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Chair

Mr. Brian Pallister

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● (1100)

[*English*]

The Chair (Mr. Brian Pallister (Portage—Lisgar, CPC)): Good morning to all.

I am here today to welcome you, witnesses. Thank you very much for coming in. And thank you also for your previously submitted written material, which I'm sure was of interest to committee members.

I'll ask the cameras to vacate now. Thank you very much.

Pursuant to standing order 108(2), this is a briefing on automated teller machine fees and electronic payments.

We have two hours this morning. You've all been instructed that you have five minutes to cover a very important topic. We recognize the brevity of that time. I will give you an indication when you have a minute remaining. I will have to cut you off at five minutes to allow for time for exchange with our committee members.

Thank you again. We appreciate your being here.

We'll begin with CIBC, Sonia Baxendale.

Mrs. Sonia Baxendale (Senior Executive Vice-President, Retail Markets, Canadian Imperial Bank of Commerce): Thank you very much, and good morning.

I am pleased to have the opportunity to provide CIBC's comments on the issues of choice and competition with respect to banking services in Canada.

Let me begin by giving you a brief overview of CIBC's approach to enhancing services for our clients and ensuring continued competitiveness. CIBC has made, and continues to make, significant investments in all of our distribution channels to improve accessibility and the range of services we offer our clients. As a result of these investments, today we operate one of the largest branch, ABM, telephone banking, and online banking networks across Canada. We have been upgrading our network to adapt to changing market conditions. CIBC has approximately 1,050 branches across Canada. To that end we are in the process of opening, relocating, or expanding another 70 branches, to be completed over the next five years.

Our telephone banking and online banking services hold leading positions in the marketplace. In fact CIBC's client website was just ranked number one among Canadian banks by an independent market research firm.

We have built the country's second largest bank-operated network of ABMs, with more than 3,800 bank machines, representing 23% of ABMs operated by Canadian banks. Earlier this month we announced the completion of a multi-year $90 million upgrade of our ABM network, offering improved access for persons with disabilities, enhanced security, and new transaction features. For example, we have doubled the number of CIBC access for all ABMs, from 610 in 2004, to almost 1,200 today. These machines are installed at wheelchair-accessible height, and include headphone jacks for audio access, grab bars, and improved lighting.

We have also provided clients with the opportunity to complete withdrawals more quickly, and we have added a calculator to help them total multiple deposits. We have developed new ABM features to deter card-skimming devices and keep our clients' accounts secure. In addition to ABM locations at our branches, clients can access CIBC bank machines at convenience stores, universities, colleges, and hospitals, as well as Loblaws grocery stores through our President's Choice Financial machines.

By investing in and maintaining such a large network, we are providing our clients with very broad access, convenience, and choice. We are also providing them with the opportunity to avoid ABM surcharge fees by using our network versus those of other banks or white label bank machines. In fact almost 90% of all ABM transactions undertaken by CIBC clients are done at our CIBC machines, meaning our clients pay no additional fees. These investments in our ABM network, as well as in our branches, telephone banking, and online banking, are how CIBC is responding to the competitive financial services market in Canada.

We have taken steps to address the specific needs of students, seniors, and those with disabilities. For example, through our CIBC Advantage account, our clients aged 60 or older have access to an unlimited number of free transactions through the CIBC channel of their choice, as well as free bank drafts and money orders. CIBC remains committed to providing our clients with the most convenient, accessible, and affordable financial solutions.

Thank you. I look forward to your questions and comments.

● (1105)

The Chair: Thank you very much for your presentation.

We will continue now with the representative from the Competition Bureau. Mr. Richard Taylor is with us. Welcome, sir. You have five minutes.

Mr. Richard Taylor (Deputy Commissioner, Civil Matters Branch, Competition Bureau): Thank you, Mr. Chair and members of the committee. The Competition Bureau welcomes the opportunity to take part in the committee's study of ABM fees and electronic payments. My comments today will focus on the 1996 Competition Tribunal order concerning Interac. However, I would first like to briefly describe the mandate and the role of the Competition Bureau.

[*Translation*]

The Commissioner of Competition is responsible for the administration and enforcement of the Competition Act. The purpose of the act is to maintain and encourage competition in Canada in order to promote the efficiency and adaptability of the Canadian economy and to provide consumers with competitive prices and product choices.

[*English*]

As you will appreciate, the bureau routinely receives complaints from consumers saying that they believe prices are too high or that competitors charge similar prices or have increased their prices in unison. Other complaints frequently allege profits or price gouging.

It is important to understand that high prices and profits in and of themselves are not contrary to any of the provisions of the Competition Act. However, when high prices are the result of anti-competitive conduct circumscribed by the Competition Act, the bureau will deal with those situations expeditiously.

Agreements among competitors to fix or raise prices are subject to the severe criminal conspiracy provisions of the act, the penalties for which include heavy fines and jail terms.

In addition, the act deals with potentially anti-competitive conduct that has prevented or lessened or is likely to prevent or lessen competition, whether it be anti-competitive mergers or abuses of a dominant position aimed at eliminating or excluding competitors from the market.

[*Translation*]

One of the major investigations under the abuse provisions in the 1990s involved the Interac Association which operates the network that allows customers to make withdrawals from ABMs not belonging to their own bank. Originally, Interac was dominated by a small number of large deposit-taking institutions. Rules imposed by these few members restricted access to the network, impeded innovation, and limited competition in providing banking service to merchants and consumers.

● (1110)

[*English*]

The bureau's investigation of Interac focused on practices that limited competition in the supply of network services to both businesses and consumers. The practices included the following: limiting membership to deposit-taking institutions; charging prohibitively high initiation fees for new members who weren't among the nine members at the time; having restrictions that impeded the introduction of new services or innovative products; and prohibiting charges for ABM use, which discouraged the placement of ABMs and deprived consumers of the benefits of widespread ABM deployment determined by market forces and not by the association.

In June 1996, the Competition Tribunal issued a consent order against Interac that not only prohibited these anti-competitive acts but also put in place changes necessary to restore competition in the affected markets. The order required Interac to open its network to potential participants; collect fees based solely on a user or transaction basis; broaden the governance of the association; make the network available for additional types of accounts and new services; and remove the prohibition on surcharges, which are now known as convenience fees.

[*Translation*]

The order did not in any way mandate or regulate the imposition of surcharges. However, allowing surcharges permitted operators of ABMs to determine and charge a competitive price for ABM services based on their costs, consumer demand and other relevant market factors.

[*English*]

Consequently, consumers have benefited from the placement of ABMs in all parts of Canada in accordance with market forces. Following the 1996 order, the number of ABMs increased from 12,800 in 1995 to 55,000 in 2006. In fact, Canada has the highest number of ABMs per capita, and we are among the heaviest users of ABMs.

To reiterate, the order does not regulate the convenience fees that ABM operators charge consumers, nor does it require that they charge any fee at all. Furthermore, the order does not deal with network access fees, so-called Interac fees, or any other account-related fees connected with cash withdrawals or debit transactions.

I would be pleased to answer any questions you may have.

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

We continue with Michel Tremblay from the National Bank of Canada. Five minutes, sir.

Mr. Michel Tremblay (Senior Vice-President, Personal Banking and Wealth Management, National Bank of Canada): Thank you, Mr. Chairman.

[*Translation*]

Honourable members, thank you for this opportunity to speak with you today. The main focus of my comments will be ABM convenience fees within the specific context of Quebec.

● (1115)

[*English*]

While National Bank is Quebec's leading bank, we have a more limited reach elsewhere in Canada, where we operate 105 branches and as many ABMs. As we are concerned with providing our clients outside Quebec with the best possible service, the bank has become a member of the Exchange network.

I wish to point out that we did not join the network as a way to offer our clients the possibility of withdrawing funds without paying convenience fees. That was not our goal. We did it mainly to enable them to make deposits or transfer funds between accounts, which is what makes the Exchange network ABMs a remote service counter in the real sense of the term.

I also want to remind you that 46% of ABMs that are accessible through the Exchange network belong to banks. As such, this network cannot be regarded as belonging to cooperatives, especially given that Desjardins, the largest cooperative in the country, is not a member.

[*Translation*]

Our core market, Quebec, has some particular features that I would like to hone in on. Of the ABMs located in the province, 53% are operated by independent suppliers that frequently charge a convenience fee of $3 per transaction.

In addition, more than half of the ABMs operated by financial institutions belong to a deposit-taking institution that is not a bank and therefore not regulated by the federal government. That financial institution, the Desjardins Group, charges a convenience fee of $2 per transaction.

That means that the National Bank's convenience fee is lower than those charged at around 75% of ABMs in Quebec. It also means that our clients have to pay a $2-dollar convenience fee each time they use a Desjardins ABM, while Desjardins clients pay 50¢ less per transaction to use our ABMs.

In such an environment, we feel that imposing regulatory limits on such fees would be highly discriminatory and unfair for our clients. How could we explain to them that they have to pay $2 each time they use the ABMs of a competitor that operates four times as many banking machines and whose clients can, unlike them, withdraw cash from our machines or those of another chartered bank for free?

Moreover, our clients have dramatically altered their financial payment habits over the past 20 years, and they have benefited from a payment system that has continually evolved towards greater efficiency and reliability. The system is built on the user-pays principle, the only one that enables the deployment of new technologies and encourages economically rational choices. The arrival of the digital wallet will mark yet another step in that evolution and could very well make the topic of today's meeting irrelevant. One of the results of this adjustment process is that third-party use of our ABMs has declined 20% in the last few years.

However, since we only operate a handful of ABMs outside Quebec and only 6% of all ABMs located in Quebec, we are constantly analyzing market developments and client needs so we can offer our clients, through highly attractive banking packages, ready access to the various transaction methods at a competitive price, be it through banking machines or other means.

[*English*]

I'll be available for questions, in both languages.

The Chair: Thank you, Mr. Tremblay.

We'll continue with Ms. Heather Black from the Privacy Commissioner of Canada's office. Welcome, and five minutes to you.

Ms. Heather Black (Assistant Commissioner (PIPEDA), Office of the Privacy Commissioner of Canada): Thank you, Mr. Chair. I don't believe I will need five minutes.

Not surprisingly, our office has no views on the whole issue of fees for automatic teller machines or anything like it.

The Chair: You would keep those private.

Some hon. members: Oh, oh!

Ms. Heather Black: Exactly.

We are, however, greatly concerned about the rising incidence of electronic data theft, which leads increasingly to credit card, debit card, and bank account transfer fraud. The numbers are going up on incidents of that nature. Consumers are increasingly unable to recoup the cost of setting some of these things straight. There are weaknesses all along the chain in some of these cases, and probably the weakest end of the chain is in the retail sector, which is more vulnerable to hacking than the banks.

I'll be pleased to answer questions—unfortunately in only one official language.

The Chair: Thank you very much, Madam Black.

We'll continue with Jim Westlake from the Royal Bank of Canada.

Welcome, sir. You have five minutes.

Mr. Jim Westlake (Group Head, Canadian Banking, Royal Bank of Canada): Thank you, Mr. Chairman.

Thank you to the members of the committee for the opportunity to speak with you today.

I'd like to start by saying that Canada has one of the best, most affordable, and most efficient banking systems in the world. The price of retail banking services, including ATM access, is low relative to other countries and is driven by intense competition. Canada has more ATMs per capita than any other country. Our pricing is fair and transparent, based on a pay-per-use principle.

At RBC, our clients benefit from access to Canada's largest distribution network, including more than 1,200 branches and business banking centres, telephone and Internet channels, almost 2,000 mobile bankers, and of course almost 4,000 ATMs, which are available to our clients at no direct charge. In fact, 80% of our clients do not pay for using our ATMs. Our network of ATMs is the most extensive in Canada and we are expanding, with plans to deploy more than 400 new machines in the next three years. All of these are RBC machines. We do not own any white label ATMs.

Students benefit from our extensive network. We have 67 ATMs now, or planned, on 35 college and university campuses, and 446 ATMs within one kilometre of the 229 university and college campuses in Canada.

Seniors and people with disabilities also benefit. We were the first bank to offer audio-enabled machines, which are serving as a prototype around the world. Today our clients have access to 425 of these talking ATMs in Canada, and more than 550 machines have been designed so that people in wheelchairs have easier access.

A fundamental part of RBC's philosophy is that we are located in and contribute to communities all across Canada, because where our communities succeed we all succeed. Our 60,000 employees work hard every day to provide our 12 million clients with financial products, services, and advice at competitive prices. Competition is working and Canadians are being well served by a stable, efficient banking system that provides maximum choice and convenience.

Any attempts to reduce competition, including additional regulation, will only lead to fewer options for consumers. This point has been recognized by many, including members of this committee. Without the flexibility to charge and price on a competitive user-pay basis, our clients and shareholders would effectively be subsidizing access to our ATM network for clients of our competitors. It's unlikely that we would be able to continue to maintain a network of 4,000-plus ATMs; innovation and access would suffer and costs to consumers would undoubtedly rise. Increase regulation and you'll be reducing choice for students, seniors, people with disabilities, and all Canadians.

Thank you. I'll be pleased to answer any questions.

● (1120)

The Chair: We will continue with Tim Hockey from the Toronto Dominion Bank.

Welcome, Tim.

Mr. Tim Hockey (Co-Chair, TD Canada Trust, Toronto Dominion Bank): Thank you, Mr. Chair.

Mr. Chair, honourable members, thank you for the opportunity to appear before you today.

TD employs about 58,000 people and has over 14 million customers around the world, over 10 million here in Canada. At TD we place a premium on customer service, a fact recognized by external surveys that place us first in customer service. We ask more than 400,000 customers each year how we are doing and what we can do better to ensure we offer the service they want and deserve. This is reflected in the wide array of accounts, products, and services we have designed to suit the needs of our customers, including low-cost accounts and special accounts for students and seniors.

Our customers also choose how they want to bank with us. If they prefer dealing with the branch, we have an expanding network across the country and the longest branch hours in the industry. In the past three years, TD Canada Trust has opened 63 new branches, the highest number of all the banks, and we plan on opening another 30 this year.

If customers choose to bank online, TD offers EasyWeb, an award-winning, full-service online banking experience. We also offer telephone banking through EasyLine, and of course we are expanding our network of automatic banking machines. We offer ABM services exclusively through our network of conveniently located Green Machines. TD does not own or operate so-called white label machines.

Our bank is very proud to have invested over $250 million installing more than 2,500 brand new Green Machines across the country, all of which feature the latest in security and assisted technology for disabled customers.

