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Mr. Brian Pallister

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● (1100)

[*English*]

The Chair (Mr. Brian Pallister (Portage—Lisgar, CPC)): Welcome to our guests, and welcome back to work, committee members.

Pursuant to Standing Order 108(2), briefing on automated teller machine fees and electronic payments, I welcome our witnesses today. Thank you very much for your submissions earlier to the committee.

You have been told that you'll have five minutes, and I want to make it clear to you that I will have to hold you to that. I will give you an indication, if you wish to make eye contact, that you have a minute remaining or less, and then we'll unceremoniously cut you off to allow for exchange with committee members.

I welcome you and again thank you.

We'll begin with Nadia Massoud, assistant professor, finance and economics, University of Alberta. Nadia, you have five minutes.

Dr. Nadia Massoud (Assistant Professor, Finance and Economics, University of Alberta, As an Individual): I want to indicate from the beginning that I am here without any agenda. I'm just expressing my views in terms of research.

I started my interest in this area of research based on a personal experience. I was a PhD student at Queen's University—I had moved from Waterloo—and when I was on Queen's campus I couldn't find an ATM machine for the Royal Bank, my bank. The only ATM machine that was available around the building was TD. After paying the fee a few times, I decided I was going to avoid this and I switched from Royal Bank to TD.

Then I sat back and asked what the issue was and why banks tend to do this. I picked my thesis and I wrote three papers, published in top journals, A journals, and basically what I looked at was the following. I looked at banking competition on two fronts. The first one was basically the provision of the general banking services like credit cards, ATM machines, mortgages, and all different services. The second one was just the ATM service.

It is a competitive environment. What I found was that banks actually, in a competitive environment, provide an ATM surcharge higher than the marginal cost. This is the first finding. The second finding is that banks usually subsidize their members. The price can even go to zero. A possible solution is to go to zero. The third finding is the banks over-provide the ATM network.

Then I collected U.S. data and I tested those findings, and I found support for those results. What I found from my empirical testing is that banks that charge higher fees manage to increase their market share. This is a result of switching. Also, I found that smaller banks, if they increased their ATM surcharge, don't manage to increase their market share.

The economic explanation behind these findings is the following. Banks set their ATM fee based on two factors. The first factor is the direct impact of the revenue generation from the ATM service. The second impact is their expectation of consumer behaviour: if I expect the consumer to change his behaviour, then I should increase the ATM surcharge. What we found was that the indirect impact has a stronger effect than the direct impact. This is all driven based on competition, but the main competition is not the provision of ATM service, but the provision of general services like bank accounts, mortgages, and many other services if you choose to be a member of that bank.

In addition, one of my studies was to look at the U.S. experience with the ATM surcharge. In the U.S. what happened was that in 1996 the bank Interac laws were removed and banks were allowed to surcharge. Immediately, the year after, more than 50% of banks started to surcharge the ATM fee, and by the year 2001, 90% of those banks had started to charge. Consumer activists started to look at this issue. We're talking about 1998-99. They said this was anti-competitive, anti-consumer, and it hurt smaller banks in comparison to larger banks. They started to look at those issues. Some communities, such as Santa Monica and San Francisco, actually took action and backed initiatives to ban the surcharge. They took the case to the Supreme Court, and the Supreme Court decision in May 2003 basically ruled against the ban.

If we look at the U.S. experience, it has been going on for the past 10 years. Our reaction was a little bit late and came just recently.

● (1105)

My view is the following. It is competitive. And I'm not supporting banks; this is based on economic theory. This is not research, but I looked at empirical regularity. I looked, for example, at a comparison with the U.K. In the U.K. they don't surcharge for using different ATM machines, but in the U.K. it's not banned.

The Chair: Thank you very much.

We will continue, but before we continue with the witnesses,

[*Translation*]

we have two very important tasks this morning. The second is the vote in the House of Commons and the first is the election of a new Vice-Chair of the Finance Committee,

[*English*]

and I will ask our clerk, Elizabeth Kingston, to take over at this point.

The Clerk of the Committee (Ms. Elizabeth Kingston): Thank you, Mr. Chair.

[*Translation*]

We will now proceed with the election of the second Vice-Chair of the Finance Committee.

[*English*]

I'm ready to receive nominations to that effect.

Monsieur St-Cyr.

[*Translation*]

Mr. Thierry St-Cyr (Jeanne-Le Ber, BQ): I move that Mr. Paul Crête be elected Vice-Chair of the Committee.

[*English*]

Ms. Diane Ablonczy (Calgary—Nose Hill, CPC): I'll second that.

The Clerk: Is it the pleasure of the committee to adopt the motion that Paul Crête be nominated as second vice-chair of the Standing Committee on Finance?

Some hon. members: Agreed.

Some hon. members: Hear, hear!

The Chair: Monsieur Crête.

[*Translation*]

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): I hope you will always be this happy to have me.

[*English*]

The Chair: We'll continue now with our witnesses.

Duff Conacher is with us this morning on behalf of the Canadian Community Reinvestment Coalition.

Mr. Conacher, you'll have five minutes. I'll just give you an indication when you have a minute remaining so as not to have to cut you off without your knowing.

Please proceed, and welcome.

Mr. Duff Conacher (Chairperson, Canadian Community Reinvestment Coalition): Thank you very much, Mr. Chairman and committee members, for this opportunity to present on this important topic, which may seem like small change to some people. Certainly the banks try to make everybody think that it's just about small change. But it's actually a very important issue, not only of consumer protection but also of bank accountability.

● (1110)

[*Translation*]

I would like to thank the Committee for inviting me to make a presentation today.

[*English*]

I'm here representing the Canadian Community Reinvestment Coalition, which since early 1997 has been a force for increased bank accountability, consumer protection, community economic development, and the banks' role in service lending and investment across Canada. The coalition is made up of 100 citizen groups from across Canada in the areas of anti-poverty, community economic development, consumer, labour, youth, and women's groups, representing a total membership of more than three million Canadians.

The coalition has seen, through the last round of Bank Act changes, Bill C-8, with about 75% of its recommendations implemented, but unfortunately key gaps were left in every single area, including the area of service fees. As a result, the banks are still allowed to do pretty much whatever they want with Canadians' money and charge them whatever prices they want.

You've seen Mr. Raymond Protti, in his swan song presentation as head of the Canadian Bankers Association, present on March 26 these two documents to you. The problem with these documents is that while they provide lots of information, they withhold a couple of key pieces of information that are needed to determine whether the banks' prices are fair.

First of all, they withhold the key information of what it cost them to provide each service and product. Without the costs, you can't figure out what their profit margins are; and if you can't figure out their profit margins, you can't determine whether they're gouging.

Secondly, they withhold the savings that they have realized from withdrawing full-service banking by shutting down branches and firing thousands of staff in the past 15 years. As a result, we don't know how much that withdrawal of full-service banking has saved them and allowed them to become even more profitable.

Essentially, the federal government in the past 15 years has continued to allow gouging of all customers, but at the same time it has allowed a two-tiered banking system to be created where wealthy people receive full-service banking in branches, and less wealthy people are pushed to use bank machines or gouging cheque-cashing companies.

I'm going to examine briefly all the banks' arguments that are presented in these two documents. They can be easily summarized. There are lots of pages here, but actually mostly half-truths and many irrelevant claims.

First of all, the banks claim that their fees are fair. Again, this can only be proven if the banks disclose revenues and costs so that profit margin can be determined. The banks are refusing to disclose their exact revenues and costs, even though they have admitted in these documents that they know their exact costs. They do not cross-subsidize the cost of any division of their operation, so they must know their costs.

The banks claim that they only charge a so-called “convenience fee” to use another bank's machine or a non-owned bank machine. In fact, the banks have doubled the cost of using another bank's machine. They used to charge us the Interac fee. They've added the convenience fee post-2000. They've doubled the cost. Even if the convenience fee were eliminated, they would still be receiving revenue from the Interac fee.

The banks claim their fees are comparable to other countries. In fact, fees in eight countries, according to their own documents, are lower overall, including the Netherlands at 66% lower. The banks in the Netherlands also have a much lower interest spread. So they've been able to figure out how to have lower fees and a lower interest spread and still be profitable.

The banks claim that non-bank-owned machines are competitors. In fact, such machines are partners with the banks, not competitors, as they only facilitate customers accessing their bank account, and the banks save money because they pay no operating costs for these machines.

The banks claim that they are serving Canadians well. In fact, they've shut down full-service branches across the country.

They claim competition will work, so regulation is not needed. Regulation is definitely needed, because if competition worked, at least one of the banks would have lowered or cut the so-called convenience fee in the past six years, and none of them has.

The overall solution—

The Chair: Sorry, Mr. Conacher, to cut you off. We will have time for exchange with committee members, but your time is up.

Mr. Duff Conacher: Perhaps I could just say one other sentence.

The overall solution is an audit, looking at what happened in the past 15 years and annually in the future. If that audit is not done, nothing that you recommend will protect consumers, nothing will hold the banks accountable, and the gouging will continue.

● (1115)

The Chair: Thank you, sir.

We'll continue with the Canadian Consumer Initiative. John Lawford, counsel, is here.

Mr. Lawford, you'll have five minutes.

Mr. John Lawford (Counsel, Canadian Consumer Initiative): Thank you.

I'm here today to present the position of five of the six members of the Canadian Consumer Initiative on bank fees. We're also here to present the views of the Canadian Consumer Initiative as a whole on electronic payments. I don't believe I'll have time to address our electronic payments submission. Suffice it to say that we were here in February and that we're making the same submission.

We've noticed that something odd has been happening over the last decade with automated banking machines and fees. While there are more ABMs and more competition, prices have increased and service has decreased. Canadian consumers are calling on elected representatives to help them out of this obviously dysfunctional market.

Consumers are irked, or annoyed, as the Prime Minister might say, with bank fees in general and convenience fees in particular. The issue goes beyond fees, however, and what may well be at stake is the sustenance of competition in the automated banking machine market.

