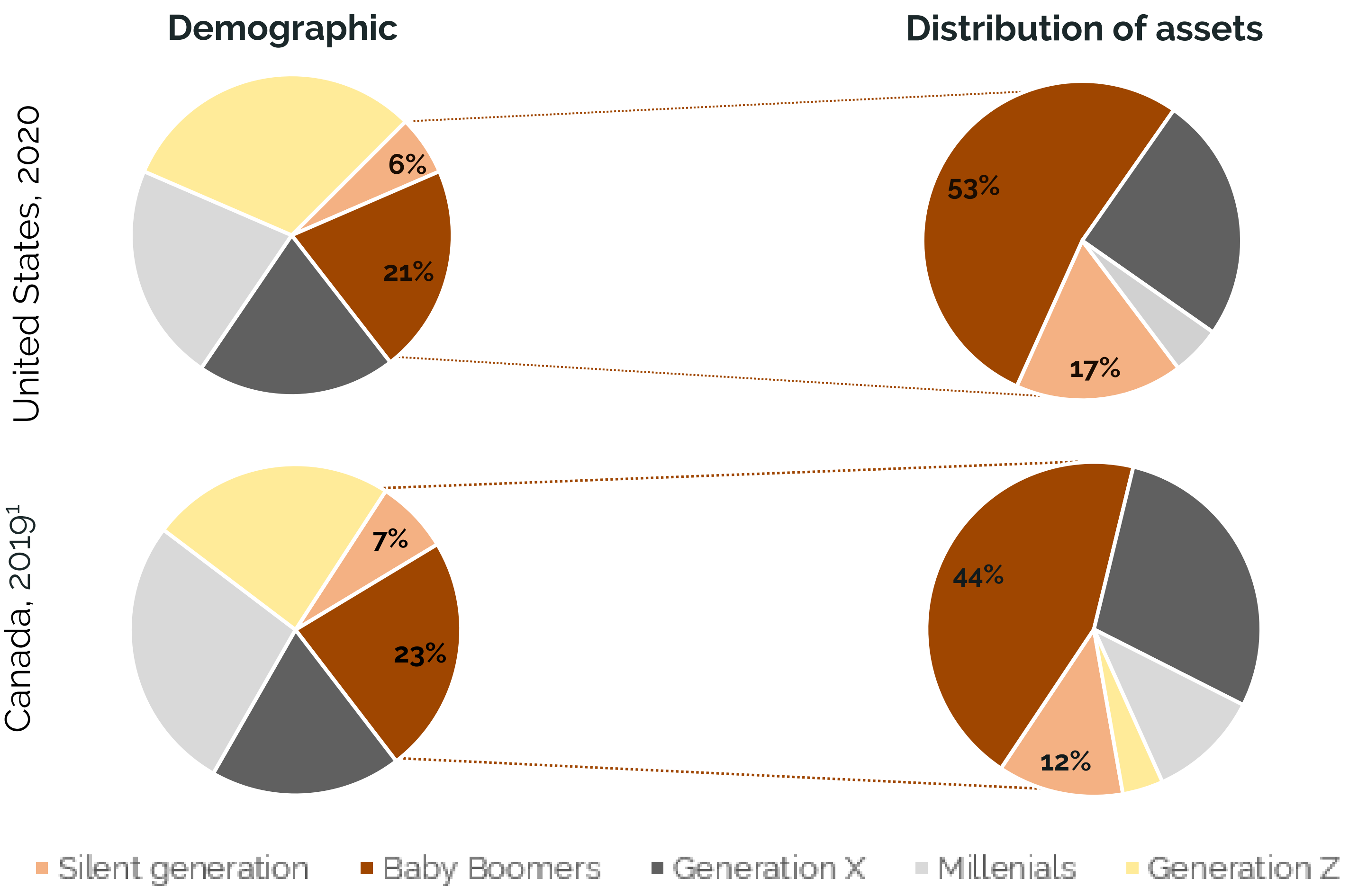
Social Governance

Towards Ethical Wealth Management for Seniors in North America

The aging of the population is accelerating as the baby boomers, born between 1946 and 1966, enter the 65+ age group in significant numbers. The share of this age group will indeed **grow dramatically** in the coming years. At the same time, baby boomers also hold a very **large share of the wealth**, with a proportion of about **50%** in Canada and the United States in 2020. With these two factors combined, it goes without saying that the asset management industry will have to adapt its strategy to meet the needs of an aging population.



The two older generations have a huge share of the wealth for a small proportion of the population. The next few years will be **critical** for asset management as Boomers, with **such wealth**, enter the age group at **risk** of financial exploitation.

[1] Interpolated figure based on the assumption of evenly distributed wealth across age groups. Wealth data is from 2019. Population data is from 2021.

Contact us

Alexandre Hovette – Partner, Montreal
ahovette@chappuishalder.com
+1 514 516 1620

Pascale Nguyen – Director, Montreal
pnguyen@chappuishalder.com
+1 514 290 8161

Eric Tordjman – Director, Montreal
etordjman@chappuishalder.com
+1 514 553 3690

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Issues for Seniors

This demographic shift is creating significant challenges for wealth management. A wealthy, elderly clientele represents a huge potential for fund managers, but unfortunately increases the risk of abuse. In the current environment, we note **four factors that can amplify the risk of financial abuse among seniors**:

Reduced Cognitive Capacity :

The ability to make sound financial decisions is regularly impaired as we age, increasing the vulnerability of seniors to their loved ones, their advisors and fraudulent attacks.

