A Strong Banking System for a Strong New Brunswick

29/02/2024

ASSOCIATION DES BANQUIERS CANADIENS
CANADIAN BANKERS ASSOCIATION

Submission to the Department of Finance and Treasury Board

Recommendations

The Canadian Bankers Association's (CBA) pre-budget submission identifies opportunities and recommendations for consideration by the Department of Finance and Treasury Board (Department) in the development of New Brunswick's next budget.

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

- Remove the capital tax on financial institutions to promote economic growth in New Brunswick.
- Encourage the federal government to undertake a comprehensive review of the national tax system to ensure it aligns with the needs and goals of New Brunswickers, improves productivity, and attracts international capital investments. One step is the removal of sector specific taxes such as the Financial Institutions (FI) Tax and the Canada Recovery Dividend (CRD).
- Support the establishment of a permanent multi-stakeholder housing roundtable to coordinate housing policy across all levels of government. The objective of the body would be to remove barriers to housing supply and increase construction of social housing to protect the province's most vulnerable households.
- Introduce a mandatory, standalone financial literacy course within the province's public secondary school curriculum and expand its financial literacy initiatives to priority groups.
- Collaborate with the CBA and government agencies to increase the cyber security awareness of New Brunswickers and strengthen Canada's cyber resilience.
- Adopt a financial consumer protection regime targeted at payment service providers and extend these standards to under- and un-regulated activities.
- Coordinate with the federal government to combat money laundering and terrorism financing for an efficient and effective approach. In the near-term, we urge the Government of New Brunswick to invest in its enforcement and prosecution of money laundering and terrorist financing and harmonize its existing tools with the federal government.
- 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.

Introduction

The CBA is grateful for the opportunity to contribute to New Brunswick's next budget through its 2024-25 prebudget consultation.

The CBA works on behalf of more than 60 domestic and foreign banks operating in Canada and their employees. The CBA advocates for public policies that contribute to a sound and thriving banking system that ensures Canadians, including New Brunswickers, can succeed in their financial goals. We also promote financial literacy to help residents of New Brunswick 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 New Brunswick's economy in attracting capital investments. Our submission offers the banking industry's views and recommendations for New Brunswick's upcoming budget.

Banking industry and the New Brunswick economy

Canada's banking sector has a longstanding history of supporting the economy in New Brunswick. In 2022, the banking industry contributed approximately $880 million (or 2.7 per cent) to New Brunswick's GDP and paid over $85 million 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 New Brunswick.[1]

The banking industry invests heavily in new technology to meet the needs of Canadians. Over the last decade, Canadian banks invested approximately $115 billion in technology across Canada. With a network of over 130 branches and 450 bank-owned ABMs across New Brunswick, Canada's competitive banking system provides ready access, value, and wide choice of banking services to consumers and businesses. Additionally, financial advisors and planners employed by banks help New Brunswickers plan for times of heightened economic uncertainties and financial pressures.

[1] CBA data.

The banking industry's workforce in New Brunswick is inclusive and talent driven. Of the more than 5,500 employees at the six largest banks in New Brunswick, approximately 59.1 per cent or the workforce is represented by women and visible minorities constitute 22.3 per cent with significant representation in all management levels.[2] 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. 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 New Brunswick's growing communities. For instance, as of the end of 2022, banks in New Brunswick have $17.4 billion in residential mortgages outstanding and authorized $54.1 billion in business credit across the Atlantic provinces.[4] Of the authorized credit, $16.1 billion went to small- and medium-enterprises (SMEs). Further, businesses in Canada's Atlantic region, including New Brunswick, 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*, 98 per cent of debt financing requests for small businesses were approved in 2022 in Atlantic Canada,[5] with the debt approval rate in the region averaging 92 per cent annually since 2010.[6]

Capital taxes, Canada's productivity problem, implications for New Brunswick, and the need for tax reform

Taxation of capital has widely been recognized as a barrier to attracting new capital investments by reducing banks' capacity to expand credit to other sectors that innovate and grow the economy. In fact, British Columbia, Alberta, Ontario, and Quebec eliminated their capital tax to maximize provincial competitiveness, increase capacity to grow their economies and create jobs. The more than $30 million in

[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.

New Brunswick's capital taxes on prudentially regulated financial institutions is a counterproductive public policy, as the tax penalizes banks for holding large capital buffers for rising risks or as required by regulations.