Economists recognize that convenience fees are first and foremost an anti-competitive weapon in the hands of network participants who wish to preserve their market share. It's therefore crucial for your committee to look in depth at the ramifications of the issue of convenience fees.

Bank income from service charges has been growing fairly steadily over the last decade and the last five years. They now top $4.6 billion for the six largest banks. In the same period, banks have eliminated 25% of their branch network, mostly in rural and low-income neighbourhoods. They've reduced the number of their own banking machines in the past five years and now own less than a third of ABMs deployed in Canada. Most have exited the market for point-of-sale payment as well.

Banks therefore invest less in equipment, have fewer tellers for transactions, and yet increase the income from new charges and fees. It should come as no surprise that consumers are angry, and they do not feel they are sharing adequately in increased cost-efficiencies enjoyed by the banks.

The Canadian ABM market was completely transformed by the consent order approved by the Competition Tribunal in 1996. This order allows providers other than financial institutions to enter the market for installed shared ABMs. There are now more than a hundred that have done so, operating 35,000 ABMs. Yet the number of shared ABM transactions has been steadily declining since 2000.

The unavoidable result of fewer transactions in a market served by more ABMs is that the number of transactions per ABM has dropped significantly. In time, the profitability of operating ABMs may become an issue for the non-bank operators, especially if market forces prompt consumers to prefer using their own bank's ABMs rather than other providers' machines.

This is exactly the effect the convenience fees tend to have. They are done so that banks can make their own customers loyal and deter them from using other banks' equipment. Economists call this effect the substitution effect. If a customer from Bank A can keep using Bank A's ABM, which he finds convenient, while switching to Bank B as a customer, Bank A loses.

The development of ING Bank is an example of what can happen. Customers switch from a “big six” bank to ING to enjoy better rates, but keep using their old bank's ABMs.

Convenience fees are designed to act as a counterweight to this substitution effect. What this means is that for banks, convenience fees are not merely an opportunity for windfall profits; they are a strategic weapon to retain customers in a market where competitors of all types are multiplying. It should therefore come as no surprise that they have not taken well to the notion of waiving convenience fees.

While banks may see a benefit in convenience fees, however, non-financial-institution ABM providers may be slowly getting strangled, as consumers would rather find one that is from their own institution than pay convenience fees. In such a scenario, competition may be drastically reduced, and in fact the very reason for a shared ABM network may be threatened as investments dwindle and the network's usefulness becomes lost on consumers.

Therefore, in order to ensure the network's survival, convenience fees should be dropped. It is unclear, however, that the non-financial-institution providers can currently survive without such income, and financial institutions are unlikely to agree to it. On the other hand, decreasing the number of shared transactions may push non-financial providers to increase fees in order to maintain revenue, in effect hastening their own demise as customers flock to cheaper means of payment.

As to the next steps, the issue of convenience fees must be understood in a more global context. Canadian consumers wish for an inexpensive, viable shared ABM network to be maintained as they experienced it, for the most part, before the banks started introducing convenience fees. Therefore, we have four recommendations for this committee.

● (1120)

First, the committee should require that banks provide and put on the public record accurate data regarding the costs associated with providing deposit and retail payment services to Canadian consumers, the total income for such operations, the net income derived therefrom, and the appropriate breakdown of data needed to understand specific aspects of ABM fees.

The Chair: I'm sorry to cut you off. However, we have your recommendations in your written submission, as you know, and I know the committee members have familiarized themselves with them.

We'll continue with my fellow Manitoban, Andrew Douglas, who is here on behalf of Supporting Employment & Economic Development Winnipeg Inc.

Welcome, sir. It's over to you.

Mr. Andrew Douglas (Asset Building Program Manager, Alternative Financial Services Coalition, Supporting Employment & Economic Development (SEED) Winnipeg Inc.): Thank you for the opportunity to address this committee on behalf of the Alternative Financial Services Coalition in the north end of Winnipeg.

The north end is an inner-city community and one of the poorest in Canada. Although community members face many barriers and challenges, the people of the north end are strong, resourceful, and carry within them a strong sense of social justice.

Over the past decade, the Alternative Financial Services Coalition has been working with community members to develop financial services that increase opportunities and improve economic well-being. This work has an emphasis on cooperation, education, self-reliance, and social dignity. I'd like to talk to you about how fees incurred by low-income individuals when accessing their own money from ATMs have a negative effect on families and communities.

Before leaving Winnipeg, I stopped by my credit union to withdraw cash. I only withdrew enough to pay for the cab ride to and from the airport. For the rest of my expenses, I was fairly confident that I could use my debit card. I knew, though, that any withdrawals made from an ATM in Ottawa would carry extra fees, because my credit union does not have any branches in Ontario. But this is not the experience of most people in Winnipeg's north end.

In order to speak with you today, I have chosen to travel some distance from my credit union. The ATM fees I would need to pay in Ottawa would be because I left my community. Today in the north end, in other low-income communities in Winnipeg, Manitoba, and in Canada, many individuals and families are paying those same ATM fees not because they've left their financial institutions but because their financial institutions have left them.

In the past, there were mainstream banks at most major intersections, but those branches closed. Sometimes the banks left an ATM. In many cases the branches sat vacant, but they're not vacant any longer. Payday lenders, cheque cashers, and other fringe financial institutions now occupy those buildings. White label ATMs are sometimes the only access that individuals have to their money.

They're left with some unattractive choices. They can travel by bus for miles, often with children and strollers, to the nearest bank branch. They can use the nearest ATM, which may not belong to their financial institution and will involve extra fees, or they can give up on having a bank account and settle for the unfair charges and fees of the many neighbourhood cheque cashers. Low-income families should not be forced to make a choice of the lesser of three evils.

Communities like Winnipeg's north end are for the most part still operating in cash. When individuals are withdrawing cash from an ATM, it's generally in smaller amounts, such as $20 here and $20 there. For smaller separate withdrawals, ATM fees account for a much larger percentage of the withdrawal amount. Some could argue there's an easy solution: one could make withdrawals of larger amounts and make fewer of them. But encouraging this would discourage the act of saving and would increase the risk of robbery and assault.

For many Canadians, easy access to our money through bank branches and ATMs anywhere at any time is a basic convenience. However, for low-income communities, white label ATMs are often all that's left. Having to pay a high fee to access their own savings is simply a harsh reminder of what was lost when banks abandoned their neighbourhoods.

But there are opportunities to turn things around. In the north end, community members, the Alternative Financial Services Coalition, and community-based financial institutions such as Assiniboine Credit Union are testing a model of providing financial services that are affordable, accessible, and appropriate to the unique financial needs of the community, including financial literacy, special accounts, and microloans.

But for now, it will only help some of the people in one of Winnipeg's low-income neighbourhoods. We need to address this issue for all low-income Canadians. ATMs fees should not be a barrier between families and their savings.

Thank you for your consideration.

● (1125)

The Chair: Thank you, Mr. Douglas, and good for you for ignoring those distracting bells.

Committee members, we will continue with another presentation. I believe we'll have significant time, and perhaps even enough for two more presentations.

We'll continue with Mark O'Connell now. Mr. O'Connell is the president and CEO of Interac Association. I welcome you. Five minutes to you, sir.

Mr. Mark O'Connell (President and Chief Executive Officer, Interac Association): Thank you, Mr. Chairman and honourable members, for giving me this opportunity to tell you about Interac Association.

In a private not-for-profit association, our eighty-plus members have cooperated to build a national payment network that allows Canadians to access their money at any time, from just about anywhere in Canada. It offers two shared electronic financial services to Canadian consumers: Interac shared cash dispensing at automated banking machines, and Interac direct payment at the point of sale.

Shared cash dispensing allows cardholders to make cash withdrawals from ABMs not belonging to their own financial institution. Interac direct payment is Canada's national debit service, allowing consumers to make purchases by using their debit cards at more than 400,000 merchant locations from coast to coast. Through the success of these Interac services, Canadians enjoy a standard of banking convenience that is virtually unmatched around the world.

Our membership at Interac includes banks, credit unions, trust companies, payment processors, terminal deployers, and merchants. These members compete vigorously with one another in the provision of Interac services to Canadian consumers and merchants.

The members built the systems that enable the network to continuously operate in the 24/7 environment. We built and maintain the equipment that links the systems together. In addition, Interac sets and enforces the payment rules that govern the transactions over the network, we provide common marketing activities, and we provide security support for our members. Security support includes initiatives such as the fraud alert system and support of the migration of systems to chip technology to combat debit card fraud and to protect cardholders.

Interac Association does not set or regulate fees charged by our members to consumers or merchants. In fact, as an association of competitors, competition law expressly prohibits us from setting or influencing this marketplace pricing. We are, however, committed to full and fair fee disclosure for consumers. Our regulations require ABM operators to display their fees, providing consumers with an opportunity to cancel a transaction if they do not wish to pay the fee.

Interac Association does have a role in setting service pricing between our members. We set an interchange fee of 75¢, which is paid by the customer's financial institution to the ABM operator. This fee is designed to partially compensate the ABM operator for the service of providing cash to the financial institution's customer.

Canada's ABM marketplace is vibrantly competitive. The result is convenience and choice for Canadian consumers. In 1996, the Competition Bureau required our founding members to liberalize access to Interac services and removed the existing prohibition against surcharges. This enabled ABM operators to charge fees directly to consumers, encouraging new competition and promoting expanded ABM deployment. That gave birth to the white label industry. Since then, the number of ABMs in Canada has more than tripled, from 18,000 bank-owned ABMs then to roughly 55,000 ABMs today. Non-financial institutions now own and operate greater than 60% of these ABMs.

Today Canadians indeed have vast choice, and that choice is a direct result of the introduction of fees and the liberalization of the ABM marketplace. Consumers' choices for access to cash also include many low or no-cost alternatives. For example, most consumers do not pay a fee when withdrawing cash from their own financial institution's ABM or in-branch. In fact, roughly 75% of ABM cash withdrawals are made by customers using their own banks at no additional charge. Furthermore, we have seen a precipitous decline in the use of Interac shared cash dispensing, as many consumers are opting for lower-cost ways of accessing their cash, such as cash-back at the merchant, and Interac direct payment itself. Some 65% of Interac direct payment customers say they have used the cash-back option this year, up from 54% in 2000.

