

*Canada Deposit Insurance Corporation Act*

after it ourselves, we blow the whistle and do something about it.

It is the closeness by which the inspection system in the Province of Quebec operates with respect to the markets which has enabled the Quebec regulators to point out to the finance committee that no Quebec company, despite downturns and financial problems, has run into difficulties because, having the street knowledge they do, they were able step in early before problems got to the point where they had to bail out the uninsured, the insured and run a large draw on the public account.

It is this whole necessity to be close to the market that demands we have the financial industries themselves represented in the management of deposit insurance, and generally in the management of the inspection system. The knowledge of those organizations which are picking up the freight in terms of the cost of insurance should be there to ensure there is no loss or damage. Second, if the organizations themselves are well represented on the boards, then they will ensure that one of their numbers picks up assets which are perhaps not too marketable in order to fund the organization so it will not continue to have to look to members for losses. It is important in a financial guarantee system which the Canada Deposit Insurance Corporation offers to depositors that the system be managed, directed and inspired by people who know what is going on so that the costs to the public, generally, are not too great.

People mention conflict of interest. Let me point out to you, Sir, that the real conflict of interest is in what the Government and the industry want. The Government and the industries want the public to be protected, otherwise we would not have a deposit insurance scheme and the stockbrokers would not have a scheme to protect those who lose money in the market as a result of the defalcation of a broker; otherwise the general insurance people and the property and casualty people would not be talking that way, and nor would the life and health people. The industries themselves want that protection available because it means they can sell their intermediary activities easier to the public. Consequently, intermediary financial protection, such as the CDIC offers to banks and trust companies, is important and necessary for financial intermediaries in order for them to deal with the public. Therefore, they themselves need the Canada Deposit Insurance Corporation far more than anyone else, because they could not get along without it. The consequence is that they have the real interest to ensure that Canada Deposit Corporation is healthy and well managed.

Often the conflict, if there is one, is with Government which wants to use the money for social purposes, wants to bail out people who perhaps should not be bailed out. So that is a conflict. When we talk about conflict of interest, let us understand what we are into. It is in the interests of the financial intermediaries to ensure that a sound deposit insurance system works. It is in the interests of the property and casualty companies to ensure that when one buys an

insurance policy and the company by misfortune goes bankrupt one is covered. These companies want to be able to sell confidence. They want to be able to have that confidence which makes our financial system work. Those in the business, more than anyone, want that confidence there. To suggest they are somehow going to learn things and do things and act against their own self interest is not to understand where the self interest lies. I can assure you, Sir, that self-interest is making the system sound.

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Lawyers understand the importance of self-interest to the law profession. They have a Law Society with teeth that can disbar people who do not act properly. Even chiropractors have an arrangement to make sure that when chiropractors act improperly they may lose their licences. Surely to goodness bankers ought to have the same confidence and ability and the same control over how their organization's work and how the public interest is protected. If the public interest is not protected, bankers are out of business pretty quickly, so their prime interest should be to make sure that those in the field operate with discretion and honesty for the benefit of all.

Very rapidly, we must develop a new financial administration in Canada. We cannot carry on much longer with an Inspector General's Office which has only three people working outside of Ottawa while the other 70 are employed in Ottawa. There is no sense in that. We cannot work much longer with an office of the Superintendent of Insurance of which only 55 of 256 employees are stationed out of Ottawa. The financial deals of the country are not made in Ottawa, they are made on the streets, in the business districts and in the banks and trust companies across the country. That is where the defalcations occur, that is where the directors are, that is where the employees are stationed and that is where it has to happen.

The present system leads with its chin. It is a system pointed toward problems. While the offices of the Inspector General and the Superintendent of Insurance are working to try to straighten matters out, without proper legislation and direction, without a new organization and a refurbished Canada Deposit Insurance Corporation and without a central inspection system, we are asking for further problems no matter how hard Bob Hammond and Don McPherson work.

Last, the Canada Deposit Insurance Corporation, which indeed provides premium insurance protection and insurance against the defalcation of life insurance companies and the like, is very important. It is the kind of thing we need to re-establish confidence in our financial system.

Our financial system was damaged badly last year with the defalcation of a number of trust companies and the two western banks. After reading financial publications from around the world and speaking to senior bankers, it is surprising to discover how hurt our international financial reputation was by the problems of the Northland and Canadian Commercial Banks. Perhaps this was even intensified by the dragged