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Chair

Mr. James Rajotte

Standing Committee on Finance

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• (1530)

[English]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this meeting to order.

This is the 20th meeting of the Standing Committee on Finance. Orders of the day are pursuant to Standing Order 108(2), continuing our study of emerging digital payment systems.

I want to welcome our witnesses here today. Thank you so much for being with us.

We have, in the order of presentation, first, as an individual, Monsieur Jacques St-Amant.

[Translation]

He is a professor at the Université du Québec à Montréal.

[English]

Next, from the Canadian Imperial Bank of Commerce we have the senior vice-president, Mr. Todd Roberts. Welcome.

From the Canadian Independent Petroleum Marketers Association, we have the president and CEO, Ms. Tricia Anderson.

From Rogers Communications we have Mr. David Robinson, vice-president, emerging business.

We have the chair of the Task Force for the Payments System Review, Ms. Patricia Meredith. Welcome.

Thank you, all, for being with us.

You will each have five minutes for your opening remarks and then we'll have questions from members.

[Translation]

We will start with Mr. St-Amant.

Mr. Jacques St-Amant (Professor, Université du Québec à Montréal, As an Individual): Thank you, Mr. Chair.

Progress is never possible without effort, nor without risk. If progress is to be beneficial, we must be able to look ahead. The growth of electronic payments in Canada is an excellent example.

Mr. Chair, members of the committee, thank you, first of all, for inviting me to appear before you today.

I would like to use these too-short minutes to speak to some concerns I have about the impact of the changing landscape of payment systems on Canadian consumers. I will focus my attention

on two aspects among many others, specifically risk sharing and the participation of all stakeholders in the decision-making process. These are all of the questions that I have been looking at since 1990, particularly in the context of research undertaken in collaboration with consumers associations.

I participated in the creation of the Canadian Payments Association Stakeholder Advisory Council, of which I am currently a member. I have also had the pleasure of acting as an advisor on consumers issues to the Task Force for the Payments System Review, which is chaired by Ms. Meredith. I currently teach consumer law at the Université du Québec à Montréal, and in my work, I often discuss questions concerning the control of consumer payments, including those made using emerging methods.

In their day-to-day lives, consumers have no chance. They are unable to navigate the clutter of rules concerning the payments that they make. If they are the victims of fraud, for example, their rights are different depending on whether or not they paid with a credit card or a debit card, whether they used a PIN or not when paying with a card, or whether the fraud was committed at the ABM of a bank or another financial institution.

In the case of a pre-authorized payment, different rules apply if the withdrawal is made from a bank account or from a credit card. And all this is regulated by laws and regulations from both the federal and provincial governments, by codes of practice, by rules set out by the Canadian Payments Association, by the wording of the contract with the financial institution, by the policies of networks such as MasterCard, Visa or Interac—the list is endless.

It is total confusion, and believe me, I have no trouble convincing my students of that every year. Unfortunately, I do not have enough time to give you examples here, but I encourage you to look at an excerpt from Policy Paper A, which was published by the task force as an appendix to their final report, and which has possibly been included as an appendix to the text of my speech. It illustrates the problems we are facing.

If all of these rules were coherent and generally favourable to consumers, we could let it be and move on, but that is not the case. Let us look at a simple example: a consumer's responsibility for a fraudulent withdrawal made with their credit card at a bank's automatic teller is potentially unlimited. There is no ceiling, apart from the bank's own policies. This despite the fact that there is often no responsibility for a debit card, and that in general there would be a ceiling of \$50 if the fraudulent withdrawal had been made, for example, at a Desjardins automatic teller. But who amongst you knows that, or could explain to me why the system works the way it does?

It would, however, be possible to put in place a legal framework based on coherent principles that take technological evolution into consideration and that adequately protect consumers. Other jurisdictions have done this, such as the United States and the European Union. And they all now have more clarity and certainty at the legal level, both for existing consumers and providers, as well as other stakeholders and those who wish to innovate, because everyone is playing by the same clear and predictable rule book.

We must hope that the code of conduct for the financial sector, whose implementation was recently announced by the Minister of Finance, will be a step in the right direction, but for the moment that is just a hope. It seems to me that Canada should have a comprehensive legislative framework for payments, particularly electronic payments, one structured around principles such as those that the task force has suggested.

If the payments ecosystem is to see healthy growth in Canada, it is imperative that all stakeholders be able to actively participate in the decision-making process. To do otherwise is to ensure that certain people will not be happy and that they will not be quiet about it. We need the payment mechanisms that meet the needs of stakeholders and the economy, and they must be created in cooperation with all stakeholders.

The Canadian Payments Association's processes exemplify that, as illustrated by the challenges that we currently have in Canada bringing on line an extremely rapid payments system, while other jurisdictions have already done this or are getting ready to do it.

• (1535)

In closing, this is an immense area and there are many challenges. We must better manage risks in everyone's best interest, and it is imperative that dialogue between stakeholders be encouraged. To that end, I will be happy to answer any questions that you might have.

The Chair: Thank you, Mr. St-Amant.

[English]

We will now hear from Mr. Roberts, please.

Mr. Todd Roberts (Senior Vice-President, Payments Strategy and Innovation, Canadian Imperial Bank of Commerce): Thank you very much for the opportunity to speak before the committee.

My name is Todd Roberts. I'm the senior vice-president responsible for payments innovation and growth at CIBC. As well, the payments system, its regulation, and the factors that lead to

innovation and success have been a significant part of my professional career.

I will focus my remarks this afternoon on observations that I hope the committee will find helpful regarding what has enabled the payment system to be effective, the need for sustained innovation to continue to evolve payments for Canadians, and some observations for consideration to guide the successful evolution of payments.

The Canadian payments ecosystem is one of the most advanced in the world. It is advanced in part because of the very effective relationships between industry players, as well as Canada's effective supervisory system. The players, pre-mobile, included consumers, merchants, card issuers, merchant acquirers, and the card networks.

In the world of mobile, one adds to this list our wireless telcos, new security software developers, trusted security managers such as G&D and EnStream, electronic wallet providers, and others who need to work in perfect harmony to ensure a seamless experience for merchants and consumers.

This view has been reinforced by a number of leading global organizations such as the World Bank, and industry players such as Visa and MasterCard. Compared to the United States, our system provides better security through pin and chip, and our readiness to deploy new technologies, such as mobile payments, is considerably more advanced. As a case in point, CIBC, along with its partners at Rogers and Telus, have deployed credit cards onto smartphones, whereas Isis, a consortium of various players in the U.S., still struggles today with its deployment.

Our ecosystem has been effective in large part due to the close collaboration between participants, the existence of clear standards and protocols governing payments, as well as very productive working relationships with regulators. The Canadian payment system works well for Canadians in our view, as it delivers on the core expectations of its users: trust, security, affordability, ubiquity, and efficiency.

While there can always be opportunities for improvement, we have built an ecosystem that we believe we can justly be proud of. My point here is that as we look to the future and evolve the ecosystem to embrace digital payments we need to ensure that new payment methods continue to develop effectively. Canadians expect that banks, networks, telcos, and other players will enable digital payments to be made through more methods than conventional plastic. They expect that payments can be made through tablets, smartphones, and an increasing array of connected devices. They will expect these devices to be as trusted and secure as traditional methods. They will also expect to be able to use these devices wherever traditional payment methods work. Also, they will expect that whether they deposit a cheque or take an image of it, it can be processed just as quickly and not cost them any more to do so. In short, Canadians will expect the new world of digital payments to deliver on the core requirements that the current system currently delivers for them.

To that end, we believe the payments ecosystem will need to evolve in a manner that continues to facilitate innovation while ensuring a robust and secure environment for payments. With that in mind, we'd submit the following perspectives for considerations.

