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One of the premises of the report is that deposit insurance was instituted to preserve the payment system in Canada. If that argument ever had any credibility, it was only to allow the federal government to get into the field of deposit insurance rather than leaving it to the provinces. That premise is used as a reason for the insurance industry not having the same government guarantee as the banks and the trust companies, since a failure of a major insurance company would not threaten the payment system.

Certainly the Honourable Doug Peters, Secretary of State for International Financial Institutions, in his address to the Canadian Institute last November 21, did not think highly enough of this argument even to allude to it in his fine speech. He did, however, repeat, over and over again, the phrase "policyholders' and depositors' protection" as the reason for insurance. That is the argument: We must give both the policyholders and the depositors equal protection and equal access to government support.

Let us talk about the government support. We are dealing with insurance here, and this is an area with which I feel reasonably comfortable. We have recommended paying losses to policyholders and depositors in the claims area of CDIC operations.

Let us talk about collecting the premiums. The huge amount of money that the CDIC borrowed from the Consolidated Revenue Fund will have to be paid back at the rate government borrows plus one-eighth of a percentage point. We can assume that the government will take a substantial profit. An eighth of a point on millions of dollars amounts to serious money. The banks and trust companies will not raid their treasuries to repay this money. Instead, the bank and trust customers for whom the scheme was invented will quite naturally pay the loss, as well as all the expenses associated with running the CDIC. They will pay it through their bank charges, their fees and their interest rates, as they should. That is why controlling losses by market discipline and co-insurance is so important, and why access to low-cost loans is so important.

Investing in life insurance products usually calls for the assistance of a professionally licensed advisor. I suggest it is an even more difficult decision because of the time element involved in the policy or the annuity. Why should policyholders who are, to a great percentage, the same people as the depositors, be treated differently on two different financial transactions and asked to bear higher costs in their premiums?

Our report suggests that because insurance company products contain deposit elements, they should be issued by a subsidiary trust. That seems to point us back to the days of the four pillars of the financial industry, and I doubt that that is the intention. Since CompCorp seems to be able to protect all the product lines, I am sure that whatever replaces it will develop the skills necessary to do the same.

Honourable senators, I also do not buy the argument that the establishment of a CDIC-II, which would be the equivalent of the CDIC for insurance companies, would be a drain on the taxpayers. CDIC, as presently constituted, is fully funded by the institutions which belong to it. It is not a drain on the public purse. A comparable body for the insurance industry, guaranteed by the government, would also pay its own way, just like the CDIC does.

The coverage afforded policyholders would match that allowed depositors.

Another argument advanced is that the insurance industry "has the capacity to resolve its own insurance problems." This poses the argument that the banks and trust companies do not possess the same capacity, an argument with which I do not agree.

The report, however, does partly rejoin my thoughts when it says that the government should protect the policyholders. However, it adds that that should be done only after all other private sector solutions have been attempted and failed. Can you imagine the worry caused by this delay to perhaps thousands of people held in interminable suspense as to whether or not they have protection, the thousands of business deals dependant on life insurance being in force, being delayed or abandoned, and elderly annuitants wondering whether their cheques will arrive?

In regard to OSFI and CDIC, I am pleased that we recommended new powers for OSFI which will allow it to perform a rehabilitation role in relation to the insurance companies. As well, we recommended that OSFI have the power to intervene in a troubled financial institution at an earlier time than is now permitted. Both of these are positive steps and will help consumers. My concern is that we have missed a golden opportunity to recommend that these two agencies be combined.

The committee heard plenty of evidence over the past year on squabbles between the two institutions. In the last few years, the CDIC has been allowed to grow and take on some functions of the regulator. I believe that the relationship between these two institutions has deteriorated to the extent where the public is not being well served. The tension between them is counter-productive. My colleagues are convinced that the new leadership at the helm of OSFI will eliminate the duplication of function, the overlap, the additional costs, and the turf wars. I remain to be convinced. The heads of both these organizations will be back before the Banking Committee in the spring, and we will see how relations have progressed at that time.

I look forward to seeing the government's white paper on this subject, and I hope that it will address some of the points that I have mentioned.

Hon. Consiglio Di Nino: Honourable senators, I wish to ask a few questions of Senator Kirby, if that is appropriate.

Senator Kirby: Certainly.

Senator Di Nino: I intend to take part in the debate on Thursday, after I have had a chance to read the honourable senator's remarks. However, in your report you mention a term, "too big to fail." That remark is probably in reference to the six big banks, although one could probably include other financial institutions as well.

In your opinion, senator, if one of these major financial institutions — let us say one of the major banks — were to get itself in trouble, do you feel that the Canadian government would allow this institution to go down the drain?

Senator Kirby: Honourable senators, I cannot remember a specific reference to "too big to fail". If it is in the report, I do not remember where it is. It would just be a passing reference.