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## **Standing Committee on Finance**

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**EVIDENCE**

**Thursday, March 22, 2007**

**Chair**

**Mr. Brian Pallister**

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● (1105)

[English]

**The Chair (Mr. Brian Pallister (Portage—Lisgar, CPC)):** I call the meeting to order.

I invite the witnesses to come forward.

[Translation]

Pursuant to Standing Order 108(2), this is the briefing on automated teller machine fees and electronic payments.

[English]

I welcome our witnesses. I thank you for being here.

We will allocate five minutes, as you have already been informed, for each presentation. To the witnesses, I will give you an indication when you have one minute remaining. I will then have to cut you off after your five minutes has elapsed, and we will leave time for questions for committee members. Thank you again for taking the time to be with us today; it's much appreciated.

We have a bit of housekeeping before we commence. Following the presentation we have one hour for the ATM presentations and one hour for the electronic payments. I will carry on to allow an hour for each panel, so we will go a little long. Next week we will move to deal with estimates. Following the break week we will continue our discussion on the topics we're dealing with today.

First of all, from the Canadian Bankers Association, we have Mr. Raymond Protti, president and chief executive officer. I understand he is not long for his position, but welcome here today, Mr. Protti.

Five minutes is yours, sir.

**Mr. Raymond Protti (President and Chief Executive Officer, Canadian Bankers Association):** Thank you very much, Mr. Chairman.

I have with me Karen Michell, who is the vice-president of banking operations and who knows and understands the ABM system well.

You're quite correct, Mr. Chairman. After 39 plus years, this will be my final appearance in front of the finance committee. I must say that I've always been received with extreme courtesy by the members of the committee in all the appearances I've had. I want to thank all of you for that courtesy, and the former members who used to serve on this committee as well. I wish you nothing but the best in your deliberations on this and the many other issues you have in front of you.

I will respect the five minutes.

You have received a package from us that's being distributed by the clerk. It contains a submission of 38 pages, which describes many of the features of the ABM system.

I'm going to turn your attention, please, to a slide deck that's in there, because I'd like to walk you through that slide deck. I apologize in advance. It will be quick, but I want to demonstrate some of the features of the system that we currently have in place.

Perhaps you can turn to slide 2, which reads "Competition, choice access and convenience".

I remember intently the days when I started here as an economist with the Bank of Canada, when I had one choice to get cash. That was to go up Sparks Street to my bank and be there between ten o'clock and three, Monday to Friday, and that was it.

Today we have a branch network of 6,000. We have almost 16,000 bank-owned ABMs, and now of course, a big feature of the system, 35,000 non-bank ABMs, and 571,000—a truly explosive growth—in direct payment, point-of-service facilities. Even in that, of course, I'm not mentioning telephone banking and Internet banking. So there has been an explosion in the last 40 years in terms of what's available.

If you turn to slide 3, I want to point out that Canadian consumers have the highest ABM access in the world. The slide speaks for itself. The U.S. ranks third, and the U.K., against which we're frequently compared, ranks 22 in terms of ABM access in the world.

On slide 4, I want to emphasize this quickly, because there are different types of ABM systems available. Each of the major banks in Canada runs its own proprietary network, which is available as a delivery system for their own clients. Banks invest in these networks, and when bank clients use their own bank's ABM systems, they are doing so in a closed system and they don't pay fees for using their bank's own machines.

If we go to slide 5, this is a complicated slide. I won't spend time on it, but Ms. Michell and I would be pleased to come back to it if you'd like. It describes the process that's used when the non-client chooses to access funds from another bank's ABMs. It's a complicated system, but it works, and it's called shared cash dispensing. I won't spend any more time on it, but I would be delighted to come back to it if you'd like to have a more detailed description.

If you turn to slide 6, I want to have a quick word about the fact that our system is a low-cost, pay-for-use system, which we feel is very transparent and fair for consumers because the price they pay for their retail banking services, including ABM access, is low compared to other countries. We've done a quick comparison here, which highlights some of the issues we need to think about when we look at ABM transactions. For some countries, like the U.K., they will have no convenience fee charged for the use of bank-owned ABMs, but as you see on the chart, you will pay substantially more for some basic banking services. So it's difficult to compare one system to another, but you have to bear in mind that the pricing of a lot of products and services can and will differ substantially across countries.

On slide 7, these are very expensive systems to run. Three out of four Canadians have told us they're delighted with the technology that's available. We spent \$33 billion amongst the six largest banks in the last decade. We spend about \$4.5 billion to \$5 billion a year now to keep the system running.

Slide 8 is a critical slide. Canadian consumers are making a lot of choices from a whole array of options available to them. Very importantly, over 75% of bank ABM cash withdrawals are clients using their own bank's ABMs. No convenience fee applies. What you will also notice on that chart is how the number of shared ABMs is increasing, but, very importantly, the number of withdrawals from ABMs not owned by a consumer's own bank is decreasing.

• (1110)

Why is that? If you turn to slide 9, you'll see that one of the reasons is the very explosive growth in the consumer use of point-of-sale and cash-back services that are available in grocery stores, pharmacies, drug stores, and liquor stores. There is an absolutely explosive growth in the use of Interact direct payment terminals, with a growth from 253,000 to 570,000. Ms. Michell and I are prepared to talk in more detail about the extensive use of this system.

To use up my last 30 seconds, the bottom line is that we feel there has been a development that leads to tremendous choice and competition in the banking system and with the credit union system. We feel the system is low-cost. It's a pay-for-use system that is transparent and fair for consumers, and we're making extensive investments to improve that system continuously.

Thank you, Mr. Chairman.

**The Chair:** Thank you very much, sir.

We continue now with Lew Johnson, professor of finance at Queen's University.

Welcome to you, sir, and over to you.

**Dr. Lew Johnson (Professor of Finance, School of Business, Queen's University, As an Individual):** Thank you, Mr. Chair.

I've been asked to appear before the committee to give my views on ATM fees. I have not formally studied the issue, but I have read much of the literature and am aware of the issues involved. I have co-authored three books and numerous articles and book chapters on the Canadian financial industry, so I'm certainly aware of the issues and can speak to the question as an informed, dispassionate consumer.

ATM fees are contentious. In fact, one might say they're thorny. Given the views of my co-panellists, I might describe myself as a rose between two thorns.

I will argue that not all ATM fees are bad, but not all ATM fees are justified. To address this, I think it's useful to sort ATM fees into three categories. One is own-bank fees, the second is interbank fees, and the third is white label machine fees.

When most people speak of ATM or ABM fees and the controversy about them, most people are referring to the interbank fees, which I think are the ones with the highest profile. Nonetheless, the other fees exist in the system and should be addressed.

On the own-bank fees, most of us don't even realize we pay them, because they're covered by most bank plans. At my bank, I downloaded from the Internet a little thing at the bottom, and that's the per transaction cost if you don't have a plan. Most people have a plan so they don't pay it. Nonetheless, at my bank, it's 60¢ per transaction for an own-bank withdrawal. It's important to put that into perspective. It's a dollar if I go to a bank and see a teller to withdraw my money.

The issue isn't paying to withdraw your money. That's an embedded principle, or at least an embedded practice. The issue is relative pricing. The key is, what is relative pricing? My bank charges 60¢. Evidence from the U.S. is that the cost of a transaction, including amortization, salaries, and technology costs, is about 27¢. If we assume the U.S. experience is transferrable and we allow for exchange rates, then the banks get about a 100% surcharge on their basic cost. I would argue that this surcharge is probably reasonable.

The banks would argue that it's reasonable because of convenience. Well, the new system is not necessarily convenient. By commodifying the banking system, what they have done is actually restrict consumer choice. I haven't moved in 25 years, but I'm on my fourth bank branch. My account is in its fourth branch. The two closest to me have closed, and it's now extremely inconvenient for me to find money. That's not because I've changed banks, but because of the rationalization and reallocation of resources. The banks have in fact restricted choice for many people. I would argue that this is particularly a problem for students, seniors, and people living in rural areas.

That's for own-bank fees. Interbank fees are over \$1.50. I would argue that these fees are probably too high and that a reasonable charge for an interbank fee is the same as an own-bank fee. I understand that there are switch costs involved through Interac and that there are interbank charges involved. These are small, and I think they can be accepted by the banks as a cost of doing business.

I recognize that this would introduce a moral hazard problem, where the banks would have little incentive to install and maintain machinery and the systems. However, as the physicists say, that's an engineering problem. I think it's readily resolvable by such things as shared revenue mechanisms or common platforms.

Turning briefly to the white label machine fees, these are pure convenience and outside the banking system. They are there for consumer choice, usually at awkward times and awkward hours. If consumers choose to use those machines, then they should bear the cost of using those machines. It is not the case for interbank ATMs, because even rational consumers, at normal business hours and in normal locations, often find that their access is restricted.

Thank you.

•(1115)

**The Chair:** Thank you very much, sir.

We will conclude our presentations now with Michel Arnold, who is here from Option consommateurs. Over to you, *pour cinq minutes, monsieur*.

[Translation]

**Mr. Michel Arnold (Executive Director, Option consommateurs):** Mr. Chairman, members of the committee, thank you for inviting Option consommateurs and giving us an opportunity to express our views about automated teller machine fees.

For those of you who are not familiar with our group, Option consommateurs was established in 1983. We are a cooperative involved in defending and promoting consumer rights mainly in Quebec, but we are interested in many Canada-wide issues as well. For a number of years now, Option consommateurs has been actively involved in the area of financial services. One of the things we did was take part in the discussions that led to changes to the federal Bank Act.

Generally, when greater competition is allowed, we expect a drop in prices and an increase in the quality of service. In the case of ATMs, exactly the opposite occurred. Since the Competition Tribunal opened up the market in 1996 and allowed companies that are not financial institutions to establish and run ATMs, the fees involved have increased steadily. Since January 2002, convenience fees have also been charged to non-clients at most financial institutions' ATMs. At the time, we asked financial institutions why they had started charging these fees. Their answer was that if the others were doing it, why not them as well?

Since 2000, we have seen that the number of ATMs owned by financial institutions, as Professor Johnson was saying, has been decreasing, while the number of white label ATM has been increasing. Some business people have even removed the direct payment system and replaced with a white label ATM. We will see

later in our presentation that it is cost-effective for business people to have a white label ATM on their premises.

At the same time, financial institutions have fewer and fewer ATMs in some neighbourhoods and in some rural areas. Have you ever tried to find a CIBC, TD or Scotia Bank ATM in east-end Montreal, an economically disadvantaged neighbourhood? Contrary to the claim made by some bankers, consumers cannot always walk to their institution's ATM to avoid the ever-increasing fees involved in a switch transaction.