Recently we announced that we would install a TD Green Machine on or within walking distance of large university and college campuses in Canada to help make sure more TD customers have convenient access to their money. We did this because we recognized that we did not have a presence on all campuses and wanted to ensure that students, particularly TD Canada Trust customers, had access to our ABMs. We have now written to the identified schools and look forward to moving forward with this plan.

TD owns and operates its ABM network to maximize the service we offer to our TD clients. TD customers pay very low or no monthly charges to access their funds via our Green Machines. Eighty-one percent of all TD Canada Trust accounts do not pay any transaction fees when using TD Green Machines. Seniors who belong to the Plan 60 account do not pay any fees at all.

TD ABMs are linked to a wider network that allows non-TD customers to access their money through our machines, and as you know, there is a transactional fee associated with this service. This system is very transparent. TD and the banking industry have worked very hard to ensure Canadians understand the fee system, and over 75% of ABM withdrawals in this country are made by Canadians using their own bank's ABMs. In terms of the TD experience, over 80% of TD Green Machine transactions are made by TD customers.

On the issue of electronic payments, I would be happy to answer any questions about TD's role in the bill payment process. I would like to make the point, however, that all bills our customers pay online get processed by us that day, but it can sometimes take two business days for the payment to get processed by the billing company. It's worth noting, though, that 95% of TD's billers recognize the transaction date as the payment date, thereby minimizing the customer impact. Information advising customers of processing times has always been available on our EasyLine and EasyWeb online service.

As my time is short, I would just conclude by saying that TD has always encouraged customers who have questions or concerns about any aspect of their banking experience to talk to us about the account options that best suit their needs.

Thank you. I'm happy to answer your questions.

● (1125)

The Chair: Thank you very much, sir.

From the Bank of Nova Scotia, we have Christopher Hodgson with us. Welcome to you, sir, and five minutes is yours.

Mr. Christopher Hodgson (Executive Vice-President and Head of Domestic Personal Banking, Senior Executive Office - Domestic Personal Banking, Bank of Nova Scotia): Good morning, Mr. Chair and members of the committee. Thank you for the opportunity to speak with you today.

First of all, let me tell you a bit about our bank. Scotiabank is Canada's most international bank, anchored by a strong franchise here at home. We have just under 1,000 branches here in Canada and 2,800 ABMs. Our bank is 175 years old this year, and we're very proud of that. We've seen a lot of changes in such areas as electronic banking, but we fully recognize that new channels are additional options for our customers rather than replacements for branches.

I am going to focus my remarks in the next few minutes on ABM fees, although I will be pleased to answer any questions you may have.

I would first like to state that I appreciate the concerns expressed by the members of this committee and by Minister Flaherty. We strongly agree with the minister and the Department of Finance officials that the best way to protect the consumer interest and make the marketplace effective is through competition and choice.

We face stiff competition for clients. The number of different account packages and features that exist is a good example of the degree of competition driving these differences. We are constantly reviewing our account packages to ensure that they remain competitive and effective in meeting the needs of our customers. We're also interested in finding solutions to address access issues for customers most impacted by the fees that result from the use of our competitors' ABMs.

More than 75% of our customers never pay an ABM convenience fee, as they choose to use Scotiabank machines. Furthermore, we're adding branches and ABMs across the country so our customers can find a Scotiabank when they need one. In addition, customers can access Internet and telephone banking at their convenience.

Finally, we're seeing an increasing trend by customers to use point of sale as an opportunity to take cash back and minimize fees.

Consumers benefit from the range of options they have to access their accounts, including a coast-to-coast ABM network that ranks Canada first in the world in terms of access as defined by ABMs per capita. Canada's major banks control one-third of the ABMs in Canada. Two-thirds of the ABMs are controlled by other providers.

I know the committee has been interested in ABM fees in the U.K. market. While this model may seem attractive on the surface, it provides significantly less access, it relies on a lower standard of disclosure of fees, and it results in higher costs to consumers through hidden charges. This model is sound from neither the consumer's perspective nor in the interest of competition. It is very important to consider the total cost of banking, and on this metric Canada is one of the best in the world.

In summary, we offer our clients very competitive service packages. We also welcome input not only from our customers but from the government on an ongoing basis as we review and upgrade our service offerings.

Mr. Chair and members of the committee, I'd like to thank you very much for the opportunity to speak with you today.

The Chair: Thank you very much.

We continue with Maurice Hudon from the BMO. Welcome to you, sir. You have five minutes.

[*Translation*]

Mr. Maurice Hudon (Senior Executive Vice-President, Personal and Commercial Banking Canada, BMO Bank of Montreal): Thank you, Mr. Chairman.

We are pleased to have the opportunity to appear before you to discuss our approach to automated banking machines.

BMO has invested heavily in our network of Instabank banking machines. We currently have nearly 2,000 machines across the country. In the past couple of years we have replaced every one of them. Our new generation of machines makes banking from an ABM more accessible, faster and simpler. In short they make it easier for our customers to do their business with us.

We have been strategic about locating our ABMs in locations that provide convenient access to our customers, allowing them to avoid hassles and fees, especially those charged by the higher-priced, white label ABMs. For example, we have more than 200 ABMs within one kilometre of university campuses across Canada and an additional 300 within two kilometres.

Our customers' behaviour tells us we must be doing something right when we decide where to locate our machines because, at last count, about 85% of our customers' transactions were completed at BMO machines, compared with 75% industry-wide.

That said, we do take seriously the concerns raised by the Minister of Finance and your committee. We recognize that you are approaching this issue not only as responsible public policy-makers, but as consumers of banking services, in your own right.

So, we are conscious of your concerns about the cost of banking for seniors and students, which is why we provide no fee banking plans for both these groups.

● (1130)

[*English*]

Seniors in the know know that BMO's banking plan for seniors is free and that it is the only free seniors plan that offers them one free monthly Interac transaction at another financial institution's ABM. That's a market response and it's a competitive decision.

Students in the know have known for some time that BMO has the best student banking plan, a free banking plan, with the added flexibility of one free e-mail money transfer per month. When compared to most of our competitors before you today, our free monthly plan saves students anywhere from $1.25 to $3.45 per month. That adds up over the course of a year. That's a market response and that also is a competitive decision. Yesterday we reaffirmed our commitment to seniors and students by extending the fee waiver on our performance plan for seniors and our plus plan for students for three more years.

What does this all mean, Mr. Chairman, in practical terms? It means that in 2006 we provided free banking services to 390,000 students, as well as to 866,000 customers aged 60 or over.

Let me cite another example of a competitive solution to the issue of ABM access. HSBC and BMO entered into an agreement under which HSBC decided to buy access to our Instabank network instead of making a large capital expenditure of their own. Under this arrangement BMO does not charge a fee to HSBC customers who use our machines. Nor does HSBC, but then, neither did they incur the cost of building the network. HSBC customers can even make deposits to their accounts through a BMO machine, and as you know, Mr. Chairman, your committee has discussed this issue of full functionality in the past.

The point is that there is nothing stopping individual financial institutions from using these kinds of creative arrangements to gain competitive advantage, and we have. That is a market response and, again, a competitive decision.

Mr. Chairman, I thank you and your colleagues for giving us a chance to exchange views on the subject, and of course I'd be happy to answer your questions.

The Chair: Thank you, sir.

We'll conclude our witness presentations with David Phillips. Welcome back to the committee, sir.

Mr. Phillips is from the Credit Union Central of Canada.

Over to you.

Mr. David Phillips (President and Chief Executive Officer, Credit Union Central of Canada): Thank you very much, Mr. Chairman and committee members. I want to thank you for this opportunity to appear before the committee as part of your study on ATM fees.

My name is David Phillips, and I'm president and CEO of Credit Union Central of Canada, commonly known as Canadian Central.

Canadian Central primarily represents the nine provincial credit union central organizations in Canada, and through them 498 credit unions. I should point out that these credit unions are situated in all provinces of Canada except Quebec. We do not represent the caisses populaires of Quebec.

I would like to limit my opening remarks to three specific points. Two of these are points of contrast with the banking industry, and the third I suspect is a point of similarity. The first point of contrast is the existence of surcharge-free, inter-credit-union networks in the credit union system. Unlike the large commercial banks, individual credit unions, being community-owned financial institutions, typically do not have large and extensive branch and ATM networks. For this reason, and for competitive reasons, credit unions participate in ATM networks that provide their members with surcharge-free access to cash withdrawal services on a national basis. One of these networks is known as Acculink. Acculink is a credit union only network. It is comprised of 435 credit unions and provides access to approximately 1,700 ATMs on a surcharge-free basis across Canada.

You heard about a second surcharge-free network this past Tuesday, and you've heard about it earlier today, known as the Exchange network. Many credit unions participate in this network, along with a few banks. Through participation in one or both of these networks, and depending on the credit union of which you are a member, credit union members will have surcharge-free access to between approximately 1,700 and 2,700 ATMs on a national basis. This is an important service to members, which enables credit unions to maintain competitiveness with the ATM networks of the large banks.

A second point of contrast between credit unions and the banks is the manner in which credit unions set service fees for the financial services obtained by their member customers, including ATM access fees. Unlike the large commercial banks, which typically design and offer fee packages on a national basis, the credit union system is comprised, as I've said, of 498 credit unions, each of which design and provide their own fee packages separately and independently in the communities they serve. Since the array of packages is so vast, it is not possible to generalize about the nature and level of service fees that credit unions might charge their member customers for ATM access.

However, it is worth noting that the customers of credit unions are also the members and the owners of their credit unions. They annually elect the boards of directors of their credit unions. So if credit union members have views about the fees charged by their credit unions—favourable or unfavourable—they have a very direct way in which to assert these views at the level of the board of directors and senior management of the credit union.

I believe my third point is a point of similarity with the banking industry on the subject of efficacy of government regulation in this area. Currently the ATM surcharge, where it exists, is a fee that is both transparent and it is usually avoidable. In our view, regulation aimed at limiting surcharging is likely to undermine these aspects of the fee and would probably reduce the availability of ATM services to the Canadian public. We are not persuaded that the regulation of ATM fees would achieve positive results.

This concludes my remarks, Mr. Chairman. I'll be happy to answer any questions on this subject.

● (1135)

The Chair: Thank you very much for your presentations. It is highly unusual that you would all keep within that five minutes. I do appreciate it, and I know the committee appreciates it. It will allow more time for exchange with the members.

We'll begin with Mr. McKay now, seven minutes.

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

Thank you to each one of you for coming. You're almost as popular as the RCMP today.

I want to first of all ask Mr. Taylor about the law of unintended consequences. Prior to the consent order, am I to understand that those members of Interac didn't charge fees? And then after the consent order, which accessed further financial entities, then fees were charged. Is that correct?

Mr. Richard Taylor: I'm not able to answer that right away. I don't have first-hand knowledge of the period before 1996. They did always charge what they called the network access fee. Whether they charged a convenience fee, I can't answer. I can find that out for you, or maybe somebody from one of the banks could answer that.

Hon. John McKay: Possibly somebody from one of the banks could answer that then.

Mr. Westlake, do you know?

Mr. Jim Westlake: I'm sorry, I don't know.

Hon. John McKay: Okay. Does anyone else know?

I will pursue, then, the issue of unintended consequences. I suppose, as one of the parties in this esteemed chamber thinks it appropriate, we should abolish all electronic fees. What would be the unintended consequences of abolishing those fees? I'll start possibly with the TD or BMO. What would be the more obvious consequences?

It would seem to me that if fees were abolished, the revenue to pay for the system would have to be made up somewhere, so presumably that would be on the spreads or on the general monthly fee that's charged to customers. Presumably you wouldn't be as enthusiastic about putting new machines around the country and would not be as enthusiastic about competing with each other for seniors and youth. Possibly there would be other consequences.

I'd appreciate any response from either Mr. Hockey or Mr. Hodgson.

● (1140)

Mr. Christopher Hodgson: I mentioned in my comments that the U.K. model was not a model that we should follow. I think that's a good comparison to make here, because in the U.K., in fact, there's a significantly smaller number of ABMs per capita than we have here in Canada, and they did abolish convenience fees. What they've done, then, is package those into other fees. I could give you examples of what would be charged for things like NSF cheques and different things for which we charge $10 here. They charge £10 to £12 there, which is $30. They're built into other products and services.

With less investment in the ABM network, there likely would be more costs in other products and services, so I think you would see less choice and less convenience.

I would make one other point. After listening to some of my peers here today, I would say we've made collectively as a group in ABMs, or will have made by the end of next year, about $75 million in upgrading our ABM system. It's all part of an integrated platform; it is not just about ABMs. When we open new branches, that's part of our branding. It's part of our marketing, and it's part of convenience. If we were to abolish fees, there would be an impact for consumers and Canadians. There would be a pass-on at some point.

Hon. John McKay: Mr. Hockey.

Mr. Tim Hockey: Mr. McKay, I think you mentioned most of the consequences. Even though it's a hypothetical situation, I would add that there would be an impact on another industry, called the white label industry. If the bill you mentioned were to pass, and fees for banking machines owned by the banks—and I think we've articulated that that's only about 30% of the network in Canada—were abolished, then the banks generally would probably not invest in that particular network. There would be an impact on the white label industry. These companies do actually pay rents to many small businesses across the country. They would be now competing against a relatively free network access. That would be another possible unintended consequence.

Hon. John McKay: So the supreme irony of all of this would be that the white labels would have to, in effect, constrict their network because they would be charging and the banks wouldn't be charging, and everybody would then be hustling off to use the bank networks. The irony would be that you'd, in effect, drive customers to the banks.

Mr. Tim Hockey: It's possible that would be an outcome. It's tough to say.

Hon. John McKay: In my last couple of minutes, I just want to go to the credit unions.

You have, in effect, a free exchange among your membership. In fact, it's expanded through this other Exchange network. It makes perfectly good sense as a business model for credit unions because a lot of credit unions are small and are not nationwide. Yet you came to the conclusion that regulating fees was actually a bad idea.

I'm curious as to how you actually ended up with that conclusion. Could you expand on that?

Mr. David Phillips (President and Chief Executive Officer, Credit Union Central of Canada): I don't have much more to say than what's been said. The concerns we have are that it may have this effect: pricing would be less transparent, and it would affect the supply of ABM machines in the market and the convenience for Canadians. So we are not predisposed to support that as a solution.

We find that our approach is working pretty well for our members. We're interested in expanding our network, actually, our surcharge-free network, and I would hope that a year from today I could come back and tell you that it's larger than it is right now. But we can do that without any form of regulation.

Hon. John McKay: So those financial institutions that are clearly in it for profit, which is apparently a bad word around here, and those financial institutions whose membership have a cooperative model both say effectively the same thing: regulatory interference is not the way to go; the competition model is in fact the way to go. Is that a fair statement?

