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Chairs

Mr. James Rajotte
The Honourable Michael Chong

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● (1530)

[*English*]

The Co-Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this joint meeting of the Standing Committee on Finance and the Standing Committee on Industry, Science, and Technology to order. Pursuant to Standing Order 108(2), this is to continue our study of the credit card interchange fees and the debit payment system in Canada.

Members, we have two sessions today. The first session is with MasterCard Canada, and the second session is with Visa Canada.

We have with us, from MasterCard, the president, Mr. Kevin Stanton; the vice-president and Canada region counsel, Andrea Cotroneo; and we also have Ms. Diane Miquelon, vice-president and team leader. Welcome to all of you.

You have 10 minutes for an opening statement, and then we'll go to questions from all members.

Mr. Stanton, you may begin at any time.

Mr. Kevin Stanton (President, MasterCard Canada): Thank you, Mr. Chairman.

Good afternoon, everyone.

This is a very important opportunity for MasterCard, so we thank the joint committee for inviting us.

[*Translation*]

We thank you for the opportunity to be heard before this committee. Through our discussions on this topic, we have realized that the value of the payments industry and its economic impact is largely misunderstood. We have also realized that the likely negative impact of proposed price controls to consumers has been ignored.

[*English*]

In Canada, MasterCard and other electronic payment providers facilitate over half a trillion dollars of commerce flawlessly each year. They operate in a highly competitive environment that offers a host of payment alternatives to merchants and consumers.

We believe Canada's current regulatory framework safeguards the interests of all participants and that direct regulatory price controls will suppress innovation, reduce competition, and harm consumers.

MasterCard believes that government promotion of market forces over monopoly in Canada's debit system will ensure that consumers and merchants benefit from choice, price competition, innovation, and international reach.

Finally, we believe that Canada's credit card systems are well balanced and managed to maximize their value to merchants, cardholders, and the Canadian economy as a whole. However, there is always room for improvement. Through this process we have identified specific market responses that would address merchant concerns without harming consumers.

Retail lobbyists are advocating for price controls that have hurt consumers elsewhere. MasterCard believes that it is time for consumers to understand the harm that has happened in Australia when that country introduced the kind of price controls now being advocated by the global retail lobby represented in Canada by the Retail Council.

When the Reserve Bank of Australia adopted price controls in 2003, it expected that the savings would be passed on to consumers in the form of lower prices. But nearly six years later, there is no evidence that prices came down.

Price controls did reduce interchange revenues to credit card issuers, but that, in turn, forced reductions in credit card features and benefits. Interest rates, which had been subsidized by interchange revenue streams before the RBA price controls, had to be increased for issuers to operate their credit card portfolios within prudent banking guidelines. For similar reasons, grace periods had to be shortened.

RBA price controls reduced competition. Under the new economics, only issuers with sufficient scale could operate profitably, leaving niche providers and new entrants with no choice but to vacate the field. This is an important consideration in Canada, where new entrants and innovative issuers have led to unparalleled price and feature competition. The RBA price controls did not apply to American Express. This was inexplicable, as it transferred considerable advantage to the most expensive merchant proposition in Australia. In fact, we believe that a fulsome review of credit and debit cards in Canada must include American Express.

Government interchange regulation is not the standard elsewhere in the world. Australia is the only country even remotely comparable to Canada that has regulated interchange. It has been a disaster for consumers and a textbook example of unintended consequences.

Now I'd like to address some of the commentary about our entry into the debit arena in Canada. The same special interest groups that seek to impose price controls that will harm consumers are asking the government to suppress competition in debit.

MasterCard's debit proposition in Canada is called Maestro. Maestro is a PIN-based, real-time debit offering that works just like Interac. However, Maestro delivers more value to consumers and merchants than Interac through enhanced security, greater network reliability, and international reach.

For the record, and to officially clear up any confusion on this point, Maestro has a flat fee to merchants, and that flat fee is substantially lower than Interac's. MasterCard sees an opportunity to engender merchant demand and loyalty by offering a lower-cost, more reliable, and more valuable debit product in Canada. When Interac raised its fees by 60% this February, MasterCard chose not to. That's one of the benefits of competition.

MasterCard operates in a highly competitive environment and works hard to earn merchant and consumer loyalty as they consider the payment alternatives available to them. These include cash, cheque, Interac, Visa, American Express, retail store cards, pre-authorized debit, and most recently, unregulated web-based payments like PayPal.

Allegations of duopoly are untrue and ignore the high degree of competition in Canadian payments. That competition requires MasterCard and its financial institution customers to labour to retain and increase acceptance and usage by providing compelling and tangible benefits to both merchants and consumers. As a result, while neither consumers nor merchants are required to use or accept MasterCard, an increasing number choose to do so.

For merchants, these benefits include a payment guarantee, increased sales, improved efficiency, increased safety, billions of dollars in infrastructure investment, innovation, speedier check-out, and easy access to international customers. For merchants who prefer the cost structure of cash but want to reap the benefits of accepting credit cards, MasterCard has always allowed merchants to offer and advertise discounts for cash.

● (1535)

For small businesses in particular, the MasterCard system helps level the playing field. It provides lower rates than would likely result from one-on-one negotiations for access to the purchasing power of credit card holders, and an intra-system competition that allows them to shop around for the best merchant processing deal. These efficiencies are further enhanced by the collective credit card acceptance arrangements offered by merchant associations.

For consumers, increased usage is earned through zero liability, global acceptance, grace periods, intra-system competition, charge-back protection, and the very rewards and benefits that are threatened by the price controls proposed by the retail lobby.

Interchange is determined by MasterCard—not by issuers or acquirers. Interchange makes up a part of the fee paid by a merchant for card acceptance, but ultimately that price is determined by negotiations with their acquirer. Interchange is not MasterCard revenue, and consumers most certainly do not pay interchange more than they pay any other operational fees directly.

MasterCard continuously assesses the value that it delivers to merchants and, in that context, recently reduced interchange in several merchant categories. We also determined that we were at a disadvantage among affluent, rewards-driven cardholders, with American Express and Visa having the majority. For that reason, we introduced premium card programs that represent about 5% of our cardholders, while still being priced lower than American Express.

Finally, to make MasterCard more competitive in the small-purchase category, we dropped rates to compete with cash and debit by eliminating minimum fees.

Overall we moved from three rates to nineteen. Our highest interchange rate went from 2% to 2.13%, and our lowest effective interchange rate was reduced from 1.45% to 1.21%. All these adjustments were the first in seven years, and our rates remain below those of other developed markets and often well below flat-fee equivalents like that of Interac.

At heart, this issue involves a commercial dispute in the private sector. It is unfortunate that lobbyists called for government regulation as a matter of first instance, before providing any recommendations directly to MasterCard. When the RCC and CFIB launched their campaigns in September, I personally invited both organizations to meet with us to discuss their concerns on the very same day. When we met with the CFIB, we had a frank discussion, but they made no specific requests. However, they have since made several recommendations to the Senate banking committee, and many of them are in areas where we can work together.

Since then, we have met with the CFIB and put forth specific proposals that address small-merchant concerns without harming consumers. We have reiterated our invitation to the RCC, and they have confirmed their availability for a meeting in June.

MasterCard believes Canada's current regulatory framework is sufficiently robust to ensure competition in payments, and that price controls will result in consumer harm. We also believe the system always benefits from greater transparency and education. In that respect, MasterCard recognizes that we have a role to play. We pioneered web-based disclosure of our interchange rates and have recently improved this program by providing customized reports to merchants that enable them to shop around for the best acquirer deal. We are currently developing model disclosures, merchant education materials, and an online cost-benefit calculator designed to help merchants understand whether credit cards deliver sufficient benefit to them to outweigh their cost.

We believe that Canada has one of the strongest financial systems in the world. Credit cards are an important part of that system, providing one of the few credit delivery mechanisms that remains reliable, despite the current economic crisis. We understand that this system is simple on its surface, allowing you to exercise your purchasing power across the street and around the world. But that simplicity is underpinned by a sophisticated infrastructure that requires continuous investment, innovation, and balance.

Therefore, we thank you for the opportunity to participate in this process. I look forward to your questions.

Merci. Thank you.

● (1540)

The Co-Chair (Mr. James Rajotte): Thank you very much for your presentation, Mr. Stanton.

We will start with questions from members, the first round being seven minutes.

Mr. McCallum, you will start us off.

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

Thank you to the witnesses for appearing today.

My understanding is that while Visa makes the interchange rates that it charges public, MasterCard does not. If that is correct, why is that?

Mr. Kevin Stanton: As a matter of fact, we do make our rates public. We were the first to do so in Canada. What we've recently done is update the system so that a merchant can go in—there are 19 rates, but no merchant will have more than three applied to them. So when the merchant goes into this system, they describe what kind of business they're in, what their sales levels are and that sort of thing, and we return to them a customized interchange schedule.

Hon. John McCallum: Are you able to present those rates to the committee?

Mr. Kevin Stanton: Certainly.

Hon. John McCallum: Okay, well, perhaps we had misinformation here.

Now, we have rates presented by Visa. I don't think we have rates presented by MasterCard, so it would be nice to have those.

Mr. Kevin Stanton: We're happy to submit them to the committee.

Hon. John McCallum: The second point is that I noticed you commented that Maestro, the MasterCard debit card, has a flat fee to merchants, and that fee is substantially lower than Interac's. I don't dispute that direct statement, but I'm confident that if one adds up all of the various charges, Interac is lower when you consider all of the components. Would you agree with that?

Mr. Kevin Stanton: No, I don't, Mr. McCallum. Maestro has a fee of half a cent to merchants. No other fees are associated on that side of the equation. Interac has a fee of 0.8¢.

Hon. John McCallum: But what about the interchange cost?

Mr. Kevin Stanton: There is no interchange on Maestro.

Hon. John McCallum: On Maestro, okay.

The next point I'd like to raise is a more general hypothesis, you could call it. I think we could agree there's no free lunch. There are winners and losers in various propositions. So I guess my question is, who, at the end of the day, is paying for the rewards under premium cards? I guess my hypothesis is that we have what might be called a reverse Robin Hood situation. Now, let me just present it to you, and then you respond.

My hypothesis would be that the merchants are paying these higher interchange rates, and particularly high for premium cards. To some extent this is going to cause all prices to rise. They will, to some extent, pass on those prices to consumers. The people who use cash or ordinary credit cards to buy their goods will face this higher price with no corresponding benefit. The people with premium cards, who tend to be higher-income Canadians or higher-spending Canadians, will have some sort of benefit.

It would seem to me that in terms of this system and what appears to be coming in the area of debit cards, the winners would clearly be MasterCard and Visa—or you wouldn't be here—and the banks, and maybe the premium credit card holders, who receive cash back and various things. The losers would be those who choose to buy their goods and services with cash or with ordinary credit cards, and also perhaps the smaller merchants who face these higher costs. That strikes me as a reverse Robin Hood situation.

How would you respond to that hypothesis?

● (1545)

Mr. Kevin Stanton: I have a couple of responses.

First of all, it's important to note that our fees went down as well as up. That also helps bring prices down, as would any reduction in operating costs. But it isn't usual in any environment for operating costs to be spread across an entire customer base. For example, if I'm going to a supermarket and I'm buying lettuce, which doesn't require refrigeration, I am in the process paying for the refrigeration required for ice cream. Overall, these fees represent a very small cost. There have been increases and they're the first in seven years, so I can understand that there has been a reaction, but they are not, as a whole, large.

On average, the increases on $100 transactions have gone from 9¢ to 13¢. The reductions have gone from 9¢ to 24¢ on the same $100 transaction. So I accept your hypothesis, but the adjustments have caused the ability for prices to go down as well.

Hon. John McCallum: So you accept the hypothesis, but you question whether the amounts are substantial. Is that what you're saying?

Mr. Kevin Stanton: I don't question the hypothesis at all. I just say that there's opportunity within the adjustments that occur to bring prices down and for prices to go up, all within the same merchant.

Hon. John McCallum: Well, I have a follow-up question.

I think you would accept the point that all consumers.... If the interchange costs and other costs of debit or credit cards go up to some extent, the increased prices will be passed on to all consumers, or the retailer will have to absorb the additional cost. But for those purchasing, if you have a premium card, you'll have an offsetting benefit. If you pay with cash or an ordinary card, you will have none.

Does MasterCard have any objection if a merchant reflects those costs to customers so that someone paying with cash or an ordinary credit or debit card will pay a lower price than someone paying with the premium card? Is that allowed in the system or is that not allowed?

Mr. Kevin Stanton: Actually, thank you for adding that question, because I should have added it to the beginning of my answer. That is, we have always allowed cash discounts, and for merchants to advertise and promote those cash discounts. Or they can steer to lower-cost products to recoup the cost or give the advantage back to a cash user.

The Co-Chair (Mr. James Rajotte): Thirty seconds, Mr. McCallum.

Hon. John McCallum: What about discounts arising from the lower-cost ordinary credit cards as opposed to premium credit cards? Do you allow that too?

Mr. Kevin Stanton: I guess I don't.... You're saying allowing discount—

Hon. John McCallum: The merchant has to pay a higher price to MasterCard if it's a premium card. Are merchants allowed to reflect that in higher prices for premium cardholders versus ordinary cardholders?

Mr. Kevin Stanton: Frankly, I'd have to look at it. It's never anything a merchant has suggested as a solution to these issues. It's not something I've considered before, I'm afraid.

The Co-Chair (Mr. James Rajotte): Thank you, Mr. McCallum.

We'll go to Mr. Laforest, *s'il vous plaît.*

[*Translation*]

Mr. Jean-Yves Laforest (Saint-Maurice—Champlain, BQ): Thank you, Mr. Chair.

Good morning to all of our witnesses.

Last Tuesday, at a joint meeting, the Standing Committee on Finance and the Standing Committee on Industry, Science and Technology heard from witnesses who represent an array of retailers and merchants' associations from across Canada and Quebec, including the Retail Council of Canada, and several coalitions of merchants and various groups.

These groups made presentations to the committee. They also made three recommendations, one of which was the importance of legislating in the credit card industry; it is important for the government to start regulating the credit card system. A second recommendation dealt with regulating for greater transparency among the various stakeholders that make up the credit card system.

I asked these associations and coalitions if they themselves had approached banks, Visa, MasterCard, issuers, and others concerned, directly to call for greater transparency. They replied that, indeed, requests had been made. Yet, when we asked them what you replied to them, they told us that you had not. In fact, the representative from the Retail Council of Canada told us that they were quite taken aback. Each year, the Retail Council of Canada holds three meetings, to which you are invited. When the last meeting occurred in September, MasterCard decided not to attend. This is what the representative told us.

Apparently, you had told them that there were problems with software that prevented you from answering their questions. Yet, in a letter sent to the chair of this committee, you claim that you are willing to discuss issues of common interest at least once a year. Since there currently are issues of common interest, why did you not attend the meeting?

On the one hand, there are associations that represent some 250,000 merchants; on the other hand, there is you. Who should we believe? You and your document, or the people who speak on behalf of 250,000 merchants and even more employees?

What degree of transparency are you willing to demonstrate, when merchants are claiming that they are totally unaware of why they are paying higher interchange fees and other fees they are forced to assume?

● (1550)

[*English*]

Mr. Kevin Stanton: Thank you for your questions.

It actually gives me an opportunity to make a couple of statements about the testimony from earlier this week.

I think there's no doubt that if you live through this experience that we've lived through, you have to ask yourself if there has been a breakdown in a system that we're very proud of. I think the breakdown happens to be in the notion of transparency and access to information about the system.