According to figures from the Interac Association, 66% of consumers use the Interac network to make withdrawals from an ATM that does not belong to their own financial institution. This is what the association calls shared cash dispensing. The association also stated that in 2006 in Canada over 285 million shared withdrawals were made by consumers.

As Prof. Johnson said, there may be three types of fee involved in an ATM transaction: the lump sum amount paid to the financial institution, generally monthly; the Interac charges, which range from \$1.50 to \$2; and the convenience fee, which may vary from \$1 to \$3. The Interac fee and the convenience fee are charged when a consumer uses an ATM that does not belong to his or her financial institution.

We think that financial institutions are profiting unduly from this situation. By charging convenience fees, they require consumers to pay twice as much as previously for the same service and they are increasing their profits considerably, because, without knowing it, consumers are already giving a good percentage of the Interac fee to the financial institution or to the business that owns the ATM that they use. A few cents of the \$1.50 charge for using the Interac network actually go to the Interac Association. The rest is more profit for the financial institutions or the private businesses.

Let us look at how the Interac fees are broken down—for example the \$1.50 fee. A few cents of each transaction go to the Interac Association. The association gets 1¢ per message. Generally, there are two messages involved in a transaction, the request and the reply. The association thus makes 2¢. Seventy-five cents go to the financial institution or the business that owns the ATM where the transaction takes place, either a white label ATM or an ATM owned by a financial institution. The remainder, 73¢, when the fee is \$1.50 and 48¢ when the fee is \$1.25, goes to the financial institution that issued the debit card.

Since I have very little time left, I will move immediately to our recommendations. You will be getting a copy of my presentation and you will be able to refer to it.

•(1120)

Option consommateurs recommends that Parliament hold a public inquiry into all the factors involved in bank service fees, particularly with respect to payment services, and determine the profitability of the operations associated with these fees for deposit-banking institutions and, in light of the findings of the inquiry, decide whether it should introduce legislation concerning these fees, whether or not they are charged by federally-regulated deposit-banking financial institutions.

Option consommateurs also recommends that legislation be introduced to eliminate the convenience fees for all ATM operators. We must also ensure that these fees are not simply passed on to consumers by increasing the cost of other basic services.

Finally, Option consommateurs recommends framework legislation to regulate all the different types of electronic payments. Otherwise, rules and limitations on bank fees should be included in the Bank Act.

Thank you.

**The Chair:** Thank you very much, Mr. Arnold.

[English]

We thank all of you for your presentations.

We'll move to questions, beginning with Mr. McCallum.

You have five minutes, sir.

**Hon. John McCallum (Markham—Unionville, Lib.):** Thank you, Mr. Chair.

I'd like to begin, if I may, with Professor Johnson.

If I understand correctly, you infer that the cost per transaction with your own bank is 30¢; they charge 60¢, and I believe I heard you say that's unreasonably high. Or it's not?

**Dr. Lew Johnson:** No, sir, I believe I said it was a surcharge that I didn't think was unreasonable.

**Hon. John McCallum:** If it were the same cost for interbank transactions, that would be five times the cost, which would seem a very large markup. But you didn't say that. Can you say anything about what you think the cost is to the bank of the interbank transactions?

• (1125)

**Dr. Lew Johnson:** Yes, sir. If we assume that my 30¢ model works for the cost of the transaction proper, the switch fee, which is the Interac fee, I understand is in the order of 2¢ to 15¢, which would make it, say, 35¢ or 40¢ in total. There would then be some technology costs associated with the back-and-forth exchange of information between the two banks.

But to my mind, the 60¢ own-bank fee, which I use as a benchmark, would certainly compensate the banks for their total costs and I think would be fair to consumers.

**Hon. John McCallum:** Listening to you, then, one would think the cost to the bank for interbank might not be greater than 40¢, something like that?

**Dr. Lew Johnson:** That would be on the low side, sir. If you take my 30¢ benchmark, the switching fee of a few pennies and some.... I don't know the magnitude of the interbank exchange in information costs, but it would probably be a tad above 40¢, or probably not much more than 60¢.

**Hon. John McCallum:** Let's say it is 60¢. You would be claiming, then, that the markup on interbank would be 90¢ or something in that order?

**Dr. Lew Johnson:** Correct.

**Hon. John McCallum:** And you're saying the charge could be 60¢.

**Dr. Lew Johnson:** That's my view, sir.

**Hon. John McCallum:** It's all right to have a view, but if you're the government, or you're an advocate, how do you convince the banks or require the banks to adopt your view?

**Dr. Lew Johnson:** Well, I don't normally believe in regulating prices, in any kind; I believe in markets determining prices. But we have a situation here where we don't have a totally free market. There is imperfect competition. We have a standard charge across all banks, so there's no price discrimination among the banks.

We also have a system where some consumers have limited choice. Again, I emphasize seniors, students, people in rural areas—and some professors in Kingston who have less choice than they used to have.

So I would argue that those two elements, the lack of perfect competition and the lack of consumer choice on the part of many people, would suggest, if not regulation of prices, at least some intervention in the form of suasion to banks.

**Hon. John McCallum:** I think the minister's been trying a little bit of suasion in recent weeks.

Mr. Protti, out of a sense of fairness, perhaps I could ask you to comment, first on this notion that the cost of the interbank transaction might be 60¢ in the fee of \$1.50, and second on Mr. Johnson's suggestion that at least moral suasion, if not regulation, might be in order.

**Mr. Raymond Protti:** Thank you very much for the question.

I will give a reasonably brief answer. But Professor Johnson has raised quite a few points that I will want to reply to the committee in detail on in writing, because I simply won't have time today to refute the positions he has taken on a number of things.

I do want to speak first to his point about access. It is incorrect to say that access is in any way restricted. If you can turn to the full submission in your packages, I want to point you to a chart on page 14, which is a dramatic illustration of the contrary view on the issue of access.

I recall when my only choice, starting as an economist at the Bank of Canada in 1968, was my branch on Sparks Street. I had to be there between ten and three o'clock, Monday to Friday. That was the only time when I could access cash and the only way in which I could access cash.

If you look at the access chart on page 14 of the submission, you will see an absolutely explosive growth in what we call "access points" for Canadians in the ways in which they can get cash out of their own institutions, whether it's a bank or a credit union. What this access chart reflects is that there were two to four access points essentially for 10,000 people, 20, 25 years ago. By the year 2000, because of the explosive growth in the ABM system, and then the explosive growth in the non-bank ABM system, and then the explosive growth in point-of-sale facilities, you went to about 185 access points per 10,000.

**The Chair:** I'm sorry, sir, I have to cut you off. Mr. McCallum's time is done.

• (1130)

**Mr. Raymond Protti:** I will respond in writing to some of the other points.

**The Chair:** I'd appreciate that, sir.

[Translation]

We will continue with Mr. St-Cyr.

**Mr. Thierry St-Cyr (Jeanne-Le Ber, BQ):** Thank you, Mr. Chairman.

Mr. Arnold spoke briefly about the famous white label ATMs, that is those that are not owned by a bank. As a consumer, I find these machine particularly offensive, particularly when I am in a business and the business person refuses to take my credit card and directs me to one of these ATMs.

Personally, I boycott these people. I refuse to deal with people who make me pay so that I pay them, so that I can pay whatever they are selling. On the other hand, I understand that in some rural areas or in some other locations it may be impossible to do that, and that there really is no choice.

Can you tell us how extensive this problem is? For example, what sort of agreements are there between the businesses that have these white label ATMs and the companies that offer this service?

**Mrs. Jannick Desforges (Manager, Legal Services, Option consommateurs):** At the moment, one third of the 55,000 ATMs in Canada are owned by financial institutions. The remaining two thirds are owned by private companies. When white label ATMs in businesses charge convenience fees of about \$2, part of the fee goes to the company that owns the ATM, and the other part goes to the business person. So, depending on how busy the business is and the agreement between the business person and the private company, the monthly revenues from one of these white label ATMs in a business are very high. It is an extremely lucrative machine to have. Some business people have told us that they were increasing their revenues by \$6,000 a month if they have one of these ATMs in their business.

**Mr. Thierry St-Cyr:** Let us talk about some alternatives. If I am in a business or a restaurant in Montreal, and someone tries to force me to use the white label ATM, they will not do that a second time, because I will take my business elsewhere.

Is it true that these white label ATMs are located more in cities than in the regions?

**Mrs. Jannick Desforges:** Over the last 10 years, banks have withdrawn from some neighbourhoods and closed down some branches. In 1996, there were over 7,000 bank branches. In 2006, there were fewer than 5,600. So a lot of branches have closed, particularly in poorer neighbourhoods and in rural regions. It is not unusual to find white label ATMs in places where banks used to be located.

**Mr. Thierry St-Cyr:** You're proposing the abolition of convenience fees between different companies. If we legislate in this regard, it will be about banks only. Don't you fear that this will further reduce the number of ATMs that the banks install and that it could leave even more room for these white label ATMs?

**Mr. Michel Arnold:** The scope of our proposal goes beyond banks. We're also proposing that ways to limit these fees in the

private sector be examined. It's important that this issue, which is an important one for consumers be addresses by Parliament.

**Mr. Thierry St-Cyr:** Perhaps with Mr. Protti, I would like to get back to the issue of the cost of transactions and the link between the price and the cost of the transaction. Citizens in my riding often talk to us about bank fees, because it's something very concrete in their daily lives. We understand that there are fees when you go to an ATM, but most of these fees are fixed: the rental of the room, the purchase of the equipment and the design of software to handle all this. The variable part, which includes among other things handling of envelopes, seems to me to be quite marginal on the whole. Therefore, in practice, whether you have 1,000 transactions a day at an ATM or 100, the cost of that ATM is quite stable and can vary very little according to the number of transactions. That being the case, why are the transaction fees much higher for someone who withdraws \$20 five times?

• (1135)

[English]

**The Chair:** Thank you, Monsieur.

We continue with Mr. Dykstra now, for five minutes.

**Mr. Rick Dykstra (St. Catharines, CPC):** Thank you, Mr. Chair. I appreciate the presentations this morning. I just want to indulge in a few questions.

Mr. Johnson, you mentioned that you may be a rose between two thorns. My father refers to this as a pain somewhere on the anatomy.

You bounced around a little bit on the regulation question. Certainly on this side of the table it's not something we would really like to get into or even contemplate, but you did touch on it. At the same time, you had this personal or at least what sounded like a philosophical view that regulation by government isn't something that should happen on this issue. Maybe you could just clarify that for us.

