

Submission to the Task Force on Financial Literacy

**Leveraging Excellence: Charting a course of action
to strengthen financial literacy in Canada**

May 2010



Introduction

Advocis appreciates the opportunity to comment on the consultation paper issued by the Task Force on Financial Literacy, *Leveraging Excellence - Charting a course of action to strengthen financial literacy in Canada*.

Advocis, the Financial Advisors Association of Canada, is the largest and oldest voluntary professional membership association of financial advisors and planners in Canada. Our association was founded in 1906, as the Life Underwriters Association of Canada.

More than eleven thousand members of Advocis in Canada provide comprehensive financial planning and investment advice, retirement and estate planning, risk management, employee benefit plans and disability coverage, to millions of Canadian households and businesses. Our members are provincially licensed to sell life and health insurance, mutual funds and other securities. Advocis members are for the most part independent owners and operators of small businesses, entrepreneurs who create thousands of jobs in every community across Canada. Advocis members maintain lasting trust based relationships with their clients. They help clients, young and old, individuals, families and business, set financial goals, manage risk, save consistently and invest prudently. Advocis members work with clients as they move through the various phases of their lives.

Prior to responding to the Task Force's questions we are providing our general comments. For ease of reference, our responses will follow the ordering and headings provided in the consultation document.

General Comments and Recommendations

There is a recognized need for consumers, governments, and private sector stakeholders to share the responsibility for helping Canadians prepare for retirement. Large deficits created to fight the recession will likely limit governments ability to enhance safety net programs.

Canadians will increasingly need to rely on their own savings and investments, to deal with needs that governments are increasingly unable to afford. Saving, investing and making decisions with respect to long-term needs require that Canadians develop the requisite financial literacy skills.

Stated simply one can identify a basic level of financial literacy as having the knowledge, skills and confidence to successfully carry out the financial transactions encountered in everyday life. However, financial literacy needs to be viewed as a continuum. With the increasing requirement placed on the individual to assume greater responsibility for their future financial security, the

need to save and invest for various life events will require an increased level of financial sophistication. It is unrealistic to expect every Canadian to achieve the level of sophistication required to evaluate the increasingly complex financial products and services on the market. This means that financial experts that provide tailored analysis to consumers must be easily accessible. This in combination with the continued emphasis on improving the level of financial literacy of Canadians will help achieve the government's public policy objective of increased financial self reliance, and the reduction in financial fraud.

Advocis' Recommendations to the Task Force are:

- ***Develop and fund a pilot project with limited application to an identified 'at risk' group who otherwise does not have access to continuing financial education and the trusted advice provided by a financial advisor. The success of the pilot project can be assessed to determine if the target groups' level of financial literacy has improved, and if the participants in the program have developed enhanced saving and investing skills.***
- ***Develop policies to ensure that Canadians have ample access to professional financial advice and advisors, and that they continue to have ample choices in the financial services marketplace.***
- ***Review the business and regulatory environment that directly impacts the provision of financial advice in Canada with a view to ensuring that it fosters competition and access to small business financial advisors on a level playing field, and that regulation is well thought out and does not raise barriers to Canadians receiving the financial advice they need.***
- ***Work with the industry to promote high standards of financial advisor proficiency and professionalism, so that consumers are protected, and receive the best financial advice.***
- ***Explore the potential benefits that can be derived from instituting a centralized and easy to access source where investors can check the registration status of a financial advisor, their membership in professional associations, and their educational credentials.***
- ***Consider the benefits that can be derived through identifying those financial advisors who are members of professional associations that require their members to adhere to a strict professional code of conduct, and participate in continuing education programs.***
- ***A national strategy designed to improve the level of financial literacy among Canadians can benefit through leveraging off of established***

networks that can act as conduits or portals for the purpose of making information more easily available and accessible to consumers. Advocis, as a national association, is one of a number of such associations that can act as an information conduit. However, in order to assume the role of information conduit or portal, appropriate resources and funding would have to be accessible to allow identified industry stakeholders to assume this role.

There is no question that Canada must improve the level of financial literacy of its citizens. There will be costs associated with establishing the proper framework. However, these costs can be mitigated through working with existing structures and networks that make direct contact with consumers. The costs associated with establishing a national financial literacy program will, in the long term, save all levels of government money as a more financially literate society will be making the necessary saving and investing decisions that will lessen the reliance on government social programs.

Discussion:

The Financial Literacy Landscape

Financial products are increasingly complex. Concepts such as floating rate mortgages, blended savings/stock market products, and investments such as structured products, hedge funds, and derivatives require a sophisticated understanding of risk and return.

The Task Force has correctly identified that there are many sources available for Canadians who are interested in improving their level of financial literacy¹. But Canada is a very large, diverse, and multicultural country. If the goal is to improve the level of financial literacy for all Canadians then a national strategy should be developed to ensure that educational materials are accessible, understandable, and delivered to the end user, consumers.

A large challenge that any financial literacy program needs to overcome is reaching those Canadians who need it most, and are also least likely to have access to the resources that are currently available. In developing a national strategy, the Canadian government should recognize the utility in using existing infrastructure to further their desired regulatory outcome of increased financial literacy among Canadians. One such resource is the network of financial advisors who work directly with Canadians in developing strategies that help consumers achieve their financial goals at the various stages in their life cycle.

¹ Please see the attached Appendix which highlights a number of sources targeted at a wide range of Canadians.

