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Money & Markets

Consumer Protection

It's about time the CDIC raised its paltry coverage on bank deposits

By Rob Carrick

Way down at the bottom of the list of possible financial disasters you have to worry about is a bank failure.

And yet, it's basic financial planning to heed the Canada Deposit Insurance Corp.'s \$60,000 coverage limit on term deposits, guaranteed investment certificates, chequing accounts and such. Go above that amount and you open yourself up to the remote possibility of trouble that could so easily be prevented.

Well, not so easily. In this day and age, \$60,000 is only a token amount of protection.

This explains why David Newman, founder of an Oakville, Ont.- financial planning and information house called Fiscal Agents, is trying to start up a grassroots campaign to get the CDIC to raise its coverage limit to \$100,000. "The value of CDIC coverage has been eroded by inflation," Mr. Newman said. "The reality is that people aren't enjoying the same level of protection."

The CDIC limit was raised to \$60,000 from \$20,000 in 1983. Since then, Mr. Newman estimates, the after-inflation value of this coverage has declined to about \$34,000.

To get the CDIC's attention, Fiscal Agents has created a form letter that investors can access on the firm's website at www.fiscalagents.com. You can print them, sign them and then fax or mail them to the CDIC, where they'll most likely be ignored unless there's a deluge of paper.

"At the present time, this issue is not on the front burner," CDIC spokesman Jacques Hudon said.

The CDIC is a federal agency that insures about \$376-billion in deposits at more than 80 financial institutions; including domestic and foreign banks, on-line banks and trust companies. Credit unions have their own provincial deposit insurance plans.

Beefed-up CDIC coverage would absolutely make life easier for people, especially seniors. But given that this isn't a hot issue right now, it's worth going over a few tricks you can use to cope with the current limit.

Ivon Hughes, a Montreal-based deposit broker, notes that the big banks often have a couple of different GIC-issuing divisions within their corporate family. For example, you could have \$60,000 in a Bank of Montreal GIC and another \$60,000 in a GIC held with BMO Mortgage Corp.

You can maximize CDIC protection at one institution by having separate deposits under different names. "A client can purchase a certificate in his own name, jointly with his wife, in trust for his children, and his wife can do the same," Mr. Hughes wrote in an email. "And each transaction will be covered to the fullest by the CDIC."

Mr. Newman of Fiscal Agents acknowledges these strategies, but he says they can lead to complications in some cases. Shared ownership of a GIC may not work out to the advantage of the original owner if there's a dispute, and there are estate planning issues that can arise if one party in a jointly held GIC dies.

Another way around the \$60,000 limit is to take your GIC business to a credit union. Deposit insurance limits for credit unions vary from province to province, but they're generally far superior. For example, 100 per cent of your deposits are guaranteed in Alberta, Saskatchewan and Manitoba, while Nova Scotia and Newfoundland have a \$250,000 limit and British Columbia and Ontario are at \$100,000. The problem here is that credit unions don't always offer the best rates, said Mr. Newman, whose firm acts as a deposit broker. Virtual credit unions - those that operate through a website and don't have branches - often have the best rates available, but bricks-and-mortar branches may or may not be competitive.

The biggest CDIC coverage hassle involves savings products held in registered retirement savings plans and registered retirement income funds, which have separate coverage from other non-registered deposits. Imagine you have GICs in an RRSP at one bank totaling \$60,000 and you want to move them elsewhere on maturity to get a better rate. Long administrative delays in getting your money transferred can cause you to miss out on interest rate guarantees offered by another institution, and then there's the potential for fees every time you move a registered GIC out of a bank.

While the CDIC does not seem to be inclined to increase its limit, the life insurance industry recently decided that improvements were needed for its customer protection plan, called CompCorp. Whereas CompCorp used to have only a \$200,000 limit on life insurance, \$60,000 on health expenses and \$2,000 on benefits paid monthly, it now offers the additional protection of 85 per cent of promised benefits above those levels.

The Canadian Investor Protection Fund offers up to \$1 -million worth of coverage if your investment dealer goes bankrupt, and a new fund being developed to protect mutual fund investors is looking at the same limit. The \$60,000 limit on bank and trust company deposits looks measly compared with these other plans. If you want to send this message to CDIC, now's your chance.

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