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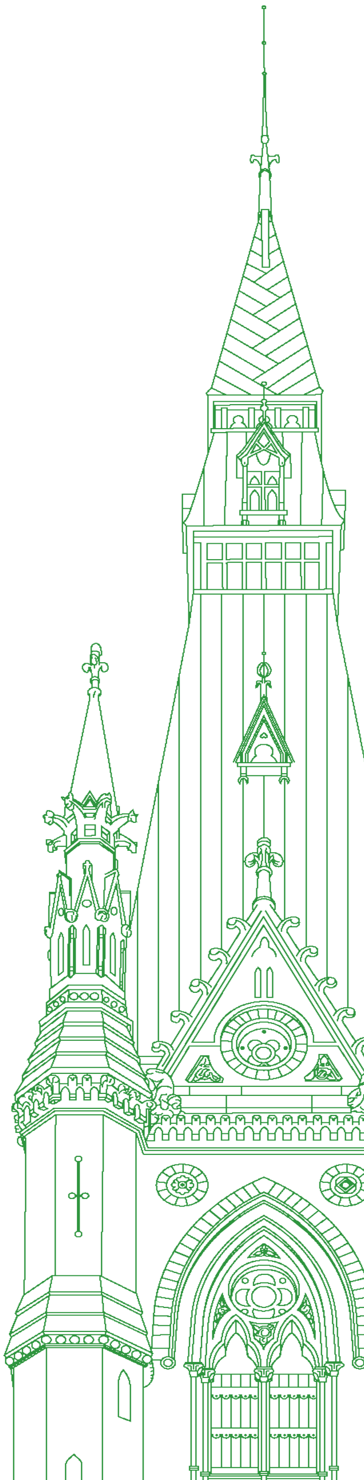

Chair: Mr. Joël Lightbound

Standing Committee on Industry and Technology

Monday, October 7, 2024

● (1545)

[*Translation*]

The Chair (Mr. Joël Lightbound (Louis-Hébert, Lib.)): Good afternoon, everyone.

I call this meeting to order.

Welcome to meeting number 138 of the House of Commons Standing Committee on Industry and Technology.

I would like to ask all members and other persons joining us here in Ottawa to consult the guidelines on the use of microphones and earpieces in order to protect the health and safety of everyone, in particular our interpreters. I would also like to take this opportunity to thank the interpreters for the work they do.

Colleagues, you have received two requests pertaining to the committee's budget. The first concerns the study of Bill C-27, for which a supplementary budget of $7,000 is requested, and the second concerns the study that we will undertake today on credit card practices and regulations in Canada, for which the amount of $22,000 is requested.

Is there unanimous consent to approve these budgets?

Some hon. members: Agreed.

The Chair: Thank you.

Pursuant to the motion adopted on Thursday, September 19, 2024, the committee is commencing its study on credit card practices and regulations in Canada.

I am pleased to welcome among us two representatives of the Canadian Bankers Association: Darren Hannah, senior vice-president, financial stability and banking policy; and Charles Docherty, assistant general counsel and vice-president, legal and risk.

[*English*]

Thanks for joining us.

From Mastercard Canada, we have Balinder Ahluwalia, senior vice-president of market development, who is accompanied by Martin Leman, vice-president of strategy, pricing and interchange. From the Retail Council of Canada, we have Karl Littler, senior vice-president. From the Visa Canada Corporation, we have Jay Dorey, head of corporate affairs.

Thanks to you all for joining us. As you know, you have five minutes for your opening remarks.

We'll start with Mr. Hannah for five minutes.

Mr. Darren Hannah (Senior Vice-President, Financial Stability & Banking Policy, Canadian Bankers Association): Thank you for inviting the Canadian Bankers Association to appear this afternoon to participate in the committee's study of credit card practices and regulations in Canada.

My name is Darren Hannah, and I am the senior vice-president, financial stability and banking policy, with the CBA. I am joined today by Charles Docherty, vice-president and assistant general counsel.

The CBA represents more than 60 domestic and foreign banks, employing over 280,000 Canadians to help drive Canada's economic growth and prosperity. We advocate for public policies that contribute to a sound, thriving banking system to ensure that Canadians can succeed in their financial goals.

Canada has a well-developed payments system, and payment cards are an important part of that. In 2023, Canadians made 21.7 billion payments transactions to individuals and businesses. Of that total, credit card payments accounted for 33% or 7.2 billion transactions. They also play a central role in e-commerce, enabling retailers and businesses to accept payments for online transactions from buyers across Canada and around the world.

Canadians use credit cards primarily as a payments tool rather than a credit vehicle, and 71% of Canadians pay their balance off in full every month and, therefore, pay no interest. As a consequence, credit cards account for only 4.5% of household debt.

For Canadians who do want to take advantage of the credit facility, most issuers offer low-rate cards designed for customers who want to carry a balance. In addition, many issuers now also offer innovative instalment loan options where customers can elect to transform a card purchase into an instalment loan, often at a lower interest rate that pays off the purchase in full over a fixed term.

Canadian consumers like credit cards because they offer great value and real benefits. They're a secure payment mechanism, available at point of sale or online, with liability protections for consumers as well as features such as insurance or purchase security and warranties. They also provide tangible consumer rewards, such as discounts for gas, cash back for groceries, travel benefits or free movies or other entertainment options for the family. It also gives consumers the flexibility to take advantage of sales and store discounts to save money because they can buy when prices are low and pay later when they have money in their accounts.

The credit card business is highly regulated. Consumers with credit cards from banks are protected by Bank Act regulations that require, among other things, clear and simple upfront disclosure of rates, fees and terms printed in an easy-to-read summary box; a detailed statement of itemized transactions and charges, along with the amount you must pay by the due date in order to have the benefit of the grace period; rules on advertising; and limits on consumer liability in the event of fraud.

Beyond the legal requirements, cardholders are bank customers, and Canadian banks have a long history of working with their clients during challenging times. Most recently, during the COVID-19 pandemic, Canada's banks provided almost 1.3 million payment deferrals on credit cards, lines of credit, personal loans and auto loans, plus an additional 800,000 payment deferrals for mortgage clients.

For retailers, credit cards offer secure, assured payment; access to a huge cardholder base; the ability to accept payments online; and the ability to offer customers real-time credit for purchases, so sales can happen when the customer is in the store without the retailer having to take on any of the credit risk.

When combined with Canada's low-cost debit system, they form the foundation of Canada's affordable, reliable and innovative retail payments infrastructure. In a world where the price of almost everything has been going up, the cost of card acceptance has been going down. The most recent agreements between the government and the credit card networks will reduce interchange fees for small businesses by up to 27%. Building on top of prior agreements, the collective result is that interchange for small businesses has declined by more than a third over the last decade.

In short, credit cards offer security and value for consumers and retailers, and they do so within a robust regulatory framework that gives consumers peace of mind.

I want to thank you for inviting me here, and I welcome any questions you may have.

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

I will now turn it over to Mr. Ahluwalia from Mastercard Canada.

● (1550)

Mr. Balinder Ahluwalia (Senior Vice-President, Market Development, Mastercard Canada): Good afternoon.

My name is Balinder Ahluwalia. I'm the senior vice-president and group head of market development for Mastercard Canada. With me is Martin Leman, vice-president of strategy, pricing and interchange. He is bilingual and is available for any questions in French.

Given the scope of your study, let me begin by explaining who Mastercard is and what we do. We provide the network and the technology that allow billions of cardholders to use their Mastercard at millions of merchants around the world and to have that payment processed safely and securely in the blink of an eye.

We are a B-to-B operation. Our customers are the banks who issue cards and the acquiring banks who contract with merchants to process card payments. We do not have a direct relationship with cardholders. Therefore, questions about interest rates, consumer fees, terms and conditions or debt should be directed to the banks. It would be inappropriate for us to comment on those matters and illegal to provide direction on them.

What we do set are interchange rates, which is point (g) in your study. Interchange is a fee paid by the merchant's acquiring bank, often called the payment processor, to the cardholder's bank to compensate for the value and benefits of card acceptance. It is the distinctive feature of the four-party model consisting of banks, merchants, acquirers and consumers. Mastercard is the network in the middle, with consumers and banks on one side and merchants and acquirers on the other. We set interchange to maximize participation—for our banks to make cards available and for merchants to accept them. Our priority in setting rates is to maintain a balance.

Mastercard does not receive interchange revenue. Were it left to merchants, they would want the benefits of card acceptance without paying for it, but that would make card issuance unattractive to banks. Were it up to the banks, they would want high interchange to maximize revenue, but then merchants would not want to accept the cards.

Interchange rates have been on a downward trajectory in Canada for nearly a decade. Rates for small businesses are set to be lowered again in two weeks. Under a new agreement finalized last year, Mastercard is lowering its interchange for in-store transactions to an average of 95 basis points for qualifying small businesses—those with an annual Mastercard sales volume below $175,000. This captures 90% of credit card-accepting businesses in Canada and means that the average interchange on a $100 in-store transaction is 95¢. Small merchants will also receive a reduction of 10 basis points for online transactions, providing a savings of $1 billion over the next five years from the Mastercard network.

Since 2015 our rates have dropped by 24%. The previous reductions delivered over $2 billion of savings on Mastercard transactions alone, and with these latest reductions will provide a total savings of $3 billion for merchants. I would imagine that the savings from our main competitor would be similar, so this together would be consistent and significant.

There are two additional points to highlight. First, we understand the attention on fees for credit cards, but we must not lose sight of value. Merchants derive great value from credit card payments, including increased sales, guaranteed payment, access to the online marketplace, enormous efficiencies compared with cash or cheque and, at the most basic level, not having to run a store credit system.

Second, interchange represents a portion of credit card fees. Reducing interchange is an inefficient way to put money back into the pockets of small business. To help small businesses thrive, they need support in digitization, cyber-awareness, data insights and tools to action them. Insurance Bureau of Canada research tells us that 47% of businesses don't allocate any operating budget to cybersecurity, yet when they suffer a cyber-attack, it costs them nearly $100,000. That's why, with our latest reductions, Mastercard committed to providing free cybersecurity resources to all small businesses to safely expand their digital adoption and online presence while minimizing the risk of a cyber-attack. We've also prioritized partnerships and education that help small businesses increase their cyber-readiness.

We believe initiatives like this are more impactful than simply reducing interchange.

In conclusion, as our payment network evolves, we continue to support our critical stakeholders—banks and consumers on one side and acquiring banks and businesses on the other. Their success is our success, which is why we work so hard to find a balance in the system.

● (1555)

Thank you for your time. We look forward to any questions.

[*Translation*]

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

I will now turn the floor over to Mr. Littler, from the Retail Council of Canada, who is joining us by video conference.

The floor is yours, Mr. Littler.

[*English*]

Mr. Karl Littler (Senior Vice-President, Public Affairs, Retail Council of Canada): Thank you for the opportunity to present a retail industry perspective on credit card payments.

I want to begin by putting a big number in front of you. That's the $60 billion in credit card interchange fees that will be pulled out of Canadians' wallets over the next five years. When you contrast that with the roughly $200 million a year of savings outlined in the government's and networks' announcement last week, you can see how very little is being done to address the interchange problem for consumers. Simply put, 98%-plus of the issue is not being addressed at all.

Let's take it from the perspective of a Canadian family. Credit card interchange costs Canadian households an average of $643 each year or $10.7 billion all told. Last week's response by the government might save them $13 of that $643. It's our position that a savings of only one-fiftieth of the cost is flimsy by any standard, and Canadian families could really have used that help with affordability.

The Bank of Canada sees it as a consumer issue, as does the Competition Bureau, as does every competent authority worldwide, including central banks, competition bodies and academia. Only the Government of Canada seems determined to paint it into a corner as a small business issue, presumably because that makes it less unsettling to the banks and credit card networks.

Not only does that $60 billion in bank revenues weigh heavily on Canadian consumers, it does so in a particularly regressive way. The highest credit card interchange is on premium and superpremium cards, typically those held by Canadians with higher incomes, but the cost for all of this gets passed on in the price of goods borne by all Canadians, including those paying with cash or debit and especially by low- and modest-income earners. Don't take my word for this, you can look at studies by the Bank of Canada and by the Consumers Council of Canada. Many of those lower-income and modest-income customers would never have qualified for those high-fee cards in the first place. It's a kind of reverse Robin Hood problem, with the card companies and banks taking from the poor and giving to the relatively wealthy.