For example, new Canadians are an at risk group that may not benefit from the current focus on delivering financial education through the school systems. Accordingly, an important factor in improving the financial literacy of Canadians will be meeting the challenge of reaching those for whom English or French is not their first language, and those who fall beyond the reach of a school centric approach. A failure in reaching at risk groups in a national financial literacy program means that future generations will be required to absorb the costs associated with caring for aging parents and others who have not benefited from enhanced financial literacy skills.

New immigrants and adult Canadians could benefit from the early development of a relationship with an independent financial advisor.² For adult Canadians, a lasting relationship with a financial advisor represents a conduit for not simply bringing financial education to them, but serves the equally important purpose of helping Canadians understand the complexities of saving and investing to meet the needs that will inevitably arise in the natural course of life.

At the most fundamental level, an individual must be able to attend to their basic financial needs such as taking care of their own bank accounts, and bill payments. Further, they must be able to identify the signs suggestive of fraud. They need to have a level of financial literacy that, at the most basic level, allows them to appreciate that if an investment is being offered to them that sounds too good to be true, then it probably is too good to be true and should be further investigated. They need to know that at a time of moderate or low investment returns, a product being recommended that offers double digit returns on an annual basis may require further investigation. They need to know where or who to turn to for expert advice to ensure they do not become victims of financial fraud. Ideally, all Canadians should have access to a trusted financial advisor with whom they have an established relationship that they can turn to for trusted advice.

In brief, beyond being able to budget, read bank statements, and make bill payments, on the investment side of the equation Canadians must be able to identify red flag issues and know where to turn for advice.

Having an established relationship with an accredited financial advisor not only helps in bringing financial education to the client, but it helps people plan for the highs of purchasing a first home, to arranging for the proper protection for their families from the less pleasant and unpredictable life events that can spell financial ruin. A relationship with a financial advisor is not unlike the relationship one has with their healthcare provider in that a relationship of trust is established where you rely on their expertise and advice to make changes to your lifestyle

² *CSA Investor Index Study 2009*, notes that do-it-yourself investors who are highly educated and new Canadians are at an increased risk of becoming victims of financial fraud, and that the incidence of fraud is reduced when one uses a financial advisor.

that will maintain your good health. You also have someone to turn to in the event you aren't feeling well who can advise you on what needs to be done to determine if there is a health concern. A good healthcare provider is someone with whom you have a life long relationship. Similarly, the relationship between a client and their financial advisor is based on trust. A financial advisor is a person who can help you with your financial health, and is someone you turn to when you have questions or concerns about your financial health. As with a healthcare provider, a financial advisor plays a preventative role. He helps you develop habits that will steer you clear of financial hardship. A relationship with an accredited financial advisor will lessen the risk of an investor becoming the victim of financial fraud, just as a relationship with a healthcare provider can lessen the risk of becoming ill.³

There are numerous sources available that focus on increasing the financial literacy of the retail investor, that educates them on the basic issues of saving and investing, debt management, and establishing a plan so that they can meet their future needs. What is lacking is a centralized hub where people can gain access to these resources. Advocis is one of a number of national associations whose members are in the homes of millions of Canadians. A national strategy aimed at improving the level of financial literacy should leverage off of existing networks and get the needed tools into the hands of Canadians that will allow them to continue their financial education.

At the provincial level we see governments moving to expand financial education into the school curriculum, and this is a positive development. But there is a need for greater outreach to specifically targeted audiences who are not captured under current initiatives (new Canadians, and lower income individuals). Recognizing that financial education is a life long journey is a point that should be driven home to all Canadians. We believe it is in the government's interest to ensure that the abundance of information available for continuing financial education gets into the hands of the consumers who need it most.

A national initiative aimed at improving the level of financial literacy should be broad and comprehensive in its scope if it is to reach as many Canadians as possible. Accordingly, the government may want to examine the benefits of instituting a program that is available in some jurisdictions whereby vulnerable segments of society are serviced by advisors who are funded by government. This would be similar to legal aid where legal experts are made available to those in society who otherwise cannot afford a lawyer. The advisor would represent the conduit, connecting the consumer to the educational resources, and ensure that an underserved group receives professional saving, debt management and investing advice that will enable them to make decisions relating to their long term needs and care.

³ Please see footnote 2. Despite the benefits associated with working with a trusted financial advisor the *CSA Investor Index Study 2009*, notes that only one in four Canadians have a formal financial plan, and fewer than half have ever worked with a financial advisor.

Recommendations

- ***Develop and fund a pilot project with limited application to an identified 'at risk' group who otherwise does not have access to continuing financial education and the trusted advice provided by a financial advisor. The success of the pilot project can be assessed to determine if the target groups' level of financial literacy has improved, and if the participants in the program have developed enhanced saving and investing skills.***

The Learning Foundation

There is a growing industry to address the lack of financial literacy among Canadians. Virtually every province funds some effort at enhancing financial literacy.

The British Columbia Securities Commission (BCSC) has been a leader in identifying ways to communicate the skills necessary for financial literacy. The BCSC took the initiative to design a comprehensive resource called the 'City: Financial Life Skills for Planning 10' as a teacher resource. Working with teachers, students, curriculum writers and financial experts from across the province, the BCSC quickly discovered that one of its biggest challenges was how to make financial education interesting and relevant to teenagers.

The result was an interactive, activity-based resource using eight fictional life stage characters whose stories represented a wide range of financial experiences.

Additionally, the BCSC recognized that they had to figure out how to teach the teachers to teach financial life skills.

In general, teachers are not trained to teach finance to their students. Many teachers themselves would fall within the large number of Canadians who required enhanced financial education. Part of the course content of the City required that student's create a personal financial plan in order to meet their graduation requirements. Such a plan required that they deal with issues such as budgeting, savings, credit and debt, insurance, taxes and investing. For students to learn these skills, the teacher had to first master them.

