



July 18, 2014

Delivered By Email consult@fcac.gc.ca

Ms. Jane Rooney
Financial Literacy Leader
Financial Consumer Agency of Canada
427 Laurier Ave. West, 6th Floor
Ottawa, ON K1R 1B9

Dear Ms. Rooney:

RE: Toward a National Strategy for Financial Literacy, Phase 1: Strengthening Seniors' Financial Literacy, A proposed blueprint

We are writing to provide you with the comments of the members of The Investment Funds Institute of Canada ("IFIC") with respect to the consultation document ***Toward a National Strategy for Financial Literacy, Phase 1: Strengthening Seniors' Financial Literacy, A proposed blueprint*** ("the blueprint"). We appreciate the Financial Consumer Agency Commission's ("FCAC") broad-based approach and commitment to engage all stakeholders in generating ideas and identifying solutions to the issues outlined in the blueprint. We concur with the blueprint's sentiment that significant progress in boosting all Canadians' financial literacy can only be achieved through collaborative action. We appreciate that there may be other, non-literacy related issues with respect to the older investor; however, we have limited our comments below to the scope of the FCAC's consultation document.

The mutual fund industry is a key stakeholder in financial literacy, especially with regard to older investors. Mutual funds currently represent about 26% of total Canadian household wealth. Assets under management totalled \$1.1 trillion dollars as of June 30, 2014, with approximately 57% held in registered plans (i.e. RRSPs, RRIFFs, RESPs, TFSAs, and RDSPs) - 47% are in RRSP accounts. To put that in perspective, mutual fund assets held in RRSPs are more than double the total assets of the Canada Pension Plan¹. Seniors (age 65+) and near seniors (ages 45-64) account for 65% of all mutual fund holders², and 82% of mutual fund investors cite retirement savings as the intended purpose for their funds savings³. It is noteworthy that 87% of mutual fund holders purchase their funds through an advisor and that, for investors ages 55 and older, advisors are the preferred source of investment information. Advisors are already building financial literacy for older investors as they work with clients to develop individual financial plans and coach clients on how they can reach their financial goals.

¹ CPP assets as of March 31, 2014 totalled \$219.1 billion – source CPPIB.com

² *Canadian Investors' Perceptions of Mutual Funds and the Mutual Fund Industry (Pollara 2013)*

³ *Canadian Investors' Perceptions of Mutual Funds and the Mutual Fund Industry (Pollara 2011)*

Blueprint Goals 1 through 4 – Comment and Recommendations

Recommendation 1:

That financial sector stakeholders, including government, work together to help older investors become better informed about the role and benefits of financial advice.

IFIC fully supports the FCAC's goals and initiatives for seniors as outlined in the blueprint and would propose an additional initiative: that of encouraging more Canadians to seek the services of a financial advisor and ensuring that public policy facilitates access to advice. Access to financial advice is critical because financial literacy is built over time; it is built as financial goals are set and the choices available to reach those goals are understood. With the complex array of financial products in the market, most individuals are not able to do it on their own.

In its introduction, the paper cites a number of questions seniors and near seniors might ask, all of which are questions that financial advisors and planners engage in with their clients every day. As noted in the federal government's 2011 report *Toward a National Strategy for Financial Literacy*, "financial advice has an important role to play in empowering Canadians in their financial decisions." The report highlighted retirement planning and estate planning as examples of activities where consumers can benefit from the assistance of a professional planner and recommended "... 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."

There is clear evidence on the effectiveness of financial advisors as coaches and therefore, by extension, channels through which many of the goals and objectives identified in the paper can be advanced, e.g. dissemination of information about government and third party financial resources, and educating investors on fraud. Independent research has found that:

- Advised individuals are more likely to participate in tax advantaged plans such as RRSPs. Studies conducted in 2010 and 2011 by Ipsos Reid reported that 84% of advised investors less than 65 years of age held RRSPs compared to only 36% of non-advised investors in the same age group⁴;
- Advised individuals feel more confident about their retirement readiness⁵;
- Those who use the services of an advisor accumulate more assets over time than those who do not – largely because advisors encourage disciplined savings habits⁶;
- Advised households are twice as likely to save regularly for retirement across all age groups and across all income levels⁷;
- Those who have an advisor are more than twice as likely to have a financial plan,⁸ and
- As use of advice goes up, the likelihood of fraud goes down⁹.

Advisors also have potential roles to play with respect to several other stated goals contained within "the blueprint", e.g. identification of potential financial abuse by family members or caregivers; detection of signs of deteriorating financial judgement or competency. These activities, for the most part, fall outside the expected role of the advisor; however, many are voluntarily incorporating these activities into their ongoing relationships with their clients. To be effective on a widespread basis, advisors will need training, systems and regulatory support to address these added undertakings. IFIC has begun a program working actively with the Mutual

⁴ Ipsos Reid, *Value of Financial Advice*, prepared for IFIC, October 4, 2011

⁵ Canadian Financial Monitor Investor Research: The Value of Advice, Ipsos Reid, June / July 2010

⁶ Montmarquette, Claude and Nathalie Viennot-Briot, *Econometric Models on the Value of Advice of a Financial Advisor*, CIRANO Institute, July 2012

⁷ Financial Planning Standards Council, *The Value of Financial Planning*, May 2010

⁸ HSBC's *The Future of Retirement: The Power of Planning*, 2011

⁹ CSA Investor Index Survey, 2009

Fund Dealers Association (“MFDA”), investor advocates and investor educators to determine how to more fully utilize advisor relationships to address these concerns.

