CANADA'S BANKS
Building on our Past, Shaping our Future

November 24, 2022

Keynote Speech by
Anthony G. Ostler,
President & CEO

Delivered at the
Canadian Club of Toronto

ASSOCIATION DES BANQUIERS CANADIENS
CANADIAN BANKERS ASSOCIATION

Thank you for the warm welcome, Joe. It's great to be together 25 years after our graduation from the Ivey Business School.

And thank you, Todd, for the kind introduction.

Good afternoon, everyone. It's a pleasure to be here at the Canadian Club, in the company of our esteemed head table, CBA member institutions, colleagues from the broader financial community, and many valued guests.

I'm thankful to be back in Canada after eight years in the U.S., and I'm delighted to have joined the Canadian Bankers Association. This time last year, the CBA marked its 130th anniversary. It's an organization with an illustrious history that serves an essential role in ensuring our country remains prosperous and our banks remain well-regulated and competitive into the future.

Soon after I started as President and CEO in February, the CBA undertook a member-oriented transformation and examined our core values. We are well underway with our transformation. A key element of our strategic evolution has been to more proactively strive to shape the future for our industry as we navigate change. We also came up with a new Purpose: Ensuring Canada's banks are at the forefront of growing a sustainable economic future for Canadians.

Our more than 60 domestic and foreign bank members play a central role in Canada's economy. The banking sector:

- Accounts for almost 4% of Canadian GDP
- Employs roughly 300,000 hardworking people
- Contributed more than $13.5 billion in taxes to all levels of government in 2021
- Provided $1.5 trillion in credit to Canadian businesses
- And played a critical role in helping people and businesses weather the storm of the pandemic

Banks have a deep history in helping to achieve Canada's priorities and are positive forces for a strong, inclusive, and sustainable economy.

Canada's banks have a long tradition of nation-building. Some of our banks were founded before Confederation and financed the railroads that connected us from coast to coast, sold war bonds for the government that brought victory in two world wars, and helped generations of Canadians buy homes, save for retirement, and grow businesses.

Decades of leadership from policy, regulatory, and banking giants built the greatest banking system in the world here in Canada. But we cannot rest on former accomplishments to see us through the way ahead.

This is a critical time for Canada and our country's banking industry. There are numerous forces at play that, if not purposefully addressed, could hinder the ongoing economic health of our country. This matters for all Canadians because there is a symbiotic relationship between our economy and banks. Healthy banks drive a heathy economy – and a healthy economy is dependent on healthy banks.

As part of our efforts to shape the future, the CBA recently provided a pre-budget submission to the federal government. In our submission we emphasized the need for a renewed focus on growth and creating a stable, strong future based on a healthy growing Canadian economy.

There are several important topics covered in that submission, but given our limited time today I will highlight three:

- Acting on climate change
- The need to future-proof finance, and
- Addressing Canada's productivity challenge

Acting on climate change

The science is clear: the buildup of carbon dioxide, methane, and other gases in the atmosphere is changing Earth's climate. Banks know the climate crisis is real and recognize the complex challenges our society faces today.

Banks in Canada are committed to doing their part to address climate change and help our country transition to a net-zero economy by 2050. That's why banks are implementing climate action plans that set specific targets to meet the demands of this global challenge.

What's more, banks are already hitting key milestones by:

- Committing to emissions reduction targets for their own operations, as National Bank has done by pledging to reduce from 2019 levels their GHG emissions by 25% by 2025

- Setting reduction targets in their lending, including sector-specific targets, as RBC did in its Net-Zero Report released last month

- Working with business clients across industries to help them decarbonize and pursue energy transition opportunities, as BMO is doing with their Energy Transition Group

- Investing in transformational technologies, like Carbon Capture, Utilization & Storage, to help clean up existing energy production and accelerate the transition to cleaner alternatives – which Scotiabank is doing through its Net-Zero Research Fund and CIBC through new Limited Partnership investments in low carbon and climate tech funds

- Banks are also launching products to finance new and existing green projects, including sustainability-linked loans and Green Bonds, which TD Bank pioneered domestically in 2015

- Many of our members are also implementing climate-related financial disclosures, tracking financed emissions, and collecting quality data to better assess the challenge

- And beyond our borders, our six largest banks are playing an active role in global groups such as the UN-convened Net-Zero Banking Alliance

This is the climate transition at work. Banks are helping Canada realize its net-zero ambitions while also helping meet interim energy demands in a volatile global context, made even more unstable by Russia's war of aggression in Ukraine.

Banks are helping to finance greener sources of energy, but the full transition to net-zero will not happen overnight. We must balance the essential need to significantly reduce emissions while ensuring the continued supply of energy and critical products. Some of these may only be obtained through the medium-term use of hydrocarbons.

