

Deposit-Taking Institutions Sector Consultation (DTISC) 2018-19

Executive Summary

Prepared for the Office of the Superintendent of Financial Institutions

Supplier name: Sage Research Corporation

Contract number: # 59017-180009/CY

Contract value: \$70,246.45 including HST

Award date: August 2, 2018

Delivery date: July 2019

Registration number: POR 025-18

For more information on this report, please contact the Office of the Superintendent of Financial Institutions at: information@osfi-bsif.gc.ca

Ce sommaire est aussi disponible en français.

Deposit-Taking Institutions Sector Consultation (DTISC) 2018-19

Executive Summary

Prepared for the Office of the Superintendent of Financial Institutions

July 2019

The Office of the Superintendent of Financial Institutions (OSFI) commissioned Sage Research Corporation to conduct a qualitative public opinion research study to explore perceptions of the Office of the Superintendent of Financial Institutions (OSFI) as the regulator and supervisor of federally regulated deposit-taking institutions. The objectives of the research included assessment of OSFI's guidance to the industry, its supervisory activities and its approvals process for regulatory approval applications. Interviews were completed with 63 executives from 38 deposit-taking institutions, between February 14 and May 8 2019. This publication reports on the findings of this public opinion research study.

Cette publication est aussi disponible en français sous le titre : Consultation du secteur des institutions de dépôts (CSID) 2018-2019

This publication may be reproduced for non-commercial purposes only. Prior written permission must be obtained from the Office of the Superintendent of Financial Institutions. For more information on this report, please contact the Office of the Superintendent of Financial Institutions at: information@osfi-bsif.gc.ca

Communications and Consultations Division
Office of the Superintendent of Financial Institutions
255 Albert St.
Ottawa, ON K1A 0H2

Catalogue Number:
IN4-31/2019E-PDF

International Standard Book Number (ISBN):
978-0-660-31849-3

Related publications (registration number: POR 019-18):
Catalogue Number IN4-31/2019F-PDF (Final Report, French)
ISBN 978-0-660-31850-9

© Her Majesty the Queen in Right of Canada, as represented by the Minister of Finance, 2019

Executive Summary

Purpose and Research Objectives

The primary purpose of the research was to explore perceptions of the Office of the Superintendent of Financial Institutions (OSFI) as the regulator and supervisor of federally regulated deposit-taking institutions. The objectives of the research included assessment of OSFI's guidance to the industry, its supervisory activities and its approvals process for regulatory approval applications.

Methodology

A total of 44 interviews were conducted with 38 deposit-taking financial institutions (DTIs) regulated by OSFI, ranging from small deposit-taking institutions to domestic systemically important banks (D-SIBs). A total of 63 individuals participated in the interviews. The participants were CEOs, CFOs, CROs, CCOs and other senior executives.

The interviews were conducted either in-person or by telephone between February 14 and May 8, 2019. The average interview length was 60 minutes.

Qualitative Research Caution

The research conducted was qualitative in nature and designed to reveal a rich range of opinions and interpretations rather than to measure what percentage of the target population holds a given opinion. As such, the results provide an indication of participants' views on the issues explored but cannot be generalized to the full population of senior executives representing those deposit-taking institutions regulated by OSFI. Rather, the findings from this research provide themes and direction. The findings cannot be used to estimate the numeric proportion or number of individuals in the population who hold a particular opinion because they are not statistically projectable.

Key Findings

Overall Impressions

Satisfaction with OSFI as the principal prudential regulator and supervisor of Canada's financial services industry

- Satisfaction with OSFI is widespread and included the following positive perceptions:
 - OSFI is a principles-based regulator and supervisor, which gives some ability to all DTIs to respond to guidance based on their nature, size and complexity. Those with experience with regulators in other countries often commented that they prefer this to the more rules-based regulation in some other countries.
 - There is a good working relationship with the OSFI supervisory team. The supervisory team is knowledgeable, professional, and engaged in developing a relationship with the DTI.
 - Communication is effective. OSFI is readily accessible, responsive and professional. Communication is frank, open and constructive. OSFI clearly communicates its expectations.
 - OSFI has good processes for consulting with the industry.

