

CANNEX Term Deposit Conference 2022

Protecting depositors under the new CDIC rules

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Speaking Notes by Leah Anderson, President and CEO

Introduction

Good afternoon.

It is a real pleasure to be at a live event with you all today after such a prolonged absence.

CANNEX is a key participant in the deposit system, and CDIC is very pleased to sponsor this event, which so closely follows the launch of our new framework on April 30, 2022, for protecting trust deposits and brokered deposits as well as expanded coverage for RESPs and RDSPs. Thank you to Lowell Aronoff and your team for bringing us together.

Before we begin, I would like to acknowledge we are on the traditional territory of many nations, including the Mississaugas of the Credit, the Anishnabeg, the Chippewa, the Haudenosaunee and the Wendat peoples. I thank all the generations who have taken care of this land.

I would also like to acknowledge the importance of you, our stakeholders, who together have helped make Canada's financial system one of the soundest in the world.

This is a special year for CDIC – our 55th anniversary.

When we were established in 1967, we had three employees, our coverage limit was \$20,000, and we protected \$17 billion in deposits.

Today, we have almost 200 employees, the coverage limit is \$100,000 across eight deposit categories, and the amount of eligible deposits CDIC protects is over a trillion dollars.

Over the last half-century, CDIC has handled 43 member institution failures, directly affecting more than two million depositors. We are proud to say that no depositor has ever lost a dollar in deposits protected by CDIC.

Along with protecting deposits and depositors, our mandate includes promoting financial stability, which is a key element of my remarks today.

We believe achieving this means the same level of protection should apply no matter where a deposit is purchased or from whom -- or through whom -- it is purchased. We frame this around three key principles:

- 1) The clarity of the framework elements and key requirements
- 2) Awareness of how deposits are protected and CDIC's value for Canadians
- 3) Our preparedness to deal with crises, including ensuring access to funds

If all Canadian depositors are aware of the federal deposit protection provided by CDIC and are confident in that protection no matter the method of acquiring their deposit, then they will have peace of mind in periods of market turbulence. This means they will be less likely to withdraw their savings, which supports financial stability.

Our mandate also includes handling the failure of any of our members, from smallest to largest, using a range of tools provided under our Act. while minimizing our exposure to loss. To achieve these objectives, we closely monitor and assess risks impacting the financial system and our members, design and administer the insurance premium and reporting framework, and constantly work at refining our resolution toolkit to respond to crises as they arise.

Depositor trust and resolution preparedness are our overarching goals.

And our priorities are guided by our public purpose objectives and informed by current and anticipated issues, opportunities, risks and challenges, which I will share with you today.

Deposit Insurance Review

We have recently achieved an important milestone for our deposit insurance framework.

The coming into force of the final elements of our new framework just a few weeks ago on April 30, including important changes for trust deposits and nominee brokered deposits and the addition of two new deposit insurance categories for deposits held in RESPs and RDSPs, is the culmination of a significant amount of work and stakeholder engagement, which began in the 2014 federal budget with the launch of the federal deposit insurance review.

Of course, as many of you know, these recent changes are the second set of changes to take effect. The first set, introduced in April of 2020, included the expansion of coverage to include eligible deposits held in foreign currencies and an extension of coverage to include eligible deposits with terms greater than five years.

I was at the Department of Finance at that time, and during the subsequent consultation process that led to the recently introduced changes. It has been very interesting to observe this

process, first as a policymaker and then at CDIC in the final runway to implementation, as it exemplifies how an organization like CDIC and the industry can work collaboratively towards the common goal of ensuring the strong protection of Canadians' hard-earned funds.

I think back to our initial consultations with brokers at the outset of the DIR, and the comments we received about how difficult it was for brokers to see how the previous framework applied to them and the deposits they held for their clients.

I believe one of the major achievements of this review has been the clarity that it has brought to the industry and in turn to industry participants' ability to ensure that deposits remain well protected by CDIC.

These changes demonstrate that CDIC is keeping pace with how Canadians bank and save, so they have even greater assurance that their hard-earned money is protected at any of our members.

Industry Engagement and BDAG

Now, while I firmly believe that these changes were important to make to ensure strong deposit protection, I also recognize the effort that has gone into ensuring that they are implemented effectively.

I know that many of you have been involved in the discussions and work of the Brokered Deposit Advisory Group – or BDAG for short – which has been instrumental in spearheading a consistent and collaborative industry-wide implementation of the new nominee broker requirements.

I think it is safe to say that the implementation of these new requirements would not have progressed as smoothly as it has without the existence of this Group. I would like to thank those of you who have worked on the various BDAG working groups and committees for the many hours you have spent working with us to get this right.

This includes our hosts today CANNEX, who were heavily involved in BDAG and will continue to play a pivotal role in ensuring the proper transmission of required deposit data between broker and CDIC member institutions.

It speaks well of our financial sector that more than 60 organizations are represented on BDAG and some 200+ individuals dedicated time to developing key approaches and solutions to implementing the new *CDIC Act* requirements

I would also like to acknowledge the hard work of the CDIC Trust Deposit Operations team, some of whom are in the audience today. Our work with broker industry participants on BDAG

is a fine example of how industry and regulatory bodies, such as CDIC, can work together, to ensure that new requirements can be implemented successfully for the overall benefit of Canadians.

The BDAG partnership has taught us a lot of valuable lessons regarding the importance of having strong lines of communication between CDIC and our key industry stakeholders. We want to continue to engage with you through this group as the financial world evolves and CDIC continues to look to improve its deposit insurance framework and keep it up to date. Can we do more? Our recent experience shows that we can indeed.

The New Nominee Broker Framework

For those of you who may be less familiar with the changes to the CDIC Framework, let me just touch on a few of the nominee broker changes that are probably most relevant for today's audience.

