

A Strong Banking System for a Strong Alberta

21/12/2023

Recommendations

The Canadian Bankers Association's (CBA) pre-budget submission identifies opportunities and recommendations for consideration by the Ministry of Treasury Board and Finance (Ministry) in the development of their next budget.

The CBA's key recommendations, as summarized, are for the Government of Alberta to:

- Advocate to the federal government to undertake a comprehensive review of the national tax system to ensure it aligns with the needs and goals of Albertans, increases productivity, and attracts international capital investments. One step is the removal of sector specific taxes such as the Financial Institutions (FI) Tax and the Canada Recovery Dividend (CRD).
- Support the establishment of a multi-stakeholder housing roundtable to coordinate housing policy across all levels of government and remove barriers to the supply and increase construction of social housing to protect the province's most vulnerable households.
- Introduce a mandatory, standalone financial literacy course within the province's public secondary school curriculum and expand its financial literacy initiatives to priority groups.
- Adopt a financial consumer protection regime targeted at payment service providers and extend these standards to under and unregulated activities.
- Collaborate with the CBA and government agencies to increase cyber security awareness and strengthen Canada's cyber resilience.
- Coordinate with the federal government to combat 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 Alberta to invest in its enforcement and prosecution of money laundering and terrorist financing and harmonize its existing tools with the federal government.
- Continue to align to federal privacy legislation, ensuring cross-jurisdictional interoperability and harmonization of high-level privacy principles, key definitions, and specific requirements for organizations. Additionally, we recommend clear, nonconcurrent jurisdictional boundaries to ensure both cross-border data flows and federally regulated businesses are not burdened with duplicative regulatory oversight and potentially different obligations.
- Provide additional funding to address physical security challenges that are impacting economic growth and vitality in the province's urban centres.
- 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.

Introduction

The CBA is grateful for the opportunity to contribute to the Ministry's next budget through its 2024 Budget consultation.

The CBA works on behalf of more than 60 domestic and foreign banks operating in Canada, including several headquartered in Alberta. The CBA advocates for public policies that contribute to a sound, thriving banking system that ensures Canadians, including Albertans, can succeed in their financial goals. We also promote financial literacy to help residents of Alberta 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 Alberta's economy in attracting capital investments. Our submission offers the banking industry's views and recommendations in areas that are of interest to the Government's efforts in strengthening local economies and communities across the province now and create prosperity for the future.

Banking industry and the Alberta economy

Canada's banking sector has a longstanding history of supporting the Alberta economy. In 2022, the banking industry contributed approximately \$8.3 billion (or 2.5 per cent) to Alberta's GDP and paid over \$300 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 Alberta.¹

The banking industry invests heavily in new technology to meet the needs of Canadians. Over the last decade, Canadian banks invested approximately \$115 billion in technology across Canada. With a network of 665 branches and 2,415 bank-owned ABMs across Alberta, Canada's competitive banking system provides ready access, good value, and wide choice of banking services to consumers and businesses. Additionally, financial advisors and planners employed by banks help Albertans plan for times of heightened economic uncertainties and financial pressures.

¹ CBA data.

The banking industry's overall workforce in Alberta is large, inclusive and talent driven. Alberta is the headquarters to three of CBA's members employing over 2,500 employees.² Furthermore, the six largest Canadian banks employ more than 18,000 employees in Alberta, of which approximately 62 per cent of is represented by women and visible minorities constitute 38 per cent, with significant representation in all management levels. 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.

Canada's banks have been ranked as safest in the world through the 2008 global financial crisis and the recent rapid interest rate increases. Banks' reliability and stability⁴ help families buy a home and save for retirement, help small businesses grow, and drive the economy and support Alberta's growing communities. For instance, banks in Canada have \$164.7 billion in residential mortgages outstanding and authorized \$231.1 billion in business credit in Alberta, as at the end of 2022.⁵ Of the authorized credit, \$31.7 billion went to small- and medium-enterprises (SMEs). Alberta businesses, including SMEs, are well-served by the financial sector owing to a tremendous amount of competition. According to the Innovation, Science and Economic Development (ISED) Credit Conditions Survey, 81 per cent of debt financing requests for small businesses were approved in 2022 for Alberta,⁶ with the debt approval rate in the province consistently being above 78 per cent since the 2010.⁷

Canada's productivity problem, implications for Alberta, and need to review Canada's tax system

Canada has a productivity challenge as labour productivity is among the lowest in the G7 and investment in productivity enhancing areas of intellectual property, information technology and machinery and equipment is happening at half the rate in Canada compared to the United States, its most significant trading partner.⁸ Canada is projected to be one of the worst economic performers among advanced

² Canadian Western Bank, General Bank of Canada, and Bridgewater Bank are headquartered in Alberta.

