

Submission to the Task Force on Financial Literacy

Prepared by the Canadian Bankers Association

April 30, 2010

The Canadian Bankers Association (CBA) is pleased to support the Task Force on Financial Literacy through this submission to the consultation process. On behalf of our member banks, we strongly support this initiative and believe that now is the time for a national strategy to promote financial literacy. In particular, we look forward to the results of the Task Force's findings as well as its recommendations.

The CBA works on behalf of 51 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 263,400 employees. We advocate for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada's economy. Why is financial literacy important to the CBA and our bank members? Because financially literate Canadians are a vital part of a sound banking system.

The Task Force defines financial literacy as "having the knowledge, skills and confidence to make responsible financial decisions." We know through our business that Canadians who make healthy, long-term financial decisions not only help to build their own financial security, but are also good for the strength of the banking system and the Canadian economy as a whole. At the same time, a lack of knowledge and understanding of the risks and benefits of financial products and services can lead to problems both for individuals and the broader economy.

The CBA and its member banks have been dedicated to boosting financial literacy levels for years.

For over a decade, the CBA has brought financial literacy to Canadians through its high school seminar program, *YourMoney*, which has taught more than 186,000 senior high school students about budgeting, borrowing, saving, investing, and protecting themselves from fraud. The non-commercial seminar uses volunteer bankers from the local community to teach young Canadians about responsible money management. *YourMoney* is offered in collaboration with the Financial Consumer Agency of Canada (FCAC).

The banks also support research into financial literacy issues. Late last year, for example, the CBA commissioned a survey conducted by The Strategic Counsel to gauge how financial literacy works in the home among families. We found that the majority of parents and teenagers believe that teenagers' basic money management skills are relatively strong but more sophisticated capabilities, such as investing and understanding personal credit history, are underdeveloped.

And, through the CBA's website (www.cba.ca) we provide user-friendly information about banking basics and wise credit use as well as other resources to help Canadians choose the best banking products and services to meet their needs.

While the CBA offers its own resources, banks are also an active and essential part of the daily life of most Canadians. Millions turn to banks every day for products, services and advice to help them save, plan for retirement, start businesses and buy homes. As a result, banks already provide their customers and potential customers with a wealth of educational material, information, tools and services geared to helping them make the best choices. We outline highlights of these services further along in our submission.

Banks, and the CBA, also provide consumers and the public with information on fraud to raise awareness about financial fraud and how consumers can better protect their financial information.

In addition, for more than 40 years, banks have been strong supporters — providing both financial support and many hours of volunteer employee time — of not-for-profit credit counselling agencies and the good work that they do to help Canadians learn better money management skills. Supporting credit counselling is also part of the broader and on-going banking industry commitment to strengthening the financial literacy of all Canadians.

Our submission

This submission takes its structure from the consultation document issued by the Task Force. Our submission deals with the Task Force's questions pertaining to:

- The financial literacy landscape
- The learning foundation
- Understanding financial behaviour
- Borrowing and debt
- Saving and investing
- Planning for retirement
- Protecting against fraud
- Communications and technology
- Evaluating national progress on financial literacy

We have based our response and recommendations on how we see the Canadian financial literacy landscape. And while we cannot give definitive answers in all of these areas – indeed, we keenly await the findings of the Task Force to help us answer some of these questions – we have provided recommendations where we can based on our experience.

Specifically, we recommend undertaking research that identifies what, if any, problems exist with the financial knowledge levels of Canadians and the teaching of financial education in schools across Canada. Such research should focus on access and distribution of financial education among Canadians, cross-sector involvement that includes the private sector, and better communication and cooperation to combat fraud.

