March 12, 2007

***"VIA FAX AND MAIL"***

**Minister of Finance**
The Honourable James M. Flaherty
Department of Finance Canada
House of Commons
Ottawa, Ontario K1A 0A6

**Re: Federation of Canadian Independent Deposit Brokers Submission:**
**"Protect and Preserve the Value of Consumers Retirement Savings – Raise the Limit of Protection, Please!"**

Dear Minister,

The Federation of Canadian Independent Deposit Brokers (FCIDB), incorporated in 1987, is a Professional Standards Organization (PSO) with membership from all regions across Canada. It sets standards for its Member's and provides a context within which member deposit brokers operate. The Deposit Brokers and their representatives comprise a distribution channel for the Canadian consumer to access over 30 various Federal and Provincial Regulated Financial Institution members and their various deposit products.

Our member deposit brokers are independent retailers of financial products and services specializing in guaranteed investment products. Member deposit brokers distribute a broad range of financial products such as GICs, short-term instruments of deposit, annuities and a variety of investments that qualify for RRSPs and RRIFs for Canadian Banks, Trust and Insurance companies. In addition, certain deposit broker firms are also offering mutual funds and life insurance products and income tax and financial planning services.

As independent financial intermediaries our role is to assist Canadians in all walks of life across the country in their search for the best-valued product and services in the marketplace. Recent industry estimates indicate that deposit brokers assist in the

management of guaranteed accounts beyond a $40 billion dollar mark giving us the opportunity to be in a position to hear our client concerns. GIC's have always been, and are expected to remain, a sizeable component of Canadians' investment portfolio's within the category of fixed income investments. For example, within the growing pool of assets held by Canadians, the size of the fixed income component of the asset mix is expected to grow to $988 billion in 2010.[1] As of March 31, 2004, statistics reveal investor's held $247 billion in personal GICs, of which roughly one-third was held in registered accounts.[2]

Since its beginning, the primary focus of the FCIDB broker members, in their roll as trusted advisor, has been to echo and voice the concerns of our clients, while endeavoring to protect the best interests of all Canadian consumers. And, as such, it is that reason today we bring to your attention the inadequate protection coverage Canadian Deposit Insurance Corporation (CDIC) is providing in today's marketplace for the consumer on their retirement savings.

## 1. Purpose of Deposit Insurance

Deposit Insurance has a simple, but important purpose: To provide a safe place for depositors to keep their money. Interestingly enough, the current process of setting deposit insurance has been on a somewhat arbitrary and ad hoc basis. In fact, it never seems to catch up to the rate of inflation nor are inflation measures even put in place. And, as one knows, creeping inflation has a detrimental effect on any financial product. Over a period of 40 years deposit insurance coverage has increased only three times, twice in reaction to a failing of the system. From the CDIC's inception in 1967 to 1982 coverage was $20,000. In 1983, coverage was increased to $60,000 and finally, last year coverage was increased to $100,000.

When deposit insurance was introduced in Canada, financial institutions were much less developed than they are today. Having said that, we have seen a lot of

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1 Gerry McCaughey, CIBC Wealth Management presentation of June 27, 2001.

2 "Total of All Banks, Consolidated Monthly Balance Sheet as at March 31,2004" , Office of the Superintendent of Financial Institutions

fiascos in the past - even with good strong companies. We woke up one morning to seemingly find Crown Trust had gone down. We woke up another morning to find that Standard Trust and Confederation Trust were no longer viable. Consider what happened to Royal Trust. Those were scary times for all depositors. And, we were glad the deposit insurance system was there and in place. But consider for a moment the reality of the client who woke up one morning and realized that he had in excess of $60,000 of retirement savings invested at one of those institutions. He panicked. He was 72 years old. This is not what anyone wants to see happen, especially to the elderly and vulnerable consumer.

Since those troubled times CDIC has brought back confidence and apparent stability with its risk management controls, also recouping the expenses caused by the debacles. No one knows better than your finance department how market conditions change. Ultimately, and hopefully, financial institutions will not go under, however, new tricks and dubious opportunities may present themselves – all unbeknownst to the depositor.

**2. Attitudes & Awareness Toward Deposit Insurance**

In the final report on CDIC's most recent Awareness Survey released in April 2002, the measure of attitude toward deposit insurance indicates that Canadians are concerned about the security of their money. In fact, a strong majority, 87%, stated that the *security* of their money should an institution fail was a most important factor.

