



**2012 Ontario Pre-Budget Submission**

*to the*

**Ontario Minister of Finance**

*March 2012*

## **Executive Summary**

- Professional financial advisors help Ontarians 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 Ontarians 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 Ontarians to prepare themselves financially for important life events. Financial security and independence is extremely important since Ontarians will become less reliant on the government for their future financial needs.
- Ontarians 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.
- The fiscal challenges that Ontario faces, that are the focus of the recent report of the Commission on the Reform of Ontario's Public Services (the "Drummond Report"), highlight the need for the Government of Ontario to address systemic barriers to economic growth. We believe that regulatory red tape and regulatory burdens on business enterprises, including financial advisors, impede both economic growth and the ability of Ontarians to access the financial advice they need. As an element of its response to pressing fiscal challenges, the government of Ontario should give priority to finding ways to reduce regulatory red tape and regulatory burdens as much as possible without sacrificing investor protection.
- 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 be required to 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 Ontarians to save for their retirement.
- Advocis welcomes Ontario's support for private-sector administered Pooled Registered Pension Plans (PRPPs) which can provide a low-cost option to expand retirement plan coverage, particularly to small business employees and the self-employed. 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. 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, Advocis strongly encourages Ontario to enact legislation to permit mutual fund and securities sales representatives to operate 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 Ontario 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. The government should make the financial advice industry a priority sector, and work with the industry to develop joint strategies to encourage consumer access to professional financial advice.

**RECOMMENDATION 2:** The Government of Ontario should adopt 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 Ontarians.

**RECOMMENDATION 3:** The Government of Ontario should require strong evidence of need before regulating, and a results-based approach to regulation in the life insurance and securities sectors. This should include a requirement that all regulators perform a thorough cost-benefit analysis of proposed regulation clearly demonstrating that consumers are actually benefitting and that advisors are not needlessly being burdened with undue compliance costs.

**RECOMMENDATION 4:** The Government of Ontario 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 investment advisors to operate their businesses through a personal corporation without requiring that corporation to be a registrant under the Securities Act. In this regard, we encourage the Government of Ontario to introduce necessary amendments to the Ontario Securities Act to enable mutual fund and investment advisors to receive compensation through a personal corporation that is not itself required to be a registrant.

**RECOMMENDATION 5:** The Government of Ontario 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.

## **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 5,000 advisors and planners across Ontario, 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 Financial Services Commission of Ontario and the Ontario 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 Ontario's economy.

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 Ontario. Over the past few years, Advocis has made representations to the government and to Ontario regulatory agencies on a wide range of subjects including improving the pension and retirement system, securities regulation, insurance regulation and inter-provincial trade and cooperation negotiations.

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 over a million Ontario 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 Literacy<sup>1</sup> 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:

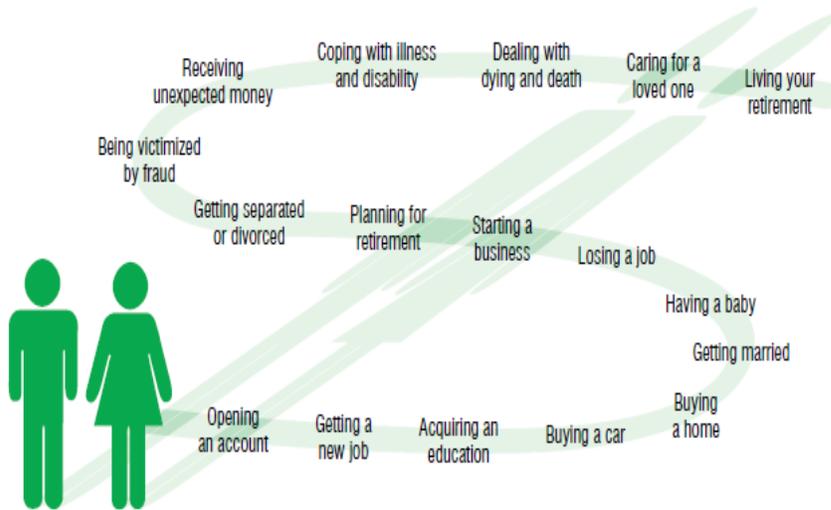
The Task Force recommends that the Government of Canada, in partnership with stakeholders, provide tools to help Canadians become better informed about the role and benefits of professional financial advice, as well as how to choose a financial practitioner.

Professional financial advisors help Ontarians 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.

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<sup>1</sup> 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> ].

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



Based upon information from Investor Education Fund: [www.GetSmarterAboutMoney.ca](http://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."<sup>2</sup> It is particularly valuable for consumers to have professional financial advice to help them deal with those important life events.