I actually don't think that's a problem that relates to large merchants as much as it relates to small merchants. One of the focuses that we want to take on, with the CFIB in particular, is making sure that...because large merchants know how to take care of themselves, and they do. They negotiate interchange rates with us and they understand the system quite well. Small merchants, in our view, should be empowered to operate on a level playing field against the larger competitors to our system, and that hasn't happened. We're taking specific measures to make sure they understand the transparency mechanisms we have in place, such as our website.

[*Translation*]

Mr. Jean-Yves Laforest: Perhaps you have taken measures. But if they were taken between Tuesday and today, there has not been enough time for them to take hold.

Nevertheless, that is not what these merchants told us. All of the coalitions said that they are having a hard time receiving information to help them better understand the fees.

This ties in to what Mr. McCallum was saying earlier. At the end of the day, there were increases because of the increase in premium cards issued. Everyone knows that for now, merchants are paying for the increases, but they will undoubtedly be passed on to the consumer later on.

Within this process, consumers also need transparency. So will they be better informed than merchants? To date, as regards the information you provide to merchants, I think your batting average has been dismal.

[*English*]

Mr. Kevin Stanton: Let me clarify something. We had our interchange rates on the web, in the open, for three years prior to last September. We refined the system prior to last September as well, because we knew we were adopting a more complicated regime and that too much information was as bad as not providing any. So we decided to go to a customized report regime.

As it relates to the meeting last September.... We've had a long-standing relationship with the RCC. Prior to September, they didn't pick up the phone on this matter. When we were invited in September, I received a call from a person associated with the RCC saying that we shouldn't go, that it was meant to be an ambush. So as it relates to that particular meeting, that's why the decision was made that it wouldn't be constructive to go.

But we've made ourselves available and we've invited the RCC on every occasion to discuss this issue.

● (1555)

[*Translation*]

Mr. Jean-Yves Laforest: Those representatives would be pleased to hear that, rather than think an ambush was laid for them.

I would like to ask you one last question.

The Australian example was also raised: the Australian government introduced legislation and began regulating the credit card system. My question to the representatives was, following regulation to set the interchange rate at 0.5%, rather than the 1.5% we see here, whether the banks, Visa, or MasterCard went bankrupt. I was told that this was not the case.

I would like to hear what you think about this.

[*English*]

The Co-Chair (Mr. James Rajotte): Briefly, Mr. Stanton, please.

Mr. Kevin Stanton: Yes, there are several...[*Technical Difficulty—Editor*]

The Co-Chair (Mr. James Rajotte): I'm sorry, Mr. Stanton. Would you begin your answer again?

Mr. Kevin Stanton: There are two pivotal works on this. One was done by the government accounting office in the United States. There was another work by the CRA. We provided copies to members of Parliament, but we will resubmit them to this committee, if you'd like. Both of them show that prices didn't come down but that benefits/rewards did go down. Interest rates went up. Fees went up. And there was reduced competition in the market.

The Co-Chair (Mr. James Rajotte): *Merci.*

Mr. Stanton, before I go to Mr. Wallace, can we get the website address? Perhaps someone on your staff could provide it to the clerk. Our understanding was that MasterCard's fees were not on the Internet. But if they are, we'd be happy to distribute that to all members.

Mr. Kevin Stanton: Absolutely. It's mastercard.ca. But it's a little more complicated. You have to type "/merchants". We'll get it to you, absolutely.

The Co-Chair (Mr. James Rajotte): Okay. If you can provide it, we'd appreciate that.

Mr. Wallace, please, for seven minutes.

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

And I thank our guests for coming today. You may have avoided another meeting, but you couldn't avoid this one. So I appreciate your coming.

In terms of clarification for me, are your customers the banks, or are your customers the people who hold the cards?

Mr. Kevin Stanton: They're banks, both merchant banks and cardholder banks.

Mr. Mike Wallace: The structure of this business is something new to me and it's something to get used to. We have you at the top of the food chain, in a sense—the actual card companies, whether it's MasterCard or Visa in this case. Then there are the banks, then the processors or acquirers, then the retailers, and then the consumers. Would you say that's an accurate statement?

Mr. Kevin Stanton: It's a two-sided equation. You have a cardholder, an issuing bank, and MasterCard on one side. Then on the other side you have a merchant, an acquirer, and MasterCard.

Mr. Mike Wallace: Okay. The reason I'm asking that question is that I'm going to ask a few questions about those I consider to be our consumers, those who actually hold the cards at the end of the day.

I look at...I guess it's the Bank of Montreal's MasterCard. I don't know who else carries MasterCard, but I know the Bank of Montreal does. As a consumer, I look at the writing on these applications, which is so small that.... Well, I'm 45 and I can't read it.

So for those who are older or younger, whose decision is it, in terms of information to the actual person who will be paying the bill, that this information is here? Do you require the bank to provide certain information on these documents, or is that completely the bank? And what input do you have on this when somebody is trying to decide whether they should be a MasterCard holder or a Visa cardholder?

Mr. Kevin Stanton: To answer your technical question, it's the bank that's in control of that document and they have to comply with the law. However, we do play a role. We recently worked with the FCAC to come up with a model disclosure, because we thought the typical practice could be improved.

Mr. Mike Wallace: As a consumer, can I expect improvements on the information provided to me and the application process for these cards?

Mr. Kevin Stanton: I think you can. I think this process has produced that.

Mr. Mike Wallace: I have another question for you as a consumer. I distinctly recall that if my card was going to go up in value in terms of what I could borrow—because it is borrowing—and what my limit would be, I used to get a call from the card company or the bank saying that they were thinking of raising my limit to $6,000, or whatever the number is, and I'm at $500.

Now, you guys just send out—I want to know if it's you or the banks—just send me the card in the mail and tell me that my risk has gone up. I can handle more risk. I can go to $10,000 or whatever. That's without actually asking. It automatically happens. Is that your decision or the bank's decision?

● (1600)

Mr. Kevin Stanton: That would be the bank's decision.

Mr. Mike Wallace: So you have no say. They're the issuer of the card. You're the network supplier. At the end of the day, MasterCard and Visa are the network suppliers, and you look for customers who will sell your card in the marketplace to their customers. Is that an accurate statement?

Mr. Kevin Stanton: Yes.

Mr. Mike Wallace: So when my daughter, who's 18, gets her $500 and it goes up to $2,000 or $5,000 without her doing anything different, the bank is making that decision. You're happier because of the chance of their spending more. Do you make more money as we spend more?

Mr. Kevin Stanton: We make money when you spend money, not when you borrow money.

Mr. Mike Wallace: It's when we spend money, because you make a transactional fee every single time.

Mr. Kevin Stanton: That's correct.

Mr. Mike Wallace: Didn't you mention earlier that you went to 19 different...? How is that simpler?

Mr. Kevin Stanton: I didn't say it was simpler. There's going to be a variable value delivered to different merchants. For example, a gas station isn't going to experience the same increased sales that another merchant might. So we lowered the rate to recognize that there is a finite limit on the amount our card can produce in terms of increased sales. That required more rates. But for any given merchant, there are only three consumer card rates.

Mr. Mike Wallace: Okay. So when I get my bill from MasterCard —we'll use you as an example—the interest rate that's being charged there has nothing to do with you, you're telling me. That's what the bank has decided to charge on the cost of money that's being borrowed. Is that correct?

Mr. Kevin Stanton: We have nothing to do with the price setting—including interest—charged to cardholders, and we don't have anything to do with the price setting that acquirers charge to merchants.

Mr. Mike Wallace: Disclosure is an interest of mine. I'll just use an example. When I get my mortgage statement, it tells me how much interest I'm paying and how much of the principal I'm paying. I don't get that when I get my Visa card bill or my MasterCard bill. It gives your monthly fee.

Do you set the formula that tells me how that monthly fee is calculated, or does the bank set that?

Mr. Kevin Stanton: The bank does it in compliance with the laws of Canada.

Mr. Mike Wallace: Those are the present laws. That's what you're saying. Those are the issues. So—

The Co-Chair (Mr. James Rajotte): You have about one minute, Mr. Wallace.

Mr. Mike Wallace: Okay. In terms of the law.... You're talking about an update to what needs to be disclosed. Is that a change that you've done voluntarily or has that happened through government regulation?

Mr. Kevin Stanton: We worked with the FCAC voluntarily to produce model disclosures and simplified language for that purpose.

Mr. Mike Wallace: This new practice of just sending you a card in the mail, where suddenly you're lucky that you get all of these benefits because you have a higher credit rating or whatever the reason is.... You've entered that market and you thought Visa had gotten ahead of you on that market in terms of a premium card, right? So are you doing something to encourage the banks to get those cards out to their customers?

The Co-Chair (Mr. James Rajotte): Very briefly, Mr. Stanton, please.

Mr. Kevin Stanton: As I said in my statement, to compete against American Express and Visa, we offer programs that make it more attractive for issuers to go after those cardholders.

The Co-Chair (Mr. James Rajotte): Thank you, Mr. Wallace.

We'll go to Mr. Thibeault, please.

Mr. Glenn Thibeault (Sudbury, NDP): Thank you, Mr. Chair.

Welcome to this meeting.

You mentioned earlier that at some meetings you may have felt ambushed. I hope you don't feel that way here. The seat may be a little hot, but I think we're all working to try to come up with some solutions, so thank you for coming.

In your opening statement, you talked about regulation or legislation reducing competition. I think it's important that we talk about that. I'm seeing competition in a different way, and it has also been discussed, I believe, by the RCC. Competition is actually going to increase the prices that consumers will pay, because the competition is between you and Visa and a few of the other credit card companies. The competition is raising the rate to get the bank to take your card. Is that not correct?

● (1605)

Mr. Kevin Stanton: That's not correct. That's not the model we work on.

Mr. Glenn Thibeault: Maybe you can explain the model for me.

Mr. Kevin Stanton: Sure.

When we set our rates, what we're trying to do is maximize participation in the system by merchants and cardholders. If we, for example, were to follow the model the RCC thinks exists, we would delight issuers and lose all of our merchants and then eventually make our issuers quite unhappy. The only thing we do in setting the rates is balance the system. That's why we lowered rates. It was because we saw an opportunity to compete against cash and debit by eliminating minimum fees. For example, an iTunes transaction, which is a very low-value transaction, used to cost the merchant 5¢. Now, under the new schedule, it costs 1.72¢, and it makes our proposition more attractive to that merchant, although less attractive to the issuer.

It isn't a matter of upping the ante to get more issuers; that's not how it works. We have to be relevant to everybody to be attractive to anybody.

Mr. Glenn Thibeault: Okay, fair enough.

One of the other things we heard on Tuesday was from the restaurant association. They talked about an example in which the fee was negotiated. I don't know the exact number.... The interchange fee that was negotiated was 1.61%, but when they got their bill at the end of the month, or whenever they got that bill, that total fee was about over 2%. Can you tell us why the rate would be negotiated at one figure and then be higher when they got their bill?

Mr. Kevin Stanton: Sure. Again, I listened to the witnesses from the other day, and I have to say some of the rates they were talking about bore no relationship to our interchange rates. They were much higher. Again, to refer back to my speech, that's because we don't control end-user pricing.

I think one of the projects we want to undertake with the CFIB in particular is to make sure merchants understand that there are basically three kinds of acquirer contracts out there. There's flat-fee pricing, which people like because it creates price predictability, but you may be paying more for certain kinds of cards than you should have to. There's pass-through pricing, which means you have interchange plus a markup; that's hard to manage, because it creates a lot of unevenness in the costs of cards.

Then there's something in between, which I think Catherine Swift described, called qualified contracts. These are not our contracts, and I'm being very generic, but that's a world in between saying, here's your basic price and we're going to predict how much of the other cards you'll see, the corporate card or foreign card and that sort of thing. There will be a specific markup for those cards, and that creates somewhere in between predictability and appropriate pricing when the price is lower.

I don't think these concepts are well understood by small merchants, and we think we can lend a hand in making sure they understand that as they make their choices.

Mr. Glenn Thibeault: Great. Thanks for that, because that would be the next thing, the type of solution we could bring forward to this.

I believe we heard that there are 19 current interchange rates. Is that something you said earlier?

Mr. Kevin Stanton: Yes, but for any given merchant, there are only three consumer rates.

Mr. Glenn Thibeault: How many of these different rates existed, let's say, three years ago, before the arrival of these premium cards that we've been hearing a lot about?

Mr. Kevin Stanton: There were three rates before. Individual merchants went from having three rates to having three consumer rates, but there are 19 rates because there are rate reductions for certain categories. There are volume recognition advantages.

Catherine Swift mentioned 100 rates in the U.S. I think it's probably more, but every time a rate has been created in the United States, it has been a reduction of the fee to the merchant, because it's a very complicated environment there. We don't have that complicated environment here, but there was opportunity to make sure we were more sophisticated in recognizing the differentiated value propositions. A jewellery store sees more upside spending than a grocery store, so we lowered grocery store interchange to recognize that it's higher value than cash and other cards, but less than you'd see for other kinds of merchants.

Mr. Glenn Thibeault: You mentioned that fortunately we're not the United States, because there may be more than a hundred there. I still find the 19 complex and confusing, so imagine what a small or medium-sized entrepreneur or business is going through when they're getting the bill and trying to understand the process.

Is it your opinion that interchange rates should be clear to both the merchants and the consumer before a transaction takes place?

Mr. Kevin Stanton: Honestly, I don't know if it's useful information for the consumer. I think the merchant needs to know how interchange is priced. Clearly, we intended to make it simpler by providing customized reports, and clearly we have to work on making sure our small merchants are taking advantage of that infrastructure, but I think what's more important is for the information to be available on a daily basis so that merchants can create some sort of predictability over financial periods—weeks, months, or whatever is convenient—in terms of the actual costs. I think what's important up front is that they understand the structure of their contract and how things get priced as they come through.

I don't know that any particular operational advantage for the merchant is created if a clerk is able to understand that, but it is one of the things that I think Catherine Swift and CFIB can help us understand better. That's why we're anxious to—

● (1610)

The Co-Chair (Mr. James Rajotte): Okay. You only have about 20 seconds left.

Mr. Glenn Thibeault: I'll be very quick, then.

How do you think we can make this transparent to the merchants? You mentioned that there needs to be some work; in 20 seconds, what do you think we can do to try to resolve this issue?

Mr. Kevin Stanton: It's enhanced disclosure, but education has to be a big part of it. The rate calculator is an important feature of that education so that they understand that they might not need to accept credit cards to have a viable business.

The Co-Chair (Mr. James Rajotte): Okay. Thank you, Mr. Thibeault.

We will now start the five-minute rounds. Go ahead, Mr. McTeague, please.

Hon. Dan McTeague (Pickering—Scarborough East, Lib.): Mr. Stanton, thank you for being here.

I think the reason that you are here and we are here has a lot to do with what has taken place over the past several months. I happen to believe that a number of merchants who have come to me had no particular agenda, particularly independent gas retailers. They have told me that far from not even knowing the interchange fees of your company and not being allowed to provide discounts, in fact this has occurred because of these increases in premium cards that your company and Visa have pursued. I might add to the committee that the two of you divide 94% of the market that you call competitive.

Mr. Stanton, if you have this information about interchange fees, why is it that nobody seems to know, with the exception of you, where that is? You suggested to the committee here on record that you've had them out for three years. Why is it that even the merchants who subscribe to your fees and to your credit card company don't seem to have that information either? Can you explain that?

Mr. Kevin Stanton: You know, I can't explain why the association is having—

Hon. Dan McTeague: We're members of Parliament here, Mr. Stanton. I don't have it either, and neither do the clerks or the research officers. Sir, why is that?

Mr. Kevin Stanton: I believe, Andrea, maybe you can clarify. We provided it to Parliament.

Ms. Andrea Cotroneo (Vice-President and Canada Region Counsel, MasterCard Canada): We provided it to the Senate banking committee and we have provided it to the researchers at their request. We'd be happy to provide it to this committee and to the clerks.