Continuing to perversely portray the problem as a small business issue rather than a consumer issue perpetuates this regressive and growing problem. At an average rate of 1.4%, interchange in Canada is amongst the highest in the world—make no mistake. By comparison, credit cards in Australia have a capped average of 0.5%. The U.K. rate is fully capped at 0.3%, as are all of the 27 countries in the European Union. Rates have also been capped in other jurisdictions like Switzerland, Israel and China, all at around one-third the level we face here in Canada.

Remarkably, the same card networks manage to operate globally at a fraction of the cost imposed on Canadians, both businesses and consumers alike. In a nutshell, Canada needs to address the $60-billion elephant in the room, stop pretending that this is only a small business issue, echo the pro-consumer approach taken by other countries and introduce a meaningfully lower interchange cap or average, whether through regulation or through much more purposeful negotiations with the credit card networks.

Thank you.

[*Translation*]

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

I now turn the floor over to Mr. Dorey, from the Visa Canada Corporation.

[*English*]

Mr. Jay Dorey (Head of Corporate Affairs, Visa Canada & Vice-President, Global Government Engagement, Visa Canada Corporation): Thank you for inviting Visa to speak to the committee's study today on credit card practices and regulations in Canada—

[*Translation*]

Mr. Bernard Généreux (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, CPC): Pardon me, Mr. Chair.

The Chair: Thank you, Mr. Généreux.

Mr. Dorey, I believe your microphone is muted.

We can hear you more clearly now.

Thank you.

[*English*]

Mr. Jay Dorey: I'll begin again.

Thank you for inviting me to speak to the committee regarding its study of credit card practices and regulations in Canada.

To begin, I thought it might be useful to provide some comments about Visa and our role in the Canadian payment system. I would also like to share some information about interchange, which your study references directly.

Visa has operated in Canada for more than 55 years, supplying Canadian consumers and merchants with one of the most advanced and safest payment networks in the world. While Visa's brand is very well known, many do not understand what Visa does. For example, Visa does not issue credit cards to consumers. It is financial institutions, including banks, fintechs and credit unions, that issue credit and debit cards, set interest rates and consumer fees, and compete to offer rewards and other benefits to consumers. Similarly, it is acquiring banks, not Visa, that sign up merchants to accept card payments. They compete for business based on the services they may offer and the fees they charge.

Visa's role in the system is to maintain a safe and secure payment network, which enables consumers and merchants to transact securely and conveniently. This supports commerce and economic growth across Canada and around the world. When consumers choose to use a Visa card and merchants choose to accept it, they do so with the confidence that their transactions will be processed efficiently, reliably and securely. They also receive the rights, protections and benefits guaranteed for every transaction on the Visa network.

Visa makes significant investments in this network for security and fraud prevention. Over the past five years, Visa has invested over $11 billion in technology, including systems to reduce fraud and enhance cybersecurity. What this means for consumers and small businesses is that Visa blocked $40 billion in fraud in 2023. That's almost double the $23 billion we blocked in 2022. With respect to consumer protection, Visa cardholders rely on our zero-liability protections for unauthorized and fraudulent transactions, or if they receive counterfeit goods.

The Visa network is designed to level the playing field between small and large merchants. Every merchant that accepts Visa benefits from our investments in security and innovation, and can transact securely with billions of Visa cardholders across the globe and know that they will get paid, because Visa stands behind every transaction. By connecting to our network, any small-town or rural store, or any small e-commerce site, benefits from Visa's world-class security and fraud-fighting tools so they can better compete with even the largest retailers and technology platforms.

I also want to provide some information about interchange. Interchange is set by the card networks, such as Visa, but it is paid by merchant-acquiring banks to the banks and financial institutions that issue credit and debit cards. Visa does not earn revenue from interchange. Our goal in setting interchange is to foster balance, security and investment in the payment system. The revenue that fintechs, credit unions and banks generate from interchange ensures they can make the necessary investments in innovation, security and consumer benefits that enable the payment system to operate, grow and adapt. Interchange is also used to promote acceptance, security and innovation by merchants. For example, we set lower interchange rates for transactions that result in lower fraud.

In Canada, Visa has entered into a series of agreements with governments over the past decade with respect to consumer credit interchange. These undertakings have delivered significant reductions for every merchant in Canada, with particular emphasis on reductions for small business. As a result, Visa Canada's overall interchange rates have declined since 2015. Interchange rates for small businesses have been reduced the most. In fact, a further round of reductions for small business will go into effect October 19. These additional commitments will benefit 90% of Canadian small businesses, lowering interchange to an average of 95 basis points—slightly less than 1%—for in-person transactions.

We're proud of the role Visa has played in developing and delivering safe digital payments to consumers and merchants across Canada and around the world. We take our role in the payment ecosystem seriously, and we're deeply committed to delivering value and keeping the trust of those we have the privilege to serve.

Thank you for the opportunity to appear here today. I'm grateful that I can speak about these issues, and I'd be happy to answer any questions you may have.

● (1600)

The Chair: Thank you very much

Now, to start the discussion, I'll turn it over to MP Perkins for six minutes.

Mr. Rick Perkins (South Shore—St. Margarets, CPC): Thank you, Mr. Chair.

Thank you, witnesses, for appearing at the start of this important study.

My first questions are for the Canadian Bankers Association.

Can you tell me, by member institution of the CBA, what the return on equity of the credit card business is for each bank?

Mr. Darren Hannah: No. I can't specifically for each bank, and certainly not by business line that way.

Mr. Rick Perkins: If you have access to that, can you pledge to table it with the committee?

Mr. Darren Hannah: I don't have access to it by business line.

Mr. Rick Perkins: I'm just talking about the Visa business, not—

Mr. Darren Hannah: I understand that.

Mr. Rick Perkins: —the credit card business.

Does the CBA have access, through each of its members, to what the loan loss percentages are for the credit card businesses?

Mr. Darren Hannah: We don't gather data like that by institution. I could tell you an aggregate—

Mr. Rick Perkins: Can you pledge to go and get those from your members?

Mr. Darren Hannah: No. I can tell you an aggregate, though. The arrears rate for the credit card business writ large is about 1.6% currently.

Mr. Rick Perkins: That's pretty modest, 1.6%.

The next questions I have are for Mastercard.

I appreciate your presentation. Can you let the committee know, please, what your global revenue was last year?

● (1605)

Mr. Balinder Ahluwalia: I don't have that information with me.

Mr. Rick Perkins: Well, as it was publicly reported, Mastercard's revenue was $25 billion U.S. globally.

What was the operating income?

Mr. Balinder Ahluwalia: I don't have that with me at the moment.

Mr. Rick Perkins: It was $14 billion U.S. last year.

What was the net income?

Mr. Balinder Ahluwalia: It was probably around $11 billion.

Mr. Rick Perkins: It wasn't around that; it was $11.1 billion. You do know the numbers.

Cybersecurity is very critical for everybody at this table. Is that right?

Mr. Balinder Ahluwalia: Of course.

Mr. Rick Perkins: Can you tell me how important it is for Mastercard? I see you recently bought another cybersecurity company for $2.1 billion called Recorded Future.

What can you tell me about cybersecurity, its importance and how much you spend on that a year?

Mr. Balinder Ahluwalia: I don't have the exact numbers. I can tell you that, strategically, it's one of the important pillars we're focused on. We've talked a lot about the role Mastercard plays as the network and safety and security, cybersecurity particularly, especially in light of October being cybersecurity month. It is particularly important for our business going forward.

Mr. Rick Perkins: When you made $11 billion in net income last year, and you just spent $2 billion buying another cybersecurity company, why is it that in 2020, former Liberal industry minister Navdeep Bains had to give you $50 million to help with cybersecurity? You have that kind of profit margin and you have the ability to go out and buy another cybersecurity company for $2.1 billion.

Mr. Balinder Ahluwalia: Mr. Perkins, is this a question specifically about the cybersecurity centre in Vancouver?

Mr. Rick Perkins: Why is it that Mastercard needed $50 million from the federal government to pledge toward improving cybersecurity, when you were already putting billions of dollars toward it?

Mr. Balinder Ahluwalia: We're very proud of our cybersecurity centre in Vancouver. It's a centre of excellence for us. It's one of the first in the world.

We invested $500 million in that centre. It is exceptional because it generates Canadian IP, which is kept here in Canada and will be commercialized as Canadian IP. We see the value in driving cybersecurity from Canada, and it's something that we remain very proud of.

Mr. Rick Perkins: Does Jennifer Sloan still work for you?

Mr. Balinder Ahluwalia: She does.

Mr. Rick Perkins: Jennifer Sloan used to be the chief of staff in the Liberal government of Jean Chrétien. Her job, I believe, is in government relations.

Mr. Balinder Ahluwalia: That's correct.

Mr. Rick Perkins: She was instrumental in getting the $50 million, obviously, because she had a pile of meetings with the industry department. She was lobbying it before that announcement was made to get you $50 million.

Why is it that a company with $25 billion in revenue and $11 billion in profit needs $50 million from the taxpayer for cybersecurity to protect consumers?

Mr. Balinder Ahluwalia: I understand the question. Ultimately, it's very important for us to recall that we've spent $500 million specifically on the cybersecurity centre in Vancouver. We're very proud. We've generated over 90 Canadian patents by Canadian researchers, and they will be commercialized from Canada within the Mastercard network.

Mr. Rick Perkins: It appears you don't need the $50 million, so will Mastercard return it to the taxpayer?

Mr. Balinder Ahluwalia: Mr. Perkins, again, we've done a great job. We're very proud of everything we've committed to in Vancouver. It's generating significant patents, technology, infrastructure and everything that's important to Mastercard as a cybersecurity centre of excellence, and we're committed to that for the future.

Mr. Rick Perkins: The Liberal government has a history of handing out money to corporations that don't need it. Loblaws received $18 million for fridges. I think Loblaws can afford fridges. You got $50 million for cybersecurity, when you're spending huge amounts—billions—of money. Thankfully you are, but I just don't understand why you need taxpayer money to do what is your job, which is to have a secure credit card system for Canadians.

Why is it you need taxpayer money when you have billions to do it on your own? Isn't that your job?

Mr. Balinder Ahluwalia: Mr. Perkins, we're very proud of everything that's coming out of the cybersecurity centre of excellence in Vancouver. Again, 90 patents is not an insignificant number. We have a big team. We have a big office there. We're generating new use cases every day and every week, and we're proud to stand behind everything that's being delivered from the cybersecurity centre.

[*Translation*]

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

Mr. Arya, the floor is yours for six minutes.

● (1610)

[*English*]

Mr. Chandra Arya (Nepean, Lib.): Thank you, Chair.

Mr. Dorey, I listened to your speech and went through your notes. You mentioned that the companies that generate and earn revenue from interchange fees invest in network security to prevent fraud, but you did not mention that part of it goes to fund the rewards. Did you mention that?

Mr. Jay Dorey: Thank you for the question. That is absolutely correct—

Mr. Chandra Arya: Did you mention that?

Mr. Jay Dorey: I believe I did, but if not, I'll be happy to clarify.

Mr. Chandra Arya: Maybe I missed it. Maybe I'll go through your notes again later.

Mr. Hannah, the words you used were “tangible...rewards”, and Mr. Ahluwalia, you said, “great value”, etc.

Nothing is free...right?

Mr. Darren Hannah: That is correct.

Mr. Chandra Arya: I will come to it. Is it free, that “great value”? Are we not paying for it?

Mr. Balinder Ahluwalia: I'm sorry, but I don't understand the question.

Mr. Chandra Arya: You said there's a great deal of value that is being provided.

Mr. Balinder Ahluwalia: That's right.

Mr. Chandra Arya: I'm asking if it is free. Are we not paying for it?

Mr. Balinder Ahluwalia: That's a great question for our CBA partners.

Mr. Chandra Arya: You did use the words “great value”. I want to know if the great deal of value you mentioned.... It is not free. Is that correct?

Mr. Balinder Ahluwalia: Somebody's paying for it. That's correct.

Mr. Chandra Arya: Absolutely. That's what I meant.

Mr. Hannah, I'd like to come back to you.

Mr. Littler of the Retail Council of Canada gave some numbers. In fact, I was surprised to hear the numbers $60 billion and $643 per family. Do you agree with those numbers?

Mr. Darren Hannah: Let's contextualize this for a minute, because I think it's important.

First off, rewards cards generate tangible rewards, and they do it across the income spectrum. Eighty-nine per cent of Canadians have a credit card—

Mr. Chandra Arya: I know—

Mr. Darren Hannah: —and 85% of those are rewards cards. As a consequence, the rewards are being utilized and the beneficiaries are across the income spectrum.

Mr. Chandra Arya: That was not my question. My question was whether Mr. Littler was misleading us. Were the numbers correct?

