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Regulator's Roundtable Session

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Remarks by Peter Routledge, President and CEO

CHECK AGAINST DELIVERY

Good morning [afternoon],

Let me begin by acknowledging that I am speaking to you today from the traditional, unceded territory of the Algonquin Anishnaabeg people. I thank all the generations who have taken care of this land.

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

After decades of relative stability, beginning in 2000, our economic and financial systems began to go through increasingly rapid cycles of volatility. What we now characterize as the New Normal is, in fact, not normal at all—our present and future is characterized not by what we can see but rather by what we cannot see. Perhaps we should call it the New Abnormal.

I'd like to cover three topics today:

- Rising volatility and uncertainty
- Known risks on the horizon
- Adapting to Uncertainty

Rising volatility

Financial system modelers often refer to distinct periods of time with similar volatility characteristics as regimes. I argue that the period from 1980 to 2000 was relatively low-volatility regime. We had recessions and market disruptions but avoided severe volatility shocks, at least in the developed world.

But that regime shifted with the dotcom bust and the ensuing recession of the early 2000s. The global financial crisis of 2008/9 followed soon after, which erased more than $2 trillion U.S. from the global economy.

We barely had time to breathe before the European sovereign debt crisis (2010-12) led to severe volatility in sovereign credit. And now we are more than a year into the

COVID-19 crisis, the impact of which is beyond anything we have experienced in our lifetimes. And this tour d'horizon leaves out the political and environmental shocks of the last twenty years.

My point is not to list abnormal events, but to highlight that more frequent and severe volatility bouts have become a pattern, rather than an unusual exception.

Risks on the horizon

Looking ahead, I expect these volatility bouts to continue with equivalent or perhaps increasing periodicity. Volatility will arise from several identifiable sources.

Climate change will dramatically alter the cash flows generated by some capital assets and will trigger widespread—and occasionally abrupt—changes in the underlying value of these assets.

These changes will be felt unevenly and the heightened credit risk could destabilize some financial institutions.

This in turn could expose depositors and resolution authorities that are major creditors of these institutions.

Likewise, digitalization of financial services will disrupt all sector business models and may destabilize a specific but as-yet-unknowable few. For example, we have already seen moderate disruption arising from the use of cryptocurrencies.

Open banking, digital wallets and other fintech models are also posing challenges for deposit insurers.

The rising incidence of cyber-attacks adds to the volatility produced by digitalization.

Making matters more complicated: we anticipate a prolonged period of low interest rates.

Via discounting, low interest rates amplify the prospective shifts in long-term cashflows, which in turn intensifies the volatility of capital asset valuations.

Adapting to uncertainty

If the New Abnormal is defined by more frequent volatility bouts, this means that public servants must adapt. Instead of managing change—a term connoting incrementalism—we must embrace uncertainty, learn to thrive in it, and even look forward to the opportunities it will invariably present.

In other words, we must transform our cultures to anticipate and respond early to recurring bouts of severe financial volatility.

We need to ensure our people, our strategies, and our toolsets meet the challenges and opportunities of this risk environment.

I'd like to highlight a few things we've done here at CDIC to move in this direction.

Starting with people, we began a multi-year effort to transform our culture so that it met the challenges of elevated uncertainty and volatility. How do you achieve that?

You need a broader array of mindsets and skills so you must intentionally and purposefully recruit for diversity. Having a diverse workforce is a valid policy end in and of itself. It reflects Canadian reality, the Canadian mosaic, and it is the right thing to do. But we do not pursue diversity only for that reason.

We pursue and build a diverse workforce because if we don't, we're not going to be able to fulfill our promise to Canadians—to make sure the deposit system is safe.

I can't tell you what's coming at us because that's the nature of volatility and uncertainty. But we will be better prepared for whatever lands on our doorstep if we have an organization with diverse people, skills, and mindsets.

We also made enterprise risk management a central part of our business model. By defining our fundamental risk appetites in advance, we can better plan for and respond faster to events as they arise. And being forthright about our weak points—admitting we have so-called red risks—has helped us take proactive steps toward solutions.

We are also in the process of re-orienting our technology and business model to improve our ability to quickly effect a payout resolution. This will be the largest technology investment in our history.

And we are studying a more sensitive and targeted rate for our premiums to see how our judgement on relative risk should influence what we charge our members.

Finally, we have struck external and internal working groups to study the potential impact of financial innovation, or fintech. This affects us all. As technology and business models shift, we remain laser focused on fulfilling our promise to Canadians to protect their hard-earned money.

Conclusion

Few of us present today could have anticipated the COVID-19 pandemic. But we had warnings, such as bird flu and other outbreaks, that if heeded might have made important differences today.

The question we must ask ourselves, as we consider the big picture before us, is what adaptation can we make today that will prepare us for the volatility and uncertainty we will face tomorrow?

That is the ethic of the New Abnormal.