

Finance Association of Laurentian University (FALU)

## **Adapting to the New Normal**

May 7, 2021 (virtual event)

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### Remarks by Peter Routledge, President and CEO

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CHECK AGAINST DELIVERY

### **Introduction**

Good afternoon and thank you, Travis, for that kind introduction. And thanks to the Finance Association of Laurentian University for the invitation to talk about the Canada Deposit Insurance Corporation and my role with the corporation.

I know the university is dealing with some challenges. I believe there are better days ahead for each of you.

I want to acknowledge that I am speaking to you today from the traditional, unceded territory of the Algonquin Anishnaabeg people. CDIC is committed to making the promise of truth and reconciliation real. I thank all the generations who have taken care of this land.

First of all, let me congratulate those of you who have just completed your undergraduate studies.

I have sharp memories of how it felt to have earned my degree and then been confronted with an uncharted future. I felt like I was standing at a crossroads but with multiple paths available to me, not just two. I felt a little stalled out knowing my choice of paths would define a big part of my future.

I had no map to where I was going but one of my professors gave me a navigation strategy, a mental compass if you will.

Don't just sit there and try to figure out what your perfect job will be, he told me. Just get a job, or find a purpose, and then get out there and slay some dragons. I had a pretty healthy appetite for challenges and risk, so I liked that idea. But which dragons? And where would I find them?

I'll tell you more in a minute about how I found my dragons, but first let me give you some background on CDIC, the Crown corporation that I lead.

## CDIC's responsibilities

CDIC is responsible for protecting one critical part of the financial system, which is deposit taking.

Why is that important?

For Canadians who have deposits in one of the 85 financial institutions that are members of CDIC, we protect them from losses on eligible deposits that might occur due to a rare event. By eliminating such losses, up to a specified limit, we lower funding costs for members, which in turn fund mortgages, business and consumer loans and much more.

Let me be perfectly clear. The risk we eliminate is for **depositors, not lenders**.

We are charged with making sure that you have access to the money you have in the accounts in any of the banks, federally regulated credit unions or loan and trust companies that are our members in case they should fail. We protect close to \$1 trillion in deposits with our 85 members across Canada. CDIC covers virtually all the personal deposits of Canadians who deposit their money at a CDIC member institution.

Most of you here today have never witnessed a Canadian bank failure. However, since our founding in 1967, we have handled the failure of 43 of our member institutions, directly affecting more than 2 million Canadians and \$26 billion of their hard-earned savings. No one has lost a single dollar under CDIC protection.

To sustain this record and protect Canadians, Parliament has given CDIC four key objectives:

1. To reimburse depositors within CDIC's deposit insurance limits;
2. To promote financial stability;
3. To do those first two things in such a manner that protects depositors and minimizes CDIC's exposure to loss; and
4. To act as resolution authority for our members.

There is an intended tension in those objectives. For example, promoting financial stability may come with the risk of higher exposure to loss; or minimizing exposure to loss may come with the risk of higher financial instability. Parliament asks CDIC to manage this tension by balancing those objectives and those risks. Seeking an appropriate balance often, but not always, obliges CDIC to act early (and accept the risks of so acting).

In acting early, or before the point of non-viability, we can take actions similar to other creditors to support our members institutions whose financial condition is deteriorating—to name a few ... we can make investments in capital instruments, guarantee liabilities, or purchase certain assets. Those actions must deliver an optimal and appropriate balance between our objects. We also have a number of tools at CDIC that we can use to act after the point of non-viability (or failure). For example, we could:

- Reimburse all insured deposits when a member institution fails and participates in a liquidation of its assets;
- Vest shares or assets of a non-viable institution to force a sale of the member institution;
- Establish a bridge bank into which we would transfer the failed institution's good assets and certain liabilities; or
- For Canada's six biggest banks, recapitalize the institution by converting certain debt instruments (not deposits) into common equity

Those are an intentionally powerful array of tools, the use of which is checked by CDIC's Board of Directors and, ultimately, Parliament itself. I'd be happy go into more detail with you about these tools during the Q&A. But let me circle back to how I found my way to the President and CEO's job at CDIC, and the challenges my colleagues and I face coming out of the COVID pandemic. Many of you are about to embark on your own job searches and I thought that telling you my story might help you think about your next steps.

I grew up in Seattle and Vancouver in a loving, eccentric, colourful, busy and often unpredictable household filled with friends and acquaintances who adopted themselves into our family for a time then moved on.

My parents liked to help people, and they did that a lot. In addition to my brother and me, my parents took in five foster brothers (three who lived with us for extended periods and two who regularly visited). I remember my dad once taking my brother and me along when we were six- and four-years-old to bail out of jail one of my foster brothers. He had "borrowed" a neighbor's car. My dad thought having two cute kids along might soften the hearts of the police. He was right about that.

My folks also helped convicts approaching parole make the transition from life behind bars. They were occasional dinner guests.

In addition to all that, my mom managed a Chilean group of musicians who, throughout my university years, practiced in our basement. I can still hear those flutes.

I like to tell people I didn't run away to join the circus. I ran away *from* the circus.

In other words, I grew up with a lot of uncertainty and volatility. I never knew what or who was going to greet me when I walked in the door. I didn't realize it at the time, but my childhood opened me up to new experiences and made me comfortable operating in uncertainty. I'm not reluctant to try new things or take big, calculated risks.

