

## GUEST COLUMN

# A new focus on financial literacy

*Making sure consumers have a sound understanding of financial products will benefit this industry as well*

BY KEITH COSTELLO

AS A NATIONAL FINANCIAL LITERACY strategy for Canada is now becoming a reality, it's an important time for the financial services industry to take action and show leadership in this important area.

Why should this industry be motivated to invest in the financial literacy of Canadians? A report tabled by the **Australian Securities and Investments Commission** in March of this year states: "Improved financial literacy can increase economic participation and social inclusion, drive competition and market efficiency in the financial services sector and potentially reduce regulatory intervention."

I believe this statement also applies to the Canadian financial services industry.

As I review various reports on financial literacy across the world, a common theme occurs, in which there are two main groups of financial services consumers to reach.

The first is the future generation of Canadian financial services consumers, who can easily be reached in the K-12 school system. The second is the current Canadian financial services consumers, who have a disparate range of financial literacy skills and knowledge. This second group will be more

difficult to reach, and this is where our financial services industry can show leadership and do the most for Canadians.

The Canadian report on financial literacy tabled in December 2010 by the Task Force on Financial Literacy points to the value of acquiring essential financial literacy skills through "teachable moments," such as joining a pension plan or a workplace retirement savings plan, seeking financial advice or considering the purchase of a financial product.

The financial services industry is an effective conduit to provide these "teachable moments" to Canadian financial services consumers. Further, the collaboration component of the strategy will be the key to encouraging the financial services industry to participate in a meaningful way.

My organization, the **Canadian Institute of Financial Planners**, also has reached out to Canadian consumers. And what we hear is the need for unbiased but comprehensive learning materials. Consumers want content that will help them understand financial concepts in a more detailed way and that will guide their financial decisions. We should ensure that these types of materials are readily available.

The financial services industry can allocate resources to unbiased financial literacy courses by partnering with education providers; there is no better marketing and brand positioning than investing in your customers. Our industry also can create standards to ensure that financial literacy tools and information on company websites is consistent and of high quality across the industry.

Product providers can include language in their materials that builds upon and is compatible with financial literacy concepts. Distributors can embrace financial literacy by encouraging and working with their advisors and planners to become the front-line educators of their clients. Today, there is much talk about the role of the advisor and the planner in the client relationship, including moving to a professional model, the appropriate standard of care or perhaps a statutory fiduciary duty, and what is the best regulatory model for this group.

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The best way to provide this standard-of-care relationship is to have an enlightened financial services consumer who is educated and understands his or her role in this trusted relationship. A simple service, such as providing your clients with financial literacy materials and a course as part of your services to them, will go a long way toward engaging these clients. Just like the relationship with your medical doctor, although he or she is the expert, you are expected to be informed and participate in your health management if you wish to achieve the best outcomes. I see no difference in the financial services relationship.

What is the best business model to achieve these goals? By reviewing the factors cited by the ASIC report on financial literacy as being drivers in the financial services sector, an argument can be made for a business rationale. Obviously, greater financial literacy and confidence can encourage consumers to participate in their financial future and increase the need for the financial services industry's services.

Financial literacy also can drive market efficiency, given that so many dollars are spent by our industry to ensure that the client relationship meets compliance requirements. A more educated customer can reduce this burden.

Finally, will regulators have the courage to reduce regulatory burdens on the industry as assessment outcomes show increasing financial services consumer literacy and a lower need for information overload? Throughout the world and especially in the U.S., consumer protection has moved to include a long list of new rules and regulations while missing the need for consumer value and service. Yes, consumer protection is required, but education is always a better way for consumers to protect themselves.

I have not done a "return on investment" analysis on this business model — but the industry should. It is its best opportunity in years.

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