A Strong Banking System for a Strong Saskatchewan

17/11/2023

Submission to the Ministry of Finance

ASSOCIATION DES BANQUIERS CANADIENS
CANADIAN BANKERS ASSOCIATION

Recommendations

The Canadian Bankers Association's (CBA) submission identifies opportunities and recommendations for consideration by the Ministry of Finance in the development of their next budget. The CBA's key recommendations, as summarized, are to:

- Remove capital taxes on financial institutions to promote economic growth in the province. Additionally, we encourage the Government to advocate to the federal government to undertake a comprehensive review of Canada's tax system to improve labour productivity, ensure it meets the needs of an evolving economy, and that it is attractive for international capital investments.
- Coordinate housing policy across all levels of government and establish a housing roundtable to remove barriers to the supply of housing and increase construction of social housing.
- Encourage the Saskatchewan to institute mandatory financial education in the province's public school system and expand its financial literacy initiatives to priority groups.
- Seek the Ministry of Finance's support in the adoption of a financial consumer protection regime targeted at payment service providers, as part of the Business Practices and Consumer Protection Act. Extending these standards to e-commerce platforms and to work in collaboration with the federal government's Cyber Centre to increase cyber security awareness and strengthen Canada's cyber resilience,
- Urge Saskatchewan to coordinate with the federal government in combating money laundering and terrorism financing as well as invest in existing tools to enforce and prosecute such crimes for an efficient and effective approach. In the near-term, we urge Saskatchewan to invest in its enforcement and prosecution of money laundering and terrorist financing and harmonize its existing tools with the federal government, and
- Work with the federal government to create pathways to net-zero through collaboration with the industry as well as a balanced and flexible approach to any new regulations.

Introduction

The CBA is grateful for the opportunity to contribute to the Ministry of Finance's next budget through this submission.

The CBA works on behalf of more than 60 domestic and foreign banks operating in Canada and their employees. The CBA advocates for effective public policies that contribute to a sound, successful banking system that benefits all Canadians, including Saskatchewanians. We also promote financial literacy to help residents of Saskatchewan make informed financial decisions and work with banks and law enforcement to help protect customers against financial crime and promote fraud awareness.

A strong and healthy banking system is an essential cornerstone to help households manage their finances, help small businesses grow, and promote Saskatchewan's economy in attracting capital investments. Our submission offers the banking industry's views and recommendations in areas that are of interest to the Ministry of Finance's efforts in supporting vibrant and healthy communities that enable clean and sustainable growth.

Banking Industry and the Saskatchewan Economy

Canada's banking sector has a longstanding history of supporting the Saskatchewan economy. In 2022, the banking industry contributed approximately $1.3 billion (or 1.6 per cent) to Saskatchewan's GDP and paid $140 million in provincial and municipal taxes. Furthermore, banks in Canada provided $22.6 billion in dividend income in 2021 and a further $26.0 billion in 2022 that went to seniors, families, pension plans, charities, and endowments across Canada, including in Saskatchewan.[1]

The banking industry also invests heavily in new technology to meet the needs of Canadians. In the last decade, Canadian banks invested approximately $115 billion in technology across Canada. With a network of close to 200 branches across Saskatchewan providing accessible, affordable, and competitive banking services to consumers and businesses, banks are committed to working cooperatively to help meet the government's priorities of building a strong economy and vibrant communities.[2]

[1] CBA data.
[2] Ibid

The banking industry's workforce in Saskatchewan is inclusive and talent driven. Of the more than 3,500 employees of banks in Saskatchewan, approximately 61 and 33 per cent were women and visible minorities, respectively. Additionally, banks are making special efforts to increase representation of Indigenous people within their workforces and support initiatives to promote the employment of people with disabilities.[3] Banks in Canada are progressive employers that proactively support and foster diversity, inclusion, and equality in their workforces.

Banks also play an important role in the finance and business ecosystem. According to CBA 2022 statistics, banks in Canada have $27.0 billion in residential mortgages outstanding and authorized $67.5 billion in business credit in Saskatchewan and Manitoba.[4] Of the authorized credit, $19.2 billion went to small- and medium-enterprises (SMEs). Saskatchewan businesses, including SMEs, are well-served by the financial sector owing to a tremendous amount of competition. According to Statistics Canada's *Survey on Financing of Small and Medium Enterprises*, 100 per cent of debt financing requests for small businesses were approved in 2022 for Manitoba and Saskatchewan,[5] with the debt approval rate in the provinces consistently being above 81% since the 2010.[6]

Focusing on the agriculture sector, authorized credit by banks to farmers in Saskatchewan and Manitoba totaled $17.6 million as at the end of 2022. Banks understand the challenges of the agriculture business and have a proud history of working with farmers through difficult situations such as flooding, droughts, as well as livestock and crop disease.

