# A Strong Banking System for a Strong Canada

08/04/2023

Submission to the House of Commons Standing Committee on Finance

The CBA recommends the federal government to:

## 1. Productivity & Tax Reform

- Remove the Financial Institutions (FI) Tax and the Canada Recovery Dividend (CRD) to give investors and the banking industry confidence that Canada is committed to attracting investment.
- Undertake a comprehensive review of Canada's tax system with the objective to improve labour productivity, meet the needs of Canada's evolving economy, ensure Canada can compete internationally, and recommit to tax neutrality. Bank specific taxes hinder the industry's ability to positively impact Canada's productivity.

## 2. Market conduct regulation of un- and under-regulated financial service providers

- Develop model financial consumer protection standards for un- or under-regulated financial service providers, such as e-commerce platforms and similar entities, for provincial adoption, and work with provinces to adopt these standards. To the greatest extent possible, the standards should emulate relevant FCAC regulations to which FRFIs must adhere.

## 3. Housing Affordability

- To correct supply-demand imbalances generating the affordability crisis, pursue greater policy coordination through a forum for relevant stakeholders, including federal, provincial, and municipal officials responsible for housing, infrastructure and immigration, as well as representatives of the construction industry and advocacy groups.

## 4. Financial crime & fraud

- Build, implement and maintain a comprehensive single pan-Canadian beneficial ownership registry, which would include information on both federally and provincially regulated corporations and other legal arrangements (including partnerships, trusts, and associations).
- Ensure legislation progresses to allow resources and activity to be targeted at areas of highest risk, and facilitates collaboration and the lawful sharing of information between financial institutions, and from FINTRAC and law enforcement to financial institutions.

- Allocate additional funds to organizations like the federal government’s Cyber Centre to increase individual cyber security awareness and cross-industry collaboration.

## 5. Transition to Net Zero

- Promote a national or harmonized process to meet Canada’s climate goals while also enhancing productivity and economic growth.

# Introduction

The CBA is grateful for the opportunity to contribute to the federal government's 2024 Budget Consultation.

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 strong banking system that benefits all Canadians. We promote financial literacy to help Canadians make informed financial decisions and work with banks and law enforcement to help protect customers against financial crime and promote fraud awareness. A healthy banking system is a cornerstone to help households manage their finances, spur growth for small businesses and promote Canada's economy internationally. Our submission offers the banking industry's views and recommendations in areas that are of interest to the Committee to support vibrant communities and clean, sustainable economic growth.

Our description of the issues below provide support for our recommendations.

# The Banking Industry and Canada's Economy

Canada's banks have a longstanding track record of supporting the Canada's economy.

They have:

- Contributed approximately $70 billion (or 3.6%) to Canada's economy in 2022.
- Paid close to $18 billion in taxes in 2022.
- Provided $26 billion in dividend income in 2022 that went to Canadian seniors, families, pension plans, charities, and endowments.
- Invested approximately $115 billion in technology across Canada over the last decade.
- A network of 5,600+ branches across Canada providing accessible, affordable, and competitive banking services.

The banking industry employs almost 300,000 people throughout the country, a workforce that is inclusive and talent driven. Approximately 55% and 40% of the banking industry are women and self-identified visible minorities, respectively. Further, banks are making special efforts to increase representation of both indigenous communities and persons with disabilities.

Banks also play an important role in the finance and business ecosystem. According to CBA statistics, at the end of 2022, Canadian banks have lent, in total, over $1.5 trillion in residential mortgages and authorized $1.7 trillion in business credit. Of business credit, $278 billion was authorized to small businesses. Canadian small businesses are well-served by the financial sector owing to robust competition. In fact, 94% of debt financing requests for small businesses were approved in 2021 with the debt approval rate consistently above 81% since 2010.

# Productivity & Tax Reform

Canadian labour productivity is among the lowest in the G7 and investment in productivity enhancing areas of intellectual property,[1] information technology and machinery and equipment is happening at half the rate in Canada compared to the United States.[2] Canada is projected to be one of the worst performers among advanced economies in the next 40 years because of sluggish labour productivity growth.[3]

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.[4] 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 opposed to tax reasons. Furthermore, an efficient tax system is neutral, not discriminating by asset type or firm characteristics. The 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.[5]

Recently, the federal government has specifically targeted the banking industry with the FI Tax and the CRD. Higher taxes on the banking industry deters foreign investment, hindering banks' ability to attract essential capital to make us more productive. This will lead to a reduction in the amount of capital available to Canadian businesses and ultimately restricts investment in innovation and economic growth. In addition, they undermine the investments decisions of millions of Canadians who rely on bank equity - either directly or indirectly – to save for their education, down payment, capital projects or retirement.

