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CANADIAN CONSUMERS DO NOT UNDERSTAND FINANCIAL RISK

87% of Canadians polled could not answer three basic financial risk questions correctly

TORONTO February 4, 2010 - Only 13 per cent of Canadians surveyed could answer three basic risk literacy questions correctly, a percentage that matches the average observed across 13 countries that were studied in TNS Finance's Personal Risk Assessment and Risk Literacy Survey. The study, which examines consumer risk literacy as well as financial fragility, suggests that consumers have very little grasp of the basic principles of financial risk.

According to Annamaria Lusardi, professor of Economics at Dartmouth College and director of the Financial Literacy Center, "After a financial crisis where risk was such an enormous factor, it is important to know if consumers have any real understanding of the basic principles of financial risk. We have worked hard to understand financial and debt literacy, which is already quite poor. Now we find that consumers' knowledge about risk is extremely low across all countries and particularly low among women."

TNS asked consumers to assess the following: the relative payout of two lotteries, the relative risk and returns from two investment funds, and the relative risk of investing in a single stock versus a basket of stocks. Although no country scored particularly highly, there was great disparity between nations surveyed. Respondents in The Netherlands were most capable of answering all three questions correctly (21%), followed by Hong Kong and Luxembourg (18%). Nations with the lowest scores included France (10%), Mexico (7%), Portugal (6%) and Argentina (5%).

RISK QUESTIONS	Correct Response	
	All Countries	Canada
Assessing lottery payouts	40%	36%
Investment risks and returns	36%	37%
Single stock versus basket	53%	57%
Answered all questions correctly	13%	13%

In Canada, only 16 per cent of men and 9 per cent of women surveyed managed to answer all questions correctly. The ability to answer these questions is related to general education, with only 8 per cent of high school graduates able to answer all questions correctly. However, even the highly educated didn't fare well, with only 20 per cent with a university degree able to answer the three questions correctly.

Despite this obvious gap in consumer understanding, very few are trying to improve their financial knowledge. Only 19 per cent of consumers surveyed across all countries and just 10 per cent of Canadians indicated that they have increased their efforts to educate themselves on financial matters since the global economic crisis began.

Rhonda Grunier, vice-president of TNS Canadian Facts and director of the firm's financial research practice, sees an opportunity – and a real challenge – for the financial community to become engaged in educating consumers.

“We think these study results speak to a real need for financial services providers to help their customers learn more about financial risk. In fact, we see many of our financial clients already developing educational materials to help their customers make more informed decisions about managing risk. Helping to create a well informed consumer makes good business sense for financial institutions. It's a possibility that even the most well-educated consumers may just disengage because they are too afraid to invest in products they cannot understand.”

The TNS Finance Personal Risk Assessment and Risk Literacy Survey is a consumer survey developed by TNS in association with professors from Harvard Business School and Dartmouth College. The survey analyzes nationally representative consumers across 13 countries with respect to their risk literacy, household financial fragility, and financial behaviour during the economic crisis of 2008-2009.

The TNS Personal Risk Assessment and Risk Literacy Study was conducted between June and September 2009. The survey sample sizes vary by country and are as follows: Argentina (1,000), Canada (1,132), France (1,097), Germany (1,107), Hong Kong (1,000), Italy (935), Luxembourg (504), Mexico (904), The Netherlands (1,001) Portugal (1,011), Saudi Arabia (453), Singapore (1,000), United Arab Emirates (400), United Kingdom (1,001) and the United States (2,148) The total sample size was 14,693. Risk literacy results are available for 13 of the 15 countries (Saudi Arabia and UAE are excluded).

Samples are nationally representative of the general population in all countries but Mexico (main cities), United Arab Emirates (main cities, working population having a banking relationship) and Saudi Arabia (main cities, working males having a banking relationship). Methodology was online but for Argentina, Saudi Arabia and United Arab Emirates (face to face); and Mexico (telephone).

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