**Dr. Lew Johnson:** Thank you, sir.

Let me say in passing, in reference to Mr. Protti's comments a moment ago, that I can recall when we had black and white television, rabbit ears, and one channel. We certainly have advanced technologically in many aspects of life, and banking is no exception.

**Mr. Rick Dykstra:** I'd like you to get to the answer, because I only have five minutes.

**Dr. Lew Johnson:** I'm sorry, sir.

**Mr. Rick Dykstra:** All right.

**Dr. Lew Johnson:** Regulation is a practice that is imposed when market forces fail. I'm moving into the whole argument about the Bank Act regulation of banks in Canada; clearly you're aware of it. There are aspects of provision of financial services that are a fundamental need, and one might say a right, of all Canadians— aspects of access to financial services that are constrained, with the current commodification of resources. By commodification, I mean replacing banks with the name of the bank on a number of machines around town, conveniently located—convenient to the banks—in terms of cost reduction and the reallocation of resources.

**Mr. Rick Dykstra:** Thank you.

Mr. Protti or Ms. Michell, we've heard the argument. It seems that it's coming down to, or the argument has certainly come down to, the ability to have access, whether it be in rural areas, whether it be for those with disabilities, whether it be for students, whether it be for seniors. It's an area that you could potentially address as representatives of the banks. Is it something you or they are considering in terms of cost reduction?

**Mr. Raymond Protti:** They're considering it on a continuous basis. I don't think there's a product or a service that's offered by the individual banks that's not under constant and continuous review as to whether the quality can be improved, whether or not it can be at a better price, and in particular whether or not you can steal some customers away from the other banks. There's a continuous review.

There's a point that I understand was made by the CEOs when they met with the Minister of Finance. My understanding is that they said thank you very much, we have these products and services under constant review, and this is a useful input that was made to the process.

I want to come back to access, though. It is not recognized what a fundamental change the point of sale and debit terminals have meant to seniors, students, Canadians of all sorts and stripes. This use of the cash-back services has been explosive, and they are available in convenience stores, in grocery stores, in drug stores, in liquor stores, where Canadians live and work and do their shopping—

**Mr. Rick Dykstra:** Those are fair points.

I don't mean to cut you off, but five minutes is five minutes. In this world you know how short that can be.

I can appreciate that. What it comes down to from my perspective is in the document you presented. Usually when you get a document or read a book, the thesis is somewhere in the middle or toward the end of the document. Here you have it right at the end. It is: "Regulation is simply no substitute for competition." You are here, conveniently enough, on behalf of all the banks, versus their being here individually, so it does say that on the one hand it's competition, while on the other hand you do represent them as an organization.

I wonder, when you speak about competition, what happens and what the next steps are going to be. Right now, who in fact is the most competitive of the top five banks when it comes to my going to the bank? If I'm going to make a withdrawal out of an ATM machine, if it isn't my bank, who right now is the most competitive?

**Mr. Raymond Protti:** It all depends on your own profile. It depends on how frequently you use ATMs. It depends on how frequently you use your debit card. It depends on how frequently you go to the branch. There are literally hundreds of different packages available to you as a customer, so you have to really know your own profile, look across the banking system, see what the options are—because there are a huge number of options out there—and decide what package makes the most sense for you.

• (1140)

**The Chair:** Merci, Monsieur.

We continue now with Madam Wasylycia-Leis.

**Ms. Judy Wasylycia-Leis (Winnipeg North, NDP):** Thank you, Mr. Chairperson.

I'm certainly happy we're having this preliminary hearing on the issue of electronic transactions, ATM fees, and the general area of electronic payments as well. You will know that from today we will look for more information in terms of how we pursue this in the future.

I want to start with Mr. Protti. I know he cannot be responsible for every bank and he doesn't speak for the detail of the major banks, but since he is the one who, when the NDP raised the question about fees being charged to access your own money, accused the NDP of bank bashing and of political rhetoric without a full understanding of the facts, I figure I can be pretty hard on Mr. Protti with my questions, and pretty pointed.

The first has to do with choice.

Mr. Protti, you suggested that long gone are the days when banks gave personalized service, that back 30 years ago you could only access banking between the hours of ten o'clock and three o'clock. I want you to know, Mr. Protti, that some people in this country would give anything just to have that much service, just to be able to access a bank with real people between the hours of ten o'clock and three o'clock, because, you see, what all the members of your association have done is selectively closed bank branches and hit communities without choice, without options.

You take away the bank branches, you leave a bank ATM, and then, before you know it, you sell that to a white label. What does someone in my constituency do, someone who hasn't the wherewithal to travel downtown or to the outer edges of the city, but go either to a payday lender or to a white label ATM because the banks under your association abandoned communities?

This is exactly what Option consommateurs is saying. There is no choice in many areas, so that argument has to be put aside.

Now let's get to competition. You talk about competition. Let me ask you this. Your report regarding ABMs for October 31, 2005, says the report excludes transactions made at private label ABMs owned by banks. I want you, Mr. Protti, to tell us today how many ATMs or ABMs are owned by banks. If you can't give us all the information today, how fast can you provide us with that information?

**Mr. Raymond Protti:** There are several points I'd like to respond to.

The first one is that we have 15,951 ABMs. I think that's the correct number owned by banks. There has been an explosive growth in non-bank ABMs. The reason there has been explosive growth in non-bank ABMs relates directly to a decision by the Competition Tribunal in 1996 to open up the system. When that decision was taken—

**Ms. Judy Wasylycia-Leis:** My question is on your involvement in private ATMs. It refers to private label ABMs owned by banks. This is from your own report.

**Mr. Raymond Protti:** I have no—

**Ms. Judy Wasylycia-Leis:** I would like to know how many private label ABMs are owned by which banks. That is from your own report.



**Ms. Karen Michell (Vice-President, Banking Operations, Canadian Bankers Association):** To the best of our knowledge, the banks do not own white labels at this point in time.

**Ms. Judy Wasylycia-Leis:** So you're going to go back and check your own report under "Number of transactions at bank-owned ABMs for the fiscal year ended October 31, 2006" and tell me the answer to this question at some point, rather than simply deny something that you put out in writing.

Okay, that's one question.

The second has to do with competition. Let me deal with the fact that the banks were involved in negotiating exclusive rights contracts in key locations for ATMs. We're looking at airports; we're looking at school campuses. You're virtually guaranteeing yourself extra fees and bigger profits. So how many exclusive rights contracts are the banks in the middle of negotiating, how many have you already negotiated, and how many are you in the middle of negotiating?

**Ms. Karen Michell:** Well, of course, the banks and white labels are competing for space in all sorts of different retail outlets in terms of where they are going to put their ABMs to serve customers—

**Ms. Judy Wasylycia-Leis:** How many are the banks negotiating exclusively?

**Ms. Karen Michell:** Well, the banks are looking to have service both on their own premises and off premises as well, so in terms of whether we are privy to all of their exclusive contracts, no, not at all.

• (1145)

**Ms. Judy Wasylycia-Leis:** You can tell us about your exclusive contracts. You've identified airports and universities. You're trying to say you want that territory; no one else can have it.

How many?

**Mr. Raymond Protti:** Well, we wouldn't have that knowledge. That would be knowledge that each individual institution would have. It's really a question we would have to take back to the individual institutions.

**Ms. Judy Wasylycia-Leis:** Okay, then let me ask about fees.

Mr. Johnson makes a very important point about the cost it actually—

**The Chair:** Mr. Protti, I'll just intervene. Your time is up, Madam.

In respect to the previous question, if you would commit to undertake to provide the committee with that information, that would be appreciated.

**Mr. Raymond Protti:** Well, to the extent I can provide that information, Mr. Chairman, I certainly will. There are a variety of questions we haven't had a chance to respond to, and I'll be responding, Mr. Chairman, to all of those.

**The Chair:** We appreciate that, sir. Thank you.

**Mr. Raymond Protti:** Thank you, Mr. Chairman.

**The Chair:** We'll continue now with Monsieur Thibault.

**Hon. Robert Thibault (West Nova, Lib.):** *Merci, monsieur le président*, and thank you all for appearing.

I live in rural Canada. I have a lot of choice. I can go to a white label and pay a fee, I can burn \$10 worth of gas and get to my own

bank and get money from a machine at any hour without a fee, or I can go to that branch when it's open and get it from a teller. I like the choice.

As far as the debit machines and all those are concerned, I haven't seen those stores yet in my area where I couldn't use a credit card or a debit card. The only place I've seen that, actually, is at the cafeteria on the fifth floor of the Centre Block of Parliament Hill. It may be happening; I'm not aware of it. I haven't seen that move. I have seen an increase in choice.

What I am concerned about, and I think it's the fundamental question here, is whether we should be regulating or not. Should we have legislation or should we not? It comes down to a question of pricing, and that comes out to a question, basically, of whether there is collusion in the market. Is there true competition in the market? If not, then there's an argument to be made that perhaps Parliament should look at this, that there should be some regulation.

So I will ask the question first to Mr. Protti. I don't think we'll have time for answers from the others, but I would appreciate it if you would reply in writing to the chair so that we can get it. If there is no collusion, if there is true competition in the market, why are the prices similar?

**Mr. Raymond Protti:** There could be no collusion in the marketplace. Collusion in the marketplace would be illegal under the Competition Act.

The issue of the setting of prices for products and services is not an issue that we can discuss collectively around the trade association table. The Competition Act makes it abundantly clear that you cannot sit down with other members and collude or agree on the setting of prices for the products and services you're providing.

So the first answer to your question is no, you can't have collusion. If you had collusion, then you'd be subject to prosecution under the Competition Act. That's the first issue—you can't have it.

What was the second part of your question?

**Hon. Robert Thibault:** The question is if there is no collusion, if there is true competition, if there is no tacit understanding that nobody underprices another, how come the prices are very similar? How come they're exactly the same?

**Mr. Raymond Protti:** Why does the price of a standard loaf of bread collect around a very close median figure? Why is the price of a subcompact car provided by any of the three North American manufacturers very similar?

There are at least 15 different elements that go into the cost structure of a sophisticated system like an ABM—

**Hon. Robert Thibault:** With due respect, Mr. Protti, in those cases where there is true market competition, we see offers of rebate. We see price reductions to try to get consumers through the door. We haven't seen any of that in the case of these transactions.

**Mr. Raymond Protti:** Yes, you do. The lowest-cost providers in terms of accessing your non-bank ABMs are in fact the banks at \$1.50.

The Mouvement Desjardins has just increased its rate by thirty-three and a third per cent to \$2, and the argument that the Mouvement Desjardins made in doing that was that they have the most extensive network of ABMs in the province of Quebec. They have 2,800. They are the single biggest financial institution. They're saying why should they subsidize anybody else using their ABM system, so they increased their rate from \$1.50 to \$2.

