



UPDATE as of May 19, 2020

On May 19, the Government of Canada advised CDIC that changes to deposit protection originally slated for April 30, 2021 are deferred by one year and **will now come into force on April 30, 2022**. Content on this page was posted prior to this announcement. References to April 30, 2021 should be read as April 30, 2022.

Cannex Term Deposit Conference

Uniform Product Quality for Deposit Insurance: A Shared Opportunity

King City, Ontario

September 16, 2019

Remarks by Peter Routledge, President and CEO

CHECK AGAINST DELIVERY

INTRODUCTION

Good morning and thank you for including me on your agenda today.

Cannex is a key player in the deposit eco-system, and we are delighted to sponsor such an important and – from CDIC’s standpoint – timely event. It’s an honour to be part of the discussion. I would particularly like to thank Lowell Aronoff and his Cannex team for bringing us all together here today in beautiful King City.

I will be delighted to take questions following my remarks.

UNIFORM PRODUCT QUALITY FOR DEPOSIT INSURANCE: A SHARED OPPORTUNITY

CDIC today insures more than \$850 billion in deposits, making us the largest creditor to Canada’s financial system. When our coverage net expands next year, in May 2020, we estimate this amount will exceed \$1 trillion.

Ultimately, Canadians acquire our product – deposit insurance – through the purchase of eligible financial products from our member institutions, which are regulated by the Office of the Superintendent of Financial Institutions.

Our product, denoted by our purple lock logo, is a mark of quality. We consider our mark providing similar assurances to depositors as the “Intel Inside” logo did for personal computer consumers.

The lock provides two implicit assurances. First, it means your bank is monitored by federal authorities to ensure it is in sound financial condition. And second, in the unlikely event your bank should fail, it means CDIC will ensure that you have rapid access to your funds.

In addition to providing deposit insurance, part of CDIC’s mandate is to promote financial stability.

We believe that promoting financial stability means deposit insurance should bear the same quality no matter where a deposit is purchased or from whom it is purchased. We strive for uniform quality of our product for all Canadians. 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 their propensity to run is low as is the threat that a deposit run would pose to financial stability.

This aspiration is very much in the interest of industry participants here today.

And in turn, we aim to protect your clients' hard-earned savings. Seamlessly, conveniently, and to the full extent set out in our Act and by-laws - \$100,000 across six (growing to eight) categories - no matter where or how they purchase their deposits.

So today I would like to discuss why and how we should do this together.

AN OPPORTUNITY TO BETTER SERVE CANADIANS

CDIC is fundamentally focused on anticipating and being prepared to take action against risks that threaten the protection of Canadian savings and the stability of the financial system. To fulfil our promise to our fellow Canadians, your clients, CDIC requires accurate data about their savings. We don't need reams and reams of data. Our data needs are in fact quite modest. We need to know:

- Who owns the deposit?
- How much is in the deposit?
- Did the deposit come to the financial institution via a trust arrangement? If so, how many beneficiaries are there, and what is each person's share?
- We also need to know, is the deposit owned within a registered account?

For most, if not all of you, you purchase deposit products from our member institutions in nominee name, which for CDIC equals a trust arrangement. Regarding these trust arrangements, CDIC recognizes that your clients may wish for privacy and we are not asking you to compromise that request.

We are willing to accept a **unique** alphanumeric identifier for each client who is the beneficiary of that deposit. This identifier must be **unique and specific to each individual** - one individual cannot have multiple identifiers at the same member institution and a single identifier can apply to only one individual.

Regrettably, the data on brokered deposits does not always meet our requirements. This situation could compromise the product quality of deposit insurance, acquired from our

member institutions via third-parties like yourselves, that Canadians rightly expect. This is a risk too big for any of us to ignore.

I am not here today to point a finger of blame but rather to deliver the message that it is critical for us to address the problem together.

CDIC has to do more – and we are working on it. Our member institutions have to do more – and I know they are committed to this. And you, as vital financial advisors to your clients, must do more for your clients, too.

KEY QUESTIONS

To my mind, there are two critical questions that I must address with you today:

1. How can financial advisors and investment firms help CDIC improve the quality of the deposit products that their clients own?
2. How will CDIC help those advisors and investment firms to help Canadians?

RESILIENCE TO FAILURE: A HALLMARK OF FINANCIAL STABILITY

I would like to answer the second question first because I am proud of all that CDIC has accomplished in this regard.

As many of you will know, the federal government has made several important changes to the deposit insurance framework.

These changes will take effect in two phases.

First, changes that modernize the scope of deposit insurance to better reflect products currently offered in the market by, for example, expanding deposit insurance coverage to include eligible deposits in foreign currency and deposits with terms greater than five years, will take effect in April next year.

As I mentioned, this will likely bring the total of CDIC-eligible deposits to more than \$1 trillion.

Second, the other changes include strengthening the rules for deposits held in trust and for nominee brokered deposits and creating two new separate deposit insurance categories for Registered Education Savings Plans and Registered Disability Savings Plans. These will take effect in April of 2021.

Some of these changes for nominee brokered deposits are critically important because they are now a condition of coverage.

The recent changes made to our Act and the requirements in the new *Co-owned and Trust Deposit Disclosure By-law* (COTDB), are designed to help ensure that CDIC can accurately calculate coverage for nominee brokered deposits if we were ever required to liquidate one of these institutions 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.

The changes to rules for trust deposits are particularly relevant to CDIC's aspiration to reimburse deposits on the same day in event of a failure.

