

Newsletter - Back to School Edition September 2009

In This Issue

[What it Really Takes to Change Financial Literacy](#)

[BC's Mandatory Financial Life Skills Course](#)

[Making Canadians More Suspicious](#)

[Education No Substitute for Regulation](#)

[Focus on Financial Literacy](#)

[Financial Literacy Matters](#)

[The Financial Education Continuum](#)

[The Case Against Financial Literacy Education](#)

[Financial Literacy Resources](#)

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What it Really Takes to Change Financial Literacy

**Tom Hamza,
President, Investor Education Fund**

Where Do We Start - Surely it Can't Be That Difficult?

Focus on Financial Literacy

As students head back to school this week, this newsletter tackles the issue of financial literacy.

FAIR Canada's mandate of advocating for shareholder rights and the protection of individual investors does not usually focus on financial literacy. But financial literacy is at the core of much of what we do to ensure a level playing field and fair treatment for financial consumers.



When I graduated from high school in 1972, the school curriculum did not include financial life skills. I remember being taught all sorts of things in school that did not interest me, and for which I would never have any real use for in life. I probably would have had more interest in math if it could be related to how I could become a millionaire-a particularly attractive goal for a child of a poor immigrant family. Also, since my parents had poor English language skills, I was expected to help deal with financial matters like the mortgage. I would be surprised if the same were not happening today with non-English speaking immigrant families.

When my children graduated from high school a few years ago, the situation had not changed - financial literacy was still not part of the curriculum. Young Canadians enter the working world without a knowledge of financial matters such as credit, mortgages, investments and pension plans. Yet they need basic financial life skills to fend for themselves in an increasingly complex financial world.

The U.S., U.K. and New Zealand have national strategies to improve financial literacy. In other jurisdictions, financial literacy is recognized as an important tool for economic growth and workforce competitiveness as well as for navigating personal financial matters.

Canada has begun to play catch-up with a burgeoning financial literacy movement. There are many interesting initiatives from

Our recent study on financial literacy in high schools indicates the obvious- the problem begins there. With less than 38% of Ontario high school students feeling prepared or somewhat prepared to effectively manage their money after graduation, there is a problem.

Developing a base of financial knowledge is absolutely necessary.

Support for the topic has spread beyond students to teachers, schools, school boards and the Ministry of Education in several provinces. Although it will take years to complete, the interest levels in this subject are rising.

Easy Then - Is That It?

If everybody agrees that the school system is the only problem, it should be easy to solve. However, the school system is just one step that needs to be taken.

Our research studies consistently indicate that learning about financial topics spikes at times that are closely aligned with major life events.

governments, securities commissions, financial service providers, non-profit organizations and community groups.

It is time for Canada to develop a comprehensive national strategy for financial literacy. In order for financial literacy to become a national priority, it needs leadership at the highest level - from the Prime Minister and the Premiers. They must lead the charge to get all the major players onside, including the education system.

In this newsletter, we include the following:

1. Financial Literacy Matters is FAIR Canada's survey of the problems facing Canada in this field and the many efforts to address them. We describe the emerging consensus of what must be done, and the limitations of financial literacy education.
2. **Ellen Roseman**, the consumer financial affairs columnist for the Toronto Star, financial literacy educator, and member of FAIR Canada Board member writes about the need for consumers to develop a more skeptical attitude.
3. "What it Really Takes to Change Financial Literacy" is an article by **Tom Hamza**, Executive Director of the Investor Education Fund;
4. **Patricia Bowles** of the British Columbia Securities Commission (BCSC) writes about the challenges that BC overcame when they introduced a life skills course into the high school curriculum;
5. **Ed Waitzer's** article, Education No Substitute for Regulation, originally appeared in the Globe and Mail. Formerly on the FAIR Board and former OSC Chair, Ed now heads the Hennick Centre at York University.
6. "Against Financial Literacy Education," a short synopsis of a provocative article by U.S. Law Professor **Lauren Willis**.
7. Links to a broad array of financial literacy websites.

Financial Literacy Matters

The problems are real, and they are getting worse

Nearly half of Canadians read too poorly to operate in today's complex world, and their numeracy scores are worse. Debt levels are too high, and savings too low. Financial products are harder to understand just as individuals are forced to take more responsibility for their social safety net. Too many Canadians have limited or no pension coverage. Financial fraud is a large and growing problem.

A continuum from basic skills to investor capability

When you get your first job, need to purchase a house or have your first child, you suddenly need unbiased consumer-centric information that is written in plain language. Solving the looming financial literacy crisis requires us to build a life stage approach to getting the right information into people's hands at the right time.

[Click here](#) to read the full story...