Partnerships between banks, networks, telcos, technology providers, and other organizations will need to be encouraged to ensure that solutions designed for Canada continue to thrive. Common standards and protocols will need to be put in place to enable digital payments, as well as digital identification, to remain secure, trusted, and efficient. Clear minimum operational expectations around elements such as security, privacy, and anti-money laundering will be required, which apply commonly across all participants who provide payment services, to ensure that Canadians are protected similarly when they make a traditional or digital payment.

● (1540)

The Chair: One minute....

Mr. Todd Roberts: The interests of both originators and receivers of payments will need to remain balanced so as to ensure that Canadians continue to have the flexibility to use the payment methods that they prefer. Sustained investment will also be required across players in the payments ecosystem to allow it to modernize and evolve. A standards-based regulatory model will provide the ability required for multi-year investments. Continued partnership between payment ecosystem participants and regulators is absolutely essential. This spirit of partnership will need to embrace the fast pace of change that characterizes the digital era.

A critical requirement in our view is an integrated approach to regulation and supervision of the broadening landscape of payments system participants. Gaps in how we regulate certain players need to be addressed. We need to ensure that as the digital payments expand there is a broader range of participants who are involved, and that those participants meet the same standards that we would expect of traditional participants.

I very much appreciate the opportunity to address any questions that the committee may have, and applaud the committee's commitment to stewarding the successful evolution of digital payments in Canada.

The Chair: Thank you, Mr. Roberts.

We'll now hear from Ms. Anderson, please.

Ms. Tricia Anderson (President and Chief Executive Officer, Canadian Independent Petroleum Marketers Association): Good afternoon. Thank you very much for having me here today.

My name is Tricia Anderson, and I'm president and CEO of the Canadian Independent Petroleum Marketers Association, also known as CIPMA.

CIPMA is a national not-for-profit association representing the unique interests of independent, non-refiner marketers of petroleum products. Our members are key distributors and marketers of petroleum and renewable fuels to the commercial, agricultural, industrial, wholesale, and retail markets in every part of Canada. Approximately 80% of CIPMA members have retail operations and therefore will very much be touched by the growing changes in the mobile marketplace. They are the small and medium-sized fuel

companies that are the backbone of Canada's fuel distribution and marketing industry.

As it currently stands, a key issue for our members is that of credit card fees, which is quickly transcending into new territory with the rapid introduction of mobile payments.

Currently credit card fees in Canada are among the highest in the world, with Canadian retailers paying approximately \$5 billion per year in hidden credit card fees as the price of accepting credit cards. These credit card fees are eroding retail margins for Canadian business owners and pose a real and tangible threat to the sustainability of independent businesses in Canada.

CIPMA members know that in order to remain appealing to consumers, they must embrace new technology and keep up with the rapidly changing payment sector. We understand that for our customers, speed of payment is of key importance, and we recognize that mobile payment apps facilitate a faster transaction. However, as mobile payments continue to gain prominence, merchants fear this will pave the way for new costs on top of the already crippling credit card fees.

CIPMA members report that close to 50% of customers use credit cards for purchases. It's estimated that members are paying up to a third of their operating margins on these sales just to cover the costs of processing the credit cards. All our other operating functions must be covered from the remaining margins, leaving little or sometimes no profitability for the businesses when all of these expenses are paid—no funds for new staff, important training, or business expansion.

Beyond this, independent petroleum marketers suffer even more severely when fuel prices increase. With relatively fixed operating margins our members do not benefit from higher gas prices, but we do pay more in credit card processing fees as prices rise.

New fees for processing and new equipment that could be introduced with mobile payments would further erode retailer profit margins and could result in reduced competition as businesses on the edge of survival ultimately close their doors.

As you all know, the code of conduct for the debit and credit card industry in Canada was introduced in 2010 to promote transparency and choice for merchants in regard to payment schemes. In September 2012 the federal government announced its plans to extend the voluntary code to include mobile payments.

In theory, CIPMA continues to support various elements of the addendum to the voluntary code of conduct and its provisions relating to mobile payments. We support that merchants should have sole authority to determine what forms of payment they choose to accept, that competing domestic apps be stored on the same device provided they are distinct apps, and that consumers should have the ultimate choice in the default settings and applications they wish to use.

We also recommend that express written consent for each mobile product offering be added to the proposed addendum, including express consent for each individual payment option within a mobile wallet. However, while we certainly commend the government for recognizing new payment-sector technologies, we feel that a voluntary code of conduct is simply not enough. Many of our retailers have expressed that the current code is not working for them. They are not being protected from the burden of high credit card fees that threaten their very existence.

A code that is currently not working for retailers in regard to credit card fees is even less likely to work for retailers with the introduction of mobile payments. Mobile payments involve an intricate system of stakeholders. What used to be a payment system that primarily involved credit and debit networks, issuing banks, and acquirers now also includes mobile telecom companies and several other players.

CIPMA recommends that government review the best practices and lessons learned in other jurisdictions more advanced in this sphere. Equipped with this knowledge, we can develop policy or potential regulation rooted in education and experience to protect the interests of consumers and businesses nationwide.

Thank you for the opportunity to present our perspective. Our industry very much appreciates the opportunity to be consulted, to communicate our challenges and concerns, and to propose recommendations.

• (1545)

The Chair: Thank you very much, Ms. Anderson.

We'll now hear from Mr. Robinson, from Rogers.

Mr. David A. Robinson (Vice-President, Emerging Business, Rogers Communications Inc.): Thank you, Mr. Chairman.

My name is David Robinson. I am vice-president of emerging business for Rogers.

As my title implies, my role at Rogers is to lead the company into the new, non-traditional areas of business. Today I am here to describe Rogers' efforts in mobile commerce, an area in which Rogers is a new entrant, not an incumbent, as we have virtually zero revenue in this category today.

Rogers' vision is to transform commerce by placing the smartphone at the centre of everyday transactions. With or without Rogers—or any mobile operator, for that matter—this transformation is inevitable and will allow consumers and merchants to take greater control of how they make and accept payments.

Today, smartphones are used to price compare, to find deals. Sometimes consumers learn that it's cheaper online and order the product right then for later delivery, using online mobile payment products. Consumers download applications from their favourite coffee shop, adding money to an online account, and pay at the till. If they opt in, they may be rewarded for their business, which provides the merchant with valuable information about their customer, sometimes bypassing traditional payment networks altogether. The carrier has no role in these transaction examples other than being the mobile Internet service provider.

So what value-added role can we play?

What carriers can do is offer solutions that are simple, scalable, and secure. By doing so, consumers win, as do issuers and merchants of every size.

Let me break that down for you.

“Simple” is just that, but I propose that a simple transaction is also a familiar transaction. “Familiar” does not mean the same—just not wildly different than what has come before. A simple transaction means no retraining of the retail staff, no requirement for new equipment or reintegration, and importantly, minimal retraining of the consumer. “Simple” is also readily available and easily discovered.

Scalable solutions include the largest number of consumers and merchants. While the coffee shop example is impressive, it is not scalable. Only the largest coffee chains can afford such a solution. Scalable means that the local diner is included in mobile payments, not excluded. Scalable means vast number of consumers can partake, not just those with smartphones from a particular supplier.

Every mobile commerce payment solution should be secure. The best mobile payment solutions do not compromise security for convenience. The best mobile payment experiences do it all: simple, scalable, and secure, without compromise.

A mobile payment made using a smartphone with a payment card stored in the SIM is all of these things. It is simple in part because it is familiar. While the form of the payment card may have changed, by every other measure it is the same payment product.

From the consumer's perspective, the service is provided by the financial institution of their choice and accepted in the same places as their contactless payment cards. From the merchant's perspective, if they have agreed to accept contactless payments and have the card readers in place, when a customer presents a smartphone to the reader, the payment just happens. No additional equipment, systems integration, or training are required.

So how are we doing here in Canada? Today, two of the largest Canadian banks and the three largest carriers have the ability to securely distribute and store virtual payment cards in the SIM inside select smartphones. By the end of the year, we are forecasting that a majority of Canadian payment cards will be available for download on the majority of new smartphones on virtually all carriers in Canada.