Then, of course, with white label providers, you can have fees that range up to \$3, \$4, and I'm told—I have none of this on personal experience—that in gentlemen's clubs, stripper organizations, bars, the fee may be outrageously high. But I assure you I don't have data based on personal knowledge. So there's a tremendous range out there if in fact a consumer is looking at a variety of choices.

If I can, I want to make one more basic point. For me, the issue is not 50¢, \$1.50, \$2, or \$4. The issue for the consumer is that the fee can very easily be made to be zero, because there is an enormous amount of choice out there. So for me the relevant number is zero.

• (1150)

[Translation]

**The Chair:** The next question will be Mr. Ouellet.

**Mr. Christian Ouellet (Brome—Missisquoi):** Thank you, Mr. Chairman.

If we acknowledge that the need for cash is a basic need in our society, like the need for water or food, why should we rely solely on market rules to establish the cost?

In general, market rules work very well for people with money. I don't have a lot but I do have some. Therefore I obviously do quite profitable business with the banks. If I only have \$100 and I withdraw \$20 every day or every three days, I will not be a profitable customer for the bank. The bank won't be interested in my kind of transaction and will therefore make me pay through the nose.

Since this is a basic need, it requires not necessarily regulations, but standards according to which if you have a small savings account, you will withdraw very little money. It should be more expensive if you withdraw more money. I'd like to hear your views on that.

**Mr. Michel Arnold:** In fact, we're seeing the reverse. The more money you have, the more transactions you have and the less it will cost you.

I'd like to correct one thing. Based on what Mr. Protti said, the perception of the banking system has changed a great deal in the past few years. That's quite true. However, this change in the banking system is not the choice of the consumer. I want to point that out.

ATMs have become well established, which serves consumers in terms of accessibility; that much is true. In terms of fees, that's a whole other matter. ATMs also serve the banks who rationalized their operations by closing branches just about everywhere.

Your suggestion is probably a good one, but we need to ask our friends the bankers how they plan to do such a thing. Right now, we're really seeing the reverse situation.

**Mr. Christian Ouellet:** So you're in favour of some oversight for basic needs. The government is responsible for that oversight.

Mr. Protti gave the example of the automobile. I live in the country and so does my neighbour. People there buy used cars and pay what they can. They don't buy expensive cars. I have the same problem. People have to leave their homes and travel quite far. They spend money to buy gas or they pay. There's something abnormal here. We regulate water, highways, we regulate everything, but we don't regulate something that's essential to live on, namely cash.

How do you explain this?

[English]

**Ms. Karen Michell:** Thank you.

If I may, there's been a lot of discussion about whether regulation or competition is the best. In Canada, we have the number one access to ABMs per capita in the world. I would suggest that what that has resulted from is the competition we have in the marketplace. We have banks, we have non-banks, and we have non-financial institutions all participating in this ABM network. That situation arose as a result, as Mr. Protti mentioned, of the Competition Tribunal announcing in 1996 that you would have the ability to surcharge so that there would be a business model that supported putting ABMs in lower traffic volume areas. And this competition of all sorts of different providers has led to, number one, the best system in terms of access per capita in the world in Canada.

In terms of whether the choice is driven by consumers or by banks, our polling tells us repeatedly that three-quarters of our customers are very pleased with the technology solutions we offer them. They find it makes their banking more convenient and it saves them time. In addition to that, we're finding now that about 85% of transactions are actually done electronically, whether over an ABM, online, or telephone banking, so it extends the banking experience to a 24/7 kind of experience. So I would suggest to you, as a result of that, that consumers are telling us, and the marketplace is telling us, that we've got a good—

[Translation]

**Mr. Christian Ouellet:** [Editor's note: inaudible] poor people, madam.

[English]

**The Chair:** *Merci, monsieur.*

What percentage of a bank's revenue—can you give me a general number—is derived from ATM fees?

• (1155)

**Mr. Raymond Protti:** From a convenience fee, in particular, Mr. Chairman?

**The Chair:** Yes, sir.

**Mr. Raymond Protti:** I'll have my colleague, Ms. Michell, explain our estimate. There is an estimate out there, which was put out a couple of months ago, that suggested that the amount we made from convenience fees, the \$1.50 charge, was something in excess of \$400 million. That number was derived by taking a U.S. study and taking 10%, but our—

**The Chair:** Raymond, I'm going to constrain myself and my time, as I do for my colleagues. I just want to know the percentage that's derived.

**Mr. Raymond Protti:** We think the number is \$153 million.

Do you want to...?

**Ms. Karen Michell:** That's basically just the Interac total.

**The Chair:** The percentage of bank revenues that's derived from ATM fees is what I want an answer to.

**Ms. Karen Michell:** About \$153 million, as a percentage of bank revenues, would be some very small fraction of 1%.

**The Chair:** Thank you.

There's always a concern, when we are dealing with issues of any kind here, about the law of unintended consequences. Now, you've said repeatedly that we have the greatest access to ATM services in Canada of any country, and I think that's great. I represent a rural area, in which, as Mr. Thibault alluded earlier, it would be most inconvenient and costly for a lot of my constituents if they couldn't access the services of these machines. Some of them can't now, in fact, without driving considerable distances, access these machines. I'm concerned about the unintended consequences of making it less attractive to banks to invest in the further expansion of the installation of these types of machines.

I fail to understand how reducing the profit that could potentially be derived from the installation of such machines would result in further services being available to Canadians who can't access banking services. I fail to understand the relationship between those two. So I guess I'm asking here, to what degree do you think a reduced profit might result in a reduction of the availability of machines, which would subsequently be replaced by the white label machines, which cost a heck of a lot more?

**Mr. Raymond Protti:** Mr. Chairman, I think you've struck what is a critical point for deliberation by this committee, because there is, indeed, the possibility of exactly those unintended consequences.

We don't have to look further than the U.K., and what happened there, when it was agreed that the banking institutions would drop the convenience fees they offered. What we've seen is a precipitous drop in U.K. access to ABM machines as a consequence. We've also seen that it's put a real damper on the development of their shared-cost dispensing and point-of-sale terminals. So I think you've put your finger on a really critical issue here.

I have a lengthier explanation on precisely that point, which I'm going to provide to you in writing.

**The Chair:** Thank you, sir. We all look forward to that.

Mr. Del Mastro.

**Mr. Dean Del Mastro (Peterborough, CPC):** Thank you, Mr. Chair.

Probably the best sound bite of the morning, I would suggest, is Mr. Johnson's indicating that "regulation is required when forces of competition fail".

Mr. Protti, you indicated that there is competition. At least certainly you feel that way. There are hundreds of different bank packages available that consumers can look at, that they can choose from, that have many cost-saving measures in them. Why aren't the banks doing more to talk to people about these options? Why aren't they doing more to educate people?

I think people understand that there are fees for convenience. We understand that if we go to a convenience store, we'll pay more for our groceries than if we go to a grocery store. We understand that there is a fee for convenience. But why aren't the banks doing more to educate people about how to avoid paying fees and how to save their money?

I know it's certainly very attractive in the media to talk about how we want to help people save money. Isn't this a great area where the banks could be talking to people?

**Mr. Raymond Protti:** Well, I think you have an excellent point, sir, with that comment.

Each of the banks has a strategy for educating their client bases. It can be face to face, through brochures, through their websites. Each of the banks has its own program, and I'm going to provide you with some information on each one of those.

In addition to that, at the industry level, I am particularly proud of one thing in the last 11 years, and that's a massive education campaign that we have undertaken on a variety of issues, including, in particular, the one you have just talked about. We have distributed over five million free booklets to Canadians on a variety of issues. The most important one is how to get value for your fees. There's a very simple calculator in there. You look at your customer profile and decide how you use the banking system, and it points you in the direction of the sort of package you should have.

In addition, perhaps the very best thing that's happened in the 11 years I've been there is a high school education seminar that we provide on personal financial management. How you can manage your money in the most efficient way is at the heart of that particular program.

• (1200)

**Mr. Dean Del Mastro:** Okay, and I appreciate that.

I think an opportunity exists for your membership—the banks—that want to come out and say, "Let's compete on providing value for service for our customers. Here it is. Here's how we want to do it. Here's how we want to educate you as to how to save on paying bank fees." I think that's a great opportunity for one member or a group of your members to go out and achieve a higher level of customer penetration in the Canadian market by telling people, "We actually want to work with you to help you avoid paying fees." I think that's an opportunity, and it's something you should look at.

**Mr. Raymond Protti:** I agree with you.

**Mr. Dean Del Mastro:** The other point Mr. Johnson made, which I thought was significant, was that restricted choices for seniors, students, and rural Canadians is resulting in them paying, perhaps, a disproportionate amount of these fees, more than, say, someone like me who has the ability to access my own bank's ABMs, or who perhaps has a bank package that means I don't have to pay these fees.

How can we help out these groups, especially people who may be handicapped or disadvantaged, perhaps even disadvantaged by their geographical location within Canada? How can we help these people? What can the banks do?

**Mr. Raymond Protti:** I take your message to heart, and I'll be taking your message back to each of the institutions very clearly.

I'm a senior now, and I qualify for a free fee package from my particular bank, and I think most of the banks—

**Mr. Dean Del Mastro:** Do you get a senior's haircut, too?

**Mr. Raymond Protti:** Don't get me into that.

Just very quickly, three weeks ago, I went in to get a trim. The guy ahead of me was there for 15 minutes in the chair at my barbershop. He had a magnificent head of hair. He got charged \$27. I was in there for eight minutes. I got charged \$27. So please don't mention hair to me. It's a sore point.

So for seniors, there are clear packages available. For students, it's the same way.

Can we do a better job in kind of informing and messaging on this? Your point is very well taken. I'm going to take it back to each of the institutions.

**Mr. Dean Del Mastro:** Thank you.

**The Chair:** Thank you, Mr. Del Mastro.

We'll conclude now with Monsieur Pacetti.

*Monsieur, quatre minutes.*

**Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.):** Thank you, Mr. Chairman.

Because time is limited, I have just a couple of questions.

I'm just having a bit of trouble here, because we're here to look at ABM fees and I'm not sure.... Mr. Johnson, I have a quick question. What do you need to go to a bank for? From what I understand, do we need access to a bank, really, to take out money?

**Dr. Lew Johnson:** No.

**Mr. Massimo Pacetti:** It sounded like you wanted to go back in time and not have all these services available.

I can't remember the last time I was in a bank. The only time I go to the bank is when I'm withdrawing money. I make my deposits. There are direct transfers available on the Internet or with an ABM.