After my undergraduate degree in business and economics at Simon Fraser University, I started as a computer guy for a railway. But slaying that dragon taught me that I didn't want to be a computer guy at a railway, so I applied to the MBA program at INSEAD, a business school in France. Completing that MBA helped me decide I wanted to work in finance. I moved to New York City and found work as a management consultant. From there, I got a job with Moody's as a credit analyst. That was pretty interesting.

Then, I got an offer from the National Bank in Toronto to work as an equity analyst. Did that for seven years and decided I wanted to respond to a long-held calling to join the public service. I leveraged my network into a lunch with the deputy minister of finance and ended up in Ottawa with the Department of Finance.

That's been the pattern of my career. None of it was planned. But I did have a strategy. That was to take some risks, venture into the unknown and slay some dragons. Take on big challenges. Forgive myself for and learn from my mistakes; embrace and give thanks for them. Your scars will define you and enrich your life—don't disguise them, wear them with pride.

I had only been at Finance for a year when the CEO's job at CDIC came open. It seemed too soon to make the jump, but I spoke to my boss and he encouraged me to apply. He thought I wouldn't get the job because I'd recently entered the public service and was largely unknown in Ottawa. But I told him I would at least nail the initial interview and we would go from there. We had a good laugh. I took that risk and, low and behold, was offered the job. We had an even better laugh!

So I've been at CDIC since 2018. I lead a team of close to 200 people. My approach is to encourage my staff to take bold but smart risks. To persuade them to do so requires that I, as institution head, create, promote, and sustain an environment of psychological safety. That is my obligation to my colleagues at CDIC. How do you do that? Empathy and vulnerability—sounds strange for a CEO to use words like empathy, vulnerability, and psychological safety, but trust me if you, as a leader, authentically deliver on those promises, your colleagues will surpass not just your expectations but you, yourself. Our mantra at CDIC is that it is OK to make mistakes and not OK not to learn from them.

## The challenges ahead

Now, let's turn to the challenges facing CDIC and you as you hit the job market.

Volatility is the new normal. Since most of you were born, we've had the dot.com bust and ensuing recession.

The global financial crisis of 2008.

The European debt crisis.

And now, we are more than a year into the COVID-19 crisis, the impact of which is both beyond anything we have experienced in our lifetimes and surprisingly better than we anticipated. We have lost friends and family members. We have struggled with the mental health strain that comes with the necessary prioritization of pandemic health & safety precautions. But Canada as a country will come out stronger—we will overcome the personal challenges brought on by the pandemic and our economy is on-the-mend and poised for a healthy recovery. Amongst our better qualities, we Canadians are resilient.

A broader lesson learned from all this is that frequent bouts of volatility have become a pattern, rather than an exception.

In response, Canadians overall and public servants like me, in particular, must sustain our humility in the face of this volatility, or uncertainty. Looking ahead, I see more volatility arising from several sources that we can identify.

Climate change may dramatically alter the cash flows generated by some capital assets and may trigger widespread—and occasionally abrupt—changes in valuation. These changes may be felt unevenly and may destabilize some financial institutions.

Likewise, the ongoing digitization of financial services will disrupt many sector business models and may destabilize a specific but as-yet-unknowable few. Add to that threats from the rising incidence of cyber-attacks.

Moreover, we anticipate a prolonged period of low interest rates. Low interest rates can amplify the prospective shifts in long-term cashflows, which, in turn, will intensify the volatility of capital asset valuations.

These are the known unknowns. And, to make matters even more uncertain, there will be unknown unknowns, too. COVID-19 is an example of that.

Now, if this new normal is defined by more frequent volatility, it means we must level up our ability to adapt to that uncertainty. This applies to CDIC but also to all of us here today. Responding to change will be less helpful than **anticipating** uncertainty and transforming ourselves and our business cultures to handle recurring bouts of volatility.

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

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

Here's how we have begun to answer that question at CDIC.

Starting with people, we have shifted from an organization that tended to focus on member institutions to one that puts depositors first. We asked ourselves if we could fully deliver on our promises to Canadians. This led to a multi-year effort to transform our culture without losing sight of our values.

We strengthened our enterprise risk management 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 weak points—admitting we have so-called red risks—has helped us take proactive steps toward solutions.

We are in the process of re-orienting our business model, and supporting technology platform, to improve our ability to affect a payout resolution. This will be the largest technology investment in our history.

We are evaluating the framework for the premiums we charge our members to ensure it reflects sound judgment on risk as well as the sufficiency of funding available to fulfill our mandate.

We have struck 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.

Finally, one of the most important things we are doing is ensuring that we have a diverse mix of cognitive mindsets. The organizations that build and thrive in this environment will be those with broad and diverse skill sets.

How do you achieve that?

You 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 don't 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 the goals set by my shareholder, the federal government and our promises to all of you, our fellow Canadians. Our job is 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 skills and mindsets.

That's what we are doing.

What about you?

One of the best things you can do is decide who you are and make decisions that feel right and true to your character. Know yourself. What's your risk appetite? What have your life experiences taught you about yourself? How adept are you at adapting to uncertainty?

Answering those questions may not help you decide where to apply for a job, but doing so will help you figure out a strategy for your career search and chart a direction for your life. So, I'll return to the advice that worked out OK for me—get out there and 'slay some dragons'.

Let me stop there. I'd be happy to take your questions.