Mr. Darren Hannah: What he's not telling you is that in markets where.... What Mr. Littler is suggesting is that, if value were moved from you, as a credit card holder, in the form of rewards over to a merchant, somehow prices would go down and the merchant would be better off.

We have not seen that in other markets. What we have seen is that rewards have gone down, annual fees have gone up and there has been no discernible reduction in prices. Quite frankly, in the current—

Mr. Chandra Arya: I'm sorry to interrupt you, but I have limited time and I have a few more questions.

Say I don't want the rewards points. I'm still paying for them. Is that correct?

Mr. Darren Hannah: You can choose what kind of card you want. You can choose a rewards-based card or you can choose a card without rewards.

Mr. Chandra Arya: Will that interchange rate vary based on the card I use?

Mr. Darren Hannah: No. The annual fee may vary and the interest rate may vary.

Mr. Chandra Arya: I'm talking about the interchange rate. Does it vary based on what card I choose?

Mr. Darren Hannah: Oh, yes. There's some slight variation, but I'll let the networks tell you more specifically about how interchange works, as that's their area.

Mr. Chandra Arya: Mr. Ahluwalia, can you answer the question?

Mr. Martin Leman (Vice-President, Strategy, Pricing and Interchange, Mastercard Canada): Merchants derive great value from accepting credit cards in the form of—

Mr. Chandra Arya: That's not my question. Based on the card I use or choose, will the interchange rate vary?

Mr. Martin Leman: There are varying levels of interchange for different types of transactions, different types of cards and different contextual scenarios.

Mr. Chandra Arya: Does that mean that when I use a card at a merchant I know what is that being charged? Will I know that when I get a new card from a bank? At what point will I know that I'm going to get charged the interchange or not?

Mr. Martin Leman: You, as a consumer, will not be charged interchange.

Mr. Chandra Arya: Again, at the end of the day—

Mr. Martin Leman: Merchants pay interchange to the banks that provide card-processing services, sir.

Mr. Chandra Arya: Merchants don't pay from their pockets. They will have to get it from us, one way or another.

Is that correct?

Mr. Martin Leman: That's not entirely correct.

Again, merchants derive great value from card acceptance, including an operational savings compared with using cash or cheques, which is how things used to be. When I was a little boy and I went to the grocery store with my mother, she'd get to the top of the line, pass off her groceries and then proceed to pull out her chequebook to start writing a cheque.

● (1615)

Mr. Chandra Arya: Okay. However—

Mr. Martin Leman: That is time and money for a merchant. What we've done with electronic payments is remove that cost. It has been replaced.

Mr. Chandra Arya: I'm sorry to interrupt you.

Mr. Hannah, I have 30 seconds. My last question is for you.

After listening to you.... You saw the text of our motion. It's almost as though there's no problem.

Is that what I'm hearing from you?

Mr. Darren Hannah: I think what you heard from me is that consumers are getting good value out of cards. We think merchants derive a lot of value from cards. We think the market works well. It's continuing to evolve.

Mr. Chandra Arya: Are you saying, “There's no problem at all. Why are you doing this study?”

Mr. Darren Hannah: I'm saying that progress is being made. Everything can always be improved. There are new undertakings and agreements coming into place that will add further value.

I'm saying that we've made a lot of progress.

Mr. Chandra Arya: As Mr. Littler said, that is a very small portion of the total cost.

Mr. Darren Hannah: What I would say is that, when you look at the value merchants and consumers are getting, it's a strong product and it continues to be so.

[*Translation*]

The Chair: Thank you, Mr. Arya.

Mr. Garon, the floor is yours for six minutes.

Mr. Jean-Denis Garon (Mirabel, BQ): Thank you, Mr. Chair.

Welcome, everyone. I want to thank the witnesses for being with us. I find my colleague Mr. Arya's questions very interesting, and I'm going to continue in the same vein.

Mr. Leman, I'm going to translate your remarks into French. You said that consumers were not being charged interchange fees.

I'm sure you took an economics course at university. I see you studied at the École des hautes études commerciales de Montréal, the HEC.

Is that correct?

Mr. Martin Leman: That's correct.

Mr. Jean-Denis Garon: Then you're aware of the impact a tariff has. You know that setting a tariff without including it in the final price of a good doesn't mean that consumers don't pay that tariff. When the cost to produce a good or the transaction cost rises, someone has to bear the cost of that increase. I imagine everyone here knows some economics. I simply want to point out that what you said is false.

I'd like to understand the interchange issue.

My colleague Mr. Arya asked if consumers bear the cost of rewards programs. We know there's a cost to that. I'm trying to understand what you said because these issues are complex. You said that various charges were billed to merchants and that they depended on the transaction's risk level. That risk may vary with the method used to make the payment, contactless payment, for example, or with the type of card or type of rewards program and so on. Those rewards have to be paid for.

Am I getting this right?

Mr. Martin Leman: Would you please clarify your question?

Mr. Jean-Denis Garon: You said that the fees charged to merchants varied with the type of card used, the risk level of the transaction and so on, didn't you?

Mr. Martin Leman: Yes, I said that.

Mr. Jean-Denis Garon: Let's consider the case of two customers who don't have the same type of credit card and want to buy a stick of cotton candy. Will they pay the same price when they step up to the cash with their cards?

Mr. Martin Leman: Yes.

Mr. Jean-Denis Garon: The merchant won't be charged the same amount if the cards and risk levels are different.

Isn't that correct?

Mr. Martin Leman: Yes.

Mr. Jean-Denis Garon: Going back to Mr. Arya's question, a better rewards program is associated with higher fees because it has an impact on cost. I believe that's what Mr. Hannah suggested.

Isn't that correct?

Mr. Martin Leman: Not entirely correct.

Mr. Jean-Denis Garon: Then correct me.

Mr. Martin Leman: Interchange fees vary with the type of card and the type of transaction. However, you need to understand that this product substitutes for other payment methods. For example, the payment method—

Mr. Jean-Denis Garon: No, sir—

Mr. Martin Leman: You mentioned economics. I just want to give you an explanation because you said that my statement was false.

Mr. Jean-Denis Garon: No, sir—

Mr. Martin Leman: I just want to say that you have the concepts of substitute products and implicit costs in economics. Cash has an implicit cost. Many independent economic studies have proven—

Mr. Jean-Denis Garon: Mr. Chair, the witness isn't answering my question, and he's wasting my speaking time, which I can't accept.

I'll ask my question again. I'm attacking no one; I'm trying to understand. I thought my Liberal colleague's question was fascinating. You can't say I'm being partisan.

As I understand it, the question concerned a case in which, for one reason or another, two customers used different credit cards, each of which was associated with a different rewards program. If the fees charged to the merchants are different, someone has to pay. It's asymmetrical because the fees will be charged to both customers, and the same price will appear on their bank statements whether they buy cotton candy or tires.

That brings me to the regressivity issue, and the Retail Council of Canada also discussed this. Ultimately, credit card users with lower incomes, who, in many instances, spend fewer nights at hotels, buy gasoline less frequently and collect fewer points, Bonusdollars and I don't know what else, implicitly pay for rich cardholders who enjoy more generous reward programs.

Are you opposed to having the amount of the fees billed to customers published?

Transparency is important when it comes to capitalism because it enables people to make decisions. When credit cards carry fees, merchants are able to pass those credit card user fees on to customers. The best reward programs come with higher rates.

If merchants told customers how much credit cards cost them and posted those amounts on the bills they submit to customers, wouldn't that make capitalism more efficient?

● (1620)

Mr. Martin Leman: That's an extremely interesting idea. The regulations of our network already enable merchants to pass surcharges on to customers who pay by credit card and to adjust them based on the card type.

Mr. Jean-Denis Garon: How often does that happen?

Mr. Martin Leman: You'd have to put that question to our friends at the Retail Council of Canada.

Mr. Jean-Denis Garon: Then I'm going to go to the representatives of the Retail Council of Canada.

How frequently do merchants post credit fees on the bills they submit to customers?

According to the contracts established among credit card companies, how often can those fees be posted?

[*English*]

Mr. Karl Littler: You never see it posted. There is certainly permission now, and it's in the wake of a class action lawsuit.

I should indicate that the networks didn't volunteer this up. They did everything they could for a great many years to hold off any surcharging, but it is allowed in a lot of other jurisdictions, and not unlike most of those other jurisdictions, retailers tend not to surcharge. They do that because ultimately they're concerned that they will see a loss of business. If it were commonplace, perhaps more would do so, but nobody wants essentially to commit seppuku by being the first to surcharge. Therefore, in essence, it's a right without much of a remedy.

[*Translation*]

Mr. Jean-Denis Garon: Thank you, Mr. Chair.

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

Mr. Masse, the floor is now yours.

[*English*]

Mr. Brian Masse (Windsor West, NDP): Thank you, Mr. Chair.

Thank you to our guests who came here to testify under oath.

You might want to follow the committee hearings. We have a minimum of four meetings, but sometimes we bring witnesses back, especially the first set of witnesses because often we get testimony later on that could be something we need to corroborate.

This is the first thing I'd like to ask, maybe going to Mr. Dorey. Do you carry a credit card balance? The credit card that I have has a 20% interest surcharge if I don't pay it off fully. I want to know if you actually carry a balance. Do you pay it off at the end of each month?

Mr. Jay Dorey: Are you asking me personally?

Mr. Brian Masse: Yes.

Mr. Jay Dorey: I'm not comfortable sharing my personal financial situation with the committee.

Mr. Brian Masse: Okay, I'm willing to do that. I try to pay mine off as much as I can because it's 20%.

Mr. Ahluwalia, would you care to offer whether you pay it off every single month?

Mr. Balinder Ahluwalia: I'm not comfortable sharing that either.

Mr. Brian Masse: That's fair enough.

Mr. Balinder Ahluwalia: I try my best.

Mr. Brian Masse: You try your best, so you sometimes have to pay the 20%.

Mr. Balinder Ahluwalia: It depends, really....

Mr. Brian Masse: That's fair enough. Thank you.

Mr. Charles Docherty (Assistant General Counsel and Vice-President, Legal and Risk, Canadian Bankers Association): Yes, I try my best to pay it off.

Mr. Darren Hannah: The overwhelming majority of Canadians, 71%, pay it off in full every month.

Mr. Brian Masse: I'll follow up on that. That's wrong in terms of the information I'm getting from Equifax and others right now. Are you contesting, then, that your numbers are different from Equifax and others that are showing that Canadians aren't paying off more than ever before?

Mr. Darren Hannah: I'm telling you that it's the information that we have, based on our surveys.

Mr. Brian Masse: That's based on your surveys. These are just Bank of Canada surveys. It's not Equifax. It's not the others that are out there. It's just your surveys.

Mr. Darren Hannah: I believe it comes from the Bank of Canada, but I'll check.

Mr. Brian Masse: That's fair enough. It's fine. The information I'm getting is that Canadians are significantly up.

I guess one of the reasons I'm asking this is that I'd like to know specifically if you have noticed any difference in behaviour with regard to the credit cards you're using—and maybe I'll go across the back to get everybody involved here—since the pandemic? Is business up or down since the pandemic, with regard to usage, behaviours and the model of people who are going to default, not going to default or going to pay it off? What has changed over the last number of years, if anything?

Mr. Darren Hannah: I'll say a couple of things.

First off, arrears rates, as I mentioned, continue to be quite low at 1.6%, which is great.

During the pandemic, not surprisingly, there was a big shift to e-commerce—people buying online—obviously because they couldn't shop in store. I think a lot of that has reverted back to the conventional prepandemic retail environment. I think my colleagues at the networks could probably give you a sense of what that looks like.

● (1625)

Mr. Brian Masse: Is that an opinion, or is that a fact?

The fact that I have is that credit card use and electronic transactions are still up. Money is rebounding somewhat, but it's significantly different from before.

Mr. Darren Hannah: That's correct; it's reverting back.

Mr. Brian Masse: Mr. Dorey, is there any change in the business model?

I'll go across and back, so I can include everybody here.

Mr. Jay Dorey: No.

Mr. Brian Masse: Is it all the same?

Mr. Martin Leman: We're not involved with lending money, so I can't comment.

Mr. Brian Masse: Okay, but what about usage? You're saying that your business right now has not changed. It's exactly the same model that you have right now that you had before the pandemic. The pandemic didn't change you, and it's the same right now. Nothing has changed in your business at all.

Mr. Martin Leman: Yes, there have been some changes. There is elevated use of electronic commerce as opposed to in-store.

Mr. Brian Masse: Okay. Thank you.

Mr. Jay Dorey: Similarly, I would say that our business grew significantly during the pandemic. We saw that both online, as the CBA mentioned, but also in store as people wanted to get away from cash. Also, we enabled a higher tap limit for contactless transactions to allow more transactions to happen at point of sale when people didn't need to interact with the point of sale.

