



August 6, 2014

## Visa Canada's Submission to the House of Commons Standing Committee on Finance 2015 Pre-budget Consultations

### *Introduction*

Visa Canada welcomes the opportunity to contribute to the House of Commons Standing Committee of Finance 2015 pre-budget consultations in an effort to help government balance the federal budget to ensure fiscal sustainability and economic growth. A key element of this work involves reducing government operating costs through increased efficiencies, while maintaining high service levels for all Canadians. Visa believes some of its experience and capabilities can assist in this task.

While the Visa brand is well known, the organization behind it is not. Visa is not a bank; the company does not issue debit or credit cards, make loans or set rates and fees associated with card usage or acceptance. Visa has a distinct role in the financial system, facilitating commerce between financial institutions, and among millions of their consumer, government, and business customers in Canada and around the globe. The Visa network connects 2.0 billion payment cards, tens of millions of merchant locations and 15,000 financial institutions in more than 200 countries. Visa payment transactions take place every minute of every day in every corner of the world through one of the world's most advanced global processing network – VisaNet.

Visa's goal is to facilitate the flow and encourage the growth of electronic payments to enable commerce and economic activity around the globe. Visa helps individuals access their money more securely and conveniently, build stronger, more productive businesses, and enables governments to be more cost-effective and responsive to their citizens.

For more than 25 years, Visa has worked with governments to leverage the potential and value of electronic payments – enabling the public sector to do more for citizens, using fewer resources, with improved controls and increased accountability.

With this experience in mind, Visa has prepared this submission to the House of Commons Standing Committee of Finance with a particular focus on the benefits and opportunities arising from government prepaid disbursement programs.

### *Background: prepaid government disbursement solutions*

There is little doubt that disbursements of payments is most efficient through direct deposit. The significant effort in recent years to encourage adoption of direct debit has had an impact, increasing awareness and enrollment of this method of disbursement. 100 per cent uptake of direct deposit is not achievable in the near term, however, and that is where prepaid cards represent an option (as illustrated below in the Government of Canada's own research).

Prepaid cards offer governments and public sector agencies another highly efficient, secure way of distributing payments that can significantly streamline processes in order to reduce their costs (in the form of reduced postage, printing and handling), while also eliminating cheque-related costs and fraud issues that are often borne by recipients. Payment card solutions are sufficiently flexible to meet the diverse and evolving challenges of government mandates, requirements and infrastructure.

While prepaid government disbursement programs are less widely used in Canada, Visa has extensive experience providing governments around the world with tailored prepaid solutions that assist in the disbursement and receipt of payments. This experience includes more than 5,000 government programs in 47 countries.

#### *Overview of Visa Prepaid Programs & Case Studies*

Visa Prepaid Government Disbursement programs include Family & Child Support, Employment Insurance, Old Age Security and Canada Pension Plan Payments, First Nations Benefits, Payroll, Veterans Affairs, Disability Benefits, and Education Benefits and disaster relief. Below are some examples:

##### *USA*

- Visa prepaid cards are used in more than 80 unemployment insurance and child support programs
- 43 states now use Visa prepaid solutions to support unemployment insurance disbursement  
During the 2010 tax season, the IRS-sponsored Volunteer Income Tax Assistance (“VITA”) program used Visa Prepaid Cards to deliver federal tax refunds electronically to low-to-moderate income wage earners at 73 VITA sites across the United States.
- 97% of disbursements now electronic in the state of Nebraska, where the use of Visa Reliacard (a prepaid card) reduced the cost of tax refunds by 93%
- Visa Government Disbursement Card helped another state save more than \$32 million by using 470,000 prepaid cards to replace traditional payments

##### *Peru*

- The Government of Peru has issued more than 10,000 BanMat Visa Electron prepaid cards to disburse \$40M in loans.

##### *Dominican Republic*

- Nearly 850,000 beneficiaries in the Dominican Republic have received over \$846 million in government disbursements through the Visa Solidaridad prepaid cards

### *Pakistan*

- When Pakistan recently faced major natural disasters, prepaid cards were used to deliver humanitarian relief. In 2009, aid was delivered through 300,000 cards used, a figure which grew to 1.6 million in 2010

Canada's experience with Government Disbursements using prepaid, while more limited, points to the potential of this method of distribution.

### *Disaster Relief and Humanitarian Aid: 2013 Alberta Floods*

- Visa prepaid cards are ideally suited for crisis situations. They enable rapid access to funds, as they can be managed through pre-stocked inventories that can be instantly activated and distributed during a disaster.
- In 2013, the value of this capability was demonstrated during the Alberta floods.
- Visa and its issuing partners worked with the Government of Alberta and the program manager to fully deploy a program almost instantly.
- The result was the distribution of over 17,500 Universal Visa prepaid cards making aid available to those displaced by the floods within 48 hours of the request.

### *Northwest Company and rural and remote Canada*

- In 2012, NWC created the We Financial brand. This brand employs the Visa prepaid card to provide Canadians living in remote communities with simple and easy access to electronic payment services.
- With specific reference to government payments, the North West Company has partnered with income assistance entities to provide benefits and payroll services through this Visa prepaid card offering.

### *Prepaid disbursements and citizen acceptance*

In recent years Visa has seen a four-fold increase in the prepaid programs offered by issuers, partners and government globally, with demand projected to grow in the next five years.