- OSFI is effective as a prudential regulator ensuring the soundness of the Canadian deposit-taking sector.

Focus on Risk Areas

- OSFI is perceived to be focusing on many appropriate areas of risk. These include what some described as its “traditional” risk areas, and also those addressed in recently issued/updated guidance.
- Assessment of OSFI is more mixed on how proactive it is on emerging issues. OSFI is seen to be proactive in some areas, but almost all participants had suggestions for where OSFI needs to do more than it has done to date.
- Opportunities for Improvement: The two most widely suggested priorities for OSFI in the next couple of years are:
 - *Cyber/Emerging technologies*: While OSFI is seen to have been focusing on this very important area in useful ways and building up resources, the focus and capacity build-up need to continue.
 - Some expressed concerns about OSFI’s ability to be competitive in attracting people with strong technology and banking expertise to address the magnitude of these issues.
 - It was suggested that guidance on outsourcing/third-party risk and on operational risk need updating to incorporate the impact and role of emerging technologies.
 - It was also suggested OSFI needs to do more to coordinate on cyber risks with other government authorities, because cyber risks outside the federally regulated financial sector can impact the sector.
 - *Unregulated financial sector*: “Shadow banking” was widely mentioned, particularly in the context of mortgage lending, and “fintech” was also often mentioned. By definition, it is recognized that OSFI does not have actual regulatory authority over these institutions. Nonetheless, because risk in these unregulated sectors can cause systemic problems, participants suggested that OSFI should at least monitor the risk in the unregulated sector in order to identify whether and how this might impact risk for federally regulated financial institutions (FRFIs).

Opportunities for improvement

In addition to prioritizing cyber/emerging technologies and the unregulated financial sector, the more common suggestions were:

- Continue to focus on enhancing consideration of DTIs’ nature, size, complexity and risk profile in guidance and supervision. Some observed that OSFI has improved in recent years, but there are still some who feel OSFI has room for improvement. This particularly pertained to (a) reporting and compliance requirements that are perceived to be onerous for smaller DTIs, and (b) some DTIs that are not retail deposit-taking institutions.
- Among D-SIBs: Give more consideration to the negative impacts of early adoption of international standards, particularly on competitiveness.

Guidance

Development of guidance

- OSFI has good processes in place for getting industry input, and is usually deliberate and thoughtful in developing guidance. Although, some said OSFI's process is sometimes too slow to release final guidelines.
- OSFI has been active in updating various guidelines in the last several years. However, some suggested some older guidelines need updating, including B-10, E-4B, B-8 and A-10.

Balancing prudential considerations with need to compete

- The large majority of participants had a generally positive view of OSFI developing guidance that strikes an appropriate balance between prudential considerations and the need for institutions to compete.
- Concerns expressed included:
 - D-SIBs: Early adoption of standards can adversely affect international competitiveness. Going forward, concern was about early adoption of the Basel III output floor standard, the Fundamental Review of the Trading Book (FRTB) and the Standardised Approach for Measuring Counterparty Credit Risk (SA-CCR).
 - Medium DTIs: Some said guidance, particularly related to liquidity requirements, sometimes favours D-SIBs, making it difficult for smaller institutions to compete.
 - Small DTIs: While OSFI is generally viewed positively on balancing the need to compete, good intentions do not always translate into practice.

IFRS 9 consultation and summary of stakeholder comments

- Participants were mostly positive about the IFRS 9 consultation process and the clarity and helpfulness of the summary of stakeholder comments. That said, some said OSFI could have done more to accept suggestions from the industry.
- Some D-SIBs used this discussion to voice concerns about the implementation of IFRS 9:
 - Some believed that OSFI gave different direction to different D-SIBs, resulting in differences in implementation and outcomes. A few attributed this in part to inadequate IFRS 9 subject matter expertise at OSFI.
 - A few expressed a concern that given the different outputs resulting from variability in models and processes across the D-SIBs, OSFI will now, after the fact, try to enforce uniformity among the D-SIBs without consideration of the nuances of the operations and approaches of the different D-SIBs.

