Unlike the deposit insurance coverage underwritten by the Federal Deposit Insurance Corporation in the United States, reviewed and revised upward over the years to the present level of $100,000 per depositor per institution, the $20,000 insurance ceiling imposed since 1967 has never been revised. Using the all items Consumers Price Index for Canada as a measure of inflation, the purchasing power of the $20,000 in 1967 would approach $60,000 in 1982. In order to afford the public the same degree of protection today, it is recommended that the deposit insurance per depositor per institution be increased to $60,000, a level that restores the real value of protection offered when it was introduced in 1967, and that it be reviewed every five years.

3.10 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The adequacy of a bank's capital base is fundamental to good banking practice and the protection of depositors' savings. It is also fundamental to the system's ability to finance the needs of Canadian businesses and households.

Increasing the capital base is directly and indirectly related to bank profitability. Earnings' retention increases the size of shareholders' equity and is obviously related to bank profits. Healthy profit performance also increases the value of equity and thus reduces the cost of raising new equity through capital markets. Over the past 18 months, the banks used the capital market to sell new capital issues whose total value far exceeded the banks' relative size in this market. Because of the large demands placed by the banks on the capital markets, some new issues were reduced. During this period, the banks took the maximum amount of new capital that the market made available to them.

The Committee believes that Canadian chartered banks should be owned and controlled domestically; yet consideration should be given to greater use of foreign capital to fund the capital base of the banks. This can be done in such a way as to present no threat to the domestic control of the industry. The 1980 Bank Act revisions moved in this direction, by allowing banks to issue non-convertible debentures in foreign currencies. But it is unclear whether banks are allowed to issue convertibles in foreign currencies. In this respect, the Committee recommends that:

2. Banks should be permitted more flexibility in issuing equity capital in foreign markets, in order to remove the onus on Canadian capital markets to fund future growth in the banks' foreign operations. The 75 per cent Canadian ownership constraint under the Bank Act should continue to be observed, however, as should the rule limiting individual ownership of a bank to 10 per cent.

It is not expected that the present level of bank capital would prevent the banking system from financing a recovery from the current recession. Nevertheless, a healthy and well-capitalized system is a prerequisite for strong and sustained recovery and, in that respect, investor confidence is vital. This confidence has been somewhat shaken recently by the realization that a few individual bank loans have been made that represent a very high proportion of bank capital. This problem is further compounded by the fact that the current definition of capital is being reconsidered, creating uncertainty as to what constitutes the capital base of a bank.