While there is still work to do, that majority is available. This is due in part to EnStream, the partnership of Rogers, Bell and Telus, whose role it is to reduce the technological barrier between issuers and carriers who really want the same thing—the ability for Canadians to get all cards, on all phones, on all carriers in Canada. There is no country in the world with the potential for such scale in such a short period of time.

To further accelerate mobile payments, Rogers has developed a mobile wallet application called "Suretap". This application allows consumers to organize their virtual cards like they do their physical cards today. Suretap is not just about credit cards.

Canadians love their debit cards. We are among the most enthusiastic adopters anywhere, and merchants are keen to accept it for its affordable fee structure. While issuers ultimately decide which payment products are made available, Suretap is ready and willing to deliver mobile versions of Interac.

Suretap also comes with a virtual gift card store in which the customer can discover, compare, buy, gift, re-gift, and reload gift cards, all from inside the wallet. It offers merchants, including small merchants, new opportunities to communicate directly with their customers. This will help level the playing field between small and large merchants and offer cost-sensitive retailers the opportunity to promote low and non-interchange payment options.

Rogers believes that Suretap will be a catalyst for simple, scalable, and secure mobile payments in Canada. I look forward to demonstrating the application for you so you can see for yourself the value that an open mobile wallet can bring to consumers, merchants, and issuers of all types and sizes.

• (1550)

The Chair: Thank you very much, Mr. Robinson.

We'll now hear from Ms. Meredith, please.

Ms. Patricia Meredith (Chair, Task Force for the Payments System Review): Thank you.

I have to operate two of these.

First of all, I just want to show you the mandate for the task force, which directed us to "ensure that the framework supporting the payments system remains effective in light of new participants and innovations". Mobile payments were a very important component of our mandate.

As Clayton Christensen described in *The Innovator's Dilemma*, from time to time industries are disrupted by new technologies.

This is exactly the situation that we face in payments. The top line in this graph is the old technology. It has served us well for the last 40 years. But it has been continuously improved through innovations such as Interac debit and more recently cheque imaging. But with the convergence of computing power onto mobile smartphones and tablets connected to the Internet, it is now possible for parties to transact directly with each other bypassing the traditional networks and the legacy mainframe systems.

For example, you can download the Starbucks app onto your phone, pre-order your drink, and leave the store without standing in line to pay. Or you can download a game onto your phone and upgrade it while you are actually playing the game. These are mobile-enabled payments most of which are supplied by technology companies and retailers. While wireless carriers and traditional FIs have a role to play, payments are being embedded into the retailing experience.

Canadians have been early adopters of smartphones and tablets. We are among the world's heaviest users of online banking and

shopping. According to the World Bank 83% of Canadians use the Internet regularly. According to the CBA, 67% of Canadians prefer online banking, up from 8% in 2000. Canadians have embraced smart devices with data plans. These have grown exponentially from 33% in 2010, to 48% in 2011, to 57% in 2012 as phone contracts come up for renewal. Mobile banking, which was introduced while the task force was in play, increased to 5% in 2011 and 22% in 2012. Rapid adoption of mobile computing technology is already disrupting the payments industry. At the current rate, it will be fully penetrated by 2020.

What does that mean? Essentially disruptive technologies usually disrupt the business model. So the traditional four-party business model that has been in effect in payments for many decades is likely to be disrupted.

Roles are changing. The companies that are disrupting so many other industries are also disrupting payments. Those companies are Apple, Amazon, Google, Facebook, and PayPal, along with a myriad of much smaller players. These companies come into the payments arena with entirely different business models from the existing ones.

To illustrate, this is a slide from PayPal. What it reflects is the fact that people shop very differently. Certainly my 17-year-old son shops very differently than I do. He pulls out his phone, he searches for the item that he wants, he does comparison pricing, he checks with his friends, he reads the reviews, he sees whether or not the item is in stock, and often he purchases it without ever stepping into the store.

For a retailer to be successful in today's environment they must be integrated into this end-to-end shopping experience, provide advertisements and inducements, just-in-time coupons, and track loyalty. Payments are an important part of this end-to-end process for two reasons: first, to ensure the transaction does not get dropped at the checkout counter; and second, and more importantly, to get all of the necessary data to support the marketing and loyalty engines.

• (1555)

As the slide on PayPal illustrates, the new model is forcing players like Amazon, PayPal, Apple, Google, and hundreds of other new technology companies into the payments business, not necessarily to make money on payments but to fuel their advertising, marketing, and information-based business models.

The Chair: Ms. Meredith, could I just have you conclude, then we'll go to members' questions?

Ms. Patricia Meredith: On the next slide I just want to draw your attention to the prepaid card lines, which is essentially growing at 30% compound annual rate. These are essentially mobile payments. The Starbucks app is supported by prepaid gift cards, so money is moving out of the traditional payment system into the mobile world through prepaid cards.

I'll skip the next slide because both Todd and David have talked about that one.

When the task force looked at mobile payments, the conclusion we came to was that the industry would clearly evolve rapidly over the next decade. As commerce converged onto the mobile phone, what was important was that the system for governing payments be flexible and adaptable. We realized that regulating a moving target—which is clearly what we're looking at for at least the next decade—was not only undesirable because it would stifle innovation, but in all likelihood it was impossible.

Essentially what the task force recommended was the creation of a payments industry—

The Chair: Ms. Meredith, we are way over time here, so can I get you to conclude, and we'll go to members' questions, please?

Ms. Patricia Meredith: Sure.

We recommended a governance model that would recognize payments as an industry, include all of the players, as Jacques suggested, and be largely self-governing, lightly regulated, and principles-based. So trust, accessibility, and good value would govern the system.

• (1600)

The Chair: Thank you for your presentation.

We'll begin members' questions with Mr. Thibeault, please, for five minutes.

Mr. Glenn Thibeault (Sudbury, NDP): Thank you, Mr. Chair.

Thank you to all the witnesses for being here today. We have so many great witnesses and so little time. Five minutes will go by so quickly, so I do apologize if I step in and ask you to stop and then move on to someone else.

Ms. Meredith, I'll start with you.

The payment task force review presented its final report to the Minister of Finance in late 2011. There were a number of recommendations made. We are talking about the report stating that EU countries—and I believe there were over 20—and BRIC countries are outpacing Canada's transition to digital payments, with obvious negative implications for Canada in terms of global competitiveness and interoperability.

Maybe you can talk about a couple of those recommendations. As well, to your knowledge, have any of the recommendations that you put forward in the report—I believe it was called “Moving Canada into the Digital Age”—been acted upon?

Ms. Patricia Meredith: I believe what you're referring to is our first recommendation for the federal government to adopt electronic invoicing in payments, which Public Works and Government Services has been working very hard to move forward.

The thinking behind the recommendation was that, based on our discussions with other countries, it takes leadership on the part of a significant player in the system to actually move the system forward to using digital payments, so electronic invoicing payments. The federal government certainly qualified in that regard.

The challenge, however, is that the infrastructure—the payment systems that the Canadian Payments Association operates, ACSS and LVTS—does not carry sufficient information for companies or governments to do reconciliations of their accounts receivable and payable. So many of the benefits, which we estimated directly at \$8 billion annually—and for the economy overall, assuming that once the payment component had been automated, the service could be delivered electronically—that European countries in particular expect are equivalent to 1% to 2% of GDP, which for Canada means \$16 billion to \$32 billion in annual savings. It is a dramatic productivity improvement. It is also absolutely essential for Canada to become a full participant in the global digital economy.

Mr. Glenn Thibeault: Your conclusion talks about how Canadians want to participate fully in the digital economy. It goes through some very good points there, which would lead to a question I would bring to Monsieur St-Amant.

You appeared before the industry committee in 2011, and you were talking about the importance of regulating the electronic payments sector for the same reasons we have implemented traffic lights and lines on the pavement. There have to be some clear rules for the road, for example, which everyone complies with to reduce risk, sustain trust, and facilitate involvement and participation.

