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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  
November 15th, 2007  
Pages 411 to 622

APPEARANCES

1  
2  
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6 ) Payday  
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8 Antoine Hacault ) Rentcash Inc.  
9 Michael Thompson (NP) )  
10 Mona Pollitt-Smith )  
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12 Allan Foran ) Canadian Payday Loan  
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15 Byron Williams ) CAC/MSOS  
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17 Nathan Slee (NP) ) 310-Loan  
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19 Robert Dawson ) Assistive Financial  
20 ) Corporation  
21  
22 Steve Sardo ) Cash X  
23  
24 Kent Taylor ) Progressive Insurance  
25 ) Solutions

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1 --- Upon commencing at 9:02 a.m.

2

3 THE CHAIRPERSON: Good morning, everyone.  
4 Glad to see you back, Mr. Sardo. Very good. Okay, I  
5 think right now Mr. Foran is now going to cross-examine  
6 Mr. Sardo. Do you have any questions for him?

7 MR. ALLAN FORAN: I do, thank you very  
8 much.

9

10 CROSS-EXAMINATION BY MR. ALLAN FORAN:

11 MR. ALLAN FORAN: Mr. Sardo, just rising  
12 out of your evidence yesterday, I'd like to confirm a few  
13 things with you.

14 The first is that you currently have no  
15 stores in Manitoba?

16 MR. STEVE SARDO: Correct.

17 MR. ALLAN FORAN: And in the evidence  
18 that you filed, I understand from pre-filed evidence and  
19 your testimony yesterday that you had operations in  
20 Manitoba in years 2003 and 2004, sir, is that correct?

21 MR. STEVE SARDO: I had operations in  
22 Manitoba from '01 to August of '04.

23 MR. ALLAN FORAN: Okay. And specifically  
24 what I'd like to do is take a look at that portion of  
25 your evidence under "Cost Pricing." It was the first

1 page of your pre-filed evidence.

2 MR. STEVE SARDO: What tab would that be,  
3 if you could direct me?

4 MR. ALLAN FORAN: Yeah.

5 MR. STEVE SARDO: Oh, it's okay. I found  
6 it.

7 MR. ALLAN FORAN: Yeah and -- just to --  
8 my tabs don't match to -- to the PUB set yet, but --

9 MR. STEVE SARDO: Okay. It's Tab 9.

10 MR. ALLAN FORAN: Tab 9, page 1, sir.

11 MR. STEVE SARDO: Yep.

12 MR. ALLAN FORAN: And what I understand  
13 that to be at the bottom of page 1 is a detailed analysis  
14 of your cost per loan in 2003, is that correct?

15 MR. STEVE SARDO: That's correct.

16 MR. ALLAN FORAN: And if you turn to page  
17 2, approximately half way down the page, you have total  
18 expenses after -- it looks like you've added everything  
19 up of a hundred and twenty-five dollars and sixty-nine  
20 cents (\$125.69).

21 MR. STEVE SARDO: That's correct.

22 MR. ALLAN FORAN: Can you just explain to  
23 me what the one hundred and twenty-five dollars and  
24 sixty-nine cents (\$125.69) refers to? Is that --

25 MR. STEVE SARDO: It's -- it's a per loan

1 cost.

2 MR. ALLAN FORAN: Per loan cost. So if I  
3 just continue, just still on that page, to -- to complete  
4 this, you charged fees of thirty dollars (\$30) per  
5 hundred at that time in 2003?

6 MR. STEVE SARDO: Give or take.

7 MR. ALLAN FORAN: Give or take? And the  
8 result of that, charging thirty dollars (\$30) per hundred  
9 (100) per loan, in conjunction with your costs ended up  
10 in you losing money that year, sir?

11 MR. STEVE SARDO: That's correct.  
12 There's one more thing that I should point out. In the  
13 costing that I've demonstrated on that page and in the  
14 evidence I actually took out some costs that I didn't  
15 think were relevant, because my business was segmented  
16 into both a franchisor and a -- a loan operation.

17 For example, I had legal fees and -- and  
18 things of that nature that I didn't feel applied to the  
19 loan segment of my business. So in fact, my costs were  
20 even higher than what -- what I've shown here.

21 MR. ALLAN FORAN: Okay. So when we look  
22 at that calculation that you've done, in fact your costs  
23 could be a little higher and you may have lost a little  
24 more money, with respect to your payday lending  
25 operations that year, than is noted here?

1                   MR. STEVE SARDO:    Yeah.  This would have  
2    been as -- as best as I could have provided it, the --  
3    the loss on the payday loan operation.

4                   MR. ALLAN FORAN:    Perhaps this is even  
5    overly simplistic but -- but can I equate this to  
6    something per hundred (100)?  If I looked at this, would  
7    this tell me that your cost per hundred dollar (\$100) of  
8    loan is a hundred and twenty-five dollars and sixty-nine  
9    cents (\$125.69) or is that --

10                  MR. STEVE SARDO:    No, I don't think you  
11    could make that math.  It's a cost per loan.  And a cost  
12    per loan, the average loan is not a hundred dollar (\$100)  
13    loan.  So, no, you can't make that assessment.

14                  MR. ALLAN FORAN:    Okay.  I'm going to  
15    come back to that just a little bit later.  Again, I'm  
16    just following through, sir, if I could, on -- on your  
17    evidence.

18                                I understood from what you said yesterday  
19    that using your -- your business judgments, you  
20    restructured in 2004 and made some changes.  You still  
21    had a bricks and mortar facility, though, in Manitoba in  
22    2004.

23                                Is that correct?

24                   MR. STEVE SARDO:    Until August of '04,  
25    when my lease expired.



1 MR. ALLAN FORAN: Okay. So if I look  
2 again at that second page of Tab 9, what we have there is  
3 your analysis of fees and expenses for 2004.

4 MR. STEVE SARDO: Correct.

5 MR. ALLAN FORAN: And after significant  
6 efforts, you reduced your expense to a hundred and seven  
7 dollars and fifty-one cents (\$107.51). I see that on the  
8 top of page 3.

9 MR. STEVE SARDO: That's correct.

10 MR. ALLAN FORAN: And still charging  
11 thirty dollars (\$30) per hundred (100)?

12 MR. STEVE SARDO: Correct, approximately.  
13 What I can say is my rating system has evolved, and it's  
14 -- it was never a -- a flat system. I -- I guess I never  
15 believed in that.

16 And I -- because I was exposed to so much  
17 of the -- what was going on in the US as part of what I  
18 was doing, I opted not to go with the traditional flat  
19 fee per hundred (100).

20 So it's -- when someone asks me what my  
21 fee per hundred (100) was, I can't answer that exactly,  
22 because it wasn't a fee per hundred (100).

23 MR. ALLAN FORAN: Okay. I'm -- I'm going  
24 to again come back to this, if I could. So a few more  
25 questions on this point.

1 MR. STEVE SARDO: Yep.

2 MR. ALLAN FORAN: And I'm going to ask  
3 these now in a -- in a general way and just looking at  
4 what you have filed.

5 But for the purposes of operations in 2003  
6 and 2004, I understood you to say that you made no  
7 profits in Manitoba.

8 MR. STEVE SARDO: No. Oh. I'm not sure  
9 about that. It looks like I made a seven dollar (\$7) per  
10 loan profit in '04, from what the evidence says.

11 Now I -- you know, again if I were to pull  
12 my exact financials for that year -- because I did not  
13 include all of the costs that were related to the other  
14 sides of my operation: software development, franchising,  
15 things of that nature -- it's entirely possible I did  
16 lose money in that year. But I don't think we're here to  
17 worry about how my software performs or how I did in  
18 franchising.

19 MR. ALLAN FORAN: Okay. The net result,  
20 however, of your -- your experience in Manitoba is that  
21 you closed your, if I could use the words "bricks and  
22 mortar," storefront stores?

23 MR. STEVE SARDO: Oh yes. I closed them.

24 MR. ALLAN FORAN: And maybe I should just  
25 go back one step. When I say bricks and mortar, you

1 understand that to be a storefront location as opposed to  
2 providing an Internet service?

3 MR. STEVE SARDO: Yes. I mean, as I said  
4 earlier in my testimony, I believe there is at least  
5 three (3) business models that exist in this -- in this  
6 business: call centre, Internet, and store.

7 And within even the call centre -- I  
8 operated a kiosk model as well for a time, which I could  
9 elaborate on if you're interested.

10 MR. ALLAN FORAN: Okay. No need right  
11 now, sir. If you stick to page 3 then at the -- about  
12 halfway down that page.

13 I'd like to again come back to your 2004  
14 experience. You indicated there was a modest profit of  
15 seven dollars (\$7) per loan, but that didn't consider any  
16 wages paid to yourself?

17 MR. STEVE SARDO: That's correct. I took  
18 no wages until, I think, maybe, '05 or even '06.

19 MR. ALLAN FORAN: And so this was -- for  
20 your purposes, you were in a building mode trying to  
21 increase your business throughout 2003 and 2004.

22 Is that correct, sir?

23 MR. STEVE SARDO: You know, that's -- I'm  
24 not sure I want -- I want you to put those words in my  
25 mouth, only because I was, in a sense -- and I'm not

1 disagreeing with you.

2                   But, you know, shortly into it, when you  
3 see that you're -- I was initially, and maybe, by the  
4 time you get to the beginning of '04, I had opened two  
5 (2) locations, and I was, you know, fairly gung ho about  
6 it.

7                   But when I started to see the cash drain  
8 and -- and, you know, the results that were coming in, I  
9 quickly said, Wow, you know, I can't -- you know, I  
10 cannot continue to grow at this pace.

11                   In fact, I was look very quickly, in the  
12 beginnings of '04, to how am I going to either A, get out  
13 of this business and put my tail between my legs and  
14 leave, or B, find a solution that would allow me to  
15 survive and -- and move on? So I was really not in  
16 growth mode in -- in '04, probably not.

17                   MR. ALLAN FORAN:   And what I'm going to  
18 suggest next is, based on what you indicated yesterday, I  
19 understand that you're -- you're business -- businessman,  
20 sir, making business decisions.

21                   MR. STEVE SARDO:   Absolutely.

22                   MR. ALLAN FORAN:   And as a result of your  
23 experience in Manitoba operating a bricks and mortar  
24 operation, charging thirty dollars (\$30) per hundred  
25 (100), you determined you could not make a reasonable

1 return at that rate and made a decision to close your --  
2 your stores, correct?

3 MR. STEVE SARDO: At that time, you know  
4 -- again, just to clarify, I'm not a 100 percent sure it  
5 was, you know, all the rate that was the issue.

6 Certainly the rate is clearly a huge part  
7 of the issue. I mean, my concerns were, you know, the  
8 bad debt was very high, I was unable to collect it, I  
9 couldn't take people to small claims Court.

10 You know, the cost and -- and the  
11 administration of -- of doing it in a -- in a bricks and  
12 mortar environment were very high as well. And -- and I  
13 did make a business decision.

14 I mean, I guess I wasn't thinking at that  
15 moment to say, Oh wow, if I could get fifty dollars (\$50)  
16 a hundred (100), I'd stay. I just didn't think it was a  
17 viable thing to do. I -- I said I got to get out of  
18 here.

19 MR. ALLAN FORAN: And you took efforts,  
20 prior to making that determination in 2004, to close your  
21 stores to reduce your bad debt, sir?

22 MR. STEVE SARDO: As I said yesterday, my  
23 strategy was, you know -- again, as you indicated -- you  
24 know, trying to be a rational businessperson. I looked  
25 at my costs. And I said, Well what can I do here?

1                   Bad debt, I tried so many things. You  
2 know, I couldn't take people to court. I hired a full-  
3 time collector. It just was, like, some -- a number that  
4 I just couldn't seem to -- to bring down. You know, for  
5 -- you know. And I thought I was fairly intelligent  
6 about the methods I was using, and it still wasn't coming  
7 down.

8                   So I said, Well, there's only one (1)  
9 other element in this industry, or this business, that I  
10 might have some impact on, and that's the administration  
11 and overhead.

12                   So I said, If I can reduce the  
13 administration and overhead dramatically, then I might  
14 have a hope of -- of, you know, staying, you know,  
15 maintaining some of these customers and making a living.

16                   And so that was my impetus to, you know,  
17 again, remove rent, remove people, remove the -- close  
18 the stores, you know, put people on some electronic  
19 method that would reduce those overheads.

20                   'Cause for me I -- I couldn't control the  
21 bad debt in a meaningful way, but the overheads I thought  
22 I could control.

23                   MR. ALLAN FORAN: Now, what I'd like to  
24 refer to next, if you just bear with me, is your  
25 responses to the PUB.

1

2

(BRIEF PAUSE)

3

4

MR. ALLAN FORAN: And so I'm going to refer you, please, to Tab 11, page 2.

6

MR. STEVE SARDO: Yes, I have that.

7

MR. ALLAN FORAN: Okay. And it's first round responses, PUB Question 1. And specifically I'm going to refer you to J, for a moment.

10

MR. STEVE SARDO: J, yep.

11

MR. ALLAN FORAN: Now, I'd like to -- to now move to your current operation. You, as I understand it, are an Internet lender?

14

MR. STEVE SARDO: Mm-hm.

15

MR. ALLAN FORAN: You -- you don't have any intention of opening up another bricks and mortar store in Manitoba, based on your previous experience, do you, sir?

19

MR. STEVE SARDO: Certainly not as we sit here. But business is an ever-changing model, and I -- I never say never.

22

MR. ALLAN FORAN: And so for the purposes of looking at Tab 11, page 2, using your current model, which is an Internet model, --

25

MR. STEVE SARDO: Mm-hm.

1                   MR. ALLAN FORAN:    -- you're asked  
2 questions with respect to projected rates of return.  And  
3 you indicated that at a fee of twenty-three dollars (\$23)  
4 per hundred (100), you would have a rate of return of  
5 4.69 percent?

6                   MR. STEVE SARDO:    Right.  I think I  
7 clarified that yesterday.  And I guess do -- have  
8 undertaken to -- to redo those numbers.  But the way I  
9 produced those numbers at the time, because of my, you  
10 know, belief of the potential variance of -- of using  
11 return on equity -- I mean, equity, again, for a small  
12 business is a -- is a very nebulous number.

13                   I mean, I could take all the equity out of  
14 my company every single year and have no equity.  So at  
15 the end of the day, if I make one dollar (\$1) on zero (0)  
16 equity, well, that's an infinite return.  And that -- and  
17 so I felt that that would skew any results I might  
18 present to the Board.

19                   So what I did was -- and I will do it on  
20 an equity basis, but, you know, there's a caveat -- but  
21 what I did do instead was say, What is the return on  
22 sales?  So if I did a dollar's (\$1) worth of revenue,  
23 would I make ten (10) cents?  Would I make minus ten (10)  
24 cents?  Or would I make, you know, fifty (50) cents?

25                   And so here, that's what those number



1 represent. I know it wasn't what I was asked exactly.  
2 So it is a negative return no matter how you slice it,  
3 because it's a minus number at twenty dollars (\$20) -- or  
4 sorry -- yeah, so it's minus two point three (2.3). So  
5 it would be a negative return no matter what, because if  
6 you have a -- a loss, it's -- by definition it's a  
7 negative return.

8 Okay, so it's a proxy, but it's not an  
9 actual quote/unquote "return on equity."

10 MR. ALLAN FORAN: So your experience  
11 operating in the payday lending industry is that there's  
12 a lot of work involved and there's a lot of risk,  
13 correct, sir?

14 MR. STEVE SARDO: Both, absolutely  
15 correct, beyond what I, certainly, imagined when I got  
16 into it.

17 MR. ALLAN FORAN: And you've had to  
18 change your style of business on several occasions  
19 personally, in terms of offering a payday loan product in  
20 the Manitoba marketplace, correct?

21 MR. STEVE SARDO: Correct. Otherwise I  
22 would be completely out of -- well, I'd be out of  
23 business all together, never mind Manitoba, if I didn't  
24 change my strategy.

25 MR. ALLAN FORAN: And your -- your

1 experience is you were forced to do that, both in terms  
2 of dealing with costs and also to deal with competition  
3 from other lenders, correct?

4 MR. STEVE SARDO: I guess you could say  
5 that, yeah. I -- I mean -- you know, I've -- as I  
6 indicated yesterday, the market, I think -- you know, I  
7 don't know how other people want to present it. But, you  
8 know, there's a chart in someone's evidence that I  
9 alluded to yesterday that shows the growth of stores  
10 between 2001 and 2004.

11 And it's virtually like a pretty steep  
12 growth curve. But when you -- you know, move that out to  
13 2007 and you see that the -- the -- over four (4)  
14 additional years, it's only grown 11 percent. So that's,  
15 like, 3 percent or less per year.

16 You know, the market obviously got  
17 saturated with -- with competitors in a very short period  
18 of time, which impacted the volumes that you could do.  
19 And, you know, in conjunction with the overheads and the  
20 bad debt, you know, I couldn't find a solution.

21 MR. ALLAN FORAN: One of the things I'd  
22 like to refer you to is a document -- in fact, evidence  
23 that's been filed on behalf of my client, the CPLA. And  
24 it's a report that was conducted by Deloitte and Touche.  
25 And I'm -- if it's okay with Board counsel, I will simply

1 show you the one (1) page of that document.

2 MR. STEVE SARDO: Sure, I -- I have to  
3 say, as I did yesterday, that I did not read that  
4 document, so...

5

6 (BRIEF PAUSE)

7

8 THE CHAIRPERSON: Do you want to give us  
9 a reference, Mr. Foran, so we can follow it?

10

11 (BRIEF PAUSE)

12

13 MR. ALLAN FORAN: Okay and if -- Mr.  
14 Sardo, if it doesn't bother you if I just stand next to  
15 you for a moment?

16 MR. STEVE SARDO: No, no, go ahead. No,  
17 go ahead.

18 MR. ALLAN FORAN: So I've showed you the  
19 Deloitte and Touche report that's been filed on behalf of  
20 CPLA, and I specifically would like you to look at  
21 Section 5, "Results of Calculations," which is contained  
22 at page 11.

23 And Section 5 is a section that's called  
24 "Results of Calculations." And 5.1 -- and I'll just wait  
25 for the Board to -- to find this -- 5.1 speaks to

1 Deloitte and Touche's conclusions as the cost of a  
2 hundred dollar (\$100) loan in the Manitoba marketplace.

3 Do you see that, sir?

4 MR. STEVE SARDO: I do, yeah.

5 MR. ALLAN FORAN: And specifically, on a  
6 cost analysis, there was an operating cost, a cost of  
7 loan capital, a cost of supplementary capital, and then a  
8 total cost of a hundred dollar (\$100) loan before bad  
9 debt cost. And that number is calculated to be twenty-two  
10 dollars and thirty-eight cents (\$22.38).

11 Then with bad debt there was a conclusion  
12 that's been submitted into evidence that the total cost  
13 of a hundred dollar (\$100) loan pursuant, to the Deloitte  
14 and Touche study, is twenty-six dollars and eighty-seven  
15 cents (\$26.87) in Manitoba.

16 Do you see that, sir?

17 MR. STEVE SARDO: I do.

18

19 (BRIEF PAUSE)

20

21 MR. ALLAN FORAN: So with that setup, my  
22 question now is I'd like to take you back to your  
23 experience in 2003 --

24 MR. STEVE SARDO: Okay.

25 MR. ALLAN FORAN: -- and I'd like you to

1 provide me with your comments on how the conclusions of  
2 Deloitte Touche work with the experience that Cash X had  
3 in the Manitoba marketplace, if I go back and look at Tab  
4 9, page 2.

5 MR. STEVE SARDO: They're lower. Their  
6 experience is lower than mine, for sure. Is -- you --  
7 you asked me this question earlier, and now that I've  
8 thought about it quickly, I'll give you a proxy.

9 You said, Was the hundred and twenty-five  
10 dollars (\$125) of cost per hundred dollars (\$100) of  
11 loan? And I answered no, because it isn't.

12 But on average, a loan might be two or  
13 three hundred dollars (\$200/\$300). So at three hundred  
14 dollars (\$300), you just divide that number by three (3).  
15 And my cost per loan was forty some-odd dollars (\$40) per  
16 -- per hundred (100).

17 And if you divide it by -- what would be  
18 the other number? If it was a two hundred dollar (\$200)  
19 average loan, then I think it would even be higher.

20 MR. ALLAN FORAN: And so if I suggest to  
21 you that you -- when you look at the Deloitte Touche  
22 results, you're not surprised by those conclusions, sir?

23 MR. STEVE SARDO: No, I'm not surprisi --  
24 I don't -- what I would say is this, and again, I'm  
25 trying to be, you know, as unbiased in this analysis as I

1 possibly can.

2 I -- for me to make any judgment on that  
3 Deloitte & Touche report from what you gave me, I would  
4 need to see the number of participants, because any study  
5 that produces a -- a cost or a number of any kind with  
6 the small number of participants, is potentially fraught  
7 with -- with kinds of error.

8 Secondly, you know, I read something  
9 quickly there in the last statement that indicated that  
10 the -- the large volume operations were averaged over a  
11 number of stores.

12 And I don't know what that means or how  
13 that impacts anything, but I guess my quick gut feeling  
14 on it is, small operation costs are high, large operation  
15 costs are lower -- no question -- because of volume.

16 I mean volume in -- in essence, just by  
17 mathematics, will reduce your costs per loan. That's --  
18 you know, because fixed overheads are what they are.

19 So the only question I would have about  
20 that report, which I couldn't see in -- in the analysis  
21 you gave me, is if you give me a store with 1.2 million  
22 of -- of volume -- which was, I guess, near the high end  
23 of -- of that report, I -- I would have suspected that  
24 the cost per loan were slightly lower than the ones that  
25 were presented there.

1 Overall, it does not surprise me at all  
2 the number is twenty-six (26). Obviously, I couldn't  
3 even bring my costs down to twenty-six (26). Otherwise I  
4 -- I might have tried to stay here. So I hope that helps  
5 you out.

6 MR. ALLAN FORAN: And it does. And I  
7 don't know if this is confidential information that we  
8 can't get an answer from you currently. But your current  
9 operations in Manitoba, on an Internet lending basis, can  
10 you equate your cost of operation to the Deloitte and  
11 Touche conclusions?

12 Are they --

13 MR. STEVE SARDO: That's a great  
14 question. Let me tell you what -- you know, it -- not so  
15 much that it's confidential. It's not the -- the reality  
16 of it is I don't know the exact number off the top of my  
17 head.

18 But what I can say is this, that -- you  
19 know, Internet lending, or call centre lending, or  
20 telephone lending, versus storefront lending, the -- the  
21 analogy -- there's -- there's a couple of good analogies.  
22 Because I come from the insurance industry, I'll give you  
23 the -- the insurance analogy.

24 In the insurance market, there's two (2)  
25 types of players. There's a broker network and there's a

1 direct writer. The direct writers are Allstate, State  
2 Farm, cooperators, those kinds of companies. And -- and  
3 the broker companies, like Dominion of Canada and some of  
4 these other companies.

5 Well, the broker network, when a customer  
6 comes to -- to get a loa -- to get a -- I say a loan --  
7 to get insurance, they look and try to place him or her  
8 in the right -- the right company. So their loss  
9 experience is lower, because they're fitting the risk  
10 with -- with a multitude of choices.

11 The direct writer takes all comers. And  
12 his risk is higher, so he has a higher bad debt. But his  
13 overhead is less, because he doesn't pay commissions to  
14 the broker.

15 This is exactly the same model that exists  
16 with respect to Internet lending versus storefront.  
17 Storefront has lower bad debt, because I have a personal  
18 relationship with the client, I meet them in person. I -  
19 - I get a different, you know, assessment of the risk,  
20 whereas I don't get that over the phone or the Internet.

21 But the store has higher rent, higher  
22 labour, higher other administrative costs, whereas the  
23 Internet lender saves on that side of it.

24 When the dust settles, not one (1) is  
25 dramatically better than the other. So, you know, if you



1 were to ask me what my costs per loan are, I -- Number 1,  
2 I can't tell you what my Internet lending cost per loan  
3 are in Manitoba, because they're not specifically from  
4 Manitoba. I have no idea. I'd have to run some  
5 significant analysis.

6                   The -- the overheads are virtually the  
7 same. I -- I'll say that. The bad debt might be  
8 different.

9                   MR. ALLAN FORAN:    Mr. Sardo, I don't want  
10 you to go to any trouble.

11                   MR. STEVE SARDO:    Yeah.

12                   MR. ALLAN FORAN:    I was just trying to  
13 get a reaction, and I'm content with --

14                   MR. STEVE SARDO:    Sorry. All right.

15                   MR. ALLAN FORAN:    -- your reaction.

16                   MR. STEVE SARDO:    Doing the best I can.

17                   MR. ALLAN FORAN:    No, no. Don't  
18 apologize. This -- this is good.

19                   I'd like to move away from costs of  
20 operation for a moment. We've talked about your  
21 experience.

22                   And I'd like to -- to now speak to one of  
23 the suggestions that you made in your evidence that -- or  
24 a recommendation -- that a tiered rate structure might be  
25 something for the Board to consider.

1                   And I have your evidence of yesterday as  
2 well, with respect to other recommendations, but let --  
3 let me just start there.

4                   In your prefiled evidence, one of the ways  
5 you indicated you could manage default risk is to offer  
6 larger loans only to clients with a strong repayment  
7 history, clients that you consider to present a lower  
8 default risk, correct?

9                   MR. STEVE SARDO:     Correct.

10                  MR. ALLAN FORAN:    And that means that  
11 customers who are considered to present a higher risk  
12 would tend to be limited to smaller loan amounts,  
13 correct?

14                  MR. STEVE SARDO:    In that scenario,  
15 correct, yeah.

16                  MR. ALLAN FORAN:    And the adoption of a  
17 tiered rate structure then, as -- as recommended in your  
18 prefiled evidence, would provide further incentive for  
19 that approach, wouldn't it?

20                  MR. STEVE SARDO:    Further incentive for  
21 customers to get smaller loans in the beginning?

22                  MR. ALLAN FORAN:    That's correct.

23                  MR. STEVE SARDO:    Yes, it would.

24                  MR. ALLAN FORAN:    And so if a customer  
25 needed to borrow, say, five hundred dollars (\$500), they

1 could find themselves in a position that they -- they  
2 wouldn't be able to obtain that loan from one (1) lender,  
3 correct?

4 MR. STEVE SARDO: That's correct.  
5 They'd probably go to multiple lenders.

6 MR. ALLAN FORAN: And the result of that  
7 tiered rate structure, then, would be a higher cost to  
8 the borrower if they have to go to two (2) lenders rather  
9 than going to one (1) lender, correct?

10 MR. STEVE SARDO: That is -- that is in  
11 fact correct, yeah. That's an interesting analysis.

12 MR. ALLAN FORAN: We're limiting the  
13 amount that a borrower could borrow to that in the lowest  
14 tier, correct?

15 MR. STEVE SARDO: Everything you've said  
16 is correct, but my assessment of it is not based on that.  
17 It's based on the risk. And so if I believe the risk is  
18 higher at the -- at the lower loan value, or the earlier  
19 loans in the process, then I just believe that -- that --  
20 you know, when you -- when you're faced with risk in  
21 business, you need to be compensated for that risk.

22 Having said that, you know, there's a --  
23 you know --

24 MR. ALLAN FORAN: If I could --

25 MR. STEVE SARDO: Yeah, go ahead.

1                   MR. ALLAN FORAN:    -- just stop you there  
2 for --

3                   MR. STEVE SARDO:    Sure.

4                   MR. ALLAN FORAN:    -- for a moment.  The  
5 part I liked about your answer is where you said you  
6 agreed with everything I said.

7                   MR. STEVE SARDO:    You just didn't like  
8 the rest.

9                   MR. ALLAN FORAN:    If I could just perhaps  
10 stop you there for a moment, but --

11                  MR. STEVE SARDO:    Okay.  No problem.

12                  MR. ALLAN FORAN:    -- I'll just move  
13 along.  If in fact a tiered rate structure was  
14 implemented, and there was a lower amount that could be  
15 charged by a payday lender for whatever the amount is,  
16 could you foresee that some payday lenders would not  
17 offer loans at or below that amount?

18                  MR. STEVE SARDO:    No, actually I -- I  
19 kind of disagree with that, and I'll tell you why.  
20 Because when I -- when I made the comment that -- that --  
21 that the, you know, higher loans prod -- should be  
22 charged at a lower rate and -- and you know, that people  
23 should, you know, do, you know, this process -- and I  
24 think somebody questioned me in one of the  
25 interrogatories about whether I could prove that.

1                   And so I went on a little mission of my  
2 own, made a few phone calls to Manitoba, and called a  
3 bunch of different stores here, and said, you know,  
4 What's the first --- on a first loan, how much can I get?  
5 And they all said, 50 percent of your pay.

6                   So I couldn't find one (1) person that was  
7 operating the way I was, which, you know, doesn't mean  
8 they're right or wrong.

9                   But I think that the marketplace currently  
10 is -- there is another way to look at this. And if you  
11 are looking at it from the standpoint that the risk is  
12 higher at the lower amount, yes, it's true. But again,  
13 risk is always pooled.

14                   So if I all I do is five hundred dollar  
15 (\$500) loans on the first loan, then it's irrelevant,  
16 because I'm making more per loan -- I'm making this  
17 dollar amount on a higher amount, which means my --  
18 again, covering my fixed costs, lower my -- you know, so  
19 if all my loans are five hundred dollars (\$500), it's  
20 irrelevant.