To educate the teachers the BCSC created a 'webinar' (seminars over the internet). All a teacher needed was a computer connected to the internet and a phone. Teacher trainers were employed and usually held two to three seminars a year. The problem with this system is that they were not reaching enough teachers.

To address the lack of financial education training of teachers and only marginal success in attracting teachers to the ‘webinar’ presentations, financial education is now provided to graduating student teachers at the three teacher colleges in BC in addition to free webinar or face-to-face training. This has resulted in new teachers entering the system who are comfortable with teaching finance to high school students.

The BCSC has since licensed the City program to the Financial Consumer Agency of Canada, an agency of the federal government whom now has an interactive English and French based program on the web.⁴

The shortcoming of this system is that it is only directed to a very limited cross section of society, high school students in grade 10. While Advocis believes that the education system plays an important role in enhancing financial literacy, these life skills should be targeted at a wider group of citizens. This gets back to our belief in the need for greater outreach and leveraging off of existing infrastructure. Using the school based system as our example, we can see how governments and regulators worked with the professionals within the education stream to delivery the important life skills of financial literacy to students. The infrastructure exists outside of the school system for the continued delivery of the message regarding the importance of continuing financial education. Financial advisors are an ideal resource that can be used to deliver the message and material with respect to continuing financial education. It makes sense that expert financial advisors would be involved in the process of continuing financial education of adults given that the decisions being made with respect to planning and investing will not be a theoretical exercise, rather it will have a direct impact on the individuals’ financial well being on a going forward basis.

In order to make financial education universal, relevant and accessible to all Canadians, we have to expand our outreach through leveraging off of existing social networks. The current existence of a multitude of net based resources is no substitute for face-to-face personalized interaction when discussing issues as sensitive as preparing and planning to purchase a new home, a first child, the education of our children, marriage breakdown, loss of a loved one, caring for aging parents or planning for ones own care as we age. These are life events that require a higher degree of financial literacy and planning on the part of Canadians.

Non-profit groups are active regionally. Social and Enterprise Development Innovations (SEDI) is a national not-for-profit organization dedicated to helping low-income Canadians achieve economic self-sufficiency by focusing on financial literacy, asset-building and entrepreneurship. SEDI seeks to work with community organizations in order to reach the millions of youths and adults who

⁴ The comments relating to the discussion about the “City” program created by the British Columbia Securities Commission are attributable to Patricia Bowels, Director of Communications, BCSC.

cannot be reached through schools. Other organizations are concentrating on providing financial services and training for low-income Canadians.

Several banks, insurance companies and other financial services companies devote resources to educating Canadians in the basics of financial literacy, including increased efforts to reach multi-cultural groups in their native languages. The problem with some education materials being developed by industry is that it is centered on their products and is not sufficiently objective.

The key to moving forward is for the Canadian government to take a leadership role along with the provinces to develop and deliver a national financial literacy strategy. We believe a consolidated effort on the part of governments will result in economies of scale. The result, existing financial resources will go further in bringing financial education to all segments of society. Additionally, government funding can be targeted at working with existing associations in developing a centralized information distribution network. Advocis as a national association of mostly independent financial experts with members across Canada represents an excellent untapped resource to both educate and help Canadians establish sound financial plans. Advocis believes that through using existing networks we are, in fact, closer than we may realize to having the outreach network needed to ensure that a comprehensive strategy is available to bring financial education and financial advice to all Canadians.

Improving the level of financial literacy in Canada requires changing people's behaviour toward planning, saving, and investing. An important start is to ensure that our school systems establish a base level knowledge that students can carry with them as they enter the labour force. It also requires the necessary outreach that will ensure that all Canadians (including new Canadians, those from lower income brackets and seniors) are also beneficiaries of a national strategy for improved financial literacy. Absent a comprehensive approach to financial literacy, the most vulnerable in society may be left behind.

Understanding Financial Behaviour

The financial literacy problem in Canada is well documented. Poor financial knowledge and behaviour is having a deleterious impact on households and threaten not only our perception of what retirement will be like, but our ability to prepare for the events that will unfold in our life cycle regardless of our preparedness.

A recent study on financial literacy in high schools indicates our problems with respect to financial literacy begin when we are young. Less than 38% of Ontario high school students feel prepared or somewhat prepared to effectively manage their money after graduation. As noted previously, governments and regulators in Canada are working with educators to address this deficit and new school based programs are appearing from coast to coast to coast.

If everybody agreed that addressing the lack of a comprehensive approach to financial education in the school system was the solution to conquering the financial literacy deficit, it would be easy to solve. However, developing a school based approach to address the financial literacy deficit is just one of the needed steps to address this problem. Financial literacy and encouraging people to make smart decisions in planning for their future is an issue that goes beyond the classroom. Therefore, we must recognize that a financial education is a life long journey that will see us through the various stages of our life cycle.

Research studies consistently indicate that learning about financial topics occurs at times that are closely aligned with major life events. When we get our first job, need to purchase a house or have our first child, we need unbiased consumer-centric information that is communicated in plain language that we can understand. Solving the existing financial literacy crisis requires that Canadians build a plan that will address not only the life stage they are at, but prepares them for the stages to come. If we can communicate this message to Canadians, then we can expect that the behaviour of consumers will change accordingly.⁵

Recognizing that learning about financial topics is highest when applied to real life situations suggests that there is a need to provide the appropriate mentoring during these periods. As most of the opportunities for the practical application of financial skills take place once one has completed their formal education, it is critical that existing networks are used to provide real world advice and continuing financial education. Accordingly, the proactive approach to financial literacy we are seeing in our school systems needs to be augmented through continuing outreach and education. This is a role financial advisors assume in dealing with people on a day to day basis, and it would just make sense to leverage off of this existing national network, as we have done with the education system, to further the public policy goal of greater financial literacy among all Canadians.

