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February 3, 2015

The Honourable Charles Sousa  
Minister of Finance  
c/o Budget Secretariat  
Frost Building North, 3<sup>rd</sup> Floor  
95 Grosvenor Street  
Toronto, ON M7A 1Z1

Sent via email to: [submissions@ontario.ca](mailto:submissions@ontario.ca)

Dear Minister,

### **Re: 2015 Pre-Budget Consultations**

Advocis, The Financial Advisors Association of Canada, is pleased to provide comments on Ontario's 2015 Pre-Budget Consultations.

#### **I. About Advocis**

Advocis is the largest and oldest professional membership association of financial advisors and planners in Canada. Through its predecessor associations, Advocis proudly continues over a century of uninterrupted history serving Canadian financial advisors and their clients. Our 11,000 members, organized in 40 chapters across the country, are licensed to sell life and health insurance, mutual funds and other securities, and are primarily owners and operators of their own small businesses who create thousands of jobs across Canada. Advocis members provide comprehensive financial planning and investment advice, retirement and estate planning, risk management, employee benefit plans, disability coverage, long-term care and critical illness insurance to millions of Canadian households and businesses.

As a voluntary organization, Advocis is committed to professionalism among financial advisors. Advocis members adhere to a professional Code of Conduct, uphold standards of best practice, participate in ongoing continuing education programs, maintain professional liability insurance, and put their clients' interests first. Across Canada, no organization's members spend more time working one-on-one on financial matters with individual Canadians than do ours. Advocis advisors are committed to educating clients about financial issues that are directly relevant to them, their families and their future.

## II. The Economic Value of the Financial Advice Industry Sector in Ontario

The financial advice sector is a vital part of Ontario's economy, and is crucial to the long-term financial health of Ontario's families and small businesses. Ontario needs a competitive market for financial services that offers consumers a range of choices, including access to small business professional financial advisors. The financial security and independence of middle-class households is vitally important since Ontarians will become less reliant on the government for their future financial needs such as retirement income, long-term care, and services related to critical illness and disability. This ultimately helps the government deal with the mounting fiscal pressures of an aging population. Over 90% of all households have less than \$500,000 of financial assets and 80% of households have fewer than \$100,000 in financial assets.<sup>1</sup> It is this demographic of consumers that are especially in need of access to professional financial advice to grow their wealth and access products that assist them in crisis situations thus lessening the reliance on government finances.

Small business professional financial advisors establish long lasting relationships with their clients that are built on trust. Professional financial advisors help Ontarians plan for life events such as buying a first home, saving for their children's future education, retirement planning, and help them prepare financially for unexpected life events such as divorce, disability and critical illness. Therefore, it is vital that Ontario's financial services market remain accessible to all Ontarians. Consumers currently have a choice in how they pay for their valued professional financial advice and government policy must ensure that this choice remains.

In the study *Econometric Models on the Value of Advice of a Financial Advisor* by the Center for Interuniversity Research and Analysis of Organizations (CIRANO), Professors Claude Montmarquette and Nathalie Viennot-Briot conclude that based on data compiled from over 10,000 households, advised households have up to almost three times<sup>2</sup> the median assets of non-advised households. Similarly, the PricewaterhouseCoopers (PwC) study *Sound Advice – Insights into Canada's Financial Advice Industry* shows that advised households save up to 4.2 times<sup>3</sup> more than non-advised households. The effect that is derived from Ontarians working with a professional financial advisor is representative of the ultimate benefits to consumers and government.

Illustrative of this wealth accumulation are the following charts that represent:

1. the growth in financial assets over time of households that received advice compared to those that did not receive advice, and
2. financial assets held by advised and non-advised households.

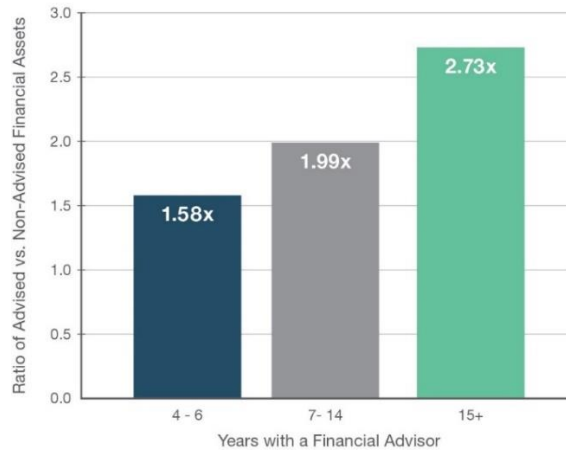
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<sup>1</sup>Sound Advice, PricewaterhouseCoopers LLP (PwC) Study on Insights into Canada's Financial Advice Industry, July 2014.

