CONSULTATION PAPER

MAKING THE MOST OF OUR MONEY

Why Canada and Ontario should invest unclaimed assets for social good

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EXECUTIVE SUMMARY

The Bank of Canada holds $626 M in unclaimed assets, a sum that grew by $49 M in 2015. An asset that remains unclaimed will eventually turn into national revenue, but until then it is held in low-yield investments.

British Columbia, Alberta and Québec owners can claim another $429 M in provincially-regulated assets. A third sum is scattered across insurers, credit unions and other holders in the rest of the provinces and territories, in which the law leaves unclaimed assets where their owners forgot them.

This represents a significant opportunity. Unclaimed assets, invested right, could grow Canada's impact investment market, leveraging private capital to solve our most pressing social and environmental problems.

Small deals and high transaction costs continue to stymie investment in Canada's relatively immature impact investment market. Charities, nonprofits and social enterprises struggle to attract the funds they need to maximize their impact. To solve the same challenge, the United Kingdom created Big Society Capital, a capital wholesaler. Big Society invests unclaimed assets in impact funds, which then invest in U.K. charities and social enterprises. As of 2015, Big Society Capital had signed deals worth £261 M (CDN$480 M) and leveraged another £326 M ($599 M)[1] to, among other things, help homeless people into stable housing, train workers with barriers to employment, and strengthen families at risk of losing their children.

Canada can learn from the U.K.'s example. The federal government should consider a policy change to allow a portion of the unclaimed assets held by the Bank of Canada to be invested for impact. A careful strategy would safeguard the Bank's ability to return claimed balances and would ensure the contribution of unclaimed assets to the federal budget does not diminish.

Of the provinces and territories, Ontario has the most to gain from regulating and investing its unclaimed assets. It does not have a law governing unclaimed assets, although it considered introducing one in 2012-2013. While no one knows the precise amount, Ontario's holders very likely have at least $100 M in unclaimed assets. Ontario has an opportunity to advance legislation that would both reunite owners with their assets and invest assets that remain unclaimed in the public benefit.

Governments must protect unclaimed assets for owners; however, while they remain unclaimed, these assets could be put to work. They can do too much good to stay in the vault.

1. Exchange rate as of April 25, 2016

INTRODUCTION

Canadian governments should introduce policies that maximize the public benefit of unclaimed assets while making it easier for owners to find their assets. The opportunity to tap into unclaimed assets — which may amount to billions of dollars — to tackle social and environmental challenges compels particular attention in our tight fiscal times. This paper will make the case for that opportunity. It will focus on Canada and Ontario as the jurisdictions best placed to advance such policies in the near term.

This paper defines unclaimed assets, explains the law, and estimates the quantity of unclaimed assets in Canada. It describes the need for capital by nonprofits and social enterprises tackling some of our hardest problems. It summarizes, at a high level, the pros and cons of investment structures through which a government could invest unclaimed assets for public benefit. It provides a first overview of an exciting opportunity, and aims to foster a conversation on how Canada and Ontario, in particular, should think about managing our lost money.

WHAT IS AN UNCLAIMED ASSET?

An unclaimed asset is money that has lost contact with its owner. It may be a bank deposit untouched for many years, a matured bond left uncashed, an estate with vanished heirs, and even a gift card lost in a drawer. Exactly when and on what conditions assets like these become unclaimed depends on the applicable law. For example, the Bank of Canada only collects unclaimed assets from banks and federally-regulated trust companies.[2] B.C. does not regulate holders unless they earn more than $250,000 in gross revenue per year.[3] Alberta only regulates assets worth at least $250.[4]

WHAT HAPPENS TO UNCLAIMED ASSETS IN CANADA?

Banks and federally-regulated trust companies relinquish their Canadian-dollar accounts, deposits and negotiable instruments after 10 years without owner activity or contact. The Bank of Canada holds these assets for 30 years if under $1,000 and 100 years if over $1,000, after which the assets become national revenue. The Bank lists its unclaimed assets in a public database to help owners find their money.

