

November 30, 2016

Financial Institutions Division,
Financial Sector Policy Branch
Department of Finance Canada
& Canada Deposit Insurance Corporation of Canada

Emailed to: DepositInsuranceReview-ExamenDuCadreDAssuranceDepots@canada.ca

Dear Sir/Madam:

Thank you for the opportunity to comment on the Consultation Document for the review of the Deposit Insurance. We look forward to participating in this ongoing process. The Registered Deposit Brokers Association (RDBA) consents to the disclosure of our submission in whole or in part as long as any reference to our submission in your publications is attributed to our association by name.

Introduction of RDBA

The RDBA was formed in 1985. Previous to this, independent deposit brokers were individuals not associated with other financial industry organizations and effectively were considered a cottage industry or 'mom & pop' shops if you will. Thirty some years ago, a group of these deposit brokers got together and determined to change that perception by building a national organization of professionals that would be respected by Regulators and Government Agencies and highly trusted by consumers throughout Canada. Their purpose was to establish an organization that demanded a high level of integrity, compliance and best practices. The Federation of Canadian Independent Deposit Brokers (FCIDB), as it was then known was formed.

The RDBA is governed by a Board of Directors made up of both Financial Institution members and Broker members. This unique dynamic of both Manufacturers and Distributors work together for one common purpose and one respected industry.

The RDBA has developed a strong representation of our industry across Canada that provides the opportunity for our members to serve Canadian consumers well through up to date training courses, compliant and industry accepted forms, a stringent onboarding process for membership, annual compliance questionnaire, an annual requirement of AML training with an online exam and a broker audit process. We continue to develop electronic systems that not only are compliant but will assist our members to be prepared for the technological demands of the 'new' world.

From our start over 30 years ago, we have met our original determination and enjoy a wonderful working relationship with Regulators and Government Agencies. Our growing industry and client base has earned the trust and respect of consumers all across Canada.

The RDBA and its members sincerely appreciate the opportunity we have to help our clients manage their financial needs in a strong, stable & secure financial system for which Canada is envied throughout the world! We have enjoyed a strong relationship with CDIC that continues today. Thank you for your invitation recently to meet with the

Department of Finance and CDIC to discuss specific items of your consultation paper. We remain committed to supporting this review in any way we are able.

May we begin by offering our support to the broad policy objectives that guide this review, namely, protect depositors, support financial stability and promote efficient and competitive financial services. Each of these objectives is fundamental in the development of our professional industry that continues to provide financial service with peace of mind to Canadian consumers all across our country.

We offer the following observations and suggestions in review of your consultation paper and in no specific order. These views and comments represent a broad consensus of our national association that includes many stakeholders including Financial Institutions. Some of these stakeholders may have their own specific concerns which will have been presented to you through your consultation with them directly.

Increase in Insurance Coverage

We believe that the current coverage limit provides for a healthy and competitive marketplace. It provides a level playing field for consumers and manufacturers of deposit products. The current coverage also ensures that consumer deposits are spread over a broad base of financial institutions and in so doing minimizes the overall risk to consumer deposits. However, with the increased value of client portfolios caused by inflated values of assets over the years, a small increase in the limit would be well warranted. If you consider the compound effect of inflation since the last increase 11 years ago, a higher limit of 150,000.00 would seem to be in line. Further, may we suggest enacting a process every 5 to 10 years that considers and increases the insured limit based on the effect inflation has and the apparent erosion of value.

Coverage for Credit Unions

Credit Unions offer Canadian consumers a valuable option when finding competitive deposit institutions to place their investments. There is a level of confusion in regards to the insurance coverage for deposits offered by Credit Unions in Canada. Some Credit Unions are covered by CDIC because they are federally incorporated. Others of course are covered by their respective Provincial deposit insurance facilities which in some cases offer unlimited coverage. The coverage amounts vary significantly by province and from CDIC. Yet when a consumer hears the term 'guaranteed' they presume a high level meaning for that word and often it is based on their understanding of CDIC coverage.

Consumers often are unaware of the potential risks on their deposits and the strength of the deposit insurance coverage offered to them. Our suggestion to CDIC would be to include provincial Credit Unions in their membership. As a minimal stop gap a process could be established to ensure that Provincial counterparts have the legislation in place that is consistent with national CDIC standards and the financial reserves to back up the Guarantees their Credit Unions are promoting to clients.

Registered Products

Our Association would support the addition of deposit categories for RESP's and RDSP's. We do believe that this would minimize the element of complexity. It may encourage the addition of these products at several Canadian financial institutions. These are important investment opportunities for Canadians that are not offered currently through deposits at many financial institutions.