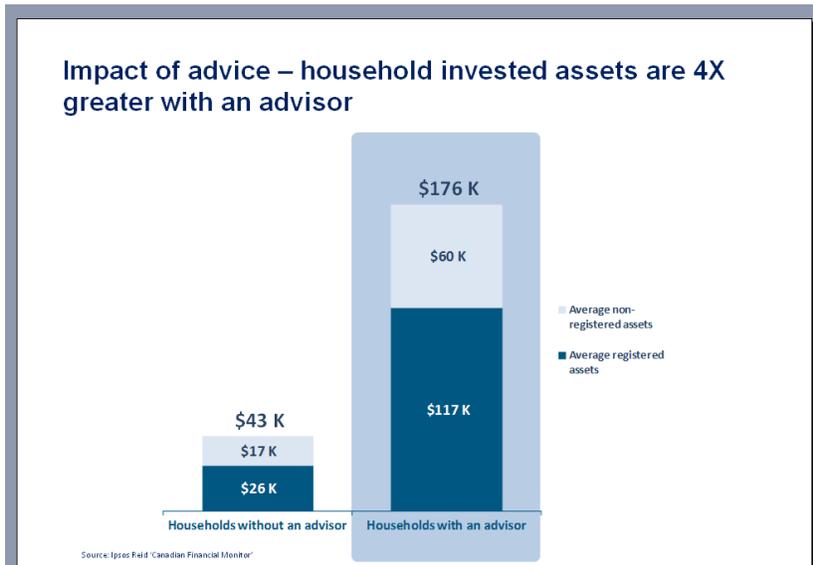
A study prepared by Ipsos Reid Canadian Financial Monitor<sup>3</sup> documents that having advice is strongly associated with the accumulation of financial wealth, and this is the case regardless of income level or age of household. Figure 2 shows that households with an advisor have four times the invested assets than those without. The study also found:

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

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

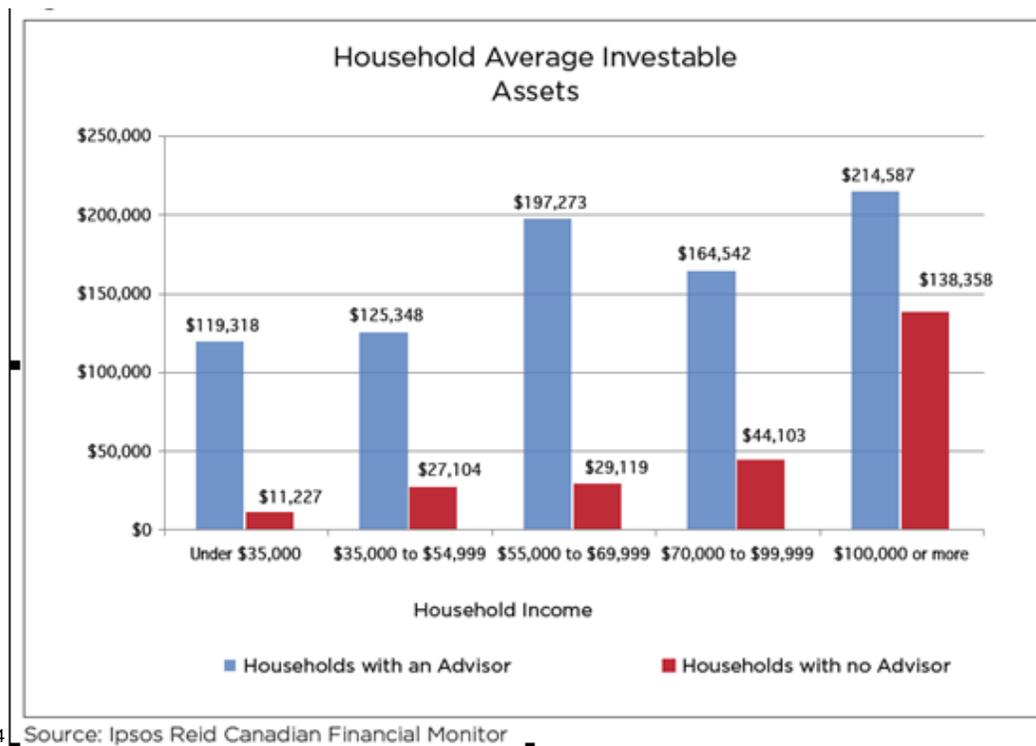
<sup>3</sup> Ipsos Reid Canadian Financial Monitor<sup>3</sup> for the Investment Funds Institute of Canada [The Value of Advice, July 2010, [http://www.mackenziefinancial.com/en/pdf/ific\\_voa\\_report.pdf](http://www.mackenziefinancial.com/en/pdf/ific_voa_report.pdf) ]

**Figure 2: Impact of Advice**



Source: Ipsos Reid Canadian Financial Monitor (2010)

**Figure 3: Household Investable Assets, with and without an Advisor**



Source: Ipsos Reid Canadian Financial Monitor (2010)<sup>5</sup>

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

According to Figure 3, above, households that have a financial advisor have significantly more investable assets than do households that do not across all income levels illustrating that financial advice is necessary irrespective of an individual's or family's income level. 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.

