

Independent Financial Brokers of Canada 2021 Virtual Fall Event

A new era of deposit protection: how changes to CDIC's trust deposit rules will affect brokers and where to next

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Remarks by Mike Mercer, Chief Data and Insurance Officer

CHECK AGAINST DELIVERY

Introduction

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

Let me begin by acknowledging that the land on which I live and work, is the traditional, unceded territory of the Algonquin Anishnaabeg people. I thank all the generations who have taken care of this land.

As independent financial brokers, you are important players in the financial sector and the deposit eco-system. You facilitate financial decision-making by Canadians and offer access to providers and markets, that depositors may otherwise be unable to access.

CDIC is delighted to be participating in such an important and timely event.

Context

Few of us present today could have anticipated the COVID-19 pandemic. It put enormous stress on many of us and on every element of the Canadian economy and the financial system.

Fortunately, we are beginning to see some progress toward full economic recovery, as the Bank of Canada reports a positive, if choppy, road ahead into post-pandemic life.

We are all adjusting to the new normal.

As a result of the pandemic, many Canadians are holding higher cash balances in their bank accounts. I am sure your clients are asking how to best to safeguard and invest those funds.

At CDIC, the past 18 months have taught us a few of things.

The first is that Canada's financial system remains strong and resilient.

The second is that CDIC needs to continue to anticipate and prepare for uncertainty, to ensure that no matter what happens, Canadians will have fast and seamless access to their money, should their financial institution fail.

The third is that there is an accelerated pace towards digital banking and services, that support how Canadians save and spend. But, we remain confident that CDIC's protection will remain relevant in the digital age.

Who is CDIC?

We are not a bank. We are not a private insurance company. CDIC is a federal Crown corporation.

We were created by Parliament, in 1967, to contribute to financial stability in Canada, by protecting Canadians' savings, in case of failure, against the loss of eligible deposits, at its member institutions.

CDIC is also Canada's resolution authority, tasked with taking the lead in handling the failure of any of our members.

In 1967, we had three employees, our coverage limit was \$20,000, and we protected \$17 billion in deposits.

Today, we have over 150 employees, the coverage limit is \$100,000 across seven deposit categories, and the amount of eligible deposits CDIC protects is over a trillion dollars.

Over the last half-century, CDIC has handled 43 member institution failures, directly affecting more than two million depositors. CDIC was always there to protect them. We are proud to say that no depositor has ever lost a dollar in deposits protected by CDIC.

Who are our members?

In terms of CDIC members and membership requirements, CDIC membership is automatic for any federal, retail deposit-taking institution.

Our members, and there are 85 of them, currently, include all federally-regulated banks, as well as federal credit unions. In layman's terms, if an institution is a bank or a trust company, regulated by OSFI, and is taking retail deposits, it is a CDIC member institution.

In terms of who is not a member institution:

- Foreign bank branches are not CDIC members, as their deposit taking activities are either restricted, meaning they can only engage in lending activities, or are limited to wholesale deposit-taking activities.
- Most Provincial deposit-taking trust companies are also not captured by CDIC, though they can apply for membership, if they choose to. Indeed, one provincial trust company is a CDIC member.

Membership comes with certain conditions. Members must adhere to requirements set out in the *CDIC Act* and *CDIC By-laws*. Members must also contribute to the CDIC's fund, through the assessment of premiums.

It's quite easy to recognize whether an institution is a CDIC member, simply by looking for our Purple Lock logo, which member institutions must prominently display in their branches, on their ATMs, on their websites, and on their banking applications.

What is our Toolkit

As Canada's resolution authority, CDIC is responsible for handling the failure of any of our members, from the smallest to the largest.

We have a broad suite of tools that can be used to support our member institutions, and, therefore, protect depositors.

While reimbursing depositors is often the first resolution tool that comes to mind when people think about their bank's failure, reimbursement of deposits is just one of the tools in our resolution toolkit.

For example, we can assist with the sale of a troubled member to another institution, something we have done several times in the past.

In certain circumstances, CDIC can provide loans to a member experiencing temporary liquidity stress, to allow it to meet its obligations, as they come due.

This is not an exhaustive list.

CDIC's powers can be deployed in different ways to protect depositors and to promote financial stability, depending on the circumstances.