Mr. David Phillips: That certainly is our view, and I expect that it is the banks' view.

● (1145)

[*Translation*]

The Chair: Mr. Crête, you have seven minutes.

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): Thank you very much for your presentations. Our fellow citizens are very interested and concerned about this question. When you pay fees, you always want to know whether or not you're getting your money's worth.

Mr. Hockey, do you have a total cost-recovery policy with regard to your ABM facilities? Does your bank keep separate accounts about this? Are your costs covered? Do you make any profit from the fees collected at ABMs or is this an attraction cost for your institution?

[*English*]

Mr. Tim Hockey: The simple answer is yes, we do look obviously to cover our costs as a private organization that is responsible to our shareholders and our customers. We obviously try to make sure we're covering the costs.

I mentioned the very large investment we made in completely upgrading and replacing our entire ABM network. Those are not investments we make lightly. We always have a business case for that. So we do look to recover our costs over time, and certainly not in any particular given year.

The issue of fees and costs in particular, I know, are of interest to this committee, and it's a complicated question to answer. First, I'm not about to disclose my cost structure, especially with my competition sitting right beside me. That is proprietary information, and we do compete strongly. I would say that because, as we all mentioned, a good proportion of our own customers use our own very large networks absolutely free, there is an element of saying that the charges being incurred by other banks' customers to use our network are more, obviously, than the cost to maintain that network. It is a rather complicated formula, which I don't think any of us would be willing to go into in any great detail, for proprietary reasons.

[*Translation*]

Mr. Paul Crête: You've illustrated the complexity of the issue very well. As a citizen, banks are a specific market, and you are saying that we, as elected officials, cannot find out from you or from another company what the actual profits are from this aspect of your production. Therefore, all kinds of rumours can circulate. Wouldn't you be better off making that information public, without necessarily giving exact figures, so that the public can be the judge?

Your presentations focused a great deal on the availability of service. Virtually none of the briefs talks about the profitability of these facilities. Without giving figures, because this could harm you from the competitive standpoint, what kind of information could you give us to enable us to evaluate this issue?

[*English*]

Mr. Tim Hockey: I think the best way to look at the overall profitability question.... No private enterprise will break down discrete costs and discrete revenues to look at line items. It's just too competitive a marketplace to allow that sort of disclosure.

The competitive market does actually moderate itself. If profits are excessive, then other entrants enter that marketplace. The white label industry is a classic example of exactly that. After the competition tribunal order was made in 1996 and surcharging was allowed, this industry sprang up out of nowhere as a result of meeting a consumer need, at a rate that consumers were obviously willing to pay for the additional convenience of having a machine in a local convenience store, less their costs. And they are able to make a profit to continue to operate.

I understand that it's not exactly a satisfactory answer to be told that we don't disclose the individual line item on profitability, but I think you can understand the competitive issues.

[*Translation*]

Mr. Paul Crête: My question is for any of the bank representatives. Would you be in favour of our reintroducing the amendment that had been proposed by the Liberal government in the fall of 2005? This amendment sought to broaden the mandate of the competition commissioner in order to allow her to conduct market studies, without there being any evidence of collusion necessarily, but simply to obtain information? Wouldn't that be one way of allowing you to provide readily comparable information in the future, while still protecting your competitive position?

● (1150)

[*English*]

Mr. Tim Hockey: I will defer to my colleagues to get off the hot seat, but I would say I don't know the details of the particular proposal you're talking about. I do know that in the course of this issue there have been many references to studies on the overall cost of banking, whether it be U.K. studies or U.S. studies or from independent bodies.

There is a lot of information, some of which the other bank representatives and I have referred to, that would suggest the overall cost of a complete banking package in Canada is incredibly strong and positive for consumers, as compared to our competitors worldwide.

You can always look at anybody individually and say that's a particular fee. I think the representatives from the CBA have said it's like judging the overall cost-effectiveness of a grocery store based on the cost of milk and the price of milk. It's inappropriate; you have to look at the complete basket of goods. We think that has been done over and over again, and we are very competitive. We know it.

[*Translation*]

Mr. Paul Crête: The issue of milk is a significant one. One could consider that milk is an important product and that ready access by everyone is necessary and thus regulate that product, regardless of the fact that the business itself is profitable.

One of the difficulties that was raised on Monday is that people on welfare are encouraged to use direct deposit by provincial government ministries. However, they often live in regions where there's no bank branch and no free-of-charge banking institution. In that case, out of a $600 cheque, a welfare recipient must pay 3, 4, 5 or $6, which represents a very significant expense.

What are the banks prepared to do in that regard? You can answer that later.

The Chair: Thank you very much.

[*English*]

We will continue now with Mr. Wallace.

Mr. Mike Wallace (Burlington, CPC): Thank you for joining us this morning for this discussion we continue to have on this item.

I have a couple of questions. Our NDP colleague brought forward two things during the discussions, and I want to clear the air on both of them.

First, there was a discussion that the banks were running the system, in the sense that when organizations like airports and universities were looking for suppliers of ABM services, the banks were determining whether that would be a sole source or not. So I'm going to leave it open to anybody who has bid on it, and maybe you could also comment on why you're promoting the fact that you're around universities and not on them if you're not the sole provider now.

Is there anybody from the banks who wants to comment on that? Let's start with the Royal Bank.

Mr. Jim Westlake: Yes, thanks for the question.

Certainly we would be delighted to be on more universities. I mentioned in my remarks that we are or will be on 37 campuses with some installations we're doing.

When we get a request for proposal, the educational institutions point out that they want exclusivity. We bid on that basis, and frequently we lose out to white label providers who are willing to pay higher fees and then pass on that charge. We will only incur the standard charge and no more. So I think we're relatively at a competitive disadvantage on that with that cost structure.

Mr. Mike Wallace: Okay. Does anybody else want to comment?

Before I get into some other questions, a number of the banks own white labels and so are abandoning marketplaces and allowing their subsidiaries, through ownership of white label organizations, to take up that space and charge more and make more money.

A relatively old show, *Marketplace*, mentioned both Royal Bank and CIBC in January 2000, so if either bank wants to comment on that, Sonia, that would be.... Ms. Baxendale.

Mrs. Sonia Baxendale: Certainly.

CIBC does not own any white label machines and does not have any relationship of that nature with white labellers. As you correctly stated, in about 2000 when CIBC was starting up a separately branded organization known as the Amicus division, we owned a very small number of white label machines. That division was not built with the intent of becoming a white label operator or expanding that into our CIBC network, but simply as an alternative branding for our Amicus strategy at that time.

● (1155)

Mr. Mike Wallace: Does the Royal Bank have any comment?

Mr. Jim Westlake: The Royal Bank owns no white label machines.

Mr. Mike Wallace: Thank you for that.

Today our NDP colleague introduced a private member's bill that wants to completely ban bank fees for the use of ABMs. Can you tell me if there are any other fees—for chequing accounts, etc.—that we at the federal level regulate or set at the bank? Does anybody know? I didn't think so.

The example you used, Mr. Hockey, was excellent, about the milk and how the big store works. My logic would say that if we're going to say you can't charge fees for ABMs, then you can't charge fees for chequing accounts or anything else.

At the end of the day you have a responsibility to your shareholders. My shareholders are the taxpayers. I'm assuming you would try to raise revenue through higher interest rates. Would that be an accurate statement? Is that one way you might be able to recoup some of those losses? Would you then just not invest in the thousands of machines for convenience that have been created around the country?

Does anybody want to comment on that?

Mr. Maurice Hudon: Mr. Wallace, I think you've probably identified the likely outcome of such a measure.

Mr. Christopher Hodgson: I think the market is the best common denominator in all of this. Regulating fees is not going to accomplish more choice and convenience for customers around the country. The bottom line is that customers have the opportunity to move somewhere else if they're not satisfied with the fee package they receive from a particular institution. They can vote with their feet.

As I think you've heard here today, all of us have said that anywhere from 75% to 90% of our customers pay no convenience fees by accessing their own proprietary networks. One issue that all of us need to look at is raising the level of awareness throughout Canada about how Canadians can better access all of our different banking packages. I think that's something we would all undertake to do.

Mr. Mike Wallace: I was actually a banker for six weeks, but I didn't like it—and I won't say which bank, Mr. Hockey.

Some hon. members: Oh, oh!

Mr. Mike Wallace: You're expanding the network, which tells me that consumers, your customers, are demanding more convenience, or you wouldn't be investing the money in those areas.

I live in Burlington, and there are bank machines and bank branches absolutely everywhere. Can you tell me what your customers are telling you about the need for more banking machines and more convenience? You're obviously making those management decisions based on some information. Can you share that publicly?

Does anybody want to answer?

The Chair: A brief reply will have to suffice.

Mr. Tim Hockey: The number of transactions being done at ABMs is actually decreasing, and it has for a number of years, even as the number of actual ABMs increases. The reason for that is other channels. The primary one we haven't talked about today is the fact that there is now an alternate way to get cash, and that's through debit. Many Canadians are now realizing that when they make a purchase at a store they can add $100 and take that additional cash. That's a form of ABM. It helps the merchant keep their cash floats down, and it doesn't require any ABM deployment. As a result there are actually fewer transactions going on.

Our customers—and I'm sure those of the rest of the banks—are saying they want to have more branches with more access, 24/7 and 365, through Internet, ABM, and telephone. They want us to keep investing, which is why all of us continue to make massive investments in those channels.

● (1200)

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

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

Thank you all very much for your appearance today and for participating in this study of our committee on ATM fees and other bank fees and electronic banking.

I almost feel, sitting here, like I'm in some surreal world. Everything's great in the banking world, and there are no problems. I have to tell you, there's a big difference between Bay Street and Main Street.

Many of us represent communities where what you're telling us is just not the case. Either there isn't the access or the choice.... This notion about choice and competition is so far removed from the reality of so many Canadians that I think you should all go back and rethink what your purpose is.

You're not just like any other business. There's a Bank Act. You have a charter responsibility. You have an obligation to provide information. You can't just sit here and say this is all a matter of competition and good business practice. You have an absolute obligation to tell Canadians some basic facts.

Let me lighten up for a minute. My good colleague Mike Wallace mentioned my bill. It's just been tabled today. It calls for changes to the Bank Act, and Mr. Flaherty says it's quite possible to actually prohibit and eliminate fees in terms of electronic transfers of funds that are used now by the banks. Does anybody here disagree with this?

Voices: Oh, oh!

Ms. Judy Wasylycia-Leis: Does anybody support this bill?

Mr. Mike Wallace: Not even the Competition Bureau.

Ms. Judy Wasylycia-Leis: All right. I didn't think so. I was hoping you'd ask the question, Mike, so I could save my time.

Unfortunately, here in Canada our banks are not willing to listen to public pressure, it seems, because when concerns have arisen in other countries there has been an appropriate response from the big banks, and here, clearly, you're not prepared to do that. That's why we have to go the legislative route, because Canadians are expressing concern. They are voting with their feet, because they don't have the kind of access you're talking about and they are being gouged.

So let me get at the question of gouging, and let me go through each of the major banks. What is the actual cost per transaction when one uses an ATM machine, whether it is one's own bank's or another's?

Mr. Hudon, can you give us the cost per transaction?

Mr. Maurice Hudon: I will have to echo the comments made on that subject earlier. First of all, the matter of costs on any one service is a very challenging thing to determine, and we would not disclose it if we did have those costs.

Ms. Judy Wasylycia-Leis: You won't disclose. So even though the public would like some basic information about what they're being charged and what the costs are and how they're being gouged, you will not disclose it.

The banks have all said, and we've had this verified at our committee, that you do not cross-subsidize your operations, that each part of your operation is a stand-alone. So you do know the costs. You treat each area as distinct and separate; therefore the ATM stream subsidizes itself. It stands on its own. You know the costs, you know the charges, you know the profits.

Can you, Mr. Hodgson, tell me if you agree with what Professor Johnson from Queen's University said when he said, at the most, it's 60¢ a transaction? Yes or no?

Mr. Christopher Hodgson: I'm not going to give any proprietary information, but I will tell you this. The issue of ATM fees, the cost of putting the network in place, is not just specific to that, as Tim indicated. When we open up a new branch—and we've opened 35 this year; we opened 15 last year—there is a cost of opening up that whole branch system. The two to three ATMs that we put in each of our new branches are part of that. It's part of our marketing; it's part of our branding. So we don't look at this as one specific cost setter. It's part of an integrated part of opening up a new branch system. We don't divulge that for competitive reasons, which Tim has already indicated.

● (1205)

Ms. Judy Wasylycia-Leis: So you're not refuting the fact that the costs are pennies to do these transactions in terms of the actual service?

Mr. Christopher Hodgson: No, I didn't say that.

Ms. Judy Wasylycia-Leis: Well, is anyone here refuting what expert witnesses have said to this committee in terms of about a 27¢ or 30¢ cost per transaction and another 2¢ to 15¢ Interac fee, which means you're looking at about 40¢ per transaction? All of you, as banks, charge up to $5.15, if you apply every single cost. That is a mark-up of what, 500% or 600% or more? It seems to me that it's well beyond the notion of gouging. Gouging is after 15% or 20%, is it not?

You have a situation where you're not prepared to give Canadians the facts, but you're prepared to keep doing this without explanation and without due regard for people's right to access their own money without serious penalty.

Mr. Christopher Hodgson: I think we are very transparent. I think that—

Ms. Judy Wasylycia-Leis: Okay then, will you release your figures?

Mr. Christopher Hodgson: I think that 75% to 90% of our customers don't pay any fees, and those who access another system have the ability—

Ms. Judy Wasylycia-Leis: I've heard that before. I would like to know—

Mr. Christopher Hodgson: They're shown on the screen. They have a choice to make that payment or they can go elsewhere.

Ms. Judy Wasylycia-Leis: If I had a bank—I don't, I go to a credit union—and I was accessing my bank's ATM, it's not going to tell me that my bank might be charging me $1.50 if I don't have one of those packages. So you aren't fully transparent.

We had a motion before this committee to ask you to disclose all your fees, and the committee defeated it. I'm on my own, and I know that, but I know there are lots of Canadians who support basic knowledge.

Will you disclose the costs of each transaction? Will each of the bank representatives here disclose that? Will you give this committee that information: the cost per transaction, the fees you charge for everything, and your profit margin? Will each of you do that?

Will you do that, Mr. Hudon?

Mr. Maurice Hudon: I'd be very happy to make sure that you have what our customers pay, as it is available to them. Absolutely.

Ms. Judy Wasylycia-Leis: So you're not prepared to give us the cost, and you're not prepared....

