



Interrelationships and its Role in Promoting Effective Deposit Insurance Systems

Presentation to the
APEC Policy Dialogue on Deposit Insurance
17 February 2004

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Guidance on Interrelationships from the FSF Report

Governance Issues

The Canadian Approach



Good interrelationships among financial safety net players are essential to an effective deposit insurance system.

Key attributes of an effective system:

- Mandate should be aligned with objectives and powers
- Setting responsibilities and accountabilities clarifies roles of the safety net players

Coordination Arrangements:

- Information sharing and close coordination is relevant in any institutional set-up
- Different safety-net functions contribute to stability of financial systems but also introduce potential conflicts of interest
- The supervisory authority is usually the primary source of information
- A deposit insurer's information needs vary according to its mandate



International Association of Deposit Insurers

<u>MANDATE</u>	<u>POWERS</u>	<u>INTERACTION DURING LIFE CYCLE OF INSTITUTIONS</u> (Beginning, Midlife, End)	<u>EFFECTIVENESS AND COST MINIMIZATION</u>	<u>INTER –RELATIONSHIP ISSUES</u>
<u>PURE PAYBOX</u>	Reactive (e.g. clean-up, liquidation)	Failure	Low	Mainly Information Sharing
<u>COST-REDUCING OBJECTIVE</u>	Mainly reactive, some proactive features (e.g. clean-up but some risk assessment & limited role in failure resolution)	Approaching failure (but some interaction upon failure)	Low - Med	Requires well-defined roles, responsibilities, information sharing & co-ordination
<u>FULL RISK MINIMIZER</u>	Proactive (e.g. risk identification risk assessment and management)	Beginning, Midlife, Troubled	High	Requires well-defined roles, responsibilities, co-ordination information sharing & co-ordination

Governance Issues

- Integrity
 - Independence
 - Accountability
 - Transparency
-
- ✓ Evidence from the FSAPs
 - ✓ Independence and its role in promoting effective deposit insurance systems

Independent Deposit Insurers – Proven to be the Best Option Available – Why?

- More tools available
- Contribute to better decision making
- Reduces the moral hazard inherent in the financial safety net
- Promotes early intervention actions which reduce the costs of failures and limits forbearance
- Can dealing more effectively with jurisdictional tensions
- There are limited or no cost savings to be derived from amalgamating deposit insurers and supervisory offices
- Focus is on small depositors who cannot protect themselves

