

September 17, 2024

Registration, Proficiency

Canadian Investment Regulatory Organization
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RE: Proposed Proficiency Model — Approved Persons Under the Investment Dealer and Partially Consolidated Rules

PFSL Investments Canada Ltd. (“PFSL”, “PFSL Investments” or “we”) is pleased to comment on the Canadian Investment Regulatory Organization’s (“CIRO”) consultation regarding the Proposed Proficiency Model — Approved Persons Under the Investment Dealer and Partially Consolidated Rules. The proposed model is significant change for the investment industry, particularly CIRO’s baseline education and experience requirements.

Overview

The proposed baseline education requirement creates a significant barrier to entry into the investment industry. If enacted, it will reduce diversity in the profession and limit access to financial advice for many average Canadians. The key competency for any financial advisor is their ability to pass licensing exams and meet registration standards, regardless of their educational background. Once an individual passes these exams, it becomes the dealer’s responsibility to evaluate their competency and suitability to serve the public in a competent, ethical, and compliant manner.

We respectfully submit the following points:

- **Licensing and Continuing Education are Sufficient Baseline Requirements:** These measures provide equal opportunity for all individuals to enter the industry based on their industry knowledge and hard work, not their educational background. Combined with the existing supervision framework where branch managers and dealers supervise and provide post-licensing training to new Registered Representatives (RR or RRs), there are sufficient guardrails to ensure that RRs have the required competencies to serve their clients.
- **An Exam-Centric Model Ensures Consistency:** By focusing on licensing exams, the industry accommodates candidates from diverse educational paths while maintaining a high and consistent benchmark for RRs to serve the public effectively.

- **Diverse Pathways Enrich the Industry:** Multiple routes to expertise contribute to a more diverse workforce, promoting financial inclusion across socio-economic and cultural lines.
- **No Data Supports the Need for a Baseline Education Requirement:** There is no evidence from Canadian data of systemic proficiency issues that would justify such a requirement. In other jurisdictions, imposing minimum education standards has reduced the number of financial advisors and restricted financial inclusion for average investors.

About Primerica

Primerica Financial Services (Canada) Ltd. is a leading distributor of basic financial savings and protection products to middle-income households throughout Canada, serving the Canadian public since 1986. Our Canadian corporate group includes our mutual fund dealer, PFSL Investments, and our life insurance company, Primerica Life Insurance Company of Canada ("PLICC"). PLICC is represented by 10,000 licensed life insurance agents across the country, of which 65% are dually licensed as mutual fund Approved Persons ("APs"). We insure almost 550,000 lives and operate in every province and territory in Canada.

Our products and personal advice help middle-income Canadians establish and achieve their long-term financial goals. Our APs guide their clients at life's critical points, helping them avoid common pitfalls to gaining financial independence: higher cost and lower face value insurance that does not protect adequately, starting to save too late, not saving enough, and neglecting tax-advantaged savings opportunities, to name a few. Our APs take a holistic approach with their clients and offer our digital FNA (Financial Needs Analysis), which provides them with a snapshot of their financial situation and a road map to achieve their goals. Through PFSL Investments, 325,000 clients receive personal financial guidance and are provided access to investment vehicles that can be funded with as little as \$25 a month.

We have an exclusive sales force of APs, which allows us to put supervision, monitoring, controls, and restrictions in place based on trends and risks we identify.

Baseline Education Requirement

We urge CIRO to reconsider the proposed requirement for a post-secondary degree or diploma as a baseline for becoming a Registered Representative (RR). This requirement imposes significant time and financial burdens, creating an unnecessary barrier to entry for individuals unable to obtain a degree due to financial or personal constraints. Forcing candidates to pursue a degree unrelated to their career path in financial services delays their entry into the profession without enhancing their qualifications as RRs.

While we agree that competency is critical, excluding individuals based on a degree or diploma overlooks the potential contributions of skilled candidates who possess relevant talent and

passion. This proposal disproportionately favours those with the means to afford higher education, creating inequity in the industry.

Furthermore, this requirement disproportionately affects immigrants. Even when candidates possess foreign credentials, the lengthy and costly process of translating, notarizing, and assessing their qualifications presents a significant hurdle. On average, credential assessments take a minimum of 25 weeks, with additional costs for translation and notarization amounting to thousands of dollars.

We believe that removing the post-secondary education requirement will better serve CIRO's goal of fostering a diverse and capable workforce, allowing the industry to attract a broader range of individuals to meet the evolving financial needs of Canadians.

Licensing and Continuing Education Are Sufficient Baseline Requirements

CIRO's proposed baseline education and experience requirement for Registered Representatives (RRs) is not needed given the proposed licensing and continuing education framework. Many RRs hold multiple licenses, such as in investments and life insurance, which provide them with the expertise to better serve their clients—far more relevant than an unrelated degree or diploma. The investment dealer [and mutual fund dealer exams for that category of Approved Persons] are specifically designed to assess the core competencies needed for RRs to perform effectively. Successful completion of these exams should be considered sufficient evidence of an individual's qualifications, irrespective of their educational background.

Diversity extends beyond cultural backgrounds to include socio-economic and practical experiences. RRs with varied experiences—whether through different economic cycles, client interactions, or market conditions—bring insights that academic programs simply do not provide. This diversity helps RRs adapt to changing financial landscapes, better anticipate risks and opportunities, and offer more tailored advice. A diverse advisory workforce also enhances financial inclusion, enabling RRs to connect with underserved communities and better understand income disparities and cultural preferences. Fostering diversity within financial services strengthens access to financial advice for all Canadians, regardless of their background.

