2017

Digital Money Trends Report

PRESENTED BY ratehub.ca

Introduction

The last year has been an eventful one in the world of personal finance. Canadians saw a host of news in 2017, including the first interest rate increases from the Bank of Canada in seven years, announcements on new mortgage qualification rules from the government, and major data breaches at financial companies.

But some things haven't changed.

Canadians continue to look beyond traditional sources when researching and applying for personal finance products. Websites such as Ratehub.ca, which attracts more than 800,000 monthly visits, allow Canadians to compare and apply for mortgage rates, credit cards, insurance, GICs, and bank accounts. Other financial technology ("FinTech") companies offer personal loans or wealth management services online, amongst other products and services.

The 2017 Ratehub.ca Digital Money Trends Report provides insights into how Canadians use financial technology, how they manage their finances, and how their behaviour affects the financial services landscape in Canada.

The data in this report are based on two main sources:

Ratehub.ca Digital Money Trends Survey
Ratehub.ca conducted an online survey of more than 1,000 Canadians in November 2017 to ask them about their personal finance habits.

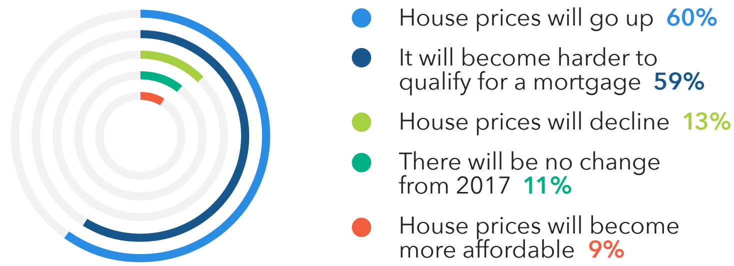
Ratehub.ca Mortgage User Data
This report incorporates more than 100,000 mortgage rate requests between January 2012 to November 2017. This data represents actual consumer behaviour based on real product offerings.

The report also includes Google search volumes data, which is the primary source in all "search" sections.

Highlights

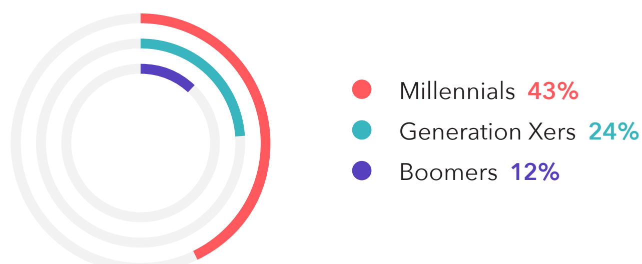
Which statements do you believe are true for Canada's housing market in 2018?

The Canadian housing market experienced a few challenges this year. The Bank of Canada increased its key interest rate twice in 2017 and mortgage qualification rules changed. Based on these changes, we asked people to choose which statements they thought would be true for the housing market in 2018:



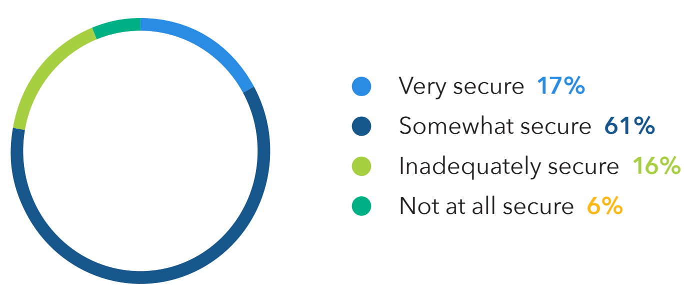
Did you get help with your down payment from your parents or relatives?

With the increases in home prices in recent years, many Canadians – especially millennials – needed down payment assistance from family (the Bank of Mom and Dad):



How secure do you feel your personal financial information is?

2017 was a challenging year for the financial sector when it came to privacy and security of data. Leaked personal information and data breaches made headlines several times over the year, so we asked Canadians how secure they felt their personal financial information is online:



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A generational perspective

While looking at the data, we noticed distinct trends in how Canadians of different ages view and use personal financial tools and products.

In this report, we will analyze the relationships different generations have with personal finance, financial technology, and the financial institutions they use most.

For the purposes of this report, we've segmented survey respondents using the following age ranges:

Millennials 18 - 34

Generation Xers 35 - 54

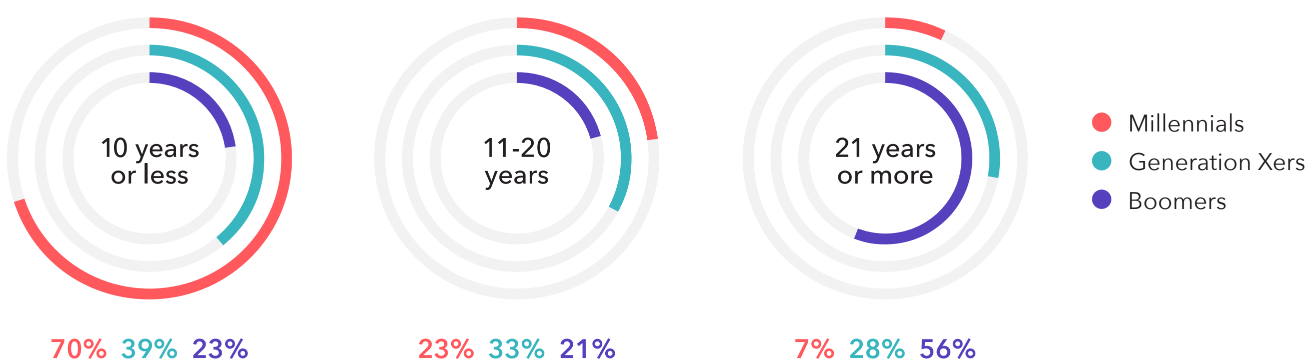
Boomers 55+

Loyalty to financial institutions

The bond between Canadians and their primary financial institution is strong, despite more companies competing for their attention.

Canadians of all generations tend to put down roots when it comes to the bank where they hold their accounts. A large portion of respondents have held the same bank account for about half of their life.

How long have you had your primary bank account?

