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Chair

Mr. Massimo Pacetti

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● (1110)

[*Translation*]

The Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Good morning, Mr. Saint-Pierre. Welcome to the Standing Committee on Finance. I believe you have a copy of the agenda. There will be two stages to this meeting. The first hour will be a discussion on your appointment as president and CEO of the Canada Deposit Insurance Corporation (CDIC), in accordance with the certificate of nomination referred to the committee on April 22.

After that, we will spend one hour examining the report. Is that all right with you?

Mr. Saint-Pierre has five minutes for his remarks. After that, each committee member will have five minutes for questions.

Mr. Saint-Pierre, you have the floor.

Mr. Guy Saint-Pierre (President and Chief Executive Officer, Canada Deposit Insurance Corporation): Thank you, Mr. Chairman. Honourable committee members, thank you for this opportunity to appear before you today. I will take a great pleasure in answering your questions on my appointment to the position of president and chief executive officer of the CDIC, as put forward by the government. I will also talk to you about the CDIC's 2004 annual report.

First of all, I am extremely proud of the work of the CDIC and the interest of the government in deposit insurance.

To begin with, I would like to take a few minutes to talk about my qualifications and my work at the CDIC. As you will see in my curriculum vitae, which has been distributed to you, I am from Quebec city. I studied in Ottawa, where I have remained since graduation. My studies were in accounting and finance, and I am a chartered accountant and a certified management accountant.

[*English*]

Mr. Charlie Penson (Peace River, CPC): I am just curious. I am not sure what part of this section we are doing first. Are we doing the review of Mr. Saint-Pierre's credentials first?

The Chair: We are going to do the position of chief executive officer for the first hour, and then we'll look at the annual report in the second hour.

[*Translation*]

We are following the agenda. The first hour is set aside to discuss Mr. Saint-Pierre's appointment only.

Please go on.

Mr. Guy Saint-Pierre: My professional experience was acquired in both the public and the private sectors. Before joining the public sector, I worked for a variety of firms, in finance-related positions of increasing responsibility.

[*English*]

I began working at CDIC as a director of monitoring and standards in 1987. Today, 18 years later, I'm the executive vice-president and CEO of CDIC, a post that I assumed in December 2002.

My career at CDIC has progressed in three phases, which in many ways reflect the evolution of the Canadian banking sector over those years. My first seven years at CDIC consisted of a period of many members' failures—21 of them.

On behalf of CDIC, I negotiated the purchase and assumption agreements of our three largest member failures—Central Guarantee Trust, First City Trust, and North American Trust Company.

During this period, CDIC went through all its cash and investments on hand and had to borrow a further $3.7 billion from the government to handle its deposit insurance obligations.

With my team, I developed a variety of creative solutions, such as deficiency coverage agreements and a loss sharing agreement to avoid paying out $13 billion in insured deposits to depositors of Central Guarantee Trust and First City.

The lessons learned from this period evolved into the second phase of my career at CDIC, a stage where we worked to create a framework to minimize members' failures, or if need be, to resolve them as effectively as possible.

CDIC developed its risk assessment capability while I was in the position of VP of insurance and risk assessment. I developed and implemented CDIC's standards of sound business and financial practices for member institutions. I also instituted a risk-based differential premium system to distinguish among members and to help motivate them to improve their risk profiles.

We have been failure-free for the last nine years, which brings us to a new phase that is not without challenges. Today we have more complex financial institutions and associated risks. These institutions find themselves with new deposit and financial instruments. Competition is intense both at home and around the world. This has highlighted the need for deposit insurance to be provided as effectively as possible, taking into account the burden imposed on our members.

To align ourselves with the new reality, together with our CEO I led a strategic reorganization of CDIC in 2003 to reduce costs. Then in 2004 I conducted consultation with the industry to solicit their views on reducing regulatory burden and improving deposit insurance in Canada.

Our chairman and I met with the CEOs of a cross-section of our members to hear from them directly about what we are doing well, and of course about what we could do better. More recently, I led the CDIC in its dialogue with the government and the federal regulator, the Office of the Superintendent of Financial Institutions, OSFI, to reduce unnecessary overlap and duplication.

● (1115)

[*Translation*]

In conclusion, I would like to point out that Canada's financial sector is one of the most efficient and stable in the world. Today, the Canada Deposit Insurance Corporation (CDIC) is recognized as the world leader in deposit insurance.

I will make a commitment before you today to maintain the sound reputation we have acquired in Canada and abroad, and to encourage sound practices and sound corporate governance, while seeking increasingly innovative solutions. Thus, we will maintain public confidence in the Canadian financial sector.

[*English*]

I am deeply committed to the mandate of CDIC and its role in protecting consumers.

I am honoured to have been proposed for this appointment, and with your support I look forward to fulfilling the responsibility that has been entrusted to me.

Thank you, Mr. Chair.

Merci.