Okay, Mr. Hodgson, are you prepared to give us those three things: the fees, the costs, and the profit margin?

Mr. Christopher Hodgson: For proprietary reasons, no.

Ms. Judy Wasylycia-Leis: No? Okay.

Mr. Hockey, you're not.

Ms. Sonia Baxendale, are you prepared to give that?

Mrs. Sonia Baxendale: I think we're very transparent on the costs.

Ms. Judy Wasylycia-Leis: If you are, will you give us that information, then?

Mrs. Sonia Baxendale: We'll give you parts of the information, but—

Ms. Judy Wasylycia-Leis: But you won't give it all.

Mr. Westlake.

Mr. Jim Westlake: I hesitate to ask you to repeat the question.

Voices: Oh, oh!

Ms. Judy Wasylycia-Leis: That's all right, as long as it doesn't take time off my time.

The Chair: Thank you very much.

Ms. Judy Wasylycia-Leis: Probably the answer would be no.

The Chair: I'll exercise a bit of discretion here and pose a couple of questions.

First of all, by the law of unintended consequences, which certainly exists here, if we, for lack of a better phrase, nationalize ATMs, what we will do as a consequence is a number of things. We would—

Hon. Robert Thibault (West Nova, Lib.): On a point of order, Mr. Chair, respectfully, I recognize your—

The Chair: Yes, Mr. Thibault. What is your point of order?

Hon. Robert Thibault: I have to catch a flight, and I have to leave in 10 minutes. I would like to get my question—

The Chair: You're excused, Mr. Thibault.

Hon. Robert Thibault: But I'd like to get my questions in.

The Chair: Well, you may.

Now, in respect of the ATM issue, as far as fees are concerned, if we eliminate fees charged for ATM use, as is proposed by Madam Wasylycia-Leis' bill, we would then very likely eliminate, or greatly limit, the use of white label machines in the country. Is that a fair observation?

If there were no fees whatsoever to be charged for the use of bank machines, wouldn't that discourage the use of white label machines? Wouldn't it reduce the profitability to be derived from the presence of white label machines? Wouldn't it result in the loss of service to Canadians in areas such as my riding and others where there is not a plethora of options in rural communities—for example, where a white label machine might be available now, and it might not be available in the future?

Is that a fair observation, Mr. Hodgson?

Mr. Christopher Hodgson: Yes, yes, and yes.

The Chair: Okay. I think that should concern members of the committee who are concerned with access to these services.

Of course when there were no such machines, there were no fees. I think that would be a fair point to make as well. Canadians didn't have the advantage a number of years ago of having ATMs. So any regulation this committee might recommend that would reduce the availability of such machines under the guise of reducing fees should consider that if there were no machines at all, there would be no fees.

However, I am interested in the level of the fees. The substitution effect that other witnesses have testified to, I think, is probably a reality. I want some comment on it. Witnesses have testified to the fact that there is a non-client charge—that the vast majority of users pay no fee, but some do pay a fee. Would the consequence of free access to the network result in an erosive effect on your client base? Is this part of the rationale of maintaining a fee for non-client use?

Mr. Hockey.

● (1210)

Mr. Tim Hockey: I would say that's exactly one of the considerations we all take when planning our network. When we say “network”, it's not necessarily just the network of ABMs that we provide. Some, as you've heard, have larger ABM networks than others. The key decision in retail banking is what areas you decide to invest in, whether it be ABMs or branches, and how long those branches are open.

So the decision to make it no cost for a non-bank customer to use our proprietary network would absolutely have effects on our bank strategy. It could change very much how we compete against each other.

The Chair: So in effect, part of the reality of a fee structure is that it helps each of your institutions protect your existing client base. Is that not true?

Mr. Tim Hockey: True.

The Chair: Yes. And is the concern in lowering fees, which a number of witnesses have alluded to the possibility of, that this would therefore result in less ability to protect your own institutional client base from erosion by competitors?

Mr. Tim Hockey: True. We think our own customers would not necessarily be amenable to the fact that non-customers...and you've heard this example in the press. It would be like being a member of a gym and having non-members of the gym being able to use it for free. It goes against common business practices.

The Chair: So there's an aspect of institutional protection in the presence of these fees. That is a reality.

Mr. Thibault.

Hon. Robert Thibault: *Merci.*

I'd like to take it back and look at what we've heard so far in committee, both this morning and in other instances.

Prior to 1996 we had an evolving industry. The ATM industry had evolving service out there. We had a collective monopoly in the large financial institutions. The bank owned and controlled the Interac service, kept other people out by having huge or very high membership fees, and didn't permit people to charge convenience fees. Private sector operators who didn't have the full service, who wouldn't have been in the banking service, couldn't have access, couldn't compete, couldn't get in. So we did have a joint monopoly, or a collective monopoly.

With the decision of the board in 1996 lowering those membership fees, or permitting access to competitors through the Interac network, permitting convenience fees, we've had the evolution that we've seen now, where we have a variety of fees charged—from $3 to zero in most cases, depending on where you are—and a lot of choice, a lot of points of access.

I look at that evolution and say, if Parliament gets involved and all of a sudden we start regulating fees—or eliminating fees, as the NDP is suggesting—I would surmise that the risk is that we would reduce service, that we would reduce choice, and that we would reduce the points of service.

Do any of you disagree with that point?

Mr. Jim Westlake: I'm glad you had time to stay and ask your question. I agree wholeheartedly with that.

Hon. Robert Thibault: If there's no disagreement, I'll accept that as your view of the facts. But there are a couple of areas where I do have concerns.

Perhaps I'll start with you, Mr. Westlake, with regard to the first area, the captive market. I recognize it's not the purview of Parliament; it's the purview of the individual operators, I guess—the universities, the airports, and those institutions. But where you have a large market of people who are pretty well captive to that locale and you limit the choice of machines in those areas, where you have one institution that bids on that market, then the clients of other institutions won't have free access to their money. They will have to pay convenience fees. It's similar to airports. That is a concern to me.

I would ask, in your discussions and through the Canadian Bankers Association or however, that you consider finding a fair way to give reasonable access to all institutions, from credit unions to the large banks, to give some access to those captive markets.

Is that possible?

● (1215)

Mr. Jim Westlake: I think I mentioned earlier in my comments that we are not the ones who make that decision. We'd be delighted to be on every university campus, in every airport, and we'd be happy if our competitors were there so that we could all have that access for our own clients. We would like that. We're not able to put that in. It is up to the individual institution when they come out and say that they want exclusivity.

Our competitive response, because we're trying to follow our clients—I'll use universities as the best example—is that we know that we have so many clients at those universities, so we try to get as close as we can. We're restricted from being on campus. We've put 1,200 ATMs in Canada within three kilometres of the 229 universities and colleges. That's been our response because we're not able to go on campus.

Hon. Robert Thibault: I recognize the point, but could there not be an agreement, while not everybody would necessarily have machines in all institutions, that when you have privately operated public institutions like airports and universities, whatever institution wins the contract will not charge convenience fees to members of other financial institutions, including the credit unions? There is a difference between that and competing stores or competing service stations or corners. There is more of a captive market, and they are, for the most part, the people with the least ability to pay these fees.

Would that type of discussion, that type of negotiation be possible?

Mr. Jim Westlake: Under the agreement, if an airport came and said, “Here's the deal. Please bid”, it would be, I think, impossible for us to win the bid and then give everybody access to the ATM without a fee.

Mrs. Sonia Baxendale: I think the other key point is that a large proportion of those machines are white label machines, so we don't influence or control or have any ability in that case. Hence, I think the result for many of us, in order to serve that customer base, is to find locations as close as possible to be able to serve those customers.

The Chair: Thank you, Mr. Thibeault. *Bon voyage.*

We continue now with Monsieur St-Cyr.

[*Translation*]

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

I'd like to get back to the issue of costs because that seems to be very important.

I must say that your strategy completely escapes me because people are telling us that they can't make the link between the cost of service offered and the fees that they must pay for that service. You're telling us that you do not want to reveal the cost for competitive reasons. We're getting somewhat contradictory statements here. Indeed, you're also telling us that you're extremely transparent, but you don't want to give us the figures. That seems strange to me.

I might have something to propose here and I hope that you will agree with it. Let's say each one of you, the banks and financial institutions, are asked to submit your figures to an independent organization, such as the Competition Bureau. That organization would keep that information confidential. It would simply give the committee the average that is calculated given the various figures. That organization could appear before the committee to tell us, overall, the difference in the cost of a transaction from one bank to another, from one institution to another, be it 25¢, 35¢, $1 or $3. Would you agree to this approach, in order to help us make the right decisions, or is legislation the only way to go for us to obtain that data?

Mr. Tremblay.

Mr. Michel Tremblay: Indeed, we're trying to be as transparent as possible, but this is not always easy because we're talking about a marginal cost, the average cost, and it's not easy to identify that cost. It depends on the type of ABM, or the type of transaction. However, we did take some action.

I'd like to refer to the letter that Mr. Raymond, our president and CEO, sent to the Minister of Finance. In that letter, he states that he would like to point out that the direct income that we receive from ABMs is approximately comparable and equivalent to the direct costs of managing these systems. I think a sentence like that should be reasonably satisfactory to you...

● (1220)

Mr. Thierry St-Cyr: So, since these figures are public, because of the letter, you would be prepared to submit them to an organization so that we can calculate the average for the industry.

Mr. Michel Tremblay: That's not what I said. In fact, I did not say that we wanted to disclose the costs per transaction, which is a much more precious and fundamental piece of data in terms of competition. I simply wanted to say how far we were prepared to go, by explaining clearly that the total direct income is roughly comparable to the total direct costs, taking into account the nuances in the measurement of income and costs.

Mr. Thierry St-Cyr: If we wanted to get some idea of the market, of the unit cost, could you give that information—not disclose it publicly—to an independent, reliable and credible organization that would keep it confidential and that would calculate the average? You don't seem prepared to do that either.

Mr. Michel Tremblay: That's not true only of ABMs. It would be the same for all our activities: we don't disclose our costs as a general rule.

Mr. Thierry St-Cyr: Is that the case for all the banks? Are there any that would be prepared to disclose that data to the Competition Bureau, for example, if it were to keep the information confidential and not disclose it to your competitors but give us only the average? It seems to me that would not be highly compromising information. Since there is competition on the market supposedly, generally speaking the average should always be the same. It would be surprising if the transaction fees of one bank were $1.50 and those of another bank 18¢. So those fees must be quite similar.

[*English*]

The Chair: Do you have any questions, Mr. St-Cyr?

[*Translation*]

Mr. Thierry St-Cyr: That was a question. According to what I'm hearing, if members of Parliament want to obtain figures to know what they're going to vote on, they have no other recourse than to demand them by legislation. We're proposing a method that seems to me perfectly acceptable, that would not harm you from a competitive standpoint, that would enable us to make the right decisions. But obviously, there's no enthusiasm for it here and no one is prepared to accept it.

Am I mistaken when I say that no one is prepared to adopt a solution which would not disclose the figures to the general public but that would enable us to get the industry average?

[*English*]

Mr. Jim Westlake: I'll comment on cost generally, if you want.

To my knowledge, there is no accounting convention for the way that you account for ABMs. I can tell you that at Royal Bank we do not have a separate P and L that adds up our ABM costs. If we were even to submit it to your point—which I would not want to do—I can tell you that I don't know where you'd even start asking what to include.

We have all of the hardware, software, development, and innovation costs. We have the cost of getting money there. We have signage that we put on the machines. We provide security. We repair machines that are damaged. There is all of information technology, maintenance, general administration, service, staffing, and armoured truck services. We pay over $40 million a year to just get cash to the machines. There is research and development. There are premises costs. How much of your premises do you allocate to a machine, if it's sitting in a branch? There are communications and debit card issuing, when we issue the cards to the people. There are payments to retailers and how they go. There is the cost of funds, and the lost opportunity for money sitting in the machines.

What does an ABM cost? That is not an easy question to answer.

The Chair: *Merci beaucoup, monsieur.*

C'est terminé, Monsieur St-Cyr.

It would seem, however, Mr. Westlake, that by enunciating the various categories, as you have just done, you have presented yourself with a communications opportunity here.

A number of our witnesses are obviously concerned about banks' overcharging for said services. Without revealing any explicit, specific competitive numbers, there is an opportunity for one of you or all of you to communicate with those who are concerned about the degree of revenue you generate from said charges, and the degree of reinvestment and maintenance investment that you make in said service.

That's just a thought.

We continue with Mr. Del Mastro now.

● (1225)

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

I'm going to reference the same January 2000 article that my colleague referenced earlier. A postscript to the article reads: “It hasn't happened, but someday you just might find an additional surcharge whenever you use any bank machine but your own”. So about seven years later, we see that actually has happened, and there is a fee that's charged whenever you use any bank machine other than your own.

My urban colleagues on my left and right are going to shut down here for a second, but I'm going to use a bit of a farm analogy.

On the farm, we'll string up an electric fence that keeps a cow in the field so it doesn't go into an adjacent field. I think we could actually draw a bit of a parallel and say the banks are putting up a bit of a fence around their own customers, and that there is a bit of protectionism in saying, “If you use our machines, we won't charge you; if you use anyone else's, we'll hit you for it”, as a customer retention method.

There are six major chartered banks in Canada. I understand you don't want foreign competition coming in and eating up your market share. You don't want near-banks, you don't want credit unions coming in and competing on the same level as you have. Perhaps you have additional costs and so forth. But amongst the six major chartered banks, would you consider an agreement whereby you wouldn't charge another bank's customers for use at your own ABMs?

Mr. Hockey, would you like to answer that? Would you consider that?

Mr. Tim Hockey: I'm just wondering if that's the same spirit that resulted in the Competition Bureau's tribunal order in 1996.

The Chair: I think Mr. Del Mastro is asking if you'd enter into a non-competition agreement.

Mr. Dean Del Mastro: I mean a non-competition agreement with each other on that level, just on bank fees. Would you say, “We at TD Bank will not charge you a fee if you use a Royal Bank machine”?

The Chair: Perhaps you should be asking Ms. Black what she'd think of that, Mr. Del Mastro.

Mr. Dean Del Mastro: This is not agreeing to price-fix; this is agreeing to provide something at no charge. So that's not price-fixing. Would you consider it?

Mr. Richard Taylor: I would just add, from the Competition Bureau's point of view, that a non-compete agreement, even at a zero price, if it stops others from providing the service and degrades the quality of service, competition—

Mr. Dean Del Mastro: Well, we have that with the credit union.

Mr. Hockey, would you like to answer the question?

