



INVESTMENT INDUSTRY ASSOCIATION OF CANADA  
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

**Investment Industry Association of Canada  
Submission To The  
Task Force on Financial Literacy**

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The Investment Industry Association of Canada (IIAC) appreciates the opportunity to provide a submission to the Task Force on Financial Literacy. The IIAC represents over 200 investment dealers, employing over 40,000 Canadians, working with retail clients holding over 9.6 million accounts. Our members fulfill two vital roles in the Canadian economy: they advise clients as to their savings and investments, and advise and assist corporations and governments in raising capital.

Financial literacy is essential to ensure that Canadians both young and old are able to plan for their financial needs over their lifetime. The IIAC and its members applaud the Task Force for taking the initiative to strengthen financial literacy and we support the Task Force's mandate to provide recommendations to the federal Minister of Finance on a national strategy to strengthen Canadians' financial literacy. The need for a financially literate population is increasingly important as the financial environment continues to become more complex, demanding individualized choices, in addition to an aging population that needs to focus on retirement savings. These factors place more responsibility on each Canadian to better understand their options to help ensure they become better savers and investors.

### **What is Financial Literacy and Why is it Important?**

To determine how financial literacy can be improved, financial literacy must be understood. The IIAC agrees with the Task Force's definition:

*Financial literacy means having the knowledge, skills and confidence to make responsible financial decisions.*

- *"Knowledge" means understanding personal and broader financial matters.*
- *"Skills" are the ability to apply that knowledge in everyday life.*
- *"Confidence" means feeling self-assured enough to make important decisions. This is often a key factor in galvanizing people into action.*
- *By "responsible financial decisions", we mean that people will be able to use the knowledge, skills and confidence they have gained to make choices that are appropriate to their own circumstances.*

Comprehension of basic financial concepts is essential to the creation of a financially literate society, and will assist Canadians in making informed choices, such as deciding to save and deciding where to put those savings. Managing one's finances is a lifelong process which may include such events as saving for university, getting a credit card, buying a home or enjoying retirement. Failure to understand the rudiments of the financial landscape means a "living for today" culture that could adversely impact the future of Canadians and the Canadian economy as a whole. A population with basic financial knowledge and the confidence to use that knowledge means a more prosperous Canada, with financially independent citizens.

Increased financial literacy may also reduce the number of those victimized by financial fraud. To achieve that, we need to focus attention on those who tend to be more susceptible to fraudulent schemes: certain age groups, particularly the young and the old, those with high levels of debt and those with low income.

Comprehension of basic financial concepts provides individuals with the tools to evaluate information or advice provided, making them less susceptible to fraud.

### **How to Move Towards Improved Financial Literacy?**

There is broad consensus amongst the private, public and non-profit sectors that financial literacy in Canada needs to be improved, but where do we start? Currently, there are a multitude of programs available but it is apparent from the current state of financial literacy in Canada that the programs are not effective. There is a need for greater co-ordination to determine relevant information, resources and programs so that Canadians can receive benefit from them. There is also the need to be pro-active in identifying new ideas aimed at increasing the level of financial literacy of Canadians.

For example, in 2001, the Financial Consumer Agency of Canada (FCAC) was established by the Canadian government to strengthen oversight of consumer issues and expand consumer education across the country. The FCAC, as part of their mandate, was to look for ways to build financial knowledge and consumers' awareness of their rights. We understand FCAC was granted \$3 million dollars for the specific purpose of addressing financial literacy. Perhaps the Task Force could evaluate how those funds have been used to develop materials and work towards partnerships with government, and both the private and public sectors. Also, we recommend the Task Force co-ordinate efforts with the already existing FCAC.

Additionally, the IIAC is in favour of mandatory financial education requirements across Canada. Basic financial knowledge and awareness at a young age contributes to more financially literate adult Canadians. Some provinces have mandated financial literacy education as part of the school curriculum and we would recommend this be extended to all provinces. Other countries also currently recognize the need to include generic financial education in the schools curriculum to help ensure a basic level of understanding at a young age. For instance, President Barack Obama named April National Financial Literacy Month in the United States and called on Americans during April to recommit to teaching themselves and their children about the basics of financial education.