We protect depositors and promote financial stability in a manner that limits CDIC's exposure to loss.

When CDIC resolves a member institution, it implies the member has become non-viable, a thought which can be unsettling, since CDIC has not had a member failure since 1996. But, we at CDIC remind Canadians that resilience to failure, not the absence of the latter, marks a sound financial system.

Therefore, we know that Canadians count on us to be ready to face a failure, whether that's tomorrow, next week, or next decade. Rest assured, we are always ready, and continuously looking for ways to strengthen the protection we provide Canadians.

That is why on an operational level, we are constantly working to ensure we have plans and resources in place to address all possible failure scenarios. In every case, our goal is to ensure the least amount of disruption to depositors' regular banking activities and continued access to their insured deposits.

CDIC's Deposit Insurance Framework

Fundamentals

As mentioned, CDIC insures more than \$1 trillion in deposits, making us the largest creditor to Canada's financial system.

CDIC coverage is free and automatic - depositors do not have to sign up to receive protection.

CDIC's deposit insurance consists of three components:

- \$100,000 deposit insurance limit;
- The deposit insurance categories, with each category receiving a separate protection up to the \$100,000 limit, at each CDIC member;
- The list of eligible deposits, essentially which deposit products are covered, and which are not.

Modernizing the Deposit Insurance Framework

The Government of Canada recently introduced several key changes to modernize and strengthen deposit protection. These changes demonstrate that CDIC is keeping pace with how Canadians bank and save, so they have even greater assurance that their hard-earned money is protected at any of our members.

The modernization of our framework is being done in two phases.

The first set of changes, which took effect on April 30, 2020, expands the scope of deposit insurance to better reflect products currently offered in the market.

Other changes include strengthening the rules for deposits held in trust and for nominee brokered deposits, and creating two new separate deposit insurance categories.

These will take effect on April 30, 2022.

As members of Independent Financial Brokers of Canada, these changes to the deposit insurance framework will undoubtedly have an impact on you and your clients.

In particular, you will now be able to tell your clients that the funds they place in eligible deposits with CDIC member institution will receive more and better protection than ever.

Improvements to Deposit Insurance Protection

As I mentioned, on April 30, 2020, two important changes to our coverage took effect.

The first, is the expansion of coverage to include eligible deposits held in foreign currencies.

The second is the extension of coverage to include eligible deposits with terms greater than five years.

This means that if any of your clients hold eligible deposits in American Dollars, Euros, Yen, or any other currency, and with a term greater than five years, CDIC now includes them within the protection limit of \$100,000.

However, it is important to keep in mind that both foreign currency deposits, and term deposits with maturity of more than five years would not receive separate coverage, but would be aggregated with other deposits within the same category.

So, the same types of deposits, held in different currencies, or with different terms, will continue to receive a total of \$100,000 in protection, per category at each CDIC member institution.

The deposit insurance coverage framework will be even stronger in 2022, as we welcome a second round of changes, to further extend deposit protection.

In April 2022, there will be two new coverage categories. Registered Education Savings Plans (RESPs) and Registered Disability Savings Plans (RDSPs) will receive separate coverage.

We are excited to introduce the RESP and RDSP coverage categories, because they reinforce CDIC's commitment to protecting the savings of Canadians, planning for their future.

As these new categories are introduced, it will be even more important to understand how deposit insurance works, because RESPs and RDSPs are typically held "in trust," and CDIC's rules around trusts can be complicated.

New Rules for Deposits Held in Trust

On April 30, 2022, important changes are being made to the requirements that trustees must meet, to ensure that the deposits they hold in trust for others remain well-protected by CDIC.

This may have implications for your clients, if they hold funds as a trustee, or for you as a broker, if you act as a nominee for your clients, or if you place deposits for them through a carrying broker.

The adjustments to the framework do not look to change how deposit insurance will apply to trust deposits, nor limit the protection CDIC will offer these deposits.

Rather, the focus of the changes is on ensuring that CDIC can access the information we need to accurately identify beneficiaries so that we can better extend coverage and provide protection. Incomplete or inaccurate beneficiary information could hinder our ability to do so.

