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Key Highlights

CSA Investor Education Study 2016

Prepared for:



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CSA Investor Education Study 2016

These materials are intended for use as general information to understand investor behaviour and the estimated incidence of investment fraud in Canada. They are not intended to provide specific investment, tax, legal, or accounting advice and should not be relied on for that purpose.

The conclusions drawn and opinions stated are those of the authors. Research for this study was conducted in February 2016.

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This report has been prepared by Innovative Research Group Inc. for the Canadian Securities Administrators, Investor Education Committee.

Introduction

Background

The *2016 CSA Investor Education Study* is the fourth survey on investment knowledge, investor behaviour, and incidence of investment fraud among Canadians conducted by the Canadian Securities Administrators (CSA). The previous three surveys were conducted in 2006, 2009, and 2012. The information and analysis from these surveys are intended to help the CSA Investor Education Committee develop and deliver programs to help investors make appropriate investment decisions, and recognize, avoid, and report suspected fraudulent investments.

New areas of research in 2016

The 2016 survey includes new questions in the following areas:

- **Barriers to good behaviour:** When it comes to key investment behaviours, previous research has shown people often believe the right things but fail to do the right things. This survey takes a closer look at what could explain this gap between what we think and what we do, particularly focusing on reporting fraud and checking registration.
- **Investing information:** This study takes a closer look at the patterns of how investors get information and from where.

Methodology

INNOVATIVE interviewed 4,298 Canadian adults online between February 10th and 20th, 2016 in both English and French using INNOVATIVE's national research panel, Canada 20/20™, as well as respondents drawn from nationally representative samples managed by SSI. The survey is administered to randomly selected samples from the panels and weighted to ensure that the overall sample's composition reflects that of the actual target population according to Census data to provide results that are intended to approximate a probability sample. INNOVATIVE provides each panellist with a unique URL via an email invitation so that only invited panel members are able to complete the survey. Panel members can only complete a particular survey once.

The online sample was weighted by age, gender, and province and territory using 2011 Statistics Canada Census data to reflect the actual demographic composition of the population. To ensure a proportionate representation of Canadians, while not over-estimating the reliability of the sample in any particular region of the country, the sample was weighted down to n=3,000.

Since the online survey was not a random probability based sample, a margin of error cannot be calculated. The Marketing Research and Intelligence Association prohibits statements about margins of sampling error or population estimates with regard to most online panels.

In this document, "respondents" and "Canadians" refers to the entire sample. "Investors" refers to the portion of the sample that has money set aside for the future, either through RRSPs, RRIFs, TFSAs, pension funds or securities, such as stocks, bonds and/or mutual funds.

Key Findings

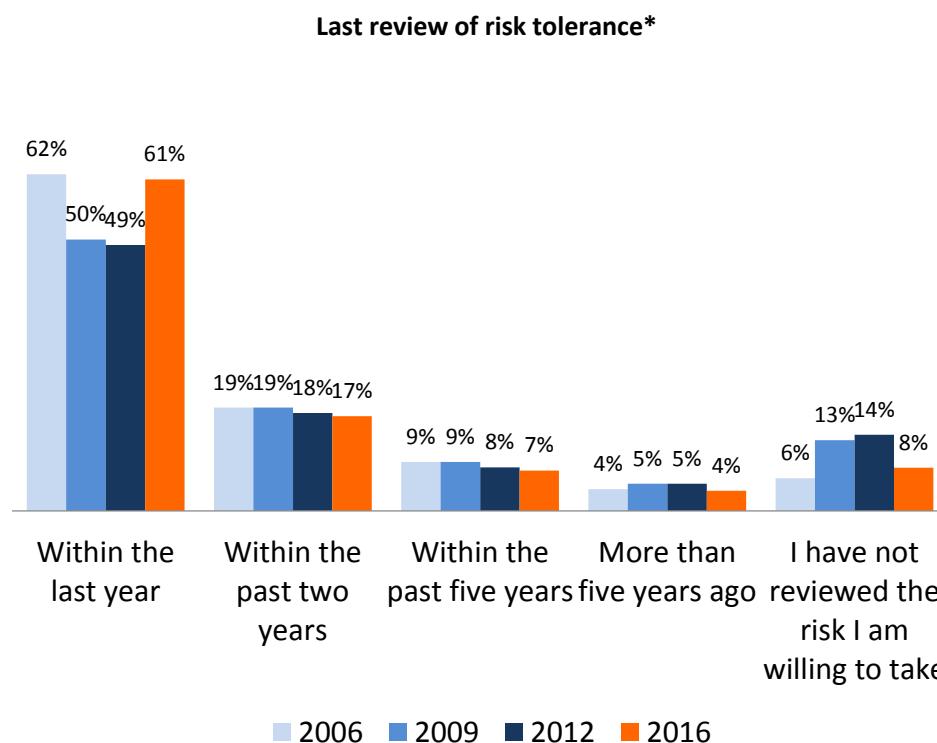
Changes in the economy are driving people to review their risk tolerance

Canadian investors are responding to the recent economic turmoil. There has been a 12-point increase from 2012 in investors who say they have reviewed their investment risk tolerance in the last year (49% in 2012 to 61% in 2016). This is striking in particular because a similar jump was not seen in 2009, after the 2008 financial crisis. Instead that period of tracking saw a drop from a high of 62% in 2006.

