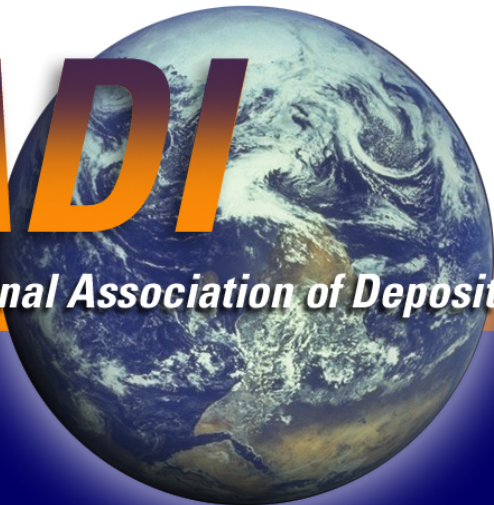


IADI

International Association of Deposit Insurers



*Sharing Deposit Insurance
Expertise with the World*

International Association of Deposit Insurers Annual Conference Opening Address

**Presentation by:
J.P. Sabourin**

**Chair of the Executive Council and President &
President and Chief Executive Officer
Canada Deposit Insurance Corporation**

**Brunnen, Switzerland
October 26, 2004**

www.iadi.org



“For every complex problem, there is a solution which is simple, neat, and wrong”

H.L. Mencken




The *Can't-Fail* Syndrome


- Perception that banks can't fail
- Creates public information challenges
- Globalization, technological innovation and financial liberalization creates new forms of risk
 - “creative destruction” occurs
 - IADI contributes to financial stability through research and guidance



Origins and Mandate of CDIC

- 
- Established in 1967 to protect citizens' deposits from financial institution failure
 - Also established to prevent "runs" on other deposit-taking institutions – contributing to overall financial stability
 - Crown Corporation accountable to Parliament

Origins and Mandate of CDIC


- 
- Mandated to reimburse depositors to a maximum of \$20,000
 - CDIC operated on the “paybox” model for 20 years
 - Powerful force have worked against stronger mandates, e.g.:
 - More active insurer may be more costly
 - Compliance burden may complicate system



Origins and Mandate of CDIC

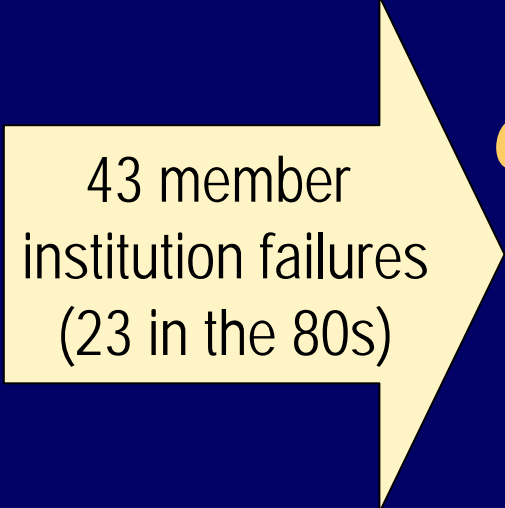
- Only two financial institution failures in the 1970s
- Five-member Board of Directors holding government positions
 - Three employees at CDIC until 1979



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- Canada experienced a wave of failures in 1980s-90s
 - Included 2 federally-chartered banks
 - 23 member-institution failures by the end of the 80s

Tumultuous 1980s


Since 1967...