Visa believes that increasing the Government of Canada's use of prepaid disbursements would deliver significant savings, improved security, control and accountability, as well as timeliness of payments for government and citizens alike. Moreover, experience demonstrates high rates of consumer acceptance of this payment method over traditional cheques and even as an alternative to direct deposit.

According to Public Works and Government Services ("PWGSC"), the Receiver General of Canada issues over 300 million payments annually, of which nearly 77% involve direct deposit.

At the same time PWGSC announced that the federal government intends slowly phase out cheques to encourage direct deposits.

Given that 100% adoption of direct deposit is unlikely, PWGSC commissioned Ekos Research in 2013 to survey Canadians on barriers to participation in direct deposit. The survey found that more than one in four Canadians are not willing or only somewhat willing to receive payments this way. That group cited a lack of trust in direct deposit and concerns surrounding a complicated sign up process as reasons for their unwillingness.

Interestingly, half of those surveyed who were unwilling to use direct deposit or who perceive a barrier to signing up would be willing to accept prepaid cards that can be loaded with each new payment. These results clearly indicate that prepaid cards offer a convenient and simple alternative for those Canadians (1/4 of those surveyed) who are resistant to direct deposit.

#### *Visa Prepaid – Structure and How it Works*

Prepaid cards operate on the strength of a partnership among three parties – government, the network (Visa) and the Financial Institution (Issuing Bank) – each of which has an important role that ensures payment is received by the intended beneficiary.

#### Financial Institution (Issuing Bank)

- Issues Visa government prepaid card
- Loads funds for each benefit period
- Communicates benefits and usability
- Offers transparency with monthly statement, or real-time accounting via online or mobile connectivity
- Provides cardholder services to beneficiaries

#### Network (Visa)

- Facilitates electronic payments through ATMs, a mobile phone, a computer or a card
- Facilitates relationships between financial institutions and government clients
- Processes transactions through VisaNet

#### Government

- Verifies eligibility
- Validates recipient identity
- Enrolls eligible recipients
- Supplies payment information details
- Funds disbursements through a Financial Institution
- Provides program services to beneficiaries

For recipients, government prepaid disbursement cards offer quicker access to funds, reduced expenses, improved money management and budgeting, enhanced security (due to Visa's "Zero Liability" policy), uninterrupted payments for disaster relief, and widespread acceptance.

Prepaid cards can also facilitate financial inclusion, specifically for Canadians who are unbanked or living in remote communities where – unlike government-issued cheques – prepaid cards can be used at point of sale, over the telephone, on a cardholder’s mobile device and online.

Getting started for cardholders is a relatively straight forward exercise:

**Activation:** A cardholder (beneficiary) will receive a prepaid card (by mail or at a government office) and can activate the card online, by phone or in person at the issuer branch or government office. Upon activation, the issuer will load the card with recipient benefits, and if benefits are ongoing, the card will be automatically reloaded at scheduled intervals.

**Use of funds:** The cardholder can use the prepaid card like any debit and credit card by presenting the payment card at point of sale. The cardholder may also use it for on-line purchases or to access funds at ATMs or through the cashback option at point of sale.

**Account balance:** A cardholder may also track spending and in some cases, real-time balances through various means including their monthly statement, online, on the phone (“IVR” or Live Agent), by receiving alerts on a mobile device or email account. If benefits are ongoing, the cardholder can receive notifications when new funds are loaded.

### *Conclusion*

Visa believes that wider use of prepaid cards for government disbursements can contribute to federal government efforts to improve efficiency in government operations, while also delivering better service to Canadians. In an environment where government is encouraging greater use of electronic payments more generally, prepaid cards can complement direct deposit initiatives to ensure that government cost reduction goals are accomplished without sacrificing service to citizens.

Based on Visa’s understanding of current cheque volumes and payments to program recipients, the average recipient receives 11.3 payments annually. Using a conservative assumption of \$0.95 per cheque, this represents an annual cost of approximately \$10.74 per recipient. Factoring in lost or stolen cheques, duplicate cheques and processing charges associated with deposits at non-recipient banks, the annual cost rises to more than \$12 per recipient. In Visa’s experience, this cost could be reduced by 60-80% by converting those recipients who will not enroll in direct deposit from cheques to prepaid cards. Moreover, the widespread use of payment cards recipients would be transitioning to a convenient, secure payment method that is familiar to them.

Visa’s experience in Canada and around the world demonstrates that prepaid cards can be tailored to the specific requirements of particular government programs. The company’s experience in Canada has shown that that prepaid cards are especially well-suited to disbursement programs that encompass remote communities where recipients may be unbanked or where options for using government-issued cheques are limited.

In these circumstances, a prepaid card may act as a convenient replacement for a conventional bank account.

PWGSC's research underscores the willingness of Canadians to accept pre-paid cards as a substitute for traditional government issued cheques. While a significant number of Canadians (one in four) is resistant to direct deposit arrangements for government disbursements, over half of this sub-set would be willing to accept prepaid cards as an alternative. Given the convenience, security, flexibility and cost-effectiveness of Visa prepaid cards for consumers, including this option for disbursement recipients might address an important concern without any diminution of service.

Visa Canada welcomes the opportunity to work more closely with federal government departments to pilot initiatives in this area and demonstrate how Visa prepaid cards can help government meet its goals. We hope the House of Commons Standing Committee on Finance will consider recommending in its report that federal departments and agencies examine how the use of prepaid cards might assist in the important work of streamlining government operations while delivering better service to Canadians.