RichmondNews

JANUARY 11, 2013

**Kim Inglis, BCom, CIM, PFP, FCSI, AIFP**

# How safe is your money?

## Canadians are covered by two types of deposit insurance

With widespread political uncertainty, especially the turmoil throughout the European Union, many investors wonder how well their money is protected in the event their bank or brokerage fails. The Canadian banking system isn't immune to the pressures that face global banking, so it's a reasonable question.

In Canada investors have two basic types of account protection – the Canadian Investor Protection Fund (CIPF) and the Canadian Deposit Insurance Corporation (CDIC). The CIPF was established by the investment industry to ensure client assets are protected, within defined limits, should a CIPF Member become insolvent.

The CDIC is a federal Crown corporation created by Parliament that insures eligible deposits, made with its member institutions, in case a member institution fails. Although they sound similar, there are key differences between the CIPF and the CDIC.

In general, the CIPF covers up to a maximum of C$1 million of cash, securities, and some segregated insurance products held with member brokerages of the Investment Industry Regulatory Organization of Canada (IIROC). This includes two types of accounts, each eligible for the C$1 million coverage: general and separate.

General accounts are considered to be cash and margin accounts, whereas separate accounts are typically retirement accounts such as RRSPs and RRIFs. All general accounts are combined for coverage purposes, as are all separate accounts.

CDIC insures eligible deposits up to a maximum of C$100,000 per depositor at CDIC member institutions. Most Canadian chartered banks are CDIC members, as are a number of companies that take deposits. There are some financial institutions that take deposits but are not CDIC members though. However, provincial deposit insurance programs may cover deposits held at those institutions.

CDIC coverage includes savings and chequing accounts, GICs or other term deposits with an original term to maturity of 5 years or less, and accounts that hold realty taxes on mortgaged properties. It also covers money orders, certified cheques, travelers' cheques and bank drafts issued by CDIC members. An important distinction here is that mutual funds, stocks, bonds, and Treasury bills are not covered by CDIC insurance. The same applies to accounts or products in U.S. dollars or other foreign currency.

To understand the difference between CIPF and CDIC, consider an investor who purchases a 3-year term deposit from Bob's Bank that is held at Mary's Brokerage. If Bob's Bank is a CDIC member and goes bankrupt, the investor will be protected through CDIC. If Mary's Brokerage is a CIPF member, and goes bankrupt but Bob's Bank

**© Copyright 2013 Kim Inglis**

## How safe is your money?

*Continued from Page 1*

does not, the investor will be protected through CIPF.

Just as it is important for Canadians to understand how their investments are protected, concerns should be considered in context. According to CIPF, investment dealer insolvency is rare and has only occurred 18 times since CIPF's inception in 1969. CIPF has made payments of $36 million, net of recoveries, and no eligible customers have suffered a loss of property.

Likewise, since CDIC was created in 1967, there have been 43 member institution failures, with the last occurring in 1996. And, according to the Department of Finance, Canada's banks are well-capitalized and exceed Bank for International Settlements' norms by significant margins. Total capital is in the 9.6 per cent range, whereas the required minimum is 8 per cent.

*Kim Inglis, CIM, PFP, FCSI, AIFP is an Investment Advisor & Portfolio Manager. The views in this column are solely those of the author. www.kiminglis.ca*

**© Copyright 2013 Kim Inglis**