In the United States, the securities industry and their firms are active in promoting financial education in schools by providing support in the form of the following:

- guest speakers from the industry,
- paid internships for students in firms,
- teacher training programs and workshops, and
- partnerships with various associations such as “Boys and Girls Clubs of America.”

The IIAC would be pleased to dialogue with the Task Force to consider similar programs in Canada, with the support of our members. Our members currently put a lot of resources into educating their clients and these elements could be

broadened to include educational efforts in the school system. We would suggest that any such program begin as a pilot project to see if this would be an effective means to enhancing financial literacy.

Educating older Canadians is more of a challenge. As mentioned above, there are a multitude of educational materials, tools and programs available, but it appears the information is not being absorbed. For example, the Canadian Securities Administrators (CSA) developed the “Financial Fitness Challenge” on their website to teach basic skills to young adults. While this is a very useful tool we do not believe that it is currently being used to its full potential. The Task Force therefore needs to understand why current resources are not effective. If it is simply due to lack of awareness, the Task Force could develop strategies for advertising and promoting the already available information, perhaps, by advertising in non-conventional places, with a captive audience, like movie theaters and on airplanes.

It is our suggestion however, that individuals who are not confident in their basic understanding of the financial landscape are overwhelmed by the available information, leading to inaction. The lack of confidence in their skills in this area also makes them wary of information provided and question its reliability. We recommend developing partnerships with the TSX, securities regulators and financial education providers, such as the Canadian Securities Institute, who have already developed various programs, tools and materials. Co-ordinating

with these organizations that have the knowledge and resources but have failed to capture the attention of Canadians could, if properly organized and promoted, contribute to strengthening literacy for Canadians. We recommend that the Task Force establish a committee, with representatives from the public, private and non-profit sectors to work together to review and harmonize existing programs currently in the marketplace, work towards designing new materials, identify available channels to distribute the materials, co-ordinate among the various parties and set specific targets and goals so that Canadians improve their financial literacy.

The IIAC would be pleased to assist the committee by mobilizing the Canadian securities industry to provide materials and volunteer professionals in planning an effective approach to improving financial adult education and financial education in the school system. The IIAC is also prepared to work with the Task Force to consider implementation of new recommendations generated from the Task Force's consultations.

### **Our Members' Contributions to Financial Literacy**

The Task Force should recognize that our industry has, for years, increased financial literacy, generally, with the public and, specifically with their clients. For example, our firms' advertising promotes the concept of regular contributions to RRSPs, RESPs and, most recently, TFSAs. The industry supports the government's initiatives, brings awareness to the programs and raises the

importance of regular savings. Further, our members' seminars, literature and websites make research, information and tools broadly available to clients and non-clients, providing increased financial literacy and an awareness of the importance of developing a financial plan. Firms are committed to providing compelling, understandable financial information as it is a recognizable competitive advantage for their organizations. Of note, certain of our members have begun considering a joint member firm project to offer general investor education and we might be able to build on this platform to help enhance financial literacy.

For our members' clients, the personalized relationship they enjoy with their advisor contributes directly to an increased level of financial literacy. The Canadian Securities Administrators' investor study from 2009 indicated that 91% of those surveyed consider their investment advisor to be among the top sources of information guiding their investment decisions. Clients are provided customized service, receive recommendations based on the suitability of products specific to them and access their advisor to receive general financial advice and information. This one on one relationship makes a significant contribution to increased financial literacy. While a considerable number of programs, tools and literature currently exist to help Canadians understand the rudiments of the financial landscape, there is no substitution for the personal attention that investment advisors provide clients.

Increased financial literacy, results in clients, who are more confident in their choices across the spectrum of financial options. A study conducted by Statistics Canada last year also revealed that people are much more likely to follow financial advice if they pay for it. Our advisors help manage over \$900 billion for Canadians, an amount that has increased by 35% over the past five years. Such figures emphasize that Canadians are placing their trust in our members who will continue educating Canadians by providing customer service, advice and research.