Mr. Tim Hockey: A short answer is that we look at all options, but I don't think that would be very appealing to any of us. Once again, we've all made very different—

Mr. Dean Del Mastro: But it might be appealing to your clients.

Mr. Tim Hockey: We think our clients are very well served. We are gaining market share. Our customers are saying they have choice and convenience and can avoid those fees if they wish to.

Mr. Dean Del Mastro: Okay, thank you.

There's another thing I'd like to touch on. A number of you have touched on the cost of doing business. Mr. Westlake, you just talked about the various fees that are involved in providing ABM service. Ms. Baxendale, you spoke of a number of measures CIBC has taken to make bank machines more accessible. White label machines are actually preventing you from having to incur these costs. You don't have to pay them anymore. So based on these savings, isn't it counterintuitive to be charging additional fees for people to use them? They're already paying a fee for that convenience, and your customers are benefiting.

What would you say to that, Ms. Baxendale?

Mrs. Sonia Baxendale: I'm not exactly sure that I understand your question.

Mr. Dean Del Mastro: It costs you a lot of money to establish bank machines. You have another group that's coming and putting bank machines in for free. When your customers use them, you charge them a fee, when in fact that machine has actually saved you the cost of having to provide that machine to your customers.

Mrs. Sonia Baxendale: But the reason we have a very large and very broad network of ABM machines is to deliver that service to our customers at no cost. That's what we are trying to achieve, to give convenience and service to CIBC customers.

Mr. Dean Del Mastro: Okay, but for some of my folks who live in rural areas, who may well be CIBC customers, their closest bank machine may not be a CIBC machine. Your customer has the convenience of accessing that machine, and you didn't have to pay anything to provide it to them. So wouldn't that savings, therefore, justify your not charging them an additional ABM fee?

Mrs. Sonia Baxendale: Again, our intent is to have as broad a network as possible, which is ABMs and branches and online—all the vehicles available—so that all of our customers need to come only to CIBC for their services.

Mr. Dean Del Mastro: That's fine, but you're not going to some of my smaller communities any time soon. It wouldn't make business sense.

Now, I brought that up for clarification more than anything else. There's a broader issue here at play, and the broader issue is that people are concerned that banks make money, and banks making money is kind of like people having to pay taxes: nobody likes hearing about it. But I think it's a necessity of the economy. I understand the benefits of the economy, but I'd like to give a few of the bank representatives here an opportunity to speak to why bank profits are a good thing for Canada.

● (1230)

The Chair: Mr. Del Mastro, I'd encourage those who wish to speak to that particular friendly question to do so in response to a subsequent question.

We'll go to Mr. Pacetti.

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

I would encourage you not to answer it while I ask my questions.

I have just a couple of quick questions. I'm sorry I came late. Some of this may have been addressed during some of your presentations, but since we have all the banks here, I have a general question. I guess I'll pick on one or two of you.

What would happen if this committee was able to convince the government to start regulating these bank fees and not allow the ability to charge Interac fees? What would happen? How would you reconfigure your cost system? Would that mean that other services would cost more money?

I think it's a fair question, because there are certain costs that you now have for those Interac machines. I think that's what we've heard. So you'd have to disperse or spread out the cost somewhere else, I would imagine, by charging for other services. Or does it mean that you would take a hit on the bottom line? I think it's a fair question. I think it's a black and white type of question.

I'll ask Mr. Hodgson; you're nodding your head. Mr. Hockey, I see you also nodding your head.

Mr. Christopher Hodgson: I think the decision in terms of whether we would pass that on or take it on the bottom line would be an individual choice by institution. Clearly, what we would do is look at the impact of those costs. It would clearly have an impact on our investments and whether or not we would continue to put ABMs in different locations. As I mentioned a little earlier, I think you'd end up with a similar model to what you have in the U.K. now, where a lot of those have been passed on, through other banking costs, to their customers. They've raised the level of banking costs.

So if you look at the cost of banking in the U.K. versus in Canada, it's more expensive in the U.K., from a banking perspective, for various numbers of products than it is here in Canada.

[*Translation*]

Mr. Massimo Pacetti: Mr. Tremblay, what's your view on this issue?

Mr. Michel Tremblay: From our standpoint, it's very important. I explained that very clearly in my brief statement. If we face competition from a network that is not regulated by the federal government and that manages four times more ABMs than we do, and if we did not impose these fees but the other did so, our current clients would have a strong incentive to deal with this other service provider. From then on, they could even use our network for free. In terms of competition, we see very clearly how that situation would penalize us.

Mr. Massimo Pacetti: If we were to adopt provisions that meant that you could no longer impose Interac fees, would you be prepared to stop imposing them or would you then have to charge more for other services to your clients?

Mr. Michel Tremblay: As I've just explained, we're facing a very different kind of competition. Desjardins, which has a dominant position in Quebec, would continue to charge these fees and would not have to react by increasing other fees.

Mr. Massimo Pacetti: I'm talking about the bank itself. If you no longer have the right to charge Interac fees, would the bank be prepared to reduce its overall income within its balance sheet?

Mr. Michel Tremblay: I don't think that would be acceptable to our shareholders. Let me remind you that our clients would also tend to become Desjardins clients or use its services because they could then use our system for free. That would really put us in a very unfavourable competitive position.

Mr. Massimo Pacetti: All right.

[*English*]

I have another question.

I understand that in rural areas there are problems with access, but in a riding like mine, in the east end of Montreal, there are tonnes of banks; we have plenty of banks. Even if I have to go to another bank to take out money, it's only going to cost me $1 or $2. But why are these white labels getting away with $5 and $6 charges? That's the problem. That's what I don't understand. Could somebody explain that?

Mr. Hockey, go ahead.

Mr. Tim Hockey: I think it's a function that we sometimes forget about. We've heard from some members that customers and Canadians are up in arms about the fees. Again, when the choices that customers make are on white labels, paying sometimes $5 or $6, that is a choice that is very transparent to them. The fee is there, right on the screen. What we find in our research—and we talk to very many of our customers, as I've said—is that they actually make the discrete choice that says you know what, I'm going to say it's okay to pay $2, $3, or $4, because it's worth it to me not to have to walk across the street.

● (1235)

Mr. Massimo Pacetti: Do you have any idea who is paying the $5 or $6? Because I know I don't. I go out of my way to make sure I don't pay fees.

Mr. Tim Hockey: As we all said, it's quite a small percentage of our customer base. But they are customers who clearly are not very —

Mr. Massimo Pacetti: I find I used to do it more when I was younger, because I was probably lazier. But now I guess I work harder for my money than when I was younger—I'm not sure.

The Chair: With that comment on the laziness of Mr. Pacetti—

Mr. Mike Wallace: It's a whole other study.

The Chair: Mr. Dykstra, we'll continue with your questions now.

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

One area that's a bit of a take-up is this. I certainly don't want to speak for Ms. Wasylycia-Leis, but I'd like to think one of her concerns has been those who use the ATMs and pay the additional fee. Depending on which bank you're with, anywhere from 15% to 30% of clients of the banks use ATMs that are not their bank, so to speak. Have you ever done an analysis, a study, to determine who those folks are? Are they folks who are using them because they have the means? Are they those who probably shouldn't be using them, based on their incomes?

I'd open up the floor to anyone who would like to respond on whether you've actually done some of those studies.

Mr. Tim Hockey: I would say the one demographic trend that we do see is that generally seniors avoid those types of machines and they're much more prudent with their money. As your customer base gets younger, students are much more willing to pay for convenience. I would say that is a general trend we would see— by age. It's one slice.

Mr. Rick Dykstra: So it's not specific to a particular household income or personal income, the determination of who uses or who doesn't use the ATMs that are not of the same bank.

One of the other points is this whole aspect around the lack of ability in some areas of our country to be able to use a machine, and therefore it is a white label. Could you explain to me why, in particular circumstances, there are only white label machines and there aren't other bank machines, those of the top five or six banks?

Mrs. Sonia Baxendale: That's generally driven, or almost always driven, by the institution, by that location. RFPs go out, banks will generally bid on those locations, and very often the institution itself selects a white label as a result of the fees they pay them to be in that location. We've talked about universities, we've talked about hospitals, we've talked about many of these locations, and it is the choice of those institutions to have a white label machine.

Mr. Rick Dykstra: One of the things you have begun to roll out from a banking perspective and from a business investment perspective is your willingness to get into those types of communities. Are you doing that based on the fact that you think there's profitability there, or are you doing it because you realize a service needs to be delivered and you have a responsibility, as a financial institution in this country, to try to deliver that service?

Mrs. Sonia Baxendale: In our case, we're doing it because our customers are there and we want to be able to offer them that access, convenience, and service. The universities are a perfect example. We have customers there that we want to serve. We are not on location in some of those cases; we're within walking distance so we can meet that need.

Mr. Tim Hockey: Exactly the same story that was announced earlier. We did an analysis of all the colleges and universities where we didn't have a presence ,and we wrote to each university president saying we'd like to have access to be able to serve our customers. We realize this decision is made by each of those universities and colleges, and they very much have a revenue stream being provided to them currently, usually from a white label, that we may not be able to break.

Mr. Rick Dykstra: One of the final questions I have is to Mr. Taylor. You mentioned a number of complaints you've received, issues you've dealt with, but what I didn't hear was a response to any of those. Are the banks treating customers fairly? In your estimation, on the results of the investigations you've done, are banks doing what they are hoping to do, serving their clients, or are there unfair advantages in the marketplace, based on your analysis?

● (1240)

Mr. Richard Taylor: We don't look at those kinds of issues; we look at anti-competitive conduct, such as price-fixing, when competitors get together and agree—

Mr. Rick Dykstra: Have you found any results that would point out collusion or price-fixing?

Mr. Richard Taylor: No, we have seen no evidence of that.

Mr. Rick Dykstra: You would argue they are presenting in a fair, from your perspective.... I understand you have to be careful how you answer the question, but the banks are trying to provide a competitive service so people can, when they so choose, find an institution to deal with?

Mr. Richard Taylor: I can't really answer your broad question. All I can say is that under the Competition Act, we have no reasonable grounds to believe they're violating provisions in the act that would suggest they're artificially lessening competition through agreements or other things that we would find hurt competition.

The Chair: Thank you, Mr. Dykstra.

We'll move to some quicker rounds. We have a few members who would like to have another turn to question.

Mr. McKay, we'll start with you.

Hon. John McKay: I'll direct it to Mr. Taylor.

Mr. Taylor, in the material you gave the committee, you said when the bureau investigated Interac—this is prior to the 1996 order—it was upset with a number of practices. The practices included “prohibiting charges for ABM use which discouraged the placement of ABMs and deprived consumers of the benefits of ABM deployment determined by market forces”.

Then your order comes on. Included in the order is “remove the prohibition on surcharges, which are now known as convenience fees”.

Then you go on in the body of your presentation and say, “...the Order did not in any way mandate or regulate the imposition of surcharges. However, allowing surcharges permitted operators of ABMs to determine and charge a competitive price for ABM services based on their cost, consumer demand”. The consequence is that in 1995 there were 12,808 ABMs, and in 2006 there are just 54,000-plus.

Then you finish by saying that “Canada has the most ABMs per capita and we are among the heaviest users of ABMs”.

That seems to be a clear, evidential-based analysis of what the removal of the fees issue is on the accessibility for Canadians to banking services.

Would you agree with that?

Mr. Richard Taylor: That was our intention in dealing with that aspect of the original Interac rules that precluded surcharging. We felt that competition takes place, and this was an important consideration on not only price but innovation and service. Any three of those elements could be harmed, so we felt that those prohibitions on surcharging were certainly hurting innovation, the spread of ABMs, and the offering of convenience to consumers.

Hon. John McKay: Is there any member of the panel who would disagree with that observation? I didn't think so.

I guess we're into the category of “be careful what you ask for”. If in fact certain parties wish to ask for the abolition of ABM fees, they may get things they really didn't intend to get.

Thank you.

The Chair: Thanks, Mr. McKay.

We'll continue now with Mr. Wallace.

Mr. Mike Wallace: Thank you, Mr. Chair. I appreciate having a second round.

I'm absolutely amazed by some of the questions you were asked here today, particularly about costs. I think some people around the table think that the banking system in this country is a public service and not a for-profit business.

The banks were asked if they would disclose their costs. Would you then expect this committee to ask the grocery business to disclose their costs, so we would know that they were charging the proper prices for milk, bread, and all the other essentials of life? Would you expect us to ask the companies that retail clothing to provide their costs to make sure the public wasn't getting gouged, as some people would like to say, on the cost of certain clothing?

We've heard this morning and over the last few weeks that the banks have a special relationship with the Government of Canada. There has been an implication that you can sort of get anything you want.

I clearly recall that I disagreed with bankers on one issue in particular, and that was selling insurance through the branches. Could you remind me whether this government has made a comment on whether you're allowed to sell insurance through the branches?

Any of the bankers can feel free to answer that question.

● (1245)

Mr. Jim Westlake: Notwithstanding that we would still like that to occur, so far it has not happened. We are prohibited from selling insurance.

Mr. Mike Wallace: So the Government of Canada, including this party that I so happily belong to, has been opposed to allowing that to happen, and you haven't been able to implement that. Is that not correct?

Is it not be fair to say that if we are willing to ask the banking industry to provide government their cost structures on their services, the next logical step is that we should ask everybody for that? Would you like to comment on that, sir, since you brought it up?

They don't want to comment on it because they don't want to get in trouble, but I will comment on it because this is my time. I don't think it's appropriate.

I don't know if Judy's motion is regulating just the banks, the white labels, or what she's doing with her motion—even though they're only 30% of the market.

Ms. Judy Wasylycia-Leis: Well, it starts somewhere.

The Chair: Thank you, Mr. Wallace, for that rhetorical display.

Mr. Mike Wallace: Thank you for the time, Mr. Chair.

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

Ms. Judy Wasylycia-Leis: Jim Westlake, I left off with you. Since your boss, Gord Nixon, who makes $11.9 million annually, suggested I was playing politics by raising this concern of consumers, can you tell me why it is so difficult to understand this notion of service to Canadians, especially when you make all your money from customers? How can you not think about giving a little bit back?

Mr. Jim Westlake: Thank you for that question.

Ms. Judy Wasylycia-Leis: But very quickly, are you prepared to give a little bit back?

Mr. Jim Westlake: Not only do we as an institution give a great deal back, so do our 60,000 employees. We are in every community in Canada. We donate more of our earnings than any other company in Canada to all of the causes in every riding in Canada—

Ms. Judy Wasylycia-Leis: I appreciate that.

Mr. Jim Westlake: Our people are involved—

Ms. Judy Wasylycia-Leis: I'm wondering about ATM fees. Would you be prepared to give a little bit back on ATM fees?

