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"www..." Indicates document can be found on OSFI's  
Internet site: <http://www.osfi-bsif.gc.ca>.





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The Honourable Paul Martin, P.C., M.P.  
Minister of Finance  
Ottawa, Canada  
K1A 0A6

Dear Minister:

Pursuant to section 25 of the *Office of the Superintendent of Financial Institutions Act*, I am pleased to submit to you and the Secretary of State (International Financial Institutions) the Annual Report of the Office of the Superintendent of Financial Institutions for the period April 1, 1997 to March 31, 1998.

Yours very truly,

John R.V. Palmer  
Superintendent

Ottawa, September 1998

## OSFI is...

The Office of the Superintendent of Financial Institutions (OSFI) is the primary regulator of federally-chartered financial institutions and pension plans. It was established by legislation in 1987 to ensure a coordinated approach to supervision and to establish a modern regulatory framework for Canada's financial system.

OSFI is responsible for regulating and supervising banks and all federally-chartered insurance companies, trust and loan companies, cooperative credit associations and fraternal benefit societies. OSFI also monitors federally-regulated pension plans and provides actuarial advice to the Government of Canada. In addition to the duties set out in the Office of the Superintendent of Financial Institutions Act, OSFI has obligations under the Public Pensions Reporting Act and Canada Pension Plan Act. As well OSFI administers the following Acts:

- Bank Act,
- Insurance Companies Act,
- Trust and Loan Companies Act,
- Cooperative Credit Associations Act, and
- Pension Benefits Standards Act, 1985.

OSFI is organized into four sectors: Supervision, Regulation, Specialist Support and Corporate Services. These sectors are supported by the Practices Division. OSFI's responsibilities are carried out by a staff of about 400 employees located in five offices: Ottawa, Toronto, Montreal, Vancouver and Winnipeg.

## Our Mission

We are the primary regulator of federal financial institutions and pension plans. Our mission is to safeguard policyholders, depositors and pension plan members from undue loss. We advance and administer a regulatory framework that contributes to public confidence in a competitive financial system. We also provide actuarial services and advice to the Government of Canada.

We are committed to providing a professional, high quality and cost-effective service.

## OSFI regulates...

	Number <sup>1</sup>	Assets <sup>2</sup> (in millions)
<b>Banks</b>		
Schedule 1	8	\$ 1,244,785
Schedule 2	48	\$ 92,954
<b>Trust and Loan Companies</b>		
Bank-owned	31	\$ 151,496
Other	28	\$ 52,135
<b>Cooperative Credit Associations</b>	7	\$ 7,862 <sup>3</sup>
<b>Life Insurance Companies</b>		
Canadian owned	57	\$ 256,044
Foreign branches	72	\$ 24,256
<b>Fraternal Benefit Societies</b>		
Canadian owned	13	\$ 6,178
Foreign branches	14	\$ 725
<b>Property &amp; Casualty Insurance Companies</b>		
Canadian owned	99	\$ 36,091
Foreign branches	126	\$ 15,897
<b>Pension Plans</b>	1,125	\$ 67,000

<sup>1</sup> As at 31 March 1998. The above includes institutions in the process of liquidation or termination and institutions limited to servicing existing businesses. A list of institutions regulated by OSFI can be found on OSFI's web site.

<sup>2</sup> Dollar figures are approximate. Figures are as at 31 March 1998 where available, otherwise 31 December 1997.

<sup>3</sup> As at 31 December 1997 where available, otherwise 31 December 1996.

N.B.: Total assets of the industries regulated by OSFI are not the simple sum of the above-noted figures. The figures for entities that report on a consolidated basis include subsidiary whose assets may also be included in a different category.