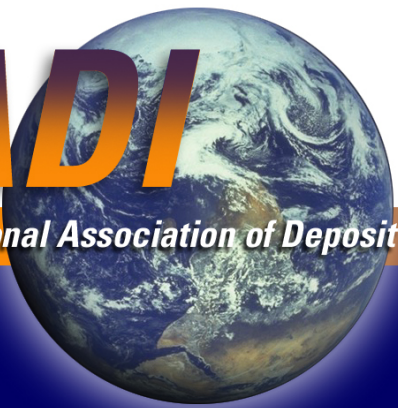


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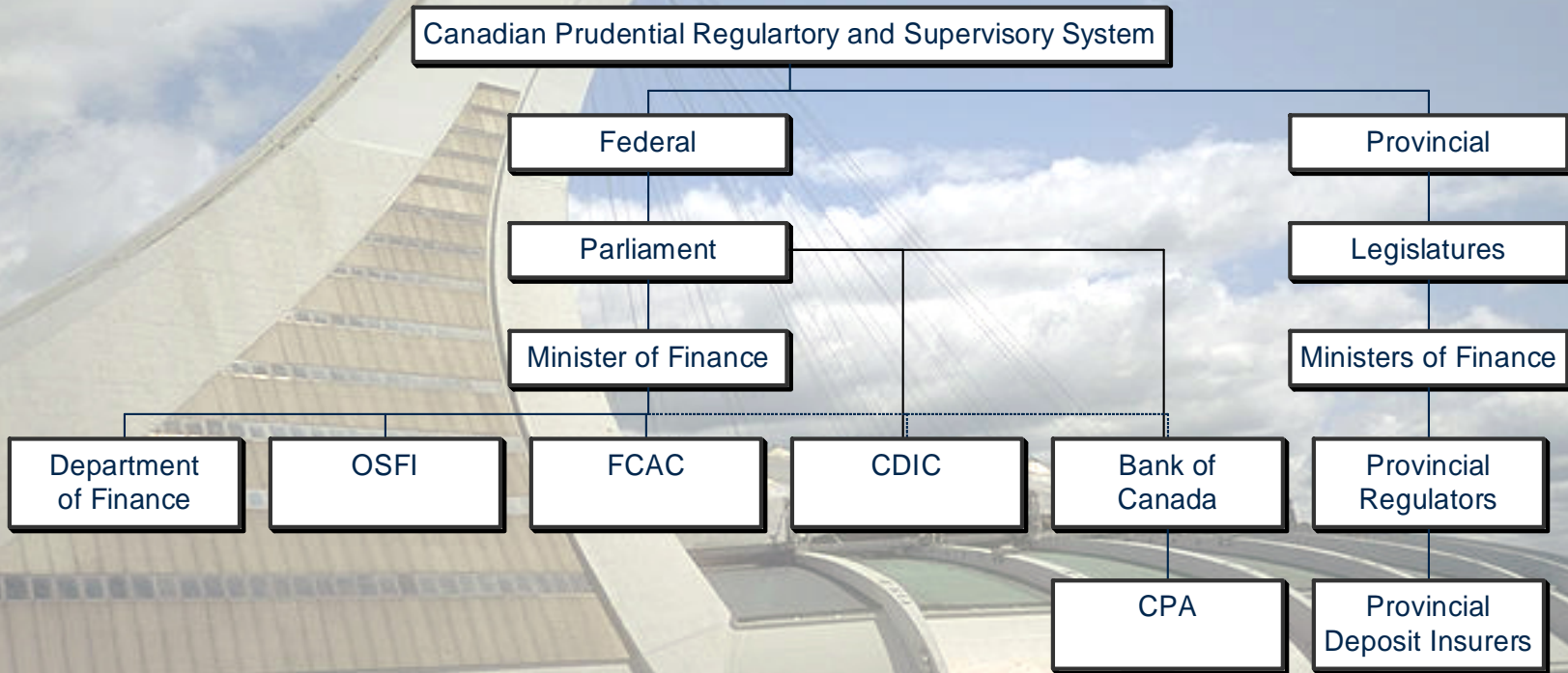
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“...Good Fences Make Good Neighbours...”

✓ **The Canadian Case**

CDIC's Role Within Canada's Prudential Regulatory System



Coordination is accomplished through the following seven mechanisms:

1. CDIC Board of Directors
2. FISC
3. SAC
4. Guide to Intervention
5. CDIC/OSFI Strategic Alliance Agreement
6. Liaison Committee
7. Regular meetings with regulators

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“...Good Fences Make Good Neighbours...”

- ✓ Coordination is essential
- ✓ A strong accountability regime





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Independent Deposit Insurers

Is overlap constructive or duplicative



ROLES IN THE REGULATION, SUPERVISION AND DEPOSIT INSURANCE FOR DEPOSIT-TAKING INSTITUTIONS

Intervention, by stage*	CDIC	OSFI	Provincial Regulators
0. No problems/Normal activities	O	X	X
1. Early Warning	X	X	X
2. Risk to financial viability or solvency	X	X	X
3. Future financial viability in serious doubt	X	X	X
4. Non-viability/insolvency imminent	X	X	X
5. Liquidation	X	O	O
6. Asset disposal and monitoring of liquidation process	X		
7. Litigation	X		
8. Standard By-laws, and CDIC Act administration	X		



Annex

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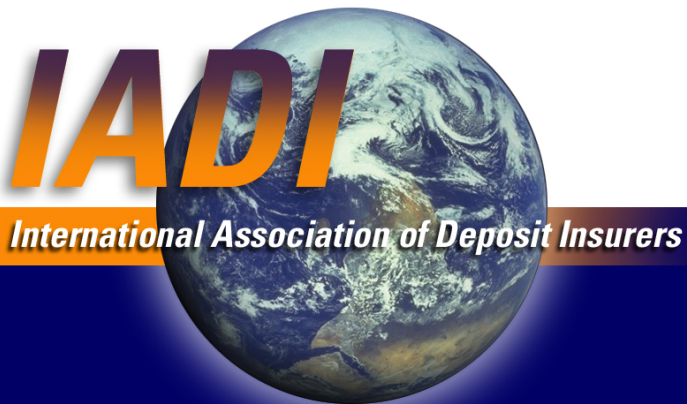
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