buckland, you've put in a lot of mileage on the cross-examination bit so far, so I will actually just have a very short list of -- of questions for you. So it will be pretty quick.

Just before we start though, Mr. Gaudreau, you have some documents you are going to pass around for me? No, just the first batch, the 310-8, I think.

MS. ANITA SOUTHALL: For the record, this first document that Mr. Slee is introducing today is 310-LOAN-8, we're identifying it as "Fee Collection Data from Buckland Team."

--- EXHIBIT NO. 310-LOAN-8:

Document entitled Fee Collection Data from Buckland Team

MR. BYRON WILLIAMS: If I might just have a second.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And I can just indicate that Mr. Slee was kind enough to share this with Dr. Buckland, et al, in advance, so they are prepared to answer questions about it.

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: Dr. Buckland, my -- my questions on this are pretty quick. I just want to go over the document with you. All I've done is I've taken the fee data that you have put on the record and just provided some average numbers so we could try to have a sense of what the market rate is currently in Manitoba.

And I've broken it down into Winnipeg firms, firms outside of Winnipeg, and web firms, in the same breakdown that you gave. And then at the bottom, I've come up with an average percentage of 24.28 percent per -- for -- of the loan amount, sorry. And that's the fee average for all of the loans that had a loan size of two hundred and fifty dollars ($250), because I believe in your analysis you guys just looked at those ones.

And then I also did the number -- doing my own extrapolations of what the percentage was for all of the loans, what different sizes of them, two fifty (250).

And do you -- are you comfortable with the numbers that are at the bottom there; two (2) point -- or sorry, 24.28 percent and 24.3 percent?

Could we say that that's likely the market average in Manitoba today?

DR. JERRY BUCKLAND: The -- the one (1) problem that I see with the way in which you generated the Manitoba average is that you've taken loans of different sizes and then you've averaged the fee per hundred (100). And the problem is that some -- and I'm not -- I can't tell you how many, but some of the firms have formulas that have lump sums, for instance, eight dollar ($8) debit card fee or two dollar forty-nine cent ($2.49) cheque cashing fee.

Now, in a two hundred and fifty dollar ($250) loan, that's going to be a smaller proportion of the total fee. In a one hundred dollar ($100) loan, it's going to be a high -- a higher proportion.

So, your -- your average for Manitoba using that per hundred (100), I think, is going to misrepresent the non-two fifty (250) fees.

MR. NATHAN SLEE: Okay.

DR. JERRY BUCKLAND: Sorry, it's -- it's going to mis -- misrepresent the -- the average because we did most of them at two hundred and fifty dollars

($250).

MR. NATHAN SLEE: Okay. And all -- you can help me here. All I'm trying to get at is, part of 310-Loan's submission is that the Board should consider setting a rate that is above the competitive rate in the industry. And I'm just trying to get a sense what everybody thinks the competitive rate in the industry is.

So, for the Board's purpose, percentage-wise on a percentage of loan amount is 24.28 percent of the loan amount a reasonable number to work with?

DR. JERRY BUCKLAND: Well, the other problem with this average is that you've not weighted it by volume of -- of each store. And so -- and I -- I think I -- I heard you make that point in your presentation that Table 3 didn't weight it, and we -- I hope we're clear that we hadn't weighted it.

And so exactly what we -- we mean by "what is the competitive price," if we mean the price multiplied by the volume and then kind of average that out, then no, this won't reflect that. And we'd know that one (1) of the biggest companies, that is Money Mart, has the lowest fee.

So if we, you know, just off the top, did that calculation, it would drop this quite a bit.

MR. NATHAN SLEE: Okay. Thank you. Dr.

Buckland, on a couple different occasions you've stated that you'd like to see the Board set a rate cap that would result in a viable payday loans industry.

Do you have an idea of how many firms you think it would take to make up a viable payday loans industry in Manitoba?

DR. JERRY BUCKLAND: Well -- well, I guess my thinking was drawing on Dr. Robinson's work, which was suggesting that a post-regulation environment at seventeen dollars ($17) per hundred (100) or that tiered rate would possibly lead to smaller number of outlets, but possibly higher volumes. And, therefore, that -- I guess in terms of what I meant by viability, that seemed to me to -- to be a viable industry.

MR. NATHAN SLEE: And -- and I know Dr. Robinson has some concepts of -- of where the industry will go under his -- his formula. And I'm going to talk to him about that in a little bit. I -- I'd like to just put that aside; we're talking purely hypothetical.

I mean, a number of things could happen under a number of different formulas. So all formulas aside, sort of going back to the question, is -- is one (1) firm enough to be considered a viable industry? Is two (2) firms?

Is -- what -- what's the range you could give me that you would say that seems like a viable industry?

DR. JERRY BUCKLAND: What I'm a little confused on is what you mean by "viable." If you mean by viable that the number of outlets, so --

MR. NATHAN SLEE: I'm using your word "viable," so you can tell me what you mean by "viable." And I'm talking about firms, not outlets.

DR. JERRY BUCKLAND: Ideally, the -- the market would have enough firms so that there is some level of competition, and that the regulation would ensure and would promote price competition. And so what we need is a combination of a minimum sort of number of firms.

And you're -- you're probably going to ask me what I -- I mean by that. Say -- yeah, I -- I can't give you a number there, but a minimum number of firms and a regulated environment that encourages an informed consumer to compete or which forces the firms to compete on price.

MR. NATHAN SLEE: And I -- I don't want to hammer away at this too long, but can -- just to help me understand, I'll give you a couple of numbers.

For example, is two (2) firms enough to achieve this level of competition that would promote --

sorry, further reduction of price, I believe you were saying? Could we -- could we get that? Would you be satisfied with two (2) firms in the market?

DR. JERRY BUCKLAND: It's not likely that there would be two (2) firms in the market. It's likely there -- there would be more, and -- and I think the more likely number of five (5) or ten (10) is a better number. I would prefer that number.

MR. NATHAN SLEE: That's great, thank you.

DR. CHRIS ROBINSON: If I could respond also to your question here -- you don't want me to?

MR. NATHAN SLEE: Well you can. I've got a whole other set of question for you, so I think you'll have a good opportunity --

DR. CHRIS ROBINSON: No, this is just --

MR. NATHAN SLEE: -- to --

DR. CHRIS ROBINSON: -- this is just respect to what the numbers are up there.

MR. NATHAN SLEE: I have --

DR. CHRIS ROBINSON: The weighted average is about 21 percent.

MR. NATHAN SLEE: Sorry, 21 percent?

DR. CHRIS ROBINSON: The weighted average -- the weighted average of the market is about 21 percent.

MR. NATHAN SLEE: Sorry, I thought you were going back to the question of number of firms. Thank you very much.

Dr. Buckland, yesterday you spoke a little bit with Mr. Hacault about an area in the North End, where there's a Money Mart location and a Sorensen's.

Do you remember that discussion?

DR. JERRY BUCKLAND: Yes, I do.

MR. NATHAN SLEE: Okay. And you said that if a rate cap was set at such a level that Sorensen's could no longer remain in the market, that the benefit to the consumer would be that they would enjoy a lower rate. And the cost would be that they would maybe have to walk an extra three (3) blocks.

Is that correct? Am I paraphrasing accurately?

DR. JERRY BUCKLAND: I -- I think that's close. I was trying to again speculate, okay, what if Sorensen's either re-tools and is able to provide the payday loan at the rate cap or, if not, they exit? Then what's left is Money Mart for that immediate location.

So, yeah, I think you've paraphrased it close.

MR. NATHAN SLEE: Okay. I don't want to

get too off track my ques -- from my questioning, but is it your understanding that most businesses are highly motivated to maximize their profit?

DR. JERRY BUCKLAND: It's my assumption that that's a key goal for a business.

MR. NATHAN SLEE: So if Mr. Sorensen has that key goal, do you think he wouldn't already be making every effort to re-tool and to maximize his profit today?

DR. JERRY BUCKLAND: There's different strategies to maximize profit, and the -- the -- if price is not being a factor on which competition is -- is taking place, then -- and -- and I don't -- I'd rather not focus on one (1) particular lender, because that -- that's a bit problematic.

But let's say payday -- Payday Lender X, if Payday Lender X can charge forty dollars ($40) per hundred (100) and -- and do quite well, I think that -- that would be a -- a strategy they -- they might undertake.

MR. NATHAN SLEE: Okay, I appreciate that, thank you. Back to my line of questioning.

So -- so you discussed that the customer -- if -- if in fact Sorensen's or -- or, you know, Location X, can't re-tool and does have to leave the market, the customer in that neighbourhood is going to have a lower price because we've brought in a -- a rate cap that's lower and that's why the store has left.

And -- but they're going to have to walk an extra three (3) blocks, and from your position that -- that's kind of a fair, sort of a reasonable tradeoff from a cost benefit perspective for the customer?

DR. JERRY BUCKLAND: Yeah, from my perspective it's -- it's a plausible outcome that I think is the basis of a good recommendation but, of course, the Board's the ultimate judge whether it's -- it's a good one.

MR. NATHAN SLEE: Okay, thank you. Now, there was some reference yesterday to Mr. Jerry Charlebois, and I'd like to talk about him for a moment if you don't mind. And before we started today I did give you the transcript from -- from Mr. Charlebois.

So, just as by way of background, Mr. Charlebois operates three (3) payday loan stores. He has one (1) in Manitoba, one (1) in Alberta, one (1) in the Northwest Territories.

And he made a presentation on December 11th about his experience as an operator of a small chain of payday loan outlets.

If I understand correctly, you were not here for that presentation?

DR. JERRY BUCKLAND: That's correct.

MR. NATHAN SLEE: And you didn't get a chance to read the transcripts?

DR. JERRY BUCKLAND: I did, because you gave them to me this morning. Thank you very much.

MR. NATHAN SLEE: You're welcome. Okay so, if you don't mind, I'd like to just read for the record a small portion of those transcripts. And this is -- I've -- I've numbered the pages for you, so it's page Number 1 but then after them I realized on the top there is another page number.

So -- it's also page 2198 of the transcripts, line 24. And Mr. Charlebois says:

> "We do have to take high risk, but in doing so we truly believe we are helping our clients when conventional financial institutions refuse to help and when family or friends cannot help."

He goes on to say:

> "I can say with confidence as I we -- I can [excuse me] -- I can say that with confidence as we often receive comments from our clients expressing their gratitude, a thank you and sometimes

even a small gift for our staff members who have done what they could to help them."

A little further down on that same page, this is page 2199, starting at line 17.

"Understanding and compassion goes along with the job and does not stop with the loan approval."

Mr. Charlebois says:

"The same understanding and compassion is there when we have clients who have run into difficulty and cannot repay on time and may require an extended time to repay or make monthly payments. One (1) such situation exists now in our Brooks office, where we have one (1) lady who used our service to attend a family funeral in another country. And when she returned home, she learned that she no longer had a job. Now we have provided her with interest-free monthly payments to repay her loan and get back on her feet."

Mr. -- or excuse me, Dr. Buckland, have you seen any -- any evidence to suggest that Money Mart has offered any of its customers interest-free monthly payments to help them get back on their feet?

DR. JERRY BUCKLAND: I -- I haven't seen that data, no.

MR. NATHAN SLEE: And we don't have a lot of evidence from small payday loan providers, but Mr. Charlebois has provided an example to suggest that at least one (1) small provider in Manitoba, and possibly due to the fact that his operation is so small, is able to offer a more flexible and a more personal service that may be more adaptable to his or her unique situation.

Would you agree with that?

DR. JERRY BUCKLAND: Well, yes and no. Yes, if what he's saying is true. Now, you know, I'm not saying that this is -- this is false. I -- I think that any firm is -- is going to portray themselves in their -- in the best light, and that's -- that's their right. I mean, they should do that. Absolutely.

What I think we need to do here is to, -- as -- as much as we can, look at kind of the facts. And from those facts then make decisions.

Mr. Charlebois, according to his presentation, is a very ethical person and -- and has done a really good job. If there's some way to ensure that everyone does the same thing that -- that would be ideal -- big, small, and medium.

If you're -- I mean, if by what you're saying are -- are -- maybe you're saying something like, you know, is there something intrinsic to a small payday lender that makes them -- that gives them certain advantages. I imagine there is potential it -- that could be the case.

But on the other hand, I think there could be some other small payday lenders who -- who operate in very different kind of ways and -- and may not be as caring about their customers.

MR. NATHAN SLEE: Is it your understanding that it's the mandate of the Province of Manitoba to implement some standards that would afford consumers across the industry which -- with a better degree of consumer protection than what they currently experience today?

DR. JERRY BUCKLAND: I understand that there are regulations. Whether they're sufficient or not, I'm -- I'm not sure. I think last -- yesterday I was saying that, for instance, a poster really isn't enough.

What we need is a culture shift. We need the -- the staff. We need the pamphlets. We need the brochures. We need the upfront information. We -- we need the whole package. Now how can we ensure that? I agree with you though that there could be some small providers who are doing a really good job.

MR. NATHAN SLEE: Thank you. And again going back it's your understanding -- so I've given an example of Mr. Charlebois, who seems to be offering or be capable of offering a more flexible and personal level of service.

And it's also your understanding that that would be quite difficult for Money Mart to deliver personal and flexible service at that level?

DR. JERRY BUCKLAND: Well, I guess we need to be clear on what we mean by "flexibility." Now, what if Mr. Char -- well, again -- again, I don't like to focus on one (1) person. Let say there's, you know, Payday Lender X, very small, very flexible, and for some of her clients, she's very helpful. You know, the clients that she likes or has maybe a family connections or something, she's -- she's real helpful.

But then if there's some other people who maybe she thinks are maybe not the people she wants to work with, maybe they're coming from another part of town, maybe -- maybe her flexibility operates the -- the other way.

So I guess flexibility is good, but then there needs to be certainty that that flexibility is consistent. I think, I mean, one (1) of the things that's important is to be upfront ahead of time, to be transparent. What is the service? What if I can't repay?

Now I -- I would be interested to ask Mr. Charlebois, Okay, did you tell your clients upfront if they can't repay, Then you can go to this installment plan?

Or, you know, is it the case that he sort of picks and chooses who gets this -- this special installment plan? I don't know that.

MR. NATHAN SLEE: Fair enough. And just to follow up, was there any evidence from Mr. Charlebois that the person that he was specifically referring to, that there was some sort of a family connection with that person?

DR. JERRY BUCKLAND: No.

MR. NATHAN SLEE: No. Okay. Thank you.

In the example that I've given where we've got -- and I know you're not wanting to totally refer to Mr. Charlebois over and over again. It's just it's the only real evidence I've got. He's -- he's the person who's spoken on the record about his experience. So that what I'm working from.

Would you consider it if we've got these two (2) different stores -- say they're three (3) blocks apart -- would you consider it irrational for the customer to choose to pay a little bit more to go to Mr. Charlebois' store and get that level of personal and flexible service?

Let's suggest, maybe, he's heard through word of mouth, through some of his friends that have used Mr. Charlebois' store, that there is a level of service there that's a lot different than what he might get at Money Mart?

Is it an irrational decision to pay more for that service?

DR. JERRY BUCKLAND: Yeah, I believe it is rational.

MR. NATHAN SLEE: Sorry, it's "rational"?

DR. JERRY BUCKLAND: Yes. I believe it -- it's rational --

MR. NATHAN SLEE: It's rational.

DR. JERRY BUCKLAND: -- to -- to be willing to pay a little bit more at a store that provides you a little better service.

MR. NATHAN SLEE: Thank you. Going back to yesterday's discussion then about the Money Mart and the Sorensen's location, if this was in fact a Money Mart location and Mr. Charlebois' location, would it still be your position that the only cost to the customer -- if Mr. Charlebois' location could not survive the rate cap -- that the only cost to the customer would be that they have to walk an extra three (3) blocks?

Is that still your position?

DR. JERRY BUCKLAND: I would like more evidence that there are intrinsic characteristics of small payday lenders that are consistent with what -- what Mr. Charlebois is claiming he's doing.

MR. NATHAN SLEE: Okay.

DR. JERRY BUCKLAND: But, yeah, no, my scenario wouldn't play out in the same way because then -- I mean, if -- if there is a Charlebois who's a very caring individual and -- and he's gone from the market, then, yeah, they have to go down a few blocks away and -- and pay the lower fee at Money Mart.

Now I'm not convinced that they're all that much worse off still, because there's -- they're still paying a lower fee at Money Mart and, yeah, they're walking a little bit further and they're not experiencing this caring from Mr. Charlebois.

Although, at the same time I think -- I mean, let's talk about Money Mart. I think that Money Mart's made an effort to -- to train staff to be responsive to area residents. Like, I think that's something that -- that's quite clear.

So, yeah, they don't have the capacity to do this installment plan, but they -- they are, I think, they've got a reputation of being good and -- and reasonable to work with on the part of customers in general.

MR. NATHAN SLEE: Okay. Thanks. That's actually all the questions I've got for you, you will be happy to know.

Now, time-wise, I have a good chunk for Dr. Simpson, recorded at 12:00. I've never done this before, so I'll turn it over to you for timing. I can start if you want, but it's -- the -- the first bit I've got needs a little bit of time to work through; maybe half an hour.

THE CHAIRPERSON: Okay. Well, we will just take the lunch early and come back a bit early. We will come back at 1:00.

MR. NATHAN SLEE: Okay. Thank you then.

THE CHAIRPERSON: Thank you.

--- Upon recessing at 11:45 a.m.

--- Upon resuming at 1:06 p.m.

THE CHAIRPERSON: Okay and away we go. Mr. Slee?

MR. NATHAN SLEE: Thank you very much.

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: I'd like to now move away from Dr. Buckland and speak a little bit with Dr. Simpson if that's okay.

Dr. Simpson, I'd like to start out by getting your help to shed some light on how markets evolve over time. So I'm particularly interested in talking about a market for a new product and getting a bit of a sense of how it may build to an optimal level of competition over time.

So from the testimony that you've given, I got the impression that this is an area that you'd be comfortable talking about?

DR. WAYNE SIMPSON: Ah --

MR. NATHAN SLEE: And if you're not, I've got a lot of papers to toss out here.

DR. WAYNE SIMPSON: Well, we'll start the conversation --

MR. NATHAN SLEE: See where it goes.

DR. WAYNE SIMPSON: -- I'm not going to overstate my qualifications.

MR. NATHAN SLEE: Okay.

DR. WAYNE SIMPSON: So what I'd like to do is I'd like to start with talking about what we might expect to see when a brand new product is introduced into the marketplace.

So for the purpose of -- of today's exercise, I'll use the product that was brand new to Canada not too long ago. It just happens to be a payday loan.

So I'd like to assume -- I'm -- I'm going to take you through a bit of a narrative, and we'll see where it goes. I'd like to assume that we're somewhere in the mid '90s, and the people of Winnipeg have never heard of a product called a "payday loan". You comfortable with that as a starting point?

DR. WAYNE SIMPSON: Comfortable and I'm taking your word for that, yes.

MR. NATHAN SLEE: Okay. I'll try to keep it simple. So nobody -- so we're at the point nobody in Winnipeg has ever heard of this product called a "payday loan" but one (1) company and we'll call it "Money Mart" thinks it's something that enough people might be interested in.

So they decide that they're going to open a store and see -- see how it goes. So they open up one

(1) location, and they know no one's heard about this product before so they put a sign in their window to describe what they're offering.

The sign says something to the effect of "Borrow up to five hundred dollars ($500) until payday and no credit check required."

So in this scenario that I've described, we've got a product that has never been available before, and we have one (1) store open in Winnipeg.

So on the first day that this store is open, how many people in Winnipeg do you think will be aware that this product exists?

DR. WAYNE SIMPSON: I think you're -- you said none.

MR. NATHAN SLEE: Okay, so fair enough. None to very few. I -- I'm assuming, I guess, on the first day that a few people may have walked by the store and seen the sign. So I'm thinking there might be a small handful that have seen it who might know about it.

So that's kind of my premise. So of those small group of people who walked by, see the sign, is it possible that some of them might be interested or, at least, intrigued by -- by the concept that they see this store offering?

DR. WAYNE SIMPSON: In this narrative

Money Mart stays in business? So, yes.

MR. NATHAN SLEE: Okay. Thank you. And we're also -- it's fair to say that the demand for the product on day 1 is quite low because not very many people even know it exists.

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: Great. And of those people who know -- and I apologize, I -- I will get somewhere with this. It just helps me to try to put it together in little pieces. Of those people who know it exists, the product may appeal to some people and not necessarily appeal to others?

DR. WAYNE SIMPSON: Yes, like all products.

MR. NATHAN SLEE: And of those who it appeals to, some people may not be willing to try it 'cause they don't know much about it, but others are a little more adventurous, and they may be willing to give it a try, is that reasonable?

DR. WAYNE SIMPSON: Adventurous, broadly defined. In other words, you're interested, perhaps, for a variety of reasons.

MR. NATHAN SLEE: Okay. But early in a product's life-cycle, we have people who I -- I'm terming more adventurous who are willing to try something they don't know quite as much about -- and this isn't a very important point. I'm just trying to get something out there.

I'm just saying these people are normally called "early adopters", is that your understanding?

DR. WAYNE SIMPSON: I'm not familiar with that particular use in industrial organization, but sure, it's works -- works.

MR. NATHAN SLEE: Okay. Dr. Robinson's nodding that he's comfortable with the term? Thank you. So let's now assume that the store's been open for a month, and a whole bunch more people have walked by the store and seen the sign, so they're aware that Money Mart's offering to lend them five hundred dollars ($500) until payday and that no credit is required.

