



Department of Finance  
Canada

Ministère des Finances  
Canada

Canada

Français [Contact Us](#) [Help](#) [Search](#) [Canada Site](#)  
[Home](#) [What's New](#) [Site Map](#) [Glossary](#) [HotLinks](#)  
[About Us](#) [FAQ](#) [Media Room](#) [Publications](#) [Legislation](#)



## Media Room - News Releases

[Annual lists](#)

[Go](#)

[FTP site](#)

[Notices to Media](#)

[Speeches](#)

**May 8, 2008**

# Speech by the Honourable Jim Flaherty, Minister of Finance, at the International Conference on Financial Education

**Washington, D.C.**

**Check against delivery**

---

Good morning.

I am delighted to be here to discuss financial literacy and its growing importance in an ever-changing world of financial services.

As you know, we are in a period of economic uncertainty. The global economy is slowing and we are seeing increased volatility in our financial markets.

Clearly, some of the flaws of our financial system have bubbled to the surface.

We are today witnessing the consequences of a lack of disclosure and awareness. There are many causes to the financial turmoil, and improved financial literacy is certainly one aspect.

Something that is an obvious benefit to society—the ability of citizens to own their own home—has through improper disclosure and complex investments led to global financial turmoil.

This forum is certainly topical. It is taking place less than a month after the [G7](#) Ministers unanimously endorsed the report of the Financial Stability Forum. This report sets out timely and expert recommendations on enhancing transparency and valuation and strengthening the role of credit rating agencies.

The report was central to a meeting I held last week with the CEOs of Canada's largest [banks](#). I called on the bankers to implement the Financial Stability Forum's recommendations immediately. We agreed to meet again before the summer to review our progress.

The recent market volatility underscores the importance of investors understanding exactly what they are buying. Greater transparency is an essential part of ensuring that happens.

So, too, is financial literacy.

We are living in a highly [competitive](#) global financial marketplace. Technology is

generating ever-increasing market activity, allowing international investors in search of the best returns to find them not in hours, minutes or seconds, but in fractions of a second.

The range of financial products on the market is rapidly expanding, and the complexity of such products can make it difficult for the average investor to fully understand the risks, fees and potential returns.

The fact remains, financial turmoil or no financial turmoil, Canada and indeed the world are players in the global marketplace. Individuals are investing like never before.

Understanding the basics is crucial. Financial literacy is essential for people from all walks of life:

- The worker who is setting up a [bank](#) account and trying to determine the best way to reach his goals;
- The family trying to make ends meet while saving for a first home;
- The investor who fails to understand the risks, returns or the benefits of compound interest; and
- The senior who, in a world of Internet banking and ATMs, is susceptible to financial scams and fraud.

Whether it's a sophisticated [investment](#) or a simple savings account, today's financial world cries out for improved financial literacy.

Today I would like to take a few minutes to highlight what Canada is doing on this front.

## Financial Literacy—The Basics

Financial literacy is something that, for too long, we neglected or have simply taken for granted.

We all know the benefit of a quality education. Governments around the world make substantial [investments](#) in education. We make the effort to nurture our future scientists, engineers and skilled tradespeople. Yet financial literacy is seldom a core component of our curriculum.

The irony should not be lost on anyone in this room.

We are graduating people who can design and build complex buildings and bridges, but cannot effectively manage their personal finances.

Financial literacy is an essential skill that should be developed early in life. After all, a country's financial success is ultimately the sum of the financial success of all its households.

Our youth now have more exposure to financial dealings than ever before. They have [bank](#) accounts, chequebooks, debit cards, credit cards and online banking. Many have student loans, cell phone contracts and perhaps the beginning of an [investment](#) portfolio.

The world of finance is continually evolving and people need to keep up. Without the ability to understand and pay for their lifestyle, they could wind up spending well beyond their means and drowning in a sea of debt.

By focusing on financial literacy, we can provide people with the knowledge to help keep their heads above water.

When it comes to buying a house, for example, being financially literate means you may not have all the answers, but at the very least you know what questions to ask:

- What kind of mortgage can I get?
- What are my repayment options?
- What are the fees and taxes?
- How can I lower my payments?
- Can I *really* afford this?

Asking the right questions means understanding the true cost of borrowing. It means knowing that the initial years of mortgage payments go towards servicing the debt, not paying down the principal.

As they struggle to support a family, citizens with a low financial capability could end up at a [competitive](#) disadvantage, unknowingly paying higher costs for basic banking transactions and short-term credit. They may face increased exposure to unregulated financial options, and make themselves vulnerable to uninsured risks.

This is particularly true in a world where holding multiple [jobs](#) over the course of a career is expected, and self-employment is becoming more common.

