

Effective Consumer Protection and Education

2015-2018 Strategic Business Plan

FCNB 2.0



**FINANCIAL AND
CONSUMER SERVICES
COMMISSION**

regulation • education • protection

Approval Date: 18 December 2014

Effective Date: 1 April 2015

Review Date: December 2015

2015-2018 STRATEGIC DIRECTION

The overall responsibility for approving the strategic direction of the Commission rests with the members, acting collectively as the board of directors. Our strategic direction sets out how we will conduct our business and fulfil our role in accordance with the mandates established in the various pieces of legislation for which we are responsible. The Commission's authority is derived from legislation and articulated in its By-laws and Governance Policy.

Our Vision - *A confident, dynamic and informed financial and consumer marketplace for New Brunswick.*

Our Mandate - *Protect consumers and enhance public confidence in the financial and consumer marketplaces through the provision of regulatory and educational services.*

Our Values

Leadership -we adhere to best practices and high standards to ensure regulatory and organizational excellence;

Integrity - we are fair, ethical, transparent and accountable for our actions;

Responsiveness - we provide pro-active, efficient and timely services; we listen to understand and address the needs of our stakeholders and staff; and

Commitment - we invest in our staff by encouraging innovation and developing expertise and leadership.

Regulatory Requirements

The three requirements of an effective regulatory structure are:

- A legislated and legitimate foundation to achieve the intended public purpose of consumer protection;
- An organization that has the sustainable, operational and financial capacity to deliver on its mandate; and
- An organization that creates and delivers value to the public.

OUR CORPORATE PROFILE

The Financial and Consumer Services Commission (FCNB) is an arm's length self-funded independent Crown Corporation under Part IV of the *Public Service Labour Relations Act*.

We are responsible for the regulation of securities, insurance, pensions, credit unions, caisses populaires, mortgage brokers, loan and trust companies and a range of consumer protection legislation. We have defined rule-making authority in prescribed areas of our responsibilities.

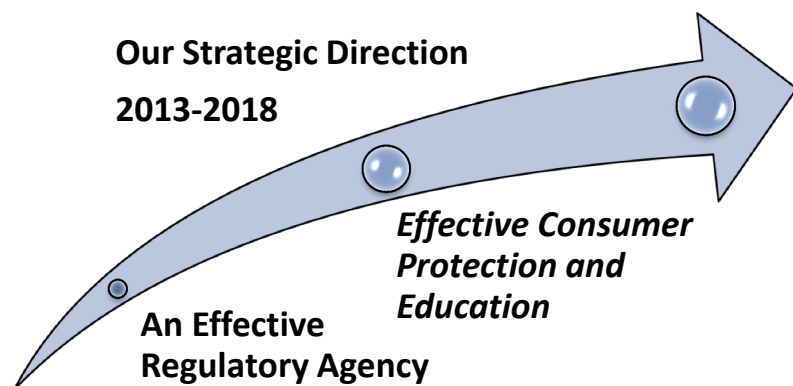
We have a board of directors consisting of a Chair and up to 10 part-time members. Membership includes the appropriate mix of background, skills, diversity and experience required to guide our strategy and ongoing business operations, and to establish the rules governing the regulated sectors within our defined authority. Members are independent and have a reputation for integrity in order to generate public confidence in the Commission. They are appointed by the Lieutenant-Governor in Council for terms up to 5 years and can be reappointed.

EFFECTIVE CONSUMER PROTECTION AND EDUCATION

The Acts administered by the Commission include the:

- *Auctioneers Licence Act*
- *Commissioners for Taking Affidavits Act*
- *Co-operative Associations Act*
- *Credit Unions Act*
- *Direct Sellers Act*
- *Gift Cards Act*
- *Loan and Trust Companies Act*
- *Nursing Home Pension Plans Act*
- *Pre-arranged Funeral Services Act*
- *Securities Act*
- *Collection Agencies Act*
- *Consumer Product Warranty & Liability Act*
- *Cost of Credit Disclosure and Pay Day Loans Act*
- *Franchises Act*
- *Insurance Act*
- *Mortgage Brokers Act*
- *Pension Benefits Act*
- *Real Estate Agents Act*
- *Securities Transfer Act*

The Financial and Consumer Services Tribunal provides independent adjudication services where required under the various statutes for which the Commission is responsible. Hearings take place before the Tribunal which is funded by, but otherwise independent of the Commission.



