

# Pre-Budget Consultations 2017

## Submission to the House of Commons Standing Committee on Finance

Prepared by the Canadian Bankers Association

August 5, 2016

## **Introduction**

The Canadian Bankers Association (CBA) is pleased to participate in the pre-budget consultations of the House of Commons Standing Committee on Finance for Budget 2017.

The CBA works on behalf of 59 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada. The CBA advocates for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada's economy. The Association also promotes financial literacy to help Canadians make informed financial decisions and works with banks and law enforcement to help protect customers against financial crime and promote fraud awareness.

Banks are an active and essential part of the daily life of most Canadians. Ninety-nine per cent of adult Canadians have an account with a financial institution, so millions turn to banks every day for products, services, and financial advice. Banks help Canadians safeguard their money, finance a home, manage their savings, plan their investments, and prepare for retirement. Canada's banks employ 280,000 Canadians and have over 6000 branches located across the country. Banks and their employees are among the country's most active corporate donors supporting the arts, sports, culture, music, health, and the environment.

Banks are a key driver of economic growth in Canada, representing over half of the business lending market and roughly one-quarter of the overall business financing market in Canada. In 2015, total authorized credit reached approximately \$1.1 trillion of which approximately \$209 billion for small and medium-sized businesses. As the primary source of credit for Canadian businesses, the banking industry is an essential contributor to the success of the Canadian economy. In this regard, we support the government's commitment to maintain a competitive corporate income tax rate, which helps businesses to invest in their operations and create jobs for Canadians.

Banks connect Canadians by facilitating the participation of consumers and businesses in the Canadian economy. This is supported by a strong record of prudent risk management, which minimizes risks to Canadians and the economy. In fact, Canada's banks have been recognized as the soundest banks in the world for eight years in a row by the World Economic Forum. Canada's prudent banks, combined with effective regulation and supervision, form a model of stability in the global financial system.

The focus of this submission is on the Committee's question, "*What federal actions would assist Canada's businesses – in all regions and sectors – meet their expansion, innovation and prosperity goals, and thereby contribute to economic growth in the country?*" Specifically, this submission emphasizes the need to promote competition and innovation in the financial services sector, while ensuring a smart regulatory framework that protects Canadian consumers.

## **Innovation in Banking**

Banks are strong proponents of an open, competitive and innovative financial services sector. For decades, banks have been leaders in innovation, continuously developing new technologies in order to provide the best, most convenient and most secure options for their clients. Canadian customers can bank anytime from virtually anywhere in the world through online banking and mobile apps. Consumers can also make payments safely and efficiently by simply tapping their payment cards or using banking apps on their smart phones. Banks have successfully implemented these new technologies while ensuring that the personal information of their clients is kept safe and secure, fostering customer trust and confidence.

The recent emergence of financial technology companies has had a positive impact on Canada's competitive financial marketplace by bringing new competition and accelerating innovative solutions that provide more choice to Canadian consumers. There is a wide array of companies that incorporate financial technology (fintech), which include regional and national financial institutions such as credit unions and banks as well as a diverse range of non-financial institution companies, from small start-ups to telecommunications firms and global information technology giants. Healthy competition in the financial services sector is the catalyst for innovation, leading to better and more convenient products and improved customer service. Not only do banks compete with these players, in many instances they partner with them to accelerate the development and introduction of new solutions to the marketplace.

Canadian banks are leaders in the development and adoption of new technologies that facilitate and improve their service to clients. The use of technology to provide financial services is not something new. Canadian banks have a long track record of developing and adopting technology to serve their clients, in fact, banks were the first financial technology companies. Banks have applied technology to positively impact customer interactions to such a degree that innovations that once seemed cutting edge are now ubiquitous.

- Automated banking machines (ABMs) were introduced to provide cash at any time. Now ABMs can be found with ease, with over 18,000 bank-owned ABMs located throughout Canada that allow withdrawals, transfers, bill payments, and deposits.
- Internet banking enables customer-directed 24/7 banking access. Now 55% of Canadians say that they primarily bank online, with nearly 615 million online transactions taking place in 2015.
- Security features on payment solutions such as chip and PIN, data encryption, and biometrics significantly reduce the incidence of fraud.
- Payments have been made more convenient through the introduction of contactless payments and Canada is a global leader in this area, as well as through mobile wallets and mobile cheque deposits.
- Interac e-Transfer is offered both online and via mobile by most Canadian financial institutions.
- Smartphone applications enabled consumers to conduct more than 200 million transactions on their mobile devices in 2015.
- Applications have been developed that allow for expense tracking, budgeting, and fraud identification tools that are designed to enhance consumer understanding of their finances.
- Consumers have more choice in how they invest with the introduction of online investment advisory services that provide financial advice and portfolio management.

