A Strong Banking System for a Strong British Columbia

06/15/2023

Submission to the Select Standing Committee on Finance and Government Services

Recommendations

This Canadian Bankers Association (CBA) submission identifies opportunities and recommendations for consideration by the Select Standing Committee on Finance and Government Services (Committee) in the drafting of the next British Columbia (B.C.) budget. CBA's key recommendations for the Committee are to:

- Encourage the Government of B.C. to advocate the federal government to pursue productivity improvements through a review of Canada's tax system,
- 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,
- 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,
- Urge Government of B.C. 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, and
- Seek Government of B.C.'s support in the adoption of a consumer protection regime targeted at payment service providers, as part of the Business Practices and Consumer Protection Act.

Introduction

The CBA is grateful for the opportunity to contribute to B.C.'s next budget through the province's 2024 Budget Consultation, undertaken by the Committee as it prepares its recommendations to the Legislative Assembly.

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 British Columbians. We also promote financial literacy to help British Columbians, make informed financial decision 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 B.C.'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 and healthy communities that enable clean and sustainable growth.

Banking Industry and the B.C. Economy

Canada's banking industry has a longstanding track record of supporting the B.C. economy. In 2021, the banking industry contributed approximately $7.8 billion (or 3 per cent) to B.C.'s GDP and paid close to $365 million in provincial and municipal taxes in 2020. Furthermore, Canadian banks provided $21.3 billion in dividend income in 2020 and a further $22.6 billion in 2021 that went to seniors, families, pension plans, charities, and endowments across Canada, including in B.C.[1]

The banking industry also invests heavily in new technology to meet the needs of Canadians. In the last decade, Canadian banks invested approximately $100 billion in technology across Canada. With a network of over 800 branches across B.C. 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 creating a sustainable, clean, secure, and fair economy.[2]

The banking industry's workforce in B.C. is inclusive and talent driven. Of the more than 23,000 employed British Columbians, approximately 50 and 44 per cent were women and visible minorities, respectively. Additionally, banks are making special efforts to increase representation of the indigenous community and initiatives to promote the employment of people with disabilities.[3]

Banks also play an important role in the finance and business ecosystem. According to CBA statistics, as at the end of 2022, Canadian banks have lent $296 billion in residential mortgages and authorized $207.2 billion in business credit in B.C. Of the business lending, $41.3 billion was authorized to small- and medium-enterprises (SMEs). British Columbian businesses, including SMEs, are well-served by the financial sector owing to a tremendous amount of competition. In fact, 96 per cent of debt financing requests for small businesses were approved in 2021,[4] with the debt approval rate consistently being above 81% since the 2010.[5]

[1] CBA data.
[2] Ibid
[3] Ibid
[4] Innovation, Science and Economic Development (ISED), Credit Conditions Survey – 2021, September 2022.
[5] Based on ISED Credit Conditions Surveys from 2009.

During the COVID-19 pandemic, banks stepped forward to provide relief to individuals and businesses in B.C. by through more than 96,000 mortgage payment deferrals and more than 480,000 payment deferrals for credit cards. In addition, banks and other financial institutions partnered with the federal government to provide CEBA loans to over 122,000 small businesses, and banks extended an additional $49.2 billion in credit to business customers in B.C.[6]

Canada's productivity problem, implications for B.C., and taxation reform

Canada has a productivity challenge as Canadian labour productivity is among the lowest in the G7 and investment in productivity enhancing areas of intellectual property,[7] information technology and machinery and equipment is happening at half the rate in Canada compared to the United States.[8] Canada is projected to be one of the worst economic performers among advanced economies in the next 40 years because of sluggish growth in labour productivity.[9] The CBA views productivity as a key driver of economic growth and living standards in the long-term for B.C.

We believe Canada's productivity outlook can be improved through a redesign of Canada's tax system, to ensure that markets work to direct investment to its best use. Canada's tax system should encourage growth and innovation by letting investors, savers and employees make choices driven by business decision rather than by tax considerations. An efficient tax system incorporates relatively low and flat rates, with a broad base and does not discriminate by asset type or firm characteristics. Conversely, an inefficient tax system (e.g., one that applies sector specific taxes) distorts capital decisions and hampers productivity.[10]

While the solution to Canada's productivity challenge extends beyond taxation, the CBA is advocating to all levels of government to review Canada's tax system with the aim to promote investment, encourage growth, and improve productivity. Such a 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. Additionally, the review should also afford 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

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[6] CBA data.
[7] OECD (2023), "GDP per hour worked" (indicator), https://doi.org/10.1787/1439e590-en (accessed on 30 May 2023).
[8] OECD (2022), OECD Compendium of Productivity Indicators 2023, OECD Publishing, Paris, https://doi.org/10.1787/74623e5b-en.
[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

approximately $2 trillion in over the next three decades to transition to net zero.[11]

Recommendation: The Government of B.C. advocate that the Government of Canada undertake a comprehensive review of Canada's tax system to align it to the needs of Canada's evolving economy and to ensure Canada can compete internationally. In addition, undertake a review of its provincial tax system to encourage productivity.

Transition to net-zero

The CBA applauds the B.C. government for its commitment to building a strong, expanding, inclusive and clean economy, where the benefits are shared, and environmental sustainability is the basis for future growth. Announced in the StrongerBC Economic Plan, the new Environmental, Social and Governance (ESG) Centre of Excellence (Centre) will provide support to B.C. business to develop, promote, and market their goods and services under a globally respected ESG brand. The Centre will help businesses increase their capacity to meet international ESG standards and reporting requirements, remain competitive and increase business opportunities in the province. Banks are committed to doing their part.