21                   If I do do the tiered thing, you know, I  
22 had better stick to it, because, you know, I've got a  
23 bunch of loans at one hundred (100). All of a sudden  
24 I've got too many loans at five hundred (500), I'm in  
25 trouble. My -- my pool is out of whack.

1                   So I think it matters whether or not that  
2 policy exists amongst lenders. And would they change  
3 their policy on the tiered system? Well, I can't predict  
4 that.

5                   MR. ALLAN FORAN: And I think that --  
6 again, I appreciate your candour. What you're really  
7 saying is that you would have to assess the impact of a  
8 tiered rate on your specific business model, correct?

9                   MR. STEVE SARDO: No, it wouldn't have  
10 any impact on me.

11                  MR. ALLAN FORAN: Okay. But as a prudent  
12 business person, you would --

13                  MR. STEVE SARDO: Oh, somebody else?

14                  MR. ALLAN FORAN: -- you would expect  
15 somebody would take that into account?

16                  MR. STEVE SARDO: Yes, absolutely. No  
17 matter what happens, they're going to take it into  
18 account.

19                  MR. ALLAN FORAN: And I'm content with  
20 that. I have no further questions, Mr. Sardo. Thank  
21 you.

22                  MR. STEVE SARDO: Thank you.

23                  THE CHAIRPERSON: Thank you, Mr. Foran.  
24 Next up is Mr. Williams for the Coalition. Mr.  
25 Williams...?

1

2 CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

3 MR. BYRON WILLIAMS: Thank you, Mr.  
4 Chairman. Good morning, members of the Board. And good  
5 morning, Mr. Sardo. I'm not sure I can continue to  
6 fulfil my water bearer duties for you when I'm asking you  
7 questions.

8 MR. STEVE SARDO: Oh, that's okay, I've  
9 got three-quarters (3/4) of a cup.

10 MR. BYRON WILLIAMS: You're okay so far.  
11 And just let me say on behalf of my clients that they  
12 appreciate -- you know, you -- you come from out of  
13 province, and they appreciate the fact that you've  
14 participated in this -- this Hearing and the -- the  
15 insight that you've offered and the candour that you've  
16 shared to date. So I've been asked by my clients to pass  
17 that on to you, so it's much appreciated.

18 MR. STEVE SARDO: Thank you.

19 MR. BYRON WILLIAMS: I wanted to start --  
20 because a central theme that you talked about, both in  
21 your written evidence of September 17th and also  
22 yesterday, was mom and pop stores.

23 And maybe we can just -- I can get you to  
24 define for me what you mean by "mom and pop stores."  
25 What I'm looking for is insight.

1                   Do you -- do you do it by the number of  
2 outlets, a certain volume of revenues?

3                   MR. STEVE SARDO:   It's usually based on  
4 outlets.  You know, obviously, in it's purest form it's a  
5 single-store outlet.

6                   But if you were to look at the date that I  
7 was privy to, which I will provide to the Board once I  
8 get back and find it, you're going to find that there are  
9 three (3) large companies.

10                  I'm going to guess at the next set of  
11 numbers, but maybe ten (10) to fifteen (15) that have  
12 some multi, you know, component to them.  And then you're  
13 going to find another four hundred and fifty (450)  
14 single-store outlets.

15                  So by definition, in my view, the industry  
16 as a whole is still basically mom and pop industry with a  
17 -- with a few large players and a very insignificant  
18 middle.

19                  And the middle, you know -- whether it's  
20 Stop 'N' Cash or Unicash in Ontario or, I think it's  
21 Speedy Cash or some of these other ten (10), twelve (12)  
22 store chains -- if you look at the history of those  
23 companies, they're not growing.  They're stagnant  
24 companies.

25                  You know, Unicash I know the -- the



1 gentleman, myself, is a colleague of mine, and he hasn't  
2 grown in five (5) years. And Stop 'N' Cash went through  
3 a huge turmoil. They lost all kinds of franchisees, and  
4 they've gone downhill.

5                   So again, when -- when you assess the  
6 marketplace, the marketplace, you know, really is -- is  
7 Rentcash, Money Mart, and to some smaller degree Cash  
8 Money. And I'm not sure where they're headed, to be frank  
9 with you, either. I mean, they're a hundred (100) store  
10 chain, but they haven't been growing either.

11                   MR. BYRON WILLIAMS: I'm going to come  
12 back to the -- the mom and pops in just one second. As I  
13 understo -- and just to summarize it, as I understand  
14 what you -- you just described.

15                   In terms of a tier -- number of store wise  
16 -- one (1) above the mom and pops, the medium -- or --  
17 the medium-size stores, which I'm going to call them --  
18 your evidence, in terms of that, is that they appear to  
19 be stagnating in terms of growth.

20                   Is that right?

21                   MR. STEVE SARDO: That -- that's -- you  
22 know, if you think about this industry -- I know a lot of  
23 people have commented that it doesn't require a lot of  
24 capital. But I -- I'd love to measure the amount of  
25 money on the street. I mean, I'm sure it's in the

1 financials.

2 I mean, I think Rentcash's number is \$50  
3 million on the street at any one (1) time. That doesn't  
4 come from individuals. That comes from lending  
5 institutions or larger corporations.

6 And I don't think that the Canadian banks  
7 in -- in this country have much of an appetite to provide  
8 capital to these types of operations.

9 So if you look at the -- the  
10 capitalization of -- of the larger companies in this  
11 industry, you're going to find that that's venture  
12 capital or capital that comes from the US or capital that  
13 comes from other places.

14 MR. BYRON WILLIAMS: In terms of the big  
15 three (3), one (1) of them is -- well Cash Money, you've  
16 indicated you don't see that it's growing very much as  
17 well?

18 MR. STEVE SARDO: No, I don't believe so.

19 MR. BYRON WILLIAMS: What about the --  
20 leaving aside, I guess we're down to the -- the big two  
21 (2), being Rentcash and Money Mart.

22 Leaving aside them, going down to the --  
23 the smaller stores, do you have a sense of -- of whether  
24 there's a lot of them popping up right now or not?

25 MR. STEVE SARDO: Oh, absolutely not.

1 They're -- they're in trouble. And I can tell you the  
2 reason why they're in trouble from, again, original  
3 evidence.

4                   When I -- when I purchased the infoCANADA  
5 list of payday loan stores, I sent a -- a letter to every  
6 single one, explained to them a bit about my services, my  
7 software offering and things of that nature.

8                   I received back, out of four hundred and  
9 eighty (480) companies, I guarantee to you I received  
10 back thirty (30) to fifty (50) returned mails of  
11 addresses that were no longer valid.

12                   I had one (1) written right across the  
13 envelope "evicted," you know. So I quickly got the --  
14 and these were the small companies. These were not the,  
15 you know, the Rentcash and Money Mart locations.

16                   What's happened, I think, in the industry  
17 -- and I think this will continue to happen -- is that  
18 the single-store, small operator, you know, with the  
19 state of the marketplace, with the -- the state of  
20 regulation pending with the -- the costs of getting into  
21 the business, with the competition at the level that it's  
22 at, with all the factors that exist in the marketplace  
23 today, the small individual would really have to bang his  
24 head against the wall to put up a few hundred thousand  
25 dollars to open a store, go into a crowded marketplace --

1 wherever that might be -- and compete against the big  
2 brand name.

3                   You just, you know, you'd have to have a  
4 few rocks in your head to -- to do that. And I'd  
5 certainly advise them against it.

6                   MR. BYRON WILLIAMS: In terms of -- just  
7 in terms of that, then, you -- you see significant  
8 barriers to entry just going from your last entrance in -  
9 - in two (2) ways.

10                   One is the -- a certain amount of capital,  
11 the other one is the brand name recognition out there.  
12 Is that fair, sir?

13                   MR. STEVE SARDO: Again, you know, I'm --  
14 I'm going to try to be as unbiased as I can -- can be.  
15 With respect to single-store, mom and pop operators,  
16 there's a huge barrier to entry.

17                   With respect to US operators coming up  
18 here and opening stores, there's no barrier to entry.  
19 And I -- I know for a fact that Advance America is  
20 coming. They're scouting retail locations. They've  
21 already opened some locations.

22                   And so there will be, you know, the  
23 competition from the US the minute this thing is clear  
24 that it's unregulated. And I deal with a lot of  
25 Americans, both in terms of people that want to be in

1 this business and venture capitalists that want to put  
2 money in this business.

3           And they're -- those people are sitting  
4 there waiting to pull the trigger. They've got some big  
5 companies down there that want to come here once they  
6 know that there's no issue with class-action lawsuits and  
7 no issue with regulation.

8           They may believe, and I think falsely,  
9 that they're going to come here and do very well, because  
10 Americans have a tendency to believe that the US is like  
11 Canada. And there's many cases where it's not true.

12           But in -- in terms of barrier entry  
13 there's high barriers to entry for single mom and pops,  
14 low barriers to entry for American companies to come in.

15           MR. BYRON WILLIAMS: In terms of dealing  
16 with mom and pops, just for a second more, in terms of  
17 barriers to entry -- actually I guess a couple of  
18 followup areas.

19           But there's evidence on the record -- I  
20 don't know if you've seen it or not -- from the CEO of  
21 Rentcash suggesting that he thinks that as rollovers  
22 diminish, that will put additional pressure on smaller  
23 stores.

24           Do you have any opinion -- let -- let's,  
25 you know, I haven't put that evidence before you. But if

1 you'll accept that subject to check --

2 MR. STEVE SARDO: Mm-hm.

3 MR. BYRON WILLIAMS: -- I wonder if you  
4 have any opinion on -- on the reasonableness of that  
5 assertion?

6 MR. STEVE SARDO: I think it's  
7 reasonable, very reasonable. I -- I also believe, as I  
8 think, you know, the larger players in the industry have  
9 done a good job in the sense of, you know, eliminating  
10 the rollovers -- Rentcash, Money Mart and even some of  
11 the smaller guys that are -- are trying to be as  
12 compliant as possible -- myself, 310-LOANS, some other  
13 guys.

14 But the really, really, small guy with  
15 those overheads that I alluded to earlier, that doesn't  
16 have an electronic lending business and has got a small  
17 volume because he, you know, doesn't necessarily have the  
18 cash to lend out or he doesn't -- you know, there's a  
19 million reasons.

20 That person is probably doing rollovers as  
21 we speak and, you know, surviving on that, because it --  
22 it creates additional revenue. And so, yes, there will  
23 be pressure on those people to -- to exit the market.

24 MR. BYRON WILLIAMS: Thank you. And --  
25 and then -- and again, if I've mischaracterized this as a

1 barrier for the smaller stores, you'll correct me on  
2 this.

3                   But from your evidence yesterday, I -- I  
4 took it that you -- you suggested that Money Mart, with  
5 its million-plus person database of prior payday loan  
6 borrowers, in -- in your view, that offered it a huge  
7 competitive advantage compared to smaller operations.

8                   Would that be fair?

9                   MR. STEVE SARDO:    Yeah, that'd be fair.

10                  MR. BYRON WILLIAMS:   Now, and I -- in  
11 your evidence yesterday, and I'm -- on -- on behalf of my  
12 clients, I have to say I'm less interested in the  
13 Teletrack or DP Bureau model of -- of information.

14                  But my clients are certainly quite  
15 interested in the comments you had yesterday in terms of  
16 state information in terms of payday -- payday lenders.  
17 And I believe one example you offered was Florida.

18                  And I wonder if there's some more details  
19 at a high level that you can offer in terms of what --  
20 what kind of information they -- they collect.

21                  MR. STEVE SARDO:    Okay.  Well I -- well  
22 I'll say a few things.  First of all, I hate that word,  
23 "state."  I feel like I'm in a Big Brother -- so not that  
24 that's not correct.

25                  It is the correct word, but it just -- you

1 know, now I'm all of a sudden thinking about the, you  
2 know, Big Brother is going to come down and control the  
3 world. And certainly in business, I think that's a  
4 mistake. Okay.

5                   So I want to make it clear that I'm not an  
6 opponet -- I'm not a proponent for a state database in  
7 the sense the way it's being handled in the US. I think  
8 there's some problems with that, and I think maybe  
9 they're because of abuses.

10                   Having said that --

11                   MR. BYRON WILLIAMS: And could I -- could  
12 I say "US state" was the word. And I'm pretty sure those  
13 are allowed for in the Constitution, but you --

14                   MR. STEVE SARDO: Anyway, no. What I  
15 would say is this, at a high level, what they do is they  
16 gather -- predominantly it's the payday loan history of a  
17 client, okay. And -- and one of the things they do do,  
18 which I don't agree with, again, is they restrict the  
19 client from getting additional loans, espec -- I can  
20 speak to Florida.

21                   I can't speak to all the other states,  
22 because I -- I -- and I've actually spoken with the  
23 gentleman who is the company that basically set up every  
24 one of the state databases in the United States, the CEO  
25 of, I believe the company is called Veritex (Phonetic).



1 I'm not sure how to spell that.

2 But they set up all the state databases in  
3 the US. And they gather -- they basically force every  
4 vendor, every -- first of all, every software vendor must  
5 be linked to this program.

6 So when you go in and do a loan, it  
7 basically puts that loan on that database. And you know,  
8 there is a variety of rules. In Florida, for example,  
9 you cannot get another loan unless you pay the first one.

10 So one of -- you know, this is a catch-22  
11 for anyone to assess this, because first of all, you  
12 know, the big risk for the industry would be a guy goes  
13 and gets a hundred dollar (\$100) loan, and he needs five  
14 hundred (500). He finds out the next day his car breaks  
15 down. Now he can't get that second loan, because he  
16 didn't pay off his first loan yet.

17 And so that -- so I can see some huge  
18 problems with that. I'm not -- again, I'm not a  
19 proponent of -- of it in that regard.

20 What I think would be valuable, you know,  
21 in the Canadian context, would be to have that  
22 information some where so that if a customer happens  
23 today to either be a fraudulent customer that wants to go  
24 to a Money Mart in the morning, a Cash Store in the  
25 afternoon, a Paymax, you know, later in the day, and a,

1 you know, who knows -- Sorensen's, you know, some time  
2 later in the day, and purposely take four (4) loans on  
3 which he plans to default, that somebody would catch that  
4 and -- and protect themselves, and -- on the fraud side.

5 On -- on the other side, they would catch  
6 the person who, obviously, now has got more than a payday  
7 loan problem, and really shouldn't be borrowing all these  
8 loans. And -- and again, they would catch that.

9 I mean, I'll give you an example of what -  
10 - what informal networks have done in the industry to --  
11 to accommodate this rule, because I've been told from --  
12 from some of my friends in the -- the store side of the  
13 business.

14 A person comes in to get a payday loan  
15 today. They have a little stamp on their desk with  
16 today's date on it. They stamp the back of the paycheque  
17 "Money Mart" -- no, I'm not saying Money Mart --  
18 Sorensen's.

19 So the guy goes down the street to get  
20 another payday loan. He's got to produce his pay stub.  
21 They look on the back and they say, Oh, you got a -- you  
22 got a loan at Money Mart today. That's a simple, you  
23 know, way to -- to -- you know, to deal with this  
24 problem.

25 Now if you've got the big database, you

1 don't care. Fine, that's all right. But, you know, at  
2 the end of the day, I -- I even believe that this kind of  
3 a database actually helps the big player, in a sense, as  
4 well.

5 Yes, they have the majority of the data.  
6 I'm not going to debate that. Nobody can debate that.  
7 But they -- they're still missing, potentially, 50  
8 percent of the data, or 40 percent of the data, so the  
9 other data that they don't have that they would, again,  
10 attain.

11 And so I think it's a mistake, and I want  
12 to make sure I make this really clear, because I know  
13 it's a very contentious issue.

14 I think it's a mistake to go with a US-  
15 designed state or province database. But I think there's  
16 value in knowing how many loans that customer has  
17 outstanding at any one time. How you do it and how you  
18 implement it, that's another story.

19 MR. BYRON WILLIAMS: And you may not be  
20 aware of this. I'm just trying to think of this from a  
21 consumer perspective, as well as you -- you'd appreciate.

22 Before taking out a loan, presumably, in  
23 Florida, a consumer would be advised that their  
24 information would be going into some sort of database.

25 Are -- are you aware of what happens --

1                   MR. STEVE SARDO:    I'm not sure, you know,  
2   how formal that is.  But I think that all of the  
3   borrowers in -- in Florida know that, you know, that this  
4   thing exists, and that any reputable, licensed operator  
5   in Florida will be putting their data into that system  
6   and that they will be retrieving it.

7                   And -- and as I -- I think I said  
8   yesterday, it's a double-edge sword.  You know, Florida  
9   has the lowest rates in the United States, but their bad  
10  debt is proportionately lower, because they'll never lend  
11  to a customer that never paid back.

12                  And so, you know, for every hundred  
13  dollars (\$100) of revenue you generate in the Florida  
14  market, twenty dollars (\$20) goes to bad debt.  And I can  
15  accept the 20 percent bad debt.  It's far better than  
16  I've ever achieved in here or anywhere, for that matter.

17                  But if it restricts revenue too much, then  
18  you run this problem of stores not being able to cover  
19  the fixed overheads, which, as we know, are the majority  
20  of the expenses.

21                  So you still have to be cognizant of this  
22  whole interplay in order to make a good decision.

23                  MR. BYRON WILLIAMS:   And you've given me  
24  a very useful segue.  You've spent a lot of time with Ms.  
25  Southall yesterday on bad debt.

1                   So I do want to go to fixed costs for a  
2 little bit. And I brought -- I don't know if you have a  
3 calculator nearby, but --

4                   MR. STEVE SARDO:    I don't.

5                   MR. BYRON WILLIAMS:   -- to -- to assist  
6 you -- we're not going to do any high-level math here.  
7 But if -- I have a few questions --

8                   MR. STEVE SARDO:    Okay.

9                   MR. BYRON WILLIAMS:   -- and if you make  
10 sure that I'm not pulling a fast one on you.

11                  MR. STEVE SARDO:    No, I -- I --

12                  MR. BYRON WILLIAMS:   I can even get you  
13 water at the same time, if that would help?

14                  MR. STEVE SARDO:    Yeah, that would be  
15 great. Water and calculator, okay, no problem.

16

17                                   (BRIEF PAUSE)

18

19                  MR. BYRON WILLIAMS:    The two tabs that I  
20 -- that I want you just to have at hand would be Tab 10  
21 of the -- the book that Ms. Southall kindly provided.  
22 Those would be the responses to some of the  
23 interrogatories posed by my clients' coalition.

24                  MR. STEVE SARDO:    Mm-hm.

25                  MR. BYRON WILLIAMS:    And also Tab 12,

1 which is the second round. And you -- I'll -- I'll --  
2 just so you know where -- where we're going to be moving  
3 back and forth between.

4 MR. STEVE SARDO: Right, right.

5 MR. BYRON WILLIAMS: And just so I  
6 understand, in 2003, the only operations that -- payday  
7 loan operations you had were in Manitoba.

8 Is that right, Mr. Sardo?

9 MR. STEVE SARDO: Yes. Yes, at that  
10 time, yes.

11 MR. BYRON WILLIAMS: So -- and just  
12 quickly to turn to Tab 12, and then we're going to flip  
13 right back to Tab 10.

14 MR. STEVE SARDO: Actually, hang on one  
15 second. It -- I'm just thinking about this quickly. I  
16 can't remember exactly when I opened a few little kiosks,  
17 so there were, potentially, one (1) in Sault Ste. Marie  
18 and -- again, small volume, but I'd have to double check  
19 that.

20 Let's go on the assumption that it's all  
21 Manitoba to start.

22 MR. BYRON WILLIAMS: Okay. We'll go on  
23 that assumption and you'll correct me. You'll -- you'll  
24 review your -- your records --

25 MR. STEVE SARDO: Yeah.

1 MR. BYRON WILLIAMS: -- if you feel the  
2 need to --

3 MR. STEVE SARDO: Yeah --

4 MR. BYRON WILLIAMS: -- and advise me  
5 otherwise.

6 MR. STEVE SARDO: -- no problem.

7 MR. BYRON WILLIAMS: And -- and just --  
8 so for 2003, at Tab 12 of the -- of the Southall  
9 reference material, when I see -- this is a response to  
10 PUB/CASH-2-1 -- excuse me, yes. And I see a table about  
11 a third (1/3) of the way down. I see the year 2003.

12 And when I look to the next line to the  
13 right -- two thousand, one hundred and forty-eight  
14 (2,148) -- that would be the number of loans that you  
15 transacted in that year?

16 MR. STEVE SARDO: That's -- that's  
17 correct, --

18 MR. BYRON WILLIAMS: Okay.

19 MR. STEVE SARDO: -- based on what my  
20 wonderful computer programmer provided me.

21 MR. BYRON WILLIAMS: Okay. And we can,  
22 maybe, perhaps just stay on this page for -- for a  
23 second. And if memory serves me right -- and this  
24 actually appears in a Coalition interrogatory -- in 2003,  
25 you were operating six (6) days a week.

1                   Is -- is that right?

2                   MR. STEVE SARDO:    Yes, yes.

3                   MR. BYRON WILLIAMS:   And you had two (2)  
4 stores operating in Manitoba, six (6) days a week, is  
5 that right?

6                   MR. STEVE SARDO:    I'm not sure when the  
7 two (2) stores opened.  They didn't open exactly at the  
8 same time.  So were they both op -- operating for the  
9 whole year during that period?  Again I can't be positive  
10 of that.

11                   They did open, you know, at separate  
12 times, and I closed one (1) of them first and then I  
13 closed the -- the second one subsequently.

14                   So you can say it's, maybe, more closer to  
15 one and a half (1 1/2), if you want to really call it  
16 that.

17                   MR. BYRON WILLIAMS:    One and a half (1  
18 1/2).  You're going to make my math -- math calculations  
19 a little more difficult, but we'll --

20                   MR. STEVE SARDO:    Well, we can go with  
21 two (2) if you want.

22                   MR. BYRON WILLIAMS:    Well, we'll go with  
23 two (2), and then maybe we'll -- I'll get -- maybe,  
24 because I just want to walk through this a little bit.  
25 And then perhaps if it is one and a half (1 1/2), we can



1 -- I can get you to undertake --

2 MR. STEVE SARDO: Okay.

3 MR. BYRON WILLIAMS: -- to -- to revise.

4 MR. STEVE SARDO: Yeah. What I will tell  
5 you is that it's going to be difficult for me to go back  
6 and -- and assess them as separate entities, even when  
7 they opened and closed, because what I had my programmer  
8 do when I closed the one (1) was move all of the loans  
9 from the one (1) store over to the second one under one  
10 (1) ID number so that we could just move on.

11 And so that data is effectively lost from  
12 that -- from that one (1) store.

13 MR. BYRON WILLIAMS: That -- that's fair  
14 enough. Well let's do this then. By my count, assuming  
15 fifty-two (52) weeks in a year, and that hasn't changed  
16 as far as I know --

17 MR. STEVE SARDO: Mm-hm.

18 MR. BYRON WILLIAMS: -- six (6) days a  
19 week, six (6) times fifty-two (52) would be -- your --  
20 your stores would be open about three hundred and twelve  
21 (312) days in a year.

22 Would that be about right? Take -- give  
23 or take Christmas or something like that.

24 MR. STEVE SARDO: You said fifty-two (52)  
25 weeks in a year times --

1 MR. BYRON WILLIAMS: Times six (6).

2 MR. STEVE SARDO: -- six (6) days, okay,  
3 yeah.

4 MR. BYRON WILLIAMS: Three hundred and  
5 twelve (312). So if I took that total amount of -- of  
6 loans in a year of two thousand one hundred and forty-  
7 eight (2,148) and divided that by three hundred and  
8 twelve (312) --

9 MR. STEVE SARDO: Mm-hm.

10 MR. BYRON WILLIAMS: -- am I correct in  
11 suggesting to you that you're looking at about six (6)  
12 transactions a day on average?

13 MR. STEVE SARDO: The average is a  
14 meaningless number.

15 MR. BYRON WILLIAMS: Okay. And why is  
16 that, sir?

17 MR. STEVE SARDO: Because close to 50  
18 percent of the customers come in on Friday.

19 MR. BYRON WILLIAMS: Are you keeping the  
20 stores open each day though?

21 MR. STEVE SARDO: Yes.

22 MR. BYRON WILLIAMS: And you're paying  
23 staff to keep the stores open --

24 MR. STEVE SARDO: That's correct.

25 MR. BYRON WILLIAMS: -- each day? So

1 each of those days are incurring costs.

2 MR. STEVE SARDO: You're losing money for  
3 -- in -- in my situation, given the -- the math -- and  
4 then this is true for small-volume stores.

5 As you get larger and stores get larger,  
6 that percentage doesn't hold anymore. It begins to  
7 decline because, you get more and more customers. And  
8 instead of 45 or 50 percent being on Friday, it comes  
9 down to, maybe, 30 percent.

10 Friday at the end of the day, is the  
11 busiest day. Think about how many people get paid on  
12 Friday. It's just natural that that's going to be the  
13 busiest day. It's the most common payday, so that's when  
14 people come in.

15 So that number's going to waiver somewhere  
16 between 30 and 50 percent. But you're right, I'm losing  
17 money throughout the whole week, hopefully making enough  
18 money on Friday to cover it. And, you know, and again,  
19 if you don't get the volume, you might as well close the  
20 door.

21 MR. BYRON WILLIAMS: Okay. Well this is  
22 helpful, and I'll come -- I'll come back to that. And  
23 where I'm trying to go, Mr. Sardo, is to get some --  
24 because you are paying staff every hour --

25 MR. STEVE SARDO: Mm-hm.

1 MR. BYRON WILLIAMS: -- and you're paying  
2 rent for every -- every day --

3 MR. STEVE SARDO: Yes, you're right.

4 MR. BYRON WILLIAMS: -- I'm trying to get  
5 some sense of -- of how much in an hour, when you're  
6 paying staff, is going through your store on average.

7 And -- and if you disagree with the  
8 analysis from that at the end of the day, feel free to --

9 MR. STEVE SARDO: Yeah, go ahead.

10 MR. BYRON WILLIAMS: Okay.

11 MR. STEVE SARDO: Fire away.

12 MR. BYRON WILLIAMS: Let's go back to Tab  
13 -- and there's no fire in here, we're just kind of --

14 MR. STEVE SARDO: I didn't mean it in a  
15 negative sense, just go ahead.

16 MR. BYRON WILLIAMS: You're a guest, so I  
17 wouldn't fire on you.

18 MR. STEVE SARDO: Okay.

19 MR. BYRON WILLIAMS: We'll go back to Tab  
20 10, if we might.

21 MR. STEVE SARDO: Okay, sure.

22 MR. BYRON WILLIAMS: And this is the  
23 response to Coalition-Cash X-1-1. And -- and first of  
24 all, I think when we initially posed this Interrogatory,  
25 we were -- were under the understanding that you only had

1 one (1) store.

2 But if we go to your response to sub (d),  
3 we see that the -- the rent for your Eaton Place store  
4 was about twenty-five hundred dollars (\$2,500) a month.  
5 Mr. Sardo, it's Tab 10.

6 MR. STEVE SARDO: Yes. Okay, got it,  
7 sorry.

8 MR. BYRON WILLIAMS: And am I right in  
9 suggesting to you that at your Eaton Place store the rent  
10 was about twenty-five hundred dollars (\$2,500) a month?

11 MR. STEVE SARDO: Yes, you're right.  
12 That's what I said it was, yeah.

13 MR. BYRON WILLIAMS: Okay. And again,  
14 just if I do the math, twenty-five hundred dollars  
15 (\$2,500) a month time twelve (12) months, you're paying  
16 in that year about thirty thousand dollars (\$30,000) in  
17 rent.

18 Would that be right, sir?

19 MR. STEVE SARDO: I was actually paying  
20 more than that, because I was -- that was the Eaton Place  
21 store. Then I had the other store, plus I had an  
22 administrative office in Toronto.

23 MR. BYRON WILLIAMS: Well we're going to  
24 get to the -- to the other two (2) in a minute. But for  
25 the Eaton Place store exclusively, you're paying thirty

1 thousand dollars (\$30,000) for rent.

2 MR. STEVE SARDO: Correct.

3 MR. BYRON WILLIAMS: And for your other  
4 store which I believe was at Portage Place --

5 MR. STEVE SARDO: Mm-hm.

6 MR. BYRON WILLIAMS: -- how much a month  
7 were you paying for rent for that, sir?

8 MR. STEVE SARDO: Actually it was on  
9 Portage Avenue. It was -- I was subleasing space from a  
10 Liberty Tax license -- franchisee that I knew quite well.

11 And I think I was paying either five or  
12 six hundred dollars (\$500/\$600) a month for a tiny,  
13 little bit of space.

14 MR. BYRON WILLIAMS: So we'll take the  
15 conservative number of five hundred dollars (\$500) a  
16 month. You're paying about six thousand dollars (\$6,000)  
17 for that space --

18 MR. STEVE SARDO: Mm-hm.

19 MR. BYRON WILLIAMS: -- assuming you were  
20 open for the whole 2003 year.

21 MR. STEVE SARDO: Right.

22 MR. BYRON WILLIAMS: And in terms of your  
23 administrative office in Toronto, can you give me a sense  
24 of what the over --

25 MR. STEVE SARDO: I think it was about

1 twelve thousand (12,000).