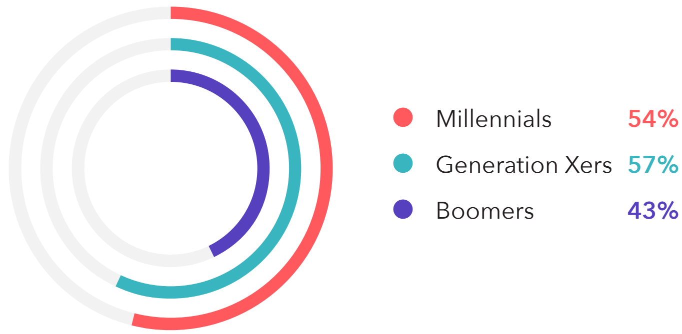


The majority of respondents hold mortgages and credit cards from their primary institution as well. This contrasts with the fact that less than 35% of respondents believe their bank offers the best rate for any specific category of products, such as credit cards and mortgages. Even more interesting:

40% of respondents don't believe the financial institution they use most would offer the best rate for any financial products

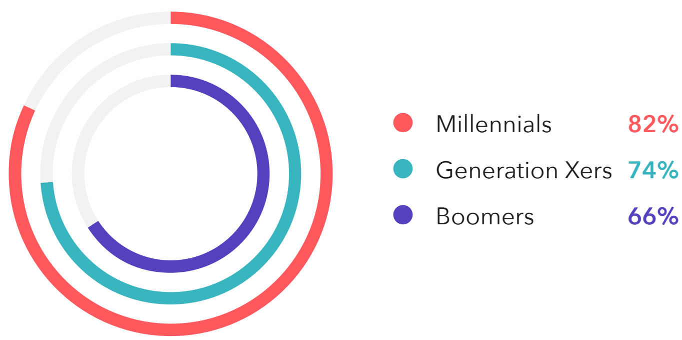
Percentage of respondents who have a mortgage from their primary financial institution

Forty-three per cent of boomer homeowners have a mortgage from the financial institution they use most, compared with half of millennials and generation X homeowners.



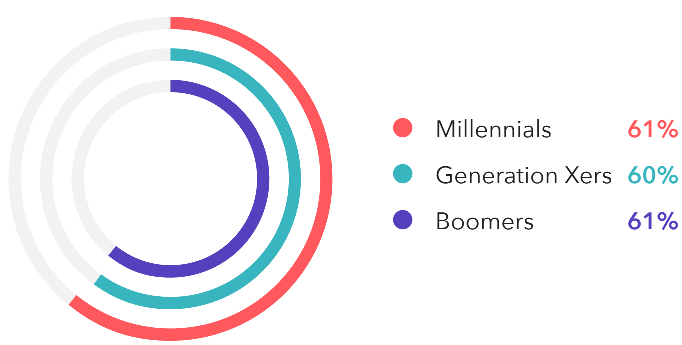
Percentage of respondents who have a credit card from their primary financial institution

Primary institutions own a large share of their customers' wallets, with more than two-thirds of overall respondents holding a credit card from their primary bank. This is despite the fact that only 34% believe the financial institution they use most offers them the best deal for a credit card.



Percentage of respondents who purchased their newest insurance product from their primary insurance provider

Across all generations, Canadians were most likely to purchase new insurance products (such as a home, auto, or life insurance policy) from the insurance company they use most.



Our Take **Canadians are incredibly loyal to their financial institutions, even if they don't believe they are getting the best available deal. They start building that loyalty early in life when they open their first bank accounts, and it seems that many Canadians remain with the same financial institutions, getting mortgages and insurance products from them as they get older and move into different stages of their lives.**

Mortgages

To say that 2017 has been a hectic year in the mortgage market would be an understatement. The Bank of Canada raised its benchmark interest rate twice this year, leaving many worried about their ability to enter the housing market or being able to afford housing-related costs. These changes will impact homeowners for some time to come as they might need to renew their mortgages at higher rates.

In addition to the Bank of Canada interest rate hikes,, the Office of the Superintendent of Financial Institutions (OSFI) added increased regulation to the mortgage industry in the form of stress tests, requiring applicants to prove they can pay their mortgage if the rate were to substantially increase. Initially, that test was just for homebuyers with less than a 20% down payment, but in 2018 those rules will be expanded to apply to homebuyers making down payments of 20% or more. Given these changes, it's hardly a surprise many people are pessimistic about qualifying for a mortgage.

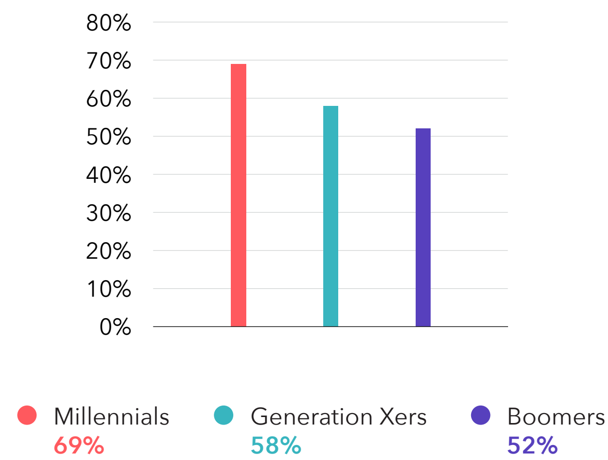
Despite the Bank of Canada interest rate changes and OFSI rule changes, only:

59% **of respondents believe it will become harder to qualify for a mortgage in 2018**

Canadians' beliefs about housing

The respondents in our survey displayed a remarkable amount of confidence in the robustness of the housing market. The majority believe house prices will continue to go up in 2018 – that result held true across all age groups, with younger people expressing significantly more confidence in the numbers than older generations.

Belief that house prices will continue to rise in 2018

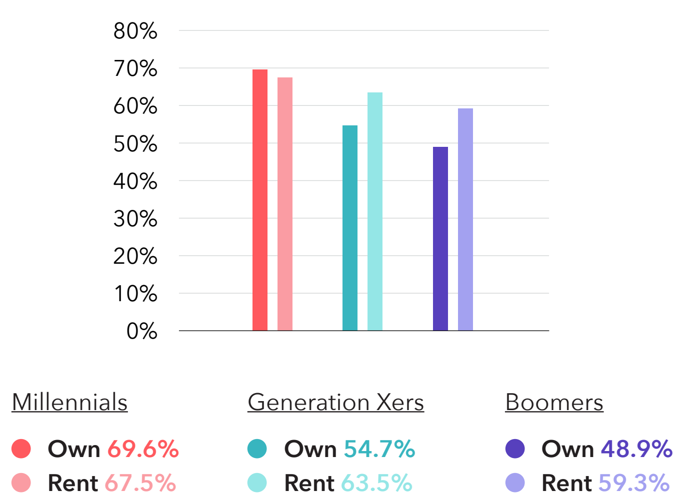


This isn't just a group of optimistic homeowners either.

65% **of renters believe home prices will continue to increase in 2018**

Confidence in the housing market holds true across all generations, with boomer homeowners being the only group with less than 50% of respondents believing the cost of housing will continue to increase.

