

Canada's Banking System – Keeping it Strong

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for

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CHECK AGAINST DELIVERY

Thank you George and good morning everyone. It's great to be here today and to see so many friends and colleagues from the Chamber family. And of course, we have many of the CBA member banks joining us as well. Thank you all for coming.

For me, it is a pleasure to be back in Calgary and in Alberta and to enjoy your warm hospitality once again. I was lucky to be here often with the Canadian Chamber of Commerce and I got to know many of you and the businesses that you work for and run. I also got to know Calgary and of course the province. That experience has been invaluable in my role as the head of the Canadian Bankers Association.

I will also have the opportunity to visit Edmonton later today to meet with provincial government officials. Edmonton is of course the home of Canadian Western Bank, a good member of the CBA.

I welcome the chance to stand here today – I always welcome the opportunity to keep Canadians 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 others 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 banks in Canada remain strong and vital. Our national banking system continues to offer competitive services across the country. The banks' diversification across regions and across lines of business has paid off in well-managed risk and financial stability.

In the next few minutes, I am going to look at the reasons for our success, some of the important challenges we face and how we can ensure that we maintain a strong banking sector in Canada. And while I do this, we need to keep in mind what this means to Canada, Canadians and for the people of Alberta in the future.

As you probably know, since the beginning of the financial crisis, the United States has had over 200 bank failures and more are expected. Across Europe, many banks have needed support from governments – that means taxpayers.

Consider these other numbers: 738 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 \$29 billion. Germany has set aside \$107 billion for capital injections.

How many Canadian banks have collapsed? Zero.

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

It's clear the global financial crisis has devastated financial institutions in many countries. But not in Canada.

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

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

As we look at the global picture for banking, it's important to understand that Canada's banks have done more than just "not fail". By any measure at any time, our banks are succeeding. And, in succeeding, they are helping other Canadian businesses and individuals succeed.

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

Throughout the crisis, our banks continued to improve customer service at the counter and through their investments in technology: Close to \$6 billion last year alone. They employ more than 263,000 Canadians and continue to pay over \$10 billion in dividends to individuals and their pension plans.

And banks continued to pay taxes; \$7.5 billion in 2009.

Let me put it in terms that we all understand after Canada's performance at the Winter Olympics: if there were gold medals awarded for banking, Canada would "own that podium" too.

I would like to take a few minutes and talk about how a strong banking system is benefitting Alberta. I don't need to tell you the importance of the economy of this province to the overall Canadian economy and to the standard of living of Canadians. And I can tell you that as bankers, we get it. That's why banks in Canada have a strong presence here, supporting the expansion and development of key sectors of the Alberta economy.

Here in Alberta, employment by banks has grown to more than 20,000 people. The banks' contribution to the provincial GDP has almost doubled to about \$5 billion in the past 10 years. The authorized loans to Alberta businesses have grown by almost 78 per cent since 2000.

Lending to the energy sector increased by more than 117 per cent between 2001 and 2008. As the sector grew, so did the banks' support.

Of course, there is more to Alberta than oil and gas. Authorized loans to small and medium-sized business are up nearly 30 per cent since 2000. And in agriculture, bank lending increased by over 9 per cent between 2005 and 2008, moving in tandem with Alberta crop and animal GDP which grew by almost 10 per cent.

Canada's banks have a longstanding business relationship with farmers and agricultural clients. When times turn tough, local bankers work with their clients on a case-by-case basis to assess their specific needs and work out a solution. We remember that after the border closed during the BSE scare, banks immediately began working with their beef industry clients to help them overcome the financial challenges from the trade disruption. Not all producers were able to survive the crisis, but there is still a strong beef industry in Alberta today.

Through our experience here in Alberta and the West, Canada's banks are second to none when it comes to lending and other financial services for energy and agriculture.

Banks are also an important source of advice, products and services for consumers. Alberta households currently benefit from over \$64 billion in mortgages and over \$38 billion in consumer credit from our banks (2008). And Albertans can talk to a banker at one of the 636 branches in the province.

In the process of serving businesses and consumers, banks have become a vital and growing part of the community here, just as they are across the country. They have been here to help finance the growth and expansion of the province. They have also been good corporate citizens and today they continue this community work by supporting programs for the arts, sports, education, health, environment and youth activities here in Calgary and across the province. Our banks also help the Red Cross collect funds quickly and efficiently for humanitarian disasters – most recently for the people of Haiti.