Additionally, the federal government targeted banks with sector specific taxes, namely the FI Tax and the CRD. The C.D. Howe Institute stated that ultimately the "biggest burden (of discriminatory taxes such as capital 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."[7]

The negative impact of discriminatory taxes on the financial sector is compounded by Canada's labour productivity, which is among the lowest in the G7. Taxes negatively impact investment in productivity enhancing areas of intellectual property,[8] information technology, and machinery and equipment at a time when Canada's investment rate is half the rate of the United States.[9] 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.[10]

We believe Canada's productivity outlook can be improved through a redesign of Canada's inefficient tax system that distorts capital decisions.[11] An efficient tax system incorporates relatively lower rates on a broader base to maintain government revenues and encourage growth and innovation. The Organisation for Economic Co-operation and Development (OECD) has stated that creating tax advantages for specific activities typically draws resources away from sectors that can make the greatest contribution to productivity gains and economic growth.[12] Thus, 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.

Recommendation: We strongly recommend the Government of New Brunswick to remove its capital tax on financial institutions in order to promote economic growth in the province. Additionally, we ask the Government of New Brunswick to advocate to the federal government for a comprehensive review of Canada's tax system to increase productivity and ensure Canada can

[7] C.D. Howe Institute, Italy's bank tax fiasco: Canada must learn lessons on the evils of populist tax policy, September 2023
[8] OECD, "GDP per hour worked" (indicator) (accessed on 30 May 2023).
[9] OECD, OECD Compendium of Productivity Indicators 2023
[10] BCBC, OECD predicts Canada will be the worst performing advanced economy over the next decade…and the three decades after that, December 2021
[11] International Monetary Fund, Fiscal Monitor: Achieving More with Less, April 2017
[12] OECD, Tax Policy Reform and Economic Growth, OECD Tax Policy Studies (2010)

compete internationally for capital investments. One such step is the removal of sector specific taxes such as the FI Tax and the CRD.

Addressing housing affordability

The CBA believes a coordinated approach across all levels of government and housing stakeholders is required to ensure housing demand and supply remains balanced in New Brunswick. Indeed, recent data show that ownership costs have risen due to low levels of housing supply. RBC Economics estimates the share of household income needed to cover home ownership costs at 30.2% - close to an all-time high and up from 21.5% two years ago.[13]

The recent influx of residents into New Brunswick has influenced the province's housing supply and demand dynamics. According to the Fraser Institute, the province added 11.3 new residents per home built in 2022, a stark increase from the previous average of 1.1 new residents per home built over the previous 50 years.[14] The only sustainable option for improving affordability over the long-term is to continue expanding the supply of housing, including rental units.

Equally important is the need to expand non-market or social housing. Scotiabank Economics estimates that Canada's stock of social housing, at 3.5 per cent of the total housing stock, is among lowest in the OECD. In the near-term, we encourage the Government of New Brunswick to accelerate the construction of social housing to meet the growing needs of New Brunswick's most vulnerable. A recent study by the Mental Health Commission of Canada estimated that for every $10 invested in supportive housing, there is an average savings of almost $22 across health care, social services, and justice – in addition to social returns.[15]

To correct supply-demand imbalances, greater coordination between various levels of government is necessary. The CBA supports the establishment of a permanent housing roundtable, that would bring 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. A permanent roundtable would provide a valuable forum to share perspectives on obstacles to housing affordability, and to generate solutions that can expand housing and rental supply and restore affordability.

[13] RBC, Housing Trends and Affordability, December 2023
[14] Fraser Institute, New Brunswick builds the fewest homes per new resident in Canada, October 2023
[15] Canadian Mental Health Association Ontario, Housing First: The Path to Recovery

Recommendation: We encourage the Government of New Brunswick to contribute to efforts across all levels of government to remove barriers to housing supply. We support the establishment of a permanent housing roundtable, as we believe leveraging stakeholders' collective knowledge will create sustainable, vibrant, and healthy communities in the province. We also encourage the Government to increase social housing construction to protect the province's most vulnerable households.

Strengthening financial literacy and cyber security practices

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 dedication demonstrated by New Brunswick to enhance financial literacy outcomes for students. We encourage the province to expand their commitment by instituting mandatory financial education within the secondary school system, helping the next generation strengthen their financial literacy and, by extension, their financial resiliency, while also equipping them with the knowledge of how to evade financial fraud and scams.