Recommendation 2:

That financial sector stakeholders, including government, work together to help older investors understand the importance of: doing thorough background checks on potential financial practitioners, even when the practitioner comes recommended by family or friends; knowing where to go to get reliable information, e.g. CSA, IIROC, MFDA websites, and doing due diligence on any investment opportunities being pitched by non-registered individuals.

The use of an advisor delivers enduring tangible benefits to investors and an important concern for investors and the industry alike is to ensure that consumers first research any individual in whom they are placing their financial trust. The regulated financial investment advisor or planner (i.e. those regulated through MFDA, IIROC FSCO or a professional body such as the Financial Planning Standards Council) is generally not the concern here – and the CSA along with SROs make information publicly available about advisor registrations and enforcement actions. Of greater concern to FCAC should be the unregulated sector – those individuals who hold themselves out as financial planners but are not regulated. This is where investor awareness needs to be heightened – an objective with which the SROs and industry associations such as IFIC can assist. The FCAC can also encourage all provinces to introduce initiatives, such as is currently being considered by Ontario, designed to ensure that all individuals who hold themselves out as financial planners are subject to some form of regulatory oversight.

Findings from behavioural economics suggest that several characteristics of the older investor, e.g. overconfidence, loss of ability to doubt, social isolation, place them at higher risk for fraudulent schemes. Education and awareness campaigns need to take these characteristics into consideration to create successful campaigns to persuade older investors always to check to ensure that the individuals they are dealing with are properly licensed and registered.

Recommendation 3:

The FCAC and the Office of the Financial Literacy Leader, in consultation with stakeholders, evaluate rules proposed for new product categories for their potential impact on vulnerable populations, providing comment to regulators and identifying potential new efforts required in financial education.

Further awareness needs to be built about new financial products and financial regulation which continue to evolve to address the needs of investors as well as our capital markets. Staying abreast of these developments poses a challenge for all but the most knowledgeable and engaged investor. Investment funds and competing products are subject to a high degree of regulatory oversight and disclosure, and an important role of the advisor is to help investors identify which products are most suitable for one’s investment goals and life stage. But recent proposals, such as the current consultations on crowd-funding, contemplate increasing investor exposure to investments that would be subject to reduced disclosure requirements and could be accessed directly over the internet. In its recent submission to the Ontario Securities Commission (“OSC”), IFIC noted that the ready availability of crowd-funding investment opportunities through the internet, without any degree of Know your client (“KYC”) and suitability assessment of an investment for any particular investor may pose a particular risk for older investors who may be more inclined to accept the marketing materials on face value. There is a role for the FCAC, working with stakeholders, to identify whether new products present particular risks for vulnerable populations, advise regulators and ensure investors are educated as to the risks.

Recommendation 4:

We recommend that stakeholders build on the spirit of CRM and Fund Facts by working together to identify information/education issues specific to the older investor and to develop solutions that can be applied broadly and with consistency.

We agree that creating awareness and access to information is critical to improving seniors' financial decision-making. More important, the information has to be understandable to the average investor – something that has not always been the case. Two recent initiatives in the fund area can serve as role models for significantly improving investor understanding of their financial products. Fund Facts is a two page document written in plain language that contains the most pertinent information an average investor needs to know about a fund they are considering purchasing. It uses simple graphics and a reader-friendly layout designed to encourage investors to read it. Similarly, a new set of rules known as the Client Relationship Model (“CRM”) is providing investors with clear, timely information on the costs and performance of their existing investments, using easily understood concepts to explain key information, e.g. benchmarks. Together, these two initiatives represent a new era in investor information and in how regulators and the industry approach investor information.

Measurement

A variety of benchmarks can be identified by which to measure success over time, although it may not always be possible to definitively attribute a direct cause and effect. Changes to registered plans, the introduction of new public pension plans, and other non-related changes can all impact results. It is important that measurements be carefully modelled and statistically sound and that conclusions can be fully supported by the data. Potential areas for measurement include:

1. Levels of retirement savings when all potential sources are considered
2. Use of registered plans by target populations
3. Frequency and depth of website visits
4. Percentage of the population using a financial advisor and frequency of interactions
5. Increased reporting of fraud
6. Increased identification of potential financial abuse

Pollara Research conducts an annual survey of mutual fund investors which is funded by IFIC. We would be prepared to assist in a measurement function by incorporating questions into this survey.

Ms. Jane Rooney

Re: *Toward a National Strategy for Financial Literacy, Phase 1: Strengthening Seniors' Financial Literacy, A proposed blueprint*

July 18, 2014

Closing

The investment funds industry fully supports the FCAC in its goal of increasing the financial literacy of all Canadians and looks forward to coordinating its own activities with those of other stakeholders across the country. We look forward to the release of the final Phase 1 strategy for seniors and to developing a complementary industry action plan to help address the specific needs of the older investor.

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We would be pleased to provide further information or answer any questions you may have. Please feel free to contact Jan Dymond, Director, Public Affairs at jdymond@ific.ca or, by phone at 416-309-2306.

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA



By: Joanne De Laurentiis
President & CEO