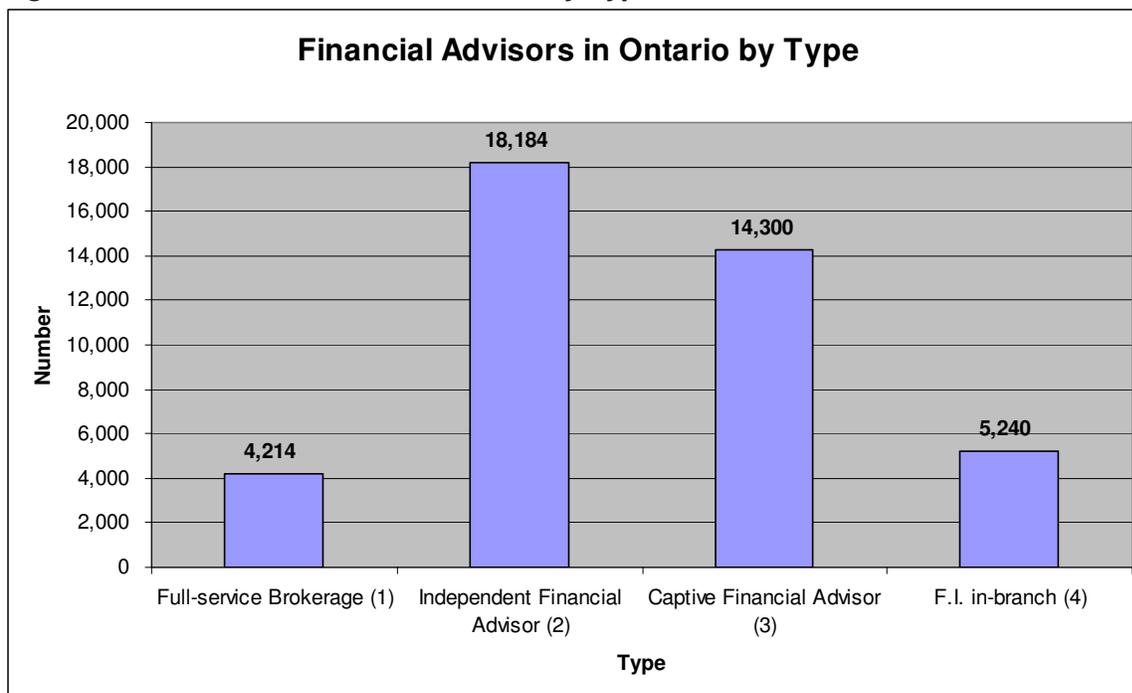
A strong financial advice sector will support the long-term economic and fiscal health of the province by helping Ontarians to prepare themselves financially for important life events and needs, and to be financially self-sufficient throughout their lives.

### III. Supporting the Business of Financial Advisors

#### (a) Ontario's Financial Advice Industry

There are approximately 42,000 financial advisors and planners in the province of Ontario that help millions people and businesses in their communities. A substantial majority, estimate to number approximately 32,000, are small business financial advisors working independently or contracted with a financial services company. The rest are employed primarily by large financial institutions. These professional financial advisors are a vital part of the financial services marketplace and of their communities.

**Figure 4: Financial Advisors in Ontario by Type**



Source: Investor Economics, February 2012.

- (1) Full-service Brokerage: these financial advisors typically are employed by a full-service investment dealer.*
- (2) Independent Financial Advisor: these financial advisors typically are self-employed but have contractual arrangements with insurers and with investment dealers and mutual fund dealers.*
- (3) Captive Financial Advisor: these financial advisors typically are affiliated with one manufacturer or insurer, but operate their own small business.*
- (4) F.I. in-branch: these financial advisors are employees of large financial institutions and offer services in-branch.*

### **Small business independent financial advisors serve Main Street**

Of the approximately 42,000 financial advisors in the primary advice channel<sup>6</sup> in Ontario, more than 32,000 are small business independent financial advisors – either independent financial advisors, or captive financial advisors who are affiliated with one manufacturer or insurer, but essentially operate their own small business.

