

Credit Union Prudential Supervisors Association (CUPSA) Federal Regulators Roundtable

June 2, 2021 (virtual event)

Remarks by Peter Routledge, President and CEO

CHECK AGAINST DELIVERY

Introduction

Hello everyone. It's a pleasure to join you today.

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 also wish to honour the 215 children whose lives were taken at the former Kamloops residential school and all Indigenous children who did not return to their families.

Today, I wish to highlight a few of CDIC's priorities for the next year. These include:

- An update on our resolution preparedness work.
- Reviews of CDIC's differential premiums system and *ex ante* fund
- Our renewed focus on ensuring our protection framework meets consumer demands in an era of rapidly changing financial technology
- And ensuring *all* Canadians are aware of CDIC deposit protection

Readiness

When the pandemic struck last year, 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.

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. We view testing as an integral part of building a credible and feasible resolution plan and CDIC 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 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.

This year, we also began to transform our technology platform to improve our ability to rapidly reimburse deposits after a member failure. This will be the largest financial investment in CDIC's history.

From a legislative standpoint, CDIC is preparing to implement several changes to our resolution powers announced in Budget 2021, if these are approved by Parliament.

While they are technical in nature, they are part of a continuum of policy updates that improve CDIC's ability to protect depositors, promote financial stability and resolve troubled institutions of all sizes in Canada.

There are four key changes.

The first amendment is an extension of time to CDIC's financial institution restructuring provisions – or the FIRP power. This power allows CDIC to take control of a failing bank for a short period of time to complete its sale, merger or restructuring.

In CDIC's view, the current time limit for closing what is likely to be a large and complex transaction is too brief to render the FIRP tool effective. The proposed change extends the time that CDIC has to complete a FIRP transaction to 12 months, which is a more commercially reasonable standard. This amendment would give CDIC more flexibility in choosing a resolution tool that best protects depositors and promotes financial stability.

The second proposed amendment is intended to protect beneficiaries of trust deposits in the event of a member failure. In 2022, new requirements will take effect to enhance CDIC's ability to quickly and accurately reimburse deposits held in trust, including those deposited by brokers on behalf of their clients. The proposed amendment clarifies that depositors will be protected even if a trustee makes an error or omission in the information it provided to the member institution.

Further to this, we are engaging with key industry stakeholders involved in the placement of trust deposits through our Brokered Deposit Advisory Group, or BDAG. This group includes our members, brokerage firms, trustees and other key intermediaries.

We are confident this working group will promote a strong implementation of changes to our trust deposit framework that take effect on April 30, 2022.

The third proposed change will strengthen the cross-border enforceability of stay provisions that apply to eligible financial contracts, while the fourth includes technical amendments to clarify the compensation framework that would apply if CDIC were to use its resolution tools.

I'm pleased to report the shift to remote work did not slow down our testing activities. Over the past year, our Centre of Excellence for Crisis Simulations conducted eight testing exercises, or so-called war games. These allow us to play out financial crises in a safe zone to build and test our coordination, analysis and decision-making skills.

In addition to our FISC partners, our Board participated in a range of these exercises, and we intend to hold several more exercises this year.

Data and quantitative metrics are valuable tools in preparing for the next crisis. CDIC has improved its strength in this area by establishing a stress-testing department to allow CDIC to better understand the financial market and interconnectedness so it can prepare its resolution plans with the appropriate tools.

We also know that information security is essential to our readiness. A cyber event affecting our data could result in a breach, hindering CDIC's ability to deliver on its mandate.

That's why we are working to enhance CDIC's cyber security to ensure the protection of our information and infrastructure assets by leveraging new technologies and industry best practices.

We aspire to be the global leader in deposit insurance and resolution. And so we are committed to sharing our best practices and lessons learned on key deposit insurance topics with the world.

To this end, CDIC led a research project on contingency plan testing on behalf of the North America region at the International Association of Deposit Insurers (IADI). The paper, *Contingency Plan Testing in North America*, explores the vital role testing programs play in resolution preparedness efforts for deposit insurers in the region and includes four case studies.