BC's Mandatory Financial Life Skills Course

By Patricia Bowles, Director Communication and Education, British Columbia Securities Commission

In 2002, BC's Ministry of Education revamped its entire public school curriculum, which included designating financial skill instruction as a mandatory subject for more than 55,000 Grade 10 students each year.

The **BC Securities Commission** (BCSC) took the initiative to design a comprehensive

The most basic definition of financial literacy is having the knowledge, skills and confidence to successfully carry out the financial transactions encountered in everyday life. A continuum moves from the simplest forms of financial awareness to higher levels of capability and up to sophisticated investor education. The Financial Literacy Continuum follows below.

Many efforts to address financial literacy

The financial literacy "industry" is growing along multiple lines:

- Each province has its own efforts, some of them quite considerable.
- The Federal Government has launched a national task force on financial literacy and funds several agencies working in the field.
- Non-profit agencies do some important work regionally and nationally.
- Financial service companies devote considerable time and money to provide basic financial education to their consumers.

A growing consensus.

With several studies and conferences behind us and a growing industry devoted to advancing financial literacy in Canada, there is an emerging national consensus. Canada must:

- Make financial literacy a national priority.
- Teach these skills to the young... and to adults, when they need it most.
- Better coordinate public/private/non-profit efforts.
- Test to see what financial literacy training programs work best. Benchmark with specific targets to allocate funding.
- Learn from best international practices.

FAIR Canada calls for political leadership

It is high time for all levels of governments and the civil service (including educators!) to join together with private industry and the non-profit sector to establish a national financial literacy strategy and to devote the resources to see it implemented. An early test of political will is to ensure that financial literacy education is added to curriculums at high schools and throughout the formal and adult education systems.

Financial literacy education is not enough

Although individuals must assume more responsibility for their financial affairs, the financial services industry must be accountable for products that harm consumers. Regulators must become more proactive in their efforts to protect consumers and to punish fraud, misleading advertising and other violations of the public trust.

resource called The City: Financial Life Skills for Planning 10 as a teacher resource. Working with teachers, students, curriculum writers and financial experts from across the province, the BCSC quickly discovered that one of its biggest challenges was how to make financial education interesting and relevant to teenagers - 14 to 15 year olds!

[Click here](#) to read the full story...

Making Canadians More Suspicious

**Ellen Roseman,
Consumer Financial
Affairs Columnist,
The Toronto Star**

Financial literacy has nothing to do with how well you score on tests of your knowledge.

You may be asked to define the Rule of 72 (the number of years it takes your money to double at a given interest rate) or the factors that go into calculating your creditworthiness. The problem with such tests is that they're based on facts - and facts change. A

[Click here](#) to read full story.

The Financial Education Continuum

Measures of financial literacy move progressively from a floor below basic competence and confidence towards financial independence.

Definition: When a consumer has sufficient knowledge, skills and self-confidence to deal with routine financial matters, make informed decisions, and understand his/her rights and responsibilities.

At a minimum, financial literacy involves:

- Knowing the risks and benefits of debt, including the costs of not paying more than the minimum monthly balance of credit cards
- Conducting simple banking like opening an account, depositing funds and writing cheques
- Creating a personal budget
- Knowing about savings and RRSPs, as well as the importance of yearly contributions
- Developing a skeptical attitude towards advertising and salespeople, that they do not necessarily have your best interests at heart

More advanced levels of understanding:

- Reading and understanding bank and investment statements
- Planning for the amounts required to achieve life goals - college education, child rearing, home ownership, and retirement
- Income tax preparation using a tax professional
- Buying life, property and auto insurance
- Seeking a financial advisor if appropriate and knowing what questions to ask before making investment decisions

Sophisticated investors should work towards achieving lifetime financial security. Financial literacy at this stage involves:

- More advanced budgeting, contingency planning and tax planning

legitimate tax avoidance strategy today can be viewed as tax evasion next year.

Soon, you're getting demands from the Canada Revenue Agency for thousands of dollars in back taxes. You can score 100 per cent on a financial literacy survey and still lose money because you put your trust in bad people, companies or investments. Trust is easily won in Canada.

Take the recent news about Montreal adviser Earl Jones, who's alleged to have spent millions of dollars that his clients gave him to manage.

In photos, the 67-year-old with the full head of white hair looks trustworthy. Clients felt they were in good hands and didn't bother to call the Quebec financial regulator to see if Jones was registered and covered by a compensation fund (which he wasn't). I'm not blaming the victims here. I'm blaming a system that allows financial advisers to operate outside of a mandatory regulatory regime.

