

Canada Deposit Insurance Corp.

believe that improvements designed to protect the public interest are not only a responsibility of governments; there is a useful role to play for those in the business, with a view to achieving higher standards.

In the meantime it seems desirable to get ahead with deposit insurance which is a major step in itself. One of the reasons for wanting to proceed now with this measure is that it is of interest in relation to the banking legislation being considered by the standing committee on finance, trade and economic affairs.

It is expected that the proposed system of deposit insurance will achieve three important objectives: (1) The primary objective, of course, is to ensure the safety of those depositors who are usually not in a position to judge for themselves the financial soundness of the institutions to which they entrust their savings. (2) The Canada Deposit Insurance Corporation will also have power to function as a lender of last resort for deposit-accepting institutions, providing needed liquidity at times of crisis when such institutions may not have access to their normal sources of liquidity. (3) Member institutions will be subject to inspection. It will be an objective to bring about a gradual improvement in the minimum financial standards of deposit-accepting institutions across the country. There will be a sympathetic and helpful attitude toward institutions which wish to co-operate in this objective.

Membership in the deposit insurance plan will be obligatory for chartered banks, Quebec savings banks and those federal trust and loan companies which accept deposits from the public. Provincially incorporated trust and loan companies which accept deposits from the public will be eligible to apply for membership if they have the consent of the province concerned.

It is not proposed that deposit insurance be available to credit unions and caisses populaires, which are co-operative institutions dealing with their members rather than public deposit-accepting institutions. To a considerable extent mutual insurance schemes have already been established for the local credit unions. At the federal level there is the Co-operative Credit Associations Act which provides for the incorporation by special act of the parliament of Canada of co-operative credit societies. Amendments to the Co-operative Credit Associations Act are presently under consideration. Among the matters which will be reviewed is whether or not a lender of last resort facility is needed in connection with the operation of these societies.

Deposits of the public will be insured up to a maximum amount of \$20,000 per deposit account, an amount which seems enough to cover the type of depositor needing this kind of protection. It has been thought best to leave room for flexibility in the definition of insurable deposits.

● (4:20 p.m.)

It is quite likely that new instruments will appear from time to time, and it seems very desirable to be able to rule whether or not they should be regarded as insurable deposits. It is proposed, therefore, to define the kinds of deposits eligible for insurance under by-laws of the corporation which will require the approval of the governor in council, but they will, of course, include all the usual forms of savings and deposit accounts.

It is expected that the greatest need for the lender of last resort function of the Deposit Insurance Corporation is likely to arise in relation to the demand for quite short-term deposits of insured institutions. To the extent to which the liabilities of financial institutions are of a long-term character, given good management they should be able to protect themselves by holding an appropriate distribution of assets. However, in the case of institutions with very short-term liabilities, it is difficult for them both to make any profit on their operations and to keep enough short-term assets to protect themselves against all emergencies. Even if they maintain high standards of financial management, events taking place elsewhere in the financial system, perhaps outside Canada, can have repercussions that produce serious liquidity problems for them.

Turning now to specific measures involved in the proposal to establish the Canada Deposit Insurance Corporation, I shall mention the major features.

1. It is proposed to establish a new crown corporation to be called the Canada Deposit Insurance Corporation. It will be under the management of a board of five directors, including a chairman of proven financial experience from outside the public service to be appointed by the governor in council. The other four directors will be the Governor of the Bank of Canada, the Deputy Minister of Finance, the Superintendent of Insurance and the Inspector General of Banks.

2. Parliament is asked to provide the \$10 million share capital of the corporation and a deposit insurance fund will be built up out of premiums of 1/30th of one per cent per annum on the insured deposits of member institutions. When the fund has reached adequate