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NEWSROOM : FUND INDUSTRY NEWS

Deposit broker calls for CDIC overhaul

Doug Watt

(October 26, 2004) The protection provided by the Canada Deposit Insurance Corporation (CDIC) has been seriously eroded by inflation and should be bumped up to $100,000 from the current level of $60,000, says David Newman, a deposit broker with Fiscal Agents in Oakville, Ontario.

The CDIC insures eligible deposits at member institutions and reimburses depositors for the amount of their insured deposits in the event of bankruptcy.

However, Newman notes that the $60,000 limit has been in place since 1983. Since that time, inflation has decreased the buying power of that protection by 56%, Newman calculates, based on changes in the Consumer Price Index.

"After the financial debacles of the seventies, the CDIC's coverage was increased from $20,000 to its current $60,000, but inflation has eaten away about half the value of the coverage," he says. "What this means is that the $60,000 is around $34,000 in today's dollars."

By comparison, Newman notes that credit unions in Ontario provide coverage of up to $100,000. In some Western Canadian jurisdictions, credit-union investments are 100% guaranteed.

"If the CDIC is to regain its relevance, it needs to bring its insurance coverage into the 21st century by increasing its coverage to $100,000. But this isn't likely to happen unless savers start making a stink," says Newman. "We need to put pressure on CDIC to increase the value of deposit coverage to a satisfactory level and also ensure indexation for inflation."

Fiscal Agents launched a campaign to reform the CDIC program last month and is urging supporters to write to CDIC president J.P. Sabourin.

A CDIC spokesperson was not available for comment on Tuesday.

This isn't the first controversy involving the CDIC this year. In February, IFIC president Tom Hockin called on the federal government agency to pull a CDIC advertising campaign, which he felt was overly critical of the mutual fund industry.

The ads, which appeared on TV and in print during the past RSP season, reminded Canadians that CDIC coverage does not extend to investments such as mutual funds.

"The impression the ad gives is that mutual funds are a bad investment," Hockin said. "They've done this before and I've written to the chair of the board before, but this is the biggest campaign that they've launched."

Since its creation in 1967, CDIC has dealt with the failure of 43 member institutions, protecting more than two million depositors holding some $24 billion in insured deposits. However, there have been no member failures since June 1996.