B.C., Alberta and Québec take in unclaimed credit union deposits, money orders, securities, insurance payments, trust payments and a few other assets. (B.C.'s voluntary surrender regime lets some B.C. holders keep unclaimed assets, but these holders must list the assets in B.C.'s public database). Most assets become unclaimed after three to five years without contact. Québec assets over $500 and B.C. assets are claimable forever, while Québec assets under $500 and Alberta assets expire after 10 years. Alberta and Québec unclaimed assets eventually join the provincial treasury. Surrendered B.C. assets remain with the administrator until claimed by owners or donated to the Vancouver Foundation.[5]

Other provinces and territories do not comprehensively regulate unclaimed assets. Most unclaimed assets in these jurisdictions, therefore, stay with their holders.

HOW MUCH DOES CANADA HAVE IN UNCLAIMED ASSETS?

In 2014-16, the Bank of Canada, B.C., Alberta and Québec's public databases listed about $1 B in unclaimed assets. That sum does not include Canada Savings and Premium Bonds, and it does not include territorially or provincially-regulated assets

2. Unclaimed Balances. (Feb. 12, 2016). Retrieved: bankofcanada.ca/unclaimed-balances/
3. Unclaimed Property Act, SBC 1999, c. 48, ss. 9-10; Unclaimed Property Regulation, BC Reg 463/99, s. 7(1).
4. Unclaimed Personal Property and Vested Property Act, SA 2007, c. U-1.5, s. 3(4).
5. See Appendix for more information on unclaimed asset rules in Canada.

UNCLAIMED ASSETS LISTED, RECEIVED AND RETURNED BY GOVERNMENT ENTITIES

	Canada *Dec. 2015*[6]	Quebec *Feb. 2016*[7]	B.C. *Dec. 2014*[8]	Alberta *Mar. 2015*[9]
Listed	$626 M	$291 M	$100 M[10]	$37.6 M
Received (1 year)	$59 M	–	$6.2 M	–
Returned (1 year)	$10 M	$19.4 M[11]	$1.9 M	$0.9 M

Canada's Office of the Superintendent of Bankruptcy holds an additional $20 M.[12]

6. Unclaimed Balances. (Feb. 12, 2016). Retrieved: bankofcanada.ca/unclaimed-balances/
7. Value of Property in the Register. (Feb. 12, 2016). Retrieved: revenuQuebec.ca/en/bnr/registre/valeur-biens.aspx
8. B.C. Unclaimed Property Society. (2015). Annual Report 2014. Retrieved: unclaimedpropertybc.ca/about-bcups/publications/
9. Unclaimed Property Frequently Asked Questions. (Feb. 12, 2016). Retrieved: finance.alberta.ca/business/unclaimed_property/faqs.html
10. About Us. (April 12, 2016). Retrieved: unclaimedpropertybc.ca/about-bcups/. The B.C. Unclaimed Property Society's database lists $100 M in unclaimed assets. According to its 2014 annual report, however, the Society actually holds only about $26 M in total assets. BC's voluntary surrender regime likely accounts for the discrepancy.
11. Revenu Québec. Annual Report 2014-2015. RetrieveD: revenuquebec.ca/fr/sepf/formulaires/adm/adm-500/default.aspx12
12. Unclaimed Dividends Search. (Feb. 12, 2016). Retrieved: ic.gc.ca/app/scr/osb-bsf/ufd/search.html

outside of B.C., Alberta and Québec.

Measuring Ontario's stock and flow of unclaimed assets is impossible without a reporting requirement. Given the varying sums in other provinces,[13] we estimate that, as Canada's most populous province and the home of the country's financial capital, Ontario can expect at least $100 M in provincially-regulated unclaimed assets.

WHAT SHOULD WE DO WITH OUR UNCLAIMED ASSETS?

The policies that govern unclaimed assets should help owners track down their assets and should maximize the public benefit from assets that remain unclaimed. One means for governments to promote the public benefit is by investing unclaimed assets in projects, ventures or funds seeking social or environmental gain. Capital recovered and income earned could recycle into other public benefit investments, or it could flow into government treasuries. The sums at play, if invested shrewdly, could catalyze great movement of private capital into impact investing — significantly expanding the funds available for developing and scaling solutions to our most pressing social challenges.