---

[1] OECD, "GDP per hour worked" (indicator) (accessed on 30 May 2023).
[2] OECD, OECD Compendium of Productivity Indicators 2023
[3] BCBC, OECD predicts Canada will be the worst performing advanced economy over the next decade…and the three decades after that, December 2021
[4] International Monetary Fund, Fiscal Monitor: Achieving More with Less, April 2017
[5] OECD, Tax Policy Reform and Economic Growth, OECD Tax Policy Studies (2010)

# Market conduct regulation of un- and under-regulated financial service providers

The financial ecosystem continues to rapidly evolve with the surge of non-traditional entities operating in Canada. In the payments space alone, more than 2,500 payment service providers (PSPs) offer financial services to consumers.[6] Once PSPs are supervised by Bank of Canada under the Retail Payment Activities Act, it is expected that consumer trust will grow and adoption will increase. At present, Canadians that use PSPs are largely unprotected and this poses various risks that may lead to harm. This market conduct risk will only increase as consumer use of non-traditional entities grows.

The G20 and OECD have recognized that financial consumer protection requires a more targeted set of principles than general consumer protection.[7] These principles seek to mitigate key consumer risks that include, but are not limited to:

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

A failure to address these risks, among others, can lead to consumer financial loss, decrease consumer trust in the wider financial system, and harm other market participants. PSP and non-traditional entities' potential and disproportionate impact on the well-being of financial service consumers warrants a standard of financial consumer protection.

# Housing Affordability

Owning a home in Canada has never been more expensive. According to RBC, housing affordability is at its worst-ever level, with Canadians needing to devote 63% of their incomes to home ownership. 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. Indeed, the housing crisis most affects those with the lowest incomes.

[6] Canada Gazette, Part 1, Volume 157, Number 6: Retail Payment Activities Regulations.
[7] Market conduct and subsequent consumer protections associated with financial product principles are outlined in the G20/OECD High-Level Principles of Financial Consumer Protection.

We believe that an imbalance between home supply and demand continues to be a key factor contributing to the housing crisis in Canada. The CMHC estimates that Canada needs to a build an *additional* 3.5 million units above current construction trends to restore housing affordability by 2030. Ultimately, the housing crisis will erode Canada's competitiveness, as businesses may not be able to attract employees to high-cost urban centers.

As such, 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, 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 federal government to accelerate the construction of social housing to meet the growing needs of Canada's most vulnerable.

To correct the supply-demand imbalance, greater coordination between various levels of government is necessary to address Canada's housing challenges. The federal government should create a permanent discussion forum for relevant stakeholders, including all levels of government responsible for housing, infrastructure and immigration, representatives of the construction industry and advocacy groups.

# Financial crime & fraud

The banking industry recognizes its key role in combating money laundering and terrorist financing. Our focus is on comprehensively strengthening the Canadian anti-money laundering (AML) and anti-terrorist financing (ATF) regime by:

1. emphasizing a risk-based and priorities-focused approach;
2. empowering organizations to share information for AML/ATF purposes;
3. ensuring the regime is fit for purpose and tailored to achieving its policy goals; and
4. improving collaboration across public and private sector stakeholders.

Going forward, focusing the content and supervision of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* on key areas of AML/ATF risk is critical. It will reduce regulatory complexity and allow public and private sector partners to deploy resources in a targeted manner, improving the intelligence value of financial sector AML/ATF reporting for law enforcement.

This reporting could also be enhanced by CBA's proposed legislative changes to enable business-to-business information sharing for AML/ATF purposes. Specifically, permitting organizations like banks to exchange certain data will help uncover and report to FINTRAC the existence of complex criminal organizations. These tailored reports should uncover and curtail complex criminal activities.

As Canada's financial system rapidly evolves, it is critical that public and private sector partners work collaboratively. Open dialogue will help to ensure tools (e.g., provincial and federal beneficial ownership registries) and supervisory and enforcement agencies (e.g., FINTRAC, forthcoming Financial Crimes Agency of Canada) are designed and funded to more effectively mitigate money laundering and terrorist financing risks. Key metrics on an outcomes-based approach will provide policy makers with a greater understanding of the regime's effectiveness and benchmark data from which to gauge success and adjust policy.

Further, cyber security threats to individuals are growing in sophistication and frequency.[8] We recommend incremental investment for organizations like the federal government's Cyber Centre to ensure increased awareness, cross-industry collaboration and strengthening of Canadians' cyber resilience.

# Transition to Net Zero

The CBA applauds the government for its commitment to achieve net zero emissions by 2050.
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.

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.

[8] 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.