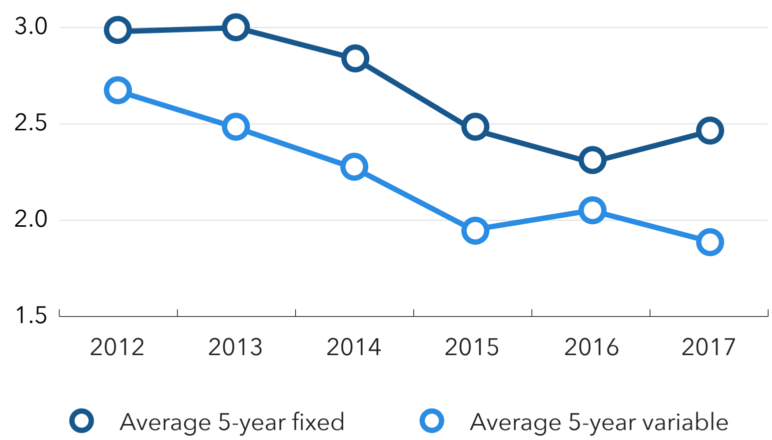
Belief that house prices will continue to increase in 2018



Fixed vs. variable rates

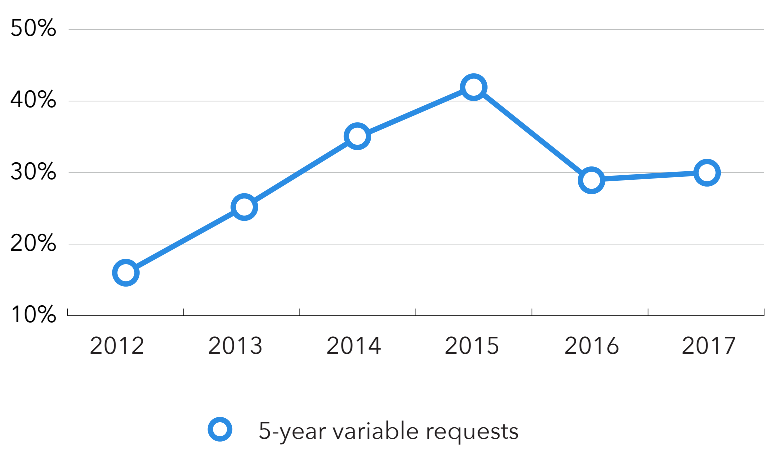
The spread between five-year fixed and variable mortgage rates expanded in 2017 to 0.57%, with the average five-year fixed rate at 2.46% and the five-year variable rate at 1.89%. The spread between fixed and variable rates has increased over the past year with Bank of Canada rate increases and other factors.

Average mortgage rates



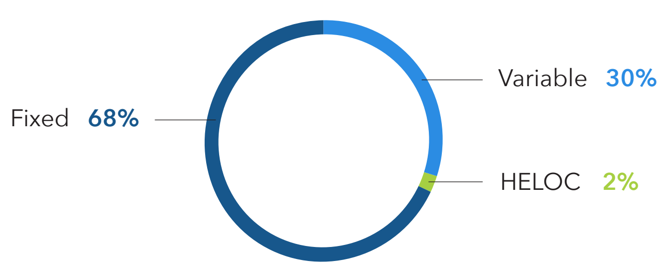
Despite mortgage rate increases, the majority of rate requests received were still for fixed-rate mortgages. The popularity of variable-rate mortgages among Ratehub.ca users did rise to 30%, possibly as a result of how competitive variable mortgage rates are this year relative to 2016.

Requests for variable rates

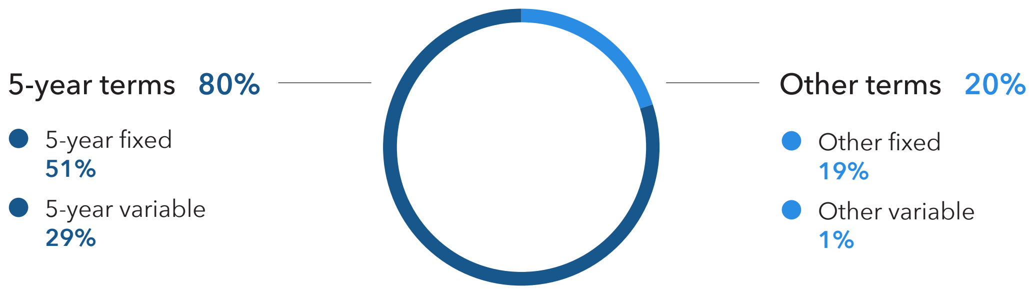


Ratehub.ca users were primarily looking for fixed rates in 2017, making up 68% of all requests.

Mortgage rate requests



Five-year mortgage terms continued to represent the majority of requests received on Ratehub.ca, with five-year fixed and five-year variable rates making up more than three-quarters of all user requests.



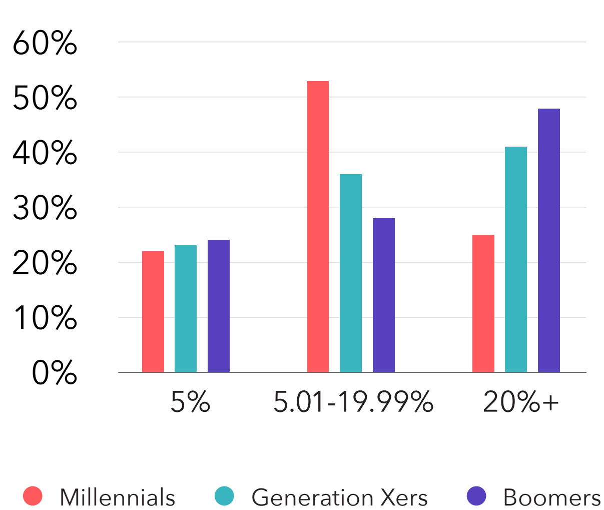
Prior to October 2016, the five-year fixed rate mortgage had a key advantage in that it was easier to qualify for. New rules in 2016 required Canadians with a down payment of less than 20% to qualify for all mortgage types and terms using the Bank of Canada's benchmark qualifying rate. In 2018, this "stress test" will be expanded to apply to mortgage applicants with a down payment of 20% or higher as well. These changes could lead to a more even distribution in the popularity of rate types and terms in the near future, especially among first-time homebuyers.

Down payment

A changing mortgage tide leads to questions from homebuyers as to how much of a down payment they should make on their home.

Approximately one-quarter of each generation only had a down payment of 5% on their home. While millennials are more likely than the other two generations to have a down payment between 5.01% and 19.99%, generation Xers and boomers are both more likely than millennials to have a down payment of 20% or more.

Amount of home down payment



By putting down 20% or more, homeowners don't have to pay for mortgage insurance from the Canada Mortgage and Housing Corporation (CMHC). Some millennials approach the Bank of Mom and Dad for assistance, but many don't manage the 20% down payment, as shown by the high number making down payments between 5-19.99%.

Millennials were more likely than any other group to get help from relatives with a down payment.

43% **of millennials received financial help with their down payment**

The Bank of Mom and Dad isn't the sole source of home-buying funds for millennials though. Even though millennials reported receiving help with their down payment more frequently than the other generations, millennials are also saving aggressively for their down payment. Forty-one per cent of millennials who don't have a mortgage listed a down payment as a savings goal. Those millennial renters save an average of 32% of their gross income. This could be a result of a number of lifestyle and savings choices, such as living longer with parents (or using other shared living accommodations), and use of tax-advantaged savings options such as RRSPs.