Broker Clients as Trustee

For your clients, who act as a trustee for others, if a client sets aside funds in trust for their grandchildren, it will be essential for them to know that the new framework maintains requirements for trustees to provide key information to the member institution. This information includes:

- The fact that the deposit is held in trust;
- The name and address of the trustee and each co-trustee;
- The name and address of each beneficiary to the trust account; and
- The interest each beneficiary holds in the deposit.

This information must be disclosed to our members and recorded in their systems, to allow CDIC to extend protection up to \$100,000 to each beneficiary to the trust account.

Our members are required to contact each trustee, every March, to remind them to update this information, however, CDIC strongly recommends that trustees do this **whenever**, and as soon as this information changes, to help ensure that their beneficiaries are protected.

CDIC has developed information targeted to trustee on our website, and we strongly recommend that you direct your clients, who act as trustees to our site, and encourage them to become familiar with their obligations for the deposits they hold in trust.

Nominee Brokers

The new framework also sets out several new obligations that brokers who hold funds in nominee-name will need to meet, to ensure the deposits they hold for clients remain well-protected by CDIC.

Not many people know that when a deposit is held by a broker *in nominee name* at a CDIC member institution, it is effectively held in trust, by the broker, for their clients.

This means that, as for any other trustee, the nominee broker will need to identify their client beneficiaries to our member institutions for CDIC to offer up to \$100,000 in coverage to each client of a nominee deposit.

A key feature of the new framework for nominee brokers is instead of beneficiary names and addresses, they must now provide the CDIC member institution with a Unique Client Identifier – or a UCI – that represents each unique client to a deposit.

Nominee brokers will need to ensure that they assign only one UCI to each client, as assigning multiple identifiers could impact CDIC's ability to accurately determine deposit insurance protection.

Broker Deposit Advisory Group (BDAG):

To help support nominee brokers in aligning their process to the new rules, CDIC has been proactively working with the broker community, through the Broker Deposit Advisory Group or BDAG, to develop key guidelines and best practices to support a harmonized implementation of the new rules.

Our work with key broker industry participants on BDAG is a fine example of how industry and regulatory bodies, such as CDIC can work together, to ensure that new requirements can be implemented successfully for the overall benefit of Canadians.

The outputs from the BDAG work are available on the [BDAG](#) page on the CDIC website.

Introducing Broker Using a Carrying Broker

CDIC recognizes that most independent brokers likely do not place deposits directly with CDIC member institutions, as a nominee for your clients, but many of you may do so indirectly, through the services of a Carrying Broker.

In this instance, the Carrying Broker will most likely be placing these deposits in nominee-name, with our member institutions, and they would need to ensure that your clients are assigned an appropriate UCI.

As part of our work through the BDAG, we have specifically engaged with Carrying organizations to ensure that the processes and procedures that underly the placing of deposits for the clients of introducing brokers align with the new *CDIC Act* requirements.

Specifically, we have worked with Carrying Brokers to ensure that the clients of each introducing broker can continue to receive protection for their deposits using a Legal Entity Identifier – or LEI – even if they use different introducers, to place their funds through the same Carrying Broker.

For those of you how might place deposits in this manner, I would certainly encourage you to [visit the BDAG page](#) to review the Industry Best Practices, developed for the Introducer/Carrier relationship, as it provides good insight on how Carrying Brokers will solidify deposit protection for the clients of their introducing entities.

CDIC – A Look Ahead

Looking ahead, CDIC continues to adapt and transform to be able to meet our commitments to Canadians and to make sure the deposit system is safe.

1. Raising Awareness about Deposit Insurance Protection

As trusted advisors, you understand the importance of regularly communicating with your clients.

Public awareness of deposit protection helps Canadians make informed financial decisions, building confidence in the financial system.

For CDIC, reaching out to Canadians and increasing awareness, so that they know their deposits are safe, has been a key priority.

Never has confidence in our financial system been more critical than in the volatile and uncertain climate, brought about by the pandemic. Over the past year and a half, we stepped up our efforts to bolster Canadians' confidence and trust in the safety of their deposits through our public awareness program, helping us to achieve our target of between 60-65%.

Awareness is a critical part of our product's quality.

Deposit insurance only works if people know it exists. Canadians trust the federal government and CDIC to make good on the promise to protect them, and they leave their deposits in the banking system, when financial uncertainty arises.