2 MR. BYRON WILLIAMS: A year?

3 MR. STEVE SARDO: Yeah.

4 MR. BYRON WILLIAMS: Thank you. Now  
5 going up to the response to -- and -- and so I guess if I  
6 put that all together, we've got thirty thousand (30,000)  
7 for Eaton Place plus around six thousand (6,000) for your  
8 Portage Avenue that you sublet from Liberty -- Liberty  
9 franchisee, and then twelve thousand (12,000) for your  
10 space in Toronto.

11 So in terms of rent that Cash X was paying  
12 out, you're -- you're looking at about forty-eight  
13 thousand dollars (\$48,000) for that year.

14 Would that be right, sir?

15 MR. STEVE SARDO: I'm assuming you did  
16 the math right, yeah.

17 MR. BYRON WILLIAMS: I'm doing that in my  
18 head so -- but I think I'm pretty close. Mr. Cathcart's  
19 keeping up with us too. He hasn't given me the -- the  
20 thumbs down yet, so...

21 Now I -- I just want to look at the  
22 numbers of hours that your stores were open, and I draw  
23 your attention to the sub (a), the first response there.

24 And it looks like you were open about  
25 eight (8) hours a day from Monday to Wednesday, that

1 being from 10:00 a.m. to 6:00 p.m.

2 Would that be right, Mr. Sardo?

3 MR. STEVE SARDO: Yes.

4 MR. BYRON WILLIAMS: So for three (3)  
5 days times eight (8), that's about twenty-four (24)  
6 hours, right, sir?

7 MR. STEVE SARDO: Three (3) times eight  
8 (8), yeah.

9 MR. BYRON WILLIAMS: And for Thursday and  
10 Friday it looks like you were open about eleven (11)  
11 hours a day, being from 10:00 a.m. to 9:00 p.m.

12 Is that right sir?

13 MR. STEVE SARDO: Yes.

14 MR. BYRON WILLIAMS: And for two (2) days  
15 that would be twenty-two (22) hours?

16 MR. STEVE SARDO: That's correct.

17 MR. BYRON WILLIAMS: Okay. And for  
18 Saturday you were open another eight (8) hours. So  
19 that's fifty-four (54) hour -- fifty-four (54) hours, if  
20 you'll accept that, you were open for the week?

21 MR. STEVE SARDO: I'll accept it until  
22 somebody says it's wrong, because if somebody else is  
23 double checking it.

24 MR. BYRON WILLIAMS: Well, the -- the sum  
25 of --



1                   MR. STEVE SARDO:    I'm not bothering to do  
2 it in my head, so.

3                   MR. BYRON WILLIAMS:    The sum of twenty-  
4 two (22) plus eight (8) plus twenty-four (24) should  
5 equal fifty-four (54) by my calculation, if you'll accept  
6 that?

7                   MR. STEVE SARDO:    Okay.

8                   MR. BYRON WILLIAMS:    And that's for one  
9 (1) store.  So times two (2) we're looking at about a  
10 hundred and eight (108) hours a week that your two (2)  
11 stores were open.

12                   Is that correct, sir?

13                   MR. STEVE SARDO:    It seems logical, yes.

14                   MR. BYRON WILLIAMS:    Okay.  Can you give  
15 me an -- and again if this is -- I don't assume it's  
16 confidential, because we're going back to 2003 -- but a  
17 ballpark figure, in terms of for a store that's been open  
18 those hours, are you looking at one (1) staff person for  
19 five (5) days of the week and then two (2) for Fridays?

20                   Or can you give me an idea of what you  
21 would do?

22                   MR. STEVE SARDO:    My staffing was split.  
23 Sometimes we'd have one (1) person come in for a part  
24 shift and another one come in for the rest of the day on  
25 the hours that were until 9:00.  Friday we typically did

1 have two (2) people in.

2 All I can tell you is this. You know, I  
3 make no qualms about the statement that my costs were  
4 high and there was inefficiencies in the numbers that  
5 I've presented. There's no question about that. And my  
6 costs are three (3) times what the Deloitte are Touche  
7 numbers are, or -- or at least twice, so...

8 But when I rationali -- like, when I  
9 looked at it, you know, I found that, you know, the  
10 employees I had were -- were not the best. I mean, and -  
11 - and maybe they're just -- I couldn't get them.

12 But what it took two (2) people to do on a  
13 Friday, when I did it over the phone, I did more business  
14 by myself, okay. But again, I had efficiencies, because  
15 I was doing it over the phone.

16 MR. BYRON WILLIAMS: And I don't -- I'm  
17 not trying to criticize your -- your business practices,  
18 but you --

19 MR. STEVE SARDO: Yeah. No.

20 MR. BYRON WILLIAMS: -- you have made the  
21 point that vol -- how important volume is --

22 MR. STEVE SARDO: Yeah. Yeah.

23 MR. BYRON WILLIAMS: -- and -- and I  
24 think that this is a useful way to illustrate it. The  
25 Board may disagree with me, but you'll -- you'll bear

1 with me.

2 So just so I understand, on Fridays you  
3 had two (2) staff people on, would that be fair?

4 MR. STEVE SARDO: I tried to keep it down  
5 as low as possible, one and a half (1 1/2) to two (2).

6 MR. BYRON WILLIAMS: And for the other  
7 days of the week, it would be --

8 MR. STEVE SARDO: Just one (1).

9 MR. BYRON WILLIAMS: -- one (1). Okay.

10

11 (BRIEF PAUSE)

12

13 MR. BYRON WILLIAMS: So I'm going to keep  
14 this conservative. So for -- if you're looking at a  
15 staff person, five (5) times one (1) equals five (5).  
16 And we'll -- we'll take a day -- well a person and a half  
17 for Friday.

18 So we're looking at six and a half (6 1/2)  
19 staff people or six (6) in the course of the week? Would  
20 that be right, sir? One (1) for each day --

21 MR. STEVE SARDO: One (1) for each day --

22 MR. BYRON WILLIAMS: -- and --

23 MR. STEVE SARDO: -- one and a half (1  
24 1/2) on Fridays, is --

25 MR. BYRON WILLIAMS: On Fridays.

1 MR. STEVE SARDO: -- well, it's six and a  
2 half (6 1/2) to seven (7), whatever the number is.

3 MR. BYRON WILLIAMS: Okay. And can you  
4 give me a ballpark range of what you might pay an hour  
5 for those staff, sir?

6 MR. STEVE SARDO: Ten (10), twelve (\$12)  
7 dollars.

8

9 (BRIEF PAUSE)

10

11 MR. BYRON WILLIAMS: Okay. That's very  
12 useful. The -- what I'd also like to do is just go back  
13 to Tab 12. And I'm not going to -- just so I -- I am not  
14 going to torture you or the Board by going through how  
15 much you were paying those staff. But I can back those -  
16 - or, how much on a weekly basis you were paying, but I  
17 can figure that out.

18 If I look at the figure of two thousand,  
19 one hundred and forty-eight (2,148) for the -- the amount  
20 of loans you were doing in a year, would I be right in  
21 suggesting that that amount -- that would amount to about  
22 forty-one (41) or forty-two (42) transactions a week?  
23 And I'd arrive at that by --

24 MR. STEVE SARDO: Yeah.

25 MR. BYRON WILLIAMS: Yeah.

1 MR. STEVE SARDO: Mm-hm.

2 MR. BYRON WILLIAMS: And again,  
3 recognizing your point that averages don't -- are not as  
4 significant to you, because most of the work arrived on  
5 Fridays.

6 MR. STEVE SARDO: Mm-hm.

7 MR. BYRON WILLIAMS: But if I looked at a  
8 hundred and eight (108) hours in a week, I wonder if you  
9 would accept that if I took the average of forty-one  
10 point three zero (41.30) transactions a week and divided  
11 that by a hundred and eight (108) hours a week, you're  
12 looking at about zero point three eight (0.38)  
13 transactions an hour.

14 Would that be fair?

15 MR. STEVE SARDO: I think that's a  
16 useless piece of information.

17 MR. BYRON WILLIAMS: But do you disagree  
18 with my calculation?

19 MR. STEVE SARDO: Yes, because you can't  
20 use an average in this case.

21 MR. BYRON WILLIAMS: Okay. And -- so you  
22 disagree with the premise, but not with the number?

23 MR. STEVE SARDO: No, the number's -- I  
24 can give you whatever number you want. If I could say  
25 100 percent of the business is on Friday, I'll give you a

1 different number. It's -- it's a useless number.

2 MR. BYRON WILLIAMS: Is it useless to  
3 this extent, sir, because for those hours that you're  
4 open you are paying staff to -- to keep the store open?

5 MR. STEVE SARDO: No, it's not useless in  
6 that sense. If you -- rather than you bothering to do  
7 the calculation, Byron, I think the simple thing that you  
8 should say is that the -- the store's under capacity and  
9 that the overheads are very high relative to the amount  
10 of loans.

11 And I think everyone can understand that.  
12 And without bothering to do the math, that's a fair  
13 statement.

14 MR. BYRON WILLIAMS: And that's helpful.  
15 The -- in -- in terms of the -- in -- in terms of the --  
16 the tr -- the -- the answer to, if this operation was to  
17 continue in business the -- the model that you were  
18 employing, as I understood your evidence yesterday and  
19 again earlier today, two (2) things would have had to  
20 have happen.

21 One (1) is that you would have had to have  
22 a lot more volume in the store, is that right, sir?  
23 That's part of the equation?

24 And then secondly, that you would have  
25 required lower default rates. Would that be fair?

1                   MR. STEVE SARDO:    Th -- that would  
2 absolutely be fair.  I think the other thing that's  
3 important too, Byron, though, in this equation is that I  
4 could probably take an average Money Mart, or Rentcash,  
5 or any large operator, do the math that you just did, and  
6 also prove that they are under capacity.

7                   At certain times there's -- the nature of  
8 the business is that there are many times when somebody  
9 is sitting around not doing too much and other times when  
10 they're pulling their hair out.  And that's just the  
11 nature of the business.

12                   And, you know, much to the -- the credit  
13 of -- of Money Mart, particularly -- less than the credit  
14 Rentcash, because they're not as good at it.  But Money  
15 Mart has realized that quite well, and -- and as a result  
16 they offer many, many other services to keep that staff  
17 utilized during the day.

18                   And so -- yes, you know, I think that --  
19 but I think it's under -- important to understand that if  
20 you're assessing payday loans on their own, payday loans  
21 is -- in and of itself will always have under capacity.

22                   MR. BYRON WILLIAMS:   And that's -- you've  
23 said that more eloquently than -- than I could have.  
24 That's obviously where I was going with this discussion--

25                   MR. STEVE SARDO:    Okay.

1 MR. BYRON WILLIAMS: -- so I appreciate  
2 that.

3 MR. STEVE SARDO: Okay.

4 MR. BYRON WILLIAMS: And just as the --  
5 the final piece of information that I'd like from you --  
6 and I think you -- you confirmed this with Mr. Foran --  
7 but as I understand, your move from the -- from the brick  
8 and mortar model to your current model, essentially, was  
9 a tradeoff.

10 You decided that you would significantly  
11 reduce your fixed costs in orde -- while accepting that  
12 you would increase, probably, your -- your default rates.

13 Is -- is that right, sir?

14 MR. STEVE SARDO: Yes, that is correct.

15 MR. BYRON WILLIAMS: And for an operation  
16 such as your own, given your -- your experience, you  
17 decided that was a -- a good financial tradeoff?

18 MR. STEVE SARDO: It seems to have worked  
19 for me.

20 MR. BYRON WILLIAMS: Okay. And again, I  
21 appreciate your -- your time and your -- your adept work  
22 with calculator, as well.

23 MR. STEVE SARDO: I didn't really use it.

24 MR. BYRON WILLIAMS: I had my fourteen  
25 (14) year old doing it earlier today. Thank you.



1 MR. STEVE SARDO: Thanks, Byron.

2

3 (BRIEF PAUSE)

4

5 MR. BYRON WILLIAMS: I have no further  
6 questions, sorry.

7 THE CHAIRPERSON: I was not quite sure if  
8 you were just pausing or you were done. Thanks.

9

10 (BRIEF PAUSE)

11

12 THE CHAIRPERSON: Okay. Next up would be  
13 for Rentcash, Mr. Hacault.

14

15 CROSS-EXAMINATION BY MR. ANTOINE HACAULT:

16 MR. ANTOINE HACAULT: Thank you, Mr.  
17 Chairman. Mr. Sardo, could you turn to Tab 9 of the  
18 binder that was given by counsel for the Board.

19 MR. STEVE SARDO: I have it.

20 MR. ANTOINE HACAULT: At that page, at  
21 the top of the page, there is a table which you had gone  
22 through during your cross-examination with Mrs. -- Ms.  
23 Southall.

24 And my recollection is that you explained  
25 that in that number was the sixteen dollars and thirty-

1 one cents (16.31) from the Ernst and Young report.

2 Do you recall that?

3 MR. STEVE SARDO: Okay. Which page are  
4 we on, page 3?

5 MR. ANTOINE HACAULT: I have it page 4.

6 MR. STEVE SARDO: Okay, sorry. Yes, go  
7 ahead.

8 MR. ANTOINE HACAULT: Would you be  
9 prepared to do this for me, sir? Redo that table based  
10 on your own costs as experienced in the years 2003 and  
11 2004?

12 MR. STEVE SARDO: I can undertake to do  
13 that. I -- I -- with all the undertakings that I'm  
14 undertaking, I -- I just ask for a little bit of patience  
15 in terms of getting back to you guys on it. That's all.

16 MR. ANTOINE HACAULT: Thank you, sir.

17 THE CHAIRPERSON: That would be fine.

18

19 --- UNDERTAKING NO. 6: Mr. Steve Sardo will redo  
20 table on Tab 9 based on his  
21 own costs as experienced in  
22 the years 2003 and 2004

23

24 THE CHAIRPERSON: Ms. Southall, by the  
25 way, when Mr. Sardo is done, you could probably consult

1 with him to ensure that both you and him have the same  
2 list of undertakings that he has agreed to complete.

3 MR. STEVE SARDO: Thank you.

4 MS. ANITA SOUTHALL: Thank you.

5

6 CONTINUED BY MR. ANTOINE HACAULT:

7 MR. ANTOINE HACAULT: Next, Mr. Sardo,  
8 you had a discussion with counsel for CPLA with respect  
9 to your siding -- sliding-scale model. And my question  
10 to you is a fairly simple one.

11 There are different payday loan companies.  
12 Is it correct that not all payday loan companies have the  
13 same customer profiles?

14 MR. STEVE SARDO: Sorry. That's an  
15 interesting question. Do -- do different payday loan  
16 companies have different profiles?

17 I'm going to say yes. First of all,  
18 profile the customer is dependent upon where the customer  
19 lives. So the profile of the Flin Flon customer is not  
20 the same as the profile of the Winnipeg customer. And  
21 the customer from the south end of Winnipeg is not the  
22 same as the profile of the north end of Winnipeg.

23 So by a store-by-store basis, inherently  
24 every store will have a different profile -- somewhat  
25 different profile of customer.

1                   Do companies specifically target certain  
2 customers? I don't know the internal underwritings of  
3 each company. I would assume that some of the smaller  
4 operators are probably less -- or more -- less risk  
5 averse, that they're probably willing to take on more  
6 risk than, maybe, a large company would in terms of  
7 underwriting a client.

8                   I may be -- and that could be detrimental  
9 to them, but that would be my assessment.

10                   MR. ANTOINE HACAULT: Thank you. Would  
11 it be fair to say that some companies experience higher  
12 default rates than others?

13                   MR. STEVE SARDO: Absolutely.

14                   MR. ANTOINE HACAULT: Okay. And would it  
15 be fair to say that there may also be companies that high  
16 -- have higher default rates for loans of higher amounts?  
17 Not all companies are the same with respect to loans of  
18 higher amounts --

19                   MR. STEVE SARDO: Oh, absolutely. That's  
20 true too, because it depends. Again, I think I could  
21 demonstrate to you clearly -- and I may be able to  
22 provide the evidence -- that, you know, first-time  
23 customer default is high.

24                   And so if you are willing to give high  
25 loans on first-time customer default, then you're going

1 to have high default. That's just my belief, and I can  
2 pretty much prove it.

3 MR. ANTOINE HACAULT: In your direct  
4 testimony, you also referred to formerly being a member  
5 of the CPLA.

6 When did you decide to cease membership?

7 MR. STEVE SARDO: I'm not positive of the  
8 exact date. I'm going to say May of '07.

9 MR. ANTOINE HACAULT: Do you have any  
10 recollection of about how many people were members of the  
11 CPLA in its infancy, or --

12 MR. STEVE SARDO: Oh, jeez.

13 MR. ANTOINE HACAULT: -- when it was at  
14 its strongest?

15 MR. STEVE SARDO: Well, I do remember  
16 when Bob Whitelaw was the President, if that was his  
17 title.

18 At the time I remember a quote of  
19 something, that the CPLA represented eight hundred and  
20 eighty (880) or ninety (90) -- eight hundred ninety (890)  
21 some-odd locations of the thirteen hundred and fifty  
22 (1,350) locations in Canada. That's what I re -- that's  
23 the number I remember.

24 I don't remember the number of companies.  
25 But I always felt that the number of companies was more

1 important than the number of locations they represented  
2 because of my view that the majority of companies are  
3 small anyway.

4 MR. ANTOINE HACAULT: Okay. Do you have  
5 any idea how many companies are currently members of the  
6 Canadian Payday Loan Association?

7 MR. STEVE SARDO: The last -- I quickly  
8 looked at the website, I'm gonna rough it at twenty-five  
9 (25). I -- I don't know the number.

10 MR. ANTOINE HACAULT: And your evidence  
11 is that there's about four hundred and eighty (480) of  
12 these companies in Canada?

13 MR. STEVE SARDO: Yes. Yes. Pretty  
14 much.

15 MR. ANTOINE HACAULT: So if we're doing  
16 math, what percentage of the industry do they represent?

17 MR. STEVE SARDO: Five percent. They --  
18 well, 5 percent of the companies, if -- if you want to  
19 measure it that way. I mean, I'm -- I'm sure that they  
20 don't want to measure it that way.

21 MR. ANTOINE HACAULT: Okay. Could you  
22 explain what brought you to leave the Canadian Payday  
23 Loans Association?

24 MR. STEVE SARDO: That's a -- that's a  
25 tough question. I -- I will answer it, since I'm sort of

1 forced to answer all these questions.

2 Well, my opinion was, you know, when I  
3 first got involved in the CPLA, I kind of thought that it  
4 was truly going to be an association like other  
5 associations I've been involved with in my career that  
6 really had the best interests of the entire industry at  
7 heart.

8 And early -- very, very early in the -- in  
9 the going, I went up in front of a -- a crowd of a fairly  
10 decent size in Toronto and asked the point about whether  
11 or not we could create a national bad loan database that  
12 everyone would participate in and share that would help  
13 us as an industry to reduce our bad debt, and to, you  
14 know, potentially protect consumers of taking too many  
15 loans.

16 And I was shot down very early in the  
17 going about that concept for a number of reasons. And so  
18 that was a bit of thorn in my side, because I believed  
19 then, as I do now, that that is still a valid -- a valid  
20 concern, and it would have been a valid thing for the --  
21 for the Association to do.

22 Subsequently, when it -- there were a  
23 number of other factors and -- and, you know, I sat in a  
24 -- a number of meetings and conference calls and -- and  
25 things where, again, I felt that, you know, the voice of

1 the smaller entity was really not being heard.

2 And unfortunately, I felt that the -- the  
3 large entities at the time -- and then eventually, you  
4 know, as -- as I'm sure you're aware, Rentcash left, and  
5 Cash Money left as well.

6 So at the end I kind of felt that, you  
7 know, it was a Money Mart agenda, and that that Money  
8 Mart agenda was going to benefit Money Mart and -- and be  
9 detrimental to me.

10 And -- and so I felt I was going to be  
11 forced to pay money to something that was going to  
12 benefit the largest competitor in the industry at my  
13 expense. And that's my opinion, and that is one of the  
14 main reasons why I left.

15 But in addition to that, I was presented  
16 with a bill for nine thousand (\$9,000) dollars, which I  
17 very much could not afford as a small operator. And, you  
18 know, proportionate to my revenues, that was a huge  
19 amount of money.

20 And so it was a combination of a -- a  
21 number of factors. But I -- I just never felt that the  
22 voices of the small people were being heard.

23 MR. ANTOINE HACAULT: Thank you, sir.

24 Next, I have a question with respect to  
25 Tab -- some materials found at Tab 11 of the binder that



1 was provided by Ms. Southall, on the second page of the  
2 answers to the questions that were posed, at J.

3 MR. STEVE SARDO: Okay, I have that  
4 information.

5 MR. ANTOINE HACAULT: Could you indicate  
6 to us whether or not you factored into those amounts  
7 licensing costs and bonding costs?

8 MR. STEVE SARDO: No, I did not.

9

10 (BRIEF PAUSE)

11

12 MR. ANTOINE HACAULT: And this number  
13 also does not take into account -- I would gather, then -  
14 - any, what you referred to as "brick and mortar costs"?

15 MR. STEVE SARDO: No, it was based on my  
16 operations on a go-forward basis, given those rates. And  
17 so -- and my -- again, as you know, my operations are not  
18 directly comparable with brick and mortar.

19 For sure my overheads are lower, and for  
20 sure my bad debt is higher. So it does not account for  
21 the higher administration costs of brick and mortar, if  
22 that's your question.

23 MR. ANTOINE HACAULT: So if we have a  
24 bricks and mortar, mom and pop operation servicing people  
25 who don't have access to Internet and would go to that

1 kind of location in Winnipeg to obtain the service, that  
2 would be a sector of the market that you might not be  
3 serving?

4 MR. STEVE SARDO: Oh, absolutely. And I  
5 mean, what you got to remember about the Internet  
6 segment, in this country anyway, and the phone -- the  
7 phone segment's actually quite a bit bigger -- the  
8 Internet-lending segment is a small segment to any -- to  
9 any stretch of the imagination.

10 You know, lots of people have access to a  
11 computer. I won't debate that. But I virtually know  
12 every Internet lender in the country. I'm, you know,  
13 colleagues with them and friends with them.

14 And we talk about the business, and we  
15 talk about the cost of advertising and, you know, the  
16 fact that we're all fighting for the same client.

17 And it's -- it's a real -- it's a niche.  
18 It's, you know, it's never going to be a \$100 million  
19 business or a \$500 million. It's never going to be, you  
20 know, a real competitor to these big, brick and mortar  
21 people.

22 The -- the opportunity for me, actually,  
23 because of that, is -- is to, you know, to move towards  
24 Internet lending into the US, where the market's fifteen  
25 (15) times the size and I might be able to grow my

1 business a bit.

2 MR. ANTOINE HACAULT: Thank you very  
3 much. The next question I had is with respect to an  
4 agreement which you had sent to everybody by way of an  
5 October 5 email. That's not part of the binder, but I  
6 don't think it's -- you probably don't need to have it to  
7 respond to the question.

8 MR. STEVE SARDO: Okay.

9 MR. ANTOINE HACAULT: In the agreement,  
10 you explained that there is a thirty-seven dollars and  
11 fifty cent (\$37.50) NSF fee.

12 And that is provided for in the  
13 agreement which you provided, correct?

14 MR. STEVE SARDO: Correct.

15 MR. ANTOINE HACAULT: The agreement also  
16 has a subsequent paragraph that reads, and I quote:

17 "I authorize Cash- [dash] X or its  
18 agents [comma], that should any cheque  
19 from me be dishonoured to initiate an  
20 electronic debit entry to my account  
21 for the amount of the cheque and an  
22 additional thirty-seven dollars and  
23 fifty cents (\$37.50) being the cost of  
24 the [and this is in capitals] EFT or  
25 the legal maximum service fees

1                   allowable."

2                   MR. STEVE SARDO:    Okay.

3                   MR. ANTOINE HACAULT:    Is that an  
4 additional fee when there's the NF -- NFT transfer?

5                   MR. STEVE SARDO:    No, no.  It's --  
6 there's one (1) fee of thirty-seven fifty (37.50).  It's  
7 probably redundant to have that second paragraph in  
8 there.  But my agreement probably needs a little bit of  
9 work.  Maybe I should hire you guys to fix it up a bit.

10                  MR. ANTOINE HACAULT:    Thank you.  Those  
11 are all my questions.

12                  MR. STEVE SARDO:    Thank you.

13                  THE CHAIRPERSON:    Thank you, sir.  Mr.  
14 Sardo, do you have any closing remarks that you'd like to  
15 make?

16                  MR. STEVE SARDO:    Wow.

17                  THE CHAIRPERSON:    You have had quite a  
18 time here.

19                  MR. STEVE SARDO:    Let me just gather my  
20 thoughts for a second.

21                  I -- I think -- all I want to say is that  
22 I think that some of the testimony that I've been able to  
23 bring forward is -- is unique, and it's different from  
24 the perspectives you're going to get from a lot of other  
25 people.

1                   And I believe that because of my -- you  
2 know, I come from a -- in -- in a sense a huge corporate  
3 background, you know, up until recently, and now I'm now  
4 I'm a small entrepreneur.

5                   So I understand the shoes of the guy  
6 that's sitting -- and, you know, the CEOs of these  
7 companies. I know what they're going through and I know  
8 what they're trying to do.

9                   But I also understand the small guy. And  
10 I -- and I also understand the customer, because I did  
11 loans. I mean, I physically lent people money.

12                   So I -- all I can say to you is I know you  
13 have a huge challenge in front of you to try to make a  
14 decision on this thing.

15                   And I urge you, you know, more than any of  
16 my evidence or anything else you're going to get from  
17 anybody, to really, really think through what you're  
18 going to make as your decision, because I think there's  
19 lot of nuances in here that you may have got from me.

20                   Things that, you know, I pointed out about  
21 the US market or about the databases or about the  
22 software or about, you know, the large competitors and  
23 the impact they have on the marketplace.

24                   And the, you know, what could happen based  
25 on a rate increase that would potentially -- you know,

1 you could be theoretically lowering the rate on -- as a  
2 whole but actually raising it, in effect, to every  
3 customer in the province.

4                   So I'll -- I just urge you to be very,  
5 very cautious about your decision making and -- and  
6 qualify, if you need, with any of the experts that we  
7 have, you know.

8                   Before you finalize a document that says,  
9 This is what we're doing, I would say that it really  
10 needs to be at least vetted out one (1) more time by some  
11 people that would say -- because you may come in a room  
12 together -- and I know you're not experts on the  
13 industry. You're intelligent people, I'm sure.

14                   But you may come to this decision after  
15 you've all discussed all the evidence from the Coalition  
16 and Rentcash and CPLA and Steve and all these other guys.

17                   And you may think you've come to this  
18 perfect decision at the end of that, but there may be  
19 some flaws in that that you haven't fully thought  
20 through.

21                   Simply the one would be -- let's say you  
22 come up with a complicated rating system. If you feel  
23 that's the way to go, the -- the thing you might be  
24 missing in that equation is that, you know, Rentcash  
25 might take six (6) months to implement, Money Mart take -

1 - might take, you know, eight (8) months to implement.

2                   The little guy might not be able to follow  
3 it, because he can't implement it or he can't buy a  
4 software program that will allow him to do it.

5                   I mean a simple thing like that, you could  
6 say, Well this is the best way to go. Look at it. This  
7 is a beautiful rating system. But practically speaking,  
8 how is it going to be implemented?

9                   So I urge you to be very cautious. And I  
10 think simplicity -- simplicity is very important at the  
11 end of the day in this thing, you know, whether it's  
12 rollovers, you know.

13                   I would vote against that comment that  
14 Anita said, only because if it's 75 percent of the total  
15 amount they do in Missouri, that's a complicated way to  
16 do it.

17                   Just say there's no rollovers or there's  
18 one (1) rollover or there's two (2) rollovers. And --  
19 and after that, you're on a payment plan, and that's the  
20 end of the story.

21                   And, you know, things like that, I think,  
22 would be the way to go. And -- and that's really, you  
23 know, all I can say.

24                   THE CHAIRPERSON: Well we want to thank  
25 you very much, Mr. Sardo. It was good of you. If you

1 like to apply to be an Intervenor and come out here and  
2 provide your comments.

3                   You have covered a wide range of different  
4 areas, and we are quite appreciate of it. We look  
5 forward to the completion of your undertakings. And we  
6 do not expect them in the next week, but given your high  
7 level of interest, I imagine you will not be unduly long  
8 in providing them.

9                   MR. STEVE SARDO:    No, I'll get them back  
10 to you, I will.

11                  THE CHAIRPERSON:    So thanks again.

12                  MR. STEVE SARDO:    Thank you.

13

14                                       (WITNESS STANDS DOWN)

15

16                  THE CHAIRPERSON:    Ms. Southall, do you  
17 want to remind us where we are now? I notice in our  
18 schedule that we have Progressive up next. They are not  
19 slated to begin until the afternoon, is that correct?

20                  MS. ANITA SOUTHALL:   We do have  
21 Progressive in attendance this morning, and so Mr. Taylor  
22 for Progressive I know is prepared to commence after the  
23 break, and we could proceed with that. I anticipate we  
24 will be finished early today because of the need for the  
25 next panel of witnesses for CPLA to all participate



1 commencing on Monday, just because of scheduling issues  
2 for them.

3 THE CHAIRPERSON: That will be fine.

4 MS. ANITA SOUTHALL: Thank you.

5 THE CHAIRPERSON: Then we will have our  
6 break and we will come back with Mr. Taylor and  
7 Progressive then. Thank you.

8 MS. ANITA SOUTHALL: Thank you very much,  
9 Mr. Chairman.

10 THE CHAIRPERSON: We will come back in  
11 fifteen (15) minutes. Thank you.

12

13 --- Upon recessing at 10:19 a.m.

