

A Strong Banking System for a Strong Ontario

11/12/2023



Submission to the Ontario
Ministry of Finance

Recommendations

The Canadian Bankers Association's (CBA) pre-budget submission identifies opportunities and recommendations for consideration by the Ministry of Finance in the development of their next budget.

The CBA's key recommendations, as summarized, are for the Government of Ontario to:

- Advocate to the federal government to undertake a coinciding review of the national tax system to ensure it aligns with the needs and goals of Ontarians, increases productivity, and attracts international capital investments. One step is the removal of sector specific taxes such as the FI Tax and the CRD.
- Continue addressing its housing affordability crisis by correcting the housing supply-demand imbalance and increasing social housing construction to protect the province's most vulnerable households. We also support the establishment of a multi-stakeholder housing roundtable to work collaboratively toward solutions that will help Ontarians afford a place to live.
- Introduce a mandatory, standalone financial literacy course within the province's public secondary school curriculum and expand its financial literacy initiatives to priority groups.
- Adopt a financial consumer protection regime targeted at payment service providers and to extend these standards to e-commerce platforms.
- Collaborate with the CBA and other government agencies to increase cyber security awareness and strengthen Canada's cyber resilience.
- 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 for an efficient and effective approach. In the near-term, we urge Ontario to invest in its enforcement and prosecution of money laundering and terrorist financing and harmonize its existing tools with the federal government.

Introduction

The CBA is grateful for the opportunity to contribute to the Ministry of Finance's next budget through its 2024 Budget consultation.

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 Ontarians. We also promote financial literacy to help residents of Ontario make informed financial decisions 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 Ontario's economy in attracting capital investments. Our submission offers the banking industry's views and recommendations in areas that are of interest to the Ministry of Finance's efforts in strengthening local economies and communities across the province now and create prosperity for the future.

Banking Industry and the Ontario Economy

Canada's banking sector has a longstanding history of supporting the Ontario economy. In 2022, the banking industry contributed approximately \$42.7 billion (or 5.5 per cent) to Ontario's GDP and paid \$5 billion in provincial and municipal taxes. Furthermore, banks in Canada provided \$22.6 billion in dividend income in 2021 and a further \$26.0 billion in 2022 that went to seniors, families, pension plans, charities, and endowments across Canada, including in Ontario.¹

The banking industry also invests heavily in new technology to meet the needs of Canadians. In the last decade, Canadian banks invested approximately \$115 billion in technology across Canada. A network of over 2,400 branches and 7,600 bank-owned ABMs across the province, Canada's competitive banking system provides ready access, good value, and wide choice of banking services to consumers and businesses. Additionally, over 6,300 financial advisors and planners employed by the six largest banks help Ontarians plan for times of heightened economic uncertainties and financial pressures.

Banks in Canada are also at the forefront of addressing the growing challenges posed by cyber crime to

¹ CBA data.

help protect Ontarians against fraud and scams. Further, Canada's banks have been ranked as safest in the world through the 2008 global financial crisis and the recent rapid interest rate increases. The banks' reliability and stability² help families buy a home and save for retirement, help small businesses grow, and help drive the economy now and support Ontario's growing communities.

The banking industry's workforce in Ontario is inclusive and talent driven. Of the more than 194,000 employees at the six largest banks in Ontario, approximately 53 per cent of the workforce was represented by women and visible minorities constituted 48 per cent, with significant representation in all management levels. Additionally, banks are making special efforts to increase representation of Indigenous people within their workforces and support initiatives to promote the employment of people with disabilities.³ Banks in Canada are progressive employers that proactively support and foster diversity, inclusion, and equality in their workforces.

Banks also play an important role in the finance and business ecosystem. Banks in Canada have \$817.1 billion in residential mortgages outstanding and authorized \$882.6 billion in business credit in Ontario, as at the end of 2022.⁴ Of the authorized credit, \$116.4 billion went to small- and medium-enterprises (SMEs). Ontario businesses, including SMEs, are well-served by the financial sector owing to a tremendous amount of competition. According to the Innovation, Science and Economic Development (ISED) Credit Conditions Survey, 88 per cent of debt financing requests for small businesses were approved in 2022 for Ontario,⁵ with the debt approval rate in the province consistently being above 80 per cent since the 2010.⁶

Supporting Ontario's tax system review and the need to review Canada's tax system

We applaud the Ministry of Finance for initiating a review of the province's tax system to prioritize competitiveness, productivity, long-term growth, as well as the fairness and effectiveness of tax relief and supports in the province. We are looking forward to the government's report on its progress in the 2024 Budget and encourage the Ministry of Finance to advocate to the federal government for a coinciding

² World Economic Forum's annual Executive Opinion Surveys ranked Canada's banks as the healthiest with soundest balance sheets, compared to over 130 jurisdictions, from 2008-2018. Additionally, Global Finance magazine ranked all of Canada's big six banks in the top 29 in the list of World's Safest Banks 2022 – sorted by asset size, Canada's big six banks rank as the safest.