We know we have Canadians chomping at the bit to get into this, but we're seeing that there's still a lack of rules out there for many of the players involved.

With that, do you see, for example, making the voluntary code of conduct for credit cards mandatory as requested by the Canadian Chamber of Commerce?

With one minute, I'll hand that over to you, sir.

Mr. Jacques St-Amant: I am rather skeptical about voluntary codes. We have one in this country regarding debit cards, which is mostly observed in the breach, and nobody knows about it.

I believe we need a clearer, firmer framework, but as Ms. Meredith mentioned, we also need the infrastructure to support the new payments.

There was an informal consultation done last fall on the implementation of a faster payments mechanism in Canada. All of the stakeholders and the users said we need this, and we want it in this country. The only stakeholders who were reluctant were the incumbent providers, essentially the bankers, because they do not see a short-term business case. The consequence is that the negative externalities are borne by everybody. In order to...

• (1605)

The Chair: Thank you. Just wrap up, please, sir.

Mr. Jacques St-Amant: We do need a clearer framework, a firmer framework, and a governance framework that would enable us to provide solutions.

The Chair: Thank you.

Thank you, Mr. Thibeault.

We're going to Mr. Saxton, please.

Mr. Andrew Saxton (North Vancouver, CPC): Thank you, Chair.

Thanks to our witnesses for being here today.

My first question is for Ms. Meredith at the Task Force for the Payments System Review. Did you study other countries and other markets, and can you tell us which ones are the most advanced, and what we can learn as far as best practices are concerned?

Ms. Patricia Meredith: Yes, we studied many other countries. Particularly, we studied Australia, the European Union, the U.K., the U.S., and to a lesser extent countries like South Africa, Switzerland, and Kenya.

What can we learn? First of all, payments split between personal payments, in which as Todd and David have said, Canada is quite advanced—historically with credit cards and debit cards we were one of the leaders, although we have been falling further in the rankings for the last five years, but we were one of the leaders in digital—and business-to-business payments, in which we are one of the worst in the world. Essentially small and medium-sized businesses make 80% of their payments with paper cheques largely because they have no digital alternatives.

Countries like Australia, the U.K., and the U.S. even, have reduced their dependence on cheques dramatically over the last decade. The U.S. is half as dependent on cheques as Canada, which is something that surprises most people. Countries who are as dependent on paper as Canada are countries like Romania, countries we don't normally associate ourselves with.

Mr. Andrew Saxton: Thank you very much.

My next question is for Mr. Robinson from Rogers. Can you tell us where will we be five to ten years from now, and when will credit cards stored on a SIM card become the norm?

Mr. David A. Robinson: It depends what you mean by the norm. What I said is at the end of this year I expect the majority of the Canadian card product to be available for download to the majority of the new phones. That means the new phones we're selling across all carriers.

Handsets in this country tend to turn over on about a two-year cycle as they are largely postpaid subscriptions between the carrier and the customer. So you can see a situation where over about a two-year period, the vast majority of handsets in the hands of Canadians should be able to do this. So at the end of 2014, end of 2016, it should be a very normal situation for a Canadian to use a mobile phone at a contactless payment terminal.

Mr. Andrew Saxton: Five to ten years from now, what's your prediction? Where are we going to be at?

Mr. David A. Robinson: Jetpacks and laser beams, I can only assume.

Mr. Andrew Saxton: Buck Rogers, okay.

Finally, for CIBC, Mr. Roberts, we have credit cards, debit cards, prepaid cards. What is the trend? Which ones are going to be the winners and which ones are going to be the losers at the end of the day, five to ten years from now?

Mr. Todd Roberts: We have not seen significant shifts over time in the use of credit cards versus debit cards.

Prepaid cards have not been as significant in this marketplace. I think you will find this year that a range of banks will be providing prepaid cards to their clients as well. Stored-loop prepaid cards, which is what Pat was describing earlier, which are only for use at a certain merchant, that's where the growth has been.

We believe that clients pick debit and credit for very specific reasons, which are about how they choose to live their own lives. We do not expect to see significant change in debit versus credit. What we do expect to see is people using them on their phones more frequently and using them in mobile commerce more frequently.

● (1610)

Mr. Andrew Saxton: What I find hard to comprehend is that it seems that a lot of the younger generation are using debit cards rather than credit cards and they don't get all of the benefits, like the points and all that, with debit cards.

Why are young people using debit cards versus credit cards? Also, why is it taking so long for them to check out at retailers?

The Chair: You have about 30 seconds.

Mr. Todd Roberts: What you will find is that, typically, people start with a debit card because they're actually not creditworthy. Over time, after they build up their creditworthiness, then they will apply for credit cards because, as you note, sir, you're right, they have access to loyalty and they can get additional rewards, get additional points. That's when they tend to upgrade to a credit card.

Mr. Andrew Saxton: Can you tap a debit card?

Mr. Todd Roberts: Yes, you can.

Mr. Andrew Saxton: Thank you.

The Chair: Thank you, Mr. Saxton.

[Translation]

Mr. Dubourg, you have the floor for five minutes.

Mr. Emmanuel Dubourg (Bourassa, Lib.): Thank you very much, Mr. Chair, and welcome to all of you.

My first question is for Mr. St-Amant.

You spoke about risk sharing and about involving stakeholders in the decision-making process, but my question is specifically about consumer protection. You also mentioned, concerning credit cards, several details that consumers should be aware of. You also said that there is total confusion in this area.

What would you suggest that we do to establish a legislative framework that would better protect consumers?

Mr. Jacques St-Amant: First of all, founding principles that are acceptable to all stakeholders would have to be established. This is certainly possible. Then—and here we are touching on problems linked to the Canadian reality—a mechanism to apply the regulations to all providers would have to be found. The federal government certainly has the necessary jurisdiction over banks and certain other providers, but this is less clear, or more open to debate, when it comes to other providers. It would be possible to create a fair framework, which would apply to everyone and which would allow the application of clear, universal rules. To do this, however, all stakeholders would have to collaborate.

Mr. Emmanuel Dubourg: Thank you very much.

[English]

My next question is to CIBC, Mr. Roberts. You talked about money laundering.

[Translation]

Your text deals with money laundering. We are talking about consumers, but also about the possibility that money laundering might be committed.

How could we ensure, with a system like the one we are looking at, that such situations are prevented?

[English]

Mr. Todd Roberts: I think the starting point is ensuring that there is a common standard. If I look at today, there are federal regulations that we need to adhere to as a bank to ensure that money laundering and terrorist financing isn't occurring. If you look at other players that enter the space you can set up the ability to move money from one account to another account without any regulatory oversight, without the need to hold capital such that there is actually protection for the client.

In our view, as payments go more digital, you create a new set of risks, so that both the consumer is left unprotected, and the state is also left unprotected in that it's in no one's interest to see money laundering occur or to see terrorist financing occur. *Ergo*, we would recommend standards and policies that are designed to uniformly counter that.

Mr. Emmanuel Dubourg: Do I have two minutes? Okay.

[Translation]

Thank you, Mr. Chair.

My third question is to the representative from Rogers.

Mr. Roberts has just spoken about how the risk to the system is more and more digital. According to your brief, the profit margins for retailers are very slim, and it is important that this system not require new investment in equipment.

Does the fact that we are told that the risk could be higher confirm your opinion that this will lead to increased costs for retailers, particularly given that margins are already slim when it comes to credit cards?

• (1615)

[English]

Mr. David A. Robinson: If I understand the question correctly, let me say that I don't believe there is incremental risk being added with mobility. In fact, in many cases the mobile device can add authentication or other factors to the equation that can actually reduce risk. One of the attributes of a mobile device is that by definition it knows where you are and that therefore, if a payment is being made in another jurisdiction and the device is not in that jurisdiction, there is an indicator to the issuer that this may in fact be a fraudulent type of card.

There are also other authentication methods, using fingerprint scanners and biometrics, that are being added into the equation. These can all be added to the system over time as additional elements that help reduce these sorts of risks.