● (1130)

In summary, Interac Association is a not-for-profit organization made up of a diverse membership that competes vigorously with one another to provide customers with 24/7 access to their money. The diversity of the parties and the competitive marketplace enable consumers to enjoy a standard of banking convenience that is virtually unmatched around the world.

Thank you very much.

The Chair: Thank you, Mr. O'Connell.

We'll continue with Jerry Buckland, who is here on behalf of Menno Simons College.

Welcome to you, sir, and five minutes is yours.

Mr. Jerry Buckland (Professor, International Development Studies, Menno Simons College): Thank you very much, Mr. Chairperson and committee members.

I'll give just a bit of background about my research. I've been studying the phenomenon of financial exclusion, initially looking at Winnipeg's north end, which Andrew Douglas has already referred to. I'm in the first year of a three-year study, with funding from SSHRC, looking at financial exclusion in three inner cities in Toronto, Winnipeg, and Vancouver.

I co-authored a report looking at some macro-statistics regarding financial exclusion and have submitted that as a brief. What I want to do now is just provide one point of context that I thought I could contribute, and then refer to the ATM fee question.

I noticed that in your March 22 meeting there was reference to particular groups that face specific challenges in regard to financial services. I'd like to pick up on a particular group that I think faces this challenge, and that is low-income people.

One way to think about the financial service sector, in my mind, is to think about it as having a supply side and a demand side. For low-income people, on the demand side, I think there's evidence that things have worsened for them. There's evidence that in the 1990s incomes of low-income Canadians stagnated and that wealth and income inequality has grown. What this means is that increasing numbers of people—and to an increasing extent, I think—have fewer incentives to be banked.

With the limited data available, I estimate that roughly 5% of Canadian adults are unbanked. And up to 10%, in addition, are under-banked; that is, they have a bank account but hardly use it. Possibly up to 16% of low-income Canadians are unbanked.

On the supply side of the question, I think there's already been a reference to a two-tier market in the financial sector, and I think there's evidence of that in many inner cities. By that, I mean that the main tier is controlled by banks and other service providers, while the second tier is controlled by fringe banks—pawn shops, payday lenders, rent-to-owns, and so on. These fringe banks are particularly focused on low-income Canadians.

For instance, in Winnipeg, I found, from the Financial Consumer Agency of Canada's data set on bank branch closures, that from 2002 to 2005 the majority of branch closures in Winnipeg occurred in low-income neighbourhoods, and that's referenced in my brief. On the other hand, fringe banks are seeing great opportunities to make profits in inner-city neighbourhoods. Again, for instance, in Winnipeg's north end, in 1980 there were 20 bank and credit union branches and only one pawn shop. By 2003, a reverse had happened. There were five bank and credit union branches and 18 fringe banks.

So how does this segmentation of banking affect a growing number of low-income Canadians? This relates to my final point regarding ATM fees. In the studies I've conducted, I've found that most low-income people—like most people, I would argue—generally behave rationally; that is, they choose financial services based on various costs and benefits they see.

The three costs I wanted to pick up on are the explicit costs, or fees, one faces. The ATM fee, the inter-bank fee, and the white label ATM fee are the costs we're talking about the most here. But for many low-income Canadians, that's one of many costs they face. There are implicit economic costs that low-income people face. For instance, bank branches have been shutting down in low-income neighbourhoods. They don't have telephones, they don't have Internet, and therefore they have to travel further. The costs to them are going to be greater. So they face more implicit economic costs.

There are, additionally, implicit social costs that low-income consumers face in terms of accessing banks. We've heard this again and again: low-income people go into banks and feel that they don't get a level of respect that they would get in other places. In fact, in some cases people feel they receive more respect in fringe banks. So there are social costs, I think, associated with this.

For many low-income people, the implicit economic and social costs of using banks are heavy, and ATM fees add one more cost. For instance, for many low-income Canadians, white label ATMs are not convenient. They are simply the only option they have.

So to address the problem of financial exclusion, what I think is needed is to look at the supply side in a broad sense. What's needed are more branches, more technologies, and more services for low-income people.

Thank you.

● (1135)

The Chair: Thank you very much, sir.

We'll continue with Jeremy Trigg, president of the Exchange network. Welcome to you. You have five minutes.

Mr. Jeremy Trigg (President, The Exchange Network (FICANEX)): Good morning. Thank you for giving me the opportunity to address the committee on this important issue of ATM surcharging.

FICANEX Services is the operator of the Exchange and is owned by a number of smaller Canadian financial institutions. It has two core principles for the Exchange network, one of which is no surcharging, and the other is full functional access, including deposit taking, transfers and balance inquiries. At this date the scope of the network is 2,150 ATMs, operated by 244 financial institutions, in all provinces. Of the 244 financial institutions, all but eight are credit unions, and the balance are chartered banks.

The network is seen to offer choice for smaller financial institutions and gives customers of these financial institutions locations to perform surcharge-free transactions. In terms of surcharging, I think it's very important for the committee to understand there are three types of fees that change hands within the financial institution sector. There is interchange, paid by the card-issuing financial institution to the ATM owner—and in this light I'm going to refer to it as a financial institution. There are service charges, paid by the cardholder to their own card-issuing financial institution. And there are surcharges, paid by the cardholder to the ATM owner—and again, in this light I will refer to it as a financial institution.

We must be careful not to look at surcharges in isolation, because it's important to understand what the implications may be if indeed surcharges are regulated. Fees generated by ATM owners, be they surcharges or interchange, go towards covering the operational costs of ATMs. Any reduction in the surcharge revenue received by ATM owners may have two sets of unintended consequences.

Financial institutions will either work together to increase interchange fees, those paid between the card-issuing financial institution and the ATM-owning financial institution, to compensate for lost revenue. The card-issuing financial institution will simply pass this on to its cardholders, and therefore, instead of being surcharged, the consumer will be service-charged to a greater degree.

The other option available is that because the business case for ATMs—and we do have the greatest convenience in the world here in Canada.... If we take away the income side of the picture, given the cost of operating these, a number of locations will close down and there will be reduced convenience for Canadian consumers.

The Exchange's approach is to mimic the large proprietary networks of the five big banks in the country—though you may ask why I am saying this when I'm running a network that doesn't surcharge. Our network is larger than the smallest of those and about half the size of the largest; therefore, transactions made by Exchange cardholders at ATMs that display the Exchange logo will go without surcharges.

Having said that, every single one of our financial institutions also belongs to other networks. They all belong to Interac. Many of them belong to a credit union network known as Acculink, and internationally they belong to networks like Plus, Cirrus, and the Exchange in the U.S. Transactions made by cardholders on ATMs with those network symbols will be processed under the operating rules of those networks, which may include surcharging. So a Royal Bank cardholder, for example, who is not a member of the Exchange will be surcharged when using an Exchange ATM.

FICANEX believes that surcharging in general discourages a wider use of ATMs, and tends to push Canadians to use their own financial institutions. This is an impression that the Canadian Exchange spends a lot of time and effort trying to overcome, because it's seen as the norm. Nevertheless, it is critical to realize that any reduction in surcharging is either going to result in higher service charges ultimately or will reduce convenience for Canadian consumers.

● (1140)

Thank you.

The Chair: Thank you very much, sir.

We'll conclude our presentations with Mel Fruitman, who is here on behalf of the Consumers' Association of Canada.

Over to you, sir.

Mr. Mel Fruitman (Vice-President, Consumers Association of Canada): Thank you, Mr. Chairman. I will be extremely brief. We are pleased to have this opportunity to appear here today.

The Consumers' Association of Canada is a 60-year-old independent, not-for-profit, volunteer-based organization with a national office in Ottawa and provincial-territorial representatives in every province. Our mandate is to inform and educate consumers on marketplace issues, advocate for consumers with government and industry, and work to solve marketplace problems in beneficial ways.

In general, we favour a competitive marketplace, with government intervention when it is clear that consumers are at risk or that there is a potential for consumers to be harmed.

With respect to electronic banking, our major concerns relate to privacy and security. We also see dangers for consumers when they conduct inter-jurisdictional transactions, where different laws may apply and enforcement of protective laws may not be feasible. Additionally, we seek assurances that those who cannot or who have difficulty functioning in an electronic environment will not be penalized.

Since we already hear the bells ringing, and we have heard from many others, we will stop at this point. We would be pleased to assist the committee in any way we can by responding to your questions.

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

I'm told that we have approximately seven minutes until the vote. So we've got time for six minutes of questions from Monsieur Thibault.

Please proceed.

Hon. Robert Thibault (West Nova, Lib.): Did you want to start with one question first? You had one question.

The Chair: Share your time as you wish.

Hon. John McKay (Scarborough—Guildwood, Lib.): I just want to go to Nadia Massoud. I didn't realize we'd be asking questions; otherwise, I would have been a little more prepared.

I thought you actually had a fairly interesting presentation. Basically, your argument is that the surcharge is above marginal cost. What we've been struggling with, as has Mr. Conacher, is what's the cost of the system here? Do you have any information to share with the committee on that?

Dr. Nadia Massoud: I was talking about a theory model, so it's not based on empirical data. It's a theory model, so it can be any marginal cost. The theory model shows that the ATM surcharge will be higher. But I don't have empirical data on the actual cost because this information is not clearly revealed.

Hon. John McKay: Okay.

Robert.

Hon. Robert Thibault: Thank you.

Again to Ms. Massoud, we ran out of time, but in your presentation do you have one recommendation for how this should be dealt with by the Government of Canada, what Parliament should be recommending?

Dr. Nadia Massoud: Thank you. That's a very interesting question.

My final recommendation? Those prices are determined based on competition. Banks are competing, but the main competition is not the ATM service; the main competition is in attracting customers to the bank. And I don't think the government should intervene. Just leave the market. We're a free market. Keep the free market to determine the prices.