Communication is a two way street, and the stronger the relationship between the parties the better the chances of arriving at a positive outcome. Financial advisors and consumers who have established relationships are working from a foundation rooted in trust. The financial advisor knows and understands the needs of the person across the kitchen table from him. Advice provided by a financial advisor, and decisions made by consumers who have trust in their advisor are more likely to have positive outcomes. Positive outcomes are increasingly likely when the investment and saving advice is tailored to the unique situation of the individual consumer.

⁵ It is also important to note that the incidence of financial fraud increases when people are experiencing changes in their lives. *CSA Investor Index Study 2009*, p 6.

If resources are appropriately applied and existing networks are utilized, we may be further along than we realize in delivering to all Canadians the necessary information that will elevate the level of financial literacy nationally.

Borrowing and Debt

Debt levels in Canada are too high. When debt levels are too high, savings levels are generally too low. The Task Force asks what options could be considered to help more Canadians understand the difference between good and bad debt.

For example, Canadians use their credit cards like cash, and fail to understand the consequences of carrying over the monthly debt without paying off a significant portion of the outstanding balance. This should easily be understood as a very bad form of debt. Whereas a properly structured mortgage is generally a good debt, provided the market prices for real estate is based on solid fundamentals.

With financial products becoming increasingly complex and hard to understand, risk associated with investing and risk management can expose the retail investor to the bad debt of others through the purchase of complex structured products.

In relation to good and bad debt, Advocis believes that consumers can be easily educated to distinguish between simple forms of debt that are good or bad. However, when it comes to investing in financial or risk management products, consumers should be directed to professional financial advisors who understand the complex nature of investment and insurance products.

The existence of a sound financial plan and working with a financial expert will help people distinguish between good and bad debt and allow them to make more informed choices. For the more complex saving and investing decisions there is no question that a professional financial advisor is critical in helping consumers arrive at well reasoned and informed investing decisions

Saving and Investing

Saving and investing are learned skills. We can be taught as children the importance of saving, but the concept of investing is far more complex and requires that the individual have a basic level of financial education, and more importantly, a professional that can evaluate the risk and benefits associated with specific investments.

The individual circumstances of the investor will have a large role to play when it comes to developing a savings and investment strategy. Clearly, those with a larger disposable income are in a better position to save and invest. It is equally true that those with higher incomes and larger disposable incomes are more

likely to establish a long term relationship with a financial advisor who can help them with both their saving and investing strategies than those who have lower incomes and less disposable income.

Of particular concern is that portion of the population that is not saving and investing to meet the needs that will materialize at the various life cycle stages.

It is important that all Canadians become more financially literate and understand the need to save and invest to meet their future needs. However, Canadians with higher incomes do have an advantage in that a later start can be made up by applying more of their disposable income to saving and investing as they move along in the life cycle.

For Canadians that do not share the same luxury of having large disposable incomes to make up for a late start to saving and investing, the ill effects of imprudent habits place them in a particularly vulnerable position. It is this group that would most benefit from an established relationship with a financial advisor early in their working careers. Having a trusted advisor early in one's working career, an advisor who will be with you and your family as you move through life, will provide comfort and greater financial security.

Through education we can teach people about the need for, and benefits of, an early start to saving and investing. However, without access to financial advice it is unlikely that people will maximize the benefits that can be derived through a properly developed financial plan and investment strategy.

Preparing for events that take place in one's life cycle requires more than just saving. It requires investing in capital market and insurance products. With government, the media, and other experts increasingly advising people that they must take greater responsibility for their financial needs, and with burdens on the social safety net already at or nearing capacity, the benefits to be derived from working with a professional financial advisor has never been more clear. An expert advisor can bring greater focus to the need for saving and investing and structure these behavioural changes to fit the unique circumstances of the individual. A financial expert recognizes that a one size fits all approach to saving and investing does not work, rather they create an individualized financial strategy to fit each of their clients specifically.

In healthcare we are observing the benefits that can be derived through establishing and maintaining good health. This has resulted in a greater focus on preventative care. Preventing illness has the effect of easing the financial burden on government in dealing with the rising healthcare costs. It is also having a positive effect on the overall general health of individuals. Similarly, the early intervention by a professional financial advisor in ones life will help establish and maintain good financial health and future well being. The emphasis must be on demonstrating to the public the need and benefits associated with saving and

investing and getting the proper financial advice early in their working careers. As in healthcare, adjusting people's behaviour with respect to saving and investing will have the effect of lessening the demand for scarce government resources for social programs.

For those Canadians most at risk, those with lower levels of disposable income, the government should consider what is done in other jurisdictions. Approaches utilized elsewhere include the establishment of a program where independent financial advisors are publicly subsidized to ensure that the most at risk groups do have access to financial advisors. This could be similar to the legal aid programs that exist in all provinces and territories in Canada. Providing financial advice to this group of Canadians would likely result in lower costs over the long run for governments as people would be better prepared financially to care for themselves. As a result there would be a decreased demand for a number of government programs.

It must be recognize that while it is important to develop the skills needed for a financially literate society at school, people spend most of their life outside of the school system working. It is while working that the skills learned in school are applied to real life situations.

