Individual responsibility is individual empowerment
The financial industry must work with consumers to help them make better decisions about their financial future

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Check against delivery.

I have spoken in the past about some of the great macroeconomic issues which we face in the world of business – risk management and global expansion. But as I considered my subject for today's remarks, I was struck by how many of the global economic issues we have faced in the past couple of years have their roots in more microeconomic circumstances.

In the rush to consider the global issues related to the economy, we often ignore the more local, micro issues, forgetting the adage "to look after the nickels and let the dollars look after themselves". Principal among these issues is the role of the individual consumer in the economy – which I fear has been too often overlooked to greater economic peril.

Today, I have chosen to speak about individual responsibility and individual empowerment.

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"Canadian consumers do not understand financial risk."

That is the headline of a news release put out recently by TNS Canadian Facts. TNS surveyed over 1100 Canadians and discovered that nine out of ten respondents could not answer three basic questions about financial risk.

This is an unsettling result. The financial crisis we suffered through over these past couple of years created huge awareness of financial issues among Canadians, and has caused them to ask many more questions. But while it raised awareness, it has not, unfortunately, led to a more educated consumer. If anything, it has pointed to a glaring hole in financial literacy.

It is interesting that the TNS survey talks about Canadian consumers, and not just about Canadians. I don't think that is a fluke. Collectively, consumers wield great economic power, and they vote with their wallets everyday to buy the goods and services they need or want. That includes financial services, like mutual funds and insurance.

The consumer rules with an iron fist. Just ask Chrysler or GM whose own financial crises were ultimately caused by their failure to produce vehicles consumers wanted; or ask success stories like Apple or RIM, whose products so dominate our culture.

Consumers are a big group and they get what they want. While there is safety and power in groups, we have to be careful of the pack mentality.

"Group think" can be a dangerous thing. It allows each of us to hide behind others and can give us false comfort about what and how we consume. It can provide a false sense of security in how we handle, or mishandle, our money. Just because everyone else is doing it, doesn't mean it's right!

Financial literacy is an individual issue, not a "consumer" issue.

During the recent financial crisis, Canadian consumers of all ages and backgrounds lost a lot of money in investments like mutual funds and shares in some of Canada's leading companies. Did they know that they could lose all or a substantial portion of their investments? I doubt it. How many of you know someone who has postponed retirement because their investments no longer allow them to retire this year or next year?

The financial services industry could and should have done more to protect consumers. My premise today, however, is that consumers themselves need to take more responsibility for their own financial affairs, including their choice of investments! After all, we are not just consumers; we are individuals, spouses, parents, colleagues, community members and more. Every Canadian is an individual, and we all take responsibility for our own lives and for our families, every day. That should include responsibility for our financial affairs.

Why is it then that we may not invest as much time in our financial future as we do, say, in purchasing a car? How is it that we know so little about something as important as saving for retirement, or using debt prudently?

Here are some of the facts that the Federal Task Force on Financial Literacy – a really great initiative - has learned:

- Among young adults, 45 per cent postpone their credit card balance from one month to another, and less than half of them know that they are paying interest on the postponed amount;
- Only 15 per cent of workers aged 25-45 have set objectives and developed a plan for their retirement;

- Many Canadians believe that their Canada Pension Plan will take care of them in their old age, but they are not aware of the relatively small amounts that the CPP will pay them. In fact, many households in Canada are not saving enough to pay basic expenses in retirement.

Canadians' expectations of their retirement income are completely out of line with what they are earning and saving today. Canadian households' consumer debt exploded over the last 20 years, rising from 90 per cent to 140 per cent of income. In fact, many Canadians will go into retirement with a mortgage still owing on their homes.

Our parents would never have accepted this. My father detested the whole idea of debt, and other than the mortgage on his home, he owed money to no one. We always had a nice family car, which my father paid for in cash. Knowing that a car would not last forever, he started saving for his next car the day after he purchased his new one! He knew how to budget and he knew how to stick to his budget.

Many, if not most Canadians today do not know how to budget, and most have never had a personal budget to guide their spending. Canada's youth are living beyond their means. Sixty per cent of them are in debt and a third of them hold more than $10,000 in debt.

