

Canada Deposit Insurance Corporation Act

In conclusion, once again I urge that the House give this legislation speedy passage. The CDIC plays a key role in protecting the savings of small depositors in our financial institutions. This Bill will increase its ability to do that job and thereby help to build greater confidence among the public in the strength and stability of our financial system in the future.

Miss Aileen Nicholson (Trinity): Mr. Speaker, the ongoing review of the regulation and supervision of Canadian financial institutions began in the last Government. The Bill before the House today takes two more steps along the road. In her appearance before the House of Commons Finance Committee on September 9, 1985, the Minister of State for Finance (Mrs. McDougall) gave notice of the provisions of this Bill and of draft legislation, both of which she described then as items of high priority and both of which were tabled in the House on November 29, 1985.

● (1530)

Bill C-86 proposes to do two things. First, it proposes an increase in the premium level paid by the CDIC's member institutions. Currently they pay one-thirtieth of 1 per cent of their insured deposits. Bill C-86 proposes to triple that to one-tenth of 1 per cent. The increase is to be in effect for one year only. Second, the Bill proposes increasing the size of the CDIC's board of directors to include members from outside the public service.

While the CDIC is meant to be funded by its member institutions, it has been operating from a deficit position for some time, existing on funds borrowed through its \$1.5 billion line of credit from the Consolidated Revenue Fund. The CDIC deficit, now estimated at over \$1 billion, reflects the recent troubles of Canadian financial institutions, the spectacular failure of several Ontario trust and loan companies, and, more recently, the Government bail-out and subsequent failure of the Canadian Commercial Bank and the failure of the Northland Bank.

In 1982 deposit insurance coverage was increased from \$20,000 to \$60,000 after the Ontario Government seized three trust companies, believing public funds were at risk. In order to protect those funds, the federal Government moved to ensure all depositors in the institutions at the new higher rate.

In 1985, as part of the CCB bail-out, the CDIC committed \$75 million. According to its 1984 annual report, CDIC did not make any provision for loss as it expected to be fully reimbursed. Later, when the CCB went into receivership and the Northland Bank seemed doomed to follow, the Government announced its intention to reimburse all depositors in both institutions, even those whose deposits exceeded the \$60,000 limit.

Insofar as insured deposits are concerned, CDIC paid out \$250 million to Canadian Commercial Bank depositors and \$170 million to Northland depositors. That, of course, does not include the payments to uninsured depositors which were authorized by a separate Act passed in this House and which came to \$430 million for the Canadian Commercial Bank and

\$470 million for Northland. At this point estimates are putting the CDIC's deficit at \$1.2 billion.

Apart from the financial stresses imposed by the failure of financial institutions in recent years, the CDIC is also having to deal with the burden of administrative work which it was never designed to deal with. The CDIC was established in 1967, basically to maintain an insurance fund to protect the savings of Canadians and the ceiling on deposit insurance targeted the protection toward the small or so-called unsophisticated depositor. Until the "Trust companies affair" in Ontario and the collapse of Fidelity Trust in Alberta, the CDIC had quietly processed premiums and dealt with administrative paperwork but, with the trust company difficulties and the later bank failures the CDIC was drawn into a new and unaccustomed monitoring role.

The CDIC is, after all, the insurer and not the regulator under present legislation. Its staff and board of directors are small. While staff size has increased in the last four years, many of the new preoccupations of the agency are being handled by outsiders: consultants providing information and analysis with regard to institutions being wound down, agents on long-term contracts to look after particular problems, and private sector committees set up by CDIC to deal with such things as the disposition of real estate assets on CDIC's books.

Currently the CDIC has an estimated \$1 billion in real estate financed by 18 failed institutions all across Canada. CDIC resources have been stretched very thin by the circumstances. Clearly it was, and is, necessary to have review and change in a system that, through force of circumstances, has exceeded its operational bounds and evolved beyond its original purpose.

Of course, the experience of CDIC in the past few years has been paralleled by tremendous change and ferment in the financial services industry in general. Deposit insurance is an integral part of the system. This is why the House of Commons Finance Committee and the Senate Banking Committee considered together the Green Paper on financial institutions and the private sector Wyman committee report on the CDIC. Because deposit insurance is really inseparable from financial institution regulation, it is necessary to put the provisions of Bill C-86 in context.

We are in the middle of a review process whereby reasonable caution must be balanced with the feeling of urgency engendered by the events of the last three years. The interaction of several factors including concentration of ownership and control, predominance of real estate related activities, high-risk transactions, and adverse economic conditions has shown the vulnerability of existing prevention and detection mechanisms. The legislation coming out of the current review process must steer a very careful path indeed. The supervisory system must be effective, but must not be so rigid as to stifle the industry, cut off emerging policies, or over-emphasize supervision. It must also, as far as possible, reconcile the interests and objectives of the parties involved, particularly in different jurisdictions.