Hon. Robert Thibault: Thank you.

I think that brings it to an interesting point. As Mr. Trigg was saying, there is no free lunch. If we want the service out there, and we want these points of sale.... I don't think we necessarily want less. I don't think we want a lesser distribution. Maybe we want a better distribution in some instances.

I live in a rural area that's well served, I think quite well served, a lot better in terms of access to cash at any time than when we had to depend on banking hours. It's true that there is some cost, but the cost is less than before for having immediate access to ATM machines, debit machines, credit card transactions for small business. You have your guaranteed cash. You have your cash deposited in your account a lot better than with personal cheques... and some NSF cheques and all the other problems that were there.

If we're going to regulate, if we're going to legislate, the only thing I can think of that could solve some of the problems I'm hearing about here today is that Canada Post should do it and that every Canada Post outlet should have a free ATM machine. But then again, that would have some cost.

I was listening to Mr. Douglas, hearing about the changes that have been made with the credit unions and their attempts in that. I'm well served by credit unions. I find that their fees and services are similar. There's no big difference between what they're providing and what the other providers are—a little less better than the white labels, but the white labels are generally where the others don't want to service.

I was wondering, Mr. Douglas, what you would recommend. What recommendation would you give us that would give cheaper access to Canadians in all areas?

● (1145)

Mr. Andrew Douglas: The recommendation I would like considered would be recognizing the low-income communities, where there were at one time many banks. When those banks left the north end area, they didn't actually leave an ATM, so the customers, who were still Royal Bank or CIBC customers, didn't even have the ATM to go to. All they had was the white label ATM. Is there a way to look at an area so that if there's not a mainstream financial institution within a certain area, there is a way to provide easy access for individuals to get their money? When getting money out and putting money in, folks find that all they are left with are the fringe financials.

The Chair: I'm sorry, Mr. Thibault, but we're cutting a little tight on the vote. We'll give you a minute and a half when we come back.

I have a quick housekeeping item, and this is very important for everyone to note, because I love my food. That food back there is for the committee members and the staff. I see some of you salivating back there, but salivate elsewhere, because that's not your food.

Witnesses, you're welcome to join in partaking of the lunch that's available.

We are going to recess until 12:30, whereupon we'll continue with questioning to our witnesses.

We are recessed.

● (1145)

(Pause)

● (1220)

The Vice-Chair (Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.)): Can we start? We have another vote in a couple of minutes, I think it's in about 20 minutes, and then by the time we finish voting we're going to have you guys hanging around for another 40 or 45 minutes. So perhaps we can get started.

I wasn't here during the last sequence of interventions from the witnesses, but I understand it's Monsieur Thibault. You have a minute and a half to two minutes remaining.

Thank you.

Hon. Robert Thibault: *Merci, monsieur le président*.

Thank you to the witnesses for waiting so patiently. Now we're going to be cut short again, I understand.

My final question would be to Mr. O'Connell.

One of the things we do here repeatedly, which speaks to competition, is the question of protected territory, whether it's university campuses, as we heard, or airports, or areas where there are lots of people who are pretty well forced to access the ATM machines in that locale—and it can be very large populations—and where that territory is contracted off or auctioned off to one ATM operator.

I don't know, and I don't believe, there's any federal mechanism we could use in that instance, in many cases, but the Interac network certainly would have ways to do it within their policies and guidelines. Would it not be possible to ensure that there is always competition within those protected territories, rather than bargaining it out to one carrier?

Mr. Mark O'Connell: As I think you know from the previous day's testimony, that is solely in the power of the institution or merchant, whether it be an airport or university, that controls those premises. That is not controlled by the ABM operator; it's usually an RFP process that goes out. Many of them have strategies of wanting multiple ABMs within their premises, and some negotiate more for a single provider.

So I don't think we would have purview to that, given that it's a free market or merchant responsibility.

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

Merci, monsieur Thibault.

We're going to try to keep this to the six minutes.

Monsieur Crête is next, and then I have Ms. Ablonczy, and then we're going to try to get to Judy.

Monsieur Crête.

[*Translation*]

Mr. Paul Crête: Thank you, Mr. Chairman.

Thank you for being here. This is actually my first opportunity to speak as the Bloc Québécois finance critic.

I find all of this to be extremely relevant, because our society is concerned about the creation and perpetuation of poverty, which are linked to an issue such as this. Mr. Buckland clearly illustrated that fact. We intend to study this matter so as to assure ourselves that people all across the country have equal access to services. That is very important, in my opinion.

Mr. O'Connell, I would like you to outline how the Interac Association is funded. You said that you are a not-for-profit organization with capital inflows. But there must also be capital outflows that are not business profits under the Act, but rather, operating surpluses. What kind of amounts are we talking about? Do your members ultimately come out ahead? Do they make a net profit?

● (1225)

[*English*]

Mr. Mark O'Connell: That's correct. We're a not-for-profit association, so we only recoup our operating profits in any given year for the activities that we provide within the network. And those activities are, number one, as I said, we operate the systems that link the various members' systems together in the network, but we do not, obviously, have purview or operate the large systems that sit within our direct connector nodes.

It's very important to understand that the Interac network is a decentralized network, and the benefit of that obviously is that there's no single point of failure, so it's virtually impossible for the network ever to go down for Canadians, and hence its reliability. And then we provide, as I said, all of the administration of the payment rules and policies and so forth, plus the marketing services and the varied security services.

We recoup those costs in charging a member fee per year. For example, the interchange fee I mentioned—and this is in our guidelines and mandated—that flows from the cardholder's financial institution, or the issuer, if you will, and flows to the ABM operator or acquirer is not collected by Interac. We merely recoup our costs, from an operating basis, for those four main services that we provide annually.

[*Translation*]

Mr. Paul Crête: Do you generally have the same type of contact with what I call the independent ATMs — in other words, the ones that are not located in a banking institution? Does Interac also service those ATM operators and do you have the same type of economic relationship with them? Are they banks? Are some of those owners or operators of these ATMs members like all the others?

[*English*]

Mr. Mark O'Connell: They are among our members, the white label providers. They do connect to us in various ways, but the same premise would apply in that we do not partake in the funds and the different costs.

[*Translation*]

Mr. Paul Crête: They apply a surcharge. For example, we are asked whether we agree to pay 1,50 $ or 2 $ more for the service, and we can answer either yes or no. Do they make their profit from that 1,50 $ and do they remit an identifiable portion of that amount for the use of the Interac network? If they only had the machine and the money, those operators would not survive for long, would they? Surely it is thanks to the Interac system or one like it that they are able to operate outside the banking institutions. Do they have to pay an amount that corresponds to a percentage of the cost the consumer is charged at the time?

[*English*]

Mr. Mark O'Connell: Again, because Interac is not involved with setting or regulating prices or with the economics of our members, I can't speak to the profits or fees that are levied by those members. We have no purview there, so I can't comment on a marginal cost basis.

[*Translation*]

Mr. Paul Crête: I have a question for either Mr. Buckland or Mr. Lawford. Let's say someone receiving a 600 $ monthly social assistance cheque happens to live in an area where no banking services are available and does not have access to an independent distributor to get the money. What amount or proportion of their monthly income would they have to pay out as a result of that? Is my question clear?

[*English*]

Mr. Jerry Buckland: Yes, that's clear. For instance, if a single person receiving social assistance in Manitoba was getting about $250, they would be then looking at a white label ATM fee plus their bank fee. It could amount to maybe $5 to do a transaction. It depends on exactly how they do that transaction. More likely, they'll go to a cheque casher, in which case they'll be looking at more like $7 to $10 to pay for the cheque-cashing fee, and that's a pretty big chunk off the top of that limited income.

● (1230)

The Chair: *Merci beaucoup, monsieur.*

We'll have one more round of questioning from Madam Ablonczy, and then we apologize to our witnesses for this democratic disruption that is occurring today.

Madam Ablonczy, over to you now.

Ms. Diane Ablonczy: Thank you, Mr. Chairman.

I want to thank all of you for being here, and particularly to apologize—even though we couldn't do anything about it—for the rather disjointed nature of the hearings. In fact we weren't even quite sure whether we'd get to the hearings before the vote and all those good things.

Today we're studying, according to the motion before the committee, electronic transfers, automatic banking machines, and especially choice and competition for consumers, which I think most of us feel is a good thing.

When we talk about regulating banking fees or regulating ATM fees or even regulating where banks have to offer services, there is quite often what's called the law of unintended consequences. It looks as if you're helping somebody, but really the equal and opposite reaction can actually be to constrict the service, to bump up fees in other areas. By trying to do good here, you can actually cause harm in a number of other areas.

That's really what I want to focus on. For example, let's suppose that we forced the banks to reduce ABM fees. Then let's suppose the banks say, “Well, if there's not much profit in it for us, why should we put up machines and maintain them and make this all available?”, thereby handing the market over to the white label machines that actually charge more fees than the banks. There are a lot of these scenarios that bother me. I don't think any of us would disagree that we want to help people who have trouble accessing bank services, etc. But by trying to do that, are we actually driving the paradigm in other ways that are not as desirable as we had first thought?

I would like to have some commentary on that, because I think a responsible committee will want to look at what I call those unintended consequences. Do the witnesses here see that as an issue?

I'll start with Mr. O'Connell and then Mr. Cran as well.

Mr. Mark O'Connell: I think that is an issue. The scenario you painted is a possibility. Perhaps a greater possibility would be that the regulation of the bank side, the 32% side of this marketplace—and one of the witnesses mentioned that consumers usually act rationally in a marketplace—would probably push the white label market entirely out of existence because the consumers would be going to the low-cost provider.

We would eliminate a vibrant industry in Canada. If we can use history as our guide, I think we'd find ourselves back in 1996 with 18,000 ATMs across the entire country, and therefore, as an unintended consequence, with a reduction in the access points that we have. To say that ATM branches are going to be springing up in all of the rural areas, I think, is a little bit far-fetched. We would have the consumer losing in having fewer access points, as we had in 1996. We'd have an entire industry wiped out.