The Chair: *Merci, monsieur Dubourg.*

We'll go now to Mr. Keddy, please, for your five-minute round.

Mr. Gerald Keddy (South Shore—St. Margaret's, CPC): Thank you, Mr. Chairman.

Welcome to our witnesses.

There were a couple of questions raised in the first couple of rounds of questioning here on which I want to get some clarity.

The first point is on the pin-and-chip technology in the U.S., and the fact that we appear, at least at this point in time, to be ahead of them. But we are behind the U.S. in business-to-business transactions. What's the root cause of that? Can anyone respond?

Patricia?

Ms. Patricia Meredith: I think Todd might be able to provide a better answer.

The root cause of being behind in B-to-B is the lack of a low-cost small payment system that essentially allows one business to pay another business electronically with enough information so that they know what the payment is for. The invoice number, the date of the invoice, that type of information, has to come with the payment in order for the business to receive it and reconcile their receivables or payables.

The U.S. system, ACH, has virtually an unlimited amount of space in the file to carry information. Our system can carry 80 characters, which is probably insufficient.

Mr. Gerald Keddy: Mr. Roberts.

Mr. Todd Roberts: I think it's unequivocal that the Canadian system for retail payments is far ahead of the U.S. system. I was speaking at a conference I was at in Salt Lake City literally two weeks ago, explaining that there is a range of factors accounting for why our retail payments infrastructure is demonstrably better than the Americans'. I would put it frankly at the top of the heap globally and I would agree with the statements from MasterCard, Visa, and the World Bank in terms of the relative positioning of Canada on retail payments.

With respect to business payments, some of the issues that Pat has noted are correct. That is what the CPA is working on with respect to ISO 20022. There is also not enough penetration of such effective services as Interac money transfer, which is a perfectly useful solution for small business remittance.

Mr. Gerald Keddy: Thank you.

Another comment was made on the growth of prepaid cards. We had a chart up that I was looking at. They look as if they are a Starbucks card or a Tim Hortons card.

What percentage of those are gift cards?

Ms. Patricia Meredith: I would expect that it is a big percentage of them. This was a survey that the CPA did one time. I'm sorry for the data being so far out of date, but it's all that's available. What it showed is the significant growth.

What is very interesting is the Starbucks app this past Christmas. The company processed more than 40 million new Starbucks card activations, valued at more than \$610 million in the U.S. and Canada alone, in Q1, including more than two million new Starbucks card activations per day in the days leading up to Christmas.

• (1620)

Mr. Gerald Keddy: Wow.

Ms. Patricia Meredith: Those are mobile payments.

Mr. Gerald Keddy: My final question is on the regulatory framework to protect consumers.

Mr. St-Amant, you talked about that. I think most of our witnesses here have discussed it one way or the other.

The difficulty here—and I think all of our witnesses have had similar points to make—is that it is still a moving target. There's no firm prediction on where the end point is or whether there will be an end point.

At the same time, I think we have some agreement that we need a regulatory framework. The question for Mr. St-Amant is this. Is it your thought that it should be through government rather than voluntary regulation?

The Chair: Let's have a very brief response.

Mr. Jacques St-Amant: The very brief response is that regulation is only to ensure that it is indeed enforceable—before the courts, for instance.

Mr. Gerald Keddy: Thank you.

The Chair: Thank you, Mr. Keddy.

Mr. Rankin, please.

Mr. Murray Rankin (Victoria, NDP): Thank you, Chair, and thank you to all of our witnesses.

There are so many questions and so little time. I'd like to start, if I could, please, with Mr. Roberts of the CIBC.

You've heard today from Ms. Anderson of the Canadian Independent Petroleum Marketers Association about the frankly outrageous fees that credit card acquirers are providing—merchant fees that cripple business, according to her testimony. Yet we're told

that there are no new fees for those people who embrace the new mobile payment technology.

Do the contracts that you're contemplating or have in place now with the acquirers confirm that, and if so, for how a long a period of time?

Mr. Todd Roberts: First, the fees that were noted are actually set by the networks: MasterCard, Visa, American Express. Second, the charges incurred at the merchant are set by their relationship with the party that provides services to them. Examples in Canada include Global Payments and Moneris.

So to answer your question, we the bank do not set any of those fees. The mobile payments in question are “tap and go” payments. They look like any credit card payment.

Mr. Murray Rankin: So your bank will not take any responsibility. You're leaving this issue to the networks and the acquirers.

Mr. Todd Roberts: It's not that we're not taking any action. It is the responsibility of the networks to set rates. We do not set those rates.

Mr. Murray Rankin: Maybe I could ask Mr. Robinson a question.

I understand that this year Rogers Bank has been created and that you are issuing later this year, if you have not already, a MasterCard. Presumably, given that you're in the technology business and mobile payment business, this new MasterCard will be used for mobile purposes.

Is that what's going to happen?

Mr. David A. Robinson: It will be both, so that is correct. We have become a federally regulated financial institution for the purpose of issuing a credit card. It is a plastic card running on the MasterCard network. It is a no-fee card. The Suretap wallet that I referred to earlier will be the mobile wallet that Rogers will use to distribute its mobile version of the payment card.

Mr. Murray Rankin: You're entering this field. Are you too going to take the position that it's the acquirer's problem, that it's the network's problem, that these merchant fees that Ms. Anderson has so eloquently told us about today are their problem and not yours?

Mr. David A. Robinson: I would agree with Mr. Roberts concerning who sets the fees and who charges the merchants those fees.

Mr. Murray Rankin: Do you think there's a need for government regulation? Mr. Keddy asked a question that went to some degree to that point, but I'm asking you specifically, Mr. Robinson, in light of what we've heard about this. Do you see mobile payments as being at a point that maybe we ought to engage in government regulation to deal with the gouging of credit card fees that we hear about every day from merchants?

Mr. David A. Robinson: Yes, I worry, as the mobile operator, that regulating mobile payments at the time when we're on the cusp of such success globally would be potentially a very damaging exercise. There are so many great things that come with the mobile payments, including diversification of payment options.

•(1625)

Mr. Murray Rankin: All right. Well, I would like to hear from Ms. Anderson on that point.

You've been very eloquent on this issue of merchant fees. I'm wondering if you believe the time has come for more effective regulation.

Ms. Tricia Anderson: Yes, I do. Our organization is advocating for more regulation. What we're asking for is a thorough landscape review of payments. There are models in other parts of the world where credit card fees are significantly lower, so we're asking for a comprehensive review of that.

We believe that regulation of fees is an appropriate intervention.

Mr. Murray Rankin: We're here to talk about mobile payments, but presumably if we have contracts.... We've talked about how it's always someone else's fault, the network's, the acquirer's, never the bank's and the like. But presumably you would suggest that if we have a contract and it goes into a mobile change.... They say right now there are no new fees for this technology, but five or ten years from now, once they've captured the market, the fees could go up. Is that not correct?

Ms. Tricia Anderson: That is in fact our concern, that it's very difficult to take away from a consumer something that they're very used to using. So our concern would be that there are no fees right now, but then, as you suggest, once there is a precedent there and people have that as part of their protocol every day, our experience has been that fees tend to be introduced. As I explained it's very onerous on merchants who are kind of the silent partners in all of this. They're paying the way.

The Chair: Thank you, Mr. Rankin.

We'll go to Mr. Allen now, please.

Mr. Mike Allen (Tobique—Mactaquac, CPC): Thank you, Mr. Chair.

Thank you to the witnesses for being here today. It's been an interesting couple of meetings, for sure.

Mr. Roberts, I'd like to start with you. One of the comments you made in here was with respect to the common standards and protocols and the advantages of those. In your view, who is the one who has to drive these standards? How do we make sure that this is done? Who are the right people to drive those standards?

Mr. Todd Roberts: I think that historically the standards that have been effective have been driven by a combination of our regulators, so OSFI, as well as the role that the Department of Finance has played. I look at organizations such as the CPA, and the newly established group, FinPay.