(L to R): Bettina Roth, Michael Layton,  
Nicole Beaudry, Zahir Dharsee, Kelly Gorman

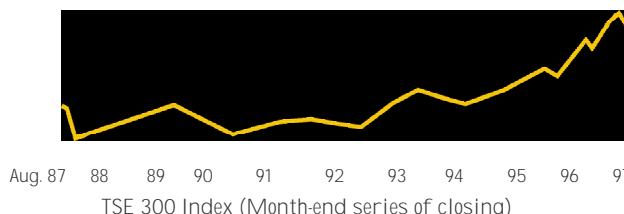
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## Message from the Superintendent

The Office of the Superintendent of Financial Institution (OSFI) marked its tenth year as an organization in 1997 ... and how things have changed!

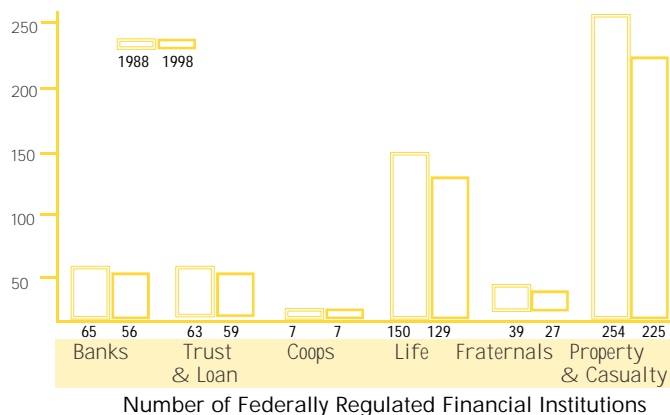
### In the economy

In October 1987 the stock market crashed. This was followed in the early 1990s by a recession in central Canada that led to the closing or amalgamation of several financial institutions. Since 1994, the economy has steadily improved and this has been reflected in the sustained earnings and profitability of Canada's financial sector. So far, our financial institutions have not suffered any severe impact as a result of the current economic instability.



### In the financial sector

Over the past decade we have seen continued consolidation in the financial sector. In 1988, legislation was amended to allow banks to own securities dealers. Now all the major banks have significant securities activities and most major securities firms are bank-owned. In 1992, the legislation pertaining to financial institutions was updated, permitting cross-ownership



of institutions in other financial sectors. Banks have continually increased their market share of deposits, in part by the purchase of trust and loan companies. This year, four of the largest banks have expressed a wish to merge into two "superbanks". The life insurance industry is becoming more concentrated and the four largest mutual companies have announced plans to become stock companies. There are fewer property and casualty insurance companies than we saw 10 years ago, but those remaining are more profitable.

### In the marketplace

No one could have predicted some of the changes we have seen over the last 10 years in the marketplace. Who would have imagined the "virtual bank" or alternatively, a bank teaming up with a grocery chain? There has been an explosion of new products and services. The products offered by deposit-taking institutions are often indistinguishable from the products offered by insurance companies, and delivery channels are constantly evolving.

The management of pension plans has changed too, with fund managers becoming increasingly powerful participants in financial markets.

### At OSFI

OSFI was created out of two organizations, the Office of the Inspector General of Banks and the Department of Insurance. The first Superintendent, Michael Mackenzie, had the difficult task of merging these distinct organizations. At the same time he was faced with a shakedown in the financial industry which severely affected weaker institutions.

This year, after careful study, I announced a reorganization of OSFI. The time was right. We have had 10 years of experience as an organization and change was required to reflect the new reality of the financial services industry. The short-term economic outlook was also good enough that we could afford to focus inward and prepare for the challenges ahead.

The new organization is described in the June 1998 issue of the OSFI Bulletin<sup>www...</sup>. Our responsibilities in regulation and supervision are now carried out by the Regulation Sector and the Supervision Sector. Let me define these functions. Regulation is the setting of rules of good prudential behaviour for financial institutions and pension plans. Supervision is the monitoring and inspection of financial institutions and pension plans to ensure that they are observing the rules and otherwise conducting themselves in a safe and sound manner. Technical advice to support the work of these two sectors is provided by the Specialist Support Sector, the Practices Division and a planned Quality Assurance Division. Administrative support is provided by the Corporate Services Sector.