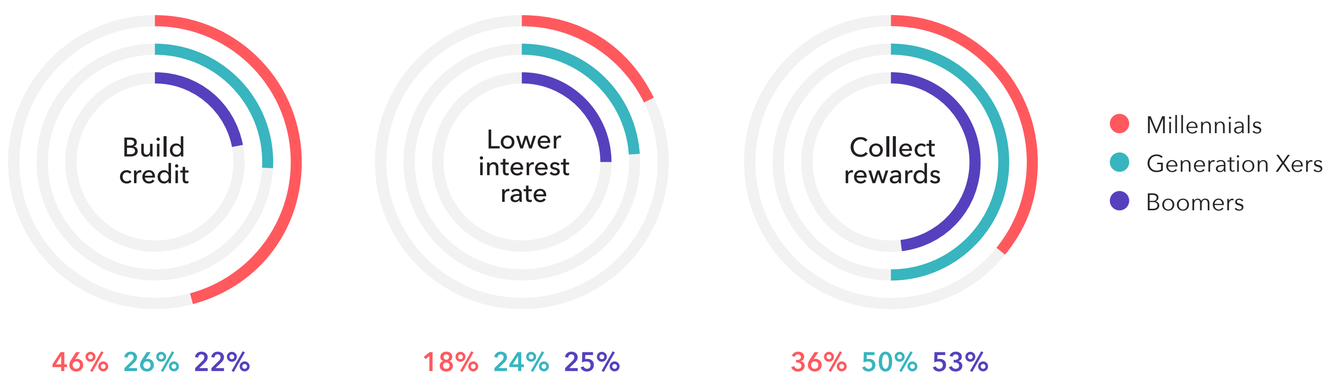
Our Take **Many Canadians aspire to become homeowners. Despite the belief that mortgages will become harder to qualify for, and home prices will continue to increase, a large number of millennials are still planning on joining previous generations in owning the homes they live in - even if it requires help from the Bank of Mom and Dad to get there.**

Credit cards

As competition increases, credit card providers are continually offering new promotions and features to acquire new customers. From sign-up bonuses and travel rewards to cash-back features, credit card comparison goes beyond the annual fees and interest rates.

The attitudes towards these features definitely differ across the generations.

Primary reasons for most recent credit card application



Search

With numerous credit card providers and rewards available to Canadians, comparing credit cards to maximize personal benefit is of increasing importance. Canadian consumers continue to investigate credit card options in search of one that meets their needs.

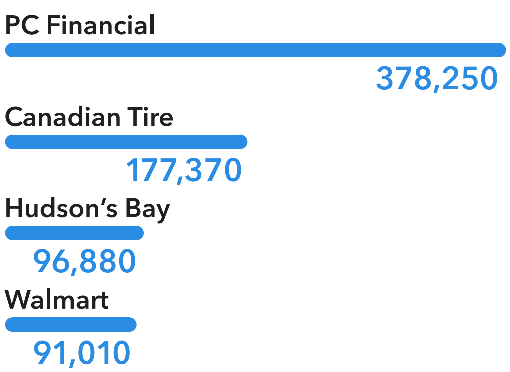
Google search volumes

Canadians searched for credit card-related keywords more than **2 million times** per month. Some things they searched for are:

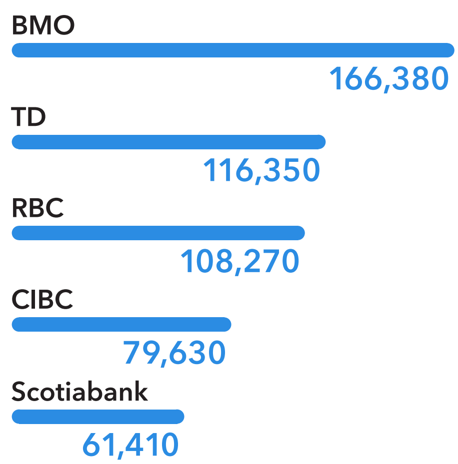
American Express	Mastercard	Visa	Aeroplan	Air Miles
204,760	248,970	242,370	37,810	17,600

Canadians searched for both bank and store credit cards. The top four store credit cards had a higher total search volume than the Big Five banks.

743,510
store credit card-related searches



580,450
bank credit card-related searches



Credit card features

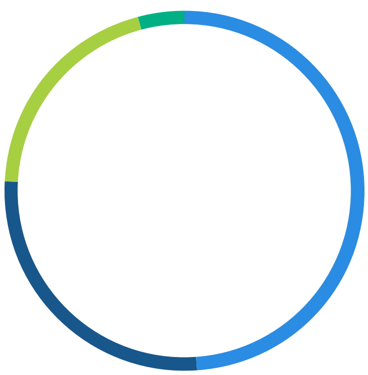
When respondents were asked how important the following credit card features were, about one-third ranked cash back as the most important feature.

Ranked most important feature

Cash back	Low interest	Low annual fees
33%	30%	21%
Travel rewards	**Store credit**	**Balance transfer**
10%	5%	1%

38% **of respondents have applied for a credit card to receive a sign-up bonus**

Canadians seem to be paying for more and more purchases using credit cards, with respondents charging an average of 49% of all purchases to their credit cards. The average number of credit cards held by respondents was 1.9.



- Credit cards **49%**
- Interac/debit **27%**
- Cash **20%**
- Cheque **4%**

1.9

the average number of credit cards per respondent

Our respondents have a wide variety of credit cards in their wallet. Here's the breakdown amongst our respondents.

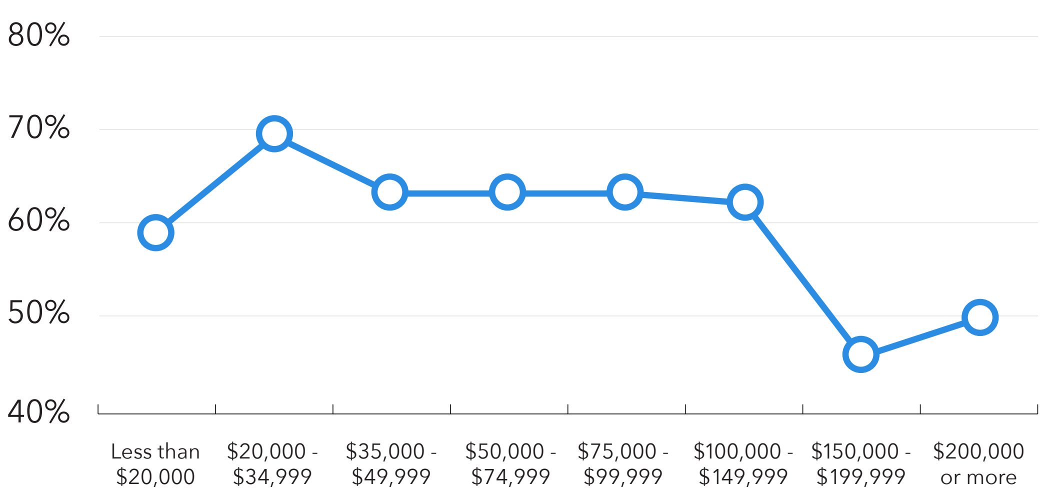
- RBC **23%**
- TD Canada Trust **22%**
- Bank of Montreal **21%**
- CIBC **19%**
- PC Financial **18%**
- American Express **16%**
- Capital One **15%**
- Scotiabank **15%**
- Desjardins **7%**
- MBNA **5%**
- Tangerine **5%**
- National Bank **3%**
- Laurentian Bank **2%**
- Other **16%**

As Canadians pay for a large portion of their purchases using credit, it's no surprise the number of respondents carrying credit card debt sits at 62%. However, even though a large percentage of respondents are in debt, they remain fairly optimistic about their prospects for paying it down quickly.