Summary of Recommendations

The CBA recommends:

1. That a national strategy for financial literacy be established that includes research into the needs of Canadians and builds on the results. Without concrete, quantitative research on what Canadians need, it will be very difficult to a) determine what needs to be done and how, and b) measure success going forward.
2. That a national strategy make teaching financial education in the public school system mandatory. We encourage the federal, provincial and territorial governments to work together to ensure that all young Canadians get a strong foundation in financial education before they graduate from high school. The work of the Financial Consumer Agency of Canada (FCAC) in promoting a formal high school financial literacy curriculum should be used as foundation.
3. That, because of the importance of private sector involvement (including banks) in tackling financial literacy levels in Canada, the private sector play a role in helping to implement a national financial literacy strategy.
4. That the Task Force focus on the important role of families as a hub of learning about financial matters. A national strategy must consider that it is within families that young people learn attitudes toward their money and financial well-being.
5. That a central hub be established for information and education about retirement planning or financial management in general. This could operate on a national level and offer resources to all Canadians in both urban centres and rural or hard to access communities.
6. That, to help consumers avoid fraud, the Task Force could make recommendations that speak to the most vulnerable groups. For example, seniors have been identified as a group that tends to be targeted by scams and fraudulent behaviour. More research would be needed to identify areas of the most need.
7. That the federal government create and promote a single portal (like Service Canada) for all financial literacy activities and organizations. A logical host would be the FCAC.
8. That the federal government track changes around financial literacy that relate to the effectiveness and efficiency of financial literacy initiatives and to share these results with key stakeholders. We recommend that the FCAC be the home for this research.

CBA Responses to Task Force Questions

1. The financial literacy landscape

The Task Force has asked the following questions with regard to the state of financial literacy in Canada:

- What financial knowledge and skills are essential for all Canadians?
- What would you recommend to improve and/or build on existing financial literacy programs and initiatives in Canada?
- What initiatives could be put in place to encourage more collaboration among the public, private and non-profit sectors?

CBA Response:

These questions are at the heart of the financial literacy work facing Canada and, for the most part, are broad issues of social policy beyond the scope of the CBA's specific mandate. Nevertheless, while we will look to the final report of the Task Force for guidance on how best to proceed on these three fronts, we do have some recommendations to offer based on our experience.

The need for quantitative research

The first question posed by the Task Force is perhaps the broadest and the most challenging. Answering it will depend on a wide range of factors such as age, income, location, and responsibilities of the individual. For example, we know from our own work in financial literacy with high school students that this demographic is looking for information to enable them to learn to budget, use credit wisely, avoid fraud traps and, as they get older, how to grow their money. While there has been some research into the attitudes and needs of Canadians in the area of financial literacy, there is clearly still further research that needs to be done.¹

Some of the areas of research should include gaining a better understanding of how skills and knowledge are delivered – how effectively it is delivered; the effectiveness of distributing material versus teaching it and how much is retained; what knowledge and skills are needed at the different stages decision-making and different types of financial decisions; and how Canada compares to other countries in these areas. Once this research has been gathered, it should be shared with stakeholders in a consultative manner.

It is our recommendation that the Task Force establish a strategy that includes research into the needs of Canadians and builds on the results. Without concrete, quantitative research on what Canadians need, it will be very difficult to a) determine what needs to be done and how, and b) measure success going forward.

¹ Recent research includes Statistic's Canada's 2009 Financial Capability Survey and the Investor Index published by the Canadian Securities Administrators.

Armed with a concrete sense of what Canadians' financial literacy needs are and where the gaps in knowledge lie (i.e., what is the problem we are trying to address through this strategy?), we could then answer question two – how to improve and build upon existing financial literacy initiatives.

Encouraging collaboration and private sector involvement

From our perspective, a collaborative approach is key to implementing a national strategy aimed at improving financial literacy among Canadians. Our banks have been taking a cross-sector approach to financial literacy through the many programs they participate in. We have outlined just a few of these in Appendix A as examples of what can be done by the private sector both on its own and in partnership with other organizations. While we cannot make a definitive recommendation at this point, we can offer these as examples of what has worked for us and what sort of information is already available.

It is important that the Task Force review the inventory of existing financial literacy initiatives and that further research be done on best practices. This research should also be shared with stakeholders.

We would like to stress the importance of private sector involvement in tackling financial literacy levels in Canada and recommend that the private sector have a role in helping to implement a national financial literacy strategy.

For our part, banks provide an important, customer-focused perspective on the relationship between Canadians and their money. Indeed, they play a vital role in the lives of millions of Canadians every day. Thus, we have a stake in ensuring that they are capable of making sound financial decisions about the products and services they purchase. We also have experience to share.