³ Ibid

⁴ CBA data.

⁵ ISED, [Credit Conditions Survey – 2022](#), August 2023.

⁶ Based on ISED [Credit Conditions Surveys](#) and Statistics Canada's Survey on Financing of Small and Medium Enterprises.

review of the national tax system.

Ontario's review corresponds with the CBA's advocacy for the need to review of tax systems across the country, particularly by the federal government as the national tax system has not been holistically reviewed since the Carter Commission in the mid-1960s. A concurrent review of the provincial and federal tax systems affords an opportunity to address any gaps between different federal and provincial tax policy objectives. Additionally, the review will also identify inconsistencies between federal and provincial rules to ensure the many tax entitlements, credits, and rebates offered in both tax systems are delivered efficiently and effectively to Ontarians. The provincial and national tax systems should align in encouraging growth and innovation by letting Canadians and businesses make choices driven by economic decisions 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 that applies taxes on specific sectors distorts capital decisions and hampers productivity.⁷ Recently, the federal government targeted banks with sector specific taxes, namely the Financial Institutions (FI) Tax and the Canada Recovery Dividend (CRD). Such taxes on the banking industry will reduce the amount of capital available, restricting investments in innovation, and deter foreign investment, hindering the banks' ability to attract essential capital to support economic growth. The C.D. Howe Institute stated that ultimately the "biggest burden (of sector specific taxes) falls on consumers." The impact will be direct, through higher cost and reduced offerings, and indirect, as borrowing costs will "raise prices and reduce goods and services available throughout the economy."⁸

Recommendation: We urge the Ministry of Finance to advocate the federal government to undertake a coinciding review of the national tax system to ensure it aligns with the needs and goals of Ontarians, increases productivity, and attracts international capital investments. One step is the removal of sector specific taxes such as the FI Tax and the CRD.

Tackling the housing crisis

We applaud the Ministry of Finance for committing to the Housing Affordability Task Force's recommended target of building at least 1.5 million homes by 2031, as owning a home in Ontario has never been more expensive. According to RBC, Ontarians need to devote a near-record 79.6 per cent

⁷ International Monetary Fund, [Fiscal Monitor: Achieving More with Less](#) (Chapter 2), April 2017

⁸ C.D. Howe Institute, [Italy's bank tax fiasco: Canada must learn lessons on the evils of populist tax policy](#), September 2023

and 46.5 per cent of their incomes to cover home ownership costs, in Toronto and Ottawa, respectively.⁹

Ontario's housing affordability crisis has important social and equity implications that could reverberate across generations as many young Ontarians have been effectively priced out of homeownership and the crisis most affects those with the lowest incomes.

The only sustainable option for improving affordability over the long-term is to expand the supply of housing, including rental units. We are encouraged by Ontario's HST relief to incentivize more new purpose-built rental housing. To further expand supply, we encourage the government to consider expediting project approvals and implementing measures to increase housing density.

The CBA is encouraged by the government's initial \$3 billion funding of the Ontario Infrastructure Bank to attract trusted Canadian institutional investors to help fund critical infrastructure projects. The CBA also applauds the governments' investments in skilled trades workers through its Skilled Trades Strategy – shortages of skilled tradespeople are a major barrier to new housing construction.

We urge the Ministry of Finance to continue accelerating the construction of social housing to meet the growing needs of Canada's most vulnerable. According to Scotiabank Economics, Canada's stock of social housing represents 3.5 per cent of its total housing stock, among the lowest in the OECD. A recent study by the Mental Health Commission of Canada estimated that every \$10 invested in supportive housing resulted in an average savings of almost \$22 across health care, social services, and the justice systems in addition to social returns.¹⁰

Greater coordination between various levels of government and stakeholders is necessary to address the housing affordability crisis across Ontario and Canada. The CBA supports the establishment of a housing roundtable, bringing together representatives of 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. This approach will build on and update the work done by Ontario's Housing Affordability Tax Force that benefited from perspectives from sectoral policy experts at the frontlines of the housing challenges.

