

Message from the President and CEO



When the COVID-19 pandemic struck early in 2020, CDIC took rapid action to reassure Canadians about the safety of their hard-earned savings, and to enhance our readiness for resolving crises in a climate of financial uncertainty. We also sustained CDIC's transformation to renew our culture and to bolster competencies necessary to fulfill our promises to Canadians.

Over the last year, Canadians rose to challenges presented by the pandemic and our economy is now on the mend as vaccinations continue apace. The Bank of Canada has forecast strong consumer-led growth in the second half of 2022. Importantly, Canada is broadly on track to meet its objective of immunizing all those for whom vaccines are approved and recommended by the fall of 2021. Despite an initial spike in concern early in the pandemic about the safety of their savings, Canadians' confidence has rebounded to pre-COVID levels. We believe our intensified public awareness and outreach activities helped fuel the rebound in confidence.

While the prospect of recovery is strong, a number of challenges remain.

First is Canada's housing market. CDIC takes a close interest in housing market developments because they could have an impact on our member institutions and, therefore, our risk exposure as deposit insurer. Over the past year, Canadians have had a lively national discussion about supply and demand for residential real estate, prompting understandable concern about the housing market. This is not a new challenge for Canada. The story of our national residential housing finance system reflects the successful interplay between the marketplace and the disciplined and measured prudential boundary setting by policymakers and regulators. I am confident that Canadians will continue to benefit from a resilient housing financing system.

Second, we face risk bumps in the pandemic recovery. We are well over a year into the COVID-19 crisis, the impact of which is beyond anything most Canadians have experienced in our lifetimes. We have lost friends and family and we have struggled with the mental health strain that comes with the necessary prioritization of pandemic health and safety precautions. But Canada as a country will come out stronger and we will overcome the personal challenges brought on by the pandemic. Amongst our better qualities, we Canadians are resilient. While the economic recovery may be uneven and some of our members may face challenges, CDIC, through its readiness activities, is well-prepared to handle these as they arise.

This brings me to an overriding question as the pandemic winds down. How will CDIC adapt in a post-COVID environment to protect Canadian depositors?

Although we have accomplished many of our transformational objectives, we have more work to do to realize our aspirational vision to be the global leader in resolution and deposit insurance. In the year ahead, we will continue to reinforce our readiness for resolution and embed our transformation, all while drawing upon CDIC's strengths.

Readiness

Even while responding to the pandemic, CDIC has continued to improve our resolution readiness.

Overall, we are satisfied with the resolution planning progress being made by our six largest banks, which are systemic to Canada's financial system and economy. While some areas for improvement remain, we believe they will be addressed in the 2021 resolution plan submissions. The focus of the plans in future years will be the testing of resolution capabilities. CDIC views testing as an integral facet of building a credible and feasible resolution plan and expects each bank to validate the effectiveness of its crisis capabilities through testing exercises.

Last year, CDIC finished the first iteration of resolution plans for its mid-sized members, and we now shift our focus to resolution planning for our smaller member institutions. These activities bolster our readiness and reinforce our commitment to put depositors first in every possible resolution scenario.

Inasmuch as we expect our members to have and to test their own resolution plans, CDIC also regularly tests and challenges its own readiness. In fact, we consider ourselves leaders in the field of crisis simulations. As part of current operations, we conduct regular "war games" to play out potential financial crises in a safe environment so we can test our resolution plans and coordination. We hold a number of these each year, of differing size and complexity. So far, they have been either internal to CDIC, with our Board of Directors, or with our federal government financial safety net partners. These activities contribute to the resilience of Canada's financial system and ensure CDIC is ready to respond swiftly and effectively in a crisis to fulfill our responsibilities to Canadians.

Transformation

CDIC's transformation picked up pace last year and will continue in the years ahead.

The foundational elements of CDIC's cultural transformation are our promises and commitments. Our four fundamental promises to Canadians and to one another are: we serve Canadians; we are accountable; we work as one; and we anticipate and respond. Despite the challenges of the pandemic on family and work life, our internal "pulse" surveys of staff suggest a significant increase in engagement and pride in our work on behalf of Canadians.

Another transformation arising by necessity from the pandemic pertains to how we serve Canadians on a day-to-day basis. Last year, CDIC moved to a virtual environment, including our Board of Directors. Employees and Board members displayed great flexibility and patience throughout the shift, and I would like to thank them for their resilience and commitment. COVID-19 has changed the way we work and CDIC, like many organizations, will be looking at the future of work before the return to a post-pandemic environment.

Over the past year, we have strengthened our Enterprise Risk Management (ERM) function, which is a central part of our business model. By defining our fundamental risk appetites in advance, we can respond faster to events as they arise. And being forthright about our vulnerable points (i.e., "red" risks) has helped us take proactive steps toward solutions. The ERM program is now at the stage of "embedding" this balanced approach to risk.

This year we also began the transformation of our technology platform to improve our ability to perform a rapid reimbursement of deposits after a member failure. This will be the largest financial investment in CDIC's history. In addition to updating our internal capabilities, CDIC continued to engage with key industry stakeholders to implement new requirements for the placement of trust deposits. This work will ensure that CDIC can make a swift and accurate reimbursement of trust deposits in the event of a member institution failure.

Financial strength

CDIC's financial strength will enable its continuing transformation and this means that Canadians can count on CDIC to protect their hard-earned savings in uncertain times.

Premiums paid by our member institutions fund CDIC, not taxpayers. The size of our *ex ante* insurance fund, which is designed to cover possible insurance losses, is growing and will rise in the years ahead. As at March 31, 2021, the level of *ex ante* funding was 67 basis points of insured deposits. The Corporation has developed a funding plan that would see the fund reach the minimum target of 100 basis points in 2027/2028.

Because CDIC has a very low expense base relative to its *ex ante* fund size, CDIC's operations are fully funded by the interest revenues from the *ex ante* fund. All premiums paid annually by our members therefore go directly into this fund. Indeed, with the material growth in insured deposit balances induced by COVID-19, premiums have risen strongly. During the year, we launched an initiative to review the current premium assessment base to determine whether or not it remains appropriate and sufficient for the requirements of our mandate.

Our borrowing authority, combined with our *ex ante* fund, gives us ample financial flexibility to serve Canadians effectively through periods of financial instability.

For more than 50 years, Canadians have relied on CDIC to protect their savings. And through both good times and difficult times, no one has ever lost a dollar under CDIC protection. With better days ahead, please know that CDIC will keep your money safe, always.



Peter D. Routledge