

Annual Flagship Conference  
**Regulatory Compliance for Financial Institutions**  
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Remarks by Peter Routledge, President and CEO

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CHECK AGAINST DELIVERY

**INTRODUCTION**

Bonjour,

Thanks to Danielle Lin for her kind introduction. I would also like to thank the Canadian Institute for hosting this important event, a task made more challenging by the incredible circumstances which face us today.

I would like to begin by acknowledging the traditional unceded territory of the Algonquin Anishnaabe people from which I present to all of you today. CDIC commits to making the promise of Truth and Reconciliation real in this community. I am grateful for the opportunity to speak to all of you from here and I thank all of the generations of people who have taken care of this land.

Good morning,

I'm very pleased to be with you today. These are certainly interesting times to be a financial regulator.

Our economic and financial systems are going through an extraordinary stress test, the most profound set of circumstances since the global crisis of 2008-09, and we face the prospect of a volatile recovery period.

Three topics:

- How CDIC is anticipating and responding to the risks we face, including providing some transparency about our resolution tools.
- How we use them to protect depositors and support financial stability.
- Changes to our legislation, specifically affecting trust deposits, which will better protect Canadian depositors but will affect our stakeholders, including some of you here today.

There is no doubt the Covid-19 pandemic has had a significant impact on the economy and our members.

- The federal government and various public service entities have taken measures to reduce the risk to the financial system. These actions softened the impact of the pandemic on the 86 deposit-taking institutions in CDIC's membership.
- However, a long and uncertain economic recovery will have costs on the financial system. And while our member institutions are resilient, they are not immune to these costs.
- We think costs may fall unevenly so we are ever watchful.

## CDIC RESPONSE TO CRISIS

The economic and financial environment has in turn boosted activity within CDIC.

We are fundamentally a counter-cyclical business. We prepare for periods where there is some uncertainty and intensifying downside risk. We always live in that world. We're always preparing for that outcome.

In this crisis, we took some very specific actions.

The first thing we did was to increase our awareness activities so that more Canadians know their deposits are safe. It had its intended effect. More Canadians today than ever before are aware of CDIC and what it does.

- We effectively quadrupled our advertising investment during the early days of the Pandemic during the Spring.
- We realized our 60% awareness target—meaning 60% of Canadians know their deposits are protected when asked an unaided question about deposit insurance.

Awareness is a critical part of our product's quality. Deposit insurance only works if people know it exists. They trust the federal government and CDIC *to make good on the promise to protect them, and they leave their deposits in the banking system when financial uncertainty arises.* This in turn offsets uncertainty and contributes to financial stability.

The other thing we've done, and this pre-dated the pandemic, is spend a lot of time and resources on building up our resolution planning, capacity and capability. We have detailed, extensive plans to resolve a troubled bank, if one of them happens to run into problems. Our mandate is to ensure Canadians maintain access to their insured deposits, regardless of how we resolve the situation. For example, if one of Canada's large banks were to get into trouble, we have detailed plans to guide us in dealing with that situation without shuttering its operations and destabilizing the Canadian economy.

Developing those plans has occurred over several years.

Most recently, over the last year and a half, we've spent more time outside the systemically important bank field and we've developed resolution plans for smaller institutions.

We have also taken the role as crisis simulation lead, and so, for our federal financial safety net partners, we take part in war games. We play out financial crises in a safe, simulated environment so that we can test our decision-making capability and coordination.

The nice thing about those environments is if you make a mistake, it's inexpensive because it's all in a pretend world. By going through trial and error in a hypothetical world, you start to learn things that will be quite useful to you in the real world.

## BUILDING TRUST

If we are required to take action to protect depositors, it would be the first time since the failure of Security Home Mortgage Corporation in 1996. That's a long time ago, so I would like to provide an update and some details about the tools and actions that CDIC could deploy in pursuit of its mandate.

First and foremost, we serve Canadians by protecting deposits. Since we were established in 1967, we have handled 43 failures affecting more than two million depositors and more than \$26 billion, and no one has ever lost a dollar under CDIC's protection.

However, Parliament has also given us two other objects to balance. In a failure, we must promote financial stability *and* minimize CDIC's exposure to loss.

That means Parliament wants us to resolve failing deposit-taking institutions in a manner that limits the contagion the failure could have on the financial system, while seeking to minimize our losses. It's a delicate balance.

CDIC covers roughly \$968 billion of insured deposits—essentially all of the personal deposits of Canadians. The growth rate of insured deposits grew 13.6% year-over-year thanks in part to the pandemic. Another factor was an update to the *CDIC Act* to modernize and enhance the framework, which came into force in April. This added eligible deposits held in foreign currency and with terms of greater than 5 years to our coverage.

CDIC has a wide spectrum of powers to achieve its objects. They include the payout and liquidation of failed institutions, assisted transactions, establishing a bridge bank, forcing a sale of a failed institution, recapitalization and, for domestic systemically important banks, the conversion of certain liabilities into equity (known as "bail-in").

But today, I'd like to talk about the two most prevalent tools, the choice between:

- reimbursing depositors when a bank fails and is closed, or
- keeping it open through a sale or restructuring.

In the first case, the insured depositors are reimbursed within a few days—which we call a “payout” —and the assets of the failed institution are liquidated. In the second, we facilitate the sale of the failing institution to a healthy one, usually with some form of financial assistance.

We have experience with both types of resolutions. Among the 43 failures we have handled, 24 have been payouts and 19 involved some form of assisted transaction.

