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Recession-battered Canadians growing more conservative with savings

By Sunny Freeman, The Canadian Press

TORONTO - Recession-battered Canadians are growing more conservative with their money and turning away from high risk investments to the safety of savings accounts — a trend that banks are cashing in on, industry insiders say.

Canadians this year have opened about 20 per cent more chequing and savings accounts than last — a giant leap from the average three to five per cent annual increase, said financial services consultant David McVay.

"Canadians are more conservative than they were in 2007," McVay said, adding that more consumers are paying off debt, opening RRSPs and tax-free savings accounts than they were a year ago.

"We're seeing a shift from stock investing into keeping more money in savings accounts because of the financial crisis," he said.

The shift to safer investments is being driven by a nervous baby boom generation who "have lost their mojo" after the plunging stock market wreaked havoc on their retirement investments, McVay said.

They no longer want to take on the risk of a crash that could force them to work another five or 10 years.

"The banks are marketing to the uncertainty that Canadians have about their savings and retirement plans caused by the financial crisis," McVay said.

Banks are looking to capitalize on the conservative shift in consumer sentiment because they can make more money from savings accounts than they can when stocks and bonds are in vogue, he added.

The 20 per cent increase in retail accounts amounts to about $100 billion in business — and Canadian banks are fighting aggressively for customers with cash-back and points incentives, McVay said.

TD Bank economist Grant Bishop agrees that the trend away from risky equity markets has increased competition for deposits.

"You did see banks increasing the attractiveness in order to get the largest bulk of that cash flowing in," Bishop said.

But the rush into precautionary savings during the initial phases of the recession, has since dropped off, he added.

As the early stages of recovery took hold, consumers began to take advantage of historically low interest rates and favourable borrowing conditions.

"We did see households, spurred by ultra-low interest rates, accumulating debt, largely for the purpose of home ownership," he said.

"But going forward that does need to slow and households do need to save more in order to rebalance their finances and bring down the potential vulnerabilities that households would face as interest rates rise."

As interest rates on loans begin a cycle of gradual hikes, borrowing will become more expensive. As the same time, that should eventually translate into higher interest on savings accounts.

Scotiabank released results of a survey of Canadians' savings habits Tuesday that found nearly one-third of Canadians do not have a savings plan in place even though almost everybody —94 per cent— said they feel better when they have a safety net of savings.

That means there is still a large untapped market of Canadians who are looking for help with their savings.

"We did have a tough period in the last few years and I think now is a great time to really focus on this and get people thinking about how they can save," said Gillian Riley, Scotiabank senior vice-president of retail deposits, payment and lending.

"Over the last year we certainly have seen some movement towards savings as a flight to safety," Riley added.

About 55 per cent of the 1,000 Canadians surveyed by Harris/Decima for Scotiabank in March told pollsters they save on a regular basis. Still, nearly one-in-five Canadians said they don't have any rainy day savings at all.

Household consumption had been growing at a faster rate than income growth, indicating that Canadians were taking on more debt to fuel domestic spending, Bishop said, adding that TD predicts that the pace of credit growth will slow in the near future.

The personal debt to income ratio has climbed dramatically in the past year, Bishop said. It sits at around 147 per cent, meaning for every dollar of income households earn, they hold about $1.47 in debt.

"That reflects that households still do need to save a larger portion than they were during the pre-recession period ... in order to pay down debt."