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CDIC urged to update 21-year-old deposit threshold

Web petition, launched by Fiscal Agents, seeks to boost level to "more reasonable" $100,000 from current $60,000

By Wendy Cuthbert

Note to the Canadian Deposit Insurance Corp.: You can take off your shoulder pads and stop spinning your Boy George albums — 1983 is over.

While that's not precisely the message from David Newman, director and information officer of Fiscal Agents Ltd., it's close. The Oakville, Ont. deposit broker has launched a petition campaign asking the CDIC to increase its deposit threshold, which hasn't been touched since 1983, when it was increased to $60,000, to what he says is a more reasonable figure of $100,000.

Newman argues that the $60,000 limit is inadequate by today's standards. In fact, by his calculations, inflation has eaten away almost half of the coverage's value. Based on changes in the Consumer Price Index, the buying power of the initial protected limit amounts to just $34,000 today. "Yet people's investments have increased dramatically over the 20 years," he says. "They're looking to invest larger amounts."

Because of this, planners must help clients creatively circumvent the rules, stacking deposits through multiple registrations (in a partner or child's name, for example) or simply spreading the wealth through several institutions.

The problem with the first strategy — sharing ownership — is that it isn't the best way to protect one's deposits. For example, if a son is added to a GIC for coverage considerations and then becomes embroiled in a divorce, it may be considered part of the community property assets. Or a relationship may sour and the son may simply cash in the GIC.

Meanwhile, the second strategy — multiple institutions — burdens the investor with added transfer and closing fees, not to mention the need to assess each offering, making it a more complicated plan than need be. In addition, Newman says, there's the issue of mergers, which can force investors to do even more homework to determine where their deposits are safe.

The CDIC should also be more in line with provincial insurance schemes, he says. The provincial deposit insurance limit is $100,000 in Ontario, $250,000 in Nova Scotia and unlimited in Alberta (see table).
"If you lived in Alberta and could have all your cash covered, I'm sure you'd think $60,000 is behind the times," Newman says. The outdated CDIC coverage makes for an uneven playing field because smaller-sized banks and trust companies insured by CDIC don't have the same clout as most credit unions.

So far, the petition (available at fiscalagents.com) has received interest from clients, peers and other Canadians, and Newman expects other planners to reach out and let Canadians know just what's at stake.

Of course, the CDIC can't change anything on a whim. It needs to know that this is indeed an issue before it can make recommendations to change its mandate through legislation, says Jean Pierre Sabourin, president and CEO of the CDIC in Ottawa. "Our first and foremost responsibility is to act in the best interest of the depositors," he says. "So if there is a movement and we get feedback from our depositors that there is a need to increase the limit, we'll certainly deal with it."

Until now, however, this issue hasn't flown anywhere near the CDIC radar. The agency hasn't recorded any messages concerning coverage limits from its Web site (www.cdic.ca; it receives 400,000 hits a year) or its toll-free information line, he says. "It's not everyone that has more than $60,000 to invest in a deposit," he says. There are other investment opportunities that attract investors, such as mutual funds, Sabourin adds.

But he concedes demand for insured deposit investments has indeed grown over the past several years, and, as the baby boomers retire, there will be more cash available for deposits. "The question is: is the limit a deciding factor?"

As for the competitive issues, Sabourin sees no problem with the credit unions trying to remain competitive by offering more insurance than Canada's big banks. Chances are quite high that if the CDIC changed its insurance coverage, so, too, may some of the provincial players. In fact, when the CDIC increased its coverage in 1983, Quebec followed suit. He also points out that most provincial deposit insurers used to offer 100% coverage, but now few do so.

Much has changed since 1983 that makes this issue less of a concern than it may seem at first glance, says Gordon Roberts, CIBC professor of financial services for the Schulich School of Business at York University in Toronto. Most significant, Canadians have become more sophisticated in their investments, he says. "It's a bit paternalistic to say that people who have $60,000 to invest are too dumb to know what risks they're taking and they need to be insured." There are plenty of low-risk investment instruments, like money market funds, available today, he says.

Roberts also points out that, besides the explicit insurance offered by the CDIC, there's plenty of implicit insurance built into the system — the too-big-to-fail argument. "If ... a client has $100,000 in one of the big banks, should they really lose sleep at night?"

That doesn't mean that the campaign for change doesn't have merit. It can indeed be inconvenient trying to work around the limit, says Roberts. However, if there were any move towards reform, he would expect it to go further than the demand for increased coverage.

In fact, any discussion about the CDIC now could open up a Pandora's box of issues, Roberts says. For example, a merger between a bank and an insurance company makes for two distinct but potentially confusing styles of deposit insurance — one government-sponsored and the other industry-sponsored.

That might be something the CDIC will need to address in the not-too-distant future, Roberts says. He also expects the issue of co-insurance, so in-vogue during the reform discussions of the 1990s, may be revisited as well.