

June 2, 2013

Philip Howell  
Chief Executive Officer and  
Superintendent of Financial Services  
Financial Services Commission of Ontario  
5160 Yonge Street, Box 85  
Toronto, Ontario  
M2N 6L9

Dear Mr. Howell:

**Re: Financial Services Commission of Ontario (FSCO) - Draft Statement of  
Priorities and Strategic Directions for Fiscal 2013/14**

Thank you for the opportunity to comment on FSCO's Draft Statement of Priorities and Strategic Directions for Fiscal 2013/2014 (the "Draft SOP").

**About Advocis**

Advocis, The Financial Advisors Association of Canada, is the country's 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 of serving Canadian financial advisors and their clients. Our over 11,000 members 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.

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

Almost all Advocis members are regulated by provincial insurance regulators or insurance councils. As FSCO is the leading provincial insurance regulator in Canada, its priorities and activities directly affect most Advocis members. The following specific

comments relating to these priorities are in respect of the areas that coincide with the priorities of Advocis and those that directly impact our members.

### **The Value of Financial Advice**

Advocis member financial advisors help consumers to ensure long-term financial security, advising them on their insurance needs and helping them to invest prudently.

Academic studies confirm that Canadians benefit tremendously from access to financial advice, and Canadians who use financial advisors consistently accumulate more wealth, at all wealth and income levels, than those who do not use financial advisors.

In July 2012, the Montreal-based Centre for Interuniversity Research and Analysis on Organizations ("CIRANO") released Canada's largest and most scientific independent study to date on the value of advice. The study, entitled *Econometric Models on the Value of Advice of a Financial Advisor* (the "CIRANO Study"), is based on data collected from over 10,000 households in 2010 and 2011 and provides strong evidence of the connection between financial advice and the accumulation of financial wealth.

After accounting for more than 50 other variables that could also influence wealth accumulation, the CIRANO Study reported that people who work with a financial advisor and receive financial advice accumulate considerably more wealth over time than people who do not receive financial advice. The longer the relationship with the advisor, the greater the beneficial impact for consumers: households with four-to-six year long relationships accumulated 58% greater assets than non-advised households, whereas households with 15+ year relationships accumulated 173% greater assets.

The CIRANO Study confirms research conducted by the Investment Funds Institute of Canada ("IFIC"). In each of 2010 and 2011, IFIC released studies (the "IFIC Studies") that indicate a likely correlation between financial advice and higher levels of financial assets, retirement readiness and financial literacy among consumers.

### **Our Comments**

Our comments are as follows:

#### ***Life insurance and mortgage broker product suitability reviews***

FSCO has identified as a priority for 2013 – 2014 (the Year), product suitability reviews “to gather information on how insurance and mortgage brokering intermediaries make product recommendations and how intermediaries assess the financial literacy of their clients.” The stated purpose of the reviews is “to determine whether consumers have access to appropriate information to make informed decisions when purchasing life insurance and entering into mortgage contracts.”

If we understand correctly, FSCO proposes in these reviews to focus, on the life insurance side, on:

- how life agents assess the financial knowledge of consumers;

- how life agents make product recommendations; and
- whether consumers are receiving appropriate information to make informed decisions.

We expect that FSCO will find that consumers considering the purchase of life insurance receive a great deal of information and have access to much more information, but generally do not study the information in detail and mainly rely on their financial advisor to inform them about the life insurance products they are considering and how those products could address the consumers needs.

Consumers rely on licensed life insurance agents to help them understand the features and benefits of insurance products.

We believe the same situation exists with regard to mutual funds and other investment products, where a huge amount of information is available to consumers in the form of prospectuses and other disclosure documents, but that information is largely ignored by consumers.

We suggest that the product suitability reviews should include focus on the following questions:

- What is particularly important for consumers to understand about the insurance products that they consider and purchase? Is it possible to develop simple checklists for common products, to identify what is particularly important for consumers to understand and for licensed life agents to help them to understand?
- What do consumers actually understand about the insurance products that they have purchased? Surveys and / or focus groups could assess what consumers actually know about the products they have purchased, and whether there are significant gaps in consumers understanding.
- Are consumers making suitable choices when purchasing insurance products? Is it possible to identify situations where consumers are making decisions to purchase insurance products that are not suitable for them and their needs, because they did not have access to information that would have enabled them to make informed decisions?
- Is it possible to identify particular “information deficits” on the part of consumers that if corrected would improve the quality of consumer decisions, ensure product suitability and improve consumer outcomes?
- Are there practical alternatives to conventional written disclosure, to improve the quality of consumer decisions and outcomes?