A few people have tried the product, and those who have tried it are satisfied with it or the majority are satisfied with it. And of those who are aware of it, it would be reasonable to assume, then compared to day one (1) -- and let's say we're at -- let's say we're at day thirty (30).

So day thirty (30) compared to day one (1), would there be more people now who are interested in trying the product?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: Excellent. So we could say the demand for the product has increased from day one (1) to day thirty (30)?

DR. WAYNE SIMPSON: Yes. You're talking about the volume of business, yeah.

MR. NATHAN SLEE: And would it be reasonable to expect that this trend in growing demand would continue to month two (2) as more people walk by the store and more people tried the product again with satisfactory results?

DR. WAYNE SIMPSON: And you're -- you're assuming no one else enters the market?

MR. NATHAN SLEE: Yeah, I'm just -- I'm -- you know, very, very simple --

DR. WAYNE SIMPSON: Just this one (1) store?

MR. NATHAN SLEE: -- one (1) store example right now.

DR. WAYNE SIMPSON: So -- okay. I -- I could take that as a plausible scenario, yes.

MR. NATHAN SLEE: Okay. So on day sixty (60) demand is grown even more from day thirty (30)?

DR. WAYNE SIMPSON: Correct.

MR. NATHAN SLEE: Great, thank you. So when a new product is introduced into the marketplace, demand is low at first because few customers even know that the product exists or even understand it, but as awareness of the product grows, and as more people use the product with satisfactory results, demand for the product will grow.

DR. WAYNE SIMPSON: Yeah, okay.

MR. NATHAN SLEE: Thank you. Now, even after the product's been around for a long time and many people are aware of the product, there could be some structural and institutional conditions that could cause demand for the product to continue to increase?

DR. WAYNE SIMPSON: Structural in what sense?

MR. NATHAN SLEE: I'm actually referring to some of the concepts that Dr. Buckland has introduced about stagnating income, high levels of debt. I think he -- he used the terms structural, and that's where I was getting that from.

DR. WAYNE SIMPSON: So you're talking about the fact that the -- the consumers are -- what you had charc -- characterized as adventurous that is really their conditions that cause them to seek this product, and that is -- there's more of them because of outside economic factors, is that what you're saying?

MR. NATHAN SLEE: There's two (2) pieces

to it. What I was saying, at first, was in the beginning there's some curious, adventurous people, kind of normally termed "early adopters", who will try something. Over time the demand will grow as more people begin to understand the product.

And even further along, even when all of us understand the product, demand could still continue to grow if there was some structural conditions, such as stagnating levels of income and high debts that could cause demand to continue to grow?

DR. WAYNE SIMPSON: Okay.

MR. NATHAN SLEE: Thank you. Now, going back to this discussion about the new product introduced in Winnipeg by Money Mart, let's assume that Money Mart store is fairly easy to replicate, so there's not an overwhelmingly large amount of capital required to open this kind of a store.

They don't appear to have any sophisticated intellectual property. Their store seems pretty straightforward -- just some yellow signs, a few chairs, one (1) or two (2) clerks to give out the loans. So assuming that their store is fairly straightforward and easy to replicate, let's also assume that my good friend, Mr. Williams, has walked by the Money Mart location on several occasions, and he's noticed that there's a lot of people who seem to be going into this store.

Now, Mr. Williams is a little tired of the work that he's been doing, the hours are -- are kind of bad, and the pay is not really the greatest, so -- so he's...

(BRIEF PAUSE)

MR. NATHAN SLEE: And you can see I'm adopting Mr. Williams' style here a little bit 'cause I like him so much.

So -- so this is the situation, he's walked by and, you know, he's -- he's thinking of a change of scenery and he'd like a, you know, a little higher ceiling in -- in terms of income, so he's thinking he's going to try his hand at running a business.

So he spends some time studying what Money Mart's doing. He raises a little bit of money from friends and family. And on day ninety (90) of our narratives -- we've gone from day one (1), thirty (30), sixty (60), we're on day ninety (90) now -- he opens his own payday loan store.

Now, he was originally thinking he was going to call this store ChaChi's, but -- but after getting some advice from his -- his business school buddies, he realizes that, because Winnipeg folks don't know much about this product, he thinks he should come up with a name that maybe is more descriptive. So he calls his store "Instaloans," because it kind of tells people what -- a little more about what -- what the store is about.

So, now, on day ninety (90) with the entrance of Mr. Williams' Instaloan store, does this necessarily mean that the Money Mart store will have to exit the industry?

DR. WAYNE SIMPSON: No. And I wasn't aware that Mr. Williams had any business school buddies either.

MR. NATHAN SLEE: He must have found some somewhere. So, as the market for a new product evolves, there will be some stages where, based on the amount of demand for the product, we will not necessarily see a significant exit of firms?

DR. WAYNE SIMPSON: That's correct. And you'd expect that early in the product cycle, yes.

MR. NATHAN SLEE: Great. Thank you.

So going back to the discussion of demand now, I'd like to talk a little bit about product differentiation, and if I remember correctly from your testimony on December 12th:

"In economic theory, on the topic of differentiation, economists are really only concerned about price."

Is that correct?

DR. WAYNE SIMPSON: I think what I said in terms of competition there were both price and non-price elements and often when people talk about firms or individuals being competitive, they're -- they're either mixing the two or they're referring to non-price elements, and the primary focus of economic theory is typically price competition, yeah.

MR. NATHAN SLEE: Okay. Great. Thank you. So, for the purpose of this discussion, I'd like to assume that both Money Mart and Instaloans have decided to clearly display their fees in a similar manner that consumers find it easy to understand and easy to compare between the two (2) stores.

And I know this is not the case in the market today and we'll talk about that shortly, but for the purpose of this discussion, let's assume that prices are easy to compare and consumers understand them well.

So from our discussions so far we know that while demand for the two (2) stores did not exist on day one (1), on day ninety (90) it may exist because more

people are aware of the product. Are you comfortable
with that?

DR. WAYNE SIMPSON: Okay.

MR. NATHAN SLEE: And if demand has grown enough and there are enough people in Winnipeg who would like a payday loan, does Mr. Williams necessarily have to offer a lower price than Money Mart in order to earn a reasonable return? Assuming customers can compare price easily?

DR. WAYNE SIMPSON: What are -- what is the other basis for choosing his store over Money Mart?

MR. NATHAN SLEE: Absolutely no basis, we -- we'll say. What I'm -- I'm asking is: If there is enough demand, if there is enough people who want the product and there are relatively -- and there's only two (2) stores in -- in Winnipeg, in order to gain enough market share to earn a reasonable return, does Mr. Williams have to charge a lower rate, all other levels of service being equal?

DR. WAYNE SIMPSON: Well, let's suppose they're across the street from each other to get away from issues like location.

MR. NATHAN SLEE: Sure.

DR. WAYNE SIMPSON: What -- if what you're getting at is that the Money Mart store becomes crowded and therefore the service is not the same, that is to say someone can get a loan faster from Mr. Williams, then that might allow him to operate even if he had higher prices, and they were clearly posted.

MR. NATHAN SLEE: Okay. So there could be some conditions in the market where there's -- if -- with enough demand you wouldn't have to lower your prices in order to gain market share?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: Thank you. And we could also say then if there were enough firms in the market to meet all of the demand then you would expect firms to be highly motivated to differentiate their product, and this is the situation where we'd see consumer welfare being enhanced?

And by differentiate, I mean, I'm mostly talking about price in your economic theory.

DR. WAYNE SIMPSON: I think when you say "consumer welfare is enhanced," you're focussing on the question of having a choice of a variety of products but if products are differentiated as a way to essentially confuse the consumer, then that's not necessarily the case.

MR. NATHAN SLEE: Okay. So let me back--

DR. WAYNE SIMPSON: Or -- or perhaps

confuse is a strong term, but I'll leave it at that.

MR. NATHAN SLEE: Fair enough. Let me -- let me take a step back then. If there was enough firms in the market to meet all of the demands, would we expect that the firms would be highly motivated to compete on price if customers could fully understand the price and compare prices between firms?

DR. WAYNE SIMPSON: The market you're describing sounds like a competitive market and that would be the case, yes.

MR. NATHAN SLEE: Thank you. Are you familiar with the term "first mover advantage"?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: Do you mind explaining it to us a little bit in brief?

DR. WAYNE SIMPSON: It's the basic idea that -- well, a simple example is chess. Whoever gets to move first and -- and if you analyze players of equal quality play each other -- the person who gets to move first has a small advantage over the person who moves second.

So it's the same in -- in say a duopoly with two (2) firms, the one (1) firm would have some advantage in moving first over the other firm. The other firm would either have to respond or -- or suffer the consequence of not responding.

MR. NATHAN SLEE: Thank you. In your oral testimony, you spoke about what you termed "barriers to entry". Now if I were to describe a "barrier to entry" as a characteristic in the market or a structural phenomenon that limits the number of firms that would otherwise enter the market, would that be an appropriate definition?

DR. WAYNE SIMPSON: It sounds pretty decent, yeah.

MR. NATHAN SLEE: Or close, okay.

DR. WAYNE SIMPSON: B -- B-plus maybe.

MR. NATHAN SLEE: I stole it from Wikipedia so I don't -- I don't know how reliable it is.

DR. WAYNE SIMPSON: C-minus, C-minus. C-plus, sorry.

MR. NATHAN SLEE: Thank you. Sorry. A "barrier to entry" that limits the number of firms enter the market is undesirable because it will prevent -- or it can prevent adequate competition, is that correct?

DR. WAYNE SIMPSON: Undesirable, not for the -- necessarily for the agents that market the firms but undesirable from a social standpoint, yes.

MR. NATHAN SLEE: And undesirable for the consumer.

DR. WAYNE SIMPSON: If the focus is on price competition leading to efficiency, yes.

MR. NATHAN SLEE: Thank you. And I guess -- sorry, that leads into my next question without adequate competition the consumer will not enjoy the best possible prices?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: In your testimony you indicated that one (1) of the characteristics of a healthy competitive market is that there are many buyers and sellers and that one (1) of the issues with the payday loan market today in your view is that there are not enough sellers?

DR. WAYNE SIMPSON: There are a number of sellers in the sense the number of firms as well as multiple outlets within certain firms. But there are a couple of firms that dominate the market.

MR. NATHAN SLEE: And the main reason why there are not enough large firms that would bring down the level of concentration because if I understand correctly, the level of concentration is too high because it's mostly two (2) firms that dominate a good chunk of the market.

First of all, is that correct?

DR. WAYNE SIMPSON: Yeah. Concentration

measures and industrial organization focus usually on -- on the share of a certain largest -- the largest firms. Yeah.

MR. NATHAN SLEE: So what you're arguing is the major reason why there are not enough large sellers in order to bring the level of concentration down is because there are barriers to entry?

DR. WAYNE SIMPSON: There are certainly are some barriers to entry. They would be more significant in keeping smaller firms out than larger firms because larger firms have resources to overcome those barriers.

MR. NATHAN SLEE: Okay. I'd like to move on a little bit to your barriers to entry just so we can discuss them a bit.

You presented three (3) of them if I understand correctly; economies of scale, economies in scope and advertising?

DR. WAYNE SIMPSON: Yes, that's right.

MR. NATHAN SLEE: Great. In the evidence that you presented to illustrate the presence of economies of scale that allow large firms to offer loans at a lower cost than their smaller competitors is based on the Ernst & Young report?

DR. WAYNE SIMPSON: Primarily, yes.

MR. NATHAN SLEE: It is your -- is it your understanding that the data contained in the Ernst & Young report is primarily from 2003?

DR. WAYNE SIMPSON: Yes. And the Deloitte & Touche was an update of that but for reasons we've had -- we have in our submission, it's far less comprehensive and therefore, far less reliable.

MR. NATHAN SLEE: And I wasn't going to pick on you about the -- the age of the study. I was just leading to another point.

The results that you referred to show that larger firms have lower costs than smaller firms based on the Ernst & Young data, is that correct?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: And do you recall that in the Ernst & Young report they define large firms as those with over $20 million in payday loan transactions in a year and that there were five (5) firms included in this group of large firms? It's -- it's on page 23 of the report if you want to take a look.

DR. WAYNE SIMPSON: That's correct.

MR. NATHAN SLEE: Okay. Great, thank you. Are you comfortable assuming that Money Mart was one (1) of the five (5) large firms in the Ernst and Young survey?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: And do you recall that a -- oh...

(BRIEF PAUSE)

THE CHAIRPERSON: Okay. Go ahead.

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: Thank you. So getting back into the Ernst and Young report, do you recall that Ernst and Young's results showed that operating costs for a one hundred dollar ($100) loan for the five (5) large companies that they looked at averaged twelve dollars and twenty-one cents ($12.21), subject to check?

DR. WAYNE SIMPSON: You're -- you're reading from their report?

MR. NATHAN SLEE: Yeah. Do you want the page reference? Do you trust me?

DR. WAYNE SIMPSON: I trust you so far, okay. Do you want to enter the page reference into the record?

MR. BYRON WILLIAMS: I think you can accept that subject to -- to check.

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: For the record, it's on page 29 of Ernst and Young.

DR. WAYNE SIMPSON: Okay, good.

MR. NATHAN SLEE: Now, I'm -- I'm not sure -- there's another document I'd like to -- to talk to you about. I'm not sure if you had a chance to review it, but Dr. Robinson submitted as evidence a table that details Money Mart's costs broken down from 2003 to 2007, and it's been marked at Coalition Exhibit 21. It's Money Mart from 10k's?

MR. BYRON WILLIAMS: If you'll give us that -- I think it's also -- we'll get it for you in just -- for Dr. Simpson in one (1) second.

MR. NATHAN SLEE: Okay. Thank you.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Mr. Slee, it's also on the record as PUB/FIRST REALM/B-13 Revised, if memory serves me right.

MR. NATHAN SLEE: Thank you. Is it okay as I refer to it as Coalition 21? Okay. Thanks.

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: Okay. So looking at -- at this document, Dr. Robinson has provided a -- an operating cost per hundred dollar ($100) loan value for the years 2003 through to 2007, do you see that line?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: And do you see that for 2003, Dr. Robinson's data shows that Money Mart's operating cost for one hundred dollar ($100) loan is six dollars and twelve cents ($6.12)?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: So if -- if Money Mart's operating costs were six dollars and twelve cents ($6.12) and the average of the five (5) large firms surveyed, which included Money Mart, was twelve dollars and twenty-one cents ($12.21), we can then assume the costs of, at least, some of the other four (4) large firms were significantly higher than twelve dollars and twenty-one cents ($12.21)?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: And -- and for these firms, therefore, there would be less evidence of economies of scale because their operating costs are a lot higher than the average operating costs for large firms as was reported by Ernst and Young?

DR. WAYNE SIMPSON: I think you'd need

more detailed evidence firm by firm.

MR. NATHAN SLEE: Fair enough, but with the numbers we've got, it's certainly plausible? I'm -- I'm just --

DR. WAYNE SIMPSON: You'd have to repeat the -- the statement you --

MR. NATHAN SLEE: Okay, I can do that. I guess what I'm working from is, I've got five (5) firms with an average of twelve dollars and twenty-one cents ($12.21) as their operating costs.

Now, I know one (1) of them has an operating cost of six dollars and twelve cents ($6.12), so that must mean, to me, that those four (4) other firms' operating costs are significantly higher than twelve dollars and twenty-one cents ($12.21)?

DR. WAYNE SIMPSON: Yeah, I've agreed to that.

MR. NATHAN SLEE: Okay. And so what I'm suggesting -- you've used that -- that number -- or at least that number is contained in your -- in the Ernst and Young study. And you've used that to show that large firms have economies of scale over small firms because their costs are a lot lower.

And what I'm suggesting is that, at least, some of those four (4) firms could have significantly higher costs than what's reported in Ernst and Young's average number of twelve dollars and twenty-one ($12.21) cents?

DR. WAYNE SIMPSON: Well, without getting details about which of these -- who are these five (5) firms. We know that there are two (2) very large players in the Manitoba market in 2003. I don't think that it changed too much. And the other three (3) firms, I'm not sure who they are and who -- why they're characterized as large.

So the five (5) largest is somewhat arbitrary, but I -- I would think it would be more meaningful to -- to break it up into the two (2) largest and then subsequently further down and, of course, if you had firm -- firm specific information you could do a more elaborate analysis of exactly how costs change with loan volume.

MR. NATHAN SLEE: Fair enough, but you -- you were relying on Ernst and Young's cost numbers to come up with your conclusion about economies of scale --

DR. WAYNE SIMPSON: That --

MR. NATHAN SLEE: Is that correct?

DR. WAYNE SIMPSON: -- that was the information we had, yes.

MR. NATHAN SLEE: Thank you. Now, I -- I

think from these numbers, it's pretty clear that Money Mart has a significant cost advantage over -- I've -- I've heard you debate, you know, who those other four (4) firms are and maybe, you know, one (1) of them is really large and the other three (3) are -- are smaller. We don't know, but let's work with the information we've got.

Is it fair to say then that Money Mart has a significant cost advantage over the other large competitors in the market, at least, based on the 2003 data from Ernst and Young?

(BRIEF PAUSE)

MR. NATHAN SLEE: If -- if I could maybe interject, but Dr. Robinson, I will be asking you questions about these numbers as well so you might get a chance to put your two (2) cents in at that point.

DR. CHRIS ROBINSON: But you're asking him questions about a table that I prepared -- that's all.

MR. NATHAN SLEE: Fair enough.

DR. WAYNE SIMPSON: I -- I think what I'm -- I'm understanding from this side conversation is that it may not be reliable to directly compare the Ernst and

Young numbers and Dr. Robinson's numbers because we don't know the methodology followed by Ernst and Young, and we don't know how comparable it is to what Dr. Robinson did.

MR. NATHAN SLEE: This morning when -- when we were -- when Mr. Sardo was just speaking with Dr. Robinson and I think this conversation has also come up a number of different times, are we all on the same page that the data we're working with here is from all over the place.

We've got American data in some of the -- the proposals we've seen. We've got Canadian National data. We have very little Manitoba specific data. I -- I think Dr. Clinton just had some -- some choice words for the quality of the data that we have, and I don't think anybody's arguing that it's sort of the best of a bad bunch that we're dealing with in terms of the data. Are you comfortable with that?

DR. WAYNE SIMPSON: There are always limitations to data. And this may have more limitations than -- than other data and probably a lot more than we'd like. That's typically true of all data.

MR. NATHAN SLEE: Is Ernst and Young the best national data that we have for this industry as a whole?

DR. WAYNE SIMPSON: I'm -- I'm looking at

Dr. Robinson because he knows more about this than I do. I don't know if you want to defer these questions to him. It's the information we had so I guess -- I guess my answer to that as far as I know would be yes.

MR. NATHAN SLEE: Okay, and you were comfortable enough using the Ernst and Young data to draw some of your conclusions about the state of the industry.

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: Thank you. Moving on to the -- the next barrier if I can just find my spot here -- the next barrier to entry that you talked about was, excuse me, was Economies of Scope. And you were saying that some firms enjoy economies of scope because they can offer additional services such as check cashing, money transfers, etcetera, and that these additional services allow them to spread their operating costs among several products instead of just one.

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: And in order for this to be a barrier that would prevent firms from entering the market it would have to be something that only some firms were capable of offering.

Do I understand that correctly?

DR. WAYNE SIMPSON: Any firm that was entering the market and encountering -- well, making an investment would have to consider the fact that they might have to offer a variety of products in order to compete --if -- if other firms that they were competing with were already doing that and there was some indication that that was beneficial.

MR. NATHAN SLEE: Okay, I'm just trying to follow the argument so -- so, thanks.

I guess where I'm going with this question is --

DR. WAYNE SIMPSON: Don't ask me to repeat that, please.

MR. NATHAN SLEE: I kind of understood barriers to be something that -- that some firms do and by the fact that those firms do it, it makes it harder for other firms to, sort of, do the same thing. Maybe I'm mixing it up.

DR. WAYNE SIMPSON: Firms evolve and some firms evolve in ways that make them very successful and it makes for other firms -- it makes it harder for other firms to enter and copy that and take away their business.

And I think you've referred to Money Mart, they've been very successful in the cheque cashing business and then, obviously, a spillover is to the payday loan business, and in that sense the economies of scope that they exhibit make it harder for other firms to enter and compete.

MR. NATHAN SLEE: Okay. I'm still not sure if this fits with where my line of questioning goes but I'll try it anyway. So in order for this -- or let me put it a different way:

If most of the firms in the market were offering payday loans and cheque cashing and money transfer, would it still be considered a barrier to entry in your analysis?

DR. WAYNE SIMPSON: Yes, because it is more expensive to offer a wider -- well, it requires a greater capital outlay to develop a -- a store that can offer a variety of products. So in that sense, there is a barrier to entry in -- in the size of the operation that has to be mounted.

MR. NATHAN SLEE: So the size of the operation that has to be...?

DR. WAYNE SIMPSON: Mounted. Put...

MR. NATHAN SLEE: Thanks. Sorry. So I'll talk a little bit about the Deloitte survey and I'm not -- again, I'm not sure if this all fits because I'm -- maybe I'm getting lost in my understanding of economies of scope, but we'll try it anyway.

Are you willing to accept that most, if

not all, of the firms included in the Deloitte study presented by CPLA were small to medium size firms?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: And are you aware that one of the firms has an annual loan volume of less than four hundred thousand (400,000)?