There are three points we would like to make. First, those people who have not completed their secondary education and have entered the labour force will not fully benefit from the financial education provided in the school system. Secondly, those with lower incomes generally have less formal education and therefore will generally earn less than those who have attained higher levels of education. This is an at risk group that should be targeted in outreach programs. Third, financial education is a life long journey. Once outside of the education system and having entered the labour force, supporting families and dealing with real life situations, people do not have the time or inclination to access the various resources available to continue their financial education independently.

Therefore, outreach is an important element in the ongoing financial education of Canadians. A national strategy must include a mechanism to reach people as they move through the various cycles that make up their lives. Teaching students in classroom is successful, in part, as a result of the direct relationship that exists between the student and teacher. Similarly, the best way to continue the financial education of adults is through direct contact with a professional financial advisor who can provide educational information to his client in conjunction with working through the real life financial issues the client faces.

Starting from scratch to establish an outreach network to meet with Canadians is not only a daunting task but costly and unrealistic. But what is possible is to leverage off of existing networks to reach these Canadians. Financial advisors are already meeting with millions of adult Canadians all across Canada on a regular basis. This represents an existing conduit through which the government

policy objective of enhanced and life long financial education can be met. Financial advisors are a resource that can, and should be used in furtherance of the public policy goal of greater financial literacy among Canadians.

The value of professional finance advice to Canadians cannot be underestimated.

Access to professional financial advice and financial advisors is vitally important to Canadian consumers, families and businesses. The financial advisory industry is a cornerstone of Canada's service sector.

Financial advice and services are delivered to consumers by a diverse array of providers that includes small community-based financial advisors and planners, as well as large institutions.

The financial advice that professional financial advisors provide helps individuals, families and businesses across Canada to manage a wide range of financial challenges and assists them in making some of the most important decisions in their lives. Professional financial advisors help Canadians plan, save and take charge of their long-term financial security. Most people are not financial experts, and need professional financial advice in helping them deal with matters such as saving and investment, planning for a child's education, coping with a sudden death, dealing with illness and disability, retirement planning and preparing for long-term needs. Professional financial advisors assist small businesses to make critical business decisions, help them manage risks, provide employee benefits such as pension and health care plans, and grow their enterprises. Professional financial advisors spend more time with consumers than anyone else in explaining financial matters and solutions, and helping to build financial literacy. The goal of increasing the financial literacy of Canadians will be greatly supported by increasing access to professional financial advice and advisors.

Recommendations

The government should make it a priority to:

- ***Develop policies to ensure that Canadians have ample access to professional financial advice and advisors, and that they continue to have ample choices in the financial services marketplace;***
- ***Review the business and regulatory environment that directly impacts the provision of financial advice in Canada with a view to ensuring that it fosters competition and access to small business financial advisors on a level playing field, and that regulation is well thought out and does not raise barriers to Canadians receiving the financial advice they need; and***

- ***Work with the industry to promote high standards of financial advisor proficiency and professionalism, so that consumers are protected, and receive the best financial advice.***

Planning for Retirement

Pension plans are declining in Canada. Only one-third of the Canadian labour force belongs to a workplace pension plan and only approximately one quarter of private sector employees belong to a workplace pension plan.

Defined benefit pension plans are in steady decline, meaning employees must take on greater responsibility in establishing a retirement plan. Employers are choosing to establish defined contribution or other Capital Accumulation Plans (CAP Plans - which include group RRSP, Deferred Profit Sharing Plans, and Defined Contribution Plans).

It seems only reasonable that a financial advisor with oversight of the CAP Plan could enhance returns for employees. The participation of a financial advisor working on behalf of the employees and meeting with the employees would likely enhance participation by employees in voluntary plans. Planning for retirement is a complex process, and financial advisors recognize that an appropriate retirement plan first requires a sound financial plan that will see their clients through the various financial challenges they will encounter in their life cycle. The approach taken by financial advisors is to work with their clients not to simply build capital, but to help establish a financial life plan that will provide protection, security, comfort and peace of mind as the client moves through the various stages of their life cycle.

The development of a relationship early in one's working career with a financial advisor would certainly result in Canadians being more prepared for all life events, including saving and investing for their retirements. A financial advisor would be able to provide advice not only on the merits and benefits of RRSPs but help develop a plan early in one's career that would increase the prospect of Canadians starting to save for retirement earlier in their careers.

The private sector can play an important role through establishing workplace programs linking employees to financial advisors. Such a program could be included as a component in an employee's benefits package. In this way employees, who otherwise may not have a financial advisor, would benefit through developing a relationship with an advisor. The benefits associated with such a relationship would not only help with preparing Canadians for retirement, but with the continuing financial education of Canadian workers.

Advocis has examined existing barriers to establishing and maintaining pension plans and incentives to encourage small and medium sized employers to

participate in pension plans. We have looked at the important aspects of the retirement income system in Canada and we wish to offer some practical solutions for improvement. Last September Advocis commissioned a study entitled “*Encouraging Small and Medium Sized Firms to Participate in Pension Plans*”⁶.

The study examined barriers to establishing and maintaining pension plans and incentives to encourage employers to participate in pension plans. The report makes practical recommendations to support the establishment of more pension plans and increased retirement incomes for Canadians.

The study concluded that the most appropriate type of employer sponsored pension plan is a defined contribution plan, especially for small and medium sized business enterprises. Public policy should focus on how to improve the regulatory environment for such plans. Indeed, Advocis believes that public policy should reinforce the strong financial attributes of all CAP Plans.