- The ability to work collaboratively with an investment advisor, or to manage investments on one's own
- A basic understanding of more advanced investment products and alternative investment strategies

The Case Against Financial Literacy Education

As consumer credit, insurance and investment products have become more complex, most consumers are increasingly unable to understand them. The consequences of this lack of understanding can be very severe - for consumers and for the economy as a whole.

Policymakers have relied on financial literacy education to "empower" consumers - to turn them into educated and empowered market players, motivated and competent to make financial decisions that increase their own welfare.

Lauren Willis, a professor at Loyola Law School in Los Angeles, wrote an interesting 56-page academic paper in 2008, *Against Financial Literacy Education* ([link](#)). Professor Willis asserts that there is no evidence that teaching financial literacy actually leads to better decisions or consumer outcomes.

After all, the playing field is tilted against financial literacy:

- Personal financial management is complex, requiring considerable time and effort to understand. Most consumers start off with quite low skill levels. The huge gap between those skills and what is needed in today's marketplace cannot be bridged by financial literacy training alone .
- The financial marketplace is constantly changing at a very rapid pace. It is tough for regulators and almost impossible for consumers to keep up with the pace of financial innovation. Financial literacy is chasing a moving target it will never reach.
- Personal bias and inherent psychological traits prevent most consumers from acting as "rational" economic players able to maximize their own benefits.
- Financial literacy messages are a small trickle compared to the vast flood of advertising from banks, investment firms, insurance companies and

Canadians have a sense of entitlement. There's a feeling that government rules are in place to keep us safe from fraud and wrongdoing. If you believe there's a fund to protect you in an insolvency, you'll probably let your guard down and get complacent. You won't take time to check the credentials of those to whom you entrust your savings.

Here's a way to boost financial literacy. Let's make Canadians more suspicious. Let's work on changing attitudes, not teaching more stuff. Let's encourage everyone to ask about the downside risks and the worst possible scenario.

Let's develop a checklist of questions to ask - and tick off as answered - before people sign any paperwork or agree to any large purchases.

Questions such as:
What if I get sick or I can't work anymore?
Can I get my money back early without a penalty?
What if the company goes under?
What if the principals go to jail?

many others.

The stakes for consumers are high - wrong decisions can lead to personal financial ruin. Decisions about the future of financial trends seem especially hard to predict. So most consumers are content - even eager - to offload responsibility to a financial advisor, to a "trusted" confidant, or even to the television ad promising retirement security.

Professor Willis does not stop at questioning the benefits of financial literacy education; she points out how it can actually be harmful. For some consumers, financial education increases confidence without improving ability, potentially leading to even worse decisions. Some consumers will feel that the onus for their bad decisions has shifted to them.

She also questions the widespread support of the financial services industry for financial literacy training, even though more informed consumers would reduce their profits from high interest charges on credit cards and high money management fees. Some of Professor Willis' specific policy suggestions:

- Offer affordable expert advice, perhaps through a publicly-funded system (like legal aid) of neutral experts who would advise consumers on financial products and services.
- Governments could compel companies to offer low risk "plain vanilla" products and to reduce the variety, complexity and sheer numbers of financial products available in the marketplace. Setting such products as the default choice would further protect consumers.
- Align incentives by charging sellers with fiduciary duties to act in their clients' best interests, or by banning commission payments for financial services.
- Impose liability on sellers when their products cause consumer injury, governed by a negligence standard determined by the courts.
- Prohibit the sale of particularly risky or harmful financial products. The costs of lost innovation suffered by some consumers would be greatly outweighed by the reduction in damage caused to the much larger number of less knowledgeable consumers and to their communities.

For More Information

What if the stock market goes down and stays down for a few years?

What if interest rates go down to zero?

What's the worst possible loss I can have on my investment?

[Click here](#) to read full story

Education No Substitute for Regulation

**Edward Waitzer,
Professor /
Director of
the Hennick Centre
for Business and a
Senior Partner at
Stikeman Elliott LLP**

Regrettably, investor education may at times become a convenient excuse to refrain from considering the use of other regulatory instruments to assist those who have experienced poor financial outcomes.

The contrast of U.S. regulators being prepared to invoke fraud charges to cause banks to buy back auction-rate securities compared with the "made-in-Canada" solution to our asset-backed commercial paper crisis (with

CANADIAN RESOURCES

Financial Literacy for Youths

Canadian Economy Online

Targeted at students, Canadian Economy Online contains information about economic concepts, key indicators and how they work, as well as the relationship between government and the economy.

<http://www.canadianeconomy.gc.ca/english/economy/>

CIBC SmartStart

Offer youth and students tips on managing their money. The site features sections such as Banking 101, Saving for My Future and ABCs of Money.

