

Canada's Banks – Turning Global Respect Today into Long-Term Success Tomorrow

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for

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Thank you Donna and good afternoon everyone. I am honoured to have so many distinguished guests with us including several Members of Parliament, a Senator and Commissioners. Thank you for coming.

It's a pleasure to be here today as a representative of Canada's banks and its bankers. Of course, I always welcome the opportunity to keep Canadians and their policy-makers informed about our industry. But I am also glad to be standing here today because there are many banks around the world that are no longer standing at all. And there are others that are standing now only because they are propped up by direct financial support from their governments.

Some of the financial institutions that have collapsed or are on life-support were recognized and respected names in their own countries and internationally, just like Canada's banks. They played a central role in their economies, like Canada's banks do. Now they are gone, or severely weakened, while our banks remain strong and vital.

In the next few minutes, I am going to look at the reasons for that. And more importantly, what that means to Canada, Canadians and their banks in the future.

At last count, since the beginning of the financial crisis, the United States has had over 150 bank failures and they expect more to come. Across Europe, many banks have needed government – that is, taxpayer – support.

Here are some other numbers to consider: 711 banks and other lending institutions in the U.S. have received direct government capital injections totalling almost \$250 billion. The government of the United Kingdom has put more than \$125 billion into its banks. The Netherlands: almost \$53 billion. France \$26 billion. Ireland \$15 billion. Germany has set aside \$107 billion for capital injections.

Number of Canadian banks that have collapsed? Zero.

And the total amount of taxpayer dollars used to bailout Canadian banks? Zero.

The point is that the global financial crisis has devastated financial institutions in many countries. But not in Canada.

Canada's banks and its financial regulatory system have emerged from this crisis as the envy – a model – for the world.

Both the World Economic Forum and Moody's have named Canada's banks as the strongest and the most financially secure in the world. For two years in a row.

And Canada's banks have done this while continuing to lend to credit-worthy borrowers, helping to mitigate the impact of the financial crisis. They stepped into the breach when other lenders reduced lending or left the Canadian market altogether.

And through it all, they have continued to open more branches, employed more than 263,000 Canadians and continued to pay over \$9 billion in dividends to individuals and their pension plans.

And banks continued to pay taxes. \$3.4 billion by the biggest six banks in 2008.

Our banks also continued to play a vital role at the community level, providing multi-million dollar support to the arts, sports, education and health programs, just to name a few.

They have done this while continuing to improve customer service at the counter and through their investments in technology: Close to \$6 billion by the six largest banks last year alone.

As *Newsweek* magazine said earlier this year:

“Canada has done more than survive this financial crisis. The country is positively thriving on it. Canadian banks are well-capitalized and poised to take advantage of opportunities that American and European banks cannot seize.”

Opportunity. It's often said that every crisis creates opportunities for those who are able to see them and are willing to work to benefit from them.

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I believe the realization is beginning to take hold that Canada's banks are a strategic asset for this country. As the world economy begins the task of rebuilding, we here in this country have a competitive advantage in our strong, well-managed banking industry. The questions for us now are:

What are we going to do with this vital strategic asset?

Will we continue to build on our strength or will we let this opportunity slip from our grasp?

If we are to turn the success of our banks into more benefits for all Canadians, how can the industry, regulators and government work together to achieve this aim?

These are big questions for all of us.

But I believe it is important that we begin the dialogue that will set the direction for Canada's future in the world's financial marketplace.

I think it is clear that Canadian policy-makers at the highest level recognize the inherent strength of our industry.

Finance Minister Jim Flaherty was quite right when he said in August:

“We have perhaps one of the strongest financial systems in the world... even during the crisis, our financial institutions' health allowed them to continue to raise equity capital.”

Prime Minister Harper picked up this theme in September when he said:

“Thanks to their good management as well as to our prudent but not overly heavy handed financial regulatory system, Canadian banks largely stayed out of sub-prime mortgages and mortgage-backed securities. They remain well capitalized, stable and secure. None have needed bailouts.”

Earlier in the year, Bank of Canada Governor Mark Carney said:

“Canadian banks continue to lend. This is significant because banks are a more important part of our financial system than in many countries and their relative strength means that total credit is continuing to grow in Canada.”

And perhaps, being Canadians, we need to hear from those outside the country before we really believe how good we are. So here is President Obama:

“In the midst of the enormous economic crisis, I think Canada has shown itself to be a pretty good manager of the financial system and the economy in ways that we haven’t always been here in the United States.”

So why did banks in Canada do so well? The Canadian regulatory system is one reason we are emerging from the financial crisis with strength. Other countries are looking at our system for potential reforms to their own. We have the Office of the Superintendent of Financial Institutions on the one hand and the Financial Consumer Agency of Canada on the other.

The first, under Julie Dickson, makes sure banks are being prudent in their practices while the second, led by Ursula Menke, protects the interests of our customers. And the FCAC is also doing good work on financial literacy. And we have the Canada Deposit Insurance Corporation – CDIC, which plays a key role in protecting deposits. Of course, we cannot forget the important role of the Bank of Canada and the government itself in setting policy.

