Agenda Item 5.2(ii)
April 5/17 CAFII Board Meeting

Is your bank trying to upsell you? Here's what you should – and shouldn't – buy

ROB CARRICK
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The downside of bank upselling is that customers get talked into buying junk products they don't need.

According to the bank tellers pouring their hearts out to CBC in a series of recent reports, upselling is rampant because of pressure to meet sales targets. A customer's best defence is to know which sales pitches are worth listening to, and which to shut down. To help promote more informed banking, the Personal Finance column presents this guide to bank products.

Buy this

Overdraft protection: Essential for households where money is constantly flying in and out of chequing accounts to cover automatic payments, mortgages, e-transfers and such. Between $1,000 and $2,000 should be enough coverage to protect you against not having sufficient funds to cover a payment or cheque. Some chequing accounts include overdraft. If not, go for the lowest-cost option. This will usually be a pay-per-use version rather than a monthly fee. Of course, this assumes you're not a serial overdraft user.

Home equity line of credit: The equity you have in your home is used to secure a line of credit with a very low interest rate that should be in the low 3-per-cent range these days. HELOCs, as they're called in the banking biz, are a handy tool for financially responsible people who need to finance purchases over in the short term and will not carry a balance indefinitely. If you're pitched a HELOC, ask about the set-up fees and then see whether any discounts are available. Banks sometimes cut the fees to stimulate sales.

Credit cards: See what your bank is pushing and then ask what welcome bonuses are available for new clients. Then go home and research comparable cards to make sure you're getting the best value. You probably only need to carry two cards, so don't grab a new card just to have a new toy for your wallet.

Don't buy that

Any life or disability insurance products covering mortgages or credit card balances: If you need insurance – if you have dependants, in other words – then buy some term life, disability or critical illness coverage from an insurance company. Bank-sold insurance on mortgages and credit cards offers inferior protection full of rules and conditions. Banks sell this insurance because it's a nice little money-maker for them. For example, some credit card insurance plans will make monthly payments of 10 per cent of your credit card balance if you're disabled or lose your job. That allows for plenty of interest to build up on your account at rates around 20 per cent.

Higher credit limits: The time to get the spending limit on your credit card increased is when you feel it would serve your spending needs and you are triple-certain you'll be able to pay what you owe on time. Banks make money off higher limits when people max out their cards and must pay interest on the unpaid balance.

Guaranteed investment certificates: For top rates on GICs, the banks are a black hole. You could get a rate bonus and still not match the returns available to all from alternative banks, trust companies and credit unions. These bank competitors are all members of either Canadian Deposit Insurance Corp. or provincial deposit insurance plans.

Savings accounts: Do not keep any serious money in a bank savings account. They are, to put it bluntly, a joke. Everyone should have a savings account at one of the many smaller financial institutions offering rates between 1 and 2 per cent on savings. Transferring money electronically between these accounts and your big-bank chequing account is super easy, though it can take a couple of days for the transaction to be completed.
Premium chequing accounts: Expect monthly fees of $25 to $30 for these ego-strokers. You simply don't need a lot of the services these accounts offer. The real value in chequing accounts today is the mid-range all-inclusive package where you can make as many debits as you need per month for a flat fee. Even better, free chequing is available from the online banks President's Choice Financial and Tangerine, as well as a growing number of credit unions.

Mutual funds: You could do much worse than putting some money in a bank's Canadian dividend fund and leaving it for a couple of decades. Consider them, but be a skeptic when it comes to other bank funds. They vary widely in cost and quality. Most are skippable.

"Straw Man" Letter to the Editor Which CAFII Could Have Sent In Response To March 16/17 Rob Carrick Column

Re The Downside of Bank Upselling (March 16):

In his column on bank upselling Rob Carrick dismisses creditor insurance products without considering some important facts. For example, creditor insurance for mortgages and loans is very price-competitive and easy to obtain. Independent actuarial firm data show that 95% of all claims are paid. Most applicants for this type of coverage are insured immediately without the need for medical tests. In addition, every one of the same age pays the same standard group premium rate regardless of health. In contrast, the pricing of term life insurance varies according to a number of factors including occupation, gender and smoking habits. Creditor insurance also typically offers job loss insurance, which is difficult to find as an individual insurance coverage.

Many prudent Canadians take a portfolio approach to their insurance coverage and thereby choose both options to provide peace of mind in the event of an untimely death: creditor insurance to pay off the mortgage and ensure that the survivors can continue to live in the family home without financial worry; and term life insurance to leave additional money for other ongoing expenses.

That said, for many people, creditor insurance, which is available at the time a new debt obligation is being assumed, may be the only convenient opportunity to buy coverage. For the vast majority of Canadians do not have an established relationship with an insurance agent or broker, or who only want moderate levels of insurance coverage, creditor insurance from banks and credit unions provides a convenient option and, in many cases, the best option.