<http://www.cibc.com/ca/youth/index.html>

Citi Financial Education

Interactive lessons covering the basics of financial literacy, tailored to kids, teens, and adults.

http://financialeducation.citi.com/citi/financialeducation/curriculum/home_cd.htm

Money and Youth

Published by the Canadian Foundation for Economic Education, Money and Youth offers numerous resources for parents and youth, ranging from an in-depth Money Q&A section to a parent's guide to financial education.

<http://www.moneyandyouth.cfee.org/>

TD Student Central

Published by TD Bank, the website offers unique innovations such as a Facebook application for planning a budget and splitting expenses with roommates.

<http://www.tdcanadatrust.com/student/>

The City

The City is a learning program developed by the Financial Consumer Agency of Canada (FCAC) and the British Columbia Securities Commission (BCSC). It teaches young people financial skills that they can carry with them throughout their lives. The resource is ready to use with lesson plans, overheads, income, expense and budget handouts, and a variety of worksheets. N.B. Must register as either a teacher or student to access website.

<http://www.themoneybelt.ca/theCity-laZone/eng/login-eng.aspx>

The Money Belt

Created by the Financial Consumer Agency of Canada, The Money Belt is a financial education portal aimed at youths aged 15 to 29 years old, which is dedicated to teaching financial life skills in an easy-to-understand format.

investors shouldering a significant portion of the losses while financial institutions may be shielded from legal action) is a case in point. While it may be politically expedient, it's not clear that the pursuit of investor education programs is always optimal from a cost-benefit perspective.

[Click here](#) to read full story

<http://www.themoneybelt.ca/>

YourMoney

Published by the Canadian Bankers Association, YourMoney allows students to learn more about how to use money wisely to reach their goals, teachers to register for an in-class seminar presented by a banker volunteer from their community, and parents to access resources to help teach their children financial literacy at home.

<http://www.yourmoney.cba.ca/>

Financial Planning and Counseling for Older Audiences

10 Questions to Ask Your Planner

Published by the Financial Planners Standards Council of Canada, the website discusses what Canadians should consider when hiring a financial planner.

http://www.fpscscanada.org/public/articles/10_questions_ask_your_planner

Canadian Consumer Information Gateway

Published by the Office of Consumer Affairs, this gateway service provides reports and advice on a wide range of consumer topics. Information is organized by consumer type (e.g., young consumers, seniors), by product or service (e.g. buying a used car, televisions), and by issue (e.g., pyramid schemes, privacy protection, identity theft).

<http://consumerinformation.ca/>

Canadian National Survey on Economic and Financial Capability

Published by the Canadian Foundation for Economic Education, the survey analyzed levels of awareness of, and satisfaction with, retail investor confidence and opportunities for change.

<http://www.cfee.org/assets/u/Canadian-National-Survey-on-Economic-and-Financial-Capability.pdf>

CIBC and YMCA Access to Opportunity

A partnership between CIBC and the YMCA, the Access to Opportunity program helps newcomers to Canada break down the barriers to employment and builds financial capacity.

<http://www.ymcatoronto.org/en/newcomers/cibc/index.html>

Financial Consumer Agency of Canada

An independent body established by the federal government to protect and inform consumers of financial services. Includes information about consumer rights and responsibilities, banking, insurance, credit, loans, and debt.

<http://www.fcac-acfc.gc.ca/>

Integrated Market Enforcement Team - RCMP

IMETs help to detect, charge and prosecute people who use capital markets to harm the economic interests of Canadians, particularly if they have committed serious Criminal Code capital markets offences that threaten investor confidence or economic

stability.

Investor Education Fund

Funded by the Ontario Securities Commission, the Investor Education Fund provides unbiased financial information, particularly with respect to personal finance and investments.

<http://www.investored.ca/>

Moving Forward with Financial Literacy

A synthesis report of the Canadian Conference on Financial Literacy, which was a national conference held in Montreal in September 2008. The conference brought together government representatives, scholars, social policy experts and community experts from Canada and abroad to learn and exchange ideas, share best practices and promote dialogue on literacy.

<http://www.fcac-acfc.gc.ca/eng/publications/surveystudy/reachhigherconf/pdf/reachhigher-eng.pdf>

Ontario Association of Credit Counseling Services

Offers practical explanations on personal finances and debt problems.

<http://www.oaccs.com/>

Ontario Council of Agencies Servicing Immigrants - Newcomers Investor Education Kit

Funded by the Investor Education Fund, the Newcomers Investor Education Kit is a series of guides on a variety of topics, including the basics of investing, choosing a financial advisor, and investing in Ontario. The guides are available in Arabic, Chinese, Russian, Spanish, Tagalog, and Urdu.