45% **of respondents expect to pay off their credit card debt in less than three months**

Credit card debt numbers from our respondents varied significantly based on income levels. Debt peaked for people in the $20,000 to $34,999 income range, but between $35,000 and $149,999 the overall percentage of people holding credit card debt was almost identical. The number then decreases significantly for those earning more than $150,000 per year.

Percentage of respondents who have credit card debt by household income



Our Take **Overall debt levels are increasing for many Canadians, with 62% of respondents saying they carry a balance on their credit cards. Given that so many Canadians are making almost half of their purchases using credit, and that they're enticed by incentives such as sign-up bonuses, it's clear that Canadians have a love affair with credit.**

Credit scores

A credit score provides a snapshot of an individual's borrowing history and ability to repay debt, and is used by lenders to decide whether they're eligible for a mortgage or loan. It influences the interest rates they can qualify for, and it can even be a factor in job hunting as some employers may check credit scores as part of the application process. For these reasons, credit scores are a very important part of the Canadian financial landscape.

When asked about credit scores, more than half of respondents who didn't know their score estimated their score to be almost identical to those who did know their credit score. According to Equifax, 71% of Canadians have a very good or excellent credit score.

60% NO

of whom

53% think their credit score is very good or excellent

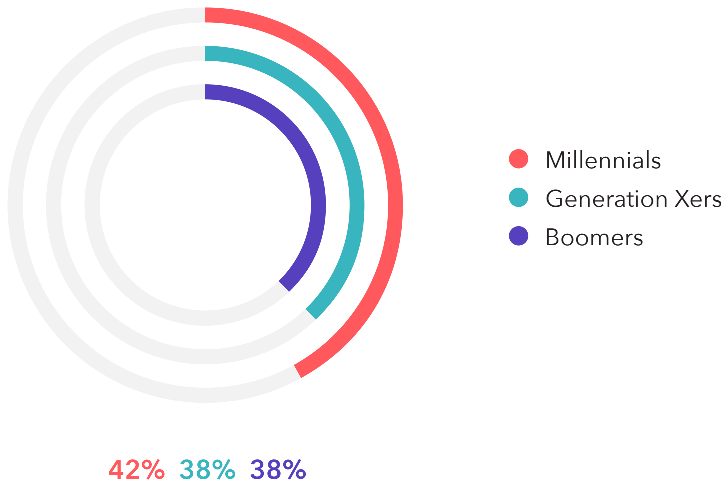
40% YES

of whom

57% said their credit score is very good or excellent

Millennials are slightly more likely to know their credit score than boomers and generation Xers.

Percentage of respondents who know their credit score



Our Take **As more FinTech companies offer tools for Canadians to check their credit score for free, we expect the overall number of Canadians who know their credit score to increase. However, as older demographics show a reluctance to use new technologies to manage their finances, and security worries scare people away, we believe millennials will be the cohort benefitting most from these tools.**