Our strategic direction for the upcoming three-year period is built around meeting our strategic intent; that is, effective consumer protection and education. Our vision, mandate and values as defined in our strategic direction support this intent.

2015-2018 STRATEGIC BUSINESS PLAN

The Commission operates collaboratively with financial and consumer services regulators in Canada and North America. We need to keep abreast of global developments in these sectors, as well as related technological developments. We are diligent in evaluating the New Brunswick scene for matters of importance to our key audiences. Our planning approach incorporates strategic issue identification and a management process that involves staff, management and Commission members to address the issues.

As a newly consolidated Commission, transition considerations continue to be a priority as we respond to external influences and build teams, infrastructure and harmonize our framework and tools for optimum service delivery. As we consider the challenges that face us, we are cognizant of our strengths, challenges, opportunities and threats which have the potential to impact us both internally and externally. We analyse these factors to consider how we can use our strengths to take advantage of opportunities and mitigate threats and weaknesses.

FACTORS AFFECTING OUR OPERATIONS

There is a wide variety of external and internal factors that face us and influence how we will operate. The external factors predominantly relate to changes in regulatory sectors and to demographics. Internal factors relate to our structure and ability to respond to our changing environment.

A number of regulated sectors are undergoing fundamental changes, either to the way they are regulated or changes within their sector that will result in changes to how they are regulated.

One of the most significant changes results from New Brunswick's decision to join British Columbia, Saskatchewan, Ontario, Prince Edward Island and Canada to establish a cooperative capital markets regulatory system. Other provinces and territories have been invited to participate in this system. This decision has a significant impact on the Commission in that it affects our revenue stream from the securities industry and, should

it proceed, it will ultimately result in the transfer of staff related to regulating this industry to the new capital markets regulator.

Another sector initiative that will impact our operations is the Fédération des caisses populaires' proposed move to amalgamate the 15 caisses populaires in the province into one organization. This initiative further contemplates a transfer from provincial regulation to federal regulatory oversight. Although not as advanced, the province's 10 credit unions are contemplating a similar move. Regardless of which jurisdiction has oversight, these changes in the caisses populaires and credit unions sector, if approved, will result in significant changes to legislation and to the regulatory structure.

The Consumer Advocate for Insurance was appointed for a 10-year non-renewable term in January 2005. This term expires 31 December 2014. The *Act Respecting the Financial and Consumers Services Commission Act* includes provisions to eliminate the Office of the Consumer Advocate and transfer the mandate and assets to FCNB upon proclamation. The future and timing of a decision related to the Consumer Advocate's Office is under consideration. As the regulator for the insurance industry, we provide educational, compliance and investigative services as part of our consumer protection mandate and are able to assume the Advocate's mandate and preserve the staff and office in Bathurst any time after 1 January 2015.

New legislation to regulate mortgage brokers and payday lenders has been passed but not proclaimed, pending development of the supporting regulatory structure. Mortgage broker rules have already been published for comment and we expect implementation in 2015. It is expected that rules for pay-day lending will follow suit and following Federal Government designation under the Criminal Code, we expect implementation in 2016. Our ability to effectively implement this regime will reflect on our skills as a regulator.

The overall state of financial literacy in New Brunswick is low. This presents a challenge to the effectiveness of our educational initiatives on consumer protection and fraud prevention if not addressed. Consumers need to reach a minimum level of understanding of basic financial matters before the more complex educational topics can be understood.

Changing demographics highlight the need for a focus on seniors' issues. As the 'baby boomers' become seniors they are migrating their associated wealth into retirement savings. The challenges are that seniors can be more vulnerable because of aging, general trust factors, potential diminished mental capacity and less time to recover from a financial loss.

The changing environment has a significant impact on our organizational structure and our operational budget, both of which must rise to meet the challenge. After barely two years of operations as a new consolidated financial and consumer services regulator our changing environment requires us to respond and yet preserve the underlying rationale and advantages of being an effective, independent, self-funded regulator.

STRATEGIC DIRECTION

Even though there are some significant developments in the overall scope of our regulatory responsibilities, the overall vision and mandate to regulate, educate and protect New Brunswick consumers still applies. Our previous history as an independent commission and an innovative and responsive regulator stands us in good stead to adapt and meet the challenges ahead.