Mr. Jim Westlake: We do not want to change ATM fees.

Ms. Judy Wasylycia-Leis: What is your profit margin on that stream at your bank?

Mr. Jim Westlake: We won't comment on that.

Ms. Judy Wasylycia-Leis: If you don't know the costs, how do you set your rates?

A voice: He didn't say that.

Ms. Judy Wasylycia-Leis: Yes, he did. Earlier Mr. Westlake said he can't possibly figure out all the different costs associated with the ATM service, even though the Canadian Bankers Association has said you actually don't cross-subsidize any of your operations. So you should know your costs. How do you set your price if you don't know your costs?

Mr. Jim Westlake: The primary purpose of the ATM network is not to collect fees and make a profit; it's to service our own clients. We put them out as an option for our clients to use, and 80% of them use them at no cost.

Ms. Judy Wasylycia-Leis: But my question is just to get some basic information, because contrary to my Conservative colleagues, I think Canadians have a right to know this information.

When you and others say that if this bill goes through you will shut down ATMs or close banks, are you threatening Canadians who want to see a break on this front and don't want to be nickeled and dimed to access their own money?

Mr. Jim Westlake: We're supporting our 12 million clients by giving them maximum flexibility, choice, and trying to be the best bank we can for them.

Ms. Judy Wasylycia-Leis: To Sonia and CIBC, it's not always true that it's up to the institution in terms of the white label. In most communities when you close branches—and 658 of them have been closed over the last few years—banks leave their ATMs for a little while, and then they get out of the business and let a white label in. That's how consumers don't have choice; it's because of that whole phenomenon by the banks.

I have two questions for you. When did you sell your shares in white label machines—and the same for RBC?

● (1250)

The Chair: You're out of your allotted time, but we'll allow an answer to that question.

Mrs. Sonia Baxendale: To my knowledge, CIBC has had no involvement in white labels since approximately 2001.

Ms. Judy Wasylycia-Leis: So when did you sell those shares? If you had them until 2001—

The Chair: Thank you very much.

No, madam.

Ms. Judy Wasylycia-Leis: But, Mr. Chair, on a point of order—

The Chair: No, madam.

[*Translation*]

We must close with Mr. Crête.

Mr. Crête.

Mr. Paul Crête: Mr. Tremblay, in the text of your statement, you say this:

> The arrival of the digital wallet will mark yet another step in that evolution and could very well make the topic of today's meeting irrelevant.

Can you give us some idea—and the others can do so as well—why the arrival of this new technology could make our work here today pointless?

Mr. Michel Tremblay: I can't give you a specific date, but I can tell you that we will start offering the smart card in 2008. It is anticipated that that technology will be established around 2010. One can imagine that the digital wallet will become a reality or at least a technological possibility within the next five years.

Mr. Paul Crête: Within five years?

Mr. Michel Tremblay: It will be gradual. We'll start with the smart card, and the deployment will start next year.

Mr. Paul Crête: In your opinion, will this technology really lead to the disappearance of ABMs or will it become an additional tool? Will it absorb a large part of the market currently occupied by ABMs?

Mr. Michel Tremblay: We often forget that ABMs are used for things other than cash withdrawals: they're also used for deposits and transfers, and they will continue to be used for those purposes. The digital wallet cannot do those things, but it will reduce the number of cash withdrawal transactions at ABMs.

Mr. Paul Crête: That would lead to an increase in costs. Withdrawals must represent a significant proportion of these transactions.

Mr. Michel Tremblay: As a matter of fact, ABMs are used just as much for deposits. Right now, the debit cards are used to withdraw cash. We must not jump to conclusions on that.

Mr. Paul Crête: Mr. Taylor, no one's talking about collusion here today, but I'd like to know whether you would have the right, without there being collusion, to obtain information from the banks under the current Competition Act, or would it have to be amended in order for you to be able to do that?

Mr. Richard Taylor: We don't have the power to conduct the study, except during an investigation when we have reason to believe that there's been an offence committed.

Mr. Paul Crête: Therefore, the current legislation would not allow you to do this.

Mr. Richard Taylor: Indeed.

Mr. Paul Crête: Thank you.

[*English*]

The Chair: Thanks very much to all of you for your participation in the panel discussion, your briefs, presentations, and answers to questions this morning and this afternoon.

We will suspend briefly.

● ____________________ (Pause) ____________________

●

● (1310)

The Chair: We are reconvening our hearings on automated teller machines. Pursuant to standing order 108(2), this is a briefing on ATM fees and electronic payments.

Thank you to the members of our second panel for being here today.

As you know from viewing the previous panel, you'll have a maximum of five minutes to make your presentation. So as not to cut you off without warning, if you would like to make eye contact, I will give you an indication that you have a minute remaining. We will then go to questions from committee members.

Thank you for submitting your materials earlier. We appreciate that very much. We'll look forward to your comments and answers to questions from the committee members this afternoon.

We'll begin with UseMyBank, Joseph Iuso. Welcome. Five minutes to you, sir.

Mr. Joseph Iuso (Chief Executive Officer, UseMyBank): Thank you, Mr. Chairman.

Before I begin, I'd like to introduce my partner Brian Crozier, our VP of business development.

Thank you for giving us the opportunity to appear before the House of Commons Standing Committee on Finance. We hope we are able to provide you with the information about how our company, UseMyBank, provides billers in Canada with real-time confirmation of payments made through their bank systems.

Today we come before you to tell our story and how it relates to the bill payments infrastructure, which is governed by the H6 rules; the electronic payments infrastructure, which is governed by the new E2 rule; and finally, the Bank Act as it pertains to competition and innovation being stifled by some of the major financial institutions and related associations in Canada.

UseMyBank is a company that is in the business of assisting billers and online merchants in providing instantaneous electronic payment confirmation. Through our joint venture with GPAY, which provided us with biller access through all the FIs at the time, we began to market our services to the largest volume billers and online merchants in Canada, including WestJet, Rogers, Telus, Fido, Sears, and many more.

In August 2003, UseMyBank was invited to present a solution to the CPA committee, which was looking at the new E2 rule called draft rule X. Draft rule X provided guidelines as to how the new electronic payment systems would be put in place by the members of the CPA. At the time, it was devoid of technology restrictions.

In December 2003, CIBC and TD, along with the Alberta Treasury Board, closed GPAY's biller account. There was no real reason given, short of the fact that they did not like the way GPAY was doing business with UseMyBank. We were being shut out of our market by FIs that were poised to compete with us.

After further probing, it was discovered that they did not like that in order for UseMyBank to facilitate the payment, we would act on behalf of the buyer, in essence acting as their agent to effect the payment at their FI's website, and receive a real-time confirmation that the transaction had been successfully completed. This is how we are able to get the real-time confirmation of the payment to the billers.

This forced us to use an inferior product called e-mail money transfers instead of the bill payment service. This form of payment is inferior, as the person sending the money could cancel the transaction once it had been sent from their FI. In addition, it now cost the buyer an additional $1.50, which went to their FI.

Originally, e-mail money transfer was a real-time account-to-account transfer service. We were able to deposit money within minutes to the GPAY account. In essence, it was the real-time system this committee had been looking for. The unfortunate part is that there are so many restrictions on this service that it is not a viable substitute for most businesses at this time.

In 2005, Scotiabank launched Interac Online. They sent a letter advising GPAY that they would close GPAY's biller accounts access in 30 days. The reason given was that they could do so without a reason on 30 days' notice. GPAY sued in Alberta and was able to get an injunction until September 2005. Then the BNS closed GPAY's accounts.

The net effect was like shutting off water to a restaurant and peddling bottled water to patrons. This forced GPAY to launch the first private action under section 75 of the Competition Act. In 2006, the Competition Tribunal dismissed GPAY' s application. The decision is now under the Federal Court of Appeal.

In addition, the CPA, to our dismay, introduced rule E2, which was a weapon for the banks to use against billers who decided to even think about using UseMyBank's services. It seems that they would like to have a monopoly on electronic payments.

This brings us to the present. The remaining banks have been friendly to date and are now undertaking reviews of GPAY's biller accounts and bank account access. It is not clear if GPAY will continue past the next 60 to 90 days, again leaving GPAY no recourse. This committee is one of its final hopes. This hope is extended to the many billers and online merchants who are waiting with bated breath to see if we win the ultimate right to provide an innovative technology that could streamline their businesses by providing real-time confirmation rather than waiting on some fax or EDI report from the bank.

In conclusion, we would like to make three recommendations to this committee. The first is a review of the H6 rules that govern the bill payment system. Treat the system as an infrastructure operated by the banks, but which is accessible by non-FIs such as UseMyBank. This would be similar to how the telephone lines were opened to outsiders. That has promoted a healthy competition among companies that has benefited Canadian consumers and businesses.

The second is that the E2 rules, which govern the electronic payment systems in Canada, should be reviewed. They force all electronic payments to be initiated by the bank's website, and no third party is allowed to be involved in the payment process. Although this rule looks simple, it has the net effect of stifling competition and innovation. The FIs are the only ones that effectively rule the system, therefore creating a monopoly sanctioned by the CPA E2 rule. This is totally contrary to what has been legislated as part of the 1996 consent order handed down on ATMs.

Last, with respect to the Bank Act itself, a revision was done that basically said that the banks are not allowed to close accounts or deny access to consumers who meet certain criteria. This was not extended to corporations, or if it was, it was not being interpreted that way.

● (1315)

In essence, the banks are allowed to pick and choose which companies are allowed to have bank account access and use their services. As such, there's no protection for corporations in good standing who wish to do banking at the same bank as their consumers. This would allow them to take advantage of cost savings, much the same way people would go to their local ATMs and pay no fees.

Banks in Canada are like the waterworks: they are an infrastructure to which each of us must be granted access.

We would like to thank you for your time, and will remain at your disposal to answer questions.

The Chair: Thank you for your presentation.

We'll continue with Evan Soikie, who is here on behalf of the Association of Community Organizations for Reform Now.

Five minutes to you, sir.

Mr. Evan Soikie (Board Member, Chair, Ottawa Chapter, Association of Community Organizations for Reform Now): All right. Now, I didn't bring a speech with me, so we'll see how I do.

I'll first mention that I'm here representing about 7,500 Canadian members of ACORN and a number of people who are non-members but who are the working, and quite often struggling, families and individuals.

I have a number of concerns that I've been asked to address. The first one is that of NSF charges, and the fact that they've been increased to substantially high rates. The people I represent do not feel that NSF charges right now reflect the administration costs. We feel that NSF charges generally fall on working individuals and on those who are struggling to meet the bills. As a result, banks are directly profiting from struggling families and individuals.

You're going to find, as I go through this, that there are several aspects in which we feel this is happening. It's quite difficult for the people I represent to deal with.

I'd like to quickly comment on standard bank fees. From my understanding, if people have $1,000 or more in the bank, quite often they will avoid a number of bank fees that most people will incur. Why is it that when people have $1,000 in the bank, they don't have to pay these fees, but when people are struggling to pay the rent and they can't make that $1,000 income, they are the ones being hit with these bank fees?

Of course, as it was a hot topic earlier, I have a few comments on ATMs. Due to the presence of white label ATMs, we're finding that there are fewer and fewer bank-owned ATMs. Quite often we see that in low-income neighbourhoods. All of a sudden, a large population is finding it very difficult to reach those ATMs.

Additionally, banks at this point have been denying some people I know, and some of my neighbours, access to bank services in total. That goes into another aspect: privatized industry. I have people who can't go to a bank to cash their paycheque. They find themselves going to Money Mart or payday lenders. Banks are investing in these, turning customers away from their own banks and saying, well, you're going to have to go to this company, which is now charging rates outside of anything that banks are being legislated.

There's not much need to mention the fact that banks are not charging ATM fees in the U.S. and Europe. However, it is worth mentioning that, from what I've been told, TD right now is not charging ATM fees to their U.S. customers. Why are they unwilling to provide that same service to their Canadian customer base?

With regard to the future of the finance industry, I think we see that banks are investing in private organizations, allowing them to skirt around the legislation currently governing them. We would like to see some kind of legislation put into things like the white label, the sub-prime mortgage companies, and payday lenders. It's quite often the struggling individuals, the people the banks are denying due to their financial status, who are being forced to pay higher rates for the services that banks generally would offer.

The last thing to mention is that from the studies I saw in a report I received, Canadian banks have some of the highest service rates and some of the highest profit margins seen internationally. We're quite upset to see that banks would be putting their bottom line above customer service, denying customers what it is they're asking for just for the sake of protecting their $18 billion profit margins.

I think that's where I'm going to wrap it and pass it on to the next person. Thank you.

● (1320)

The Chair: Thank you, sir.

From VisionCraft Development, we have Susan Ransom.

Welcome. Over to you.

Mrs. Susan Ransom (Chief Operating Officer, Cheque Security Specialist, VisionCraft Development Corporation): Mr. Chair, thank you for the opportunity to address you. I'm the COO of VisionCraft Development.

Nationally VisonCraft supports corporations large and small with a cheque system, EFTs, positive pay, and fraud audits. Today I am speaking with respect to the cheque-scanning portion of Bill C-37 and the Canadian Payments Association 006 standard.

There is a great deal of material, so forgive me if I don't go in depth with each item.

First of all, I should mention that we are non-partisan and we are revenue-neutral with respect to Bill C-37, so we may even be in a position to reap windfall profits with this legislation. I am speaking from my daily experience of implementing the CPA 006 and from my experience as a cheque designer.

Overall, we are not against the concept of imaging cheques except that there appears to be little benefit to consumers, be they individuals or corporations, or to those currently employed in moving the cheques across the country, who we expect may face job losses as the physical flow of cheques stops.

As the CPA 006 standard is currently implemented, consumers are being subjected to excessive cost and risk, and we see these increasing in the future. The portion that dealt with cheque scanning in Bill C-37 is one page. The equivalent U.S. legislation, which is generally called Check 21, is 18 pages plus a 144-page final rule, which provides recourse to consumers in the face of mistakes and losses caused by scanning. Check 21 does not require scanning or truncation of cheques. It is voluntary.

Substitute cheques in the U.S. have two warranties and an indemnity that they carry with them. This warranty is that the cheque is properly prepared and not to be paid twice, and the indemnity continues for one full year from the date the injured party learns of the loss. Bill C-37 on this topic provides no equivalent indemnity.

We also believe that the new physical cheque layout needlessly exposes individuals and corporations to a future of rampant fraud. The CPA 006 standard requires the removal of about 17 out of 34 of the most effective fraud features from cheques, exposing individual consumers, but more particularly businesses of all sizes, to highly increased fraud.

