CHAPTER 1

Get a Higher Interest Rate on Your Savings

THE INTEREST RATES that big banks pay on your savings are rather low. In some cases, they're downright pitiful. So why do many of us keep our extra cash there, instead of moving it to a low-cost competitor that pays a higher interest rate?

I'm talking about the five big banks that dominate the industry: Royal Bank of Canada (RBC), Toronto-Dominion (TD Canada Trust), Canadian Imperial Bank of Commerce (CIBC), Bank of Nova Scotia (Scotiabank) and Bank of Montreal (BMO).

The Big Five have thousands of branches across Canada, which provide personal service, financial advice—and, yes—sales pitches for mutual funds, RRSPs (registered retirement savings plans), TFSAs (tax-free savings accounts) and other lucrative investment products. The cost of keeping branches open and staffed during the week (and often on weekends) forces them to offer lower rates on savings accounts, term deposits and guaranteed investment certificates than virtual banks.

The Big Five just can't compete with smaller banks that do business with customers by phone or Internet. It's much cheaper for rivals to operate without the expense of bricks and mortar. When the Big Five do offer a higher-than-average savings rate, they usually require high minimum balances or punitive fees for transfers or withdrawals.

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Banking has the same issues with higher costs in the real world and lower costs in the virtual world. The Big Five banks have a strategy of offering low posted rates to all their customers and then offering better rates for those who have more value to the bank. They keep their bottom line a secret, so you have to negotiate for the best deal that you can possibly get.

You don't have to settle for peanuts on your savings accounts, term deposits and guaranteed investment certificates. If you're a customer of the big banks, you can do better than the posted rate, as long as you're prepared to shop around and negotiate.

Here's how to get better rates:

- Compare the rates paid at smaller banks compared to those paid by the big banks. You can find a comprehensive list of rates on savings products at the *Toronto Star's* website, www.thestar.com (go to "Business" and then to "Loans and Rates").
- Try Cannex, another comparison shopping site (www.cannex.com). It's aimed at brokers, but does have some free information (such as the rates paid on Canadian deposit accounts).
- If you find a better deal at another big bank or a smaller rival, ask your own bank to match it. Suggest you will walk if you cannot get a matching offer.
- As bargaining chips, talk to the bank about your long-time loyalty as a customer and your family members' loyalty. Talk about the network of people you can influence.
- Argue that if you get what you want, you intend to open new accounts at the bank and transfer existing accounts from other financial institutions. Your network may do the same thing.
- If you suggest that you will take your money elsewhere if you cannot get a decent rate, be prepared to walk away. This cannot be an idle threat, nor can it be delivered in a hostile manner. Your aim is to be friendly, courteous and non-confrontational.

- Decide what to do if your bank refuses to match the savings rates offered by smaller institutions. Will you compromise? What is your bottom line? Will you settle for half a point more than the bank's posted rate? Or will you settle only for a full point?
- Work out your strategy in advance. If you are told that the bank has little room to negotiate on savings rates, ask for a deal on another product. The bank may be keen to sell mortgages and able to help you switch your mortgage from another institution with the appropriate inducements.