Respondents indicate a key reason for the increase in reviewing their risk tolerance are economic changes. There is a core group of investors who regularly review their risk profile regardless of circumstances. When asked the main reason for their last review of risk, a plurality of investors (36%) said they always review their risk on a regular basis.

However, looking only at the people who made a special effort to review their risk tolerance, changes in the economy (38%) tops the reasons that investors reviewed their risk tolerance in the last year, followed closely by those who reviewed because of advice from their financial adviser (36%). Another 17% who reviewed did so because of a major life change.

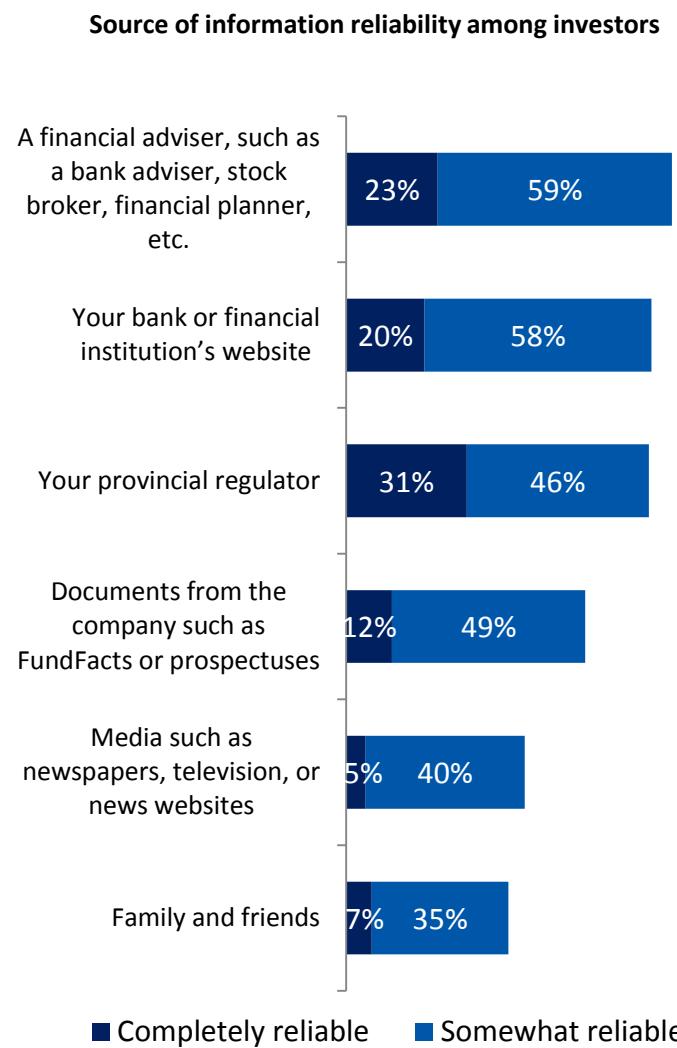
On the other hand, among those who reviewed their risk more than a year ago, advice from their investment adviser was the top reason they did so (43% for those who reviewed within the past two to five years and 39% for more than five years ago) and the economy was a less important factor.



* The full question is "When was the last time you thoroughly reviewed the level of risk you're willing to take with your investments?" This question was asked only of respondents with financial investments; n=1,822.

Investors' primary source of investment information is their advisers

- 70% of investors used their investment adviser as a source of information when they last looked for investing information.
- Just over a quarter looked for information from traditional media outlets (27%), their bank or financial institution's website (26%), and family and friends (26%).
- Looking at all sources together, 43% of investors are classified as relying almost solely on their investment adviser for advice.



What sources of information are seen as the most reliable?

In both the overall sample and among investors only, respondents see their provincial securities regulator as one of the top three most reliable sources of information, along with financial advisers and 'your bank or financial institution's website.'

77% see provincial regulators as reliable (scoring them 6 or higher on a 0 to 10 scale). In fact, regulators generate the highest levels of strong confidence over any other source tested, with 31% seeing them as completely reliable (9 or 10).

While provincial securities regulators score high on reliability, they score low on use. Only 3% of respondents reported that they used their regulator as a source when they last looked for information about investing.

Other sources of information that are seen as very reliable are used much more often. 77% of investors looked to their adviser and 27% their bank or financial institution's website.