DR. WAYNE SIMPSON: I don't specifically remember that but I'll take that, yeah.

MR. NATHAN SLEE: Thank you. So in this survey Deloitte used the term "multi-line provider" to describe a firm that offered services in addition to payday loans such as quote "cheque cashing, money transfers, money orders, tax preparation, et cetera" end quote.

Are -- sorry, are you aware, well, first of all, are you comfortable with that?

DR. WAYNE SIMPSON: Yeah.

MR. NATHAN SLEE: Great. Are you aware that all of the firms included in the Deloitte study identified themselves as multi-line providers?

DR. WAYNE SIMPSON: I take that as information, I -- that -- yes.

MR. BYRON WILLIAMS: And just out of fairness to the witness and I don't have any problem to date, but just out of fairness to the witness, I don't think all of them would have met the definition of multi-line providers from Ernst & Young, based upon percentage -- the -- the revenues that came from other -- other lines, just -- but some certainly do.

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: Fair enough. The third and final barrier to entry that you identified was advertising, is that correct?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: Can you identify any financial services companies operating in Manitoba that do not spend money on advertising?

DR. WAYNE SIMPSON: Not personally, no.

MR. NATHAN SLEE: There were also two (2) barriers to entry that have been discussed in these hearings that you did not mention in your testimony. I'd like to touch on them briefly if that's okay.

First of all, in a particular market, let's call it this one, if the three (3) largest firms in the market were facing multiple class action lawsuits with claims totalling hundreds of millions of dollars, would that be considered a barrier to entry that would discourage some firms from entering the market?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: Secondly, if governments have publicly indicated their intention to stipulate the conditions under which firms can operate and the rates that they could charge, would it be plausible that some firms would wait to see what these conditions and rates would be before entering the market?

DR. WAYNE SIMPSON: That seems reasonable, yes.

MR. NATHAN SLEE: So this could also be considered a barrier to entry?

DR. WAYNE SIMPSON: Well, the reasons why firms might be waiting is because they want to avoid the lawsuits which are themselves a barrier, so I think that's simply what we would call "strategic delay".

MR. NATHAN SLEE: If you were considering offering, hypothetically, Dr. Simpson, if you were considering offering a product, let's call it styrofoam cups, and you were not sure or you knew that -- that a government body was about to dictate the maximum amount you would be able to charge for those Styrofoam cups, would it make sense for you to enter the market without knowing what the maximum amount you could charge for those Styrofoam cups was?

(BRIEF PAUSE)

DR. WAYNE SIMPSON: Well, you've mentioned first mover advantages. I mean if there are say more than one (1) firm trying to make this decision, a firm might decide that the risks of moving in are preferable to the risk of staying out and not being able to get in later.

So I'm not sure I would take that point, no.

MR. NATHAN SLEE: And we've seen that with Advance America, is that correct?

DR. WAYNE SIMPSON: They've -- they've moved before they really know what's going on, yes.

MR. NATHAN SLEE: Certainly. Have we seen that with any other firms?

DR. WAYNE SIMPSON: I -- I don't know.

(BRIEF PAUSE)

DR. WAYNE SIMPSON: I -- I'm not sure what that question is asking. There was a discussion this morning about the fact that the growth in the industry has slowed in recent years which struck me as -- you know, that's -- that's the pattern of -- of growth of industries because you start off with a small number of firms, and -- and on a small base as firms enter you get a -- large rates of growth. And then of course as the industry matures and there's a large number of firms, there may be an equal number of entrants but on that bigger base you've got a much smaller rate of growth.

So I don't know whether there really has been a slowdown in the absolute number of entrants into the industry. But in the sense all of these firms have -- have gambled on -- on the legislation that -- that exists on -- on -- on provision of loans.

MR. NATHAN SLEE: Okay, let me go back to the Styrofoam cup question just for one (1) second.

If you're a manufacturer of Styrofoam cups and you can make them at five (5) cents a pop and for you to be satisfied -- I'm just making up numbers off the top of my heard, for you to be satisfied that you're going to make enough money you need to be able to sell them at seven cents (7) cents. And you've not sure if a particular governing body or in this case Public Utility Board is going to set the rate at seven (7) cents or at five (5) cents or at four (4) cents.

Is there a chance that some firms in your situation would consider waiting until the Board made its decision before entering the market for Styrofoam cups?

DR. WAYNE SIMPSON: Yes. But the situation you're describing is a situation that firms face in unregulated markets because they often don't know what the price is going to be in the industry in the future either.

So if they entered thinking they could produce them at five (5) cents and others entered who are more efficient and can produce them at lower costs and the efficient -- the price in the industry was say for four (4) cents then obviously the risk they've taken would drive them out of the business.

So whether it's regulated or unregulated, I don't think it makes any difference.

MR. NATHAN SLEE: So it's your position then that -- that the fact that a firm may not know the pending rate cap, would have no effect on whether or not they enter the industry?

DR. WAYNE SIMPSON: I -- I'm saying that the fact that it's -- there's regulation pending, it isn't clear whether that would cause them to delay or not, compared to any other unregulated industry or other types of regulation.

MR. NATHAN SLEE: Thank you. Last question on the barrier to entry topic. If the Board sets a maximum rate --

DR. WAYNE SIMPSON: Sorry, continue.

MR. NATHAN SLEE: That's okay. If the

Board sets a maximum rate at a level below the point where some firms can remain financially -- excuse me, financially viable, would this be considered a barrier to entry?

DR. WAYNE SIMPSON: Yeah. There's been a lot of discussion about this. I -- I'm not entirely convinced for example that there's going to be net exit from the market.

If the -- the regulation say a rate cap comes in that lowers the price of a loan and makes it more transparent to consumers, economic law of demand tells me that there's going to be an increase in loan volume in the industry and that is going to -- that increase in loan volume may in fact lead to more firms rather than fewer firms in the industry.

MR. NATHAN SLEE: I -- I wasn't specifically talking about any proposal that's on the table. So if you'd like to get into hypotheticals, if the Board were to set a rate at, let's say, two dollars ($2) per hundred (100), might that be a barrier to entry?

DR. WAYNE SIMPSON: I think the Board would be much wiser to set a higher rate.

MR. NATHAN SLEE: Okay. So two dollars ($2) might be a barrier to entry?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: Could five dollars ($5) be a barrier to entry?

DR. WAYNE SIMPSON: You're talking about a barrier to entry in the sense of some firm that is outside the industry now thinking about entering. You -- so you're saying that if they contemplated that the Public Utilities Board would set a rate at which no one could compete then, of course, that would be a barrier, yes.

MR. NATHAN SLEE: Okay. And can all firms necessarily compete at the same price?

DR. WAYNE SIMPSON: No.

MR. NATHAN SLEE: So if some firms were prevented from coming into the industry because the rate was set too low would that be considered a barrier to entry?

DR. WAYNE SIMPSON: Not in the traditional terms, no.

MR. NATHAN SLEE: If you just give me one (1) minute.

(BRIEF PAUSE)

MR. NATHAN SLEE: I'm just going to, if you don't mind, go back to the definition that we discussed about a barrier to entry. So you have been comfortable with -- I mean, I think you -- you started by giving me about a B-plus, and it went down over time, but we -- we described a barrier to entry as a characteristic in the market or a structural phenomenon that limits the number of firms that would otherwise enter the market.

Now, you were comfortable with that. So if there is a ratecap that is set at such a level that it limits the number of firms who can enter the market, is it not then a barrier to entry?

DR. WAYNE SIMPSON: The question I understood was in the absence of knowing what ratecap, if any, would be imposed --

MR. NATHAN SLEE: What -- what I was asking -- sorry, I was ask -- I was -- just as sort of a next point in the future, say April 1st, if the Board were to set a ratecap on April 1st that was such a level that it would limit the number of firms who could compete in the market, would it be considered a barrier to entry.

That was the context I was going with. I'm sorry that that wasn't clear.

DR. WAYNE SIMPSON: Barriers to entry aren't usually discussed in -- in the context of a regulated industry. You know, if there are barriers to entry in an industry that lead, for example, to a natural monopoly then -- such as, for example, the provision of electricity, electric -- hydro-electricity, then typically the next step is to decide whether you want to regulate the industry.

But those are -- those are separate matters. The regulation isn't considered to be a barrier to entry because no one else enters. The -- the regulation is considered a consequence of the existence of barriers to entry in the industry in the first place.

MR. NATHAN SLEE: I'm sorry. I was hoping this was going to be a quick point, but I'm going to have to go a little further on it.

So you're saying, so normally we've -- we would regulate when we have a monopoly and we want to impose some protection for the consumer. So it's not a barrier to entry because there's already no firms coming in, is that right?

DR. WAYNE SIMPSON: Or an oligopoly or some elements of imperfect competition. You might have regulation because there is not adequate price competition.

MR. NATHAN SLEE: And so if there was ever a situation where there was a functioning market that had the potential to function better if certain barriers to entry were removed, it would be your position that it would be better to let the companies come into the market and compete then it would be to regulate in such a way that would force the oligopoly or monopoly to remain an oligopoly or monopoly.

Is that correct?

DR. WAYNE SIMPSON: I'm not sure what you mean by allowing the barriers to entry to be removed. The barriers to entry are -- are there typically because of -- of the -- the nature of the industry.

MR. NATHAN SLEE: Great. So one (1) of the -- on that point, one (1) of the barriers to entry we discussed a moment ago was the fact that there are multiple class actions and hundreds of millions of dollars in claims against the biggest three (3) companies.

Is it your understanding that when regulations come in and companies are able to get a licence to operate, there will no longer be that sizable risk of any new companies entering face -- being faced with those class action lawsuits?

(BRIEF PAUSE)

DR. WAYNE SIMPSON: Yes, assuming they abide by the regulations, yes.

MR. NATHAN SLEE: So if we had a situation then where there was a major barrier to entry that was preventing enough competition from entering the market, and we knew that that barrier would be removed, we wouldn't need to regulate in such a way that would mandate an oligopoly?

In fact, you could let the market behave as we would expect it to and regulate prices on its own?

DR. WAYNE SIMPSON: I'm going astray from my areas of expertise here, because you're probably asking the questions more about Canadian legislation than you are about economics, if I understand this question correctly, because I -- I thought the -- the purpose of regulation was to allow the industry to abide by the laws. Or -- or to -- I should -- that's not correct either.

It was to -- because the industry was not conforming to the laws, and hence the class action suits there was a need for regulation. So making the -- making the lawsuits go away involves either regulation or conforming to the laws of Canada. I'm missing the point of this.

MR. NATHAN SLEE: Can firms now offer payday loans within Section 347 of the Criminal Code which stipulates and -- and am I'm getting -- Byron's giving me the look here, but...

MR. BYRON WILLIAMS: Well, you -- you keep -- you're doing a fine job, so I don't mean to, but if you're asking for a -- a legal opinion --

MR. NATHAN SLEE: Okay.

MR. BYRON WILLIAMS: -- you might be getting -- so you might want to try --

MR. NATHAN SLEE: Sure.

MR. BYRON WILLIAMS: -- it in a different way.

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: Okay, I'll come at it a different angle. I'll stick with what we've got on the record already. First of all Section 347 of the Criminal Code stipulates that you can -- that the maximum amount of interest that you charge is 60 percent.

Dr. Robinson's already been on the record, in fact he spoke about it this morning, that it is not feasible for payday loan companies to be financially viable within that 60 percent range, therefore, cannot be feasible within Section 347 of the Criminal Code.

Is that your understanding?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: I think I'll leave it -

- leave it at that.

DR. WAYNE SIMPSON: I was gonna say that -- that's why I was confused, because that -- that leads to regulation, that's the next --

MR. NATHAN SLEE: Yes, and I think one of the other --

DR. WAYNE SIMPSON: -- that's the consequence of that -- of that --

MR. NATHAN SLEE: Right, so --

DR. WAYNE SIMPSON: -- changing the legislation which I gather is not being contemplated.

MR. NATHAN SLEE: Right, okay. Like I say, I'll -- I'll move on to my next point.

So a few minutes ago -- switching gears I -- I asked you for the sake of discussion to consider that rates were easy to understand and easy to compare between firms. So, now I'm gonna switch -- switch it up a bit and talk about the reality in the payday loan market today where we've heard lots of evidence -- evidence that rates are in fact difficult to compare.

First of all would you agree Dr. Simpson, that rates in the market today are difficult for consumers to understand and compare?

DR. WAYNE SIMPSON: Yes, including informed mystery shoppers.

MR. NATHAN SLEE: Exactly and that's -- that was the next route I was gonna go. So, if customer -- excuse me -- we've also seen some evidence that industry insiders like myself have -- have had some trouble understanding the rates in the market.

Is that correct? Or, do you remember that evidence?

DR. WAYNE SIMPSON: I'll take that as yes.

MR. NATHAN SLEE: Thanks. So if prices are difficult to compare, it'd be quite challenging then for consumers to identify what firm is offering the lowest price.

Wouldn't that be fair?

DR. WAYNE SIMPSON: It would take a substantial amount of analysis, yes.

MR. NATHAN SLEE: And this isn't because consumers are too unsophisticated, but this is because prices are just difficult for everyone to understand including academics and industry insiders.

Is that correct? Are you comfortable with that?

DR. WAYNE SIMPSON: There's -- there's two (2) elements of that. One (1) is that yes, they're complicated to understand because often they have many parts. The other one is that they vary by loan amount and, you know, so there's -- there's different elements to it. None of which are beyond someone's ability to -- to calculate -- to analyse.

But they would be difficult, for example, for a -- a consumer of pay -- a perspective consumer of payday loans to compare the prices between payday lender 'A' and payday lender 'B' without actually getting to the final point of -- of committing to a loan and saying, Okay, how much is this really gonna cost me, which I think was the point a which produced table 3 in the mystery shopping report. Most consumers are not gonna go to that extent of comparing -- that -- that much work to develop a comparison.

MR. NATHAN SLEE: Okay, and -- and the other point I was, or question I was asking, so this is not actually because the consumers are too unsophisticated? No one can figure these rates out really?

DR. WAYNE SIMPSON: No, it's that the search is too costly.

MR. NATHAN SLEE: Thank you. So in a situation where consumers cannot easily compare prices between firms, and they can't easily identify which firm is offering the lowest rate would a firm that lowered it's rates necessarily see a large rise in the number of customers that it attracts?

DR. WAYNE SIMPSON: I think it would depend on how they went about that. It would depend on -- on how they informed consumers about that, how they compared their rate to other people; advertising. There would be a variety of -- of things they could do to try to make that effective.

MR. NATHAN SLEE: Are you aware that Cash Money, and I don't have the -- the accurate year, but we'll call it somewhere between 2002 to 2004, came out with a fairly substantial advertising campaign?

It was billboards, transit stops, that sort of thing, and they were big giant posters and all they said was, "New Lower Prices".

Are -- are you familiar with -- did you get to see any of those posters or billboards?

DR. WAYNE SIMPSON: I don't remember seeing any, no.

MR. NATHAN SLEE: If I told you that -- that they existed, and they had a big advertising campaign around new lower prices, would -- would you be willing to take my word for it?

DR. WAYNE SIMPSON: I -- I see you as a fairly honest person, yes.

MR. NATHAN SLEE: I appreciate that, thank you.

Is it your understanding that -- or is there any evidence that from 2000 -- and we'll call it 2002 or -- to 2007, Cash Money captured a large chunk of market share in any market whatsoever, given the fact that they came out with a big advertising campaign about new lower rates?

DR. WAYNE SIMPSON: I don't think so, no.

MR. NATHAN SLEE: So could we say then -- and I appreciate your point about it depends how the firm promotes it -- but could you say in the current situation, as compared to a normal situation where people could compare prices, would you say firms motivation today to lower their prices is lower then what it would be in a situation where consumers could easily compare prices?

DR. WAYNE SIMPSON: I think that's probably an element of the lack of price competition in the market, yes.

MR. NATHAN SLEE: Good. So if hypothetically, there were large posters in every store displaying the cost of a loan in large bold letters, there are pamphlets giving a more detailed description of the fees, and staff members were trained in such a way that they could explain loan fees in a consistent manner throughout the industry, would this make it easier for consumers to compare prices?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: And if it's easier for consumer to car -- compare prices, will firms be more motivated to compete on price?

DR. WAYNE SIMPSON: In a perfectly competitive industry, yes.

MR. NATHAN SLEE: How about just in this industry if --

DR. WAYNE SIMPSON: It's not as clear.

MR. NATHAN SLEE: Okay, so today consumers, academics, and industry insiders find it very difficult to compare price, but if tomorrow it was very easy to compare price, because there was a lot of information, it was consistent between all stores, you're not convinced that that would increase the firms in the industry today, increase their motivation to compete on price?

DR. WAYNE SIMPSON: It would increase their motivation to compete on price, yes.

MR. NATHAN SLEE: Thank you. Now switching gears again, I'm not sure if you were here for the direct testimony of 310 Loan, or if you had to -- a chance to ready the transcripts, but in my testimony I described the credit screening process that's used by 310 Loan.

And I described a number of criteria that we have, including, for example, that we only lend to applicants who are actively employed, and will only accept up to two (2) NSFs or stop payments on a bank statement.

Were you here for this testimony?

DR. WAYNE SIMPSON: I was here for some of your testimonies.

MR. NATHAN SLEE: Okay, do you understand the approval criteria that I just described?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: Okay. And do you recall that during my testimony I indicated that 310 Loan rejects 30 percent of the applicants that they receive because they don't meet the credit criteria?

DR. WAYNE SIMPSON: I'll take your word on that.

MR. NATHAN SLEE: Thank you. So going back now to our narrative about the two (2) stores, and we're going back again to the early days of payday loans -- so we just have two (2) stores in Winnipeg -- would it be reasonable to assume at that point that the Money

March store would have had some sort of credit approval requirements?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: Could we also -- sorry, so we could -- we could also assume that they didn't simply accept every applicant that walked in?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: Great. And is it possible that Mr. -- Mr. Williams at Instaloans could have slightly different credit approval requirements than Money Mart?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: Okay. So again, with my narrative, could we assume then -- or I'd -- I'd like to assume that My Friend Mr. Foran is looking for three hundred dollars ($300), and he's seen the sign at Money Mart, and he's decided that he's going to give it a try.

Now Mr. Foran's employed. He has a job, but he's on stress leave right now because he works for some very demanding clients, and the pressure's finally got to him. So, Mr. Foran employed, but on stress leave, he goes to Money Mart for a payday loan, and to his surprise, the clerk informs him that Money Mart only accepts applicants who are both employed and at their job presently.

So, Mr. Foran, he'd still like to get a three hundred dollar ($300) loan, so he decides -- he decides he's going to check out Instaloans. Now when he goes there he finds out, lo and behold, that they actually have slightly different credit requirements and they are in fact willing to accept applicants on stress leave. I'm going to assume he's pretty excited about this.

Now, given that Mr. Foran has been turned away by Money Mart, might he be willing to pay more to get a loan from Instaloans?

DR. WAYNE SIMPSON: I think he would probably have to pay more, yeah.

MR. NATHAN SLEE: So --

DR. WAYNE SIMPSON: Is that where you're going?

MR. NATHAN SLEE: It's in that realm, yes.

DR. WAYNE SIMPSON: Yeah.

MR. NATHAN SLEE: So to round out my point, while many people might qualify for loans at both Money Mart and Instaloans, there is going to be some portion of the market who will only qualify for a loan from Instaloans.

DR. WAYNE SIMPSON: Okay.

MR. NATHAN SLEE: Great. And these will -- these people would either be willing or forced to pay more because they have fewer options.

DR. WAYNE SIMPSON: Fewer options and -- and from the provider's perspective a higher probability likely of default.

MR. NATHAN SLEE: Thank you.

DR. WAYNE SIMPSON: But I -- I don't know the industry but that would be my supposition.

MR. NATHAN SLEE: I think that's fair. We're getting to the end if that makes you feel any better. Are -- I'm, again, I'm not familiar with the break times but are -- how are we doing for time?

THE CHAIRPERSON: We're doing fine.

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: Okay. So, I should be able to get through this then.

So, Dr. Simpson, another point that you made in your testimony is when -- when the consumer's in a crisis and has an urgent need for credit, it's difficult to search for low prices and compare alternatives.

Is that correct?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: Okay.

DR. WAYNE SIMPSON: When time is an important consideration that makes extensive search less possible.

MR. NATHAN SLEE: Okay. And I'm not from Winnipeg but I'm trying to understand the place and if -- if I understand my -- my geography correctly, the neighbourhood that we're in right now, is this Downtown East? Or maybe this is a question to Mr. Osborne.

DR. WAYNE SIMPSON: I'm not from Winnipeg either and I'm still trying to understand the place, but...

MR. JOHN OSBORNE: Downtown East is a neighbourhood cluster.

MR. NATHAN SLEE: Okay.

MR. JOHN OSBORNE: There's many neighbourhoods within the neighbourhood cluster -- yeah.

MR. NATHAN SLEE: Thank you for the clarification. Are we in down -- is this building in Downtown East?

MR. JOHN OSBORNE: Yes. Without looking at my maps I'm pretty sure it is.

MR. NATHAN SLEE: Thank you. Now according to the data that was provided by the coalition, as I understand it, there are seven (7) payday loan outlets and twelve (12) pawn shops in the neighbourhood in -- in the Downtown East's neighbourhood cluster.

Is that correct? To whomever.

DR. WAYNE SIMPSON: I'm assuming that's on the record, yes.

