

Canada Deposit Insurance Corporation Act

● (1110)

The Senate report on the deposit insurance system, the House finance committee report, and the Wyman report all recognized the importance of ensuring that the CDIC has adequate financial resources. Consequently, it was recommended that CDIC premiums be increased.

At the same time, however, the Government agreed that any increase in CDIC premiums should be on an interim basis, pending a full review of the deposit insurance system. For this reason, the premium increase in Bill C-86 expires at the end of the 1986 premium year. The Government is presently conducting a comprehensive review of the deposit insurance system, and additional legislation will be forthcoming.

The Government has benefited greatly in this review process from the various reports which have been prepared, most particularly by the House. I thank Members of the House finance committee, of the Senate banking committee, and of the Wyman committee for their valuable contributions to this very important public policy debate.

Given the importance of the deposit insurance system in maintaining public confidence in the financial sector, I ask all Members of the House to support the legislation as expeditiously as possible.

Some Hon. Members: Hear, hear!

Miss Aideen Nicholson (Trinity): Mr. Speaker, the Bill before us is a simple one. It does two or rather three things with which no one would have much disagreement. However, it is also remarkable for what it fails to do.

The Bill increases the premiums paid by the member institutions of CDIC, which is clearly needed and to which I will return later. The Bill also adds up to four private sector directors to the board and has provision for conflict of interest guidelines to be established by the board.

As I said, it is a simple Bill but perhaps it is remarkable at this stage, almost two years into the Government's mandate. The Government had the advantage of a private sector consultation committee set up by the previous Government which had worked for a year. In effect, after almost three years of work we have very little before the House to strengthen our financial institutions.

The Canada Deposit Insurance Corporation, generally known as the CDIC, was established in 1967. All chartered banks and federally incorporated trust, mortgage, and loan companies must be members. In addition, provincially incorporated trust and loan companies can apply to be members. The main purpose of the corporation is to maintain an insurance fund as a protection for the savings of Canadians held in member institutions. I do not have up-to-date figures, but at the end of 1983 there were 137 federal member institutions and 51 provincial member institutions. By law, members of the corporation, having become members, must

remain members. If they are undergoing a difficult time, they cannot simply withdraw.

The CDIC now insures savings to a maximum of \$60,000 per depositor per institution. That ceiling was introduced in the last Parliament. It was raised from \$20,000 in response to failures of trust companies in Ontario. Since its enactment in 1967, the CDIC has stipulated that deposit instruments for periods of longer than five years are not protected by deposit insurance. Deposits in non-Canadian funds are also not protected.

Recently we had at least one situation where depositors who had certificates with a six-year or seven-year term thought they were insured and found to their distress that they were not. The by-laws of the CDIC stipulate that uninsured instruments should be clearly marked on their face, "this is not an insured deposit as defined by the Canada Deposit Insurance Corporation Act". Unfortunately the Act does not impose any penalty for non-compliance with the by-laws, and non-compliance occurs. This is another issue which was not addressed in the Bill before us.

Member institutions contribute to the insurance fund based on the amount of insured deposits they hold. This has created some tension among member institutions in recent years. The banks complain that they make the largest contributions while the trust companies create the problems which result in a drain on the insurance fund. That argument is not so easily made now that we have had two banks fail. However, they were small regional banks. Many financial institutions continue to say that across the board arrival at a premium rate is not fair and that there should be a system of relating premiums to risk or to performance. This is another issue which was not addressed in the current Bill.

When the Government of Ontario took over three Ontario based trust companies, Crown, Greymac, and Seaway, CDIC decided to wind the companies down slowly instead of closing them and liquidating their assets. This may have been a good decision for those who eventually would receive some of the assets. It obviated the risk of a "fire sale". It may have protected the shareholders' interest, but other problems were created as a result. In the case of those three Ontario based trust companies, the CDIC made loans of almost \$950 million, and I understand the losses were somewhere around \$650 million.

On March 25, 1985 there were further demands on the Canada Deposit Insurance Corporation because of the bail-out of the Canadian Commercial Bank. The CDIC contribution to that rescue package at that time was \$75 million. Subsequently, when the decision was made in September to wind up the Canadian Commercial Bank and Northland, of course there were further demands on the CDIC.

The legislation governing the CDIC gives it a \$1.5 billion line of credit from the Government of Canada, so there is no current threat to its ability to guarantee savings deposits. However, obviously a solution had to be found to make it more