CFN News, Issue 6 - January 3, 2018

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Recent Issue of CFN News

- Issue 5 - November 7, 2017

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CANNEX Update

We hope you had a wonderful holiday season! All of us at CANNEX wish to thank our clients, partners and industry colleagues for a great 2017, and we look forward to an even better 2018!

Ushering in the new year usually involves a recap of the past year and some musings for the year ahead. We have a few highlights to share, but thought it would be best to hand this task over to the analysts at **Strategic Insight**. In the ***Just the Numbers Please*** section below you will find an information-packed feature article on Canadian household financial wealth.

GIC Processing on CFN - 2017 at a Glance

- 666,500 GIC applications processed
- Total value of GICs processed $36.9 billion
- Average GIC application size $55,000
- Largest single GIC application $80,000,000
- Top 3 months by number of GIC applications processed - June, November, January

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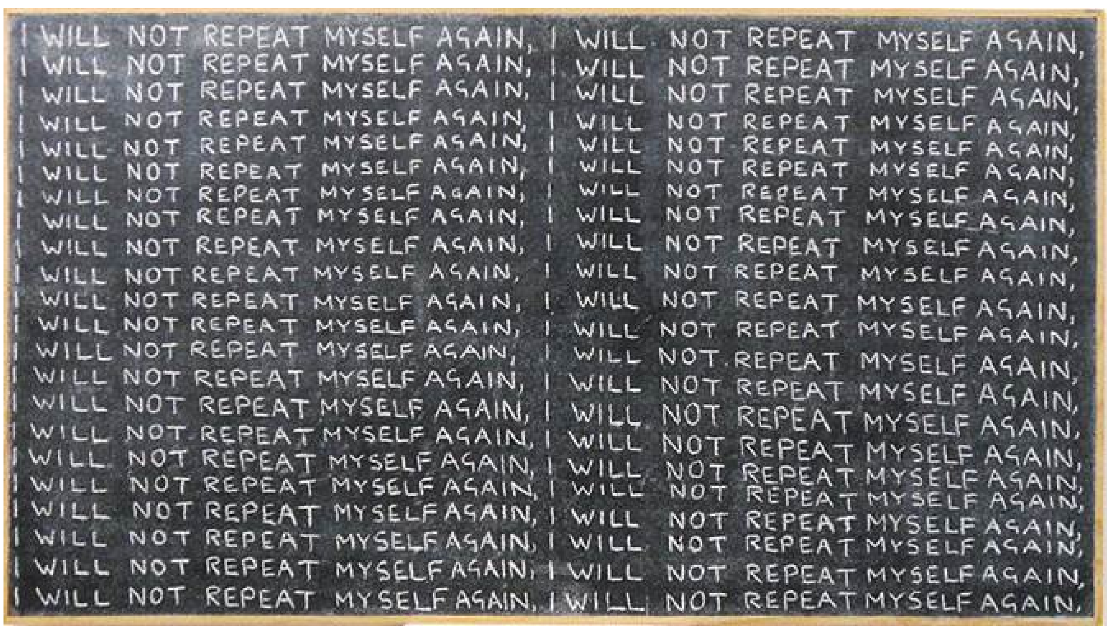

At the risk of repeating ourselves ... FORGET THAT ... we're just going to go ahead and REPEAT ourselves. We want to talk to you again about processing **Internal Re-Registrations** and **External Transfers** for GICs. This is happening and our CFN participants are as happy about it as we are! Now, we will REPEAT some features and benefits.

An **Internal Re-Registration** of a GIC is required for a change in beneficial owner information, such as name or account type. The growing popularity in the dealer community of a “secondary market” in GICs has necessitated a larger number of Internal Re-Registration transactions.

An **External Transfer** is required when there is a change in the custodian/nominee account. This event is often the result of acquisitions and mergers; advisor (and his/her clients) moves to a new dealer or client moves his/her portfolio to a new advisor (at a different dealer). Note that Power of Attorney documentation would be handled outside of the CANNEX network.

Benefits of processing **Internal Re-Registrations** and **External Transfers** through CANNEX are:

- Efficient straight-through processing of data through a secure network.
- Savings through reduced administration and processing costs.
- Improved data quality, reduced manual data entry and resultant errors.
- Faster turnaround time and improved client service.

Any Dealer on the CANNEX Financial Network that can produce a CSV file with the requisite details of an internal re-registration or external transfer is well on their way to automating these events through CANNEX. Any Issuer is a candidate, and the benefits only increase if that Issuer can upload CANNEX's standard event files. **Talk to us about getting on board.**

Network Notices

This NEVER gets OLD! We are thrilled to introduce our newest Participants to transact on the CANNEX Financial Network.

New Dealers: Investia Financial Services, MD Financial Management

New Issuer: Bridgewater Bank

Click **here** for the full list of Issuers and Dealers that use CFN, CANNEX's automated GIC/term deposit application processing and administration service.

CFN Client News

Desjardins, provincial credit union centrals and CUMIS to merge the businesses of their subsidiaries, Credential, Qtrade and NEI, to

Smoothwater and Hennick & Company Acquire Common Shares of Equity Financial Holdings Inc.

create major Canadian wealth management firm
December 12, 2017

Home Capital announces new Chief Information Officer and other executive leadership appointments (PDF)
December 18, 2017

December 21, 2017

Equity Financial and Smoothwater Capital Complete Plan of Arrangement; Hennick & Co and Others Complete Co-investment in Equity Post-Arrangement
December 21, 2017

Industry News, Links and Good Reads

Deposit Insurance Corporation of Ontario (DICO):

Effective January 1, 2018, deposit insurance limit increased to $250,000.

