[*Translation*]

Hon. John Sylvain: Honourable senators, I would like to take this opportunity today to speak to the latest report of the Committee on Banking, Trade and Commerce, entitled: "Regulation and Consumer Protection in the Federally-Regulated Financial Services Industry: Striking a Balance".

I would like to start by commending the entire committee on this report, and especially Senator Kirby, who guided us throughout this study. Senator Angus, my colleague on this side of the house, contributed his talents as a writer and editor, which were greatly appreciated. I want to thank him for performing this task on my behalf when I had to take part in the proceedings of the Canadian NATO Parliamentary Association.

The Chair explained that this report was the result of two series of related hearings. In accordance with the committee's schedule, this spring we discussed deposit insurance and the relevance of the structure of CompCorp. These discussions were purely theoretical. However, after the unexpected bankruptcy of Confederation Life, Senator Kirby and I considered whether it might be necessary to go back and explore the practical problems raised by this bankruptcy.

In other words, we have a real and important problem to consider, compared with our previous study which was purely theoretical.

[*English*]

My comments are meant to be taken as alternative thoughts to some of the recommendations contained in the report. The report's recommendations were reached through consensus, and I support them. However, senators both Liberal and Progressive Conservative felt that there were alternatives which in some cases could go further than the recommendations in the report. I accept the political reality that we had to make some first steps, but I wish to state on record other considerations which might be helpful.

There are three main areas I wish to address in my remarks today. They correspond with the three main parts of the report: co-insurance; the protection fund; and the relationship of CDIC and OSFI and, coincidentally, the new powers which are proposed for OSFI.

The reason for co-insurance is to introduce an element of market discipline in the public, and this discipline will spill over to the financial institutions themselves. Perhaps because of my business background, I would have gone further than the committee on this recommendation. I would have started with the deductible at dollar zero, and round it at 5 per cent right through to $60,000 — a maximum penalty, therefore, of $3,000. Deductibles and co-insurance have been part of automobile and household insurance, medical insurance and dental insurance for years in order to keep both the costs and the premiums down. They are understood by the public, and accepted.

It has been argued that co-insurance puts an undue responsibility on the small investor to look at the financial viability of the institution in which he or she is depositing money. How will an unsophisticated depositor know which institution is safe when government regulators, with all their attendant powers, cannot stop failures from occurring? These are the same people who spend $10,000 to $30,000 for a car without being automotive engineers. Most read consumer reviews on cars, discuss the matter with friends and ask their mechanics. These are the steps that have improved the quality of cars immeasurably in the past years. Would this sort of market discipline not be good for the financial sector as well?

I do not hold the opinion that fully insuring the first $30,000 of a deposit will have any great effect on the mentality of the market-place. Anyone can see that splitting a $60,000 RRSP in two will eliminate any co-insurance penalty. Since our report indicates that 80 per cent of the deposits are under $30,000 in any event, it is hard to see what has been accomplished from a practical, rather than a symbolic, point of view.

On behalf of the trust industry, the criticism is that depositors, faced with co-insurance, will simply do the same thing and move their money to one of the "too big to fail" six banks. This argument by the trust industry just does not stand up to scrutiny. It is time that the trust industry started to emphasize the new and imaginative directions which some of its members have taken, and the attractiveness of the small, well-managed trust company. They have contributed much in the past and will continue to do so in the future. The industry itself will become stronger with the adoption of our recommendations, and people who are making deposits or investments will better inform themselves because of our recommendations.

In relation to the proposed Life and Health Insurance Policyholder Protection Fund, its proposed structure addresses many of the complaints levied against CompCorp. During our hearings, it became evident that because CompCorp is made up of representatives of the insurance industry, it begins to work with a troubled insurance insurance company with the perception that there could be a conflict of interest. This needed to be eliminated, and I think that the board of the new fund does just that.

We have also recommended new powers for OSFI which will allow the regulators to intervene in order to effect a going-concern type of solution. This is also good.

Where I part company with the recommendations is in relation to the proposed source of money for the new protection fund. It is proposed that the fund be able to borrow on the capital markets if it cannot immediately finance its losses. While this is an improvement over CompCorp, it still tilts the playing field in the direction of banks and trust companies.

Borrowing on the capital market, especially when the banks could eventually be your competitors, has the potential to be a harrowing experience. The cost will evidently be much higher than for CDIC, since the lender would know that low-cost government funds are unavailable. The question of whether loans would be available at all is also raised.