A Strong Banking System for a Strong Manitoba

16/01/2024

Submission to the Manitoba Ministry of Finance

ASSOCIATION DES BANQUIERS CANADIENS
CANADIAN BANKERS ASSOCIATION

Recommendations

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

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

- Invite the CBA to join the Premier's Business and Job Council to work on the province's priorities and support economic growth and job creation in Manitoba.
- Remove capital taxes on financial institutions to promote economic growth in Manitoba. Further, we encourage the Government of Manitoba to advocate to the federal government to undertake a comprehensive review of the national tax system to ensure it aligns with the needs and goals of Manitobans, 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 multi-stakeholder housing roundtable to coordinate housing policy across all levels of government. The objective of the body would be to remove barriers to 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.
- Adopt a financial consumer protection regime targeted at payment service providers and extend these standards to under and unregulated activities.
- Collaborate with the CBA and government agencies to increase cyber security awareness and strengthen Canada's cyber resilience.
- Coordinate with the federal government to combat 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 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.
- 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 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 contributed approximately $1.2 billion (or 1.9 per cent) to Manitoba's GDP and paid over $185 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 Manitoba.[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 170 branches and 570 bank-owned ABMs across Manitoba, Canada's competitive banking system provides ready access, good value, and wide choice of banking services to consumers and businesses. Additionally, financial advisors and planners employed by banks help Manitobans plan for times of heightened economic uncertainties and financial pressures.

The banking industry's workforce in Manitoba is inclusive and talent driven. Of the more than 4,600

[1] CBA data.

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 Indigenous people within their workforces and support initiatives to promote the employment of people with disabilities.[2] 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 Manitoba's growing communities. For instance, as of the end of 2022, banks in Canada have $24.5 billion in residential mortgages outstanding and authorized $67.5 billion in business credit in both Manitoba and Saskatchewan.[4] Of the authorized credit, $19.2 billion went to small- and medium-enterprises (SMEs). Further, businesses in Manitoba, 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*, 100 per cent of debt financing requests for small businesses were approved in 2022 in Manitoba and Saskatchewan,[5] with the debt approval rate in the region consistently being above 81 per cent since the 2010.[6]

In December 2023, the government announced the creation of the Premier's Business and Jobs Council to build on the priorities of Manitobans and foster economic growth as well as job creation in the province. The CBA, on behalf of its members, supports the establishment of the council to develop creative solutions for today's economic challenges.

Recommendation: Invite the CBA to join the Premier's Business and Job Council to work on and support the province's priorities.

---

[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.

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]

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

---

[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

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 financial institutions to promote economic growth in the province. Additionally, we ask the Government of Manitoba to advocate to the federal government for a comprehensive review of Canada's tax system to increase productivity and ensure Canada can compete internationally for capital investments. One such step is the removal of sector specific taxes such as the FI Tax and the CRD.

Supporting housing affordability

We recognize that each province in Canada has unique needs and challenges with respect to housing affordability. Manitoba has not been immune to the challenges of home affordability pressures experienced across the country since the beginning of the pandemic. RBC Economics estimates that the share of household income needed to cover home ownership costs at 33.5 per cent in Winnipeg, a 33-year high.[13] While affordability has not deteriorated in Manitoba to the same extent as it has in other Canadian provinces, maintaining affordable housing remains vital to the province's continued economic and social vibrancy.

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 Manitoba needs to build an *additional* 260,000 units above current construction trends to ensure housing affordability by 2030.[14] The only sustainable option for improving affordability over the long-term is to expand the supply of housing, including rental units. Project approvals should be expedited and measures to increase housing density should be implemented.

To correct supply-demand imbalances, greater coordination between various levels of government is necessary. The CBA supports the establishment of a permanent housing roundtable, bringing together representatives of federal, provincial, municipal, and Indigenous government authorities, along with

[12] OECD, Tax Policy Reform and Economic Growth, OECD Tax Policy Studies (2010)
[13] RBC, Focus on Canadian housing: Housing trends and affordability, March 2023
[14] CMHC, Canada's Housing Supply Shortage: Restoring affordability by 2030, June 2022

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 contribute to efforts across all levels of government to remove barriers to housing supply. We support the establishment of a 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

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 Manitoba through investments in optional financial literacy education for K-to-12 education across the province. This is a laudable policy; however, we encourage the Government to strengthen its financial literacy commitment through the introduction of a mandatory course on financial literacy. A mandatory course would build upon the strengths of Manitoba's existing curriculum and would provide an in-depth exploration of key topics such

[15] Canadian Mental Health Association Ontario, Housing First: The Path to Recovery

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 *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[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: As part of Manitoba's consumer protection framework, we encourage the Ministry of Finance 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. Additionally, we encourage the Ministry to collaborate with the CBA and federal government agencies to increase cyber security awareness and strengthen Canada's cyber resilience.

---

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

[19] 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.

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, 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 Manitoba to continue to invest in and harmonize its existing tools with the efforts of the federal government. More specifically, the Government of Manitoba 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 Manitoba 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 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 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 Manitoba 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 Manitoba, 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 Manitoba's business ecosystem, particularly in lending to SMEs.

Thank you again for the opportunity to contribute to the Government of Manitoba's 2024 Budget. Our recommendations aim to ensure the banking system continue to support Manitoban 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.

[21] RBC, The $2 trillion transition: Canada's road to net zero, October 2021