Hon. Dan McTeague: The parliamentary library stated to us just a few days ago that MasterCard does not disclose its interchange rates in Canada. Figure 2 compares Visa's consumer interchange rates formula before and after April 2008.

Enough on that. I want to see this. I'm hoping we're going to be able get that in a few minutes, because there's a litany of comments that you made here that I wish to challenge.

You've suggested that the Australian model.... On what basis and with what proof or evidence do you say that it is not working, that it has in fact worked against the interests of consumers? The equivalent of Statistics Canada in Australia suggests that price inflation did indeed decline after the new interchange rules were introduced. The same organization suggests that new interchange rules had no effect on the takeup of credit cards and accounts, suggesting it was 120,000 in 2001 and going all the way to 1.8 million. The same agency, Mr. Stanton, suggests the new interchange rules had no discernible effect on the number of credit card transactions, and finally, that new interchange rules had no discernible effect on the value of credit transactions.

This flies in the face of what you said, sir. Are you going to provide this committee with the information substantiating what you've just said about the Australian model—yes or no?

Mr. Kevin Stanton: Yes, but to add to that, I'm not suggesting that MasterCard or Visa were hurt. I'm suggesting that consumers were hurt, and that's well documented in studies by the government accounting office in the United States and a study called by the CRA, and it has been acknowledged in the United States by the Department of Justice, the FTC, and the Small Business Enterprise Council there as well.

Hon. Dan McTeague: Will you provide that information to this committee, then, sir?

Mr. Kevin Stanton: Yes, I will.

Hon. Dan McTeague: Thank you.

A little earlier you suggested as well that a number of opportunities are given to smaller players to compete, and that it may very well be in their interests to compete.

Tell me something. Because we don't have, up until this very moment, a list of your interchange fees, do you have performance programs of the kind Visa has? How do you believe small business is able to access those better rates, which would obviously save them the time and task of having to spend more simply because they happen to be small? Does that not run contrary to your assertion, sir, that this would be good for small business?

Mr. Kevin Stanton: We have performance tiers, just like Visa. One of the proposals we put forward to the CFIB was to create a single tier that would acknowledge the collective volume of their membership.

● (1615)

Hon. Dan McTeague: Mr. Stanton, I'm going to shift to debit now, and I know other colleagues here want to talk about this as well. To forgo *ad valorem* on your Maestro products, you've stated that your flat fee for MasterCard would be lower than that of Interac. How do you know what Interac is going to be?

Second, if they introduce it at 1%, will yours be less? More importantly, your parent or associate company in the United States offers Maestro or MasterCard debit. Do you believe the CEO down the road will introduce that as an *ad valorem* and walk away from your commitment here to have a flat fee if you get into the business of debit cards?

Mr. Kevin Stanton: MasterCard makes these decisions on a country-by-country basis. I don't see MasterCard debit as being appropriate for this market because of the pricing environment. To answer your question, it is our strategy to remain at a lower flat fee than Interac. We know what it is because they publish it on the Internet.

Hon. Dan McTeague: But you can't rule that out right now, can you?

Mr. Kevin Stanton: That's our strategy—just as they can't rule out that we will be higher than they will.

The Co-Chair (Mr. James Rajotte): Thank you very much, Mr. McTeague.

We'll go to Monsieur Vincent.

[*Translation*]

Mr. Robert Vincent (Shefford, BQ): Mr. Chair, my questions are for Ms. Cotroneo.

In the letter you sent to the senators, you said the following: “MasterCard does have a debit product in the Canadian marketplace called Maestro.”

Is equipment to process this Canadian product available in Quebec? Does the Maestro card exist in Quebec?

[*English*]

Ms. Andrea Cotroneo: Maestro is MasterCard's debit brand in Canada. Maestro cards do exist in Canada at this time.

[*Translation*]

An Hon. Member: As well as in Quebec.

Mr. Robert Vincent: All right.

I will continue along the same lines. You also state:

> Maestro operates in exactly the same way as Interac, processing point-of-sale debit transactions on a real time basis, for a flat fee on a per transaction basis. Maestro also offers the following benefits to consumers and merchants:
>
> Maestro is currently the lowest-cost debit proposition in the Canadian market—in fact, Maestro is currently 37.5% cheaper than Interac.

This leads me to ask what the price would be. I was wondering if I was paying too much by using Interac. Therefore, I sought to obtain information about Maestro. Since I was unaware of this product and my curiosity had been piqued, I called the National Bank, located in my riding, to request information about the Maestro card, and the costs associated with it.

Yet, the National Bank was not aware of the existence of such a card. I was re-directed to representatives of MasterCard, located in Montreal, to whom I asked the same questions. They were also unaware of the existence of a Maestro card. They then transferred my call to TelNat so that I could be given information, and they also had no idea what the Maestro card was. Then my call was transferred to representatives of the National Bank, in Montreal, who had no idea of what the Maestro card was. Representatives of the National Bank then transferred my call to Global Payments, who also were unaware of what the Maestro card was.

I spent nearly two hours making telephone calls to try and obtain a Maestro card, and find out what the rates are; nobody is aware of your product!

Can you explain to me why no one is aware of your product, when you claim that anyone in Canada can obtain a card?

[*English*]

Ms. Andrea Cotroneo: Maestro behaves exactly like Interac. It is PIN-based, so consumers enter a personal identification number, and the funds exit the consumer's account in real time. There's no lag of time there. Maestro is in its infancy in this country. We have just introduced it, and not all of our customers offer it at this time. That is likely why the National Bank, for example, does not offer Maestro at this time.

[*Translation*]

Mr. Robert Vincent: How is it that the headquarters of MasterCard, located in Montreal, isn't even aware of the existence of this product? Is this product integrated with a credit card, or is it an entirely separate card?

[*English*]

Ms. Andrea Cotroneo: The product is not on a credit card. Maestro appears on the back of the access card you use to facilitate debit card transactions, either at a merchant or at a bank machine.

● (1620)

[*Translation*]

Mr. Robert Vincent: How do I go about finding out if I'm going to pay 37% less than if I were to use Interac, when no one can tell me what the product is, and how much I have to pay each time I use that debit card?

[*English*]

Mr. Kevin Stanton: As a consumer you won't be paying anything for Maestro. It is a fee paid by the acquirer to MasterCard. There is no interchange on Maestro. There's a single flat fee of half a cent. That eventually is what the merchant pays.

[*Translation*]

The Co-Chair (Mr. James Rajotte): You have 30 seconds remaining.

Mr. Robert Vincent: In your document, you talk about transparency and the fact that your interchange rates are posted on the Internet. Earlier, you talked about merchants. I went to your Web site, under the heading “Merchants”, but one has to fill out a form.

MasterCard may inform us or not, at its discretion. I tried to obtain information. I do not know the cost, nor the interchange rate. Nobody knows anything. I spent the afternoon trying to determine the interchange fees on all of your products, but I was unable to get a price.

Can you tell us today what the MasterCard interchange rate is?

[*English*]

The Co-Chair (Mr. James Rajotte): Just very briefly, please.

Ms. Andrea Cotroneo: Mr. Chair, I'll take that question.

I'll talk to you about effective rates. There are three types of products, as Mr. Stanton mentioned. For a standard consumer product, the effective rate is 1.54%. For a premium consumer product, the effective rate is 1.88%. For a corporate product, the effective rate is 2% flat.

[*Translation*]

The Co-Chair (Mr. James Rajotte): Thank you.

[*English*]

We'll now go to *Monsieur Bernier, s'il vous plaît*.

[*Translation*]

Hon. Maxime Bernier (Beauce, CPC): Thank you, Mr. Chair.

Thank you for being with us today. You must certainly have read our government's budget, tabled by the Hon. Jim Flaherty, that deals with consumer transparency in the area of financial products.

Do you believe that if the federal government were to introduce regulation—and I do emphasize the word "if" because we have not reached that point yet—it should call for greater transparency when companies provide information to clients on credit and debit cards? Is this something you would like to see in future federal regulation?

[*English*]

Mr. Kevin Stanton: I think that it's fair to say that there is a failure of understanding on the merchant side of the business. On the issuing side of the business there's a very robust disclosure regime that doesn't exist, and perhaps should exist, for small merchants. There are existing federal agencies whose mandates could be extended to bring some of the excellent work they've done in that respect.

However, while the government considers that, MasterCard believes it has a duty to move forward to make sure that happens while those decisions are being made. We're going to move forward with developing a disclosure regime ourselves.

[*Translation*]

Hon. Maxime Bernier: Thank you.

During our meeting with coalitions, there was a lot of discussion about the Australian model. Those groups urged the government to adopt the Australian model. I'm not an expert on the Australian model, but I believe that it is the government that sets the rates through regulations, or orders-in-council.

Generally speaking, have I properly summarized the Australian model?

[*English*]

Mr. Kevin Stanton: Yes, they adopted specific price controls. I think it's important to note that the Reserve Bank of Australia has removed those restrictions at this point. Their reason for it is to see what happens.

[*Translation*]

Hon. Maxime Bernier: Thank you.

Is there a model that the Canadian government could draw inspiration from? Does the European Economic Community have any regulations on transparency? Are there rules, standards or industry standards applied in other countries?

Personally, I am very much in favour of self-regulation, because it falls directly within the purview of industry. I'm convinced that you are much more knowledgeable about your industry's intricacies than a politician. When the government regulates, it tends to nitpick and to go into too much detail. This ultimately becomes a burden on people.

Are there other models of self-regulation, or government regulation adopted in other countries? I'm thinking mainly of the European Economic Community.

● (1625)

[*English*]

Mr. Kevin Stanton: The models in Europe are maybe inapplicable because they apply to cross-border transactions, which don't exist in Canada. It's an EU regulation that applies.

Australia is really the most extensive and comparable market to see what happens when these regulations are put in place. There are schemes in Israel and Mexico, but they've only been around for very short periods of time.

[*Translation*]

Hon. Maxime Bernier: Which do you prefer? If we do introduce regulation, which model would you prefer we suggest to the senior officials at the Department of Finance?

[*English*]

Mr. Kevin Stanton: I'm very afraid that outside of making sure that the competitive laws of Canada are working and that competition is governing behaviour, this will result in unintended effects, specifically a reduction in competition and an exiting of the market by small players, creating barriers to entry and those sorts of thing. However, I do think a regime that's targeted at making sure merchants fully understand the contracts and costs associated with accepting all sorts of card-based payments is a very important component of the scene that's missing right now.

The Co-Chair (Mr. James Rajotte): *Merci, monsieur Bernier.*

We'll go now to Mr. McKay, please.

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

Mr. Stanton, what has precipitated these hearings is some pretty unilateral action on the part of your company and Visa in hiking rates in economically difficult times, when margins and business activity are shrinking. You couldn't have picked a worse time to hike rates. I have a document here prepared by a who's who of retail merchants in Canada. It says that in October, rates for electronic cards were 1.68%, as they were for standard cards. Then it gives a breakdown of post-October rates, and it says that Visa and MasterCard have since averaged increases of 11.5% and as high as 17%.

You can appreciate that when a hotel merchant or gasoline merchant who is on a fixed margin has increases such as these in a very short period of time, and over which he has no ability to respond, it's going to get his attention. What do you say to these folks?

Mr. Kevin Stanton: I think there's no doubt there has been a reaction to end-user pricing. I think that's an understatement. But as I mentioned to Mr. Thibeault, some of the numbers we heard mentioned yesterday were surprising, because they don't bear relation to the increases we put in place.

In terms of the timing, I agree the timing is unfortunate, but the timing is not from this year. It take six months to put something in place; it takes six months to give notice and a few months for technology to change. So these are changes that were started in 2007. So it was well before the current economic times arose.

Hon. John McKay: Did you give notice to your merchants that during the term of their contract, increases such as this would take place?

Mr. Kevin Stanton: Well, we don't give notice to the merchants, but we always give at least six months' notice to the acquirers, who then turn around and give what notice they're required to give to the merchants.

Hon. John McKay: Do they actually do that?

Mr. Kevin Stanton: Well, their contracts generally do.

Maybe Andrea could speak to that, because—

Hon. John McKay: I'm surprised by that, because the merchants who have come to us have been rather staggered by their increases. I remember one set of people representing retail gas stations whose margins were 6%, and with your increases, their margins are down to 4%. It's a pretty substantial increase, wouldn't you agree?

Mr. Kevin Stanton: Our gas rate went down.

Hon. John McKay: It went down?

Mr. Kevin Stanton: It went from 145 to 136.

Hon. John McKay: Well, there is a distinction between premium cards and other cards. The irony here is that you have this honour-all-cards rule. When I, as a consumer, am presenting a premium card, I don't really understand that the merchant is paying the difference. Here you are on the one side promoting the premium cards because that's a better deal for you folks, and on the other hand, the consumer, in blissful ignorance, and the merchant, who has no choice, get stiffed with these cards.

So while your market penetration on the premium cards may actually be only 5% at this point, you're not introducing these things for that to remain at 5% for the next two, three, or four years; you want a far higher penetration rate of the premium cards, and the merchant has no choice.

Am I wrong about that?

● (1630)

Mr. Kevin Stanton: The honour-all-cards rule requires a merchant to accept all cards. I have two points on that.

Paul Jewer from Sobeys, in his testimony, said that some sort of compromise on the honour-all-cards rule wouldn't work for merchants either. If they advertise that they accept a certain type of card, like Interac, American Express, Visa, or MasterCard, to surprise the customer with the fact that they won't accept that type isn't workable in an operating environment.

For the consumer it creates an untenable situation. We rigorously enforce the honour-all-cards rule. Some Canadians were being differentially treated in the United States at gas stations because of some technical glitches we had to work through. We've had situations where Canadians working abroad have been told that Canadian cards weren't accepted. Underlying any sort of payment system where there isn't inherent value in the vehicle—cash, Interac, American Express, Visa—the card itself has no inherent value.

Hon. John McKay: I had the same experience travelling abroad. My card was not accepted. This system is pretty broken.

The Co-Chair (Mr. James Rajotte): Thank you, Mr. McKay.

We'll go to Mr. Lake.

Mr. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): Does a premium card generate more revenue for MasterCard than a regular card?

Mr. Kevin Stanton: No, but there is increased spending on the card. On average, 40% more is spent at a merchant's on a premium card versus an ordinary card.

Mr. Mike Lake: What are the fees on top of the interchange fees? Are any of those additional fees tied to the interchange fee, in the sense that they go up when the interchange fee goes up?

Mr. Kevin Stanton: There are acquirer fees that mark up interchange fees, and MasterCard has small transactional fees that are flat. We have fees that are *ad valorem* as well, but they're very small compared to interchange fees.

Mr. Mike Lake: Are they tied to the interchange fee?

Mr. Kevin Stanton: No, they're tied to the dollar amount.

Mr. Mike Lake: Is there anything in a merchant contract that explicitly states the maximum interchange fee that can be charged?

Mr. Kevin Stanton: I don't write merchant contracts. I know of none to that effect, but that question is probably better directed to the acquirers, because we don't manage that contract.

Mr. Mike Lake: Speaking of transparency, it's interesting because this issue is so confusing, even in the way you portray this in section V in your opening statement. You say, “Our highest interchange rate went from 2% to 2.13%, and our lowest effective interchange rate was reduced from 1.45% to 1.21%.” I think the message you want to portray is that they kind of break even. But I want to talk about an extreme hypothetical.

Let's say that everyone was using the basic card rate of 1.45% originally, and over a period of time all of the consumers shifted to a high premium rate of 2.13%. That hypothetical extreme increase would be 47%. It seems to me we're hearing that that's exactly what's happening. It may not necessarily be happening to everybody who owns a card, but there seems to be a wholesale shift. The consumers don't even really realize what's going on, but the companies are shifting consumers from the 1.45% cards to the 2.13% cards.