These small business financial advisors overwhelmingly serve small businesses, families, first time investors and the broad middle class of Ontarians. The average “book of business” for an independent financial advisor is just under \$12 million, while captive financial advisors have an average of \$5 million assets under management for all of their clients. This indicates that, on average, these financial advisors are dealing with middle income Canadians based on a standardized number of clients per advisor. By contrast, full services brokers manage an average of \$75 million for their combined clients, implying they deal with more wealthy Canadians.<sup>7</sup>

### **Life and Health Insurance Solutions**

Financial advisors do much more than assist their clients to accumulate assets. They also assist people in protecting their assets and to achieve a steady stream of income as they enter retirement, which is accomplished by a wide range of insurance solutions. In 2010, total new business insurance premiums attributable to small business financial advisors amounted to \$3.94 billion, and a further \$2.24 billion in new business insurance premiums were attributable to captive advisors. These insurance solutions include life insurance, segregated funds, living benefits (critical illness, long term care and disability insurance) and payout annuities. These are extremely important components of a comprehensive financial plan.

### **(b) The Regulatory Challenge for Small Business Financial Advisors**

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

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<sup>6</sup> The “primary advice channels” include branch advice, full-service brokers, independent financial advisors and captive financial advisors. Secondary advice channels, which are not included in the approximately 42,000 advisors in Ontario, include deposit brokers, private banking, exempt market dealers, fee-only planners, scholarship plan distributors and others.

<sup>7</sup> **Investor Economics, 2010 data.**

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 Ontario 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 Ontarians in these uncertain economic times.

The fiscal challenges that Ontario faces, that are the focus of the recent report of the Commission on the Reform of Ontario's Public Services (the "Drummond Report"), highlight the need for the Government of Ontario to address systemic barriers to economic growth. We believe that regulatory red tape and regulatory burdens on business enterprises, including financial advisors, impede both economic growth and the ability of Ontarians to access the financial advice they need. As an element of its response to pressing fiscal challenges, the government of Ontario should give priority to finding ways to reduce regulatory red tape and regulatory burdens as much as possible without sacrificing investor protection.

**Advocis believes that:**

- 1. Ontarians 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 Ontarians 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 Ontarians 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 Ontario 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. The government should make the financial advice industry a priority sector, and work with the industry to develop joint strategies to encourage consumer access to professional financial advice.

***(c) 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.

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. Accordingly we believe that the Government and regulators should, in regulating the financial advice industry, recognize the important role 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 be required to belong to a professional association to raise the professionalism of all advisors.

Advocis supports Ontario’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.

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 Ontario 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 Ontario should adopt 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 Ontarians.

**RECOMMENDATION 3:** The Government of Ontario should call for strong evidence of need before regulating, and a results-based approach to regulation in the life insurance and securities sectors. This should include a requirement that all regulators perform a thorough cost-benefit analysis of proposed regulation clearly demonstrating that consumers are actually benefitting and that advisors are not needlessly being burdened with undue compliance costs.

### ***Advisor incorporation***

Permitting financial advisors to receive compensation through a personal corporation that is not required to be separately registered under the Securities Act will enhance the ability of small business financial advisors to operate efficiently, remain competitive and offer consumers affordable access to financial advice. At present, most professionals in Canada, including insurance agents, doctors, dentists, veterinarians, lawyers, accountants, architects, engineers, and many health professionals are permitted to incorporate. This has been done in a way that is consistent with the professional accountability of those professionals. A number of provinces across Canada have enacted or are in the process of enacting legislation to permit financial advisors to incorporate, in a manner that does not reduce the financial advisor's accountability to regulators or to clients.

**RECOMMENDATION 4:** The Government of Ontario 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 investment advisors to operate their businesses through a personal corporation without requiring that corporation to be a registrant under the Securities Act. In this regard, we encourage the Government of Ontario to introduce necessary amendments to the Ontario Securities Act to enable mutual fund and investment advisors to receive compensation through a personal corporation that is not itself required to be a registrant.

## **IV. Improving Retirement Income and Financial Security of Ontarians**

Pension coverage and retirement income adequacy are major public policy issues. We commend the Ontario 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 Ontarians 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 Ontario has endorsed the framework, stating that PRPPs are the "type of targeted solution Ontario 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 Ontario to continue engaging Advocis on this important issue. Advocis would be pleased to lend its support and expertise to the Government of Ontario to ensure that PRPPs achieve their objective of ensuring that Ontarians are financially-prepared for retirement.

**RECOMMENDATION 5:** The Government of Ontario 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 both employers and -consumers should have access to professional financial advice when they participate in PRPPs.

## **VI. Conclusion**

We urge the Government of Ontario to recognize the important contributions that financial advisors make to the financial health of Ontarians 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. Ontarians 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.

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 Ontario 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 Ontario to provide further input regarding our recommendations.