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Resources Planning in a Stable Concentrated Banking System

Contingency Planning Workshop
Wednesday, September 25th, 2013
Bucharest, Romania

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President and Chief Executive Officer

From \$1 to \$100,000 in savings protection.

Canada



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Canada: Stable Concentrated Banking Sector

Background

➤ Stable Financial Sector

- 43 bank failures since 1967
- Last failure: 1996
- Concentrated membership (as at April 30, 2013)
 - 6 DSIBs > 93% of assets
> 87% insured deposits
 - 81 member institutions

Mandate

1967 – 1986

Paybox +

1987 – 2005

Loss Minimizer

2006 – 2013

Loss Minimizer

(+ large bank resolution)

Employees

2 – 33

45 – 79

79 – 102

Failures

22

21

0





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Main Challenges

- **No recent real-time practice**
- **Limited # employees: efficiency**
- **Extreme disparity in membership:**
 - Small niche players (no branches; <100 M \$ in assets)
 - Global players ('000s branches; >500 B \$ in assets)
- **Full range of resolution powers: from termination/liquidation and payout to forced sale/bridge bank.**



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Readiness Objectives

“Ready” to resolve all members: Small/Simple to Large/Complex

- **Reimbursement/payout: continuous enhancements**
 - Fast
 - Secure
 - Convenient
 - Efficient

- **Complex resolutions: capacity of building**
 - Plans
 - Domestic and International cooperation
 - Evolving best practices
 - Internal preparedness



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How do we Stay Ready?

1. **Ensure time to prepare**
2. **Impose requirements on banks**
3. **Build scalability:**
 - ❑ Systems
 - ❑ Human Resources
 - ❑ Funding
4. **Practice, Practice, Practice**

→ Speed and Effectiveness of Execution



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Ensure Time to Prepare

- **Understand risk: No surprise**
 - ❑ Timely / frequent information from Supervisor: all members
 - ❑ Independent risk assessment function
 - ❑ Early warning and monitoring system
- **Establish a base line public awareness**
- **Actively manage higher risk members / situations**
 - ❑ Watchlist: Measured escalation process
 - ❑ Coordination with Supervisor
- **Undertake advance targeted preparations**
 - ❑ Special examination (asset valuation and estimation of CDIC exposure)
 - ❑ Preparatory examination



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Impose Requirements on Banks

- **Deposit Insurance Information**
- **Deposit Data and System Requirements**
- **Resolution planning information and analysis**



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Build Scalability – Systems

- **Investments in software (multi-year/multi million \$\$)**
- **Capacity:**
 - 2004: <100k depositors
 - now: tens of millions depositors
- **Scope: Insurance determination + holds on uninsured balances**
- **Effectiveness:**
 - a) computation time - maximum # hours (8 hours)
 - b) robustness: volume / time (1.4M depositors/hour)
- **Testing: with bank data and simulations**



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Build Scalability – Human Resources

- **Core group: “Readiness Group”**
 - 25 PYs complex resolution
 - 25 PYs non-DSIBs resolution (including payout)
 - 10-15 PYs support (IT, Legal, Finance)

- **Stand-by Arrangements:**
 - Accounting firms (2)
 - Call centre
 - Website host
 - Public relations firm
 - Legal advisors
 - Information systems service provider
 - Printing house



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Build Scalability – Funding

➤ **Ex-ante fund:**

- \$2.6 B (40 bp of insured deposits) as at March 31, 2013: covers members except 12 largest
- Minimum target: 100 bp of insured deposits

➤ **Access to borrowing:**

- from Government or Capital Markets
- maximum of \$19 billion at January 2013, increases annually

➤ **Access to additional funds:** Special Act of Parliament



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Practice, Practice, Practice (1)

➤ **Corporate Priority: Readiness**

- 13 Initiatives for 2013/2014
- Audited / reviewed
- Progress reported to Board of Directors
- Table top & Simulations
 - Corporate-wide activity
 - Development of core competencies
 - Planned on-going basis



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Practice, Practice, Practice (2)

➤ Participants

- Employees
- Stand-by resources
- Other safety net agencies
- CDIC Board
- Other domestic/foreign parties



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Practice, Practice, Practice (3)

	Tabletop Exercises	Targeted Testing / Training	Full Simulations
Duration	Hours – 1 day	½ day – 1 day	1 week (continuous)
Participants	Small groups <ul style="list-style-type: none">• CDIC only or with safety net agencies	Readiness group & selected stand-by's	Readiness group & stand-by's & safety net agencies
Frequency	Multiple times per year	Once – twice per year	Once per year
Topics (examples)	<ul style="list-style-type: none">• CDIC resolution powers• Two-track resolution approach• Inter-agency coordination in failure scenario• Lessons learned from past failures	<ul style="list-style-type: none">• Call centre testing• System capacity testing• Payment process training	<ul style="list-style-type: none">• Small-medium bank payment: over the week-end +• Large bank insurance determination and holds



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Conclusion

Key Success Factors

➤ **Share the pain**

- Banks (requirements)
- Safety net agencies (information + cooperation)

➤ **Keep troops motivated**

- Corporate priority
- Value all contributions: from early risk identification to process / system development to execution
- Team-based incentives

➤ **Set specific goals and regular incremental progress**

- Credibility
- Confidence



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