Chair’s Opening Keynote

Address by Brian Peters, Chair, IFIC
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“With the maturing of our industry, our vision has shifted from simply selling products to serving investors' needs. Today, our number one priority is to empower investors. For fund managers, this means providing solutions that are intelligently designed, with appropriate risks, to enable investors to meet their objectives. For dealers, it means acting as effective gatekeepers of the markets, ensuring that advisors have the supports they need to serve investors, and that they are acting with integrity. For advisors, it means guiding investors on their journey of discovery: helping them understand their goals, and supporting them with better information and education to make sound decisions.”

CHECK AGAINST DELIVERY
Good morning, and welcome to IFIC's 2014 Leadership Conference. It's a great pleasure for me to address you today, both as chair of IFIC's board, and as a colleague who has had the privilege of serving investors for more than three decades, as part of this rapidly growing industry.

2014 will be remembered as a milestone year for our industry. In January, Canadians crossed a major threshold, as their mutual funds savings topped one trillion dollars. This number has since increased by more than 10%, rising to $1.13 trillion as of August 31st.

To put this in context, Canadians' savings in mutual funds are about five times the size of the total assets managed for Canadians by the CPP Investment Board, and a touch larger than total assets held by the country's top 10 pension funds.

Mutual funds in Canada have grown in value by an impressive 4,000% since 1990 and are a cornerstone of Canadians' retirement savings. Funds play a significant role in increasing the wealth of the 4.6 million households that save through our products.

Mutual funds are clearly the “stand out” product for Canadian investors. We rank in the top 10 jurisdictions in the world in terms of mutual fund assets under management per capita.

Investor behaviour in choosing mutual funds is backed up by attitudinal research that shows that confidence in our products is strong. According to Pollara's 2014 investor survey, 85% of Canadian mutual fund investors say funds will help them meet their financial goals. This is significantly higher than those who express confidence in stocks at 65%, followed by GICs and bonds. The survey found that Canadian mutual fund investors are as confident in their investment in mutual funds as they are in their primary residence.

This confidence is well-placed. Funds offer a wide variety of innovative solutions designed by highly trained investment professionals, and are easy to access and purchase.
Our products save investors the time and energy required to build their own portfolios. A mutual fund account can be started for as little as $25/month, providing a well-diversified portfolio and instant access to capital markets in over 40 countries.

The industry's innovation is evident in our broad range of products, such as index funds, funds that invest in ETFs and wraps. This gives investors the flexibility to pursue a variety of investment strategies and to take either an active or a passive approach to investing.

Mutual funds are available through a variety of channels, with advisors being the most popular way for Canadians to purchase them. Almost nine out of 10 mutual fund investors in Canada purchase their funds from an advisor. Advisors provide convenient access, counsel and guidance to help investors grow their financial assets, and mutual fund investors rely on their advisors to help them make prudent investment choices.

With the maturing of our industry, our vision has shifted – from simply selling products to serving investors’ needs. Today, our number one priority is to empower investors.

For fund managers, this means providing solutions that are intelligently designed, with appropriate risks, to enable investors to meet their objectives.

For dealers, it means acting as effective gatekeepers of the markets: ensuring that advisors have the supports they need to serve investors, and that they are acting with integrity.

For advisors, it means guiding investors on their journey of discovery, helping them understand their goals, and supporting them with better information and education to make sound decisions.

With the industry’s enhanced efforts to educate investors, it seems fitting that we are holding this year’s leadership conference on the first day of Investor Education Month.

We have entered the “post-information age”, where there is an abundance of information that can easily be accessed. The challenge for individual investors is to analyze a large quantity of information accurately and apply it to their individual circumstances.
Most Canadians do not have the level of financial expertise, or the time required, to research all the options and make important financial decisions at critical points in their lifetimes. This can lead to emotional investing that is not in the investor's best interest.

This is where advisors truly add value to their clients. By demystifying investing. By culling information and directing clients to appropriate tools. By giving clients the confidence to ask questions, and educating them so they know what to ask.

Advisors help clients avoid common behavioural investment mistakes. They can help investors develop a long-term plan, moving them beyond short-sighted, transaction-based investing.

According to the Pollara research, very few investors make decisions entirely on their own, or do whatever their advisor recommends without question. The vast majority say that their advisor discussed the suitability of mutual funds to their investment goals. Ninety-eight percent of investors feel that they can trust their advisor to give them sound advice, and 92% agree that they get a better return on their investments than they would without an advisor.

This confidence in advisors is well-placed. According to an econometric analysis by CIRANO, households who receive advice from a financial advisor have up to 2.7 times the median financial assets of similar households without a financial advisor, after all costs have been taken into account.

When investors are informed and play an active role in understanding their objectives and needs, they have higher quality discussions with their advisors, and they make more informed decisions.