The Chair: Merci, Monsieur Saint-Pierre.

We have nine members, so we'll try to do five minutes each—so 45 minutes—and then we'll go on to the next item.

Mr. Penson.

Mr. Charlie Penson: Thank you, Mr. Chair.

Welcome here today, Mr. Saint-Pierre.

I see you've been involved with the corporation for some time and you were involved during the time of the failures of a number of institutions. Mr. Saint-Pierre, what have you learned in this capacity of reorganizing that would benefit you in the position you're applying for?

Mr. Guy Saint-Pierre: Thank you. That's a good question.

Obviously, the Canadian financial system always evolves. When we dealt with the institutions in the nineties, we at the CDIC were left with having to liquidate all of the assets that had been acquired and to fulfill our obligations with regard to the facilitation we had provided, and so on. Obviously, we needed to have personnel at CDIC to deal with all of those issues, and so on.

Times have changed. There are fewer presently. The reorganization of the CDIC took place in 2003; it was more to address our new challenges, and we had less need for people who specialized in liquidation and in recouping the assets of failed members, and so on. Obviously, we have adapted. I think my experience with reorganization at the CDIC is to make sure that we are still able to fulfill our mandate and that we look to the future and new challenges and try to address the realities of the present time.

Mr. Charlie Penson: Mr. Saint-Pierre, I know we're going to have a little crossover with the next section here, but there are two questions I want you to answer. One has to do with the announcements in the budget that OSFI is going to be using a check and balance against your system. I'm wondering if you see that as duplication or as a complementary service. I'm wondering what need there is for it.

The other question I have is whether this is a promotion for you. Was it offered to you? Was it an open competition, and did you apply, or how did this come about that your name has been put before us today?

● (1120)

Mr. Guy Saint-Pierre: In regard to the first question, CDIC and OSFI work hand in hand; the legislation is built to that effect. For example, by law, the Office of the Superintendent must, on behalf of CDIC, examine our members. CDIC, on the other hand, is entrusted with the insurance fund. It must manage its risks and try to minimize its exposure to loss. We have put in place with OSFI a strategic alliance agreement to help us coordinate our activities after the examinations, so that we discuss the results of each examination of our members and what would happen if there are problems and how we would coordinate. So I would say it is certainly not duplication.

Nonetheless, at this stage in 2005 we have identified one area in which we feel there are possibilities for duplication. It is with regard to our standards of sound business, which we've had in place for the last ten years. OSFI has issued guidelines on similar subjects, on corporate governance and risk management, and so on.

Mr. Charlie Penson: Mr. Saint-Pierre, I'm sorry to interrupt you, but what I'm trying to get at is that this is a new development just introduced in the budget, so there must have been some reason for this change being made. You've been telling us that you've worked closely with them in the past, but why is this change needed, and do you see it as complementary or not?

Did you request the change, or where did it come from?

[*Translation*]

Mr. Guy Saint-Pierre: Yes, we suggested to the minister that he modify the standards.

[*English*]

We suggested that to the minister, these sound business standards, because we felt there was duplication in that area. There was no need to have the standards at CDIC and at the same time guidelines at OSFI on the same subject. So yes, there was a suggestion in that regard for those changes announced in the budget speech.

With regard to the other question, obviously, I am an internal candidate. I can only tell you the process I had to follow with regard to my appointment, like everybody else. I must also say that we had in place a strong succession plan at CDIC, so my appointment in 2002 was certainly part of that succession planning process. But as far as the process for my appointment is concerned, like everybody else, I had to type a résumé and send it to the consulting firm we had retained, Ray & Berndston. I had an interview with the consultant, following which I was a candidate chosen to be interviewed by the nominating committee of the board. Thereafter, I had a further interview with other members of the board, including the Governor of the Bank of Canada, the Superintendent of Financial Institutions, and so on, and the other members of the board. I was advised thereafter that I had been recommended by the board to the minister for appointment.

The Chair: Thank you, Mr. Penson.

Monsieur Côté, and then I have Monsieur Bell.

[*Translation*]

Mr. Guy Côté (Portneuf—Jacques-Cartier, BQ): Thank you, Mr. Chairman.

Mr. Saint-Pierre, thank you for your presentation.

I am certain you are extremely well qualified, because you were born in Quebec city, as I was. So at the outset, I know that is an excellent point in your favour.

Some Hon. Members: Oh, Oh!

Mr. Guy Côté: Recently, I read that in major organizations, transitions in senior management were generally much more successful when candidates came from within the organization. I would tend to think that is indeed the case.

That said, in banking, generally speaking, people tend to be conservative and traditional. Do you believe that your thinking is directly in line with your predecessor, or are there specific issues that you would wish to focus on within the organization? Things you would like to implement?

● (1125)

Mr. Guy Saint-Pierre: Mr. Chairman, that is a good question. We must, of course, continue with a number of things. We must always be ready to face anything. I was head of operations, and I always made sure that we were prepared.

