

CALL FOR A NATIONAL SAVING POLICY TO AVOID SOCIAL MELTDOWN AND RESTORE TRUST IN THE SAVING AND INVESTMENT SYSTEM


"The Mutual Fund blowups of 2005 and the latest Income trust upheaval uncovered a growing feeling of financial insecurity amongst the public. On the eve of the most brutal and massive generation turnaround over 100 years, with baby boomers snowballing into papy-boomers, social conflicts are springing up among generationsⁱ and the prospects of dwindling welfare are haunting Québécoisⁱⁱ. As aging goes by, the train is gathering steam.

Consumers buying an electric brush, a car radio or even a magazine subscription feel better protected than investing their hard earned dollars into funds. Not only Quebecois have not saved enough but they are hardly catching up compared to the rest of Canada, following a collapse of saving rates over the last 30 yearsⁱⁱⁱ. The perceptions of high fees, lack of competition, the greatest risk shift of retirement-planning responsibilities to individuals and a growing complexity of financial instruments have contributed to discourage people from investing wisely and efficiently.

To avoid a social meltdown looming ahead if Québécois can not quickly fill their saving gap, a group of politicians, financial professionals and academics are calling for the establishment of a National Saving and Investment Policy (NASIP). They have joined the Coalition for the Protection of Investors to pull the alarm and restore trust in the current saving and investment system across Quebec.

Because the right arm often ignores what the left arm does within the government, time has come to coordinate more actively policies amongst the departments of Finance, Revenue, Family, Justice (for the legislation on consumer protection) and Labour and the legislation and review what can be done to ease access to investment markets and stimulate a greater ratio of saving. We simply can't go on using a patchwork policy with the Department of Labour proposing a whole new status of fiduciary responsibility to investment management firms while the Department of Finance and its Autorité des marchés financiers (AMF) ignores it. We can't solve the issue of mutual fund safety without taking into account the overall policy covering consumer protection. And the safety of private retirement plans depends on the need to regroup their assets to maximize economies of scale and make each basis point work harder for the next generation.

Of the 16 recommendations made by the Coalition to the National Assembly, four should be dealt with urgently.

 Fiduciary convergence: The **governance equilibrium of mutual funds should be simplified and restored in favour of investors**, under the concept of full and unlimited fiduciary responsibility promoted by Bill 30 on private pension funds. Greater powers should be given to custodians and depositories, just like in Europe, to balance the role of management firms. Increasingly, pension funds include mutual funds and insurance segregated funds, creating a convergence of investment options in the eye of the investor. This convergence has changed our

investment habits and requires a **shift in regulation policy from one based on strict rules or principles, to one based on risk-control.**

- ✎ **Anti-fraud Indemnity Fund**: **Reduce investor fear, and instill greater confidence by increasing the investor's protection in fraud cases.** This would allow small to mid-sized investment management firms to compete against larger institutions. The Indemnity Fund would be financed mainly by the investors and the investment management firms overseeing the funds, on the model of the Canada Insurance Deposit Corporation. It would protect only against fraud or fiduciary negligence by funds and investment managers registered, regulated and rated in Canada. While critics may complain about higher costs for the industry, the costs are warranted in return for a better regulated and more transparent market place.
- ✎ **Fund governance**: The industry has been warning repeatedly investors against using past performance to anticipate future returns. And yet, the only thing investors had to make their choice are tables of performance ranking of funds. Rather than focusing on financial products themselves, investors must **evaluate the investment management companies who manufacture them through means of fiduciary certification and rating.** These companies now occupy the centre stage of the fiduciary industry. Their behaviour could have profound effects on today's society, since their investments direct the overall allocation of resources and have implications for labour unions and citizens with social responsibility concerns. They influence how inside investors are controlled, and how companies are governed. Yet, the investment management industry is under-represented in Québec and has no self-regulatory responsibility.
- ✎ **National Saving Observatory**: In close relationship with the Institut de la Statistique du Québec and Statistics Canada, the university network and the private sector, an Observatory will **prepare an annual diagnosis on the state of savings and investments, track major trends**, foster research on how best to raise saving rate and make constant recommendations to Legislators, policy-makers, industry professionals and investor-consumers. "

- Appeal launched in Montreal, November 16, 2006 by:

Claude Béland, former President of the Cooperative Movement Desjardins, board member of the Mouvement d'Éducation et de Défense des Actionnaires (MEDAC) and of the GIREF

Stan Buell, President of the Small Investor Protection Association (SIPA)

Claude Castonguay, former Quebec Minister of Social affairs and board member of the Chaire Raoul-Dandurand, ISACSOFT Inc. et Andromed inc

Rosaire Couturier, former President and managing director of the Intitute of Canadian bankers and board member of Universitas

René Delsanne, UQAM professor of mathematics and member of several pension fund board (Air Canada, CMHC, UNWRA, Banque Laurentienne, City of Montreal)

Andrée DeSerres, UQAM director of MBA programme in corporate finance and co-founder of the Groupe de recherche interdisciplinaire en éthique financière (GIREF)

Art Field, president of the National Pensioners & Senior Citizens Federation

Holger Kluge, former President of CIBC and board member of Husky Oil, Hutchison Whampoa Limited, Hongkong Electric Holdings Limited and ShoppersDrug Mart

Bernard Landry, former premier of Québec and Minister of industry and finance

Jean-Luc Landry, managing partner of LandryMorin and outgoing president of the Quebec Association of Financial Advisors

Robert Pouliot, vice-president and co-founder of the Centre for Fiduciary Excellence (CEFEX)

Michel Roux, dean of the Business Management faculty of Université de Paris 13 and co-founder of the Groupe de recherche interdisciplinaire en éthique financière (GIREF)

Yves Séguin, former Quebec minister of Finance, author of the Canadian fiscal imbalance and board member of Interinvest

ⁱ Hundreds of thousands of senior citizens retired early, mainly from public services (municipalities, universities and provincial government), are worried about their fixed pension revenue that may prove insufficient over time to meet the most minimal cost of living. They are coming back to the negotiating table to index their

pension and get a share of plan surpluses. Active workers are replying : « no share without risk taking. If retirees are not willing to take the risk of loss or retroactive contribution, they can't share the honey. »

ii About 80% of pension funds are estimated to be insolvent and unable to meet their current future obligations. Sixty-one (61) percent of Chief Financial Officers say Canada's widespread pension crisis will likely persist and grow dramatically for the next several years, according to a survey by Watson Wyatt and The Conference Board of Canada.

iii The Canadian and Quebec saving rate dwindled to its lowest level since the Big Depression to 1% in the second quarter of 2006 against an average of 4% to 5% between 1993 and 2004 and double digit between 1973 and 1993.