The use of leading edge technology to serve clients has contributed to Canada being ranked first out of thirty-two countries in the Capgemini/Efma World Retail Banking Report's Customer Experience Index every year since 2012.

Constantly looking to the future, banks have established internal innovation hubs and partnered with outside organizations, including universities, incubators, and technology companies, to pursue, design and deliver digital innovations and solutions for bank customers. Key contributors to these hubs and partnerships are technology-experts specializing in user interface and experience, data scientists, and other advanced analytics specialists.

## Competition and Smart Regulation

Competition spurs innovation and measures that promote market access and reduce barriers to entry are essential to the future of the financial services industry. The objectives of innovation, however, need to be calibrated with consumer protection and the continued strength of the financial services sector. Appropriate and smart regulation of all participants will facilitate robust competition while adequately protecting consumers and the integrity of Canada's dynamic and evolving financial services sector.

It is important to recognize that banks have been able to provide innovative products while working within a comprehensive regulatory framework that protects consumers. Canadians trust that their interactions with banks will be efficient, accurate, and secure. Banks have extensive security measures in place to protect customers from fraudulent activity, including transaction monitoring to look for unusual activity, authentication measures for online banking, and the move to more secure chip and PIN debit and credit cards.

Banks in Canada are prudent lenders that manage risk carefully, only lending to households and businesses who demonstrate the ability to repay their loans. This prudent approach is a key reason why banks in Canada have largely avoided the financial difficulties that have plagued banks in other countries. Maintaining these sound, fundamental principles of prudent lending is important to Canada's financial services sector and also in the best interest of all Canadians.

Canadian banks have strong risk management processes and procedures, and meet or exceed the prudential requirements set out by the Office of the Superintendent of Financial Institutions (OSFI). Regulatory oversight of banks is supervisory in nature and therefore distinct from the variety of contexts in which non-bank fintech market participants operate. For instance, capital requirements and restrictions around what risks banks may incur do not apply to non-financial market participants. Banks constantly monitor domestic and international challenges that they may face and will change their risk management practices to avoid problems.

Consumer confidence and trust are key to a healthy and productive Canadian economy. Without consumer confidence, innovation in financial technology will not continue to evolve. On this basis, the CBA supports a regulatory framework that promotes competition and innovation with appropriate regulatory oversight. A smart regulatory framework that provides oversight for all providers will help to maintain public confidence in the financial system<sup>1</sup>. Such a framework must mitigate market conduct, financial and operational risks that come with any new and emerging players and business models. Without such a framework, these players and models could cause significant disruption and lead to a deterioration in consumer confidence if they fail to meet their obligations to consumers.

Canadians would benefit from a holistic framework that ensures all participants meet an appropriate standard whose requirements are proportionate to the risks posed by their business size and model. This approach would not only be compatible with innovation but would support and facilitate innovative solutions that are beneficial to consumers. Such a standard should include requirements relating to market conduct risks including disclosure, dispute and recourse, and anti-money laundering; financial risks such as default and liquidity; and operational risks such as fraud and system disruption, among others. Managing these risks can reduce the impact on consumers of compromised privacy, a reduced credit score, increased burden and

---

<sup>1</sup> The Bank of Canada stated a similar objective: Fintech and the Financial Ecosystem: Evolution or Revolution?, Remarks by Carolyn Wilkins, Senior Deputy Governor of the Bank of Canada, June 17<sup>th</sup>, 2016

financial loss. It also can protect against the deterioration of consumer confidence, which would have serious consequences on the Canadian economy.

Furthermore, we believe that it would be beneficial for the existing financial services regulatory framework be amended to be digital friendly. For example, there should be flexibility to allow mandated consumer disclosures to be adapted to the method of communication with the customer. The banking industry is supportive of regulation that is flexible and technology-neutral, so as to allow for rapid innovation and adaptability to emerging methods of engaging with Canadian consumers.

Looking forward to other potential legislative initiatives, we would support the concept of a “regulatory sandbox” similar to what is under consideration in jurisdictions such as the U.K. and Singapore, provided that such an initiative is open to all fintech market participants. We believe that enabling financial institutions as well as non-financial players to experiment with fintech solutions in the context of the delivery of products and services to customers could facilitate and accelerate innovation in the development and introduction of fintech products and services. The notion of the sandbox is to make innovation easier, so the goal should be to lessen rather than increase the complexity of regulations. Care will have to be taken to ensure that is the case.

## **Conclusion**

In closing, we reiterate the importance of innovation in the financial services sector. The use of technology to improve financial products and services ultimately benefits Canadian consumers. We strongly support a regulatory framework that ensures consumer protection and a stable and secure financial services sector, while facilitating innovation and competition in the marketplace.

We appreciate the opportunity to provide comments to the Committee as it conducts its pre-budget consultations. Should you require any additional information, please do not hesitate to contact us.