As you are engaging in financial conversations with your clients, you help CDIC communicate the changes mentioned earlier, which improve and expand deposit protection for your clients.

To support our key industry stakeholders, like yourselves, and your clients, in the lead up to the new coverage rules taking effect on April 30, 2022, CDIC will be undertaking several activities, aimed to foster awareness and understanding of our deposit insurance framework among the financial community.

As mentioned, we have developed significant new content for brokers and trustees to help them understand the new rules and prepare for the new framework.

2. Executing CDIC Nominee Broker Deposits Compliance Framework

In parallel to our work with industry to prepare for the new requirements, CDIC has also been working internally, to ensure that our systems and processes are ready to receive information from brokers and member institutions and ensure that we can monitor compliance with these new requirements.

The key element of this work has been the development of CDIC's Nominee Brokered Deposit Compliance Framework, that looks to promote and encourage strong adherence to the new rules for nominee brokered deposits.

Through our compliance efforts, CDIC will look to ensure that we will have key information we need to execute a fast insurance determination, and, ultimately, pay out nominee brokered deposits.

We reinforce the fact that the responsibility to adhere to the new requirements rests with nominee brokers and with our member institutions.

To support the new compliance framework, CDIC has further elaborated two key elements that will facilitate how nominee brokers will interact with CDIC on compliance matters once the new requirements are in full effect: the Nominee Broker Data Requirements and a Secure Broker Portal.

The CDIC's Nominee Brokered Deposit Framework, the NBDR and information about the portal have been made available on the CDIC's website.

3. Innovating to meet evolving depositor expectations

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In recent years, and during the COVID-19 pandemic, the pace of new technology adoption has continued to accelerate for Canadians—including how they communicate, bank, and access their money.

Depositor expectations have evolved alongside technological advances to include access to real-time information. CDIC continues to adapt to ensure that it meets these expectations.

Considering the rapid digitization of deposit-taking, data, and payment infrastructure, CDIC launched a multi-year payout modernization project in 2020. We aim to provide depositors access to insured funds on the first business day following the announcement of a member institution failure, and in doing so, maintain Canadians' trust.

We will enhance the systems and processes that underpin our insurance determination and reimbursement process, and better serve Canadians, in the event it is necessary to resolve any troubled member institutions. This is the largest financial investment in CDIC's history.

Modernization will also address CDIC's need to give depositors access to convenient and modern payment methods, and communication with CDIC, and deliver a seamless, secure, and transparent depositor experience, in a member failure.

Looking to the future, CDIC must continue to embrace innovation and technological advances.

It must keep step with the financial industry to deliver a streamlined, timely, and accurate insurance determination and payout in a member failure.

This means expanding CDIC's insurance payment options, beyond mailed cheque payments, supported by the deposit data necessary to calculate insurance eligibility.

It also means considering new ways of promoting public awareness and understanding new innovative trends in the financial sector.

Financial Innovation

Without a doubt, technology is transforming the banking business and the financial sector. FinTech, digital currencies, and the concept of open banking present opportunities and challenges.

At CDIC, we are carefully monitoring and deepening our understanding of these developments, so that we continue to protect depositors and meet their evolving expectations.

Our deposit insurance protection framework has been expanded to include payment system providers. Over the coming months, we will be working closely with our financial safety net partners, including the Bank of Canada, on the development of regulations supporting the implementation of the *Retail Payment Activities Act*, the legislation passed by Parliament earlier this year, which regulates retail payment providers, both traditional and FinTechs, in Canada.

Our intention is to work with key stakeholders, as this new legislation is implemented, to ensure that we can continue to provide high-level of protection of user funds.

Conclusion

No deposit-taking institution has failed in Canada in 25 years. That says a lot about the health and resilience of our financial system. But, we cannot afford to be complacent.

The economic recovery may well be volatile, as we move toward post-pandemic life. In this time of financial uncertainty, Canadians can rest assured that CDIC has the strategies and toolkit to protect depositors and promote financial stability.

The new rules and key priorities I spoke about will help us meet that commitment.

And our stakeholders, such as the IFBC and its members, have an important role to play, as well. Deposit insurance only works if depositors know it exists, and industry stakeholders understand their regulatory obligations, and those of their clients.