Rooney named first financial literacy leader

By DONALEE MOULTON

As personal debt levels rise, retirement looms for more than nine million baby boomers, and the Internet opens up a new world for financial fraudsters, it's critical that Canadians understand their finances.

In an attempt to help them, the federal government in April appointed Jane Rooney the country's first financial literacy leader. Rooney, a former director with the Financial Consumer Agency of Canada, is charged with co-ordinating activities that strengthen the financial literacy of Canadians, and she's looking for help from Canada's accountants.

"Certified accountants can play a critical role in engagement because you have touch points with consumers at important moments in their life, when they fill out their taxes or plan for retirement, for example," Rooney told *The Bottom Line*.

"This direct contact with consumers can be invaluable. Their reach can help deliver improved financial literacy to customers, influencing their behaviour and attitudes toward money so they can make the financial decisions that are right for them."

Some of this is already going on via CPA Canada's Community Connect program, which in its first year resulted in more than 7,000 volunteers delivering financial seminars in more than 100 communities.

Still more can be done, says Barbara Stewart, a portfolio manager with Cumberland Private Wealth Management. "The entire financial industry needs to do a much better job of communication. Financial education is key. But make it relevant and interesting to the clients or no one will pay attention."

She points out that only 16 per cent of women she surveyed in her research developed financial literacy from textbooks, newspapers, or stock market shows on TV, while 73 per cent said they learned from stories from friends, family, successful mentors, and real-life lessons.

Yves Giroux, chairman of the board of the Quebec Institute of Financial Planning in Montreal, recommends accountants start helping clients of both sexes and all ages by using their ears, and their existing relationships with those clients.

"Professionals can listen to their clients, they should be able to detect when their clients aren't understanding their explanations," he says. "Go slowly at the beginning of the relationship with the client and be a coach to them. Financial planners should inform their client well, at each step, and make sure the client understands all the implications."

Rooney agrees much more needs to be done, especially for vulnerable groups, such as seniors. They face complex and unique challenges when making certain financial decisions, including how to transfer assets to income, when to transition from work to retirement, when to start receiving public and private pensions, and whether to delegate financial decision-making.

ROONEY

"Given that many seniors struggle with issues related to physical and or cognitive impairment, social isolation and low digital literacy, unique solutions and strategies will need to be explored in order to improve their financial literacy and their ability to access services," Rooney says.

According to the first Canadian Financial Capability Survey conducted by Statistics Canada, seniors were half as likely as younger adults to score high in all five areas of financial capability assessed, including making ends meet, choosing products and in particular keeping track, planning ahead and staying informed.

Information to enhance their understanding is lacking, says Rooney. "Our recent scan of financial literacy resources showed that there are few available specifically for seniors and near seniors," she says.

Women also need assistance, often with confidence more than anything. Research conducted by Stewart in 2010 found that women tend to be self-effacing or modest about their financial savvy. "But if you ignored what they said and instead looked at what they did, they were behaving in ways that suggested they were much smarter about finances than you would think from their survey question. Canadian women were making budgets, making large purchases, and planning for retirement in some complex and sophisticated ways," Stewart says.

The best way to build financial literacy is to start with the youngest generation of Canadians. "We have not succeeded in creating overall financial literacy in this country. People do not understand the debt they are getting into. Teach them young," says Raj Kothari, the Greater Toronto Area managing partner with PwC.

The key to success over the long term, he adds, is introducing a financial literacy curriculum into the school system.

In BMO's most recent financial literacy report card, more than 90 per cent of respondents gave themselves a passing grade for their level of financial literacy, down from 93 per cent in 2012. However, in the range of grades, only 10 per cent of Canadians rated themselves as earning an "A" in this area. Thirty-five per cent gave themselves a "C" and 11 per cent a "D."

In some cases, the self-grading scores may be inflated. As part of the report card, Canadians were quizzed on three questions related to common financial concepts. The report found that nearly one-third of those who give themselves an "A" were not able to answer more than half of the questions correctly. Moreover, while Canadians say they are most familiar with RRSPs, only 66 per cent correctly answered whether taxes are paid on RRSP investments when they are withdrawn — down from 80 per cent in 2012. Fewer than half understood the benefits of compounded interest, down from 57 per cent in 2012.