14 --- Upon Commencing at 10:40 a.m.

15

16 THE CHAIRPERSON: Okay. Everyone, if we  
17 could begin. We are fortunate to have Mr. Kent Taylor,  
18 Progressive Insurance Solutions with us today. We  
19 appreciate you coming, Mr. Taylor. I think at first, if  
20 you do not mind, Mr. Gaudreau, could you swear in Mr.  
21 Taylor?

22

23 EVIDENCE OF PROGRESSIVE INSURANCE SOLUTIONS:

24

25 KENT TAYLOR, SWORN

1                   THE CHAIRPERSON:   Thank you, sir.  Again,  
2  welcome.  Do you mind introducing yourself and your  
3  company and then you can begin with the information that  
4  you have.

5                   MR. KENT TAYLOR:   Yes, thank you for  
6  allowing me to come here today and speak to the  
7  distinguished panel and Intevenors.  I have to preface, I  
8  do have a bit of a cold, so I apologize for any -- any  
9  improprieties that might come out about when I'm  
10 speaking.

11                  THE CHAIRPERSON:   If you are not -- if  
12 you want some water or something, someone will bring it  
13 to you without any problem.

14                  MR. KENT TAYLOR:   Thank you.

15                  THE CHAIRPERSON:   We have an able  
16 assistant here that --

17                  MR. KENT TAYLOR:   Yeah.  My name's Kent  
18 Taylor, and I own a company called Progressive Insurance  
19 Solutions.  And what my company does is -- is it creates  
20 and designs insurance programs for a number of different  
21 industry throughout a number of different markets in  
22 Canada; automotive, recreational, mortgage, credit union,  
23 alternative lending, which is more specific to what we're  
24 talking about today and that is the -- the payday loan  
25 industry.

1                   It's something that, to me, is a bit of a  
2 passion because I feel that there's been a great deal of  
3 research put into this program for -- for the industry.  
4 We've got some exceptional participants as far as an  
5 underwriter and an insurer, and it's an industry that I  
6 think this particular program serves great justice to.

7                   That is -- is pretty much it as far as my  
8 introduction.

9                   THE CHAIRPERSON:    Okay.  Thank you, sir.  
10 I am sure we will draw more out of you as we go along.

11                  MR. KENT TAYLOR:    Certainly.

12                  THE CHAIRPERSON:    Ms. Southall, do you  
13 want to begin your cross-exam?

14

15 CROSS-EXAMINATION BY MS. ANITA SOUTHALL:

16                  MS. ANITA SOUTHALL:   Thank you, Mr.  
17 Chairman, and -- and good morning, Mr. Taylor.  I am  
18 actually going to start with something you said that I --  
19 I didn't have an opportunity to note down because of how  
20 quickly you went through it, but you indicated that your  
21 company creates insurance products for other industry, as  
22 well as the payday loans industry, is that correct?

23                  MR. KENT TAYLOR:    Yes, that's correct.  
24 Specifically, the automotive at -- at the retail level.  
25 The recreational at the retail level, alternative lending

1 at the corporate level wi -- and mortgage insurance at  
2 the -- at the mortgage broker level. And there's a small  
3 portfolio in the credit union industry, as well.

4 MS. ANITA SOUTHALL: And I understand,  
5 and so I'm -- I don't intend to dwell on it that -- of  
6 course of our focus here relates to payday lending, but  
7 if I could just -- if I could just take you through those  
8 other industries only for a moment.

9 I'm trying to get an understanding of the  
10 nature of the product that may be offered from your  
11 company in these other areas. Is that all right?

12 MR. KENT TAYLOR: Certainly.

13 MS. ANITA SOUTHALL: So -- so first, in  
14 the automotive industry, what would be the nature of the  
15 product there?

16 MR. KENT TAYLOR: Typically at the  
17 dealership level when customers come in to purchase a  
18 vehicle and finance it at the dealership level, at that  
19 particular time in the transaction when the financing is  
20 being created, the individuals within the dealership, the  
21 -- typically called the business managers, at that  
22 particular time, they introduce the features, advantages,  
23 and benefits of an optional insurance program to those  
24 consumers to participate in to protect their loan against  
25 typically four (4) main programs, which is critical

1 illness, disability, life, and involuntary unemployment.

2 MS. ANITA SOUTHALL: Thank you, sir. And  
3 what about what you identified as the -- as the  
4 recreational industry, or market. Could you explain what  
5 you mean by that?

6 MR. KENT TAYLOR: Certainly. It's  
7 actually a mirror image, as such, of the automotive  
8 industry.

9 It's just two (2) separate industries as  
10 far as what the products are, but they have the same  
11 transactional process where they go through and they --  
12 they -- once the transaction is completed, there's an  
13 arrangement of the finances, whether it's cash, or in  
14 this particular instance, financing.

15 At that point, the optional products are  
16 introduced to the customer to participate in, you know,  
17 at their will.

18 MS. ANITA SOUTHALL: So -- so do you mean  
19 recreational vehicles? Is that -- is that the segment?  
20 Boats, snowmobiles -- I'm not sure -- but -- but things  
21 in that -- in that -- of that nature in terms of  
22 purchasing and then financing?

23 MR. KENT TAYLOR: Yes, that's correct.  
24 It would vent -- it would range from a number of things,  
25 all the way from ATVs, motorcycles, to boats, motorhomes,

1 yachts, et cetera.

2 MS. ANITA SOUTHALL: And then I believe I  
3 noted down that you mentioned something about the  
4 alternate -- alternative lending in the commercial  
5 market?

6 If I've got that wrong, please correct me,  
7 but if you could explain in that area. Presumably that's  
8 some other finance -- aspect of financing where insurance  
9 is involved?

10 MR. KENT TAYLOR: Yes, that's correct.  
11 We -- for example, when we design a program for a  
12 national company, VFC Credit, they have their automotive  
13 loans that they -- they offer. They offer the financing  
14 for it, but they also have another division where they  
15 offer personal lines of credit to their clients, and we  
16 offer an insurance program for that.

17 We have other programs for -- for --  
18 programs that extend past the thirty (30) or sixty (60)  
19 day time frame that the -- the payday loan -- the shorter  
20 term stuff like -- like twelve (12) month to two (2) year  
21 loans. Just other lending products as -- as alternative  
22 meaning it's not a mortgage; it's not a car loan; it's  
23 not a bank loan, so to speak.

24 MS. ANITA SOUTHALL: And then of course  
25 you mentioned mortgage insurance, and would that be

1 residential mortgage insurance co -- covering a financing  
2 and those possibilities of default that the insurance  
3 product would cover?

4 MR. KENT TAYLOR: Yeah, and to clarify  
5 for the Board, all the insurance I speak to today is  
6 group credit, which means that there has to be a debt  
7 that offsets the insurance, as opposed to going and  
8 buying term insurance or -- or a life insurance.

9 So with respect to the mortgage, yes, it  
10 would be a -- it would be -- it would be a personal  
11 mortgage that somebody would purchase for their house.  
12 They have an opportunity through the broker to be offered  
13 an optional program of life, disability, and critical  
14 illness.

15 MS. ANITA SOUTHALL: And finally, I noted  
16 that you mentioned some limited portfolio in the credit  
17 union industry.

18 Can you just explain what your involvement  
19 is with that please?

20 MR. KENT TAYLOR: Certainly. It's -- it  
21 -- again it -- it goes back to the credit insurance for  
22 providing them with an insurance program for lines of  
23 credit, personal loans, mortgages. Basically the same  
24 set -- situation where there's -- there's an actual debt  
25 tied to the -- to the insurance program, so it's insuring

1 a debt.

2                   It might also be helpful to -- to that --  
3 that what we represent is more than designing a program.  
4 We implement the program with -- as -- as opposed to  
5 making sure that there's -- everybody knows exactly what  
6 the processes are, what the protocols, what the -- the  
7 rules, so to speak, are with -- with offering the program  
8 and -- and administering it.

9                   And then we further go on to -- to provide  
10 claim support and customer support.

11                   So it's -- it's a bit of a niche in the  
12 marketplace, it's a -- a full circle service to the  
13 insurance world which is a -- which breaks the norm of,  
14 here's a certificate, do your best with it kind of  
15 situation.

16                   MS. ANITA SOUTHALL: And I'm going to  
17 pick up on the other matter you turned to when you  
18 provided your introductory remarks, which was a reference  
19 to exceptional participant in your underwriting for your  
20 particular product.

21                   Can you identify the underwriter that is  
22 used, please?

23                   MR. KENT TAYLOR: Again, in -- in Canada,  
24 in order for an insurance program to be an insurance  
25 program in its true sense, it has to be a licensed -- a



1 licensed underwriter, a licensed insurance company in  
2 Canada.

3                   We take a lot of pride in the insurance  
4 companies we use, most of them have to be an A or an A+,  
5 A and best rating, and all of our -- our insurers that we  
6 use which the -- the three (3) predominant is Western  
7 Life, Canada Life and -- and ACE INA; specific to the  
8 payday loan industry of this hearing, it's ACE INA, and  
9 ACE INA is the second largest insurance company in the  
10 world, so they're -- they're well reputed and -- and a  
11 very established company.

12                   MS. ANITA SOUTHALL: Thank you very much  
13 for that explanation, Mr. Taylor.

14                   I'm going to ask you a few questions with  
15 respect to your background and -- and the company.  
16 Progressive is incorporated, sir, is that right?

17                   MR. KENT TAYLOR: Progressive is a trade  
18 name, the -- the company that's bonded is -- it's called  
19 MFI Mobil - with no 'e' - Finance Incorporated.

20                   MS. ANITA SOUTHALL: Sir, is that a -- a  
21 publicly traded company or privately held?

22                   MR. KENT TAYLOR: It's privately held.

23                   MS. ANITA SOUTHALL: Who are the  
24 shareholders of MFI Mobil Finance Incorporated?

25                   MR. KENT TAYLOR: I am the sole

1 shareholder.

2 MS. ANITA SOUTHALL: Are you the sole  
3 director as well?

4 MR. KENT TAYLOR: Yes.

5 MS. ANITA SOUTHALL: And do you have any  
6 officers beside yourself?

7 MR. KENT TAYLOR: No.

8 MS. ANITA SOUTHALL: Okay. So you're the  
9 -- you're the sole officer. Where are you incorporated?

10 MR. KENT TAYLOR: The province of British  
11 Columbia.

12 MS. ANITA SOUTHALL: And, sir, are --  
13 are, do you have any affiliated companies in addition to  
14 the company you've described to us this morning?

15 MR. KENT TAYLOR: With respects to, I'm  
16 sorry...?

17 MS. ANITA SOUTHALL: Just structurally  
18 from a corporate point of view, are there any companies  
19 that are affiliated with MFI?

20 MR. KENT TAYLOR: MFI is -- is owned by a  
21 holding company but that's just strictly for -- for  
22 financial purposes. There's no affiliation with any  
23 other company.

24 MS. ANITA SOUTHALL: Okay. Thank you.

25 Mr. Cathcart, my -- the Board's accounting

1 advisor has just asked me to follow up on one more thing,  
2 which is: Does the holding company own any other  
3 affiliated companies who are operating in the financial  
4 services business?

5 MR. KENT TAYLOR: Yes. I -- it -- it  
6 owns a -- a minority shareholder in an automotive  
7 financing company.

8 MS. ANITA SOUTHALL: And what percentage  
9 of shares, do you know that off the top of your head?

10 MR. KENT TAYLOR: Thirty percent.

11 MS. ANITA SOUTHALL: Is -- is that a  
12 private company as well, sir?

13 MR. KENT TAYLOR: Yes, it is.

14 MS. ANITA SOUTHALL: And is that -- is  
15 that a company registered in BC as well?

16 MR. KENT TAYLOR: It operates solely and  
17 is registered solely in British Columbia, yes.

18 MS. ANITA SOUTHALL: And the majority  
19 shareholder of that company?

20 MR. KENT TAYLOR: There's -- there's  
21 three (3) partners at 30 percent and one (1) at  
22 10 percent, so, there's -- nobody has a -- no single  
23 partner has a majority share.

24 MS. ANITA SOUTHALL: Okay, thank you,  
25 sir.

1                   Could you just tell us what your own  
2 personal education and background is. I guess, first of  
3 all, when did you cause the incorporation of MFI that  
4 operates as Progressive?

5                   MR. KENT TAYLOR: I believe it was 1997  
6 it was incorporated. Just to take you a little back, I  
7 graduated from the Canadian Automotive Institute with a  
8 business degree and major in automotive marketing in  
9 1991.

10                   I -- I was a financial manager and a lease  
11 manager of -- of one of the largest four (4) dealerships  
12 in Canada at which time I opened and started my own  
13 brokerage firm, which is Financial Brokerage which -- for  
14 recreational products which we spoke about earlier.

15                   In 2002 I sold that and which -- then  
16 started Progressive Insurance Solutions and -- and  
17 currently involved in that today.

18                   MS. ANITA SOUTHALL: And are you selling  
19 any of the payday lending insurance products in Manitoba  
20 currently?

21                   MR. KENT TAYLOR: Not -- not currently,  
22 no. We stopped selling the insurance on payday loans in  
23 approximately September of 2005. We used to provide the  
24 -- the insurance coverage for Instant Loans until it was  
25 bought out by Rentcash.

1 MS. ANITA SOUTHALL: Do you provide then,  
2 the insurance products for payday lending through  
3 Progressive in other provinces in Canada?

4 MR. KENT TAYLOR: Yes. I mean the -- the  
5 program, excuse me, the program's available to any lender  
6 that operates in -- in any province in Canada with the  
7 exception of Quebec and Saskatchewan right now.

8 MS. ANITA SOUTHALL: Sorry, just to be  
9 completely clear. So you're not actually conducting  
10 business operations for Progressive in Manitoba right  
11 now? Or -- or you would be maybe in these other markets  
12 that you described for me earlier this morning?

13 MR. KENT TAYLOR: Oh yes, for sure, yeah.  
14 Progressive as a company operates in Manitoba, just not  
15 in the capacity of the payday loan industry today as we  
16 speak.

17 MS. ANITA SOUTHALL: We have asked you in  
18 the -- in the pre-oral hearing stage of the process and  
19 questioning to identify for us the lenders through whom  
20 you offer the product and you declined to answer that,  
21 correct?

22 MR. KENT TAYLOR: Yes.

23 MS. ANITA SOUTHALL: Could you explain to  
24 the Board how the insurance fee for the payday lending  
25 product is calculated? How that fee was originally

1 determined?

2 MR. KENT TAYLOR: The basis of any  
3 insurance program and -- and I'm saying that generally,  
4 but it is quite frankly the same across the board, is the  
5 insurance company has actuarial information based on  
6 demographics, loan size, et cetera.

7 That fee is generated by the -- by the  
8 insurance company's actuarials, and it's created in that  
9 sense to the tune of the -- the exact process, that's  
10 something that most insurance companies hold pretty close  
11 to their heart and I don't have the exact calculation.

12 MS. ANITA SOUTHALL: So by virtue of the  
13 -- the calculation - and we won't talk about the details  
14 of it - you, through the vehicle of Progressive, have  
15 determined that the fee and I -- I'm going to locate the  
16 page reference for you in a moment.

17 But the -- the fee that you offer for the  
18 payday lending product fits within the -- the actuarial  
19 risk that's defined and allows for a profit on a per  
20 transaction basis. Would that be fair to say?

21 MR. KENT TAYLOR: Yes.

22 MS. ANITA SOUTHALL: And I appreciate  
23 we're asking you questions about your -- your payday  
24 lending outside of Manitoba so -- to thank you for that  
25 because of your earlier comments, you're not operating at

1 the moment here.

2 But can you tell us in your experience  
3 else in Canada if there have been actuarial adjustments  
4 as a result of experience? Has the fee gone up or down  
5 since you've began operating -- pardon me, offering that  
6 product?

7 MR. KENT TAYLOR: The -- the fee hasn't  
8 been adjusted, no. There's been definitely fluctuations  
9 in and -- and increases in -- in the claims area, but to  
10 date the -- the actuarial information that they used to -  
11 - to create the product in the first, I guess, was -- was  
12 well -- was well investigated, and -- and to date, they  
13 haven't had to revise that, so to speak.

14 MS. ANITA SOUTHALL: Is there any  
15 limitation on -- is there any regulation of the insurance  
16 industry in terms of reporting and limitations on  
17 recovery?

18 In other words, if -- for the sake of  
19 argument, the actuarial assessment meant that there were  
20 significant returns to the industry, would there be any  
21 kind of regulatory control on a reduction of that  
22 actuarial assessment?

23 In other words, more money is being  
24 received by the borrower who's purchasing the insurance  
25 then is -- then is warranted in accordance with the

1 actuarial assessment. Can you -- can you comment on  
2 that?

3 MR. KENT TAYLOR: That -- that's actually  
4 a great question because that -- that's 100 percent  
5 correct. Ba -- basically, I'm just trying to think here,  
6 recapture your question exactly. Could you repeat the  
7 question one more time for me?

8 MS. ANITA SOUTHALL: Probably not using  
9 my exact words, --

10 MR. KENT TAYLOR: You can --

11 MS. ANITA SOUTHALL: -- what I'm trying  
12 to understand is in the insurance regulatory framework  
13 for the insurance industry - and I'm assuming that would  
14 include Progressive's insurance products - if it turns  
15 out that actuarially that more money is coming in then is  
16 required to pay out on a -- on the particular risk that's  
17 assessed, is there any kind of regulatory control on  
18 that?

19 In other words, that would force a new  
20 actuarial assessment over a period of time or force a  
21 reduction in the fees? Is there somebody who keeps an  
22 eye on that for the insurance industry?

23 MR. KENT TAYLOR: Thank you for repeating  
24 that question. Yes, it's -- it -- as an insurance  
25 company, whether it's any of the three (3) that we use or



1 any of the programs that are out, say even my scope of  
2 what I -- markets I participate in, insurance companies  
3 are what I consider to be heavily regulated or -- or  
4 looked upon.

5                   Every year they have to submit what their  
6 -- their basic loss ratios are.

7                   And any -- any program that appears to be  
8 cashflow tactic, meaning that the -- the premiums  
9 received are excessively greater than the actual claims  
10 paid, they -- they are required to adjust that  
11 accordingly.

12                   And if they don't and -- and it's further  
13 reviewed then there's an opportunity that you -- you may  
14 jeopardize your charter or your -- your licence in  
15 particular jurisdiction, provincial jurisdiction.

16                   MS. ANITA SOUTHALL: Right. I'm just  
17 trying to -- just the followup question is: Do you --  
18 do you know whether or not this particular industry for  
19 payday lending, like for this particular product in the  
20 insurance industry, has there been that kind of analysis  
21 or -- or are you saying that it happens at the  
22 underwriting level?

23                   I wonder if there is a -- if -- and if --  
24 and if you don't know, I may be asking you sort of beyond  
25 your personal knowledge because it would be the

1 underwriter, but is there any way to know whether or not  
2 the regulator looks at the particular product lines with  
3 -- with respect to the kind of analysis we spoke about a  
4 moment ago?

5                   And obviously we're concerned about  
6 whether or not the premiums are - I'll use the loose term  
7 - fair for the payday lending product, and whether that  
8 gets analysed annually or -- or otherwise?

9                   MR. KENT TAYLOR:    Specific to any given  
10 program, I -- I would not be able to give you an -- a  
11 solid answer at that, but I do know that every program is  
12 reviewed on an annual basis on every certificate, really  
13 is what it is, certificate of insurance, which is a  
14 program or a policy.

15                   It's reviewed on an annual basis and --  
16 and those numbers are reported to the Insurance Council.  
17 And if there's a glaring difference, where claims  
18 represent a minuscule percentage of premium, then -- then  
19 there's actions taken into place.

20                   THE CHAIRPERSON:    Do you know what the  
21 loss ratios are of the products?

22                   MR. KENT TAYLOR:    I don't have the exact  
23 loss ratios.  Again, I think I've noted that in the  
24 interrogatory -- or in the responses.  Insurance  
25 companies are required to report that to the regulatory

1 bodies, and -- and other than that they're -- they're not  
2 willing to share that information.

3

4 CONTINUED BY MS. ANITA SOUTHALL:

5 MS. ANITA SOUTHALL: Well just coincident  
6 upon that response, Mr. Taylor, I wondered if it would be  
7 possible to check with ACE INA Life Insurance and  
8 determine whether or not their filing with the Manitoba  
9 regulator is a public filing?

10 In other words, is it possible to get that  
11 on a request from the insurance company?

12 MR. KENT TAYLOR: Certainly. I'll --  
13 I'll check with that and get back.

14 MS. ANITA SOUTHALL: Undertake to check  
15 on that?

16 MR. KENT TAYLOR: Yeah, for sure.

17

18 --- UNDERTAKING NO. 7: Mr. Kent Taylor will check  
19 with ACE INA Life Insurance  
20 and determine whether or not  
21 their filing with the  
22 Manitoba regulator is a  
23 public filing and if so,  
24 produce same for the last  
25 five years.

1

2 CONTINUED BY MS. ANITA SOUTHALL:

3 MS. ANITA SOUTHALL: Thank you very much.  
4 And if it turns out it is a publicly available document,  
5 if -- if you could make your best efforts to provide that  
6 for, let's say, the last five (5) years?

7 MR. KENT TAYLOR: Okay.

8 MS. ANITA SOUTHALL: Thank you for that.

9 MR. KENT TAYLOR: Just for clarification,  
10 you'll let me know just in case I haven't responded 100  
11 percent essence of the question just so I can make sure  
12 that I answer it fully?

13 MS. ANITA SOUTHALL: Absolutely.

14 MR. KENT TAYLOR: Okay

15 MS. ANITA SOUTHALL: I can follow up with  
16 you and let you know what -- what we've asked you to  
17 undertake to do.

18 MR. KENT TAYLOR: Thank you.

19 MS. ANITA SOUTHALL: Thank you, sir. Mr.  
20 Taylor, could I take you to Tab 15 please of that binder  
21 that's near you?

22 Actually we're going to look briefly at  
23 Tab 15 and then turn to Tab 16. So just to -- to let you  
24 know where I'm headed.

25 MR. KENT TAYLOR: Oh, okay, sure.

1 MS. ANITA SOUTHALL: And Tab 15, sir,  
2 contains questions posed by the Board to Progressive in  
3 the second round of questioning, and we asked you to  
4 provide full details of the insurance products offered to  
5 payday lenders in Manitoba, including the portion of the  
6 premium paid to or retained by the lender.

7 And I know that earlier this morning you  
8 indicated to us that the moment you're not providing the  
9 payday lending product in Manitoba.

10 But is this the same product that was  
11 being offered through Insta Loans?

12 MR. KENT TAYLOR: Through any lender  
13 under our environment, with respects to the payday loan  
14 industry in any province that we currently operate in or  
15 -- or have the ability to operate in, this is the program  
16 in its entirety.

17 MS. ANITA SOUTHALL: Thank you for that  
18 clarification. So if I could keep you at Tab 15, and  
19 just in respect of the response that was provided to the  
20 question that the Board posed to you, you've referenced  
21 attached that -- that we are to refer to a copy of the  
22 coverage highlights, which was Appendix A to your  
23 response.

24 And -- and that's extracted from the  
25 certificate of insurance for ease of reference. Is that

1 correct?

2 MR. KENT TAYLOR: Yeah. It's something  
3 we provide to all of our clients so that in the event  
4 that a customer wants to know the -- the Coles Notes note  
5 version of the coverage, we have something that they can  
6 provide them on -- on a -- for lack of better words, a  
7 layman's terms, that all those disclosures are still  
8 requested, that the customer refer to the cert -- the  
9 actual certificate for any details that may pertain to  
10 them individually.

11 MS. ANITA SOUTHALL: Okay, thank you,  
12 sir. And then let's turn first to Tab 16 which I believe  
13 is what you're referring to as Appendix A, is that right?

14 MR. KENT TAYLOR: That's correct.

15 MS. ANITA SOUTHALL: And it's a document  
16 which is in chart form with the name, coverage,  
17 highlights, is that right?

18 MR. KENT TAYLOR: Yes, that's correct.

19

20 (BRIEF PAUSE)

21

22 MS. ANITA SOUTHALL: And could you just  
23 explain -- and this is for the record because those of us  
24 here can actually see the -- the document we're looking  
25 at and can read it as well.

1                   But, for the record could you just --  
2 could you just give us an indication of what's depicted  
3 in the document at Tab 16?

4                   MR. KENT TAYLOR:    What the coverage is?

5                   MS. ANITA SOUTHALL:   Yes, please.

6                   MR. KENT TAYLOR:    Basically there's --  
7 there's four (4) coverages that -- that the customer can  
8 participate in under the -- under the one policy.  It's -  
9 - it's an all-in-one policy that's available to the  
10 consumer.

11                   Accident, sickness coverage, if -- if the  
12 consumer was to break any bone in their body, their --  
13 with the excep -- it has to be fingers or toes.  It has  
14 to be one (1) or two (2).  They receive 100 percent  
15 benefit payment upon present -- upon approval of their --  
16 of their claim.

17                   Everything I refer to, with respects to  
18 benefits, replies to the outstanding balance at the day  
19 of disability, unemployment, critical illness, or death,  
20 including any -- any interest and fees that the customer  
21 may be responsible for.

22                   An injury or illness where the consumer is  
23 unable to work at their job for a minimum of five (5)  
24 consecutive days or they have been hospitalized for a  
25 minimum of twenty-four (24) hours, they're eligible for a

1 50 percent benefit on the date that -- based on the  
2 balance of the date that they were disabled. If they're  
3 still injured after the thirty (30) days, the remaining  
4 50 percent is paid off.

5 As far as involuntary unemployment, if a  
6 customer is laid off without cause, and they've been  
7 employed for at least ninety (90) days and are eligible  
8 for EI benefits, they immediately get 50 percent of their  
9 benefit -- of their outstanding balance paid off.

10 And if they're still receiving EI benefits  
11 and unemployed at thirty (30) days, the balance of their  
12 loan is paid off. So their -- 100 percent of their  
13 balance is paid off within thirty (30) days.

14 If they've been employed for at least  
15 ninety (90) days but not eligible for EI benefits, they  
16 are still eligible for 50 percent payment upon  
17 presentation of their claims documentation.

18 If they're laid off and they haven't been  
19 employed for at least sixty (60) -- or they've been  
20 employed for at least sixty (60) to eighty-five (85) days  
21 -- so they haven't met that ninety (90) day period --  
22 they would be eligible for a -- a one (1) time 50 percent  
23 payment on their balance outstanding.

24 It's noted at the bottom that there's no  
25 benefits paid if a customer is fired or let go with



1 cause. I should clarify that.

2 If that customer -- technically, in the  
3 insurance world, or in the -- sorry, the EI world, if you  
4 -- if you're fired with cause, you're not eligible for EI  
5 benefits in many cases.

6 If that customer becomes eligible for EI  
7 benefits, whereas EI determines that maybe they're --  
8 they weren't let go with cause or their employment wasn't  
9 terminated with cause, then they are eligible for the  
10 benefit as structured in Section 2, which is the 50  
11 percent payment, as long as they're eligible for EI, even  
12 though their record of employment may indicate that they  
13 were terminated for cause.

14 The third benefit is critical illness.  
15 That's where a client diagnosed with life threatening  
16 cancer, stroke, heart attack, kidney failure, or a major  
17 organ transplant for the first time in their life, 100  
18 percent of the balance is paid off upon presentation of  
19 the claims forms.

20 With respects to death benefit, again if  
21 somebody passes away, they are eligible to have 100  
22 percent of their benefit paid off, outstanding at the  
23 time of death.

24 MS. ANITA SOUTHALL: Sir, with respect to  
25 these coverages, these are all incidents that have to

1 occur during the coverage period?

2 In other words, if someone takes a loan  
3 for fourteen (14) days, the event has to have occurred  
4 within that fourteen (14) day period for the coverage to  
5 apply?

6 MR. KENT TAYLOR: That's correct. The  
7 coverage is -- is -- was designed for a loan that is to a  
8 maximum of thirty (30) days.

9 So the coverage -- it -- it follows the  
10 term of the loan, as does any group credit insurance, but  
11 it -- it's designed for a term of a maximum of thirty  
12 (30) days coverage.

13 MS. ANITA SOUTHALL: And on the -- the  
14 accident or sickness benefits, or the critical illness  
15 benefits, is there an exclusion for preexisting  
16 conditions? How do you limit the risk with respect to  
17 that?

18 MR. KENT TAYLOR: That's a great  
19 question, and I'm glad you brought it up, because it's  
20 one of the strengths of this particular program.

21 And for those of you who aren't aware of  
22 the insurance world, that's sort of where the tires hit  
23 the road, so to speak, with respects to insurance, and  
24 where -- and -- and when somebody's claim is approved or  
25 not approved, it really boils back to their preexisting

1 condition.

2                   Typically in -- in a loan, there is a  
3 period prior to the date of the purchase of the  
4 insurance, and that customer is affected for a period  
5 after that that can go up to, and in most cases is, up to  
6 the full -- full term of -- of the loan or the time that  
7 they deal with the particular coverage.

8                   As this particular program is designed --  
9 this program is designed that the effective date of  
10 coverage is the date that the loan is taken out.

11                   That's really important, because any  
12 future loans that occur, whether there's a break in  
13 between, for the -- as long as that consumer purchases  
14 that policy from that lender into eternity, or as long as  
15 the program and the company are still viable, they are --  
16 their -- their pre-existing term is -- is in effect.