OUR BUSINESS PLAN

OVERVIEW AND APPROACH

We examine our core business of regulation, education and protection in the context of our strategic direction and how we may better concentrate our energy in order to make a significant difference in New Brunswick. In developing our business plan we evaluate not only resource implications but also:

- the impact that a key strategic issue may have on our mandate;
- the immediacy of a key strategic issue and its required response;
- our ability to take a leadership, supportive or reactionary approach to a key strategic issue; and
- the role of our strategic partners in assisting us to address a key strategic issue.

Our business plan addresses how we will meet the challenges that face us and support our overall strategic direction for the period 2015 to 2018. The initiatives we undertake are focused on having an impact.

One of the major challenges is the transfer of staff and responsibility for securities to the capital markets regulator (CMR). Since the creation of FCNB in July 2013, our focus has been on integrating the staff of the various organizations into one consolidated regulator and providing a full range of services across all regulated sectors. Our focus was on four strategic priorities:

1. Deliver Our Message
2. Modernize Our Regulatory Framework
3. Improve Our Processes
4. Develop Our People

STRATEGIC INITIATIVES AND MEASURES

As we move forward in this changing environment, our challenge is to reconstruct the genesis of a consolidated financial and consumer services regulator without securities, an FCNB 2.0. This organization has to be fundamentally positioned to face future challenges and take advantage of potential opportunities presented by the creation of the CMR.

FCNB 2.0 needs to operate as an effective, independent, self-funded regulator. While many of the initiatives commenced under our earlier plan continue to have value, many need to be revisited in light of this fundamental change. We see three strategic priorities. These are:

- 1. Transition the Organization**
- 2. Solidify our Infrastructure**
- 3. Deliver on our Mandate**

The Business Plan is presented visually as our Strategic Map. (See Illustration 1.0) In the context of our Strategic Direction, the plan outlines our initiatives for the 2015-18 period (see Illustration 2.0), and identifies the success indicators we will use to determine our performance in meeting our overall mandate.

Our focus over the next three years is to ensure we have the infrastructure and capacity to be an effective regulator. We plan a number of multi-year initiatives for each of the identified strategic priorities. Considerable emphasis is placed on the implementation of these initiatives necessary to support the fulfilment of our organizational responsibilities.

We use an annual work planning process to identify the specific undertakings, assigned responsibilities and associated timeframes. This phase of planning gets underway in January of each year for the start of the fiscal year in April.