³ Ibid

⁴ 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 30 in the list of World's Safest Banks 2022 – sorted by asset size, Canada's big six banks rank as the safest.

⁵ CBA data.

⁶ ISED, [Credit Conditions Survey – 2022](#), August 2023.

⁷ Based on ISED [Credit Conditions Surveys](#) and Statistics Canada's Survey on Financing of Small and Medium Enterprises.

⁸ OECD (2022), OECD Compendium of Productivity Indicators 2023, OECD Publishing, Paris, <https://doi.org/10.1787/74623e5b-en>.

economies in the next 40 years because of sluggish growth in labour productivity.⁹ Improving Canada's productivity will contribute to economic growth, ensure high living standards for future generations, and keep business production costs low as Alberta competes with international competitors.

While Albertans and Alberta businesses pay the lowest overall taxes compared to other provinces, Canada's tax system has not been reviewed comprehensively since the Carter Commission in the mid-1960s. Since then, economies have evolved drastically, and the CBA is advocating to all levels of government to review Canada's tax system to ensure it promotes economic growth and innovation. The provincial and national tax systems should align in encouraging growth and innovation by letting Canadians and businesses make choices driven by economic decisions rather than by tax considerations.

Any redesign of the tax system should improve tax efficiency by incorporating relatively low and flat rates, with a broad base and not discriminate across industries by asset type or firm characteristics. Conversely, an inefficient tax system applies taxes on specific sectors distorts capital decisions and hampers productivity.¹⁰ Thus, the review should be comprehensive, encompassing the review of income taxes, commodity taxes, and other forms of taxation, and avoid the application of sector-specific taxes.

For instance, the federal government has targeted banks with sector specific taxes, namely the Financial Institutions (FI) Tax and the Canada Recovery Dividend (CRD). Such taxes on the banking industry will reduce the amount of capital available, restricting investments in innovation, and deter foreign investment, hindering the banks' ability to attract essential capital to support economic growth. The C.D. Howe Institute stated that ultimately the "biggest burden (of sector specific 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."¹¹

Recommendation: We urge the Government of Alberta to advocate to the federal government to undertake a review of the national tax system to ensure it aligns with the needs and goals of Albertans, increases productivity, and attracts international capital investments. One step is the removal of sector specific taxes such as the FI Tax and the CRD.

⁹ BCBC, [OECD predicts Canada will be the worst performing advanced economy over the next decade...and the three decades after that](#), December 2021

¹⁰ International Monetary Fund, [Fiscal Monitor: Achieving More with Less](#) (Chapter 2), April 2017

¹¹ C.D. Howe Institute, Italy's bank tax fiasco: Canada must learn lessons on the evils of populist tax policy, September 2023

Supporting housing affordability

We recognize that each province in Canada has unique needs and challenges with respect to housing affordability. Alberta has not been immune to the challenges of home affordability pressures experienced across the country since the beginning of the pandemic. RBC Economics estimates the share of household income needed to cover home ownership costs at 44 per cent and 34 per cent in Calgary and Edmonton, respectively.¹² While affordability has not deteriorated in Alberta to the same extent as it has in other Canadian provinces, maintaining affordable housing for the most vulnerable in our society remains vital to the province's continued economic and social vibrancy.

As population continues to grow in the province, we believe that an imbalance between home supply and demand will contribute to affordability challenges. The Canada Mortgage and Housing Corporation (CMHC) estimates that Alberta needs to build an *additional* 20,000 units above current construction trends to restore housing affordability by 2030.¹³ 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 permanent supportive housing represents 3.5 per cent of its total housing stock, among the lowest in the OECD. In the near-term, we encourage the Government of Alberta to accelerate the construction of permanent supportive housing to meet the growing needs of Alberta's most vulnerable. A recent study by the Mental Health Commission of Canada 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.¹⁴

To correct supply-demand imbalances, greater coordination between various levels of government is necessary. The CBA supports the establishment of a permanent 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 have substantive sectoral policy expertise and are on the frontlines of the housing challenge. A permanent roundtable would provide a beneficial forum for sharing perspectives on obstacles to housing affordability, as well as generating solutions.