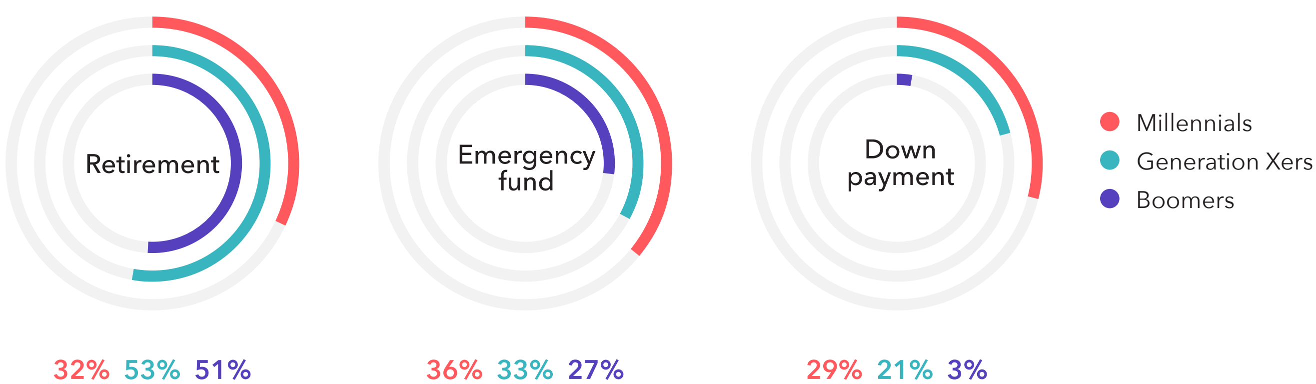
Saving and **investing**

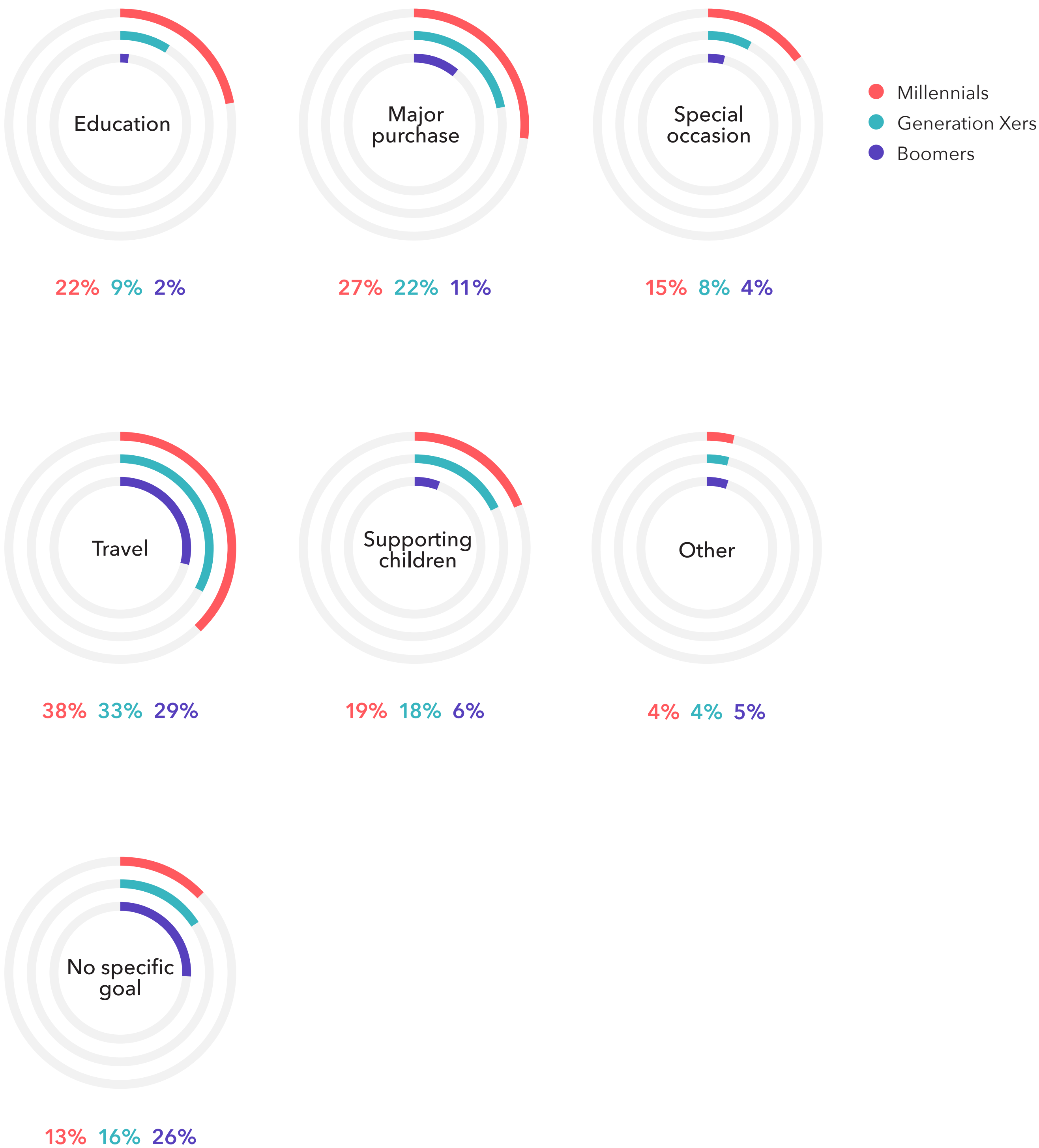
The vast majority of Canadians continued to save at least some portion of their income in 2017. Whether it's saving for retirement, a down payment, or a trip, Canadians continue to set saving goals for themselves, but aren't confident in their ability to achieve them.

Respondents had on average 1.9 saving goals, with millennials averaging 2.2 saving goals and boomers averaging 1.4. The actual savings goals differ dramatically across the generations.

94% **of Canadians save some portion of their income**

The savings goals for each age group




Education
22% 9% 2%
Major purchase
27% 22% 11%
Special occasion
15% 8% 4%
Millennials
Generation Xers
Boomers
Travel
38% 33% 29%
Supporting children
19% 18% 6%
Other
4% 4% 5%
No specific goal
13% 16% 26%

Retirement

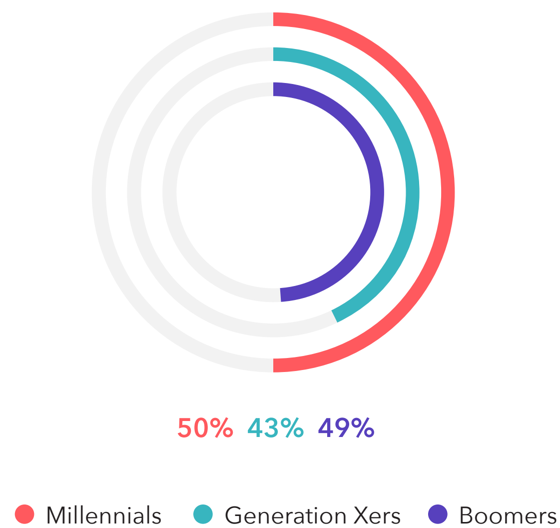
Retirement is a savings goal for the majority of Canadians. However, they lack confidence in their ability to retire with enough savings to maintain their lifestyle. Only 45% of respondents who said they aren't confident they'll have enough funds for retirement actually listed retirement as a savings goal. Among the respondents who listed retirement as a savings goal, the average savings rate is 28% of their income.

Retirement confidence fluctuates greatly by generation. Generation Xers seem to be more optimistic than other generations in having enough funds for retirement. However, a large portion of all cohorts are still fearful they won't have enough funds for retirement.

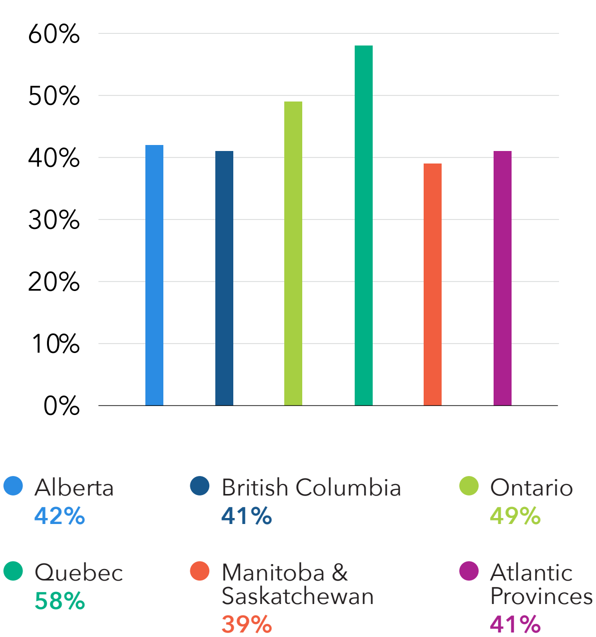
It's interesting to note that retirement confidence has no relationship to the percentage of gross income saved.

In addition to generational differences, retirement confidence also varies by location. Respondents in Quebec are the most confident that they'll have enough funds for retirement, while respondents in Manitoba and Saskatchewan are the least confident.

Afraid they won't have enough money for retirement



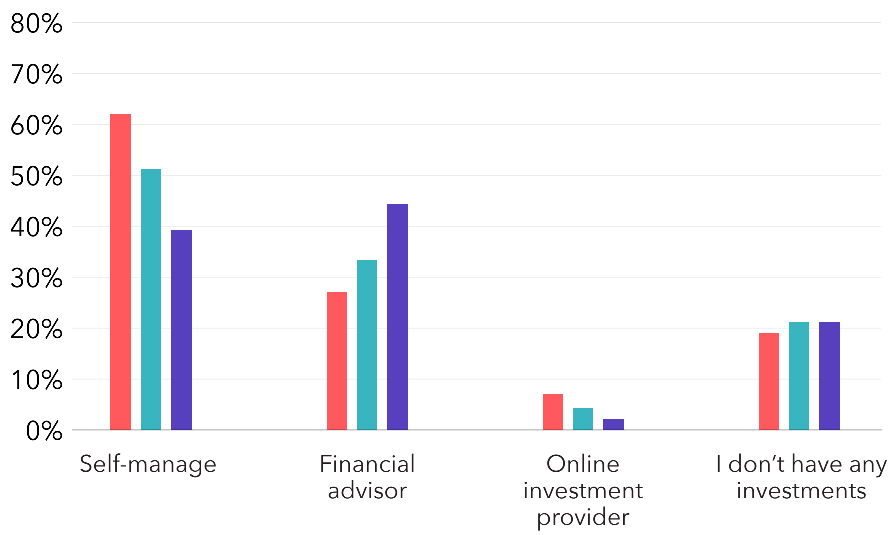
Retirement confidence by province



Investments

Self-management of investments is most popular among millennials and generation Xers, while boomers are most likely to seek the help of a financial advisor to manage some or all of their investments.