As you know, deposit insurance is a highly-specialized field of banking. Making a deposit insurance payment is a very complicated exercise, requiring a great deal of preparation. So we must continue to focus on preparation. The system has changed and developed. Since 1996, the last time we made a deposit insurance payment, a great deal has changed. Let me give you some examples. In 1996, there were no Internet banks, ATMs were just beginning to appear, and many deposit instruments did not exist, including those whose yield is pegged to a market index. So we must always be prepared. I will continue the work begun there.

Another thing we do is conduct advertising campaigns to inform people about what deposit insurance is. In recent years, the focus has been on television. In my view, we could be doing other things, such as targeting certain groups, including seniors. As you know, many baby-boomers will be retiring, and will become increasingly concerned for protecting their money, their deposits.

Our surveys have shown that immigrants know little about deposit insurance. That is one area where I would like to make a greater effort.

Corporate management also involves other aspects. I read the report recently released by the government, and noted that we might be doing a number of things we are not doing. For example, as yet, there is no certification by the director general and financial director. We might engage in a process of reflection to examine such aspects.

There are many new things we could be doing. However, I would still maintain that the most important factor is being prepared for anything. As I said, making an insurance deposit payment is a very complicated process. The financial system changes, so we must always be prepared and alert.

[*English*]

The Chair: Mr. Bell.

Mr. Don Bell (North Vancouver, Lib.): You are very welcome, Mr. Saint-Pierre.

The current budget plan calls for an increase in the deposit insurance from $60,000 to $100,000. I'm curious as to whether you feel that represents an adequate amount based on your experience. It's been eight years plus—I guess 1996—since the last major failure. I'm just wondering if you feel that provides adequate protection. Would that be enough to cover the risks? The last time, in 1996, what were the kinds of losses that were obtained? You were involved, I gather, at that time in dealing with those failures. So I'm curious as to how you dealt with it and what your opinion is.

Mr. Guy Saint-Pierre: Again, there are many issues that you have raised with that question.

Let's start with the proposed increase from $60,000 to $100,000. Usually the government policies in that area respond to some need. As I said, baby boomers are getting older. There will be more need for them to prepare for their pensions and for investing. We want to make sure that there is more flexibility in that regard for them to prepare for their pensions.

There is also the need that our members need to compete. Obviously I must say that it's never been a big issue, but you must understand that one of the competitors, especially for the smaller members, is the credit union. For many credit unions in provinces—for example, in Alberta, Saskatchewan, and Manitoba—the coverage is unlimited. In Ontario and in British Columbia the coverage was already at $100,000. And in Nova Scotia and Newfoundland, as an example, it was already at $250,000.

So obviously this was taking into account that we want to provide more flexibility for the saver to be able to deal, but you must also understand that the system also provides a certain flexibility. If deposit insurance is very important to you, you must understand that you are insured at each different financial institution. So again you could play very easily with your insurance. Also, you have to understand that under the law different products are separately covered, so an RRSP is covered to $60,000 and would be covered for $100,000. A joint account is separately covered. In a trust account the beneficiaries are separately covered and so on.

So there is already in the system a certain flexibility. To a certain point I think it also responds to the fact that the last time it was changed was in 1983 and it was $60,000. By quick math, I could tell you that $100,000 presently also takes care of the inflation factors in the system.

● (1130)

Mr. Don Bell: Going forward or just going backwards? In other words, who recommended the $100,000? Did that come from government or did that come as a recommendation from your organization?

Mr. Guy Saint-Pierre: We had discussions, obviously, at our board of directors about those issues. One of the members of our board is the Deputy Minister of Finance, so certainly he was aware of that discussion, and policy was made and the announcement was made in February to increase the amount.

Mr. Don Bell: My question is are you comfortable with the $100,000, or do you think it should be higher?

Mr. Guy Saint-Pierre: I'm comfortable with the policy of the government, and I think it addresses the need and the reality of the competition in the market and so on.

I think with a good deposit insurance system the goal is always to make sure that it covers the majority of the deposits that are in our financial institutions, and I can tell you it does so.

As far as the second part of your question goes, over the years CDIC has evolved. In 1967 CDIC was more or less a pay-box, so it did not manage its risks and it was only called to do deposit insurance. In 1987 the mandate was changed. In terms of the figures pre-1987, we were averaging a loss rate of approximately 50%, because there was no risk management on our part. We were not proactive. We were waiting for the institution to fall and then react and so on.

When our mandate was changed to minimize our loss, we put a system in place to do risk assessment, to be more proactive, and so on, and the rate of loss has reduced to 17% thereafter.

With regard to the last figures, I believe the rate of loss on the net present value is approximately 10%.

The Chair: Thank you, Mr. Bell.

[*Translation*]

Mr. Saint-Pierre, I have a short question for you.

[*English*]

What happened to your predecessor, Mr. Sabourin?