MR. NATHAN SLEE: Thank you. And from -- I haven't done all the number crunching or mapping on this one but from my simple observation, just from wandering around here, it also appears that there's also several banks and credit unions in this neighbourhood cluster?

DR. WAYNE SIMPSON: There are certainly banks and credit unions in this area, yes.

MR. NATHAN SLEE: Okay. So given all of these different financial services outlets in this particular neighbourhood and assuming that we're now April 1st and there is new disclosure rules and it's very easy to consumers to compare rates in the payday loans industry, how hard would it be for a borrower in urgent need who lived or worked in or around Downtown East to compare their options?

DR. WAYNE SIMPSON: Compare their options against banks and trust companies, is that what you're -- where you're going?

MR. NATHAN SLEE: I'm not sure. I'm

trying to tie it in to your testimony where you said that:

"When a consumer is in a crisis and has an urgent need for credit it's difficult to search for low prices and compare alternatives."

And I'm giving you the example of this neighbourhood cluster where there seems to be about every possible alternative that I'm aware of --

DR. WAYNE SIMPSON: There's lots of options here.

MR. NATHAN SLEE: Okay. So in --

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: So for a person who worked or lived in or around Downtown East, in a crisis it would actually be, in your opinion, fairly easy for them, if rates were disclosed properly, to compare rates, find the low prices and compare alternatives?

DR. WAYNE SIMPSON: If by, you mean, rates disclosed, if everyone quoted their rate in terms of say an annual percentage rate in APR, then obviously one could compare the rate at a payday loan operation with the rate at say a bank or trust company, yes.

MR. NATHAN SLEE: Great. And is it your understanding that in the Manitoba Regulations that are pending, firms will be required to post their rates, including their APR?

MR. BYRON WILLIAMS: If you want to just tighten that up, because I think you're talking about one (1) rate in three hundred (300) and an APR, but if you --

MR. NATHAN SLEE: Okay.

MR. BYRON WILLIAMS: -- so if you want to just rephrase it. Keep -- keep going with your questioning.

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: Okay, I'll make it broader. If there were disclosure requirements that you or, we'll say, the Coalition was satisfied with; if those disclosure requirements were in place, would you -- you'd then be comfortable that would be easier for the customers to -- to search for low prices and compare alternate alternatives?

DR. WAYNE SIMPSON: Well, you want me to say yes, and I'll -- I'll give a qualified yes.

MR. NATHAN SLEE: Thank you.

MR. BYRON WILLIAMS: Mr. Slee, if I was being unfair, I don't mind if you ask about the regulation. I just thought you weren't quite stating it accurately.

So if you wanted to keep on that -- I'm not trying to cut you off, I'm just trying to pinch it.

MR. NATHAN SLEE: I certainly appreciate the help.

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: So to follow up that point, in an urgent need more outlets in a particular neighbourhood is better for the consumer?

DR. WAYNE SIMPSON: Well, the point of urgency is that they don't have a lot of time to search, I presume. And so assuming that each search takes some time, they may be limited to one (1) or two (2) searches.

Now -- so having a lot of options doesn't really help them in that situation unless they have information about the options, either from a previous search or from talking to other people or something like that.

In other words, they have -- they have background information.

MR. NATHAN SLEE: Okay, so right now in downtown East there are seven (7) payday loans, twelve (12) pawnshops, a number of banks and credit unions.

If there was, we'll say, two (2) payday loans, one (1) pawnshop, one (1) bank, one (1) credit union, it wouldn't make a difference in terms of how easy it was for the consumer to search for low prices and compare alternatives?

DR. WAYNE SIMPSON: Well, it's -- it's easier to search for low prices when there's fewer things to search, which means they'd be better off in the second scenario because there's fewer prices to actually search.

They would likely would find a lower price the more options they have.

MR. NATHAN SLEE: And -- and the lower price is in the best interest of the consumer?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: So with more outlets, the consumer would be more likely to find lower prices?

DR. WAYNE SIMPSON: If they were able to do a full search, yes.

MR. NATHAN SLEE: Thank you. My final point that I'd like to discuss is another one (1) of the concerns that you raised in your testimony relating to the competitiveness of the payday loans market. And that concern is that some firms are earning very high profits.

Is that correct?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: And the reason that this is a concern is because in a healthy competitive market, when there's a sign of excessive profits, it's -- it should attract more firms to the market, drive prices down and erode these excess profits.

Is that correct?

DR. WAYNE SIMPSON: It'll attract more firms to the market, and if there's price competition, prices will decline.

MR. NATHAN SLEE: Yeah and I'm just talking in general economic theory terms here. So that's what you would have expected if you saw excessive profits in the market.

In a normal circumstance, you would expect more firms to come in, lower the prices and erode those excess profits?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: And -- and you'd expect that that would happen so the adjustment would happen, we'll call it, over the long term. Would it happen immediately? Is it -- is it the day there's excess profit, someone comes in, they're gone the next day, or is there some time lapse in there?

DR. WAYNE SIMPSON: No. There'll be some time lapse. What's surprising in the payday loan market is we see the entry and, from all reports, we don't see -- we see actually price increases from what I've heard this morning.

MR. NATHAN SLEE: And we talked earlier, I think anyway, that that would definitely be possible in situations where there was more demand than there was supply. Do you recall that?

DR. WAYNE SIMPSON: That -- that was the scenario you suggested where the supply was severely restricted by the fact that there were only one (1) or two (2) stores. I don't think that's characteristic of the market for payday loans.

MR. NATHAN SLEE: If supply was restricted by barriers to entry, could that be a scenario that would be plausible if the barriers of entry were significant enough?

DR. WAYNE SIMPSON: Barriers to entry don't appear to be significant enough in this industry where there's been substantial growth in the number of firms because with -- I mean they're attracted by high profits quite logically, rationally.

So, you know, barriers to entry are -- are weighed off against other things, so --

MR. NATHAN SLEE: And you would expect that if there's no barriers to entry and there were high profits, we would see a rush of firms entering the payday loan market?

DR. WAYNE SIMPSON: You'd see a big rush if --

MR. NATHAN SLEE: And, if Dr. --

DR. WAYNE SIMPSON: -- there were no barriers to entry.

MR. NATHAN SLEE: Okay, and Dr. Buckland has given some evidence that in the United States the -- there are scenarios where, if I understand correctly -- and actually maybe, Dr. Buckland, you can remind me. What -- what was the -- the experience you saw in the States in terms of concentration? Was it ten (10) firms for a third of the market or something to that extent? It just...

DR. JERRY BUCKLAND: That was the information in the Michael Stegman article, yes.

MR. NATHAN SLEE: And, so I'm right, the concentration level he saw was ten (10) firms accounted for about 30 percent of the market?

DR. JERRY BUCKLAND: That's correct.

MR. NATHAN SLEE: Okay. And that's kind of what we would expect if there were no barriers to entry and there were high profits, and firms would rush into the industry to eat up those high profits.

Is that correct? If I understand --

DR. WAYNE SIMPSON: Yeah, sure.

MR. NATHAN SLEE: -- what you were just saying. Okay, great. And that's not what we see in the market today 'cause there's two (2) firms with 70 percent of the market share.

DR. WAYNE SIMPSON: Most of the growth has been by a couple of firms in the market, yes.

MR. NATHAN SLEE: Thank you. I think actually I'll just -- I'll leave it there, Dr. Simpson. So, thank you very much. And is now a good break time?

THE CHAIRPERSON: Certainly is, Mr. Slee, and are you finished with the panel or do you have more questions?

MR. NATHAN SLEE: I have to speak to Dr. Robinson. So, I could start -- the only thing I'm gonna have to look at is I probably have to leave here around 3:30 to make my flight. So I might have a brief word with Mr. Williams about how fast I can get through this, or a brief word with Air Canada about my flight.

THE CHAIRPERSON: Well, why don't have a brief word, and we'll just take a very short five (5) minute break and you can --

MR. NATHAN SLEE: Okay.

THE CHAIRPERSON: -- carry on.

MR. NATHAN SLEE: Thank you.

--- Upon recessing at 2:10 p.m.
--- Upon resuming at 2:24 p.m.

THE CHAIRPERSON: Okay, I think there's enough here for you. Mr. Slee, if you want to get on that plane, we might as well get going again.

MR. NATHAN SLEE: I have a hunch I'll be on a later plane, so I think that'll be just -- that'll be just fine. We don't need to rush too much. I just need one (1) more.

DR. CHRIS ROBINSON: You said you wanted "yes" or "no" answers. So the answer to your first question is, Yes, it'll be a later plane. Is that what you're looking for?

MR. NATHAN SLEE: Yes, that is correct.

THE CHAIRPERSON: I warned you, Dr. Robinson did get his coffee.

MR. NATHAN SLEE: I see that.

DR. CHRIS ROBINSON: Naturally shy.

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: Okay, so I'm -- I'm prepared to get started and I -- I may need a -- I've got a few more documents to refer to when I'm talking with Dr. Robinson. That probably doesn't come as any surprise. So I -- I may need a minute here and there to make sure I'm sort of on the right page, so.

My starting point, Dr. Robinson, is the document entered as Coalition Exhibit 27, and this is your fee recommendations paper. And I apologize, I should have told you this ahead of time.

DR. CHRIS ROBINSON: This is the document, I believe.

MR. NATHAN SLEE: Yes, right. I -- I just wanted to talk to you about a quote on page 2. And this is on the -- underneath "A Just and Reasonable Rate Cap," this is, by my count, the fifth paragraph. I'll just read it to you, if that's okay. The -- the quote is and this is -- these are your words, quote:

> "If the Board enacts a rate that prevents efficient lenders from earning a fair rate of return, consumers may benefit in the short run from lower fees, but we may lose more as a society because there's insufficient competition to drive innovation and further cost reduction."

Now, as I understand it, there are two (2) key points here, and the first one (1) is that you want to ensure that efficient firms are earning a fair profit.

Is that correct?

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: And the second point is you want to ensure that there is enough competition to force firms to be innovative and continue to reduce costs.

Is that correct?

DR. CHRIS ROBINSON: Cannot force firms to be innovative and reduce costs -- that's not something you can force, regulation or no. Nothing forces that necessarily. If it were the case that you could enforce that then we'd have nothing but low cost producers of everything everywhere and, in fact, we don't have that. So that it's -- it's too complicated to say that.

What I am saying is that we might lose more if there isn't any competition to drive innovation and further cost reduction. In other words, it's probably not going to happen without it. We can't force it to happen.

MR. NATHAN SLEE: Okay. Thank you. In your opinion, was the minimum number of efficient firms required in Manitoba in order to hopefully drive innovation and force -- well, sir, you said I can't force, but hopefully drive innovations and encourage firms to continue to reduce costs?

DR. CHRIS ROBINSON: I'm sorry, wait. Just repeat the first few words of that question.

MR. NATHAN SLEE: So the -- the -- so you're saying that you're hoping there's enough competition to force -- you're -- well, sorry, my word is "force." You're hoping that there's enough competition to encourage firms to be innovative and continue to reduce to costs.

Okay. That -- that's your statement. And I'm asking you, in your opinion, what is the minimum number of efficient firms that we would require in the Manitoba marketplace in order to achieve this objective that you have set out?

(BRIEF PAUSE)

DR. CHRIS ROBINSON: It's very difficult to say that. One (1) of the things that I did not allow in one (1) of the tables that I presented earlier, and which we'll be eventually be giving the -- the Board the remainder of, when I expense it, what happens if the -- with the rate cap and some firms leave.

But I hadn't taken into account Dr. Simpson's point about the demand is almost invariably price elastic for virtually every commodity. For -- sorry -- for virtually every good to some extent so that we would see -- in fact see increased volume.

And, therefore, it could be that introducing rate caps will lead to no exits whatsoever. Very hard to say. I mean, would I say that if there was, you know, two (2) payday lenders in Win -- in Winnipeg; one (1) in Brandon, and -- and one (1) in Thompson, that this would be sufficient. No. Do we need sixty-seven (67)? Seems very unlikely.

I put a number up of fifty-five (55) as being a plausible scenario, but --

MR. NATHAN SLEE: If I could just interject, sir --

DR. CHRIS ROBINSON: Yeah.

MR. NATHAN SLEE: -- I was just talking about number of firms, not number of outlets.

DR. CHRIS ROBINSON: Well, the two (2) are going to travel together to some extent. There are only -- most of Canada, there are really only five (5) banks competing with each other, so that this gives you some notion. Of course, they're much larger, but that also -- it hinders them in some ways because then they can't compete locally.

You have to have more than two (2) firms.

I'm projecting a Manitoba market that would have five (5) or six (6) firms -- well, you have to add Advance America to that. So -- but it's very hard to say. It's -- we just -- we don't have that. That's not something there's any empirical evidence on -- in any field, what you need.

You can have monopolies that are incredibly inventive and creative. And you can firms that act in a totally noncompetitive mark -- manner, like Microsoft, which, nonetheless, are very inventive.

MR. NATHAN SLEE: But -- and I appreciate that. I just wanted to remind you, I'm working off of your own words that again, I guess, sort of to remind you, we may lose more as a society because there is insufficient competition to drive innovation and further costs reductions. So I'm assuming then that you're not--

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: -- you wouldn't be satisfied with a monopoly.

Is that correct -- using your own words?

DR. CHRIS ROBINSON: I'm setting rates, so the -- I'm not recommending a rate that I expect will lead to a monopoly. Yes, typically, we believe that monopolies aren't entirely desirable. The occur for natural reasons.

There's not natural monopoly in this

field, nor could a firm, on its own, I should think, create a total mono -- create a monopoly, though it could create a dominant position.

But, no, we're -- none of us in the Coalition are recommending a monopoly or that we should be going to the kind of regulation that you need for, you know, like, Manitoba Public Insurance or something.

MR. NATHAN SLEE: Okay. We're all on the same page, that if there was, hypothetically, if the -- you know, the Board's obviously independent in their thinking. If they put in a rate cap that threatened to prevent enough firms from operating, this would be an undesirable outcome?

And we haven't established, necessarily, what enough firms is, but you certainly don't want to see a rate that only one (1) firm could survive in?

DR. CHRIS ROBINSON: No, and I think -- I think I've actually -- I think actually my written evidence shows that that's in fact what I've been thinking all along since, of course, I raised the rate caps with more information, et cetera, and more specific to Manitoba, from the ACORN Report.

And, you know, academic never admit that they -- they could do it better or something. They figure we're perfect the first time, but that's not true.

MR. NATHAN SLEE: And -- and I understand that it -- it -- that you have gone to great lengths to try to ensure that your recommendation will allow for healthy competition, and I was just trying to make that clear on the record.

So, the next -- the next document that I'd like to take a look at is Coalition Exhibit 26. This is the document entitled "Different Cost, Volume and Fee Scenarios" under the Robinson model.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I might have that as Coalition 25 but -- oh, it's that one, okay, thank you.

(BRIEF PAUSE)

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: If you had it, I'm not sure if the Board has a copy, but if it's up on the screen, maybe that would be helpful.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Dr. Robinson, you

could -- if it's all right with the Board, you could probably just use the paper copy that's in front of you as well.

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: There -- there we go. Thank you.

Okay. So I'd -- I'd just like to, I guess, get everybody up to speed on what this document is.

So what you've -- you've done is -- is this, the numbers that we see on this document are all different -- are all derived from the spreadsheet that you've been working from, that -- that is kind of your working model shows, based on a couple of different rate scenarios and a couple of different levels of volume and operating costs, what kind of a profit that we might expect.

And this is an economic profit that we're talking about under certain different scenarios. That's -- that's what we're looking at, right?

DR. WAYNE SIMPSON: Yes.

MR. NATHAN SLEE: Great.

DR. WAYNE SIMPSON: Sorry, yes.

MR. NATHAN SLEE: And on the -- in the

first chart on page 1, and that's where I'm going to focus for the first part anyway, we've got a -- we've got a line there that says "excess per loan," and we see a range of numbers that demonstrate different levels of per-loan economic profit or loss based on the variables in the fields above.

Is that correct?

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: And is this row, we see a range of -- and actually, I guess, before I go -- go there, I guess we're going to remind everybody again that the -- you're comfortable in this -- in -- in your example an economic, excuse me, an excess per loan of zero is kind of the ideal. We've never really achieved it, but that's --

DR. CHRIS ROBINSON: That's right.

MR. NATHAN SLEE: That's right, okay. So in this row, we see on one end -- on a high end we can see a profit of ten dollars ($10) -- an economic profit of ten dollars and eighty-eight ($10.88) cents in the first column. And then at the other end of the range, we see a loss of nineteen dollars and ninety -- nineteen dollars and nineteen ($19.19) cents per loan in the last column.

Is that correct?

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: In the middle three (3) columns we see values of one dollar and sixty-two ($1.62) cents, negative two dollars and seventy-three (-$2.73) cents and negative two dollars and twenty-six (-$2.26) cents.

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: Now, in your testimony, you described the difference between the slight profit and slight loss in these columns is fairly insignificant because they're pretty close to zero.

Is that correct?

DR. CHRIS ROBINSON: Yes. It is impossible to define what is the appropriate ones, it's not something you can do a statistical test on. But -- so this is just my -- my expert judgment given everything that I'm assuming, and I tend to be very conservative. That is, I tend to put in -- build in higher costs all the way along.

So, the numbers that Mr. Slee is referring to -- this one, okay, here it looks -- these three (3) numbers are, in fact, all essentially like zero. So that they are close enough that anyone of those would be where we get our -- our cutoff, our boundary condition, with this set of fees, and with all the other assumptions I've made.

MR. NATHAN SLEE: And I -- I did understand your testimony when you explained that --

DR. CHRIS ROBINSON: Oh, yeah.

MR. NATHAN SLEE: -- previously, so I just was -- wanted to remind everybody and get that --

DR. CHRIS ROBINSON: I understand.

MR. NATHAN SLEE: -- put into the discussion. On the second chart on page 2, and I -- I believe the difference in this chart -- and not -- it's not necessarily important for our discussion -- but what's different about this chart is the bad debt rate is at 4 percent and in the first chart it's 3 percent. Again that --

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: -- wasn't what I was intending to talk about but just so we know why there's two (2) different charts there.

Under the column for a Large Chain Location -- and maybe if you want to highlight that on the screen so everybody can see it, if you want to, it would help. Under the column for a Large Chain Location with a volume of 1.2 million --

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: -- we see that there's

an excess per loan loss of six dollars and sixteen ($6.16) cents.

Is that correct?

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: And when you described this in your testimony, you said that this number, in fact, was a significant loss.

DR. CHRIS ROBINSON: Yes, I would say I'm getting to the point where now this is an economic loss. You'd have to remodel everything to determine whether the company was actually losing money.

Remember, economic loss as opposed to losing money. In other words they're making money. They're just not earning as much on their capital as they would like. This might be the situation where there are at about a break even in -- in income, but it doesn't justify how much they invested in the business to begin with and have to keep invest -- invested.

MR. NATHAN SLEE: Do you know of many business people, Dr. Robinson, whose objective is to break even over the long term?

DR. CHRIS ROBINSON: You're misusing the term.

MR. NATHAN SLEE: Sorry.

DR. CHRIS ROBINSON: Okay, I'm looking

for economic profit. And, of course, nobody -- regulation or not -- guarantees your rate of return, so that you could be here at 1.2 million, but you could also be here at 2 million, which is not a really big volume, and there -- thereby, under this rate -- this particular scenario, be making significant economic profits.

MR. NATHAN SLEE: All I'm trying to establish, if that's okay, is that I believe in your testimony you mentioned that at negative six dollars and sixteen (-$6.16) cents, this was a significant loss. And I was under the impression that, at that point, you're -- you did not expect the firm which had a -- a loss of six dollars and sixteen ($6.16) cents -- an economic loss -- you did not expect that that store would remain open with those -- that kind of performance.

DR. CHRIS ROBINSON: No, the -- there's two (2) different things going on. One (1) thing we've not discussed in these hearings is the barriers to exit which is also a concept in business strategy.

That is, that it costs you money to actually leave the market. You take on a bunch of -- you -- you cancel your lease. You throw a bunch of employees out in the snow, which is a real penalty in -- in Manitoba. You are unable to collect a bunch of your bad debt costs unless you have your employees hanging around collecting bad debts but not getting any new business.

And, finally, there is the fact that you do not, for example, if you're holding a stock in which you are losing money which you -- which is not performed as well as you wanted, you don't necessarily sell it. This may be -- because remember, you cannot sell this business now for anything other than what it is worth.

So to continue operating it is -- commonly happens. I need only point to the Bay. Okay , you're there's a big department store downtown and out in the malls and so on. I mean the Bay is -- some of us knew better and have never invested in it. But the Bay has been bleeding for twenty-five (25) years at least, but it's still going. And, so there's a difference between they'll quit.

Now when I'm setting a rate, however, that is to be fair, not to exit or entrance, but just to their industry as a whole, I have to say that this six six -- minus six sixteen (-616) -- my judgment is that is now not -- not a fair situation if that were what I was doing.

I'm -- my -- my decision was that the fair situation was the previous table. But if, for example, the Board decides that the best set of assumptions leads to that minus six dollars and sixteen (-$6.16) cents, I would say they would need to increase the rate slightly to be fair -- to a fair, just, and reasonable rate.

But that doesn't mean they could very well have no exits. Not only would they get more volume, which might reduce this problem all together, but the firms that are already in there are not necessarily going to exit.