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So just who is responsible for this situation?

There are a lot of theories for the explosion in personal debt, but one of the most prominent explanations is Ronald Reagan. As the U.S. President in the 1980s, he initiated deregulation of the financial services industry, making it much easier for people to borrow from banks and get credit cards.

The effect of that legislation was to create a debt-inspired spending boom on everything from holidays and televisions, to cars and housing. Household debt was only 60 per cent of income when Reagan took office, about the same as it was during the Kennedy administration two decades earlier. By 2007, two decades later, households' consumer debt as a percentage of income had doubled from 60 per cent to 119 per cent.

Some think Reagan is the villain in this scenario, but frankly, I doubt it. We most certainly can question some of the ethics of the wide number of banks and non-bank lenders throughout North America for encouraging so many people on both sides of the border to take on more credit card and consumer debt.

However, just because someone offers me a credit card or a line of credit, does not mean that I am obliged to accept it, and I am certainly not obliged to use it. Just because a store offers a no-interest no payment deal for three years, does not mean we should buy a new sofa!

This is individual responsibility. And it goes further than that. I think we all know in the financial services industry that many of our products are sold to the consumer, not purchased or chosen by them. Individuals need to ask more questions about the products that are presented to them. They have to ask more questions about the fees they are paying, and the value of the advice they are receiving, especially when the market tumbles.

I have to ask myself why an individual consumer does not stand up and say “You will be paid on the basis of performance!” according to benchmarks that are agreed upon. The individual needs to learn more about the risks associated with their decisions and the value they are receiving for the advice they are buying.

I want to emphasize very strongly here that I am not trying to transfer blame for the financial crisis to the individual consumer or even to consumers as a group. I also want to make it clear that I am not talking about those whose circumstances are such that they cannot fend for themselves.

In fact, the financial crisis simply made it clear that a responsible individual needs to govern his or her own financial affairs properly and to do this, needs to learn more and invest more time in order to better understand the impact of his or her own spending and savings habits.

The responsible individual is better educated about financial products, and is ready to challenge our industry by making smart choices, just like the choices he or she makes when purchasing a car, a house or food for the family.

The responsible individual also does a better job saving for the future. Governments have made it easy for us to save through RRSPs and Tax free savings accounts. Yet, Canadians are not fully taking advantage of these programs. Research from last fall says that only one in five Canadian households opened a TFSA. Also, the one out of three Canadians who contribute to RRSPs, use only 6 per cent of their RRSP room.

Why are Canadians not rushing to these obvious savings programs?

I sit on a task force with other industry representatives at the Canadian Life and Health Insurance Association. We are studying changes to pension legislation, with a view to finding private sector solutions to some of the issues that we have encountered. Broadly speaking, we want to ensure that programs are in place to encourage Canadians to save for their retirement, and to facilitate savings.

If it appears that I am describing a sorry state of affairs, well yes, I think I am. All of the stakeholders in the financial services industry − from individuals to employers, from financial services companies to governments and regulators − have something to answer for, in creating this untenable situation.

The financial services industry has not been very good so far at educating consumers about financial risk, nor at creating simple, easy-to-understand products and services.

Governments, while providing individuals with some excellent opportunities to save, have also been lax in helping Canadians understand what they need to do to plan for their financial future. How many schools offer compulsory courses on the basics of budgeting and planning to their young students? Not too many − at least not yet!

And finally, Canadians also have themselves to blame. Canadians have to care more about their current financial situation, by budgeting and spending more reasonably, using debt more intelligently and accumulating savings more diligently.

I am not saying that we should stop enjoying life, but we do need to better understand that the philosophy of spending as though only today counts, might just backfire when we are in our seventies and eighties with only our government pension plans to support us. Canadians have to learn to balance current consumption with long-term planning for retirement.

My point here is that there exists in Canada a serious financial literacy deficit. Canadians do not generally understand how to manage their financial situation, or they don't want to. It is a growing social issue that must be addressed.

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So what do we do, and who does what?

To start, all of the stakeholders need to reconsider their focus.