Mr. Guy Saint-Pierre: Mr. Sabourin retired. He had more than 35 years of service as a public servant. He was happy to retire, I understand, with full pension. So he's resting well at home.

The Chair: Okay, thank you.

Will we suspend the meeting?

[*Translation*]

Can we continue?

[*English*]

Do we need to ask if we're going to accept the appointment?

Yes, we're going to do it after.

● (1135)

Hon. John McKay (Scarborough—Guildwood, Lib.): Why don't we do it now, and then finish it off?

The Chair: Okay. We'll suspend for the consideration of this appointment.

Does everybody agree?

Mr. Charlie Penson: Yes.

Hon. John McKay: At least you'll be finished with the appointment. Then you can deal with the content of what he might say.

The Chair: We're going to suspend and clear the room so we can vote on the appointment.

[*Proceedings continue in camera*]

● (1135)

(Pause)

● (1139)

The Chair: We're back in public session.

Before we begin, I'd like to gladly let you know that you've been accepted as the next chief executive officer of the Canada Deposit Insurance Corporation. I can even tell you that it was unanimous—no problem.

● (1140)

[*Translation*]

It was unanimously passed. You do not have to thank us. However, we would ask you to take a few minutes and talk to us about the annual report. This would give committee members the opportunity to ask you questions on the annual report as well.

Mr. Guy Saint-Pierre: I have not prepared any remarks on the annual report, so I will talk to you as executive vice-president and chief of operations, because that is still my current position, even if you tell me that my appointment was unanimously approved.

According to the annual report, 2004 was an extraordinary year for members of the CDIC. Profits reached a record high $12 billion. Arrears are very low, I believe even at a record low. According to some figures, the provision is higher than total arrears. In general, our member institutions' financial health is very good. We have not seen any trends towards some of the risks we might be affected by. Some risks affect a number of our members, but not all of them. For our members, 2004 was one of the best years since I joined the CDIC. That reflects our economy, which performed very well in 2004. It also demonstrates the impact of our very low interest rate. This is a field with a great many opportunities, which will maintain those opportunities when nothing else is moving.

In 2004, we also did something very important.

[*English*]

We finalized corporate governance in certain areas. We put in place board of directors governance policies. In that area we did as much as a crown corporation could do. We have in place board policies on corporate governance, conflict of interest, code of ethics, whistle-blowing policies, harassment policies, equity policies, and health and safety policies. I believe that as a crown corporation we are in good shape in that area.

We continued our campaign on public awareness in 2004. We used TV and many other ways, such as trade shows, speeches, and so on. Our success in that area has increased. In 2004, knowledge of deposit insurance in CDIC attained its highest level, at 62% to 64%. Knowledge about the $60,000 was over 30% for the first time, I believe. Again, that campaign had positive results.

On the corporation's financial side, it was a very profitable year again. Net profit was around $140 million, and our surplus was close to $800 million. We also put in place a deposit insurance fund target. The deposit fund is made up of the provision we have in place and the surplus. Our target is a range of about 40 to 50 business points, which represent about $1.5 billion to $1.9 billion in that fund. At the end of 2004, we were at around 35 to 36 business points, so we are in good shape to achieve that target going forward.

In 2004 we continued to do a lot of work on readiness. We revamped our system for payout from a stand-alone system to more of a networking system. We also revised our training manual, closure manuals, and so on.

I must add that in 2004 we had a special examination done by the Auditor General. The report is on our website, and I can tell you that no recommendations were made, and no deficiencies were identified. Using her words, our report was as good as it could be.

● (1145)

[*Translation*]

The Chair: Thank you, Mr. Saint-Pierre.

Committee members will now have the opportunity to ask questions.

[*English*]

We'll have five-minute rounds and see if we can wrap this up before the scheduled time.

Mr. Penson.

Mr. Charlie Penson: Thank you, Mr. Chair.

Mr. Saint-Pierre, I have a number of questions in a short time, so perhaps we can work our way through them.

On the money you have developed in your reserve, exactly how is it generated? Is it charged to the banks? Is it charged to the people who have deposits? Does it come from the tax base? Where does it come from?

Mr. Guy Saint-Pierre: The deposit insurance system does not call for a depositor to make direct payment to have their deposit insured. The money comes from premiums collected from our members. Obviously, the next question is does that money come from the depositors and so on? My answer is that there are four parts to take into consideration. Certainly, because of competition, the premium costs could be passed to the depositors by giving them less of a return. On another part, you have to understand that they could also charge a little bit more for loans to their clients or for fees, but again, they're subject to competition. Certainly it's also sometimes paid by the shareholders directly.

Mr. Charlie Penson: I'm sorry—who pays it?

Mr. Guy Saint-Pierre: It could be paid by the shareholders of the bank indirectly because it goes to the bottom line of the bank.

Mr. Charlie Penson: Or it may even come from their service fee pool. Who knows where it comes from, right?