We saw a significant growth during that period of time. I think the CBA is looking at some of the same statistics that we see in our business, which is that it has regressed to the mean in the years since then. Our business continues to grow in line with economic growth. That's certainly the case, but it's no longer accelerated. That acceleration that occurred during the pandemic has dissipated now.

Mr. Brian Masse: I'm just going by stuff that's come in that is basically available to the public like Equifax and other types of surveys that are out there. What has shown that the business model doesn't need to change for the rest of the banks, the borrowing rate and so forth?

The use is up. What benefit did consumers get with the usage going up? Obviously, that requires an adjustment of business plan in terms of accessibility and all those things that Mr. Dorey mentioned. They changed some of their practices.

What did the customer get out of the benefit? I didn't see interest rates go down. I took on a public campaign to reduce credit card interest rates—you're probably familiar with that—at the start of the pandemic. What changed in terms of percentage with regard to borrowing rates and so forth for consumers?

Mr. Darren Hannah: The benefits that consumers get through credit card payments are substantial. They get the ability to shop in person or online. They get complete security. They get protection from fraud. They get the ability to buy on credit, particularly if they're buying on sale. They get rewards.

Mr. Brian Masse: Okay, so they got rewards, but the percentages stayed the same then, and they're still the same now.

You mentioned to Mr. Perkins that the rate at large is a 1.6%, but you can't break that down.

Mr. Darren Hannah: That is correct.

Mr. Brian Masse: How do you get that rate then? How does that come to you?

Let's follow the chain here, if you can identify that. Thank you.

You can't break it down, but you've come to a cumulative rate of 1.6%.

Mr. Darren Hannah: That comes from Equifax.

Mr. Brian Masse: We would have to get Equifax to break down some of these numbers. We'll have to look at doing that.

Equifax is talking about the rates going up with regard to Canadians having to pay for goods and services that are more urgent. Their buying habits have changed.

Mr. Dorey—I'll go across—have you noticed with your customers the purchasing decisions that Canadians have made? That's part of the reason we're doing this study. If they're using the credit card more, and the evidence coming in is that they're paying higher rates of return and so forth, they're more vulnerable. Do you do some analysis in terms of how that affects your customers?

Mr. Jay Dorey: We do in part. There are parts of what I think you're describing that belong to the financial institution, the banks and the credit unions that issue the credit. You're correct. I think they would be more appropriate to answer those questions, because they know those customers and products. We don't at Visa.

We do track spending in the economy between what we talk about as discretionary and non-discretionary spend. Those elements that a family really needs to buy no matter what, versus a discretion, which might be a vacation, trip or durable goods. We've certainly seen a decline in those discretionary areas of spend over the last 12 or more months. Non-discretionary spend has continued to be stable.

● (1630)

Mr. Brian Masse: Thank you.

I go to Mastercard.

Mr. Martin Leman: I echo that exactly. In terms of trends, we noticed the exact same thing.

Mr. Brian Masse: Do you get that data? I don't know if you guys—

Mr. Darren Hannah: No, we don't have that specific data. What I would say generally, though, just to your point, is that, from a bank perspective, we always want to make sure we put the right person with the right product to suit their needs.

Mr. Brian Masse: I have little time, so really quickly, what would be your opinion, Mr. Dorey, then, about...? Should there be an interest rate difference for discretionary and non-discretionary purchases? We know what's changed for Canadians is their debt level and the vehicle they use for payment. Credit cards and the pandemic shifted them. An out-of-market decision made them switch to a cashless society.

Do you think it's fair to have discretionary and non-discretionary interest rates at the same rate?

Mr. Jay Dorey: First of all, I'm incredibly empathetic to the situation that many Canadians are in today. The cost of everything has gone up, and that's very challenging. Second, I think it's important to point out that the provision of short-term credit, for many Canadians, got them through those challenges. As the CBA pointed out, most of that borrowing is very low term.

With respect to your specific question, I do want to answer that but, unfortunately, it's not the part of the business that we're close to. Those aren't our customers, and we don't set those rates or see that, so I'm afraid I don't have a comment on that particular question.

Mr. Balinder Ahluwalia: We talked earlier about the roles and responsibilities among the different parts of the ecosystem. From a network perspective, it would be the CBA that would focus on that.

Mr. Darren Hannah: As I said, we want to make sure we put the right consumer with the right product and try to find a product that works for them. If there's a better product that we have available with a lower rate, we want to put them with that product.

Mr. Brian Masse: Okay. I'm just concerned about the competition.

I'm probably out of time. Is that right, Mr. Chair?

The Chair: You're three minutes over, Mr. Masse, but it's your study so....

Mr. Brian Masse: I appreciate it. Thank you, Mr. Chair.

[*Translation*]

The Chair: I turn the floor over to Ms. Rempel Garner.

[*English*]

Hon. Michelle Rempel Garner (Calgary Nose Hill, CPC): Thank you, Mr. Chair. I'll pick up where Mr. Perkins left off.

I start with Mastercard. Just to clarify, in 2020, in an announcement made at a Davos conference, you accepted $50 million from the federal Liberal government. Is that correct?

Mr. Balinder Ahluwalia: It was $49 million.

Hon. Michelle Rempel Garner: In 2023, Mastercard's global revenue was about $25 billion. Did you ever consider that it might be, putting it mildly, reputationally problematic for a company like yours, which many Canadians intimately understand the cost of using, to take $50 million of Canadian tax dollars for something that you should probably be doing on your own anyway?

Mr. Balinder Ahluwalia: We invested $500 million in the cybersecurity centre of excellence—

Hon. Michelle Rempel Garner: Cybersecurity is important and integral to your business. Is that not right?

Mr. Balinder Ahluwalia: That's correct.

Hon. Michelle Rempel Garner: Why did you take $50 million in tax dollars from the federal Liberal government for something that you should be doing anyway?

Mr. Balinder Ahluwalia: We're outcomes focused. There's a focus on driving new patents, taking Canadians, employing them, giving them those high-paying, high-wage, high-technology jobs and an opportunity to commercialize that.

Hon. Michelle Rempel Garner: The fees you charge to business are a big issue that some folks here talked about because those fees potentially get passed on to consumers at a higher cost, with things being higher priced. At the time that you took $50 million in Canadian tax dollars from the Liberal government, was your company's lobbying posture against changes or a cap on the amount in fees that you could charge to businesses?

Mr. Balinder Ahluwalia: I'm afraid I don't understand the question.

Hon. Michelle Rempel Garner: Were you lobbying, at the time, to not change the status quo on what you could charge to businesses?

Mr. Balinder Ahluwalia: That's not my area. Unfortunately, I don't know.

Hon. Michelle Rempel Garner: You don't know. Okay.

Do you think it's possible that the $50 million you took from the federal government, and the $500 million for something you should, ostensibly, be doing anyway, was to keep the status quo or keep the federal Liberal government from changing the status quo on what you could charge to businesses for the use of your services?

Mr. Balinder Ahluwalia: Our focus is on investment and growth, and the cybersecurity centre of excellence in Vancouver allows us to continue to invest in the infrastructure of the network.

Hon. Michelle Rempel Garner: Don't you think it's a little sus or weird to ask for $50 million of Canadian tax dollars for something you should be doing anyway?

Mr. Balinder Ahluwalia: Look, we invested $500 million. It's something that we're very proud of. We're driving—

Hon. Michelle Rempel Garner: That's out of $21 billion. Thank you.

I'm going to go over to Mr. Hannah for, perhaps, a little different line of questioning. People with high debt-to-income ratios—put a different way, people who pay a significant amount for their mortgage right now—may use their credit cards more frequently for things like groceries or gas.

Would that be a fair characterization?

● (1635)

Mr. Darren Hannah: Possibly.

Hon. Michelle Rempel Garner: Possibly...? I know there are a lot of people in my community who do. I hear about it in my office.

The change between a 25-year or a 30-year amortization for a mortgage might sound good because it might lower your monthly interest payments, but I did a little research, and on the benchmark price of a home in March 2024 and the total mortgage, the interest paid.... Over the life of a mortgage, the difference that somebody would pay in interest, from a 25-year mortgage to a 30-year mortgage, is roughly about $122,000. Does that sound, ballpark, about right?

Mr. Darren Hannah: Perhaps.

Hon. Michelle Rempel Garner: Would you say, then, that a 30-year mortgage doesn't actually make life more affordable for Canadians and just makes your banks a little richer?

Mr. Darren Hannah: What I'd say is that it gives them an additional option.

In that case, what has to happen—what's important—is that the banker and the customer meeting to talk about options and determine what works best for the customer. Ultimately, this is a relationship business. The customer you're talking to has at least two products with the bank and probably more. They want to make sure that customer is well served and being provided with good value. They want to make sure that customer is able to continue to pay.

Hon. Michelle Rempel Garner: Sure.

Look, I know there's risk in providing Canadians with mortgages. Would you say that increasing the 30-year mortgage right now makes the product a little riskier for you and the consumer?

Mr. Darren Hannah: What I'd say is that it's another option. The arrears rate on mortgages is very low—0.2%. That's a very strong market.

Hon. Michelle Rempel Garner: However, they're increasing.

Mr. Darren Hannah: They're increasing from a pandemic low. That was a historic low. They're reverting back to the norm, but they're still incredibly low.

Hon. Michelle Rempel Garner: Would you characterize mortgages as affordable in Canada right now?

Mr. Darren Hannah: I would characterize them as being a competitive market.

Frankly, let me separate out mortgages and housing. Housing can be quite expensive, absolutely. I live in the GTA. I know what expensive housing looks like. Mortgages are a very competitive market. Rates went up as interest rates went up. They are coming down, which is absolutely true.

There are options out there. We want customers to shop around, particularly in that product class.

Hon. Michelle Rempel Garner: Would you say, then, that the best way to make housing more affordable for Canadians is to not increase the length of the mortgage, but rather to increase supply so prices go down?

Mr. Darren Hannah: We have been firm in saying that this is a supply-driven issue. That is absolutely true.

Hon. Michelle Rempel Garner: Thank you.

[*Translation*]

The Chair: Thank you very much, Ms. Rempel Garner.

Mr. Badawey, the floor is yours for five minutes.

[*English*]

Mr. Vance Badawey (Niagara Centre, Lib.): Thank you, Mr. Chair.

My first line of questioning is for Mastercard and Visa.

How do your companies support financial literacy, including initiatives attached to literacy that are aimed at helping consumers manage credit card debt effectively?

Mr. Balinder Ahluwalia: I can go first.

Very briefly, I think ensuring Canadians understand financial literacy is a very important topic.

What we have done is focus our attention on small business. I think the CBA and their member institutions have done a very good job and continue to service financial literacy services. Overarchingly, we've been focused on driving the robustness of small business education, whether it be cybersecurity or investments like Pier Five, which is a group we're a part of.

We've focused our attention on small business financial literacy.

Mr. Vance Badawey: Mr. Dorey.

Mr. Jay Dorey: I'm happy to respond, as well.

Visa continues to invest significantly in financial literacy and financial education around the world, and certainly in Canada as well. That takes many forms.

Similar to our friends at Mastercard, we invest in small business education. We have also been running programs for the last several years that are focused on small businesses and their digital enablement and empowerment. What understructures our financial literacy efforts is the curriculum we developed that's been peer-reviewed and tested in Canada and elsewhere. It's available for free, without a Visa brand on it, to educators and trainers for primary, secondary and post-secondary...and for new Canadians and new families. That curriculum has been delivered thousands of times in Canada.

Mr. Vance Badawey: Do you find it would be beneficial to...?

Mr. Hannah talked about relationships, and I'm happy to hear that. A lot of what you're doing is affecting people's everyday lives.

With that said, seeing the positions some folks might find themselves in, do you think a good direction to take would be creating more of a relationship with your customers with respect to that financial literacy? I won't use the word “flagging”. I'll use the word “communicating” and being transparent with respect to what your thoughts are on some of the positions some of these folks are finding themselves in.

● (1640)

Mr. Jay Dorey: Without question, that's something we absolutely do and want to do more of. We continue to invest and build.

I could highlight some other elements that we've done with programs in trying to get the message out on financial literacy. We have a great partnership with FIFA. We'll be bringing new tools to Canada around FIFA that are focused on youth and financial literacy, using soccer and FIFA as a way to get that story and message out. We've had historic partnerships with Marvel, as well, producing comic books for Canadians using Canadian terminology and talking about Canadian banking. I think it's in seven or eight languages now.

I completely agree with your point. That's something where we take our responsibility quite seriously.