Illustration 1.0
Strategic Map

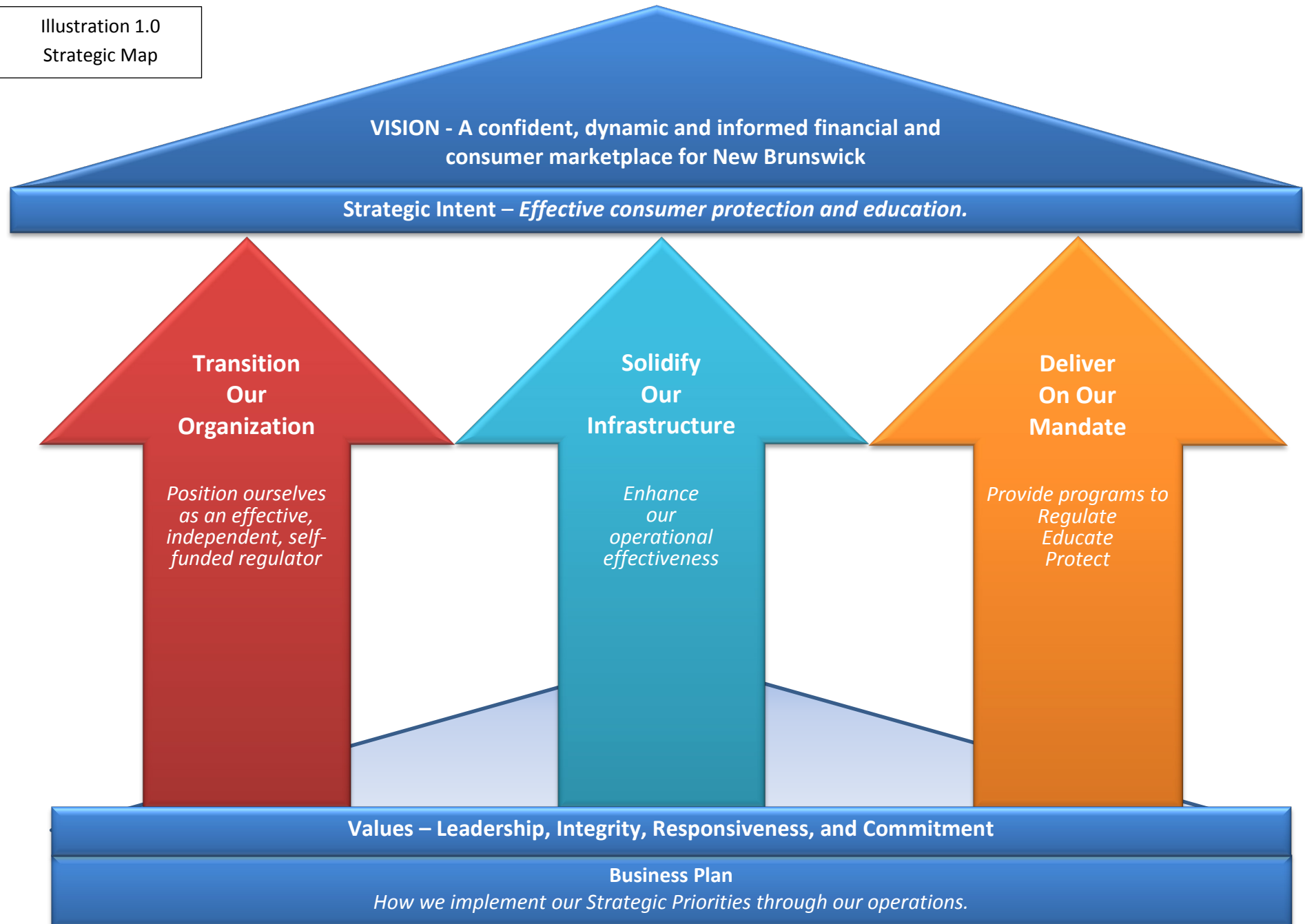




Illustration 2.0
Priority Map

RISK ANALYSIS

Members and staff identify and assess risk on an on-going basis. Understanding and considering the risks associated with our operating environment helps us to manage these risks and shape our overall plan.

The risk management process includes identifying events or situations that would prevent us from achieving our mandate; evaluating the likelihood and timing of occurrence; and determining what strategic response, if any, we need to take to minimize the impact.

We assess risk in 5 key areas: Business Operations, Finances, Human Capital, Reputation and Litigation

REVENUE SOURCES, COST STRUCTURE AND KEY RESOURCES

The Commission has a legislated mandate with respect to each regulated sector. It is expected to have the operational and financial capacity to accomplish its mandate to create and deliver value to its principal key audiences: New Brunswick's consumers, industry participants, other regulators and the provincial government.

The Financial and Consumer Services Tribunal submits its budget annually to the Commission. The Commission allocates adequate funding for the Tribunal's operations.

Revenue Sources

It is expected that the cost to regulate is recovered from the industries being regulated. These revenues are generated through regulatory fees payable and annual assessments made by financial and consumer market participants.

Potential changes in some of the regulated sectors will place significant challenges on revenues for the organization. Approximately 78% of

budgeted revenues are associated with the securities sector. This has generated a surplus for the Commission of \$6 - 7 million dollars annually. Other independent securities commissions in the country moved away some time ago from generating a surplus from securities and making a contribution to their province's consolidated fund. This has been done to be consistent with jurisprudence in this regard.

Contributions of surplus from the Commission cease with the transfer of responsibility for securities regulation to the Capital Markets Regulator. In recognition of this, the financial agreement on the Capital Markets Regulator provided for a lump-sum payment of \$45.8 million by the Federal Government to the Province to compensate for this lost revenue. This amount was paid to the Province and has been set aside pending further discussion on its disposition.

The loss of securities revenue (and associated expenses) will leave us in a deficit position, mainly because securities revenue was subsidizing part of the cost to regulate other industries. Fee schedules in some of those industries have not been updated in many years and are not generally comparable to fees other jurisdictions charge for similar activities. The assessments in some other industries are not fully cost-recovery.