<http://www.investored.ca/personal-finance/investing-basics/Pages/ocasi.aspx>

RBC Financial Group - Financial Literacy Efforts

Details financial literacy initiatives by RBC.

<http://www.rbc.com/responsibility/economic/self-sufficiency.html#financialliteracy>

Scotiabank - Bank the Rest

Savings program that lets consumers automatically round up purchases made using a Scotiabank debit card to the next multiple of \$1 or \$5. The difference is then automatically transferred to a savings account.

http://scotiabank.com/cda/content/0,,CID12190_LIDen,00.html

Social and Enterprise Development Innovations

SEDI is dedicated to enabling poor Canadians become self-sufficient, and focuses on financial literacy, asset-building and entrepreneurship.

<http://www.sedi.org>

I 'ACTIF

Fédération ACTIF - Réseau coopératif d'éducation financière (L'ACTIF) is a federation of Quebec coop organizations whose goal is to promote financial education. L'ACTIF organizes conferences, debates, conducts research projects and offers training through investors' clubs and seminars.

<http://www.actif.net/accueil/accueil.quisommes.php>

AMF - Fraud Prevention

L'Autorité des marchés financiers (AMF) provides educational information on how to recognize financial fraud, publishes press-releases and warning notices on its web-site.

<http://www.lautorite.qc.ca/clientele/consommateur/prevention.en.html>

AMF - Investor Resources

AMF's web-site has a section designated to various investment-related publications, for examples brochures on mutual funds, how to choose your financial advisor, detect securities fraud etc.

<http://www.lautorite.qc.ca/clientele/consommateur/investissemment/publications-investissement.en.html>

Guide des droits des investisseurs

The Guide to the laws and regulations governing investors' rights in Quebec, funded by the AMF Education Fund.

<http://www.droitsdesinvestisseurs.com/>

Observatoire du droit québécois des valeurs mobilières

L'Observatoire is a research project launched in 2006 by the AMF Education Fund and based in University of Montreal, Law School. The project provides educational information pertaining to investor rights and securities markets.

http://www.valeursmobilières.net/index_fr.html

MÉDAC

Mouvement d'éducation et de défense des actionnaires, created in 1995 by Yves Michaud, is a non-profit porte-parole for shareholders' rights. It provides support and training to its members.

<http://www.medac.qc.ca/>

INTERNATIONAL RESOURCES

International Forum for Investor Education

IFIE brings together private sector and public sector providers of investor education to improve the effectiveness of investor education programs around the world. It serves as a clearinghouse for the exchange of information and ideas among providers of investor education from different jurisdictions, including organizations that are just developing or planning to develop investor education programs.

<http://www.ifie.org>

Financial Literacy and Education Commission [US]

The Financial Literacy and Education Commission coordinates financial education efforts throughout the federal government, supports the promotion of financial literacy by the private sector, and encourages the synchronization of efforts between the public and private sectors.

<http://treas.gov/offices/domestic-finance/financial-institution/fin-education/commission/>

Investing Online Resource Center

Created by the North American Securities Administrators Association, the Investing Online Resource Center provides noncommercial information about what it's like to trade online, how a margin account works, and more information on how to better protect yourself online.

<http://www.investingonline.org/>

Money Made Clear [UK]

Published by the Financial Services Authority, Money Made Clear presents original materials on a host of financial products, organized by life stage as well as by topic.

Money Matters to Me [UK]

Developed by the National Institute of Adult Continuing Education, Money Matters to Me helps consumers comprehend financial matters by teaching them how to control their money on a day-to-day basis.

<http://www.moneymatterstome.co.uk/>

MyMoney [US]

The US government's website dedicated to teaching all Americans the basics about financial education. The website is available in Spanish.

<http://www.mymoney.gov/>

Practical Money Skills [US]

Published by VISA, the website assists educators, parents and students in applying better money management for life. It also helps the consumer become more financially confident by offering free online tools, worksheets and quizzes.

<http://www.practicalmoneyskills.com>

Understanding Money [Aus]

Created by the government-supported Australian Financial Literacy Foundation, the website aims to give all Australians the opportunity to increase their financial knowledge and better manage their money. While the website is in English only, information is provided on how to contact the Australian FLF for material in seven additional languages (Arabic, Chinese, Greek, Italian, Korean, Spanish, and Vietnamese).

<http://www.understandingmoney.gov.au>

Sorted [NZ]

An independent money guide published by the government-funded New Zealand Retirement Commission, featuring tools and information dedicated to helping consumers manage their personal finances.

<http://www.sorted.org.nz/>

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