Mr. Guy Saint-Pierre: Exactly. But I must say also that premiums are deductible for tax purposes, so indirectly the taxpayers pay a certain part.

Mr. Charlie Penson: Okay. Thank you.

Where I'm going with this is that I recall the last time we had some difficulty and a number of institutions went broke and you had to have involvement in paying out. At that time there was a $60,000 maximum. I recall there were a number of people who had money in institutions like trust companies because they were paying quite a bit higher rates of return. In some cases a man, his wife, and their children would all have the maximum $60,000 deposited where they were earning quite a bit more in interest and had no risk. When the institution finally went down, all of those depositors had their money all paid out, and they had earned more money in interest for several years with absolutely no risk. It just seems to me that this was inconsistent with good management.

I understand what we're trying to do by guaranteeing these deposits, but shouldn't people have to share, in some small way, at least, the risk of making these kinds of investments?

● (1150)

Mr. Guy Saint-Pierre: Thank you. That's a very good question.

It's been debated a long time in the deposit insurance system and so on. You must understand that you would not want to have small depositors assume the risk. You want to assume a risk if you understand the financial situation of a financial institution, of a bank. I doubt that many Canadians, and especially the smaller depositors that the deposit insurance system tried to address, would be able to make judgments as far as the riskiness of the financial institution they are dealing with.

Mr. Charlie Penson: So that would be your responsibility.

Mr. Guy Saint-Pierre: You're correct. That's why we do a risk assessment, because indirectly we are the biggest creditor of our member institutions.

And there is a system presently in place that recognizes that for sophisticated depositors, banks could opt out of CDIC if they only take deposits over $150,000. So we do have banks that have opted out of CDIC. They don't have to be part of CDIC because they do not take retail deposits, and $150,000 was the level at which it was judged that most people who had more than that were sophisticated.

Mr. Charlie Penson: I understand that, Mr. Saint-Pierre. Let's just pursue this a little bit further. The general public has to pay this when there's a failure and somebody's deposit is guaranteed—even though that particular depositor might have enjoyed some pretty good interest rates over the years. When it finally collapsed, the depositors got their money guaranteed, and somebody paid it along the way—the general public.

So your responsibility is to oversee the management and do risk assessments on those financial institutions. Does OSFI also do that? What do you look for in those cases where a trust company is paying 2% over bank rates? Is that a risky manoeuvre? How do you make those kinds of assessments?

Mr. Guy Saint-Pierre: It's a good question, although I have to adjust what you said at the beginning.

CDIC has never received one penny from the government. We borrow from the government, but we repay the government with full interest costs. I want to make sure that this part is understood.

Mr. Charlie Penson: My point, Mr. Saint-Pierre, is that the general public.... If there's a loss, somebody has to cover it. You have $800 million accumulated at the moment that came from somewhere. I guess it came from the general consumers, from the banking industry. If their deposit is covered, even though they have taken quite a risk, they're guaranteed. Somebody has to be overseeing this to see that the institution is working within a fiscally sound framework. How do you make that assessment?

Mr. Guy Saint-Pierre: Thank you.

We do have a risk assessment system in place. We don't want to duplicate what OSFI does. OSFI does an examination. They are in constant dialogue with the members of CDIC as to risks generally, all the manager credit risks, fiduciary risks, market risks, and so on.

As far as CDIC is concerned, it is more an outside type of examination. We do read very carefully the reports sent by OSFI to us on each examination. We will ask the superintendent and his staff about some questions that we may have detected that cause concern. We also do extensive financial analyses of the financial results of our members. If we look at trends, certain banks may have more risk than other ones, and so on. These will be discussed with the superintendent. We also look at the ratings of certain of our members. If their rating goes down we ask ourselves why this was the situation, and so on. So we work in collaboration with the superintendent. Our risk assessment is more an outside type of risk analysis, a desk analysis. We work with the superintendent to make sure that if we have any concerns those concerns are addressed through his own examination and supervision.

● (1155)

The Chair: Thank you, Mr. Penson.

Mr. Côté.

[*Translation*]

Mr. Guy Côté: Thank you, Mr. Chairman.

Mr. Saint-Pierre, how many savers fall into the $100,000 and under protection bracket, and what was the percentage, or absolute number, of people who moved from the $60,000 bracket to the $100,000 bracket?

[*English*]

Mr. Guy Saint-Pierre: Merci.

Again, this is a question we do not have all the answers to. I can tell you that in 1983, when it went up from $20,000 to $60,000, the deposit insurance base increased approximately 30%. Going from $60,000 to $100,000, based on my experience—and it's only a pure estimate presently, because we don't have the numbers—we assume that it will go somewhere around 15% to 25% on that.

