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Canada Deposit Insurance Corporation
Société d'assurance-dépôts du Canada

Building Financial Resilience: CDIC's Role in Promoting Confidence in Canada's Financial System

Remarks for Peter Routledge, President and CEO, CDIC

CD Howe Institute, March 26, 2019

CHECK AGAINST DELIVERY

Introduction

Thank you Andrew, and thank you to everyone for coming today.

This is my inaugural speech as President and CEO of CIDC, and so I would like to thank the Board of CDIC and my colleagues for their support as I take on these new responsibilities.

I'd also like to thank the CD Howe Institute for giving me this opportunity to talk about what we're doing at CDIC to further bolster Canada's economy.

I'd like to talk to you today about what CDIC is doing to make that foundation even stronger.

CDIC: A Short History

Our corporation was founded by an act of Parliament in 1967 just following a period when a few federal and provincial deposit-taking institutions failed or experienced near failures. Led by the Minister of Finance, Mitchell Sharp, and aided in-part by then Parliamentary Secretary Jean Chretien, the parliament aimed to create a system of deposit insurance to make sure that Canadians' deposits, qualifying at the then $20,000 limit, would no longer be at risk.

Since that time, CDIC has responded to 43 failures of deposit-taking institutions, returning insured deposit funds of $26 billion to over 2 million Canadians. No one has ever lost a single dollar on deposits insured by the CDIC.

We are first responders when a federal deposit-taking institution fails. And like all first responders at the scene of an accident, our job is to minimize harm and contain panic at a very trying time for affected citizens.

Today, we aim to provide access to insured deposits within seven days of a bank's failure or less. With accurate data at our member institutions (those deposit-taking institutions with client deposits insured by CDIC), we believe we can beat that target. Without a perfect data environment, we have the tools and strategies to overcome that imperfection for most depositors. Moreover, we aim to drive that waiting period down to zero days. We at CDIC and our members have more work to do, but our True North is clear and non-negotiable.

CDIC: 10 years after the crisis

The natural question that we all ask ourselves is when will the next bank failure or even financial crisis occur?

My memories of the global financial crisis are still so vivid that I find it incredible to note that we're now more than 10 years beyond its arrival. Those vivid memories provoke a realization that one might not think that we are 10 years beyond that last financial crisis, but 10 years closer to the next one.

In fact, I think it's folly to predict when the next financial crisis will occur – very few have that clairvoyance and I am not among them. So I must prudently assume that it could happen tomorrow. That is what our Act, what Parliament, and what Canadians require us to assume.

And, as CDIC's CEO, I lay awake at night with the question: are we ready?

CDIC is Ready

We are more prepared to respond to a member institution failure than at any other time in our history and yet, in conjunction with our members, we can and must do more.

Looking at the bigger picture, the financial system in Canada is safer than 10 years ago. Better tools to identify troubled institutions and address them, better capital and liquidity buffers, and more detailed resolution planning mean we are better prepared than ever.

As well, there is a bail-in framework in place that shifts the burden of risk from taxpayers and depositors to shareholders and certain creditors who are aware of – and accept – the risk of loss when they make their initial investment in a systemically important bank. Therefore, in a free market, sophisticated investors price the risk of failure into their investments, in advance of a failure, while agreeing to recapitalize the bank should that unwelcome day ever arrive.

Thus, our objective with systemically important banks and with all CDIC members is not to create failure-proof financial institutions. Rather, we – CDIC in conjunction with our member institutions and other partners – must strengthen our mutual readiness for resolution in the event of a failure.

Indeed, from my perspective, resilience to failure, not the absence thereof, is the mark of a sound financial system. So we as an organization will lean forward in relentlessly advocating for resilience.

CDIC's Ask

And while we at CDIC relentlessly advocate for resilience, we cannot do it alone. So we have four specific asks to offer our membership and other partners in the financial system.

1. We ask our members to redouble their efforts, as we redouble ours, to increase awareness of CDIC deposit insurance.

2. We ask our members to adapt quickly to the legislative changes that emerged from our recent Deposit Insurance Review … and without unnecessary recourse to cost minimization objectives.

3. We ask our nominee broker partners and their financial advisors to help CDIC strengthen the flow of depositor information between them and our member institutions.