Capital taxes, Canada's productivity problem, implications for Saskatchewan, and the need for tax reform

Taxation of capital has widely been recognized as a barrier to attracting new capital investment by restricting capital to taxes, reducing a bank's capacity to expand credit to other sectors that innovate and grow the economy. In fact, British Columbia, Alberta, Ontario, and Quebec have eliminated their capital taxes to maximize provincial competitiveness and capacity to grow their economies and create jobs.

[3] Ibid
[4] CBA collects outstanding and authorized credit data from banks grouped for the region of Saskatchewan and Manitoba.
[5] Innovation, Science and Economic Development (ISED), Credit Conditions Survey – 2021, August 2023.
[6] Based on ISED Credit Conditions Surveys from 2009.

The $65 million in Saskatchewan's capital taxes on prudentially regulated financial institutions is a counterproductive public policy as the tax penalizes banks for holding large capital buffers for rising risks or as required by regulations. While banks operating in Canada have been ranked as safest in the world[7], the recent rise in credit risks moved bank's credit provisions higher and led to increased capital requirements by the federal regulator. The C.D. Howe Institute stated that ultimately the "biggest burden (of discriminatory taxes such as capital taxes) falls on consumers." The impact will be direct, through higher cost and reduced offerings, and indirect, as borrowing costs will "raise prices and reduce goods and services available throughout the economy."[8]

The negative impact of discriminatory taxes on the financial sector is compounded by Canada's labour productivity, which is among the lowest in the G7. This negatively impacts investment in productivity enhancing areas of intellectual property,[9] information technology and machinery and equipment at a time when Canada's investment rate is half the rate of the United States.[10] Canada is projected to be one of the worst performers among advanced economies in the next 40 years because of sluggish labour productivity growth.[11]

We believe Canada's productivity outlook can be improved through a redesign of Canada's inefficient tax system that distorts capital decisions and hampers productivity.[12] An efficient tax system incorporates relatively lower rates on a broader base to maintain government revenues and encourage growth and innovation by letting investors, savers, and employees base decisions on economic merit, as opposed to tax reasons. Furthermore, an efficient tax system is neutral, not discriminating by asset type or firm characteristics. The Organisation for Economic Co-operation and Development (OECD) has stated that creating tax advantages for specific activities typically draws resources away from sectors that can make the greatest contribution to productivity gains and economic growth.[13]

Recommendation: We urge the Ministry of Finance to remove capital taxes on financial institutions to promote economic growth in the province. Additionally, we ask Saskatchewan to advocate to the federal government for a comprehensive review of Canada's tax system. This

[7] World Economic Forum's annual Executive Opinion Surveys ranked Canada's banks as the healthiest with soundest balance sheets, compared to over 130 jurisdictions, from 2008-2018. Additionally, Global Finance magazine ranked all of Canada's big six banks in the top 29 in the list of World's Safest Banks 2022 – sorted by asset size, Canada's big six banks rank as the safest.
[8] C.D. Howe Institute, Italy's bank tax fiasco: Canada must learn lessons on the evils of populist tax policy, September 2023
[9] OECD, "GDP per hour worked" (indicator) (accessed on 30 May 2023).
[10] OECD, OECD Compendium of Productivity Indicators 2023
[11] BCBC, OECD predicts Canada will be the worst performing advanced economy over the next decade…and the three decades after that, December 2021
[12] International Monetary Fund, Fiscal Monitor: Achieving More with Less, April 2017
[13] OECD, Tax Policy Reform and Economic Growth, OECD Tax Policy Studies (2010)

review should prioritize alignment with the needs of Canada's evolving economy and ensure Canada can compete internationally for capital investments.

Improving access to housing

We recognize that each province in Canada has unique needs and challenges with respect to housing affordability. While RBC Economics estimated that Saskatchewanians need to devote 34.5% of their incomes to home ownership, affordability has been eroding in recent years.[14] Deteriorating housing affordability has important social and equity implications that could reverberate across generations, as many young Canadians have been effectively priced out of homeownership.

We believe that an imbalance between home supply and demand continues to be a key factor contributing to the housing crisis in Canada. The Canada Mortgage and Housing Corporation (CMHC) estimates that Saskatchewan needs to a build an *additional* 100,000 units above current construction trends to restore housing affordability by 2030.[15]

The only sustainable option for improving affordability over the long-term is to expand the supply of housing, including rental units. Project approvals should be expedited and measures to increase housing density should be implemented. According to Scotiabank Economics, Canada's stock of social housing represents 3.5% of its total housing stock, the lowest among the OECD. In the near-term, we encourage the Ministry of Finance to accelerate the construction of social housing to meet the growing needs of Canada's most vulnerable. A recent study by the Mental Health Commission of Canda estimated that every $10 invested in supportive housing resulted in an average savings of almost $22 across health care, social services, and the justice systems in addition to social returns.[16]