Energy is not only key to Canada's economy, but it is also critical to funding our social needs. For instance, oil and gas are crucial energy sources in Canada, necessary for everything from food production to transportation, manufacturing and heating our homes. Canada, and people around the world, need this energy. There is simply not enough green energy at this time to meet demand.

The 140,000 people working directly and indirectly in oil and gas overwhelmingly share Canada's vision for a low carbon future. They are in the best position to help us get to net-zero, given their deep expertise in delivering the fuel that keeps our country – and the world – moving. Oil and gas companies are also supporting our energy transition through pivotal investments in wind, solar, and other technologies that will help enable our transition.

We also know that steeply reducing carbon intensity across our economy costs money. A recent study by RBC indicates that Canada will need an estimated $2 trillion over the next 30 years to finance the transition to net-zero. That is more than the entire annual GDP of our country. Canada's banks are key to financing the pivotal technologies and capital improvements that will get us there.

From a geopolitical standpoint, Canada can supply energy to domestic and global markets cleanly, efficiently, and progressively. International customers prefer Canadian energy sources over those from dangerous conflict regimes because of our strong record on human rights, respect for the rule of law, and tradition of democracy. Deputy Prime Minister Freeland's comments at the Brookings Institute in Washington, D.C., underscored the need for "friendshoring" among the world's democracies, a view echoed by the U.S. and our closest allies. Now more than ever, social governance and alignment of values are key factors in securing vital supply chains, including energy.

It should also be noted that investment in Canada's energy sector facilitates a return to Indigenous prosperity – a central goal of reconciliation. A recent study from the Canadian Association of Petroleum Producers found that, in 2019, the industry procured more than $2.6 billion of goods and services from 275 Indigenous businesses across Canada, up from $1.5 billion in 2015.

Transitioning to net zero presents both challenges and opportunities. A collaborative process is needed for Canada to meet its climate goals and enhancing productivity and economic growth. We can purposefully generate more clean energy, grow our economy, and cut our emissions.

We encourage the federal government to collaborate with industry to design targeted investments and tax incentives that create pathways to net-zero, while taking a balanced and flexible approach to new regulation.

We need more carrot, less stick. Recent commitments to spur investment in green technologies, including hydrogen, in the 2022 Federal Budget, and the Fall Economic Statement, are steps in the right direction. But more needs to be done to help advance our country towards the ambitious goal of a net-zero economy by 2050.

Canada's banks are committed to doing their part.

The need to future-proof finance

My second point today is the need to future-proof Canada's financial services sector, particularly as it relates to payments.

Canadians are among the lowest users of cash globally for their day-to-day transactions and consumers and businesses are eager adopters of tech-enabled banking and payment options. Our banks have been at the forefront of innovation and Canadians today have unprecedented access to trusted digital channels to meet all aspects of their banking needs:

- Electronic payments now represent almost 80 per cent of transactions
- Two-thirds of Canadians used mobile app-based banking last year
- And more than a third of financial transactions are done with a mobile device

Significant investments in digitalization and modernization have helped banks anticipate and meet the evolving preferences of their customers, always with a view to security, reliability, and stability. At the same time, technology has enabled an explosion of competition in the financial services marketplace. It is estimated that there are more than 2,000 non-bank payment services providers operating in Canada.

Initiatives such as Payments Canada's Modernization Project and the federal government's Open Banking initiative will accelerate these trends. Similar to payments modernization, the Open Banking initiative is seeking to more safely enable customers to share their data with third-party fintech companies. However, the fintechs involved in open banking are not currently subject to the same regulatory oversight as banks.

While competition is a good thing, policymakers must be diligent as they consider next steps on the Retail Payments Oversight Framework. In response to the growth of unregulated payment services, the federal government enacted the Retail Payments Activities Act, which empowers the Bank of Canada to supervise payment services providers. The CBA and our members welcomed this development; however, at this stage, the oversight framework falls short in that it excludes consumer protection.

The payments marketplace is running in front of the regulatory environment. Payment services providers deal directly with consumers, and so the absence of consumer protection is a significant shortcoming. We've all seen the spectacular collapses in the emerging finance space resulting in serious and unnecessary customer losses. Let's be clear, we don't want the next FTX or Celsius coming from Canada's payments ecosystem.

We're encouraging government to include consumer protection and redress as part of its Retail Payments Oversight Framework. This will provide customers with the much-needed trust, confidence, and security to explore and utilize new financial technologies.

Canada's banks design tech-driven solutions with consumer protection in mind at every step, factoring in the regulatory connection from inception to commercialization. That's why Canada's well-regulated, world-leading banking sector is strong, resilient, and trusted.