MR. NATHAN SLEE: And that's because they may have a long-term lease, and they may be satisfied with --

DR. CHRIS ROBINSON: Well, they're still -- they're still making money.

MR. NATHAN SLEE: -- can I finish my question?

DR. CHRIS ROBINSON: Yeah, sorry.

MR. NATHAN SLEE: Sorry. Sorry, you say there's --

DR. CHRIS ROBINSON: Now, I'm go --

MR. NATHAN SLEE: Just because a minute ago -- a minute ago, Dr. Robinson, I believe the comment you made was that what you're speaking -- you're speaking in terms of economic profit. And I -- I do --

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: -- believe I understand that concept. And you said at the six dollars and sixteen ($6.16) cent loss, it may be the fact that they're actually even breaking even. They may not be losing money in a -- in a -- I'm not sure what the other term is -- accounting term -- they may be breaking even. Maybe they're not losing money.

It -- that was what I understood you to be saying.

DR. CHRIS ROBINSON: All right. A -- a better way to say would be that it's a better investment to hold onto it than it is to walk away from it.

MR. NATHAN SLEE: And that's because you have a long-term lease that you can't get out of?

DR. CHRIS ROBINSON: They're all the costs of getting out of it. It may be that you do not have easy form of other employment. Many people chose to take small businesses because -- for example, alcoholics frequently operate small businesses because they find it very difficult to receive employment.

So that there can be other reasons for holding this business. However -- so that it's not the same. However, of course, at six sixteen (616), you know, if that was what they could, on average, expect to earn, certainly nobody would enter that business. No -- no new entrants would come in.

MR. NATHAN SLEE: And I'm just trying --

I'm trying to understand it, so -- you're making it a little more interesting now. So somebody who has a low potential for income, possibly because they're an alcoholic, may be willing to continue at a -- operating a business that barely breaks even because they don't have a good alternative, and they may have a long-term lease.

Is that what you're saying?

DR. CHRIS ROBINSON: Well, actually, I have personally overseen the complete strategic examinations of over forty (4) Canadian organizations plus many organizations for environment matters and so on. So I have a great deal of experience plus having audited many firms.

A great number of small businesses are not operating with positive economic profits, but they are making a respectable living out of it. And maybe I would decide not to enter them or you would decide not to enter them or so maybe nobody would decide to enter it, but now they're there, they're better off to stay, and there are a lot of reasons for that.

In addition, as I said, I'm not adjusting -- neither you nor I are adjusting in this table for increased volumes. I mean, that's starting to make -- that's what we call a "dynamic model" in economics. It gets really difficult to model. But six sixteen (616) --

you see we have to get back to those two (2) positions.

One (1) is what will the firms do faced with this?

The second question is what would be fair for the Board to do because it gets to impose a certain will. And what I'm saying is is that imposing -- if the Board decided that we should assume that -- that we should accept that a relatively smaller providers -- that 1.2. million should be allowed to continue in the business, that we should make sure that they all get to continue, and that they're operating costs are twelve dollars ($12).

You noticed I've raised that from even higher than the Advance America, so this isn't becoming a less efficient provider. 4 percent bad debt rate, which is higher than most firms. That, in that situation, if the Board felt -- and that's their judgment, not mine -- that they still wanted those people to be providing in the market, then the fair rate, even if you could -- even if could capture these guys and keep them in the market 'cause they'll otherwise lose too much, they should still set a higher rate to be a just and fair rate.

And it would probably only require one (1) percentage point, so it would be probably 18 percent on the first two fifty (250) -- would probably do it. Okay.

So it doesn't require very much.

MR. NATHAN SLEE: And really all I was trying to establish is -- actually, maybe I'll ask this question first.

If we go back to the first chart and the first table on that page, in the last column the single store with seven hundred and fifty thousand (750,000) in volume earns a negative excess per loan profit of nineteen dollars and nineteen ($19.19) cents.

Is -- is that firm going to close? Or could you maybe describe the situation under which that firm would not close?

DR. CHRIS ROBINSON: All right. The situation that at which that firm will not close -- first of all, you'll notice again that the -- the key thing here is volume, right. I mean, there -- there is -- the key -- the key issue is volume, right. It's not bad debts, and it's not the ratecap, it's the volume.

MR. NATHAN SLEE: I'm -- I'm just trying to use your own example --

DR. CHRIS ROBINSON: Yep.

MR. NATHAN SLEE: -- where you're trying to map for the Board what we might expect to see --

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: -- under some scenario.

So I'm just talking about the specific scenario.

DR. CHRIS ROBINSON: Mr. Sardo, I think, made clear the conditions here. The problem is that this is, of course, just an average number. So that what we would expect is we would see some firms who have better cost structures on operating costs than sixteen dollars ($16), will, in fact, still be able to continue.

For example, we may be in a market -- Mr. Sardo was pointing out that the rents are higher in Thompson than they are in Winnipeg, so that Thompson would have even harder time competing at higher values. So, in general, I'm expecting that stores that are under a million anyway -- single stores that are under a million are -- are very likely efficient enough to survive in -- under the caps.

They -- they don't meet my definition of an efficient provider. Not as a moral statement about whether they're competent or not. They just can't get the volume to -- to be worthwhile.

MR. NATHAN SLEE: Great. So -- so, okay, I think you've made the point that I was trying to get at. Thank you. Okay, so, if you can just give me a second, I'm gonna remind myself of where exactly I was.

(BRIEF PAUSE)

MR. NATHAN SLEE: Okay, so, looking again at -- and I hesitate to do this, but looking again at the chart -- first chart on page 1. Just for the record, this chart is based on your fee recommendation of ten dollars ($10) for a new borrower plus 17 percent on the first two fifty (250), 12 percent on the next two fifty (250), and 10 percent on the rest.

Is that correct?

DR. CHRIS ROBINSON: Okay, let me just expand that slightly; plus the fees that I set -- the rules that I set for replacement loans and so on. I didn't show up all the things.

MR. NATHAN SLEE: So --

DR. CHRIS ROBINSON: They aren't a big deal and --

MR. NATHAN SLEE: So --

DR. CHRIS ROBINSON: -- they're kept constant throughout.

MR. NATHAN SLEE: Okay, so plus your -- your costs for replacement loans and plus your default fee, I suspect.

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: Okay, thank you. And now in this chart you've -- you've accounted for large chains and you've also accounted for single stores.

That's kind of what you talked about. Can we also assume that firms with two (2) to five (5) locations per store would fall under the single store model?

Where would they fit in this?

DR. CHRIS ROBINSON: It's a continuum. I have pretty good evidence for the big stores, and some idea about single stores. Hard to even define what a medium store is going to be -- or medium firm, sorry.

MR. NATHAN SLEE: I'm defining it as two (2) to five (5) locations.

DR. CHRIS ROBINSON: Yes, what I'm say -- sorry, let me brief -- let me state that differently. It's hard to -- it's impossible for me to determine under any evidence available where the economies of scale from having more than one (1) store start to be enough to matter to the thing, because what we observe is, publicly, a couple of big -- big chains we can publicly observe. One (1) more chain that's big, and one that we can observe now because it's coming in from the US, and then the size drops. There's Cash Money and then the size drops dramatically.

We just -- so I can't tell you -- and when I get down to two (2) to five (5), I'm speculating now. My guess, my best speculation is that two (2) to five (5) would not be much different from the single store.

That's two (2) to five (5) not in the province so that's across the country. I mean, I'm thinking of the economies of scale of software, and head office, payroll, and so on.

MR. NATHAN SLEE: Okay, so we -- we've heard at -- at negative six dollars and sixteen (-$6.16) cents, there's some pretty unique circumstances where people would continue operating that store. We've also heard then that the single store -- under table 1, which is -- is your proposal -- single store with $1 million in volumes or -- excuse me, $1 million in volume or less, highly unlikely to continue.

Can we then conclude that a medium size -- well a -- a firm with two (2) to five (5) locations and $1 million or less in volume is also highly unlikely to continue based on what you just told me?

DR. CHRIS ROBINSON: It's just getting more difficult. It's -- it becomes my judgment against somebody else's judgment on -- on the numbers, 'cause you're -- the term I guess I'd say is I'm interpellating between big and -- and single store, and don't have -- you know, it's only -- only have verifiable evidence for the big stores. As you know, I've rejected much of the evidence from the Ernst & Young and Deloitte surveys.

But it is certain -- I certainly would

expect, and I did model else -- did show elsewhere, that my best guess is that some of the smaller chains, if one (1) can even call them chains, would -- would be inclined to exit. Or -- we don't have to ask about exiting, because the Board is to give a just and reasonable rate. The rate -- they might not exit, but the just and reas -- they would not be getting a just and reasonable rate if the Board decide -- defines that as being one that allows them to continue to -- to operate at zero economic profit.

MR. NATHAN SLEE: Okay, if -- if you wouldn't mind, I'm gonna ask you to dig up another document. This is Coalition Exhibit 24, and this is your -- your PowerPoint presentation "Rate Regulation for Payday Loans in Manitoba."

DR. CHRIS ROBINSON: Oh, okay.

MR. NATHAN SLEE: I think it had your horse and your rabbit in there.

DR. CHRIS ROBINSON: Now, it this the long one. I think this is the full one. See how many slide it's got.

MR. NATHAN SLEE: And -- and this if that's it, the slide I wanted to look at I believe slide 10.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Okay. Got it.

MR. NATHAN SLEE: All right, could we try slide 10? The title is "Business Characteristics of Payday Lenders (1)". That's it. Great.

DR. CHRIS ROBINSON: I'm not -- I'm not sure if you were here. There is a mistake on this slide. This number -- see where I am right now, okay, down here, oh, I can't remember how -- I'll just --

MR. NATHAN SLEE: It's a six (6).

DR. CHRIS ROBINSON: -- use my pointer. Pointer options. Okay. This number right here should be six million four hundred and forty-four thousand ($6,444,000) and it's a peculiarity of the computers at the Public Interest Law Centre.

MR. NATHAN SLEE: Yeah. And then the other number beside it should be 6.3 percent?

DR. CHRIS ROBINSON: Six point three (6.3). Yeah.

MR. NATHAN SLEE: And the number below that should be 100 percent, not --

DR. CHRIS ROBINSON: That's right.

MR. NATHAN SLEE: Okay. Great. Thank you.

Now, if understand from looking at this document -- now, and again, I think we all acknowledge that the data we have is -- is, I think I described it earlier as the best of a bad bunch.

So we don't have great data, but the numbers you've been able to come up with suggest that Cash Money, Mogo, Sorensen's, Fast Cash and single-store operators, if we were to hazard a guess, had an average per store loan volume of seven hundred and sixteen thousand ($716,000).

Is that correct?

DR. CHRIS ROBINSON: Yes. As Mr. Sardo pointed out, the -- using seven sixteen (716) for cash money is a more questionable assumption than the others; that it's probably higher than that. But, I mean, I can't -- how do I know? It's somewhere between seven sixteen (716) and 1.2 million, is my guess.

MR. NATHAN SLEE: But when you were preparing this document, the guess you gave was seven hundred and sixteen thousand (716,000)?

DR. CHRIS ROBINSON: Yeah. Being questioned about it, I think maybe I could put different -- but it's not going to make a lot of difference, whichever one you do. Yes, Cash Money might be choosing to close at those rates. Remember, it's not a single-store chain though. It's a -- it's got seventy-one (71) stores across Canada.

And Mogo, I don't know how many it has now. It's in a number of locations. How many?

MR. NATHAN SLEE: Well, at last count, twelve (12).

DR. CHRIS ROBINSON: Last count, twelve (12).

MR. NATHAN SLEE: Across the country.

DR. CHRIS ROBINSON: One (1) of the things that's likely to happen -- almost certainly to happen -- is that single-store operators will sell out to somebody. That's their exit strategy, and they'll sell out to one of the small chains.

Fast Cash, I think, is only in -- Sorensen's has got a number in other provinces. Fast Cash, I had not encountered before Manitoba, so I don't know. The single stores, as far as I can tell -- actually, one (1) of them might be a pair.

There are also probably -- the CPLA list is not correct, and it -- I just discovered this. It seems that we have three (3) or four (4) more stores in Manitoba than I have on this list. But that's just the problem of getting a data, and they are small stores.

MR. NATHAN SLEE: In your discussion with

Mr. Sardo, you made a statement, and I jotted it down, and I'm -- I'm, you know, quoting from my memory here, but you mentioned that most economists wouldn't dare to attempt to answer the question of how many stores would close under certain circumstances.

Do you recall making that statement?

DR. CHRIS ROBINSON: Yes. This is -- we have to -- the Board has to understand, this is getting fairly speculative here; anything that anybody says on this. However, the conclusions that you're trying to draw, the direction you're going from my evidence, was sort of the way that I was going.

What I assumed was, I think, that Fast Cash and the single stores would close. I think that's the basis that I was sort of thinking. Well, it's one (1) reasonable scenario.

MR. NATHAN SLEE: If I could, sometimes what I'm going to do in this process is I'm going to read back quotes to you just to get you to confirm them so that I can --

DR. CHRIS ROBINSON: Yeah.

MR. NATHAN SLEE: -- move on to another question.

DR. CHRIS ROBINSON: Yeah.

MR. NATHAN SLEE: Okay. Thank you.

That's what I was doing there.

DR. CHRIS ROBINSON: Yeah.

MR. NATHAN SLEE: So my next question, which you may want to elaborate on; if most economists wouldn't dare to try to answer the question of how many stores would close, how many economists would dare to try to answer the question of whether or not firms will be acquired or merged or consolidate or who will buy whom, or who might not buy whom.

Is that something that economists would dare to try to figure out?

DR. CHRIS ROBINSON: Well, of course, I guess I should be careful about -- about traducing the economists here. I mean, they live in a -- you know, in a rarified world of -- of the Ivory Tower, but I'm actually, you know, experienced in business.

And, in fact, that's the particular perspective I bring. So even though I have a lot of economics training, I have all the accounting and very wide experience of observing businesses of every sort.

And I'm bringing part of that to bear on this. So that I'm -- and I -- and I've also got just a whole lot more nerve, so that I'm doing this. So what you might say, and what we would characterize this -- when I was at -- at that evil place I used to teach at, would be that these are MBA calculations.

This is the sort of analysis that you're taught in business strategy that we teach -- that I taught -- and, you know, for twenty (20) years, and, therefore, you try to use. But yes, it is chancy.

However, the law says there must be a rate cap set, so we have to set a rate cap, and this is my best shot at it. But you're right, it's -- I'm taking a lot of -- a lot of professional risk in doing this. And, of course, I will be wrong. So will everybody else who tries to -- but the Board, unfortunately, has to make a choice.

MR. NATHAN SLEE: I agree. And -- and one (1) think I'm trying to point out -- and I think you're helping to acknowledge it here -- is there may, in fact, be a risk that based on the numbers you've given, because Cash Money, Mogo, Sorensen's, Fast Cash, and all the single stores have average per store volume of seven hundred and sixteen thousand (716,000), that all of these stores could no longer be viable under your model.

And I'm using your own calculations here where you show under seven hundred and fifty thousand dollars ($750,000) in volume, a negative economic profit of nineteen dollars and nineteen ($19.19) cents.

DR. CHRIS ROBINSON: Well, remember, some of them are larger chains, but --

MR. NATHAN SLEE: I agree, but I'm just trying to identify a risk. Is that --

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: -- a potential risk?

DR. CHRIS ROBINSON: We can get growth, but yes, the -- let me return to a concept that I used earlier on terms of risk -- value at risk. Okay, so if we're going to define, in this case, "value at risk," and this is a highly mathematical concept in finance. But if we're going to do a very intuitive thing, what is our value at risk in terms of number of companies that might go down here, that might cease to exist?

Our value at risk is, from the evidence that I'm presenting -- you're correctly interpreting it. I would think as the value at risk is probably eighteen (18) closing, but then, at the same time, some of them being bought.

And it's --

MR. NATHAN SLEE: And I'm -- I'm not trying to measure if this is good or bad. All I'm trying to do is illustrate for the Board that there may be a risk in your calculations and in your rate formula, that every store or every firm on that sheet not named Money Mart, The Cash Store or Instaloans, may close because it may not be financially viable for them to continue in Manitoba.

I'm just trying to illustrate if that's a risk. I'm not trying to judge if that's better for the consumer or worse.

DR. CHRIS ROBINSON: Yes. And -- and that's the spirit I'm taking, that's why I said "value at risk." So what is the value at risk? In other words, what's the maximum stores you can lose here under my recommendations, given all the assumptions your going on. And I would say that it is eighteen (18) stores with a volume of six (6), eight (8), ten (10), twelve (12) -- of about 13 percent of the market.

Do remember, however, Mr. Slee, that you sell to their customers too, over the phone.

MR. BYRON WILLIAMS: And just -- hopefully we're helping you, Mr. Slee. If -- if you're feeling that you're getting answers that are bit off track, you'll -- you'll let us know, and you can certainly direct Dr. Robinson to give more responsive answers.

MR. NATHAN SLEE: Thank you, and I think Dr. Robinson, your last answer fit what I was trying to get to, and I appreciate it, thank you.

Now again, I'll try and remind myself

where I was.

(BRIEF PAUSE)

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: All right, Doc -- Dr. Robinson, if I could, I'd like to now touch a little bit on -- on Money Mart and Rentcash, and when I speak about Rentcash, I'm talking about the Cash Store and Instaloans.

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: Okay. You've listed their average volume at 3 million and 1.2 million, as we can see there. And we're -- we're guessing that these are average volumes, so can we also expect that some of their stores will have higher volumes?

DR. CHRIS ROBINSON: Just to assist the Board, the 1.2 million -- and remind everyone, the 1.2 million is a Manitoba number. The average for Cash Store, nationally, is higher -- about 1.4, perhaps. I mean it's -- it's hard to tell, 'cause they are changing and they don't disclose things that allow an easy -- easily cal -- they don't disclose the volume.

For Money Mart, that's slightly below what I think the averages will be, and that's a national average. So it could be different in Manitoba. On the other hand, Money Mart has a very heavy concentration in Winnipeg which is, of course, where the biggest volumes are likely to be.

MR. NATHAN SLEE: My question was just that they could have some stores that have more volume than what you've listed.

Is that correct?

DR. CHRIS ROBINSON: Yes, and I think the best evidence, even though it doesn't tell us what the numbers are, is that Ernst & Young sort of said that there was a quite a bit of variance. Some of what they put in the report, some of them they sort of didn't -- they didn't quantify it as to what the variance was or how many stores at which sizes. But there is quite a bit of variation.

And my guess is that you wouldn't find stores bigger than 7 or 8 million, and there would be very few of them. It's unlikely that Money Mart is running stores -- well, actually, no. I can't -- I can't say with Money Mart because they've got the cheque cashing business, too.

MR. NATHAN SLEE: Given that some stores could be bigger than the average, do we also know then that some stores could be --

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: -- less volume.

DR. CHRIS ROBINSON: Oh, yes, yes.

MR. NATHAN SLEE: Okay. Is it possible that some of these stores will do a volume that is small enough that it would not be viable for them to continue operating that particular store?

DR. CHRIS ROBINSON: Mr. Sardo was asking the same question. And I have to -- to remind the Board that, of course, if we're now going to the scenario which you have extracted from me of the maximum value at risk -- in other words, it's gonna be the small stores that close before the chain stores close, because they don't have the extra resources.

The chains will now be picking up the volume that's left behind. They'll pick up virtually all of it 'cause virtually everybody's in Winnipeg. And -- and, in fact, most of the communities are paired -- so that is there's two (2) stores in most community -- most of the small communities; two (2) or more.

So, consequently, the -- the big guys who've got the staying power -- let me draw you an example of the airlines. Back in mid '80s or late '80s, I made a prediction -- used an entire class to work out a prediction of what was going to happen to the airlines.

And we predicted in exact order which ones were going to fail first and all the way down the line in Canada, and the reason -- differentiating factor was simply the cash reserves.

And, so the size matters. And, therefore, Money Mart will not close rapidly. It looks bad for it. Rentcash will not close quickly. Rentcash is -- is still increasing its volumes. So what will happen is -- is that you'll get -- and, of course, what they will do is they will pick up some of these operators, which they would do in the normal course anyway, and we have seen them do.

So, I think it's much less likely that there would be any significant departure of Money Mart and others -- Money Mart, Cash Store and Cash Money. Furthermore, Money Mart has recent -- this is not in evidence.

I mean, I get tired of bringing more evidence into the Board, but Money Mart has actually announced publicly that it is now developing a plan in which it will open stores in smaller communities than it has been in the past. That it's figured out a way that it can do enough -- remember, it does cheque cashing and payday lending. And, therefore, will move into somewhat smaller locations.

Also, you're concerned about them closing stores, but in fact Money Mart has -- and this is on the record -- now, in several places, Money Mart has been buying up it's franchisees at a rapid rate. Okay. It's bought in the last three (3) or four (4) years eighty (80) or ninety (90) stores or something. Franchisers buy up their franchisees either because the franchisees are going bankrupt -- and there's no evidence of that -- or because there's money to be made, and they can do it better than the franchisees can. But they're making money out of this.

MR. NATHAN SLEE: I -- I have no question that Money Mart will do just fine under the rate caps that you're proposing, because it seems like that's what you've relied on quite heavily for your numbers. So, I'm okay -- you know, it seems like -- I assume you've worked very hard to make sure that they will earn what you deem to be a reasonable rate of return because you're working from their 10K. So I'm --

DR. CHRIS ROBINSON: No.