Baseline Education Requirement Harms Consumer Access to Advice

PFSL notes four stakeholders supported baseline education requirements as a part of CIRO's first consultation on their Proposed Proficiency Model. Specifically, the stakeholders advocate for CIRO's Proposed Proficiency Model to adopt robust requirements similar to the Australian Securities and Investments Commission (ASIC). Experiences in Australia reveal the implementation of baseline education requirements as a part of Professional Standards for Financial Advisers reforms were one of the factors that ultimately harmed investor access to financial advice. The number of financial advisors declined significantly, from 28,000 in 2018 to

15,000 in 2023.¹ Since Australia's 2018 reforms, financial advisory fees have risen by 40%, with a median advice fee of AUD \$3,529.² Similarly, the baseline education requirement imposed by CIRO will decrease the available supply of investment-related professionals available to serve the Canadian public. This will exacerbate the advice gap for middle—and moderate-income Canadians struggling to afford financial advice and arguably need it most.

Canadian Data Does Not Support a Baseline Education Requirement

In Canada, client complaints against financial advisors regulated by the Investment Industry Regulatory Organization of Canada (IIROC) cover various issues, including unsuitable investments, service issues, and trading disputes. According to IIROC data, from 2020 to 2022, the most common complaints were related to service issues, firm policies, and procedures, and to a much lesser degree unsuitable investments.³

Volume and Nature of Complaints

Between 2020 and 2022, IIROC received a total of 2,684 complaints and inquiries. However, only a subset of these, specifically 268 regulatory complaints, were directly related to issues like unsuitable investments or trading disputes, and only fraction of those were (36) required corrective action.⁴ This indicates that most client concerns were either non-regulatory or related to service issues, which do not necessarily point to a deficiency in registered representatives' proficiency, and in any event, would not be remedied by a post-secondary degree. The most common complaints involved service issues and firm policies, rather than clear-cut cases of RRs' incompetence or unethical behavior. This suggests that most client dissatisfaction stems from operational and customer service challenges, not from a lack of RR proficiency:

- In 2020: 110 complaints were related to unsuitable investments. 16 were founded, leading to actions such as fines.⁵
- In 2021: 56 complaints were related to unsuitable investments. Only 8 resulted in sanctions, which included fines and mandatory corrective actions.⁶
- In 2022: 70 complaints were related to unsuitable investments. Of these, only 10 cases were found to be substantiated, leading to regulatory sanctions.⁷

¹ Rainmaker Information. "Australia faces shortfall of Financial Advisers" (2023).

<https://www.rainmaker.com.au/media-release/australia-faces-shortfall-of-financial-advisers>

² Sarah Dowling, "Why financial advice is so expensive" (2023).

<https://www.morningstar.com.au/insights/personal-finance/231742/why-financial-advice-is-so-expensive>

³ IIROC, "Complaints and Inquiries Statistics" (2022). <https://www.iroc.ca/investors/complaints-and-inquiries-statistics>

⁴ Ibid

⁵ Ibid

⁶ Ibid

⁷ Ibid

Unsuitable investment complaints represent a relatively small proportion of the total complaints received by the IIROC between 2020-2022, highlighting that the majority of issues reported by clients were not directly related to RR proficiency.

Existing Regulatory Framework

CIRO already enforces rigorous standards for its members, including mandatory ongoing education, adherence to ethical guidelines, and regular audits. The organization also provides mechanisms for clients to report and resolve issues, which helps maintain high standards of conduct across the industry. RRs are required to engage in continuous learning to stay updated on industry developments and regulatory changes. This existing structure ensures that advisors maintain a high level of competence throughout their careers, further supporting the argument that current standards are adequate.

No Evidence of Widespread Proficiency Issues

The data from IIROC does not show a significant increase in complaints specifically related to advisor proficiency over the years. Instead, complaints seem to fluctuate based on market conditions and other external factors, rather than indicating systemic issues with advisor competence. The relatively low number of complaints related to advisor proficiency suggests that the current standards are effectively protecting consumers and ensuring that advisors are adequately trained and capable. CIRO's transition to an exam-centric model, without imposing baseline education requirements, accommodates diverse educational backgrounds while ensuring a consistent benchmark for RRs to best serve the public.

Alternatives to a Post-Secondary Education

While a post-secondary education may be one of the indicators of a base knowledge competency, obtaining this knowledge may be achieved in other ways. These include direct experience (and we note CIRO includes the opportunity to include experience as an indicator), other designations, and other types of work experience. The key competency, however, remains the candidate's ability to pass the RR examinations regardless of their educational background. Ultimately, we believe it is the dealer's responsibility to assess an individual's competency and suitability to perform the role of an RR and serve the investing public in a competent, ethical, and compliant manner.

In Closing

PFSL appreciates the opportunity provided by CIRO to provide our comments on the Proposed Proficiency Model. While a post-secondary education may provide individuals with a certain level of knowledge, practical experience, ongoing professional development, interpersonal skills, ethical commitment, and adaptability are equally, if not more, important in ensuring that financial advisors serve their clients effectively and responsibly. We look forward to continuing

to work with CIRO on these proposals and would be pleased to discuss any questions or concerns you may have.

Sincerely,

[Original Signed By]

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Chief Executive Officer

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