2. The learning foundation

The Task Force has also posed several questions related to how, when and where Canadians learn about money. They are as follows:

- What do we need to do to make financial education universal, relevant and accessible to all Canadians?
- What other efforts would improve financial literacy education in Canada?
- What parties should contribute to financial literacy education in Canada, and what roles should the following participants perform?
 - parents/family
 - colleges and universities
 - the private sector
 - non-government organizations (NGOs)
 - other

CBA Response

The CBA can offer some recommendations based on our experience with Canadian consumers and the way they use banks and bank resources. In particular, we would like to offer our insights into accessibility, the role of educators and the role of the family.

Accessibility

In our view, if Canadians cannot access financial education and information, then it does not matter how relevant that information is. If they do not know where to turn, then they won't be able to take advantage of what is offered.

Experts on financial education in Canada have pointed to a lack of marketing and distribution in promoting available financial literacy resources among the population. This is a major challenge that the Task Force must address.

The Canadian banking industry – as well as other private sector players in financial services – has been very successful in getting in front of their customers through a variety of channels – broadcast media, online, face-to-face and in print media. If we are not accessible to customers and potential customers, they will not do business with us. Because of this, we feel that financial education providers could benefit from the experience of the private sector, including banks in Canada.

Again, as the Task Force begins to develop strategies it should consider consulting with individual financial institutions that can share their experience and expertise in building consumer-driven, accessible education and information campaigns and programs.

The role of educators

Through its experience with the *YourMoney* financial literacy seminar program for youth, the CBA has been making available resources to high school educators so they can provide financial education in the classroom. Right now, however, there is no consistent approach to financial education across the country. Some provinces have taken steps to include financial education in the curriculum, such as British Columbia, while others have not. The government of Ontario will be introducing mandatory financial literacy into the high school curriculum starting in 2011 – an initiative promoted by an M.P.P. (a former banker).

We recommend that a national strategy for Financial Literacy make teaching financial education in the public school system mandatory. We encourage the federal, provincial and territorial governments to work together to ensure that all young Canadians get a strong foundation in financial education before they graduate from high school. The work of the Financial Consumer Agency of Canada (FCAC) in promoting a formal high school financial literacy curriculum should be used as foundation for a national strategy.

The role of families

Financial literacy is a family affair – so we found when we conducted our own research on how parents view their children's ability to make sound financial decisions (and vice versa). Our research showed that a majority of both teens and parents found that parents are a teen's primary source of information about managing money and finances.

Thus, we recommend that the Task Force focus on the important role of families as a hub of learning about financial matters. A national strategy must consider that it is within families that young people learn attitudes toward their money and financial well-being.

3. Understanding financial behaviour

The Task Force has also posed the following questions related to understanding how Canadians make financial choices and what factors influence their behaviour:

- What initiatives might encourage people to stop procrastinating and start making, and sticking with, a financial plan?
- What can we do to counteract people's inclination to "live for today" instead of planning for tomorrow?
- What strategies would you recommend to help consumers who are overwhelmed by the number and type of financial products that are available to them?

CBA Response:

Understanding the behaviour and attitudes of Canadians about their finances is not an easy task. While there is already a lot of information available, the challenge is to have people seek it and use it. Banks conduct market research that helps them better understand and serve their customers but the Task Force is asking broader questions that relate to consumers as a whole.

Again, we would stress the importance of research (as outlined in our response to the first section) to tell us where we stand today and, in the future, to measure how far we have come. We can certainly speak to the importance of market research as banks seek to better serve their customers and to attract new customers by identifying burgeoning needs and gaps in the marketplace.

4. Borrowing and debt

The Task Force points out that while debt can help Canadians achieve their goals (i.e., buying a house or starting a business) it can also be a burden if it is not taken on prudently. As such, the Task Force asks the following questions about borrowing and debt:

- What options could be considered to help more Canadians understand the difference between good and bad debt?
- What appropriate initiatives might help people with financial challenges before they become insolvent?
- What changes do you believe could be made to help people make more informed choices when it comes to debt and borrowing?

CBA Response:

Education, and the earlier the better, is the best way to help Canadians understand wise use of credit. Without knowledge and care, it can be a challenge. Similarly, Canadians should understand credit and how it works, use it for appropriate purchases and repay it promptly according to the terms of the agreement.