Clearly, a key feature of these changes is the new requirement for brokers to provide the CDIC member institution with a Unique Client Identifier – or UCI -- that represents each unique client to a deposit. The UCI will effectively represent your clients as the beneficiaries for the nominee deposits and will need to be transmitted with each deposit transaction made for a broker client and when a deposit is changed by the broker.

Nominee brokers will need to ensure that they assign only one UCI to each client, as assigning multiple identifiers could impact CDIC's ability to accurately determine deposit insurance protection. This change is critically important because they are now a condition of CDIC coverage.

The Unique Client Identifier requirements are further supported by new requirements related to key information and data that brokers and CDIC member institutions must provide to CDIC when requested to do so.

Overall, the requirements in the *CDIC Act* and the new Co-owned and Trust Deposit Disclosure By-law are designed to help ensure that CDIC can accurately calculate coverage for nominee brokered deposits if we were ever required to liquidate a failed member institution and reimburse a depositor. They do so by clearly setting out in the law the responsibility brokers have to provide required information to member institutions and to CDIC.

This is particularly relevant to CDIC's duty to reimburse nominee broker deposits as quickly as possible in event of a failure.

Compliance

Which brings us to where we are today.

With the new requirements now fully in effect, we will be turning our attention to compliance with the new rules, and a key priority for CDIC will be the execution of our Nominee Brokered Deposit Compliance Framework. And it is important to keep in mind that the responsibility to adhere to the new requirements rests with nominee brokers and with our member institutions.

Over the coming months, CDIC will launch steps with nominee brokers to undertake a baseline assessment of compliance, starting with the submission of initial compliance attestations through or newly launched Nominee Broker Portal.

Initial attestations must be submitted by May 30 and will allow brokers to provide us with a first view of where they are on the compliance spectrum. This will be followed by a comprehensive data testing exercise that will be launched later in the year, but more details on the testing processes will be shared by CDIC soon.

CDIC will also be undertaking Data and Systems Requirements -- or DSR -- data testing of our member institutions to ensure that they are similarly complying with their new requirements. In fact, CDIC has already been actively engaging with many of our members in a pre-testing exercise that will lay the foundation for more fulsome data testing later this Spring. This testing will follow our well-established testing process, but again more detailed information will be coming soon.

Through our compliance efforts, CDIC will look to ensure that we will have key information we need to execute a fast and accurate deposit insurance determination, and, ultimately, reimburse nominee brokered deposits.

CDIC Priorities and Risks

Today I would also like to share some perspectives on Canada's current environment, the evolving financial sector and some of CDIC's priorities and risks.

- 1) While the financial system has shown signs of resilience, and the economy has consistently fared better than predicted at the outset of the COVID-19 pandemic, we are monitoring a number of risks. The early part of 2022 has seen the economic impact of COVID-19 restrictions fade, replaced by concerns stemming from geopolitical tensions. While direct exposures have been limited, recent geopolitical events have brought

heightened attention to non-financial risks, such as cyber and operational risks, given the interconnectivity of the financial system.

- 2) Consumer indebtedness remains a concern as residential real estate prices continue to be elevated relative to household incomes and discretionary spending returns post-pandemic. While households have built up savings buffers through the pandemic, it is possible that heightened inflation and higher debt service costs could weigh on household debt serviceability, putting pressure on borrowers.
- 3) Despite the uncertainties in the operating environment, financial results have remained resilient across CDIC member institutions, including solid profitability, healthy regulatory capital, and liquidity ratios.

Like many of you here today, CDIC needs to continue to anticipate and prepare for uncertainty. Our role is to ensure that no matter what happens, Canadians will have fast and seamless access to their money, should their financial institution fail.

Our top-line priorities for reinforcing trust and confidence in our member institutions and the system include:

1) Anticipating and responding to digitalization and innovation

Consumers benefit from innovation and a range of products and services from different providers in the financial system.

However, these products and services may have very different risk profiles to the customer. And some of these products are being marketed as having similar features to traditional bank deposits.

In this rapidly evolving environment, we prioritize helping customers understand their deposit insurance coverage – importantly, where their money is safe.

CDIC is focused on transparency and public awareness of the coverage framework as products and services and the nature of the providers of these products and services continue to evolve.

In collaboration with our financial safety net partners, it is also important for us to understand the range of risks to consumers and identify and implement the appropriate perimeter of oversight and regulation to mitigate those risks.

2) Resolution readiness

We are also transforming our processes for collecting premiums and paying out funds to depositors in the event of failure. This Payout Modernization project will increase the speed and means by which depositors can access their funds in the event of a failure, which supports their ongoing trust and confidence. It will also help us better administer the premium system and gain insights from data.

To strengthen resolution preparedness, we are reviewing our *ex ante* funding and premium funding framework to ensure it is calibrated to the risks members face and their risk of failure, and to support funding in a range of resolution scenarios. We are planning public consultations in the second half of 2022, which will involve our member institutions.

And we are testing our resolution toolkit through simulations that “stress test” our operational and communications readiness to handle a wide range of potential failure scenarios, and ensure we are able to provide timely access to depositor funds in resolution.

These improvements are key to maintaining depositors' confidence in Canada's deposit insurance regime, and in turn, financial stability – objectives we all share.

Conclusion

In closing, I want to highlight the positive and creative role that our members and stakeholders have played over the past several years.

Whether it is our ongoing resolution planning process with our members, our engagement with industry participants through BDAG collaboration, or our regular interactions with members and the broader industry on financial sector developments, our industry partners have really supported us in achieving our shared goals, and we are grateful for this.

And let me repeat how refreshing it is to be with you at a live event.

And now, if you have any questions, I will do my best to respond. My CDIC colleagues here today may also be able to assist in providing information as well.

Thank you.