I would like to give a small plug to one activity that banks are involved in and that is financial literacy. It is so important that we have a society where people are financially literate, where they have developed the skills and knowledge needed to make the right financial decisions throughout their lifetime. This is an area where banks have the expertise and they are helping Canadians both through initiatives at the community level and directly with their customers on a daily basis.

The CBA is actively involved in financial literacy with a program called YourMoney. We have over 800 local bankers who volunteer their time and go into high schools to teach students the basics about managing their money. Some of our most dedicated volunteers in the program are right here in Alberta. In fact the Alberta

government recognized our program in 2009 with a Consumer Champion Award. Thank you to all the local bankers who take the time to participate in this program and make it such a success.

We can be proud of our banking system and I believe more of us are realizing that Canada's banks are a strategic asset for this country. As the world economy begins to rebuild, we have a competitive advantage in our strong, well-managed banking industry. As *Newsweek* magazine said: "Canadian banks are well-capitalized and poised to take advantage of opportunities that American and European banks cannot seize."

Clearly, Canadian policy-makers at the highest level recognize the inherent strength of our industry. Prime Minister Stephen Harper, Finance Minister Jim Flaherty and Bank of Canada Governor Mark Carney have often commented on the strength and stability of our banks. So have government leaders in other countries.

This raises the question about why banks in Canada succeeded when others failed in the recent financial crisis.

One reason we are emerging from the financial crisis in a position of strength is certainly the Canadian regulatory system. Other countries are looking at our system to get ideas for potential reforms to their own. We have the Office of the Superintendent of Financial Institutions (OSFI) on the one hand and the Financial Consumer Agency of Canada (FCAC) on the other. The first ensures bank practices are prudent. The second is there to ensure our customers are protected.

We have the Canada Deposit Insurance Corporation – CDIC, which plays a key role in protecting deposits.

And, of course, there is the important role of the Bank of Canada and the role of the federal government itself in setting policy.

Compared to many other countries, our regulatory system is efficient, streamlined and some would say "super prudent". Also, there are clear responsibilities. In fact, our key banking regulators can all fit in a taxi cab together. On the other hand, our top securities regulators would have to charter a bus. I'll come back to this shortly.

Effective regulation is *one* reason for our success. But it is important to understand that Canada and its banks are not well-positioned today *solely* because of our regulatory regime. No one can regulate their way to success. Government policies and regulations can create a framework, but they cannot build a business or an industry. That takes good business management. And, as the facts prove, Canada's banks have good management.

Our banks were not required to, but *chose* to avoid irresponsible mortgage lending... *chose* to maintain their capital at higher-than-regulated levels...*chose* to keep credit flowing to small and mid-sized businesses...and *chose* to keep investing in technology, service and jobs. They managed through the financial crisis -- and were not paralyzed by it – because they remained focused on the longer term.

It is the combination of these two salient features – good regulation and good management – that gives Canada a competitive advantage in financial services today.

However, does this give us a free pass when it comes to new regulations? Unfortunately not. But I hope it does mean that we are in a better position than most to confront the new regulatory realities.

As you know, there is currently a myriad of proposals coming from the G-20 and other international organizations about the need to introduce further regulations for the financial sector. These include changes to capital levels and liquidity, guidelines for compensation, accounting rules and even special levies on banks. Given the destruction caused by the global financial crisis, it is certainly understandable that some people would call for new rules.

Canadian banks support the G-20's goal of stabilizing and strengthening the global financial system and this will be discussed further when the G-20 leaders meet in Toronto in June. We welcome a move towards

improved and consistent global capital standards. The banking industry is working with OSFI and the government of Canada to ensure that Canada's strong banks are not put at a global disadvantage due to inconsistent implementation of the new regulations. We would hope that, given the demonstrated strength of our banking system, any recommendations coming from Canada would be given serious consideration by the G-20.

Creating this level playing field is a very big challenge. Remember that, for the most part, these regulatory proposals are coming from jurisdictions with financial systems and banking industries that are fundamentally different from ours. Their experience before and during the financial crisis was fundamentally different than Canada's. The actions they may need to take are fundamentally different than what we may need here.

I am not saying that Canada and banks in Canada are perfect. There is always room to improve.

