CFA Societies Canada

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VIA UPLOAD

Financial Literacy Team
Financial Consumer Agency of Canada
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Re: Consultation Paper – Renewing the National Strategy for Financial Literacy, 2021–2026 (the "Consultation Paper")

CFA Societies Canada[1] appreciates the opportunity to provide the following comments on the Consultation Paper.

General Comments

Today, Canadians face unprecedented challenges managing their finances and planning for the future. The rise of precarious work, including through the gig economy, has meant incomes are less stable, while rising rent, tuition, and home prices have meant higher costs of living that Canadians are less able to control. Record low interest rates have made the rewards of saving less salient while making the drawbacks of incurring and carrying debt less obvious. The decline of defined benefit pension plans, coupled with longer life spans, has made planning for retirement far more complex. Technology enables more sophisticated marketing of financial products, including in ways that exploit behavioural biases.

It is unreasonable to expect Canadians to face these challenges alone. The financial sector has a responsibility to work to equip Canadians with the right financial knowledge at the right time. It also has a responsibility to offer products and services designed to empower Canadians to use their financial knowledge to make informed choices that serve their goals, rather than exploit gaps in knowledge to channel clients

[1] CFA Societies Canada is a collaboration of CFA Institute and our 12 Canadian member societies. CFA Societies Canada aspires to lead the investment industry in Canada by advocating for the highest professional standards, integrity, and ethics for the ultimate benefit of Canadians. For more information, visit www.cfacanada.org.
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into unsuitable offerings. We view these responsibilities as part of the commitment we make as CFA charterholders to place client interests above personal interests.[2]

We believe the Financial Consumer Agency of Canada ("FCAC"), as the pre-eminent government body in Canada tasked with promoting the financial well-being of Canadians, is uniquely well placed to encourage the adoption of a client-first mindset throughout the Canadian financial sector as part of its renewed financial literacy strategy (the "Strategy"). This work could have a transformative positive impact on Canadians' financial lives.

More broadly, we believe the FCAC has an opportunity through the Strategy to stake out a more innovative, evidence-based approach to promoting financial literacy—one that identifies targeted goals grounded in evidence, leverages relationships within the financial sector and government to develop and launch high-impact programs, and evaluates programs by reference to outcomes as opposed to activity, with behaviour change as the core metric.

Responses to Consultation Questions

1. *Goals – Share your feedback on the proposed goals, and tell us if they should be modified, removed, changed, or other goals added.*

We applaud FCAC for highlighting the importance of identifying targeted, specific goals that can inspire Canadians into action. We believe that the draft goals outlined in the Consultation Paper and accompanying backgrounders can be taken further in this vein. For example, the descriptions of "priority audiences" for the draft goals tend to be highly general—several list "every Canadian" or "all Canadians" as their priority audience. We suggest using the Canadian Financial Capability Survey and other data to identify specific vulnerable demographic segments of Canadians (including permanent residents) who would be most likely to benefit from each of the proposed goals.

For example, someone from a low-income household pursuing post-secondary education while working part-time in the gig economy might view help with forecasting their cash flow and budgeting as more relevant to them than help understanding pension plans. As FCAC has highlighted, research suggests programs that arrive "just-in-time" to help individuals achieve current needs and goals may be more effective than programs focused on more distant goals that are not immediately relevant.[3]

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[2] CFA Institute, "Code of Ethics and Standards of Professional Conduct," online: <https://www.cfainstitute.org/-/media/documents/code/code-ethics-standards/code-of-ethics-standards-professional-conduct.ashx>.

[3] FCAC, *Review of Financial Literacy Research in Canada: An Environmental Scan & Gap Analysis* (2020) at p. 12, online: <https://www.canada.ca/content/dam/fcac-acfc/documents/programs/research-surveys-

Target demographic segments who could be matched to one or more of the proposed goals include women, elderly Canadians, newcomers, Indigenous Canadians, people without housing, single parents, multi-generational families with parents or grandparents not fluent in English or French, victims of family violence, and at-risk youth. Identifying a specific segment allows us to think more concretely about relevant barriers to financial well-being and potential solutions.

For example, identifying newcomers as a target segment for the Consultation Paper's proposed goal of boosting understanding of financial products and services could point towards a focus on "affinity sales": unqualified individuals' using a common community affiliation to sell newcomers "leveraged, high-commission products or those designed to lock in the customer for long periods," potentially taking advantage of misconceptions a newcomer might hold about the stability of the Canadian financial system (perhaps as a result of experiences in their home country) in the process.[4] Solutions could focus on introducing newcomers to the Canadian financial system at an early stage to build trust and disrupt the "affinity sales" channel—for example, by working with large Canadian banks to develop a package of white label financial literacy offerings.