Only 39 per cent of those under 35 passed the test. Lack of financial knowledge is clearly an issue for young people, but so is lifestyle, says Kothari. "From an early age, kids see a plastic card paying for things. They don't see the money behind the card."

Like many older Canadians, they also don't see the significant implications of being financially illiterate. "If you are not financially literate, you will not feel confident in your ability to manage your own life," says Stewart. "This is a deeply serious issue as we all need to feel a certain level of independence in order to have a strong sense of self."

Planners push for risk-tolerance standards

By GRANT CAMERON

Risk-tolerance assessment is a critical part of the get-to-know-your-client process, yet in Canada and many other jurisdictions there are no standards in place for how that's conducted.

Currently, dealers and individual advisors employ widely varying practices. Some rely on scores derived from answers to written questionnaires. Others simply perform evaluations based solely on their feel after discussions with the client.

The Canadian Foundation for Advancement of Investor Rights (FAIR) maintains that's not good enough, and wants regulators across the country to develop a uniform standard.

"It's funny how some things just fall through the cracks," explains Neil Gross, executive director at FAIR Canada. "Some things just, everybody assumes have been attended to, and you wake up one day and realize that they haven't been, and this is one of those things.

"It's just been overlooked not just here in Canada but in most countries. Even though everybody talks about the significance of risk-tolerance assessment, there are, in most cases, no standards how it's to be done."

A standard method for assessing risk, says Gross, would ensure that dealers, advisors and clients are all on the same page.

"It provides a level of protection to all parties in the conversation that they're not talking in cross-purposes."

The problem with using different methods of evaluating a client's risk is that it can lead to confusion, says Gross.

"In most shops, it's left to the individual advisor to have a conversation with the client and develop the advisor's own sense of what the client's own level of risk tolerance is. In some places the firms have mandated the use of a questionnaire to assist in that process but there's no standardization of these things across the board that I'm aware of."

Dealers and advisors use myriad different methods and practices to assess their client's risk tolerance, says Gross, with some assigning numerical values to responses and mapping the resulting tallies to determine what portfolios and asset allocations they'll need.

The problem, he says, is that some questionnaires are not necessarily well designed and can miss the mark.

GROSS

"People can be talking about risk and yet the two parties to the conversation may be saying things that are completely different, and they're not on the same page when they talk about what their conception of risk is. We'd like to see that eliminated or at least minimized."

Jonathan Bishop, research and parliamentary affairs analyst at the Public Interest Advocacy Centre (PIAC) in Ottawa, says adopting a uniform standard would be a promising first step.

"This would create a more transparent regime for consumers and advisors."

Bishop says he believes that most advisors are taking as many steps as possible to make sure everything is clear and transparent to clients, but sometimes the communication gets muddled.

"If there was an industry standard, this would ensure it's clear. You wouldn't just be left to the lowest standard available."

Bishop says a uniform standard would ensure clients know where they're going, and also help advisors figure out what to do while making certain everybody's singing off the same song sheet.

"It gives the professional a bit of a yardstick to determine where you're going instead of them just saying, 'Oh, do this and do that and don't worry about it, trust me.' "

Bishop says the tough part would be getting dealers and advisors across the country to agree to a uniform standard. PIAC research has shown there's a potential for advice from financial advisors to be influenced because of the fact they're compensated differently for recommending certain products to the client.

"It might not necessarily be the case up front," he says, "but that's the perception. It's the potential. The industry folks will say, 'Oh, come on, we're in their living rooms and we're face to face with these people and we're talking to them all the time and we wouldn't do that.' On the other hand, when they're in the office deciding which vehicles to use they know, or their bosses know, which vehicles have compensation that's higher."

Stan Buell, president of the Small Investor Protection Association in Toronto, says a uniform standard would help, as getting good financial advice is one of the most important issues facing investors, but the real problem is that advisors are often more interested in commissions and selling the most profitable products than in helping clients.

Too often, he says, the know-your-client, or KYC, is geared towards suiting the advisor and not the client.

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