43 member
institution failures
(23 in the 80s)

***CDIC payout of \$600 M
insured deposits***

***Government payout of
\$800 M
uninsured deposits***



***Many safety net agencies
encouraged customers to stay
with failing institutions***

- Primary regulator may be slow to identify potential for crisis
- Tendency for overconfidence in the application of regulator's powers



Radical action necessary to stop losses

- Creation of the Office of the Superintendent of Financial Institutions (OSFI) – 1987
- *Promote Standards of Sound Business and Financial Practice*
- Benefit depositors and minimize CDIC's exposure to loss



Enlarged Mandate

A "risk-minimizing" deposit insurer

- Board consists of government and private-sector membership
- Increased international awareness of the value of insurers independent from prudential supervisors and partisan persuasion
- Risk-minimizers most often reduce overall costs

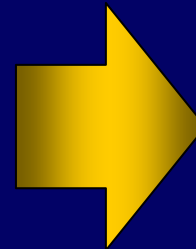
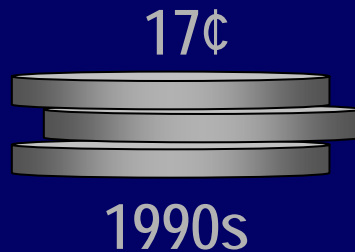




Reduced Costs of Deposit Insurance

43 member institution failures

Cost members \$4.7 B



\$ 5 B savings to CDIC

- Premiums charged to financial institutions lowest since 1982
- Operating expenses less than income on investments
 - Less than ¼ % of operating costs of member institutions

- Increasing mandate may bring reduced costs to financial system
- Active mandates = independence, facilitating innovation and reduced costs
 - CDIC takes a private-sector style approach to deal with bank resolutions
 - Distressed preferred shares
 - Risk sharing arrangements
 - Incentives promoting performance

- CDIC has moved from a flat rate premium to differential premiums based on classification
- Reduced reporting requirements under *Standards of Sound Business and Financial Practices*
- CDIC has reduced its own operating costs
 - 2003 – 20% reduction in employees, 10% reduction in annual reporting budget

- CDIC looks for models of efficiency and best practices from other deposit insurers
- IADI provides valuable guidance, research and information on best practices

- Crises in Mexico, Russia, East Asia and Argentina brought forth the *Financial Stability Forum*
- Effective deposit insurance arrangements must be international in reach
- IADI promotes wide international co-operation


“Weak mandates of supervisors, deposit insurers and resolution agencies to restructure banks create major problems. These entities should have clear frameworks, be adequately capitalized and have a board composed of reputable professionals” Ingves & Hoelscher – IMF

The Key intervention issue is *“exposure to loss”*
David Mayes – Bank of Finland

IADI Role in Interdependence

- IADI provides fora for assembling an up-to-date tool kit for deposit insurers
- Expanding scope of assistance and advisory programs:
 - Guidance strategy
 - Team of practitioners understanding public policy issues and management of an effective deposit insurance system

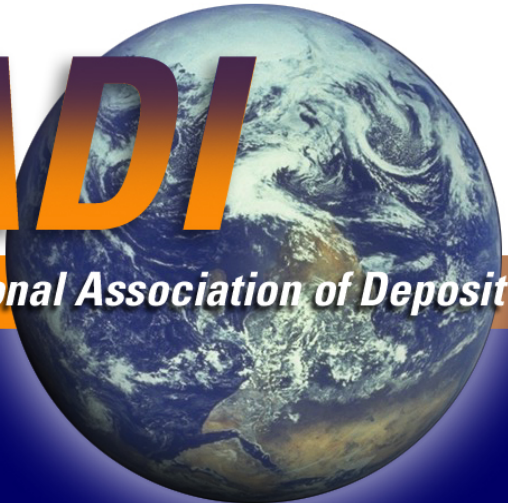
- Developing new initiatives and using best practices is due to CDIC's interdependence
- Deposit insurer is a separate legal entity in experienced systems
- Independent insurers are insulated from influences that detract from focus
 - Good governance requires accountability, transparency and integrity

- 
- Credibility is an important asset
 - Generates confidence
 - Promotes stability
 - Reduces disruptive and counter-productive conduct
 - Interdependence improves transparency and helps avoid conflicts of interest
 - Leads to co-operative mechanisms for information sharing and co-ordination

- Financial services industry is becoming more complex
 - With this comes increased risk
- IADI will play a greater role in collaboration to counter risk and contribute to stability

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