What is required is a reduction to existing barriers and increased incentives so that more employers will sponsor a defined contribution pension plan (including a CAP Plan) so that more employees will be members of a plan⁷. Public policy should focus on finding ways to improve the regulatory environment for such plans.

Canadians have many tools to help save for retirement (RSPs, TFSAs, DC Plans sponsored by their employer). One issue for many Canadians is affordability. Another issue is providing the right incentives so that Canadians will be more inclined to save now for their retirement years. For example, the government should consider mandatory enrollment in employer sponsored CAP Plans, subject to the right of the employee to opt out.

Employers who are well-versed on the issues associated with retirement planning tend to be more interested and we would suggest more inclined to offer benefits to employees. Improving the knowledge of employers would tend to increase pension coverage for employees.

Protecting Against Financial Fraud

Financial fraud is a large and growing problem. It has been estimated that 1.1 million Canadians have been victims of financial fraud, and a full 25% of these being repeat victims.⁸

⁶ Gunderson, Morley and Wilson, Thomas, 2009. “Encouraging Small and Medium Sized Firms to Participate in Pension Plans.” Prepared for Advocis: The Financial Advisors Association of Canada.

⁷ Gunderson and Wilson, at page 4-24 to 4-31 and 5-32 to 5-33.

⁸ FAIR Canada.

Quebec's regulator Autorité des marchés financiers and the RCMP have both produced some comprehensive pamphlets and web materials about identifying financial fraud.

Many of these fraud cases target the most vulnerable segments of society. In the few cases where the regulators, the police and the courts manage to apprehend and convict the criminal, the lost funds are almost never recovered.

Redressing the shortcomings in our system, which has been the focus of this submission and the questions asked by the Task Force, will also provide protection against financial fraud. The greater the financial literacy level of Canadians, the less likely it is that they will become the victim of financial fraud.

Anyone can become a victim of financial fraud, however, there are some groups that are more vulnerable than others.⁹ Often we overlook the simple solutions to address the problem of financial fraud, avoidance. Most certainly there is a place for deterrence of financial fraud through the conviction and incarceration of fraudsters. But avoidance of financial fraud is the most desirable outcome.

Canadians who invest through accredited financial advisors are far less likely to become the victims of fraud. A professional financial advisor has a high level of expertise and would spot a questionable investment scheme immediately. Accordingly, the simple solution to protect Canadians from financial fraud is to ensure that Canadians have easy access to financial advisors who have an immediate and direct interest in protecting their client from becoming the victim of financial fraud.

Professor Neil Boyd of Simon Fraser University said that ultimately it will be a well-informed and skeptical investor who is least likely to be victimized by fraudulent dishonesty. Given that an investor is unlikely to be as well informed as an advisor, it is only reasonable to conclude that in working through a professional financial advisor clients are less likely to become victims of financial fraud.

Financial literacy is a critically important matter for Canadians. And while being financially literate may help investors identify red flags that may indicate questionable business tactics or outright attempts at fraud, only a professional with a firm grasp of the technical elements needed to fully assess the merits of an investment can prevent fraud.

When we talk about the value of professional financial advice and the value of professional financial advisors, we are talking about a group of professionals that cannot only help investors achieve financial goals, but equally important, they can help identify questionable business activities, and help keep their clients safe

⁹ Please see footnote 2. Do-It-Yourself investors who are generally highly educated and new Canadians are two groups that are particularly vulnerable.

from schemes designed simply to separate hard working Canadians from their money.

At times Canadians can have a sense of entitlement, and understand the role of governments and regulators to include creating laws and regulations that will keep them safe from financial fraud. The problem associated with such an attitude is that it fails to recognize that new laws and rules will not stop criminals from committing crimes. While no one wants to see a victim of fraud suffer financial loss, care must be taken in how we structure the solution to address loss and the crime of financial fraud itself. Establishing a fund to redress loss creates a problem through introducing moral hazard. For example, if people believe that there is a fund to protect them if they were to become insolvent, they are less likely to take the steps to guard against insolvency. Similarly, if a fund is created to provide redress to the financial loss that may result from fraud, consumers may not take the time to check the credentials of those to whom they entrust their savings for investing.

Rather than introduce a new moral hazard, it would be more prudent to take the necessary steps to ensure that Canadians have ample access to independent professional financial advisors. This is to take a preventative approach to financial fraud.

Recommendations

- ***Explore the potential benefits that can be derived from instituting a centralized and easy to access source where investors can check the registration status of a financial advisor, their membership in professional associations, and their educational credentials; and***
- ***Consider the benefits that can be derived through identifying those financial advisors who are members of professional associations that require their members to adhere to a strict professional code of conduct, and participate in continuing education programs.***

Communications and Technology

In order for a comprehensive national strategy for financial literacy to succeed it must become a national priority. Good ideas are fine, but without appropriate funding they remain simply good ideas.

In Canada we have well established web based financial education resources and the ability to share these resources. What is lacking is a system that ensures that these resources are reaching all segments of society. It is only through better outreach that we can be assured that the proper resources are reaching the desired audience. We believe that Advocis, as a national association, has an established network that can ensure that this information is

delivered to Canadians. Advocis is ideally situated to act as the central hub or repository, and distribution centre for continuing financial education. All that is lacking is the funding that would allow Advocis and other national associations to use their existing national distribution channels to hold and distribute materials linked to continuing financial education. A one stop shop for financial literacy materials would remove the question of not only where a consumer and other professionals could turn to access materials, but it would also place educational materials with a proactive group of financial experts who are meeting daily with Canadians to further the goals of greater financial independence.