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The Commission is moving towards a more revenue-neutral cost recovery model. This move requires changes to our fee structure and assessment model. We are exploring a number of options such as operational efficiencies, alternatives assessment structure and new revenue sources in other potential areas of regulation or service delivery. As an example, two potential areas being examined are the administration of an unclaimed property regulatory regime and the provision of translation services to the CMR.

The process to make these changes is underway, but the transition to full cost-recovery is expected to take three to five years. We have built a Transitional Reserve to carry us through this period. As such, we do not intend to seek transitional funding from the Government. Our ability to self-fund this transition to a revenue-neutral cost-recovery model going forward allows the Federal Government's payment of \$45.8 million to be freed up to the Consolidated Fund. In addition, our intention is that once stable self-funding is achieved, any residual in the Transitional Reserve would be transferred to the Consolidated Fund.

The development of the revenue budget presents a challenge for budget accuracy. There are a number of developments in play and other factors that have not yet been determined. As these become clearer, we will make adjustments to accommodate. As such, our budget is developed with the best information available at the time.

Cost Structure

The major assumption inherent to this budget is that the implementation of the capital markets regulator takes place on 1 October 2015.

There are developments in other regulated sectors that may have an impact on our budget. These include the potential for an amalgamated caisse populaire to switch to a federally regulated structure. This is not expected to occur until Spring/Summer 2016 at the earliest. At this time

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there is insufficient information to fully assess organizational and budgetary impacts. As such, no budgetary provisions are included.

A decision on our proposal to assume responsibility for the mandate and staff of the Consumer Advocate for Insurance effective 1 January 2015 is still outstanding. As a result, no budgetary provisions are included.

Approximately 2/3 of the total expenses relate to direct staff salaries and benefits and Commission and Tribunal member compensation costs. Discretionary budgeted values are developed in order to accomplish the proposed objectives and initiatives. In order to face the challenges ahead, we are positioned for a major organizational restructure that will enable us to benefit from some functional concentrations. As well, our budget has emphasized IT systems developments that will lead to efficiency improvements.

As discussed above in the Revenue Sources section, we no longer budget for an annual contribution to the Consolidated Revenue Fund. Transitional deficits will be funded from our Transitional Reserve.

The budget projections for FY 2016 are blended, with the assumption that the capital markets regulator is implemented in October 2015. As such, figures up to 1 October 2015 include revenue and expenses for the full organization. After 1 October 2015, revenue and expense figures reflect the organization without securities. While this date has been set as the target for planning purposes, the potential exists to see it change. A delay in the implementation will require adjustments to accommodate. However, the budget is developed with the best information available at this time.

The budget projections for FY 2017 and FY 2018 reflect the revised organization (FCNB 2.0) and its mandate without securities.

EFFECTIVE CONSUMER PROTECTION AND EDUCATION

The following table is a summary budget of the Commission's projected revenues and expenses for the three-fiscal periods ending 31 March 2016, 2017 and 2018. The revenue budget has been developed based upon expected market activity and recent trends while expenses have been

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budgeted to allow the Commission to address its business plan needs. An alternative budget is presented for FY 2018 reflecting the potential impact of alternative revenue sources or assessment methodologies. This demonstrates that the objective of self-funding is achievable.

	FY 2015/16	FY 2016/17	FY 2017/18	Alternative Revenue Model FY 2017/18
Revenue Sources				
Securities	\$9,567,692	\$0	\$0	\$0
Capital Markets Regulator	2,239,304	0	0	0
Consumer Affairs	694,075	694,075	694,075	694,075
Pensions	286,500	286,500	286,500	286,500
Insurance	2,756,095	2,981,980	3,089,040	3,089,040
Financial Institutions	641,800	672,200	678,700	678,700
Alternative Revenue Source/Model				3,500,000
Other Income	175,000	175,000	166,000	166,000
Total Revenue	\$16,360,466	\$4,809,755	\$4,914,315	\$8,414,315
Expense Sources				
Commissioner/Tribunal Expenses	696,005	693,824	661,123	661,123
Staff Salary and Benefits	8,010,882	5,238,424	5,332,446	5,332,446
General & Administrative	2,979,535	2,361,058	2,317,605	2,317,605
Total Expenses	\$11,686,422	\$8,293,306	\$8,311,174	\$8,311,174
Net Income	\$4,674,044	(\$3,483,551)	(\$3,396,859)	\$103,141
Contribution (to)/from Transitional Reserve	(\$4,674,044)	\$3,483,551	\$3,396,859	\$0
Subsequent Net Income	\$0	\$0	\$0	\$103,141

KEY RESOURCES

The Commission has identified its staff, brand, national and proprietary systems, audience relationships, effective processes, library resources, website and revenue sources as its key resources.

