



THE INVESTMENT FUNDS INSTITUTE OF CANADA
L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA

April 30, 2010

Task Force on Financial Literacy
255 Albert Street
11th Floor, Ottawa ON
K1A 0G5

Dear Madam/Sir:

Re: Public Consultation on Financial Literacy

We are writing to provide the comments of the Members of The Investment Funds Institute of Canada (“IFIC”) with respect to the *Public Consultation Document on Financial Literacy* (the “Paper”) produced by the Task Force on Financial Literacy in February, 2010.

IFIC is the national association of the Canadian investment funds industry. Our membership is comprised of mutual fund management companies, retail distributors and affiliates from the legal, accounting and other professions from across Canada. IFIC plays an integral role in the regulatory development of the mutual fund industry in Canada, proactively influencing and advancing industry issues within the regulatory framework, while increasing our members’ efficiencies, knowledge and proficiency. IFIC provides a consistently high level of service to enable dealer and manager members to work together in a co-operative forum to enhance the integrity and growth of the industry and strengthen investor confidence.

A great deal of research has been completed on the issue of financial literacy and many recommendations have been made with respect to improving financial literacy in Canada. We have reviewed numerous reports and have consulted with several organizations who are directly and indirectly involved with financial literacy. This letter contains our recommendations on how financial literacy can be improved for all Canadians.

School Programs

While we recognize that education is the jurisdiction of the provinces, we know that the impact of adding financial literacy programs to the school programs has a positive and lasting effect on individuals. Research has shown that introducing financial literacy programs in elementary schools has a direct and positive impact on an individual’s level

of literacy¹. It has also been shown that when students are exposed to basic economic principles in high school, the result is improved financial literacy.²

We commend the Ontario government on their initiative to integrate into the overall school curricula, information for students on how to better manage their financial affairs. We believe this will have a direct impact on financial literacy rates attained by Ontarians in the future.

We also commend the government of British Columbia on their program for schools. In collaboration with the British Columbia Securities Commission (BCSC), a Grade 10 course was developed, which has both a written component and an extensive website that provides teaching aids and offers students basic financial life skills. By providing this resource, the BCSC is helping young people acquire the knowledge, skills and confidence they will need to begin planning for their post-secondary education or career, and to navigate through the financial realities of adulthood.

In Manitoba, Investors Group, the Canadian Foundation for Economic Education and the provincial government have developed "The Building Futures Project." This collaborative project will integrate basic economic and financial literacy into Manitoba's core school curricula. Development work is continuing, with a target implementation date of September 2011 for the Early and Middle School years (grades K to 8), and 2012 for the Senior Years (grades 9 to 12).

There is understanding that the measurement of longer term success of the program(s) maybe difficult, however short term measures such as comprehension of terms should be considered.

We recommend that the Federal Government engage all provinces to promote the development and implementation of a national education strategy that builds in age-appropriate financial literacy principles to school curricula to develop and reinforce the importance of saving and investing over a lifetime

Value of Advice

In addition to formal education, IFIC believes that any comprehensive solution to the issue of inadequate financial literacy of Canadians must recognize the critical role that advisors play in raising the financial literacy of their clients. Financial advisors are looked upon and trusted by their clients as a primary source of financial learning – for themselves and their children.

Research from the CSA Investor Index Survey bears this out. When respondents were asked who they would consider as a source of information for young people to learn about personal finances and investing, 85% said a financial advisor. 72% of respondents

¹ *Financial Literacy: Lessons from International Experience*; Larry Orton, September 2007

² *Financial Literacy and Retirement Planning: New Evidence from the Rand American Life Panel - Working Paper*, Annamaria Lusardi and Olivia Mitchell, Michigan Retirement Research Centre, 2007)

with children 18 or under cited the financial advisor as the most important source of information to teach their children about personal finances or investing.³

We also believe that programs should be developed to raise public awareness of the value of informed advice, and how individuals can acquire that advice for the broad range of financial needs an individual may encounter over a lifetime.