We call that aspiration our "Audacious T+0 Goal", which is part of our modernization effort that will update our compliance, engagement, technology and business processes.

Today, we can reimburse most deposits within just a few business days of failure, although in the case of trust deposits it can take longer.

We do so by getting data extracts from the non-viable bank, loading cleansed data into our insurance calculation engines, producing payment files and sending a letter and cheque in the mail to the depositor. Or for very large dollar amounts, we may also send a wire transfer.

This approach works. But it has several steps, few payment methods, and a heavy reliance on physical mail delivery.

And we know that in today's "anytime, any platform" digital age, Canadians always need access to their savings and financial services. Digital payments and settlement are growing faster every day. That's why CDIC will become far more ambitious in reimbursement readiness - within five years or when the payment system is ready to accommodate our aspiration, we aim to build a payout capability able to reimburse depositors on the same day if a member institution should fail - this is what we call T+0. This means investing more in technology and business process redesign.

Our eventual objective is to have a seamless data environment enabled by our members and by third parties that distribute their CDIC-insured products.

The first step is ensuring that the client data that you provide to our members and that our members ultimately provide to us are aligned and reflective of these new requirements.

Brokered deposits will then rightly be seen as having the same product quality as a branch deposit - at least from a deposit protection standpoint.

This brings me to my other critical question: ***How can financial advisors and investment firms help CDIC improve the quality of the deposit products that their clients own?***

If a member institution fails, CDIC uses the deposit information held at the failed member institution to determine what amounts are to be reimbursed to depositors. For deposits held in trust, including nominee brokered deposits, this would include the broker's client information available on the records of the member institutions, which could be names or unique identifiers.

Needless to say, it is critical – and the law -- that brokers, as trustees, correctly transmit this information to the member institution **and** keep it current and up-to-date to ensure clients are covered. This will allow CDIC to make prompt and accurate reimbursement of these deposits.

As I mentioned before, meeting the data conditions set out in the law are a condition of coverage.

Some nominee brokers are better than others in this regard. And those who have invested in the data systems and business processes to ensure that CDIC members have the right information about their client beneficiaries – will have a higher-quality product than their competitors, at least from the perspective of deposit insurance protection.

We understand that, in some situations, the current practices in place to support the placement of brokered deposits do not transmit all the information about their client-beneficiaries that CDIC requires to calculate and fulfill coverage accurately.

Consider the following statistic. As of June 30 this year, there was a total of \$493 billion in brokered deposits across CDIC's membership. From CDIC's perspective as Canada's *de-facto* largest creditor to deposit-taking institutions, these figures represent an **exposure risk** to CDIC that cannot be ignored. They also signal a clear **stability risk** if these deposits could not be paid out quickly and accurately.

This is why, in my view, ensuring that we all correctly implement the changes to the *CDIC Act* that take effect in April 2021 is so critical.

That means the broker community and banks need to fully commit to implementing the new requirements to ensure that your clients' funds are protected. Cooperation among stakeholders is critical for ensuring a successful "upstream to downstream" implementation. This requires CDIC investment as well as investment from our partners, such as our members, brokers and key third-party intermediaries such as data service providers and financial exchange platforms like Cannex.

Think of it this way: uniform product quality is in every player's interest and is vital to financial stability in Canada.

That's why CDIC is taking a proactive role in the implementation process and has established, in cooperation with key industry associations, an industry Brokered Deposit Advisory Group (BDAG). This Advisory Group will play a critical role in finding solutions to the inevitable challenges that brokers will face while implementing the new requirements.

BDAG was established to assist with the development industry solutions for the implementation of new *CDIC Act* requirements for nominee brokered deposits and as a source of technical input/advice for CDIC implementation activities.

We are pleased that so many critical stakeholders from the nominee brokered deposit industry have agreed to participate on the BDAG. We currently have more than 40 organizations represented on 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 welcome more brokers to become involved with this initiative. This outreach presents an unprecedented opportunity for you and your industry to understand the changes coming and influence how they are ultimately implemented. I am also proud to say that this is one of the most ambitious and purposeful consultations, or engagements, that I have seen in either my private sector or public service career.

Important discussions are underway to help ensure the broker deposit industry can meet a key requirement for rapid reimbursement by CDIC in a failure - that being the need to provide our member institutions with a unique client identifier each time they make a deposit for a client.

The steps we are taking should not cause alarm. As you know, the financial condition of CDIC's membership is strong overall, but there are signs of vulnerability in the global economy that could create pressure.

And complacency kills, as they say. The same digital technologies fuelling expansion within Canada's globally connected financial services sector could also accelerate the pace and scope of financial instability if one of our members becomes non-viable. So we need to be prepared at all times for the worst.

Can we mitigate all risks? No. And can we guarantee that one of our members won't fail? Also, no.

However, we can make our system more resilient to failure and that, in our minds, is a hallmark of financial stability. A stable financial system is not marked by an absence of failures, but rather by resilience in the face of failures. Widespread and active industry participation in shaping and managing the imperatives of today's digital economy can - and in our view, will - support innovation, foster competition and - perhaps most importantly -



provide clarity and boost confidence should a CDIC member institution fall into significant distress.

CDIC will continue to lead the BDAG and the efforts of the brokered deposit industry to successfully implement the new *CDIC Act* and By-law changes. At a time of growing global frictions and uncertainties, these changes here at home will ultimately help ensure the ongoing stability of Canada's financial sector from coast to coast to coast.

Thank you for your ongoing support. And I would be pleased to take any questions.