There are many types of credit being used in Canada and, by and large, most Canadians use it carefully and repay their debts on time. For example, CBA statistics show that the number of mortgages in arrears – even as Canada emerges from one of the worst recessions in decades – is less than half of one per cent (0.45%) of the total number of mortgages. Even credit cards and unsecured debt show a low 90-day delinquency rate of just over one per cent of all accounts (1.31%). Moreover, consistent research over the years has found that 70 per cent, or more, of Canadians pay their credit card balance off in full each month.

Banks do their part to ensure that they provide credit to those who can and will repay it. When approving loans, banks undertake a rigorous process to determine whether a customer is able to take on more debt and whether they are likely to repay it. Where the interest rate is subject to increases (for example, variable rate mortgages or lines of credit), this assessment includes looking at the client's ability to repay the loan if the rate increases. Canadian credit reporting practices support this assessment by providing information to potential lenders on an individual's outstanding credit and their past practices in repaying that credit. A bank's assessment is done at one point in time, however, and cannot predict unforeseen circumstances like job loss, illness or marital break-ups. These are often the precipitating factors that lead to debt problems and sometimes bankruptcy – a fact that the Office of the Superintendent of Bankruptcy has often reported.

Banks offer consumer education in many different formats and venues – such as online, in branch, over the phone and in published materials. Where individuals are experiencing financial difficulties, banks actively reach out to customers during difficult times and help with adjusted repayment plans. For example, during the recent economic downturn, banks worked hard with customers to see them through their challenging financial situation. Sometimes, if necessary, banks will refer customers to credit counsellors to help with education and a debt management plan. Banks provide staff volunteers and millions of dollars to support the credit counselling services across Canada.

The CBA would reinforce our earlier recommendation about the role of financial education in the classroom to ensure that Canadians are well versed in how and how not to use debt. In particular, ensuring that financial education is part of the secondary school curriculum can prepare young Canadians to deal with their first credit cards and loans as they enter into working life or post-secondary education.

5. Saving and investing

The Task Force would like answers to a few key questions related to Canadians and their savings and investment patterns. They are:

- What motivates people to save?
- What kind of information do people need to make good saving and investment decisions for their particular circumstances?

- What else might help Canadians improve their saving and investing practices?

CBA Response:

The first thing we should recognize is that there are a variety of ways to measure savings. A balance sheet approach, combining the value of assets and liabilities, indicates that Canadians are continuing to save and acquire net wealth. This approach may be the most accurate way to measure actual savings behaviour of families.

Easy affordable access to consumer credit has changed the way Canadians save. This enables families to focus their savings strategies on longer term and more major goals, such as preparing for retirement, saving for a down payment on a house, or saving for their children's education. Households save to build up financial and non-financial assets for the future. This helps to:

- mitigate risk (loss of a job)
- finance large future expenditures (post secondary education)
- acquire expensive tangible assets (a home)
- replace income upon retirement

To better prepare for these life events, households need to manage debt wisely and understand how to manage the costs of borrowing (e.g. choosing the right mortgage). They must understand the returns and the tax consequences of certain types of savings and the risks associated with savings in both financial and non-financial assets. And they must understand the risk associated with investing in savings vehicles (GICs, equities, different mutual funds) as well as real assets (e.g., home price trends, starting their own business). This is the kind of advice that banks provide to their customers.

A good set of public policy tools, such as appropriate tax-assisted savings vehicles, could also help Canadians to save. The introduction of the Tax Free Savings Account is a good example of such a policy. It is flexible and works for all kinds of savings goals.

The financial literacy strategy should tap into the expertise and experience of the private sector, including banks and other financial services providers, to build a compelling and engaging environment for accessing important information about saving.

6. Planning for retirement

The Task Force asks key questions related to Canadians and their retirement planning skills:

- What can be done to encourage Canadians to plan and prepare for retirement at an earlier age?
- What, from a financial literacy perspective, can be done to encourage Canadians to participate more fully in their workplace pension plan and/or a retirement plan (e.g., RRSPs)?

- What other initiatives or incentives related to financial literacy should the Task Force consider to help promote the retirement security of Canadians?

CBA Response

First and foremost, we would like to reinforce our initial recommendation that financial education be part of the secondary school curriculum in all provinces. The earlier individuals start saving for retirement the more they can maximize their savings over time. It's a simple fact.