To correct the supply-demand imbalance, greater coordination between various levels of government is necessary to address the housing affordability crisis across Canada. The CBA supports the establishment of a housing roundtable, bringing together representatives of federal, provincial, municipal, and Indigenous government authorities, along with bankers, builders, boards of trade, real estate professionals, market rental housing providers, non-market housing organizations, and civil society organizations. Often these stakeholders are not part of the consultation process, but they have substantive sectoral policy expertise and are on the frontlines of the housing challenges. Such a

[14] RBC, Focus on Canadian housing: Housing trends and affordability, March 2023
[15] CMHC, Canada's Housing Supply Shortage: Restoring affordability by 2030, June 2022
[16] Canadian Mental Health Association Ontario, Housing First: The Path to Recovery

roundtable would provide a forum that could be beneficial for gathering and sharing perspectives to identify the obstacles to housing affordability.

Recommendation: We encourage the Ministry of Finance to contribute to efforts across all levels of government to remove barriers to housing supply. We also support the establishment of a housing roundtable as we believe leveraging the collective knowledge base in a proactive and collaborative manner, will create sustainable, vibrant, and healthy communities in the province. We also encourage the Ministry of Finance to increase social housing construction to protect the most vulnerable households.

Increasing financial literacy

Financial literacy is an essential life skill. Developing an understanding of money at a young age will help people better manage their money in the future, but people of all ages need to have the necessary tools to make informed financial decisions. The banking sector has long recognized that it has a role to play in supporting and strengthening financial literacy, and banks support many programs to help Canadians.

The CBA applauds the dedication demonstrated by Saskatchewan to enhance financial literacy outcomes for students through the introduction of elective financial literacy courses in 2020. We encourage the province to expand their commitment by instituting mandatory financial education within the public school system, helping the next generation strengthen their financial literacy while equipping them b with the knowledge to evade financial fraud and scams.

Additionally, we encourage the province to broaden its financial literacy initiatives to encompass targeted programming for priority groups, including lower-income Canadians, Indigenous communities, and newcomers to Canada. By doing so we can ensure that financial literacy in Saskatchewan is inclusive.

Recommendation: We encourage Saskatchewan to institute mandatory financial education in the province's public school system and expand its financial literacy initiatives to priority groups.

Consumer protection for users of payment service providers (PSP) in Canada and Saskatchewan

The payments ecosystem continues to rapidly evolve with the surge of non-traditional PSPs offering financial services to consumers. PSPs are entities that perform payment functions and currently offer financial services and products to consumers.[17] At present, these PSPs are largely unregulated and pose various risks, including the risk of loss of consumer funds (financial risks); the risk of operational and security failures; and market conduct risk. Market conduct risk refers to the behaviour of PSPs that may harm consumers.

While the Bank of Canada and the Department of Finance Canada are developing a federal supervisory framework for PSPs under the Retail Payment Activities Act to address certain risks, the federal framework is silent on market conduct. With over 2,500 PSPs currently operating in Canada[18], and the expectations of increased use and trust that consumers will place in PSPs once they are supervised by Bank of Canada, the absence of market conduct regulation is a significant gap in consumer protection.

Globally, the G20 and OECD have recognized that financial consumer protection requires a more targeted set of rules than general consumer protection.[19] The key risks that these principles seek to mitigate include (but are not limited to) the risks that consumers will:

- incur fees that have not been properly disclosed by a provider;
- not have access to their funds held by a provider;
- be held responsible for fraudulent transactions; and
- not have a line of recourse in the absence of a clear complaints-handling process.

A failure to address these risks, among others, can decrease consumer trust in the financial system. Financial services and products have the potential to disproportionately impact the well-being of consumers and must be addressed specifically rather than through overarching consumer rights across industries.

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[17] Payment functions include provision/maintenance of accounts held, the holding of funds, the initiation and authorization of electronic funds transfers or clearing and settlement services on behalf of end-users.
[18] Canada Gazette, Part 1, Volume 157, Number 6: Retail Payment Activities Regulations.
[19] Market conduct and subsequent consumer protections associated with financial product principles are outlined in the G20/OECD High-Level Principles of Financial Consumer Protection.

The rise in digital financial services has made financial data a prime target for cyber threats. The Canadian Anti-Fraud Centre has noted a 40% year-over-year surge in cybercrime losses, with many incidents going unreported.[20] Globally, about three billion phishing emails are sent daily. Cyber security is a shared responsibility, with banks collaborating with each other, the government, and law enforcement to safeguard Canada's critical infrastructure. It's crucial for individuals and businesses to adopt basic cyber security practices, be aware of common frauds, and scams. Additional investment in the Canadian Centre for Cyber Security would support efforts to educate Canadians on avoiding scams, protecting individuals and small businesses, and mitigating cyber security threats.