4. We ask our members deemed systemically important to Canada to complete the final lap of our Resolution Planning journey and set a global standard for the resolvability of systemically important banks.

Increasing Awareness of CDIC Deposit Insurance

I hope you've all seen our colourful purple ads on TV, online, in branches and on the Toronto Path, yes?

I also hope that you've asked yourself the same question that I asked myself in coming on board with CDIC. Namely, why would we advertise something that is free and automatic for depositors?

This is a fair question, and one I get all the time.

We advertise because we have conducted behavioural research that clearly demonstrates we can significantly reduce the risk of a bank run in Canada by making depositors aware their money is protected by CDIC. A summary of this research is available at our website and the correlation between awareness and runnability is quite strong.

If Canadian depositors know that their money is safe, they won't be inclined to panic in the event of a bank failure.

The corollary is also true, with enormous potential costs.

If depositors are **not** aware of this protection, they will behave as if there **is no** deposit insurance. And in the context of a bank in trouble, this can quickly snowball.

Think of the Northern Rock bank run in England in September 2007, the first bank run in that country since 1866.

There were many reasons for the Northern Rock run, but a lack of information and a commensurate lack of awareness among depositors factored into the failure of the fifth-largest mortgage bank in the UK at the time.

In the aftermath, the U.K. government turned to Canada among others for advice on the establishment of a new, more effective deposit insurance regime, including guidance on premiums, by-laws, and an extensive public awareness program.

Part of our mandate to protect depositors is also to help them make informed financial decisions by knowing what is covered and what is not. Remember all those colourful purple ads? Among other things, they encourage Canadians to learn more about deposit insurance.

So, in our view, people shouldn't be asking why we spend money for TV ads during hockey games.

Instead, we think that Canadians should ask why we aren't spending more.

Indeed, our members can do more as well.

In other jurisdictions, such as the U.K., the deposit insurer's logo is frequently co-branded with member advertising and marketing materials. Their research shows the presence of the logo makes people more confident in the product they are buying and the institution selling that product.

Our own survey research suggests that Canadians would be up to 65% more likely to buy financial products that display our purple lock logo, just as the Energy Star logo or the Intel logo help guide the buying decisions of appliance and computer shoppers.

That means we'd love to see our purple ads posted along side the rainbow of colours used by our members in their own advertising – if it's factual and involves eligible deposit products!

And I'd be very happy to talk about that with anyone, at any time.

Adapting to the Deposit Insurance Review

We expect the Government of Canada will soon announce the coming into force of changes to the deposit insurance framework. As a quick snapshot of the changes, the legislation will:

- Modernize the scope of deposit insurance to better reflect products currently offered in the market.
- Expand coverage to include eligible deposits in foreign currency.
- Create two new separate deposit insurance categories for Registered Education Savings Plans and Registered Disability Savings Plans.
- And strengthen the rules for trust deposits so Canadians can have access to their deposits more quickly in the event of a failure.

At CDIC, we will work with our financial safety net partners to meet these policy objectives. We are also working with industry to ensure that the legislative changes can be implemented effectively, particularly for trust deposits.

We are an $800 billion deposit insurance system, a total we estimate will approach $1 trillion when foreign currency coverage is added. Cost should not be an impediment in protecting this system; and urgency is required if we are to protect and enhance Canada's resiliency to financial institution failures.

Strengthening Data Flow Between Nominee Brokers and CDIC Members

I suspect that many of the people here deal with financial advisors who are affiliated with securities firms that broker financial products.

You may not know that when these advisors purchase GICs or other deposit products from a CDIC member institution, they are acting as a nominee for their clients. We consider these deposits to be held in trust under our framework, and these financial advisors are considered nominee trustees. Their affiliated firms are nominee brokers.

For these trusts to benefit from the full protection of CDIC deposit insurance, the associated advisors and nominee brokers must take steps to transmit to our member institutions essential information about their clients, who are beneficiaries of CDIC deposit insurance. In turn, those member institutions must record that information and keep it current.

Let me explain why this is so important.

Following a member failure, CDIC would rely on beneficiary information provided by nominee brokers to member institutions to make prompt and accurate reimbursements of deposits held in trust.

Therefore, nominee brokers must promptly transmit beneficiary information to our member institutions and keep it current.

Some nominee brokers are better than others in this regard.

