



2012 Alberta Pre-Budget Submission

to the
Alberta Minister of Finance

November 2011

Executive Summary

- Professional financial advisors help Albertans to save and plan for their future financial needs, and to protect the savings they have accumulated. People who do not use financial advisors save less than those who do rely on financial advisors. People who receive advice accumulate more financial wealth, are better protected, and are better prepared for retirement than people who do not receive advice.
- Professional financial advisors help Albertans to prepare themselves financially for important life events and needs, and to be financially self-sufficient throughout their lives.
- A strong financial advice sector supports the long-term fiscal health of the Province, by helping individual Albertans to prepare themselves financially for important life events. Financial security and independence is extremely important since Albertans will become less reliant on the government for their future financial needs.
- Albertans are best served by a competitive market for financial services that continues to offer consumers a range of choices, including access to small business financial advisors.
- Advocis believes that financial services regulation should protect consumers without burdening financial advisors with unnecessary regulatory compliance requirements that have no proven consumer protection benefit. We believe this is consistent with the *Government of Alberta Guiding Principles of Regulation*, which call for strong evidence of need before regulating, and a results-based approach.
- Governments and regulators should, in regulating the financial advice industry, recognize the contribution of professional associations such as Advocis in helping financial advisors meet high standards for education, proficiency and ethical conduct. Advocis believes that all financial advisors should belong to a professional association to raise the professionalism of all advisors.
- Advocis strongly supports reforms to facilitate retirement saving and improve retirement income adequacy for all Canadians now and in the future. The government should implement practical reforms now which can improve the ability of Albertans to save for their retirement.
- Advocis welcomes Alberta's support for Pooled Registered Pension Plans (PRPPs). PRPPs are an example of how the private sector can work with government to develop solutions to pressing long-term financial challenges that affect all Canadians. We note that the Government of Alberta has endorsed PRPPs, declaring that they are the "type of targeted solution Alberta has been advocating to address concerns that many middle-income Canadians are not saving enough for their retirement." PRPPs are especially important to small businesses, their employees and self-employed individuals who will now have access to a private pension plan for the very first time. In this context, Advocis strongly believes that consumers should have access to professional financial advice when they participate in PRPPs.
- In order to support a business and regulatory environment that accommodates the business model of small business financial advisors and fosters consumer choice and access to professional financial advice, Advocis strongly encourages Alberta to permit mutual fund and securities sales representatives to operate through incorporated entities, currently not permitted in Alberta. We encourage the government of Alberta to introduce legislation that will make it possible for mutual fund and investment advisors to carry on business through incorporated entities.
- Advocis members are a resource for government priorities on financial matters, and Advocis hopes to continue to engage the government in meaningful dialogue and to work with the government to develop appropriate solutions to regulatory and consumer protection issues.

Key Recommendations

RECOMMENDATION 1: In developing public policy, the Government of Alberta should make it a priority to ensure that small business financial advisors and planners remain a vital part of a diverse and competitive financial services sector, which will bolster the economic and fiscal condition of the province.

RECOMMENDATION 2: The Government of Alberta should embrace smart, principles-based regulation to bring about a more level playing field in the financial services marketplace, and that recognizes the value of financial advisors to Albertans.

RECOMMENDATION 3: The Government of Alberta should continue to support its *Guiding Principles of Regulation*, which call for strong evidence of need before regulating, and a results-based approach to regulation in the life insurance and securities sectors. Smart regulation for financial advisors that is consistent with the Guiding Principles will help the province to ensure that small business financial advisors and planners remain a vital part of a diverse and competitive financial services sector that offers consumers ample choice as to products and providers, and access to professional financial advice.

RECOMMENDATION 4: The Government of Alberta should continue to support Pooled Registered Pension Plans, which are an example of how the private sector can work with government to develop solutions to pressing long-term financial challenges that affect all Canadians. In this context, Advocis strongly believes that consumers should have access to professional financial advice when they participate in PRPPs.

RECOMMENDATION 5: The Government of Alberta should support a business and regulatory environment that accommodates the business model of small business financial advisors and fosters consumer choice and access to professional financial advice, by making it possible for mutual fund and securities sales representatives to operate through incorporated entities. In this regard, we encourage the Government of Alberta to introduce legislation that allows for mutual fund and investment advisors to carry on business through incorporated entities.

