A Strong Banking System for a Strong Manitoba

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ASSOCIATION DES BANQUIERS CANADIENS
CANADIAN BANKERS ASSOCIATION

Submission to the Manitoba Ministry of Finance

Introduction

The CBA is grateful for the opportunity to contribute to Manitoba'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 public policies that contribute to a sound and thriving banking system that ensures Canadians, including Manitobans, can succeed in their financial goals. We also promote financial literacy to help residents of Manitoba 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 Manitoba's economy in attracting capital investments. Our submission offers the banking industry's views and recommendations in areas that are of interest to the Government of Manitoba's efforts in strengthening local economies and communities across the province and creating prosperity for the future.

Banking industry and the Manitoba economy

Canada's banking sector has a longstanding history of supporting the economy in Manitoba. In 2022, the banking industry [illegible] (mot)-1.1

employees at the six largest banks in Manitoba, approximately 61.5 per cent or the workforce is represented by women and visible minorities constitute 38.1 per cent, with significant representation in all management levels. Additionally, banks are making special efforts to increase representation of

Capital taxes, Canada's productivity problem, implications for Manitoba, 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 have eliminated their capital taxes to maximize provincial competitiveness and to increase capacity to grow their economies and create jobs. The close to $100 million in Manitoba'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 Financial Institutions (FI) Tax and the Canada Recovery Dividend (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]

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 Manitoba remove capital taxes on bankers, builders, boards of trade, real estate professionals, market rental housing providers, non-market housing organizations, and civil society organizations. Often these stakeholders are not part of the consultation process but have substantive sectoral policy expertise and are on the frontlines of housing challenges. A permanent roundtable would provide a valuable forum for sharing perspectives on obstacles to housing affordability and generating solutions.

According to Scotiabank Economics, Canada's stock of social housing represents 3.5 per cent of its total housing stock, among lowest in the OECD. In the near-term, we encourage the Government of Manitoba to accelerate the construction of social housing to meet the growing needs of Manitoba'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]

Recommendation: We encourage the Government of Manitoba to coordinate efforts across as budgeting, saving, investing, and fraud avoidance, thereby providing students with a well-rounded understanding of managing their financial well-being and resiliency.

Additionally, we encourage the Government of Manitoba 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 Manitoba is inclusive and accessible.

Recommendation: We encourage the Government of Manitoba 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 Manitoba

The payments ecosystem continues to rapidly evolve with the surge of non-traditional PSPs, including large technology firms, offering financial services to consumers. PSPs are entities that perform payment functions and currently offer financial services and products to consumers.[16] 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 federal Department of Finance have developed a federal supervisory framework for PSPs under the to address certain risks, the federal framework is silent on market conduct. With over 2,500 PSPs currently operating in Canada[17], 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

[16] 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.
[17] Canada Gazette, Part 1, Volume 157, Number 6: Retail Payment Activities Regulations.

targeted set of rules than general consumer protection.[18] 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.

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.[19] 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's 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, protect individuals and small businesses, and mitigate cyber security threats.

Recommendation: A s part of Manitoba 's consumer protection framework

Need for a harmonized anti -money laundering and anti -terrorist financing regime

The federal 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 Rd(-)Tj eyiorP536 (eg)-2.5 (i)-4 (m)-4.4 (e).(h)]T12.3 (nd 04 (r)-1.6 (eg2.3L2e8(f)-1ey

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In relation to the latter, we suggest the Ministry 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 Manitoba on this issue and look forward to consulting on and supporting provincial efforts.

Recommendation: We urge the Government of Manitoba 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 Manitoba 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 make Manitoba a leader in clean energy and create a roadmap to meet net-zero targets 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 Canada.

[20] Kinew, Wab. "Letter to Environment and Climate Change Minister Tracy Schmidt." October 2023.

Additionally, the transition to a net-zero economy provides further reason to review Canada's tax system, consistent with our second recommendation. Such a review affords an opportunity to assess measures that encourage the investments that will be needed to transition to net zero. Some estimates suggest that