LATENT CAPITAL SUPPLY

Assets worth more than $1,000 make up 73% of the Bank of Canada's $626 M unclaimed balance. The Bank invests these assets in guaranteed, low-yield Canada Savings Bonds and Treasury Bills. Once the holding period expires, the Bank pays the federal government the principal and retains the interest.

Canada would reap a better social and financial return if the Bank instead invested that money for impact. A socially smart

13. While we are still investigating the variance between Québec, B.C. and Alberta, it likely reflects differences in assets regulated, holding periods, and financial systems.

and financially savvy strategy could likely match the current return while doing much more good. The federal government would still get its money in 100 years, but, between now and then, the Bank's investments would lift people out of poverty, green the energy supply, and build affordable communities.

Ontario can take the same opportunity. It is estimated that Ontario financial institutions, insurers and other companies have millions in unclaimed assets. Ontario could collect that dormant money and invest it for impact. The low claim rate in other jurisdictions suggests that, even with a more effective system to help owners locate assets, a small reserve relative to total assets would cover ownership claims. The rest could and should be put to use.

PENT-UP CAPITAL DEMAND

Social projects often struggle to raise money, especially in the early days. Classical investors, who expect finance to take precedence over other goals, often do not consider opportunities in social enterprise and nonprofits. While a growing cadre of investors prioritize social and environmental good, some, especially institutional managers, are wary of the high transaction costs that attend a fragmented market. These obstacles lead to shortfalls in social finance. The 2010 Social Finance Census described a chasm between the amount of debt Ontario social enterprises and nonprofits want and the amount they take on.[14]

More and more social entities earn enough to sell equity or repay loans. According to recent survey data, nonprofit social enterprises make 68% of their revenue by selling goods and services; that number jumps to 93% for for-profit social enterprises. 25% of nonprofit social enterprises[15] have taken a loan, up from 16% in 2012. Over the two years following the survey, 59% of for-profit social enterprises planned to raise money through equity and 56% through debt.

Affordable housing and clean energy offer high-potential impact investment opportunities. Canada needs over one million affordable housing units, a project with a $200 B price tag.[16] At only a few billion a year, provincial and federal spending falls way short of that number. Patient investors can create enormous good while earning a profit from property-backed investments.

Clean technology's rapid uptake offers many opportunities to invest for financial and environmental return. ArcTern Ventures, a privately-backed $30 M fund partnered with MaRS, provides early-stage capital to cleantech ventures that offer breakthrough solutions to environmental challenges. SolarShare, a nonprofit cooperative, sells Solar Bonds, retail-priced products backed by small solar projects supported by Ontario's Feed-in Tariff. Continued growth in this market is highly likely.

We do not have the data to map or forecast every impact opportunity in Canada, but we have heard the strong demand for a market that ties financial return to social and environmental impact. As seen in the U.K. and other countries, government must catalyze the market if it is to meet this demand. Unclaimed assets are one source of capital for driving scale, reducing risk and attracting investors to Canada's impact investment market.

STRUCTURES TO INVEST FOR IMPACT

OPTIONS FOR CANADA AND ONTARIO

The best investment structure for Canada and Ontario will depend on the amount of unclaimed assets available, the willingness of banks, credit unions and others to invest in the structure (as U.K. banks invested in Big Society Capital, see Example on page 9), and the role government seeks to play in the market. Four options are laid out below.

Any structure should incorporate data reporting requirements to build a better understanding of capital demand and supply, financial and social returns, and market opportunities. The structure should also embrace a high degree of flexibility to adapt as the market evolves.