In addition to introducing or enhancing school curricula, research has shown that having the workplace deliver workshops and/or allow for personalized coaching and support at the point in time when financial solutions are offered, through advisors, improves the literacy and savings of employees.⁴ As the Paper notes “Even if people know and understand the facts, they may still not make very good decisions.” This is where financial advisors play critical roles.

It is also recognized that investors need professional advice to avoid the behavioral / psychological errors that individuals commonly make. Without the counsel of a professional financial advisor, investors are often influenced by such factors as:

- overwhelming amounts of information and choice of product;
- emotional biases due to the high financial and emotional stakes that may be involved;
- discomfoting thoughts involving tradeoffs between money, life and health.

Having an advisor is often key to overcoming the inclination to “live for today” instead of planning for tomorrow, and to sticking with a financial plan once one has been established.

IFIC believes that having a financial advisor can be as important to an individual’s financial decision-making as having an adequate understanding of financial facts and concepts. Having an advisor allows individuals to put financial facts and concepts to work in making the right financial and investment decisions that are key to the attainment of life goals and objectives. Part of any program for improving the financial literacy of Canadians should acknowledge the role that advice plays, and demonstrate how, and when, an individual should seek out the assistance of an advisor.

Throughout the industry there are examples of financial literacy programs being offered by private companies that could assist with formal and informal learning. Many programs are highlighted in the Canadian Investment Award for Investor Education which IFIC has sponsored for the last four years. This award encourages organizations to invest in financial literacy programs.

We recommend that any strategy to improve the financial literacy of Canadians recognize and support the contributions made by financial advisors throughout an individual’s lifetime.

³ 2009 CSA Investor Index Survey, CSA, October 5, 2009

⁴ SEDI – Financial Literacy: Strategies to meet the needs of low income Albertans, June 2009)

We also recommend that employers be encouraged to offer “at work” financial education sessions for their employees.

Collaboration

It is clear that collaboration between government institutions, not-for-profit organizations and the private sector is essential for financial literacy to be improved. It is important that a national body coordinate the work, and given the scope and volume of information available, a website to manage and keep track of all of the initiatives is essential. One similar to the Australian Government’s site (www.understandingmoney.gov.au) would be effective.

IFIC is a member of the International Forum for Investor Education (IFIE) and we believe that global cooperation would also be an important part of this coordination as many of the initiatives being considered in Canada have been investigated, and in some cases implemented in other countries. It is important that we consider those initiatives that have worked well in other countries and whether they could be successful in the Canadian context.

Part of this coordination could be the formalization of the Council for Investor Education (the Council), or similar organization, which would allow for increased integration of programs. The Council is a national forum of not-for-profit organizations and regulators interested in empowering Canadians with the knowledge to make informed financial decisions. The Council shares, coordinates, and promotes ideas and initiatives that facilitate the best and most efficient use of its collective expertise.

We recommend the creation of a national body to coordinate the work of all parties involved in the effort to enhance the financial literacy of Canadians, including government institutions, not-for-profit organizations and the private sector.

Conclusion

A national strategy is vital to ensure that the financial literacy levels of Canadians improve. We believe that there are a number of actions that can be taken, including the introduction of financial literacy programs in elementary schools, and support for programs that demonstrate the value of advice and how, and when, an individual should seek out the assistance of an advisor. Measurement of knowledge and understanding is difficult but we believe that measures of long term behavioural change should be considered.

Collaboration among government institutions, not-for-profit organizations and the private sector in the development of strategies and initiatives will be essential. We believe that IFIC and our members could add considerable value, and look forward to participating in this initiative.

Thank you for providing us with an opportunity to comment. If you have any questions regarding this submission, please contact me directly by phone at 416-309-2300 or by email at jdelautentiis@ific.ca or Jon Cockerline, Director, Policy – Dealer Issues by phone at 416-309-2327 or by email at jcockerline@ific.ca.

Yours truly,

The Investment Funds Institute of Canada



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