Mr. Vance Badawey: How do you ensure compliance with existing regulations related to credit card fees and interest rates, and what challenges do you face in this area?

We'll start off with Mastercard first.

Mr. Martin Leman: Our network rules require that our issuers follow all applicable laws in Canada. Items such as interest rates, the level of interest rates and so forth, are dictated by Canadian laws and by consumer privacy and consumer protection.

Mr. Vance Badawey: What challenges do you face?

Mr. Martin Leman: As far as we know, all of our customers are currently compliant.

Mr. Vance Badawey: Mr. Dorey.

Mr. Jay Dorey: I have a similar answer.

We work with regulated financial institutions, both federally and provincially. They're accountable to their regulators and to the government for consumer protection. It's not our rules that enforce that, but we do have provisions in our rules to remove someone from Visa and from their membership if they violate those terms, particularly in a sustained way.

I'm not aware of any issues in Canada where we've had to take action, but that's the compliance framework that we run.

I would also add, and this is something that I think is relevant for this committee also, the code of conduct for the payments card industry in Canada. We co-operate with the FCAC, the Financial Consumer Agency of Canada, to ensure that those rules are promulgated. That's not a consumer protection framework, but it does ensure market conduct for acquirers that deal with merchants to ensure that they have rights when it comes to those payment relationships and contracts.

Mr. Vance Badawey: What is your company's stance on limiting or capping high interest rates or excessive fees?

Mr. Jay Dorey: Again, not to redirect, but that's not our part of the business and not something we deal with.

What I would say, though, is that, in any market where we've seen those reductions, the typical response has been higher fees for consumers, lower benefits and higher APR.

Mr. Vance Badawey: Mastercard...?

Mr. Balinder Ahluwalia: Ultimately, we have clear lines of responsibility on where the network lines are versus the banks versus the acquiring banks. When we're talking about interest rates, we're talking about the purview of the CBA and the government institutions.

Mr. Vance Badawey: Although that's not your area, you're the card. You're the plastic. The banks are the interest rates, etc., in terms of what they would provide. However, the question is not for the banks right now. The question is for you.

I get it. It's not your purview, but I'm asking you the question. What is your stance on limiting or capping high interest rates or excessive fees?

Mr. Balinder Ahluwalia: Ultimately, the Competition Bureau would have an issue if we were to step in and start to regulate interest rates, so we have to be very careful about the rules and regulations that govern the relationship that we have with our bank partners.

Ultimately, I think our position is that it's a marketplace and they will continue to be within the conduct of our franchise rules and the rules and laws of Canada.

Mr. Vance Badawey: Mr. Dorey.

Mr. Jay Dorey: I believe the answer would be the same.

Truly, I don't want to get too far away from our core business in describing that but, as I stated, in markets where we have seen regulation or those fees come down, there's been consumer harm and higher fees.

Mr. Vance Badawey: This is my last question. What future improvements or innovations are you considering to address the concerns related to credit card practices?

Mr. Jay Dorey: Visa continues to invest significantly in our network and in our products that are issued by banks and fintechs. I mentioned previously some of our investments in fraud and security. I'd highlight those again. Those are critically important for consumers who are dealing with fraud and dealing with a dramatic increase in scams.

Our investments, both in traditional technology and in AI and other tools to be able to limit and prevent fraud, truly have a dramatic impact and a dramatic benefit for consumers but also for merchants. Ultimately, having a system that is safe and trusted, where fraud is lessened and where those protections are available, means that merchants will have more sales. Their businesses will grow and ultimately they'll be successful. That's a significant part of our focus right now.

● (1645)

Mr. Vance Badawey: Mastercard...?

Mr. Balinder Ahluwalia: In much the same way, as we've driven more transactions onto our network, cybersecurity continues to be something that we continue to invest in. Mr. Perkins and others have alluded to investments that we've made from an inorganic growth perspective to help bring in the best and the brightest while focusing on research and development in-house. That's what we're focused on.

Mr. Vance Badawey: Speaking about the investments that you've made, the $500 million that you invested in Vancouver, could that $500 million have been invested somewhere else?

Mr. Balinder Ahluwalia: Of course.

Mr. Vance Badawey: In a different country...?

Mr. Balinder Ahluwalia: Of course.

Mr. Vance Badawey: Thank you, Mr. Chair.

[*Translation*]

The Chair: Thank you, Mr. Badawey.

Mr. Garon, the floor is yours for two and a half minutes.

Mr. Jean-Denis Garon: Thank you, Mr. Chair.

Mr. Hannah, I very much enjoyed your opening remarks. I listened to you closely.

I have the greatest respect for the banking system. We all know how important it is.

One of the significant characteristics of the Canadian banking system is that it's regulated, and that lends it stability. In a way, it also inspires consumer confidence.

You said that, and that's one of the things you often say when you speak publicly: We are highly regulated. With regard to credit cards—

[*English*]

Mr. Tony Van Bynen (Newmarket—Aurora, Lib.): Mr. Chair, we're getting two translations at the same time.

Mr. Chandra Arya: They're both in English.

The Chair: We're getting two translations for the price of one.

Mr. Brian Masse: We'll have to charge you twice.

[*Translation*]

The Chair: Just a moment, please.

We've run a check and everything's operating properly for the moment. That's great.

Mr. Garon, you may resume.

Mr. Jean-Denis Garon: Should I continue where I left off?

The Chair: I would ask you to pick up your remarks shortly before that point.

Mr. Jean-Denis Garon: I was talking about the regulatory system. We were saying that we're proud of the banking system and the fact that it's stable, unlike many other systems.

That brings me to the credit card issue.

How is it that, rather than regulate interchange fees, the Minister of Finance adopted regulations, threatened the companies and promised punishment if they didn't reach a voluntary agreement before a certain date?

The companies ultimately came to a kind of temporary agreement, which will expire in 2025. The situation regarding voluntary codes of conduct is the same.

Mr. Hannah, how is it that, when you talk about the industry, you claim to be proud that it's regulated, but that we sense no enthusiasm on your part when the time comes to make new regulations?

[*English*]

Mr. Darren Hannah: I'm sorry. I've just lost the....

Could you repeat the last part again? It's very quiet.

[*Translation*]

The Chair: Mr. Garon, I would ask you please you to speak more softly, if possible, for the sake of the interpreters.

Mr. Jean-Denis Garon: Do you think I'm too aggressive?

The Chair: No, but you are speaking quickly.

Mr. Jean-Denis Garon: You know about Canada and the official languages; that's the way it often is.

I'll reword my question to make it more concise.

When it comes to having strong regulations on interchange fees or not having voluntary codes of conduct, we don't sense that the industry is interested in new regulations. Why is that?

How would you explain that paradox?

[*English*]

Mr. Darren Hannah: I will ask my colleague Mr. Docherty to speak about the regulatory environment we have. Suffice it to say, it's substantial.

● (1650)

[*Translation*]

Mr. Jean-Denis Garon: In response to calls for strong regulation on interchange fees, why doesn't the industry say that it would support that initiative and would like to see it implemented promptly rather than settle for voluntary agreements?

I wonder about that because every time bankers represent the banking industry, they seem to say the industry is proud of the fact that it's regulated. However, they don't seem too enthusiastic when we introduce new regulations.

Why is that?

[*English*]

Mr. Charles Docherty: I appreciate your question. I would mention that there is a role for codes of conduct in the regulatory sphere, because they can be changed quickly. They're adaptable to different circumstances.

The agreement, when it comes to interchange, just to reiterate, was between the government and the networks, not involving the banks. Certainly, yes, the banking industry is highly regulated. There's a lot of legislation. There's the consumer protection framework in the Bank Act. There are many provisions that they comply with.

[*Translation*]

Mr. Jean-Denis Garon: I'd like to ask you a quick question, and it's not a gotcha question.

Do you think the industry is over-regulated?

[*English*]

Mr. Charles Docherty: I don't think it's for me to say one way or the other if the industry is over-regulated or under-regulated.

[*Translation*]

Mr. Jean-Denis Garon: Who would be able to say?

[*English*]

Mr. Charles Docherty: I think it's more a question of government policy and reaching the right balance between regulating and not regulating. Banks would work with the government to pursue any types of enhancements when it comes to consumer protection regulation.

[*Translation*]

Mr. Jean-Denis Garon: Thank you.

The Chair: Thank you, Mr. Garon.

Mr. Masse, the floor is yours.

Mr. Jean-Denis Garon: On a point of order, Mr. Chair.

[*English*]

Mr. Brian Masse: Thank you, Mr. Chair.

The Chair: Just one second, Mr. Masse. There is a point of order.

Monsieur Garon.

[*Translation*]

Mr. Jean-Denis Garon: I would like to make what I consider an important point.

I know that the technicians and interpreters do the best they can, but as a result of the technical issues during my last turn, I deeply resented the unequal treatment, in both official languages, between the French and English-speaking members. I was interrupted several times, and the witnesses also found it hard to understand the questions. It was an uncomfortable situation that I believe people sensed.

As a francophone member and a Quebecker, I want to say I thought it was deeply unfair for me and for the witnesses who were interrupted.

Thank you, Mr. Chair.

The Chair: I think the unfairness you refer to was more of a technical nature. As you know, that's what happens when you live in a country with two official languages. Just remember that I'm always quite generous with speaking time in these cases.

Mr. Masse, the floor is yours.

[*English*]

Mr. Brian Masse: Thank you, Mr. Chair.

Let's get Mr. Littler back involved here. I have here a poll from the Harris Poll that was conducted, and with the Retail Council.... I mean, we've already heard here some of the bogeymen that are always thrown up, namely that if we lower the percentage costs of borrowing, there are going to be equal or higher fees. We've also heard about cybersecurity and so forth, which I've worked on quite extensively over a number of different years. The issue, though, that I'd like you to address is the fact that purchasing has changed. I'm wondering whether the Retail Council has an opinion.

Really quickly, 64% of Canadians talked about higher prices in general for goods, 30% of which were related to major unexpected purchases; 20% to unemployment or earning less money; 17% to mortgage payments; 17% to living situations; and 6% to other issues. That “other” might be competition perhaps or a portion of that. It's not competition that's changing.

If there were more purchasing power for Canadians on actual goods, as opposed to using finance as a business in terms of borrowing rates, what could that mean for the lives of Canadians and also for manufacturers, distributors and retailers, who are doing more than just moving money around as a business? That's a question for the Retail Council of Canada.

Mr. Karl Littler: I'm going to resist the temptation to come back to the interchange for the moment because obviously, if those financial costs were not there, there would be greater affordability.

Speaking more generally, I would echo some of the comments that were made earlier that what you're seeing is a consolidation and obviously, in some cases, a shortfall with respect to non-discretionary purchases, the stuff that people need to keep body and soul together. Obviously, that's being squeezed by inflation. It's also being squeezed by interest costs. It's being squeezed by a multitude of essentially non-discretionary things. We have certainly seen that play out in the context of the retail setting.

I don't know whether I can speak to how other players in the mix who are into more of the financial instrument space could positively influence that, but obviously anything that can alleviate the pressure that arises in the context of borrowing, whether that be for mortgages or a credit card.... If you're carrying a revolving balance, obviously, to the extent that this could be alleviated, it would free up more money for the necessaries of life. That's about the only answer I could really give.

Mr. Brian Masse: That's good. I will let you complete...on the interchange fees because you heard the responses, and you deserve the right to respond to that.

I guess my concern is what I've already heard here, which is that, you know, we've all had to adjust our behaviour out of necessity with regard to the pandemic and subsequently thereafter, but it appears that this industry has not had to adjust with it. That's my concern for other parts of the economy.

You mentioned rates in Australia, the U.K. and other interchange things. Perhaps highlight how to actually pass those savings on, because, as we're already hearing again and as I've heard before, if we lower interest rates—and it's funny because you can actually have people call and get lower interest rates at different times—they'll just increase fees somewhere else and, hocus-pocus, your savings are gone. The bogeyman's out there, and it's going to cost you more, so we just can't do anything. We just have to accept the situation that we're in right now.

● (1655)

Mr. Karl Littler: I guess I'd say a couple of things. One of them is that a number of the witnesses physically present have touted the virtues for merchants and for consumers around the access to a broad market, the security, all of those elements, protection from fraud, coverage against counterfeit and so forth.

Let's be really clear. In Australia, they do all that. In France, they do all that. In Britain, they do all that, and they do it for 30 basis points, which is in the order of less than a quarter—more like a fifth—of what is being charged in Canada. All of those benefits accrue to the merchants and through them, postpurchase, to the consumers. They occur in every one of those other markets that have prices for interchange way below what we do.