B-20: Consultation process and communication of expectations

- There was widespread praise for the B-20 consultation process: it was an effective process for getting industry input, and OSFI responded to the industry's questions and suggestions – although not everyone agreed with OSFI's decisions.

- OSFI effectively communicated its expectations. The industry information sessions in December 2017 were helpful. OSFI staff at the sessions were well-informed and able to address questions.
- Some participants used this discussion to voice concerns about the implementation of B-20:
 - A few had the perception that not all DTIs went to full compliance at the same time. They believe it should have been OSFI’s role to ensure that all DTIs adopt B-20 on the same timeline.
 - A few were of the opinion that there was variation in how different DTIs implemented the B-20 Guideline such that it may have led to competitive advantages or disadvantages. They felt OSFI should have been more consistent in its requirements for different DTIs.

E-21: Communication of expectations, and usefulness of the self-assessment template (asked of Small and Medium DTIs)

- E-21 is perceived to be well-written, and in combination with interactions with OSFI about the guideline, most felt OSFI clearly communicated its expectations.
- Small numbers voiced some concerns, including:
 - Several said there was some confusion about the applicability of the Guideline to foreign bank branches.
 - Several participants said Guideline E-21 refers to “small” institutions (specifically, it refers to “smaller, less complex institutions with demonstrated low operational risk profiles”), but does not clearly define or clarify what “small” means and how this affects OSFI’s expectations.
- Most of those who used the self-assessment template found it useful to identify gaps in operational risk management and as a checklist during implementation.

E-23: Communication of expectations (asked of D-SIBs)

- All the D-SIBs felt that Guideline E-23 clearly communicated OSFI’s expectations to the industry.
- There were a few suggestions:
 - In addition to OSFI’s verbal feedback on a DTI’s self-assessment, it would have been useful to get written feedback that included both the institution-specific feedback and OSFI’s industry-wide observations on best practices.
 - A Q&A forum of some sort, perhaps similar to the industry information sessions held for B-20, would have been helpful to enhance understanding of Guideline E-23.

Consideration of Nature, Size and Complexity of DTIs

This topic was addressed in two contexts in the interview, once with respect to guidance (asked of Small and Medium DTIs), and again with respect to supervision (asked of all DTIs).

Guidance

The majority of Small and Medium DTIs perceived there to be at least some consideration in OSFI’s guidance of the nature, size and complexity of DTIs:

- Within this group there was a range of opinion from “most guidelines do not consider nature/size/complexity, but a small number do”, to “some guidelines consider nature/size/complexity, but others do not.” The common view across this range is that OSFI needs to continue to do more to be sensitive to the characteristics of DTIs as guidance is introduced or updated.
- Some volunteered that they perceive OSFI to have gotten better in the last several years at incorporating nature/size/complexity into its guidance and supervisory recommendations. This includes some who also noted with approval that OSFI has set up a team focusing on Small and Medium DTIs.

Supervision

- Most of the D-SIB and Medium DTI participants were satisfied that OSFI’s supervisory activities take into consideration the nature, size, complexity and risk profile of their institution. A concern was that it appears that OSFI sometimes takes what it considers to be a best practice at one D-SIB and then requires all other D-SIBs to adopt it without taking into account the feasibility or applicability of this to the other institutions.
- The majority of Small DTIs were satisfied that OSFI’s supervisory activities take into consideration the nature, size, complexity and risk profile of their institution, and indeed satisfaction was more positive for supervision than for guidance. Some noted that in cases where guidance does not take the institution’s characteristics into consideration, the supervisory team will help in applying the guidance appropriately to their institution. Some commented that OSFI’s risk based approach allows smaller DTIs to focus their resources on the most important areas.

