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November 30, 2016

Department of Finance
Canada

Submitted by email: DepositInsuranceReview-ExamenDuCadreDAssuranceDepots@canada.ca

Dear Sirs/Mesdames:

Subject: Deposit Insurance Review Consultation Paper

Independent Financial Brokers of Canada (IFB) appreciates the opportunity to provide comments on this consultation paper, and to have participated in the meeting with representatives from Finance Canada and CDIC. Please be advised that IFB consents to the publication of this response in its entirety.

IFB is a national, not for profit, professional association representing approximately 4,000 individual members. Our members are financial advisors, most often licensed as life insurance agents and/or mutual fund registrants. Many also hold complementary financial licenses or accreditations which permit them to advise consumers on mortgages, financial planning, tax and estate planning, and term deposits.

IFB members are not employees of a bank or insurance company, but rather operate small to medium sized businesses in their local communities. They are important partners in assisting clients, and their families, set and meet their short and long term financial goals.

As an association dedicated to the improvement of the financial industry and the ongoing sustainability of independent advice for consumers, IFB supports its members by providing high quality continuing educational opportunities, a comprehensive professional liability insurance program, compliance and practice support, and advocacy. It is with this background in mind that we offer our comments on this initiative to consider possible changes to the existing deposit insurance framework.

In general, we support the three policy objectives framing this review: to protect depositors, support financial stability, and promote efficient and competitive financial services. We agree that policies should not act as an impediment to competition, should be neutral in their application to various business models, and should be cost effective.

In order to better reflect the experience of IFB members who are active in the placement of term deposits and GICs, we invited interested members to respond to a survey. Although the number of respondents was small, those who did respond provided detailed input that we will refer to throughout our comments.

Demographic profile of IFB survey respondents
Location: 76% from Ontario, 7% from BC, smaller numbers from other provinces.
Licenses: 100% life insurance licensed, 60% also mutual fund licensed.
Length of time as a deposit broker: 60% more than 10 years.
Number of CDIC firms contracted with: 36% less than 5 institutions, 21% more than 20 firms, 25% 6-10 firms.
Types of institutions contracted with: 71% small to medium sized financial institutions, 43% provincial credit unions, 32% major banks.
Deposits: 88% use client name only. A much smaller number use nominee or "in trust for" accounts. Very few use formal trust accounts.
Beneficiary information provided: All provide detailed client/beneficiary information to the financial institution.

Policy Questions:

Current $100,000 limit
Although the paper indicates that the $100,000 limit remains appropriate, our survey indicates that this is not the case. We asked members to tell us how important the CDIC categories and coverage limits are to their clients when evaluating an investment option. 75% said it was very important, and that clients did not want to invest outside of those limits.

In fact, there was widespread support to raise the limit, and preferably to $250,000, to mirror the changes that have been made by many provincial financial institutions and credit unions. It would also better reflect the larger dollar amounts being held by clients in savings accounts, both registered and non-registered. This would be especially true for older Canadians who are saving for retirement, approaching retirement, or who are already retired. Today, many Canadians no longer have access to company sponsored pension plans, and so must be more self-reliant in saving for retirement. This trend is expected to continue and, as such, will capture many more individuals in the coming years. A higher limit would enable customers to keep more of their savings in a single account. The CDIC limit, as demonstrated above, is an important consideration for clients when deciding where to place their investments.

Given the ability of many provincial institutions to insure deposits at a higher limit, we think it is worth exploring whether it will introduce an appreciably higher level of risk to this sector.

Mortgage Tax Accounts
Research cited in the paper supports a decline in the use of mortgage tax accounts. Since this is the case, we do not object to this being removed as a separate category. Investors have the option, if required, to have them covered as an eligible deposit in another category.

RESPs and RDSPs
Further to our comments above, more and more individuals and families are being forced to rely on personal savings to save for the future. The tax-advantaged nature of Registered Education Savings Plans and Registered Disability Savings Plans helps to encourage that behaviour.

Increasingly, Canadians are attending post-secondary institutions, and often for multiple undergraduate or graduate degrees or certifications. Tuition fees keep climbing, and many students graduate with significant debt. RESPs provide an important vehicle for families to help prepare for these costs. However, even when RESPs are structured as a trust, parents with more than two children and who reach the maximum lifetime contribution of $50,000/child, will exceed the $100,000 CDIC insurance coverage. In these situations, the government could look to expanding coverage under the temporary high balance scenario.

RDSPs, while less utilized, are an important long-term savings vehicle for people with disabilities.

IFB supports creating separate deposit categories for RESPs and RDSPs. The alternative of amalgamating all registered products into one deposit category, albeit with a higher limit, is a more cumbersome and less preferable approach that is not favoured by our members.

Traveller's Cheques
The widespread ability of consumers to access funds electronically has reduced reliance on traveller's cheques. We note that as of November 2016, the Royal Bank of Canada discontinued traveller's cheques, and the CAA will follow suit in January 2017.

Since CDIC members no longer issue traveller's cheques and where they continue to offer them do so only through third parties, we do not object to eliminating traveller's cheques as an eligible deposit category.

Deposit Terms greater than 5 Years
As the paper notes, terms deposits with maturity terms greater than 5 years are now more common, especially within registered accounts. Despite this, our survey respondents indicate that 5 years still meets the needs of most of their clients. For those who would like to see the term limit increased, they favoured expanding the period up to 10 years, rather than an unlimited term.

Temporary high balances
Most respondents agreed that providing CDIC coverage in instances where there is a temporary high balance is desirable, and an appropriate period is up to 180 days. Members indicated that this would allow their clients to consider a longer term approach to the investment, rather than being forced to spread deposits across multiple institutions.

In addition, there was widespread support to extend the time and coverage limits under certain circumstances, so that beneficiaries, on death of the deposit owner as an example, remain covered and not forced to redeem the investment early. Early redemption can result in fees and tax liability for the beneficiary.

Trust Accounts
The paper sets out issues resulting from having incomplete information on beneficiaries for trust accounts, and the difficulties that this would create for the CDIC in the event a member institution fails.

Use of formal trusts by IFB members is extremely limited. Our survey results show that 85% never, or rarely, use a trust account. For the few that do occasionally use a trust account, it is for clients with complex business or estate situations. However, even then they are required to provide full client information.

Some CDIC institutions that our members deal with do not accept formal trust accounts (as defined in the *Income Tax Act*), but do accept accounts “in trust for” another individual. However, again, complete identification of the owner is required on the application.

Further, since deposit brokers act as agents of the financial institution, the broker is obligated to identify the client in accordance with the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, and provide the institution with these records, in advance of a deposit being accepted. Therefore, client identification would be a usual and required practice. There may be other circumstances where deposits are made in trust, however, they do not appear to be relevant to our members who act as deposit brokers.

Again, thank you for the opportunity to share our views, and the views of IFB members, on these matters. We look forward to participating in the future as further details of any proposals to update the deposit insurance framework become available.

Should you have any questions, please contact me, or Susan Allemang, Director Policy & Regulatory Affairs (email: sallemang@ifbc.ca).

Yours truly,

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