Bank of Canada:

Bank of Canada maintains overnight rate target at 1 per cent. (PDF)
December 6, 2017

Three Things Keeping Me Awake at Night. (PDF)
December 14, 2017

Canadian Interest Rate Lookup

OSFI:

OSFI confirms Royal Bank of Canada designation as a global systemically important bank. (PDF)
November 21, 2017

Good Reads:

The debt truth: Canadians head into Black Friday ready to shop, unprepared for more debt. (PDF)
Manulife, November 20, 2017

Canadian Xennials feel the retirement savings squeeze.
TD, December 4, 2017

Few British Columbians know what their financial institution does with their money.

Vancity, December 8, 2017

How Canadian credit unions are plotting to grab a bigger slice of your investment dollars. (PDF)
The Globe and Mail via Credential, December 18, 2017

The top 10 things that should be on your 'end of year financial to-do' list.
Educators Financial Group, December 2017

Just the Numbers Please

This special feature, a comprehensive look at deposits and their part in Canadian household financial wealth, has been contributed by Strategic Insight, a provider of critical and proprietary data, business intelligence, research and marketing services to the global asset management community.

strategic insight™

Canadian household financial wealth, which is a broad measure that includes investment products and deposits, but excludes real estate, has been supported by economic growth and advancing equity markets over the past decade. These factors have driven Canadian household financial wealth to new heights every year since 2008. While investment products, such as mutual funds, ETFs and securities, have continued to gain share of the Canadian household wallet for several decades, the deposit business remains a sizeable segment in the broader wealth management industry, where it continues to play an integral role.

Household financial wealth ended June 2017 at a record high of $4.3 trillion. Over the preceding five years, financial wealth expanded at a compound annual rate of 8.1%, with market effect accounting for 60% of asset growth during the period. At the product level, growth in financial wealth has been largely propelled by an uptake of managed asset programs—particularly fund of fund products in the financial advisor (FA) channel and branch-based delivery channel, as well as the conversion to and expansion of fee-based accounts in the full-service brokerage (FSB) channel.

While outpaced by the growth in the broader financial wealth market during the period, and despite persistently low interest rates, deposit balances have continued to see stable growth, recording a 4.8% compound annual growth rate (CAGR) over the five-year period ending June 2017. Liquid deposits have been a primary driver of this growth: savings and chequing accounts expanded by 7.1% CAGR over the past five years, and ended the second quarter of 2017 at $801 billion. By contrast, fixed-term deposits (FTDs), which accounted for 39% of overall deposits at June 2017, grew by just 1.7% over the same period. Investors' willingness to trade market participation for principal protection became evident amid low yields and volatile markets; market-linked GICs (MLGICs) accounted for 46% of the inflows into FTDs during the five-year period.

Net flows into deposits varied considerably when comparing the channels through which the products were distributed over the past five years. With consumer self-reliance and growing access to digital platforms playing an integral role in the development of the financial services industry, balances in the *ebanking* channel expanded at a five-year CAGR of 9.1%, albeit from a small asset base. Despite strong growth in online conduits, the majority of deposits continued to be distributed via branch-based institutions, which accounted for 71% of total deposit balances at June 2017.

Deposit products distributed via the intermediated channels (the FSB and FA channels) grew by 5.5% over the past five years—a figure above that of overall deposit growth. During this period, the FSBs accounted for the bulk of the deposit balances added in the intermediated network.

The aforementioned shift toward liquidity was also observed with deposits in the intermediated channels; savings accounts in the channel accounted for 58% of total deposits as of June 2017—four percentage points higher than their share five years prior (see **Figure 1**). The notable growth of liquid deposits was partially reflective of the low interest-rate environment which provided little incentive for savers to lock-in low rates for long periods, in light of rate hike expectations in the near future. Despite these challenges, fixed-term deposits grew at a five-year CAGR of 3.6% within the channel; this was above overall FTD growth, which amounted to just 1.7% CAGR during the period. Growth of deposit products in the intermediated channels can be partially attributed to the premium that high-interest savings accounts (HISAs) and FTDs offered over money market mutual funds and fixed income securities, including bonds and short-term paper instruments. Moreover, given the interest rate environment over the past few years, the growth of FTDs in the FSB channel reflects the substitution between FTDs and bonds in the channel—FTDs are more efficient than bonds when implementing laddering strategies.

1. Deposits in the Full-service Brokerage and Financial Advisor Distribution Channels

Balances in billions of dollars

Source: Deposit Advisory Service Fall 2017, Strategic Insight.

While deposits' share of financial wealth has trended downward over the period, overall deposit balances have continued to see notable growth. The intermediated channels have played an important role in allocating deposits over the past several years and have experienced considerable growth even in low interest-rate environments. With recent interest rate hikes and with more anticipated in the near future, the exogenous forces driving growth in the Canadian deposit industry are likely to change, impacting the opportunities available for issuers and distributors alike.

Upcoming Bank of Canada Interest Announcement Dates for 2018: January 17*, March 7, April 18*, May 30, July 11*, September 5, October 24* and December 5.

* *Monetary Policy Report* published

Postscript: CANNEX will be attending/sponsoring the upcoming **CAILBA 2018 National Conference and AGM** on May 28-30 in Quebec City.