17                   So what we've done is we've said, Okay, if  
18 you take a loan today, any medical consultation, vis --  
19 visitation, or medication that you may have been treated  
20 for for the previous twelve (12) months, it's only going  
21 to affect your claiming for the first three (3) months of  
22 your coverage.

23                   And that's really important, because I  
24 know that we deal in terms of fourteen (14) to thirty  
25 (30) days for -- for loans. But it's -- from when --

1 from the day that customer purchases the coverage into --  
2 until they stop dealing with that particular lender.

3                   So they may have a year's worth or two (2)  
4 years' worth of sporadic loans throughout the time with  
5 that customer. Once that three (3) months is expired  
6 from the very first day that they participate in the  
7 coverage, there's no more prejudice to respect to their  
8 preexisting condition.

9                   And just for note for reference, three (3)  
10 months is probably the shortest time in the entire group  
11 credit world in Canada as far as how long into the  
12 insurance policy the preexisting term actually affects  
13 the ability to make a claim for that particular  
14 situation.

15                   Again, only because I'm not sure that the  
16 level of knowledge with respects to insurance, that  
17 preexisting term, it only pertains to an incident that  
18 that person is treated for.

19                   For example, if somebody had a bad  
20 shoulder and they hurt their shoulder in the first three  
21 (3) months after taking it, and it's linked to that same  
22 injury, then they wouldn't be eligible for coverage.

23                   However, if they fell out of the bathtub  
24 and broke their leg or one is out playing softball and  
25 dislocated their knee, they would be eligible, because

1 there's no history in that previous twelve (12) months of  
2 any -- of any jeopardized, like, any medical history that  
3 the insurance company may not know of going into the  
4 policy.

5 MS. ANITA SOUTHALL: So just following up  
6 on -- on those last comments you shared with us, sir,  
7 about this concept of the preexisting condition.

8 If someone hypothetically takes out the  
9 payday loan today and -- and purchases the insurance  
10 coverage --

11 MR. KENT TAYLOR: Mm-hm.

12 MS. ANITA SOUTHALL: -- they will not be  
13 able to be paid out on the coverage on anything that's --  
14 that's assessed as a preexisting condition unless they  
15 continue to take some form of payday loan in future,  
16 either sporadically or back to back, and continue to  
17 purchase the insurance product, at the three (3) month  
18 point.

19 Anything that they purchase thereafter, as  
20 long as they purchase the insurance product, you're  
21 saying they'll have met that three (3) month period for  
22 preexisting conditions and the exclusion would no longer  
23 apply?

24 MR. KENT TAYLOR: Exactly. And just to  
25 clarify that a little bit, they would -- as indicated in

1 all the disclosure that I provided to the Board as well,  
2 the customer is recommended to read that certificate  
3 either prior to the decision or after it, because they do  
4 have the option of cancelling it at any time.

5           So if they don't want to read that long  
6 two (2) page disclosure at the time of purchase, they  
7 have the ability to come back and cancel it at any time,  
8 I believe for 100 percent refund the first ten (10) days  
9 on this particular policy.

10           But, so, even though there is a term on  
11 it, it allows the consumer to go and say, Hey, listen,  
12 I've got this situation. I'm not going to be eligible  
13 for it. And then they can weigh the option of whether  
14 they think they're going to be off because of that, or  
15 they want to make sure they're protected for any other  
16 problems that may occur, or any coverage that may occur.

17           Because it's important to note that  
18 although that preexisting term is in there for death,  
19 critical illness and accident and sickness, there is no  
20 such thing as a preexisting term for loss of employment.

21           So they have the option to sort of weigh  
22 out the benefits with themselves and whether they want to  
23 pay the fee to -- to cover those risks or not.

24           MS. ANITA SOUTHALL: Sir, who would  
25 review that -- the -- just picking up on the last points

1 you were making, who at the payday lender would be  
2 reviewing that -- those benefits with them and -- and  
3 considering with them the -- the usefulness of the  
4 product to -- to the individual and their circumstance?

5 MR. KENT TAYLOR: Again, part of the  
6 uniqueness of what we do is we try to educate the  
7 frontline staff -- or the CSR, so to speak, in this  
8 particular case -- with all the situations, there's never  
9 a particular situa -- they would be able to stand there  
10 all day and talk about ifs, ands, or buts with the --  
11 with the client.

12 What we instruct them to do is any  
13 questions that we provide them answers through FAQs, they  
14 can pass it on to the customer. If they don't feel  
15 comfortable with any particular question or a customer  
16 has a question regarding coverage, they have a toll-free  
17 line that's available to them at all business hours, that  
18 they're available to answer that question or get back to  
19 them within a reasonable amount of time with an answer.

20 If -- at the time that the customer  
21 participates in insurance, it's recommended that they  
22 read the -- that -- that they go over the coverage  
23 highlights and that they read the -- the certificate of  
24 insurance, so they're aware of any particular situations  
25 that may be -- make this insurance not as valuable to

1 them as, say, the next person or the person before them.

2 MS. ANITA SOUTHALL: Sir, you were good  
3 enough to bring with you today the certificate of  
4 insurance document, which is a two (2) page document that  
5 I circulated to counsel earlier today. I asked everyone  
6 to put it at the back of Tab 17.

7 Mr. Williams is looking like this is news  
8 to him, but we have another copy for him, nonetheless.

9 MR. BYRON WILLIAMS: Thank you for your  
10 consideration. I've retrieved one from one of My Learned  
11 Friends.

12

13 CONTINUED BY MS. ANITA SOUTHALL:

14 MS. ANITA SOUTHALL: Thank you. Mr.  
15 Taylor, so I've -- I'm referring you to a document you  
16 provided this morning, as I mentioned. In the top right  
17 corner it's identified as certificate of insurance,  
18 correct?

19 MR. KENT TAYLOR: That's correct.

20 MS. ANITA SOUTHALL: And this particular  
21 product, I believe, is called payroll loan balance  
22 insurance. The group policy on this document is PRL722,  
23 that's correct?

24 MR. KENT TAYLOR: Yes, it is.

25 MS. ANITA SOUTHALL: And to the top left



1 of the document is the -- probably the trademark for ACE,  
2 the underwriter --

3 MR. KENT TAYLOR: Yes, on the --

4 MS. ANITA SOUTHALL: -- correct?

5 MR. KENT TAYLOR: Yeah, on any insurance  
6 policy that's administered in Canada, regardless of what  
7 market, the underwriter has to be -- the underwriter has  
8 to be mentioned on the certificate.

9 MS. ANITA SOUTHALL: Could you tell us  
10 what this document actually is, the certificate of  
11 insurance? Is this the contract that's being entered  
12 into between the borrower and the -- sorry -- and  
13 Progressive? Or between -- is it between the borrower  
14 and the insurer, the underwriter?

15 Could you just explain how that works?

16 MR. KENT TAYLOR: Certainly. The actual  
17 agreement is -- is -- in any insurance program is -- and  
18 particular to this one -- excuse me -- is between the  
19 underwriter -- the ultimate person that will review the  
20 claim should it come in and -- and receive the premium --  
21 and the consumer.

22 MS. ANITA SOUTHALL: So I'm just trying  
23 to follow how this works. The -- the person who wants  
24 the insurance is the borrower.

25 And in this scenario we're talking about

1 someone at a -- at a payday lender -- through a payday  
2 lender who wants to purchase the product.

3 So they've paid, I believe from the  
4 materials, it's about two dollars and twenty-two cents  
5 (\$2.22) per hundred (100). Am I recalling that  
6 correctly?

7 MR. KENT TAYLOR: No, it's 2.2 percent of  
8 the -- of the loan repayment balance, so 2.2 percent.

9 MS. ANITA SOUTHALL: 2.2 percent.

10 MR. KENT TAYLOR: So two dollar and  
11 twenty cents (\$2.20) per hundred (100).

12 MS. ANITA SOUTHALL: Two dollars and  
13 twenty cents (\$2.20) per hundred (100)?

14 MR. KENT TAYLOR: Yes.

15 MS. ANITA SOUTHALL: Okay, thank you. So  
16 they've paid two dollars and twenty cents (\$2.20). Let's  
17 take that simple example of a hundred dollar (\$100) loan,  
18 where does that money go to, that two dollars and twenty  
19 cents (\$2.20)?

20 MR. KENT TAYLOR: Once it's collected  
21 from -- by the lender it's paid to the insurance company,  
22 which is the net proceeds, which is the -- the cost of  
23 the policy, so to speak, less the lender's profit, which  
24 is, in this particular example, on this particular  
25 program is 55 percent.

1 MS. ANITA SOUTHALL: So 55 percent stays  
2 with the payday lender?

3 MR. KENT TAYLOR: No, it's 55 percent is  
4 sent to the insurer, 45 percent's retained by the lender.  
5 It's --

6 MS. ANITA SOUTHALL: Okay, thank you.  
7 I'm sorry, I got that wrong.

8 MR. KENT TAYLOR: -- it's really  
9 important to note that insurance is based on an earned-  
10 off balance. So if somebody takes out a loan today and  
11 they don't owe -- to have to repay a loan till a period  
12 X, whether it be two (2) weeks or two (2) years, that  
13 policy at time of payment is considered to be earned off.

14 And in particular to this case, that  
15 policy, even though that customer may not pay the lender  
16 back, there's still an obligation of the lender to remit  
17 the premium to the -- to the insurance company, because  
18 theoretically, that insurance is earned off.

19 And that customer would have had coverage  
20 had they -- something had happened to them, one (1) of  
21 the four (4) or five (5) coverages happened to them  
22 during the time that they had their loan.

23 So that -- so that in effect, whatever  
24 success rate you have claiming, or -- or unsuccessful  
25 rate you have at claiming back your -- your outstanding

1 debt, ultimately reduces the -- the profit from that  
2 program.

3 MS. ANITA SOUTHALL: Sorry, I'm just  
4 going to consider that for a moment, if I could.

5

6 (BRIEF PAUSE)

7

8 MS. ANITA SOUTH ALL: So you're saying --  
9 I'm not -- to be honest, I'm not entirely sure the point  
10 you were making a moment ago. I was trying to follow it  
11 as closely as I could.

12 But the -- because -- and if I'm wrong on  
13 this, please let me know. But because the -- it's a  
14 product of insurance that's between the borrower and  
15 underwriter, it's -- it's not for the lender to decide on  
16 the remittance portion to the underwriter.

17 That's -- that's 55 percent and that must  
18 be paid over to the insurance company, in this case ACE  
19 INA?

20 MR. KENT TAYLOR: That's correct.

21 MS. ANITA SOUTHALL: And from the 55  
22 percent that's paid to the insurance company, is some  
23 portion of it paid to Progressive in this case?

24 MR. KENT TAYLOR: Yes.

25 MS. ANITA SOUTHALL: And how much is --

1 from that 55 percent is received by Progressive for  
2 making the product available?

3 MR. KENT TAYLOR: 5 percent.

4 MS. ANITA SOUTHALL: Thank you very much,  
5 sir.

6

7 (BRIEF PAUSE)

8

9 MS. ANITA SOUTHALL: Sorry, I apologize  
10 if I'm repeating -- and you may have answered this  
11 question -- but the certificate of insurance document  
12 identified on the record a few minutes ago, the two (2)  
13 page document, did you mention that that is the contract  
14 between the borrower and the insurance company?

15 MR. KENT TAYLOR: Yes, it is the contract  
16 between the borrower and the insurance company.

17 MS. ANITA SOUTHALL: And so to the extent  
18 that -- at Tab 16 when I referred you to look at the  
19 coverage highlights that are reviewed with a borrower at  
20 a payday loan outlet, it's actually the terms that are  
21 contained in the certificate of insurance that bind both  
22 the borrower and the insurance company.

23 Is that correct?

24 MR. KENT TAYLOR: That's correct.

25 MS. ANITA SOUTHALL: Do you have any

1 recommendations, or is there anything in your training  
2 manual for payday lenders that directs the lenders'  
3 service representatives to require the certificate of  
4 insurance, this two (2) page document, to be read by  
5 borrowers before they sign off on acceptance of the  
6 insurance product?

7 MR. KENT TAYLOR: It's required that they  
8 give a copy of the certificate to the consumer. In -- in  
9 any environment, it's required.

10 In any -- and in any environment, but  
11 specifically to this, it's not required that they have  
12 the customer sign off that they have just specifically  
13 read it.

14 But they do have them sign off as that  
15 they are recommending that -- that they review the  
16 policy, and the terms and conditions, so that in the  
17 event that they don't qualify or they're deemed -- that  
18 they are deemed that they don't feel that they would be  
19 qualified or -- or require the benefits that the coverage  
20 provides, that they can decline it.

21 Now obviously, there's quite a bit of  
22 information that's there. That's why we're required by  
23 law, or through the regulation, that a consumer has a  
24 right to review the policy at a later date -- up to ten  
25 (10) days particular to this particular policy -- and

1 come back and cancel it with -- for -- for a full refund  
2 on the premium that they've paid -- or that they may have  
3 chosen to pay.

4 MS. ANITA SOUTHALL: And is -- is that a  
5 term then of your operations? That they have that ten  
6 (10) day cancellation policy?

7 MR. KENT TAYLOR: It -- it -- yes, it is.  
8 There is a -- there is what's called a "free look  
9 period," or -- or a cancellation period that's available  
10 on all insurance certificates. And it's usually relative  
11 to the term of the loan.

12 And this particular -- obviously, this  
13 particular cancellation period is -- is infinitely  
14 greater as a proportionate to a loan than -- than  
15 anything else in its place. But you know, in all  
16 fairness, ten (10) days seem to be adequate time to  
17 review the policy to see if it pertains to them.

18 MS. ANITA SOUTHALL: So I have it right.  
19 It -- it is ten (10) days, even though this is a fourteen  
20 (14) or thirty (30) day coverage period.

21 It remains ten (10) days in this case as  
22 well, is that right?

23 MR. KENT TAYLOR: Yes. They can cancel  
24 it at ten (10) days for -- without having any obligation  
25 to pay any portion of the premium. So basically, they

1 get 100 percent back.

2 Any -- they can cancel coverage at any  
3 time by law. You have to be required to cancel it at any  
4 time. It's just in order to not to be responsible for  
5 any of the fees, it has to be paid -- it has to be done  
6 in the first ten (10) days.

7 MS. ANITA SOUTHALL: And, sir, is there a  
8 location in the training manual that you've provided to  
9 us -- I think it's Appendix B at Tab 17 -- whereby you  
10 direct the lending representatives as to the cancellation  
11 options and that ten (10) day period and the manner in  
12 which the refund ought to be made when cancellation  
13 occurs?

14 MR. KENT TAYLOR: It's not itemized  
15 specifically in that particular process. What we've done  
16 is we've left it so they have a call centre so they can  
17 call at any time to discuss cancellation procedure.

18

19 (BRIEF PAUSE)

20

21 MS. ANITA SOUTHALL: Sorry, the  
22 cancellation procedure, is it outlined in Appendix B, or  
23 is it in -- contained in the certificate of insurance  
24 itself somewhere?

25 MR. KENT TAYLOR: It's contained in the



1 certificate of insurance. It's not in the procedure  
2 manual, so to speak.

3 MS. ANITA SOUTHALL: And in the  
4 certificate of insurance, where would we find the  
5 cancellation details? Only because -- and the reason I'm  
6 asking is because we've only received this this morning,  
7 so I apologize. I -- I'm not sure where I would -- we  
8 would locate that.

9

10 (BRIEF PAUSE)

11

12 MR. KENT TAYLOR: Yeah. It's -- there's  
13 a cancellation coverage. There's a process and a number,  
14 and then below there's a "Right to Examine this  
15 Insurance, and that highlights more on the ten (10) days.

16 MS. ANITA SOUTHALL: Thank you. I'm just  
17 going to take a moment to review that, sir.

18

19 (BRIEF PAUSE)

20

21 MS. ANITA SOUTHALL: Sir, does your  
22 training for the customer service representatives for  
23 payday lenders direct the representatives to explain the  
24 preexisting condition requirements or any of the other  
25 special details that are contained in the certificate of

1 insurance onsite with the borrower?

2 Is -- is there any direction to cover any  
3 of that beyond, for example, the highlight sheet?

4 MR. KENT TAYLOR: There's no direction  
5 specific to that. I will note that in -- in our training  
6 -- and it comes in a very different format, or a number  
7 of formats, sorry -- it's always discussed, preexisting  
8 condition. Because any time it's presented to anybody  
9 they come up, Well what if this person has this  
10 situation, and what if it has that situation?

11 What we say is like this is -- we explain  
12 the preexisting condition. We have graphical  
13 explanations of it. But what we recommend is that we --  
14 that we direct the customer to read the certificate.

15 If they have any questions they can --  
16 they can forward -- there's a contact number for them to  
17 direct any questions. And we also give them the right to  
18 -- of ten (10) days to generate those questions and --  
19 and forward them to us if -- if they deem necessary.

20 MS. ANITA SOUTHALL: Thank you for that,  
21 sir. Could you turn to Tab 15 in the materials in the  
22 binder, please? We looked at this once before when we  
23 were referring to the coverage highlights reference in --  
24 in your response to the Board's second round questioning.

25 In the response -- and it will be the

1 third paragraph of the response to the question; this is  
2 on the first page of Tab 15 -- you make a particular  
3 statement in the first line, and the statement is as  
4 follows:

5 "It is important to note that we DO NOT  
6 [and the words "do not" are  
7 capitalized] market our program on the  
8 basis of profitability, but as a  
9 mechanism to increase customer  
10 satisfaction and control bad debt."

11 Do you see that, sir?

12 MR. KENT TAYLOR: Yes, I do.

13 MS. ANITA SOUTHALL: And that's  
14 Progressive's position, I take it?

15 MR. KENT TAYLOR: Yes, it is.

16 MS. ANITA SOUTHALL: The insurance  
17 product, though, does represent another revenue line for  
18 payday lenders who sell the product, correct?

19 MR. KENT TAYLOR: Yes, it does.

20

21 (BRIEF PAUSE)

22

23 MS. ANITA SOUTHALL: I think you've told  
24 us also, in responses to your first or second round  
25 questioning, that there is insurance industry regulation

1 over tied selling, is that true? In other words, it's  
2 not allowed, as I recall from your evidence, prefiled  
3 evidence?

4 MR. KENT TAYLOR: No, there's two (2)  
5 specific acts, the Bank Act and the Competition Act, that  
6 -- that rely to it. I mean, obviously to pertain to the  
7 Bank Act you'd have to fall -- be considered a bank under  
8 -- under the Act. But under the Competition Act it --  
9 it's -- it's itemized. I believe it's 77-4(c).

10 It says the lender has -- they're not  
11 supposed -- technically, you can't tie any particular  
12 person to your product as a condition of taking another  
13 one (1) of your services.

14 And for the little bit, although there's  
15 nothing specific related to tied selling in the Insurance  
16 Council or -- or the Financial Institutions Commission in  
17 -- in any province, it's -- it's significantly frowned  
18 upon, you know, of any method where the insurance program  
19 or your product is marketed in -- not in the best  
20 interest of the consumer.

21 MS. ANITA SOUTHALL: And so do -- do you  
22 happen to know whether the Insurance Council in Manitoba  
23 prosecutes for tied selling of products?

24 Like, is that considered inappropriate  
25 here or in other jurisdictions in Canada in terms of, you

1 know, not just being frowned upon, but a prohibited  
2 practice or something that will be at least deemed to be  
3 inappropriate from the -- from the insurance regulator's  
4 point of view?

5 MR. KENT TAYLOR: Most definitely. I  
6 know specifically, it's addressed through the -- the  
7 Insurance Act isn't specific to tied selling as mentioned  
8 in the -- in the -- in my response here, but in the  
9 Insurance Council in res -- in conjunction with the  
10 Superintendent of Insurance regulate an insurance  
11 company, the ability to carry on its business in the  
12 province.

13 And part of that business is, you know,  
14 how it's conducted. And it's deemed by the Financial  
15 Institutions Commissions -- I know specifically in  
16 British Columbia that you can't require anybody to take  
17 an insurance product as -- as part of a sale.

18 MS. ANITA SOUTHALL: Sir, if I could ask  
19 you turn to Tab 14, please? And Tab 14 contains the  
20 responses of Progressive to certain of the first round  
21 questions that the Board put to Intervenors.

22 And in particular if -- if I could ask you  
23 to turn to the second page of Tab 14. And the answer is  
24 to round 1, Question 4(f), which is about the centre of  
25 the -- the second page under the heading "Fee Structure."

1                   And F(2) was the question, "Is your view  
2 different" -- and this is speaking with respect to  
3 insurance products. "Is your view different when it is  
4 an option as opposed to a standard method issue?" Do you  
5 see that?

6                   MR. KENT TAYLOR:    Yes.

7                   MS. ANITA SOUTHALL:   And your answer to  
8 that specific question was, No. Am I right?

9                   MR. KENT TAYLOR:    Yes.

10                  MS. ANITA SOUTHALL:   And then could you  
11 just read in the remainder of your answer to that  
12 question on the -- about the middle of the second page?

13                  MR. KENT TAYLOR:

14                         "The -- the objective of the Board  
15                         should be to -- ensuring two (2) main  
16                         concerns are satisfied. Insurance must  
17                         be optional and not conditional to --  
18                         to the granting of a loan, and the cost  
19                         and benefits are fully disclosed to the  
20                         customer prior to granting the loan."

21                         Do you want me to keep going?

22                  MS. ANITA SOUTHALL:   No, that's fine.

23                  MR. KENT TAYLOR:    Okay.

24                  MS. ANITA SOUTHALL:   Thank you.

25

1 (BRIEF PAUSE)

2

3 MS. ANITA SOUTHALL: So the Board should  
4 concern itself with these two (2) particular matters, in  
5 your view, in terms of -- as -- as opposed to coming to  
6 some conclusion that the insurance product should be  
7 factored into the cost of credit for somebody who's  
8 purchasing a payday loan.

9 Is that right?

10 MR. KENT TAYLOR: Well, personally I  
11 don't think it should be factored into the cost of  
12 credit. Basically, what I was summarizing there is  
13 what's already in the marketplace.

14 I mean, all -- both those points are  
15 supported through Financial Institution Commission,  
16 Insurance Councils, a Competition Act, Bank Act.

17 It's -- it's just basically -- it's  
18 something that's I feel, and -- and I'm speaking in other  
19 industries I deal with as well, that it's -- that it's  
20 fairly well-policed with respects to, is it optional? Is  
21 it transparent when it's brought up to the customer? Are  
22 they being coerced or forced into participating in any  
23 particular program?

24 Those -- those factors are taken into  
25 effect on -- in pretty much every insurance program

1 that's -- that insurance company is responsible for  
2 administering.

3 MS. ANITA SOUTHALL: And sir, in the next  
4 part of your response to that question, you -- you did  
5 indicate as follows:

6 "It is not promoted by our firm."

7 I take that to mean Progressive, is that  
8 right?

9 MR. KENT TAYLOR: Yes.

10 MS. ANITA SOUTHALL:

11 "To include insurance coverage without  
12 the two (2) conditions above being met.  
13 And this can be accomplished through an  
14 effective presentation such as..."

15 And then you go on to give us the  
16 recommended script to be used. Is that right?

17 MR. KENT TAYLOR: Yes. We provide -- and  
18 again, this is part of our training -- we provide an  
19 infrastructure with recommendations that comply with sort  
20 of what the -- what insurance guidelines might be out  
21 there and what's in the best -- really in the best  
22 interest of the customer, to give him a fair opportunity  
23 to decide whether they want the coverage or not.

24 MS. ANITA SOUTHALL: So to be clear,  
25 these concerns that you've identified -- the concerns



1 that the Board should be worried about, in your view --  
2 are met by the suggested script wording that -- that you  
3 provide to customer service representatives?

4 MR. KENT TAYLOR: Yes.

5 MS. ANITA SOUTHALL: So let's just take a  
6 look at the script wording for a moment, please, Mr.  
7 Taylor. And I want to review it in segments, and I want  
8 you to tell me whether or not you agree that this,  
9 possibly, the way that a customer hears this. And if you  
10 disagree with me feel free to say so, sir.

11 First of all, the first part of the  
12 script, the first line,

13 "Great news, John. Your loan has been  
14 approved."

15 Would you agree with me that that's going  
16 to be something that the customer's going to zero in on  
17 in the script? That's the first thing that they're going  
18 to hear?

19 MR. KENT TAYLOR: That's one of the  
20 things they're going to hear, yes.

21 MS. ANITA SOUTHALL: The next segment  
22 I'll refer you to is,

23 "Your repayment amount will be two  
24 hundred fifty-three dollars, seventy-  
25 five cents (\$253.75)."

1                   Do you agree with me that that's going to  
2 be an important piece of information for the borrower?

3                   MR. KENT TAYLOR:    Yes.

4                   MS. ANITA SOUTHALL:   And in fact, they --  
5 they understand that to be the amount that they're going  
6 to be repaying, is that right?

7                   MR. KENT TAYLOR:    Yes.

8                   MS. ANITA SOUTHALL:   The next part of the  
9 script goes on to say,

10                   "Which includes our optional loan  
11 protection program, that in the event  
12 of death, disability or unemployment,  
13 fifty (50) to one hundred (100) percent  
14 of your loan may be paid on your  
15 behalf."

16                   That would be -- that would be the next  
17 piece of information, correct?

18                   MR. KENT TAYLOR:    Yes.

19                   MS. ANITA SOUTHALL:   And that  
20 information, I take it, would for -- and maybe you even  
21 know the percentage, I'm not sure, but for the -- for the  
22 majority of borrowers, they would be making their  
23 insurance purchase decision on that last segment I just  
24 read into the record?

25                   Without asking for any more information or

1 being offered any more information?

2 MR. KENT TAYLOR: What percentage do?

3 MS. ANITA SOUTHALL: Well, is it the  
4 majority of borrowers? Do you know that?

5 MR. KENT TAYLOR: That just accept that  
6 and --and move on?

7 MS. ANITA SOUTHALL: Right.

8 MR. KENT TAYLOR: No, it's not the  
9 majority.

10 MS. ANITA SOUTHALL: So do you know the  
11 percentage that would take up the insurance based on this  
12 segment that a service representative would share with  
13 them?

14 MR. KENT TAYLOR: Well, it changes from  
15 lender to lender, right? Depends on -- on the overall  
16 approach, the -- the, how in-depth the feature ben --  
17 benefits go into. You can range from thirty-five (35) to  
18 seventy (70) percent that the customers may participate  
19 in.

20 MS. ANITA SOUTHALL: For -- for the --  
21 sorry, I was referring, I suppose, only to the payday  
22 lending product. Were you also?

23 MR. KENT TAYLOR: Yes, yes.

24 MS. ANITA SOUTHALL: So we have maybe  
25 thirty-five (35) to seventy (70) percent of borrowers in

1 the payday lending market who, based on that last segment  
2 that I read into the record, would be making their  
3 insurance purchase decision based on that information  
4 alone?

5 MR. KENT TAYLOR: No. That's -- that --  
6 ultimately, the final result ranges between thirty-five  
7 (35) and seventy (70).

8 That's why we provide the -- the breakdown  
9 of the benefits, because most customers do have questions  
10 about it, right. And that's why, you know, we get these  
11 questions in training, you know, what-if situations.

12 And because there's a million what-ifs  
13 with respect to people's individual health situations, we  
14 make sure that the customer, before they proceed to  
15 agree, that they have the option to either see the  
16 benefits as a Cole's Notes version or the benefits as  
17 detailed in the certificate of insurance, should they  
18 decide to go that route.

19 MS. ANITA SOUTHALL: Have -- have you  
20 been present when the payday loan transactions are being  
21 completed, sir? Have -- have you participated at that  
22 level to examine how the process unfolds in respect of  
23 the product you offer?

24 MR. KENT TAYLOR: Yes, I have been. I  
25 wouldn't -- I wouldn't say I'm in front of every

1 transaction that they participate in, but I, yes, I have  
2 been --

3 MS. ANITA SOUTHALL: Right.

4 MR. KENT TAYLOR: -- exposed to it.

5 MS. ANITA SOUTHALL: And I'm really here  
6 trying to get a sense of how many people are taking the  
7 opportunity, beyond the information that's shared in the  
8 script, to examine the highlight sheet or examine the  
9 contents of the certificate of insurance before they  
10 accept the product -- in other words, before they sign  
11 off on the payday loan disclosure form, having  
12 incorporated the cost of that insurance?

13 Can you speak to that?

14 MR. KENT TAYLOR: Yeah, I'd say probably  
15 of half the people that participate, they have further  
16 questions that requires you to bring out the sheet or the  
17 certificate.

18 It's important to note that it's not just  
19 two fifty-three seventy five (253.75), and that's the  
20 number that you see at the bottom.

21 It's required as part of our program, and  
22 to be followed in the confines that we regu -- that we  
23 operate under in the insurance world, to make sure that  
24 the fee is separate and distinct on a line that  
25 calculates to that bottom fee. So the customer has to go

1 over that before they sign it.

2                   And we've taken further steps to make sure  
3 that the -- the disclosure that they sign to doesn't get  
4 buried in the terms and conditions of any particular  
5 agreement, specific to the payday loan industry, in both  
6 the privacy disclosure they sign and the disclosure that  
7 recommends they read over it, and that they're enrolling  
8 in its optional program. It's -- they have to read that,  
9 or that's prior to them signing.

10                   So we do -- we make every effort possible  
11 to make sure that a customer has (a), the opportunity to  
12 review the coverage and (b), they have the opportunity to  
13 read those disclosures prior to signing a document.