Second, Canadians must be made aware of their increased role in the retirement savings picture. Although Canada has a strong and internationally recognized pension and retirement savings system, there is widespread recognition that the primary responsibility for ensuring adequate retirement income rests with individual Canadian families. To be able to achieve this, however, Canadians must be encouraged to take an active role in saving for their retirement. In addition, Canadians must be given realistic and relevant information and advice that is appropriate to their own plans and expectations.

Another part of the retirement savings picture is clear information and education related to tax planning. RRSPs are both an excellent tax planning vehicle and a tool for retirement savings. There are many other tax strategies that Canadians can take advantage of to help them save for retirement. Ensuring that Canadians have access to these is important. In particular, tax strategies could be more widely advertised and more clearly explained so that they can be better understood and implemented by all Canadians.

Employers can also have a role in encouraging participation in company-sponsored savings plans such as pension plans and group RRSPs. At the same time, employers who offer such opportunities to save should ensure that information regarding these savings plans is available and easily accessible with proper advice about their potential risks.

Our recommendation would be to ensure that Canadians have access to effective and holistic financial advice that can help them pull together the different retirement planning and savings pieces at each life stage. Professional advice is key to adequate savings at retirement and should be available to all Canadians.

It would also be helpful to establish a central hub for information and education about retirement planning or financial management in general. This could operate on a national level and offer resources to all Canadians in both urban centres and rural or hard to access communities.

7. Protecting against financial fraud

The Task Force is also looking for input on the following questions regarding financial fraud:

- Is financial fraud linked to a lack of financial literacy? If so, how?
- What kind of information could improve Canadians' vigilance with respect to financial fraud? How should this information be presented, and who should deliver it to Canadians?

- Are there groups that are more susceptible than others to financial fraud and, if so, how could financial literacy help them?

CBA Response:

The CBA shares the Task Force's view that greater awareness of different frauds and scams and how they work could help Canadians better protect themselves against these scams. As businesses that handle personal information and the financial accounts of millions of Canadian consumers, the banks take their role in the fight against financial fraud extremely seriously.

For their part, banks in Canada have highly sophisticated security systems and experts in place to protect customers' information and to prevent them from being the victims of financial fraud. They also work closely with law enforcement and help educate consumers about steps they can take to minimize the risk of becoming a victim. Consumers also have a role to play in protecting themselves, however, and must remain vigilant. For this reason, banks go to great lengths to raise awareness of fraud, and support fraud prevention education through a number of initiatives including:

- Providing fraud awareness education and information through multiple channels including online videos, online login pages, website security pages, print material in branches, branch signage and media relations efforts.
- Working closely with law enforcement to help educate consumers and businesses about steps they can take to minimize the risk of becoming a victim of fraud. For example, Project Protect, organized by the Interac Association (of which banks are members), is a collaborative crime prevention and educational program aimed at informing merchants, business owners and their employees about payment card fraud.
- Participating in the Fraud Prevention Forum, the federal Competition Bureau's multi-stakeholder, multi-media annual campaign to raise awareness of fraud with its strong emphasis on prevention. During Fraud Prevention Month in March, the banks and the CBA participate in many fraud awareness activities, as they do all year round.
- Participating in the annual Cyber Security Awareness Month in October, an international effort to help consumers protect themselves and their computers from cyber crime.
- Dedicating a significant portion of the CBA's financial literacy seminar for youth (*YourMoney*) to fraud awareness and prevention.
- Providing education and training to bank customer relations staff about signs of elder financial abuse.
- Providing a CBA Fraud Prevention e-newsletter covering topics on frauds and scams.

To help consumers avoid fraud, the Task Force could make recommendations that speak to the most vulnerable groups. For example, seniors have been identified as a group that tends to be targeted by scams and fraudulent behaviour. More research would be needed to identify areas of the most need.

Education within the school system should also play a role – young people who learn early on how to confidently make financial decisions around products and services are less likely to fall victim to fraudulent practices.

We also recommend better collaboration among regulators and stakeholders, including law enforcement bodies. The CBA and its members would be prepared to explore further collaboration with the government and other stakeholders about increasing public awareness activities on fraud prevention.

8. Communications and technology

Communications and technology are also a focal point for this consultation and as such the Task Force is asking:

- How can financial information be best presented and communicated, in order to reach all Canadians?
- How can we make Canadians aware of the financial information that is available, and capture their attention and interest?
- What organizations would you trust to deliver credible and objective information over the Internet and using other new technologies?