And by the way, that industry also shares a portion of its revenue with the sole proprietors who usually rent the space of that ATM. So there's an entire other industry that is benefiting from that white label industry, which we can't forget as well.

I think you're right, you would have some unintended consequences, and I see it as a lose-lose scenario.

● (1235)

Mr. Bruce Cran (President, Consumers' Association of Canada): The Consumers' Association has taken the view that this piece of the marketplace is working very well. We like it as it is. We don't want any changes; we see no reason to change.

When we came out with our position several months ago, after Mr. Layton made his statement, we had 3,000 to 4,000 e-mails, 90% of which were supporting our view. There were a smattering who didn't think the system was very good, but mainly because they thought the banks were making a huge profit. The criticisms we got were not relative to the reality of what was happening. The fact that 75% of people are making their withdrawals at their own branches and not paying fees is, I think, a very significant item.

There was a little piece of misinformation this morning from one of my colleagues—I've forgotten which one here—who mentioned that you are charged fees by credit unions. It's my understanding that with any credit union, if you belong to one, you get free access to your money at any other, no matter which province it's in.

In effect, what we have is a system that's working very well. If you don't want to take money out from a second bank's machine and pay $1.50 extra, you don't have to. Obviously people are very well aware of that. If you don't like the banks, you can go to the credit unions.

My organization looks for choice. We also look for consumers to help themselves where it's possible. I haven't seen any real arguments that there's anything wrong with the system we have operating now. My advice to the committee is, why fix something if it's not broken?

The Chair: Thank you, Mr. Cran.

Thank you, Madam Ablonczy.

We have about two minutes until the vote, so we will recess again and reconvene as soon as we possibly can following the vote.

● (1235)

(Pause)

● (1305)

The Chair: Welcome back, committee members. Other committee members will be floating in here as they get reorganized, but out of respect for the time of our witnesses and because committee members can review, of course, the proceedings tomorrow in committee evidence, we'll continue with testimony and questions now.

I see my colleague from Winnipeg North has a lovely plate of fruit and salad, but I think she'll defer for six minutes while she asks some questions, so we'll proceed now with Madam Wasylycia-Leis.

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Thank you, Mr. Chairperson, and thank you to all the panellists for your patience as we go back and forth to the House for these votes.

I really appreciate the panel today. I think this is going to be very important as we sort through the whole issue of electronic banking and ATM fees.

I also wanted to particularly thank Andrew Douglas and Jerry Buckland for coming today and giving some validity to what I have been harping at for many months—maybe years—here at the committee and in the House. I'm not sure everyone always believed me when I talked about a community as large as north end Winnipeg that has been abandoned by the banks, where we've seen 10 bank closures over the last decade, and where in fact the choices are payday lenders and other fringe financial institutions or private label ATMs, basically. We have two credit unions. We have one that is restricted in terms of membership. One is Polish and one is Ukrainian; one is open, and one is closed. And that's it.

As a result, the community really fought back against all these bank closures, without success, except that we got a little bit of money from the last bank closure, from CIBC, to help start a study into an alternative financial community services centre. That centre is now up and running. Andrew Douglas mentioned it; Jerry Buckland was instrumental in its formation. It probably is the first of its kind in the country and it's playing a vital role where the banks have failed us.

I wanted to say that, and I wanted Andrew and Jerry to talk for a minute about this.

You've heard now, as you sat through this, the whole notion that we need choice and competition. That's the mantra of the government side, and I think maybe of the Liberals too, from what I've heard today, regardless of which people fall between the cracks. And you've heard a lot about unintended consequences: that if we do this, or reduce fees, or put some pressure on the banks to change that or be more accountable, there's going to be this huge falling out in terms of access for consumers.

And yet no one of that group and others has talked about the unintended consequences of a system that has allowed banks to shut down their branches willy-nilly, take away their ATMs, and leave private label machines that charge up to $6.15 per transaction.

I think it's about time we heard from some folks at this table who think it's okay to have this system how they can explain and account for that kind of charge—especially the Consumers' Association of Canada, which claims to represent consumers—when it is happening in areas where in fact seniors and low-income people are taking 20 or 30 bucks out of a private label machine and are charged up to $6.15.

Let me start with Andrew and Jerry, and if time permits—I hope there's time—I could hear some accountability from the others on those questions.

The Chair: Briefly, Mr. Douglas.

Mr. Andrew Douglas: Yes, thank you.

Our goal in setting up this community financial services centre—an answer that was put together in consultation with the community—was to find ways of keeping as much money in the community's pockets as possible. Recognizing that lots of the family members in our areas are receiving social assistance, employment and income assistance, for them to get that small cheque and then have to lose a good hunk of it through ATM fees or cheque-cashing fees just isn't good money management. We didn't feel right putting folks in that kind of position. On the one hand, to train folks in money management and ways of saving their money and, on the other hand, to see that there was no opportunity for them to practise it just did not feel right.

So I think, before passing it over to Mr. Buckland, as Judy.... I'm sorry.

● (1310)

Ms. Judy Wasylycia-Leis: Nobody says Wasylycia-Leis here. It's okay.

Mr. Andrew Douglas: We feel there is a responsibility on the part of the financial institutions. As a committee here, it's looking at ways to have community reinvestment, and to have that be a formalized process whereby banks and credit unions have a choice to, hopefully, come back to communities and make sure the services are available, and to find other ways of being a part of the community. Financial institutions don't operate in a vacuum. They were once a part of the community and should be once again.

Mr. Jerry Buckland: I think that in some ways we have seen unintended consequences of the way in which banks have performed in the last maybe 10 or 15 years for inner-city neighbourhoods with withdrawals of the bank branches. Certainly in Winnipeg's north end, and I think in other inner cities across the country, you can see this. Fringe banks have moved in as a result. The consequence for low-income consumers is high fees and limited services that are really dead-end services. You can't develop a savings scheme, you can't build a credit rating at a fringe bank.

So I think the solution is for banks and credit unions to work together to use these fantastic technologies, which many middle-income people take for granted, to reach into those low-income neighbourhoods.

The Chair: Thank you, Mr. Buckland. Your time is done.

Mr. Cran, you alluded earlier to the revenue generated by banks. You addressed that issue just briefly, or touched on it. I'm curious as to what data you have, or your organization has researched, that would tell you that the fees derived by banks from their ATMs are in line in any way with the costs of providing the service.

Mr. Bruce Cran: I don't think we're particularly interested in getting involved in that. What we're trying to do is to evaluate whether this $1.50 is a reasonable charge. When this came up, that's what we were looking at. We've kept our focus at that level. One day we will probably do some research into the areas that some other people have brought up here, including what you're discussing there.

At this point we're not looking at that. We're saying that Canadians generally don't mind this $1.50.

The Chair: I just want to be clear on that, Mr. Cran. You're not suggesting the $1.50 charge that you've referenced is fair, justified, or right; you're simply referring to the fact that it's generally palatable among the Canadian public to have it in place. Is that correct?

Mr. Bruce Cran: Yes, sir.

The Chair: Okay. Thank you, sir.

We'll continue with Mr. McCallum now, for five minutes.

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

Thank you for the patience of all the witnesses, with two votes intervening.

I guess my question has to do with what exactly people want the government to do. I think my colleague asked a question or two on that, and I'm not sure he got a terribly clear answer. I'm a little bit with Diane Ablonczy on this, which is a rare event, but it's a question of unintended consequences. As a simple matter of economics, it seems to me that if, for example, you ban fees on bank machines giving money to people from other banks, then there will be far fewer of those machines. If there are far fewer of those machines, people will have to use the white label machines, which are now 60%-plus of the market and cost a whole lot more.

I don't understand what the NDP is proposing, or what others are proposing to do, because it seems to me that you could easily end up hurting the very people you are trying to help. I haven't heard a clear answer on that. I'd like Mr. Conacher, who wants to speak, to answer briefly, and then Mr. O'Connell would be a good intervener as well.

Mr. Duff Conacher: The lowering of one fee will just be replaced by the banks' adding a new fee or increasing other fees. The banks have said that, although the bank official who said that to *The Globe and Mail* did not want to be named. As a result, the only solution is to regulate the banks as providers of essential banking services—services as essential as heat and hydro and telephone for living in today's society—as other essential service companies are regulated. That means you need to do an audit, looking back over the past 15 years and annually in the future, of the revenues the banks have received from each fee for each service and product, the cost the banks paid to provide each service and product—

● (1315)

Hon. John McCallum: I read your press release, but what do you want to come out of that? What action do you want to take?

Mr. Duff Conacher: You also need to look at the effects on competition and whether there actually is competition in many areas of the country for banking service providers that are providing services in the ways that Canadians want to bank. When you look at those, I think you will find monopolies and duopolies across the country for these essential services. You'll find that the banks have saved hundreds of billions by withdrawing full-service banking.

The government should then require the banks to give something back finally, in setting up machines, in setting up full-service branches for access to basic banking services, at least, in many areas of the country where they've been shut down. There will be no effects at all in terms of access or what is out there already, because you'll simply be asking the banks to give back based on the savings they have realized and the costs they've imposed on the country. That's what they did in the U.S. twenty years ago, but we still don't have it here.

Hon. John McCallum: Thank you, but I still don't understand.

And I'm now going to turn to Mr. O'Connell.

If the banks are required to have zero price on all these machines, I still don't really understand how they'll have any machines at all. I'd like to ask you, Mr. O'Connell, about this issue of unintended consequences.

Mr. Mark O'Connell: As I said before, I think we must be careful. We're here to talk about the ABM industry, whether consumers are being adversely affected and whether this industry is competitive. My colleagues keep branching out into an overhaul of the banking system, whether it's in the rural areas or in the cities, so I'm going to try to keep it on point.

I won't make assumptions as to what the banks will do, as Duff has done, as far as their fees are concerned. I will say that I know the investment certainly will not go into a network if it is not cost-effective. As Nadia's research has indicated, they will not be investing into that network. History is our guide. We will see a shrinkage of services in the ABM channel from the banks.