We recognize that our biggest and most valuable resource is our highly-specialized staff. The organizational structure for FY 2016 is a transitional one, including staff responsible for securities up to 1 October 2015. Initially, this includes a complement of 82 permanent staff organized into eight divisions that align with our core business. These are:

- General Counsel and Secretary
- Corporate Services
- Education & Communication
- Enforcement
- Consumer Affairs
- Pensions and Insurance
- Financial Institutions
- Securities

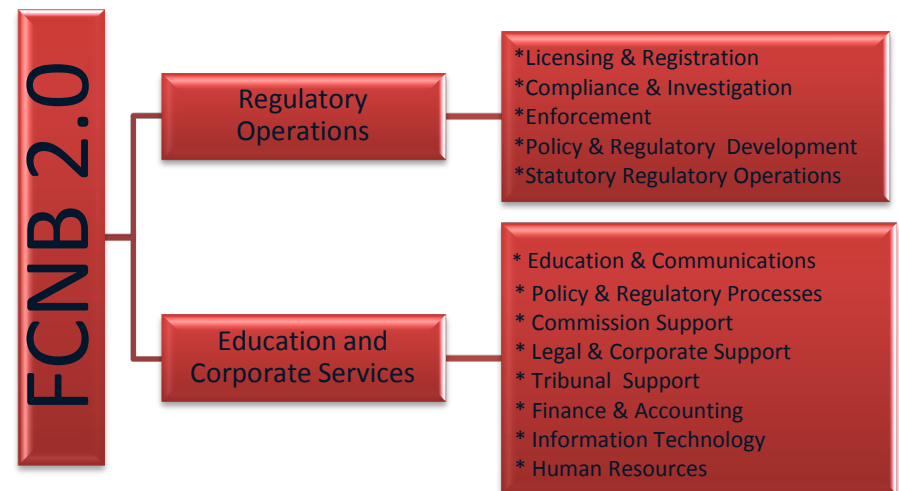
It is expected that we will transfer 37 positions related to the regulation of securities to the capital markets regulator. This will create a full-service capability for that organization with its office in Saint John. The capital markets regulator will assume full responsibility for the costs associated with this group.

The revised Financial and Consumer Services Commission (FCNB 2.0) is expected to have a staff of 56 organized into two streamlined divisions. These are:

- Regulatory Operations
- Education and Corporate Services

Commission staff will be located in two offices, one in Fredericton and one in Saint John. Should the Commission assume responsibility for the Consumer Advocate's responsibilities and staff, then we will supplement our regional distribution with an office in Bathurst.

The Commission will be a smaller organization. However, it is expected that with the two organizations operating in the province that there will be a net add of 11 positions to the work force.



ANNUAL DELIVERABLES

The Chair and CEO have the responsibility to see that specific deliverables are developed on an annual basis for the members' consideration and approval, and to ensure that they are submitted to the Minister and Board of Management within the legislated timeframes.

Business Plan - The Business Plan is updated each fiscal year and integrates with our strategic direction which covers a period of three fiscal years. It outlines our broad objectives and priorities in all functional areas. The Chair, on behalf of the Commission, submits the approved Business Plan to the Minister for approval by 31 December of each year.

Budget - The budget is derived from the Business Plan and covers a period of one year. It outlines the amounts required for our proposed operations for the next fiscal year. The Chair, on behalf of the Commission, submits the budget to the Board of Management for its information by 31 December each year.

Annual Audit - The accounts and financial statements are required to be audited at least once a year by the Auditor General, or an Auditor approved by the Auditor General.

Annual Report and Financial Statements - The Annual Report describes our progress against our strategic plan and highlights our performance against our mandate. Our Annual Report also serves the dual purpose of being a stakeholder report. The Annual Report and audited Financial Statements are required to be delivered to the Minister by 30 September each year.

Crown Corporations Review - The Commission is typically called before the Legislative Standing Committee on Crown Corporations to respond to questions on the activities reported in its Annual Report. The Chair and CEO appear at the review as scheduled by the Committee, after the Annual Report has been submitted.