CBA Response:

As pointed out earlier, accessibility is vital in promoting financial literacy. Canadians must know where to go for information and education. Marketing and distribution are key. Banks use a variety of communication platforms to reach their clients and potential clients and to communicate to the public at large. They also use a wide range of media.

We recommend that the federal government create and promote a single portal (like Service Canada) for all financial literacy activities and organizations. A logical host would be the FCAC.

In addition, the financial literacy strategy should tap into the expertise and experience of the private sector, including banks and other financial services providers, to build a compelling and engaging environment for accessing information. They have much to offer when it comes to communicating effectively with consumers and the general public.

9. Evaluating national progress on financial literacy

How can we tell if a financial literacy strategy is working? That is the final series of questions asked by the Task Force.

- What elements should be included in a national evaluation framework to gauge progress on financial literacy?
- To what extent can Canada use existing methods to gather data on financial literacy?

- To what extent will new methods be required?
- As well as assessing how financial literacy programs have improved Canadians' knowledge of financial issues, the Task Force would also like to assess how people's attitudes and behaviour have changed. Do you have suggestions about how to assess changes in attitudes and behaviour with respect to financial decisions?

CBA Response:

Recognizing that changes to human behaviour happen incrementally, and often over generations, it is important that the primary focus of evaluation be on the delivery, relevancy and levels of collaboration in financial literacy programs and initiatives, and that this evaluation be done against clear priorities. Therefore, we encourage the federal government to track changes around financial literacy that relate to the effectiveness and efficiency of financial literacy initiatives and to share these results with key stakeholders and we recommend that the Financial Consumer Agency of Canada be the home for this research.

Appendix A

Examples of successful financial literacy programs supported by banks in Canada:

- [YourMoney](#) — a seminar program developed by the CBA. It is a free 50-minute non-commercial financial literacy seminar aimed at high school students that covers key topics related to financial planning.
- [Bank the Rest](#) — a savings program that allows customers to automatically round up purchases made using the Scotiabank debit card to the next multiple of \$1 or \$5. The difference between the purchase total and the rounded up amount is then transferred to a savings account. (Scotiabank)
- [Canadian Centre for Financial Literacy](#) (CCFL) — a partnership between corporations and Social and Enterprise Development Innovations (SEDI) which offers financial literacy programs across Canada. Several banks in Canada are supporters of the CCFL.
- [Citi Financial Education](#) — financial education resources and curriculum for kindergarten to grade 8 students. (Citibank Canada)
- [Credit Education Week Canada](#) (CEWC) — CEWC is an annual public awareness campaign that puts tools and tips in the hands of Canadians to teach them how to manage their finances. Developed in cooperation with Credit Canada, a non-profit credit counselling service in the Toronto area, CEWC includes a scholarship program, expert speakers on personal finance and community events to empower Canadians to make wise financial decisions. (Capital One Canada)
- [Junior Achievement](#) — business and entrepreneurship education. Several banks in Canada are supporters of Junior Achievement including CIBC, RBC Financial Group, TD Bank Financial Group, Scotiabank, and BMO Financial Group.
- [The Learning Partnership's Entrepreneurial Adventure \(EA\)](#) — EA brings students and teachers from kindergarten to grade 12 together with business partners to create ventures that benefit their local communities. (BMO Financial Group)
- [Momentum Community Economic Development Society](#) — this Calgary-based money management program delivers workshops to low-income people with a goal of helping individuals take control of their personal finances and develop money management knowledge and skills. (RBC Financial Group)
- [The Road to Better Credit](#) — The Road to Better Credit provides a roadmap to help Canadians understand how credit works as well as what they can do to build, preserve and make the best use of their credit. (Capital One Canada)
- [Students in Free Enterprise](#) — provides grants for students to develop and implement sustainable financial education projects. (HSBC)
- [TD Financial Literacy Grant Fund](#) — a fund administered by Social and Enterprise Development Innovations (SEDI) to distribute grants to community groups for financial literacy training. (TD Bank Financial Group)
- [TD Money Lounge on Facebook](#) — a new media approach to financial education aimed at students and youth. (TD Bank Financial Group)