However, I *am* saying that we must not allow ourselves to get caught up in a wave of "regulation-mania" – to change what we do – which works – just because the other guy is changing what he does because that hasn't worked. And above all, we are seeking a level playing field internationally where Canada's banks can thrive.

We need to look carefully and analytically at what is being proposed. We should be careful about being the first to adopt. Let's be sure we understand how some of these new rules will affect our system immediately *and* over time. Let's look at the possible impact of regulations that, as we have learned through experience, may have unintended consequences. They may be imposed in haste only to be regretted over time. And we must look at the cumulative impact of these regulations, and how they are going to be implemented.

With all these new proposed regulations coming at us, I like to think of it as a sky full of planes circling the airport and trying to land. We need a good air traffic controller to manage all these planes to make sure they don't all come down at once – that they are sequenced in a way that makes sense. Hopefully, the G-20 will be that air traffic controller.

Let's remember how well our system works and how good we really are. That might have seemed immodest and unCanadian before the Olympics, but perhaps we learned in Vancouver how to really go for the gold.

Nonetheless, there are things that we can do here at home, some practical actions to make our banking system better and that will position Canada to take full advantage of our strengths.

The first is the right kind of government and regulatory support. Overall, the federal government, OSFI and the Bank of Canada acted with extraordinary diligence throughout the financial crisis. The government put in place back-up schemes (most of which were not used) and the Bank of Canada provided the necessary flexibility to keep funds flowing.

However, we have occasionally seen some surprises from the federal government in the past year with regulations that we think are not necessarily in the best interest of consumers (restrictions on the marketing of insurance on bank websites, for example). The role of government and regulators is to create a policy framework that allows the banks to pursue opportunities while protecting consumers.

Changes to regulation should be limited, evidence-based, carefully considered from all angles, and implemented only after thorough consultation with those actually being affected by the regulation.

In a nutshell, we need smart regulation.

Second, we need a truly national and uniform system of regulation for financial services. This includes a Canadian securities regulator. This may be one area where other industrialized countries can serve as examples. They all have one. We don't. Our government is working hard to change that through the Canadian Securities Regulator Transition Office.

I know that there is debate here in Alberta, and here at the Chamber, around this issue and that the views are mixed. I am sure that the Transition Office is following these debates closely and understands that there is expertise here in Alberta, and in other regions of Canada, that should be used to the greatest extent possible in the creation of a Canadian Securities Regulator. We certainly do not want to lose that expertise.

Finally, the CBA believes the federal government should continue the direction it has set in its taxation policies. We are pleased to see it has made excellent progress to date and has continued the commitment to decreasing corporate income tax rates in the recent federal budget. That's good for all businesses and for the economy.

For its part, Alberta remains committed to being the most tax-competitive jurisdiction in the country. With the lowest statutory corporate income tax rate in Canada, at 10 per cent and no sales tax or capital tax, Alberta is certainly a leader in tax competitiveness. You should be congratulated for this.

This brings me to my next point about how our banks and governments can promote Canada and its financial sector globally. We know that Canada is recognized at home and around the globe for the strength of our banks. In two months, Canada is hosting the G-8 and G-20 meetings – a tremendous opportunity to showcase our financial services sector to the world. 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. Our banks create employment and are also exporters – about 33 per cent of bank revenues were generated outside Canada in 2009.

We need to keep building on the established level of cooperation among governments, regulators and banks. I believe the constructive working relationships we have developed have helped us achieve what Canada has today and will help us in the future.

And if we consider the views of Canadians about strong banks, we know from public opinion research that Canadians see their banks as among the best in the world. They want this country to have a banking industry that is vital and internationally competitive. From a survey that we did last year, we know that 88 per cent of Canadians recognize the connection between successful banks and their own economic well-being.

I have mentioned some of the practical things that we can do better as a country; smart regulation, a Canadian Securities Regulator and competitive tax policies.

I've also mentioned that while we need to be supportive of better global regulations in the financial sector, we have concerns about their implementation.

I am convinced that through improved cooperation with all levels of government, we can make our system even stronger.

As we head into the G-8 and G-20 meetings in June, we have an opportunity to showcase Canada and Canada's banking system, and also ensure that we don't create an unlevel playing field for our banks.

Ultimately a successful banking system in Canada means that our banks can continue to help businesses and Canadians prosper. It means a stronger economy for Canada and for Alberta.

Thank you.