

Cautious investors rejoice: 5% GIC is back

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The 5-per-cent GIC is back, if you know where to look.

Check out Achieva Financial and Outlook Financial, a pair of on-line banks operated by Manitoba-based credit unions. Both Achieva and Outlook offer five-year guaranteed investment certificates yielding 5.25 per cent, which exceeds the posted big-bank rates by a massive 1.8 percentage points.

The last time GICs yielding 5 per cent or more were available was late 2000, according to Bank of Canada data. Achieva and Outlook are among the only ones to cross that threshold today, although there are several other fringe banks, credit unions and trust companies that offer rates between 4 and 5 per cent.

If you're looking for a safe fixed-income investment to hold until maturity, GICs from these players are the best deal around. The rates are not only better than what the big banks are offering on their GICs, but they also beat the returns that most investors are able to get on short-term federal and provincial government bonds.

I know, you're worried about how safe your money is when you give it to institutions like Achieva, Outlook or ICICI Bank Canada, which is an on-line bank run by ICICI Bank of Mumbai, India. Are these concerns legitimate?

"No," says Ivon Hughes, who has been a GIC broker in Montreal since 1972 and has been placing some money recently with ICICI. "These banks are covered by deposit insurance. As long as you stay within the insurance guidelines, you don't have a problem."

It's difficult to imagine a financial institution selling GICs without being a member of a deposit insurance plan, given how conservative GIC buyers tend to be. But just to be on the safe side, it's worth a check with Canada Deposit Insurance Corp. (CDIC) at 800-461-2342 or cdic.ca. Note that CDIC covers GICs and other bank deposits up to \$100,000.

Credit unions have their own provincially backed deposit insurance plans and some of them offer unlimited coverage. Manitoba is one of those provinces, which should remove some of the concern you may feel about handing your savings over to an institution that you'll never actually see or visit unless you live in Manitoba.

At the major banks, the posted rates for one- and five-year GICs are in the area of 3.1 per cent for a one-year term and 3.45 per cent for five years. Just as with mortgages, you can and must ask for a better deal.

Mr. Hughes said an extra quarter point is a typical rate bonus, and it's easier to come by if you invest larger amounts of money and lock in for at least two or more years. Maybe you can squeeze a bigger bonus out of your bank if you have lots of other business there.

The banks offer lower rates than fringe banks for a few reasons -- their need to maximize profits for shareholders, the overhead costs of maintaining a branch network and, of course, because some of their customers don't know any better.

"We give some of our business to the banks because a lot of our clients started out with the banks and they hear the names of the banks all the time," Mr. Hughes said.

"Although the rates at banks like ICICI Canada are higher, they're not high enough to move the more conservative investor. Not yet anyway."

For a listing of the highest rates paid on GICs, check out the Best Buys list published on Saturday in Report on Business. For a definitive up-to-date survey of the whole marketplace, try the Cannex Financial Exchanges website at cannex.com.

You can deal direct with the small financial players that offer high-rate GICs, or through many investment firms. Discount brokers like BMO InvestorLine, CIBC Investor's Edge and RBC Action Direct offer an on-line GIC inventory that includes both the big banks and smaller competitors offering better rates (I didn't see Achieva or Outlook on the list however).

Or, have a deposit broker survey the market for you to find the best rates. The Federation of Canadian Independent Deposit Brokers can help you find a broker near you -- the phone number there is 866-261-6263 and the Web address is fcidb.com.

GICs from small banks and credit unions are such good value today that they're worth a look even if you're a sophisticated investor who prefers bonds. A quick perusal of one discount broker's on-line bond inventory found that the highest rate available over five years was 4.2 per cent.

Cannex lists more than two dozen players with better rates than that. Should you ever expect to find the big banks in this group?

"No, never," Mr. Hughes said. "The banks just won't deal like that."