14                   MS. ANITA SOUTHALL: Just on -- on that  
15 disclosure issue, sir, I believe at Tab 17 in the  
16 training manual, that -- that's provided to lenders --  
17 and if you could look at the third page of that, pardon  
18 me, I believe it's Item 2 on the third page, under the  
19 heading "Disclosure."

20                   MR. KENT TAYLOR: Mm-hm.

21                   MS. ANITA SOUTHALL: Are those two (2)  
22 paragraphs that are in bold print the -- the disclosure  
23 that needs to appear in the loan documentation above  
24 where the customer signs to accept the loan?

25                   MR. KENT TAYLOR: Yes, it is.

1 MS. ANITA SOUTHALL: And -- and are those  
2 the current paragraphs that still are operative today in  
3 the jurisdictions where Progressive operates?

4 MR. KENT TAYLOR: Yes, it is.

5 MS. ANITA SOUTHALL: And you make a  
6 statement -- and I suppose this is directed to the -- to  
7 the lender -- in brackets, and it's underlined,

8 "It is important to note that any font  
9 size can be used to illustrate the  
10 following."

11 Do you see that?

12 MR. KENT TAYLOR: Yeah. And in -- to  
13 make reference to that is -- is not to put it to, you  
14 know, point 3 font, and -- and not be able to read it.

15 I mean, it's a substantial portion of a --  
16 of the page, of the documents that are out there. I  
17 mean, we have to review. We review every insurance -- I  
18 mean, lender's agreement before the policy is allowed to  
19 be deemed active.

20 So we review it. And I mean, obviously,  
21 we're not going to allow it to be in -- outside of the  
22 consumer's best interest. We just don't expect it to be  
23 in this size font because, as you can see, even from our  
24 certificate, it's quite a bit larger.

25 MS. ANITA SOUTHALL: And when you say you

1 review it, can you just give us an idea of what that  
2 process involves?

3 Or I -- I'm wondering if you mean that you  
4 actually will review a sample document that's used by a  
5 lender to satisfy yourself that it's fair disclosure?

6 MR. KENT TAYLOR: Exactly. To  
7 participate in the program, they have -- first of all,  
8 have to agree to install these disclosures and divi --  
9 design their certificate -- or, sorry, their loan  
10 agreement so that it itemizes the specific cost.

11 Once that's done we receive a sample copy  
12 for a go forward, and that copy is reviewed by the  
13 insurer and approved for presentation to the customer.

14 MS. ANITA SOUTHALL: Thank you. And is -  
15 - is there some requirement as to the nature of that  
16 disclosure that's regulated by the insurance industry?

17 In other words, is that why the insurer is  
18 -- is going to the effort of looking at it and satisfying  
19 themselves that it's appropriate disclosure?

20 MR. KENT TAYLOR: Yeah. Again, it's  
21 going -- you're 100 percent correct. It -- it does have  
22 to go to the insurer for that specific reason. They have  
23 to have a personal information notice so that in the  
24 event of a claim or -- or in the event of remittance,  
25 that personal information's going to be transacted.



1                   You know, they're bound to those laws.  
2     Same thing with the disclosure aspect. I mean it's --  
3     we're required to make sure that the consumer has the  
4     opportunity to review the documents and know that they  
5     should review a policy before they participate in it.

6                   MS. ANITA SOUTHALL:    Sir, how -- how do  
7     you satisfy yourself that the script that you suggest is  
8     followed at a particular payday lender or, for that  
9     matter, at a particular payday lending location?

10                  How are you able to ensure, for example,  
11     that it's made clear that this is an optional product in  
12     the context of the recommended script?

13                  MR. KENT TAYLOR:    It's recommended at the  
14     time of training to supervise each individual office is  
15     really difficult. I imagine it's really difficult even  
16     for the lender.

17                  But what we do provide until we insure it  
18     -- because anytime that something -- typically what we  
19     found in the past is that if something's coerced or  
20     forced, the customer doesn't appreciate it. They phone  
21     somebody.

22                  And we make no -- we -- we make available  
23     ourselves to the consumer at every corner on a toll-free  
24     basis. They can call at anytime to -- to discuss the  
25     program in its -- in its -- their current situation, how

1 it may pertain to the insurance certificate and the  
2 actual insurance company.

3 And if we do receive a call which I -- you  
4 know, to be 100 percent honest with you -- maybe received  
5 two (2) or three (3) calls where a customer phoned and  
6 complained, and we dealt with the issue immediately.

7 We -- we recommended that it was -- that  
8 it was -- that their process was changed and -- and, you  
9 know, most of the time it -- it really boils down to for  
10 -- for where the customer or the actual CSR wasn't fully  
11 versed on the -- on the presentation.

12 MS. ANITA SOUTHALL: So based on that  
13 last comment, this -- this wouldn't come up very much to  
14 -- to your knowledge, at least with -- with your  
15 operations with Progressive and the product -- payday  
16 lending product you're offering?

17 In other words there wouldn't be a problem  
18 very often where somebody --

19 MR. KENT TAYLOR: We're definitely not  
20 flooded with calls on people being forced to take any  
21 coverage. Not that we've never had that discussion, but  
22 we're not -- and -- and it really boils down to it's --  
23 like I said to you before, our philosophy is a full wheel  
24 of service.

25 And when some -- traditionally, what

1 insurance companies do is design a certificate and, Here  
2 you go, do your best with it. We have a number to call  
3 if there's any questions.

4 We just try to be a little more proactive.  
5 Instead of waiting for a problem to happen, we try to nip  
6 -- address the problem before it occurs. And, you know,  
7 there's never been a situation where somebody hasn't felt  
8 that way and we haven't addressed it immediately.

9 So we take that knowledge from prior  
10 industries and prior experiences and incorporate that  
11 into our training and make sure that they're aware to the  
12 best of our ability before they, you know, start rolling  
13 with the program, that -- that there's certain guidelines  
14 to work within and -- and certain ways to handle, you  
15 know, customer concerns and -- and presenting the  
16 product.

17 MS. ANITA SOUTHALL: Sir, if you could  
18 look at Tab 17, page 4, this is also part of your  
19 training manual, as I understand it.

20 And, sorry, the pages aren't numbered, but  
21 it is under the heading, "Can the Customer Decline the  
22 Coverage?"

23 MR. KENT TAYLOR: Yes.

24 MS. ANITA SOUTHALL: Is there any script  
25 or further direction that you provide with respect to the

1 lender's representative, the payday lender's  
2 representative, explaining to the customer that the cost  
3 is very reasonable for the coverage it offers?

4 Do -- do you offer any language for them  
5 to -- you can disagree with me, I'll use the word  
6 "convince" the person that -- that this is really  
7 something they should consider taking up?

8 MR. KENT TAYLOR: No, there's no specific  
9 verse that -- that's covered with respects to -- the  
10 coverage is very reasonable. I think that it's my duty  
11 to provide to the -- the lender justified the cost and  
12 how it pertains to what's available in the industry.

13 And I can -- I can assure you that the  
14 coverage that's provided as a proportion to the cost on  
15 this particular program is unlike anything in -- in the  
16 insurance industry at group credit level.

17 And I could -- and we -- we have done  
18 actual research to provide that to -- to our lenders so  
19 that they're -- so they're not in a position where  
20 they're going to get caught, you know, presenting  
21 something that -- that isn't in -- in a proper economy, a  
22 scale to what's available when they go buy a -- anything  
23 else with credit and is offered coverage.

24 MS. ANITA SOUTHALL: And on -- on that  
25 same page, the bottom heading is, "What if the Customer

1 Declines Loan Protection?"

2                   And again, as part of your training for  
3 these representatives who offer it directly to the  
4 customer, you indicated:

5                   "It's important to ensure that the  
6 customer understands that we strongly  
7 recommend loan protection."

8                   Do you see that?

9                   MR. KENT TAYLOR:    Mm-hm.

10                  MS. ANITA SOUTHALL:    So this would be the  
11 stage at which, after the script has been used, and the  
12 person thinks about it and decides that they don't want  
13 the insurance product, there would be another effort  
14 made, I take it -- because they've declined the insurance  
15 -- to indicate that it -- it's strongly recommended and  
16 it -- and it's in their interest to take up the product.

17                  So that's another effort that's made to --  
18 to sell that product.  Is that true?

19                  MR. KENT TAYLOR:    Yes.  I don't agree  
20 entirely with your -- with your -- that -- that their --

21                  MS. ANITA SOUTHALL:    Go ahead.

22                  MR. KENT TAYLOR:    Well, it is right -- it  
23 is recommended, that it's strongly recommended.  And part  
24 of that is is part of the training that we provide to the  
25 -- to the lenders and to their frontline staff, is that

1 it is optional, and it -- it isn't mandatory, and it  
2 can't be made mandatory. But it's important that they  
3 understand the value of the coverage to the client.

4           And that comes back to the -- the price  
5 comparison as well. It's important that the people that  
6 present the program -- and this is more of a -- of a  
7 program buy-in procedure for us with respects to the  
8 lender. We want to make sure that the people that offer  
9 it believe that it will help their clients.

10           If it doesn't -- if I don't think that  
11 they believe that, then they won't recommend the  
12 coverage. And I ask them not to, you know.

13           I -- when I do training, I say, This is my  
14 first job for you is, to make sure that you believe, and  
15 -- and ask me every question -- to believe that there --  
16 that this is in the best interest of your client.

17           Not that there's nothing else out there  
18 that's better, although I can prove that, but that -- and  
19 for this particular program, that -- that the coverage is  
20 something that will be good for the client.

21           Because some of these consumers, they --  
22 they do have a good rapport with the frontline staff, and  
23 that -- and that -- and their -- sometimes their opinion  
24 is important to the client.

25           And that's why designing the program to

1 make sure that it -- it satisfies what the customers'  
2 expectations are is really important, and I think that  
3 we've done that.

4 MS. ANITA SOUTHALL: Thank you very much.  
5 And one more thing I wanted to take you to, sir, was --  
6 and to allow you to give us your full explanation on it.

7 At Tab 14 of the binder, the question  
8 posed by the Board to you in the first round of  
9 questions, under the heading "Fee Structure," was:

10 "Where an insurance product is  
11 available, should the cost of that  
12 insurance be part of the APR?"

13 And the part of the response that's been  
14 provided, and I direct you specifically to the second  
15 paragraph of that response, is -- by Progressive, is:

16 "If the Board makes insurance part of  
17 the APR calculation, it will only serve  
18 to hurt the very people it is trying to  
19 protect by eliminating the customer's  
20 right to insurance protection."

21 Do you see that?

22 MR. KENT TAYLOR: Yes.

23 MS. ANITA SOUTHALL: Could you just  
24 elaborate on -- and I'm not trying to limit you, by the  
25 way, to that line, but that -- that's an aspect of the

1 answer that I confess I wasn't able to fully understand  
2 within the context of the answer.

3           So don't -- don't feel you have to limit  
4 yourself to that, but if you could just explain from your  
5 point of view why the cost should not be factored into  
6 the APR from the Board's point of view.

7           MR. KENT TAYLOR: Well, I -- I just  
8 think it's difficult to put a fixed cost on an optional  
9 product, especially when the buying isn't by -- by a  
10 whole and a part the majority.

11           With respects to that particular thing,  
12 obviously if we charge -- let's just for argument sakes,  
13 use a dollar (\$1). And that has to be -- fifty-five  
14 cents (\$.55) has to be submitted to cover claims and  
15 administration and -- and accounting and Progressive.  
16 That is going to reduce the prof -- I mean, obviously  
17 that's a cost that has to be submitted.

18           So now my understanding is is that any  
19 regulation that comes down, there's going to be a fixed  
20 cost to -- to obtain a payday loan, and it's going to be  
21 difficult from -- from the -- from the testimonies that  
22 I've heard, that -- for them to operate within that  
23 structure comfortably.

24           And if they have to re -- further reduce  
25 that and submit that cost to the insurance company.



1 There -- there is a strong inclination that they won't  
2 offer it to their clients at all because the fact that it  
3 drops that coverage down.

4 And I just think that if it's an optional  
5 coverage, that a customer elects the purchasing based on  
6 their desire to have coverage for any particular  
7 situation that this certificate covers that they may fall  
8 into, that it's really difficult to put a hard number or  
9 -- based on that.

10 And it kind of -- it takes away their  
11 right to insure debt, and I -- and -- and...

12 MS. ANITA SOUTHALL: Thank you. Was --  
13 was that the end to the --

14 MR. KENT TAYLOR: Yeah.

15 MS. ANITA SOUTHALL: -- answer? Okay. I  
16 just wanted to make sure of that. And finally, Mr.  
17 Taylor, my last question is: Before we started today, I  
18 -- I asked whether or not it would be possible to obtain  
19 from you an example of a current disclosure form from an  
20 -- an operating payday lender elsewhere.

21 You can remove reference to who the payday  
22 lender is so that you're not disclosing anything you're  
23 not comfortable with. But if there's a way for us to  
24 obtain for circulation to the participants here and on  
25 the record the section of the disclosure statement, which

1 shows the line item for -- for Progressive's insurance  
2 products, where it's offered.

3 MR. KENT TAYLOR: Mm-hm.

4 MS. ANITA SOUTHALL: If you could provide  
5 that, again, to me then I can circulate it to the panel  
6 and to the other participants. Is that possible?

7 MR. KENT TAYLOR: Certainly, most  
8 definitely.

9 MS. ANITA SOUTHALL: Thank you. So we'll  
10 note that as an undertaking. Just a moment, please.

11

12 --- UNDERTAKING NO. 8: Mr. Kent Taylor will provide  
13 an example of a current  
14 disclosure form from an  
15 operating payday lender  
16 elsewhere showing  
17 Progressive's insurance  
18 products

19

20 CONTINUED BY MS. ANITA SOUTHALL:

21 MS. ANITA SOUTHALL: Sir, you may recall  
22 that in the first round of questioning we did ask for  
23 disclosure of the affiliate company structure. I -- I  
24 don't know if you recall that from our first round of  
25 questioning?

1 MR. KENT TAYLOR: Yes.

2 MS. ANITA SOUTHALL: You weren't putting  
3 that -- or you weren't prepared to give us that  
4 information in writing at the time. Given that we have  
5 your answers now on the record, are you able to just give  
6 us something in writing to make sure that our record is  
7 complete on that?

8 MR. KENT TAYLOR: With respects to the  
9 holding company, Mobile Financing?

10 MS. ANITA SOUTHALL: Right, yes, --

11 MR. KENT TAYLOR: Certainly, yeah.

12 MS. ANITA SOUTHALL: -- with respect to  
13 your structure.

14 MR. KENT TAYLOR: Okay. I did actually  
15 provide that to, I believe it was, A -- AF's (phonetic)  
16 had that same question, and I responded to them. It was  
17 in the -- it was a question that they had asked, if I was  
18 affiliated and if the company was operated, but I -- I --

19 MS. ANITA SOUTHALL: Well, is the -- is  
20 the detail in there then?

21 MR. KENT TAYLOR: Yeah, but I have no  
22 problem providing it anyways.

23 MS. ANITA SOUTHALL: Okay. I appreciate  
24 that. Thank you very much for that. And -- and thank  
25 you. Those are my questions of you, Mr. Taylor and --

1 and Progressive. And thank you for your patience with me  
2 in -- in answering those for us today.

3 THE CHAIRPERSON: Thank you, Ms. Southall  
4 and Mr. Taylor. I am just wondering whether the other  
5 Intervenors will have questions of Mr. Taylor?

6 MR. ALLAN FORAN: Just a couple, not very  
7 many.

8 MR. ANTOINE HACAULT: Mr. Chairman, just  
9 a couple, also, not very many.

10 MR. BYRON WILLIAMS: I have at least  
11 twenty (20) minutes.

12 THE CHAIRPERSON: Very good then. If you  
13 do not mind, Mr. Taylor, we will reconvene at 1:15.

14 MR. KENT TAYLOR: Certainly.

15 THE CHAIRPERSON: Thank you. We will  
16 have our lunch break now.

17

18 --- Upon recessing at 12:00 p.m.

19 --- Upon resuming at 1:20 p.m.

20

21 THE CHAIRPERSON: Okay, welcome back  
22 everyone. Now we are on to Mr. Foran who, will be cross-  
23 examining Mr. Taylor. Mr. Foran...?

24 MS. ANITA SOUTHALL: Mr. Chairman, sorry  
25 to interrupt and just -- just in advance of Mr. Foran's

1 cross-examination. Mr. Taylor asked me just before  
2 commencement of proceedings this afternoon if he could  
3 just clarify a couple of points from this morning.

4 So I've advised him, because it arose from  
5 my questioning, I've advised him if it's all right to  
6 just clarify that now.

7 THE CHAIRPERSON: Sure. No, you can do  
8 it now if you want.

9 MS. ANITA SOUTHALL: Thank you.

10 MR. KENT TAYLOR: Thank you. There was a  
11 question that Ms. Southall proposed to me earlier about  
12 whether insurance companies are required to maintain a  
13 certain level of -- like claims-to-cost ratio.

14 And there's really two (2) ways that you  
15 can adjust it. And we have some living, breathing  
16 examples of this particular program.

17 You can adjust it by lowering the price to  
18 the coverage you have, or you can increase the coverage  
19 to increase claims to a proper proportion. And in the  
20 first twelve (12) months of this particular program, the  
21 program was actually rewritten three (3) times.

22 What happened is originally, and just give  
23 you an example, based on that premium we had to -- the  
24 customer would have to be laid off for ten (10) months to  
25 get their whole payday loan paid off.

1                   And what we did is, in -- in essence, is  
2 we just increased the coverage to -- to increase claims  
3 to a proportionate level of that fee, and not to maintain  
4 profitability or anything like that. It was more going  
5 back to my business philosophy, which can only be shared  
6 within the confines of my business.

7                   But my business is that I believe that  
8 consumers have a perception of what insurance covers.  
9 Right? And what I try to do is when I design a program  
10 is to meet or exceed their expectations.

11                   And really those expectations don't come  
12 until the time they claim. So if you can -- if you can  
13 design a program that you know is going to meet their  
14 expectations, then you're not going to have any  
15 dissatisfied customers, which I think ultimately is what  
16 you're trying to accomplish here.

17                   And a good example is recently there was a  
18 -- a TV episode on credit card insurance which, to be  
19 quite honest with you, this is a dissident of that,  
20 although it's quite -- quite more advanced.

21                   And the lady on the TV, she said, Hey  
22 listen, I've -- I bought disability insurance. I thought  
23 when I was disabled that my payment would be made.

24                   And, you know, they went in to look at a  
25 coverage, and the coverage only covered the minimum

1 payment and the interest for six (6) months. And that's  
2 what I looked at when I was designing the programs.

3 I'd say, What is the average person going  
4 to expect when they get laid off or disabled or something  
5 like that? And -- and that's to have substantial  
6 benefits because that's what they expect. Right?

7 The customer says if I'm disabled I -- my  
8 -- my -- very minimum, my payment's going to be made. So  
9 what we do is, you know, if they're legitimately  
10 disabled, within thirty (30) days their whole payment's  
11 made.

12 And fortunately, we've been able to mould  
13 that perception within the fee without having to increase  
14 it to past a threshold they're willing to pay.

15 The second reference was to the -- I think  
16 it was page 4, the last page of the -- of the manual, and  
17 it was referenced to:

18 "It's important to ensure the customer  
19 understands we strongly recommend the  
20 loan protection."

21 And again, that's not to be coercive or  
22 forcive or anything like that. I -- we take a proactive  
23 approach to insurance. And unfortunately, I can only  
24 speak for myself again.

25 But what we try to do is nip a lot a lot

1 of these situations in the bud. And what I try to do,  
2 when I introduce a program to the frontline staff, is  
3 give them all the information I can about the program,  
4 make them believe that it's good for their customer, and  
5 give them some examples.

6                   And that's the best I can do at that  
7 particular time. And I've had to process a disability  
8 claim or a death claim for an insurance before, so I know  
9 what the consumer expects, what the motions they go  
10 through, et cetera.

11                   And I mean, it's my -- and I tell this to  
12 the people at work and I say, It's my intention that you  
13 have a claim as soon as possible after introducing the  
14 program, because once you see how that affects the  
15 customer's situation and what kind of benefits it pays to  
16 them and to see the response you get back, you really get  
17 a buy-in.

18                   And that's why you can strongly recommend  
19 something. It's not in any way to be coercive. It's --  
20 I mean, if you've had the situation of processing a death  
21 claim or somebody who's unemployed and has a grocery list  
22 of bills that -- that is not going to be paid and this is  
23 just one more.

24                   You know, there's a lot of relief that's  
25 taken off their shoulders. And that's -- that is what I



1 wanted to add to those two (2) comments, so I appreciate  
2 the time.

3 THE CHAIRPERSON: Thank you, sir. Okay.  
4 Mr. Foran.

5

6 CROSS-EXAMINATION BY MR. ALLAN FORAN:

7 MR. ALLAN FORAN: Thank you, Mr.  
8 Chairman. A few questions just as a follow-up to your  
9 evidence. I understand it's your position that the  
10 insurance offered is always optional, correct?

11 MR. KENT TAYLOR: Correct.

12 MR. ALLAN FORAN: And one of the things  
13 that you indicated in response to a PUB Question 2-1 is  
14 that that's because federal and provincial legislation  
15 requires that to be so, correct?

16 MR. KENT TAYLOR: Yes.

17 MR. ALLAN FORAN: And one of the  
18 legislative restraints that you identified was that of  
19 the Competition Act, and you reference tied selling in  
20 that act, correct?

21 MR. KENT TAYLOR: Yes.

22 MR. ALLAN FORAN: And you're not  
23 suggesting that tied selling is an offence under the  
24 Competition Act, are you?

25 MR. KENT TAYLOR: No, it's discouraged by

1 the Competition Act.

2 MR. ALLAN FORAN: Okay.

3 MR. KENT TAYLOR: Any kind of penalties,  
4 levies, it unfortunately usually comes back to the  
5 insurance company. That's why we're heavily regulated,  
6 right, so that we're required to -- to be responsible for  
7 what's being said on the -- on the frontline, that's why  
8 we take the steps to make sure it's not.

9 MR. ALLAN FORAN: Okay. When an  
10 insurance product is offered to a prospective payday loan  
11 customer in Manitoba -- I guess you're not doing that  
12 now, though, are you?

13 MR. KENT TAYLOR: I'm not actively  
14 participating today, no, but we certainly hope to.

15 MR. ALLAN FORAN: Okay. So let me -- let  
16 me just amend that. So when an insurance product is  
17 offered to a prospective payday loan customer, there's no  
18 direct dealings between Progressive and the customer,  
19 correct?

20 MR. KENT TAYLOR: Correct.

21 MR. ALLAN FORAN: And unless the customer  
22 chooses to contact the call centre, it's only the  
23 lenders' employees that communicate with the individual  
24 borrower.

25 Is that correct?

1 MR. KENT TAYLOR: Yes.

2 MR. ALLAN FORAN: And apart from any  
3 guidance materials that you provide to lenders, you have  
4 no firsthand knowledge of what actually occurs in the  
5 conversation between the customer service representatives  
6 and the borrower, correct?

7 MR. KENT TAYLOR: Not unless there's a  
8 consumer complaint or a consumer concern.

9 MR. ALLAN FORAN: Okay. You've provided  
10 part of the script that is used in dealings with the  
11 customer. Is it part of your job, or is it part of what  
12 you do, to go out and encourage customer service  
13 representatives to follow that script?

14 Is that part of what you do?

15 MR. KENT TAYLOR: Well, from the very  
16 beginning it was always requested, like, what's the best  
17 way to present it, because we're -- typically, we've  
18 dealt with CSRs that don't have firsthand knowledge of  
19 insurance. And we try to -- to best equip them as  
20 possible.

21 And going more to the -- to the -- making  
22 sure a customer fully understands something before they  
23 say no to it, that's, to my opinion, was a way to present  
24 that to a consumer, because if a customer doesn't -- if  
25 you say to somebody, for example, Hey, it's seven dollars

1 and fifty cents (\$7.50) extra for insurance. Do you want  
2 it?

3 Well, the -- as soon as you say seven  
4 dollars and fifty cents (\$7.50) extra, typically the  
5 customer closes their ears off and doesn't listen  
6 anymore. This method is not meant to be coercive or  
7 disrespectful to the customer's options.

8 It's basically designed in a fashion that  
9 we can give them the features, advantages, benefits  
10 before we present a price to them. And if it needs to be  
11 moulded a little bit more to the liking of -- of the  
12 consumer body or the -- to the Board, then that's -- it's  
13 not set in stone.

14 But we try to make sure that the consumers  
15 have as much information before they make a decision.

16 MR. ALLAN FORAN: And do you personally  
17 go out and speak to all the individual customer service  
18 representatives? Or do you leave that up to the lenders  
19 to -- to train their staff?

20 MR. KENT TAYLOR: It's an option, and  
21 most of the clients ask me to -- to present to their  
22 staff. We do it in a couple different formats, in  
23 physical visits or by teleconferencing.

24 MR. ALLAN FORAN: And I -- I think I -- I  
25 rec -- I have this correctly, but one of the questions

1 that was asked is whether there was a script if the  
2 customer indicated they did not want the product.

3 And my understanding is there's no such  
4 script?

5 MR. KENT TAYLOR: Currently, I don't have  
6 a script that I've published, no. Again, a lot of this -  
7 - basis of this scripting, so to speak, is developed  
8 because it was on -- it was on request of the lender.

9 MR. ALLAN FORAN: And so there's sort of  
10 three (3) scenarios. One (1) is a -- there's a script  
11 where the product is purchased?

12 MR. KENT TAYLOR: Yeah.

13 MR. ALLAN FORAN: And you've given us  
14 that. Is there a second script, what happens if there's  
15 a discussion as to what further information the customer  
16 might want or what they're asking for?

17 Is there a -- a middle script somewhere?

18 MR. KENT TAYLOR: Yeah, I mean, well,  
19 there's -- one wouldn't say a script, so to speak. What  
20 we say is, if the customer has further concerns, there's  
21 always a method to have their concerns answered. And if  
22 -- and they can contact us on a toll-free line and have  
23 that concern answered to the best of their knowledge.

24 They can make a decision from there and  
25 move forward, or if they decided to move forward with the

1 understanding that they still had questions, we answer it  
2 within a twenty-four (24) hour time frame. The customer  
3 gets answered back and has the opportunity of cancelling  
4 the coverage.

5 MR. KENT TAYLOR: Okay. And so that's  
6 coming now to your customer service centre that's  
7 operated by Progressive?

8 MR. ALLAN FORAN: Yes. And they'll have  
9 their own script as to what to do in that instance?

10 MR. KENT TAYLOR: Yes, for sure.

11 MR. ALLAN FORAN: Okay. Okay. A couple  
12 of questions if I could, just turn to the certificate of  
13 insurance, please.

14 And again, it's just something I want to  
15 make sure I understood correctly. The certificate of  
16 insurance that you've provided is what I understand to be  
17 a template from ACE INA Life Insurance, and it refers to  
18 a group policy.

19 Is the group policy document something  
20 that you indicated to Ms. Southall that you were  
21 producing?

22 MR. KENT TAYLOR: This is the group  
23 policy right here. The group policy is the certificate  
24 for the coverage on -- on the particular payday loan if  
25 they should enroll in it.

1 MR. ALLAN FORAN: Okay.

2 MR. KENT TAYLOR: And the group policy,  
3 how it's structured for is that it's structured, like I  
4 said, very similar to the credit card or -- or something  
5 where the balance may change. So the payday loan today  
6 might be a hundred (100). The payday loan in three (3)  
7 months when they come back might be seventy-five (75) or  
8 a hundred and fifty (150).

9 What this does is it's a general policy  
10 that's made available to the customer so that in the  
11 event that they have a claim or need something to refer  
12 back to, it's a master policy that refers to a percentage  
13 of the benefits to a -- to a maximum amount, which is  
14 well within the payday loan balances, to -- to make sure  
15 that it's a standard policy that's available to them at  
16 all time going forward.

17 So it's like a master policy, so to speak.  
18 When you purchase credit card insurance and -- and I use  
19 that generally because, you know, the coverage is quite a  
20 bit more comprehensive.

21 But you get a master policy and then the -  
22 - the -- basically each -- each loan or each transaction  
23 you do, there's a fee that's attached to it, because you  
24 don't have a constant balance all the time. Like, it may  
25 go up, it may go down. A master policy sits in its

1 place.

2                   And that's where this, combined with the  
3 disclosure that goes on the agreement, is -- is what's  
4 normally contained in a certificate. You have to have an  
5 -- what's being insured, which is on the loan agreement;  
6 what amount is being paid specifically for the coverage,  
7 which is on the loan agreement; a privacy -- privacy of  
8 information disclosure; and then a disclosure that  
9 they're actually enrolled in it and that they should  
10 review the terms and conditions.

11                   So what you'd see normally in an insurance  
12 certificate you may have at a car loan, which is a fixed  
13 amount over term. All that information is included in  
14 the same procedure so that the customer is not missing  
15 any information that might affect their ability to either  
16 proceed with the coverage or decline it.

17                   MR. ALLAN FORAN: Thank you. I -- I know  
18 you're answering the question. I regret that I'm -- I'm  
19 going to ask it again, just with a -- using some specific  
20 wording, and maybe you can just explain, perhaps.