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

Financial literacy not only empowers individuals to make informed decisions about their finances but also equips them with the tools to protect themselves from falling victim to scams. The rise in digital financial services has made financial data a prime target of cyber criminals. The Canadian Anti-Fraud Centre has noted a 40 per cent year-over-year surge in cybercrime losses, with many incidents going unreported.[16] Globally, about three billion phishing emails are sent daily. It's therefore crucial for individuals and

[16] 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.

businesses to adopt basic cyber security practices and to be aware of common frauds and scams. Cyber security is a shared responsibility, with banks collaborating with each other, the government, and law enforcement to safeguard Canada's critical infrastructure. Collaboration with the CBA and organizations such as the Canadian Centre for Cyber Security would support efforts to educate Canadians on avoiding scams, protect individuals and small businesses, and mitigate cyber security threats.

Recommendation: We encourage the Government of New Brunswick to introduce a mandatory, standalone financial literacy course within the province's secondary school curriculum and expand its financial literacy initiatives to priority groups. Additionally, we encourage the Department to collaborate with the CBA and federal government agencies to increase the cyber security awareness of New Brunswickers and strengthen Canada's cyber resilience.

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.[17] 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[18], 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.

[17] 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.
[18] Canada Gazette, Part 1, Volume 157, Number 6: Retail Payment Activities Regulations.

Globally, the G20 and OECD have recognized that financial consumer protection requires a more targeted set of rules than general consumer protection.[19] 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 not having access to their funds held by a provider;
- Consumers being held responsible for fraudulent transactions; and
- Consumers not having 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.

Recommendation: As part of New Brunswick's consumer protection framework, we encourage the Department of Finance and Treasury Board to support the adoption of a financial consumer protection regime targeted at PSPs. Enhancing standards for financial consumer protection should also extend to entities that embed payments processing for merchants, as they introduce the same risks as PSPs.

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 has yet to be launched, and the release of several key policy initiatives that are expected to result in significant changes and expand 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 may,

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

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 Government of New Brunswick to continue to invest in and harmonize its existing tools with the efforts of the federal government. More specifically, the Government of New Brunswick should:

- continue to work with the federal government to ensure alignment between its provincial beneficial ownership registry (e.g., data points and operational processes) and the national beneficial ownership registry. While we applaud New Brunswick for targeting transparency in beneficial ownership information as a priority policy goal, harmonized requirements and processes across jurisdictions will be a key tool in combatting AML and ATF; 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 Department of Finance and Treasury Board 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 Government of New Brunswick on this issue and look forward to consulting on and supporting provincial efforts.

Recommendation: We urge the Government of New Brunswick 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 the Government of New Brunswick to invest in its enforcement and prosecution of money laundering and terrorist financing and harmonize its existing tools with the federal government.

Transition to net-zero

The financial sector is central to securing an orderly transition to a low-carbon economy. By financing the climate transition, banks are helping Canada meet its net-zero ambitions while ensuring we reliably meet energy demands in a volatile global context. Banks are helping to finance greener forms of energy, but the full transition to net-zero will not happen overnight. Thus, we acknowledge the government's commitment to reduce greenhouse gas emissions in the province by at least 46 per cent from 2005 levels by 2030 and to net zero emission by 2050.[20]

We believe that 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 is critical. Banks look forward to opportunities to support the generation of more clean energy, grow our economy, and cut emissions across the province.

Additionally, the transition to a net-zero economy provides further reason to review Canada's tax system, consistent with our second recommendation. Some estimates suggest that Canada will need approximately $2 trillion in over the next three decades to transition to a net zero economy.[21]

Recommendation: We encourage the Government of New Brunswick 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.

Conclusion

Upcoming challenges to New Brunswick, whether influenced by global or domestic factors, highlight the need for a strong and stable banking sector that will benefit the province's economy. Directly and indirectly, the banking sector plays a vital role in the province's economy. A strong banking sector

[20] Our Pathway Towards Decarbonization and Climate Resilience. New Brunswick's Climate Change Action Plan 2022-2027, September 2022.
[21] RBC, The $2 trillion transition: Canada's road to net zero, October 2021

supports New Brunswick’s business ecosystem, particularly as it related to lending to SMEs.

Thank you again for the opportunity to contribute to the Government of New Brunswick’s 2024-25 budget. Our recommendations aim to ensure the banking system continue to support New Brunswick’s families and businesses through the uncertainty of today, while continuing to build a strong foundation for tomorrow.

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