¹² RBC, [Focus on Canadian housing: Housing trends and affordability](#), March 2023

¹³ CMHC, [Canada's Housing Supply Shortage: Restoring affordability by 2030](#), June 2022

¹⁴ Canadian Mental Health Association Ontario, [Housing First: The Path to Recovery](#)

Recommendation: We encourage the Government of Alberta to contribute to efforts across all levels of government to remove barriers to housing supply, particularly for the most vulnerable. We support the establishment of a housing roundtable, as we believe leveraging stakeholders' collective knowledge will create sustainable, vibrant, and healthy communities in the province. We encourage the Government to increase permanent supportive housing construction to protect the province's most vulnerable households.

Strengthening 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 and the knowledge to avoid financial fraud and scams. 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 leadership demonstrated by the Government of Alberta through investments in basic financial literacy education for students across the province. This is a laudable policy, and we hope it encourages other provinces in Canada to follow suit.

We encourage the Government to further its financial literacy commitment through the introduction of a standalone course on financial literacy to complement the current Grade 10 "Career and Life Management" course, as well as modules in the math and social courses. This new, standalone course would build upon the strengths of Alberta's existing curriculum and would provide an in-depth exploration of key topics such as budgeting, saving, investing, and fraud avoidance providing students with a well-rounded understanding of managing their financial well-being and resiliency.

Additionally, we encourage the Government 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 Alberta is inclusive and accessible.

Recommendation: We encourage the Government of Alberta to introduce a mandatory, standalone financial literacy course within the province's public secondary school curriculum and expand its financial literacy initiatives to priority groups.

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

The payments ecosystem continues to rapidly evolve with the surge of non-traditional PSPs, including large technology firms, offering financial services to consumers. PSPs are entities that perform payment functions and currently offer financial services and products to consumers.¹⁵ 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 have developed 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 Canada¹⁶, 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.¹⁷ 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.

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.

¹⁵ [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.

¹⁶ [Canada Gazette, Part 1, Volume 157, Number 6: Retail Payment Activities Regulations.](#)

¹⁷ 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 per cent year-over-year surge in cybercrime losses, with many incidents going unreported.¹⁸ 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 and to be aware of common frauds and scams. Collaboration with the CBA and organizations such as 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 to support the adoption of a financial consumer protection regime targeted at PSPs, as part of Alberta's consumer protection framework. Enhancing standards for financial consumer protection should also extend to entities that embed payments processing for merchants on behalf of consumers that have the potential to fall outside the federal framework, as they introduce the same risks as PSPs. Additionally, we encourage the Ministry to collaborate with the CBA and federal government agencies 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, which has yet to be launched, and the release of several key policy initiatives and legislation 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:

¹⁸ The Canadian Anti-Fraud Centre (CAFC) reported \$530 million in victim losses in 2022, up 40 per cent from 2021. Its estimated only 5 per cent of victims report.

- fail to focus on the appropriate risks and miss a key opportunity to properly augment the Regime (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 to invest in and harmonize its existing tools with the efforts of the federal government. More specifically, Alberta should:

- work with the federal government to ensure provincial beneficial ownership information, which align with the information that 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 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 the unintended consequences outlined earlier in this section and immediately impact the fight against financial crime. The CBA and its members are eager to work with the Government on this issue and look forward to consulting on and supporting provincial efforts.

Recommendation: We urge the Government of Alberta 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 the Government of Alberta to invest in its enforcement and prosecution of money laundering and terrorist financing and harmonize its existing tools with the federal government.

The privacy of Albertans

We understand the Standing Committee on Resource Stewardship will be reviewing Alberta's *Personal Information Protection Act* (AB PIPA) in the context of the evolving digital and global marketplace.

Banks have long been entrusted with significant amounts of their customers' personal information, and protecting the privacy of this information continues to be paramount to maintaining the longstanding trust of their customers. Banks are federally regulated and are governed by the federal *Personal Information Protection and Electronic Documents Act* (PIPEDA), whereas substantially similar provincial privacy legislation may apply to any of their provincially regulated subsidiaries.

The CBA supports measures to harmonize federal and provincial rules and ensure a consistent approach to legislating privacy protection in the private sector. Harmonization and interoperability are enormous benefits to consumers as they will have a familiar and common experience, regardless of their location of residence or whether they are dealing with the bank itself or one of their subsidiaries.