We're here for ABM fees, so if we can stick to that, I think that's the idea. What you were saying is that we shouldn't regulate, yet the competition is not there, if we just focus on the ABM machines. What are we saying? Do we need banks? What kind of competition do we need? Do we need more banks?

**Dr. Lew Johnson:** My basic statement, sir, is based on the premise that access to financial services is a need and a right for Canadians. The banks have reorganized the system to their benefit, which has made access for many consumers less convenient. And I call that commodification, just turning all these bank services into machines.

To the extent that the commodification was self-serving at the expense of many Canadians, then Canadians should be able to access the banking system through a commodified machine, but at the same price, no matter what the purveyor is among the banks.

**Mr. Massimo Pacetti:** Okay.

I'm limited in time, but I would have liked to continue.

[*Translation*]

I'm a member of Parliament from east-end Montreal. If we talked only about branches that closed 10 years ago, I would say you are more or less right. However, in my riding, in the district of Saint-Léonard, there are four branches of the TD Bank that have opened and they are now 12 to 15 caisses populaires, I believe. Therefore there is competition, but as Mr. St-Cyr pointed out, we have a problem when we go into a business and are forced to use a no-name ATM.

I think that you are a protector of consumers. How we could avoid this? That's the problem. The problem is these no-name or white label ATMs. When I don't know any other place, I will be forced to use that kind of ATM the first time, but there won't be a second time. If there are no profits to be made with this, the others will not offer more options, but there is a way to strike a balance between these two aspects. We're looking for a solution and I don't think that you've proposed one here today.

● (1205)

**Mr. Michel Arnold:** You're right. I will give the floor to Jannick in two seconds. You're right to say that some financial institutions appeared in your riding, and we see this in other ridings as well. These are generally ridings where there are people who are—

**Mr. Massimo Pacetti:** But there's also Saint-Michel, which is not the richest place either. The number of branches has increased in Saint-Michel as well. The answer doesn't lie in increasing the number of branches, but in other options. That's where we're trying to find the solution.

**Mr. Michel Arnold:** Yes, but if we don't give access to branches, we will see the appearance of these notorious no-name ATMs in various businesses. The consumers do—

**Mr. Massimo Pacetti:** I agree, but if there are more no-name ATMs, will the fees go up or down?

**Mr. Michel Arnold:** The fees will go up.

**Mrs. Jannick Desforges:** One could add that right now the market is dysfunctional. The market forces are not working. Since 1996, when the Competition Tribunal decided to open up the market to improve competition, prices have gone up. We're therefore not in a market where the rules are working very well. When we need regulation—

**Mr. Massimo Pacetti:** They work well?

**Mrs. Jannick Desforges:** Right now we're in a market that does not work well. We're in a dysfunctional market, because the more competition there is, the more expensive things get.

**Mr. Massimo Pacetti:** That's right.

**Mrs. Jannick Desforges:** That's why we need regulations.

In 2002, there was a regulation to force the banks to open bank accounts. Access was therefore regulated by forcing the banks, under certain conditions, to open accounts. Right now, we're asking the same thing: that there be regulation to oversee fees, because this has become a problem of access, especially for low-income people in rural areas. I therefore think that it's necessary to regulate this sector.

**The Chair:** Thank you very much, madam.

[English]

Madam Wasylycia-Leis, on a point of order.

**Ms. Judy Wasylycia-Leis:** I'm just wondering if Mr. Protti could add to his list of material he'll provide to the committee a breakdown of the costs of each transaction involved in this area we're talking about. So it would be the costs to the institution when the fee is coming out of that institution's bank and the costs for both institutions when it's a cross-institution transaction.

**Mr. Raymond Protti:** Are you asking can we provide that?

**Ms. Judy Wasylycia-Leis:** Yes.

**Mr. Raymond Protti:** I really have no idea if I can provide that information. I'll go back and investigate.

You'll find in the submission that we list at least 15 different cost elements that are involved in the management of the ABM system, so I'll have to take that under advisement, and I will get back to you and to the committee on it.

**The Chair:** Thank you, sir.

I should mention to each of you that if you've undertaken to provide additional information to the committee, as we appreciate you have, you should forward it to the clerk of the committee.

**Mr. Raymond Protti:** Correct. Thank you.

**The Chair:** Mr. Protti, all the best to you, sir, in your retirement.

**Mr. Raymond Protti:** I might have the opportunity to come back as an interested citizen.

**Voices:** Oh, oh!

**The Chair:** And thank you to each of you for your presentations. We'll suspend briefly and ask our next witness to come forward now, please.

**Mr. Mike Wallace (Burlington, CPC):** A point of order. What happens next on this? Do we need to see more...?

**The Chair:** We'll deal with main estimates next week. Following the return from the break, we will have another panel, which I'm told will include representatives from each of the major banks as well. So there will probably be at least two days of possibly three hours per day devoted to—

**Mr. Mike Wallace:** Was that a decision of this committee? They'd go that far?

**The Chair:** Yes. We have that much interest. There will be four more panels on this particular topic in the week following the break week.

• (1210)

**Mr. Mike Wallace:** Thank you, Mr. Chairman.

**The Chair:** You're most welcome, Mr. Wallace.

We continue now with the section on the Canadian Payments Association. From the Canadian Payments Association, we have president and chief executive officer, Guy Legault.

Monsieur Legault, I will give you an indication when you have a minute remaining, but I now give you five minutes to make your introductory presentation, sir.

Welcome. Proceed.

[Translation]

**Mr. Guy Legault (President and Chief Executive Officer, Canadian Payments Association):** Thank you, Mr. Chairman.

Before I begin, I'd like to thank you for having given us this opportunity to appear before the House of Commons Standing Committee on Finance in order to discuss the CPA and the process involved in bill paying.

I'd like to introduce my colleagues, they are Mr. Doug Kreviazuk, who is our Vice-President, Policy and Research, and Ms. Barbara Ciarniello, Associate Vice-President, delegate of the Credit Union Central of British Columbia.

[English]

In coming before you today, I know you have many questions about how bill payments operate in this country and specifically why the process is not instantaneous, particularly in light of all the automation we see today in the banking and payments arena.

The reality is that other than cash, there are no real payment options in the marketplace that are truly instantaneous. Although some provide the appearance of real-time payment and settlement, this appearance is generally in the eyes of the consumer and is not necessarily from the biller or merchant.

The short answer is this. Moving payments and the related billing information from a consumer to the biller requires a number of sequential steps, each of which relies on a separate system. Further, the delivery route and mode may vary considerably among billers and depends on a number of factors, such as how the consumer initiated the payment and the technical capabilities of the biller.

While the process of initiating a bill payment electronically is both quick and convenient for the consumer, there's a complex web of arrangements behind the scene to ultimately make it happen. The CPA plays an integral role in most instances, as it operates the national clearing and settlement system through which many of these payments will be exchanged among financial institutions. In essence, our role could be seen as the central link in a chain, with other links both before and after our links that are operated and managed by other parties.

First, I would like to walk you through the life cycle of a bill payment. Although alternative clearing arrangements exist outside the CPA for bill payments, my comments will focus solely on the case where the payment is processed via CPA systems and rules.

Indeed, today there is no online, real-time, end-to-end processing to support the payment of a bill. By end to end, I mean from the point that a consumer initiates the payment instruction to the time a biller updates the consumer's account to reflect the payment. In fact, most consumer bill payments or the information respecting the bill payment must go through four unrelated systems, as indicated in our submission.

First, let's say a consumer decides to pay a utility bill online. He or she logs on to the financial institution website, selects the bill to be paid, and initiates the transaction. To the consumer, this looks like it is seamless and fully integrated, but it is not.

You instruct your financial institution or FI to send the payment. This is the first system connecting you to your FI.

Then your FI takes the instruction, along with all the others for the day, and batches them in a particular electronic file format that is sent across the CPA clearing system to the FI for the utility company. This is the second system.

Each day there are specific cut-off times that FIs must adhere to when delivering this information. Once the utility company's FI has received the files, they aggregate the payments to the utility company received from all the other FIs on that particular day and credit the account of the utility company for the total amount received. This is the third system.

To complete the fourth step, the utility company will need the detailed data pertaining to each customer who has made a payment on that day so that the biller is able to assign the appropriate credits to the individual accounts.

Depending on the biller's technical capabilities, receiving the data from the various FIs may take several forms. While the most efficient system for delivering this information is electronic data interchange, EDI, many billers in Canada have not adopted this technology, in part due to cost and complexity.

Non-EDI billers receive the details of each payment in the format specifically requested by that biller, for example, by fax or e-mail. In most of these cases, the biller is not able to use an automated process to transfer the information into the accounts receivable system. Where a manual process is involved, this would likely extend the time required by the biller to update the individual customer account. There is a time-in-transit period that must be considered.

• (1215)

[Translation]

As part of our strategic planning for 2006, we'd already considered examining the provisions of the frameworks for bill payments.

When we met with you last time, we'd also indicated that we intended to begin a consultation. In order to support this commitment, we will soon be establishing a task force composed of representatives of member financial institutions and stakeholders who will analyze the current issues and recommend improvements. We will also prepare a public consultation document for you and later, we will hold a series of round table discussions including stakeholders as well as members of financial institutions.

Since some of the current challenges of the bill payment environment go beyond the scope of action of the CPA, the implementation of solutions will have to be done in cooperation and with commitment from various stakeholders within the industry. To succeed, the participation of bill payment service providers and billers will be essential. Your support for this initiative is therefore important and will enable us to put greater emphasis on this review.

I thank you for your time. We remain at your disposal to answer your questions.

[English]

**The Chair:** *Merci beaucoup, monsieur.*

We will continue now with some questions, beginning with Mr. McKay.

Six minutes, Mr. McKay.

**Hon. John McKay (Scarborough—Guildwood, Lib.):** Thank you, Chair.

And thank you for the presentation.

I think the problem of the clearance system is that you're being hoisted by your own petard. What you appear to have is an instant system when in fact you don't have an instant system. As you properly described, it goes from a bank account to a batching system to another batching system and to the creditor, and frequently it is a two- or three- or four-day process.

Your entire system is based upon the notion of cheque clearances and things of that nature, just as everybody did in the old days. What I see as the problem is that you, in some respects, have sold Canadians an illusion. I'm not criticizing you personally, but the financial system. You've sold Canadians an illusion, because when I am sitting at my computer paying my bills online, doing my own batching, if you will, I'm thinking that when I see the money removed from my account—and therefore inaccessible to me—I have somehow or another paid my VISA bill, when in fact I haven't paid my VISA bill. I'm not going to be able to pay my VISA bill for two days, or some such time.