Recommendation

- ***A national strategy designed to improve the level of financial literacy among Canadians can benefit through leveraging off of established networks that can act as conduits or portals for the purpose of making information more easily available and accessible to consumers. Advocis, as a national association, is one of a number of such associations that can act as an information conduit. However, in order to assume the role of information conduit or portal, appropriate resources and funding would have to be accessible to allow identified industry stakeholders to assume this role.***

Evaluating National Progress On Financial Literacy

Advocis supports the goal of increased financial literacy among Canadians.

The establishment of the Task Force on Financial Literacy is an important first step in developing a comprehensive national strategy.

However, as with all programs, information must be gathered that will allow governments and stakeholders to evaluate if the program is delivering the desired public policy outcome.

The Investor Education Committee of the Canadian Securities Administrators, the umbrella group of provincial and territorial regulators, conducts annual surveys on investor literacy. Also, the 2010 StatsCan Report established a base as to where we stand, nationally and regionally, across different demographic and economic groups, with respect to financial literacy. The annual CSA survey in conjunction with a national StatCan Report conducted every few years could monitor progress and identify any shortcomings in the new program, or any unintended consequences.

These two existing sources can provide a benchmark against which we can measure changes from year to year. If the results suggest that the adopted program is not producing the desired outcome of greater financial literacy, or if it



identifies a particular group that is not benefiting, then we will know where our national program is failing, reevaluate the national strategy, and decide what steps must be taken to address the identified failure.

Thank you for providing Advocis with the opportunity to participate in this very important initiative. As always, we remain available to discuss any concern or answer any questions you may have.

Appendix¹⁰

CANADIAN RESOURCE

Financial Literacy for Youths

Canadian Economy Online

Targeted at students, Canadian Economy Online contains information about economic concepts, key indicators and how they work, as well as the relationship between government and the economy.

<http://www.canadianeconomy.gc.ca/english/economy/>

CIBC SmartStart

Offer youth and students tips on managing their money. The site features sections such as *Banking 101*, *Saving for My Future* and *ABCs of Money*.

<http://www.cibc.com/ca/youth/index.html>

Citi Financial Education

Interactive lessons covering the basics of financial literacy, tailored to kids, teens, and adults.

http://financialeducation.citi.com/citi/financialeducation/curriculum/home_cd.htm

Money and Youth

Published by the Canadian Foundation for Economic Education, Money and Youth offers numerous resources for parents and youth, ranging from an in-depth Money Q&A section to a parent's guide to financial education.

<http://www.moneyandyouth.cfee.org/>

TD Student Central

Published by TD Bank, the website offers unique innovations such as a Facebook application for planning a budget and splitting expenses with roommates.

<http://www.tdcanadatrust.com/student/>

The City

The City is a learning program developed by the Financial Consumer Agency of

¹⁰ The sources in this appendix have been compiled by FAIR Canada.

Canada (FCAC) and the British Columbia Securities Commission (BCSC). It teaches young people financial skills that they can carry with them throughout their lives. The resource is ready to use with lesson plans, overheads, income, expense and budget handouts, and a variety of worksheets. N.B. Must register as either a teacher or student to access website.

<http://www.themoneybelt.ca/theCity-laZone/eng/login-eng.aspx>

The Money Belt

Created by the Financial Consumer Agency of Canada, The Money Belt is a financial education portal aimed at youths aged 15 to 29 years old, which is dedicated to teaching financial life skills in an easy-to-understand format.

<http://www.themoneybelt.ca/>

YourMoney

Published by the Canadian Bankers Association, YourMoney allows students to learn more about how to use money wisely to reach their goals, teachers to register for an in-class seminar presented by a banker volunteer from their community, and parents to access resources to help teach their children financial literacy at home.

<http://www.yourmoney.cba.ca/>

Financial Planning and Counseling for Older Audiences

10 Questions to Ask Your Planner

Published by the Financial Planners Standards Council of Canada, the website discusses what Canadians should consider when hiring a financial planner.

http://www.fpscscanada.org/public/articles/10_questions_ask_your_planner

Canadian Consumer Information Gateway

Published by the Office of Consumer Affairs, this gateway service provides reports and advice on a wide range of consumer topics. Information is organized by consumer type (e.g., young consumers, seniors), by product or service (e.g. buying a used car, televisions), and by issue (e.g., pyramid schemes, privacy protection, identity theft).

<http://consumerinformation.ca/>

Canadian National Survey on Economic and Financial Capability

Published by the Canadian Foundation for Economic Education, the survey analyzed levels of awareness of, and satisfaction with, retail investor confidence and opportunities for change.

<http://www.cfee.org/assets/u/Canadian-National-Survey-on-Economic-and-Financial-Capability.pdf>

CIBC and YMCA Access to Opportunity

A partnership between CIBC and the YMCA, the Access to Opportunity program helps newcomers to Canada break down the barriers to employment and builds

Financial Consumer Agency of Canada

An independent body established by the federal government to protect and inform consumers of financial services. Includes information about consumer rights and responsibilities, banking, insurance, credit, loans, and debt.

<http://www.fcac-acfc.gc.ca/>

Integrated Market Enforcement Team – RCMP

IMETs help to detect, charge and prosecute people who use capital markets to harm the economic interests of Canadians, particularly if they have committed serious Criminal Code capital markets offences that threaten investor confidence or economic stability.

Investor Education Fund

Funded by the Ontario Securities Commission, the Investor Education Fund provides unbiased financial information, particularly with respect to personal finance and investments.