We believe the suitability reviews should focus on the three final bullets above, and in particular on whether consumers are making inappropriate choices because they are not receiving the information they need in the course of their interaction with licensed life agents, and how those problems might be addressed by licensed life agents.

We would add the following caution: We hope that the product suitability review process is not a precursor to the imposition of a compliance-heavy suitability process for life agents similar to the process that applies to the sales of mutual funds and securities. We can imagine the possibility that the product suitability reviews could be intended as a step in the development of a new mandatory product suitability process for life insurance agents, perhaps subject to close compliance oversight from a Managing General Agent (MGA), that would require the MGA to confirm that life agent has reviewed a product information checklist with the consumer, and to document for purposes of compliance oversight that the steps in the suitability process have been complied with. We submit that the better approach would be to start by identifying specific problems and deficiencies in the process that need to be addressed, in terms of the suitability of product recommendations, and making sure that a major overhaul of the current approach is needed before adding a costly new layer of compliance oversight.

***Support transition of Pension Hardship Unlocking functions to financial Institutions***

FSCO has identified as a Priority, working with the Ministry of Finance to review draft regulations to align FSCO's financial hardship unlocking program for pensions with all other forms of access to locked-in accounts where applications are made directly to financial institutions.

Advocis has previously expressed our support for these changes that will remove the requirement to obtain the consent of the Superintendent of Financial Services in order to withdraw money from locked-in accounts in cases of financial hardship.

We would be pleased to offer our input, in the review of the draft regulations.

***Develop harmonized life agent license qualification national standard***

FSCO has identified as a Priority, its support as a member of the Canadian Insurance Services Regulatory Organizations (CISRO), for an initiative to develop a harmonized life license qualification national standard that is aligned with the Agreement on Internal Trade, the Ontario Labour Mobility Act and the Ontario-Quebec Trade and Cooperation Agreement (the "Interprovincial Agreements").

Advocis supports the development of a harmonized life license qualification national standard. However, we do have some reservations concerning the approach that is currently being taken by CISRO, which is centralizing the development of course materials for the LLQP and in our view is leading to significant increases in the cost of qualifying for a life license. We are not convinced that the Interprovincial Agreements require FSCO to agree to adopt a costly centralized approach. We urge FSCO to consider alternatives such as the development of national curriculum standards and a common glossary of terms, that would permit course providers in Ontario and other participating jurisdictions to continue to develop courses and exams for LLQP candidates.

### ***Create a national disciplinary actions database***

FSCO has identified as a Priority, its participation (as co-chair) in a project to create a national database of disciplinary actions by insurance regulators across Canada. The project will be conducted under the auspices of the Canadian Council of Insurance Regulators, of which FSCO is a member.

Advocis applauds FSCO's leadership in this vital initiative.

We believe being able to identify “problem advisors” across Canada is crucial to ensuring that Canadian consumers have access to financial advisors who are proficient and professional.

However, we believe financial sector regulators in Canada should go further.

Prudent consumers rely on financial advisors and the advice they offer when making investment choices and when addressing their insurance needs. (A large proportion of insurance advisors are also licensed to sell mutual funds and investment products.)

The expertise and professionalism of the insurance advisor is of crucial importance. The public interest will be best served if the insurance advisors that consumers rely on are proficient, professional, ethical and accountable. Regulators and SROs act as gatekeepers in establishing proficiency standards, but in our view they do not go far enough.

We believe the Advocis Professions Model, by requiring all financial advisors in a province – including insurance advisors - to belong to an accredited professional association (as described below), and by making that a condition of licensing to sell financial products and of holding out as a financial advisor, will help to ensure that consumers receive the financial advice that they need.

### **The Advocis Professions Model**

We submit that the FSCO should make promotion of the professionalism of all financial advisors one of its Priorities.