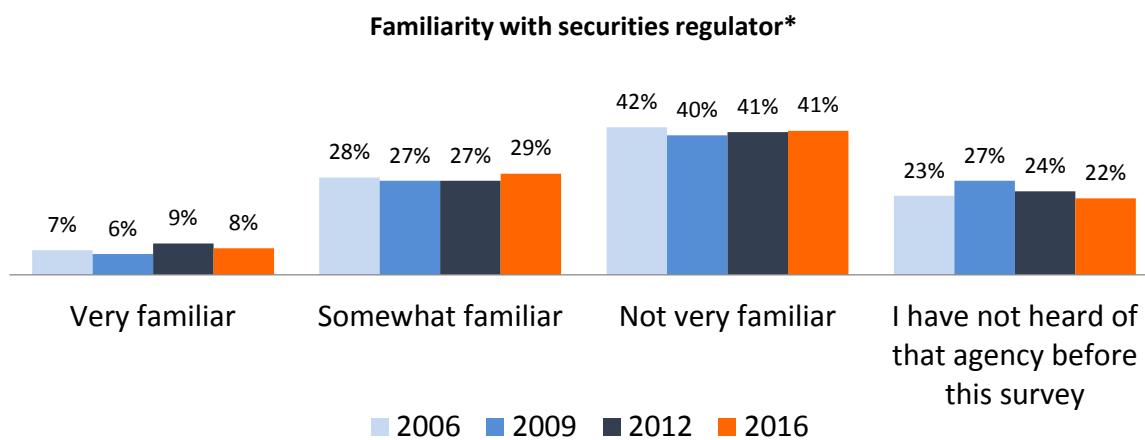
* The full question is "Each of the following is a potential source of information an investor could use before making an investment decision. On a scale from 0 to 10, where 0 is completely unreliable and 10 is completely reliable, please indicate how reliable you would rate each source of information." The question was asked of all respondents but results shown are for investors only n=1,822. 'Neither reliable nor unreliable,' 'Somewhat unreliable,' and 'Completely unreliable' responses not shown.

Investor knowledge and awareness of regulators are both steady

Just over 2-in-5 Canadians are aware of their provincial securities regulator

Nationally, slightly over 2-in-5 respondents (42%) know there is a provincial or territorial government agency responsible for regulating financial investments in their province or territory. This is steady from previous years (39% in 2012, 38% in 2009, and 45% in 2006). Awareness was highest among the ‘active investor’ group (57%) and in Quebec (49%).

Tracking also shows that familiarity with the provincial regulator – once prompted with their name – has been steady over time. 37% were very or somewhat familiar with their provincial regulator this year, compared to 36% in 2012, and 33% and 35% in 2009 and 2006, respectively.



6-in-10 Canadians pass an investment knowledge quiz

All respondents were asked seven questions testing their level of investing knowledge. In both 2012 and the new 2016 survey, 6-in-10 respondents got four or more questions out of the seven correct (61% in 2016, 60% in 2012).

1-in-4 Canadians had a high level of investment knowledge (six or all seven questions correct). Those most likely to demonstrate high investment knowledge were:

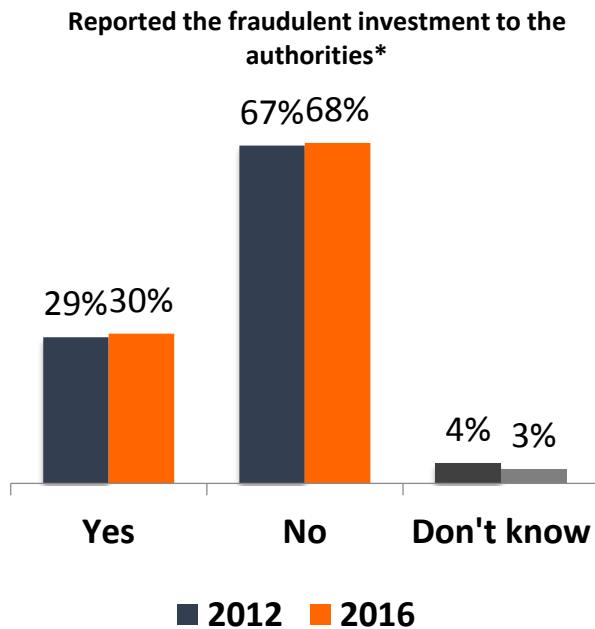
- Respondents 55+, of which 40% showed high investment knowledge
- Those making over \$120,000 annually (46% high investment knowledge)
- Investors: 37% high knowledge among passive investors and 39% among active investors

* The full question is “In fact, there is a [PROVINCIAL/TERRITORIAL] agency in [PROVINCE/TERRITORY] responsible for regulating financial investments called the [AGENCY NAME]. Now that we have mentioned the [AGENCY NAME], how familiar would you say you are with this agency?”