The financial sector is central to securing an orderly transition to a low-carbon economy while also ensuring the continued resilience of our country's financial system. By financing the climate transition, banks are helping Canada meet its net-zero ambitions while also 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 will be critical in achieving these goals. Banks look forward to opportunities to provide support so that we can purposefully generate more clean energy, grow our economy, and cut emissions in the province and Canada.

Recommendation: We encourage the Government of B.C. 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. Additionally, we recommend the Government of B.C. conduct a gap assessment of green and net-zero rebate programs to ensure alignment with the province's policy goals and appropriate support of existing federal programs.

[11] RBC, The $2 trillion transition: Canada's road to net zero, October 2021

Tackling the Housing Crisis

As owning a home in Canada has never been more expensive, CBA supports B.C.'s refreshed commitment to housing affordability by speeding up delivery of new homes and increasing the supply of middle-income housing. According to RBC, buyers in B.C. need to devote over 74 per cent and 98 per cent of their incomes to home ownership in Victoria and Vancouver, respectively.[12] While Vancouver's housing ownership costs are at a four-decade high, the housing crisis is affecting those with lowest incomes the most. Deteriorating housing affordability has important social and equity implications that could reverberate across generations and many young British Columbians have been effectively priced out of homeownership.

We recognize the B.C. government has made progress on the housing crisis through initiatives such as the Housing Supply Act, the creation of the B.C. Builds program, investment into non-market housing, and the B.C. Rental Protection Fund. While the banking industry supports the government's existing measures to deliver housing affordability, we believe that an imbalance between home supply and demand continues to be a key factor contributing to the housing crisis in B.C. The Canada Mortgage and Housing Corporation estimates that B.C. needs to a build an *additional* 570,000 units above current construction trends to restore housing affordability by 2030.[13] As such, the only sustainable option for improving affordability over the long-term is to expand the supply of housing. For example, project approvals should be expedited, and measures to increase housing density should be implemented. In the near-term, we encourage the B.C. government to continue to accelerate the construction of social housing to meet the growing needs of the province's most vulnerable.

While the province's 2023 Homes for People Plan[14] includes many policies that tackle this problem, a holistic, coordinated, and multi-stakeholder process is required to ensure the effectiveness of its implementation and to make the province more competitive. For instance, employees that live far from their places of work must get bussed in, putting additional pressures on critical infrastructure, such as roadways, which are already strained by supply chain pressures. Ultimately, the housing crisis may affect B.C.'s competitiveness where businesses see employees leave for neighboring markets in search of affordable housing and, thereby, adding to the challenging economic outlook.

The CBA supports the establishment of a housing roundtable, bringing together representatives of

[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] B.C., New action plan delivers more homes for people, faster, April 2023

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 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 Government of B.C. to coordinate housing policy across all levels of government to remove barriers to housing supply. We also support the establishment of a housing roundtable as we believe by leveraging a collective knowledge base in a proactive, collaborative manner, we can create sustainable, vibrant, and healthy communities in the province. We also encourage the government to increase social housing construction to protect B.C.'s most vulnerable households. The CBA also encourages Government of B.C. to expand efforts on critical infrastructure, particularly in the lower mainland, to offer feasible alternatives for commuters and support the province's supply chains.

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).

Given this significant public concern with money laundering and terrorist financing in B.C., we urge the province to coordinate with the federal government to avoid duplication in efforts or a regulatory patchwork across Canada's jurisdictions that create conflict or interoperability issues. These potential negative outcomes will be less efficient, ineffective, and are likely to exacerbate issues outlined in the Cullen Commission Final Report[15], including increased reporting that lacks concrete intelligence value for the Regime.

[15] The Honourable Austin F. Cullen Commissioner, Commission of Inquiry into money laundering in B.C., June 2022

The CBA cautions against applying new requirements, reporting or otherwise, to sectors already governed by the PCMLTFA, because such regulatory patchwork may:

- 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.

Most importantly, going forward, it would be advisable to defer substantial provincial money laundering and terrorist financing changes until the Regime's expanded scope and application is understood.

In the near-term, the CBA urges B.C. to invest in, and to harmonize its existing tools with the federal government. More specifically, B.C. 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 B.C. should 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.

The foregoing actions can be made quickly with limited concerns about unintended consequences and provide immediate impact on AML and ATF efforts in the province. 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 B.C. government 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 B.C. to invest in in its enforcement and prosecution of money laundering and terrorist financing and harmonize its existing tools with the federal government.

Consumer Protection for Users of Payment Service Providers (PSP) in Canada and B.C.

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.[16] 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 is the risk that the behaviour of PSPs with respect to consumers may lead to harm.

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[17], 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.[18] 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.

[16] 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.
[17] Canada Gazette, Part 1, Volume 157, Number 6: Retail Payment Activities Regulations.
[18] Market conduct and subsequent consumer protections associated with financial product principles are outlined in the G20/OECD High-Level Principles of Financial Consumer Protection.

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.

Recommendation: We encourage British Columbia's 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.

Conclusion

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

We applaud the government for its continued commitments to British Columbians as set out in the 2024 Budget Consultation. Our recommendations aim to ensure the banking system continues to support B.C.'s vibrant and healthy communities that enable clean and sustainable growth in the province.