I. Introduction

Advocis – who we are

Advocis, The Financial Advisors Association of Canada, is the association of choice for financial advisors and planners. With more than 11,000 members across the country, Advocis is the definitive voice of the profession, advocating for professionalism and consumer protection. Professional financial advisors and planners are critical to the economy, helping consumers make sound financial decisions that ultimately lead to greater financial stability and independence. Advocis works with decision-makers and the public, stressing the value of financial advice and striving for an environment in which all Canadians have access to the advice they need.

Advocis is the oldest and largest voluntary professional membership association of financial advisors and planners in Canada. The Association was founded in 1906 as the Life Underwriters Association of Canada. With over 1,400 advisors and planners in five chapters across Alberta, Advocis members are provincially licensed to sell life and health insurance, mutual funds and other securities.

Advocis has a long standing tradition of working cooperatively with the government and regulatory bodies such as the Alberta Insurance Council and Alberta Securities Commission to ensure that consumers of financial services are adequately protected, have ample choice and access to professional financial advice, and that the financial advisory business continues to be an important part of Alberta's economy.

One example of how Advocis has worked cooperatively with the Government of Alberta is the Supreme Court of Canada case Canadian Western Bank et al. v. Alberta. Advocis appeared as an intervener in this landmark case on request by the Alberta Insurance Council to support provincial regulation in the area of consumer protection and market conduct oversight, in order to advance the key principles of enhanced consumer protection and a level playing field for all who sell life and health insurance. The favorable decision by the Supreme Court of Canada in May 2007 gives Alberta regulatory authority in this area and preserved the province's licensing requirement for federally regulated financial institutions selling group creditor mortgage and loan insurance.

Our members are a vital resource and have a great deal of expertise in areas of importance to the government such as in the fields of health care, retirement planning and pension plans, since they service a significant percentage of employee benefit programs in Alberta. Over the past few years, Advocis has made representations to the government on improving the pension and retirement system, the *Securities Act*, *Insurance Act*, *Alberta-BC Trade*, *Investment and Labour Mobility Act*, *Credit Union Act*, and the *Civil Enforcement Act*.

We support the commitment of the Government of Alberta to the success of the Trade Investment and Labour Mobility Agreement (TILMA) with the Government of British Columbia, and the New West Partnership Trade Agreement (NWPTA) with the British Columbia and Saskatchewan. We believe the implementation of these interprovincial agreements will make it easier for Alberta enterprises in the business of insurance and in the business of distribution of securities, and their duly licensed representatives, to do business in the other jurisdictions. These agreements should also strive to make it easier for insurance agencies, insurance agents and securities registrants to become licensed and / or registered in the participating jurisdictions, on the basis of their having met the requirements in their home jurisdiction.

Advocis hopes to continue to engage the government in meaningful dialogue and to work with the government to develop appropriate solutions to regulatory and consumer protection issues.

Financial advisor professionalism

Advocis members embody professionalism based on education, best practices, and high standards of proficiency and ethics. Advocis promotes the professionalism of financial advisors through:

- The Advocis Code of Professional Conduct
- Guidance on best practices
- Errors and omissions professional liability insurance coverage that protects consumers
- Professional designations supported by a comprehensive curriculum and rigorous standards – Advocis' Chartered Life Underwriter (CLU), Certified Health Insurance Specialist (CHS), and educational support for the attainment of the Certified Financial Planner (CFP), and
- Mandatory competency-based continuing education.

Advocis members are primarily owners and operators of small businesses and create thousands of jobs across the province. Advocis members provide comprehensive financial planning and investment advice to hundreds of thousands of Alberta consumers and small businesses in a number of areas including estate and retirement planning, wealth management, risk management, tax planning, employee benefits, critical illness and disability insurance.

Advocis members maintain lasting relationships with their clients. They understand their clients' needs and goals, and take a long-term planning approach that guides their clients through all economic cycles and market conditions.

II. Value of Financial Advice

We believe public policy should recognize the value that consumers derive from professional financial advice by helping them meet their long-term financial goals. Public policy should recognize the benefits that accrue to society when consumers have access to professional financial advisors, to help them save, invest and prepare for long-term financial needs.