I think we are getting to highly effective standards, and I think the multistakeholder approach is the one that is the most effective.

Mr. Mike Allen: Okay, now following up that question, the other statement you made is that the integrated approach to regulation and supervision...and you talked about American Express and PayPal. Now when you bring these large organizations like that together, you said they operate on the periphery of the current payments and regulations system. How do we make sure that gets all knit together

as well, because I can see that, as you correctly pointed out, Ottawa can maybe interject themselves in one place but not every place.

Mr. Todd Roberts: We believe that any party that actually provides a payment service to Canadians should be held to the same standards. So I think the test should not be what type of institution they are, I think the issue should be whether they are involved in payments or not. So if you are providing a payment service you should have the same rights and obligations as any other party that provides that same service.

Mr. Mike Allen: Okay, thank you.

Now my next questions are going to be for Ms. Meredith and then Ms. Anderson.

When you talked about us being behind on the business-to-business and the other, it seems to me that the backbone and maybe the technology backbone within these businesses is going to be a little bit of a constraint. You can do all this stuff on the front end, but unless you have the backbone technologies and your business to accept, as you said, matching invoices and payments, your basic fundamental accounting practices are not being done. So that could be a challenge. I wanted to know your opinion on us catching up on some of that.

To Ms. Anderson, I'd like to ask you this. You talked about one side of the equation, the fees on this. But as I go to the small gasoline retailers where I put my debit card in the actual pump, I'm not even actually going into the store and seeing someone. That transaction is being processed. So I'd like to know from a small business perspective...it seems to me that it can generate enough savings to these small businesses. Can you comment on that as well as on what the savings are as opposed to just the transaction costs?

Ms. Patricia Meredith: In terms of catching up on the B-to-B payment side, I think that the recommendation the task force made for the federal government to take the lead is still valid.

Essentially it's like adopting the fax machine. A fax machine isn't valuable unless the people you're dealing with also have a fax machine. So you really need a leader to move adoption of the technology forward.

The government, along with the provinces—in fact the provinces have a lot more transactions than the federal government—really needs to get behind the shift to digital payments and automated processing of their own receivables and payables.

•(1630)

The Chair: You have about one minute, Mr. Allen.

Mr. Mike Allen: Okay.

Ms. Tricia Anderson: I would certainly acknowledge that the self-serve model in itself, which was introduced some 30 to 40 years ago, has changed the operating model, if you like, of retail sites. That has been driven to a significant extent by the fact that gasoline margins have reduced quite significantly over time. So in fact, while yes, there's a savings in terms of not having staff there, there are technology costs for sure and equipment rental costs, etc. There's also the loss of revenue from people not coming into the store. Frankly, you make more money on a can of Coke than you do on a litre of fuel any day. So there's that offset as well.

Retailers would rather have people come into their store, but frankly consumers are very much focused on speed of transaction. That's why, as I mentioned, we certainly acknowledge that. Meeting customer needs on that front is important. There are investments in technology and equipment rentals, etc., from running what's called a CRM, a cash register, if you like, in the dispenser, and technology costs have been very significant for independent marketers and I'm sure for all gasoline marketers. It's a very complex system out on the pumping island.

The Chair: Okay, thank you.

Thank you, Mr. Allen.

I'm going to go back to Mr. Thibeault, I believe. Is that correct?

Mr. Glenn Thibeault: Thanks, Chair.

Mr. Robinson, I just have to push back a little bit on one of your comments. You were saying that it's great to see the technology moving forward but that if we actually put any regulation in place, you'll see the slowdown of innovation. But what we also have are organizations—like CIPMA, like the Retail Council of Canada, like the Canadian Federation of Independent Business, the Canadian food and restaurant association, the list can go on—saying that we need to do something now because one more fee, one more layer, will be the straw that breaks the camel's back.

So what we've heard from Visa and MasterCard at this last session is that there will be no more fees, there will not be anything else on top of the current interchange fee. But from, I guess, the perspective of the telecom side of it, will there be a fee associated with this mobile technology, not necessarily on the interchange side but on the app side, so to speak?

Mr. David A. Robinson: It's certainly not the intention. We have no intention of doing that at all. This application is provided. The Suretap application is provided to all of our customers who we can provide it to. It allows them to carry credit cards, debit cards, prepaid cards, which you heard are a growing category as demonstrated by the discussions around Starbucks, and gift cards. Gift cards are wonderful things for merchants and carry virtually no interchange at all. Yet there is an ability now, through mobile devices, to massively accelerate distribution of those cards directly to the mobile device, which I will demonstrate later.

Mr. Glenn Thibeault: Great. I guess to Ms. Anderson that's probably good news because as you said earlier about 30% of all your members' overall gross margin.... The costs are 30%, right? That was stuff that you previously testified to at the industry committee.

We've been pushing hard for the government to act on interchange or merchant fees. We've seen something in the budget. We're not sure what it's going to be, if there's going to be anything. It might not be for another year. How much of an effect does this current lack of action coming from all involved have on, for example, your members?

Ms. Tricia Anderson: My members tell me it is one of the two top issues that they're dealing with. As I mentioned earlier, gas prices rose about 30% over the last three or four years. So that took the percentage of margin that was going to credit cards from about 20% to about 32% right now. Especially in small rural sites where there's not a lot of opportunity for ancillary business, it has a huge effect. One of my members said to me that credit card companies are making more from his operation than his family is. That really stuck with me because that's a sign, really, of the significance of this burden on his business.

• (1635)

Mr. Glenn Thibeault: Excellent.

How much time do I have?

The Chair: Two minutes.

Mr. Glenn Thibeault: Fantastic.

So, Mr. St-Amant, again you know we were talking about a voluntary code. We're hearing more and more organizations saying we need something here in Canada in terms of a mandatory code because a voluntary code is toothless, which I'm assuming you would agree with. Should we be looking at making sure there is regulation in place so that we cannot continue to see these fees continue to rack up? Because in places like Australia, New Zealand—the European Union has certain countries like the United Kingdom—all have recognized that unregulated access by the credit card companies to the small business has a direct effect on our overall economy, because more money doesn't stay in the pockets of our small and medium-sized enterprises. Correct?

Mr. Jacques St-Amant: Correct.

Now, that's a short answer.

Some hon. members: Oh, oh!

Mr. Glenn Thibeault: That's fantastic.

The Chair: You have one minute.

Mr. Jacques St-Amant: Thanks. There are two things.

I do believe that unless the industry sees the light, we will need to put a cap on interchange fees in this country. I simply cannot see a reason for our fees being three, four, or five times higher than in Australia, for instance. More broadly, in that area or other areas, if we want rules, we want those rules to be known by all the players. We want them to be enforceable. We want everybody concerned to have to abide by those rules. I don't see how a voluntary code, by its own status, can do that. You need something that in some way, shape, or form is legally enforceable. Otherwise, it's basically window dressing.

The Chair: Thank you.

Thank you, Mr. Thibeault.

We'll go to Mr. Van Kesteren.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Mr. Chair, and thank you all for being here today.

Perhaps you could give just a quick answer, Ms. Anderson. I don't want to seem unsympathetic, because I'm a small retailer...well, I'm in the retail business myself, but I'm always puzzled about why, in the particular case of credit cards, that isn't passed on to the consumer. It's a cost of doing business. Like any chain of events, if people had their goods delivered by trucks and suddenly somebody wanted to use the pony, if it was more expensive it would be passed on to the consumer.

Why isn't this passed on to the consumer?

Ms. Tricia Anderson: There certainly has been discussion on the topic of surcharging. That is something that I have discussed with my members, and they really believe.... To start with, the retail gasoline market is extremely competitive, and frankly, the industry probably has done a disservice to—

Mr. Dave Van Kesteren: But excuse me, everybody's in the same boat. It doesn't matter whether you are Petro-Canada or Shell, everybody is in the same boat.