The new organization is designed to be flexible and it is expected that the skills and expertise in all sectors will change over time to reflect the evolution of the industry as it proceeds in new directions, introduces new products and assumes new risks. In keeping with the climate of change and the philosophy of a flexible organization, the two Deputy Superintendents switched responsibilities during 1997-98.

## The Superintendent

**Regulation Sector**  
**John R. Thompson, Deputy Superintendent**

**Supervision Sector**  
**Nicholas Le Pan, Deputy Superintendent**

**Corporate Services Sector**  
**Edna M. MacKenzie, Assistant Superintendent**

**Specialist Sector**  
**Gordon Baker, Assistant Superintendent (Acting)**

### OSFI's commitment

Over the last 10 years, we have seen increased disclosure and transparency by financial institutions (see Annex 3). In the same vein, OSFI is committed to providing more information on its activities and performance. To do this, we have greatly enhanced our Internet site. It seems from the number of visits to our site that this initiative is being used by the public.

Last year I reported that we were developing performance measures for each of our five strategic objectives. This is difficult work. In most cases we have few, if any, models to copy or imitate. Nonetheless, we have experimented with some initial measures and the results are set out in this Annual Report.

### Preparing for the future

Ten years ago, it would have been virtually impossible to foresee the current state of the financial services sector. Today, it is no less difficult to see what lies ahead. The trend to globalization could lead us in unpredictable directions. The issue of global financial stability has been on the agenda of every G-7 summit since 1994, and we continue to work toward that goal through our participation in international supervisory bodies. This year, we supported the creation of the Toronto International Centre for Leadership in Financial Sector Supervision. It has been established to provide leadership training to supervisors from developing countries. OSFI also supports the initiative of the Canadian government to strengthen the supervision of financial institutions around the world through a system of multilateral peer review.

We have also been working with policymakers in the Department of Finance on other issues that could change the way the financial sector operates in Canada. For example, we have had to consider how demutualization could affect the solvency of life insurance companies and how bank branching could affect our approach to supervision.

In this report you will read of many initiatives taken by OSFI over the past year to ensure that institutions are prepared for future events. These range from events that are certain to happen - the Year 2000 date change and its implications for the world's computers, for example - to events with only a probability of occurring, such as an earthquake or other natural disaster. As well, one must remember that while the timing of economic cycles is unpredictable, an eventual downturn in the economy is inevitable. With this in mind, we have been encouraging institutions to strengthen capital and build up their reserves during these good times.

### Future of the Canadian financial sector

In 1996 the government announced the establishment of the Task Force on the Future of the Canadian Financial Sector (MacKay Task Force). Over the last year we have responded to its requests for information and views on a number of issues. Its report was released on September 15, 1998.

### Fulfilling OSFI's mandate

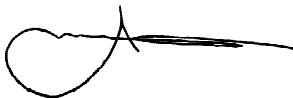
In fulfilling our mandate at OSFI we seek to balance certain objectives that may conflict from time to time. For example, the need to safeguard depositors, policyholders and pension plan members from undue loss may lead to overly-stringent rules and regulations that hamper competition.

Keeping the right balance is always a challenge whenever changes are contemplated to the rules governing Canada's financial sector. For example, the MacKay Task Force recommended changes to encourage the entry of more institutions and the creation of more service delivery mechanisms in Canada. Before adopting these recommendations, thought has to be given to the impact of such changes on our counter-balancing objectives and on OSFI's ultimate ability to fulfil its mandate.

### OSFI's staff

In this report you will read of the significant accomplishments that have been achieved over the past year. None of this would be possible without the hard work and dedication of the many professional women and men who work at OSFI. Not only have they had to keep pace with constant change in the financial sector, but they have had to cope in the stressful work environment that inevitably results when there is a reorganization. I would like to express my sincere thanks to a great team.

Sincerely,



John R.V. Palmer

Superintendent