What I see as the problem, Mr. Legault, is that this is simply a failure of coding, if you will. And here I use VISA as an example of a large creditor that receives money daily—in fact, hourly, or every minute—in saying that, really, the coding of my VISA card on my computer could be set up so that when the money came out of my bank, it really went instantaneously around, or through, the batching system. You could code this on my computer so that could happen.

Is that technologically possible, is my first question? And if it is technologically possible, is this simply a failure of will, if you will, or a lack of intention to put resources into a system that could make what appears to be instant in fact instant?

• (1220)

**Mr. Guy Legault:** I'll start with the first question on the technical possibility.

First of all, you have to realize that the clearing and settlement portion basically takes a day. I could ask my colleagues for more details on this, but basically if you do it within the cut-off time, the next day the clearing and settlement will have occurred already. Now if you talk specifically of a credit card, that's one issue. If you talk of other billers, as you can imagine, there are also other systems that need to be put in place. When you talk about credit cards, again, we don't deal specifically with credit cards per se, because there are different ways that credit cards can be paid, but as I said, it could be done for the next day. We cannot talk on behalf of credit card companies, but our understanding is that most of them can in fact give you credit fairly quickly for the payment of your account.

Now is it a failure of will or not? It seems to me that it's not a question of failure of will, because I think it does occur within that period of time for most payments. And when you look at some of the credit cards, again, most of the transactions are done under one of our rules, which we referred to last time, whereby they give you credit for the date of the payment.

**Hon. John McKay:** But it seems to me that it's a whole bunch of little rules here and there, in that I may fully pay my VISA bill online today, but VISA in fact doesn't receive the money for two days, or for one day, or whatever it is. So in VISA's mind—if there is a mind of VISA—I'm in arrears, and then you have a whole bunch of little rules that say, no, no, he really did pay it on time, but it's just that we didn't get the money to you on time.

Now in my case, living in a relatively affluent environment, that's not a major problem, but for people who live on the edge of credit, shall we say, not having this paid when they go to their friendly store is a big issue. And for VISA it's a huge issue, because in VISA's mind, this isn't paid, this is an outstanding account, and therefore credit can't be extended. I think for the purposes of merchants, speeding this entire system up.... I'm not just speaking from the consumer's standpoint, but also from the merchant's. Speeding it up electronically is in fact almost a necessity.

**Mr. Doug Kreviazuk (Vice-President, Policy and Research, Canadian Payments Association):** If I may, just to supplement Mr. Legault's comment, with regard to the credit card systems, essentially there are three ways in which credit card statements at the end of the month can be paid. Many Canadians bank with a single financial institution. They also take a credit card from that financial institution. At the end of the month, when you're paying your bill, we call that transfer “on us” because it's all within the financial institution.

In the discussions leading up to this meeting here today we spoke to many of our financial institutions, and we were assured that in the majority of those cases credit to that credit card statement is made the same day. For the balance of the VISA statements that Canadians must pay off at the end of each month, the majority that we're aware of are cleared and settled through the rules that we have called “H6”. The requirement under that rule is that the biller, and in this case VISA, will value-date the payment on the payment date. So if they utilize our rule and clear and settle through our systems, they will receive payment on the date the payment is made, so long as it's not very late in the evening. Each financial institution is somewhat different.

**Hon. John McKay:** Am I out of time?

**The Vice-Chair (Mr. Massimo Pacetti):** Thank you.

*Merci, monsieur McKay. It's over six minutes.*

**Hon. John McKay:** It's scandalous.

[Translation]

**Le vice-président (M. Massimo Pacetti):** Mr. Paquette, you have six minutes.

[English]

And then we have Mr. Wallace and Ms. Wasylycia-Leis.

[Translation]

**Mr. Pierre Paquette (Joliette, BQ):** To begin with, I would like you to remind us exactly who is part of the Canadian Payments Association and how it works.

• (1225)

**Mr. Guy Legault:** All financial institutions in Canada who make deposits are members of our association. That includes the banks, the caisses populaires, the credit unions as well as other members, such as the Bank of Canada, for example.

**Mr. Pierre Paquette:** Now with regard to credit cards, when the banks agreed to establish that consumer liability would be limited to \$50, did that decision involve your association?

[English]

**Mr. Doug Kreviazuk:** No, it does not.

May I ask for clarification? Are you referring to the indemnity, the liability portion?

[Translation]

**Mr. Pierre Paquette:** I was wondering if the fact that the consumer's liability, in the case of fraudulent use of a credit card is limited to \$50 had been the subject of negotiation between the—

**Mr. Doug Kreviazuk:** No.

**Mr. Pierre Paquette:** I know that that's not part of any legislation. Do you know if that \$50 amount was negotiated?

[English]

**Mr. Doug Kreviazuk:** That's a matter between the issuing financial institutions of VISA and VISA. It does not involve the CPA, and we were not involved in any of those discussions.

[Translation]

**Mr. Pierre Paquette:** Let's talk about electronic payments. Don't you think there should be a limit on consumer liability when there is fraudulent use of a debit card, for example?

[English]

**Mr. Doug Kreviazuk:** Within the CPA we have a number of rules that afford consumers recourse. In the case of bill payments, once the consumer has made a payment to a utility company, it cannot be reversed. But in those cases, it's unlikely that a fraudulent transaction will be made in order to pay my bill. I'd like it, but I doubt it would happen.

In the case of, particularly, pre-authorized debits, the consumer is afforded a 90-day recourse in the event there's either an erroneous or a fraudulent transaction to their account.

[Translation]

**Mr. Pierre Paquette:** Many people feel that there is a multitude of rules in Canada. We were reminded of that. There is less surveillance of electronic payments in Canada than in the United States. Is that the case? What do they do in the States that Canada does not do with regard to electronic payments?

[English]

**Mr. Doug Kreviazuk:** With respect to the clearing and settlement of transactions between financial institutions, essentially the rules that are promulgated by the CPA mirror the rules of the ACH systems. So from a processing perspective, our rules mirror one another, although the technologies are somewhat different. The United States does, however, have a base of law dealing with e-funds, transfers, and Regulation E, which is more in their line of consumer protection.

[Translation]

**Mr. Pierre Paquette:** Can I share my time with my friend?

**The Vice-Chair (Mr. Massimo Pacetti):** Yes.

**Mr. Thierry St-Cyr:** I'd like to get back to Mr. McKay's comment. I'm not entirely satisfied with the answer about the feasibility of instantaneous transactions. Perhaps this is because of my former occupation, because before I was elected I was a computer engineer. I know full well that the transaction could be done absolutely instantaneously; this is not a computer problem, it's purely a banking issue. I'd like to fully understand what prevents transactions in real time rather than in batches or—

**Mr. Guy Legault:** In differed fashion.

**Mr. Thierry St-Cyr:** In batches or differed.

[English]

**Mr. Doug Kreviazuk:** The batch system we utilize within the CPA has been relied upon for many years and has a number of advantages. First and foremost is efficiency. You're allowed to consolidate data from a number of sources and enter it into our system, so it's relatively inexpensive. To develop a one-on-one system just for the message exchange would be rather expensive.

Second is reliability. If you were to open up the system and have additional points of access you would increase your operational risk.

Finally is accessibility. Today financial institutions access our system directly; the billers do not. So the financial institution provides a point of contact so that each biller is not required to connect to our system and increase the cost.

The batch system is extremely efficient and is relied upon by virtually every country in the world, from a clearing and settlement perspective.

• (1230)

[Translation]

**Mr. Thierry St-Cyr:** This batch processing is done daily. Are there places where it's done more frequently or could it be done several times a day? Could that be considered? Does everybody do this at the same time?

[English]

**Mr. Doug Kreviazuk:** It could possibly be done more than once a day, but what we're talking about is only the exchange of the payments between the financial institutions. As we set out in our submission, and as Mr. Legault pointed out, there are really four systems involved in a bill payment. The first part where the consumer speaks to his or her financial institution is not part of our system. Once they have that data they consolidate it in a batch

system. Then they enter it and it goes across to the receiving financial institution.

When we're talking about the legs to the transaction, essentially we clear and settle once a day. If we were to clear and settle twice a day you may be able to shorten the overnight settlement, because settlement occurs overnight, but it doesn't mean that billers will actually receive the funds any quicker. You may shorten it by a few hours at best.

In many cases, once Canadian financial institutions receive the data they give provisional credit for many of the transactions before settlement is provided. So the merchant or the biller generally has the funds before settlement occurs.

[Translation]

**The Vice-Chair (Mr. Massimo Pacetti):** Thank you, Mr. St-Cyr.

[English]

I'm being a little bit lenient on time so you can explain the process.

Mr. Wallace is next for six minutes, and then Ms. Wasylycia-Leis.

**Mr. Mike Wallace:** Thank you, Mr. Chairman.

I appreciate you coming today. It's an area I knew nothing about before I got on the committee and we started talking about it.

Just for my own clarification, your organization was created by the Parliament of Canada. Is that accurate?

**Mr. Guy Legault:** That's correct.

**Mr. Mike Wallace:** What is the role...? You have a board and so on. Are there any consumer groups on your board?

**Mr. Guy Legault:** We have three board members who are appointed by the Minister of Finance—three independent directors. We also have a stakeholder advisory council that can provide advice to our board of directors. We have consumer groups represented on our stakeholder advisory council.

**Mr. Mike Wallace:** When you told us in your presentation about the stakeholder consultations you are undergoing, what is the role of consumer groups in those consultations?

**Mr. Guy Legault:** We basically would like to have consultations involving any stakeholders that have either expertise or interest in this topic. So the round table will be totally open to any stakeholders, including consumer groups, billers, or third-party service providers that have an interest in the issue.

**Mr. Mike Wallace:** Based on those consultations, will you be coming back to us with recommendations for changes to the act? What outcome are you hoping to achieve from those consultations?



**Mr. Guy Legault:** We are projecting two potential conclusions or outcomes. First are things we could do totally on our own by looking at our rules. As you may remember from our last presentation, our rules have to be submitted, and the Minister of Finance has 30 days to disapprove any of them. If we find anything else in the marketplace that is beyond our mandate, we would like to make some recommendations to those participants to see what they could do.

**Mr. Mike Wallace:** Right.

I have read over the submission you made earlier. Do all people who make electronic payments have to use you? Are they all part of your group, or is there a way of getting around using your organization?

**Mr. Guy Legault:** I'll ask Mr. Kreviazuk to answer.

**Mr. Doug Kreviazuk:** In a sense, I spoke a few moments ago about "on us" transactions. If the person or the consumer who is paying the bill banks with the same institution as the biller, it never comes through us.

