# CDIC

Risk Assessment and Intervention presentation to:
6th IADI ARC Annual Meeting and International Conference

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# Main Presentation Ideas

- Risk Assessment – Why and How
- Overview: Risk Assessment Framework
- Interaction with the Supervisor
- Lessons learned from the liquidity crisis
- CDIC initiatives / responses

# Risk Assessment: Why and How

- CDIC Mandate includes: Minimize exposure to loss – requires active management of risk
- No on-site examinations – focus on information
- Focus on few employees, leading edge technology and good financial data
- People: 80 CDIC employees: of which a small core group in risk assessment, payout and resolution
- Manage some functions via outsourcing – pre-established suppliers

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# Overview
# Risk Assessment Framework

- Access to good quality, frequent and timely information
- Leading edge and flexible technology
- Highly skilled professionals
- Challenge each other on assessments
- Good relationship with examiners
- Focus on value added analysis
- Top down and bottom up analysis

# CDIC Interaction with the Supervisor (OSFI)

- Safety net agency meetings
- Formal agreement for information sharing and coordination
- Formal reporting arrangements
- On-going meetings with examiners
- CDIC Board meetings – discussion of Watchlist and other higher risk members

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# Risk Assessment: What is working

- Use of technology to improve productivity and avoid overlap with OSFI
- Formal monitoring (Institution risk assessment reports, Quarterly Monitoring System)
- Frequent Interaction with regulator (OSFI)
- CDIC management and board well informed: Extensive and timely reporting

# What can be improved

- Regulatory filing of financial information for complex or higher risk activities
- Better flow of sensitive information
- More flexible process when there is a rise in interventions

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# Liquidity Crisis – summer of 2007

- Impact of Structured credit products and Canadian ABCP on member liquidity
- Effects of deterioration of US real estate loans on a few members
- Potential effects from a US/world economic slowdown on wider range of members

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# Liquidity Crisis: Lessons learned

- *Boomerang effect*: Risks diversified away can return to hit members and financial system
- *Regulatory burden*: The top of a cycle is precisely the wrong time to relax oversight including data filing
- *Keeping pace with innovation*: Bank risk management and regulatory oversight has to improve at same pace as innovation
- *Take a closer look at liquidity*: Liquidity issues can lead to solvency issues
- *Take a closer look at leverage, off-balance sheet commitments and reputational risk*

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# CDIC initiatives/responses

- More frequent/closer monitoring: environment, member risk issues, greater focus on liquidity
- Meetings with safety net agencies to improve financial information that is filed by members
- Some additional hiring
- Update our intervention tools and processes: process for special examinations and our payout software including simulations
- Obtain payout related information on watchlist institutions (systems and deposits)
- Review the adequacy of our powers

# QUESTIONS?

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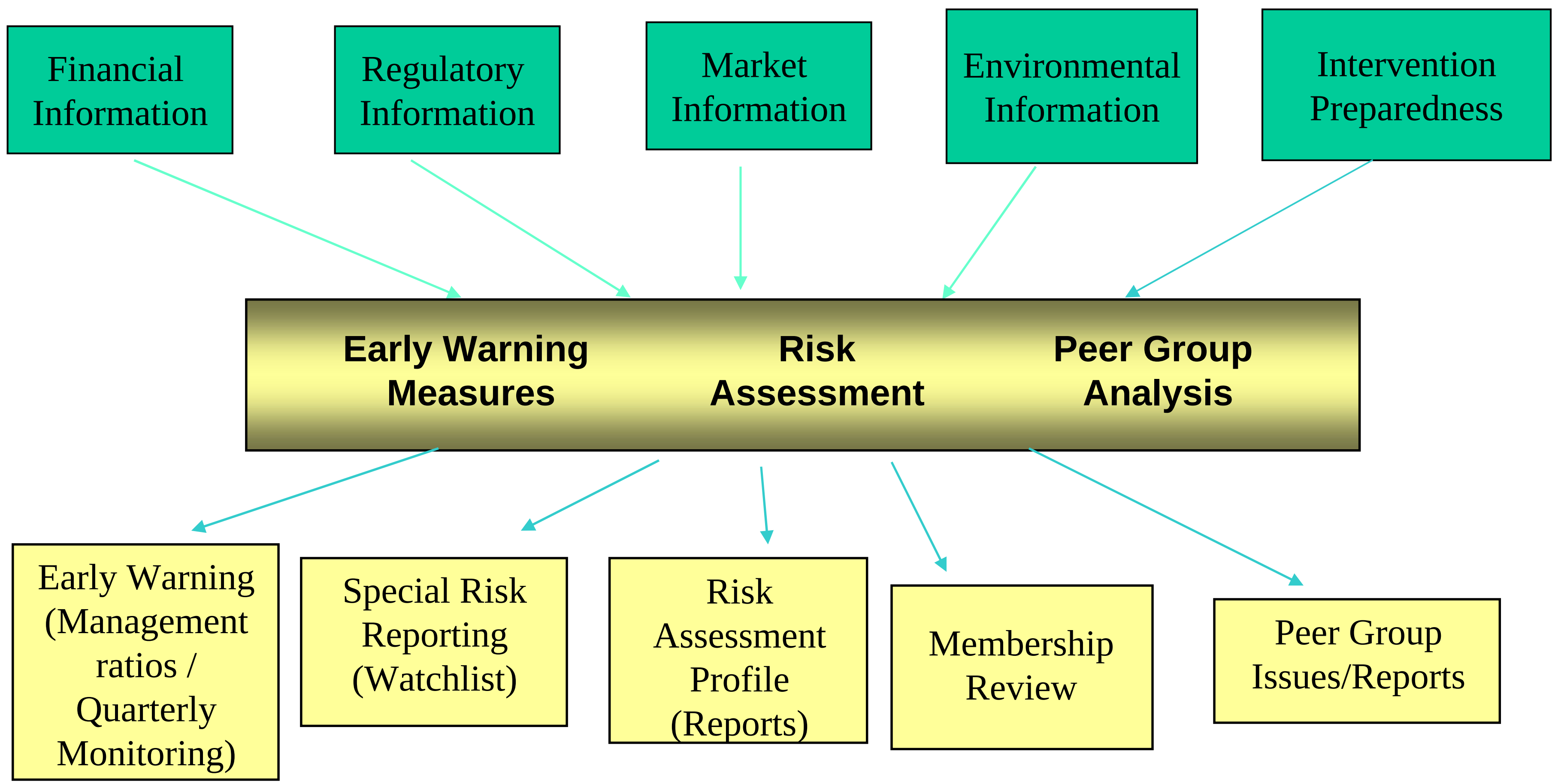
# Risk Assessment Framework