And as I said, you then have the other issue of the white label industry being wiped of the face of the marketplace as well. That will again adversely affect the consumer.

Hon. John McCallum: Maybe I could ask Professor Massoud for a dispassionate academic view on this subject.

The Chair: It will have to be a very brief dispassionate academic response.

Dr. Nadia Massoud: I investigated this point in particular, and my research was funded by the Schulich School of Business. I looked at the consequences of a policy of banning the ATM surcharges, and the main result would be lower ATM density. The fee is higher for the bank member, so the fee is switched from the foreign users of the ATM to the bank's own members. That does not improve things, but is just a switching of behaviour.

Hon. John McCallum: Thank you very much.

The Chair: Thank you, Mr. McCallum.

We now move to Mr. Dykstra, for five minutes.

Mr. Rick Dykstra (St. Catharines, CPC): Thank you, Mr. Chair.

I have a couple of questions, and one is just out of interest.

Mr. Douglas, you mentioned the fact that once you left the confines of your beautiful community, you came here with the understanding that you would pay some ATM fees if you determined that you didn't want to take cash with you in your pocket. Is the only choice in your community the credit union? Is there no other option?

Mr. Andrew Douglas: In my community?

Mr. Rick Dykstra: In your greater community, is the only banking institution a credit union?

Mr. Andrew Douglas: No.

Mr. Rick Dykstra: I see. So prior to coming to Ottawa, you made the personal determination that the credit union would serve you better than a commercial bank in your community.

● (1320)

Mr. Andrew Douglas: Yes, when looking at all of the variables.

Mr. Rick Dykstra: That's perfect, because it will actually lead into my next point.

A number of variables made you decide to deal with the credit union versus a commercial bank. I would assume those variables were benefits versus costs.

Mr. Andrew Douglas: In some cases, yes, with the main one being the work that Assiniboine Credit Union does in communities like the north end of Winnipeg. I was willing to give up higher interest rates on savings for that return.

Mr. Rick Dykstra: It's just that you raised it as a personal issue, so I asked it in that fashion. You knowingly made the decision to deal with the credit union versus dealing with the bank, knowing full well that when you chose to go outside of your own community, you would be paying an ATM fee if you decided not to take cash. You did that with full knowledge.

Mr. Andrew Douglas: That's correct.

Mr. Rick Dykstra: Thanks. I just wanted to be clear on that.

Mr. Buckland, we had a couple of previous presentations, and a fellow named Michel Arnold, the executive director of a company, mentioned that governments should be focused on regulating white label ATMs versus dealing with the banks on that. Based on your presentation, do you agree or disagree with that statement?

Mr. Jerry Buckland: It's a real challenge. On the one hand, high fees mean that there are going to be more white label or other ATMs; but on the other hand, in inner-city neighbourhoods low-income people end up paying much more for limited-quality services compared to non-low-income people.

I don't think it's a simple answer of having a cap on ATM fees. It goes back to the broader question of how to promote financial inclusion. How do we boost the benefits and reduce the costs to get into the banking system for low-income people? That has to do with setting up pilots like the Community Financial Service Centre in Winnipeg, Pigeon Park Savings in Vancouver, and the Royal Bank's cash and save projects in Toronto. Those kinds of pilots are ways to experiment and learn how to bring low-income people back into the banking sector.

Mr. Rick Dykstra: We also had a presentation from Raymond Protti, the president and chief executive officer of the Canadian Bankers Association. Perhaps Mr. O'Connell could comment, and if time allows, Mr. Cran could also comment.

He said that ATMs have been great for Canada, and the only issue that continues to arise occurs when a user of one particular financial institution goes to another financial institution's ATM machine and is charged a fee. That seems to be the issue we are continually dealing with.

Would you agree with that?

Mr. Mark O'Connell: You're referring to the surcharge fee.

Mr. Rick Dykstra: Right. As long as you use your own banking institution you don't pay a fee, but if you go somewhere else you do. That seems to be the issue we're dealing with.

Mr. Mark O'Connell: Correct. My belief—and I think the market is playing it out—is that the fee introduced a business model that has led to more choice and convenience for Canadians across the country. We can see that in the way the industry has exploded from 1996 to today.

[*Translation*]

The Chair: We will move on now to Mr. St-Cyr.

Mr. Thierry St-Cyr: Thank you, Mr. Chairman.

Mr. Lawford, in the recommendations that appear in your brief at the very end, you say:

> 3) The Committee should recommend that the House consider broadening the Competition Bureau's powers in order to enable it to investigate serious market conduct issues even when the law has not been infringed;

I think it would be worthwhile looking at that recommendation. The Bloc Québécois made similar recommendations with respect to the oil companies.

You are fortunate to be appearing before a parliamentary committee, and thus to be able to tell us frankly what you think, without fear of reprisals, legal or otherwise, and my question for you is whether, in your opinion, some people are infringing the law at this time. If not, is the purpose of your recommendation to broaden those powers to the point where they would go beyond just the strict enforcement of the legislation? In that case, would it be to make recommendations or confer additional powers?

● (1325)

Mr. John Lawford: Yes, the idea is to ask the banks to justify these fees. At the present time, we have no useful information on that. No one knows how much it costs them to provide service at another financial institution's ATM. If the Tribunal or the Competition Bureau had the necessary powers, we could have that kind of debate. A government organization with these kinds of powers could move this issue forward.

Mr. Thierry St-Cyr: I would just like to address the matter of costs, a subject that constituents frequently raise with me. When dealing with financial institutions and making specific transactions, it is not possible to establish a connection between the service provided and the cost of that service. I am no expert, but it seems to me that most of the costs associated with owning an ATM are fixed costs, such as rent and electricity, as well as the purchase of equipment, software and communication lines. I don't see how there could be much variation other than that, whether there are 10 or 10,000 transactions a day, except perhaps in terms of keeping the machines stocked with cash.

First of all, I would like someone to tell me whether I am wrong and my estimate is incorrect. Then, if I am right, I would like an explanation of why people making seven weekly 20 $ withdrawals pay a lot more in transaction fees than people making only one 140 $ withdrawal a week. It seems to me that it is costing the bank basically the same amount. Perhaps Mr. O'Connell would care to answer my question.

[*English*]

Mr. Mark O'Connell: So is your question specifically whether the costs are all fixed versus variable?

Mr. Thierry St-Cyr: Are they mostly fixed?

Mr. Mark O'Connell: I can speak to the costs that are within the purview of Interac. In my previous life, coming from a technology company that provided outsource services, certainly no. A number of those itinerant costs are data processing ones. Every time you pass a message through the telecommunications infrastructure, hit a switch, or go through a different element in the network chain, there is a cost associated with that.

But I can't get into the details of my specific members' costs.

[*Translation*]

Mr. Thierry St-Cyr: Strictly for your service, what percentage of costs are fixed infrastructure costs and what percentage are costs that are really proportional to the number of transactions?

[*English*]

Mr. Mark O'Connell: Our services interconnect the various nodes that sit on the network. Fourteen direct connectors sit on the network. They are responsible for having a physical link with every other direct connector so there's no point of failure. Interac is responsible only for the infrastructure and the telecommunications network to connect those nodes, as well as some fraud and monitoring systems.

So you are correct in that our limited responsibility from an information technology perspective is somewhat fixed, but we are not involved in the data processing and switching systems. Those are our members' systems, whether they are acquirers, issuers, or financial institutions.

The Chair: I have a couple of questions.

Mr. Lawford and Mr. Conacher, in your written briefs you allude to the need for some fee structure to be in place for the banks, in order to protect their own clientele. In essence it's a kind of firewall, for lack of a better word, that safeguards their own clientele against the reality of the marketplace. Essentially, if you could freely access your bank account from any other machine, then why not access ING Direct from your bank's machine too—that sort of thing.

Mr. Lawford, can you elaborate a little on that point? If that's the case, how could one then argue for a kind of utopian situation where there wouldn't be fees? Wouldn't you be asking an industry that we would like to be more competitive to be less so?

● (1330)

Mr. John Lawford: If I may, the banks have made that utopia already; it's called Interac or the Exchange. They decided to have a network because customers demanded to have a network where they could take money from machines, from other banks. The value of the network to consumers grows as the network grows. The fees that are put on when you take money from the wrong bank machine, if I may put it that way, we believe are there to keep you loyal to your own bank, so you won't go with ING. You use the Royal Bank's machines because they're closer to you, for example. That's the reason for those fees.

We've seen no justification from the banks on how much these cost. It looks like the marginal cost for actually doing that sort of transaction at the wrong bank machine is probably very low—it's probably a lot less than $1.50—and Canadians are fed up with that. We haven't seen what the costs are because no one will tell us. That is the problem at the moment. That's why we think these fees—the ones where you take money from the wrong bank machine—are bothering people, and that's why we're here today.

The Chair: Before I go to Mr. Conacher, I accept your point—several have made it—about the advantages of being able to analyze the fairness of these fees as they pertain to the use of the network. But that being said, are you not then asking the industry participants to disadvantage themselves in terms of their ability to retain clients? The implication is the removal of a fee that would allow their clients to access any of their competitors more effectively.

We wouldn't do this for any other industry in the country. We wouldn't say to marketers—except in western Canada with grain marketing currently, but that's another issue entirely—in a competitive industry that they don't have the ability to run their business, in effect, to protect their own business. Isn't that what you're asking here?

Mr. John Lawford: The parallel can be drawn with telecommunications. We asked large telecommunications providers to allow competitors to connect to their networks. It's the same principle. The network is more valuable as it gets larger. Everyone joins the network and the benefits go to consumers. Yes, it is somewhat of an interference in a completely free market; however, the value is spread amongst more people, including consumers.

The Chair: So the question would be where that stops, or does it stop? Are we then moving towards one big giant utility that offers all Canadians savings accounts with regulated rates, and so on?