Secondly, we have learned that there is a voluntary process of VISA-issuing institutions that can settle out their bill payments at the end of the month through VISANet. If they opt for that process, they would not come through us. But we understand that this is relatively small.

**Mr. Mike Wallace:** Is it relatively new?

**Mr. Doug Kreviazuk:** To be honest, we only learned about it recently.

• (1235)

**Mr. Mike Wallace:** But it's been around for a while?

**Mr. Doug Kreviazuk:** I assume so.

**Mr. Mike Wallace:** I also would like to follow up on the question of my friend from the Bloc.

How prevalent is fraud? Do you track any complaints? Do you guys get complaints? Do you have any sense of how much fraud is taking place in electronic payments?

**Mr. Doug Kreviazuk:** We don't either collect or monitor from a fraud perspective. That's the domain of the individual financial institution.

I should say, though, since we are sort of the managers of the national clearing and settlement system, that our public policy objectives are safety, soundness, and efficiency. Routinely, we review our rules to ensure that the transactions that flow through us and are going to be cleared and settled through us have proper risk management processes.

We require, for example, certain levels of authentication in the POS environment and the ATM environment. What we generally rely on is that when you as a consumer send funds from your institution, your institution institutes proper authentication technology, because they are essentially on the hook for those transactions.

**Mr. Mike Wallace:** In the United States, there is an Electronic Funds Transfer Act, I think it's called. I think you even mentioned it before. I think it protects consumers, if I'm reading it correctly, to a

maximum of \$50, if they can prove that there is fraud, that there was an approval of the piece.

Do you expect that to be a discussion at your consultation piece? Is it something I can expect your organization will review, after you're finished your consultation? After that's done, should this government, or the government of the day—I'm not sure when you're embarking on this—be moving in that area in terms of legislation? Is it an area you'll be discussing?

If I'm wrong.... There might be protection out there that I don't know about from legislation. If you could let me know, or comment on that, I'd appreciate it.

**Mr. Doug Kreviazuk:** I'm not aware of any specific legislation in that regard. That said, I'll make two points.

First, the work we will be doing will involve the participation of stakeholder groups, including the consumers associations. If they are concerned about particular issues in that regard, certainly these will be discussed and debated within the forums we will be having.

Secondly, the Department of Finance, as I understand it, has been working on an e-commerce code of conduct, which as we understand it—we have not been privy to the drafting thus far—may deal with some of these consumer protection issues, broadly defined, regarding e-payments.

**Mr. Mike Wallace:** Those are my questions. Thank you very much.

**The Vice-Chair (Mr. Massimo Pacetti):** Thank you, Mr. Wallace.

Ms. Wasylycia-Leis, you have six minutes, please.

**Ms. Judy Wasylycia-Leis:** Thank you, Mr. Chairperson.

Thank you very much for being here.

As you know, we had a considerable discussion on this whole area when dealing with Bill C-37, the changes to the Bank Act. We deferred to a later point recommendations from many groups on a complete overhaul and review of the area of electronic payments, because it is such a major issue for consumers.

I know the Canadian Payments Association is involved in terms of some guidelines and in trying to oversee this area. However, overall, it seems to me that this area is largely unregulated. As you said, it is based on voluntary support. You've talked just now about a code of ethics for electronic payments. It seems to me that we've gone way beyond that approach, and that we, as parliamentarians, need to be working on a legislative framework in this area.

I want to start by asking you about the recommendations that we've had from Option consommateurs, and also from CCI, the Canadian Consumer Initiative. Both of those organizations, and others as well, have documented serious problems with the electronic payments system. I'm going to refer to their study and information from back in the spring of 2006.

They commissioned a study that reported 900,000 pre-authorized debit problems in two years. They said it breaks down to about 1,000 mistakes each day. They identify the problems in terms of wrong amounts, wrong dates, or inadequate funds. I could go on and on, but I don't want to take up the time of the committee. I'm sure you know this study very well.

First of all, I'd like your comments on the study, on the problems at hand, and on whether or not you would support this committee going forward with a recommendation to the government that we work hard at developing a new legislative framework. Whether it's part of the Bank Act or separate makes no difference at this point. I think the question is how much we are going to start to come to grips with this ever-changing world.

● (1240)

**Mr. Doug Kreviazuk:** If I may, as some of the previous speakers did say, regulation should be our last fallback. We should be looking toward it—

**Ms. Judy Wasylycia-Leis:** Why?

**Mr. Doug Kreviazuk:** —only if there's a market failure.

**Ms. Judy Wasylycia-Leis:** Isn't this a market failure?

**Mr. Doug Kreviazuk:** In the case of the one you have cited, it was predicated on a report commissioned by the Union des consommateurs, in Quebec. As a result of that study, we have commissioned a task force. We have been reviewing the pre-authorized debit rule. We have been working with many consumer groups dealing with these particular issues. In fact, we will be launching focus groups on a strong-man model, for a new rule in April and May of this year. We'll be coming back to our board of directors later this year for recommendations to change, in order to address many of the concerns that have been raised there.

**Ms. Judy Wasylycia-Leis:** I don't understand your resistance to a regulatory model in an area that is exploding around us, in which there are some obvious problems being cited regularly, and in which other jurisdictions have clearly moved toward regulation. Even the United States is way beyond us in this field. Why wouldn't we just get down to work and agree that, yes, we should have some. Why should it be left on a voluntary basis and to the goodwill of financial institutions when we're talking about consumers and protection of their own money and in some cases their own identity? What's the hang-up?

**Mr. Doug Kreviazuk:** It's not a matter of a hang-up. I've been around the CPA for a number of years and have worked very closely with most of the stakeholders. As Mr. Legault has suggested, we have a stakeholder advisory council that brings together all walks of life in the development of our rules. We do not produce those in a vacuum. We consult not only with the stakeholder councils, but very broadly with Canadians, and the development of our rules takes those consultations into consideration.

We believe that through our consultation forums we have received and have passed some exceptional rules. In fact, most recently, the online payment rule promulgated a little more than a year ago led to the rollout of Interac online. At that point in time, each of our members subscribed to the debit card code of conduct and the principles that underlie that for this rule, to give that added assurance and consumer protection.

So I believe the process of consultation, which is very broad, is very effective.

**Ms. Judy Wasylycia-Leis:** Okay, I accept that. Well, I don't accept it all, but I understand what you're saying.

I think, then, part of the issue is getting information so we can even judge whether we accept what you're saying. You know, we can't even get immediately from banks the cost of electronic transmissions involving ATMs. Can you give us a breakdown of the cost, on average, for every one of these aspects of the whole electronic payments system, as is actually possible I think in Great Britain through their Office of Fair Trading, so at least consumers then know?

That's sometimes why you need regulations, because if you let it just be a self-regulating model, first, you're not always guaranteeing consumer protection, and second, there are a whole lot of costs that get passed on to consumers that may not be more than simple ways of increasing one's profit margins. Sure, the banks can say that all this new technology is just beyond their free will and it just happens. Or we can understand it in terms of something that's being pushed on consumers by financial institutions, because in fact it allows them—

**The Chair:** Thank you very much, Madam.

**Ms. Judy Wasylycia-Leis:** —to bring in profit from a whole number of other areas.

**The Chair:** I won't permit a response because we've gone way over on Madam Wasylycia-Leis's time, but if you want to work some of your answer to that question into the next one, that would be fine too.

We'll move to Mr. Pacetti now.

**Mr. Massimo Pacetti:** Thank you, Mr. Chairman.

It's not necessary that you work that answer in.

One of the questions Ms. Wasylycia-Leis asked was how fraud occurs. I missed part of the answer. I was moving out of the chair. How does fraud happen if you're dealing with legitimate organizations? If there were to be some type of fraud revealed, couldn't you just get the money back?

● (1245)

**Mr. Doug Kreviazuk:** Actually, I'm not aware of how fraud could be perpetrated in a bill payment environment, because essentially the consumer is sent an invoice. I decide to go online to my bank site in order to make a payment.

**Mr. Massimo Pacetti:** That's what I'm saying, so there's—

**Mr. Doug Kreviazuk:** You're paying it to a third party that has sent you an invoice. You're not paying it to yourself or to another fraudster.

Maybe I could pass it to Barbara.

**Ms. Barbara Ciarniello (Associate Vice-President, Credit Union Central of British Columbia, Payment Services, Canadian Payments Association):** I think there is one opportunity, and that would be on VISA or Mastercard, on the credit cards themselves. If someone managed to find your statement, either by taking it from the mail and by getting the information...they could make a payment to that account and it would be to their benefit, because they could then use the money that's supplied against the account to purchase.

**Mr. Massimo Pacetti:** That's not the CPA's responsibility; that's VISA's responsibility.

**Ms. Barbara Ciarniello:** That is correct, but as far as the CPA is concerned, I don't believe there's an issue.

**Mr. Massimo Pacetti:** So the CPA is not really exposed to much risk in terms of...

**Mr. Doug Kreviazuk:** Well, we deal with risk of a different nature. It's really the risk between financial institutions.

It's the financial institution that deals with the clients and the customer and biller risks. Now, our rules do establish liabilities between the financial institutions, and in many cases on how to return an item.

**Mr. Massimo Pacetti:** I think you answered the question in terms of when you're processing a transaction from financial institution to financial institution, but within a financial institution, it doesn't touch your system.

**Mr. Doug Kreviazuk:** Right.

**Mr. Massimo Pacetti:** I think somebody else also asked you about areas where the CPA is not involved. When does that happen? For big companies like Hydro-Québec and Bell Canada, when you're paying your utility bill, do you process all those as well?

**Mr. Doug Kreviazuk:** I can't tell you about those specific examples, but what I could suggest is that there are two ways this could happen. For the most part, they will come through us as a bill payment. But there are companies out there that have established financial arrangements with the majority of financial institutions.

**Mr. Massimo Pacetti:** Well, I'll give you some examples. For example, my car insurance I pay directly out of my bank statement. My phone bill, I pay directly on my credit card. Are those two transactions going through your system?

**Mr. Doug Kreviazuk:** No. The first one is; the latter, or the credit card, is not.

**Mr. Massimo Pacetti:** The credit card is not. So that would be the credit card.

**Mr. Doug Kreviazuk:** Yes.

**Mr. Massimo Pacetti:** So how is it treated? When do you come in? You can also have different agreements. For example, Hydro can have an agreement or my insurance company can have an agreement with a financial institution. Would they be subject to the same laws or regulations as you are?

**Mr. Doug Kreviazuk:** Barb, do you...?

**Ms. Barbara Ciarniello:** I think I need a bit of clarification. I'm trying to understand. By the way, although we're not confident, I'm not sure that Bell has an identification number, but I need to understand what you're asking.