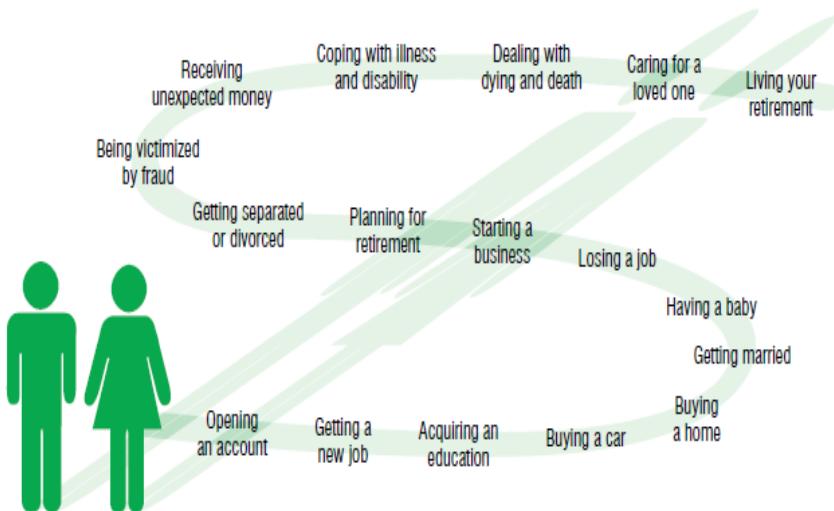
In its December 2010 report, the federal Task Force on Financial Literacy¹ found that Canadians require financial literacy throughout all stages of their lives. This is illustrated in the report's life cycle diagram below. Among its thirty recommendations:

The Task Force recommends that the Government of Canada, in partnership with stakeholders, provide tools to help Canadians become better informed about the role and benefits of professional financial advice, as well as how to choose a financial practitioner.

¹ Canadians and Their Money – Building a Brighter Future, Report of Recommendations on Financial Literacy, Task Force on Financial Literacy, December 2010,
[<http://www.financialliteracyincanada.com/canadians-and-their-money.html#report>].

Professional financial advisors help Albertans to save and plan for their future financial needs. People who do not use financial advisors save less than those who do rely on financial advisors. People who receive advice accumulate more financial wealth and are better prepared for retirement than people who do not receive advice. This has been shown to be the case, regardless of the age and annual income of individuals. Moreover, people who use financial advisors are better equipped to manage risk that can occur through the incidence of a sudden death, illness or disability. Professional financial advice greatly assists in preserving accumulated wealth. An unfortunate life incident of this nature can have a devastating impact on people's life savings.

Figure 1: Value of advice covers client's entire life cycle



Based upon information from Investor Education Fund: www.GetSmarterAboutMoney.ca

Source: Task Force on Financial Literacy Report, December 2010

The federal Task Force on Financial Literacy has pointed out that important life events such as joining a pension plan or workplace retirement savings scheme, seeking financial advice or considering the purchase of a financial product, or determining one's eligibility for benefits from a government program all offer important "teachable moments."² It is particularly valuable for consumers to have professional financial advice to help them deal with those important life events.

A study prepared by Ipsos Reid Canadian Financial Monitor³ documents that having advice is strongly associated with the accumulation of financial wealth regardless of income level or age of household:

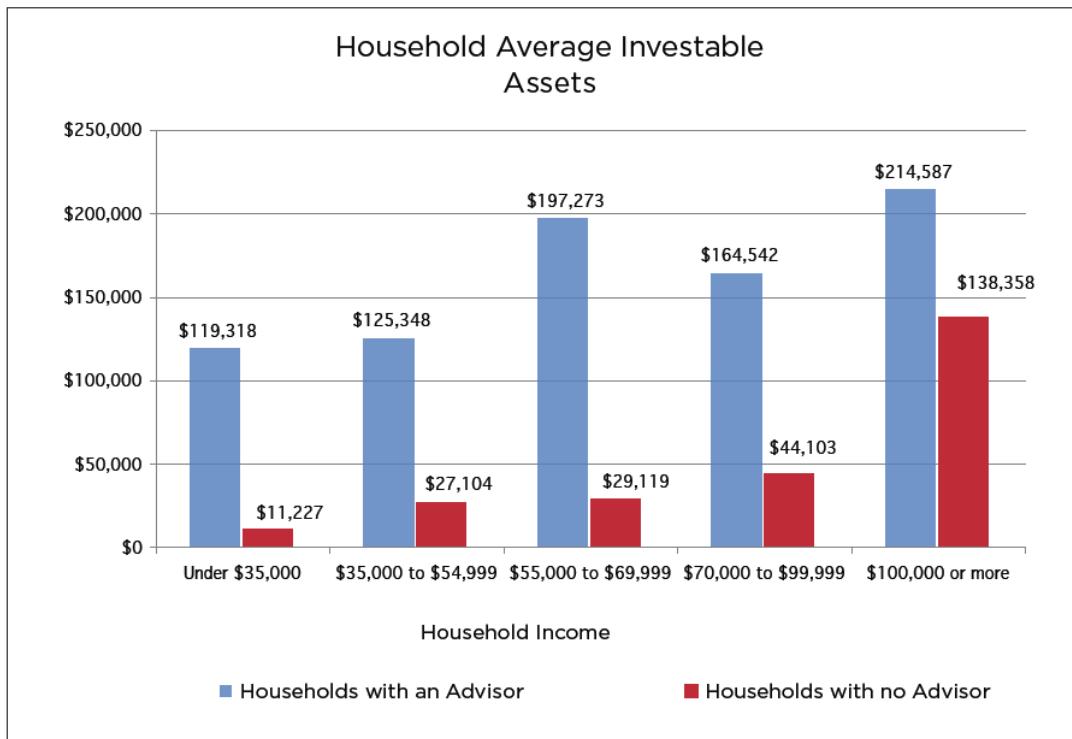
- Advised investors are more comfortable, more confident, and have a better outlook on their financial futures than non-advised investors.

² Canadians and Their Money: Building a Brighter Financial Future, Report of the Task Force on Financial Literacy, December 2010, p.7.

³ Ipsos Reid Canadian Financial Monitor³ for the Investment Funds Institute of Canada [The Value of Advice, July 2010, http://www.mackenziefinancial.com/en/pdf/ific_voa_report.pdf]

- Advised households, where the head of the household was between 45 and 54 years of age, had nearly 3 times the level of investable assets of non-advised households, and for less than 45 year olds the differential was more than 3 times.
- Advised households have double the participation in RRSPs and TFSAs of households without advice: 69% of advised households have RRSPs compared to only 29% of non-advised; and 27% of advised households have TFSAs compared to only 14% of non-advised households.
- Life insurance is something that is more likely to be held by households with an advisor.

Figure 2



Source: Ipsos Reid Canadian Financial Monitor

Source: *Ipsos Reid Canadian Financial Monitor (2010)*⁴

According to Figure 2, above, households that have a financial advisor have significantly more investable assets than do households that do not, and this applies at all income levels. Advised households with annual incomes under \$35,000 on average had more than ten times the investable assets than did households with annual incomes under \$35,000 that did not have an advisor. Advised households with annual incomes ranging from \$55,000 to \$69,000 on average had more than six times the investable assets than did households in that income range that did not have an advisor.

A strong financial advice sector will support the long-term economic and fiscal health of the province by helping Albertans to prepare themselves financially for important life events and needs, and to be financially self-sufficient throughout their lives.

⁴ Ibid.

III. Supporting the Business of Financial Advisors

There are over 10,000 financial advisors and planners in the province of Alberta that help millions people and businesses in their communities. Many are self-employed proprietors of small businesses that employ many people in their communities. In addition, a significant number of advisors are employees of mid-to-large sized financial institutions and dealers. These professional financial advisors are a vital part of the financial services marketplace and of their communities.

Given the tough economic environment, the past year has been difficult for many sectors of the economy. Advocis members have fared relatively well given that they develop long lasting relationships with their clients and assist them through all economic and financial market cycles.

A diverse financial services sector, with a range of business models and choices for consumers, is essential to consumer access to professional financial advice. Consumer access to professional financial advice is threatened by the increasing burden of regulation. Increasing compliance costs are more easily borne by large financial institutions and their compliance departments, which benefit from economies of scale, than by small business financial advisors.