Compared to many other countries, our regulatory system is efficient, streamlined and there are clear roles. In fact, our key banking regulators can all fit in a taxi cab together. Although the regulators for our securities operations would have to charter a bus. I’ll come back to the securities regulators in a moment.

But you can’t regulate your way to success. Government policies and regulations can create a framework, but they cannot build a business or an industry. That takes good management. And, as the facts show, Canada’s banks have good management.

They were not required to, but our banks *chose* to avoid irresponsible mortgage lending, unlike in other countries.

Our banks *chose* to maintain their capital at high levels – higher than they are required to by OSFI.

Our banks *chose* to keep credit flowing to Canadians. So that small and medium sized businesses – the engine of the economy and the provider of most jobs – could keep going.

Our banks *chose* to keep investing in technology, in branches and in jobs.

Our banks managed their operations through the financial crisis but they *chose* to remain focused on the longer term and not to be paralyzed by it.

They did this because it is good risk management practice. They also did it because it is good business and good for bank customers.

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And the result is a better impression of our banks by Canadians.

The Strategic Counsel has done research for us. They found that more than three-quarters of those in a recent poll have favourable views of our banks. That number has grown during the global financial crisis as the contrast between Canada and other countries has become starker. Most of those in the survey said they view banks positively because they get good personal service and they believe their bank is there to meet customers’ needs. They say there is plenty of choice and effective competition in the banking industry.

In our survey, more than 80 per cent of Canadians believe our banks are stable and secure. I doubt if this is because they are aware of OSFI's assets-to-capital multiple or Basel II pillar one requirements.

And here is a key finding: 88 per cent of those polled agree that it is important for Canada to have a strong banking sector that can compete internationally – a sector that can support other Canadian businesses that want to do business around the world and create jobs and a stronger economy here at home.

88 per cent see the link between strong, competitive banks and their own economic well-being.

Canadians get it.

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It is because of the combination of these two salient features – good regulation and good management – that Canada has a competitive advantage today.

How will we use it? What actions are required for us to take advantage of the position we are in today?

My answers are typically Canadian watchwords: prudence, moderation, cooperation and teamwork.

There is currently discussion in the G-20 and among international organizations about the need to introduce further regulations of the financial sector. In light of the destruction caused by the global financial crisis, this is certainly understandable.

But I would urge caution. We have to bear in mind that, for the most part, these regulatory proposals are coming from jurisdictions with financial systems and banking industries that are fundamentally different from Canada's. Their experience during the financial crisis was fundamentally different than ours. The actions they need to take are fundamentally different than what we need.

I am not saying Canada and Canada's banks are perfect. There is always need for improvement. And we have been improving.

What I *am* saying is that we must not allow ourselves to get caught up in a wave of "regulation-mania" – to change what we do because the other guy is changing what he does.

Let's look carefully at what is being proposed. Let's be sure we understand how some of these new rules will affect our system – especially the unforeseen impact of regulations that, as we have learned through experience, may be imposed in haste only to be regretted over time.

And we should also be careful about being the first to adopt, just to look like the global boy scout.

Let's remember how well our system works and how good we really are. An immodest suggestion for Canadians but an important one.

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Let's focus on a few things that need to be done to make our system better and to position Canada to take full advantage of our strengths.

At the Canadian Bankers Association we favour some practical actions and have advocated for them for some time. In our view what's needed is:

First, a principles-based approach to regulation of the financial sector. The danger in the current environment is to over-regulate and become far too prescriptive. I'll come back to this in a minute.

Second, a truly national, and uniform regulation of financial services. This includes a Canadian securities regulator. Our government is working hard to make this happen.

Third, legislation to protect both consumers and financial institutions from financial crimes, including fraud. We are, of course, pleased that identity theft legislation introduced by Justice Minister Rob Nicholson was recently passed into law. Now police will be able to charge criminals for possessing the personal information of others *before* it is used for fraud or theft.

Finally, the CBA believes that the government should stay the course with respect to the direction of its taxation policies. It has made excellent progress to date. This will have a beneficial impact on all businesses, on jobs and economic growth across Canada.

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Where do we go from here?

Achieving these specific steps will make our financial system even stronger and even safer. And with an enhanced financial system, we will have strengthened one of the most important drivers of Canada's economy.

We can settle for that. Or we can think bigger. We can develop a vision of financial services as a key strategic industry for this country. A flagship industry for Canada in the global marketplace. A business where we can excel and Canadians can reap the benefits. An industry employing Canadians and contributing directly to Canada's economic growth.

Financial services is right there alongside other industries where Canada is recognized as having a leading role. Oil and gas and agriculture are two examples. Each of these natural resource-based industries is important to Canada. In each of these, Canada has a long track record and acknowledged expertise. And these other industries have long been supported by government policy.