Is there some truth to the fact that there's a general shift in that direction?

● (1635)

Mr. Kevin Stanton: No, because you have to demonstrate certain spend levels. The merchant value proposition doesn't kick in until there's a demonstrated spend of $24,000 a year on our card. That's why it naturally stops at about 5% of our base.

Mr. Mike Lake: But there is a transaction. You even said in answer to one of the questions from across the way that there are programs to encourage issuers to use premium cards. You're encouraging your issuers to push premium cards on people and they are doing that, so more people are moving from the low interchange cards to the high interchange cards.

Mr. Kevin Stanton: No, we're not pushing their use. We made a program available because we were at risk of losing cardholders and issuers to American Express.

Mr. Mike Lake: Did that program encourage more use of premium cards?

Mr. Kevin Stanton: It did, but at a lower cost than American Express.

Mr. Mike Lake: Was it at a higher cost than the MasterCard rate would originally have been?

Mr. Kevin Stanton: Yes.

Mr. Mike Lake: Then you are encouraging users to use these higher interchange cards.

Mr. Kevin Stanton: Actually, we've turned down several program proposals because they didn't meet the criteria. We have to keep the system balanced. A widespread issuance of these cards with no justification in terms of a value proposition to the merchant is not in our best interests.

Mr. Mike Lake: Would you say it's reasonable to expect that a clerk at a given merchant would know whether a card was a premium one or not?

Mr. Kevin Stanton: No, and I don't know if it's workable to identify them. We've had this conversation with the CFIB. It's not workable to expect a clerk in an operating environment to recognize a card.

The Co-Chair (Mr. James Rajotte): You have 30 seconds, Mr. Lake.

Mr. Mike Lake: So the clerk who is representing the merchant—who is basically a customer, in the sense that they pay interchange fees, which the banks receive and which you in turn receive a portion of—doesn't even know the price they're paying. It's as if you went to a gas station and there was no rate posted or no dollar amount on the metre, but you just filled up according to the number of litres on the gas pump and then walked in and just paid whatever they told you to pay, based on a rate that was not posted anywhere but was just a number after you'd already made the decision. That's what it's like for the merchant. When someone slaps down a card, there's no rate attached to that card that they can see. They just pay it.

Mr. Kevin Stanton: I think it would be unlikely that a clerk would understand the cost of the payments he's managing. I doubt the clerk would understand the cost of cash either.

The Co-Chair (Mr. James Rajotte): Thank you, Mr. Lake.

We'll go to Mr. Garneau. *Monsieur Garneau, s'il vous plaît.*

Mr. Marc Garneau (Westmount—Ville-Marie, Lib.): Thank you.

I'm just trying to get clarification of your opening comments, Mr. Stanton. You made some very strong statements about the fact that a regulatory framework would suppress innovation, reduce competition, and harm consumers. Those are very strong words.

I don't see any evidence that it would suppress innovation.

Then you talk about it hurting consumers. You talk about the Australian example and say that it forced a reduction in interchange revenues in Australia, which it was clearly intended to do. But then you were saying that interest rates, which had been subsidized by interchange revenues, had to be increased. In other words, you were saying that interchange revenue had been used to keep interest rates low—although most people have trouble seeing those rates as low—and had to be increased to compensate for that loss of revenue. Did I clearly understand that?

And grace periods had to be shortened as a result of the reduction in the interchange rate.

Mr. Kevin Stanton: That's correct.

Mr. Marc Garneau: Can you tell me how that had to happen?

Mr. Kevin Stanton: It's in the reports that we'll deliver to the committee. But there are three revenue streams that an issuer receives when it runs a credit card portfolio: interest, fees, and interchange. When one of those goes down, you have to adjust the others to operate within the margin requirements of prudent banking.

This is well documented. It did happen in Australia, and you can look in Canada to credit card systems that don't have interchange, such as retail store cards, which have interest rates approaching 30%, versus the 65 low-interest-rate programs available under the system involving interchange.

● (1640)

Mr. Marc Garneau: What is the cost of processing the fees as a percentage of the interchange fee?

Mr. Kevin Stanton: We can try to do some research on that, but the cost of processing the transaction isn't something that's considered in Canada.

There's a paper by Jack Carr that says that the only appropriate basis for interchange is to look at value versus cost recovery.

Mr. Marc Garneau: Well, we've been told by the RCC that it's about 13% of the interchange fee.

What I'd like to know is whether you are suggesting, from these reports saying that interchange fee reductions were transferred to interest rate increases, that it was a one-for-one relationship?

Mr. Kevin Stanton: Yes, I'd say that.

Mr. Marc Garneau: Thank you.

Can you tell me how this suppresses innovation? For most people, the business of innovation in the area of credit cards is not something that's obvious. I'd like to know what kinds of things are being lost by the consumers as a result of this?

Mr. Kevin Stanton: Australia was very much like Canada in that respect before this regulation was put in place. Things like chip deployment, contactless payments, and security systems all need proper economic framework for investment.

When you hear from Interac, they'll say they need economic rationality in order to innovate and compete. I think one of the problems with Interac is that they are under-investing in security. They don't have an interchange regime.

The Co-Chair (Mr. James Rajotte): Mr. Garneau.

Mr. Marc Garneau: You say this has resulted in reduced competition; it has priced certain potential competitors out of the market.

Mr. Kevin Stanton: At that low economic value level you need to have enormous scale to play. Small players and niche players have to go. They can't play.

It's important that when you look around the Canadian environment, price competition and feature competition have been led by niche and innovative new entrants. If they're forced out because their interchange revenues don't support continuing, then it's only left to the larger banks.

Mr. Marc Garneau: I would offer perhaps a philosophical comment, that people might accept a little less competition for a reduced rate. But that's something we can debate.

The Co-Chair (Mr. James Rajotte): Thank you, Mr. Garneau.

We'll go to Mr. Chong, please.

The Co-Chair (Hon. Michael Chong (Wellington—Halton Hills, CPC)): Thank you, Mr. Chair.

I want to ask some questions that I think get to the heart of this matter. I've always felt that the key to any solution is greater competition.

Who sets the interchange rate?

Mr. Kevin Stanton: That's MasterCard.

The Co-Chair (Hon. Michael Chong): Does the acquirer collect this interchange rate and pass it along to the banks?

Mr. Kevin Stanton: The acquirer collects it, passes it along to us, and we pass it along to the issuer.

The Co-Chair (Hon. Michael Chong): So the ultimate institution that receives the interchange rate is the issuer, the banks.

Mr. Kevin Stanton: That's correct.

The Co-Chair (Hon. Michael Chong): I think it's safe to assume that part of this interchange rate that the banks collect forms part of their margin on their card product.

Mr. Kevin Stanton: Yes.

The Co-Chair (Hon. Michael Chong): So at no point in this transaction does the bank pass along this interchange rate—whatever they receive as a percentage—to MasterCard.

Mr. Kevin Stanton: No.

The Co-Chair (Hon. Michael Chong): Can the bank change the interchange rate?

Mr. Kevin Stanton: No, the bank is not involved in setting it. Asking them what they want is not going to balance—

The Co-Chair (Hon. Michael Chong): So MasterCard sets the interchange rate for each bank that it has an agreement with, but does not collect or receive that interchange rate. It seems to me that MasterCard is setting the price for each of the banks on behalf of the banks for something that MasterCard does not collect. You collect other fees, but you do not collect the interchange rate.

If I were to use an analogy, it's like Whirlpool Corporation telling Sears what its margin should be on a Whirlpool washing machine. Let's say Sears needs to have a $150 margin on a Whirlpool washing machine. Sears is not allowed to set that margin because it's been determined by Whirlpool. Sears pays another fee to Whirlpool, let's say $1,000, for the actual cost of the washing machine.

This seems to be somewhat anti-competitive in its behaviour and a contravention of the Competition Act.

Mr. Kevin Stanton: I'd have to challenge your analogy. We're saying to one side of the two-sided network that is our business that this is how much the participation of this participant's cardholders will cost you if you decide to accept the proposition. That's almost like a wholesaler saying this is how much these washing machines cost; charge what you want. That conversation goes to the acquirer, not to the issuer.

So the acquirer determines how much the merchant pays based on a wholesale price determined by a distributor, which is MasterCard.

● (1645)

The Co-Chair (Hon. Michael Chong): But what Sears pays to Whirlpool Corporation is the price of the product without the margin. Sears sets its own margin. It goes into the marketplace and has discount sales to attract customers into its stores.

What Whirlpool will never say to Sears is, you must charge a $150 margin on a $1,000 washing machine. But MasterCard is telling the Bank of Montreal they must charge this intercharge rate, regardless of what the market will bear, and then pass along to MasterCard a separate and distinct fee from the interchange rate.

Mr. Kevin Stanton: To be clear, we allow issuers and acquirers to come up with bilaterals and we will support them. So they're free to enter into a completely private arrangement, and our technology will support them.

But we're not telling the acquirer, this is what you have to charge; we're saying, this is how much that card transaction will cost. What you mark it up to is entirely up to you, acquirer.

I just want to correct one thing. Interchange is part of a revenue stream; it doesn't determine a margin. An issuer might have to spend that entire revenue stream to cover loan losses, chargeback liability, and rewards benefits. And grace periods are funded out of that as well.

The Co-Chair (Hon. Michael Chong): Thank you.

The Co-Chair (Mr. James Rajotte): Thank you, Mr. Chong.

We'll go to Mr. Thibeault.

Mr. Glenn Thibeault: Thank you, Mr. Chair.

In terms of the interchange rates that we talked about earlier are indicated on your websites, there is mastercard.com/ca/merchant/en/canic/index.html, but we get into all of this fine print again, and that's where I think the confusing part comes in, because there are no rates posted. What it states there is that:

> Merchants interested in learning more about our domestic rates and international Interchange rates are invited to complete this email inquiry form. Once completed, MasterCard will respond explaining applicable Interchange rates within two weeks.

So you have two weeks to respond to a business that wants to know the rates they'll be paying. Can you clarify that for me?

Mr. Kevin Stanton: Understanding the rate table and the rates that apply to you is an important piece of information as you go and shop for your acquirer contract. Over time, the return time on that will improve. Right now it's a person who has to call the person back and that sort of thing. There is a wide margin of error. Generally speaking, we'll get back to people much sooner than that.

Mr. Glenn Thibeault: So then what you're saying is that we can be specific on that and ask about the rates that we're paying, not necessarily posted, as was discussed earlier, like Visa—

Mr. Kevin Stanton: We used to do that, and then we got complaints that it was confusing: These weren't the rates that necessarily apply to me. How do I use this to shop around for the best rates? Please tell me what rates apply to me. So this protocol was designed to improve that experience for the merchant.

Mr. Glenn Thibeault: When I asked my first question, you stated that one can still run a viable business without credit cards. We heard from the restaurant association, from RCC, and from CFIB that in most cases it's over 70% of their customers who are using either MasterCard or Visa. So is it not somewhat misleading, considering the fact that a portion of the interchange fee charged to merchants is for network branding, and that your issuers also pay a marketing fee that's allowing you to aggressively market the card brand to your consumers?

Mr. Kevin Stanton: That may be a label that another network uses. We have assessments and transaction fees.

Mr. Glenn Thibeault: Would you not agree, though, that it's impossible for most merchants to refuse the two cards that control almost 94% of the market, especially since they're continually marketed and distributed to consumers? We've heard about the premium cards, and we see advertisements on television and everywhere you go.

● (1650)

Mr. Kevin Stanton: There are 2.4 million merchants in Canada, to use Mr. Blouin's figure. There are only 600,000 who accept MasterCard; 75% don't accept MasterCard, which means that, yes, you can run a viable business without accepting MasterCard.

There is a difference between need to accept and want to accept, because of the benefits that come with the proposition. For restauranteurs there is a particular benefit in that people aren't restricted to the cash they have on hand and they tend to spend more, and that sort of thing. There are hotel chains that use credit cards to make the reservation to cover their risk on letting somebody in a room before they've actually paid, and steer them to debit.

So I think the necessity has to be separated from the desire. And of course we want more merchants to desire to accept our propositions. And our job is to work every day to figure out how to balance the system of economics so they're attracted to it, together with the value proposition represented by innovation and that sort of thing as well.

Mr. Glenn Thibeault: Do we not think it would work to have a transparent, fair, and equitable system where merchants know ahead of time, so they know when they get their bill at the end of the month and they're not necessarily always having to put things off to the consumer, and you're still making your fees?

Mr. Kevin Stanton: I couldn't agree with you more, and I think that's one of the breakdowns we want to address. I think that while we meant well by our customized report, apparently it's not working as well as we thought. And focusing not only on transparency of interchange, but understanding the actual cost of acceptance, which is something different from interchange, is important.

But the other part of that, Mr. Thibeault, is that it's important for merchants to go through a business analysis to see if in fact they should, based on the cost-benefit analysis. That's why part of our program will involve a cost-benefit calculator, because it may put it through the system and say, you know what, you can do this without the cost of credit cards. Cash is good enough.

The Co-Chair (Mr. James Rajotte): Okay, you can ask a five-second question, if you have one.

An hon. member: Oh, oh!

The Co-Chair (Mr. James Rajotte): Yes or no?

Mr. Glenn Thibeault: Very quickly, we can't forget about charities. Charities are now paying interest rates as well. We have generous Canadians who are giving their money to charities, which are now starting to pay higher interest rates on premium cards as well.

The Co-Chair (Mr. James Rajotte): Do you want to respond to that, Mr. Stanton, briefly?

Mr. Kevin Stanton: Yes. I heard the Retail Council mention charities. As far as I know, they don't represent any.

The only thing we've ever heard from charities is that credit cards represent a higher level of donation and a higher level of fulfillment —fulfillment being the most important.

The Co-Chair (Mr. James Rajotte): Thank you.

We'll go to Mr. McTeague, please.

Hon. Dan McTeague: Mr. Stanton, and Chair, thank you very much.

I just want to make very clear—and I hope you can clarify this for us, Mr. Stanton—that there seems to be a great divide between CFIB and RCC on your behalf, and that you'll be offering to extend the same courtesy and special rates to RCC as you suggested in your earlier statements you would give to CFIB. There are no misgivings between you the RCC at this point, are there?

Mr. Kevin Stanton: The focus on the CFIB is based on two things. One, we thought that Catherine put forth very workable suggestions at the Senate. They were a foundation for putting forth specific proposals. Furthermore, her constituency is small merchants; and I think the principal breakdown in the system right now is with small merchants, so they have become our priority.

Hon. Dan McTeague: Mr. Stanton, I have a couple of regulatory issues I want to raise with you, and I'm wondering if you could perhaps provide a quick answer to these.

Do you think your move into debit should be included under the Canadian Payments Association and be subject to the same rules as Interac?

Mr. Kevin Stanton: You know, I heard the witnesses earlier in the week say that. I don't know what they would get out of it, because that wouldn't change the price dynamic. In the current situation, we're offering a lower-cost product, and we're going to stick to that. Before the Parliament of Canada, that's what we're stating we're going to do.

Hon. Dan McTeague: Building on my previous question, how do you know what Interac fees are going to be? Are you going to be lower than them? But I think I understand where they're coming from.

Mr. Kevin Stanton: Yes, if they go down, we're going to have to respond downward.

I don't know if the CPA gets anybody out of this. Our system has never failed a merchant in delivering safety and soundness of payment, even in this crisis.

One of the things, I think, we have to be careful about as we consider the different options is that sometimes suggestions like those made by Interac actually create nothing more than barriers to competition.

Hon. Dan McTeague: Well, look, Mr. Stanton, on the subject of competition, I take the comments that have made hypothetically by Mr. Chong. I think there are a number of pitfalls here and a number of areas that we are very concerned about as a committee.