The IIAC suggests that the Task Force aim to underline the importance of working with a registered financial professional who can help educate, provide sound advice and help create strategies to achieve financial goals. The Task Force should also strive to ensure clients of registered professionals understand the advice given, understand the need to take advantage of retirement savings vehicles and be able to evaluate advice provided to reduce the chance of being a victim of fraud.

### **Saving and Investing/Planning for Retirement**

The IIAC believes that retirement savings decisions are simply part of a holistic approach to the proper management of savings and debt over the entire life cycle of the household. Further, we wholeheartedly agree with the Task Force's statement that helping Canadians become better savers and more engaged,

astute investors has positive implications for the country as a whole and, additionally, is an essential component in planning for retirement.

The federal government has done well to create and promote excellent programs to encourage Canadians to save for retirement, including TFSAs and RRSPs. With respect to retirement savings, specifically, the IIAC believes the three-pillar system is working. Canada's private sector has played a pivotal role in raising awareness of the merits of financial and retirement planning and the value of financial advice, and has turned a nation of savers into a nation of investors. Canadians' total financial assets have grown from \$1.2 trillion in 1990 to over \$3.4 trillion at the end of 2009. The private sector has proved effective in providing good returns, flexible investment opportunities and low cost options for all Canadians. Maintaining a vibrant and competitive private sector should, therefore, be a priority in any strategy the Task Force pursues in bolstering financial literacy and wealth accumulation.

However, more could be done to increase savings, on an overall basis but financial literacy is still key to accessing it and doing well. Recommendations include the following:

- The inequities could be reduced between defined benefit plans, particularly those in the public sector, and defined contribution plans/RRSPs

- Retroactive application of TFSA deposits could provide older Canadians who are close to retirement with additional tax-free retirement investment. Additionally, supplementary contributions would be cost-effective for government as investors' contributions to TFSAs are in post-tax dollars
- Removal of the minimum annual withdrawal limits from RRIFs for Canadians over the age of 71 would provide flexibility to better manage savings in retirement.

The IIAC has participated in some of the recently held discussions and roundtables on retirement savings and has stated that individual choice and flexibility in the investment process is critical to provide both adequate retirement standards and adequate living standards for Canadians (pre-retirement). Financial knowledge and an understanding of lifetime goals will help Canadians plan and will encourage them to save sufficient income for retirement. These concepts are important to reduce reliance on government programs and contribute to Canadians maintaining a high standard of living.

### **Protecting Against Financial Fraud**

A 2007 CSA study indicates that about one in twenty Canadians have been victims of investment fraud. Financial literacy will help prevent Canadians from falling prey to financial fraud. A basic understanding of the financial system would provide investors the confidence to rigorously evaluate information received from those promoting themselves as financial advisors. We would

suggest, at a minimum, Canadians understand the importance of confirming whether they are dealing with a registered professional. With respect to the securities industry, such confirmation has become easier due to the Canadian Securities Administrators' search engine which includes the names of all Canadian securities registrants.

Our members' advisors are required to be registered with IIROC, have the professional responsibility to deal honestly, fairly and in good faith with clients, have "know-your-client" and suitability obligations and must manage conflicts effectively. IIROC registered investment advisors are also subject to strict standards of regulation and supervisory oversight by their firms. Our member firms, the advisors' employers, are additionally subject to ongoing oversight by the self-regulator, including financial and sales compliance audits.

Recent, high profile alleged frauds, such as those perpetrated by Earl Jones and Weizhen Tang, demonstrate where an understanding of the financial landscape and particularly, an understanding of the benefits of working with a registered individual may have otherwise assisted those clients who lost money. Jones and Tang were not registered financial professionals, and were not subject to proficiency standards or regulatory oversight. Had their clients been more financially literate, they would have had the awareness and tools to better evaluate the advisors themselves and the recommendations provided.

An advertising campaign is therefore recommended to help educate Canadians on the importance of ensuring that they ask the right questions and understand the benefits of dealing with a registered professional.

We commend the Task Force for recognizing the importance of, and developing the first-ever national strategy on financial literacy for Canadians. The Investment Industry Association of Canada and our members are eager to assist the Task Force to help Canadians realize and benefit from that strategy and become more financially literate.