The report deals quite clearly and extensively with the themes and variations of co-insurance. It is unnecessary for me to add to them except where I believe it is flawed.

Honourable senators, co-insurance and other similar schemes put the onus on the consumer to take some of the risk for their decision to deal with one particular institution over another. Attempts to justify these schemes are made on the basis that there is a clear need to encourage market discipline in the system or, in other words, to have savers assess the risk associated with the expected return.

Some have stated that most, if not all, unsophisticated investors deposit their savings in the institution that offers the best rate. Having spent the better part of my life in the financial services industry, I do not agree. In my opinion, most still deal with the institution which is most convenient and/or is best able to effectively market itself.

I ask the question: Is the justification on market discipline correct? The inherent problem with the notion of justifying co-insurance or other similar schemes on the basis of greater market discipline is the assumption that the unsophisticated saver will be able to assess the risk of the institution. In view of the many recent examples of the inability of the marketplace to correctly assess the riskiness of certain institutions and the relative speed with which changes in the value of institutional portfolios occur, I cannot believe that the unsophisticated saver, not to mention the sophisticated investor, will be able to adequately assess the viability of any particular institution. This is simply not realistic, and as such it would not be greater market discipline.

Those of you who will be following this matter will notice that large numbers of senior citizens of this country have agreed with my position.

What will be the likely outcome if risk-based schemes are introduced? The introduction of the schemes would result in the perception of two classes of financial institutions: the smaller, less stable ones and the large too-big-to-fail ones. Those that may be perceived as smaller and less stable will have to offer higher rates to attract deposits. To compensate for these, institutions will be forced to seek higher returns, which would mean taking higher risks, thus increasing their chances of failure. Even if the regulators were inclined to allow institutions to assume a more risky stance, capital adequacy rules would require an increase in capital, reducing the institution's potential profitability. The potential effect of the co-insurance scheme would impact negatively both on large and small financial institutions; however, the greatest negative impact would clearly be on the smaller institutions.

In order to maintain profitability, these institutions will either have to become much more cost efficient, which smaller institutions usually already are, or earn a higher return on their assets, or both. Obviously, to earn a higher return, the institution must take higher risks which, in turn, mean increasing the chances of failure. In short, the likely result of increasing interest rates to encourage deposits in a co-insurance environment will be a reduction in the institution's potential profitability and, as such, the risk of failure will be increased, leading to greater instability in the financial system.

Instability in the financial system is in itself reason enough to argue against the introduction of risk-based schemes. Further instability may result from two limits of financial institutions. First is the inability of financial institutions, specifically but not exclusively smaller institutions, to compete with other institutions such as insurance companies, credit unions, caisses populaires, provincial savings banks, et cetera, which do not operate under such an environment. Second is the inability of federally regulated financial institutions under a new federally regulated risk-based scheme to maintain a balance with provincially chartered institutions.

To summarize, senators should be clear that co-insurance, risk-based or other similar schemes, will create instability, not stability, in the financial system, unless of course the industry is to be restricted to only a small number of mammoth institutions. Even then, we will not be insured against failures, as you will hear in a moment.

If risk-based schemes will indeed cause instability in the financial system and will not lead to greater market discipline, why are some advocating the introduction of these schemes? Clearly, many of those advocates stand to profit from such schemes, such as the large financial institutions. The large banks, for instance, do not need deposit insurance to compete in the markets since they are seen to be too big to be allowed to fail. In effect, depositors in these institutions have 100 per cent deposit insurance. Clearly, the banks stand to gain in market share if the smaller financial institutions were to be put out of business.

Although smaller financial institutions represent a small fraction of total market share of deposits, the dollar amount is by no means insignificant. As outlined in a background document prepared by the Department of Finance, and I quote:

> ...concerns have been raised that the rationalization and deposit-taking sector may lead to undesirable levels of concentration and therefore negatively impact competition given the bulk of the trust company assets that have been acquired have moved to the banking sector. There has been a considerable increase in the overall level of concentration in the deposit-taking sector in the past two years.

Taking into consideration the previous discussions, in my opinion the argument put forward by the banks in support of risk-based schemes, co-insurance, et cetera, tend to be self-serving and do not lend themselves to good public policy.

What does it mean to be too big to fail? This notion of too big to fail refers to Canada's large financial institutions not being at risk because of their size and importance to the financial system in Canada and the world. Rightly or wrongly, history has shown