Like these other industries, Canadian banks are successful exporters. Banks' foreign operations contribute significantly to each bank's bottom line. In fact, approximately 19 per cent of bank revenues in 2008 were generated outside Canada, while 76 per cent of bank employees were located in Canada, and 74 per cent of taxes were paid in Canada.

So this is why trade missions such as the recent visits to China by Minister Flaherty and the Prime Minister are so important.

What I am saying is why not focus our thinking on making financial services central to Canada's industrial and economic strategy? Why not grow an internationally competitive industry based on our most valuable resource – our people?

The time is right.

Three weeks ago, The Boston Consulting Group and the Toronto Financial Services Alliance came out with a report on a long-term financial services strategy that will create jobs, increase GDP and attract new investment for Toronto, Ontario and Canada. The coalition working on these recommendations is made up of the city's major financial institutions but also the federal, provincial and municipal governments. And this will benefit the country's other financial services centres – including Montreal, Vancouver and Edmonton.

The benefits are not just for bankers, but also include the indirect employment and wealth generated by the many other professions that work with the banks – law, accounting, human resources and information technology to name a few. The economic ripple effect would be profound.

Next summer, Canada is hosting the G-8 and G-20 meetings, an opportunity to showcase our financial services sector to the world.

Canadians recognize the central role of banking and financial services to their economic well-being. People everywhere recognize the strength of our banks. We have an envied regulatory regime already in place. And we have some of the best management and employee teams in banking anywhere in the world.

What we do with this depends on the vision and national strategic plan we develop for financial services and the banking industry. That vision will not be developed by the banks alone. Each bank has its own business strategy. Creating this broader, longer-term strategic vision of financial services as a key contributor to Canada's place in the world must be a joint effort.

We need continued cooperation and coordination among our banks, our regulators and our government.

There are many recent examples of mutually beneficial efforts. The Business Credit Availability Program is one. It came about thanks to Finance Minister Jim Flaherty and Industry Minister Tony Clement. It promotes cooperation between private sector banks and Export Development Canada and the Business Development Bank of Canada to put at least \$5 billion in additional credit in the hands of viable businesses.

The Insured Mortgage Purchase Program is another. This was brought in by Minister Flaherty as a temporary emergency measure under the exceptional circumstances of the credit crunch and, I might add, during an election campaign. Something that took a lot of courage. This program came about because of the seizing up of the global financial markets and it ensured that credit would be available to Canadian businesses and consumers.

Through it, Ottawa empowered Canada Mortgage and Housing Corporation to purchase mortgages from Canadian lenders, including banks. The take-up on this program by these lenders has been close to \$70 billion. I should add, that these are not distressed or "sub-prime" mortgages but secure mortgages already insured by CMHC. In fact, the government is buying these mortgages at commercial rates and expects to make at least a billion dollars in profit.

So, it's not a "bail out" but a sort of "cash-in" – a canny investment by Ottawa that at the same time freed up credit for the banks that benefit Canadians. You or your neighbours may have got a new mortgage...or you may have a friend whose business got a much-needed loan because of this program. And not only at no cost to taxpayers but with a pay-off to the government in the near future.

These are good examples of how government and banks have worked together in a time of incredible global economic turmoil.

Another good example of recent cooperation between banks and government is the Tax Free Savings Account. Something that Canadians have really embraced.

As we move forward, we need to build on this type of positive working relationship. We need more dialogue. Fewer unpleasant and inconsistent policy surprises. Let's not rush into making policy decisions without fully understanding their long-term implications. On this point, I would suggest that we need to pause and recognize the cumulative impact of recently introduced policies.

What we really need is more cooperation to develop innovative ways for Canada and Canadians to prosper.

The source of that innovation has always been, and should continue to be, the banks themselves. They have proven they know how to build and secure their businesses. They can develop themselves into increasingly important players on the world stage.

The role of government and regulators is to create a policy framework that allows the banks to pursue the opportunities that exist today and those that will emerge in the future. Prudent regulation has helped our financial sector achieve the success it has so far while protecting Canadians. But it has not been responsible for the banks' growth or their own risk management. Regulation that does not unnecessarily restrict the strategy of our banks should be the guide for the future as well.

The key will be to give banks the maximum amount of freedom to grow – balanced with the minimum needed to protect the integrity of the system. Changes to regulation should be limited, carefully considered from all angles, and implemented only after thorough consultation with those whose business is actually being affected by the regulation.

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In closing, we need to consider how we maintain Canada's competitive advantage. Will measures that we take today impair our banks in the future by creating an unlevel playing field for them?

Let's agree on a vision for our industry and measure policies and regulation solely by whether they help or hinder us in achieving that vision.

We can develop that vision through creative thinking, dialogue, candour and a shared commitment to making Canada's financial services industry a world leader.

Building on these cooperative efforts, we can create a national strategy for financial services that will turn the respect we have earned today into greater success tomorrow. Success for our banks, for our governments and regulators, and for all Canadians.

Let's seize that opportunity.

Thank you.