Professional financial advice is becoming less affordable and less accessible. Heavily regulated financial service providers must cover a wide range of costs: legal and regulatory advice, compliance staff, regulatory fees, self regulatory organization membership (namely, the Mutual Fund Dealers Association and the Investment Industry Regulatory Organization of Canada), increased liability risks, time spent explaining forms to clients, etc. The increasing regulatory burden and cost of compliance for smaller market participants is contributing to increased concentration in the delivery of financial products and services. Ever fewer, large financial entities offer consumers less provider choice, particularly in smaller communities.

Advocis and its members are not asking the Government of Alberta for a handout in the form of a subsidy, nor are we seeking targeted tax relief to assist us in staying competitive. Advocis is not calling for less regulation, as it believes in strong consumer protections, but for more appropriate and effective regulation that will protect the public without hampering the ability of professional financial advisors to serve Albertans in these uncertain economic times.

Advocis believes that:

- 1. Albertans should have ample access to professional financial advice, products and services and should be able to choose among a diverse range of financial service providers.**
- 2. Entrepreneurial, small business professional financial advisors provide valuable service to Albertans in delivering professional financial advice, products and services and have a significant place in the financial services sector.**
- 3. The existing regulatory framework, and the direction in which regulation is being developed, does not favour choice and a diverse range of choices for Albertans and is limiting access to professional financial advisors. The regulatory framework and the compliance burdens that are being imposed are skewed in favour of larger, integrated financial institutions.**

RECOMMENDATION 1: In developing public policy, the Government of Alberta should make it a priority to ensure that small business financial advisors and planners remain a vital part of a diverse and competitive financial services sector, which will bolster the economic and fiscal condition of the province.

Smart regulation needed

In our experience, financial services regulators prefer to regulate large enterprises. It is administratively simpler and more efficient to deal with a few large organizations, than with many smaller ones.

In developing regulatory policy, regulators often seem indifferent to the impact of regulation on small practitioners. Regulation that requires enterprises to hire dedicated compliance staff, lawyers, accountants, information and records managers, are more easily implemented by the larger players.

Regulation that only “works” for large enterprises threatens the long-term viability of smaller players such as small financial advisory businesses. Just as the capital markets regulators across Canada accommodate small issuers and do not apply a “one-size-fits-all” approach to the raising of capital, so too should securities and mutual fund regulators accommodate smaller enterprises by ensuring that regulation also works for smaller enterprises.

Advocis believes that financial services regulation should protect consumers without burdening financial advisors with unnecessary regulatory compliance requirements that have no proven consumer protection benefit. We believe this is consistent with the *Government of Alberta Guiding Principles of Regulation*, which call for strong evidence of need before regulating, and a results-based approach.

Advocis also believes that increasing the proficiency, professionalism and accountability of all financial advisors through membership in a professional association such as Advocis, is a vital complement to smart regulation.

Advocis supports Alberta’s commitment to building an effective regulatory environment through focusing on outcomes, broad consultation, simple language, and accountability from both public sector and private sector stakeholders.

Knowing when to regulate and when not to regulate is important. In our view, regulators should only act in the case of market failures, information asymmetries or matters of consumer protection. Regulators must identify the problem that they wish to address through detailed consultation with stakeholders and should employ the least prescriptive regulatory response available in achieving the desired regulatory outcome. These views are entirely consistent with the *Government of Alberta Guiding Principles of Regulation*, which require:

- strong evidence of need before regulating;
- consulting widely before regulating or changing regulations;
- the use of results-based (or outcomes-based) approach in the design of regulation; and
- light regulation.

The principles also state that Alberta will ensure that existing regulations remain relevant through on-going review. This is especially important in the financial sectors. Capital markets have undergone extraordinary and increasingly rapid change with no foreseeable slowdown in the speed of innovation anticipated. This makes Alberta's commitment to ensuring regulation remains relevant all that much more significant.

In implementing the *Guiding Principles of Regulation*, and establishing the Regulatory Review Secretariat, Alberta has demonstrated its commitment to ensuring that it has "the right rules in place, not more rules ... to create a regulatory system that is able to effectively support economic diversification, encourage business productivity, and respond to changing social circumstances." Alberta has clearly taken a leadership role in establishing guiding principles for regulation that will carry the province forward for decades to come. The Alberta approach to regulation will hopefully be a model for other jurisdictions in Canada to study and adopt.

