



How to Beat the Banks on GIC Rates

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There is no end to the indignity of being a conservative investor these days.

To start, rates on guaranteed investment certificates are ultralow by historical standards. Adding to the pain is the fact that GIC issuers have barely responded, if at all, to the rate increases initiated by the Bank of Canada in the second half of last year. One way to fight back as an investor is to use a deposit broker.

A deposit broker is like a mortgage broker - you benefit as a client by getting access to a variety of interest rates offered by multiple firms rather than dealing with a company selling just its own products. How much of a rate advantage is there with a deposit broker? According to the new Broker Advantage Index, a deposit broker can typically get you an additional percentage point of interest or more compared to the posted rates at big banks.

The index was created by the Registered Deposit Brokers Association, which oversees professional standards for deposit brokers. As of early 2018, the index showed the average of the Top Five rates offered by association members on one-year GICs was 1.49 percentage points higher than the big

banks at 2.22 per cent. The advantage for three-year GICs was slightly less pronounced - an average rate for the brokers of 2.65 per cent, or 1.30 points ahead of the banks. The five-year average broker rate was 2.88 per cent, or 1.28 points above the banks.

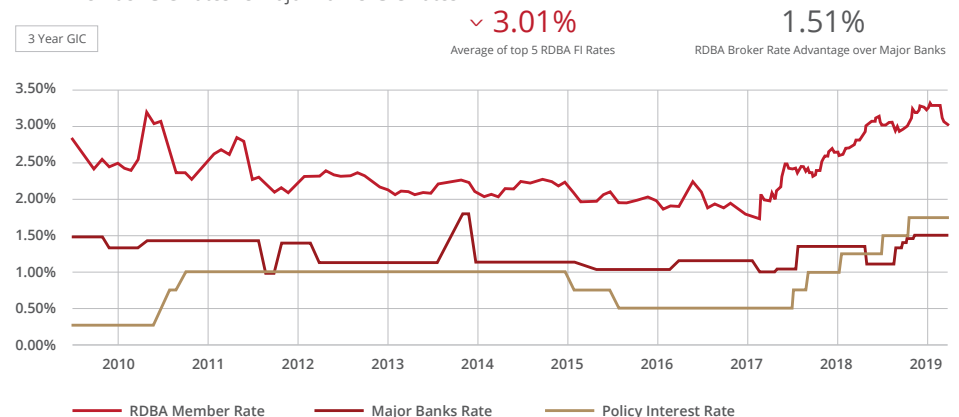
You can do slightly better than these broker rates. The online banks Hubert Financial and Motive Financial were offering a five-year GIC at 3 per cent at the beginning of 2018, as was Oaken Financial. Brokers don't typically offer rates from these players. You have to deal with them directly, either online or by phone.

If you buy GICs from a big bank, you can always try asking for an interest-rate bonus. But with several banks posting a rate of 1.6 per cent for five years, a decent-size rate bonus of 0.5 of a point brings you only to 2.1 per cent. You're still well behind the best broker rates.

Beyond higher rates than the big banks, the benefit of dealing with a deposit broker is the service of having someone handle all the paper work for you while ensuring you stay onside with deposit insurance rules. Brokers are paid by GIC issuers - clients pay no commissions or fees.

RDBA Broker Advantage Index

RDBA Member GIC Rates vs Major Banks' GIC Rates



Major Bank Rates and Policy Interest Rate obtained from The Bank of Canada