<sup>2</sup>Montmarquette, Claude and Viennot-Briot, Nathalie. *Econometric Models on the Value of Advice of a Financial Advisor*. Center for Interuniversity Research and Analysis of Organizations (CIRANO). July 2012.  
<http://www.cirano.qc.ca/pdf/publication/2012RP-17.pdf>

<sup>3</sup>Sound Advice – Insights into Canada's Financial Advice Industry. PricewaterhouseCoopers. July 2014.

**Chart 1: GROWTH IN FINANCIAL ASSETS OVER TIME OF HOUSEHOLDS THAT RECEIVED ADVICE COMPARED TO THOSE THAT DID NOT RECEIVE ADVICE**



Source: Econometric Models on the Value of Advice of a Financial Advisor; CIRANO; July 2012

**Chart 2: FINANCIAL ASSETS HELD BY ADVISED AND NON-ADVISED HOUSEHOLDS**



Source: Sound Advice, PricewaterhouseCoopers LLP (PwC) Study on Insights into Canada's Financial Advice Industry, July 2014

The benefits to consumers and governments associated with professional financial advisors go beyond planning and advice giving, and have broader economic implications. Of the approximately 80,000 small-and medium-sized business (SMB) professional financial advisors<sup>4</sup> in Canada, 37,000 practice in Ontario. The 37,000 professional financial advisors in Ontario provide advice to 4.8 million Ontario households.<sup>5</sup> The range of advice provided by these financial advisors spans the mutual fund, securities, and insurance sectors. The average investable assets of these households being serviced by small business advisors is approximately \$42,000, while the average life insurance coverage is \$233,000.<sup>6</sup>

These SMB professional financial advisors provide direct contributions to the Ontario economy by employing staff, paying rent on office space, and paying taxes. Indirectly, SMB professional financial advisors support other Ontario companies through buying other goods and services such as office equipment, supplies, etc. Across Canada, the SMB segment has a direct

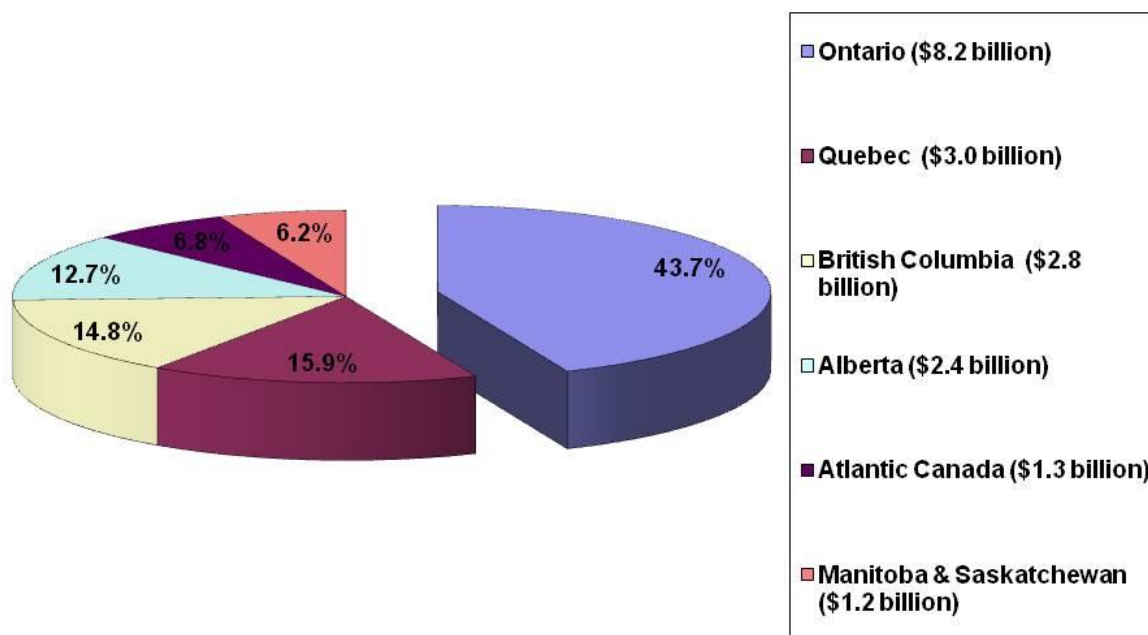
<sup>4</sup>Ibid.