The banks are acting as a cartel in this matter, and no one is being given a choice. This is directly in contravention to what's happening in the U.S., where the universal commercial code requires that all cheque issuers put as many fraud features as possible on their cheques or they risk liability should a fraudulent cheque be passed.

It doesn't take a rocket scientist to understand that if there is increased fraud, there is increased liability. The banks are responding to this by attempting to reduce their liability for fraudulent cheques by not accepting responsibility for checking any feature on a cheque not detailed in their contract with their clients.

This was expressly discussed on the CPA site in early December 2006. For example, regarding double signatures, say a company has a rule that any cheque they issue over $10,000 must have two signatures and the cheques even say on them, “must have two signatures”. The cheque arrives at your bank, and it has only one signature and it is over $10,000, and thus obviously fraudulent. The bank would not accept any responsibility for cashing the fraudulent cheque unless the rule was detailed in the client's contract with the bank. This also extends to warning bans where, if it says on your cheque, “the background of this document is blue” and the cheque comes in and it's grey, obviously it's a fraudulent cheque. But if the background of this document is blue, and it is not in your contract with the bank, the bank is going to disavow any responsibility for cashing the fraudulent cheque.

The problem with this is that individuals and small entities will not be able to renegotiate their contracts with the banks, and they have no recourse. They cannot change the banks. All banks have the same rules for CPA 006.

● (1325)

So what happens if your company experiences increased fraud? If you are a company, your options are limited to buying new services from the banks. There is no recourse if you are an individual consumer.

So EFTs and positive pay are two options that a corporation could purchase, but neither is cheap. In addition, if fraud liability substantially increases the risk to the bank and costs them money, then we expect to see liability limits in the bank contracts. In other words, you have a $30,000 per cheque per occurrence for fraud in your account. When—

The Chair: I'm going to have to stop you there. There will be time for an exchange and questions from members.

From the Retail Council of Canada, Peter Woolford is here. Welcome, again, sir, and over to you.

Mr. Peter Woolford (Vice-President, Policy Development and Research, Retail Council of Canada): Thank you, Mr. Chairman. It's a pleasure to be back, and thank you to the committee for inviting us to appear today.

We've appeared many times before the committee, but I might take just a moment to introduce Retail Council again to the committee.

Retail Council is the voice of retail in Canada. We represent, from coast to coast, all the various different formats, specialties, and types of retailers in the trade. Our members sell almost $400 billion a year, they employ almost two million people, and they operate their businesses out of almost a quarter of a million establishments. So we're a big business marked primarily by small individual enterprises. So it's kind of a conundrum: a large business with a lot of small businesses within it.

[*Translation*]

Mr. Chairman, I would like to point out that you have received our brief in advance. I also want to mention that my remarks will focus on three key points: why an ABM is installed in a store; our views on ABM user fees; and finally, the need to review the entire payment system in Canada.

[*English*]

Let me start first of all with the business case for ABMs in stores.

They were initially offered by retailers when the opportunity became available after the 1996 decision. What we have found is that today for most store formats and for most product categories, there simply is no business case for installing an ABM in the store. The reasons for this are laid out in the submission that we provided in advance.

What we do see is that cash-dispensing automatic bank machines are most commonly found in a few types of specialized locations—

The Chair: Excuse me, Mr. Woolford.

Mr. Pacetti, you had a point of order?

Mr. Massimo Pacetti: Yes, the witness keeps referring to a submission that he submitted, but we don't have it here, and I'd like to either know what happened to it, or just allow the witness to know that we don't have it.

The Chair: We have just the speaking points, I believe, in both official languages.

Mr. Massimo Pacetti: Could we at least inform the witness that we don't have the submission? Because he keeps referring to it.

The Chair: It needs to be translated at this point, Mr. Woolford, so we will get it. It is in both official languages, but not each phrase is in both official languages, if you follow me.

Mr. Peter Woolford: I understand, Mr. Chair. I thought that by getting it to you in advance, it would be available to the committee in both languages in advance as well.

The Chair: No, there is a bit of a delay.

● (1330)

Mr. Peter Woolford: Understood. My apologies to the committee.

The Chair: No, not at all, and I certainly will allow you a little more time here because of the interruption.

Mr. Massimo Pacetti: Thank you.

Mr. Peter Woolford: I'm almost done anyway. I know you're a stickler.

Some hon. members: Oh, oh!

Mr. Peter Woolford: And that doesn't count on my time, please.

The Chair: I am, but in a good way.

Mr. Peter Woolford: Anyway, when members get our submission, they will see that we've laid out a series of reasons why there is simply no business case for most retailers to put a cash-dispensing ABM in their store. Typically these are found in a few specialized types of locations that meet one of two criteria. Either there's a high flow of traffic for an extended period of time, typically 24 hours a day, 7 days a week, the kinds of places you were talking about with the last panel, or in situations where the customer will pay a convenience fee for the opportunity to use the machine in that area.

One of my colleagues, I think in his zeal to help me with this, provided me with the information that strip clubs are where you find the highest convenience fees. This was news to me.

A voice: But not to your wife.

Mr. Peter Woolford: I knew I shouldn't have said anything.

When we look at the market today, we do not expect to see any significant change in this into the future. This is a mature market now. We do not expect to see ABMs gravitating back into retail stores at any point in the future, as far as we can tell.

Under those circumstances, essentially we have a neutral position on the question of convenience fees. We think it's not something that really affects our members or their business models or their operations in any significant way.

We would observe, as I think the previous panel did, that as we look at the economics of this and as a business that has gone into it and left it, if you put some constraints on fees you will see fewer ABMs offered to the public. I think that's just an outcome of what we've looked at, from our experiences as people who have offered it in the past.

Let me take a last minute to address the wider issue of electronic payments. We're delighted that this committee has cast the debate in that wider framework. We believe Canada has a good payment system, but our members are increasingly unhappy with the cost and the quality of the service they are receiving in some areas of the payment system, and they know ultimately it is the consumer who pays those costs, whether it's directly in the fee or whether it's hidden as a cost of doing business for the operations that have to use the payment system.

As well, we're seeing that the payment system is evolving and changing rapidly. There are new technologies, new players, new services. All of this is happening very quickly, and yet it's taking place without any public oversight or without any public consultation on that process. We're a little surprised, frankly, that Canada has been so passive in this area in contrast to what we've seen in other countries. We've seen other countries act. We've seen other countries really look at their payment systems in a very careful way.

In conclusion, my principal recommendation to the committee is that we believe Canada really needs a thorough review of the payment system with all the stakeholders at the table and a really thorough examination of the various costs and benefits to all the players.

Thank you, Mr. Chair.

The Chair: Thank you, sir, and thank you all for your presentations.

We'll move immediately to questions. Given the time, they will be four-minute rounds.

Mr. McCallum.

Hon. John McCallum (Markham—Unionville, Lib.): No, Mr. McKay.

The Chair: Okay. Mr. McKay.

Hon. John McKay: Now it's three minutes, is it? Thank you.

I want to focus on Mr. Iuso and just understand the system that you are no longer able to provide.

I'm a consumer, and I have Visa, or MasterCard, or American Express, or whatever. I want to pay my bill on time. What I don't understand is how you inform Visa, MasterCard, American Express, or whatever, that my bill is paid on time and the banks can't. How do you do it? Do you do it by way of electronic coding? Does my bank account, in effect, notify you, and you in turn tell Visa that McKay paid? Is that how it works? I want to know how it works, step by step.

Mr. Joseph Iuso: The way it works, step by step, at a high level, is that we act on behalf of the client or the consumer when they make the payment. So we act as their temporary agent to sign onto their online banking account and actually fill in all the data, those 17 steps that most people can't do anyway. We fill it all in, and then we execute the payment and get a confirmation number right there from the bank. We take that confirmation number and provide it to the biller and say that person has made the payment at their bank account today. It may take three, four, or five days to get settled, but you have real-time confirmation that this money has come out of the consumer's bank account.

● (1335)

Hon. John McKay: You don't actually transfer money.

Mr. Joseph Iuso: No.

Hon. John McKay: All you're doing is telling the creditor that McKay paid.

Mr. Joseph Iuso: Yes.

Hon. John McKay: And that's it. How do you get paid for doing that?

Mr. Joseph Iuso: We charge the merchant or online biller a percentage fee, depending on whether it's a per-transaction fee, a discount rate, or whatever fee. It depends on the category.

Hon. John McKay: Mr. Woolford, it seems to me that a retailer would be very interested in knowing more in advance than at present that an account has been paid. Is that fair? Is that an attractive idea to you?

Mr. Peter Woolford: It is. But, Mr. McKay, as signatories to the debit card code of conduct, we're really concerned that this would involve the customer giving away his or her PIN. That's an open key to someone's bank account.

We think that the protection of the financial affairs and the financial security of Canadians is paramount. So even though our members might like to have that assurance in advance, I think we'd be very concerned that this would compromise the security of the debit card system.

Hon. John McKay: What's your response to that, Mr. Iuso?

Mr. Joseph Iuso: And this is the typical response from a bank, once a client has talked to the bank.

Hon. John McKay: But he's speaking to the retailer.

Mr. Joseph Iuso: I understand. If you actually look at what's going on with the Internet, there's a new technology coming on that you might have heard about. It's called Web 2.0. This technology is about giving clients a central access.

For example, Royal Bank has invested in CashEdge to the tune of $5 million. They actually take user IDs and passwords and store them in their system. This way, they can effect going into other banks.

For example, Scotia does not like Royal Bank doing this either. But Royal Bank does it all day long. You can get consolidation of your CIBC account, your TD account, and your Bank of Nova Scotia account all in your Royal Bank account access. And by the way, they're introducing money transfer using that service too.

Hon. John McKay: I'm not sure I understood that.

Mr. Joseph Iuso: Well, the banks are doing what we've done with their own service, called CashEdge and Yodlee. They're doing the same thing as we're doing, but at a more extreme level by storing it.

Hon. John McKay: Could I just add one thing?

The Chair: Sorry, gentlemen, no. We'll have to move on. But work it into your next response.

[*Translation*]

We'll continue with Mr. St-Cyr.

Mr. Thierry St-Cyr: Does that mean that certain banks are already trying to find out the user names and passwords of their competitors, so as to integrate all accounts into their website? Did I understand that correctly?

[*English*]

Mr. Joseph Iuso: Can you repeat the question? So are you saying the banks are out doing this as well and you don't understand?

[*Translation*]

Mr. Thierry St-Cyr: No. I simply want to make sure that I understood the previous statement correctly. I think you were talking about the Royal Bank.

If I deal with that bank but I want access to some of my data from the National Bank, I will have to give my password or something like that to the Royal Bank so that it can have access to that data.

[*English*]

Mr. Joseph Iuso: Correct. They store that.

[*Translation*]

Mr. Thierry St-Cyr: So you're doing the transaction instead of the user, and the only difference is that your clients trust you when you tell them that the transaction was completed. However, if I call Bell Canada or some other company and I tell them that I paid my bill, they won't necessarily trust me. That's the difference.

[*English*]

Mr. Joseph Iuso: Yes, but it's the same as when a parent gives a child the debit card and says, "Here, I don't have time to go to the bank machine or pay for that. I'll give you the credit card and here's the PIN." Nobody stops them from doing that. And that's the same thing we are doing here. It's an agency. We're acting on behalf of the consumer.

If the consumer could do this effectively and quickly through the bank, then we wouldn't be here.

[*Translation*]

Mr. Thierry St-Cyr: We keep trying to understand the same mechanism, which is rather complex.

Given the new measures, what prevents you from continuing to proceed in this manner? Where's the blockage? In the case of the transaction done through the Internet, how can the banks figure out whether the transaction was done by you rather than by the consumer himself?

● (1340)

[*English*]

Mr. Joseph Iuso: They target us through the billers who use our service. So if GPAY, Telus, Fido, or any of those companies wanted to come, the discussion goes to the point where they talk to the bank, and then we get the same answer as we had from Peter, from Mr. Woolford. It's that simple. That's what we get all the time, back and forth.

Does that answer your question?

[*Translation*]

Mr. Thierry St-Cyr: In other words, the people from the banks talk to your clients to discourage them from using your service. Is that correct?

[*English*]

Mr. Brian Crozier (Vice President, Business Development, UseMyBank): If I could answer that question, I've contacted many of the largest billers in Canada and offered them the instant payment confirmation so that they could know that their clients have paid the bill. When they're spoken to, the banks have been able to put the clients off and give the answer that Peter has given here today.

Our company doesn't store the user name or password, unlike CashEdge or Yodlee or any of the other aggregators that are out there today. So our company is focused on offering instant online debit payments to billers and to merchants. The equivalent would be operating a store as a "credit card only" store and not having the ability to have a debit payment.

That's what we've been offering to merchants and retailers across Canada for over four years now. We've been stonewalled and have not been able to get at the domestic business and have most of the retailers that Peter would represent on board with UseMyBank.

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

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

I thank you all for being here for this set of hearings. I'll break mine down into two questions, one for Evan on the whole question of access, and then one for Susan on the question of cheque imaging.

Evan, earlier, I think sort of jokingly, one of my colleagues said we're acting as if this is a public service—access to banks. I'm wondering how you understand financial services. I guess what I'm trying to understand is, isn't it a basic right of our society that one should have access to banking services at reasonable rates in their community?

Mr. Evan Soikie: The way I see it is, yes, I'd say it's a common right, but a lot of it has to do with the fact that it's just the way the banking system is set up. We don't have branches on every corner; we have ATMs on every corner. The banks save a lot of money by choosing to go the route of ATMs over paying for rent, paying for employees to fill those banks.

So this is the way the banks have chosen to set up their system. It does have a certain level of convenience to the consumer, but it also has a certain level of money-saving convenience to the banks. The interesting thing is that the banks have been withdrawing that service, and as I said, a lot of the people I've spoken to feel that those services are being withdrawn in the low-income communities.

So all of a sudden I find that I have people saying, “I don't have a car. I don't have a way of going three kilometres or whatever to my bank, and I'm forced to pay high service fees, which don't reflect anywhere near the cost of administration”—and that's the large concern.

Ms. Judy Wasylycia-Leis: I'm glad you mentioned that, because that's the reality in my area, and I'm sure in many others in inner city communities, where banks have pulled out, closed their branches, and we are left with either payday lenders or white label machines. Both have access at exorbitant costs.

Mr. Evan Soikie: The interesting thing is that while the banks have pulled out from those areas, they've invested money in those payday lenders. So they're still making their money, only now they're charging up to 900% per annum interest on a small loan, which the banks at one time offered themselves.