Conversely, effective financial information and increased financial literacy can result in better consumer choices, a larger and more dynamic market for financial sector services, and greater participation in capital markets. It can translate

into higher savings levels and decreasing indebtedness.

In study after study the evidence is clear: the more you know financially, the more likely you are to save over the long term.

## **Savings Choices for Canadians**

Canada is a saving nation. This has been the result of some innovative savings programs introduced over the years.

In the 1950s the federal government introduced the Registered Retirement Savings Plan to support life after work. Today, over 55 per cent of Canadian households own [RRSPs](#).

We have established a Registered Education Savings Plan to help Canadians save for post-secondary education. Today, over 42 per cent of children aged 5 to 9 have RESP savings.

One of my proudest achievements as Finance Minister was the introduction of the Registered Disability Savings Plan.

Our government realized that parents of children with severe disabilities face financial hardships that can, at times, be overwhelming. They naturally worry about how they will take care of their children and prepare for their future.

With a structure similar to a Registered Education Savings Plan, the RDSP will help ensure the long-term financial security of Canadians with severe disabilities. I expect this program to be up and running by December of

this year.

In this year's budget, our government did something that hadn't been done in Canada before. We introduced a new and innovative personal savings plan: the Tax-Free Savings Account. This account will be similar to savings accounts in the U.S. and the U.K.

It is a flexible, registered, general-purpose account that will allow Canadians to watch their savings grow, tax-free.

It will provide Canadians with a powerful incentive to save for everything from a new car to a new home.

Under the account all [investment income](#), including [capital gains](#), will be exempt from any tax, even when withdrawn. Canadians will be able to withdraw from the account at any time and they will be able to save for anything they want, without restriction.

We believe that, within the next 15 to 20 years, over 90 per cent of Canadian individuals will hold all of their financial assets in tax-efficient savings vehicles, either through existing [tax-deferred](#) plans or the new savings account.

## **Financial Markets**

To be able to save and invest with confidence, you need a financial system with integrity.

Fortunately for Canada, just as our strong economic fundamentals, balanced budgets and tax relief have helped us deal with global challenges, so too have the traditional

strengths of our financial system.

For one thing, Canadian [financial institutions](#) have a low exposure to the subprime market. They have not [invested](#) heavily in securities backed by U.S. subprime mortgages. Moreover, Canada's subprime market represents less than 3 per cent of outstanding mortgages.

Our housing market remains sound and has not experienced the same stresses as in the United States.

Canada's financial sector is considered one of the most highly developed and sophisticated in the world. According to the IMF's recent Financial Sector Assessment Program Update, Canada's financial system is resilient and capable of weathering substantial financial stresses.

As I mentioned previously, the majority of Canadians are saving. More than half of all Canadians have [Registered Retirement Savings Plans](#). And we expect that number to grow with the introduction of the Tax-Free Savings Account.

According to another recent national survey:

- 96 per cent of all Canadians hold a bank account;
- 46 per cent used the Internet to do at least some of their everyday banking; and
- Only 7 per cent have used a storefront cheque-cashing service.

### **Improved Financial Literacy**

All of this suggests that Canadians have a good, basic understanding of their financial choices.

Still, the financial world today is far from basic, which means more must be done to strengthen the nation's overall financial literacy.

Canada has continued to strengthen the framework overseeing the financial sector. Our focus has been to provide the best consumer protection environment possible, one where there is competition, where information is disclosed, and where consumers are able to make informed choices.

One of the best ways to foster competition in financial services in Canada is through our statutory, five-year review of our financial institutions legislation. In our last review completed in 2007, we further promoted competition through the simplification of the entry framework for foreign [financial institutions](#). The review also included measures to permit credit unions and caisses populaires greater flexibility to expand their business.

We're also making sure that regulation continues to be updated to better reflect a modern, innovative economy. This is why, in my 2007 budget, I released a separate plan intended to create a Canadian advantage in global capital markets.

Our global capital markets plan has four key building blocks:

- 1) Improving investor information by promoting financial literacy;

- 2) Strengthening market integrity by enhancing investor protection;
- 3) Creating greater opportunity for business and investors by pursuing free trade in securities with the United States and other Group of Seven ([G7](#)) countries; and
- 4) Enhancing regulatory efficiency by creating a Common Securities Regulator that is principles-based, proportionate, and tailored to the unique makeup of Canada's capital markets.

Principles-based regulations are also critical to ensure our financial sector is capable of constantly introducing new products and services. To this end, we will be moving forward with final principles-based regulations on principal protected notes this spring. These notes guarantee the [invested](#) principal and offer returns linked to returns on an underlying investment product, which can range from a relatively straightforward basket of equities to less transparent [investments](#) such as [hedge](#) funds.

