A Strong Banking System for a Strong Quebec

02/02/2024

ASSOCIATION DES BANQUIERS CANADIENS
CANADIAN BANKERS ASSOCIATION

Submission to the Ministère des Finances

Recommendations

The Canadian Bankers Association's (CBA) welcome this opportunity to participate in the pre-budget

Introduction

The CBA is grateful for the opportunity to contribute to Quebec’s next budget through its 2024-2025 pre-budget consultations.

The CBA works on behalf of more than 60 domestic and foreign banks operating in Canada and their levels.[2] Additionally, banks are making special efforts to increase representation of Indigenous people within their workforces and support. Banks in Canada are progressive employers that proactively support and foster diversity, inclusion, and equality in their workforces.

Canada's banks have been ranked as safest in the world through the 2008 global financial crisis and the recent and rapid interest rate increase.[3] Banks' reliability and stability help families buy a home and save for retirement, help small businesses grow, and support Québec's growing communities. For instance, as of the end of 2022, banks in Canada have $182.6 billion in residential mortgages outstanding and authorized $254.5 billion in business credit in Québec.[4] Of the authorized credit, $53.6 billion went to small- and medium-enterprises (SMEs). Further, businesses in Québec, 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, 91 per cent of debt financing requests for small businesses were approved in 2022 in Québec[5], with the debt approval rate in the province averaging 88 per cent annually since 2010.[6]

Compensation taxes, Canada's productivity problem, and the need for tax reform

We believe eliminating Québec's Compensation Tax for Financial Institutions will encourage job creation and economic growth in the province. Despite sector specific taxes such as Québec's Compensation Tax (as well as the federal government's Financial Institutions (FI) Tax and the Canada Recovery Dividend (CRD)) widely recognized as counterproductive public policy that will impact Québeckers, the Compensation Tax was extended twice beyond its original 2019 expiry date.

Bank customers, suppliers, employees, and shareholders – many of whom are based in Québec - ultimately bear the impact of any disproportionate level of taxation on the banking sector. Customers could see raised prices and reduced availability for goods and services while Québec-based employees could see downward pressure on job creation and wage growth.

The negative impact of discriminatory taxes on the financial sector is compounded by Canada's

[2] Ibid

[3] 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.

[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.

internationally lagging labour productivity, which is among the lowest in the G7. Taxes negatively impact investment in productivity enhancing areas of intellectual property,[7] information technology, and machinery and equipment at a time when Canada's investment rate is half the rate of the United States.[8] Owing to the sluggish growth in labour productivity, Canada is projected to be one of the worst performers among advanced economies in the next 40 years.[9]

We believe Canada's productivity outlook can be improved through a redesign of Canada's inefda's ft in.001 Tw -40.n-12.3

As the population continues to grow in the province, we believe that an imbalance between home supply and demand will contribute to affordability challenges. The Canada Mortgage and Housing Corporation (CMHC) estimates that Québec needs to build an additional 620,000 units above current construction trends to restore housing affordability by 2030.[13] Québec’s housing affordability challenges have important social and equity implicat(26.1 (’)7)-13.2 (es)-8 (t5)-8.6 (3)] [(a)-10(i)3.2 (mp)-12.d (ur)-6.4 h1 (y)-8 (f)-1.1 be(f)-1.

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 such programs to help Canadians.

The CBA applauds the leadership demonstrated by the Government of Québec through the introduction of a mandatory Secondary 5 course focused on financial literacy in 2017, which covers consumer rights, debt, savings, purchasing power, and taxes. This is a laudable policy, providing students with a well-rounded understanding of managing their financial well-being and building economic resiliency.

We encourage the Government of Québec to broaden its financial literacy initiatives to encompass targeted programming for priority groups, including lower-income individuals, older adults, Indigenous Peoples, and newcomers to Québec. By doing so, we can ensure that financial literacy in Québec is both inclusive and accessible.

Further, while banks have advanced security and layered fraud detection, the realities of a connected world mean that cyber threats are not limited to bank systems and technology. The Canadian Anti-Fraud Centre has noted a 40 per cent year-over-year surge in cybercrime losses, with many incidents going unreported. Globally, about three billion phishing emails are sent daily. In the digital era, cyber security is a shared responsibility, with banks collaborating with each other, the government, and law enforcement to safeguard Canada’s critical infrastructure. It's also crucial for individual Québecers and the province’s businesses to adopt basic cyber security practices and to be aware of common frauds and scams. Provincial government collaboration with the CBA and organizations such as the Canadian Centre for Cyber Security to disseminate important cyber security resources would support efforts to help residents of Quebec avoid cyber security threats.

Additionally, for many years now, the CBA has collaborated with the Autorité des marchés financiers (AMF) on financial literacy by sharing relevant information and best practices. The CBA now looks forward to further partner with the AMF on the upcoming Québec Financial Education Strategy, set to be published in the spring of 2024.

Recommendation: We encourage the Government of Québec to expand its financial literacy initiatives to priority groups. Additionally, we encourage the Ministry to collaborate with the CBA and federal government agencies to increase cyber security awareness and strengthen the cyber resilience of Qu ébecers.

Consumer protection for users of payment service providers (PSP)

The payments ecosystem continues to rapidly evolve with the surge of non-traditional PSPs. PSPs are entities, including Big Tech companies, that perform payment functions as a service or business activity and currently offer financial services and products to consumers.[15] At present, these PSPs are largely un or under-regulated 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 federal Department of Finance have developed 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[16], and the expectations of increased use and trust that consumers will place in PSPs once they are supervised by the 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.[17] The key risks that these principles seek to mitigate include (but are not limited to):

- Consumers incurring fees that have not been properly disclosed by a provider;
- Consumers having reliable access to their funds held by a provider, consistent with that offered by banks;
- Consumers being

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

Conclusion

Upcoming challenges to Québec, whether influenced by global or domesti (gln 0I05 Tw (Qu)Tjeyype /Footer /her)-6.3 ( )-1