We have shared a copy of the paper with the CUPSA Secretariat, and it will also be available publicly through the IADI website later this month.

In addition to this work, our Chief Operating Officer, Chantal Richer serves on IADI as a member of the Executive Committee and vice-chair of the Core Principles and Research Committee, and she is working diligently to support the development of new standards for the protection of depositors.

Review of CDIC differential premiums system and *ex ante* fund

Over the past 10 years, there have been significant changes to the regulatory landscape. These include:

- CDIC's designation as Resolution Authority
- Regulatory and prudential advancements
- The expansion of our resolution toolkit (bail-in)

In light of these changes, CDIC is taking steps to examine our differential premiums system and *ex ante* fund to ensure these key frameworks remain fit for purpose.

To begin, CDIC will conduct a comprehensive review of the Differential Premiums System (DPS) this year. The ways that Canadians save and spend have evolved, and this has changed the business models of many of our members. We need to ensure that our differential premium system reflects the risks our members face.

In tandem with the premiums review, we will review our *ex ante* fund to ensure its target remains appropriate. *Ex ante* funding will be increasingly important as depositors shift to more liquid assets. The fund is essential to supporting a prompt and efficient reimbursement process, as well as the use of our non-payout resolution tools, in the event of a failure.

I look forward to updating you on the outcomes of these reviews at a future date as I know we all face similar funding questions.

Evolving financial services and demands

We also face challenges related to innovation.

New financial services are being introduced at an increasing pace. Open banking, digital currencies and deposit-like products provide consumers with many attractive and innovative ways to save and spend. While innovation is normal, these fintech tools also disrupt the business models of many financial institutions and present new challenges for us as regulators.

Deposit insurers need to monitor and understand these developments so they can protect depositors *and* meet their evolving expectations.

We also have a responsibility to inform the public of what is covered and what is not to help Canadians make informed financial decisions and to support confidence in the financial system.

To bolster our understanding of fintech as regulators, we recently established a cross-departmental fintech forum at CDIC. The forum will bring together experts to discuss fintech innovations, how fintech exists within the current framework, and where it may develop in the future. CDIC is planning to work to develop relationships with established fintech players to better understand innovative developments in the financial sector, and how that could impact CDIC's mandate.

CDIC and the Canadian federal safety net are collaborating to develop systems and policies to ensure fintech companies have fair access to the financial sector. A collaborative approach is vital to ensuring all aspects are sufficiently covered.

As technology and business models shift, presenting both risks and opportunities, we remain laser focused on fulfilling our promise to Canadians to protect their hard-earned money.

Public awareness and transformation

As deposit insurers, I know many of you take an interest in promoting public awareness of your mandates. This has been a longstanding activity at CDIC, and we have made it a corporate priority to ensure at least 60 to 65 % of Canadians are aware of CDIC or federal deposit protection. Over the past year, the average quarterly survey was about 61%, so we are in our target range.

But we have recognized there is still a significant gap between the awareness rates of men and women. That's why this year, you will see us making a concerted effort to better target women and reflect their concerns and aspirations in our messaging. We aim to boost awareness among women by at least 3 per cent this year.

In addition to our exterior focus, we are also focused on our own organization.

We are focused on enhancing CDIC's resiliency by transforming our culture and workplace. Starting with people, mental and physical well-being have never been more important as we prepare to step into post-pandemic life. In order to serve Canadians, we must first take care of ourselves. To that end, we are planning to establish strategic partnerships with mental health, diversity and inclusion experts to strengthen support for all employees and continue fostering an inclusive environment in a hybrid workplace.

And I think we can all agree that the future of work will be different post-pandemic. With this in mind, CDIC is planning to implement a multi-year strategy to support the future of work and CDIC's digital transformation.

Conclusion

I treasure our ongoing relationship and strong commitment to protect Canadians irrespective of the jurisdictional boundaries of their protection systems. I would like to thank all the CUPSA members for your tireless efforts to preserve financial stability in Canada.

Thank you.

I will now be happy to respond to your questions.