This is an advisor's greatest value: working in partnership with clients, ensuring that they make informed rather than emotional decisions, and helping them understand how the products they purchase fit into their plan.

Many dealers have been working with their clients in this manner for some time. This is certainly the case at MD Physician Services, where I serve as CEO.
Our clients are Canadian physicians and their families, and our approach is to educate them so they can make informed choices. We offer long-term financial planning and we manage risk tied to clear goals. This provides our clients with peace of mind, knowing they have a solid roadmap for their financial needs today, and in the future.

Peace of mind is the real value that investors seek and that advisors can deliver. This is our industry's core value: helping Canadians achieve their financial goals and enjoy financial security in retirement.

The provision of financial advice also has an impact on the economy as a whole. The domestic long-term economic benefits of increased savings levels were examined by the Conference Board of Canada in a report released just over a week ago. It concluded that a 10 per cent increase in the number of advised households would, over the long-term, lead to a GDP increase of $2.3 billion. This demonstrates that it is not only individual investors, but the economy as a whole, that benefits from the role that advisors play in encouraging savings.

Of course, the strength of our product and of the industry is partly due to our strong policy framework and regulatory environment, which has evolved along with us.

In the 1990s, when the popularity of mutual funds began to soar, a number of areas for regulatory improvement were identified, culminating in a series of legislative and regulatory changes touching all aspects of the industry.

We have seen the establishment of the MFDA, IIROC, the AMF and OBSI. Rules have been put in place governing sales practices, conflicts of interest, sales communications, fund governance, suitability, compliance practices, point of sale disclosure, and the client relationship model. The passport model was implemented. The federal government established a national task force on financial literacy, which continues to lead to changes, and this will be spurred on by the appointment of Jane Rooney as Canada’s first Financial Literacy Leader. And we are delighted that Ms. Rooney is participating on our behavioural economics panel this afternoon.

This summer, we passed some major milestones in our regulatory journey. In June, Fund Facts became more firmly rooted in the sales process, as the requirement to provide it to
investors within two days of a purchase came into effect. In July, we implemented the first phase of CRM2.

Over the next two years, CRM, together with Fund Facts, will transform Canadian investors’ access to information about the investment fund products they own. This places our funds market in the forefront in the world, in terms of providing easy-to-read product and compensation disclosures to investors. For the first time, investors will receive the information they need, when they need it, in formats and language designed to generate maximum investor engagement.

The industry has embraced this new era of investor disclosure. We are confident that it will give rise to fully informed investor behaviours and decision-making. We are committed to meeting both the letter and the spirit of the new rules – not simply for the sake of compliance, but because they help forward our vision to empower investors.

Through IFIC, we have rallied together, identifying and developing communications and training tools to help integrate the changes. The level of collaboration and sharing of information and material in the industry through IFIC’s task forces is almost unprecedented.

We are getting closer every day to the transparent and rewarding investor experience we envision.

Change is a journey, not a destination. We recognize and accept that our regulators will continue to study industry practice to ensure investors are well protected. Areas currently under review are whether to introduce a statutory best interest duty, and whether to ban embedded commissions or other distribution fees.

Only three countries in the world – the U.K., the Netherlands and Australia – have banned embedded fees. However, each of these jurisdictions has unique local circumstances, and none of them have the kind of detailed disclosure regime that is currently being implemented in Canada. I am looking forward to hearing more about the regulatory landscape in these jurisdictions, from our international panel later this morning.

In a Canadian context, there is merit in evaluating these aspects of the industry but it is extremely important to proceed with caution before making further changes. We must first
consider whether the transformative CRM rules and Fund Facts have achieved the regulatory objectives, and whether any new rules could lead to unintended consequences that are not in investors’ interests. It is particularly important to preserve choice for investors in how they purchase mutual funds, given that these products are the most popular choice of Canadians who are saving for retirement.

We have the opportunity over the coming years to see how well CRM and Fund Facts roll out. Once their impact is understood, regulators, investors and the industry will be able to develop informed views as to whether further changes are advisable.

We appreciate that the CSA recognizes that a careful and thorough analysis must be conducted before any decisions are made.

In closing, I would like to acknowledge the outstanding leadership of IFIC’s board for its exemplary role in propelling the industry forward to empower investors.

As I mentioned earlier, the industry has steadily evolved over the last 25 years, alongside our regulatory environment. In the early stages of change, many industry members questioned why so much regulation was necessary. Today, we understand that sound regulation reinforces the integrity of the industry and contributes to investor confidence. It is in full alignment with our own vision for our businesses.

While we will always examine and question the impact of new regulatory directions in order to offer constructive input, we are committed to working with our regulators towards our common goal of a competitive and fairly regulated marketplace: a marketplace that enables Canadians to achieve their financial goals.

Today’s program is full of quality insights that will strengthen our ability to do just that. I am confident that we will all leave at the end of today with new inspirations and ideas.

It’s going to be a great day. Let’s get started!