Considerable risk lies outside the regulatory perimeter, and non-bank payment services providers need to be brought in prior to gaining more direct access to payments systems. Same activity, same risk, same regulation – that's the answer.

Addressing Canada's productivity challenge

Just as we need to future-proof financial services, our country needs to future-proof our shared prosperity and standard of living. Key to that is productivity. Productivity is an essential measure of economic vitality and it's the path to higher, more inclusive growth and job creation, and lower inflation. Productivity is ultimately about creating more with less resources.

The problem is that Canada has a persistent productivity challenge. Canadian labour productivity ranks sixth in the G-7, and investment in productivity-enhancing areas of intellectual property, information technology, and machinery and equipment, are happening at about half the rate in Canada compared to the U.S. Something needs to be done.

An economy with chronically-low productivity risks eroding the quality of life of its citizens – harming pensions and social benefits – and making it more difficult to govern effectively. Low productivity can lead to negative cycles of social tensions, tax rate increases, and suboptimal job creation.

Canada needs a plan to improve productivity. That plan starts with two key elements. The first is a competition policy that is consistently applied and clearly understood. We're encouraged that the federal government has launched a review of the Competition Act to better align it to a modern economy. The CBA and our members welcome this development, and we will be sharing our views as part of the consultation process. The second is a taxation system that promotes investment and encourages growth. Our current taxation system is increasing the cost of capital and making it harder for companies to make the needed investments for our country to prosper.

Canada must start attracting capital and stop scaring it away. This will help build an economic climate that creates the right incentives for growth and supports the net-zero transition. The federal government should undertake a comprehensive review of Canada's tax system to align it to the needs of our evolving economy and to ensure our country can compete internationally. Importantly, a review would assess measures that could encourage the investments that will be needed to transition to net-zero.

As I said earlier: we need more carrot, less stick. We're encouraged to see the Canadian government creating incentives to support investment in climate transition. Tax policy must be considered more holistically to avoid unintended consequences.

Since before Confederation, banks have demonstrated their capability to bring capital, knowledge, and resources to support economy-wide innovations – and climate transition is no different. As an example, bank financing of the climate transition would ultimately be multiplied and accelerated through greater coordination with government on tax and investment incentives. This would have a net positive effect on productivity because climate transition and productivity are ultimately about doing more with less.

Innovation and productivity are closely linked. A coordinated set of long-term policies that quickly enable and foster scalable private sector investments in clean innovation and assets will guide our country forward.

Canada is emerging from a challenging period. Having weathered the pandemic, we must face the challenge of generating a sustained period of strong economic growth to pay down the debts we have incurred, while also getting to net-zero and improving productivity.

The task now is to build a strong, sustainable recovery that responds to the urgencies of today and maximizes everyone's potential to achieve a better tomorrow. To meet these demands, Canada needs an economic plan that leverages the advantages of Canada's diversity in all its forms.

We of course can't talk about productivity without talking about people. While it may seem that banking only looks at numbers and data, ultimately, it's like any successful business: founded on strong relationships with great people.

Our members' employees are the beating heart of the banking industry and our biggest source of strength. Employees are at the center of our continued success, and banks have worked hard to create inclusive workplaces where all employees can thrive and be their authentic selves.

CBA member banks have consistently led on respect for the individual. Significant work has gone into identifying and eliminating barriers where they exist for diverse populations, accelerating the progress of under-represented and marginalized groups at all ranks. Our industry has embraced action plans against systemic racism, exceeded benchmarks for women on boards and executive positions, made meaningful progress on Indigenous reconciliation, and championed the rights of all Canadians.

The federal government should also be commended for its recently announced 2SLGBTQI+ Action Plan. The Plan dedicates $100 million over five years for a whole-of-government approach to achieve a future where everyone in Canada is truly free to be who they are and love who they love.

These advances in the private and public sectors are personal to my family. My wife and I have two trans daughters. We returned to Canada after many years in the U.S. as we felt the environment had changed and Canada was the better place for children like ours. We're grateful to be Canadian and to be back in Canada. But we must protect what makes this country so special – our tolerance, accommodation, and respect for human rights.

Our collective work to create a more equitable future is by no means finished, but I'm extremely proud that Canada's banks continue to lead by example and champion diversity, equality, equity, and inclusion.

Our country faces its fair share of challenges, some of which we touched on today. The road ahead is long, but Canada has the social and economic strength to go the distance.

With an engaged citizenry, a stable political and governing system, and a world-class banking sector, our potential is limitless if we work together towards shared objectives.

Join me in looking ahead with optimism and creating a vision for how Canada's banks will contribute to building our shared, confident, and bright future.

Thank you.