

Response to Department of Finance Canada Consultation Paper
Deposit Insurance Review

November 2016

In September 2016, the Department of Finance Canada released its Consultation Paper seeking input regarding possible improvements to the CDIC deposit insurance framework.

[Organisation] recognizes the importance of deposit insurance as not only a means to protect depositors, but also a means to support stability in the Canadian financial system. Financial stability promotes depositor confidence which, in turn, fosters financial literacy and financial inclusion. As a values-based financial institution, we see financial inclusion as fundamental for healthy, sustainable communities. We also recognize a shift over the past several years in the types of deposit products being used. We concur that it is timely to review how the deposit insurance framework aligns with the products commonly used by depositors to reach their financial objectives.

In considering the proposals and questions within the consultation paper, we reflected on how depositor perceptions impact public confidence in the system. Public confidence is enhanced when the range of eligible products are relevant for depositors as well as when the criteria for eligibility is transparent, easy to understand and inclusive. As a small bank offering a limited number of deposit products, we also reflected upon the scope and extent of resources that we can reasonably allocate to manage deposit insurance requirements. Our feedback is based upon these reflections.

STREAMLINING DEPOSIT CATEGORIES

Mortgage Tax Deposits: **[Organisation]** does not have any concerns if mortgage tax accounts were removed as a deposit category. We concur that it is appropriate that funds in mortgage tax accounts continue to receive coverage under another coverage category (i.e., individual or joint).

Registered Products: We fully support adding RESPs and RDSPs as new deposit categories. Like other registered products (RRSPs, RRIFs and TFSAs), RESPs and RDSPs contribute to financial independence for Canadians, which in turn contributes to the strengthening of our communities. Extending CDIC coverage to RESPs and RDSPs underscores the value of these products.

We are not in favor of amalgamating all registered products to one category, albeit with a higher limit. Amalgamating all registered products to one category introduces a level of complexity that could erode the public's perception of the universality of the framework. For example, under an amalgamated category, it may be perceived that depositors who did not have RESPs or RDSPs would be unfairly advantaged by having a greater portion of their other registered products eligible for coverage.

UPDATING THE SCOPE OF ELIGIBLE DEPOSITS

Travelers' Cheques: **[Organisation]** agrees that travelers' cheques could be removed as an eligible deposit without significant impact to consumers or financial institutions.

Products Terms Greater than Five Years: We support extending deposit coverage to term deposits with terms of maturity greater than 5 years. In this period of market volatility, we concur with the observation that longer term deposit products may be an attractive option for depositors wanting to minimize risk. Currently, term deposits with maturities up to 5 years may be renewed for additional terms and remain eligible for coverage; therefore we cannot discern any additional impact by removing term length as a criteria for eligibility. With respect to what the maximum term should be, we believe that should align with what the market is offering.

Foreign Currency Deposits: Over the past several years, **[Organisation]** has experienced a steady demand for foreign currency deposit accounts. We recognize that including these accounts as an eligible deposit would be of benefit to small and medium businesses, and for that reason we support extending deposit insurance eligibility to foreign currency deposits.

We concur that eligibility for foreign currency deposits may increase the attractiveness of these accounts, which in turn may translate to increased CDIC exposure leading potentially to higher premiums for this category. We also recognize that increased attractiveness of the foreign currency deposit accounts would likely increase the scope of our AML activities and obligations. Nonetheless, we see support to small and medium businesses as vital to our economy; so the benefits of extending coverage to foreign currency deposit accounts outweighs the additional costs and operational support.

We believe it appropriate to introduce foreign currency account eligibility through a phased approach, starting with the 3 major currencies – the US dollar, the EURO and GB pounds.

Temporary High Balances: We struggle with the concept of providing deposit insurance eligibility to temporary high balances as we are uncertain as to how this may be implemented effectively. The criteria of eligibility, no matter how clearly drafted, would be open for interpretation – with potentially significant consequences if the interpretation was flawed. As such, significant time and resources would be required to properly manage these deposits – which by their nature are supposed to be temporary. We feel that these resources would be better deployed in providing financial planning advice and support to assist individuals undergoing significant life events.

We are also concerned that providing coverage for temporary high balances may also support the public perception that certain depositors are unfairly advantaged based solely on the source of their deposits. This has the potential to erode the public's perception of the universality of the deposit insurance framework, and consequently the confidence in the system.

ADDRESSING THE COMPLEXITY OF TRUSTS

At this time **[Organisation]** is not accepting retail deposits or broker deposits; therefore, we will not be providing feedback with respect to trusts.