More rules from financial services regulators and increasing compliance costs present a competitive challenge to small business financial advisors that threatens consumer access to professional financial advice. We believe regulators should focus their efforts on enforcement and punishing misconduct and fraud in the marketplace.

As an example of smarter regulation, insurance regulators in Alberta and across Canada have worked with the insurance industry to implement a largely principles-based approach to conflict of interest and product suitability applied to insurance advisors and companies when recommending insurance products to clients. The insurance industry has successfully implemented three core principles developed by the Canadian Council of Insurance Regulators (CCIR):

1. Priority of the client's interest
2. Meaningful disclosure of real or perceived conflicts of interest, and
3. Product suitability.

RECOMMENDATION 2: The Government of Alberta should embrace smart, principles-based regulation to bring about a more level playing field in the financial services marketplace, and that recognizes the value of financial advisors to Albertans.

RECOMMENDATION 3: The Government of Alberta should continue to support its Guiding Principles of Regulation, which call for strong evidence of need before regulating, and a results-based approach to regulation in the life insurance and securities sectors. Smart regulation for financial advisors that is consistent with the Guiding Principles will help the province to ensure that small business financial advisors and planners remain a vital part of a diverse and competitive financial services sector that offers consumers ample choice as to products and providers, and access to professional, independent financial advice.

IV. Improving Retirement Income and Financial Security of Albertans

Pension coverage and retirement income adequacy are major public policy issues. We commend the Alberta Government for making it a priority to address pension gaps for its citizens that do not currently participate in a pension plan.

Retirement planning is a priority for most Albertans and our members work with individuals, families and businesses in achieving their financial objectives. Our members provide retirement

planning and investment advice to employees with pension plans, RRSPs and TFSAs, to owners of small businesses and the self-employed, and our members also establish and administer Capital Accumulation Plans (including defined contribution pension plans) for small and medium sized businesses.

Advocis has been working with the government on pension and retirement income reform. As a result of our representations in 2010, governments across Canada have recognized the need to develop private sector solutions to assist Canadians plan for their retirement.

Pooled Registered Pension Plans

In December 2010, Canada's Finance Ministers agreed on a framework for Pooled Registered Pension Plans (PRPPs) to provide Canadians with a new, low-cost and efficient way to help Canadians meet their retirement objectives. The Government of Alberta has endorsed the framework, stating that PRPPs are the "type of targeted solution Alberta has been advocating to address concerns that many middle-income Canadians are not saving enough for their retirement." The federal government recently introduced legislation that outlines the framework for PRPPs. It is up to each province to introduce its own enabling legislation. Advocis welcomes the development of PRPPs.

These defined contribution, privately-administered pension arrangements will provide Canadians with greater choice, thereby promoting pension coverage and retirement saving. PRPPs are especially important to small businesses, their employees and self-employed Canadians who will now have access to a private pension plan for the very first time.

Advocis strongly believes that professional financial advice is needed by the majority of Canadians in order to lead to good consumer financial outcomes, not only in the areas of retirement income savings, but in a whole host of other areas as well. Public policy needs to foster an expansive role for professional financial advice in order to ensure that Canadians can meet their retirement income and other financial goals. Canadians should not be expected to serve as their own financial experts but should have the ability to obtain professional financial advice so that they have safe and adequate retirement savings.

We note that the Benefits Canada Survey of Capital Accumulation Plan Members reported in 2009 that 71% of members of employee retirement plans would be comfortable with their employer providing access to a qualified individual who will make recommendations so that they can make the best investment choices in their employer-sponsored retirement plan.

As pension and retirement income reforms are implemented, we encourage the Government of Alberta to continue engaging Advocis on this important issue. Advocis would be pleased to lend its support and expertise to the Government of Alberta to ensure that PRPPs achieve their objective of ensuring that Albertans are financially-prepared for retirement.

RECOMMENDATION 4: The Government of Alberta should continue to support Pooled Registered Pension Plans, which are an example of how the private sector can work with government to develop solutions to pressing long-term financial challenges that affect all Canadians. In this context, Advocis strongly believes that consumers should have access to professional financial advice when they participate in PRPPs.