Where this racks up the money is in rewards points, which are regressively profiled, where the wealthiest people, certainly the people who are eligible for the highest-fee cards, get the most benefit, and it is paid for by everybody else. Of course, the big pot of gold at the end of all of that goes to the banks as profitability.

Mr. Brian Masse: Thank you, Mr. Chair.

[*Translation*]

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

Mr. Généreux, the floor is yours for five minutes.

[*English*]

As a little reminder for our witnesses, the best thing to do is wait for the red light to turn on. Don't touch the microphones. When it's red, you can start answering the question.

[*Translation*]

Mr. Bernard Généreux: Thank you very much, Mr. Chair.

Thanks as well to the witnesses for being with us.

Mr. Ahluwalia, pardon me if I mispronounce your name.

How much profit did Mastercard make last year? It was about $11 billion if I'm not mistaken.

[*English*]

Mr. Balinder Ahluwalia: It was $11.2 billion.

[*Translation*]

Mr. Bernard Généreux: Mr. Dorey, how much profit did Visa make?

[*English*]

Mr. Jay Dorey: I don't have that information with me. I'd be happy to provide it to the committee. It's a public document. I think it would be—

[*Translation*]

Mr. Bernard Généreux: Mr. Dorey, earlier you said you had invested $11 billion in cybersecurity.

Do I have that right?

[*English*]

Mr. Jay Dorey: It was in cybersecurity and technology. That's correct. Cybersecurity is a portion of that investment.

[*Translation*]

Mr. Bernard Généreux: Did you invest that last year alone, or did you spread it over several years?

[*English*]

Mr. Jay Dorey: Yes. Those investments began in 2019 and are ongoing today, and they continue to accelerate.

[*Translation*]

Mr. Bernard Généreux: So you're making those investments over a period of approximately five years.

Have you previously requested a federal government grant to invest in cybersecurity?

If you have, how big a grant was it?

[*English*]

Mr. Jay Dorey: In Canada...no.

[*Translation*]

Mr. Bernard Généreux: So Visa has never requested money from the federal government to invest in cybersecurity.

Mr. Ahluwalia, Mastercard made a profit of $11 billion last year and received $50 million for cybersecurity in 2020.

Incidentally, what happened to that grant?

Visa has done the same thing in cybersecurity but has never requested or been offered any subsidies.

[*English*]

Mr. Balinder Ahluwalia: The cybersecurity centre is an important centre of excellence for us. It's something that drives innovation. It's something we can all be proud of.

[*Translation*]

Mr. Bernard Généreux: That's not the question I asked you.

You made a profit of $11.2 billion last year and received a $50 million grant four or five years ago to establish a cybersecurity centre.

Mr. Dorey, has Visa established a cybersecurity centre in Canada that's similar to the centre that Mastercard has built in Canada?

[*English*]

Mr. Jay Dorey: Not in Canada. Our investments in cybersecurity, much like Mastercard's, are global, so our cybersecurity centres are based in other places around the world.

[*Translation*]

Mr. Bernard Généreux: I see.

Mr. Ahluwalia, Mastercard received a grant to create some 380 jobs. Are those 380 jobs still in Canada now that the grant has been awarded?

● (1700)

[*English*]

Mr. Balinder Ahluwalia: I can get you the exact number, but we have a full office contingent in Vancouver.

[*Translation*]

Mr. Bernard Généreux: All right.

We've learned in the past few weeks that there will be a 27% reduction in transaction fees per credit card. Please correct me if I'm wrong.

Has the government offered you anything in exchange under the agreement recently reached between credit card issuers and the federal government?

How can you offer a 27% cut in fees when that apparently wasn't previously possible?

Mr. Leman, can you answer that question?

Mr. Martin Leman: Thank you for your question.

You're right. The interchange rate cut, which will go into effect on October 19, amounts to a reduction of roughly 27% on in-store transactions for 90% of merchants in Canada. That's the result of negotiations conducted with Canada's Department of Finance.

Mr. Bernard Généreux: I see.

The government has been in power for nine years. Why wasn't this done previously?

Mr. Martin Leman: Actually, it was done. An agreement was reached in 2014 and implemented in 2015. Another one was reached in 2018 and implemented in 2020.

Consequently, the current agreement is the third one designed to lower those fees. We're talking about a total reduction of 20% so far, in addition to the 27% cut that will be spread over a 10-year period.

Mr. Bernard Généreux: The consumer representative told us that rates are much lower in certain countries such as England, France and Australia. Why do we still have rates that high in Canada? Is it because you have more power than the government when it comes to setting those rates?

If we've managed to reach an agreement to lower rates by 27%, why not cut them by 75%?

Mr. Martin Leman: It's dangerous to draw overly narrow parallels between markets. The European payment card market is based on a kind of credit card that requires the balance to be paid in full at the end of the month, whereas the North American market operates on credit cards allowing balances to be paid over a number of months or years. So the product types are quite different, and direct comparisons can't be made between the markets.

Furthermore, the benefits that accrue to merchants in credit card transactions are very different in Canada, where the average value of credit card purchases is nearly 20% greater than in cash or debit transactions. It's a completely different market context from what you find in Europe.

Mr. Bernard Généreux: You mentioned Europe, but we also discussed Australia. It appears that fees are much lower around the world, as in Israel, than in Canada. Why? Surely it isn't just because people in certain countries use cards that require balances to be paid at the end of the month, whereas people in other countries can make minimum payments, as is the case in Canada most of the time.

Is that the only reason for such large differences in transaction fees?

Mr. Martin Leman: It's the main reason, and I agree with you that rates in Canada are much lower than in many other countries.

Mr. Bernard Généreux: You say that rates are much lower in Canada, but my understanding was that they're much higher. We're talking about transaction fees here.

Mr. Martin Leman: Yes, that's what Mr. Littler said. However, when you asked me the question, you said that rates were lower in Canada. I can confirm for you that Canada ranks in the middle of the pack globally. Consequently, rates in Canada are much lower than in many other countries.

The Chair: Thank you, Mr. Généreux.

[*English*]

Mr. Gaheer, the floor is yours.

Mr. Iqwinder Gaheer (Mississauga—Malton, Lib.): Thank you, Chair.

Thank you to the witnesses for appearing before the committee.

There has been a lot of discussion about transaction fees and other fees that are involved. I think there's a little bit of confusion as well.

I wanted to focus on the network assessment fee and the interchange rate. Both of those are actually set by the credit card companies, Mastercard and Visa, so I wanted testimony from both Mr. Ahluwalia and Mr. Dorey.

We know that the interchange fee is the small amount of money that a merchant pays when you make a purchase with a credit card or a debit card, and the fee will largely go to the credit card issuer. Again, it's set by Mastercard, Visa and others.

I want to say that some of the merchants, like grocery stores, gas stations or restaurants, have been known to raise their prices to cover that interchange fee. Could Mr. Ahluwalia and Mr. Dorey give testimony on the average interchange fees that Visa and Mastercard charge?

● (1705)

Mr. Martin Leman: As mentioned throughout this meeting, there are additional new reductions coming for small businesses in Canada, and the average rate for an in-store transaction, which would apply to the grocery store in your example, will now, going forward, be 0.95%.

Mr. Iqwinder Gaheer: That is for businesses that I think have transactions with Visa worth $300,000 and with Mastercard worth $175,000, but for companies and merchants that have more transactions of a higher dollar value in credit cards, that reduction wouldn't quite apply to them.

Outside of that range, what's the average interchange fee that you guys charge? Do you know?

Mr. Jay Dorey: I'm happy to answer the question for Visa, if that's helpful.

I think you've heard from all of us here today that the market is fairly complex and there are many players involved in really any transaction. There's the issuing bank that provides the card. There's the acquiring bank or payment provider that provides services to a merchant. Then there's the network that sits in between, and there can be more players, as well, depending on what the transaction is.

Interchange is the fee that's paid to banks, and in Canada overall those rates are 1.4% on domestic credit card transactions. That includes point of sale and e-commerce. The new reductions that are going to be put in place for small merchants will produce an average of 95 basis points, or slightly below 1%. Some of those transactions will be above 0.95%. Many of them will be below 0.95%. The overall average will be 0.95%.

You also raised network assessment fees or the fees that Visa charges.... Oh, I'm sorry.

Mr. Iqwinder Gaheer: I'll come back to that one after, if that's okay.

Mr. Littler, you have your hand up. I'll just come back to you as well.

Obviously, for small businesses, it's a big change. They're more likely to accept credit cards as payment because of the policy that our government has put in place.

Mr. Ahluwalia, during your opening testimony, you talked about how you have to set the interchange rates at a rate where the card issuer is likely to participate in this program. However, what I wanted to raise—and this has been touched on a little bit—is that, when you look at the Reserve Bank of Australia, it's set its credit card interchange rates at a weighted benchmark of 0.5% of the transaction value, with a ceiling on individual rates of 0.8%. When you look at the EU, it has caps for interchange rates of 0.3% for consumer credit cards.

I guess the point that I want to make, or at least the observation I'm making, is that the EU and Australia seem to be doing fine attracting different card issuers to participate in this program, so isn't there room for more improvement?

Isn't there room to lower interchange fees, yet still attract card issuers to participate in Canada?

Mr. Balinder Ahluwalia: Thank you for the question, Mr. Gaheer.

The reason I asked Mr. Leman to speak is that he leads interchange and pricing for us for Canada. Ultimately, I think we're very proud of having gotten to where we've gotten to, which is a 24% reduction over the last number of years.

We sit in the middle. As we were saying earlier, it's a job for us to balance the needs of our issuing banks with the needs of our acquiring banks from a merchant perspective. It's a delicate balance and I think we've reached a level where both sides are relatively maximized. I think we're proud of that.

Mr. Iqwinder Gaheer: The observation that I'm making is just that other places seem to be doing fine with the lower interchange fee. We know that merchants like to pass on interchange fees to their consumers, so I think a conversation can definitely be had on where that balance should be set.

Mr. Littler, you had your hand up before. I don't know if you want to make a comment.

● (1710)

Mr. Karl Littler: Yes, it was two points.

One of them is.... I know Mr. Dorey is a very fair guy, but he said briefly that the 1.4% would be lowered to 0.95%. It most certainly will not be, as an average across the portfolio. I'd be surprised if it even got to 1.35%.

It will be lowered to 0.95% for in-store transactions for some relatively small businesses that are numerous but ultimately generate perhaps 10% to 15% of all retail sales in Canada.

You need to understand that, if you view it as a consumer issue and don't paint it into a corner as a small business issue, when those people are shopping, as somebody indicated earlier, at a grocery store or a larger gas station or whatever it will be, they will not be benefiting from that. It won't lower the average overall.

Mr. Iqwinder Gaheer: I also wanted to talk about network assessment fees. Again, these fees are also set by the credit card companies. We know that the network assessment fee is the fee that the credit card company charges the payment processor per transaction to access the credit card network. If this is too high, it can potentially discourage merchants from accepting credit cards. Is this true?

This is for the credit card companies.

Mr. Karl Littler: There's a concern, and it's not unique to Canada, that as fees are lowered at one end, they're raised on the other. I don't have chapter and verse on this, but merchants will complain that they've seen some savings in some settings from some of the reductions, particularly the ones in 2015 and 2020, but there's been a proliferation of other fees. That's the concern they have.

However, I don't get as much feedback from members, other than perhaps a bit of frustration with respect to network fees.

Mr. Iqwinder Gaheer: Do the credit card companies want to talk about the network assessment fees?

Mr. Jay Dorey: The network fees that are charged and properly assessed to acquiring banks and payment service providers represent a very small part of the transaction. They're also publicly posted, publicly available, and they've been largely stable for more than a decade.

For Visa, that's 0.09% on a transaction, which is significantly below anything you would see, for example, in the fees that are charged to a merchant by their acquirer, which in fact make up the bulk of the cost for any merchant.

The Chair: Thank you, Mr. Gaheer. You're well over your allotted time.

I'll now turn it over to Mr. Patzer.

Mr. Jeremy Patzer (Cypress Hills—Grasslands, CPC): Thank you very much.

Mr. Badawey had a very interesting way of closing his line of questioning with Mastercard. Basically, he insinuated that if they had not given you guys that $49 million, you would have built this project somewhere else.

Is that true?

Mr. Balinder Ahluwalia: I'm sorry. Can you ask that question again?

Mr. Jeremy Patzer: Mr. Badawey, in his last question to you, insinuated that if they did not give you the $49 million you possibly could have built this somewhere else. Is that true?

Mr. Balinder Ahluwalia: We made a strategic decision to pick Canada and Vancouver for its resources and the richness of the talent pool.