As far as how many insured deposits are covered and how many persons are covered at banks and so on, again, there are no statistics as such. The goal is always to try to cover as many depositors as possible. Based on figures that we had in the past, the insured portion of the deposit at certain institutions represented 95% more, and for some others it was around 85%. Obviously, this depended on what kind of institution it was, small versus large. There is a lot of variation, and so on.

If you look at our annual report, our stats show that at the large banks, obviously, the proportion of insured deposits are a lot less because they take a lot of wholesale deposits.

[*Translation*]

Mr. Guy Côté: About 80 per cent of depositors are protected to the $100,000 level. Of course, I am talking about individuals rather than corporations.

Mr. Guy Saint-Pierre: As I said, if we rely on our experiences with bankruptcies, those percentages are accurate.

Mr. Guy Côté: You were very clear on the changes that have taken place in your sector. You said that, when you arrived, the situation in the banking industry was far more precarious, and the numerous bankruptcies had had an impact on your work. But there have been regulatory changes, and apparently the sector is now much more solid than it was ten years ago.

There is a chance the issue of bank mergers will come up again in the fall. Would the bank mergers help consolidate the industry? In your view, would the mergers increase or decrease risk to depositors?

Mr. Guy Saint-Pierre: I do not want to comment on the mergers themselves, because that is a matter of government policy. However, some provisions in the Canada Deposit Insurance Corporation Act do deal with mergers. If you have a deposit of $40,000 in a bank or with a trust company that wants to merge with another CIDC member with whom you have another deposit, then pursuant to the Canada Deposit Insurance Corporation Act, until those deposits come to term, each deposit will have its own deposit insurance. There are provisions in the act to protect consumers and depositors.

● (1200)

Mr. Guy Côté: I want to be sure I understand this correctly. If I have a deposit of $60,000 in one bank, and a deposit of $90,000 in another bank, and both banks fail after merging, my deposits are protected. Is that correct?

Mr. Guy Saint-Pierre: Your $60,000 deposit in the first bank will be separately insured, and your deposit of $90,000 in the second bank will be insured only after $60,000, but will remain separately insured until it comes to term, because we only insure deposits with terms of 5 years or less. Current accounts continue to be insured separately until you make withdrawals. So, to continue with your example, $120,000 of the totality of your two deposits would be insured, even though normally only $60,000 would have been insured. The CIDCA has provisions on mergers.

The Chair: Thank you, Mr. Côté.

Mr. McKay.

[*English*]

Hon. John McKay: Thank you.

Congratulations, Mr. Saint-Pierre.

I have two small questions arising from your annual report. The first has to do with the level of awareness of the $60,000 limit. Your goal was to achieve a 50% awareness. Apparently, as of March 2004, it was only at 32%. And then there is a parallel one about the level of awareness of deposit insurance and CDIC generally.

That strikes me as quite low. If it is quite low, you're effectively walking away from a lot of premiums. Can you explain to me why it's so low and what the implications are for the CDIC?

Mr. Guy Saint-Pierre: There are many questions in that.

Obviously, it's return on investment to a certain point. Five years ago, when we started our campaign and so on, I can assure you it was below 50%. We progressed each year to attain 64%, I believe, in 2004. Our goal is to maintain a level of at least 50% or more as a goal, as a target.

Obviously, when there are no failures—and we have been nine years without a failure—the level of knowledge is certainly lower. I can assure you that when we had failures in 1992-93 and so on, many more depositors in Canada knew about CDIC. But sometimes, as you say, it was after the fact, and it's too late. I agree with you. That's one of the reasons why we continue to ensure that if you want a good stable system—and one of our objects at CDIC is to encourage stability in the financial system—you also need depositors who know about deposit insurance.

As far as the limit is concerned, we may have an opportunity if the proposed increase to $100,000 becomes law. I think $100,000 is an easier number to remember, so people will....

But yes, you are right. We need to continue to make efforts to make sure that people understand the limits. We are not, in Canada, providing a blanket guarantee. If there is a failure, we don't want all depositors to go see the politicians and the government and ask for 100% guarantee. This is not the case. It would not be good for the system. It would cause all kinds of moral hazards and so on.

Yes, we have to continue to make efforts, and we will. It's in our plan at present. Our plan is to target people who will be more in need. Baby boomers are coming. Also, some people who are less educated have more difficulty, based on our survey, understanding the limit and limitations, who our members are, and so on. So we will do that.

Obviously, it's slow progress. We would like to do better, but as I said, in an environment where the financial system is so stable, it's a little bit more difficult to progress in that area.

Also, I remind you that our budget this year was below $2 million to do all our advertising. That's why I said it would be a little bit a return on investment if we were to invest much more.

● (1205)

Hon. John McKay: Are consumers effectively making conscious decisions to not take insurance and simultaneously getting a greater return on their deposit?

Mr. Guy Saint-Pierre: Would you repeat your question?

Hon. John McKay: Are consumers conscious of the purchase of insurance, and are they insisting on it with their institution, or are they making a consumer decision that they'd rather have the return on their deposit as a greater interest rate, in effect?

