

only \$30,000 will be 100 per cent insured, instead of the current \$60,000. On the next \$35,000, Canadians will get 90 per cent insurance. In other words, under this proposal 10 per cent of your money between \$30,000 and \$65,000 is at risk.

Why did we recommend that measure? It was done because the committee feels that Canadian consumers do not place their money arbitrarily in the financial institution offering the highest rate of interest. Consumers have to make their own choices and accept some responsibility for the decisions they make with respect to where they place their money.

It is not surprising that this co-insurance proposal should come forward at this time. Those who have been in this chamber for some time know that this is the fourth time in the last decade that the Banking, Trade and Commerce Committee has recommended an element of co-insurance. The proposed limits were changed this time because we had information that was not previously available.

CDIC statistics show that over 80 per cent of Canadian depositors have less than \$30,000 in any single financial institution. Therefore, by saying that 100 per cent of the first \$30,000 is insured, 80 per cent of depositors are automatically protected. People who are able to put more than \$30,000 in a single financial institution must begin to accept some responsibility for their choices.

The report states that once the principle of co-insurance is accepted, the limits may change over time. What may occur is a move from a 10 per cent risk factor — that is, a 90-per-cent insurance factor — down to 80 per cent, or even 75 per cent.

We fundamentally believe that by introducing this element of risk, by forcing Canadian consumers to be more aware of where they are putting money, it will have a significant impact in terms of improving not only the regulatory system, but competition among institutions, which will have to compete for consumers on the basis of their financial soundness.

Other elements of co-insurance were also mentioned during the hearings. Perhaps I ought to comment on them, because of comments in the media since the report was tabled last week. First, some people argue that there should be no co-insurance; others argue that the current system should be continued, with \$60,000 being fully insured. The latter argument is usually based on the theory that the \$60,000 figure is a necessary element to encourage competition. The committee's response is that there is nothing magical about \$60,000. If \$60,000 helps competition so does \$30,000. In point of fact, there are a whole variety of other ways of preserving competition in the Canadian financial services sector without using such artificial means as deposit insurance.

A minority of the committee believed that there was merit in having co-insurance start at the first dollar. In other words, instead of saying that your first \$30,000 would be 100 per cent insured, you would receive only 90 per cent coverage from the first dollar put in.

That view was rejected by the majority of the committee, in part on practical grounds that it was a politically unsalable proposition, and in part because it is important from a public policy standpoint to

protect the unsophisticated investor. The unsophisticated investor who is putting a small amount of money in a bank or trust company should not be at risk from the beginning.

The other proposition discussed by the committee was the idea that instead of having a 10-per-cent risk factor, as we have proposed, a deductible system be put in place. Under this proposal you would get all your money back except, for example, the first \$500 or the first \$1,000.

That proposition was rejected by the committee on the grounds that it is extremely regressive. If the person who has \$59,000 deposited loses \$1,000, that is a much smaller penalty than the individual who has \$5,000 in an institution and loses \$1,000. A deductible system, by its very nature, is inherently regressive.

In summary, we have tried with our proposal to simultaneously put some burden on consumers for their decisions, thereby increasing the element of market discipline among depositors and thereby over time, thus helping to reduce the number of failures, and, at the same time, protecting the unsophisticated depositor.

The second major issue I want to discuss concerns the life and health insurance industry in Canada. At the moment, if you purchase a life and health insurance policy in Canada, you are protected by CompCorp, which is an abbreviation for the Canadian Life and Health Insurance Compensation Corporation.

CompCorp protected insurance policyholders from losing everything after the collapse of Les Coopérants and Sovereign Life. Those companies failed in 1992 and 1993 respectively. In 1994, Confederation Life failed. After the failure of Confederation Life, the life and health insurance industry argued before the committee that they wanted to replace CompCorp with a Crown corporation. Their argument was based on three principles. I wish to discuss each of those principles. The committee rejected two of them categorically and accepted only the third. We, therefore, came to quite a different conclusion than the one the industry wanted.

The first argument of the industry was that there is a need for a level playing field. That argument is based on the fact that the insurance industry now sells a lot of products similar to those sold by banks and trust companies. Since banks and trust companies have their own Crown corporation providing them with insurance, namely the CDIC, the insurance industry is entitled to the same protection.

The committee rejected this argument. First, since most of the large insurance companies have their own trust companies, and since trust companies are insured by the CDIC, an insurance company that is producing a product virtually identical to one produced by a bank or a trust company need only sell that product through a trust subsidiary. By doing so, they would be assured of the same kind of protection that the CDIC now offers.

The minute you say that you want a level playing field or fairness, people are inclined to endorse the idea without thinking through the logic of the argument. The committee took the view that, as politically catchy as the level playing field approach might be, from the insurance industry standpoint it does not logically hold water.