1. MATCH PRIVATE CAPITAL WITH PUBLIC CAPITAL. A matching program generally relies on private investors to judge investment quality. It approves a list of impact investors (usually fund managers) and matches those investors' commitments, perhaps on first-loss terms. It spurs private investment by reducing risk. A matching program does not need an investment committee

14. 81% of surveyed no-earned-revenue nonprofits wanted more capital and 49% were willing to accept low-cost debt, but only 16% had taken a line of credit, 8% a mortgage and 6% a bank loan. 66% of surveyed nonprofit social enterprises wanted more capital and 48% were willing to accept low-cost debt, but only 13% had taken a bank loan, 7% a line of credit and 7% a mortgage. Malhotra, A., Laird, H., & Spence, A. (2010). Social finance census 2010. Retrieved: marsdd.com/mars-library/social-finance-census-2010/

15. Chamberlain, P. et al. (2015). Enterprising change: report of the 2015 social enterprise survey for Ontario. Retrieved: ccednet-rcdec.ca/en/toolbox/2015_Ontario_SE_Report

16. Harji, K., Reynolds, J., Best, H., & Jeyaloganathan, M. (2014, March 21). State of the nation: impact investing in Canada. Retrieved: marsdd.com/mars-library/impact-investing-in-canada-state-of-the-nation/

because it turns investment decisions over to private players.

2. Invest in projects and ventures. In contrast to a matching program, an investment program that picks projects and ventures requires an investment committee to judge investment quality. In return for this extra effort, it can target specific outcomes — though picking projects and ventures is a difficult exercise. This approach could also crowd out private capital, diminishing the influence of unclaimed assets.

3. Invest in funds. An investment program that picks funds offers a few advantages over one that picks projects or ventures. A fund of funds would diversify across the investment strategies of different managers and would exploit funds' local or sectoral expertise, facilitating scale across regions and industries. Picking funds does not require the same time commitment or specialized skills as picking projects and ventures. In exchange for these benefits, a fund investor must pay its own costs plus a management fee to the funds it invests in.

4. Donate unclaimed assets to charity. The B.C. Unclaimed Property Society donates unclaimed assets to the Vancouver Foundation. Philanthropy supports essential work and avoids many of impact investment's transaction costs. But philanthropy does not recycle capital for additional impact investment or preserve it for government treasuries. And it does not catalyze the same sums as impact investment: B.C.'s Unclaimed Property Society donated $3.6 M in 2013 and $2.8 M in 2014 out of a $26 M balance.

Canada's impact investment market is still young, with fewer investors, smaller deals, and less information than mainstream markets. It may stay small and splintered if it cannot find first movers to take chances, push scale and prove the idea. As Big Society Capital has made plain, unclaimed assets can move first. Less than 25% of the £195 M drawn from Big Society Capital and its co-investors belongs to unclaimed assets.[17] The rest comes from investors that may not have stepped foot in impact investing had Big Society Capital not led the way.

The best strategy for leveraging unclaimed assets to build Canada's impact investment market depends in part on the value of unclaimed assets available. While it may make sense for a number in the low millions to flow through an inexpensive matching fund, a figure north of $50 million could finance a fund of funds. In deciding on an amount, governments should keep in mind the market-building influence of cornerstone investments. A significant infusion of capital from unclaimed assets has the potential to catalyze vast private investment, sparking a thriving impact investment ecosystem and yielding great public good. Consultation with impact investors and fund managers would be important to inform the design of this strategy.

17. Assuming that, in 2015, unclaimed assets made up two-thirds of Big Society Capital's total capital and bank equity one-third.

EXAMPLE: BIG SOCIETY CAPITAL

Unclaimed assets fuel the U.K.'s Big Society Capital. The independent financial institution invests as a wholesaler, putting unclaimed assets into impact funds that invest in social organizations. Big Society Capital defines a social organization as an entity that exists to achieve a social good and that reinvests its surplus.[18] Big Society Capital was born out of market failures that prevent social organizations from attracting enough capital.

At the end of 2015, Big Society Capital held £357 M (CDN$656 M). It will eventually hold up to £400 M in unclaimed assets and £200 M in equity investments from the four major U.K. retail banks. Big Society Capital has signed £261 M ($480 M) in investments, matched by £326 M ($599 M) from co-investors (which include foundations, government agencies, financial institutions and individual investors). £195 M ($358 M) has been drawn down from the £587 M ($1,078 M)[19] Big Society and its co-investors have committed.[20]

Big Society Capital has put the lie to impact investment as a small market. The £195 M drawdown is only slightly less than the Canadian government's entire investment in the Venture Capital Action Plan, a matching program through which the federal government has invested in four venture capital funds-of-funds.[21] Charities and social enterprises have used the drawdown to expand affordable housing, protect mental health, and train people with barriers to employment.