Advocis has developed its Professions Model as a framework for promoting consumer access to professional, proficient and ethical financial advisors, encompassing all Canadian jurisdictions and all financial services.

Financial advisors are vitally important to helping consumers to develop sound habits of saving and prudent investment. This includes educating consumers and helping them to understand financial products and make sound investment decisions. Empirical evidence establishes without question, that consumers at all asset and income levels benefit greatly from having ongoing access to financial advice.

Millions of Canadians rely upon financial advisors to provide them with financial planning and investment advice, including access to financial products and services to help achieve those plans.

Given the advisor's central role in securing their financial futures, Canadians should be able to trust that their advisor satisfies high industry-wide standards of professionalism, proficiency and accountability.

Unfortunately, this is not always the case: currently, in nearly every province, anyone can hold themselves out as a financial advisor, regardless of training or licensing, and it is far too easy for individuals who do not meet the standards in one regulated sector to continue to deal with the public elsewhere. As well, standards for important consumer safeguards such as continuing education or errors and omissions insurance vary widely by province and sector.

The current system leaves consumers exposed. Advocis believes the current situation can be greatly improved with a straightforward new requirement: all persons who hold themselves out to the public as financial advisors or who are licensed to sell any financial products, should be required to maintain membership in a recognized professional association that enforces robust professional and ethical standards.

This requirement will significantly enhance consumer protection by raising the professional bar for all financial advisors. Advisors will be required to comply with the association's high proficiency and conduct standards that are enforced with an effective complaints and disciplinary process. Advisors who run afoul of the requirements of a financial regulator or SRO will also be accountable to their professional association. Consumers will be able to easily verify their advisor's credentials and disciplinary history across industry sectors. Advisors themselves will benefit from enhanced public trust, status and confidence in them as true professionals, while seeing unethical colleagues who tarnish the industry removed in an efficient manner. Product providers will enjoy enhanced professionalism from the individuals who represent their firms to the public and a stronger platform from which to recruit new advisors.

This proposal is designed to complement but not conflict with the existing regulatory framework, which is largely focused on the sales of specific insurance and securities products. Rather than duplicate the efforts of existing regulators, the proposal fills in critical regulatory gaps that arise from this product focus and better reflects the comprehensive approach to financial planning and investment advice that most Canadians receive.

### ***Examine CCIR recommendations regarding distribution of insurance***

FSCO has identified as a Priority, its examination of recommendations by the CCIR's Agencies Regulation Committee (ARC) on issues surrounding the Managing General Agency (MGA) distribution channel in the life insurance industry.

Advocis supports many of the ARC's recommendations, including the adoption of Best Practices for insurer-MGA relationships. We believe strongly that it is not in the consumer's best interest to move to a one-to-one supervision model, as in the mutual funds industry. We agree with ARC that MGAs should report questionable acts by representatives to insurers with whom the representative has a contractual relationship or does business. MGAs also should have a process for investigating questionable acts by representatives and a related process for keeping the insurer properly informed. We would support the creation of a central database accessible by consumers, MGAs and insurers which

would store information about a representative's qualifications, licensing, and disciplinary information of benefit to stakeholders, including the public.

Advocis would be pleased to meet with FSCO to discuss ARC's recommendations.

### **What's missing from the Priorities?**

Advocis commends FSCO's long standing requirement of 30 hours of CE related to the technical aspects of life insurance (Bulletin LH-02/96) every two years. However, Advocis encourages FSCO to review this definition and its supporting guidelines to ensure that licensees are undertaking the full scope of applicable education and that such education is both current and relevant in relation to the most recent Competency Profile for Life Insurance Agents (CISRO-OCRA February 2013). We believe this is critically important in order to best position licensees to protect Ontario consumers.

Advocis would welcome the opportunity to support FSCO in this endeavour given our industry recognition as both a respected education provider as well as the leading CE Accreditation body for the industry, through our subsidiary The Institute For Advanced Financial Education (The Institute).

We look forward to working with FSCO to assist in achieving its objectives for the coming fiscal year and into the foreseeable future.

Advocis appreciates this opportunity to provide comments on the FSCO's Priorities and would be pleased to address any concerns or answer any questions. Please feel free 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).

Yours sincerely,



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