Two-thirds of Canadians did not report the most recent investment fraud approach

Nationally, one-in-five Canadians (22%) say they have been approached with a suspected fraudulent investment (27% in the 2012 study). 68% of respondents who were approached with a suspected fraudulent investment **did not** report it to the authorities (67% in the 2012 study).

- Not reporting the fraud was most common among passive investors (77%, compared to 58% of active investors who left the suspected fraud attempt unreported) and among those with the most investment knowledge (80%).
- Those familiar with their provincial regulator are more likely to report the attempted fraud (59%, compared to 20% of those not very familiar and 22% of those who had not heard of their provincial regulator).



would report it to the RCMP/police.

At the same time, **Canadians do think it is worthwhile to report fraud** as there was strong disagreement with the statement “Reporting a fraudulent investment is more trouble than it is worth.” 24% agreed with this statement while 55% disagreed – less agreement than any of the other barriers probed.

- Even when individuals fell victim to a fraud, over half (53%) say they still did not report it.

What stops Canadians from reporting fraud?

In order to determine key barriers to reporting suspected fraud approaches, respondents were asked about a number of potential barriers. The highest levels of agreement are seen on “*It would be overkill to report every e-mail or phone call that I suspect is an investment fraud*” (54% agree versus 38% disagree) and “*I don’t know how to report a fraudulent investment*” (50% agree versus 44% disagree).

When it comes to know-how, respondents were also asked where they would go to report a suspected fraudulent investment. **Only 12% said they would report the fraud to their provincial regulator**, while 41% of respondents said they

* The full question is “Once you realized this most recent investment opportunity was fraudulent, did you report it to the authorities?” The question was asked only of respondents who have been approached with investment fraud; n=658.

3-in-5 Canadians who work with a financial adviser did not check their adviser's registration

There is a gradual and steady increase in the percentage of Canadians working with an adviser over time: 43% in 2006, 48% in 2009, 53% in 2012, to 56% in 2016.

At the same time, **3-in-5 investors (58%) say that they did not check their adviser's registration**

before they started working with them.

- Those least likely to check their adviser's registration are investors who were introduced to their adviser through their bank (67%) or through their last adviser (60%).
- In comparison, those most likely to check are those very familiar with their provincial regulator (63% did check) or somewhat familiar (42%), and respondents aged 18-34 (42%).

The top barriers to checking an adviser's registration are "*I don't know how to check an adviser's registration*" (61% agree versus 33% disagree) and "*I don't need to check an adviser's registration if they work for a major financial institution*" (51% agree versus 42% disagree).

Further, among those who did not check their adviser's registration, **only 25% say that they were even aware of the registration process**.

However, Canadians **do believe checking registration is worthwhile**. When we probed a series of potential barriers, "checking an adviser's registration is more trouble than it's worth" received the lowest level of agreement (20% agree versus 69% disagree).

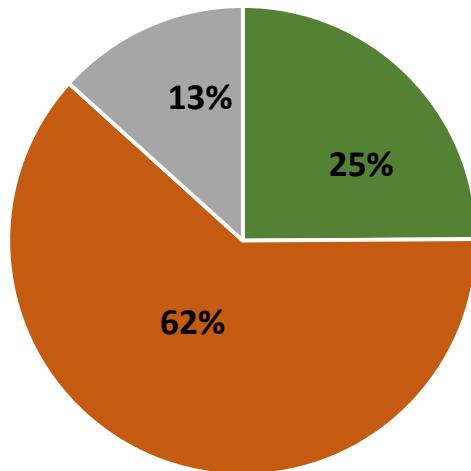
Most Canadians (78%) say if they start working with a new adviser in the future, they will likely check their registration.

Did not check adviser's registration:

58%

Of those who did not check:

Which of the following statements is most applicable to you?



■ I was aware of the registration process but decided not to check my adviser's registration

■ I did not check my adviser's registration because I was not aware of the registration process

■ Don't know

About the Canadian Securities Administrators

The Canadian Securities Administrators (CSA), the council of securities regulators of Canada's provinces and territories, coordinates and harmonizes regulation for the Canadian capital markets. The CSA protects Canadian investors from unfair, improper, or fraudulent practices and fosters fair and efficient capital markets. Part of this protection is educating investors about the risk, responsibilities, and rewards of investing. Through its Investor Education Committee, the CSA works to facilitate access to objective investment information and to help retail investors make informed investment decisions.

To learn more about the CSA, visit www.securities-administrators.ca.



About Innovative Research Group

Innovative Research Group, Inc. (INNOVATIVE) is a national public opinion research and strategy firm with offices in Toronto and Vancouver. The firm provides critical information needed to assess and overcome public affairs and corporate communications challenges, identify and evaluate potential solutions, and monitor outcomes.

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