Investment management preference by generation



Self-manage
- **Millennials** 62%
- **Gen Xers** 51%
- **Boomers** 39%

Financial advisor
- **Millennials** 27%
- **Gen Xers** 33%
- **Boomers** 44%

Online investment provider
- **Millennials** 7%
- **Gen Xers** 4%
- **Boomers** 2%

I don't have any
- **Millennials** 19%
- **Gen Xers** 21%
- **Boomers** 21%

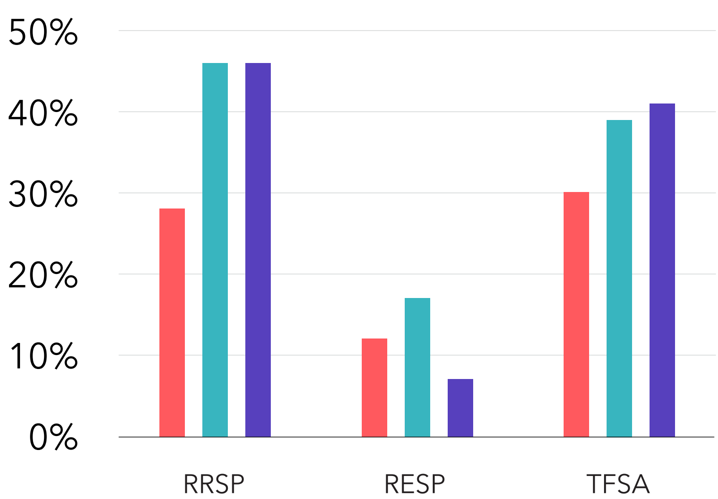
The use of registered accounts seems to correlate with retirement confidence:

53% **of respondents with a TFSA or an RRSP are confident they will have enough funds for retirement**

While many Canadians have embraced the idea of saving for their goals, they're still lagging when it comes to the adoption of government tools created to help people save. This is very apparent when we look at the usage of registered accounts such as the tax-free savings account (TFSA), registered retirement savings plan (RRSP), and registered education savings plan (RESP).

While ownership is remarkably consistent across the generations (RESPs likely spiking for generation X parents with children approaching university and college), the overall usage of these tax-advantaged savings accounts still lags below 50%.

Registered account ownership



RRSP

- Millennials 28%
- Gen Xers 46%
- Boomers 46%

RESP

- Millennials 12%
- Gen Xers 17%
- Boomers 7%

TFSA

- Millennials 30%
- Gen Xers 39%
- Boomers 41%

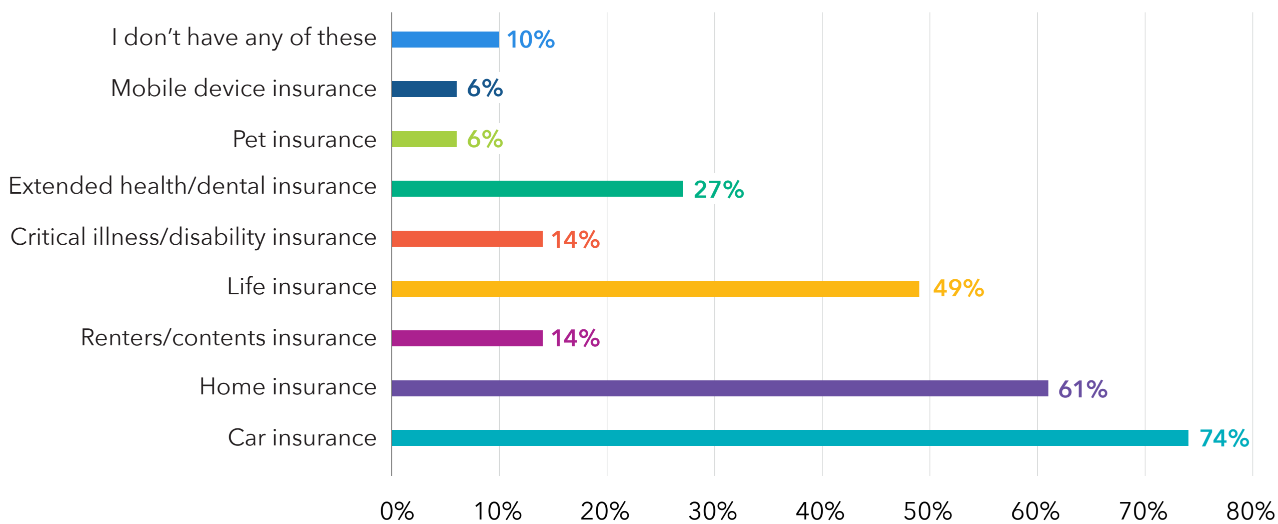
Our Take **While headlines often talk about how little Canadians are saving, we found that a vast majority are saving, just for different goals. Canadians balance long-term goals such as saving for retirement along with shorter-term goals such as travel. Unfortunately, most Canadians aren't confident they will have enough funds for retirement. Many aren't using tools like RRSPs and TFSAs to save for retirement, which is unfortunate as those with RRSPs and TFSAs were more confident in their retirement prospects.**

Insurance

For many Canadians, insurance is a necessary expense. Insurance coverage can often be a requirement rather than a choice (e.g. auto insurance for drivers, or renters' insurance requirements on a lease). Insurance can be a critical tool for Canadians, protecting them from financial catastrophe in the case of health issues, or damage to property.

There are several different types of insurance in Canada. Here's how the insurance landscape breaks down among our survey respondents.

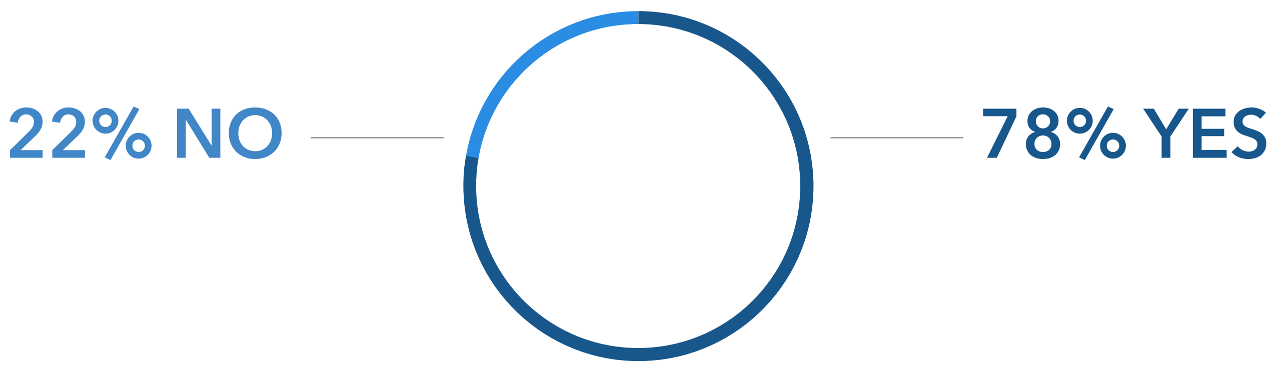
Insurance Use



60% of respondents indicated getting the lowest rate was the most important factor in their insurance

The majority of survey respondents felt that Canadians only had a fair or poor understanding of their insurance coverage.

