

Statement by CDIC President and CEO, Dean Cosman  
to the Senate Committee on Banking, Trade and Commerce Appearance  
October 25, 2018

Thank you Mr. Chair. Good morning and thank you for the opportunity to come before you today on this important subject.

By way of background, CDIC is Canada's deposit insurer and resolution authority. We protect Canadians' savings at banks, federal credit unions as well as federal trust and loan companies. As resolution authority it is our role to resolve these financial institutions should they fail. Since 1967, we have handled 43 failures, affecting some 2 million Canadians covering approximately \$26 Billion in deposits. And no one has a lost a single dollar that was protected by CDIC.

Under its objects, CDIC also plays an important role in promoting and contributing to the stability of the financial system in Canada. In doing so we work closely with the organizations represented by my colleagues I'm here with today to strengthen financial stability.

Following the financial crisis, the Financial Stability Board developed a set of key attributes that countries should have in place to resolve large complex banks. These were endorsed by Canada along with other G-20 countries. The objective of these Key Attributes is to end too big to fail by making it possible for authorities to resolve large, complex banks in a manner that maintains the flow of critical financial services, protects the economy, and minimizes risk to taxpayers. Through work with our safety net partners, as well as domestic and international stakeholders, I am pleased to note that CDIC substantially meets these key attributes.

Since the financial crisis, CDIC's objects have been amended to formally recognize our role as resolution authority for all our member institutions including Canada's largest banks. CDIC's powers have expanded, our capacity has grown, and our capability augmented. As a result, we are better prepared to deal with the failure of our member financial institutions including Canada's domestic systemically important banks or DSIBs. Let me briefly explain a couple of examples of how our capabilities have been augmented:

- First, on the heels of the crisis, in 2009, the bridge bank power was added to CDIC's resolution toolkit. It is meant to "bridge" the gap between when an institution fails and when a buyer or private-sector solution can be found. CDIC can use this tool to transfer all or part of the failing bank's business to a bridge bank, which is temporarily owned by CDIC.
- Since the crisis CDIC also continued to grow its *ex ante* fund and its borrowing authority was expanded.
- More recently, CDIC was granted the bail-in power to take control and recapitalize a large bank through a conversion of certain eligible liabilities into common equity. This ensures that losses

related to a large bank failure would be borne by the bank's shareholders and certain creditors, not depositors or taxpayers.

As you may be aware, CDIC requires each of Canada's six DSIBs to prepare resolution plans, which set out in detail how they might be resolved. CDIC has been working closely and collaboratively with these banks for several years to ensure these plans are robust and credible.

A By-law formalizing this process and CDIC's expectations as to resolvability is also in progress and will be published soon.

Plans are important, but they must also be tested. So we have developed a robust testing program to assess our own internal readiness. This program also includes testing exercises with our Board of Directors, our safety net partners, DSIBs and other stakeholders.

Canada's large banks are international banks so cooperation and coordination with international regulators on cross-border issues has also been a critical piece of our resolution work. To better position us, CDIC has signed cooperation agreements and MOUs with all key international jurisdictions. To further our international cooperation, in concert with OSFI, we host annual Crisis Management Groups where the DSIBs, Canada's safety net agencies and regulators from key international jurisdictions come together to share information on the recovery and resolution planning of Canada's DSIBs.

We have learned that financial stability is built on public confidence. Our research on depositor behaviour has shown that if Canadians are not aware that their deposits are protected, in a crisis, they are more likely to behave as if there is no deposit insurance at all and precipitate a bank run. That is why we have a public awareness strategy to inform Canadians about CDIC deposit protection.

Let me conclude by saying that as deposit insurer and resolution authority, our role is to manage failures, not to prevent them, so that depositors are protected, critical financial services are not interrupted, and disruption to the broader economy is held to a minimum.

In the 10 years since the crisis much has been done to better position us. However, we cannot lose our focus as the financial sector landscape and Canadians' habits and expectations are in constant evolution. The next financial crisis may look very different from the last one so we must continue our efforts to strengthen our resolution framework and preparedness to ensure we can adapt and be ready for new risks and challenges.

Regardless, at CDIC, our commitment remains to safeguard the savings of Canadians.

That concludes my remarks.

Thank you.

I would be pleased to answer your questions.