MR. NATHAN SLEE: -- I'm okay with that. Or am I -- am I wrong on that point?

DR. CHRIS ROBINSON: Well, actually, that was where I was at ACORN. That's why the rate -- that's part of the reason the rates were lower. Where I am now is -- and I think actually it's important. I did say this to the Board, but it's worth repeating.

I mean what's underlying this and -- and you know, your question is very perceptive. What is really driving this is operating costs. Okay, that's what driving these models -- or driving these results -- the models are models.

And second, that I have a second provider that's big; that's mono-lined, and therefore does not have economies of scope; has a volume barely more than half (1/2) of what Money Mart has; and is competing in the US at an average rate of slightly under 16 percent. It varies by state, but its average rate -- which you can calculate, and I have done so -- is slightly -- and -- and presented in evidence to the Board -- is slightly under 16 percent.

And I had -- can identify their costs reasonably. That's where the eleven dollar ($11) cost comes from. So what I've actually done is, I mean, what it amounts to is I'm saying: Can I get more providers? What is a reasonable measure?

And so I then get a third measure, which is the United States has, from memory, about thirteen (13) states where one way or another, effectively payday lending is banned, about thirty-seven (37) where you can do it. And about twenty-seven (27) of those, I've got the regulated rates for, and almost all of them are at or below the rate I recommend. And there's lots of payday lenders and they're expanding the business in the US.

So now what I have is several examples where these in fact will go. So that is where I did the cutoff. So you could, of course, say that I'm making a decision just based on evidence as opposed to based on what a just and reasonable rate is.

So I'm guessing -- guessing is the wrong word. I'm estimating that at that point you get reasonable -- you get a fair compensation for fair and efficient providers. But that doesn't change the fact that a number may close in -- in Manitoba. Well, yes, that -- that simply -- they aren't efficient not from stupidity, not efficient, say again, of volume to offer loans at a decent rate.

MR. BYRON WILLIAMS: Dr. Robinson, just -- that was a helpful answer, but just out of courtesy, if -- if I could just ask you, and you'll -- you'll let Mr. Slee finish his question and then provide a helpful response. Because I think you might have interrupted him partway through.

So just, if we would just slow it down a little bit if we're --

DR. CHRIS ROBINSON: Okay.

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: Just for clarity again, I'm -- I try to be an efficient guy, I know you like efficient people in -- in -- especially with businesspeople. So I try to be efficient with my questions and try to keep them simple. So I -- just, I got a little lost onto what my question even was, so...

If -- if we could try to narrow it down and make it easier for me to really follow what -- what the answer is, because that -- that was a lot of detail for just my one little question.

DR. CHRIS ROBINSON: Okay.

MR. NATHAN SLEE: So I'm going to -- I'm going to switch gears a little bit. And I'd like to turn to Coalition Exhibit 21. And this is -- this is the Money Mart Form 10-Ks that we referred to a minute ago with Dr. Simpson.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: I'm going to have to do this one from the paper, I can't project it. I think I, well, anyway, I can't project it.

So, yes, it's Exhibit 21 --

MR. NATHAN SLEE: That should be fine, Dr. Robinson. My analysis questions aren't that complicated on this one.

DR. CHRIS ROBINSON: Now, is this just Money Mart or do you want Money Mart and...oh, sorry, this one's Money Mart. You realize there's a later one that does Advance America, the same sort of thing?

MR. NATHAN SLEE: Yeah, I'm -- I'm just looking at Money Mart.

DR. CHRIS ROBINSON: Okay.

MR. NATHAN SLEE: And if you will recall, I talked to Dr. Simpson about the operating costs per hundred dollars ($100) in Cana -- or, excuse me, operating costs per hundred dollar ($100) loan in Canadian dollars --

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: -- just a few moments ago?

DR. CHRIS ROBINSON: Yes. I remember the conversation.

MR. NATHAN SLEE: Great. And -- and we saw that in 2003 Money Mart's operating costs per hundred dollar ($100) loan was six dollars and twelve cents ($6.12)?

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: And from 2003 to 2007, those costs went from six dollars and twelve cents ($6.12)to eight dollars and fifty-one cents ($8.51)?

Is that what we see on -- on the sheet in front of you?

DR. CHRIS ROBINSON: Yes. There are some qualifications to that, but why don't you continue first?

MR. NATHAN SLEE: Fair enough. And I -- I know there's a lot of reasons behind some of this data, and I'm not getting into a real complicated analysis of it. I'm just going to ask you a really simple question, and it can be yes or no. And if it's no, that's fine as well. I just want to get your input.

Do you think it would be reasonable to use this -- this growth in operating costs as a proxy for the growth in operating costs for other firms in the industry? Because we don't have data on that, as far as I understand.

So I'm trying to find something I can work with to show how operating costs have changed in the industry over time, and this is the best I could find.

DR. CHRIS ROBINSON: No, you can't. And the reason you can't is because -- on this one I didn't -- I adjusted the loan volumes, but I -- the costs are a -

- a fraction of -- you know, are just a fraction of the loan volume. But they are --

MR. NATHAN SLEE: I'm okay with that.

DR. CHRIS ROBINSON: Yeah.

MR. NATHAN SLEE: I just -- I just wanted your input. I didn't know which way it was going to go. I'm -- I'm -- it's your sheet, so I just wanted to make sure I understood.

So I'm -- I'm trying to find some way to understand how operating costs might have changed from 2000 -- 2003 to 2007 industry-wide.

So if I needed a measure, could I maybe use inflation, say 2 percent? Would you be comfortable with that?

DR. CHRIS ROBINSON: Be careful. The reason you have to be careful is because this is per hundred dollars ($100) of loan. Remember the costs are going up, but the loan sizes are going up as well. I mean, the total volume of loans is going up with inflation.

Okay, if you borrowed a hundred dollars ($100) this year, then on average you'll borrow a hundred and two dollars ($102) next year. Because of inflation you need a hundred and two dollars ($102) to buy what a hundred (100) would have bought you the previous year.

So what's happening is -- I mean is, it's --you know, I've modelled it -- you don't have to allow for inflation in that number, but you have to have your -- your volume inflating.

My guess -- my best guess is that for the large companies the cost curve is downward sloping once we get a stable industry.

MR. NATHAN SLEE: Okay. But righ -- but you -- okay. But -- but what we see here from Money Mart is it's in fact gone up from 2003 to 2007. That's correct?

DR. CHRIS ROBINSON: But that's an artifact of the fact that the industry is growing rapidly. And, therefore, the costs are higher until the loan volumes settle out and they aren't, you know, hiring new people, et cetera.

MR. NATHAN SLEE: And I'll accept whatever premise you want to talk about. I'm just trying to figure out for the industry.

So hypothetically, if six dollars and twelve cents ($6.12) in 2003 was the industry-wide operating cost per hundred dollars ($100) loaned, could you help me to -- to make some sort of an assumption about what industry-wide operating costs per hundred dollar ($100) loan would be in 2007?

(BRIEF PAUSE)

MR. NATHAN SLEE: I know -- I know everything we're dealing with here is -- is really rough numbers, and we've made a lot guesses. So I'm just asking for your help in this particular guess.

DR. CHRIS ROBINSON: You know what, no, I -- I can't even go. I'm -- I'm getting some advice you'd have to go same store, but, no, I -- even I'm not that risk prone. I've got evidence on various store -- you know, on some stores that I can really rely on, and that's as far as I can go.

Remember, these numbers have significant manipulation in them. I mean, it's all detailed in there as to where I got the numbers and how, but they are not just taken in isolation off an income statement either.

MR. NATHAN SLEE: Okay. So if I were to -- to try to use some numbers and understand what operating costs were industry-wide from 2003 to 2007, you would encourage me to stick with the 2003 number and apply that to 2007.

Is that your recommendation using the data we have available?

DR. CHRIS ROBINSON: Yeah, I'm sorry. Yes, of course. Because I -- I mean, these numbers --

yes, you would at least have to adjust for inflation. But we have had considerable questions about the risks that are inherent, you know, everybody's taking some risks in this.

And so my choice -- I mean, my clear choice was I took the highest number, which was the most recent number, so that I would not -- I mean, yes, I can make some strong -- some -- well, no, they're pretty wide statements or, you know, pretty broad bands.

Everything I've seen and everything you've suggested says that Money Mart is the lowest cost provider, that Advance America is a low-cost provider as well, not as low cost.

So for your industry-wide, where it is true, as you have argued, that likely most stores or many store -- many stores changes everything will have higher costs, then you would be looking at eleven (11) or twelve dollars ($12) or more.

MR. NATHAN SLEE: That -- that wasn't -- that wasn't the question I was asking.

DR. CHRIS ROBINSON: I know, but you were asking for guidance about just using inflation. I think you need higher numbers than that. Okay. And remember inflation on -- applied to six twelve (612) is not going to give you anything like eight fifty-one (851).

MR. NATHAN SLEE: All right. If I could, I would encourage that you try not too much to anticipate where I might be going, because I'm trying to hone in on a specific question, and that actually isn't the direction I was going in, so...

So I've got -- I've got three (3) possibilities, and I'm only using six twelve (612) because it's just a -- as an example. If you want, I could use five dollars ($5) or ten dollars ($10), whatever. I'm throwing a random number in there. All I know is I've got some data from 2003 for the industry in Ernst & Young. I don't have any data in 2007.

So I'm trying to anticipate, if I'm going to understand operating costs, should I in 2007 be using Ernst & Young's 2003 data? Should I use the growth rate that we've seen Money Mart, which seems to be reliable 10-K data? Should I just use inflation?

What should I use?

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Yeah, unfortunately, in order to use the Ernst & Young data and even more the Deloitte & Touche data is -- on operating costs -- is irreparably contaminated. And so there's no way to take that average and somehow adjust it.

So I can't give you advice as to how you'd compare it to my data, which is not contaminated in the same way, though it's still not a -- exactly perfect. Their data overstates the costs very substantially because of the way that they did it. And I explained that in a lot of detail in the interrogatories. And so -- and in the ACORN report.

So I can't give you an advice that says, Adjust their figures upwards, because in fact their figures are too high to begin with and would in fact be too high even if unadjusted for inflation today, in my opinion.

MR. NATHAN SLEE: Is the Ernst & Young data the largest, most reliable industry-wide survey we have available in Canada on the payday loans market?

DR. CHRIS ROBINSON: We don't have a reliable survey on the payday loans market.

MR. NATHAN SLEE: On a scale from zero to more reliable, is it more reliable than anything else we have on the entire industry?

DR. CHRIS ROBINSON: Given that there's no competition, it's more reliable than nonexistent other studies. They didn't do, and Deloitte & Touche decided not to do, what I had made very clear they should have done. So can't -- can't tell you anything more. Can't -- can't do more than that. They got it wrong and --

MR. NATHAN SLEE: Okay.

DR. CHRIS ROBINSON: Deloitte & Touche compounded it.

MR. NATHAN SLEE: I'm going try to work with it because it's all I've got. And I understand, I've heard a lot of times in this Hearing that there's a lot of limitations in terms of the data that we've got. So I mean, I think we would all agree that -- and I've -- I think I'm repeating myself, but if we -- if we had a full range of data, the Board would be much better off, but we don't.

So I'm going to try and work with it because it's all I've got.

DR. CHRIS ROBINSON: But --

MR. NATHAN SLEE: If -- if that's okay.

DR. CHRIS ROBINSON: Okay, there's one restriction on that. And this is sort of goes -- goes back to, excuse me, how social scientists operate. You can have high variance around the data, which we all agree is there. We're not sure.

But what I have identified why I can't rely on most of it is because it is biassed. And, therefore, when you work with biassed data, you get biassed conclusions. I have attempted to avoid biases, or where they are I've tried to open them up. But I can't open up Ernst & Young's biases. And I don't mean political bias. I just mean the bias caused by failing to account for this rapid increase in volume.

MR. NATHAN SLEE: Do you have operating costs for any firm other than -- in the Canadian market operating today, excluding Advance America -- or let me rephrase that.

Do you have operating cost numbers for any firm operating -- that was operating in Canada on July -- let's say January 1, 2007, other than Money Mart?

DR. CHRIS ROBINSON: Mr. Sardo had closed down by then. We have his figures. No I don't have figures that I can rely on for the operating costs.

MR. NATHAN SLEE: Other than Money Mart?

DR. CHRIS ROBINSON: Other than Money Mart.

MR. NATHAN SLEE: So you have suggested that -- and I think Dr. Buckland and Dr. Simpson seem to echo this sentiment -- that the consumer would be best served in a viable industry which includes more than one (1) competitor. Dr. Buckland said five (5) to ten (10). You mentioned five (5) or six (6), maybe seven (7); more than two (2) we'll call it.

So we -- we've heard from all three (3) of you that this is something that the Board should really be focusing on. And if I understand you correctly, you are suggesting that when the Board looks at the calculations and estimates the -- the effect that a rate cap might have on the competition in the market, that we are better off to use the data of one (1) firm -- and if you want to use Mr. Sardo's data we'll call it two (2) firms, though I don't believe you've used Mr. Sardo's data.

So you'd rather use the firm -- the data from one (1) firm than use the best, albeit not that great, data we have for the whole industry. Is that correct?

DR. CHRIS ROBINSON: No, because in fact I'm using the Advance America data. Were I using the Money Mart data, I'd be back at the ACORN recommendations, or possibly even lower. And I'd be recommending a 12 percent cap on fees, as opposed to 17 percent. So I clearly did make a different choice.

MR. NATHAN SLEE: Okay, so you would advise the Board that rather than using the data we have -- which, again, isn't very good for the whole industry -- it is better to use the data from -- one (1) firm in Canada and one (1) firm that up to a couple months ago had absolutely zero operations in Canada.

That is your position?

DR. CHRIS ROBINSON: Thirty-seven (37) US states, twenty-seven (27) of them with recommendations, almost all of which fall at or below mine.

MR. NATHAN SLEE: It's a simple yes or no; I'm just trying to clarify if that is in fact your position.

DR. CHRIS ROBINSON: But you're asking me if I'm recommending we use only one (1) firm's data, and I'm telling you I didn't recommend that. I stated all the data that I've used.

MR. NATHAN SLEE: Two (2) firms, is that correct?

DR. CHRIS ROBINSON: No, thirty-seven (37) US states, of which twenty-seven (27) are recommending and have very active payday lending industries that caps at or below mine.

Now, if we wish to reject the US entirely, that is the Board's decision. I'm simply providing the expert evidence, okay, so that --

MR. NATHAN SLEE: And -- and --

DR. CHRIS ROBINSON: And remember, I've given the spreadsheets. It's the Board's decision where they cut this off.

MR. NATHAN SLEE: I was just talking about operating costs, Dr. Robinson. Can you name the -- so -- so I'm -- I'm -- just so I'm clear, how many firms' operating costs are you using in your calculation?

DR. CHRIS ROBINSON: Oh, okay, for operating costs, yes, I'm using two (2).

MR. NATHAN SLEE: Okay, and one (1) of those firms is a Canadian firm, and one (1) of those firms, for all intents and purposes, in its data has absolutely zero Canadian information?

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: Thank you.

(BRIEF PAUSE)

MR. NATHAN SLEE: Can -- Doc -- Dr. Robinson, can I presume, then, if I were to present some scenarios using Ernst & Young data, that you would dismiss them immediately?

DR. CHRIS ROBINSON: Well now, we should be careful about that. Are you just talking about operating cost data?

MR. NATHAN SLEE: Yes, that is correct.

DR. CHRIS ROBINSON: Okay, because, of course, I have been using evidence from Ernst & Young and

Deloitte & Touche with respect to bad debts --

MR. NATHAN SLEE: So, just so I'm clear, so your --

DR. CHRIS ROBINSON: -- at capital. It's operating costs that were -- this is the horse.

MR. NATHAN SLEE: So --

DR. CHRIS ROBINSON: Would I would have reject it? Yes. Yes, I think it is biassed upwards, and I can't determine the extent of the bias --

MR. NATHAN SLEE: Okay.

DR. CHRIS ROBINSON: -- nor do I think anyone can.

MR. NATHAN SLEE: But it's an appropriate source to determine bad debt. Is that correct?

DR. CHRIS ROBINSON: Yes, providing you're modelling it properly. But both Ernst & Young and I model it. We're -- forget that last comment.

MR. NATHAN SLEE: So --

DR. CHRIS ROBINSON: Just accept -- accept that numbers at -- where I drew from Ernst & Young and from Deloitte & Touche.

MR. NATHAN SLEE: So, depending on who's looking at it, some -- some data is useful, some is not. You can choose what you want to use; the rest we should probably toss out. Is that correct?

And -- and actually, you know, I'm sorry, I'm -- I don't know, leading, speculating. I'm not sure what you call it, but it's not relevant to my point.

MR. BYRON WILLIAMS: But, Mr. Slee, if -- you can certainly ask these questions and it might -- or take a break and reflect that I -- I've certainly asked Dr. Robinson to help you if he can, okay?

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: I think where I'm going is I've -- I've prepared a little bit of analysis using your spreadsheet and some data on operating costs from Ernst & Young. And I was going to explore that with you, but I -- if in your mind that data is irrelevant to the Board, then I will save it, and I'll present it in my closing arguments.

DR. CHRIS ROBINSON: I guess I would say, I'm an academic. I look at everything. I mean what would the -- I mean this is really the Board's question. But when would they like to hear this?

I am capable of being convinced that I am wrong, as well, about something. Maybe it would better if Mr. Slee presented it now and -- and we see. I mean, again, as I said about Mr. Sardo, Mr. Slee knows a great deal about the industry and is informing all of us, including me.

MR. BYRON WILLIAMS: I'd certainly -- if we can assist you, Mr. Slee, we're hep -- happy to, and I'd ask Dr. Robinson to --

MR. NATHAN SLEE: Can I have a minute to confer with Mr. Williams?

THE CHAIRPERSON: Yes.

MR. NATHAN SLEE: Thank you.

--- Upon recessing at 3:34 p.m.

--- Upon resuming at 3:36 p.m.

THE CHAIRPERSON: All right, go ahead.

MR. NATHAN SLEE: Thank you.

THE CHAIRPERSON: We have your 310-11 Exhibit here.

MR. NATHAN SLEE: Yes, Mr. Gaudreau was good enough to circulate this. And what this is is a few different variations of Dr. Robinson's spreadsheet. And I'm hoping I could speak to him about that in a minute.

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: So, Dr. Robinson, I think from our previous conversation, probably the best way to move forward from here is that we sort of agree to disagree on the validity of the Ernst & Young data.

I would like to use it to display a couple scenarios, and then I was hoping you could tell me if in fact I've used your spreadsheet correctly. And I do understand that -- that you've got a different position on whether or not I should even be looking at the operating costs on Ernst & Young. So if we could put those aside -- or put that discussion aside and -- and move on to this spreadsheet and the assumptions that I put into it.

Hopefully you can just tell me if I did understand your spreadsheet properly. And --

DR. CHRIS ROBINSON: I -- I fully agree that you should be trying different numbers and that what you're doing is perfectly appropriate for the Board.

MR. NATHAN SLEE: Okay, great. So I will -- I will walk through what I've done, and I will just explain my assumptions, and you can -- you can tell me how I did with the spreadsheet, so --

DR. CHRIS ROBINSON: I -- I actually have your -- your second spreadsheet, Number B, projected up here now.

MR. NATHAN SLEE: Oh, okay, great, thank you. And -- yeah, okay, we'll talk about that in a second. So what I have done is I understood that on

Coalition Exhibit 21, we learned that in 2003 Money Mart's operating costs for a hundred dollar ($100) loan was six dollars and twelve cents ($6.12)?

DR. CHRIS ROBINSON: Right.

MR. NATHAN SLEE: And in Ernst & Young, we learned, and we talked about this earlier with Dr. Simpson, that the operating costs for the large firms in Ernst & Young was twelve dollars and twenty-one cents ($12.21)?

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: Okay. So that -- that much I knew. So here's what I did, for better or for worse, is I looked at the numbers, and I said, Okay, I got five (5) firms with an average of twelve dollars and twenty-one cents ($12.21) operating costs.

I know one (1) of them has an operating cost of six dollars and twelve cents ($6.12). So if I take that firm out -- or if I -- if I factor that into the calculation, then I -- then by my math, the other four (4) firms must then have an average operating cost of thirteen dollars and seventy-three cents ($13.73).

So that's, for better or for worse, how I came up with what I understood to be the operating costs for the other four (4) large firms considered in the Ernst & Young study.

DR. CHRIS ROBINSON: Yes, I understand.

MR. NATHAN SLEE: Great. And so what I've done then, understanding that at least one (1) of the large firms in the industry today has loan volumes of 1.2 million, I've tried to -- to plug that number in.

So what I'd like to do just quickly is just to review Spreadsheet A, just so everybody knows how this all goes together. So on Spreadsheet A, what I've done here is I've just replicated the values, Dr. Robinson, that you used to come up with your number from Coalition Exhibit 26. And this is the sheet we were talking about earlier, where you had given a number of examples of different variables and what kind of excess per loan profit we might expect to see.

So using your spreadsheet I've -- I've actually haven't really changed much of anything at all. I've just got the -- the loan volume of 1.2 million. I've got the operating costs of twelve dollars ($12), and that's your number. And I'm just showing how that results in an excess loss per loan of two dollars and seventy-three cents ($2.73). And we see that on your Coalition Exhibit 26 that we talked about earlier.

I'm sorry for us flipping between documents.