<http://www.investored.ca/>

Moving Forward with Financial Literacy

A synthesis report of the Canadian Conference on Financial Literacy, which was a national conference held in Montreal in September 2008. The conference brought together government representatives, scholars, social policy experts and community experts from Canada and abroad to learn and exchange ideas, share best practices and promote dialogue on literacy.

<http://www.fcac-acfc.gc.ca/eng/publications/surveystudy/reachhigherconf/pdf/reachhigher-eng.pdf>

Ontario Association of Credit Counseling Services

Offers practical explanations on personal finances and debt problems.

<http://www.oaccs.com/>

Ontario Council of Agencies Servicing Immigrants – Newcomers Investor Education Kit

Funded by the Investor Education Fund, the Newcomers Investor Education Kit is a series of guides on a variety of topics, including the basics of investing, choosing a financial advisor, and investing in Ontario. The guides are available in Arabic, Chinese, Russian, Spanish, Tagalog, and Urdu.

<http://www.investored.ca/personal-finance/investing-basics/Pages/ocasi.aspx>

RBC Financial Group – Financial Literacy Efforts

Details financial literacy initiatives by RBC.

<http://www.rbc.com/responsibility/economic/self-sufficiency.html#financialliteracy>

Scotiabank – Bank the Rest

Savings program that lets consumers automatically round up purchases made using a Scotiabank debit card to the next multiple of \$1 or \$5. The difference is then automatically transferred to a savings account.

http://scotiabank.com/cda/content/0,,CID12190_LIDen,00.html

Social and Enterprise Development Innovations

SEDI is dedicated to enabling poor Canadians become self-sufficient, and focuses on financial literacy, asset-building and entrepreneurship.

<http://www.sedi.org>

L'ACTIF

Fédération ACTIF – Réseau coopératif d'éducation financière (L'ACTIF) is a federation of Quebec coop organizations whose goal is to promote financial education. L'ACTIF organizes conferences, debates, conducts research projects and offers training through investors' clubs and seminars.

<http://www.aktif.net/accueil/accueil.quisommes.php>

AMF – Fraud Prevention

L'Autorité des marchés financiers (AMF) provides educational information on how to recognize financial fraud, publishes press-releases and warning notices on its web-site.

<http://www.lautorite.qc.ca/clientele/consommateur/prevention.en.html>

AMF – Investor Resources

AMF's web-site has a section designated to various investment-related publications, for examples brochures on mutual funds, how to choose your financial advisor, detect securities fraud etc.

<http://www.lautorite.qc.ca/clientele/consommateur/investissement/publications-investissement.en.html>

French Language Resources

Guide des droits des investisseurs

The Guide to the laws and regulations governing investors' rights in Quebec, funded by the AMF Education Fund.

<http://www.droitsdesinvestisseurs.com/>

Observatoire du droit québécois des valeurs mobilières

L'Observatoire is a research project launched in 2006 by the AMF Education Fund and based in University of Montreal, Law School. The project provides educational information pertaining to investor rights and securities markets.

http://www.valeursmobilières.net/index_fr.html

MÉDAC

Mouvement d'éducation et de défense des actionnaires, created in 1995 by Yves

Michaud, is a non-profit porte-parole for shareholders` rights. It provides support and training to its members.

<http://www.medac.qc.ca/>

INTERNATIONAL RESOURCES

International Forum for Investor Education □ IFIE brings together private sector and public sector providers of investor education to improve the effectiveness of investor education programs around the world. It serves as a clearinghouse for the exchange of information and ideas among providers of investor education from different jurisdictions, including organizations that are just developing or planning to develop investor education programs. □ <http://www.ifie.org> □ **Financial Literacy and Education Commission [US]** □ The Financial Literacy and Education Commission coordinates financial education efforts throughout the federal government, supports the promotion of financial literacy by the private sector, and encourages the synchronization of efforts between the public and private sectors. □ <http://treas.gov/offices/domestic-finance/financial-institution/fin-education/commission/>

Investing Online Resource Center □ Created by the North American Securities Administrators Association, the Investing Online Resource Center provides noncommercial information about what it's like to trade online, how a margin account works, and more information on how to better protect yourself online. □ <http://www.investingonline.org/>

Money Made Clear [UK] □ Published by the Financial Services Authority, Money Made Clear presents original materials on a host of financial products, organized by life stage as well as by topic.

Money Matters to Me [UK] □ Developed by the National Institute of Adult Continuing Education, Money Matters to Me helps consumers comprehend financial matters by teaching them how to control their money on a day-to-day basis. □ <http://www.moneymatterstome.co.uk/>

MyMoney [US] □ The US government's website dedicated to teaching all Americans the basics about financial education. The website is available in Spanish. □ <http://www.mymoney.gov/> □ **Practical Money Skills [US]** □ Published by VISA, the website assists educators, parents and students in applying better money management for life. It also helps the consumer become more financially confident by offering free online tools, worksheets and quizzes. □ <http://www.practicalmoneyskills.com> □ **Understanding Money**

[Aus] □ Created by the government-supported Australian Financial Literacy Foundation, the website aims to give all Australians the opportunity to increase their financial knowledge and better manage their money. While the website is in English only, information is provided on how to contact the Australian FLF for material in seven additional languages (Arabic, Chinese, Greek, Italian, Korean, Spanish, and Vietnamese). □ <http://www.understandingmoney.gov.au> □ **Sorted**



The Financial Advisors Association of Canada

[NZ] □ An independent money guide published by the government-funded New Zealand Retirement Commission, featuring tools and information dedicated to helping consumers manage their personal finances. □ <http://www.sorted.org.nz/>