Mr. Guy Saint-Pierre: Based on our survey, the protection offered by the stability of the financial institution, the insurance in place and so on, comes very high for many individuals in Canada. It was first or second. Surprisingly, it was ahead of return on investment. So it is very high, based on our survey.

Hon. John McKay: How much time do I have, Chair?

The Chair: You're done.

Hon. John McKay: Okay, that's that.

The Chair: If it had been a good question, you could have got away with it.

Mr. Pallister.

Mr. Brian Pallister (Portage—Lisgar, CPC): Thanks, Mr. Chairman.

On occasion, Mr. McKay gets into a topic of some interest.

The issue of consumer choice is important, and it's pretty clear that the increase proposed by the government in its budget to raise the guarantees will somewhat change the dynamic that consumers will deal with in terms of their selection of their basket of investments for their portfolios, of course.

You mentioned that you spend less than $2 million on an awareness campaign. In what time period? Was that less than $2 million last year?

[*Translation*]

Mr. Guy Saint-Pierre: Last year.

[*English*]

Mr. Brian Pallister: You must have made plans then to raise that budget somewhat, given the changes that the government proposes. How much do you propose to spend, assuming the budget is adopted by a group of parliamentarians at some point in the distant future? In the subsequent time period of the year after, what will the budget be for raising the awareness of consumers as to the changed amount?

Mr. Guy Saint-Pierre: That's a very good question.

Obviously, last year was a transition year. This year we went from TV, which is more expensive, to more newspapers, so the total budget was less this year. We have again budgeted approximately $2 million for a normal year of public awareness. We did not know that there would be the possibility of an increase to $100,000.

We are certainly planning to provide certain options to our board of directors, who may want to do more, given the change in the levels. The budget could go up. We will ask our board for a special budget, and the decision will be made.

Mr. Brian Pallister: That will be under discussion in due course. Okay.

Do you deal with an agency? Who is the agency that you deal with for advertising?

Mr. Guy Saint-Pierre: We don't pretend to be specialized in that area. We have used The Focus Group, which is based in Vancouver.

Mr. Brian Pallister: I'm not referring to the design of the ads themselves. Which advertising firm do you deal with that actually does the advertising that you design through other mechanisms?

Mr. Guy Saint-Pierre: That's the firm we have used for design and also for placement in newspapers, TV, and all that. We picked the firm after having open bids.

Mr. Brian Pallister: Which firm is that?

Mr. Guy Saint-Pierre: The Focus Group.

Mr. Brian Pallister: Is The Focus Group the name of the firm?

Mr. Guy Saint-Pierre: Yes. It's in Vancouver.

Mr. Brian Pallister: Okay. How long have you used that group?

● (1210)

Mr. Guy Saint-Pierre: It was a five-year campaign, so we've used that group for the last five years.

Mr. Brian Pallister: Will you be using an open bidding process and a tendering process that will actually take into account price in the selection of your future advertising?

Of course David Dingwall, as public works minister, made sure that price wasn't considered in the awarding of contracts for the last number of years by this government. I thought it was therefore important to ask the question.

Hon. Maria Minna (Beaches—East York, Lib.): That isn't true, and you know it.

Mr. Brian Pallister: It's based on fact.

Hon. Maria Minna: It's not a fact.

The Chair: Order, please.

Mr. Brian Pallister: Can you assure the committee that you'll be considering price in the evaluation of your open tendering process for future advertising?

Mr. Guy Saint-Pierre: We have a process for contracting. Obviously, this is one element that we have to take into consideration. Quality, cost, qualifications, and so on, based on our contracting policies, will be followed, I can assure you.

Mr. Brian Pallister: You charge differential premiums based on a risk assessment that you do. What impact do you see that having? Will it simply be proportionally increased?

You're ostensibly going from $60,000 to $100,000 fairly soon. Will the premium simply rise by the relevant amount for each of your member agencies, on the assumption that the risk assessments don't change?

Mr. Guy Saint-Pierre: That is a correct assumption. Our premiums are usually based on the amount of insured deposit. If the insured deposit rises, the total premium revenue will rise.

I'd like to point out that our premium rate has been reduced by 92% since 1999. It is at a very low level.

Mr. Brian Pallister: Of course this is based on the fact that you have created a reserve and therefore do not require additional premiums.

I have a final question. Could you fill us in a little on the guarantees offered for deposit agencies in other countries? For example, are they relatively comparable in France, Germany, Japan, and England?

Mr. Guy Saint-Pierre: Sometimes it's very difficult to compare because each country is different. I don't want you to reach any conclusions. As I said, a good system of deposit insurance depends on how many depositors will be covered. In some countries, you would insure 5,000 and you would cover 90% of the population, and so on. But if you want a comparison, in the United States, the amount of deposit insurance is $100,000 U.S. It's approximately £33,000 in England, which is about $75,000 Canadian. It's a €22,000 minimum in euros, but many countries could augment that, because it's an aggregate amount. In the economic community, and so on, it's a minimum of €22,000.