Ms. Tricia Anderson: I wouldn't say if you're Petro-Canada or Shell you're in the same boat as the independents, because they have —

Mr. Dave Van Kesteren: So that's the real problem, then.

Ms. Tricia Anderson: That is a significant problem, the concentration in the wholesale market.

Mr. Dave Van Kesteren: The real problem is that the oil companies that have direct marketing have an advantage. Is that the real problem?

Ms. Tricia Anderson: That is one of the elements that make competition so aggressive and so vigorous in the market for retail gas.

Mr. Dave Van Kesteren: In essence, that's it. It's not really the credit cards. Credit cards can charge what they want. As soon as they become non-competitive, at some point you have to react.

Let me ask you again. Is the problem that the independents buy gas at, let's say, \$1 a litre, and they're allowed to retail it...? Or they're not allowed to retail it, because the market is selling it for \$1.08. Is it that the oil companies are able to sell it for \$1.08 and have the same charges, because they have an advantage over you? Is that the real problem?

Ms. Tricia Anderson: The more significant players, the larger players and refiners who are marketers as well, certainly have an advantage in that. They have the whole value chain.

Mr. Dave Van Kesteren: We used to be in the gas business, so I understand what you're talking about.

Ms. Tricia Anderson: Okay.

Mr. Dave Van Kesteren: I don't mean to cut you off. There are more things I wanted to talk about.

I want to go to Monsieur St-Amant. One of the things that puzzles me.... I'm still trying to come to grips with when we came off the gold standard, and how that affected our whole marketplace.

Do you have an economics background? You're a law professor, I know, but you're a business law professor, so you must—

• (1640)

Mr. Jacques St-Amant: But I'm not an economist. Thank God for small favours.

Some hon. members: Oh, oh!

Mr. Dave Van Kesteren: I'm reading your bio here. You say you're very concerned about legal risks, financial, operational risks. One of the financial risks, I suppose, would be the ease of payment. We keep hearing a lot about the problems that students have with debt. Is that becoming a problem? Is it one of these unspoken situations we have in society? It's so easy just to purchase something. Are we getting into situations where students are getting heavily in debt because of that?

Mr. Jacques St-Amant: That's a totally different topic. Clearly, the levels of consumer debt in this country are becoming unsustainable. But I would observe that roughly two-thirds of credit card users pay their bills every month. So on the payment side, that is not the major issue.

Mr. Dave Van Kesteren: I have another question. I asked if you had an economics background, because I...but maybe you can still answer this question. It's the question of the money itself. There used to be a time when banks would have to back whatever they lend out by the gold standard. We've abandoned that.

It has become so confusing. I don't know if too many people really understand it. How much money is out there and have we gone over the limit? In other words, we should know how much money governments have printed so how much money is actually out there and how much money is in the system, through either lending or through—Mr. Roberts is shaking—I should have asked the man from the bank.

Do we have a grip on that or is that just something where we're riding on the coattails?

Mr. Jacques St-Amant: In terms of the information, yes, we do have a grip on that. In terms of the amount of money out there on this planet, ask the question to the fed down south of the border. They issued tonnes of money in order to—

Mr. Dave Van Kesteren: It was \$85 billion.

Mr. Jacques St-Amant:—survive over the past six, seven years.

Mr. Dave Van Kesteren: Yes.

Mr. Jacques St-Amant: Even if they did issue an immense amount of money, we have seen practically no inflation, which means that our economy would otherwise have become significantly depressed.

Mr. Dave Van Kesteren: How's that possible?

Mr. Jacques St-Amant: That will take us a lot more time than the chairman will allow me.

Mr. Dave Van Kesteren: Maybe we'll have a chat.

The Chair: All right. Thank you. Thank you, Mr. Van Kesteren.

We'll go to Mr. Trost now, please.

Mr. Brad Trost (Saskatoon—Humboldt, CPC): Thank you, Mr. Chair, and thank you to the witnesses.

I'm a visiting member here so this is probably the first and last time I'll be looking at this subject, but I found it fairly interesting. The statement today—I'm trying to remember who made it—that caught my attention was if we implement fully into mobile payments, Canadian GDP can rise by 1% to 2%. That's a fairly significant boost. We look for all sorts of things to try to boost our productivity and a change from 1% to 2% would be huge, bigger than many of the moderately sized trade agreements that this government has been pursuing.

With that in mind, what are the things we need to do in the short term? What are the basic things that should be done by the actors in this room? The government is thinking about this. What would make it easier for that productivity boost to go forward? If you could have one, two options—and I'm trying to remember who said it, I think it was Ms. Meredith—what would be the two things we should do that would help speed us along the path of higher productivity?

Ms. Patricia Meredith: The first thing is to replace or upgrade the existing payments systems, ACSS and LVTS, to carry more information in order to move to automated processing, and the second thing is for governments to require—which is something that a number of the Scandinavian countries have done—all suppliers to invoice them electronically and receive payment electronically, and to make all their payments to benefit recipients electronically to the greatest extent possible, recognizing that some people just aren't in a position to accept them.

Mr. Brad Trost: If we did that, what would be, by estimates, the initial cost to people, because naturally, if you're not already making the decision to go that way on your own, there's got to be some negative reasons, some negative repercussion. So what would be the costs and why would there be resistance to making that change?

• (1645)

Ms. Patricia Meredith: It's difficult to estimate the costs because it's going to vary from organization to organization. Some organizations would have to upgrade their accounting systems to receive the information electronically. A lot of the large organizations have already paid for those upgrades, because those upgrades are being implemented in Europe now. So SAP and Oracle, etc., have built them into many of their latest upgrades. So it's a matter of deciding that's where you're going to go and requiring the CPA to upgrade its systems to transfer the information.

Mr. Brad Trost: I saw some head-nodding among some of the other witnesses.

Does anyone else want to comment on that before I go to my next question or observation?

Mr. Roberts.

Mr. Todd Roberts: I think there's a difference between a large value payment system and ACSS, which is the mid-range payment system. So the Bank of Canada has initiated a process to look at LVTS modernization. I think it's a very good process. It will make highly specific recommendations about the capital investments that will be required. They are in the tens to hundreds of millions of dollars range, a not insignificant amount. Those costs ultimately end up being borne by system participants so I think the process that is under way needs to look at the specific benefits we need and bring a bit more specifics to what is expected.

Mr. Brad Trost: But you agree with the overall assessment that if we did make those changes it would boost our GDP?

Mr. Todd Roberts: Yes. I think the attributions of 1% to 2% need to be more fully tested.

The Chair: Mr. Trost, you have about 40 seconds, but Monsieur St-Amant did want to comment. It's up to you how you want to use your time.

Mr. Brad Trost: Sure.

Mr. Jacques St-Amant: Clearly if we are to upgrade those systems, there will be a cost to CPA, to the large providers such as the banks. I would assume that they can actually afford most of that cost over time. On the other hand, there would be significant benefits to all other economic actors in the country. So when you look at the costs on the one side and the benefits, it seems clear to me that the advantage is to the economy. The problem we have is that those who will bear the costs in the short term are saying, "No we're not".

Mr. Brad Trost: In my last five seconds, I will guarantee that none of you will be able to convince my dad to use anything but cash. He still refuses to use an ATM machine, so solve that problem for me.

The Chair: Thank you. At least he's moving on from bartered goods; that's a progression.

Thank you, Mr. Trost.

I'm going to take the last few minutes and follow up on a couple of issues.

First of all, I wanted to follow up on Mr. Thibeault's line of questioning. I think some of the members of CIPMA and other organizations are excited about the new technologies and the innovation, but they are concerned about new costs. We've heard a lot of assurances today and in our last meeting, particularly from the telecommunications companies, that there will be no new costs associated with this.

Mr. Robinson, can I get you to address that? It begs the question of how Rogers will make money, because you will be providing a service. So legitimately people will say, "If Rogers is providing this good service, there must be some fee associated with that or some benefit to the company in doing so." Can you explain how there will be no new costs associated with a transaction that you're involved in?

