

Our banks: champions of prudence

National Post
Thu Sep 15 2011
Page: FP11
Section: FP Comment
Byline: **Terry Campbell**
Source: Financial Post

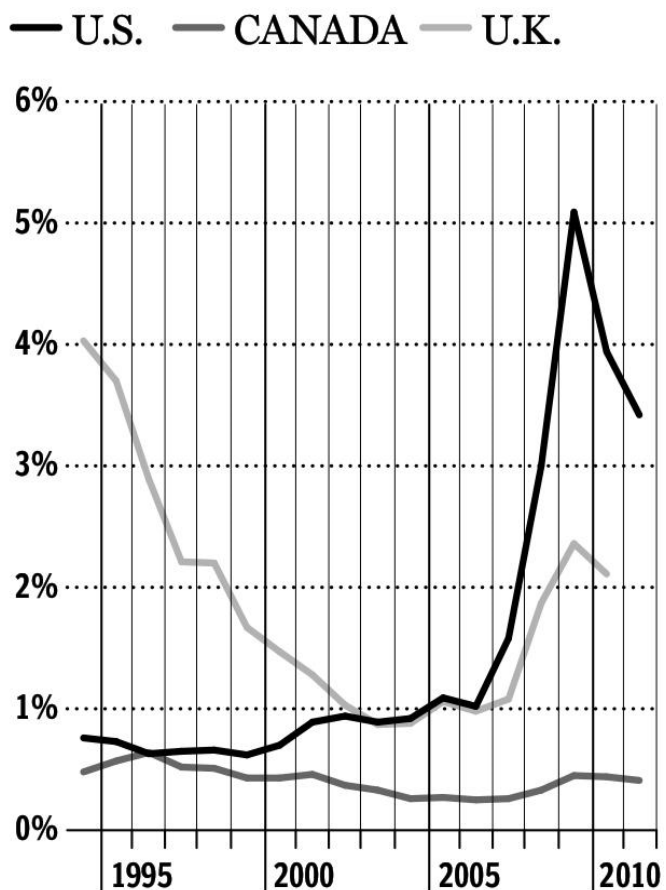
With the increased global economic uncertainty, stockmarket volatility resulting from sovereign-debt risks, notably in Europe, and headlines here at home about the housing market, Canadians are once again looking closely at the soundness of the country's financial system.

For the fourth year in a row, Canada's banks have been ranked the soundest in the world by the World Economic Forum, but can that position of strength be maintained as banks face numerous international regulatory challenges and additional economic uncertainty? These are questions that bank executives and bank regulators ask themselves every day.

Let's remind ourselves of a few key facts that are just as important today as they were in the dark days of the global financial crisis three years ago. Our banks are well-positioned to deal with emerging challenges because of the structure of our banking system and because banks in Canada are well-managed, well-capitalized and well-regulated.

The national structure of our banking system, with the largest banks operating in all provinces and territories across the country, makes them less susceptible to local economic fluctuations. For example, loans in one economic sector that is doing well offset loans to another sector that may be struggling. This system greatly contributes to our banks' ability to weather economic downturns in different sectors and regions of the country.

Many of our banks are also highly diversified organizations that combine retail, commercial and investment banks in one financial group, allowing them to offset weaker growth from one area of the bank with stronger growth from another.



MORTGAGES IN ARREARS - NUMBER OF HOUSING LOANS IN ARREARS, 90 DAYS AND OVER,

Canada's financial system has also benefited from a streamlined regulatory system. Unlike some other countries with a wide array of different regulators, banks in Canada have two primary regulators: the Office of the Superintendent of Financial Institutions (OSFI) for prudential regulation and the Financial Consumer Agency of Canada (FCAC) for consumer matters.

The efficiency of this system means banks and regulators are in constant communication, which helps ensure our financial system is prepared for any challenges that may arise.

The true strength of the country's financial system, however, lies in the sound management of our banks.

Mortgages represent a significant portion of bank loans and banks in Canada have always been prudent mortgage lenders. This is one of the main reasons they avoided the financial difficulties that banks in the United States experienced over the past three years. In contrast to the United States, the Canadian banking model is one in which mortgages are originated to stay on the bank balance sheet, which is an incentive to lend prudently.

The effectiveness of this approach is evident when looking at mortgage-inarrears statistics in Canada - for the country's largest banks, less than half of 1% of all mortgage-holders have gone more than three months without making a payment. This number has remained well below levels in the United States and the U.K. and has been stable for more than two decades, in times of high and low unemployment, high and low interest rates and a strong or weak Canadian dollar. Our banks lend carefully and their customers make payments regularly.

The banks' prudent management is also evident when looking at their capital levels; the amount of money they maintain on hand to cushion against potential financial shocks. Before the global financial crisis, during the crisis and still today, banks in Canada are some of the best-capitalized banks in the world. Among Canada's largest six banks, levels of the most secure capital, known as Tier 1 capital, stand at more than three times what is required by current global standards and close to double the standard set by OSFI.

There were lessons for everyone in the last global financial crisis and there is a widespread recognition that reforms to the world's financial system are needed. Here at home, banks have worked closely with the federal government to develop new rules around mortgage lending to ensure that the market remains strong and that Canadians continue to take on affordable mortgages.

On the global stage, Canadian banks, along with the Bank of Canada, OSFI and Finance Minister Jim Flaherty, have been actively involved in addressing the fallout from the financial crisis, including working to influence the form of the new capital and liquidity standards collectively known as Basel III.

While Canada's economy continues to recover, we can't forget that Canada's banks are well-managed, well-capitalized institutions and are operating within a well-regulated and secure financial system. Banks are also closely monitoring economic and financial conditions at home and abroad and taking steps to ensure that they can absorb the next challenges and possible shocks that come their way. It is the prudent thing to do.

- **Terry Campbell** is president and chief executive of the **Canadian Bankers Association**.
www.cba.ca