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Financial Sector Policy Branch
Department of Finance Canada
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Submitted by email: LegislativeReview-ExamenLegislatif@canada.ca

Subject: Consultation document for the Review of the Federal Financial Sector Framework

Independent Financial Brokers of Canada (IFB) welcomes the opportunity to comment on this consultation paper and, in so doing, consents to its publication.

Who we are

IFB is a national, not for profit, professional association representing approximately 4,000 licensed financial advisors, who serve a multitude of clients and their families in communities across Canada. The majority of our members are licensed to provide advice and products related to life and health insurance and/or mutual funds. A significant number provide complementary financial services such as mortgages, exempt products, securities, deposits, general insurance and financial planning. Most IFB members are self-employed and operate small or medium-sized businesses in their local communities.

Our members are independent, in that they are able to offer clients a choice of products and services related to more than one company. We do not represent company/bank employees, or advisors who work in an exclusive relationship with one company. An important part of the work IFB does is to advocate on behalf of our members for a well-regulated industry that recognizes the value that independent advice brings to clients of all financial means.

Consolidation of Financial Institutions

As an Association whose members are deeply involved in the delivery of financial services to Canadians, IFB supports a regulatory environment that is balanced and fair for consumers. A major concern of our members is that the growing burden of regulatory compliance is reducing the viability of providing personalized advice to the many ordinary Canadians who have smaller investment portfolios, or savings. There is no doubt that with increased debt levels, and fewer employer provided retirement plans, these consumers need financial advice now more than ever. Yet, smaller firms are challenged to remain competitive in an industry increasingly dominated by large financial institutions, which can more readily absorb these compliance costs or pass them along to their clients.

Consolidation in the banking and life insurance sub-sectors decreases competition and limits the options consumers have to access financial advice from a variety of providers. As discussed in the consultation paper, the increase in the percentage of assets held by the six big banks rose from 90% in 2007 to 93% in 2014, and they own the six largest securities dealers. Similarly, 90% of life insurance assets are held by the three biggest insurance companies.

When market consolidation occurs to such an extent, smaller financial firms are pushed out of the market. The impact is felt by consumers who are left with fewer choices to access independent advice to meet their financial needs. Lack of choice and competition may become particularly evident for consumers in small, rural and remote communities. We believe the government should monitor the impact of these changes on the quality and cost of the services available to consumers. In this regard, IFB welcomes the Department of Finance's undertaking to solicit input from smaller firms, to better understand the challenges that they, and their clients, face.

Financial Literacy

IFB supports the ongoing commitment from the federal government to improve financial literacy. The issue of financial literacy is complex and levels of financial knowledge vary widely across different segments of society. According to CIRA, only 62% of Canadians in the lowest income quartile have internet access and those living in rural areas have lower rates of internet access than the rest of Canada¹. With the increasing reliance of regulators, companies, and others to use web-based links to information, the financial education resources available to these Canadians is much more restricted.

Seniors are a key target demographic of the Financial Consumer Agency of Canada (FCAC), as they will represent 20% of Canada's population by 2023. There are a growing number of, largely online, resources available to seniors to help them recognize financial abuse and fraud. These may be successful for senior citizens who have the confidence to conduct their own research.

¹ CIRA, Canadian Factbook. 2014, <http://cira.ca/factbook/2014/the-canadian-internet.html>

However, others may be more receptive to targeted advertising campaigns that use other mediums like print, television and radio.

One study of financial literacy showed that there are large pockets of Canadians with lower levels of financial literacy, even when other factors such as educational achievement and income are controlled for.² This suggests a need for broad-based financial literacy education.

Individual financial advisors play a key role in elevating their clients' level of knowledge and helping them set, and adhere to, a financial plan. Research has shown that individuals who work with a financial advisor are more successful in identifying their financial goals, saving to meet these goals, and are more disciplined in adhering to these strategies. Many IFB members volunteer their time and knowledge in their local communities and schools, working to help consumers better manage risk, their savings and debt, and increase awareness of available government programs that they may wish to utilize (e.g., RESPs, student loans, TFSAs, RDSPs, etc.).

IFB is a partner in this as well, providing links to non-partisan financial information for consumers on our [website](#), as well as information on how to ensure an advisor or firm is properly licensed.

Increased financial literacy and access to financial tools are important elements for consumers to feel better prepared and more confident when seeking financial advice, and in their financial dealings. Studies have indicated that those lacking financial literacy prefer informal sources of information and advice (such as relatives, friends, and colleagues).³ While another academic study linked higher rates of financial literacy to greater use of more formal tools for retirement planning, such as attendance at seminars and financial planners.⁴

Amendments to the Bank Act

IFB supports the improvements to consumer protection through the expansion of the Financial Consumer Agency of Canada (FCAC). These changes include extensive procedural requirements to ensure that banks properly inform and service their customers. Granting the FCAC oversight duties in order to ensure compliance from the banks with consumer protection laws is, in our view, an important and positive development. These recent changes provide additional protection for consumers and we look forward to learning more, as the details of this framework become available.

² *Journal of Pension Economics and Finance. Financial Literacy and Retirement Planning in Canada* by David Boisclair, Annamaria Lusardi, Pierre-Carl Michaud. September 2015.

³ Center for Research on Pensions and Welfare Politics. Working Paper 117/11 by Riccardo Calcagno, Chiara Monticone. *Financial Literacy and the Demand for Financial Advice*. April 2011.

⁴ *ibid.*

GST on Mutual Funds

Although most financial services are exempted from GST, mutual funds remain outside of any such exemptions. Since the funds themselves are not able to recover the GST and HST passed onto the fund manager, these costs are borne by investors, resulting in reduced returns. Since mutual funds are often the preferred choice for lower to middle income investors, any cost reductions will advantage the retirement savings for these investors in particular.

Bank Involvement in the Insurance Industry

We appreciate the government's continued support for the separation of retail banking from the sale of life and health insurance. We believe this is an important consumer protection issue that ensures an individual's financial situation is kept separate from his/her personal health or medical situation.

Concluding Remarks

While the paper takes a broad view of the financial sector framework, IFB's response has been more narrowly focused on the issues affecting consumers of financial advice.

Consolidation within the Canadian financial market disadvantages consumers by reducing the number of options they have when seeking financial advice. As a result, the government should continue efforts to reach out to understand the difficulties faced by smaller and medium-sized firms.

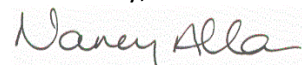
The government has taken significant steps to meet its goal to improve financial literacy, and efforts aimed at low income earners and seniors, correctly address the serious challenges that these groups face. Research suggests further efforts are needed to broaden financial literacy support for Canadians lacking internet access and other target groups.

Lastly, the separation of retail banking from the direct-writing of life/health insurance is a critical consumer protection that the government should continue to support.

IFB appreciates the opportunity to provide our comments, and looks forward to contributing further as these discussions progress.

In the meantime, should you wish to discuss our comments further or have questions, please contact the undersigned, or Susan Allemang, Director Policy & Regulatory Affairs.

Yours truly,



Nancy Allan
Executive Director