Mr. Jeremy Patzer: Okay. Did you put this concept or idea out there to other countries? Did other governments offer you similar amounts of money to build in their countries instead?

Mr. Balinder Ahluwalia: I'm unaware of the details of that.

Mr. Jeremy Patzer: You're unaware of those kinds of details. Okay. All right.

In the press release that was tied to this announcement of you guys receiving the $49 million, it also said that there was $420 million of this project that was eligible for funding. Were there more taxpayer dollars given to Mastercard for this project above and beyond the $49 million?

Mr. Balinder Ahluwalia: No, I believe it's $49 million.

Mr. Jeremy Patzer: Only $49 million...so there's nothing else. Even though $420 million was eligible, there was not a penny more than $49 million?

Mr. Balinder Ahluwalia: That's correct.

Mr. Jeremy Patzer: Okay. All right. Thank you very much for that.

Given that your revenue from 2020 to 2023 has increased 67%, do you regret taking $50 million from the taxpayer?

Mr. Balinder Ahluwalia: We're really proud of everything that we've done at our Vancouver cybersecurity centre of excellence. It has generated nearly 90 patents that are made in Canada by Canadian resources, folks who went to school here and grew up here. We only expect that to continue to grow as time goes on.

Mr. Jeremy Patzer: For everything else in life, there's the taxpayer. There we go.

Visa, when you see your competitor get a $50-million handout from the government, does that not make you think, where's my $50 million? How come I didn't get $50 million?

● (1715)

Mr. Jay Dorey: I think it might be fair for me to say no comment to that particular question. Thank you very much.

Mr. Jeremy Patzer: That's okay.

Has the government ever approached Visa, though, about accepting grants or contributions to try to get projects built here in Canada?

Mr. Jay Dorey: That's an excellent question.

I'm just trying to recall through my tenure at Visa if that has occurred. I think the answer is no, but I would need to confirm that and I'm happy to respond to the committee with that detail.

Mr. Jeremy Patzer: Okay. Thank you very much.

Mastercard, I'll go back to you guys. In regard to that $50 million, I'm just curious: Did you guys come to the government and request $50 million, or did they come to you? Did they come to you and say, here's $50 million?

Mr. Balinder Ahluwalia: I'm unsure. It's before my tenure. I'm happy to get back to you and the clerk with any answers.

Mr. Jeremy Patzer: Okay.

Lots of times with the strategic innovation fund, they give you the option for repayable loans or some that are non-repayable. Are you considering repaying the taxpayer, given that you had a 67% increase in revenue?

Mr. Balinder Ahluwalia: We've invested $500 million in the cyber centre in Vancouver. We're proud of everything that we've done there and will continue to do there. It's an integral part of our global network and expected to commercialize good Canadian research outside of Canada, so it's something we can all be proud of.

Mr. Jeremy Patzer: All right.

How many other countries do you guys have data centres built in, or I guess knowledge centres, cybersecurity centres? How many other countries have you built in?

Mr. Balinder Ahluwalia: Canada was the first, and it's the only cybersecurity centre of excellence. We have others, but Canada was the first.

Mr. Jeremy Patzer: Have other countries pitched you on building one in their countries?

Mr. Balinder Ahluwalia: I'm unsure. I can get back to you.

Mr. Jeremy Patzer: Okay. If the answer is yes, can you see if their governments were offering you money as well?

Mr. Balinder Ahluwalia: I can certainly get back to the clerk and you on that.

Mr. Jeremy Patzer: Okay. Thank you very much.

The Chair: You're out of time, Mr. Patzer.

Mr. Jeremy Patzer: Out of time...? Okay.

The Chair: Thank you.

MP Van Bynen, the floor is yours for five minutes.

Mr. Tony Van Bynen: Thank you, Mr. Chair.

I'm trying to sort out the transaction and the costing of the transaction as we go through.

Mastercard and Visa, all you do is take the transaction and the portfolio is managed by the banks. Is that correct? They get the rate of return, etc. Okay.

I'm hearing about this 0.95% average fee. Is that for every transaction? If I was to pay with my Visa card $100, 95¢ would go to who?

Mr. Martin Leman: The bank that has issued the card.

Mr. Tony Van Bynen: Okay.

I'm trying to understand the increased cost from the bank's point of view if I charged $100 or if I charged $1,000. Why would I pay $9.50 for one transaction and 95¢ for the other?

Mr. Darren Hannah: Well, from the bank's point of view, bear in mind that this is credit. I'm extending unsecured credit to a customer for a period—from the point of purchase until the end of the grace period. As a consequence, the transaction is greater. Likewise, the fraud risk is greater. I am making the customer whole in the case of any fraud liability.

There is a risk associated with all of this, because it is ultimately a credit product.

Mr. Tony Van Bynen: Am I more likely to be fraudulent if I were to pay $1,000 for something rather than $100?

Mr. Darren Hannah: No, the bank has a certain amount of exposure.

Mr. Tony Van Bynen: We can come back to that. It's the risk-based pricing of the transaction.

The last I saw is that the prime lending rate was 2%, which is prime plus two. This may or may not be an average lending rate on your portfolio. However, I see that the credit card average rate is 28.2%.

Is that the risk we're paying for? Is that the risk factor?

Mr. Darren Hannah: Let me say two things.

One, I don't think that's actually the rate. That sounds awfully high.

Two, let me go through and explain the mechanics of credit card pricing, because it's unique.

Credit cards are a couple of things. Obviously, they are unsecured products, which we discussed, available to 89% of Canadians and activated at the point of sale in real time. They're widely available. That's part of the pricing. Part of it, as well, though, is regarding the unique properties credit cards have relative to other credit vehicles. They're the only ones that have an interest-free component—71% of Canadians pay their card off in full every month. For that, the bank is providing free credit to a customer from the time of purchase through to the end of the grace period. That is a cost of funds to the institution. In addition, the credit card, unlike every other credit product, has an entire point-of-sale activation system: real-time fraud monitoring, real-time protection against liability and 24-7 customer support.

All of that is part of the unique value proposition that comes in the card.

● (1720)

Mr. Tony Van Bynen: However, none of that changes with the value of the purchase transaction. Does it?

Mr. Darren Hannah: What it does is change the cost of managing the product for an issuer, as opposed to just providing you with a line of credit.

Mr. Tony Van Bynen: Okay.

Do you know what the average rate of arrears is for your portfolio, other than mortgages and credit cards?

Mr. Darren Hannah: I don't have that with me. I'm sorry.

Mr. Tony Van Bynen: Okay.

My concern is that you're saying your arrears rate was 1.6% and you mentioned—

Mr. Darren Hannah: It is for cards. That's correct.

Mr. Tony Van Bynen: Why is it that we have such a high price at prime plus 20%?

Mr. Darren Hannah: As I said, it's the nature of the product, as I just described.

However, again, the ultimate truth of it is that 71% of people are paying their balance off in full every month, so they're paying nothing.

For those who decide to carry a balance, there are low-rate cards available. Most issuers make one available. Some are multiple. In addition, as I mentioned, for customers who want to keep their existing card but still want to carry a balance—maybe they like the rewards they get from it, or it may have an association they want to maintain—there are innovative products like instalment loans and term loans that allow you to reduce the interest, make structured payments and, therefore, manage your debt.

Mr. Tony Van Bynen: The credit card then becomes a feeder for the balance of your portfolio. Is that correct?

Mr. Darren Hannah: I'm sorry. Say that again. I didn't hear that properly.

Mr. Tony Van Bynen: Credit card balances become the feeder for the balance of your portfolio for someone who is not—

Mr. Darren Hannah: I'm sorry. I don't understand what you mean by “feeder”.

Mr. Tony Van Bynen: If someone is not paying their balances, you would encourage them to use instalment loans, then.

Mr. Darren Hannah: If you are a banker, you certainly want to work with your client to help them manage their finances in a way that works best for their family. If that's the option that works best, that's great. If it's another product, we'll work with them in that way as well.

Mr. Tony Van Bynen: I want to come back to this risk-based pricing.

There are certain cards that belong to individuals who are exceptionally good risks. Do they pay the same prices as people who are not exceptionally good risks?

Mr. Darren Hannah: First off, you have to qualify. It is a credit product and it's absolutely true that you have to qualify.

All of the terms and conditions, though, are described clearly up front in the summary box you get at the time of application. It shows what the rate is, what the fee is and what the terms and conditions are, so you can decide which one makes the best sense for you.

Mr. Tony Van Bynen: That's not my question.

Do you have a risk-based pricing model built into your product?

Mr. Darren Hannah: Ultimately, all bank credit is risk-based.

Mr. Tony Van Bynen: No, I'm talking about the credit cards. That's our discussion today.

Mr. Darren Hannah: I can't speak to individual banks' risk-based pricing models, but I can say that, generally, as a prudent lender, you make risk-based decisions.

Mr. Tony Van Bynen: If the losses are a concern and the transactions are concerns, have you thought about reducing your risk selection criteria to reduce the risk level so that you could reduce your pricing model?

Mr. Darren Hannah: Every bank makes its own decision. That's a product decision they'd have to make. Given the competitive nature of this marketplace, you are seeing low-rate products in the market to try to attract a certain set of clients for whom that makes sense.

Mr. Tony Van Bynen: Okay. How does the CBA monitor member banks' compliance with consumer protection regulations related to credit cards, and what actions are taken in cases of non-compliance?

Mr. Darren Hannah: The CBA is not a regulator.

I will let my colleague, Mr. Docherty, speak to the regulatory environment.

Mr. Charles Docherty: The banks that are part of the association, and any bank, basically, in Canada, are subject to oversight by the Financial Consumer Agency of Canada. They can issue fines. They have a number of supervisory tools in their tool box to ensure compliance.

[*Translation*]

The Chair: Thank you, Mr. Van Bynen. Your time is up.

Mr. Garon, the floor is yours.

Mr. Jean-Denis Garon: Thank you, Mr. Chair.

Mr. Ahluwalia and Mr. Leman, I want to make sure I have a clear understanding of what you said.

You said that Canada's interchange rates rank in the middle of the pack globally?

● (1725)

Mr. Martin Leman: Yes, that's correct.

Mr. Jean-Denis Garon: If you're willing, would it be possible for you to file the documents pertaining to those rankings and related calculations with the committee clerk? I imagine those figures are available.

As we're conducting a study on credit card practices, that would help us get a clearer idea of the scope of this issue.

Mr. Martin Leman: Yes, we will submit them to the clerk.

Mr. Jean-Denis Garon: Thank you.

Mr. Littler, I'll go to you because that statement on interchange fees in Canada surprised me. We've obviously done some research, but we haven't reached the same result. As the saying goes, however, the devil is in the details.

Have you made the same observation, that Canada and Canadian businesses are duffers when it comes to interchange rates, that we're in the middle of the pack and that there ultimately aren't that many fees in Canada?

[*English*]

Mr. Karl Littler: First, for the members, there is a study by the Kansas City Fed that is updated every year. It's done by an economist by the name of Fumiko Hayashi, who is really well known in this space. She also worked with the Bank of Canada before on some studies. It actually does indicate, for a significant selection of countries, what their rates are. There are, indeed, some that are higher than Canada's, but for the bulk of them, they are lower, of course—significantly lower.

I'm going to go out on a bit of a limb if I have time. The reality is that where they've been lowered, they've been lowered by public authorities, let's say, like the Reserve Bank of Australia, which is obviously a central bank, and like the European Commission, which is a competition authority.

The settings where they've struggled to get lower rates tend to be in milieus where parliamentarians and legislatures of various kinds are the ones making the decision. Although, not invariably, in places like Israel and so forth, legislatures have stepped in. For the most part, legislatures lend themselves to some pretty assertive lobbying for those who have a significant interest in this space, and in consequence, it's usually where somebody is taking a more—

[*Translation*]

Mr. Jean-Denis Garon: Mr. Littler, allow me take this opportunity to ask you another question. I asked the other witnesses questions about the fact that the government had sort of insisted on rate cuts. It apparently told Visa and Mastercard, if I'm not mistaken, that if they didn't agree with the government, they would be forced to lower their rates. That's a strong incentive because it appears that the banking industry is prepared to take many measures to avoid regulation.

It was said at the time that these voluntary agreements between Visa and Mastercard on the one hand, and the government on the other, would encourage other actors to follow their example. If I'm not mistaken, however, American Express hasn't yet decided whether to do so, and other actors, in certain cases, are slow to join the movement.

Can this voluntary approach be sustainable?

As for codes of conduct, I can understand why people say the situation needs to evolve quickly. I can accept that argument.

Why have other countries decided to regulate interchange fees, and, ultimately, why didn't the banking system collapse following that decision?

