

Letters: Wrestling with the overseers

Investment Executive
Mid-October 2011
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Re: Canadian banks need to be more vigilant (October 2011 issue)

Contrary to assumptions put forward in your October 2011 editorial, banks in Canada remain world leaders in risk management and, far from ignoring efforts elsewhere, are actively engaged in international discussions on how to avoid future financial crises and ensure that our banks remain strong and sound in these turbulent economic times.

The fact that Canada weathered the recent global financial crisis better than most was neither accident nor coincidence — Canadian banks are well managed, well capitalized and well regulated. This was true before the global financial crisis hit Canada in 2008, and it is still true today. Let's not forget that no Canadian bank required a taxpayer bailout and depositors' money remained safely protected.

While some jurisdictions are currently proposing changes to the structure of their financial institutions — namely, separating their investment and retail operations — our banks are well positioned to deal with emerging challenges, in part because of the structure of our financial institutions.

Canada's banks are highly diversified organizations that combine retail, commercial and investment banks in one financial group. This allows them to offset weaker growth from one area of the bank with stronger growth from another. Banks' investment arms are anchored by solid, deposit-taking retail banking operations, and all parts of the bank financial groups are closely monitored by the Office of the Superintendent of Financial Institutions. OSFI'S consolidated approach to supervising the entire bank financial group helps to ensure that [its members] are not taking excessive risks.

Canada's banks also frequently carry out stress tests to ensure that [they] are prepared to withstand economic shocks. This may not be the stuff of front-page headlines, but it happens on a regular basis nonetheless.

This structure of the bank financial groups works because our banks are extremely prudent risk managers, which is evident when looking at their strong capital levels — the amount of money they maintain on hand to cushion against potential financial shocks. Banks in Canada are some of the best capitalized in the world. Among Canada's largest six banks, levels of the most secure capital, known as Tier 1 capital, stand at 13.5%, more than three times what is required by current global standards and almost double the 7% standard set by OSFI.

There were lessons for everyone in the [recent] global financial crisis, and there is a widespread recognition that reforms to the world's financial system are needed. Canadian bankers, regulators and policymakers are deeply involved in these global discussions, and Finance Minister Jim Flaherty is taking a significant leadership role in this at the G20.

The combination of our banks' prudent risk-management practices, their strong capital levels, plus our robust regulatory system, have led Canada's financial system to be ranked as the world's soundest by the world Economic Forum for four years running. Canada's banks did not take on the risks or run into the problems that banks in other parts of the world did. Carving off the bank's investment arms to protect depositors is not a step that needs to be taken here.

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