Recommendation: We encourage the Ministry of Finance support for the adoption of a financial consumer protection regime targeted at PSPs, as part of the *Business Practices and Consumer Protection Act.* Enhancing standards for financial consumer protection should also extend to entities that embed payments processing for merchants on behalf of consumers (i.e., on an e-commerce platform) that have the potential to fall outside the federal framework, as they introduce the same risks as PSPs. We encourage the Ministry of Finance's cross-industry collaboration to increase cyber security awareness and strengthen Canada's cyber resilience.

Need for a harmonized anti-money laundering and anti-terrorist financing regime

The federal *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)* imposes extensive legislative obligations for banks to detect the laundering of money and financing of terrorist activities in Canada. Correspondingly, banks invest heavily in systems, processes, and people to ensure compliance. The federal government's Budget 2023 announced an upcoming parliamentary review of the PCMLTFA and the release of several key policy initiatives/legislations that are expected to result in significant changes and expansion of the federal anti-money laundering (AML) and anti-terrorist financing (ATF) regime (the Regime).

The CBA cautions against applying new provincial requirements, reporting or otherwise, to sectors already governed by the PCMLTFA, because such regional and /or provincial regulatory approaches may, albeit inadvertently:

- fail to focus on the appropriate risks and miss a key opportunity to properly augment the Regime

[20] The Canadian Anti-Fraud Centre (CAFC) reported $530 million in victim losses in 2022, up 40% from 2021. Its estimated only 5% of victims report.

(e.g., provincial changes may be required in the future to support a federal solution on private-to-private institution information sharing for AML and ATF purposes;

- impact the ongoing, important national policy work of the federal government;
- create coordination concerns amongst a growing number of authorities; and
- potentially increase reporting issues.

As opposed to introducing new requirements to a comprehensively regulated space, the CBA urges the Ministry of Finance to invest in, and to harmonize its existing tools with the efforts of the federal government. More specifically, Saskatchewan should:

- work with the federal government to ensure provincial beneficial ownership information, which align with the information regulated entities are required to collect under the PCMLTFA, is reflected on the national, federally maintained beneficial ownership registry; and
- invest in law enforcement to support its investigation and prosecution of money laundering and terrorist financing cases and coordinate that work with the federal government's future Canadian Financial Crimes Agency and other relevant agencies and private sector organizations, like banks.

In relation to the latter, we suggest the Ministry of Finance provide funding to municipalities and regions with high volumes of financial crime. The funds would be used to establish specialist investigative units that boast the tools and knowledge to pursue financial crime charges. These municipalities and regions may be identified via a data sharing agreement with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC).

The foregoing actions can be made quickly with limited concerns about unintended consequences and immediately impact the fight against financial crime. The CBA and its members are eager to work with the province on this issue and look forward to consulting on and supporting provincial efforts.

Recommendation: We urge the Ministry of Finance to work closely with the federal government and authorities to combat money laundering and terrorist financing. A coordinated approach will avoid duplication and ensure federal and provincial efforts are efficient and effective. In the near-term, we urge Saskatchewan to invest in in its enforcement and prosecution of money laundering and terrorist financing and harmonize its existing tools with the federal government.

Transition to Net Zero

The financial sector is central to securing an orderly transition to a low-carbon economy. By financing the climate transition, banks are helping Canada meet its net-zero ambitions while helping meet interim energy demands in a volatile global context. We recognize the importance of the agricultural sector to Saskatchewan and Canada as a whole and we understand that sustainability in this sector requires the balancing of environmental ambition, land and soil conservation, productivity investment, and economic competitiveness.

A national or harmonized process is needed for Canada to meet its climate goals and enhance productivity and economic growth. Businesses, governments, and individuals working together on the fundamental reshaping of our economies and societies is critical in achieving these goals. Banks look forward to opportunities to support the generation of more clean energy, grow our economy, and cut emissions in Canada.

Recommendation: We encourage the Ministry of Finance to collaborate with industry and the Government of Canada to design targeted investments and tax incentives that create pathways to net-zero, while taking a balanced and flexible approach to new regulation.

Conclusion

Upcoming challenges to Saskatchewan, whether influenced by global or domestic factors, highlight the need for a strong and stable banking sector that will benefit the province’s economy. The banking sector plays a vital role in the province’s economy directly or indirectly, by supporting the Saskatchewan’s business ecosystem, particularly in lending to SMEs.

Our recommendations aim to ensure the banking system continues to support Saskatchewan's vibrant and healthy communities that enable a stronger Saskatchewan. The CBA looks forward to following up with the Ministry of Finance on our submission. Please do not hesitate to contact the CBA if our sector can be of any assistance.