DR. CHRIS ROBINSON: Yes. And I confirm

that Mr. Slee has done that correctly. He's done exactly what he said he did.

MR. NATHAN SLEE: And going back to our earlier conversation about that document, when we looked at the firm with a -- with a per-loan loss of six dollars and sixteen cents ($6.16), we found out that it -- they may break even. They may continue to operate, but it sounded like under, what I thought to be some unique circumstances. So I think we had that discussion.

So if we just flip to Spreadsheet B, I've only changed one (1) variable on this spreadsheet, and that is high-lighted in line 23. And what I did was, was I took the operating costs that I -- I had extrapolated from Ernst & Young as being the operating costs for the other four (4) large firms. And I extrapolated that number to be thirteen dollars and seventy-three cents ($13.73). And, Dr. Robinson, you've put it up on your screen, but everyone's got it in front of them. So that's the only variable I changed from "A" to "B," just one (1).

And -- and the outcome is in line 54, that the excess profit per loan is negative seven dollars and seventy-seven cents ($7.77.

Do you see that, Dr. Robinson?

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: And I -- have I -- I'm sorry -- used your spreadsheet for the --

DR. CHRIS ROBINSON: Yes, I -- I have --

MR. NATHAN SLEE: -- purpose it was intended?

DR. CHRIS ROBINSON: I have simply literally replicated by hand what Mr. Slee did. He has done exactly what he said he did. He changed one (1) variable, he would -- or I would -- if I changed that variable, I would get exactly the same results. So that he has done exactly what he says, no more, no less.

MR. NATHAN SLEE: And this is for a store with a volume of 1.2 million loans. Is that correct?

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: Or, excuse me, $1.2 million in loans?

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: Now we discussed earlier how we might be able to anticipate where operating costs have gone since 2003. And you weren't comfortable with me using Money Mart's cost experience as a proxy for the rest of the industry, so we -- we didn't go there.

But one (1) other option that we talked about, and you wouldn't give me this one either, but I did discuss the option of using inflation.

So what I would like to just do now is show what we might expect to see if operating costs have increased by an inflation rate of 2 percent per year since 2003. And this is Spreadsheet labelled "C."

MR. BYRON WILLIAMS: So, Mr. Slee, just so I understand, you're -- you're asking Dr. Robinson to assume that the fee from the spreadsheet before, of thirteen seventy-three (13.73), has increased by the rate of inflation?

MR. NATHAN SLEE: In fact it was the operating costs not the --

MR. BYRON WILLIAMS: Operating costs, excuse me. Yes, sorry.

MR. NATHAN SLEE: Yes.

MR. BYRON WILLIAMS: By inflation?

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: Yes. And -- and by -- the inflation rate I was using was 2 percent per year. And I'm hoping -- actually, Dr. Robinson, if you want to do the math that's -- take a minute to do it --

DR. CHRIS ROBINSON: Oh, I just -- I just checked for -- for you as I'm sure you would check me. So in -- in Spreadsheet C, Mr. Slee has adjusted the costs for 2 percent, which is a reasonable estimate of -- of what inflation has been. We -- I don't remember the exact numbers, but that's very close.

You do get, then, fourteen dollars and eighty-six cents ($14.86). And that is the only other change he has made on that spreadsheet, so that "C "then would look --

MR. NATHAN SLEE: And everybody has this in front of them, so you can --

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: -- refer down to line 54. And as long as Dr. Robinson agrees, I think we'll see that there was an excess loss per loan of eleven dollars and seven cents ($11.07).

DR. CHRIS ROBINSON: Yes, that is correct.

MR. NATHAN SLEE: Excellent. Thank you. And I'm going to take a leap here. And I know you don't agree, and I respect that, and I'm not going to argue. But I will present it just because I took the time to print it out and put a little "D" in the top corner.

So Spreadsheet labelled "D," what I've done here is I have assumed that operating costs for the entire industry, for every firm, have increased at the same rate that they increased for Money Mart from 2003 to

2007.

I -- I understand you disagree and, again, I'm just putting this on the record to make sure that I've used the spreadsheet properly.

Now, by my calculations, from 2003 to 2007, the total increase in Money Mart's operating costs was 39 percent. Is that your understanding, Dr. Robinson?

From six twelve (6.12) to eight fifty-one (8.51)? Is that a 39 percent increase?

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Yes. No, Mr. Slee again is doing exactly what he said he did, nothing more nothing less.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Oh, okay. Just remind me, I'm just -- to reassure the Board, the nineteen oh nine (19.09) is approximately thirty-nine (39) -- one point three nine (1.39) times --

MR. NATHAN SLEE: It's -- it's thirteen dollars and seventy-three cents ($13.73) times

39 percent. Thank you, 1.39.

DR. CHRIS ROBINSON: Okay, I must -- I must have simply made a mistake in the calculator, because I got the wrong answer. Yes, so that Mr. Slee's calculations all proceed exactly as he said, and they're made on that -- exactly on the basis that he's...and he will then get exactly the results that he is -- provided.

MR. NATHAN SLEE: So if in fact industry -- operating costs in the industry have grown at the same rate that Money Mart operating costs have grown, then using the Ernst & Young data, we'd see operating costs per hundred dollar ($100) loan for the large firms in the industry -- this is the five (5) largest -- excuse me, the -- the four (4) other large firms in the industry -- would be nineteen dollars and nine cents ($19.09).

And a -- a store with volumes of 1.2 million would experience an excess economic loss of twenty-three dollars and thirty-nine cents ($23.39). Is that correct?

DR. CHRIS ROBINSON: Yes. I would -- I would also say, though, just to assist the Board, that in fact you don't need to have gone the route that Mr. Slee did specifically. In other words, it's a perfectly logical and sensible way for him to proceed, but you could arrive at a figure of nineteen dollars ($19) per hundred dollar ($100) loan operating costs through whatever way you want from the evidence. This is the result you'd get.

In other words, he's provided a plausible explanation for what's going on, but in fact this is what the spreadsheet's for. This is what it is. If you decide that nineteen dollars ($19) is the fair rate you want to allow, this is the result you get.

(BRIEF PAUSE)

MR. NATHAN SLEE: So, Dr. Robinson, from our previous discussions, we seem to be -- we seem to understand that a firm -- or a store, excuse me, that experiences an economic loss per loan of greater than six dollars and sixteen cents ($6.16) is either going to -- well, it's going operate under some strange circumstances, or it's going to close down?

DR. CHRIS ROBINSON: Okay, my best judgment -- and I can't be perfect about this, of course -- it's not necessarily strange circumstances. Spreadsheet B, with the thirteen dollars and seventy-three cents ($13.73), in my opinion, if this is the situation that the Board decides it should be doing, then the just and reasonable rate would be higher than the one that I have provided, okay.

That would be -- I don't draw any conclusions to whether or not the store will close. But that is not the decision you're making. The decision you're making is what is a just and reasonable rate.

However, I think it is quite safe to say for "C" and "D" -- or sorry, for "D" and "E" -- sorry, going back here.

MR. NATHAN SLEE: Just "C" and "D."

DR. CHRIS ROBINSON: Okay, "C" -- "C," I think, it's quite likely that the stores would start closing at that level.

And "D" I have -- I mean, I could remodel it, but I don't need to. At that level of economic loss, they'd be suffering actual cashflow losses. They would exit the business in a hurry so that -- that's a -- and, of course, obviously "D" is the same. Sorry, I'm -- I got no -- sorry.

MR. NATHAN SLEE: But is -- is it safe to --

DR. CHRIS ROBINSON: "C" -- "C" I expect they would be exiting. "D" they would be exiting for sure. I expect by "C," by the level of "C," where they've got eleven-o-seven (1107) loss, they're forty-five thousand (45,000), you know -- economic loss for a firm.

I think that at that level they would probably be getting cash flow losses. And, therefore, anybody would exit in that situation.

MR. NATHAN SLEE: Okay, so we -- we could say maybe there's a slight possibility under "B" this store would close, and under "C" and "D" they'd definitely close.

Is that fair? Qualifying for --

DR. CHRIS ROBINSON: Well, under "D" there's no question they would. Under "C" --

MR. NATHAN SLEE: So "D," they're closed.

DR. CHRIS ROBINSON: -- I haven't done the analysis for "C" but, yeah, my gut feel on that is that they would be. And in any case "B," "C," and "D" all represent a situation where if you accept all of that, it is an unjust rate under the terms for the Board.

MR. NATHAN SLEE: That's great, thank you. If you just give me one minute to again find my place, and we'll continue cruising along.

(BRIEF PAUSE)

MR. NATHAN SLEE: Dr. Robinson, I think you heard me say earlier that I was comfortable that the

-- with the fact that the proposal you're making, given that it's based on Money Mart's own 10-K data, it seems quite reasonable that Money Mart will be able to continue and be viable under your rates.

You -- you heard me make that --

DR. CHRIS ROBINSON: Yes.

MR. NATHAN SLEE: -- statement? And I've just given -- I've just used what I have as the best public data, in my opinion, the best public data available on the industry to make the claim that it is possible that under your rate formula no firm other than Money Mart will survive. I understand you disagree with some of my assumptions.

But using my assumptions, do you agree that that is what the evidence supports?

DR. CHRIS ROBINSON: I'm not going to sleep, but this question is worth thinking about for a minute, okay?

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Dr. Robinson, if you need to undertake...?

DR. CHRIS ROBINSON: No, I'm not prepared to agree that only Money Mart would survive. But using the assumptions -- and there's -- there's only one (1) change in assumption. The only assumption he's changed, as I said originally, the horse is the operating costs. Well, sorry the two (2) horses, the operating costs and the volume.

So he's chosen 1.2 million dollar volume and -- which, of course, I was looking at as well. And he shows in the difference of -- of operating costs with different basis. And you've already the different arguments we make for them.

But yes, he is representing -- he is following the same logic and the same methods that I'm using, which I've also testified are essentially very sim -- similar to what Dr. Gould has done.

And under those circumstances it would not be -- and I'm not going say who's going to exit and who's going to not, because the decision is a just and reasonable rate.

It would not be, if you accept his scenarios, be a just and reasonable rate to charge the seventeen (17), plus twelve (12), plus, you know, plus ten (10), plus other fees and so on.

You would need in one way or another to increase the revenue if you felt that that was the just and reasonable balance between the consumers' and the producers' interests.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: We're just making sure that we -- we still agree with what I just said. Dr. Simpson keeps me straight.

MR. NATHAN SLEE: And you'll -- you'll let me know if -- if what you just said needs to change. So, I've just put forth an argument to suggest that there may be under some scenario the situation where no firm other than Money Mart will survive under your rate formula. You've given me a bit of your input on that and I appreciate it.

If I am in fact right and if your rate formula does in fact lead to just one (1) firm, or maybe even two (2) -- let's say Advance America, because I think you've factored them into your -- into your numbers, as well.

If we do get the situation where it's just Money Mart and Advance America, or any two (2) firms providing Payday loans in Manitoba, would this be the situation you're referring to, where we would lose more as a society because there is insufficient competition to drive innovation and further cost reduction?

(BRIEF PAUSE)

DR. CHRIS ROBINSON: I didn't accept that you would -- so I'm not accepting your premise that it would end up with only two (2) firms, because when you have that large star -- starting exodus, what you have is one (1) of several scenarios.

One (1) of my interrogatory questions, which nobody was willing to respond to, was about the market for corporate control. What we will see probably is a cons -- well, what we have seen some of and we'll probably see more of is a consolidation of the industry, so that you will in fact end up with several larger players, not just Money Mart or not just Money Mart and Advance America.

And we'll get -- oligopolistic competition, which can be, and it's difficult to say when, can be very fierce because there's a great deal at stake when you've only got a few competitors.

So consequently, I can't make -- in other words, I can make the statement and can agree with you that a number of firms may exit. But I can't take it down to one, (1) because there's so much loose volume floating here, there's something so support somebody who's more efficient at -- you know, at those high volumes.

And clearly, since Advance America and Money Mart can be that efficient, there's no reasons to suppose that other chains cannot pick up so that, for example, Cash Money can decide to buy up a whole bunch of the small stores and gain very considerable economies of scale.

Also, as Dr. Simpson has pointed out, the lower rates will induce a certain amount of increase in volume, which, as we've seen, has a terrific effect on profitability.

MR. NATHAN SLEE: Just picking up on that comment, if I heard you correctly, did you suggest that one (1) of the possible outcomes that you might expect from your rate formula is that we may have a -- that the -- the market in Manitoba may resemble an oligopoly?

DR. CHRIS ROBINSON: Well, actually, we're sort of -- yeah, we're saying it already does. I guess I'm saying that it would be more clearly so in that there would be fewer small competitors even. But remember, I've already said that 84 percent of the market is two (2) firms, and the top five (5) is 90 percent.

MR. NATHAN SLEE: I agree, and I -- I understand. That's why I was asking the question. I understand that the argument is in fact that the -- the market does resemble an oligopoly, and it's been presented by members of this panel that that's in fact a bad thing.

Now, Dr. Robinson, when you're faced with a challenge, do you ever consider trying to work towards the best-case scenario? Or do you prefer to sort of work within maybe the lesser option, in terms of maintaining a regulated oligopoly?

DR. CHRIS ROBINSON: Unfortunately, we can't change the nature of the business; it would just be like saying that we should go to the American banking system. Now, we could go into the American banking system at great length, if you like, but I don't think anybody really wants to hear how inefficient it is.

It's the same situation here, is what we are arguing -- and this is really the area of industrial organisation -- we're arguing that essentially -- you may recall in presentations that one (1) of the characteristics of the business, well, the characteristics of the business are going to lead towards this. They have led there already under -- with no rate caps.

There's no reason to suppose that there would be any way that -- I mean if -- we have no rate caps now and it has not been pure competition. And we've shown that. So we're not going to get it in any way so that then your -- the -- the best solution that is possible with the nature of things.

Just as you cannot have twenty (20) telephone companies competing in one (1) province for local service, you don't get, you know, a hundred (100) payday lenders on every -- you know, payday lender on every corner.

MR. NATHAN SLEE: Thank you. Dr. Robinson, if the Board choses a rate cap that does -- and I -- I understand that you are making every effort to make sure this doesn't happen.

But hypothetically, if the Board did select a rate cap that forced more firms out of the market than you or Dr. Buckland or Dr. Simpson would deem to be in the cust -- consumer's best interest, would this be an easy mistake to fix?

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Just to assist the panel, so are you asking for a -- a legal opinion or an economic? Because I -- I could probably come up with the legal opinion that might help to fix you up, but --

MR. NATHAN SLEE: I can -- I can actually rephrase the question if -- if I have the attention of the panel.

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: Would you like me to rephrase the question, Dr. Robinson?

DR. CHRIS ROBINSON: No, no. No, I think it's a very good question, and I think it's very helpful for the Board to think about that. And indeed I've thought about it. So finally, I actually asked the experts. Well, you know, experts have to consult experts too.

This is not -- we have talked about barriers to entry, and there are barriers to entry. But this is not like Manitoba Telephone and an insurance -- public insurance scheme. This is not a $100 billion industry that you have to get into by building nuclear reactors and stuff. This is an industry which we saw, virtually overnight, Advance America walked in the door.

So if you what you do -- if what the Board does is set too tight a rate and we have more exits and in fact a whole bunch of Manitobans actually have to manage their finances properly, then we're in the situation that we were back in 1995, when they didn't have payday loans.

And Advance America -- then, when in three (3) years the Board resets the loans, because it's decided that -- that they should never have listened to me, then they reset them, Advance America will be back in in a few weeks.

So that the barriers to entry are not that serious. And there are several large providers in the US. And they know what's going on, so they'll be back fast.

MR. NATHAN SLEE: So if Rentcash, Cashmoney, and anybody else who you deem to be suitable for operating in Manitoba were to shut down as a result of a rate cap that was too tight, the Board could adjust the rate, call the operators of that -- those companies and say, Hey, guys, come on back. We'd love to have you. We made a mistake.

Is that something the Board could do?

DR. CHRIS ROBINSON: Well, actually let's get -- let's talk about the intermediate step. Where are all the payday lenders? The payday lenders are primarily in Winnipeg. So the first thing that's going to happen is that Money Mart is going to make a pile of money, because they're suddenly going to be running one and half (1 1/2) times the volume through theirs stores with minimal increases in costs.

And they will be -- they will just love it. The consumers will still be getting served. Since there's a rate cap, they're get -- getting served at a low rate. There will be then, of course, closure in the small communities. And you'll be happy, because then maybe you'll pick them up in -- in 310-Loan and all the other telephone operators and Internet operators.

So, no, it's not that significant a thing. It -- it's not like preventing milk from being delivered to small-town Alberta -- or sorry, small town Manitoba.

MR. BYRON WILLIAMS: And -- and, Mr. Slee, just out of fairness to the witnesses, there are powers under the legislation that -- that come into effect. I'm not going to go into them, but your -- the economic stuff I'm fine with. I just want to make sure you don't go into the -- the Board's powers --

MR. NATHAN SLEE: I appreciate that. And I -- if I understand correctly, I think the Board can at any time re-evaluate the rate at -- and they're mandated to do it every three (3) years --

MR. BYRON WILLIAMS: Now, you're going to ask me to review the legislation, but --

MR. NATHAN SLEE: Sorry.

MR. BYRON WILLIAMS: -- I just -- as long as we stay off the Board's powers and just keep going on the economic, your questions are fine and very helpful.

DR. CHRIS ROBINSON: Are you suggesting we should be -- both be moving to Manitoba for these continuous Hearings?

MR. NATHAN SLEE: Depends what rate the Board sets.

(BRIEF PAUSE)

MR. NATHAN SLEE: Now I'm -- I'm going -- I have this point and then I have one (1) more in the interest of time. Is that okay?

THE CHAIRPERSON: It does not seem fair to send you away just to have you come all the way back for a couple of more questions.

MR. NATHAN SLEE: I appreciate that, so I'll -- I'll try to be quick.

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: So I'm going to open up one (1) more question that might have some room for agreeing to disagree. So, Dr. Robinson, we'll try, you and I, to agree to disagree efficiently.

You just made a comment suggesting that

310-Loan may actually have a great interest in a situation where rate caps were set at a rate that was low enough that would force quite a few firms to exit, because we could swoop in and pick up quite a bit of -- of volume. So we -- it may very well be advantageous to 310-Loan.

Was that what you just stated?

DR. CHRIS ROBINSON: Let me be careful here. Yes, that is the point, but it is not -- I'm simply doing, as you and I have both been doing, making these personalized examples. But in fact there are many Internet lenders, and we don't have evidence on their costs.

What I'm simply saying is that they can serve the remote communities or serve any place where they've closed down, so it might be beneficial. However, I realize also, that it might be taken, as I'm suggesting, that Mr. Slee's comments are completely self-serving.

But I am in fact agreeing with his analysis to the extent I have along, without any -- I don't have any interest. He hasn't sold me any shares yet in his company. So I believe, you know, what he said is -- is a valid analysis.

MR. NATHAN SLEE: If -- I don't know if

anyone's going to have a copy of this, but I just want to refer you quickly to Information Request PUB/310-Loan-1-1J. And I can just describe it to you, hopefully. Or if you have it, that would be great.

But I could describe it to you, and I think it would be easy to follow.

DR. CHRIS ROBINSON: Sorry, who is this addressed to?

MR. NATHAN SLEE: This -- I guess this would be Information -- responses to Information Requests, so this is --

DR. CHRIS ROBINSON: I have all the First Round responses up here, which is --

MR. NATHAN SLEE: This is --

THE CHAIRPERSON: It might be simpler, Mr. Slee, if you just asked your question and see whether see can follow.

MR. NATHAN SLEE: Thank you.

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: Thank you. So in -- in PUB/310-1-1J, the Board asked 310-Loan to calculate our projected rate of return under four (4) scenarios. So these scenarios were seventeen dollars ($17) per hundred (100), twenty dollars ($20) per hundred (100), twenty-three dollars ($23) per hundred (100), and twenty-seven dollars ($27) per hundred.

I'm not sure if you had a chance to review my response to that, and I'll tell you that this was -- would be based on our -- our volume in -- I'll have to remind myself -- year end 2006.

So based on our volume and our cost in year end 2006, at a rate of 17 percent, my firm would earn a loss -- a negative rate of return -- so a rate of return of negative 20.14 percent.

So, do you have any calculations that might help the Board understand what kind of a volume increase 310-Loan would -- would require in order to turn that negative 20.14 percent into a reasonable rate of return?

DR. CHRIS ROBINSON: No, this is something that right from the work I started doing for the federal government, we've not had the information to do and were aware of the problem.

But, no, I can't do that, not with what I have now. You could.

MR. NATHAN SLEE: You're right, I could. And so if I don't get enough volume to make up for the lower rates, I would in fact stop operating or offering loans in Manitoba, because it would not be cost effective at seventeen dollars ($17) per hundred (100)?

DR. CHRIS ROBINSON: Yes. I'd want to see how you did your calcu -- rate calculations in detail.

MR. NATHAN SLEE: I thought you might. I'm not sure if you're aware or not, but I did actually submit my financials to the Board when they were willing to take them confidential -- confidentially.

So I have put them forward. The Board's, for good reasons, deciding not to go with the confidential filings. But they would -- were put forward, so the Board could have taken a close look at them if they wanted to.

I will now slide into my last point. In your testimony, Dr. Robinson, on December 17th, one of the conclusions that you drew -- and for anyone who wants to follow along, this is page 3100 of the transcripts.

