

Thursday, May-13-10

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

Dear Madam/Sir:

**Re: Public Consultation on Financial Literacy**

The attached is a copy of the statement I prepared for the hearings in April and from which I provided comments to the panel at the time.

While I support introduction of financial literacy curriculum in the school system and a national focus on the generic basics of personal financial management, Task Force recommendations cannot ignore the structural issues and culture of the retail financial services market place in Canada.

I fail to see how basic financial literacy will a) help the individual to stand up to the often complex nature of modern financial products, b) face up to the lack of accountability and transparency with respect to the communication and recommendation of products and services and relationships in a market place that facilitates misrepresentation of the fundamentals of product risk and return, c) compensate for the failings and weaknesses of retail wealth management solutions and processes and the lack of financial literacy amongst those who sell and advise, and d) allow individuals to confidently make their own way amongst what is to all intents and purposes a minefield for the unenlightened.

If an industry, with a rich vein of knowledge and expertise, cannot deliver, en masse, processes and services and trained professional advisors capable of adding value, then government sponsored financial literacy initiatives must be objectively positioned to focus on the type of education that will forearm the individual.

That said, at a time when the industry and regulators are still standing against perfectly rationale improvements to regulation of retail financial services and representation of consumer interests in regulation are still sorely lacking, it is difficult to believe that educational initiatives driven by current culture and institutions will end up being of significant value to the individual and individual liberties.

We already have a plethora of information on every facet of investment and numerous sources of such information, yet we lack accountability for what is said and promised and transparency over what is being provided and charged for. Substantive education of the type needed to empower individuals is of greatest importance at the point at which the individual interacts with the financial services industry. As such, to be successful, educational initiatives need to go hand in hand with improvement of retail financial services and its regulation.

Yours faithfully

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# Statement made to the Task Force on Financial Literacy, 19<sup>th</sup> April 2010, by Andrew Teasdale, TAMRIS Consultancy

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What are the fundamentals of financial education that aid decision making with regard to financial management, saving and investment decisions?

1. The generics of saving and withdrawal management: compound interest and the amount of saving needed to support a long term financial objectives;
2. The generics of risk and return and the realities of risk and return in the market place, including the generics of the fundamental asset classes and primary financial products.
3. The generics of obtaining investment and financial advice, the options available, the rights and responsibilities of investors.
4. The generics and rationale of the advisor/firm process for making personalised recommendations and for managing the wealth management process. This includes the generics of the risk assessment process that aligns risk aversion and investment preferences to financial solutions and products, and the advisor process governing investment/financial disciplines.
5. The generics of risk and return of the specific products and solutions recommended.
6. The generics of vitiating factors: for example, the reality of costs, conflicts of interest, transparency, accountability and regulatory success in protecting investor interests including accessibility of independent bodies representing consumer interests in the retail financial services market place.

All individual investment, saving and financial planning decisions must ultimately pass through the retail financial services industry, whether it be for advice or execution, and hence the educational experience and satisfaction regarding the outcome has a critical role in supporting and reinforcing financial literacy initiatives. Lack of transparency over the risks, the costs, the complexity and the consequence of investment decisions, recommendations and solutions will impair financial literacy and deter positive financial habits.

I do not believe that financial literacy objectives can be aimed at making sure that individuals are capable of implementing their own investment decisions within an overall wealth management strategy managed by themselves. It is far too complex: it is not just a question of understanding the generics of an individual investment, but being able to integrate a number of different investments and asset classes within a structure that is able to meet short and long term financial needs, while managing the not inconsiderable complexity, risks and uncertainties of investment.

What can generic financial education achieve?

At the point of interaction with the financial services industry: primarily to assist in making informed decisions regarding investments and wealth management solutions recommended, including portfolio management.

But the decision and the integrity of the decision making and education process is only as good as the representation of risk and return, wealth management solutions, product detail and investment/wealth management process and decisions followed by those providing the education. To varying degrees, there is a considerable amount of discretion with respect to the processes used to select investments, incorporate them within a structure relevant to risk preferences, financial needs and market and economic conditions, and to manage the continuing relationship between these assets and financial needs over time. Just because a relationship is not discretionary, does not mean that there are not significant decision making components and processes in which the investor takes no part.

Generic financial education cannot empower individuals to select products and investments and to manage their own portfolios, but effective generic education should provide them with a basis in which they can

accept the process and recommendations of the solution provided, providing the process has the integrity to support those decisions.

I believe that financial education is likely to prove most effective at the point where individuals are making financial decisions, in particular those decisions that interact with the financial services industry. I also believe that a long term financial services relationship is best suited to reinforce educational initiatives of integrity, which will ultimately feed into the culture and habits of a nation.

The problem in Canada is that there is minimal investor education at the point of advisor interaction, that communication is focussed on selling and misrepresentation of risk and return is quite often encouraged. The regulatory and legal opinion on the client advisor relationship is that it is the individual that is responsible for the investment decision when quite clearly individuals lack the knowledge, expertise and skills to do so. There has to date been minimal transparency over the reality of the client/advisor relationship.

Part of the solution to educating individuals lies in taking a leadership position with regard to issues of transparency, accountability, representation and standards of advice.

If investors are faced with costs that in many instances wipe out the return premiums of risk assets, continue to be sold products that impair financial security in an environment that facilitates misrepresentation of risk and return, then the negative experience will force individuals to question and doubt the veracity of financial education. In other words a poorly regulated financial services industry, or one that is run counter to the needs of the individual, will form a negative feedback loop.

Additionally, in today's information age, there is hardly a dearth of information regarding sources of financial education. The concern is more the quality and objectivity of that information. We need the primary source of advice and education to be one which is accountable and objective and relevant to the advice and recommendations provided.

But please note, the retail financial services industry has historically been averse to too much information being given to investors during the "sales process", for obvious reasons.