Digitalization :

Seniors are often technologically behind which, combined with the marked digitization of the industry, can easily leave them out of the loop, uninformed and detached from the decision making process related to their finances.

Unfavourable Economic Factors :

Low interest rates and high inflation are two elements that are detrimental to the performance of seniors' portfolios, which are mostly composed of safe bonds. These particular circumstances increase the economic fragility of this clientele, which is already sensitive to the uncertainties of the market.

Evolution of Risk Transfer :

The transition from defined benefit to defined contribution pension funds adds additional pressure on Boomers, who are taking ownership of the risk and control of their finances at a less than optimal time.

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A regulatory framework that attempts to address the problem with progress on two key operational aspects

In 2020, it was estimated that elder financial abuse cases increased by 10% in one year in the U.S., bringing the total number of cases to 8.6 million, for a total loss of approximately $113 billion USD. While these numbers already seem colossal, they only count reported cases and are therefore a very conservative assessment of the magnitude of the problem. The studies that have been conducted show aberrant proportions of unreported abuse: in New York State, for every documented case of abuse, 44 would go unreported, while in Canada as a whole, one case in 24 would be disclosed. Other difficulties in estimating the size and scope of the situation involve the distinct and varied descriptions of financial abuse, and differences in the methodology of the studies conducted.

In response to this growing reality, self-regulatory organizations are adapting their guidance for their members. As of 2018 in the U.S. and 2022 in Canada, broker-dealers who are members of the Financial Industry Regulatory Authority (FINRA), the Investment Industry Regulatory Organization of Canada (IIROC), the Mutual Fund Dealers Association of Canada (MFDA), or the Chambre of Financial Security (CFS) have acquired the following responsibilities:

Trusted Contact

A trusted contact person must be obtained for each client with written consent from the client to communicate with the emergency contact in the prescribed circumstances

Temporary Hold

They may temporarily suspend the purchase or sale of a security, the withdrawal or transfer of cash or securities from a customer's account if the broker has reasonable grounds to believe that the financial well-being of a vulnerable customer is at stake or that the customer lacks the mental capacity to make decisions

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Beyond the regulatory environment, a legal framework that is being strengthened in contrasting ways

The U.S. leading the design and adoption of frameworks for seniors is consistent with a more sophisticated legal framework on the subject.

United States

Most U.S. jurisdictions have chosen to **criminalize elder abuse** by enacting **legislation** recognizing specific crimes against the elderly.

Elder abuse and neglect legislation in both the **civil and criminal protection** realms represents one type of **legislative response** to the problem.

Recently, states have **strengthened** elder abuse laws and created stiffer penalties. **Tennessee**, for example, increased penalties for these crimes on January 1, 2020, from **3-15** years to **8-30** years in prison.

Canada

In Canada, there is **no specific crime for elder abuse** under the Criminal Code - it would **fall under general criminal law provisions**, such as fraud, to be considered a crime.

All provinces have protections based on human rights. **Quebec takes a more specific approach** to defining and preventing elder abuse by adding protection against **exploitation**.

Other Canadian provinces have more specific legislation in place that **only targets older adults in health care facilities**, as is the case in **Alberta**, **Manitoba** and **Ontario**.

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In the United States, the Elderly Safety Act, a federal initiative introduced in 2018, also provides immunity from liability in any civil or administrative proceeding for reporting the potential exploitation of an older adult, if the institution in question has evidence that it has provided the necessary training to prevent abuse.

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Financial sector players are starting to mobilize...

Despite the existence of certain marked legal and regulatory distinctions, the fiduciary duty is identical in both countries. A breach of this responsibility can result in **profound reputational damage**, loss of license, and monetary penalties. As the consequences are both transversal and longitudinal, the actors of the financial scene are beginning to engage in reflections and approaches on this subject.

Just as initiatives have been put in place with the rise of issues such as the place of women, visible minorities or the LGBTQ+ movement, concerns about seniors will need to be **addressed as quickly as the trend of an aging population accelerates**.

Already, some institutions are following best practice recommendations released by self-regulatory organizations, **even though these are voluntary**.

... But there is still a lot of work ahead of us

In a world where the reputational dimension goes hand in hand with the direct participation of institutions in the life of communities, they must react and mobilize quickly.

At the heart of the asset management business is attention to the specificities of clients. Through cost modulation, specialized offerings that combine religions, values and preferences, or even the expansion of services to historically underserved communities, some players have identified opportunities that have positioned them favorably. In the same way, elder care will have to become a **healthy source of differentiation, raising industry standards at the same time**.

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Faced with the challenges of the financial sector, a structured approach is required...

The growing risk of financial exploitation among seniors is drawing more and more attention from regulators and addresses the need for fair and transparent social governance. To protect this clientele and the image of the financial industry, CH&Co. has developed an approach based on best practices by acting on four levels:

Strategy	**Education and training** of human capital in the detection and management of a financial exploitation situation.
Governance	Firms must establish and follow **policies, procedures and practices** related to the treatment of seniors.
Compliance	Firms must be **aware of and comply with** new laws, regulations and recommendations. They may also choose to adopt **best practices** to differentiate themselves.
Data Management	Effective data collection and management can **detect and prevent** abuse.

Our experts are at your disposal to deepen your considerations and meet your needs

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