V. Incorporation of Securities and Mutual Fund Representatives

Advocis has been working with the Alberta Securities Commission and the Alberta Ministry of Finance over the past four years on the issue of advisor incorporation. Professionals within Alberta such as doctors, lawyers and accountants are allowed to incorporate their businesses. However, Alberta denies mutual fund and securities advisors the right to incorporate. This means that advisors cannot take advantage of the benefits of running their business through a corporation.

Life insurance agents are permitted under Alberta's *Insurance Act* to incorporate their business as an agency. It makes little sense for a dual-licensed advisor who sells both insurance and mutual funds/securities products to operate their insurance business through a corporation but not their mutual fund and securities business. This creates an administrative burden for a comprehensive financial advisory business dealing with the same set of clients, since the advisor must run two sets of books and administrative procedures.

Incorporation is beneficial to consumers as their affairs are dealt with by a corporate entity which provides continuity no matter what happens to the individual advisor. Accordingly, incorporation greatly assists in succession planning. Furthermore, our legal research confirms that consumers will not be harmed under a corporate structure for mutual funds and securities.

The inability of advisors to structure their business as a corporation is both costly and unfair. In most provinces, including British Columbia and Saskatchewan, provinces with which Alberta is harmonizing labour practices under formal agreements such as the *New West Partnership Trade Agreement*, financial advisors are permitted to receive their mutual fund commissions through their corporations. This places Alberta advisors at a severe competitive disadvantage.

Advocis has developed a comprehensive proposal outlining the necessary legislative changes in the *Securities Act* that would allow advisors to incorporate. Our proposal has been shared with the Alberta Securities Commission and Alberta Finance. Specifically, we have asked for:

- Legislative amendments to the *Securities Act* that would allow financial advisors (mutual fund and securities representatives) to incorporate, and
- An exemption from the requirements in the *Securities Act* that requires a corporation to be registered, given that the individual financial advisor is already a registrant under the Act. This exemption already exists in a number of provinces including BC and Manitoba.

The Advocis proposal has been recognized as a workable and harmonized solution by a working group of provincial and territorial government officials, and was included as one of three select options in the working group's 2010 consultation paper.

We would like to continue our dialogue with the Alberta Government with an aim to resolving this important, longstanding issue. The inability of advisors to structure their business as a corporation is both costly and unfair and continues to harm Alberta's competitiveness. It is our hope that the Minister of Finance will make the necessary legislative changes on a timely basis.

RECOMMENDATION 5: The Government of Alberta should support a business and regulatory environment that accommodates the business model of small business financial advisors and fosters consumer choice and access to professional financial advice, by making it possible for mutual fund and securities sales representatives to operate through incorporated entities. In

this regard, we encourage the Government of Alberta to introduce legislation that allows for mutual fund and investment advisors to carry on business through incorporated entities.

VI. Conclusion

We urge the Government of Alberta to recognize the important contributions that financial advisors make to the financial health of Albertans and to the long-term economic and fiscal health of the province, and to support policies and regulation that foster a healthy financial advice sector that includes consumer access to diverse financial advice options. Albertans will be best served by a competitive market for financial services that continues to offer a range of choices, including access to small business financial advisors.

Financial services regulation should protect consumers without burdening financial advisors with unnecessary regulatory compliance requirements that have no proven consumer protection benefit. This is consistent with the *Government of Alberta Guiding Principles of Regulation*, which call for strong evidence of need before regulating, and a results-based approach.

We urge the government to recognize the value of professional associations such as Advocis in helping financial advisors to meet high standards for education, proficiency, ethical conduct and accountability.

Advocis welcomes the government's support for Pooled Registered Pension Plans. In this context, we believe that consumers should have access to professional financial advice to help them make sound decisions when they participate in PRPPs.

To support the business model of small business financial advisors, we encourage the Government of Alberta to introduce legislation that allows for mutual fund and investment advisors to carry on business through incorporated entities while ensuring that individual financial advisors remain accountable to their regulators.

Advocis would welcome the opportunity to work with the Government of Alberta to provide further input regarding our recommendations.