A key lesson of our experience is that it’s important to act early enough to effectively balance our conflicting objects of stability and loss minimization.

For example, in our early years, our average loss was nearly 50% of the assets of the failed institution. But, in the mid-1980s, CDIC was given new objects and new powers intended to better protect depositors and minimize our exposure to loss. These include the power to conduct special examinations so we can anticipate and respond sooner, before too much value and capital are lost. After 1987, our losses were held on average to about 17%.

When we consider our risk appetite, we have a high tolerance for acting early to promote stability of the financial system and minimize our exposure to loss, rather than waiting too long.

But finding the solution that most effectively balances our objects is not straightforward. It depends heavily on circumstances.

For example, in the case of an assisted transaction, we must allow enough time for a private solution to materialize so that healthy buyers can step forward, if they are willing, or we risk distorting a competitive marketplace. Acting too early can also lead to moral hazard—situations where banks take unusual risks in the knowledge CDIC will ultimately step in to bear the financial losses.

At the same time, we also need to balance waiting for the opportune moment to act with the risk of contagion or loss of public confidence by responding too late to a troubled member institution.

Ultimately, any decision I make as CEO must be approved by the Board of Directors who, like me, are appointed by the Governor-in-Council and who, like me, serve at pleasure. Therefore, the leadership and Board of CDIC are ultimately subordinate to the Sovereign will of the Canadian people. We serve Canadians.

It may seem counterintuitive for a deposit insurer to assume some of a troubled bank’s loan losses, but the sale of such a member institution to a healthy bank, with some loss-sharing by the deposit insurer to incentivize the transaction, can allow the healthy bank to work out the troubled assets of the acquired institution and minimize CDIC’s exposure to losses.

I raise these considerations to provide some insight on how CDIC selects the best resolution tool in particular circumstances. In certain cases, such as when a private-sector solution

cannot be found and financial stability is not a factor, then a liquidation and payout could be the best course of action.

Therefore, we at CDIC remain prepared for and committed to executing quick, effective payouts when this best meets our objects, and why the next phase of legislative change to the *CDIC Act* is so important.

As I mentioned earlier, the last time we had to pay out a failed member was in 1996. Today, depositor expectations in a digitalized financial services industry are very different—people expect to receive their money within days. We need to upscale our payout platforms to meet those expectations. We started about a year ago on our largest technology investment initiative in our history. We will spend anywhere from \$30 to \$50 million to upgrade our ability to fulfill our promises in the event we choose to payout insured depositors when their bank fails. This payout modernization project will be a three- to four-year engagement.

But we can't do this without effective partnership with our stakeholders.

And this brings me to the second topic I'd like to discuss, which as I mentioned, affects many of you here today.

## **BROKERED TRUST DEPOSIT READINESS**

Effective April 30, 2022, there will be a new framework for how deposit insurance is provided for deposits held "in trust" at CDIC member institutions (MIs), including nominee brokered deposits.

This new framework sets out the requirements that nominee brokers must meet to ensure deposits they hold for their clients (i.e. the beneficiaries) are protected.

To support our stakeholders as they implement the new compliance rules, we established a Brokered Deposit Advisory Group, or BDAG.

We are pleased that so many critical stakeholders from the nominee brokered deposit industry have agreed to participate in the BDAG. We currently have more than 40 organizations represented in the Group and some 100 individuals willing to dedicate part of their time to developing key approaches and solutions to implementing the new *CDIC Act* requirements.

We are pleased with the progress this initiative has made to date, notably with the Unique Client Identifier, an industry best practice.

Why is compliance with our trust-deposit framework so important?

- It connects intermediary client accounts with depositor accounts at our members.
- It enables faster payout.
- It protects Canadian depositors from denial of coverage after April 30, 2022.

I would like to underscore that getting ready for the 2022 deadline is, for CDIC, a critical aspect of crisis preparedness. As I have mentioned, the expectation of depositors about being reimbursed quickly and accurately is very high in this digital era, and our ability to respond underpins confidence in the financial system.

We see opportunities for nominee brokers and our member institutions to more closely align.

For example, when I move my funds from one nominee broker to another, it can take up to eight weeks to appear on the records of a member institution. Some of the processes to support these transactions date back to the 1970s and feature manual processes such as courier and mail delivery.

In the event of payout and liquidation of one of our members, these processes would impair our ability to live up to depositor expectations. So we need to continue working toward solutions.

I would also like to highlight the work underway to ensure that the public trustee world—professional trustees, insolvency trustees, and others—are also ready for the 2022 deadline. Under the new compliance framework, certain trustees can choose to designate certain accounts as professional trustee accounts, which will require streamlined reporting of beneficiary information to members. We encourage our member institutions to continue to support this important work.

## CONCLUSION

The financial services world, particularly banking, is going digital. Business models that used to work won't work anymore. New business models that we haven't even thought of, or that we can only see dimly in the future, are going to be right there in front of us quite quickly.

So a big part of our work as we go forward will be on how to innovate our deposit insurance product for these new models.

Our goal flows from our objects that I mentioned earlier—no matter where or how Canadians deposit their money with our member institutions, the quality of their deposit insurance protection must be the same. That is how we protect depositors, promote financial stability, and minimize CDIC's exposure to loss.

In the meantime, in this time of uncertainty, Canadians can rest assured that CDIC will remain ready to protect depositors and keep our financial system resilient. We are accountable. More importantly, Canadians can be confident that their hard-earned savings in CDIC-insured accounts are safe and no one will ever lose a dollar of deposits protected by CDIC.

Thank you. I would be happy to answer any questions you may have.