When these notes were first introduced by Canada's financial institutions the Government instituted detailed, rules-based regulations. But as these products grew more varied and complex, it became clear that the old disclosure rules were no longer adequate.

### **Financial Literacy**

To make the most of our financial services sector, people need to be informed. They need to be financially literate.

Knowledge is power, as they say.

One of the primary ways we are increasing financial literacy is by building on the success of the Financial Consumer Agency of Canada. The Agency was created in 2001 to ensure that financial institutions adhere to consumer protection policies.

The Financial Consumer Agency develops financial education material on a wide range of financial products and services. It conducts numerous activities to educate consumers and create awareness of financial issues.

The Agency released findings recently on Canadians' knowledge on debit cards showing that, while Canadians use their debit cards frequently and for a wide range of transactions, more information is needed about consumers' liability for fraudulent use of debit cards. The Agency also updated its publication summarizing the fees and features of more than 200 credit cards available in Canada. This is valuable information that will benefit consumers.

Savvy consumers have also turned to the Internet. Traffic on the Financial Consumer Agency's website has grown steadily to 1.5 million visits in 2006–07. The same year, the Agency distributed more than 770,000 publications and fielded more than 32,000 calls, e-mails and letters from consumers.

Part of this public interest is the result of innovative features such as a web-based mortgage calculator. It quickly determines mortgage payments and the potential savings

resulting from prepayments. The Financial Consumer Agency also provides online tools that help consumers shop around for the credit card and banking package that best meets their needs.

It is important that the Financial Consumer Agency continues providing in-depth, non-commercial comparisons of the various products available on the market. It is also critical that it goes further to make consumers more knowledgeable about the products themselves.

That's why our capital markets plan highlighted the need for the Agency to expand its efforts in sharing information with its partners across the country. It also highlighted the need to educate consumers about the growing inventory of financial products and services in a way that is simple and straightforward.

In our two most recent budgets we've allocated the funding necessary to enhance financial literacy. Budget 2007 provided funding over two years for the Financial Consumer Agency to create educational materials, for young Canadians in particular, and to better share this information with governments and private sector partners.

In this year's budget we further emphasized the Agency's role in promoting financial literacy by allocating additional, ongoing funding.

There are a number of initiatives now underway in Canada to strengthen financial literacy:

- An agreement with the British Columbia

Securities Commission to adapt its high school financial literacy program into a Canada-wide web-based version;

- A pilot course to help teach young Canadians the basics of financial literacy;
- A financial literacy web portal to help support financial literacy programs; and
- Numerous partnerships with non-profit organizations to share information and good ideas.

Through increased funding, the Financial Consumer Agency of Canada is making continued progress in reaching out to Canadians and helping them better inform themselves. Our government strongly supports this, and is demonstrating that it is ready to invest the time and money necessary to make their efforts a success.

In fact, this September I plan to attend an important conference sponsored by the Agency that will bring together key players in Canada's financial literacy community to discuss areas where consumer education is currently working and gaps that need to be filled.

Along with this conference, our government is conducting key research in financial literacy, including a national survey measuring the financial capability of Canadians. This research will supply much-needed data on improving the country's financial knowledge, and identify the areas where greater effort is needed.

Clearly, we are making progress.

This survey, the upcoming financial literacy conference and the Financial Consumer

Agency's ongoing work will make a real difference. It will provide people with the ability to make more informed financial decisions. This is in the best interests of all Canadians.

## **Conclusion**

Now I've gone on for almost as long as it seems. I would like to conclude with a few final thoughts.

Since our nation's very beginnings, Canadians have worked hard to build a country with a growing economy and a solid financial foundation.

Those that came before us would have been astounded at the modern conveniences of today: the financial products and services that enable people to afford the necessities and luxuries early in life and eliminate years—and, in many cases, decades—of simply doing without.

Of course, if they were still here today, they would also cast a very sceptical eye on some of the behaviours that played a part in the current financial turmoil.

I'm sure they would tell us, quite rightly, of the dangers of making a promise you're not sure you can keep, and in investing in something you know little or nothing about.

Again, the best decision is an informed decision. Especially in the fast-paced global market we now live in.

It's time to get serious about financial literacy.

We must ensure our children and grandchildren understand our markets and our financial products and services. Our collective prosperity depends on financial sectors society can trust, and rules that are fair and can be followed.

I commend the [OECD](#) and the U.S. Treasury for the hard work in making this week's conference a reality. Your timing is impeccable, and the results of your knowledge-building efforts will have a value everyone can understand.

Thank you.

---

Last Update 2008-  
05-15



[Important Notices](#)