<sup>5</sup>Investor Economics (2014).

<sup>6</sup>Ibid.

economic impact of approximately \$19 billion in GDP and creates 180,000 jobs; Ontario's regional direct economic impact is approximately \$8.4 billion in GDP and 85,000 jobs.<sup>7</sup> Below is a chart presenting the regional breakdown of GDP from the SMB financial advice industry across Canada.

**Regional Breakdown of GDP Impacts from the  
SMB Financial Advice Industry  
(Total Direct Impact in Canada: \$19 billion)**



Source: Sound Advice – Insights into Canada’s Financial Advice Industry. PricewaterhouseCoopers. July 2014.

Compared to other industries’ direct impacts to Canada’s GDP, the SMB financial advice industry exceeds those of the mining, oil and gas extraction industry, the pharmaceutical industry, the motor vehicle manufacturing industry, and the aerospace industry.

Professional financial advisors are not only providing quality financial advice and peace of mind to Ontario families; they are also driving economic growth. The Government of Ontario should take into consideration the SMB financial advice sector’s contributions to the overall economy when developing policy, as any decisions or regulator actions may adversely impact consumers and the economy. A reduction in the number of professional financial advisors available to Ontarians will have a negative impact on employment, the rate of consumer savings, and GDP. Further, absent consumers receiving advice from professional financial advisors, Ontarians will

<sup>7</sup>Sound Advice – Insights into Canada’s Financial Advice Industry. PricewaterhouseCoopers. July 2014.

be looking to government for financial assistance. The overall net effect is less wealth for Ontarians and added burden on government finances.

### **III. Challenges to the financial advice industry**

Advocis supports initiatives by the Ontario government that assists Ontarians in saving, building wealth, and preparing for life events. However, great care must be taken to ensure that proposed solutions do not adversely affect the wellbeing of the financial advice industry. Private and public sector solutions must operate in harmony to ensure the maximum positive outcome for all Ontarians.

The financial advice industry in Canada is currently facing serious challenges that would impact the way professional financial advisors are regulated. For example, securities regulators in Ontario (and the rest of Canada) are considering imposing a ban on third party commissions on mutual funds, a move that resembles regulatory changes that have taken place in the UK and Australia. Experts have commented that a ban on commissions in the securities sector cannot go forward absent a corresponding ban in the insurance sector given the level of product convergence. The result of the banning of commissions is that those most in need of professional financial advice cannot afford to access the expertise. The policy decision to ban commissions and consumer choice in the UK and Australia is having a very negative outcome on the mass market who can no longer afford advice, and a demographic shift has occurred as the industry rebalances itself to operate within the highly engineered market the regulators have created – the wealthiest people within society are now the focus of professional financial advice, and the mass market is excluded. Looking back to the CIRANO study and the *Sound Advice* study, the impact of following the regulatory trends in other jurisdictions becomes painfully clear.

### **IV. Ontario's Proposed Bill 56**

On December 8, 2014 the Ontario government introduced a new piece of legislation: Bill 56, the *Ontario Retirement Pension Plan Act, 2014*, which is intended to pave the way for the creation of the Ontario Retirement Pension Plan (ORPP).

Bill 56 states that all employment is eligible, except that which is exempted, so workers already enrolled in a comparable workplace pension plan will not be eligible for the ORPP. But no indicia as to what would constitute a “comparable” plan was included in the draft legislation. In its recent consultation paper, *Ontario Retirement Pension Plan: Key Design Questions* (December 2014), the government indicated that its “preferred approach” is to define a “comparable” plan as a defined benefit (DB) or target benefit multi-employer (TBME) pension plan.

Defined contribution plans (DC) do not promise “guaranteed” benefits at retirement, and cannot fulfill the strict definition of “comparable plan” which informs the government’s preferred approach. The consultation paper also indicates that restricting the definition of “comparable plan” to DB and TBME pension plans will, in its view, expand the number of employers offering the ORPP to employees and allow the ORPP to be available in a broader range of workplaces.