18. Big Society Capital. Vision, mission and activities.
Retrieved: bigsocietycapital.com/sites/default/files/pdf/BSC%20Vision,%20mission%20and%20activities.pdf
19. Exchange rate as of April 25, 2016.
20. Big Society Capital 2015 Numbers. (Feb. 12, 2016). Retrieved:bigsocietycapital.com/blog/big-society-capital-2015-numbers
21. Venture Capital Action Plan. (Feb. 12, 2016). Retrieved: actionplan.gc.ca/en/initiative/venture-capital-action-plan

PROTECTING STAKEHOLDERS

CANADA

Investing the Bank of Canada's unclaimed assets would not hurt owners, holders or the federal government. Holders would still remit unclaimed money, owners would still search the online database, and the government would still receive the remainder. A reserve would guarantee owners' claims. While there is some risk that the investments could lose money, long timelines and a diversified approach would mitigate that risk.

ONTARIO

Collecting Ontario's unclaimed assets would help owners find their dollars. Right now, Ontario's unclaimed assets often stay where they are forgotten. An owner must remember the asset and contact the holder. A searchable, online database would make this process much easier, as Ontario recognized in its 2012-2013 consultation on unclaimed property legislation.

Drafters should also consider holder's interests when designing unclaimed assets legislation that requires holders to remit and report unclaimed assets. Holders will benefit from a regime that releases them from liability after they remit assets. The regime could also permit holders to deduct reasonable costs of an owner search. While it should keep the compliance burden as light as possible, however, the law should recognize that unclaimed assets belong to owners.

The provincial government has much to gain. An unclaimed asset regime would drive more money into Ontario's social enterprises, in line with the government's social enterprise strategy. More important, the government would gain better outcomes for its constituents at very little cost.

CONCLUSION

Government must protect the rights of asset owners. But no matter how well protected, many owners will not claim their assets. Leaving their money to pile up, just as our social and environmental troubles pile up, does not make sense. Investing these funds could earn a return measured in happier lives and cleaner air, as well as financial profit. Unclaimed assets present a major opportunity for Canada and Ontario to do more with a largely untapped pool of assets.

APPENDIX:
KEY ELEMENTS OF CANADIAN UNCLAIMED ASSET REGIMES

	Canada	Quebec	B.C.	Alberta
Conditions to become unclaimed	10 years from maturity or last expression of interest.[i]	3 years from maturity or last expression of interest.[ii]	Varies among assets and amounts. In general, holder must make reasonable efforts to contact owner after 3–5 years since maturity or last expression of interest. If no contact within a year after efforts, asset becomes unclaimed. Reasonable efforts and year wait do not apply to assets below prescribed amounts (asset unclaimed immediately).[iii]	Varies among assets. Most assets become unclaimed 3–5 years from maturity or last expression of interest.[iv]
Notice required from holder to owner	2, 5 and 9 years from maturity or last transaction.[v]	3–6 months before asset transferred to gov't.[vi]	3–5 years from maturity or last interest for most assets.[vii]	3–8 months before asset transferred to gov't.[viii]
Types of assets transferred to gov't entity	Canadian-dollar accounts, deposits and negotiable instruments held or issued by a bank or federally-regulated trust company.[ix]	Deposits, money orders, securities, trust payments, insurance payments, and other property by regulation.[x]	Deposits, money orders, securities, insurance payments, trust payments, and other property by regulation.[xi] Surrender optional for some holders.	Deposits, money orders, securities, insurance payments, trust payments, and any other interest not excluded in the regulations (gift certificates, retail credit, loyalty rewards, and certain trust payments excluded).[xii]
Length of time gov't entity liable to pay asset value	<$1,000: 30 years.[xiii] >$1,000: 100 years.[xiv]	<$500: 10 years. >$500: Forever.[xv]	Holder can treat as income after the following periods, but owner can claim forever.[xvi] <$1,000: 6 years. $1,000–$25,000: 10 years. >$25,000: 30 years.	10 years.[xvii]
Final destination of unclaimed assets	Federal revenue (after end of liability).[xviii]	Provincial revenue (as soon as property processed and liquidated).[xix]	Donated to Vancouver Foundation (no timeline or set donation sum).[xx]	Provincial revenue (after end of liability).[xxi]
Interest paid by gov't entity to claiming owner	Yes – only on interest-bearing assets, maximum of 10 years.[xxii]	Yes – at a regulated rate.[xxiii]	No interest after asset becomes unclaimed.[xxiv]	No interest after asset becomes unclaimed.[xxv]