Recommendation: We encourage the Ministry of Finance continue addressing Ontario's housing affordability crisis by correcting the housing supply-demand imbalance and increasing social

⁹ RBC, [Second quarter affordability gain too small to relieve tensions](#), September 2023

¹⁰ Canadian Mental Health Association Ontario, *Housing First: The Path to Recovery*,

housing construction to protect Ontario's most vulnerable households. We also support the establishment of a multi-stakeholder housing roundtable to work collaboratively toward solutions that will help all Ontarians afford a place to live.

Strengthening financial literacy

Financial literacy is an essential life skill. Developing an understanding of money at a young age will help people better manage their money in the future, but people of all ages need to have the necessary tools to make informed financial decisions and the knowledge to avoid financial fraud and scams. The banking sector has long recognized that it has a role to play in supporting and strengthening financial literacy, and banks support many programs to help Canadians.

The CBA applauds the leadership demonstrated by the Government of Ontario to enhance financial literacy outcomes for students through the implementation of mandatory learning about financial literacy into the curriculum. This is a laudable policy, and we hope it encourages other provinces in Canada to follow suit.

We encourage the province to further its financial literacy commitment through the introduction of a standalone course on financial literacy to complement the current Grade 10 Career Studies course. This new course would build upon the strengths of Ontario's existing curriculum and would provide an in-depth exploration of key topics such as budgeting, saving, investing, and fraud avoidance providing students with a well-rounded understanding of managing their financial well-being and resiliency.

Additionally, we encourage the province to broaden its financial literacy initiatives to encompass targeted programming for priority groups, including lower-income Canadians, Indigenous communities, and newcomers to Canada. By doing so we can ensure that financial literacy in Ontario is inclusive and accessible.

Recommendation: We encourage Ontario to introduce a mandatory, standalone financial literacy course within the province's public secondary school curriculum and expand its financial literacy initiatives to priority groups.

Consumer protection for users of payment service providers (PSP) in Canada and Ontario

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.¹¹ 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 refers to the behaviour of PSPs that may harm consumers.

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 Canada¹², 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.¹³ 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.

Failure to address these risks, among others, can decrease consumer trust in the financial system. 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.

¹¹ [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.

¹² [Canada Gazette, Part 1, Volume 157, Number 6: Retail Payment Activities Regulations.](#)

¹³ Market conduct and subsequent consumer protections associated with financial product principles are outlined in the [G20/OECD High-Level Principles of Financial Consumer Protection.](#)

The rise in digital financial services has made financial data a prime target for cyber threats. The Canadian Anti-Fraud Centre has noted a 40 per cent year-over-year surge in cybercrime losses, with many incidents going unreported.¹⁴ Globally, about three billion phishing emails are sent daily. Cyber security is a shared responsibility, with banks collaborating with each other, the government, and law enforcement to safeguard Canada's critical infrastructure. It is crucial for individuals and businesses to adopt basic cyber security practices and to be aware of common frauds and scams. Collaboration with the CBA and organizations such as the Canadian Centre for Cyber Security would support efforts to educate Canadians on avoiding scams, protecting individuals and small businesses, and mitigating cyber security threats.

Recommendation: We encourage the Ministry of Finance to support the adoption of a financial consumer protection regime targeted at PSPs, as part of Ontario's consumer protection framework. 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. Additionally, we encourage the Ministry of Finance to collaborate with the CBA and other government agencies to increase cyber security awareness and strengthen Canada's cyber resilience.

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, which is required to be launched in 2023, and the release of several key policy initiatives/legislation 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).

The CBA cautions against applying new provincial requirements, reporting or otherwise, to sectors already governed by the PCMLTFA, because such regional and /or provincial regulatory approaches

¹⁴ The Canadian Anti-Fraud Centre (CAFC) reported \$530 million in victim losses in 2022, up 40 per cent from 2021. Its estimated only 5 per cent of victims report.

may, albeit inadvertently:

- 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.

As opposed to introducing new requirements to a comprehensively regulated space, the CBA urges the Ministry of Finance to invest in, and to harmonize its existing tools with the efforts of the federal government. More specifically, Ontario should:

- work with the federal government to ensure provincial beneficial ownership information, which align with the information that 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 the Ministry of Finance 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 (FINTRAC).

The foregoing actions can be made quickly with limited concerns about the unintended consequences outlined earlier in this section and immediately impact the fight against financial crime. 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 Ministry of Finance 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 Ontario to invest in its enforcement and prosecution of money laundering and terrorist financing and harmonize its existing tools with the federal government.

Conclusion

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

Thank you again for the opportunity to contribute to the Ministry of Finance's next budget through the 2024 Budget consultations. Our recommendations aim to ensure the banking system continues to support Ontario help families and businesses through the uncertainty of today, while continuing to build a strong foundation for future generations.

Please do not hesitate to contact the CBA to discuss our pre-budget submission further.