Yet when Canadians were asked whether their savings would be protected against loss, 63% of those surveyed could not name an insured financial product on their own. An even greater number of consumers are unaware that the value of protection coverage has been severely eroded by inflation. CDIC has in its past, conducted market research to gauge depositor's concerns and understanding of CDIC protection, but remarkably has not asked any questions regarding the amount of coverage expected. You will find other deposit insurance schemes for non-federal institutions offer higher coverage. Over fifty percent of the provinces have realized the need for higher

coverage limits for provincially insured retirement products such as those purchased from credit unions. This mixed bag of protection is inequitable to all financial institutions and a huge point of confusion for the depositor.

We have all heard the age-old argument of resting more responsibility or onus upon the consumer who is depositing their funds with a financial institution. But the reality of this is nonsense. There are too many variables. The consumer would not know if the CIBC or any institution would be near or declaring bankruptcy next month. Their quarterly reports are not meant for the typical layperson to understand. Their financial statements only represent a snapshot of the health of the financial institution at that given point in time. Another scenario could crop up such as the fiasco in England. All it took was arbitrage trader Nick Leason investing billions of dollars in derivatives with nobody knowing about it to cause the ruination of Barings Bank. Human comprehension is another matter. It is not the same at age 35 as it is at age 85 nor are we all savvy investors. Illness or deterioration of mental capacity is a plausible situation as well.

It seems evident that the depositor is paying for the insurance coverage as a component of the financial institutions' product offering. It's also evident that the investor assumes the risk beyond the $100,000 coverage at their expense, whilst the institution, not having to pay CDIC premiums on the excess, adds to its bottom line.

### 3. Protect and Preserve the Value of Consumer Retirement Savings

One objective of the federal government is to continue to support and provide tax assistance for retirement savings (TARS) with the primary purpose of encouraging Canadians to save for their retirement and enable them to avoid serious disruption in their standard of living at that time. Another objective is to ease financial pressure on public pension and social security programs. For many consumers the fear of outliving their assets and no longer being able to take care of themselves is a major concern. Keeping this in mind, not only is inflation affecting the consumer who is trying to build a retirement or savings fund to supplement their income in later years (with either

registered or non-registered dollars), these savings could easily be taken away from him or her due to the current $100,000 limit protection.

The next several decades will be a time in which the population is aging and retirement costs are escalating. Serious trade-offs will need to be considered by the government of the day. Those who typically suffer the most damaging losses in bank failures are the elderly, individuals of modest means and those who lack access to sophisticated financial advice. It is understood by the FCIDB that deposit insurance provided through CDIC is intended to protect small depositors and Canadians of moderate means. However, it should be realized that fixed term deposits do not make millionaires out of ordinary Canadians. The products and services available for the already wealthy individuals are normally not suitable for the average Canadian. Nor are tax advantages available for those who rely solely on interest income. Because of this, the average Canadian needs to take full advantage of protection coverage for their savings for peace of mind, whether it is within a retirement savings plan or on investment earnings outside a registered plan.

On behalf of our client concerns, the Federation of Canadian Independent Deposit Broker members seriously propose to the Minister that the limit of CDIC protection coverage for retirement savings be amended upward to:

- bring federal deposit insurance in line with the higher protection limits being offered by provincial deposit insurance protection programs[3]
- consider provisions for automatic adjustment or public review in protection limits to occur in accordance to inflation, and
- protection to be on a per account basis for registered funds

We ask this request to be given due diligence on your watch. Further, upon review of this matter, FCIDB Broker members are concerned with Guaranteed Investment Certificates being issued beyond the five-year limit which do not carry any

[3] 100% coverage – Alberta, Saskatchewan, Manitoba, Prince Edward Island, New Brunswick, Ontario
$250,000 coverage – British Columbia, Quebec, Nova Scotia, Newfoundland

insurance protection whatsoever. Perhaps a back-to-back five year certificate could be considered.

In summary, we believe that an increase in the level of CDIC deposit insurance coverage, as per our recommendation, is an important measure for Canadian investors. Plus, it would also allow for improved market competition by allowing smaller financial institutions to accommodate more deposits.

The Executive of the Federation of Canadian Independent Deposit Brokers look forward to your immediate response and review of this situation on behalf of all Canadian depositors. I can be reached at my office at (519) 825-8000.

Sincerely,

Brenda Molnar, Executive Director
Federation of Canadian Independent Deposit Brokers
Suite 408-2, 49 High Street,
Barrie, Ontario L4N 5J4

cc: Bryan P. Davies, Chairman of the Board, Canada Deposit Insurance Corporation
Guy Saint-Pierre, President and Chief Executive Officer, Canada Deposit Insurance Corporation