Concerns

Among the minority of smaller DTI participants who were less satisfied:

- Some DTIs which offer specialized or non-traditional services said OSFI does not sufficiently adjust supervision to their business model or take into account the lower risk profile of their type of business.
- A few said that while OSFI talks about taking the nature and size of the institution into account, this does not always show up in supervisory conclusions.
- Reporting and compliance requirements are perceived by some to be onerous and disproportionate given the risk profiles and the limited resources at smaller DTIs.
- Some said OSFI’s specialist teams do not always scale to the institution appropriately. A few commented that the supervisory team has helped mitigate this problem by working with the specialist teams, but a few others said it has been a challenge for them to make specialist teams understand their business.

Supervision

Overall evaluation

Overall evaluations of OSFI’s supervision are very positive, and are widespread across all sizes and types of DTIs. Positive assessments included:

- Good communication, in several respects:
 - Readily accessible
 - Responsive to requests
 - Open and frank dialogue that facilitates constructive interactions
 - Provides opportunities to discuss any issues of concern
- Professional
- Knowledgeable about the guidelines
- Engaged in developing a relationship with the institution and understanding its business
- Risk-based in setting priorities

Opportunities for improvement

Many participants are satisfied with their supervisory team, but there are relatively small numbers of DTIs where there are opportunities for improvement:

- *Consideration of nature, size, complexity, risk profile:* OSFI is perceived to have improved on this dimension, but some smaller DTIs, particularly those that are not traditional retail deposit-taking institutions, suggest there is room for improvement. Some smaller DTIs feel OSFI does not sufficiently take into account the implications of its requests and requirements as they relate to resources and technological requirements, and also how quickly smaller institutions can respond to requests from OSFI.
- *Turn-over, particularly in the Lead Supervisor:* Some DTIs that had experienced frequent turn-over (meaning turn-over in less than two years, and particularly multiple sequential instances of turn-over with each less than two years), complained about the disproportionate amount of time and effort that needs to be spent by the institution bringing the new person up to speed. Some suggested knowledge transfer to the new person should be improved.
- *Experience and expertise*
 - Several Small DTIs believe OSFI uses smaller institutions as a training ground for less experienced staff, and so they do not feel they are getting the benefit of experienced supervisors.
 - A few Small DTIs said that in their experience, there is not always a good fit between the institution and the team assigned to supervise them – the team members are perceived to have a big institution perspective and not to have a good understanding of the challenges faced by Small DTIs.
 - Some D-SIB participants expressed concerns about OSFI’s competitiveness to continue to attract specialists with strong technology expertise in light of the increasing impact of new technologies on the industry.

Approvals

- Satisfaction with the approval process is high. Most said OSFI set clear expectations in terms of what was required from institutions in their submissions, provided opportunities for discussion if needed, and processed the applications in a reasonable time given the nature of the requests.

- Among the small number who had concerns, the complaints were around long approval times for model approval or more complex types of requests, or OSFI stated a time frame for approval that was inaccurate, and was not proactive in communicating about the delay.

Communication

- OSFI is widely perceived to be strong on communication. This includes responding to enquiries on final guidance and other enquiries, and OSFI's written communication.
- One concern a small number of participants noted was OSFI sometimes will not put supervisory recommendations in writing. For example, a specific scenario mentioned was recommendations in an area where the relevant guideline has not been updated for many years and OSFI's supervisory expectations appear to have evolved. Not putting recommendations in writing can cause issues with internal auditors or the Board.
- Among DTIs headquartered outside of Quebec, all participants were satisfied with the ability to interact with OSFI in the language of their choice, which was English. Among DTIs headquartered in Quebec, there are no major issues. The DTIs there noted that some OSFI staff in Toronto and Ottawa do not speak French, but perceive OSFI to be motivated to try to provide service in French, including offering to have a translator present at meetings. A few DTIs in Quebec said it would be nice to have supervisory correspondence in English as well as French because they are bilingual organizations.

Cost of Research

The cost of this research was \$70,246.45 (HST included).

How this information is expected to be used

The research findings will help OSFI assess how well it is achieving its mandate overall and will enable OSFI to improve on performance, as required, in its regulatory and supervisory activities as they pertain to federally regulated deposit-taking institutions.