Different countries have different coverage, but some have much more than we do. In Italy it's more than we have, over and above the minimum.

Mr. Brian Pallister: I think it is a testament to the success of the CDIC program that the insurance industry has developed a companion system of guarantees for its depositors as well.

I ask you to speculate here, but do you anticipate that the insurance industry will very likely follow suit as a consequence of the increases in the guarantees?

Mr. Guy Saint-Pierre: I do not know that answer, but I can tell you that the insurance industry has conferred and has already, last year, made some adjustments with regard to annuities. It has increased coverage and so on. Which adjustment it will make because of our increase I do not know. I cannot speculate, but certainly the insurance industry tries to be very competitive in its market, so it will certainly review that.

The Chair: Thank you, Mr. Pallister.

Mr. Bell.

Mr. Don Bell: Mr. Saint-Pierre, the foreign currency accounts are not covered now. Is there a reason why they would not be covered, and are there any plans to include them in the future?

Mr. Guy Saint-Pierre: There are many reasons. Some countries do cover foreign currencies. In our case, the use of foreign currencies in Canada is still minimal.

There is no need policy-wise, I believe, to provide that coverage. Also, if you start to cover foreign currencies, it will create other issues. You will need to keep certain currencies in your reserve funds and so on, and that will be a little more complicated. I am not saying it will never happen, but in the case of Canada, it's probably because there is no real use of foreign currencies on a day-to-day basis. So the government has decided policy-wise not to cover foreign currencies.

● (1215)

[*Translation*]

The Chair: Thank you, Mr. Bell.

I have two or three brief questions to ask you myself.

If we look at all institutions taken together, $363 billion in deposits are insured. You have a reserve of $1.2 billion. What level of risk should we have? Should we not establish it at a percentage? That amount is very small.

Mr. Guy Saint-Pierre: Mr. Chairman, that is another very important question. Why did we end up with a fund? As we said, we calculated a range of 40 to 50 percentage points of insurance deposits.

[*English*]

Why did we decide that? Obviously we have reviewed our membership. We have used two methods to arrive at the kinds of funds we need in place to deal with the future bankruptcy fears of our members. We have looked at a fund of about $1.5 billion. Presently, that type of fund would cover all of our members' insured deposits, except the largest 15.

You should know also that under our law we have a line of credit of $6 billion. When you couple that with our present fund of $1.3 billion, that gives you a $7.3 billion financial resource to deal with failures. That would cover all our members except the largest eight, I believe, even though that fund doesn't appear to be extremely big compared to others.

The other aspect that you have to understand is that at Canada Deposit Insurance we have many tools to deal with failures. We could provide guarantees, we could buy assets, we could provide facilities to eventual buyers of a failed institution, and so on.

I will give an example. When Central Guarantee failed, it had a little bit more than $10 billion of insured deposits, and I can assure you that we did not have $10 billion in our account at the time. But because of our powers, we were able to transfer to the Toronto-Dominion Bank most of the assets and the insured deposits by providing guarantees to loss- sharing agreements, deficiency-coverage agreements, and so on.

So there are many ways to deal with the failures. We have many tools to do so. I would not want you to think that because some banks have billions in insured deposits, we need that in our fund. There is no deposit insurance in the world that has as much in the fund as its largest institution.

[*Translation*]

The Chair: I have two more questions. Are major foreign banks not regulated here in Canada but perhaps in their countries of origin proposing conditions similar to those in Canadian banks? Do they have the same tariffs? Are they subject to the same audits and level of regulation?

Mr. Guy Saint-Pierre: Thank you, Mr. Chairman.

Generally, foreign banks can operate in Canada in two ways. First, they can open branches here. Those branches can take only uninsured deposits of over $150,000. Since they are not insured, the supervision differs somewhat, something we would also see in Canadian banks.

When foreign banks accept retail deposits, they must be insured by the CDIC. Those banks are supervised just like Canadian banks are.

The Chair: Are the premiums the same?

Mr. Guy Saint-Pierre: Yes, exactly the same.

The Chair: Do banks receiving deposits of over $150,000 have no premiums to pay for those deposits, not even a minimum premium?

● (1220)

Mr. Guy Saint-Pierre: They are not members of the CDIC, and therefore they do not have to pay any premiums.

The Chair: But don't they have to pay premiums for the first $60,000, even if they only take deposits of over $150,000?

Mr. Guy Saint-Pierre: No. Those deposits are not insured, and depositors are aware of the fact. Those banks must ensure that depositors are notified their deposits will not be insured by the CDIC. This fact must be clearly indicated on deposit agreements.

The Chair: It is indicated on the deposit agreement. I see.

Thank you for coming here today and being so helpful.

The meeting is adjourned.

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