However, this expansion will come about at the expense of existing group RRSP and DC plans, and this is not addressed in the government’s consultation document. If the government pushes ahead with its “preferred approach,” the only instance where an employer will not have to participate in the ORPP is when they offer a DB or TBME plan. Employers who offer group registered retirement savings plans, tax-free savings accounts, or similar plans, will still have to

contribute 1.9% of the employee's salary, and the employee will also have to contribute 1.9% of their salary to the ORPP. The net effect of the governments "preferred approach" will negatively impact existing DC, and group RRSP plans.

As currently drafted, Bill 56 demonstrates the potential negative impacts to consumers when public and private sector solutions are not operating in harmony.

## **V. The Future of the Financial Advice Industry in Ontario**

Consumers with access to professional financial advice are less reliant on the government as their needs are being met through advice, plans, and products available in the private sector (i.e. retirement, health, long-term care and disability.) With an aging population, promoting Ontarians' access to professional financial advice is increasingly important as working harmoniously with the private sectors in delivering solutions to consumer needs will assist in reducing the ever increasing fiscal pressures that the government faces.

Public policy should recognize the value that professional financial advisors bring to Ontarians. We are pleased that the Government of Ontario's 2014 Fall Economic Review commits to reviewing policy alternatives for the regulation of professional financial advice and planning. We look forward to public consultation and the final report expected in early 2016.

Advocis is pleased with the Auditor General's Report as it pertains to the Financial Services Commission of Ontario (FSCO). Specifically, "If the responsibility for oversight of regulated financial sectors were to fall to associations that oversaw industries, FSCO could assume the role of overseeing those associations... This would require that FSCO recommend changes to the legislation that governs these professions, but would allow FSCO to focus its resources on more serious and strategic matters pertaining to the regulated industries."<sup>8</sup> Comparable to what the Auditor General is recommending, Advocis, through its consultation document, *Raising the Professional Bar*, believes that professional financial associations are well positioned to provide conduct oversight of professional financial advisors.

We also note that the Auditor General makes recommendations with respect to FSCO's conduct review and licensing of professional financial advisors. The report indicates that while some insurance agents have been disciplined by other regulatory bodies, (i.e. the Mutual Fund Dealers Association of Canada and the Investment Industry Regulatory Organization of Canada) FSCO has been slow in identifying and removing the "bad apples", including those that have "hopped" from the mutual fund or investment industry sectors to the insurance sector. Empowering professional associations to oversee conduct and licensing represents a well-designed solution to identified problems.

Regulators in both the insurance and securities sectors should consider expanding the reforms as outlined by the Auditor General. Increasingly, professional financial advisors are dual licensed (for both the insurance and securities sector.) Accordingly, and in the true spirit of harmonization and efficiency, the downloading of licensing and advisor conduct should rest exclusively with the accredited professional associations. Licensed members of a professional association would be required to adhere to a code of professional conduct and ethics, carry mandatory errors and omissions insurance, maintain elevated proficiency standards and

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<sup>8</sup> 2014 Ontario Auditor General Annual Report. Chapter 3, Section 3.03, Financial Services Commission of Ontario – Pension Plan and Financial Service Regulatory Oversight.

continuing education requirements, follow a best practices manual, and be subject to a rigorous complaint and disciplinary process.

## VI. Conclusion

Ontario's financial advice sector is a strong and dynamic economic contributor to national GDP and job creation. Ontario's regional direct economic impact is approximately \$8.4 billion in GDP and 85,000 jobs. Government should take into account the importance of this sector to Ontario families and the economy when developing policy. The Minister of Finance, through Ministry staff, can actively monitor its regulators to ensure that government policy is properly reflected in the actions taken at the regulatory level.

We look forward to working with the government of Ontario. Should you have any questions, please do not hesitate to contact the undersigned, or Ed Skwarek, Vice President, Regulatory and Public Affairs at 416-342-9837 or [eskwarek@advocis.ca](mailto:eskwarek@advocis.ca).

Sincerely,

A handwritten signature in blue ink, appearing to be 'G. Pollock', with a long horizontal flourish extending to the right.

Greg Pollock, M.Ed., LL.M., C.Dir., CFP  
President and CEO

A handwritten signature in blue ink, appearing to be 'D. Juvet', written in a cursive style.

David Juvet, CFP, CLU, CH.F.C., CHS, FLMI, AMTC  
Chair, National Board of Directors