The conclusion you drew, and I'm quoting, is:

> "If there is no rate cap there will not be, in my opinion, any particular fee competition, and I think the evidence supports that."

End quote. Was that your statement? And I'm going to lead to another one, so I just want to confirm if that was your statement.

MR. BYRON WILLIAMS: And you're referring to the transcript?

MR. NATHAN SLEE: Yeah, this is the transcripts from --

DR. CHRIS ROBINSON: Yes, that -- that --

MR. NATHAN SLEE: -- December 17th.

DR. CHRIS ROBINSON: -- I'm not going to bother looking it up. That sounds -- that sounds correct to me.

MR. NATHAN SLEE: Okay, and -- and when you say "the evidence supports that," one (1) piece of evidence that you spoke about was, and again I'm going to quote here:

> "Advance America clearly charges higher in whatever jurisdiction it is in because it can do so."

End quote.

DR. CHRIS ROBINSON: Yes, I said that, yes. And that was in the US, of course.

MR. NATHAN SLEE: Great. Mr. Gaudreau, if I could just get your help to circulate 310-9. And I will be coming behind it with 310-10 in a second.

(BRIEF PAUSE)

MS. ANITA SOUTHALL: For the record, 310-9 will be entered as an exhibit entitled "Maximum Finance Charges in Regulated States."

--- EXHIBIT NO. 310-LOAN-9: Document entitled "Maximum Finance Charges in Regulated States"

MR. BYRON WILLIAMS: If we could just have a couple minutes, Mr. Chairman, the witness hasn't seen this nor have I. So if we can just spend a couple minutes with it.

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: If -- if I could maybe introduce the document and then give you a minute, it might be more helpful, Mr. Williams. Basically what the document is, all I've done is I have extrapolate -- well I've -- I've used solely the document provided by the Coalition. It was an exhibit titled "State Regulatory Regime."

And I've -- all I've done is just isolated the one (1) field that they gave us, which was maximum finance charge on a hundred dollars ($100) for fourteen (14) days. So this is the Coalition data. I just presented it in a way that it was just all in one place so it would be easier to speak to.

DR. CHRIS ROBINSON: Yes, I'm sorry that I -- I regret that this -- this is going to be a debating point here, because I disagree with the way in which you summarized it. And the reason I disagree is because you've failed -- you've done it simply for a hundred dollars ($100), when in fact a number of states have sliding scales.

MR. NATHAN SLEE: I took it right off the Coalition exhibit. So are -- are you suggesting the Coalition presented the data in -- in a way that is inappropriate?

MR. BYRON WILLIAMS: Let -- let's hold on until we can at least look at the -- the document for one (1) second if you might -- if you would.

(BRIEF PAUSE)

DR. CHRIS ROBINSON: Okay. Yes, I -- I have it now. I don't have it on the computer. I can't display it, because the final typing was done in the Public Interest Law Centre. And, therefore, it can't be transferred to anybody else in the world.

Unfortunately, the disagreement arises in the two (2) columns sort of in the middle of the page, Maximum Finance Rate and Fees and then Finance Charge Fourteen Days, Hundred Dollar ($100) Loan.

If, however, for example you look at Indiana, okay, it is marked on Mr. Slee's table as fifteen dollars ($15) for a hundred (100). That is correct. However, that's not the average rate for Indiana.

If you look at the table that we submitted it is -- and this was checked by -- by two (2) of us, the articling student, Mr. Candles, and myself. It's 15 percent on zero to two fifty (250), 13 percent on two fifty one (251) to four hundred (400), 10 percent on 401 to five hundred (500), so that it in fact looks sort of like my sliding scale. And the average, of course, is less than 15 percent. And if you go down the slide, you see a variety of them.

And the other thing that's not shown it says the unregulated US states are in fact regulated. In general they are regulated so that no payday lenders can operate.

MR. NATHAN SLEE: So I could -- okay.

DR. CHRIS ROBINSON: Okay?

MR. NATHAN SLEE: I'm -- I'm just providing the data, again, that you gave me and -- and when it -- sorry.

DR. CHRIS ROBINSON: Well, we gave you the whole table. It's a --

MR. NATHAN SLEE: Yep.

DR. CHRIS ROBINSON: It's the -- the thing that you should have done was take the column one (1) to the left. But, of course, we should acknowledge that -- so this will give a rate, I mean, my count -- well, I don't have the count here, oh, yes, I do. Oh, damn, it's going to take me a while to find it.

But I'm going by memory. I've -- I've quoted several times there are, I think, seventeen (17) -- twenty-seven (27) states and seven (7), fifteen (15) of them are at or below 15 percent on average, allowing for the sliding scales. And most of the rest are lower than 20 percent and therefore are, you know, a little bit less, little bit more, or right on what I'm recommending.

So the great majority of states that allow payday lending at all are in fact at or below the level that I have recommended.

The other states -- the thirteen (13) or so that are missing that neither Mr. Slee or I have listed here -- are States like Oregon or North Carolina, which have in one way or another made it impossible for payday lenders to compete, either by banning it altogether or by allowing only a commonly 36 percent per annum rate, which everybody in the room agrees is simply not viable for standalone payday lenders.

MR. BYRON WILLIAMS: And, Mr. Slee, if it would help, I believe the -- the -- Dr. Robinson's calculations appear in Coalition Exhibit 24, which is his spreadsheet -- or the -- the -- the PowerPoint presentation.

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: I -- I did see Dr. Robinson's numbers and all. I was -- what I didn't see -- I don't recall seeing an average number. So what I was just attempting to do is present an average so that we could have the discussion.

Dr. Robinson, I do agree with you that in your assessment that the finance charge for a hundred dollar ($100) loan would be overstating the actual average charge in the industry.

So I -- I see your point there, and I do agree.

DR. CHRIS ROBINSON: Yes. But in fact if you look at the right-hand side of the -- the right-hand side, just the four (4) rate groupings, number of states, bump them down a little bit.

But what you get is, you know, that -- what I'm saying basically is I'm saying he's saying twenty (20). I'm saying twenty-seven (27) are at less than 20 percent. And I think I'm, saying twenty-seven (27) are at less than twenty (20) -- or less than 20 percent on average. And most of those are at or below my recommended rate cap.

So that our evidence is not so dramatically different. Neither of us has weighted it by the volume per state.

THE CHAIRPERSON: But I do not think we have heard Mr. Slee's question yet.

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: So -- So I think what we've concluded that -- is that I've presented an average of seventeen dollars and sixty-seven cents ($17.67) for a hundred dollar ($100) loan. And I think we agree that that is a bit of an overstatement, because in fact the -- on a three hundred dollar ($300) loan, based on some of the formulas -- and I just did a quick count.

I think it's six (6) states have formulas that are sort of a sliding scale. So in at least six (6) states I've slightly overstated -- or I'm not going to say slightly. I have overstated to some degree the actual average cost.

So can we just -- can we say I'm -- I'm in the range, but a little high?

DR. CHRIS ROBINSON: Sorry. There are some fixed fees. There's also --

MR. NATHAN SLEE: And I --

DR. CHRIS ROBINSON: -- you've got Oregon incorrect. I just realized. You have Oregon incorrect. So I don't -- I'm not sure what you're operating from.

MR. NATHAN SLEE: In -- in the Coalition document it says thirteen dollars ($13) for a thirty-one (31) day loan. I just copied it --

DR. CHRIS ROBINSON: Oh yeah, if you go back one (1) to the left. Everybody's withdrawn from Oregon. If you go one (1) turn -- one (1) left, it's thirty-six (36).

I don't know where that came from. That may be the maximum charge you can have no matter how large the loan is. But something --

MR. NATHAN SLEE: Why don't we do -- why don't we do this, Dr. Robinson? Am I in -- I'm above -- I'm high. Am I way off? Am I off by a mile?

DR. CHRIS ROBINSON: Yeah. No let's -- let's suggest that it be something like 15 or 16 percent would be an appropriate average for that average that's in boldface on the left-hand side.

And then just sort of -- you got more than that are under fifteen (15) or, you know, are slightly lower, in the fifteen (15) to nineteen (19). But --

MR. NATHAN SLEE: So somewhere --

DR. CHRIS ROBINSON: -- you get the idea that it's --

THE CHAIRPERSON: Why don't we say, subject to check, it's fifteen (15) to sixteen (16). And we will have it checked out and you can ask your question.

MR. NATHAN SLEE: Yes, thank you. That would be great.

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: And I -- I'm fine with that. I agree with your -- with you pointing that out and I appreciate it.

(BRIEF PAUSE)

MR. NATHAN SLEE: They're just doing the -- the quick assessment here, a quick summary and again being wary of the time. So we see twenty-seven (27) states with rate caps averaging about 15 or 16 percent.

One state that's -- that's not here but does in fact have a rate cap is Missouri. Missouri has a rate cap of 75 percent, according to the Coalition document. So I understand that's a rate cap of seventy-five dollars ($75) per hundred (100).

So I kind of considered that that was not really a rate cap at all. I mean it's so high that it's obviously just there to service as some sort of a proxy against over-reaching behaviour in the market.

DR. CHRIS ROBINSON: Sorry, given the source that we're using, it's not clear. So we just treated that as we don't know what the rate cap is. We're not sure what it means.

We didn't have -- so if we were not using the initial legislation ourselves, we were using a secondary data source, which was very thorough and everything we did have on it checked out but what we did haven't.

So in other words, the secondary source in that case seems to have misstated or missed, or maybe they couldn't even figure out the legislation. You could be right, it could be 75 percent. We don't know.

So you'll see it in our column that we're using it says, "not specified." They didn't actually specify a formula.

MR. NATHAN SLEE: So -- just so I'm clear, how did we get the seventy-five dollars ($75) on a hundred dollar ($100) loan?

DR. CHRIS ROBINSON: The secondary source would have been saying just that and not provided more detail, so we couldn't figure what was going on. Okay?

MR. NATHAN SLEE: Okay.

DR. CHRIS ROBINSON: The others provided the detail given, so we could -- we could see what they were doing. Okay?

MR. NATHAN SLEE: Okay.

DR. CHRIS ROBINSON: But I agree with you, it does seem like it's quite high. If they're allowing seventy-five dollars ($75) on a hundred (100), it's certainly no ceiling.

MR. NATHAN SLEE: Okay. So we're going to work from that assumption then?

(BRIEF PAUSE)

MR. NATHAN SLEE: Now, going back to your statement regarding what Advance America will charge in a particular jurisdiction, is it fair to say that in a jurisdiction where there's either no rate cap or a rate cap that is well above the competitive rate, you would expect that the average rate in the market will be significantly higher than the average rate in jurisdiction where there is a ratecap?

Is that correct?

DR. CHRIS ROBINSON: I can't make such a generalized conclusion, so I'll tell you the only evidence that I had that I'd specifically investigated was the 10-K disclosures. And this is -- I summarized this in the evidence, but the 10-K disclosures are also on the record.

And that is that they -- first of all, they state -- and this is a legal document, so that I think they're -- we can expect they're telling the truth -- that they confer -- conform to the rules in each state in which they are operating.

Secondly, they said that they charged from 14 percent to 22 percent. I'm going by memory, but the top level I'm sure was 22 percent. So -- and they had an average, which I calculate as being slightly under 16 percent. And those are all on the record.

So what it says is not that they go right to the rate cap -- because we can see they are operating in states. If you go back to the table, you'll see they're operating in states like Wyoming with thirty (30), and North -- Louisiana with twenty-five (25). I guess those are about the -- there's not -- Montana's twenty-five (25).

So they didn't go to the max in those states, if they're telling the truth, and I'm pretty sure they are. Furthermore, given that the average is fifteen/sixteen (15/16), they're pretty much on the average, but they have variation. So they will go higher.

But the idea that they -- the -- the evidence refutes the conclusion that they would in fact go to the rate cap in every state. Okay. At least the evidence from them.

However, I think it is reasonable to conclude that if they were to come into Manitoba under the rules that I've set that they would go right to the rate cap. I -- that -- that is what I would expect as an expert, as a business analyst, that they would go right to the rate cap immediately, they came in.

Or anything they did would be very small increments other -- under to attempt to advertise themselves as being slightly cheaper than somebody else.

MR. NATHAN SLEE: And that's primarily because the market on its own cannot deliver sufficient competition. Is that correct?

DR. CHRIS ROBINSON: Well, it's clearly

under -- offering some competition, since they're not going to the absolute maximum. But it's not -- you remember that MoneyMart, Rentcash, and Cashmoney are charging the same rate right across Canada.

And the US, it's going by the state regulation. And that is in effect of regulations.

MR. NATHAN SLEE: So the best rates are really going to be achieved when states regulate -- or provinces, in our case -- regulate in a way that forces rates down, because they're going to do a better job than competition will? In your -- from -- judging from the Advance America data that you've looked at.

DR. CHRIS ROBINSON: Up to the point, as you have said previously -- and I've agreed with you -- that you can't go so low that you just knock everybody out of -- of existence or have only one (1) company. Even that might be -- still be a net -- a benefit to consumers, but that one's a pretty hard one to assess.

MR. NATHAN SLEE: Okay. So just -- just to close off our evening -- and thank you everybody for staying a little long -- I just want to circulate 310 Exhibit 10.

(BRIEF PAUSE)

MS. ANITA SOUTHALL: Mr. Slee, do you want to identify on the record what this document is?

MR. NATHAN SLEE: Is it not obvious?

MS. ANITA SOUTHALL: Well, I have a description here, but feel free.

MR. NATHAN SLEE: For the record what we have here is we have a letter from Eric McClure, the Commissioner of Finance in Missouri to the Honourable Matt Blunt, the government -- or excuse me, the Governor of Missouri.

And stapled to it is an email from Joe Crider, who is the Supervisor of Consumer Credit in Missouri.

--- EXHIBIT NO. 310-LOAN-10: A letter from Eric McClure, the Commissioner of Finance in Missouri to the Honourable Matt Blunt, the Governor of Missouri. And stapled to it is an email from Joe Crider, who is the Supervisor of Consumer Credit in Missouri.

(BRIEF PAUSE)

CONTINUED BY MR. NATHAN SLEE:

MR. NATHAN SLEE: For the record, I'd just like to read a few excerpts from this exhibit if I may. The opening paragraph I'll read out just the -- the first three (3) sentences here:

"The Division of Finance has, in accordance with Section 408.506 RSMO, conducted a survey by mail of payday lenders operating pursuant to Section 408.500. The reporting time frame was October 1st, 2005, through September 30th, 2006. The summary is based on a 94.6 percent return of surveys by the industry."

Just by way of, I guess, more of an explanation, in the state of Missouri their regulations require that every second year the state do a survey of the entire payday loans market to try to get an understanding of the average rate and a few other details.

The third bullet down I'd like to read in, it says here:

"The average loan..."

And again, this -- so this is for the year ending September 30th, 2006, in the state of Missouri.

"The average loan was two hundred and seventy four dollars and seventy-two cents ($274.72) and the average interest rate was 422.26 percent."

So that's APR. Now what made this a little more fun is there was actually an error in this -- this document, so if you wouldn't mind flipping to my email from -- from Joe Crider, Supervisor or Consumer Credit.

The very last sentence -- and you guys can read the rest of the details at another time if you like, but in the last sentence he says:

"We obviously made an error..."

Sorry, I guess that's the last two (2) sentences.

"We obviously made an error. Forty-four dollars and forty-nine cents ($44.49) is the correct number that should have been used in the report."

So, Dr. Robinson, I'm not -- maybe you've got your calculator handy. We're looking at a -- a fee of forty-four dollars and forty-nine cents ($44.49) on a loan of two hundred and seventy four dollars and seventy-two cents ($274.72).

Can you tell me the percentage of the loan amount that that fee equates to?

DR. CHRIS ROBINSON: Sixteen point one nine (16.19) percent.

MR. NATHAN SLEE: Is it your understanding from this document that that is the average market rate for payday loans in the state of Missouri for the year ended September 30th, 2006?

DR. CHRIS ROBINSON: Before I commit myself too much I'd like to think about it. But on first blush I think this is a very valuable piece of evidence for the Board, and I think I'm very grateful to you for finding it.

MR. NATHAN SLEE: And to the best of our knowledge the state of Missouri has a rate cap of seventy-five dollars ($75) per hundred (100)?

DR. CHRIS ROBINSON: Okay. This is, of course, where we are in disagreement. So I think the -- I think the Board should ask -- be asking somebody, somebody other than me, to find out for sure what the rules are in Missouri. I think you -- I'm really impressed. I mean, did -- would you like to come and work in Toronto and take a PhD in Finance?

No this is -- this is very helpful to the

Board. I think we're all grateful to you, because this is the first evidence we've got where we might find out what happens under-regulated. I mean, this is, as you said, this is anecdotal for one (1) state.

But this is -- this is almost -- this isn't even a sample, I mean, I got 94.6 percent return of -- oh, no, sorry, 94.6 return -- they've got -- anyway, this is -- this is pretty good evidence. It is unweighted. That is, we don't know, until we see the formula, what sort of results there are, given that odd number.

And my suspicion is that in fact they've got a weighted structure and the website that we were relying on didn't catch that or missed it or it's changed or something.

But I think we definitely, I think, Mr. Williams, I'm not consulting you, I'm doing this right over the microphone, I think we should undertake to find out what Missouri charges or what Missouri's rules are?

MR. NATHAN SLEE: Just to finish -- to finish off, so if, hypothetically, the maximum fee allowed in Missouri is 75 percent of the loan amount, this is then fairly strong evidence that the market can in fact produce fairly effective payday loan rates relative to what we see as the other rates in the

American market?

THE CHAIRPERSON: We will ask the Coalition as an undertaking, since it came from their original exhibit, to check that data, if they would not mind.

--- UNDERTAKING NO. 90: Coalition to check data and find out what Missouri charges or what Missouri's rules are on rate caps

MR. NATHAN SLEE: Thank you. And that's it for my questions.

DR. CHRIS ROBINSON: I'd have to investigate that further but I -- I mean, Mr. Slee is absolutely right that we should investigate this for the Board. It should not be difficult. I'd be very surprised that it's actually 75 percent, but all we can do is find out.

THE CHAIRPERSON: Well, he seemed pretty forthcoming. They have answered Mr. Slee by an email, so I imagine they would respond to a --

DR. CHRIS ROBINSON: Oh, I think so.

THE CHAIRPERSON: -- to a -- thank you very much, Mr. Slee.

MR. NATHAN SLEE: Thank you.

THE CHAIRPERSON: Hope you can catch your flight.

MR. NATHAN SLEE: I'll make it work.

MS. ANITA SOUTHALL: Mr. Chairman, I have a -- a couple of things to do before we slip away, please.

THE CHAIRPERSON: Please, Ms. Southall.

MS. ANITA SOUTHALL: First of all, just a reminder to everyone participating. Our hours are slightly different on Tuesday. We're going to commence at 10:00 a.m. and we're going to go until 5:00 p.m.

DR. CHRIS ROBINSON: This is next Tuesday?

MS. ANITA SOUTHALL: Next Tuesday, we have two (2) more Hearing dates set next week, Tuesday and Friday. Maybe I'll just stand off the mic for moment and see if that's -- if that 5:00 p.m. is problematic for anyone.

THE CHAIRPERSON: Well, if it is we can adjust. We are just trying to make up --

MS. ANITA SOUTHALL: On -- on Tuesday.

THE CHAIRPERSON: -- for delays.

MS. ANITA SOUTHALL: That's fine. Thank you, Mr. Chairman. And secondly, I just have three (3) -

- so we don't lose track of these and so that parties can have access to them -- or participants -- we have three (3) PUB exhibits to enter.

So first of all we have PUB-29, which is a response from Advance America to the Board's invitation through myself as counsel to participate in the process. And Advance America told us in December that for -- for a variety of reasons holiday season, travel schedules, etcetera that they would not be able to participate. So that letter will be available and is going on to the record.

--- EXHIBIT NO. PUB-29: A response from Advance America to the Board's invitation through myself as counsel to participate in the process

MS. ANITA SOUTHALL: Secondly, PUB-30 is a response again to me as Board counsel responding to questions that as counsel the Board directed me to put Ace INA Insurance Company with respect to creditor insurance. That came up within the context of Mr. Kent Taylor's testimony with respect to creditor insurance for his business, Progressive Insurance Solutions.

I will put next week on the record a copy of the actual questions that were posed to Ace INA and to which they're responding. So that's a two (2) page letter two (2) sided -- sorry, a one (1) page letter two (2) sided.

--- EXHIBIT NO. PUB-30: A response again to Board counsel responding to questions that as counsel the Board directed to put Ace INA Insurance Company with respect to creditor insurance.

MS. ANITA SOUTHALL: And finally PUB-31 for the record is a -- a consultation paper from the Province of British Columbia dated -- dated December, 2007, entitled "Regulation of Payday Lenders Under the Business Practices and Consumer Protection Act" and has just been brought to the attention of the Board. And, so again that document is available for review by participants.

--- EXHIBIT NO. PUB-31: A consultation paper from the Province of British Columbia

dated December, 2007,
entitled "Regulation of
Payday Lenders Under the
Business Practices and
Consumer Protection Act"

MS. ANITA SOUTHALL: Thank you, Mr. Chairman, that -- those are my matters today.

THE CHAIRPERSON: Okay, thank you to everyone. We have only had a couple days this week, but we made some progress. So we will see you all next Tuesday. Have a good weekend.

--- Upon adjourning at 4:31 p.m.

Certified Correct,

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Wendy Warnock, Ms.