Ms. Judy Wasylycia-Leis: My time is limited, but Susan, you've raised a whole new issue for us. I don't think anybody's really quite grasped this yet. I think what you're trying to say is that with the changes in Bill C-37, we have now a system in place where we're opening up the possibilities for fraud to a great extent because there's no personal handling of cheques at all and there's been a mad rush to do electronic payments and cheque imaging.

What would you suggest we now do to try to fix this problem?

Mrs. Susan Ransom: You're right.

Now my clients—large and small business and individuals—are open to excessive amounts of fraud because all of these fraud features are taken off their cheques, as opposed to in the U.S., as I said, where they're expected to put them on. What do we do? They're going to charge extra fees now for the return of cheques, when that used to be included in your bank fees. You got your cheques back. Corporations got their cheques back. Now they're not going to be getting their cheques back.

What happens when there's a cheque scan and it's incorrect? We have no recourse built into Bill C-37, whereas in other jurisdictions they have built-in indemnities and warranties and the ability to get re-credits quickly and within a standardized process.

We need choice returned to consumers so they receive their cheques or scans. We need fraud features returned to the cheques. We need indemnity attached to scanned cheques. There are going to be large fees charged. ATM fees are nothing compared to what they're going to be charging for all the extra features that you'll have to implement in order to prevent fraud in your company. You'll have to go to positive pay, maybe at some banks as much as $1 a cheque.

Right now to view your scanned cheque online, just for my TD Bank account it's $1.50 per cheque per view. The Royal Bank, the last I heard, is $2.25 per cheque per view.

● (1345)

Ms. Judy Wasylycia-Leis: I'll do another one.

Mrs. Susan Ransom: So your auditors come in and say they need to see the last 400 cheques from the last couple of years. It's going to cost you a great deal of money, or you're going to have to have been paying your bank for the cheque-scan database.

The Chair: Thank you, Madam. I'm sorry, I have to cut you off again.

Ms. Judy Wasylycia-Leis: Thank you. That was very helpful.

The Chair: We move to Madam Ablonczy now.

Ms. Diane Ablonczy (Calgary—Nose Hill, CPC): Yes, Ms. Ransom, with respect to Bill C-37 you said that people would not be getting their cheques back. In fact, people do have the option of getting their cheques returned to them under the system.

Mrs. Susan Ransom: Right now, corporations—my clients, anyway—big oil and gas, government bodies, are getting either a disc with their cheque scans on it, some of them or they're not receiving their cheques back at all or they are receiving photocopies, in which case the bank is destroying the actual cheque, transmitting the scan of the cheque, then reprinting the cheque on paper and sending that.

Ms. Diane Ablonczy: I'm not disputing any of that, I'm just saying that under the bill they are entitled to receive their actual cheques, so you might want to make sure your clients are aware of that.

Mrs. Susan Ransom: They actually aren't. My clients are not receiving their cheques back, and they have asked.

Ms. Diane Ablonczy: I'm not saying they're not, I'm saying they're entitled to.

Mrs. Susan Ransom: They may be entitled, but the banks are not —

Ms. Diane Ablonczy: So you might want to let them know that.

Mrs. Susan Ransom: I'm not agreeing.

Ms. Diane Ablonczy: The other thing you should be aware of is that our system of government is different from the U.S. system. In the U.S., when legislation is put forward on matters like this, all the issues pertaining to the matter at hand are in the bill. In our system, we bring forward legislation and regulations that have a lot of the level of detail in that you say is missing, so you might want to look at all the regulations as they come out. I think a lot of the issues you mention will be in those regulations.

Mrs. Susan Ransom: Will there be something in a bill to ask that the fraud features be put back on cheques? Corporations are now being put in the place of having extensive fraud they can't prevent.

Ms. Diane Ablonczy: I expect that will be the case, but I urge you to look at them. Generally, as you know, regulations are posted so that interested parties can comment on them and give feedback that will be assisting the department in the final drafting. I'm sure you would be of assistance to the department if those concerns are not properly addressed in regulation.

I want to move to Mr. Woolford, because you said something very interesting. You said the cost and quality of the payment system need to be reviewed. I wonder if you could let the committee know a little bit more specifically what your concerns would be in that regard, just in a nutshell.

Mr. Peter Woolford: Sure, a pleasure.

From our perspective, what we're seeing is a system that is evolving very rapidly. We've seen new players come into the marketplace; we have some of them here today. We've seen mono-line banks issuing credit cards into Canada. We've seen a whole variety of new players come into the financial services marketplace, and the prospect is for more.

Technology is touching this area, as members of the committee know very well. It's going to continue to profoundly reshape the way we do our financial affairs. The various services that are offered are being offered by different parties, and they're very different services.

What we thought was the world for ABMs in 1996 is profoundly different today. All those changes going on are the reason we think it's time to take a bit of a step back and just look at the whole range of things. We're not suggesting that anybody is doing the right thing or the wrong thing, just that the entire package needs to be looked at from the perspective of all the various users of the system. That's something that is being done with increasing frequency around the world. We're simply surprised that Canada just sat by and watched this occur.

● (1350)

Ms. Diane Ablonczy: Has the Retail Council itself done any studies or issued any documents on this issue?

Mr. Peter Woolford: We have appeared before this committee a couple of times on this matter. We submitted to the finance discussion paper last year and in 2001 as well. I'd be glad to make those available to the committee again, or your researchers could get those for you.

Ms. Diane Ablonczy: I'm sure we can obtain them.

Mr. Peter Woolford: We've been at the table on this issue for some time.

One of the key points we've been making is the need to look at the availability of services through individual banks as well and the requirement for our smaller members to often go directly to a bank branch for many of the services the bank rules require them to show up for. So there's a fair body of our position and our argumentation available out there.

Ms. Diane Ablonczy: Can I just do it by PIN number?

The Chair: Thank you very much to both of you.

Mr. Soikie, you alluded twice to the banks' ownership of payday lending companies. Which specific bank owns what payday lending agency, and to what degree?

Mr. Evan Soikie: I wouldn't say that they own them, and unfortunately I don't have the paperwork with me. I wasn't expecting to get too involved in that.

But we are aware that TD has a reasonably large investment in the company that owns Money Mart. I don't know if my colleague has it with him, either. I'm sure I could provide it to you. I was given a list of the six major banks, and I would say that I remember that at least five of them had reasonable investment in payday lending.

Unfortunately, as I said, the problem is that people are being denied bank accounts and are being forced to use this.

The Chair: There's a very interesting line that could be followed, certainly, as a consequence of such information, so I'd urge you to provide that to the committee.

Mr. Evan Soikie: Absolutely. I'll be sure to get that for you.

The Chair: Thank you very much, sir.

We'll now go to three-minute rounds. Go ahead, Mr. Pacetti.

Mr. Massimo Pacetti: I have three minutes, okay.

Just quickly, Mr. Woolford, we're looking at different things. There are Interac fees, but we're also looking at electronic payments, and it's a little bit of a mixture of the two. The banks say that people are using the cash-back option. Do you know if your merchants are using that quite a bit, and is it something that's encouraged?

Mr. Peter Woolford: In our submission, you will see that we report on a piece of research done by the Canadian Bankers Association that says that about two-thirds of Canadians who hold debit cards opt for the cash-back service at some point.

Mr. Massimo Pacetti: I don't need the Canadian Bankers' statistics. In terms of your merchants, your people, is it something they encourage? Is it something that's beneficial for them?

Mr. Peter Woolford: It varies with the format of store. If you're a clothing store, if you're a footwear store or a confectionery store, it's not something you would normally offer to your customer, because a lot of your business is no longer cash.

If you're a mass merchandise store or a supermarket—a large big-box format—where there's a lot of cash, it's a very attractive option to offer to your customers and for you. So it's really driven by the need to serve the customer and to provide that facility to them. So for certain formats it's very popular, and they're happy to provide it to their customers.

Mr. Massimo Pacetti: That's fine.

In terms of electronic payments, most of your merchants, I guess, are retailers. Would that mean that people pay on the spot, or are they receivable-driven?

Mr. Peter Woolford: Most of our members are paid on the spot. It's about 50% debit, 25% credit, and 25% cash.

Mr. Massimo Pacetti: Is there any problem in terms of getting the money into their accounts? Is there a one- or two-day turnaround, or is it over five to 10 days?

Mr. Peter Woolford: One of the great advantages of the debit system is that it's virtually instant. That's one of the great features of debit, that you're guaranteed payment. It's final, it's settled, and you know you have the cash.

On the credit side, our small merchants can sometimes wait two or three days, and in a cash business like retail, that's very serious.

Mr. Massimo Pacetti: Okay. Just quickly, Mr. Iuso, there's another service that's provided out there. It's e-mail, when you pay through the Internet. Does that coincide with the type of business you do? Do they call it PayNet, or something like that?

Mr. Joseph Iuso: It's actually called the Interac e-mail money transfer service, and they use a thing called suspense accounting. So when one bank consumer pays at his bank, the other bank floats that suspense account and puts the money into the other person's account when he receives the money.

So it looks instantaneous in real time, but from the way I understand the way it was set up, there's still an overnight batch process that actually does all the reconciliation. They just set up suspense accounts. The other unfortunate part is that they created this new system, but then they put in all these restrictions, and it's not really a viable product.

● (1355)

Mr. Massimo Pacetti: In terms of your business, where do you get your clients from? Why would somebody need your service? Couldn't somebody just access the Internet directly or just have a standing order? How does that—

Mr. Joseph Iuso: May I give my colleague a chance?

Mr. Brian Crozier: I was just going to say that the statistics Peter gave—25% of payments are credit card, 50% are debit, and 25% are cash—gives you some idea of what online debit power is to an online retailer. So if you had a store that was credit card only, you'd be missing out on 75% of the sales.

When UseMyBank is deployed into the marketplace, we find that when our online merchants access our system, anywhere they are in the world, their sales are 30% to 40% over and above what they're doing with Visa and Mastercard. For example, when someone doing $1 billion a year with credit card sales on the Internet in Canada adds UseMyBank to the system, they would add $300 million to $400 million in sales, because 30% to 40% of the market doesn't even have a credit card.

So this is a very powerful payment option, and everyone in this room who's a Canadian knows just how powerful Interac is in the real world at point of sale.

Mr. Massimo Pacetti: So you're an alternative to cheque writing.

Mr. Brian Crozier: Yes, we are.

The Chair: Okay, thank you very much.

My pleasure, Mr. Pacetti.

We'll continue on with Monsieur Crête.

[*Translation*]

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

Mr. Woolford, you spoke about the need to do a thorough review of Canada's payments system. Could you give us two or three negative effects stemming from the lag we are currently experiencing? As well, what fundamental principles would you like to see included in such an overhaul?

Mr. Peter Woolford: There are the costs paid by our members. I mentioned access to financial services, particularly for SMEs, as well as credit service costs for retailers. This is an area where technology is developing on an almost daily basis. Consequently, fees paid by retailers are increasing. These fees are passed on to consumers through hidden charges.

Mr. Paul Crête: Mr. Woolford, would you not agree that that is the counterpart, for retailers, of the client service fees we are examining here?

Mr. Peter Woolford: Indeed, there is a cost to accepting credit cards and having the institutions process the accounts. This is a market where fees charged by the various institutions—the acquirers—are almost the same. We believe that we should at least consider that.

With regard to the fundamental principles, we of course have to consider service access, the cost of the various services and how they are interrelated, to find out who benefits, who pays the costs and who incurs the risks. In fact, costs, benefits and risks are the three major elements.

Did that answer your question?

Mr. Paul Crête: Yes.

You said that some countries are ahead of us. Has the Free Trade Agreement with the United States leveled the playing field between our two countries, or do they have a significant advantage? Are there any examples of countries or groups of countries that you would like to mention?

Mr. Peter Woolford: We believe that Canada has an excellent system. Many changes are underway, and we have to examine this situation carefully.

In various countries, such as the United States or Australia, certain things have been done, either through the courts or through regulations, and studies are conducted by the European committees. So there are various ways to address this issue. We in Canada want to discuss the issue before taking action. Once again, we recommend there be a discussion on this issue.

Mr. Paul Crête: And—

[*English*]

The Chair: Unfortunately, Mr. Crête, we can't discuss things much further with you leading the discussion.

We'll move now and conclude with Mr. Del Mastro for a couple of minutes of brief questions.

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

Mr. Woolford, thanks once again for appearing before committee. As I recall, you appeared in the pre-budget consultations and outlined the beneficial impact of the GST reduction on disposable income.

● (1400)

Mr. Rick Dykstra: I forgot all about that.

Mr. Dean Del Mastro: I appreciate that. I did not, and I've in fact quoted it on several occasions.

Mr. Peter Woolford: No good deed goes unpunished, Mr. Del Mastro.

Mr. Dean Del Mastro: Thank you very much.

I've noticed that a number of retail outlets, specifically food retailers like restaurants and so forth, which at one point had ventured into the white label ABM market and would not accept debit payment, have now virtually all gone to debit payment in their restaurants because of market demand's forcing them to do that. People didn't like paying the fees, and they were seen as something that was hurting businesses' ability to market themselves for what their core industry is.

Is this something that you're witnessing on several levels—customer demand for Interac access or debit payment for goods as actually driving out some of the white label ABM craze that kind of took over?

Mr. Peter Woolford: That's a tough one. What we do know is that retail is a customer-driven business. What the customer wants, the customer gets. Merchants who have tried to charge the customer for taking their money have quickly found that the customer says no. So that really hasn't picked up or gone very far very quickly. There are just so many options out there that it has proven to not be terribly attractive.

On the effect on ABMs, our sense is that the advent of the Interac direct payment service itself greatly reduced the customer's demand for cash. Typically you don't have a full-function ABM inside a non-bank location. Essentially you have a smaller, cheaper cash-dispensing machine—that's all it will do. You can't pay your bills or make deposits at one of these cash-dispensing machines; you can only withdraw cash. So with the advent of Interac direct payment, the customer can pay directly using their card rather than going to the machine and paying a fee to withdraw money.

Second, as I mentioned in my response to one of your colleagues, the opportunity to get cash back on a transaction means that if you need cash, many of the merchants today who have a large cashflow are quite happy to give you cash back when you make a purchase in the store.

Third is that we've seen a variety of other payment options and financial service options provided by the financial service providers, both online and in other formats.

The Chair: Thank you very much, Mr. Del Mastro, Mr. Woolford, and all, for your participation. It was a most stimulating panel.

Committee members, remember that finance department estimates will be under the gun on Tuesday morning at 11. Thursday we're not sure about yet. Be here, and we look forward to seeing you.

We are adjourned.

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