See next page for key to footnotes.

FOOTNOTES TO APPENDIX: KEY ELEMENTS OF CANADIAN UNCLAIMED ASSET REGIMES

i Bank Act, SC 1991, c. 46, s. 438(1).
ii Unclaimed Property Act, SQ 2011, c. B-5.1, s. 3.
iii Unclaimed Property Act, SBC 1999, c. 48, ss. 9-10; Unclaimed Property Regulation, BC Reg 463/99, s. 8.
iv Regulations on Unclaimed Personal Property and Vested Property Act, Ab Reg 104/2008, s. 6(2).
v Bank Act, SC 1991, c. 46, s. 439.
vi Unclaimed Property Act, SQ 2011, c. B-5.1, s. 5.
vii Unclaimed Property Regulation, BC Reg 463/99, s. 8.
viii Unclaimed Personal Property and Vested Property Act, SA 2007, c. U-1.5, s. 5(1); Alberta Treasury Board and Finance. (2012). Unclaimed Personal Property and Vested Property Act information circular: property holders UP-2R2, s. 6. Retrieved: finance.alberta.ca/business/unclaimed_property/up2.html
ix Unclaimed Balances. (2016, February 12). Retrieved: bankofcanada.ca/unclaimed-balances/
x Unclaimed Property Act, SQ 2011, c. B-5.1, s. 3.
xi Unclaimed Property Act, SBC 1999, c. 48, ss. 1, 12.
xii Unclaimed Personal Property and Vested Property Act, SA 2007, c. U-1.5, s. 1; Regulations on Unclaimed Personal Property and Vested Property Act, Ab Reg 104/2008, s. 2-3.
xiii Bank of Canada Act, RSC 1985, c. B-2, ss. 22(1)-(1.21).
xiv Bank of Canada Act, RSC 1985, c. B-2, s. 22(1.3).
xv Unclaimed Property Act, SQ 2011, c. B-5.1, s. 30.
xvi Unclaimed Property Act, SBC 1999, c. 48, ss. 13; Unclaimed Property Regulation, BC Reg 463/99, s. 15.
xvii Unclaimed Personal Property and Vested Property Act, SA 2007, c. U-1.5, s. 48(8).
xviii Bank of Canada Act, RSC 1985, c. B-2, s. 22(1.3), (2) and (3); Frequently Asked Questions. (2016, February 14). Retrieved: bankofcanada.ca/unclaimed-balances/frequently-asked-questions-ucb/
xix Unclaimed Property Act, SQ 2011, c. B-5.1, s. 29-30.
xx Unclaimed Property Act, SBC 1999, c. 48, ss. 4.1(2)(b)(iv).
xxi McKenna, N. (2011, December 23). Alberta program returns missing money. CBC News Edmonton. Retrieved: cbc.ca/news/canada/edmonton/alberta-program-returns-missing-money-1.1116193
xxii Bank Act, SC 1991, c. 46, s. 438(3).
xxiii Unclaimed Property Act, SQ 2011, c. B-5.1, s. 30.
xxiv Unclaimed Property Act, SBC 1999, c. 48, ss. 5(3).
xxv Unclaimed Personal Property and Vested Property Act, SA 2007, c. U-1.5, s. 39(2).