Products with terms Greater than Five Years

In a recent survey to our members, close to 80 % agreed that most of their clients would likely not invest for longer than 5 years should that option be available. Our members help clients carefully manage their deposit insurance limits and

benefit from a well laddered portfolio that typically follow a 5 year cycle. This has served our clients well for many years.

Temporary High Balances

With the inflated values in many assets today there is a fear among consumers that if they liquidate assets like real estate or businesses, receive inheritances or insurance settlements or transact, for example, the transfer of pension assets, their accounts will be temporarily and in some cases extremely over the CDIC insured limits. In many of these incidents, deposits from these sources are frozen until the release of a hold the institutions place on the accounts while the banking system clears the deposit. It will typically take the client and their advisor several weeks to determine the best investment options and transact the liquid assets into long term financial plans.

The RDBA would strongly recommend the inclusion of a temporary high balance provision in the CDIC regulations. We understand that you would want to limit this provision to natural persons only and that this provision creates complexity in the calculation of premiums for such temporary balances. However, in your quest to provide Canadian depositors with an “adequate scope and level of coverage”, this additional provision will address an increasing risk in today’s marketplace. We would suggest that 90 to 120 days of temporary coverage would be adequate.

There are two instances below that would benefit differently from temporary high balances. Both of these relate to the death of family loved ones. At this time of loss, grieving family members already in emotional stress, need to know that they are not also facing unnecessary financial risk.

1. When an estate needs to be settled that includes spousal beneficiaries on registered products and TFSA’s the investments are generally converted in to the surviving spouse’s name through the Spousal Rollover provisions of the Income Tax Act. In many cases the re-registration will push the combination of these investments with their own to exceed the insured limits for the surviving owner. Our suggestion would be to consider extending the coverage on these investments until their maturity when arrangements can be made to deposit at another CDIC member institution.
2. Similar to the above situation, at the estate settlement of a non-registered joint ownership deposit, the combination of transferring assets and the survivors own deposit investments will often push the insurable assets over the allowable limit. Our suggestion would be to extend the coverage until the maturity of these assets when arrangements can be made to deposit at another CDIC member institution.

Brokered Deposits

In your consultation paper, specifically on page 15, you provide your understanding of brokered deposits. As you indicated to us in our meeting with you in Toronto, you include in ‘brokered deposits’ those who are intermediaries for their clients and convey these funds to deposit-taking institutions. In essence you seem to include all brokers in the same category. As we indicated at our recent meeting with you, there is a significant difference between our broker members and the broker members of other industries. The RDBA has established compliance procedures for our members to follow in servicing their client’s deposit needs. These best practices have been established after a collaborative determination of the requirements our financial institution and broker members must adhere to. We would be pleased to help you understand our industry and processes further.

Addressing the Complexity of Trusts

Further to our comments in the last paragraph, one main difference between our members and other brokers is that we discourage the use of Trust accounts to convey client’s funds to deposit institutions.

We realize, however, that there is need for better understanding of these accounts. CDIC regulations already establish the parameters of ‘in trust for’ accounts and the need to identify the beneficiaries of these accounts for deposit

insurance reasons. We believe our members are following these regulations and our deposit institution members already work closely with our broker members to ensure that appropriate beneficial owner information is collected.

However, we do believe that there is a high risk factor for consumers who are simply unaware of the inadequate deposit insurance and subsequent loss potential of funds being conveyed by their brokers who in some cases identify clients by name and other cases the same clients are identified by a number.

The RDBA fully support the improvement of the quality of beneficial information provided to CDIC that will also improve the protection of the Canadian consumer. We do not believe that in general, deposit clients are fully aware of the need for their brokers to provide this beneficial information in a timely manner and simply trust their broker to look after the protection of their funds appropriately. It seems incumbent upon CDIC as they meet their objectives for the protection of Canadian consumers that steps are taken to ensure a constant in the process of the insuring of client deposits through trust accounts.

Summary

The RDBA continues to assist our members in understanding the regulations and conditions of insured deposits through CDIC members. We believe there would be a high level of understanding of CDIC rules by our members and their clients. We remain thankful for the strength of our Canadian deposit industry and appreciate the confidence and peace of mind CDIC provide our clients.

As always, we look forward to working with you to improve the CDIC regulations in our changing world and financial industry in Canada. Once again, thank you for this opportunity to comment on the Deposit Insurance Review Consultation Paper. Please let us know if we can be of further assistance.

We anticipate receiving a copy of the report of your consultation process and the resulting decisions.

Yours very sincerely,

A handwritten signature in black ink, appearing to read 'Brian J. Evans', with a long horizontal flourish extending to the right.

Registered Deposit Brokers Association
Brian J. Evans, Chair, Board of Directors