21                   Evidently I'm missing something, and I'll  
22 tell you what I'm looking at. I'm looking at the  
23 paragraph under "Introduction," which is on the left-hand  
24 side of the first page of the certificate of insurance --

25                   MR. KENT TAYLOR: Mm-hm.



1 MR. ALLAN FORAN: -- right near the top,  
2 and I'm looking at the second paragraph.

3 MR. KENT TAYLOR: Mm-hm.

4 MR. ALLAN FORAN: And what it indicates  
5 is that this document, certificate of insurance, is a  
6 summary, and it further indicates that in the event of a  
7 dispute, benefits are paid pursuant to a group policy,  
8 and a group policy may be reviewed at the executive  
9 offices of the lender.

10 And so that -- that's, just so you know,  
11 the basis of my question is, I just --

12 MR. KENT TAYLOR: Okay.

13 MR. ALLAN FORAN: -- I read this this  
14 morning and -- and really, there's no trick here.

15 I'm just curious, is there another  
16 document in the offices of the executive office of the  
17 lender, and is that something that you agreed to produce  
18 to Board counsel?

19 MR. KENT TAYLOR: What -- to answer this  
20 question -- and thank you, sir, I didn't realize that the  
21 first time. This, because it's smaller print, they also  
22 have -- it's a duplicate policy that's in length form.

23 So, for example, this might be with  
24 regular font, say a ten (10) or twelve (12), it might  
25 take up twenty (20) pages or ten (10) pages. But for

1 condensed purposes for documentation it's in a smaller  
2 font.

3                   There is a master policy, but the verbiage  
4 is identical to this.

5                   MR. ALLAN FORAN: If you look at the  
6 second page of the certificate of insurance, again I'd  
7 like to take you to the paragraph relating to the  
8 cancellation of coverage and specifically to the  
9 paragraph underneath, the "Right to Examine this  
10 Insurance" paragraph. It's located halfway down the page  
11 in the very middle column.

12                   MR. KENT TAYLOR: It says "Right to  
13 Examine"?

14                   MR. ALLAN FORAN: "Right to Examine," and  
15 it indicates that, as I understand it, that there's the  
16 opportunity to cancel the insurance within ten (10) days  
17 of receiving the certificate of insurance.

18                   MR. KENT TAYLOR: That's correct.

19                   MR. ALLAN FORAN: If a borrower repays  
20 the loan within ten (10) days, are they refunded the  
21 premium?

22                   MR. KENT TAYLOR: That's not -- we don't  
23 usually use that -- we don't mandate that because they  
24 had coverage for the term.

25                   The coverage for the -- the insurance

1 coverage will serve from one (1) day, although I don't  
2 imagine too many one (1) day loans all the way up a  
3 thirty (30) day time frame. So it's a sliding scale  
4 similar to the master policy that I explained about a --  
5 a credit card.

6 Now if they paid off within a ten (10) day  
7 frame and the lender feels justified to -- to give it  
8 back to them, which I know has happened on a couple of  
9 occasions where there's been a request to find out if  
10 they can refund premium, they have that option.

11 We don't mandate that they return it back.  
12 It's not required under any insurance laws to return the  
13 premium if they satisfied the loan. Because the effect -  
14 - the coverage is essentially in effect for that time had  
15 they been disabled or laid off.

16 MR. ALLAN FORAN: Do you know whether  
17 it's explained to the borrower that if they repay within  
18 ten (10) days, they also have the right to cancel?

19 Is that part of the script, or is that  
20 something that's -- that's provided to them at the time  
21 they take out the insurance?

22 MR. KENT TAYLOR: No, because that's  
23 incorrect, actually. What it -- what it is is they --  
24 they have the right to cancel the coverage within ten  
25 (10) days while their loan's still active.

1                   If they finish their loan off and -- and  
2 it goes its full gamut, then -- or they pay it off early  
3 -- they essentially had the benefits that would have been  
4 afforded to them had they had the coverage in place while  
5 that was being paid off.

6                   So for example, if that loan is two  
7 hundred dollars (\$200) and they paid two hundred and four  
8 forty (\$204.40) for the coverage, and even though the  
9 loan is only three (3) days old and they were disabled or  
10 laid off during that time, that's the moment of time.  
11 They would be eligible for the benefits that would be  
12 paid to them. So therefore, it's earned premium.

13                   MR. ALLAN FORAN:   Okay. I'm going to  
14 move away from that document and just a general question  
15 if I could.

16                   Do you either personally or through your  
17 business, do you require a licence to operate in  
18 Manitoba?

19                   MR. KENT TAYLOR:   Currently you don't  
20 require a -- a licence to offer group credit insurance.  
21 Myself personally, I'm required to be licensed and I am  
22 under the LLQP qualifications under Canada -- in Canada  
23 for all -- all provinces.

24                   I'm specifically licensed in British  
25 Columbia, and for group coverage you can -- you can offer

1 it in other provinces but not have to be specifically  
2 licensed.

3                   You have to be in one (1) of the  
4 provinces, because ultimately the -- it's the lender that  
5 is the policyholder. The lender has to be licensed to  
6 operate in Canada. But at the frontline of the offices  
7 for group coverage -- which means they -- they don't have  
8 to be.

9                   And if I can elaborate a little bit on  
10 what group coverage is for -- just in case there's  
11 somebody that doesn't have the knowledge of insurance.  
12 There's group and individual.

13                   And group coverage takes the unhealthiest  
14 person at fifteen (15) and the healthiest person at  
15 fifteen (15), and the unhealthiest person -- I'm sorry,  
16 eighteen (18), nineteen (19), and at sixty-five (65).  
17 And they take all the risks associated with that and  
18 combine it into one (1) rate.

19                   And that one (1) rate covers a spectrum of  
20 people, so there's no need to investigate into their  
21 personal health situation. For that reason, you're not  
22 required to be licensed because you're -- under a  
23 licensed individual in the province, you actually  
24 participate and get further into their medical situation  
25 and -- and goes into a little further detail.

1                   Group's a little more -- it's kind of like  
2 an umbrella that covers a whole group of people.

3                   MR. ALLAN FORAN:    And -- and just for  
4 clarification, what is it that the licence is for?  What  
5 -- what do yo have to be licensed to do?  Be a broker, to  
6 be an insurer to --

7                   MR. KENT TAYLOR:    For myself?

8                   MR. ALLAN FORAN:    -- to sell insurance?  
9 Yeah.

10                  MR. KENT TAYLOR:    If I -- I need to be  
11 licensed so like -- it's traditionally, I guess, in the  
12 light of the law, I'm licensed to -- to go to a person in  
13 BC and offer them a term life policy, a regular life  
14 policy.

15                                What they've done is, just to make sure  
16 that these group policies are being explained properly to  
17 the frontline people, is to get -- is to have us insured  
18 at a higher level than actual what we're operating at.

19                                Just so that you have an understanding of  
20 what's at stake, what the protocols are, and what -- what  
21 the -- you know, the ultimate goal of offering the  
22 coverage is.

23                   MR. ALLAN FORAN:    So you know offhand,  
24 does the customer service representative have to have a  
25 similar licence if they're explaining this to the -- to

1 the borrower?

2 MR. KENT TAYLOR: Absolutely not. And  
3 the reason why is because we have a group -- it's a group  
4 policy. There's no reason to delve into the -- to the  
5 personal history of an individual, because they're  
6 covered under the group.

7 MR. ALLAN FORAN: Okay. I'd like to  
8 refer you to Tab 16. And I specifically, Mr. Taylor, I'm  
9 looking at the coverage highlights. And what I -- I see  
10 is a two (2) page -- two (2) pages and -- maybe what I  
11 can do is have you turn to the first one is -- let's go  
12 to the second one --

13 MR. KENT TAYLOR: Mm-hm.

14 MR. ALLAN FORAN: -- "Coverage  
15 highlights." In the lefthand side there's something  
16 called "Accident and sickness." There's a box in the  
17 top --

18 MR. KENT TAYLOR: Yeah.

19 MR. ALLAN FORAN: -- one third (1/3) of  
20 the page. And under that and -- and again, this is just  
21 -- candidly, out of curiosity, but under bone breaks, I  
22 was curious about two (2) things.

23 My first curio -- curious -- curiosity was  
24 you're covered for everything but fingers and toes, so --  
25 except if you break two (2) fingers.

1                   Why are you not covered if you break one  
2     (1) finger?

3                   MR. KENT TAYLOR:    It's a good question  
4     and a lot of people get a comic relief out of that, but  
5     the bo -- the bottom line is is I guess the actuarials --  
6     because that's ultimately -- that's the fees.

7                   They ask that -- they figure the question  
8     then for three (3) to five hundred dollars (\$500) it  
9     might be worth breaking your finger.

10                  MR. ALLAN FORAN:    Okay.

11                  MR. KENT TAYLOR:    But somebody might not  
12     want to slam both fingers in the door for three hundred  
13     dollars (\$300).

14                  MR. ALLAN FORAN:    Okay.  My -- my second  
15     question is, you're covered if you break two (2) fingers,  
16     but you're not covered if you have one (1) or more broken  
17     toes.

18                  Why have they excluded toes from the  
19     coverage of two (2) fingers?

20                  MR. KENT TAYLOR:    Actually, I'm not aware  
21     that they didn't cover the broken toes if there's two (2)  
22     of them.

23                  MR. ALLAN FORAN:    I just -- and I'm just  
24     looking at the form.

25                  MR. KENT TAYLOR:    I think it's as if --



1 if anything other than fingers and toes, but covered if  
2 two (2) or more fingers are broken. That's just a -- a  
3 grammatical error on my part. Toes are covered.

4 MR. ALLAN FORAN: I have no further  
5 questions.

6 THE CHAIRPERSON: Thank you, Mr. Foran.  
7 Mr. Williams, for the Coalition.

8

9 CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

10 MR. BYRON WILLIAMS: I have not toe or  
11 finger questions if...

12 The -- just for the Board's information,  
13 it's not right away, but a few minutes into my cross I'm  
14 going to be making one (1) reference to Dr. Buckland's  
15 evidence that was filed on September 17th, so I don't  
16 know if you have copies nearby or not.

17 Mr. Taylor's kindly agreed to read in an  
18 excerpt, in any event. So -- but if you are looking for  
19 anything, you'll -- you'll get your -- your able team to  
20 provide you with that.

21 Mr. Taylor, at Tab 14 of your evidence,  
22 there's a response to a question by the Public Utilities  
23 Board, number 4, sub F, sub 3.

24 I don't know why they ask such long  
25 questions at the Public Utilities Board, but -- but they

1 do. Mr. Cathcart's giving me a bit of a dirty look over  
2 there.

3 And in your response -- I'm referring to  
4 the italicized part of your response. It's the first  
5 paragraph on that page.

6 And you make reference -- you're  
7 discussing the issue of affiliation, and you indicate  
8 about two thirds (2/3) of the way down that paragraph:

9 "Affiliation has brought rise to some  
10 of the scams in Ontario and BC where  
11 there was an attempt to disguise fees  
12 as insurance premium."

13 First of all, did I -- I read that  
14 correctly, hopefully, Mr. Taylor? Is...

15 MR. KENT TAYLOR: Yes, you did.

16 MR. BYRON WILLIAMS: I -- I wonder if you  
17 can pro -- province by pro -- the two (2) provinces that  
18 you've identified, just give me an idea, first of all, in  
19 Ontario, the scams that you're referring to.

20 About when did that take place? Is that  
21 recent or is that in the far distant path -- past?

22 MR. KENT TAYLOR: No, I -- I think it was  
23 first surfaced -- if I -- my memory serves me correct, I  
24 believe it was first serviced in -- surfaced in -- around  
25 the last half of '04.

1                   MR. BYRON WILLIAMS:    And what was the  
2 nature of that -- that event in Ontario?

3                   MR. KENT TAYLOR:    Well, the -- basically,  
4 what happened is there -- right now, I guess, as it works  
5 is Section 347, with respects to the -- how much you can  
6 charge for interest is -- is the threshold that's --  
7 that's being questioned or being amended.

8                   And in there it reads that the only thing  
9 that's associated with the transaction that's not  
10 included in the APR calculation is -- two (2) things.  
11 One (1) is an official fee, which is, like, a government  
12 fee, an environmental levy, something like that. The  
13 second is an insurance fee that's not included.

14                   Now, it's important to note that that has  
15 to be a licensed insurance company that underwrites that  
16 program to make it an official licence -- an insurance  
17 fee, it has to be separate.

18                   What happened was there was a specific  
19 lender that saw that as a -- as a loophole in the system  
20 and -- and classified the -- the fee they charged as an  
21 insurance fee, because then it wouldn't be calculated in  
22 the 60 percent.

23                   It's unfortunate for -- for my industry,  
24 because it -- it dramatically affected the -- the opinion  
25 of insurance in my industry, which is -- which is too

1 bad. But they utilized that as -- they justified their  
2 fee as insurance.

3                   Because there's no real cap in the world,  
4 what you can charge for insurance, unless you go back --  
5 and what you're -- if you're -- if you're privy to the  
6 information behind the scenes is that you're constantly  
7 reviewed on whether it's a cashflow tactic.

8                   So no insurance company in their right  
9 mind would underwrite that program, because it would be a  
10 matter of time until they got questioned on it, and  
11 they'd have to either A, bring up claims to a point where  
12 it -- it justified it, which I don't think it ever would.

13                   And second -- or they'd have to reduce the  
14 fee they charge, which as -- essentially abolish their --  
15 their attempt to -- to do whatever they were doing.

16                   MR. BYRON WILLIAMS:   And if -- if memory  
17 serves me right, there was actually -- this was dealt  
18 with by the regulator in -- in some fashion.

19                   Are you familiar with how they dealt with  
20 it, sir?

21                   MR. KENT TAYLOR:   Yeah, I know that the -  
22 - the -- it was shut down in British Columbia, and my  
23 understanding was that it was shut down in Ontario until  
24 such time as they found an underwriter for it.

25                   And, quite frankly, I -- I mean just being

1 100 percent honest, there's no way they could justify  
2 that -- that fee as an insurance fee.

3 MR. BYRON WILLIAMS: How much was the  
4 fee?

5 MR. KENT TAYLOR: It was twenty-five  
6 dollars (\$25) a hundred (100).

7 MR. BYRON WILLIAMS: Now just, I'm  
8 assuming that the -- the incident in BC took place on or  
9 about the same time? Or --

10 MR. KENT TAYLOR: Yeah, it's -- it was  
11 the same company.

12 MR. BYRON WILLIAMS: -- did you know what  
13 time --

14 MR. KENT TAYLOR: It was just they had an  
15 office in British Columbia, and they had some offices in  
16 Ontario.

17 MR. BYRON WILLIAMS: And, again, I -- the  
18 -- I understand that this isn't totally nothing to do  
19 with -- with your product.

20 MR. KENT TAYLOR: Mm-hm.

21 MR. BYRON WILLIAMS: I'm wondering do you  
22 -- do you see any issues arising from that incident and  
23 those incidents in Ontario and BC?

24 Are there any issues that the Public  
25 Utilities Board of Manitoba should be aware of in setting

1 rates, or in -- in being on the lookout, or any way that  
2 you foresee that they might avoid such a situation in  
3 Manitoba?

4 MR. KENT TAYLOR: Well, I don't think --

5 MR. BYRON WILLIAMS: Any advice?

6 MR. KENT TAYLOR: -- Yeah, no, no I  
7 appreciate that. And again, it goes back to the comment  
8 I had when we began about, you know, constantly being  
9 reviewed on what the percentage of claims are as a  
10 percentage of -- and how that pertains to the insurance  
11 standard in Canada, whatever that might be that the  
12 Insurance Council sets.

13 So I -- I don't think there would be much  
14 cause for concern from the Manitoba's Public Utility  
15 Board side, only simply because it's -- it was -- it was  
16 policed and -- and brought up in part by that particular  
17 -- by the Insurance Council.

18 So I don't know if it would be something  
19 that would need to be cautioned, so to speak, because we  
20 are -- we operate under a fairly strict code of operation  
21 anyway, so...

22 MR. BYRON WILLIAMS: Can you tell me --  
23 and you've -- you've spoken about it briefly, and in terms  
24 of your experience and in terms of how insurance  
25 regulators operate, are they complaints driven? Do they

1 do mystery shopping?

2                   How does that work, in your experience,  
3 sir?

4                   MR. KENT TAYLOR: Typically it's comp --  
5 it's complaints driven. It's consumer groups that might  
6 find out about it, similar to -- to the people you work  
7 for.

8                   Specific to the payday loan industry they -  
9 - they take it one step further with the Payday Loan  
10 Association. I -- I know as I discussed with you earlier,  
11 there was an incident with one of our clients where it was  
12 -- where they were -- it was questioned whether it was  
13 optional or not. And we acted on it immediately in  
14 conjunction with the payday lender.

15                   And as it turned out, that particular staff  
16 member was new and wasn't -- had seen everybody around her  
17 offering it because they're customers that were repeat  
18 customers. She just assumed it was going forward.

19                   We presented all of our information, and I  
20 be -- to the best of my knowledge, from what they  
21 indicated to me, that citation was -- was dropped if -- if  
22 that's what it's called.

23                   MR. BYRON WILLIAMS: In -- in the incident  
24 you're referring to just, if -- if I can, it sounds like  
25 it was identified through a mystery shopping exercise. Or

1 how was it identified?

2 MR. KENT TAYLOR: Yeah it was through a  
3 mystery shopping exercise by the -- I believe it was by  
4 the CPLA.

5 MR. BYRON WILLIAMS: Now as -- as I  
6 understand it, your position -- and you've been quite  
7 forthright about it today -- is clearly from -- from your  
8 perspective the -- the key to the insurance is that it --  
9 it must be made clear that it's optional, and there also  
10 must be adequate and complete disclosure -- disclosure of  
11 costs and benefits.

12 Is that right, sir?

13 MR. KENT TAYLOR: That's correct.

14 MR. BYRON WILLIAMS: Now, I'm gonna ask  
15 you to -- to turn to the evidence of Dr. Buckland, et al.  
16 And -- and the specific page I'm directing your attention  
17 to is page 58. And for anyone who is trying to follow  
18 along, it's kind of a -- the report on the mystery  
19 shopping exercise, and it -- for those if you're trying to  
20 locate it within the text, there's a kind of a page where  
21 they list all the forms that were required -- were  
22 acquired by the various mystery shopping firms when the --  
23 the loans were taken out. And this is the next page.

24 And I know this is a bit tedious, Mr.  
25 Taylor, but I've -- I've highlighted a paragraph that I --



1 MR. KENT TAYLOR: Excuse me.

2 MR. BYRON WILLIAMS: Notwithstanding the  
3 fact that your voice is weak, that I'd ask you to read in  
4 for me, please.

5 MR. KENT TAYLOR: Yeah.

6 "Some of these forms use a lot of legal  
7 jargon that most people would not find  
8 easy to understand. The very purpose of  
9 the form is not always clearly explained  
10 by the tellers.

11 When possible, the mystery shopper took  
12 time to read the forms prior to signing  
13 them. However, some forms consisted of  
14 two (2) entire pages of small print, the  
15 rating of which was not possible,  
16 especially consist -- [I'm sorry] --  
17 especially when there was a line-up of  
18 people forming.

19 For example, the payday loan protection  
20 plan provided by one firm is an --  
21 approximately five hundred (500) words  
22 in fine print, and it was just one (1)  
23 of ten (10) forms requiring signatures  
24 at the -- at lender Number 8.

25 When asked about the content of the

1 form, all that the teller explained was  
2 that it was for insurance on the loan.  
3 Upon closer examination afterwards, it  
4 was discovered that insurance is  
5 optional and there is an additional fee  
6 involved, which is listed on the receipt  
7 only as 'PPP Fee.'  
8 Even upon reading this form a few times,  
9 with close scrutiny, the actual purpose  
10 of the plan, how it works, what the  
11 benefits are, and when it -- and when it  
12 would apply, are not clear."

13 MR. BYRON WILLIAMS: And, can I stop you  
14 there? Because I -- I should have prefaced this to make  
15 it clear that this is not a -- a product that is in any  
16 way affiliated with -- with your firm. That's right, sir?

17 MR. KENT TAYLOR: I can tell by the way  
18 it's disclosed it's definitely not our program.

19 MR. BYRON WILLIAMS: Okay. And I  
20 apologize, I should have done that ahead of time. I -- I  
21 wonder, you do training exercises --

22 MR. KENT TAYLOR: Mm-hm.

23 MR. BYRON WILLIAMS: -- for individual  
24 lenders. I wonder, if -- if you were evaluating this  
25 consumer disclosure from the, kind of the two (2)

1 principles of making sure that it's clear, it's optional,  
2 and also complete disclosure of the benefits and -- and  
3 costs, I wonder what -- what evaluation or criticism you  
4 might offer?

5 MR. KENT TAYLOR: Well, it's -- it's  
6 really quite simple. And I -- and I don't mean to be  
7 disrespectful to the consumer or to the -- to the lender.  
8 It's really what fostered the coverage highlights.

9 You know, when this comes up and they were  
10 asked questions and they presented it to -- at least, we  
11 asked that they present the -- it to the customer.

12 If it's ever -- we let them know in the  
13 training that every cons -- every one of our offices is  
14 given the coverage highlights. And the bottom of the  
15 highlights it -- it still encourages them to read the  
16 certificate. And the disclosure encourages them to read  
17 it to find out if they're eligible for any coverage or  
18 not.

19 But, you know, with no disrespect, I -- I  
20 fully understand their -- their feelings when they see  
21 this page. Unfortunately -- not unfortunately, but  
22 fortunately, because the insurance has to disclose every  
23 aspect of the program so that the customer is not left in  
24 the lurch for anything, we -- we need to entail all this  
25 documentation.

1           The essence, which I believe is what's been  
2 explained to you by my clients as the most important part  
3 of it, and that's, What am I covered for? You know, what  
4 is the coverage I'm buying? Well, that's illustrated in  
5 the coverage highlights.

6           And we further cover that in our  
7 disclosure, which I believe -- I know the lender. It's  
8 not just -- those two (2) paragraphs aren't disclosed  
9 before the signature. And one of the things we -- the  
10 reason we put it before the signature is because we want  
11 the customer to see the -- the line that says, you know, I  
12 under -- I mean, I understand I've got it. I should read  
13 and review the terms and conditions closely. I may not  
14 qualify, or to that -- the text.

15           So, we've tried to overcome that with that  
16 -- with that procedure, so that, you know, they can cover  
17 them as best possible. If that doesn't work out, and the  
18 customer still has more questions, then -- then they can  
19 contact our office.

20           MR. BYRON WILLIAMS:   Okay. And -- and  
21 again, this is -- this is more advice that you might give  
22 to --

23           MR. KENT TAYLOR:    Yeah.

24           MR. BYRON WILLIAMS:   -- consumers or to  
25 the Board. In -- in terms of the fact, at least from

1 this, it doesn't appear that there was a -- a verbal  
2 indication in advance that this product was optional, and  
3 even -- even when it was queried, you know, it doesn't  
4 appear that -- that there was that indication.

5                   Would that be of concern to you, sir, in  
6 the absence of a verbal --

7                   MR. KENT TAYLOR:    Yeah.

8                   MR. BYRON WILLIAMS:    -- indication?

9                   MR. KENT TAYLOR:    Yeah.  And we've tried  
10 to implement a program, we've tried to implement a program  
11 because of the -- the turnover in the -- in this  
12 particular industry.  We tried to implement a program  
13 where new -- new employees are made aware of -- because  
14 you know, a perfect example is the incident that happened  
15 to us in the recent quarter, where there was a new staff  
16 member.

17                   So with respects to that, we further go a  
18 little bit further and -- and let them know, like, this is  
19 your -- and when we do disclose it in the effective  
20 presentation, as it sits today, it says it's an optional  
21 fee.

22                   So we -- we try to disclose it's optional.  
23 They -- if it's done properly, the -- the fee that they  
24 pay is disclosed as they go through each individual cost  
25 that can try -- that can that, basically, creates the --

1 the repayment amount, so to speak.

2                   And that -- the coverage highlights, the  
3 support they might have, the certificate and the  
4 disclosure, I ask them to read the certificate -- from our  
5 perspective is -- is going above and beyond. Now that  
6 doesn't mean that we're not open to further advice or  
7 further suggestions. But it's -- that's -- exceeds what  
8 most of the disclosure is with other group credit  
9 insurance in other -- in other environments.

10                   And I can say that confidently because I'm  
11 involved in at least three (3) other industries.

12                   MR. BYRON WILLIAMS: Can I ask one last  
13 question about this? In terms of the fee, it -- it  
14 appears that an acronym was used, PPP fee.

15                   And I wonder if you have any thoughts in --  
16 in terms of complete disclosure whether it -- acronyms are  
17 -- are appropriate?

18                   MR. KENT TAYLOR: I think probably for the  
19 purpose of space it was used. PPP, I would assume, would  
20 be payment protection plan, I'm not sure. We -- I know  
21 that in our -- that we use an acronym on a recommendation.  
22 The -- the lender has the option to make it more formal.

23                   On the disclosure that they sign or that  
24 they see before signature, it does elaborate on that, as  
25 well.

1                   MR. BYRON WILLIAMS:    Thanks, and I  
2 appreciate you going through that with me.  Now, if -- you  
3 mentioned in your decision with My Friend, Ms. Southall,  
4 that you work a little bit with credit unions with the  
5 product.

6                   Is that right, sir?

7                   MR. KENT TAYLOR:    Yes.

8                   MR. BYRON WILLIAMS:    And memory escapes me  
9 in terms of what kind of product that is that you offer in  
10 terms of credit unions?

11                  MR. KENT TAYLOR:    Everything that we offer  
12 in any particular industry -- with automotive, rec.,  
13 credit union, alternative lending -- is for group credit.  
14 That's what I consider my speciality, is -- is group  
15 credit.  So it would be the very similar product as -- as  
16 presented as a credit union, like, disability, life, et  
17 cetera.

18                  It's really important to -- to note that  
19 it's not the only industry that's -- that's ever been  
20 faced with the issue of coercive or, maybe, deceptive  
21 sales techniques to get people to participate or making it  
22 mandatory.  But in all those industries -- automotive,  
23 credit union, and recreation, et cetera -- then those  
24 things are addressed, their -- their handled.

25                  And it's like any situation.  It's how it's

1 handled from -- by the insurance company. Or ultimately,  
2 to the insurance company, to me, to the lender.

3 And that's where, you know, there is a  
4 structure in place right now that is in place so that if  
5 anything does arise -- and really the only time a problem  
6 becomes a problem is when it does arise, right? And when  
7 it arises, it's dealt with in a fast and effective manner,  
8 so that, you know, the problem's nipped in the bud and no  
9 further customers are subject to the same techniques.

10 MR. BYRON WILLIAMS: Now, just in terms of  
11 the -- the credit union example -- and I guess I'm  
12 offering evidence, but you'll take it as a hypothetical.  
13 I've had an opportunity to -- both in -- in terms of  
14 purchasing a car and also a home recently to -- to  
15 purchase disability insurance.

16 And my experience with my credit union has  
17 been that -- let's say it's my mortgage -- they'll go  
18 through and give me the -- my monthly payment for the --  
19 for mortgage.

20 MR. KENT TAYLOR: Mm-hm.

21 MR. BYRON WILLIAMS: And then afterwards  
22 they'll ask me if -- if I want to purchase disability  
23 insurance. So they're separately priced.

24 Do you understand my point, sir?

25 MR. KENT TAYLOR: Yes, yes.



1                   MR. BYRON WILLIAMS:    And I wonder, has  
2 that been your experience with credit unions, as well, or  
3 the ones that you deal with?

4                   MR. KENT TAYLOR:    I can speak to the  
5 industry as a whole.  It's -- credit union was a good  
6 example, because they're probably the most aggressive with  
7 credit insurance in any lending environment with respect  
8 to group, bar none.  They -- I don't think they operate  
9 outside the law, but, you know, I don't know that they  
10 disclose it on a regular basis.

11                   What happens is -- how it works with  
12 mortgage insurance is it's -- with a credit union -- is  
13 it's a separate certificate.  So the fee is separate from  
14 the mortgage payment.  Whereas, once you get into their  
15 lending environment, where you go get a personal loan,  
16 it's a single premium aspect, which means that all the  
17 premium for five (5) years is paid in advance.

18                   And in that case, it's my understanding  
19 that the payment is presented protected.  And when I say,  
20 "protected," it's not to deceive.  I mean, the Royal Bank  
21 uses their program, it's call the Royal Protector Plan,  
22 for their personal loans.

23                   I mean, I have friends in the -- in the  
24 banking industry, and they present loan protection in the  
25 payment.  It's when you get to an environment like a

1 mortgage, where it's a separate certificate and it's a  
2 monthly fee, that it's separated out. And in some cases,  
3 it's my understanding that some of the lenders also  
4 include it in there.

5                   As long as it's disclosed, the features are  
6 disclosed to the customer -- I mean, before they sign they  
7 have to be disclosed, those two (2) separate fees. Right?

8                   So I -- I'm not saying that I promote that,  
9 that you -- that you'd slide it in there and hope that  
10 they didn't notice if that was possibly, maybe, the --  
11 what you're getting at.

12                   But it -- it's common practice to -- in --  
13 in a lot of the industries to at least offer the benefits,  
14 advantages, include the payment, and disclose the cost  
15 before signing.

16                   MR. BYRON WILLIAMS: I wonder, again  
17 coming from a consumer's perspective, if -- if you could  
18 understand why, if I was someone purchasing a payday loan  
19 product, I might want to price that first and then -- and  
20 then separate, in perhaps the next sentence, be told you  
21 have the option of purchasing the insurance for an  
22 additional cost of three dollars (\$3) or -- or two dollars  
23 (\$2) or whatever.