**Mr. Massimo Pacetti:** Are the people who are not part of the Canadian Payments Association, who take money directly from my bank account without going through your system, subject to the same regulations as you are or the same structure?

**Mr. Doug Kreviazuk:** If it's going from a bank account to a biller, the biller must have a financial institution in order to receive that payment.

**Ms. Barbara Ciarniello:** The biller can't take the money from your account, so it has to be your financial institution that has access to it.

**Mr. Massimo Pacetti:** But how am I covered so that the person whom I've authorized to take money out of my account is taking the right amount?

**Mr. Doug Kreviazuk:** Oh, I see. I think you're thinking of a pre-authorized debit—

**Mr. Massimo Pacetti:** It's a pre-authorized debit?

**Mr. Doug Kreviazuk:** —as opposed to the credit, where you're logging onto your site.... As Mr. McKay said, he's logging onto his site and he's pushing the funds to the biller. I think what you're talking—

**Mr. Massimo Pacetti:** Well, it's both ways. Some bills I pay by pushing—

**Mr. Doug Kreviazuk:** Right.

**Mr. Massimo Pacetti:** —and some bills I pay by being pulled.

**Mr. Doug Kreviazuk:** Now, there's a totally different framework in the event of a pre-authorized debit. What you would do is sign a legal agreement with that biller. You would give them the authority —

**Mr. Massimo Pacetti:** Okay, so that doesn't affect.... That's between me and—

**Mr. Doug Kreviazuk:** That comes through us.

**Mr. Massimo Pacetti:** That does go through you?

**Mr. Doug Kreviazuk:** It does, yes.

**Mr. Massimo Pacetti:** Okay.

**Mr. Doug Kreviazuk:** And it's all set up through the rules.

[Translation]

**The Chair:** The next speaker will be Mr. St-Cyr.

**Mr. Thierry St-Cyr:** I will come back a second time on what Mr. McKay said. I hope that will not happen too often.

I would like to say a few words about instantaneousness. I know that you cannot answer, but perhaps you can tell your banking institutions that since money seems to move instantaneously, this should be reflected in the banking payment system. I know that ING, of which I am a client, is fairly good in that area. When I make a payment which does not go through, the money goes to a buffer zone for pending transactions, and I can see that the money has not yet been deposited in the other account. I can see that the money has left my account and that it is there. But with other institutions I deal with, when I do a transaction, my money is in limbo for a certain amount of time, and I don't know where it is. I simply wanted to point that out. I hope you will pass on this message.

Further, I have a question regarding processing delays. It seems that there's no consistency in this area amongst banking institutions. I would like to have an explanation. Let me give you an example from my own experience. At the end of the year, when the time comes to contribute to my RSP, I decide to sell some shares. I receive a cheque for the sale of these shares which I deposit into my account. On the same day, I write a cheque for my broker so he can take the money and put it into my RRSP. But since the cheque I received from my stockbroker is held for a certain number of days, the money is not immediately available in my account. So the amount is taken from my line of credit and I have to pay interest.

If the same rule applied to the cheque I wrote, it could be said that the bank still has not deposited my money into my RRSP. So you end up in a situation where the bank still does not have the money and yet charges me interest. However, it still has not transferred the money to the other institution.

First, do you process transactions involving cheques?

Second, how do you explain the fact that when it is convenient for the bank, the money is not available, but when it is convenient for the consumer, the money must be debited immediately?

• (1250)

[English]

**Mr. Doug Kreviazuk:** We do take care of the cheque clearing process as well, and in fact we're moving towards electrifying that. That's a huge initiative being undertaken today by the CPA and its member institutions. But there's really no direct parallel between the bill payment side, the electronic side, and the cheque clearing side.

Let me go back to the bill payment side. I think you suggested that when you make that payment, the funds come out of your account. Is that correct?

[Translation]

**Mr. Thierry St-Cyr:** I was referring to cheques. On the same day, I deposit a cheque from whomever and write out another cheque for the same amount. The money from the cheque I have deposited is not immediately accessible to me from my account because it is being held somewhere. However, on the same day, when I write a cheque, the institution charges me interest because the money is not yet available. The institution, however, still has not transferred my money to the other party. Yet the bank has the money. Why is it charging me interest in this type of situation?

[English]

**Mr. Doug Kreviazuk:** With regard to the cheque, once it's made on deposit it needs to go through the cheque clearing system. That piece of paper needs to make its way back to the institution on which it's drawn to allow them to ensure that you do in fact have the money in your account and the cheque was signed by you.

**Mr. Thierry St-Cyr:** Right.

**Mr. Doug Kreviazuk:** That could take a couple of days. The current experience in Canada is that financial institutions generally provide consumers with provisional credit, so they put the funds into your account on the day it's deposited. It is therefore then proprietary whether or not they implement a hold on those funds. In many cases, consumers are allowed to draw on those funds. It all depends on what the financial institution's policies are.

[Translation]

**Mr. Thierry St-Cyr:** I understand.

**The Chair:** Thank you very much, sir.

**Mr. Pierre Paquette:** Unfortunately, we will not have solved your problem this year.

[English]

**The Chair:** Before we conclude with Mr. Del Mastro, I would invite the committee members to remember that we will be dealing with Finance main estimates coming up here next week. We'll deal with FINTRAC, the Canadian International Trade Tribunal estimates, the Canada Revenue Agency, and the Superintendent of Financial Institutions as well. So I expect your briefing documents to be prepared in advance of those meetings enough that you'll have a chance—

• (1255)

**Hon. John McKay:** When is the meeting?

**The Chair:** The week following the break.

We'll go to Mr. Del Mastro now.

**Mr. Dean Del Mastro:** Thank you, Mr. Chair.

I'd like to start off with a point that Mr. McKay was making, I think, which is that people have a tendency to procrastinate. In fact, you could probably argue that one particular gender is predisposed towards procrastinating, which is the one that I belong to. My wife tells me I procrastinate fairly regularly. But people tend to think that when they go into their website and they authorize a payment on their credit card, that payment has been made and it has been made on time.

The problem with the way the system works right now is it's not clear that those payments are not being made instantaneously. That's the problem. What happens is if this payment is received two days late by VISA, using it as an example, they will register that as 30 days late. It goes on your credit as R2. If you have a number of R2s on your credit rating, it lowers your overall credit score. And even though as far as you're concerned you've always paid your credit as agreed, you've always maintained it, you've been a good credit customer, you may not qualify for prime lending fees because of this misunderstanding as to how electronic payments are carried forth.

I've dealt a lot with retail finance at one time and a lot of people come in and tell me that they've always paid their bills, they've always paid them on time. They don't understand why their credit score would not be perfect, and I think this is a reason why; they don't understand that authorizing a payment is not the same as having made the payment.

How can we assist people? How can we make it so that they understand the system better and can use it better to their benefit?

**Mr. Doug Kreviazuk:** It's an excellent question, and certainly as we move forward in our consultation process, that is definitely one of the questions we will be asking and answering amongst our group.

That said, most of the time that we're aware of, billers do inform consumers on their statements to please ensure the bill is paid three days before due date.

**Mr. Dean Del Mastro:** Isn't that three or four bonus points?

**Mr. Doug Kreviazuk:** So disclosure certainly is an issue, but I know responsible corporates do provide much of that information for consumers' benefit.

I only look to the United States as an example as well in the electronic bill payment area. Their environment is very much identical to what we have here, except it is a little bit slower, so I take pride in the system that we do have here. There, electronic bill payments have to be processed up to two days in advance of the billing date just to move through their clearing system. But when you're on their online systems, when you're sitting down and making a payment, it may say right on the website, "This bill must be paid three days in advance of the due date", or it will actually prevent you from entering a date to make that payment until that period has lapsed.

So it's just another way to educate consumers.

**Mr. Dean Del Mastro:** Okay. I appreciate that.

The other thing is that a small business, for example, may have very large cash transactions, particularly retail businesses where they're operating with large lines of credit. They're paying interest on one side and they're waiting for money to come in on the other side, and this cycle tends to go on and on.

At the end of the year.... Even though you get a fax that says the money has been sent or you get an e-mail saying that funds have been transferred, you may wait three or four days for those funds to arrive in your account, which means you've paid four days of excess interest on your account. It can be quite costly. In fact, it can be thousands and thousands of dollars at the end of the year.

How can we tighten this up? Is there an incentive for the banks to tighten this up, first of all? Secondly, if so, how do we do it?

**Mr. Doug Kreviazuk:** In the case you're speaking of, where there are large sums of money, we operate a system called the "large value transfer system", which is available to our membership. They make

that service available to consumers and businesses, and in many cases it's taken up by businesses. What it assures is same-day, real-time funds, and it cannot be revoked.

For example, if you were closing a house deal and you needed to ensure that the vendor received those funds today, you could go in and do a wire payment to ensure that it is made. So there are some options available.

● (1300)

**Mr. Dean Del Mastro:** That's at the discretion of the bank?

**The Chair:** Thank you very much, gentlemen.

We'll conclude with a very quick question from Mr. McKay.

**Hon. John McKay:** We are going to have a witness come before this committee, and what he is going to say is that his business is the notification that the money has been taken out of Mr. St-Cyr's account and that Mr. St-Cyr's bill has been paid. He electronically notifies the creditor that Mr. St-Cyr's bill has been paid before you guys do.

It seems awfully strange that there is a service that is entirely software-driven that can do this and you can't.

**Mr. Doug Kreviazuk:** Actually, that's a prime example of what's happening in the United States as well. Much of the development in front-end applications for payment services is being developed generally in conjunction with financial institutions, but being brought to market by third-party systems. It's a value-added service.

What that type of notification will do—and it's something we've not talked about here today—is let us at the CPA effectively ensure through the clearings that this biller has the funds next day.

The problem is not getting the funds to the biller; it's what the biller does with those funds to credit the accounts and reconcile them with individual account holders. Some small, unautomated biller may in fact take two or three days to credit those accounts, but I'm assured that the biller has the funds.

**Hon. John McKay:** Well, all billers are not created equal—

**Mr. Doug Kreviazuk:** That's true.

**Hon. John McKay:** —and I'm sure it's true that there are some billers who would not be prepared to put in the software to accommodate that.

But large billers—the City of Ottawa, Hydro-Québec, whatever—certainly would find it very attractive to know that the moment the money is removed from Mr. St-Cyr's account is the moment they get the credit, and it automatically gets credited to Mr. St-Cyr's account.

Anyway, thank you, and thank you, Chair.

**The Chair:** Thank you very much. I appreciate your participation in today's hearings.

We are adjourned.





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