Let me go on to the regulatory issue as well. Assuming, of course, you continue with debit—and I know you do some of these transactions through certain credit unions, etc.—you're going to have real-time access to information on the spending and saving behaviours of Canadians. I'm wondering if in fact you can guarantee to us that this data will remain within Canada and will not be stored in the U.S., given that your parent is from the United States. But more importantly, do you not see any problems and potential conflict should the data be subject to the U.S. Patriot Act?

● (1655)

Mr. Kevin Stanton: First of all, MasterCard, or Maestro, doesn't transfer personal data outside of Canada. That's fundamental. We're subject to PIPEDA, just as anybody else is. And keep in mind that Interac sends transactions across the border through its alliance with NYCE.

Hon. Dan McTeague: Let me go back—

The Co-Chair (Mr. James Rajotte): I'm sorry, you have one minute left.

Hon. Dan McTeague: Yes, thank you, Chair.

I want to go back to something you had said a little earlier, Mr. Stanton, concerning the opportunity to offer discounts. I want to be absolutely clear that MasterCard Canada has never issued a letter suggesting that discounts offered to merchants are contrary to their agreement, now or in the past. Can you categorically state that has never been the case?

Mr. Kevin Stanton: Not to my knowledge. I've worked at MasterCard for 14 years, and it's always been allowed.

Hon. Dan McTeague: We have several who have come forward and deposited that, so I'd be certainly willing to share this with other committee members and you, Mr. Stanton, to clarify that.

Let me move on to the final question I have—and I only have a few seconds to do this.

I've mentioned or suggested before the possibility of *ad valorem* fees. I've suggested the possibility of doing that. You've said you couldn't possibly ensure that would not be the case as it relates to debit cards. Are you prepared to make an ironclad agreement to that effect, that there will be no *ad valorem* charges to debit cards?

Mr. Kevin Stanton: In fact, that's one of the proposals we put before the CFIB.

Hon. Dan McTeague: Thank you.

The Co-Chair (Mr. James Rajotte): Thank you, Mr. McTeague.

We have about three minutes.

[*Translation*]

Mr. Carrier, three minutes.

Mr. Robert Carrier (Alfred-Pellan, BQ): Good afternoon, ladies and gentlemen.

You are undoubtedly aware that last Tuesday, we met with people from the coalitions. These coalitions represent 250,000 businesses across the country. They are, therefore, not a negligible group.

The Canadian Federation of Independent Business has indeed asked for regulation to resolve its problems. CFIB representatives said that last year, 26% or 27% of credit cards used were premium cards, cards that incurred higher interchange fees, which they did not necessarily plan for in their budgets or prices. Therefore, this is a problem they are asking us to resolve.

In your presentation, you discuss the Australian model, which was also recommended to us. You claim that it has been a disaster for consumers because it has impacted credit card interest rates.

Do you have any data on that, since you claim in your presentation that there have been serious consequences on interest rates charged on unpaid balances, I presume? Do you have any documentation to support that assertion?

[*English*]

Mr. Kevin Stanton: As I stated earlier, there are some very good reports on that. We'll make sure they're submitted to the clerk. I think they were given to every member of Parliament. One more needs to be updated.

The general data shows that rewards went down, interest rates went up, fees went up, and prices did not come down to compensate for the reduced interchange.

[*Translation*]

Mr. Robert Carrier: Can you get us that information?

[*English*]

Mr. Kevin Stanton: Absolutely.

[*Translation*]

Mr. Robert Carrier: You say that in your opinion, the current system runs quite smoothly. You are opposed to the models that we are referring to. You do not seem to have any solutions to suggest to us to solve the problem being experienced by retailers. I personally did not see any solutions proposed in your presentation, nor hear any in your answers.

Ultimately, you are saying that as far as you are concerned, everything is fine and there is no problem.

[*English*]

The Co-Chair (Mr. James Rajotte): Very briefly, Mr. Stanton, please.

Mr. Kevin Stanton: Quite the contrary. I do think there has been a breakdown in disclosure and education. And I think we need to make it clear that our debit proposition is flat fee and lower than Interac.

● (1700)

The Co-Chair (Mr. James Rajotte): *Merci*.

Thank you very much, witnesses, for coming in and for your presentation and for answering our questions. I will have our clerks follow up with you with respect to all the information that it has been stated will be provided to us. As you can tell, members are quite interested in finding out some more information. Some more information is better than less.

But we do thank you for being here today and answering our questions. Thank you very much.

Members, we will suspend for a minute and we will bring Visa Canada forward as witnesses.

Thank you.

●

(Pause)

●

● (1705)

The Co-Chair (Mr. James Rajotte): Mr. Wilson, you may begin at any time.

Mr. Tim Wilson (Head, Visa Canada): Thank you, Mr. Chair.

I appreciate the opportunity to appear before this committee today. I'm Tim Wilson, head of Visa Canada. With me this evening is Bill Sheedy, the regional president for North America and the head of our global interchange strategy team.

Bill will address the issue of interchange within the Visa system and the role it plays in facilitating commerce across Canada and globally. Following his comments, I would like to speak to Visa's operations in Canada and the introduction of Visa debit cards, which will give Canadian consumers and businesses choice while offering features and functionality not available today.

Mr. Bill Sheedy (Regional President, North America and Head of Interchange Strategy, Visa Canada): Thank you, Tim.

First let me provide some background on Visa.

Visa's fundamental role is to facilitate financial transactions between consumers and businesses. We are not a bank or a financial institution. We do not issue cards, make loans, or set rates and fees associated with card usage or acceptance. That's the domain of the Visa financial institution clients. Instead, think of Visa as a network for commerce.

In facilitating transactions, Visa connects 1.7 billion cards to 30 million merchants in 16,600 banks worldwide securely and reliably every second of every day. In making these connections, Visa creates value for all of the systems' participants. Cardholders receive a more convenient, secure, and widely accepted way to make payments. Retailers benefit from the speed, efficiency, reliability, and guaranteed payment that only electronic payments can bring. They also have the ability to take payment from any Visa cardholder regardless of their home country.

Today Visa operates in a highly competitive environment. There is robust competition between the payment types and various local and global networks well beyond credit cards. We also compete with an array of existing and emerging competitors, including cash, cheque, pre-authorized debits, Interac, retail-issued credit, PayPal, and higher-cost competitors such as American Express.

Retailers have also benefited greatly from billions of dollars in infrastructure investment that has increased security on business transactions. Other benefits to merchants include guaranteed payment, innovations like contactless cards that speed transactions, and improved access to international customers. Small businesses in particular benefit from the Visa system, in that they can compete on a more level playing field with large retailers. Small businesses can also dedicate their capital toward their businesses, as opposed to having to dedicate capital toward payment products.

Consumers benefit from payment choices such as credit or prepaid, the convenience of fast checkout, global acceptance, rewards, 24-hour customer service, and enhanced security protections such as zero liability and purchase protection. Consumers can obtain cards from financial institutions that meet their needs—from small local credit unions or large multinational banks—with the assurance that every Visa card will afford them the same security, protection, and access to global acceptance regardless of who issued it.

Visa uses a mechanism called interchange to maximize the benefits of the system, encourage participation in innovation, and ensure that the economics are appropriately balanced. Interchange makes the system run. It's the small amount of money retailers pay a cardholder's bank for every transaction. In part, interchange compensates the cardholder's bank for the value they provide to merchants and acquirers, and it motivates the cardholder bank to bring cardholders into the system. By helping balance the economics of the system, interchange is an effective incentive for banks to participate. It encourages investments in innovations that deliver consumer benefits like new products, rewards, and enhancements, while encouraging merchants to accept cards.

Visa's interest in setting interchange fees is to maintain the balance of the system. If interchange rates are set too high, merchants will stop accepting cards. If interchange rates are set too low, issuers will go uncompensated for the value they deliver to their cardholders, and the features that attract cardholders will be diminished. This in turn reduces cardholder participation and the value of Visa to merchants.

When setting rates, Visa considers a host of factors and sets rates to help promote overall system growth and growth in specific payment segments, and to reflect the value delivered to retailers and cardholders by payment type.

With that context in place, I'd like to address a few points about interchange and acceptance costs.

First, interchange is not the price a retailer pays to accept electronic payments. Retailers pay a merchant discount, and that rate is set by their acquiring bank or payment processor.

Importantly, interchange is not a Visa revenue stream. Visa's only goal is to set rates that maximize system participation from banks, cardholders, and merchants. Interchange rates paid by acquirers may vary based on type of card used, type of transaction, or type of retailer.

In 2008, Visa Canada introduced a change to its interchange structure that resulted in some transactions attracting a higher interchange rate and others attracting a lower rate. This was the first fundamental change we introduced to our rate structure in Canada in 30 years, and we provided more than a year's notice to our clients.

The overall effect of the change was neutral for the system, and Visa Canada's effective interchange rate has remained relatively flat for some time, at approximately 1.6%. Interchange rates in Canada are fully transparent and available on our website.

● (1710)

Some retailers argue that government intervention of interchange is needed. Visa believes that these attempts are not only wrong but are also harmful to consumers and other system participants, as I'm sure we'll discuss. The regulatory intervention sought by the retail lobby would unfairly pass merchant business expenses on to consumers. Such government intervention would result in fewer payment choices, a reduction in benefits for consumers, and possibly higher costs for consumers in their monthly statements or at the checkout counter.

This scenario has been tested in Australia, with harmful and unintended consequences for all parties. In Australia, where caps on interchange yields were imposed with the intention that the price of goods would go down, consumers have not seen the savings. What they have seen are fewer rewards and other benefits from their payment cards, along with the higher costs associated with surcharging at the checkout counter.

In addition, issuance of American Express cards increased because American Express was not subject to the same regulation as Visa and MasterCard. Not only did this create an unlevel playing field between American Express, Visa, and MasterCard, but ironically it resulted in more higher-cost American Express cards being used for payment at retailers. Government intervention in interchange is not the standard elsewhere in the world and should not be so in Canada.

Mr. Tim Wilson: Thank you, Bill.

As Bill discussed, interchange fosters competition and innovation. When it comes to debit, there is currently no competition in Canada, and without interchange, financial institutions have little incentive to invest in the system. The debit product offered today has served us well in some ways, but the dynamics of the global and Canadian payment landscapes are changing, as are the demands of the Canadian consumer.

The Visa debit card builds on the utility currently offered, and like today's bank card, it will be issued by a financial institution. It will allow you to withdraw money from a bank account at an ABM and buy goods at points-of-sale in Canada. But unlike today's bank card, Visa debit also allows you to use your debit card when shopping online, by telephone, or mail-order, or when travelling internationally.

I think it's also important to stress how the concept of choice applies to Visa debit in Canada. A competitive debit product that offers features and functionality not currently available in Canada will succeed because financial institutions see value in issuing cards, cardholders want to use it, and retailers choose to accept it.

Merchant groups campaigning for the regulation of interchange and against the introduction of an alternative debit product want to reduce their business costs. We respect the desire of any business to manage their expenses, but we do not believe that government intervention is the right solution in a functioning industry. Visa believes that the best way to balance the interests of merchants and consumers is to provide them with an array of payment options in an open and competitive market.

Ultimately we believe you are being asked to regulate what is fundamentally a business-to-business matter, and government intervention is inappropriate for this purpose. We recognize the importance of engaging with merchants and merchant associations, and over the past year we have made changes to the way we operate our business in Canada that have addressed many of the concerns highlighted by merchants.

We have heard the calls for disclosure and believe that Visa provides transparency through the publishing of our interchange rates and our operating regulations on our website. We have met with and continue to meet with the CFIB, the RCC, trade associations, and hundreds of individual retailers—both large and small—to help them understand our system and the value it provides, and to help them more effectively manage their costs of accepting payments.

We have also heard retailers' feedback regarding choice. In recognition of the unique environment in Canada, we have changed our rules so that retailers can choose not to accept Visa debit without impacting their acceptance of other Visa products, such as Visa credit.

Our interchange rates for Visa debit were reduced last year to reflect market feedback. They are now about half of what they would have been previously, and about one-fifth of our current rates on our credit products. The Visa debit rates also now include a fixed component, which Canadian retailers are accustomed to, and a reduced variable component that is less than one quarter of one percent.

I would also like to highlight that the financial institutions on either side of a Visa transaction are already subject to oversight, either federally or provincially. In addition, Visa itself is subject to the provisions of Canada's Competition Act. The Competition Act has recently been bolstered by a number of amendments that will enhance and strengthen the protection offered by competition law in Canada. The overall trend in Canada has been toward more deregulation of industries, with competition law increasingly recognized as the appropriate protector of both consumers and businesses.

Thank you. We are now happy to answer any questions you might have.

● (1715)

The Co-Chair (Mr. James Rajotte): Thank you very much, gentlemen.

We'll go to Mr. McTeague for a first round of seven minutes.

Hon. Dan McTeague: Mr. Chairman, thank you. I hope it's not used against my time—

The Co-Chair (Mr. James Rajotte): I'm sorry, I had Mr. McTeague, but it's Mr. McKay first.

Hon. John McKay: Thank you for coming tonight.

What was Visa Canada's profit last year?

Mr. Tim Wilson: I don't believe that's a number we are permitted to disclose, according to SEC regulations.

Hon. John McKay: SEC regulations?

Mr. Tim Wilson: I'd like to answer the question, but it's not a number that we disclose in our annual financial statements or quarterly statements.

Hon. John McKay: It's a publicly traded company?

Mr. Tim Wilson: Yes. We disclose profit and financial information down to the North American level, I believe, but not down to the level of the individual country.

Hon. John McKay: That's interesting. What kind of expectation would you have for return on equity?

Mr. Bill Sheedy: If it's helpful, we tend to not think about the company on a return-on-equity basis. There are a number of measures that we look at, earnings per share, revenue growth. I think the guidance that we provided to investors on a global basis is that we, on a long-run basis, expect to grow revenues 11% to 15% and grow earnings per share 20%.

As with most companies at the moment, the current economic challenges are depressing our results. But we're managing our expenses and doing what we can to continue to invest in the payment system and in opportunities, as Tim has laid out, such as debit and chip in Canada.

Hon. John McKay: Would that expectation of 11% to 15% or 20% return on shares apply to Canada? Would Canada be above that or below that?

Mr. Bill Sheedy: Visa wouldn't typically look at those kinds of revenue growth expectations or earnings per share expectations at a country level. I think we have said publicly that our North America business is more mature.

We've been in Canada much longer than we have in many markets around the globe. I think that our revenue growth here is less than what we would see in many markets around the globe.

Hon. John McKay: You stayed out of the debit card market particularly in Canada, but you've been in the debit card market in a lot of other countries. Could I suggest to you that you stayed out of the debit card market because the system here works pretty well and it's pretty cost-effective and you'd be heading into pretty serious competition headwinds, so you've practised in other countries and are now coming into Canada? Is that a fair observation?

Mr. Tim Wilson: It's partly correct in that we do have a debit system in Canada that has been very successful and has served Canadians well to date. However, as I mentioned, consumer needs are changing, transaction behaviours are changing. For example, consumers are starting to shop more online, and the current debit product doesn't allow them to do that ubiquitously. Our debit product would.

Hon. John McKay: I wasn't aware that my consumer needs were actually changing that much. I just thought it was a debit card system.

For argument's sake, let's say that you're correct, that there's more shopping online. Why wouldn't the response be, on the part of the folks who run the debit card system, simply to enhance their system, improve their fraud system, whatever? Why do Canadians need Visa or MasterCard doing debit?

● (1720)

Mr. Tim Wilson: I'm not familiar with the details of the Interac system, but as I understand it, it's challenging for them and challenging for retailers to roll out online acceptance in Canada, hence the reason it's only available at a limited number of merchants.

Hon. John McKay: If you find it challenging, you can imagine what we find it. This Byzantine system of following the bouncing ball around between a merchant down to a consumer and back again is a challenge at times.