I have already suggested what individuals should do: learn, budget and save. To do so is to take responsibility and to empower the individual.

The rest of the stakeholders – the financial services industry, employers of all sizes, and government – need to focus on helping Canadians overcome their paralysis, and helping them to learn, budget and save.

Government needs to make it easier for employers, including small and medium-sized enterprises, to step up to bat and do more for their employees. Of all stakeholders, employers are closest to the individual. We see our employees every day. They have a stake in our businesses and we have a stake in their lives.

Canadians should be given greater access to workplace retirement plans. If every workplace with 20 employees or more was required to provide a group plan, it would ensure that 80 per cent of private-sector workers have access to a group plan, compared to only about 50 per cent currently. It could be done by allowing any employer, including self-employed workers, to participate in a single defined contribution plan for multiple, unrelated employers.

Governments might also consider working together to educate and motivate Canadians to think more about their retirement planning. A government-sponsored public awareness campaign would be a great place to start, making people more mindful of their responsibilities. Maybe governments should even consider a scare campaign to get Canadians' attention. The situation is that serious.

Asking the government to get involved in changing Canadians' behaviour is not new. Governments have always done this type of campaigns on issues ranging from using public transport more, to encouraging kids to stay in school or not to smoke. Saving for the future is an important issue and we need to get Canadians to act – now.

There are tools out there right now to reach our children early and to teach adults more about finance and savings, but unfortunately, they aren't engaging enough and don't seem to be working. Again, school curricula should include mandatory courses on the basics of financial literacy. Parents should also be a part of their children's financial education.

The financial services industry must continue to be a pivotal player in interacting with and educating the consumer. There is much that we can do:

- We can simplify our product offerings, proposing fewer products with better explanations of which financial objectives are met, the degree of risk associated with the product and a realistic analysis of what taking that risk means to the consumer.
- We can be more creative in building group plans for small and medium-sized businesses. We need to respond to businesses' concerns about cost and time needed to administer plans, and we need to help these employers provide education programs to employees.
- We can provide better, simpler tools for researching and choosing products and services. Obviously, they should be Internet-based, and while most of the tools should be self-help, perhaps we ought to find a more user-friendly way to provide feedback for questions and issues.
- We can increase our customers' interest in financial matters by being more creative in our approach to education and marketing.
- Finally, the products and services we recommend should have strong benefits that help our clients build toward their futures.

These concerns are part of the main concerns of Standard Life and the other members of the financial services industry in Canada, and abroad.

Some of you might not know that Standard Life is a large financial services group headquartered in Scotland, but with very strong ties in Canada. We were the first life insurance company to establish in Canada – 177 years ago. We have since built a strong reputation with Canadian investors and individual consumers and we are focused on long-term savings and investments − it might come as a surprise to most that individual life insurance currently only represents less than 5 per cent of our business.

We were the first to offer group retirement plans in Canada, and we continue to strive to innovate, to encourage plan members' involvement.

In Canada, we created *Plan for Life™* – a multi-media program that we launched in 2007 to engage and motivate members of defined contribution retirement plans. Our objective was to cut out the complexity and confusion with a clear message that focuses on the essentials of investing for the future. We also launched a user-friendly online "retirement dashboard" in 2008. The website allows members to quickly view their holdings, manage their plans and consult investment performance.

In Scotland, with two partners, Standard Life developed the *On the Money* program. It aims to build up the financial capability of primary school pupils. The results are very positive, reaching 45,000 children in 1,800 schools in 4 years,

There is much more we can do, but we are on our way.

At the retail level, Standard Life is structured to work through an independent network of financial advisors. We will keep on working with these advisors by providing them with tools and support to help consumers understand their financial choices.

Ultimately, Canadians must take responsibility for their own finances, on a daily basis, and in their planning for a life after they have stopped working.

Individual responsibility is individual empowerment. Learning about our personal finances and taking responsibility for them is empowerment. Learning is a benefit to us — as individuals and as a country.It all helps us to live well and to live better! One leads clearly to the other. If we each take responsibility for our financial futures, then Canada will be an even better place to live, for everyone.

I want to leave each of you with one final message today – as individuals: learn, budget and save.

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