Harmonization is also important to facilitate cross-border operations, increase ease of compliance, enable organizations to provide more consistent products and services, and streamline enforcement and consumer complaint regimes. These outcomes all drive increased consumer choice and access to innovative products and services, while ensuring consumers' rights in relation to their personal information are effectively and efficiently protected. Harmonized rules will ensure that Canadians benefit from consistent privacy definitions, policies, protections, and regulatory regimes. Conversely, inconsistent privacy requirements across Canada may lead to unintended consequences such as consumer confusion, misunderstanding of rights, and frustration. In addition, organizations will potentially face increased compliance costs and obstacles to innovation.

The proposals in federal Bill C-27's *Consumer Privacy Protection Act* (CPPA), which would modernize and replace most of PIPEDA, are currently being studied at the Committee phase and would require organizations to comply with a collection of interconnected provisions that provide a solid privacy foundation based on accountability, reasonability, and proportionality. The CPPA is principles-based and technology-neutral, permitting organizations to scale their privacy programs according to sensitivity and volume of data and introduces enforcement powers that will incentivize and reinforce compliance.

Recommendations: Given the importance of interoperability and harmonization, we recommend that the Government of Alberta continue to align to federal privacy legislation. As such, we

believe it is fundamentally important for the federal process to reach its completion before considering reforms to AB PIPA, to ensure cross-jurisdictional alignment and harmonization of high-level privacy principles, key definitions, and specific requirements. Additionally, we continue to strongly support clear, nonconcurrent jurisdictional boundaries, to ensure both cross-border data flows and federally regulated businesses are not burdened with duplicative regulatory oversight and potentially different obligations.

Addressing physical security challenges in urban centres

The CBA applauds the Alberta government for its commitment to address the increasing social issues, addictions, and homelessness through a coordinated response between the province, city, and local partners. For instance, the Edmonton and Calgary Public Safety and Community Response Task Forces demonstrate the government's recovery-oriented approach to address these often-intertwined issues in Alberta's urban centres. Banks are committed to doing their part to support local communities.

The CBA is a member of the Downtown Recovery Coalition (DRC), a group of for- and not-for-profit business and community leaders committed to revitalize the Edmonton downtown area. The DRC recovery efforts focus on three pillars: safety and security, cleanliness and infrastructure, and transformational projects. Additionally, the CBA also wants to highlight the importance of meaningful and appropriate response to incidents involving individuals experiencing mental health challenges or addiction related crisis. Other jurisdictions have developed programs where Mobile Crisis Units¹⁹, of crisis workers and specially trained police officers, are used to de-escalate such interactions and provide onsite and future community program support to the individuals as appropriate. We encourage the Government of Alberta to explore deploying such crisis response units in the province.

Recommendations: We encourage the Government of Alberta to provide additional funding to address physical security challenges that are impacting economic growth and vitality in the province's urban centres. Funding should be allocated towards city centre optimization and cleaning, transit-specific security and cleaning, permanent supportive housing, additional spaces to enhance pre/post addiction and opioid recovery, and mobile crisis response units.

¹⁹ Canadian Mental Health Association, "[Peel Regional Police launches the Mobile Crisis Rapid Response Team](#)", January 2020.

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 continuing to ensure we reliably meet energy demands in a volatile global context. Banks are helping to finance greener forms of energy, but the full transition to net-zero will not happen overnight. Alberta is in a unique position to help Canada achieve its carbon neutrality goals, and we acknowledge the province's efforts in developing its Alberta Emissions Reduction and Energy Development Plan that was released earlier this year.

We believe that 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 across Canada.

Additionally, the transition to a net-zero economy provides further support to review Canada's tax system, consistent with our first recommendation. Such a review affords an opportunity to assess measures that encourage the investments that will be needed to transition to net zero. Some estimates suggest that Canada will need approximately \$2 trillion in over the next three decades to transition to a net zero economy.²⁰

Recommendation: We encourage the Government of Alberta 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 Alberta, 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 Alberta's business ecosystem, particularly in lending to SMEs.

Thank you again for the opportunity to contribute to the Government's next budget through the 2024

²⁰ RBC, [The \\$2 trillion transition: Canada's road to net zero](#), October 2021

Budget consultations. Our recommendations aim to ensure the banking system continues to support Albertan families and businesses through the uncertainty of today, while continuing to build a strong foundation for future generations.

Please do not hesitate to contact the CBA to discuss our pre-budget submission further.