Would you agree with the view that essentially cash subsidizes the credit system? Really, when a guy walks in with $100 to the merchant, the merchant gets $100. If he walks in with a cheap card, the merchant might get $99 or $98. If walks in with one of these fancy cards, he ends up with $95 or $96.

The irony of the whole exercise is that cash subsidizes credit. That doesn't sound quite right.

Mr. Bill Sheedy: I know Visa would not agree there's a cash subsidy. It's shocking to you, I know.

Some hon. members: Oh, oh!

Mr. Bill Sheedy: In fact, one of the things we talk quite a bit about with our merchant partners and have measured a number of times, as have a host of third parties, is that there are exceptional costs associated with handling cash; and I think that typically gets lost in the discussion.

Hon. John McKay: I'm sorry, you perform a bookkeeping function and you perform...I suppose there's not that much fraudulent cash that actually changes hands. I don't dispute that. But the irony of this whole exercise is that Canadians would be well advised to gas their cash and just go right to credit cards.

Mr. Bill Sheedy: My only point, Mr. McKay, is that when you look at the North American market in total, our research suggests that somewhere close to $3.6 trillion to $3.7 trillion a year is expended in cash transactions. Not only are those transactions very expensive for the merchants in terms of handling the cash at the point of sale, but there are also a lot of broader costs associated with non-electronic transactions.

Hon. John McKay: I don't disagree with your observation. I just wanted to state that as a bit of an irony.

I take it you're no great fans of regulatory intervention, particularly in Australia. So the big problem for those of us who might wish to do some regulation is that it's either going to be a very comprehensive regulatory system or nothing. I take it you folks would go with nothing. I say this because if we were to regulate fees, then you would move the interest rate; and if we regulated the interest rate, then you would move the time to pay. And if you do it to that, then you're going to do it to something else; you'll up the fees on the cards, or things of that nature.

Is that a fair observation?

Mr. Bill Sheedy: We respect that payments are very important to Canada. They're important to merchants; they're important to consumers; and they're certainly very important to the banks, our clients.

I don't think Visa has a problem with regulation. In fact, we live in a regulated industry, as my colleague has testified. I think what we see in front of us are examples such as Australia, where regulation, with price controls, and changes to network rules driven by one side of the equation, as opposed to the entire network benefit.... In our view, those types of regulatory steps are not in the best interests of the payment system.

The Co-Chair (Mr. James Rajotte): Thank you very much, Mr. McKay.

Monsieur Bouchard, s'il vous plaît, pour sept minutes.

[*Translation*]

Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ): Thank you, Mr. Chair.

I also wish to thank you for being here, as we approach the end of the day.

I do not know whether Mr. Wilson or Mr.Sheedy will answer this first question: how do you explain the fact that the credit card payment method is so popular, when the Bank of Canada has determined that it is the most costly way to pay a merchant?

[*English*]

Mr. Tim Wilson: I think that just looking at the cost of a particular system isn't taking a complete view of competition or the market.

So what I'd suggest is that there's perhaps a cost to accepting cards, as there is to accepting any form of payment like cash, but credit cards deliver tremendous value to both retailers and consumers. To consumers, they deliver convenience and speed. They allow consumers to have purchasing power in their wallet rather than rely on the amount of cash they're carrying around at a given point in time. They also have purchase protection features that benefit consumers. There are various charge-back rights, and there are other sorts of protection measures and insurances that come with cards and benefit consumers.

On the retailers' side, there's obviously the benefit of creating satisfied customers. We have many studies showing that consumers spend more at retailers when they're using their cards versus cash. It's a way for retailers to extend instant credit to their consumers, which allows smaller retailers who wouldn't be able to afford a credit program to compete more effectively with large retailers.

The final point I'd make is that it's a form of guaranteed payment. Retailers don't have to worry about fraudulent money; they don't have to worry about bounced cheques. They are guaranteed those funds, and guaranteed them generally within about two business days.

● (1725)

Mr. Bill Sheedy: If it's all right, I'd like to add one element to my colleague's answer.

I agree with Tim that when we look at costs, it misses the benefits. I also think that if we look back historically in Canada over the last 20 or 30 years, we see that most major retailers invested in their own store card programs. They issued their own credit programs because they knew that was how their consumers wanted to do transactions.

What has happened over the last couple of decades is that the cost and responsibility associated with administering those programs has moved to the banks. The banks are running those more effectively; they have lowered the costs associated with those card programs and are taking on the credit risks. And that is the cycle we're entering into now. It's a true cost that allows the merchants to invest their capital where it's more productive for them, and that's in the business of retailing.

[*Translation*]

Mr. Robert Bouchard: Would you agree that the interchange rate is currently being borne by the merchant but that it is passed on to the consumer without the latter being aware of it?

If these interchange fees were paid by the consumer rather than the merchant, do you think that credit card utilization practices would change? In other words, would there be a reduction in the use of credit cards because consumers would be paying for that rate directly? Consumers are paying anyway. Merchants are paying it but in reality they pass it on to the consumer.

Do you understand my question?

[*English*]

Mr. Bill Sheedy: I understand. It's a very good question.

I think part of what gets lost, as I'm sure the committee understands, is that this is a complex payment system, and consumers are very important constituencies here. They absolutely benefit from card acceptance; they receive rewards and other features associated with the card.

My concern with thinking that interchange is ultimately a consumer expense is that it's inconsistent with the flow. The flow of interchanges we've established moves from the acquiring financial institution to the issuing financial institution; but ultimately we know that the consumers and the merchants are the beneficiaries of the payment system. And if we think of that interchange on an indirect basis, as just a consumer expense, I think what gets lost is the operating efficiencies and the benefits to the merchants in servicing the customer the way they want to be serviced; to deliver products through efficient channels like the Internet or automated field dispensers; and to experience the benefits that many merchants experience, which is that consumers spend more in certain categories when they have access to unsecured credit lines.

[*Translation*]

Mr. Robert Bouchard: As a credit card company representative, how can you explain that for many years, associations of merchants, hotel owners and businesses that deal with credit cards did not complain, did not protest, but very recently, we have seen this sudden surge in demand that the government regulate this area?

In your opinion, what do you feel you've done to provoke these reactions and this action?

● (1730)

[*English*]

Mr. Bill Sheedy: I was just going to indicate that I appreciate that there's clearly an issue here. We wouldn't be having this hearing, we wouldn't be having these discussions, if there weren't. And in many of the exchanges that my colleague and I have had with merchants, we understand that many of the groups and merchants aren't pleased.

I think that as an industry, and certainly as a company, we can do a better job—and have done a better job—being more transparent with our rates and doing a better job explaining why we do what we do. I think that will help. I do think that over time, merchants have forgotten that the credit card network and the payments industry provide tremendous benefit to them. Increasingly, as the business has evolved and matured, they've focused less on the benefits and more on the dollars of expense.

The Co-Chair (Mr. James Rajotte): *Merci, Monsieur Bouchard.*

We'll go now to Mr. Dechert, please.

Mr. Bob Dechert (Mississauga—Erindale, CPC): Thank you, Mr. Chair, and welcome, gentlemen.

Our government understands the importance of small business to our economy. We understand that most merchants are small businesses. For example, that's one of the reasons we decreased the GST by 2%, which had a big benefit to retailers across Canada.

I certainly want to acknowledge the important role that Visa and MasterCard, and other credit card payment mechanisms, provide to enhancing the business and consumer spending, and therefore the success of merchants. We also acknowledge that consumer spending is a big part of the success of our economy. Of course, we want to do everything we can to encourage consumer spending to help bring us out of the current economic situation.

Having said that, I have some questions for you about your request to enter the debit market, and also some questions on the credit card side.

We heard from the Retail Council of Canada and the CFIB that the lowest-cost payment form that their members have access to is the debit payment mechanism. They showed us some statistics to show that. They also gave us some statistics on the percentage of consumers who have availability of using the Interac system and the debit system in Canada. Will the percentage of Canadian consumers who have access to debit increase if your company and, for example, MasterCard are allowed to enter this market? That's one question.

What will the effect of the entry of your company into this market be on the cost of transactions to merchants? We heard from MasterCard just a few minutes ago, and they told us their proposition for debit is a flat fee and lower than Interac rates. Is that your model as well?

The fourth question on this is, why would the retailers not want to have you enter the debit market if by entering the market you gave access to more consumers to the debit system, which is a lower-cost form of payment for them?

Mr. Tim Wilson: We believe that by entering the debit market in Canada we can bring value to both merchants and to consumers. There are a couple of reasons for that. On the consumer side, we bring the opportunity for increased functionality, as I mentioned, the opportunity to use the card online, for mail or telephone order, and in 170 different countries around the world, when people travel internationally, which is becoming more important as our economy becomes more globally integrated. So we bring functionality.

We also bring best-in-class fraud controls, the opportunity for banks to bring new security features to the debit cards they offer in Canada and to more effectively manage fraud.

On the retailer side, we offer, number one, the opportunity for them to provide choice to their consumers, to create satisfied customers, and also the benefits of bringing new technologies. So we have innovations, like what we call Visa payWave, a card that's just waved in front of a reader and requires no signature for transactions under $25 to $50. That can help retailers who operate in a small ticket environment, whose business model relies on quick throughput, to speed up that throughput and generate efficiencies.

● (1735)

Mr. Bob Dechert: Those are obviously some benefits to merchants. So why do you think the merchants are telling us that they don't want Visa and MasterCard to enter that space?

Mr. Tim Wilson: I think clearly, with the debit product in markets today, which has zero interchange and low fees, they feel it's—as you mentioned—the lowest-cost form of payment. We like to look at payment more broadly, and competition more broadly, in that we look at the value a product provides, not simply the price. It's like looking at the car market and comparing BMWs to Honda Civics. You pay more for one because you get increased features and functionality. We bring new features; we bring choice; we bring competition. We think that will deliver value.

Mr. Bob Dechert: On the fees, are you suggesting the same fee structure as MasterCard, or is your model different?

Mr. Tim Wilson: Ours is a hybrid fixed fee and percentage fee. It's a bit of both. It's a different model.

Mr. Bob Dechert: Okay.

Mr. Tim Wilson: We disclose all those rates on our website.

Mr. Bob Dechert: With respect to credit cards, you mentioned earlier that you can provide statistics that demonstrate that people purchase more if they have a premium card. Can you provide those statistics to the committee? I'd be very interested to see that. I asked the same question to the Retail Council of Canada, if they believe that consumers would actually spend more because they have a premium card as opposed to a card with fewer attributes, and they said they didn't believe it.

Mr. Tim Wilson: We can provide some statistics to the committee.

Mr. Bob Dechert: If that were true, you could presumably show that to the merchants, and they would want people to use those cards because they would spend more and perhaps be willing to pay a higher price.

Mr. Tim Wilson: Yes. We believe these are the highest-valued consumers to merchants. We set very specific spending or income thresholds for the cards to ensure that they are the most valuable customers. They spend the most and deliver the most value for retailers.

Mr. Bob Dechert: Would you say that's the justification for charging a higher interchange fee for processing that credit card?

Mr. Tim Wilson: It's part of it. These cards deliver more value—the primary factor we consider in setting interchange rates on the merchant side. We also mandate a higher level of features to banks. We require banks to put in additional features, which costs money on these cards, and because of those requirements, which are necessary to compete with American Express—the primary reason we launched the card—we need to provide the banks that issue the cards with a higher level of interchange to offset those increased costs.

Mr. Bob Dechert: Do consumers demand those extra reward attributes that you add to your card?

Mr. Tim Wilson: A number of studies show that rewards drive consumer spending higher.

The Co-Chair (Mr. James Rajotte): You have one last brief question, Mr. Dechert.

Mr. Bob Dechert: Do your merchant agreements restrict merchants from disclosing the fee structure they pay on any transaction?

Mr. Tim Wilson: We disclose our interchange fee structure on our website. Any consumer or merchant with access to the Internet can see it.

Mr. Bob Dechert: On their specific arrangement with Visa, are they allowed to disclose that to their customers?

Mr. Tim Wilson: A merchant's specific arrangement would be between it and its processor, it's acquirer. I'm not sure what their contracts require them to do in terms of confidentiality.

The Co-Chair (Mr. James Rajotte): Thank you, Mr. Dechert.

Mr. Thibeault, please.

Mr. Glenn Thibeault: Thank you, Mr. Chair.

Thank you, gentlemen, for coming today.

We've heard a lot about interchange fees. I believe there are 19 interchange fees out there, from what we've heard from our previous witnesses. They said they charge three specifically. Can you comment on those numbers, how you address those interchange fees, and what you charge merchants?

Mr. Tim Wilson: In Canada for Visa we have 21 different rates for credit cards. We have seven different rates for debit as well, and one for what we call prepaid cards. When we look at credit alone, there are three different card types. There are regular cards, what we call Infinite cards, and commercial cards. Each one attracts different rates in seven industry categories. There are three categories of cards and seven industry categories or transaction-type categories, so that gives us 21 rates. We believe that differentiation is necessary because we provide different value to different industries. For example, credit cards really enable the business of an online merchant, so they drive more value than for a grocery retailer, and the rates reflect that.

● (1740)

Mr. Glenn Thibeault: Classic Visa may have a set rate. The new infinity premium card may have a higher rate. What powers do merchants currently have to refuse to take the infinity card compared to a Classic Visa? Can they impose a surcharge when someone uses an infinity card?

Mr. Bill Sheedy: It's referred to as Visa Infinite.

My colleague made reference earlier to an honour-all-cards rule, and we have one that applies across the suite of credit products. A merchant makes a decision to accept Visa for credit, and they make a separate decision to accept Visa or not for debit.

Within that suite—and this is the way our business works— it's very important that if the Visa brand is on the door and the consumer goes to shop at that merchant location, every bit of experience we have suggests that the consumer needs to know whether their card is accepted or not. We have an honour-all-cards rule that if the merchant accepts Visa they need to accept the basic credit product and the Infinite product. That is a common choice they make.

We also have a rule for the consumer experience in much the same vein. When they show up at the point of transaction to buy a $100 sweater, they know that transaction is going to cost them $100. We think it's bad business for a consumer to experience a bait and switch—show up at the point of sale thinking they're going to make a $100 transaction and be surprised and disappointed that it will be that amount plus a surcharge. So we've had a rule from the beginning of the network that those transactions must be done at the face value of the transaction with no incremental amount applied.

Mr. Glenn Thibeault: So it's all or nothing, then, for the merchants. They can't decide that they only want to take Classic Visa. It's all or nothing.

Mr. Bill Sheedy: There is an option.

First of all, as it relates to the transaction amount and the decision to accept, that's a common decision. If the consumer presents a Visa Infinite card, and the card design is clearly laid out, then if the merchant wants to try to influence the consumer and ask for another form of payment, and provide a discount, for example, for cash, that's an option the merchant has. It isn't something that we see as being typical. Our experience is that merchants, when the consumer shows up at the point of sale with goods, want to transact; they want to move quickly. So we really don't see much of a merchant demand for that type of exchange with the consumer at the point of sale.

Mr. Glenn Thibeault: So if I'm a small merchant, I can choose right now to say a 2% reduction on product X if you pay with cash. And that wouldn't infringe on any of the contracts they've signed to have credit cards.

Mr. Bill Sheedy: We certainly can't speak to the contracts that merchants have with their banks. I can speak to the rules that Visa has, as a network. And we do not prohibit a bank and a merchant to have a relationship where they discount transactions for cash.

Mr. Tim Wilson: Perhaps I'll just add to that. I've also spoken with all of the major acquirers in the Canadian market about those contracts, asked them that question, and as I understand it, none of the contracts out there currently prohibit them from offering discounts on cash.