[*English*]

Mr. Karl Littler: That is exactly right. Obviously, they fought a rearguard action in Europe and in Australia against being regulated, but regulation was, of course, what was ultimately decided upon.

[*Translation*]

Mr. Jean-Denis Garon: Mr. Chair, I would like to ask a final question, if I may.

We have genuine agreements. I agree that we've had declines and that they're asymmetrical for small businesses, according to the agreements. The fact remains that the agreements are neither permanent nor regulated.

Mr. Littler, are you concerned about what will happen after these agreements expire in 2025?

Have the merchants you represent been informed of what will happen?

Are we still unclear about how these agreements with the major credit card companies could be made permanent?

[*English*]

Mr. Karl Littler: I would probably recommend that you go down the path of regulation and set a competent authority to look at the economics of this, because it often gets played out in political theatre, and I think it doesn't lend itself well. That's not to say that some aspects, particularly for the code of conduct, may be more suitable to voluntarism.

This is about money at the end of the day, and very large amounts of it. I mentioned $60 billion. A handshake agreement or maybe a little better than a handshake agreement is obviously less compelling than a proper regulatory approach to it.

● (1730)

[*Translation*]

Mr. Jean-Denis Garon: Thank you, Mr. Chair.

The Chair: Thank you very much.

Mr. Masse, the floor is yours.

[*English*]

Mr. Brian Masse: Thank you, Mr. Chair.

Mr. Ahluwalia, you have rightly shown pride in your patents that you developed. How many have gone to market?

Mr. Balinder Ahluwalia: I'm unsure. I can get back to you on that.

Mr. Brian Masse: That would be good.

Is there an agreement with the government and the centre that you're doing here that those are commercialized in Canada?

Mr. Balinder Ahluwalia: Do you mean from Canada?

Mr. Brian Masse: Yes.

Mr. Balinder Ahluwalia: Yes, the work is done here. It's commercialized from—

Mr. Brian Masse: It's from Canada. That's an important distinction. I wanted to make sure that's clear, because I come from a place with tool and die mould-making and everything. We get lots of patents, but it doesn't necessarily mean that something is produced in Canada. I wanted to clarify that. I think it's important for the record. Thank you.

Quickly over to Mr. Hannah, you keep mentioning 71% of Canadians. That's not what the Harris Poll survey said. I'm going to read from their survey here. Also, it's not what Equifax says. They say:

> More than half of Canadian adults (55%) currently have credit card debt—up from 43% when asked a year ago. The repayment periods for credit card debt are increasing, too. Of Canadians with credit card debt, 51% say it will take six months or longer to pay it off, up from 40% a year ago.
>
> These trends dovetail with the findings from Canadian credit bureau Equifax. Total balances for Canadian credit cards reached an all-time high in the third quarter of 2023, with the average balance rising to $4,119, according to an Equifax Canada Market Pulse report.

Quite frankly, you have your 71%, and this is saying something different. There's a 20% margin difference there, which is quite significant.

Maybe you can tell Canadians now how they can get a lower-interest credit card rate. What would be your best advice for those 50%-plus Canadians, or even for the 30% you argue about, to get a lower rate?

My constituents don't have that same experience when contacting credit cards, trying to consolidate and so forth. Maybe a public service announcement right now would be helpful to tell those who are paying off massive amounts of debt of $4,000 or more how they can get a lower rate.

Mr. Darren Hannah: My advice is always the same. Talk to your bank. Go in, tell them your situation, tell them what you're looking for, tell them what you need and have the dialogue. Most issuers offer one. Go in and have the discussion.

Mr. Brian Masse: If that doesn't work, what do you do next? That's what I'm getting at.

Mr. Darren Hannah: That's when you shop around. This is an incredibly competitive market with 26 different issuers, a couple of hundred products and a product that frankly is basically a perfect substitute for each other.

Mr. Brian Masse: Okay. I appreciate that.

I want to end on the note of helping some consumer advocacy here. Here's the other problem. What would you say to those people who lose all their points and all the other things, the trinkets and baubles that are attached to credit cards right now that they have been paying into and sometimes pay fees to get? I know my credit card charges a certain amount to accumulate points. Then they lose all that. All those people lose those points.

Should there be work done so that people accrue those benefits and can transfer them as well? Is that something your organization would support?

Mr. Darren Hannah: They're definitely not trinkets and baubles. These are real value. They're giving people real value that they can use for real expenses, which is important. It's also important because what we've seen in other jurisdictions that have regulated is that this is what has been lost.

Mr. Brian Masse: Okay, fine. I'm explaining it in that way, because people pay for them ultimately one way or the other. I mean, you pay for everything. Nothing's for free. You mentioned that earlier.

What would you agree to or what would be possible for people to be able to transfer those benefits? Similar to telco companies, when you transfer from one carrier to another carrier, you can keep your phone number, so why can't people keep the same types of benefits equally amongst credit cards for the types of benefits that accrue? Sometimes it's air miles and sometimes there are other benefits to point systems.

Would your association support a transfer of that? That's wealth they give up if they have to switch credit cards to get a lower rate, because they go on bended knee to the banks. Would you support that? There would be a transfer of that wealth that people have accumulated. It could be at air miles, points or so forth, which would be translated into some type of an economic return so that they would then get those benefits with the new card.

Mr. Darren Hannah: What should happen is that, if people want to get a new card, they go in, they have their discussion and then they ultimately decide if that's the product for them. They can keep their existing card as well, if they want, use up the points they have on there, and then transfer over to a new one. That's entirely up to them. That's a discussion—

Mr. Brian Masse: Yes—20% or 30% or so forth, but the whole point was to try to get people out of massive amounts of debt.

Okay. We'll work on this.

Thank you, Chair. I know that you've been generous with the time.

Thank you to the witnesses for coming here today. I really appreciate that.

● (1735)

[*Translation*]

The Chair: Thank you, Mr. Masse.

Mr. Perkins, the floor is yours.

[*English*]

Mr. Rick Perkins: With my last round here, I'll start off by saying that I did spend a few years working at a head office of a bank on Bay Street as well as on an executive team of two retailers. I do know that the internal rate of return on equity of the bank I worked for in credit cards was 52%. You've focused a lot at the Canadian Bankers Association on the cost, but they're making a massive amount of profit. When the bank's target ROE was 15%, it was making 52% on credit cards. Like Mr. Van Bynen said, clearly it's business development to move them to other products, because they don't cut the credit card off when they make that shift to a line of credit.

I'd like to ask about the interchange, just briefly. Visa, I guess, is the best one to answer this, or Mastercard, whichever one wants to take it. The interchange revenue is based on a percentage of the sale, yet the cost does not change based on the sale, does it?

Mr. Jay Dorey: It does, in fact. The benefits that are afforded to consumers in terms of insurance, fraud protection, loss underwriting, as well as the provision of credit—those all fluctuate with the size of the sale and the amount of the underlying transaction.

Mr. Rick Perkins: Yes, but the difference between what the credit card company gets on 2% of $100 or 2% of $10,000 is very different, and your costs don't go up that much.

Mr. Jay Dorey: With respect to Visa, the costs do fluctuate a little bit. With respect to the card issuers, the banks that are issuing those amounts, I would say they do. You know, the cost to refund a transaction that has been counterfeit or fraudulent for a $100 transaction is $100. That same transaction, if it's $10,000—

Mr. Rick Perkins: But the loss is 1.6%. Generally, bank losses overall, across a bank, are less than 100 basis points and sometimes less than 50. A loss of 1.6% is not huge. In fact, the Business Development Bank of Canada's loan losses are over 2%, and they still make half a billion dollars in profit a year. This is a very profitable business, and the expenses don't go up exponentially.

For Visa specifically, just to summarize, if I understand correctly what you said to my colleague Mr. Patzer, you were putting the cybersecurity business here because of reasons other than $50 million—because of the talent pool, because of technology, because of the universities.

Mr. Balinder Ahluwalia: It was certainly part of the thought process.

Mr. Rick Perkins: Nobody else was offering you money anywhere else, so you were coming here anyway, you said. The $50 million you took, like the $18 million Loblaws took for fridges, seemed to just be free money for you. You were coming here anyway, and it made no difference.

Mr. Balinder Ahluwalia: We're very proud of everything we've—

Mr. Rick Perkins: I know you're proud of it. You must be proud of taking the $50 million of taxpayer money when people are in record numbers lining up at food banks.

With that said, Mr. Chair, I'd like to seek unanimous consent on this issue. I'll move it as a formal motion for a vote, if necessary, but I hope we can get unanimous consent. I believe this may have been sent to the clerk. Maybe it could be circulated.

The motion is as follows:

> That the committee order the production of all documents, emails, memos and any materials related to the Liberal government's $50 million handout to Mastercard, including all communications between ISED, PCO and PMO with Mastercard regarding the grant; and the Committee report to the House to express its concern regarding the value for money for taxpayers on the nearly $50 million in taxpayer dollars given to Mastercard by the Trudeau Liberal government.

I believe that's been sent to the clerk.

The Chair: Thank you, Mr. Perkins.

You are very hopeful to think that we can get unanimous consent, five minutes before we adjourn a meeting of this committee, on such a motion.

Voices: Oh, oh!

The Chair: I appreciate your optimism.

Mr. Rick Perkins: It's just a straightforward document production motion. I'm sure everyone—

The Chair: Has it been sent in both official languages?

Mr. Rick Perkins: Yes.

The Chair: The clerk will circulate it to members for them to take a look at it.

I don't think it would be fair not to give members some time to consider it duly.

I'm looking at the other members.

Mr. Rick Perkins: Is there unanimous consent?

The Chair: It can be debated now. Otherwise, Mr. Perkins, I would suggest that we come back to it at our next meeting.

What I suggest, Mr. Perkins, is that you moved it on the floor—

Mr. Rick Perkins: Okay. I'll formally move it.

The Chair: It's okay because it's on the topic. However, I would suggest that we bring it up at the start of the next meeting so that members have time to review it, and we can then debate it, if you so decide.

Is that okay with all members? We'll get back to it, but technically, considering there is a motion on the floor, we probably should just adjourn the meeting at this point. We're at the end of our time.

However, I know Mr. McKay had one question, so if members permit, I'd allow Mr. McKay to ask his question.

● (1740)

Hon. John McKay (Scarborough—Guildwood, Lib.): Congratulations, Mr. Perkins, on the nice try.

I don't usually sit on this committee, but it just so happens that my Visa is due today. The money has been moved out of my bank account, but it has not been moved to credit my Visa card. I dare say, because I've watched this happen a few times, that the money kind of sits somewhere for about 24 or 48 hours and then ultimately gets credited.

It used to be that they would ding me with interest until I yelled and screamed and jumped up and down, and then they stopped doing it.

Here's my scenario. If I were at my credit limit, I would not be able to conduct a transaction and that would be a detriment to me, even though I'd paid off my credit card. At least, the money had been taken out of my bank account.

To Visa and to the bank, I have a feeling that somebody's making money out of this and it's not me. I don't quite understand the interchange or exchange between the bank and Visa and how that affects a consumer like me, but somehow or other, the money's out of there but the bank still has the money. Visa doesn't have the money. The bank has my money for free overnight or sometimes a lot longer than overnight, and I don't get any compensation for that.

It seems to me that's true of literally millions of transactions.

In the 25 seconds you have left, I'd be curious about how you explain that to consumers, who—like me—are regularly and routinely paying off their account on time.

Mr. Darren Hannah: Let me answer it in 20 seconds or less, apparently.

There are two things. First, as you rightly pointed out, you get credit for payment on the day you paid it, irrespective of how long it takes to go between your bank and the bank of card issuance. With respect to the mechanics of actually expediting it, that is very much what we're working towards with the real-time rail and real-time payments movement, so that the payment can move literally in seconds from one institution to another institution.

Hon. John McKay: What I don't understand is why that doesn't now move in seconds. If I pay a transaction at my grocery store with a debit card, it's like that.

Because it's held-up money, who is making money on this interchange?

Mr. Darren Hannah: I can't speak to interchange, but I can tell you right now, regarding the first part you're talking about, what you're observing is authorization. There's real-time authorization, but the money moves between institutions over the payment system and right now, unfortunately, that tends to happen overnight.

We are working to resolve that through the real-time rail project with Payments Canada. I'm sure you've probably heard something about that, but if not, certainly there's more that could be discussed.

Hon. John McKay: Okay. I'll let it go there.

The Chair: Thank you, Mr. McKay.

[*Translation*]

I would like to thank all the witnesses for participating in today's meeting and for taking part in this exercise.

Thanks as well to our colleagues.

Good evening to you all.

The meeting is adjourned.