Mr. David A. Robinson: There are fees that we charge to the issuers typically for the service that we provide them. Knowing the scale of those fees, I would position them as incidental fees. Similar to how Canada Post is paid to distribute a plastic card today, we are paid to distribute a virtual card on a forward-looking basis.

The other reason we do it of course is that our customers are expecting this, so either we provide a service that our consumer and small-business customers use or our competitors will, and they'll be happy to switch carriers over to them. So it's a competitive issue for us in some respects.

The Chair: But to clarify then, you're saying there are fees, but those will be the ongoing fees. So for example, I now do a lot of my banking through my iPad. I have a Rogers account and I'm using the same Rogers account. I downloaded the app from CIBC, and I'm using CIBC and doing my banking online. But my Rogers monthly fee did not go up because I'm using within the.... Is that how it will operate? Is that why there is no increased fee?

• (1650)

Mr. David A. Robinson: Let me try to clarify. The mobile Internet connection, you know everything that you do providing you're even using the Internet.... The beauty of the payment on the SIM is that you can turn the cellular network off and you can still actually pay at the point of sale because the payment card application is actually stored locally in the SIM and presented through the NFC radio.

What I'm referring to is, like the mailman who distributes plastic cards today that are paid for by the issuer, we do charge the issuer for the service of secure distribution, storage, and support of their payment cards on our infrastructure. But those are fairly incidental fees.

The Chair: Can you clarify what is meant by incidental?

Mr. David A. Robinson: When we look at the dollars we've invested to be able to manage the secure distribution and storage of credentials and we look at the infrastructure that an issuer has put in place to be able to manage their account, those are considerably larger dollar amounts than are involved in the business relationships we have for the actual card credential from the issuer to the carrier.

The Chair: But right now if I go use my Visa card, there's an interchange. There's a certain transaction....

Mr. David A. Robinson: That's correct.

The Chair: Part of the problem is that it's very complex, depending on what card you're using. Can you break down your incremental fee by a transaction?

Mr. David A. Robinson: Yes, I can.

The Chair: What's that?

Mr. David A. Robinson: Zero. It is simply that simple. If the payment product that is in the phone is simply a form factor change. I have a plastic card and....

The Chair: Okay, but, sorry, I'm hearing two different things. I'm hearing incremental fee and I'm hearing zero.

Mr. David A. Robinson: All right. You asked me about the part of the transaction. I have no visibility whatsoever to the transactional fees that are charged between the merchant acquirer and the merchant, none whatsoever.

The Chair: So who pays the incremental fee?

Mr. David A. Robinson: It's a distribution fee for the downloading and storage and support of the virtualized card on the...but which is paid by the issuer.

The Chair: Mr. Roberts, do you want to say something on this?

Mr. Todd Roberts: Yes. CIBC pays Rogers a fee, which is a matter of our contract and which is why neither of us is saying what the number is. It's small.

I pay that fee. So CIBC pays that fee to Rogers in order to put the credit card credential on the phone. Once it's on the phone it behaves just like any other credit card transaction where you tap.

The Chair: It's a one-time fee?

Mr. Todd Roberts: That's correct.

The Chair: And will you pass that fee on?

Mr. Todd Roberts: We are not passing that fee on.

The Chair: You're going to swallow that fee?

Mr. Todd Roberts: We have swallowed that fee.

The Chair: Okay. My time is up. I think we'll continue this, but I appreciate this. This has been another very interesting panel, a very interesting discussion. Thank you all for being here.

I believe that two of you, possibly three, have tech demonstrations for members once we've finished the meeting. I'll thank all of you for being here.

We are going to move to a motion. We will excuse those witnesses who do want to leave the room, but for those who want to set up their tech demonstration we'll allow you to do so now.

Thank you very much for your presentation today. Anything further you wish us to consider, please submit it to the clerk and I'll assure all members get it. Thank you so much.

At this point we will move directly to the motion from the NDP. I believe Mr. Thibeault you are moving the motion.

Mr. Glenn Thibeault: Yes. Thank you, Chair. As I'm substituting in for Ms. Nash I'd like to move the motion that she presented:

That the Committee invite the Honourable Jim Flaherty, Minister of Finance, to appear before the Committee regarding the Supplementary Estimates (C) 2013-2014 before March 6, 2014 and that this meeting be televised.

The Chair: Thank you very much.

That motion is in order, Mr. Thibeault.

Is there any discussion?

Mr. Saxton.

Mr. Andrew Saxton: Mr. Chair, I wanted to say that there will be government officials who are obviously available to come to talk. We're talking about the supplementary estimates (C) right now.

As much as the minister would like to be here, his schedule will not permit him to be here. I think that the opposition will have ample opportunity to ask the government officials from the department the questions that they may wish to ask.

The Chair: Is there any further discussion on the motion?

Mr. Caron.

•(1655)

[Translation]

Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP): Since the Minister of Finance will be busy and we are looking at March 6, it is important that we hear from a representative of the government who is not a public servant, although we would also appreciate having public servants present. We could amend the motion to indicate that if the minister is not available, the Minister of State for Finance come give a presentation on supplementary estimates (C).

The Chair: Thank you, Mr. Caron.

[English]

Further discussion...?

Mr. Saxton.

Mr. Andrew Saxton: I want to point out that it's not the practice. It hasn't been the practice in the past to have a minister come and talk about supplementary estimates (C).

The minister will be here to talk about the budget implementation act and that's when you'll have your chance to ask the minister questions, but tradition has been that government officials answer questions on the supplementary estimates (C) and that the ministers do not.

The Chair: Thank you, Mr. Saxton.

Mr. Thibeault.

Mr. Glenn Thibeault: I'm finding it interesting right now, Mr. Chair. We're understanding that the Minister of Finance is unable to attend and now we're hearing that it's not the practice to invite the other minister, where in other committees we have had ministers come forward to present at supplementary estimates. If one of the ministers is available, I do think it would be important to have the minister here to speak to the supplementary estimates.

It's fantastic to hear from the parliamentary secretary that the Minister of Finance will be here for the budget implementation piece, but I also think it's important that we do have a minister here to be able to answer our questions. It's great. Government officials are also very important and very relevant to the conversation, but I think it would be important to have the minister of state here.

I would like to encourage my honourable friend across the way to consider putting that invite out to the minister of state.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Thibeault.

Monsieur Caron.

[Translation]

Mr. Guy Caron: To add to what Mr. Thibeault just said, I would note that at other committees where I have been a member, such as the Standing Committee on Industry, Science and Technology, when the Minister of Industry was unable to attend the meeting—he had already appeared to speak to the estimates—the ministers responsible for other functions within the department, for example the regional ministers for Economic Development Canada, came to give a presentation.

If the main minister cannot attend, it was perfectly normal for us to invite the minister responsible for an organization that reports to the department to give a presentation on the supplementary estimates.

The Chair: Thank you.

Mr. Saxton, you have the floor.

[English]

Mr. Andrew Saxton: Mr. Chair, I appreciate my colleagues on the other side coming up with compelling reasons for what happens on other committees, but they know that each committee has its own practice and traditions.

It has not been the practice of this committee to have any minister appear for supplementary estimates (C) or for main estimates for that matter. It's not the practice of this committee. Each committee has its own practice and that is simply not the case here.

The Chair: Can we go to a vote then on the motion? There's been a suggestion, regarding the minister of state, but I think one vote on the motion is sufficient. Or do you want to vote on the amendment as well?

Mr. Glenn Thibeault: I'm sure one vote will do.

The Chair: All those in favour of the motion presented by Mr. Thibeault?

(Motion negatived)

The Chair: Thank you, colleagues. I'll just remind you there are votes at 5:45. You will have bells at 5:15.

There are presentations at the back of the room and I encourage you all to stay and perhaps... I know there are staff who want the presentations, but because of the votes, can I ask that the members have first dibs on the presentations and then the staff perhaps can follow?

The meeting is adjourned.

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