What I've seen, as Mr. Thibault has alluded to—we have similar demographics in our ridings—is that when banks have left, credit unions have moved in. We have found there are better services and a combination of various ABMs in communities that otherwise would not have banking services at all. If we try to regulate away the differences, are we not in danger of the perverse consequence of actually limiting the availability of that same service in certain parts of our country?

Mr. Conacher, I'll give you a chance to respond.

Mr. John Lawford: I don't believe you're going to have that kind of flight, but I'll let him answer.

The Chair: You say you don't believe that, but it goes against logic that you could regulate banks to be present in places that they don't want to be.

I'll let Mr. Conacher respond.

Mr. Duff Conacher: The committee is missing two key pieces of information, and as a result, I don't think it can make any recommendations that would actually solve any of the problems we are raising, in reality. Those two key pieces of information are these: what does it actually cost the banks to provide all of their services and products versus the fee revenue from each of those services and products; and secondly, what is actually the level of competition? There hasn't been a study since 1998, and that was only a partial study by the Competition Bureau.

I believe you'd find that there are actually monopolies and duopolies in a lot of areas, if you looked at a realistic definition of “market” and a realistic definition of how customers actually want to bank. A lot of people don't want to use telephone and Internet, so you don't include those in. If they're not using them, it means they don't want them and they're not choices. That's how competition is defined, by what customers actually do, not what you want them to do or what the banks are trying to shove down their throats in terms of their agenda.

If you had that information, you could look at the situation and say, okay, in this area, in this market, that bank branch is actually a utility; it has a monopoly, and therefore we're going to regulate the prices. And in this area, there is no banking service.

In the U.S., what they do in those situations, and have for twenty years, is look at the service lending investment patterns and the branch closure patterns, and they require banks to reopen branches or set up special programs, because they know and have known for more than twenty years something that, for some reason, most federal political parties and certainly the federal government don't seem to want to recognize. Banking is an essential service, and bank branches that serve communities are essential to the health of those communities in every single way in terms of the local economy and community development.

So without these two pieces of information—and this is what the committee should recommend—we need a full study of whether there is actually competition, a local market study across the country, and an audit of the costs and revenues and the profit margins for the banks.

We're not asking, as Mr. McCallum implied, for these fees to be eliminated to zero—no, just lowered to a reasonable profit level. If it costs the banks 10¢ for you to self-serve.... When you go to a gas station, you usually pay less; when you go to the banks, the price has doubled. You pay more now to self-service bank than you do to use a teller. It's kind of bizarre, isn't it? You're pushing the buttons and you pay more.

We're just asking that they be lowered to a reasonable profit margin level. An average corporate profit margin would be 15% to 20%. So if it cost the banks 10¢ and they're charging \$3, that's a bit more than a 15% to 20% profit margin. If they can prove it costs them \$2.50 and they're charging \$3, then you're in the 15% to 20% profit margin range.

The banks—the CBA—claim in these documents that they do not cross-subsidize any costs from any part of their operations, that not one cost from any service or product or loan or credit instrument is cross-subsidizing another cost. So they know their costs, exactly, for every service and product. That's what they claim in these documents. They can't have it both ways. Require them to prove that their prices are fair, and if they can't, require them to lower their prices.

● (1335)

The Chair: Thank you, sir.

Mr. Wallace.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chairman.

I apologize to the presenters today; I was out defending my private member's bill before I got here, and then there were votes, and so on. I'm very familiar with the topic and I appreciate the time you've put in here. So I may ask a question or two that have been already answered, but I would like to know what the answer is.

My friend from the New Democratic Party is from a different type of riding from mine. I'm from Burlington, Ontario. We have banks on every corner. I can tell you that my constituency office is in a building in a Burlington mall, and there is a bank machine, and 30 feet away there is another white label machine. We have banks and bank opportunities virtually everywhere in my riding. I try to use my own bank—which will go unnamed—to try to reduce as many fees as possible that I have to pay.

There are two issues that I want to be clear on for my constituents. There was an indication that the banks actually own the white label companies, or they finance them. Well, they finance lots of businesses, but they are actually the owners, and what they're doing is abandoning the marketplace so that white label companies can take their place and charge more, and then eventually, through profits, the banks would make more.

Is that an accurate statement? Maybe Mr. O'Connell can answer that. I don't know.

Mr. Mark O'Connell: No, it is not, unequivocally.

Mr. Mike Wallace: So banks do not own the white label companies.

Mr. Mark O'Connell: They do not.

Mr. Mike Wallace: Okay. I think some of them had been trusts, or income trusts maybe, even before, too, but they are privately owned options.

Are there those that are traded through shares, do you know?

● (1340)

Mr. Mark O'Connell: You have a mix. Most are medium-sized privately owned companies. A member of ours opened Moneris Solutions, which was publicly traded, I believe, and now has gone back to being private. They are medium-sized, to the most part, Canadian businesses.

Mr. Mike Wallace: Okay, so that deals with that.

The other question that has been brought forward...and I've experienced it myself, as a municipal councillor, with sole-source RFPs, requests for proposals. I had one—I don't know where it is—from the airport in Victoria that we recently closed at the end of March. It says directly in there that whoever bid on this would have exclusive use of the facility. Now, isn't it the operator of the facility who is making that decision, that it's a sole-source function of that RFP?

Mr. O'Connell, your members probably bid on these things.

Mr. Mark O'Connell: That is correct. That is fully under the control of the owner of the premises, the way they want to architect their RFP and architect their strategy for their premises.

Mr. Mike Wallace: I didn't see anything in there that said it had to be a bank, a credit union, or a white label company. Is that the norm on RFPs, that it's open for complete competition to whoever is providing automated banking services? Or do some of them say it needs to be a bank or a credit union?

Mr. Mark O'Connell: I wouldn't have purview to enough of the merchant-specific RFPs to answer definitively. If you look at the market and you look at our members and where their machines are deployed, it seems to indicate that it is certainly open to full competition, because you have many of these premises with both types of devices.

Mr. Mike Wallace: Okay.

I have another concern. To be frank, we as a government have had success with the discussion on the ABM piece with the finance minister, and the discussion that's happened here at this table has driven some banks to make some changes in recent days on some fees. Maybe it is not to this gentleman's satisfaction, but it has happened and will likely continue to happen.

From a competition point of view—correct me if I'm wrong—credit unions have a deal amongst themselves that they don't charge.... For example, if I use credit union A and I belong to credit union B, it doesn't cost me anything to use that. Is that a competitive advantage for credit unions?

Mr. Jeremy Trigg: Whether it's an advantage...it's a competitive reality that credit unions are obviously significantly smaller than any of the five chartered banks, so they band together and provide a larger scope of access. They have two options. There's a network called Acculink, which is credit union only, and then they could participate in the Exchange—which, other than in the Prairies, the rest of the country does—to allow for a no-surcharge situation. Then some of the individual credit unions choose, at their option, not to charge any incremental service charges to their own cardholders for those transactions as well.

Mr. Mike Wallace: Thank you for that answer.

Because it is a competitive marketplace, they're doing that to attract customers. These are the types of programs they're offering to potential customers to come and join their credit union. Is that an accurate statement?

Mr. Jeremy Trigg: Yes.

Mr. Mike Wallace: And has that been around for a while, or is that something new?

Mr. Jeremy Trigg: The Exchange actually pre-exists Acculink by three years, so it's been around since 1983, and Acculink, to my recollection, has been around since 1996. So it's been in place for quite a long time, yes.

The Chair: We'll continue with Madam Wasylycia-Leis now.

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

First of all, I think the point that Duff and others have made about the difficulty for us to proceed in a serious way without accurate information is a good one, and we need to find a way to get that audit done.

I should point out that after we lost the efforts to reduce and eliminate ATM fees, a motion was presented to this committee during consideration of Bill C-37 to at least get disclosure, full disclosure, of costs and fees. That was defeated. That was defeated at this committee, thanks to the Liberals' supporting the Conservatives, so we're at a real impasse here in terms of basic democracy and basic information. I don't know why there is this need to cover up. I don't know what we'll hear from the banks on Thursday, but this is where we're at.

In terms of the costs and the whole question of what's justified, I think the economists here—and Mr. O'Connell, and even Mr. Trigg and the Consumers' Association of Canada—should answer the fact that the costs have been identified. Perhaps they were not identified by the banks, but we had witnesses at this committee; I'll just put on record Dr. Lew Johnson's figures of, at maximum, a 60¢-per-transaction cost to the financial institution. He rolls in about a 30¢ fee, at the most, in terms of a transaction for the bank involved. He says the Interac fee or the switchback fee is 2¢ to 15¢ per transaction. You can add something for technology, add something for something else, and at most you are talking about a 60¢ cost per transaction.

Do you know what that means, Consumers' Association? It is over a 500% or 600% markup to consumers. Is that acceptable to you? You say it's the way it is and you're just going to accept it. I can tell you, you may hear from a certain number of constituents and people out there, but the vast number of Canadians are concerned that they're having to pay that kind of markup and pay that kind of cost when the banks are making the profits they are and exceeding their costs by 500% or 600%.

How do you justify that? How do you justify that? How, Mr. O'Connell, do you not say anything in the face of that kind of situation? How is it that it's not reasonable at this committee to talk about a more reasonable fee structure? What is the problem here? Whose interests are you trying to protect? Are the banks' interests that important—

● (1345)

The Chair: Excuse me. Excuse me, Madam Wasylycia-Leis.

Ms. Judy Wasylycia-Leis: I'm sorry. Okay.

Is my time up?

The Chair: That's the seventeenth question you've asked, and not with any time allowed for any answers, so I would suggest that the few minutes you have remaining, it would be good to hear from some expert witnesses on the issue. Perhaps a question to them would be useful.

Ms. Judy Wasylycia-Leis: Yes. I'd like to know from the Consumers' Association of Canada how a 600% markup is allowed, and I'd like to know from Nadia Massoud if, in all her machinations or numbers, she included the savings to all the banks from closing so many branches, eliminating physical infrastructure, and laying off personnel as part of the savings that they are generating as a result of going to ATMs.