And those who make these improvements in data systems and business processes – improvements that ensure CDIC members have the right information about their depositors – will have a higher-quality product than their competitors.

CDIC is working closely with financial stakeholders, including nominee brokers and member institutions, to strengthen disclosure of beneficiary information and to clarify CDIC's coverage rules for trust deposits.

The changes will require all partners in the process – brokers, broker platforms, member institutions and CDIC itself – to be fully engaged and to make investments to their data systems and processes.

At CDIC, we are committed to doing our part to deliver on this improvement. We are investing in technology and business process redesign to dramatically reduce the time it takes to reimburse deposits in the event of a failure. We will also create an advisory group so we can work co-operatively with industry stakeholders to discuss, shape and prioritize these necessary changes.

The cost to improve data flow between CDIC member institutions and nominee brokers are quite small in relation to the potential harm of inadequate data. So we do not think cost should be an impediment to progress.

Creating a Global Standard for Resolution Planning

You wouldn't know it today, but Canada has a long history of bank failures.

In fact, the first crisis faced by Sir John A. Macdonald's brand new, post-Confederation government was a bank failure. In the fall of 1867, the Commercial Bank of the Midland District collapsed – a decline triggered by the previous collapse of the Bank of Upper Canada the year before. Canada's first finance minister, Alexander Tilloch Galt, resigned shortly thereafter.[1]

[1] C. Ian Kyer, *From Next Best to World Class: The People and Events that Have Shaped The Canada Deposit Insurance Corporation*, 2017, pp. 11-17.

As Dr. Ed Neufeld – the esteemed Senior Fellow of the CD Howe Institute – wrote in his seminal work, *The Financial System of Canada*, that these two failures plus – quote – "the failure of 17 more chartered banks (albeit mostly small in size) from Confederation to the turn of the century was further evidence that the system of chartered banking was still in a developmental stage."[2]

For our first 40 years or so, we handled the failure of smaller institutions using tools familiar to the business: payout and liquidation and financial support for the sale of a troubled member.

However, we did not possess the legal tools required to resolve the failure of any of Canada's largest banks.

Following the crisis, CDIC was designated the resolution authority for these systemic banks, a mandate change made official when our Act was amended in 2017.

A key element of this role is the development of resolution plans by CDIC's domestic systemically important banks – or D-SIB – member institutions. Resolution plans set out a strategic and operational plan that could be implemented if recovery actions fail.

The overall objective of our D-SIB resolution-planning process is to ensure that these large, complex institutions are considered resolvable in a manner that protects depositors, maintains the flow of essential financial services, protects our economy, and minimizes risk to taxpayers.

As Canada's resolution authority, CDIC is responsible for reviewing these plans to ensure they are realistic and practical.

In fact, it is our aim to set the global standard for resolution planning.

Over the last few years, CDIC has developed a new Resolution Planning By-law to incent systemically important Canadian banks to build and maintain credible resolution plans. It has been pre-published in the Canada Gazette, and we expect it to be brought into force at some point this year. The By-law will provide a solid foundation on which CDIC will continue its work to ensure the D-SIBs become fully resolvable by our target date of 2020.

This is important work, and we are pleased by the level of engagement and collaboration that Canada's D-SIBs have showed so far.

That said, resolution planning is not – and cannot be – a one-and-done exercise.

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[2] Ed Neufeld, *The Financial System of Canada – Its Growth and Development*, Macmillan Company, 1972, p. 171.

We expect – indeed the By-law expects – that these plans will evolve and improve as time goes on. Harm reduction requires effective and on-going planning, and we will be diligent in our work with our members.

Conclusion

That was a lot of ground to cover in my maiden speech, and I only touched the surface on many of the key initiatives underway at CDIC.

So let me leave you with a quick recap, then we can dive into your questions.

Overall, Canada's financial system is safer than 10 years ago, while the industry continues to grow and the financial landscape constantly evolves.

Amid the good news, however, we must remember the lesson of history that there will be a crisis again someday. History tells us we can't afford to be complacent.

So we all need to be ready. And that means working closely with our members and other stakeholders to build resilience, because resilience to failure, not its absence, is the mark of a sound financial system.

Rest assured that CDIC will lean forward and be relentless in advocating for this objective.

Thank you.