Mr. Glenn Thibeault: We've also heard that it might be viable for businesses not to take credit cards. On Tuesday, many of the witnesses said that wouldn't be a good idea, that the world is not set up that way anymore.

How can businesses say they're not going to accept credit cards—94% dominated by you and MasterCard? So 70% of the customers are coming in, but they have no choice when it comes to the rate they're going to pay when consumers use premium cards. Where is the fairness for both the consumer and the merchant in that? They have no choice.

Mr. Bill Sheedy: On the 70% statistic, I suspect it's possible that there are merchants out there who see that kind of concentration. Clearly, merchants who decide to set up shop on the Internet are able to do so because of the billions of dollars of investments that have been made in the card networks...so a high concentration of their business because of a high concentration of value.

If we look at other segments, like the quick service restaurant category, fast food, our penetration of that business is 2.7%. But we've heard publicly from McDonald's, as an example, that they like to accept cards because consumers spend more and they move quicker at the point of transaction.

It's difficult for us to respond to any particular merchant who expresses an appetite to accept or not accept cards. But our experience is that we have different penetration levels and different value propositions by the merchant segment, and that's reflected in the products that we bring to market and the interchange rate structures we've discussed.

● (1745)

The Co-Chair (Mr. James Rajotte): Last question, very briefly.

Mr. Glenn Thibeault: Very briefly, could a merchant, if they so decide, leave a contract early? Or is there a penalty if they were to leave, and what would the penalty be?

Mr. Bill Sheedy: I think we've mentioned that our relationship is with the banks. They are our clients. The merchants and the cardholders are important constituencies, but the contracts that merchants have are with their banks. We, as a network, don't impose any restrictions or any penalties as they relate to merchant contracts.

The Co-Chair (Mr. James Rajotte): Thank you.

We'll go now to Mr. McTeague, for a five-minute round, please. It'll be Mr. McTeague, and then Mr. McCallum.

Hon. Dan McTeague: Mr. Chair, thank you.

I just received information here from my researchers, as well. The MasterCard interchange rate is not as public as stated. In fact, it requires you to fill in an e-mail. For those interested in learning, it'll take several weeks for it to get back to you. I'm very concerned about that.

And on the issue of transparency, while it was nice and refreshing to see you have those made very public, the reality for most merchants is that they have no idea what those rates mean when that card is presented. I believe all of our colleagues here have talked about this. This is part of the frustration.

Visa happens to be not simply an important player, it happens to be, for many people, the player as far as credit cards are concerned. I appreciate your comments about Amex, but I have a feeling that Visa is infinitely bigger. It has a substantial chunk of the market. And therefore, in many respects, you're the leader.

Mr. Sheedy, earlier in discussions, with reference to the question by Mr. McKay, you had suggested that credit is sometimes more competitive than cash, and of course, you had suggested as well, arrangements. I have a discussion paper, "Merchant Acceptance, Costs, and Perceptions of Retail Payments: A Canadian Survey", from December 12. On a $36.50 transaction, the cost to the merchant is 25¢ for cash, 19¢ for debit, and at that time 82¢ for credit. I'll leave you to look at that. I realize this is a lot to provide, but I thought that was a rather startling comment by you, given the facts of the Bank of Canada.

I want to ask a question. Visa Inc. is your parent company. Is that correct?

Mr. Bill Sheedy: That's correct.

Hon. Dan McTeague: I believe you may recall the former vice-president and assistant counsel for Visa International and Visa U.S. A., Broox Peterson, who described the system in the following fashion. You're probably familiar with the quote, but for those who have not heard this before, it might come as something of a surprise: "Issuers began to view the interchange reimbursement fee not as a revenue allocation mechanism to ensure success of the system, but as a demand-driven pricing scheme to collect as much revenue from merchants as the market would bear." Do you agree with that characterization?

Mr. Bill Sheedy: I wouldn't describe interchange fees that way. As I think we've testified already today, there are many objectives and many considerations that we look at in setting interchange fees.

Certainly there is the value proposition to the merchant community relative to cash. We have a General Accountability Office study that looked at the processing of payments in the postal service in the United States and found that we were lower cost. I think the value proposition versus American Express is important to look at. But there's also the cost structure that our issuers incur, not only in funding rewards, as we've talked about, on premium products, but also the credit risk exposure and the costs of marketing and customer service, and the infrastructure investments made to lower costs, to lower risks, and to lower fraud. All of these things are factored into interchange. But if we step back, it really isn't a mechanism to try to extract value.

Visa, as a for-profit company, is trying to drive as many transactions over our network as possible. We establish an interchange fee not with the issuers in mind, not with the merchants or the acquirers in mind, but we set interchange rates to try to drive as many transactions over our network. And if we could do that through lower interchange rates, we would do that; and if we could do that through higher interchange rates, we'd have the incentive to do that.

Right now, we think our current interchange rate structure works. It could change tomorrow, based on market dynamics, and that's our concern as it relates to regulation—our ability to respond to market dynamics with our interchange structure.

● (1750)

Hon. Dan McTeague: Our concern is small business going in the very opposite direction to what you had suggested, that they're going to lose their shirts, given the margins and the way consumers are being impacted. The introduction of Infinite cards may be of benefit to people who can afford them, but consumers ultimately wind up paying for these. Why should a person buying a bag of milk or a can of Spam somewhere have to pay for someone else's rewards? I think this is the concern that Canadians and merchants are bringing to bear as a result of the changes you've offered.

The Co-Chair (Mr. James Rajotte): Okay, just ask a brief question.

Hon. Dan McTeague: On the issue of debit, your company justifies and wants to look at the issue of *ad valorem* fees. The Interac system in Canada is the second most used Interac system in the world after Sweden, so why do you believe the system is not working? More importantly, why would you introduce *ad valorem* fees when in fact there really isn't much involved other than opening and shutting an account?

The Co-Chair (Mr. James Rajotte): Okay, just a brief response, please, Mr. Wilson.

Mr. Tim Wilson: We think the system is working in some ways with the current debit products in Canada, but we think there are additional ways that consumers could use those cards. For example, they could use them online and when travelling around the world.

We also think there is an issue with fraud on the cards. If we benchmark Interac's fraud rates against our experience in other markets, we see material differences in those fraud rates.

Hon. Dan McTeague: Chair, I just want a clarification from you.

We've heard from previous testimony that in fact the liability on debit would be changed to the merchants. I don't understand how fraud and liability questions really play in here, when in fact it's the merchants who are ultimately going to have to play this.

Thank you, Chair.

The Co-Chair (Mr. James Rajotte): It's a fair point, Mr. McTeague, but we will have another round for the Liberal Party.

Monsieur Laforest, s'il vous plaît.

[*Translation*]

Mr. Jean-Yves Laforest: Thank you, Mr. Chairman.

Good afternoon, gentlemen.

In response to a question by Mr. McTeague earlier on, the representative for MasterCard said that their company will make a special offer solely to members of the Canadian Federation of Independent Business. These are not members of the coalitions of Quebec and Canadian merchants who came here in great numbers and who represent 250,000 businesses.

Is Visa considering proceeding the same way, that is making special offers, reducing rates, but only for members of the Canadian Federation of Independent Business? Or will you be making that offer to all merchants, and among others, those of the Canadian and Quebec coalitions?

Mr. Tim Wilson: Thank you for the question.

[*English*]

It's not in our current plans to offer a preferential rate to members of the CFIB. It's something we could evaluate down the road. We always take into account what's happening in the market, the feedback we're hearing, and then incorporate that into future rate plans.

What I will point out vis-à-vis the RCC is that ultimately what a merchant pays is a function of the agreement they have with their processor. Both the RCC and the CFIB have used their aggregated buying power to negotiate preferential rates with one of the acquirers in the market.

[*Translation*]

Mr. Jean-Yves Laforest: What I mean is that MasterCard seems to have taken advantage of its dominant position in the market to say that it will offer a preferential rate solely to members of the Canadian Federation of Independent Business. That organization, among others, did not call into question the various procedures used by Visa and by the system. There are two major companies in the market. There's also American Express. However, on the whole, there is Visa and MasterCard.

When MasterCard responds in this way, it more or less twists the arm of people who came here to ask questions about the system in a very legitimate manner.

Will you also be taking a similar course of action? For my part, I feel that what MasterCard referred to earlier is indecent.

[*English*]

Mr. Tim Wilson: Again, it could be in our future plans. We will take into account the feedback we hear in the market in determining future interchange rate changes.

What I would point out is that the system already delivers significant benefits to small merchants, in that it creates what we like to refer to as a level playing field. So a small merchant who sells $500 a year on Visa products attracts the same interchange rate as most of the major merchants in the country do. It's one of the benefits of our system that small merchants are able to realize.

● (1755)

[*Translation*]

Mr. Jean-Yves Laforest: I have another question for you.

Earlier, Mr. McKay asked you what your annual sales were. You're saying that you can't make all these figures about your company public.

Can you at least tell us whether your profits have increased these past few years, and if so, by how much?

[*English*]

Mr. Tim Wilson: What we can disclose is that our profit up to the year 2006, I believe.... Or what I can say is that up to that point we were a not-for-profit. Visa Canada was a not-for-profit association. Our goal was to break even. In some years we made a little bit of money by accident; in other years we lost a little bit of money by accident. That's the last year for which we can disclose the numbers.

[*Translation*]

Mr. Jean-Yves Laforest: Is it not passing strange that you can only disclose figures from before 2006? The retailers who appeared before us are saying that it's been a little over a year and with the arrival of premium cards that rates have increased very clearly.

It seems strange to me that you can't at least tell us whether your company profits have increased since you've been part of the system and are no longer a non-profit corporation.

[*English*]

The Co-Chair (Mr. James Rajotte): Be very brief.

Mr. Bill Sheedy: Thank you.

There may be some confusion, in that when a transaction moves from a basic credit card to a Visa Infinite card, it's a different value proposition for the consumer. We've already established that it's a slightly different interchange fee, about 20 basis points higher. But the transaction, if it comes through our network, is the same revenue to Visa.

[*Translation*]

Mr. Jean-Yves Laforest: That does not answer my question. Have profits...

[*English*]

The Co-Chair (Mr. James Rajotte): *Monsieur Laforest*, unfortunately, we're over your time.

We'll go to Mr. Van Kesteren, please.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Mr. Chair.

Thank you for appearing before us today. I don't think there are many questions left. We've beaten this thing up pretty well to death. But I have a few.

Indulge me, in case it's been asked before, but who assumes the risk of card theft?

Mr. Tim Wilson: The risk of fraud associated with card theft is borne by the bank that issues the cards—and that's the same for debit as it is for credit.

Mr. Dave Van Kesteren: I see. So just one more time, you get paid then through that transaction, that 2¢ or that 1¢ or whatever. Is that basically how you get paid?

Mr. Tim Wilson: The business model for Visa is that for every transaction that comes across the network, we get a click fee. There's also a portion of our revenue stream that comes from licensing fees, which banks pay us for the amount of volume that hits their card-issuing portfolio or hits the merchant portfolio.

But to reiterate, the interchange fee is not a portion of our revenue.

Mr. Dave Van Kesteren: I mentioned this on Tuesday, but I think it bears repeating: plastic has revolutionized the retail industry. Mr. Dechert asked a similar question, but I'm looking for something a little bit different. Do you have statistics to show how the increased use of plastic has affected the marketplace?

Mr. Tim Wilson: One interesting statistic we can share is from a 2006 study done by the economics firm Global Insight. In that study they looked at growth in Canadian GDP from 1996 to 2006. They estimated that $122 billion of GDP was contributed by electronic payments, which represented 20% of total growth during that period.

Mr. Dave Van Kesteren: That's the one I'd like to see. I wonder if you could provide us with that as well.

Mr. Bernier was alluding to the fact, hypothetically speaking, that this is somewhat of a schoolyard brawl. Is this something you can straighten out amongst yourselves? Is there a real desire to do that from your industry?

Mr. Bill Sheedy: There is a real desire. As I believe I testified previously, we understand that there's an issue here. When you have a client base of merchants who are not pleased and are coming to Ottawa to discuss with you the problems with our industry, that's a sign it's not working.

That being said, I think there are other signs that can be looked at. Over the last decade we've seen that more and more merchants are accepting cards, and more and more consumers are using them. There are also signs, via the Global Insight study my colleague referenced, that electronic payments are driving economic benefit and efficiency.

I think there's an opportunity to work more cooperatively with the merchants. We will continue to look for ways to improve our transparency and business practices to meet their needs. However, I'd like to be clear that at the end of the day there is a commercial tension here. A value is being provided to merchants, and there's a cost associated with that value. In the realm of business, I don't think the merchant community will ever say they're happy with the fees they pay for that value.

● (1800)

Mr. Dave Van Kesteren: I come from a retail business myself, and every year we wrote off literally thousands of dollars of bad debts. That was probably the case, depending on the type of business, but that has pretty much been erased. So in your defence, I think we all agree that the service you provide is incredibly important to our economy. We would very much like to see that sort of resolution take place.

There was a concern about Interac, in that the new cards would have the ability to completely overtake it. What assurances do we have that this is not the direction Visa and MasterCard are going in?

The Co-Chair (Mr. James Rajotte): Please answer very briefly.

Mr. Tim Wilson: We're planning to offer choice at multiple levels. The way our product is designed, Interac and Visa are on the same piece of plastic. Consumers will have the choice with every transaction, whether they want to process it over the Interac network or the Visa network. But they will only have that choice if the merchant where they're shopping has agreed to accept Visa debit. So we've also built in a level of choice for merchants. They can opt out of Visa debit and decide not to accept it, again without impacting their acceptance of other Visa products.

The Co-Chair (Mr. James Rajotte): Thank you.

I'll go to Mr. Garneau, please.

Mr. Marc Garneau: Thank you, Mr. Chair.

We don't know what your profit was in Canada last year, but it seems to me it's an important part of understanding the whole equation. I'd like to have your reaction to the following proposition.

Perhaps I have it wrong, but it seems to me you currently have enough control over the fee structure that, by knowing the number of transactions to reasonably expect in the coming year, their value, and essentially working backwards, you can achieve a certain profit level by setting the transaction fee accordingly. I'd like to have your reaction to that, given that we don't have a highly competitive situation here in Canada and you and MasterCard essentially dominate the market.

Mr. Tim Wilson: If you'll allow me a liberty for a moment, I think what I'm hearing behind a lot of these questions is a connection between the fees that merchants pay or interchange and Visa's profitability. I think we need to reiterate that Visa charges fees to acquirers and issuers for the services they receive from us and for transactions.

Interchange is separate. It's outside of that. We don't take a cut. If the concern is about interchange rising as Visa went public and that's the reason for probing behind the profitability, what I can refer you to is a graph that was distributed showing that from 2001 through 2008, and even in the latest monthly data we have on interchange, our rate has remained effectively flat at 1.6%. According to our data, there are no skyrocketing interchange fees. There's no increase in interchange tied to the timing of our IPO.

So ultimately, our profitability doesn't directly impact acquirers or pricing to merchants per se, if that is the line of questioning.

Mr. Bill Sheedy: I'd like to add to my colleague's response.

As private company, a for-profit company, we believe we've been able to be more efficient. We've been able to move capital in investment into the network that was impossible before, and we are driving more services that reduce risk and drive more functionality to cardholders and merchants than we were able to before as an association. So the resources available to us are greater, and to operate as a global company, it's also incredibly important for us to continue to maintain a Canadian presence with a Canadian management team.

So we think the model works better today. And on Tim's point, interchange rates have been flat, and we don't see that changing.

● (1805)

Mr. Marc Garneau: Thank you very much.

You said in your opening remarks that the regulatory intervention sought by the retail lobby would unfairly pass merchant business expense on to consumers. You also say there'd be few payment choices, a reduction in benefits for consumers, and possibly higher costs for consumers in their monthly statement or at the checkout counter, and you talk about the Australian example.