Do you believe you have enough insurance coverage for your needs?



It is interesting that a significant number of respondents believe most Canadians only have a fair or poor understanding of their insurance, and still 78% believe they have sufficient insurance coverage for their needs. These two beliefs seem to conflict.

Given this conflict of beliefs, it isn't surprising that:

27% **of respondents with no insurance believe they have enough insurance for their needs**

Our Take **Insurance seems to be a poorly misunderstood necessity for many Canadians, with 27% of respondents with no insurance believing they have enough insurance for their needs, a seeming contradiction. Just 27% of respondents had extended health and dental insurance - however, 74% had car insurance.**

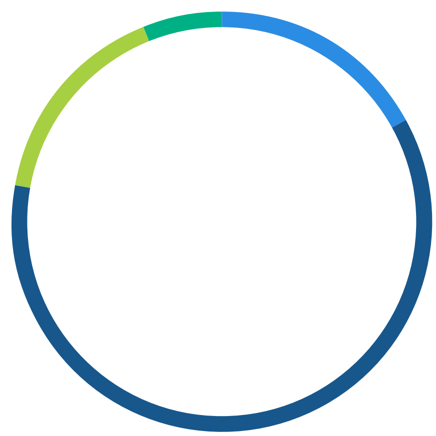
Technology

The conversation in financial technology this year has been focused on privacy and the security of personal information.

While the majority of Canadians feel their personal data is at least somewhat secure in our increasingly connected world, that confidence doesn't translate into certainty. Some Canadians definitely feel their personal data is not sufficiently secure.

- Very secure **17%**
- Somewhat secure **61%**
- Inadequately secure **16%**
- Not at all secure **6%**

How secure is your personal information?



1 in 5 **respondents believe their personal information isn't adequately secure online**

Canadians and their relationship with financial technology

Contactless payments, robo-advisors, online banking, and comparison sites are just a few technological advancements to impact the financial sector in recent years. Not surprisingly, some generations have embraced these new technologies more than others. Since millennials grew up in an environment where technological advancements are expected, their trust in new tools is a lot higher than boomers—but there's still a confidence gap.

Online banking achieved the highest level of trust, which is possibly due to the fact that it's been around the longest of the digital financial tools in our survey.

In addition to recording the highest level of trust, online banking is one of the most popular tools – both in desktop and mobile forms.

Percentage of respondents who trust

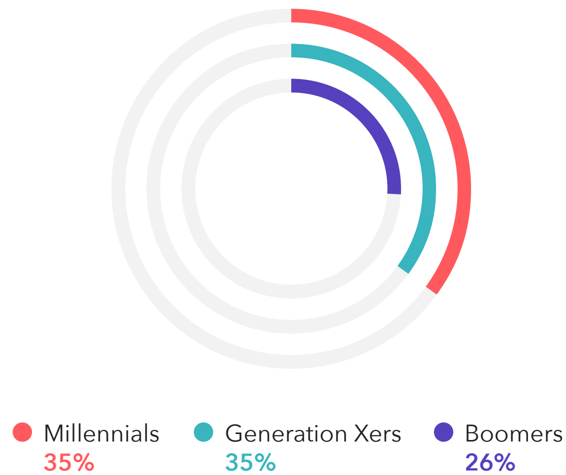
- Online banking **85%**
- Contactless payments **63%**
- Mobile payments **59%**
- Rate comparison websites **56%**
- Peer-to-peer payments **49%**
- Marketplace lenders **41%**
- Robo-advisors **38%**

77% **of respondents have used online banking to conduct banking transactions**

While accessing online banking was very popular across all age ranges, the divide between generations becomes apparent when looking at mobile devices. Millennials are three times more likely than boomers to access online banking using a mobile device.

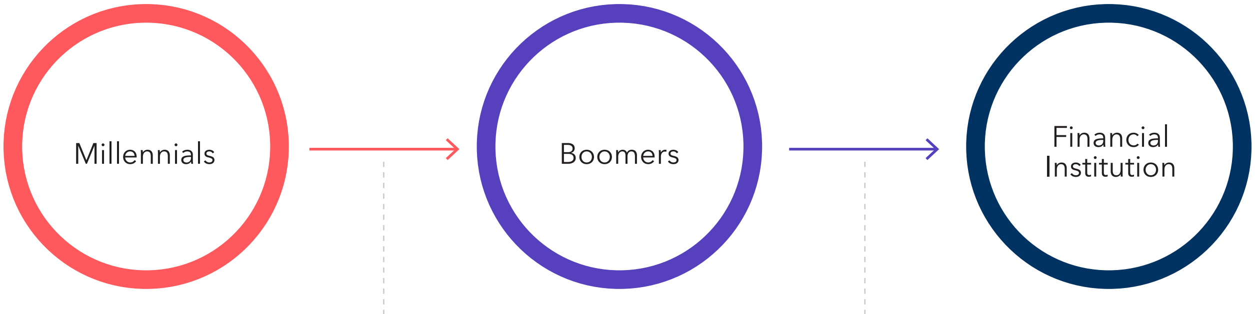
When it comes to applying for new products, younger respondents prefer to apply online, with boomers displaying a 9% lower chance of applying for a credit card online than generation Xers and millennials.

Percentage of respondents who applied for their most recent credit card online



51% **of both generation Xers and millennials reported using a comparison website to compare financial products. This is more than four times the number who consulted an industry professional**

Fifty-nine per cent of millennials sought information from friends and family, while 47% of boomers went to the financial institution they used most to gather information. Another 23% of boomers went to an industry professional or other financial institution. This suggests information from financial institutions and industry professionals is being filtered to younger people through older family members.



59%
of millennials consult family or friends

47%
of boomers consult the financial institution they use most

Our Take A commonality in responses of each generation is the importance of researching financial products. Eighty-six per cent of respondents conducted some form of research before choosing a financial product. Whether they use the internet, seek advice from family, or use the resources at their bank branch, Canadians often seek multiple sources of information before applying for a new product.

Contact

Alex Conde
Director of Content Marketing

alex.conde@ratehub.ca

Candice So
Senior Communications Manager

candice.so@ratehub.ca

Ratehub.ca
1.800.679.9622

70 Richmond St. E
4th Floor
Toronto, ON M5C 1N8

ratehub.ca