Mr. Mel Fruitman: Madam, I think you are going well beyond the purview of what we are here to discuss.

Ms. Judy Wasylycia-Leis: Excuse me.

On a point of order, Mr. Chairperson, we have a motion before this committee to study the broad issues of bank fees, ATM fees, Interac and electronic banking. In fact, I'll point out to you, Mr. Fruitman, that the motion before the committee is the result of my work, and it was there to deal with a very important consumer issue. So if you'd like to answer the question, a very specific one—

Mr. Mel Fruitman: I'm trying to.

Ms. Judy Wasylycia-Leis: —please go ahead.

Mr. Mel Fruitman: Thank you.

First of all, I do not know whether the information you have presented is accurate. We would not disagree with a limited look at the financial institutions along the lines that Mr. Conacher has suggested. If indeed there is collusion or if indeed there are markets in which there is no true competition, then those could be looked at.

In terms of the actual profits of the financial institutions, in the absence of proof of those two problems, we're not asking to have regulated fees for an industry in a competitive and open marketplace in this country.

Ms. Judy Wasylycia-Leis: That was sworn testimony—a 60¢-per-transaction cost. That's what I'm asking about. Are you saying you can justify a charge of up to $4.55?

Mr. Mel Fruitman: We could justify it no more than we can justify what Wal-Mart charges for any of the items in its store.

Ms. Judy Wasylycia-Leis: You lump the banks in with Wal-Mart? We shouldn't have a Bank Act, and we shouldn't have any regulations, and people shouldn't trust their governments to set a proper regulatory frameworks?

The Chair: We'll continue now with Mr. Del Mastro.

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

I don't know where to begin. I'm afraid the temperature in the room is going to come down a touch with the next line of questioning.

Mr. Fruitman, it would seem to me that what we have before us is a tremendous opportunity for the banks to respond in a fashion by which they might gain an advantage over some of their competition. The banks compete for clients, and there's no question they compete for clients. I sat here for about 30 seconds and came up with a couple of buzz terms. I'm sure everybody's heard them: “banking can be this comfortable”; “you're richer than you think”; “putting you first”; and “save your money”. These guys spend a fortune trying to attract clients.

If I were the representative of a credit union, I'd love some of the promotion that we'd get out of this. Everybody's learning that the way to compete with the chartered banks is to run with lower fees and to be more welcoming as far as using other competitors' machines.

Isn't this an opportunity? Wouldn't the consumers association see this as an opportunity for the banks to perhaps compete on a different level?

● (1350)

Mr. Mel Fruitman: If the financial institutions or the banks indeed felt they could attract more customers to them rather than to their competition, yes, it's what competition is all about. We see there is quite a great deal of competition in the marketplace.

All of us would like to pay less than we are paying for just about anything we do or buy, and that is the case here. If somebody wants to indeed lower the charges, then it may attract more customers. They are free to do so. We would indeed encourage them and would like to see them do so. We are not saying they should be forced to do so.

Mr. Dean Del Mastro: Thank you.

As a former retailer, I can tell you that it's very simple to say here's the cost and here's what you're charging on a direct service you may be providing or on a good you may be selling. Those aren't really the costs that go into providing the good or service, because you have a lot of fixed charges, fixed assets, and expenditures that you have to make. If you were to only look at the profit margin on any specific good, it might seem excessive, when in reality you have other base costs that you have to cover as well.

Do you think it's reasonable to look at the cost of a very specific service, analyze it in correlation to the direct cost without looking at the overhead cost of that service, and determine that it may be exorbitant? Do you think it's reasonable?

Mr. Mel Fruitman: You're quite right. In other organizations, one would never take a look at the cost of only one specific service. You have to look at the overall cost of the operation and determine what is profitable.

Talking about retail, we know that sometimes they're sold at less than cost for marketing purposes and at other times they are sold for ridiculously high markups in the hope that it all averages out.

Mr. Dean Del Mastro: I'd like to put the same question to Nadia. Perhaps you might have an opinion on that.

Dr. Nadia Massoud: Thank you very much.

Basically, my study showed that you put the ATM surcharge significantly above the marginal cost. I'm not looking at the level of the marginal cost. I'm saying you could use this fee as a marketing tool.

If you look at banks, they spend lots of dollars on advertising. Instead of spending it on advertisements, they could spend it on ATM machines. This is a marketing tool for the banks. They can say they have a large network, they provide convenience, so switch and be their member. We're not looking only at the marginal cost; there are many other factors that we're ignoring.

I have a really neutral position. I'm a consumer. I would like not to pay anything, but I'm trying to be fair here.

Mr. Dean Del Mastro: Thank you.

I have one more question.

I think the biggest thing we need to protect people against is the potential for gouging. Mr. Fruitman, would you have a position on what might be considered gouging in this industry? What would be a fair charge and what would be gouging?

Mr. Mel Fruitman: Again, it's very difficult to assess, because you'd be taking one product or service out of context and separating it from the others. It may be there are certain circumstances that require a different look, such as those where a market is not served at all or is indeed underserved.

In terms of gouging, it would be anybody's guess as to what that would be.

Mr. Dean Del Mastro: Thank you. I have nothing further.

The Chair: We will conclude with Monsieur Thibault.

Hon. Robert Thibault: *Merci.* I'll make just a couple of points and then put one question.

One is on the question of the use of fees to attract customers. If I go to a consumer cooperative and buy products and am not a member, I'm going to pay more at the end of the year than somebody who's a member, so I could look at that as a fee. That fee isn't based on their marginal cost of providing me service; it's a method that's used to encourage me to join their cooperative. I think we find that to be generally acceptable. So to say that the fees instituted for servicing somebody who isn't necessarily your customer have to be at the marginal cost of giving the person that service.... I don't know that this should apply; I don't know that it's a logical argument to make.

The question of gouging is important. That question is whether a consumer who doesn't have a choice but to deal with you, and you're gouging them.... That, I think, is good.

As for Mr. Conacher and pointing to the U.S. banking system, I think a lot of consumers of the banking system in the U.S. look to Canada for inspiration. In the service we have in Canada from our banking systems, credit unions, chartered banks, and other services, and our electronic transfer capabilities from coast to coast and internationally, I think we're quite well served in comparison with the United States, and many would agree.

Now I want to get to the fees. I've seen, in my personal experience, getting access for zero per transaction; I've seen paying $1 and $1.50 per transaction. I understand that in restaurants or bars or casinos or late-night activities people have paid $2.50 or $3 per transaction. I've never heard of the $6 charge that Madam Wasylycia-Leis points out.

Is there an example of people, communities, being forced to use Interac machines or ATM machines without competition at that level of charges? Does that exist in our country?

Perhaps I'll ask Mr. O'Connell and Mr. Trigg to respond.

● (1355)

Mr. Mark O'Connell: Personally I've never seen them myself, either. I think you're right that it depends on the premises. If you talk to a white label operator, they will say each set of premises has a different business case for the machine. At some machines you have 200 to 300 transactions per month, but those transactions are valued by those consumers who frequent those premises.

So I have not seen that type of fee structure, but I can't comment across the board, because Interac neither deploys nor operates ABMs.

The Chair: Let me interject for greater clarification. You alluded earlier—or Mr. Trigg, I believe you did—to three levels of charges: an interchange fee, which institutions pay; a service charge, which customers pay; a surcharge as well, which customers pay, on white label machines. Adding those together, do you get anywhere near $6? Is that what this is about?

Mr. Jeremy Trigg: No, I don't believe so. Of course, in the Exchange, we don't surcharge. As a consumer, I can tell you that I've never seen that kind of fee.

What we need to be careful of.... I think the word used in the question was “forced”. It seems unlikely to me that somebody would be forced to pay the $6 fee. If the only reason the ATM is there is that it can only afford to be there at a $6 fee, then I suppose to that extent you're forced. But if the option were paying $6 or not having a machine to use, maybe that's the question. It is just straight economics—

The Chair: Or taking a cab 25 minutes to a nearby community, or some such thing.

Mr. Jeremy Trigg: Well, that may be your only other option if there's no machine there at all. I'm not suggesting I support $6 fees, because we don't support fees at all in the network.

The Chair: On a point of order, we have Madam Wasylycia-Leis.

Ms. Judy Wasylycia-Leis: Mr. Chair, my point of order is just so you know that the numbers I've been citing have come from the government's own agency, the Financial Consumer Agency of Canada, which has the full range of charges for every type of transaction. The $6.15 is the maximum charge that could be possible for a private operator. It would involve the regular account fee, the Interac fee, the convenience fee—the total transaction fee.

Yes, that's exactly my point.

The Chair: Thank you for that. That wasn't a point of order, but it was informative.

Mr. Thibault.

Hon. Robert Thibault: That's a possibility that could be, if everything aligned properly. But Mr. O'Connell, do you have knowledge of people paying above $3 per transaction on a regular basis? Is that a common occurrence? Are those fees out there?

Mr. Mark O'Connell: On the surcharge fee, no.

I think the relevant point is that what we're talking about here is the element of being “forced”. As I mentioned, consumers are increasingly voting with their feet, and that's indicative of a competitive market. They are going to cash-back—64% of our customer are using cash-back—and they are using Interac direct payment to purchase goods directly without using cash at an increasing amount year over year.

We've processed over 3.6 billion debit transactions, and that's why we have shared cash transactions going from 375 million in 2001 to 285 million last year. Again, it's indicative of a competitive environment monitoring and regulating itself, as it should be.

● (1400)

Hon. Robert Thibault: Thank you very much, Mr. Chairman.

The Chair: *Merci beaucoup, monsieur.*

For the committee members, before we adjourn, Thursday's meeting will go from 11 a.m. until 2 p.m., continuing with the ATM discussion. Next Tuesday we'll deal with the estimates from Finance.

I thank all our witnesses very much for their patience today with the unusual nature of our incoherent hearings. We do appreciate very much the preparation of your reports and your participation.

We're adjourned.

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