Please note that we raise the above merely as an example of the course a more targeted analysis could take.[5] We emphasize that the matching of goals to target demographic segments, as well as the identification of barriers and opportunities relevant to these segments, should be informed by data and evidence.

2. Stakeholder Activities – Can you provide examples of best practices or innovative initiatives that stakeholders across the public, private and non-profit sectors can carry out to support the proposed goals? Describe the areas where FCAC could play a role.

We believe FCAC should prioritize projects and initiatives that will reach the broadest audience and achieve behavioural change on the widest scale. We expect that doing so will generally mean leveraging existing networks, relationships, service providers, and other channels for reaching target audiences (*e.g.*, the education system), rather than trying to build new ones from scratch.

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studies-reports/review-of-financial-literacy-research-2020.pdf>. See also Daniel Fernandes, John G. Lynch, and Richard G. Netemeyer, "Financial Literacy, Financial Education, and Downstream Financial Behaviors" (2014) 60:8 Management Science 1861, online: <https://ssrn.com/abstract=2333898>.

[4] See FP Canada, "Immigrants: A New Country Requires a New Financial Plan," online: <https://www.financialplanningforcanadians.ca/financial-planning/immigrants-a-new-country-requires-a-new-financial-plan>.

[5] In fact, we understand that new Canadians are not the only potential targets of affinity sales—even long-time Canadian residents may be susceptible, especially if they have relatively little experience as consumers of financial and investment products and services. As such the types of solutions discussed above could be relevant to them as well.

Relationships between financial sector firms and their clients, we believe, can play an especially critical role. As a federal agency, FCAC possesses considerable soft power that we believe could be used to encourage not merely those firms under its direct supervision and jurisdiction, but the financial sector more broadly, to design and deliver products and services that collectively represent optimal consumer solutions, "educate rather than obfuscate", and "align with consumer expectations rather than defy them."[6]

For example, FCAC could call attention to areas where conflicts of interest and mis-selling appear to be harming consumers, such as predatory/payday lending, advice regarding pension commuting, and advice regarding consumer debt restructuring (*e.g.*, due to the advisor's relationships with connected lenders). FCAC could encourage firms to identify conflicts of interest in their consumer-facing businesses, redesign their sales and broader business models to resolve these conflicts in favour of the client, and measure and report the effects of these changes on how well clients understand the products they are sold and how likely clients were to use the products suitably.

FCAC also could work with firms to develop solutions that empower Canadians to take back control of their financial lives—for example, products aimed at reducing the risk that they will feel a need to rely on predatory lending, like the following:

- The "Cash Crunch Loan" program launched by Momentum and First Calgary provides one model for such an alternative, offering small loans of between $500 and $2,500, with up to 18 months for repayment, at an interest rate falling far below what would be offered at a typical payday lending business.[7]

- An emergency savings plan, with matching government contributions for low-income households (similar to the Canada Learning Bond offered in respect of RESPs and the Canada Disability Savings Grant offered in respect of RDSPs), also could help households build savings and reduce reliance on predatory lending.

Because predatory loans' high interest and other terms work to trap consumers in a debt spiral that can be difficult to break, solutions that keep consumers out of this channel entirely likely will be most effective. As such, onboarding into predatory lending should be regarded as the critical step for behavioural disruption.

The workplace is another potentially powerful channel. For example, a randomized experiment completed jointly by Sun Life Financial and Employment and Social

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[6] Lauren E. Willis, "Performance-Based Consumer Law" (2015) 82 University of Chicago Law Review 1309, online: <https://ssrn.com/abstract=2485667>.
[7] First Calgary, "Cash Crunch Micro Loans," online: <https://www.firstcalgary.com/loans-and-financing/micro-loans>.

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Development Canada (ESDC) highlighted how simplifying the process of joining a workplace savings plan can boost Canadians' retirement savings.[8] The education system can trigger learning moments among students as well as households (as a result of students sharing insights within their households). FCAC could promote the examples set by Ontario, B.C., and other jurisdictions in their work to better integrate financial literacy into public school curricula,[9] reducing duplication of effort and ensuring lessons learned cross-pollinate across jurisdictions. FCAC also could collaborate with the Canada Revenue Agency on programs that help tax filers understand and access tax expenditure programs for which they are eligible.

3. *Research and Evaluation – Are there any particular research results or evaluation methods that you would like to share so they could be taken into account in the development of the strategy?*

We welcome FCAC's commitment to ensuring the Strategy is informed by appropriate evidence, as reflected in the extensive review of financial literacy research it published in November 2020. This evidence leaves FCAC better placed to develop more targeted goals and to better assess which programs are most likely to produce meaningful progress towards achieving these goals. We would add that, once target audiences for each goal have been identified, qualitative research focused on these audiences and the barriers they face in their financial lives may provide powerful insights that can inform program development and prioritization.