24                   Could you understand from a consumer  
25 perspective --

1 MR. KENT TAYLOR: Yeah.

2 MR. BYRON WILLIAMS: -- why that might be  
3 helpful information?

4 MR. KENT TAYLOR: By all means. I mean it  
5 definitely could be found as beneficial. I don't know if  
6 I would say you could buy insurance for three dollars and  
7 seventy-five cents (\$3.75), but I might preface it by  
8 saying, you know, You have an opportunity to cover  
9 yourself again this, this, and this for X dollars per  
10 month.'

11 Because I think it's integral to any  
12 purchase decision that you know the benefits before the  
13 cost, because it's human nature to -- to say no to  
14 something because they don't want to pay more. But they  
15 don't even know what they're not paying no for yet.

16 You know, I always use this example when  
17 I'm doing training. It's like, you know, it's like you  
18 walk into the store and you see two (2) things of bananas.  
19 And you ask the produce guy how much the bananas are.

20 And the guy's like, Well, the one on the  
21 left, you know, they're our regular bananas that we bring  
22 in every week. They're four (4) -- they're two dollars  
23 (\$2) a pound. But the ones on the left are organically  
24 grown and, my God, they taste great. They're another --  
25 they're three dollars (\$3) a pound.

1                   The person grabs the three dollars (\$3)  
2 one, takes it up or grabs the two dollars (\$2) because  
3 they don't if it's sweeter or better. Right? It's just -  
4 - but if you walked up and they said, Oh, the one on the  
5 left's two (2) and the one on the right's three (3),  
6 they're going to grab them because they're both yellow and  
7 grab them and take them up to the till.

8                   Whereas in -- in the first instance, you --  
9 you gave the customer the opportunity of having the  
10 features, advantages, and benefits before the purchase  
11 decision.

12                   And that's really the motivation behind the  
13 effect of sales presentation. Whether it be a separate  
14 sentence, that's -- that's a great suggestion.

15                   MR. BYRON WILLIAMS: Appreciate that. I  
16 want to turn you to the certificate of insurance that  
17 everyone but me got from Ms. Southall this morning, but I  
18 received from Mr. Bishop, for -- for which I thank him. I  
19 believe it's found at the back of Tab 17.

20                   Am I right in suggesting to you that if --  
21 and I'm getting close to it now, but if I were sixty-eight  
22 (68) years of age I would not -- I would not be able to --  
23 to purchase this product?

24                   MR. KENT TAYLOR: No. You wouldn't be  
25 able to. In fact, just to clarify a little bit further,

1 if they're -- if they're at the age of sixty-five (65),  
2 they wouldn't be eligible for the disability.

3 But because it's an all-in-one program,  
4 they'd still be eligible for critical illness, death, up  
5 to the age of sixty-eight (68) to the maximum age of  
6 seventy (70).

7 MR. BYRON WILLIAMS: And am I also right -  
8 - and I guess I'm directing your attention to page 2 on  
9 the lefthand side, "What We Exclude."

10 Am I also right in suggesting to you that  
11 if I was a seasonal employee, I would not be eligible for  
12 the involuntary unemployment benefit? Is that right, sir?

13 MR. KENT TAYLOR: That's actually not --  
14 that's not correct in -- in its essence, and that's where  
15 the support centre comes in, because you -- you do have  
16 seasonal employees in every aspect. And I'm sure that  
17 some of them take out payday loans.

18 What that is is we don't want a customer  
19 coming in or buying it with the understanding -- we don't  
20 want somebody to choose to take it with the understanding  
21 that every year they stop picking apples on September 1st,  
22 and that if I buy it now, when September 1st comes, that  
23 balance will be taken care of for me.

24 What we want to tell them is, Your  
25 traditional times that your season ends and begins, you

1 wouldn't be eligible for coverage when it -- when that  
2 season ends.

3                   If there is a terrible rainstorm and all  
4 the apples are rained off the trees and there's no reason  
5 for them to pick it and they get laid off in August, they  
6 would be eligible for full benefits as if they were fully  
7 employed.

8                   MR. BYRON WILLIAMS:    And how is that  
9 explained in the form?  That -- I -- I look just to the --  
10 to the extreme right.  I see a definition for seasonal  
11 employee but --

12                   MR. KENT TAYLOR:    Mm-hm.

13                   MR. BYRON WILLIAMS:    -- on the extreme  
14 right at the bottom --

15                   MR. KENT TAYLOR:    Mm-hm.

16                   MR. BYRON WILLIAMS:    -- and the -- is  
17 there a place on the form that you can point me to where  
18 that nuance, which I clearly missed, is -- is explained?

19                   MR. KENT TAYLOR:    No.  And it's a really  
20 good -- it's actually a really good point that you raised.  
21 It needs to be added in there.  I can assure you that that  
22 is protocol on it.

23                   What happened is traditionally, a regular  
24 loan goes far in excess of -- of regular season.  This  
25 should be more, and it's a great point, this should be

1 more adapted to a -- the payday lender or the short-term  
2 lending environment to address a seasonal employee that  
3 may be laid off within that season.

4 MR. BYRON WILLIAMS: Because on a kind of  
5 a -- you'll understand that on a quick and literal  
6 interpretation, if I were a seasonal employee, I would be  
7 worried about purchasing this product, because it wouldn't  
8 appear that I might get insurance, at least with regard to  
9 unemployment -- involuntary unemployment benefits.

10 You could understand how that could happen?

11 MR. KENT TAYLOR: Oh, I -- I totally  
12 agree. And just -- just to preface -- or to -- to follow  
13 up on that a little bit. That's part of the training.  
14 Like, that's where we try to put the -- the cart and the  
15 horse in the right order when we're going to do the  
16 training.

17 And let them know, Listen, this is what --  
18 these are the little nuances that come up, like -- because  
19 usually the frontline people don't have to read the  
20 certificate to ask about seasonal employment. We mention  
21 it. I -- I know that that's probably something

22 that would be a good recommendation to change on the  
23 certificate, but that's where, again, we have the call  
24 centre, where they can call ourselves or I can even refer  
25 them as far to ACE if they want further confence --

1 confirmation that their particular situation is covered --  
2 that it would be covered under those circumstances.

3                   And I've gone as far as -- not in this  
4 particular incident, but on other incidents where we've  
5 just given them, like, a written confirmation so that  
6 should they come, it is more or less an addendum to the  
7 certificate, so to speak, for that individual customer.

8                   MR. BYRON WILLIAMS:    And just so I  
9 understand, Are you indicating that -- is -- is the  
10 training for frontline personnel, they're -- they're asked  
11 to identify who sea -- seasonal employees are or -- I  
12 wasn't quite sure what you meant by your reference to  
13 training.

14                   MR. KENT TAYLOR:    Yeah.  No, we go and sit  
15 with the staff and -- and they -- and we talk about the  
16 coverage.  And they're -- they're like anybody else, when  
17 they hear the word "insurance," they're a little bit  
18 pessimistic.

19                   And that's why I go out or I try and make  
20 myself available to them before it launches, because it's  
21 so important that they understand the benefits.  First of  
22 all, being forward with the customer, but second of all,  
23 so they're comfortable with what they're offering their  
24 customer.  Right?

25                   So we go over that with them.  And in that



1 discussion, seasonal employment comes up probably more  
2 often than not, because they do come in for -- for payday  
3 loans or short-term loans. And those -- they've been  
4 asked or been told that that's what they do.

5 I mean, if you pick apples, there's a  
6 pretty good idea they're not picking them in November and  
7 in -- anywhere in western Canada anyways, or in Canada,  
8 period.

9 MR. BYRON WILLIAMS: Just on -- on that  
10 very interesting point, when you're pricing this product  
11 and looking -- and trying to ensure that you have  
12 actuarially indicated statistically sound rates, do you  
13 have a -- a demographic of a payday loan -- a typical  
14 payday loan customer that you're -- you're operating on?

15 Or how do -- how do you do that, because  
16 you're really aimed at a different part of the market?

17 MR. KENT TAYLOR: That's actually really  
18 interesting. That's a really interesting question,  
19 because as I mentioned before the -- the certificate was -  
20 - it took ten (10) months to -- to pay off a -- a loss of  
21 employment claim.

22 And originally, when we designed the  
23 program, I was told these people are going to abuse the  
24 system, they're lower income people, they're all this,  
25 they're all that, and there's -- it's going to be riddled

1 with -- with fraud.

2                   And to date, I can honestly say there's not  
3 one (1) case where any kind of claim was put in  
4 intentionally fraudulent. And I can vouch for the fact  
5 that every approval goes across my desk. I might not be  
6 actively involved in it, but I -- I see every approval.

7                   And -- and that's -- that's not -- that's  
8 not the case. And that's really what's contributed to  
9 what we thought was going to be astronomical in claims,  
10 like to the point of cancelling the program. And then we  
11 just kept bringing the coverage up to the respectable  
12 level.

13                   So I think it was -- it was an eye-opening  
14 experience for the insurer and somewhat to myself in the  
15 early stages of the program that the demographics people  
16 are -- are very diverse, from white collar to blue collar  
17 all the way through. It's quite interesting to see the  
18 demographics that -- that participate in this -- in this  
19 service.

20                   MR. BYRON WILLIAMS:   And -- and you may or  
21 may not have this information. As -- as compared to the  
22 general population, is your experience that this group  
23 would be disproportionately composed of seasonal  
24 employees?

25                   MR. KENT TAYLOR:   No, I wouldn't.

1 MR. BYRON WILLIAMS: And I'll just --

2 MR. KENT TAYLOR: Yet I don't have  
3 statistical information, but my -- my opinion, if it's  
4 valued, is -- from the experience I've had is that, no,  
5 there's no proportion -- like a disproportion.

6 And then for that matter, I don't believe  
7 there's a real disproportion to the customers that choose  
8 to insure their auto loan as opposed to choose to insure  
9 their payday loan.

10 MR. BYRON WILLIAMS: Okay. Thank you.  
11 And that's based on your experience rather than  
12 statistical data?

13 MR. KENT TAYLOR: Yes.

14 MR. BYRON WILLIAMS: Thank you. Just --  
15 this may verge on a toes and fingers question, so just in  
16 the -- in the middle column -- this is more an idle  
17 curiosity question, I have to say. "Right of  
18 Examination":

19 "In the event of death, we have the  
20 right -- we're allowed by law to ask for  
21 an autopsy."

22 Does this autopsy business come up a lot --

23 MR. KENT TAYLOR: No.

24 MR. BYRON WILLIAMS: -- in --

25 MR. KENT TAYLOR: It's a good question.

1 And, you know, in -- in all fairness in this -- I hope  
2 this is -- this is more for my closing comments, but I  
3 hope this shows you that kind of passion that I have for  
4 this industry and what I think this program means to this  
5 industry.

6                   We're actually probably the -- we are -- a  
7 typical claim form for an automotive claim is fifteen (15)  
8 pages, quite honestly. It can be eight (8) to fifteen  
9 (15) pages.

10                   Our payday -- our -- our claims for the  
11 Payday Loan Association have been -- have been broken down  
12 to be two (2) pages, and the simple reason is because we  
13 don't want people to be cumbersome made to go out to  
14 their -- to every stretch of the earth to get a claim paid  
15 for -- for their payday loan, especially when we're  
16 dealing with time frames.

17                   Time is of the essence, because they bought  
18 a fourteen (14) day loan. They don't want a ninety (90)  
19 day claims process. So what we did is we just tightened  
20 everything up with that.

21                   In respects to death, I mean, we pay death  
22 claims on -- on our payday loan program. We pay it from,  
23 basically, obituaries from the newspaper.

24                   And I -- and I know, like, we've run out of  
25 fingers and toes to tell you how many times we've paid a

1 death claim, just on an obituary from the newspaper, and  
2 simply because I have a tough time making somebody that's  
3 just lost their family go out and get a birth certificate  
4 -- or a death certificate and a coroner's report and  
5 everything for a three hundred dollar (\$300) loan.

6                   And, you know, we are confident that if  
7 somebody's going to go out and creatively put an obituary  
8 in the paper because they don't want their payday loan to  
9 be paid, like, they deserve to have it paid off anyways,  
10 is pretty creative.

11                   But it's like, but, I mean, it just doesn't  
12 happen. Right? And I guess it just goes to show you  
13 that, like, the program is there more for customer  
14 retention and customer service than it is for other  
15 aspects.

16                   MR. BYRON WILLIAMS: Now we -- we had the  
17 -- I'll ask you, and -- and thank you for that answer, the  
18 -- now I actually know why you might want an autopsy.

19                   MR. KENT TAYLOR: Yeah.

20                   MR. BYRON WILLIAMS: That makes sense to  
21 me now.

22                   The -- if I could just quickly, to the  
23 actual script that you recommend, which appears at Tab, I  
24 guess, 14 in the response to PUB question 4, sub (f) sub  
25 (2).

1                   MR. KENT TAYLOR:    Is your view different  
2 when it's an option?

3                   MR. BYRON WILLIAMS:    Yes.

4                   MR. KENT TAYLOR:    Okay.

5                   MR. BYRON WILLIAMS:    And you see this  
6 script, Mr. Taylor, and I -- I just have a question for  
7 you, in terms of kind of fuller disclosure.  You see on  
8 line 3, you're talking about disability or unemployment.

9                   And I wonder if -- if you'd agree, from a  
10 consumer's perspective that it might be better disclosure  
11 if the word "involuntary unemployment" was inserted?

12                   MR. KENT TAYLOR:    That's a good -- that's  
13 a good option to look at for sure.

14                   MR. BYRON WILLIAMS:    Now, in terms of the  
15 training for staff --

16                   MR. KENT TAYLOR:    Just to clarify that.

17                   MR. BYRON WILLIAMS:    Yeah?

18                   MR. KENT TAYLOR:    Sorry, that -- that is  
19 how we disclose it.  When they -- when they sign their  
20 documents it -- it refers specifically to involuntary  
21 unemployment, but it's a -- it's definitely a -- a great  
22 suggestion to maybe improve the disclosure.

23                   MR. BYRON WILLIAMS:    Now, in -- in terms  
24 of when you do go out to an individual store to train  
25 staff, can you indicate to me how long a training session

1 would take?

2 MR. KENT TAYLOR: The average, it'd be  
3 forty-five (45) minutes to an hour and fifteen (15)  
4 minutes, and that's basically just to talk about the  
5 program, and its attributes and -- and the nuances, asks  
6 questions and stuff like that.

7 Typically it's -- if whether it's a  
8 conference call or whether it's an in-person visit, it's  
9 typically between forty-five (45) minutes and an hour and  
10 fifteen (15) minutes, is what I allot personally for it.

11 MR. BYRON WILLIAMS: And with that typical  
12 store, how often would you -- would you go out to that  
13 store? Would it be once a year, once every two (2) years,  
14 or just once?

15 MR. KENT TAYLOR: To physically at the  
16 store, it -- it would be difficult to say that I was at  
17 all the stores, just based on the client base we have.

18 If it's -- we -- we -- traditionally our --  
19 we provide the loan protection manual, the customer -- we  
20 -- I -- I strongly, actually we do recommend or mandate  
21 that they have a -- a teleconference with open dialogue so  
22 it's not just a video recording or a recording of myself,  
23 to talk about the program.

24 And then we -- I also have instigated  
25 what's called a "frequently asked questions" so that when

1 I get a question from a lender in BC about seasonal  
2 employment, then I usually draft that up, send it out to  
3 all my lenders so that -- it might not have come up to  
4 somebody in Niagara Falls about a person that picks  
5 grapes, but the person in BC asked it. So eventually we  
6 try to cover all the spectrums so that, you know, they're  
7 as informative as they can.

8 If it still exceeds that threshold, then  
9 they have our toll-free line, and they can contact us.

10 MR. BYRON WILLIAMS: Okay, thank you.  
11 And just a -- a last question, and we've talked about  
12 this offline. I'll suggest to you that in -- in other  
13 forums, sometimes the -- the Public Utilities Board  
14 recommends that companies meet with consumer groups to  
15 work on subjects such as plain -- plain language,  
16 adequate disclosure.

17 And certainly, from your firm's  
18 perspective,, that would be something that you'd be open  
19 to do and willing to do in terms of achieving your  
20 objectives of complete and adequate disclosure for  
21 consumers.

22 Is that something? In terms of working on  
23 the language that, you know, a bit of the discussion that  
24 we've had here today.

25 MR. KENT TAYLOR: I would -- I don't



1 think I'd ever turn down an invitation to it. To solicit  
2 that I not -- I'm not sure that would be a mandate of  
3 mine. But I definitely wouldn't turn down an opportunity  
4 to speak to them.

5 In fact, like I mentioned to you before,  
6 like I don't -- I really -- people, when they hear the  
7 word insurance, they -- they equivilate (phonetic), If I  
8 died, I'm covered. If I'm disabled I'm covered. If --  
9 if I am involuntarily unemployed, I'm covered.

10 And quite often -- and probably more times  
11 than not -- there's little situations within the coverage  
12 that they're not aware -- that they're not aware of.

13 So that's why when I designed this program  
14 it's -- it -- there's very few situations. The -- the  
15 preexisting condition's probably one of the few ones.

16 So, I mean, to have that input, to have an  
17 opportunity to talk to some people so that they fully  
18 understand what they've said no to or what they're trying  
19 to say no to is -- is always welcome.

20 In fact, I do -- do something like that on  
21 -- in the -- in the credit side. Not -- not with the  
22 insurance side, but more on the credit side, with  
23 relation to my finance company.

24 MR. BYRON WILLIAMS: Thank you, Mr.  
25 Chairman. No more -- no further questions.

1 THE CHAIRPERSON: Thank you, Mr.  
2 Williams, Mr. Taylor. Mr. Hacault...?

3

4 CROSS-EXAMINATION BY MR. ANTOINE HACAULT:

5 MR. ANTOINE HACAULT: Thank you, Mr.  
6 Chairman. Mr. Taylor, I believe in your evidence you'd  
7 indicated that your company also does mortgage debt  
8 insurance?

9 MR. KENT TAYLOR: Yes, that's correct.

10 MR. ANTOINE HACAULT: I don't know if I'm  
11 describing that right. With respect to mortgage loans,  
12 the same applies, I gather, it's optional?

13 MR. KENT TAYLOR: Yes. Any group credit  
14 insurance in -- in Canada is -- is it has to be optional.

15 MR. ANTOINE HACAULT: Okay. I don't know  
16 what the practice is in your province, but a lot of the  
17 financial institutions here actually require a customer  
18 to, I'm going to say, nearly opt out of insurance. They  
19 have to sign a waiver that they don't want it and that  
20 they've been informed of insurance.

21 Why would that kind of form be required?

22 MR. KENT TAYLOR: That's a good question.  
23 And what we try to in -- install, just to elaborate a  
24 little bit on that, is what we try to install is our  
25 lenders is not to put just a zero (0) balance, or leave

1 it negative, or nothing in there if the customer decides  
2 not to take the optional coverage, but to actually have  
3 the words "declined" in it.

4                   Because for legal exposure purposes, if  
5 you offer coverage -- group coverage to one client,  
6 you're obligated by law to offer that coverage to every  
7 customer, regardless. Because if it was ever attested  
8 that they had the option to cover it -- and this has been  
9 proven. There's been lawsuits tabled and won  
10 specifically to HSBC, where the customer was not -- did  
11 not formally decline the coverage.

12                   It's gone so far in the mortgage --  
13 mortgage industry that mortgage brokers do not get their  
14 mortgages funded from the banks or institutions until the  
15 waiver has been put on their desk.

16                   MR. ANTOINE HACAULT: That's certainly  
17 consistent. I've done work for credit unions in the last  
18 two (2) decades, and I've had two (2) lawsuits against  
19 credit unions where families said that they should have  
20 been informed for insurance. And when there was a death  
21 that occurred and they didn't get covered, they started a  
22 lawsuit against our clients.

23                   With respect to the insurance premium  
24 being included, would the practice in your province be  
25 similar to the practice of some credit unions to actually

1 include that in the interest rates?

2                   So, for example, credit unions in our  
3 province if it's a 6 percent insurance rate, some of them  
4 include the insurance premium in the mortgage documents.  
5 So you'll see a 6.1 something percent, really, that's a  
6 component of interest and insurance.

7                   Does that happen in your province too?

8                   MR. KENT TAYLOR: Well technically, how  
9 it is in Canada is that if they do require every -- every  
10 loan to be insured, then it has to be calculated into the  
11 interest calculation. I only deal with optional credit  
12 insurance. And when it's an option, it's not required to  
13 be calculated into the interest calculation.

14                   So it's not a recommendation that we offer  
15 to our lenders to offer that in. We focus more on making  
16 sure it's an optional program and -- and that they  
17 understand the program's intricacies before -- before  
18 they start offering to their customers.

19                   MR. ANTOINE HACAULT: Thank you, sir.  
20 With respect to your testimony, there was also reference  
21 to APR and whether that was useful to credit disclosure  
22 of what an optional insurance fee might be.

23                   Do you have any experience or views as to  
24 whether it would be meaningful to -- for example, a  
25 client who had a three hundred dollar (\$300) loan takes

1 out the insurance at 2.2 percent, so he has a six dollar  
2 and sixty cent (\$6.60) fee.

3 MR. KENT TAYLOR: Mm-hm.

4 MR. ANTOINE HACAULT: Whether it's more  
5 meaningful for the client to know the six dollar and  
6 sixty cents (\$6.60) fee or to have that converted into an  
7 APR, which will vary based on the number of days of the  
8 loan?

9 MR. KENT TAYLOR: Again, this is only my  
10 opinion, right, because that's what you're asking me for.  
11 But it's -- I would venture to say that it's -- it still  
12 shouldn't be considered APR.

13 When you include into APR -- based the way  
14 it's structured right now -- it consti -- it basically  
15 indicates the customer, in legal terms, that they're  
16 required to take the coverage.

17 It's an optional program, so it should be  
18 disclosed as an optional fee. And it should be separated  
19 out, not -- not disclosed as a percentage of the loan, as  
20 far as an APR is considered.

21 MR. ANTOINE HACAULT: Now, my colleague,  
22 Mr. Williams, referred to an acronym, PPP. Looking at  
23 Rentcash submission dated September 17th, 2001,  
24 Attachment D, and I'll show it to you.

25

1 (BRIEF PAUSE)

2

3 MR. ANTOINE HACAULT: In this document,  
4 you'll see that on the first line there's a title, "Total  
5 amount advance received at a hundred and sixty-seven  
6 dollars (\$167)." Do you see that?

7 MR. KENT TAYLOR: Yes.

8 MR. ANTOINE HACAULT: And then next,  
9 there's another line that says, "Cost of Credit." Do you  
10 see that?

11 MR. KENT TAYLOR: Yes.

12 MR. ANTOINE HACAULT: And there's a  
13 separate number, and what's that number?

14 MR. KENT TAYLOR: One dollar and one cent  
15 (\$1.01).

16 MR. ANTOINE HACAULT: Okay. And then  
17 there's some other lines, a broker fee of how much?

18 MR. KENT TAYLOR: Forty-one dollars and  
19 seventy-five cents (\$41.75).

20 MR. ANTOINE HACAULT: And then what  
21 happens next?

22 MR. KENT TAYLOR: He gives the total cost  
23 of credit, card fee applicable, and then there's a loan  
24 protection fee under the payment protection plan in  
25 brackets, PPP, if applicable.

1 MR. ANTOINE HACAULT: So that -- Mr.  
2 Williams was suggesting a client would be told PPP. At  
3 least this particular document --- whether it's the same  
4 plan or not, I don't know -- seems to describe it quite  
5 distinctly and describe the wording before the acronym is  
6 given.

7 Is that correct?

8 MR. KENT TAYLOR: Yes. I think really  
9 the only addition would be to put "optional" in there.

10 MR. ANTOINE HACAULT: Okay. And then  
11 there's actually an application entitled, "The Cash Store  
12 Payday Loan Payment Protection Plan." do you see that?

13 MR. KENT TAYLOR: Yes, I do.

14 MR. ANTOINE HACAULT: And could you read  
15 for the record the second paragraph of that particular  
16 application?

17 MR. KENT TAYLOR:

18 "Participation in the plan is optional  
19 and coverage will not be provided  
20 unless I sign below, requesting it, and  
21 agree to pay the premium calculated at  
22 2.5 percent of the combined total of  
23 the loan amount. Broker fee and  
24 interest amount as shown above, [in  
25 brackets], (the loan protection fee)."

1 MR. ANTOINE HACAULT: Okay. And can you  
2 read into the record the paragraph that follows,  
3 paragraph Number 3?

4 MR. KENT TAYLOR:

5 "I can cancel my plan coverage at any  
6 time, and I will not be charged any  
7 extra fees or penalties for cancelling.  
8 And if I cancel within ten (10) days of  
9 signing this agreement and prior to  
10 repaying the loan, the loan protection  
11 fee will be credited back to my  
12 account."

13 MR. ANTOINE HACAULT: Okay. Thank you.  
14 And then at the very end, prior to the customer signing,  
15 could you read the paragraph that is required to be read  
16 prior to the customer signing?

17 MR. KENT TAYLOR: Starting here or here?  
18 Yes.

19 "Yes, please enroll me in  
20 the plan. I agree to pay the amount  
21 shown on the customer receipt and I  
22 acknowledge that I've read and  
23 understand the terms of the plan and  
24 that the plan has been explained to me,  
25 including its cost, cancellation



1 policy, major exclusions.

2 I acknowledge receiving the certificate  
3 of insurance. I'm aware that I am  
4 under no obligation to participate in  
5 this plan, that I'm qualified for my  
6 loan whether I participate in this plan  
7 or not.

8 Please note coverage applies to the  
9 employment status and not to the loan  
10 period frequency."

11 MR. ANTOINE HACAULT: Now would you  
12 agree, sir, that -- that it is good to have the verbal  
13 indication, but with the staff turnover, the preferred  
14 way to ensure the clients are properly informed is to  
15 have adequate disclosure and options in writing?

16 MR. KENT TAYLOR: For sure. I think that  
17 it's really best served both, but...

18 MR. ANTOINE HACAULT: Thank you, sir.  
19 Those are all my questions, thank you.

20 THE CHAIRPERSON: Thank you, sir. Mr.  
21 Taylor, we're back to you now, do you have any final  
22 comments that you'd like to make?

23 MR. KENT TAYLOR: Just -- you know, I --  
24 I really am passionate about what insurance can do in any  
25 environment, whether it's buying a car, buying an RV,

1 getting your house or taking out a -- a payday loan.  
2 Everybody sh -- should have the option to purchase that.  
3 They should have the option to not have it if they don't  
4 need it.

5                   But if they do need it based on their  
6 financial situation, they should have the option to  
7 purchase it. And I don't think that by including it into  
8 any fees or calculations that you might generate from  
9 these -- these Hearings would do that program any  
10 justice, because right now it's being well served in  
11 every -- every other credit-granting industry under the  
12 same guidelines that we operate now.

13                   I revert back to what I said in -- in the  
14 responses, is that the -- the main concern which really  
15 falls into every other industry is that the insurance  
16 must be made optional and not conditional to granting a  
17 loan and that the cost and benefits are fully disclosed  
18 to the customer prior to granting the loan.

19                   You know, there's some -- been some great  
20 input within the discussion here to, maybe, make some  
21 adjustments to the dialogue that the customer sees. And  
22 I -- I welcome any -- any opinions or recommendations at  
23 any time from any of our clients or customer groups.

24                   But at the end of the day, we hope that  
25 the consumers are going to have the right to protect

1 themselves against whatever coverage may be available to  
2 them -- specific to ours: death, critical illness,  
3 disability and involuntary employment.

4 THE CHAIRPERSON: Mr. Taylor, is it fair  
5 to say that there is considerable competition in the same  
6 market that you're in?

7 MR. KENT TAYLOR: Yes, yes. There's --  
8 there's a lot of competition, may-- maybe not  
9 specifically in -- in the payday loan industry as we  
10 speak right now. But if we take it out to the group  
11 credit insurance industry as a whole, there's a  
12 significant amount of competition.

13 And it's, you know, it's basically the  
14 person who does the best job that usually surfaces to the  
15 top.

16 THE CHAIRPERSON: Is it your  
17 understanding that the retention payments to the lender  
18 are similar in the case of credit unions and banks?

19 MR. KENT TAYLOR: I -- I -- yes, for  
20 sure. I can assure you that they're in most cases  
21 higher.

22 THE CHAIRPERSON: Thank you very much,  
23 Mr. Taylor. We appreciate you coming out to Winnipeg and  
24 providing us the information and evidence that you have.  
25 Appreciate your attendance.

1 MR. KENT TAYLOR: Yeah, thank you very  
2 much.

3

4 (WITNESS STANDS DOWN)

5

6 THE CHAIRPERSON: Well we are going to  
7 adjourn now. And I believe we begin again on November  
8 the 19th which is Monday.

9 MS. ANITA SOUTHALL: Yes, we're back here  
10 at 9:00 a.m on Monday. The continuing evidence will be a  
11 panel from CPLA.

12 And just a reminder to counsel that I'd  
13 like to meet with them just at the adjournment today to  
14 coordinate witness attendance on the panels. Thank you.

15 THE CHAIRPERSON: Very good, we stand  
16 adjourned.

17

18 --- Upon adjourning at 2:30 p.m.

19

20 Certified Correct,

21

22 \_\_\_\_\_

23 Wendy Warnock, Ms.

24

25