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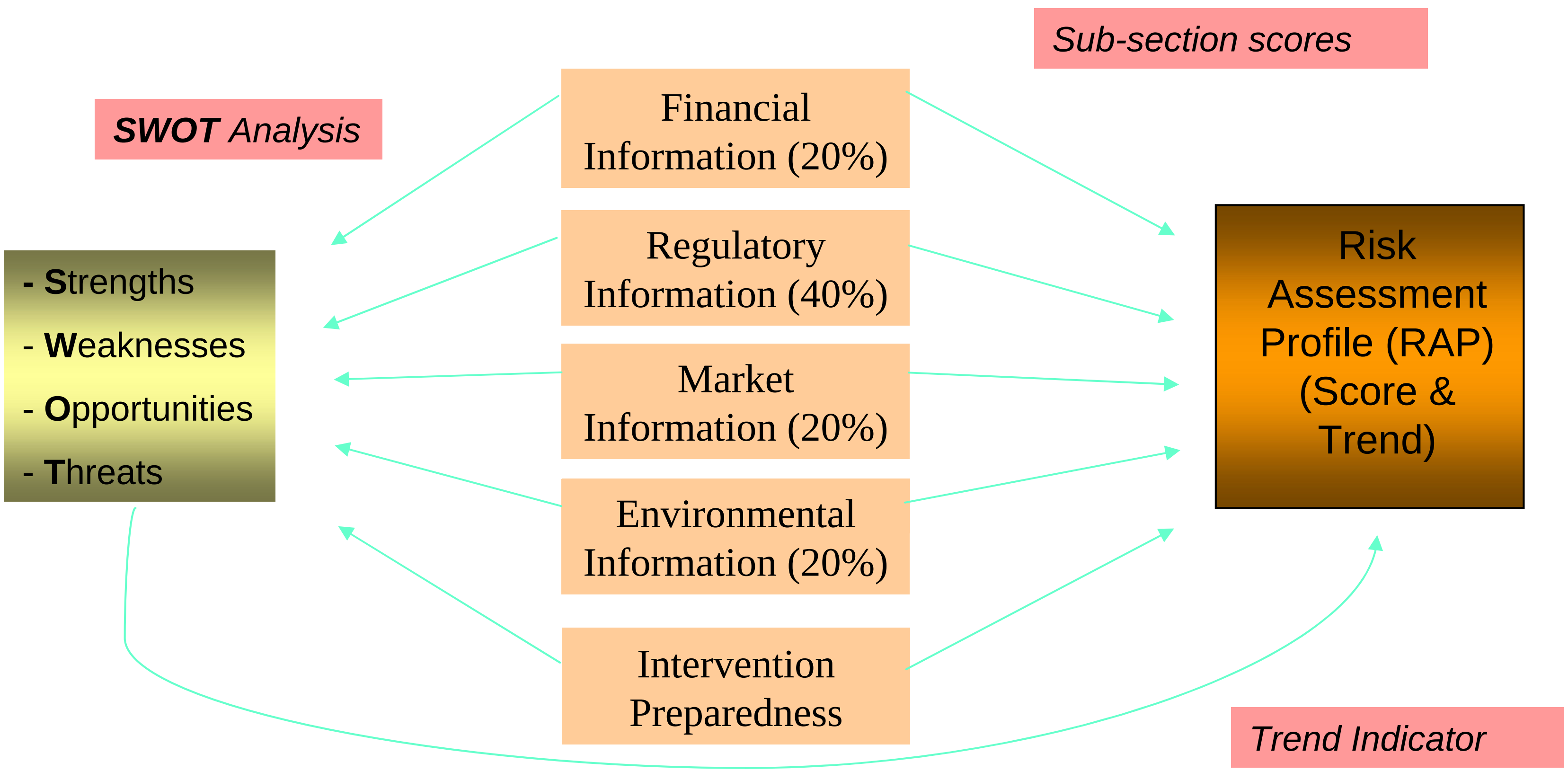
# RAP Sources of Information



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# Intervention tools