For example, returning to the example described in our response to Question 1, qualitative research on newcomers could identify "affinity sales" as a key barrier to financial well-being, and find that this phenomenon is rooted in misconceptions about the reliability of the Canadian financial system and a belief that financial advice from someone with a common community affiliation is more trustworthy than financial advice from an outsider. These findings, if uncovered by such research, would point towards building trust in Canadian financial services as a potential means of reducing the risk of affinity sales. For example, the emergency savings plan described in our response to Question 2 could be offered to newcomers soon after their arrival to give them early exposure to the Canadian financial system (as well as build savings).

[8] Sun Life Financial, "Boost Workplace Retirement Savings through Simplified Enrolment" (2018), online: <https://www.sunlife.ca/static/canada/GRS%20matters/GRS%20matters%20articles/2018/Bright%20Papers/BrightPaper_SimplifiedEnrolment_EN.pdf>.

[9] Ontario, "New math curriculum for Grades 1-8" (2020), online: <https://www.ontario.ca/page/new-math-curriculum-grades-1-8>; British Columbia, News Release, "Students benefit from a day focused on financial literacy" (17 April 2019), online: <https://archive.news.gov.bc.ca/releases/news_releases_2017-2021/2019EDUC0030-000702.htm>.

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4. *Measuring Impact and Progress – We plan to establish targets and indicators to measure impact and track progress toward achieving the strategy's goals. Do you have suggestions on ways we can track, measure and report on our collective actions?*

We believe the Strategy should measure success by looking to outcomes rather than activity, with behaviour change as the gold standard. A financial literacy program may reach a large number of people and be rated highly by those it reaches, but nonetheless fail to change behaviour in positive ways. Users might forget the content they learned, not understand how to apply it in their daily lives, or disregard it at key moments of decision. A program with positive metrics in terms of number of people reached and stated satisfaction could even be harmful. For example, it could leave users with a false sense of confidence that makes them more likely to make mistakes.[10] These harms cannot be detected without looking at outcomes—crucially, a program's impact on behaviour.

Measurements also should capture a program's effect on different audiences and demographic segments. Different people will react differently to the same program; a program that succeeds in changing behaviour within one group may fail with another. Paying close attention to the audiences that are and are not responding to a program will help stakeholders understand whether that program is likely to be a good fit for consumers with whom they have a relationship.

We accept that measuring behaviour change is difficult. But we believe the Consultation Paper presents an opportunity to be ambitious, not only when it comes to program design but also when it comes to the evaluation of these programs. One way of making this challenge more manageable could be to start by implementing programs on a pilot basis, on a scale small enough to allow for the measurement of behaviour change—programs that pass this pilot stage could then be rolled out on a broader scale (having regard to the possibility that the program will have different effects on different groups of people). To the extent programs are pursued in partnership with institutions with direct relationships with clients (and, as a result, anonymized client data), information on a program's effects on client behaviour may be easier to collect and measure—as was the case for joint ESDC-Sun Life study referenced in our response to Question 2 above.

[10] Jason J. Kilborn, "Behavioral Economics, Overindebtedness, and Comparative Consumer Bankruptcy: Searching for Causes and Evaluating Solutions" (2006) 22 Emory Bankruptcy Developments Journal 13, online: <https://ssrn.com/abstract=690826>.

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5. *General Comments – Are there considerations we missed that should be captured in the renewed strategy? What new ideas in financial literacy and/or financial well-being should the Financial Consumer Agency of Canada think about?*

We refer back to our general comments at the beginning of our letter, as well as the responses to predatory lending, possibilities for helping newcomers become more familiar with the Canadian financial system, and other proposals described in our responses to Questions 2 and 3.

We also would like to highlight the importance of digital technologies to Canadians' financial lives, both as a channel for delivering legitimate products and services and, unfortunately, for scams and frauds. Indeed, it is fair to say that digital literacy and financial literacy are to a great extent intertwined, and likely will become increasingly so over the life of the Strategy. In our view, this trend should inform the development and prioritization of financial literacy initiatives. Finally, we note the importance of plain language in the design and delivery of financial literacy programming more broadly, as discussed in the Consultation Paper.

Concluding Remarks

We thank you for the opportunity to provide these comments. We would be happy to address any questions you may have and appreciate the time you are taking to consider our points of view. Please feel free to contact Michael Thom, CFA, Managing Director, at mthom@cfacanada.org on this or any other issue in future.

(Signed) *CFA Societies Canada*

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