Certainly, statistics we have here show that the number of credit card accounts has continued to increase in Australia, the number of credit card interchanges has continued to increase, as has the value of credit card transactions. So I'm having a little bit of a problem with that.

You go on to say that there would be fewer rewards. I'm not sure what fewer rewards really mean to the average person who has the card and how important that is to them. You say there would be fewer benefits from their payment cards—and again, I'm not sure how tangible that is to the person—along with higher costs associated with surcharging at the checkout counter.

I'd like to have a little bit more meat on the bones as to why you're making all these assertions.

Mr. Bill Sheedy: Australia is a great example, and I appreciate that it's a confusing one. Even though there has been regulation that we think is bad—and I'll talk about the downside of the regulation in Australia—there continues to be a secular shift as consumers change their spending patterns away from cash and cheque to electronic payments. That has occurred in Australia, no question. We have continued to see transaction growth. But what has happened is that our higher-cost competitor, who has not been regulated, is growing faster now. Consumers are seeing higher fees from their banks, and there has been a change that wasn't anticipated by the RBA when they rolled out these changes, where the value proposition, the features associated with those cards, has diminished.

We were only trying to point out that through price controls in Australia you have seen an unlevel playing field, where a higher-priced competitor is getting a leg up. You've seen consumer features go down and fees go up, and you've seen certain merchants introduce surcharges where they're trying to earn profit through the surcharge. We think all of that is bad for the payment system and we think it would be an odd set of objectives for regulation.

The Co-Chair (Mr. James Rajotte): Thank you, Mr. Garneau.

Monsieur Bernier, s'il vous plaît.

[*Translation*]

Hon. Maxime Bernier: Thank you, Mr. Chairman.

I would like to take this opportunity to ask a question about the competition in your sector.

Are there any barriers at the outset for a new player who might offer Canadian consumers the same products? Are there any significant obstacles to any company that wants to enter your industry?

[*English*]

Mr. Bill Sheedy: It's a difficult question, because we've been at this for fifty years. We've built what we think is a wonderful brand, invested billions of dollars, and have 30 million merchants that accept Visa globally. Do I think someone can come along and replicate that quickly? No, but there are a couple of things that I want to point out.

We do see new entrants in our business all the time. PayPal had almost no position five years ago; now it has almost 5% of the e-commerce business on the Internet. They've done a wonderful job and have challenged the way we think about innovation and investment in that channel. Likewise, MasterCard, American Express, and domestic debit schemes such as Interac are vigorous and challenging competitors that keep us on our toes.

The thing that I think gets lost sometimes in our business model is that when you think about interchange, it is a flow from an acquiring financial institution to an issuing financial institution, but it's not just one issuing financial institution. The same revenue steam goes to multiple financial institutions, and even though all the cards may be branded “Visa” in our system, they're all competing with one another for the consumer's business. Through that competition, the consumer wins in lower fees and better features. So we think the competition that sits within the network and across all the banks is healthy, and we do see new entrants that change the way we think about payments and change the way consumers value payments.

● (1810)

[*Translation*]

Hon. Maxime Bernier: The fact that you hold such a significant market share is to your advantage, because you have responded to consumer needs. You served consumers to maintain their loyalty. You are competing with other companies, but you are also competing with other substitute products, such as cash payment. I commend you on your business model, because you do indeed respond to a need among Canadians.

I would like to ask you about interchange fees. Are they a fee for using debit cards?

[*English*]

Mr. Tim Wilson: There will be an interchange fee on debit transactions in Canada, and again, we've disclosed what those fees will be on our website. It's a combination of fixed and variable rates.

[*Translation*]

Hon. Maxime Bernier: Is your desire to enter the debit card market part of your business plan? Is that an organizational decision you made? Do you plan on doing this over the coming months or would you need a regulatory authorization to do so?

[*English*]

Mr. Tim Wilson: We don't, as we understand it, need regulatory authorization to enter the debit market; in fact, we've been trying to do that for almost a decade now. We didn't have the right interchange pricing to make it an attractive product for either merchants or the banks that issued cards before. We didn't have a product design that was appealing to them, so we were never successful. It was only over the past year that we developed a product and a value proposition that has appeal, we think, to both merchants and the banks that issue the cards.

[*Translation*]

The Co-Chair (Mr. James Rajotte): You have 30 seconds left.

Hon. Maxime Bernier: If my colleagues and I have understood correctly, there is no code of conduct within the industry. Earlier, you said it is somewhat unfortunate for you to have to be here, to come before committee members in order to meet your clients' needs. Your company wants to both make a profit and satisfy consumers. I think this is not the appropriate forum to meet the needs of consumers.

The Co-Chair (Mr. James Rajotte): Your question, please.

The Hon. Maxime Bernier: Will your industry soon have a code of ethics?

[*English*]

The Co-Chair (Mr. James Rajotte): Go ahead, very briefly.

Mr. Bill Sheedy: There are a couple of things.

My comments earlier were referring to the challenges with the merchant community. I think you've heard from merchants that are not pleased, and we do think that's a problem. We think the consumers, the cardholders, that you refer to in your question are very pleased with the way their cards work at the point of sale. There are clearly some challenges that the industry is going through with credit losses. I think that issue is being addressed.

I do think that the industry can do better, but I think that's something the banks will handle, and it will improve.

The Co-Chair (Mr. James Rajotte): Thank you.

We'll go to Mr. McKay, please.

Hon. John McKay: This is actually "Mr. McKeague"—we're going to split the time.

Mr. Laforest and I have been trying to figure out profit here. You have been playing a noble game of dodge ball. But you also said something quite interesting—that you see it as sort of a North American market. Does that mean Canadians are effectively paying for the financial train wreck down in the United States?

Mr. Bill Sheedy: No.

Hon. John McKay: So you must separate the two.

Mr. Bill Sheedy: First of all, we are a payments network. We don't take credit risk. Many of our banks are having challenges in the U.S. and elsewhere, but the investments we have made in Canada have increased with the restructuring and going public, and there is no cross-subsidization.

● (1815)

Hon. John McKay: But Americans generally carry higher balances on their cards and default more frequently. Somehow that has to wash through your profit margins, and indirectly we end up paying for credit excesses in the U.S.

Mr. Bill Sheedy: I think I understand the confusion.

The revenue streams that we as a company earn are for transactions that come over the network. The difficulty around credit quality and balances on cards is a matter for the banks and really has nothing to do with the way Visa operates in the U.S. or in Canada.

Hon. John McKay: My final question has to do with the features you keep talking about. You should try to book an Aeroplan ticket some time. The last one we booked was two weeks ago, and it took my wife three hours.

Anyway, I'll pass it over to Mr. McTeague.

Hon. Dan McTeague: That's why I drive. But as I'm driving, I'm going to run into a lot of merchants along the way who are going to tell me that despite what you've just said about low-cost fees, the reality is that fewer and fewer of those cards are being distributed as you indiscriminately provide opportunities for people to receive rewards on the higher-premium, Infinite-type cards.

You say the merchants are coming to you, and I appreciate that you've talked to the RCC and a whole host of others, and you've taken a more diplomatic and high-road approach. But it almost sounds as if you might want to revisit the record.

Interchange fees are on the way up for merchants as a result of that new card being chosen by more and more—advocated by you and the banks. The merchant ultimately has to pay. I'm looking at the example of Giant Tiger, which came before the committee—0% to 30% in the span of a year and a half. I'm looking at small independents that can't afford them, especially when the price of gasoline goes up, and are very concerned about this.

Can you be specific about this? Do you not acknowledge that interchange fees, which you are responsible for, are heading up and having a devastating impact on merchants and ultimately consumers, who wind up paying for this at the grocery store, as an example?

Mr. Bill Sheedy: Since you directed the question to me, I'll start. I'm sure my colleague can add even more specifics.

We absolutely have seen an increase in business on Visa Infinite and rewards-based cards. We've testified that there are higher interchange rates. They are one-fifth higher, so they're 20 basis points higher than our core credit product. But we've also testified that as we saw that trend develop—and it's in less than 10% of our accounts in Canada—and introduced slightly higher interchange rates on Visa Infinite, we also lowered interchange rates elsewhere. So across the Visa system in Canada the rates have been flat at 1.6%.

Hon. Dan McTeague: But that's the concern I have. You're lowering it on cards that people no longer use, that are no longer distributed. In other words, people are choosing to use the better, higher-reward cards, and merchants have no idea they're being used. You know there's been a drop in those numbers, and your so-called core rate is irrelevant because it's disappearing rapidly.

Mr. Bill Sheedy: Thank you for the clarification. I should have made it more clear in my response.

The 1.6% I'm referring to is a weighted average number. It's not off the rates sheet; it's based on usage. It's all the rates times the volume, and it reflects all the volume shifts we've referred to in this testimony.

Hon. Dan McTeague: Thank you, Mr. Sheedy.

Thank you, Chair.

The Co-Chair (Mr. James Rajotte): Thank you, Mr. McTeague.

We'll go to Mr. Lake.

Mr. Mike Lake: Anyone who watches TV has seen this ad for Visa. There are two women shopping. One has the 2% cashback card, and on her $100 purchase she gets $2. The other woman apparently doesn't.

Who decides to offer that benefit?

Mr. Tim Wilson: That's a decision the bank that issues the card would have made themselves. They're the ones who run the ad.

You point out that ad, and it's a card that does offer richer rewards to the consumer, but interestingly, that is not a Visa Infinite card. So it does not attract a higher interchange rate. It was the issuer's decision to manage the business with compressed margins because of the higher rewards in order to gain more cardholders. Our cards that attract a higher Infinite rate, I should highlight, are very clearly labelled Visa Infinite, so that a merchant understands when they're seeing a card that it does attract the higher rate.

● (1820)

Mr. Mike Lake: I find that comment interesting in light of Mr. Sheedy's earlier comment. One of the reasons you said a merchant can't opt out of an Infinite card is because the Visa brand is on the door and people walk up and expect to be able to use a Visa card. Yet you also said that you're going to differentiate with the Visa debit product, and they can opt out of that. You have Visa products, and I imagine one would just have word “debit” after it. Someone walking up with their Visa card might expect to be able to use their debit card and be told no.

Why can't the same opt-out clause be included for Visa Infinite, which you just identified is clearly labelled Visa Infinite?

Mr. Bill Sheedy: That's a very good question and it's one that we struggle with quite a bit. I should mention, and I think I've testified, that Visa is accepted in 170 countries globally, and in the vast majority of those countries we have an honour-all-cards rule that applies to Visa, the brand. For any card product, any flavour of Visa that has Visa on the card, then merchants make a decision to accept all flavours of Visa or not, debit included.

What have we done in Canada? Since we have such a well-established credit business here and we are coming late to the debit business in Canada, we felt that consumers' perceptions around debit, when we introduced it under the Visa brand, would be clear enough that we could communicate to the consumer and the merchant in a way to minimize market confusion around the launch of Visa debit, so the decision was made that we could offer that choice. It would be beneficial to the merchants to be able to make that difference and choose whether or not to accept Visa debit.

Mr. Tim Wilson: I would like to add on to that.

You made an interesting observation about the Visa logo being posted in the store. We also have a requirement in Canada that when a merchant does make the decision to accept debit, a little debit tag be added below the Visa logo so that acceptance decisions are clear to consumers and there's no confusion.

Mr. Mike Lake: Once again, I'm not quite sure I understand why you couldn't do the same thing with Infinite, given that your merchants have expressed concern in that regard. You talked about value to merchants and this premium card. I think that “value to merchants” is what you said. But shouldn't that assessment of value be made by the merchants themselves, as opposed to your saying that there's value? They're saying there's not, and you're saying there is. Shouldn't that be their decision?

Mr. Bill Sheedy: It's a fair question. I think the challenge is in the level of complexity and what can be achieved over nearly 30 million cardholders and 700,000 merchant locations. We have corporate cards that companies carry, we have cards that government employees carry, small businesses, Infinite cards, and core credit products. How many flavours of options could you provide at the point of sale without confusing the consumer?

In our experience—and we've been at this for quite some time—the Visa brand means acceptance, it means utility, and we feel that it's important that credit card holders, all flavours, know that they can use their card when they shop at the point of sale. If we were to go more granular within the credit category, it would confuse the consumer and result in our not being competitive with MasterCard, American Express, and other forms of payment.

The Co-Chair (Mr. James Rajotte): You have 20 seconds. One last question.

Mr. Mike Lake: What you expressed is a very practical problem, and I totally understand it, but isn't that your problem and not the merchant's? The fact that there are all sorts of Visa brands and confusion, isn't that your business problem?

Mr. Bill Sheedy: I don't necessarily think about it as our problem. I think about it as a Visa brand promise and what it means.

Mr. Mike Lake: If you force them to take it, then it's not your problem.

Mr. Bill Sheedy: I do think that merchants benefit when consumers shop and have confidence with their Visa card at the point of sale. I think this is a benefit that goes to merchants. I can appreciate that at certain times they might want choice, and we try to give that to them when it's practical. But I think merchants are benefiting from the system every bit as much as cardholders do.

The Co-Chair (Mr. James Rajotte): Thank you.

We'll go to Mr. Thibeault, please.

Mr. Glenn Thibeault: Thank you, Mr. Chair.

I need some clarification and so I'll use a situation.

Suppose someone buys $100 worth of product or service from a merchant with a 2% interchange rate. Where does that two dollars go? Who gets what amount of that two bucks?

Mr. Bill Sheedy: I understand the question. I think we've already established that the 2% in your example is a bit higher than our average, but I feel compelled to point that out.

That $2 flows directly from the bank that has the relationship with the merchant—the acquirer, in our vernacular—straight through to the issuer. So it is a revenue stream to the issuer.

● (1825)

Mr. Glenn Thibeault: You've stated that you don't receive any revenue from the interchange fee at all. You don't get your cut, I think, is what I've heard. So why does your company impose the initial interchange rate in the first place?

Mr. Bill Sheedy: I believe I've testified, and I'm happy to go over it.

The interchange rate structure is quite simple. We want to provide a rate structure that motivates banks to participate in issuing the cards, promoting them, and investing in innovation, along with a rate structure where, when banks sign up merchants, they can have a set of economics that are saleable to the merchant community to accept. The network works when cardholders see that merchants want to accept it and merchants see that cardholders want to use it. So it's that balancing act that we try to achieve when we establish the rate structure.

Mr. Glenn Thibeault: Great. Thank you.

Jumping back to premium cards, can you talk a little bit about the basis upon which you decide a consumer is worthy of a pre-authorized premium card?

Mr. Tim Wilson: We've set very specific criteria around who would qualify for an Infinite card. It can be either an income test or a spending test, depending on the information that the issuer of the card has to work with. The cardholder would either have to spend a minimum of $30,000 per year on the card or, if we look at income, earn a minimum of $60,000 individual income or $100,000 household income.

Mr. Glenn Thibeault: I have numerous examples in my office of seniors who are on a fixed income nowhere near that amount, who have Visa premium cards. I have another example—and I'm sure there are faults in the system—of a 17-year-old having a premium card, who has a 10-hour-a-week job at a local fast-food restaurant. There is a huge push, as we've heard from the CFIB and other organizations, to get these premium cards out there, and people are not having the choice anymore to keep a Visa Classic or one of the lower-interest Visas.

Mr. Tim Wilson: I would suggest that there is probably some misconception in the market about what a premium card is. I encourage you to look at the card and look for the words “Visa Infinite”. That denotes a premium card with higher interchange that has the specific qualification criteria attached to it. Other cards may look like premium cards. I've heard people assume that cards with the new chip technology are premium, that any cards with rewards on them are premium—for example, the ad that Mr. Lake referred to —but those in fact aren't cards that require cardholders to meet the specific criteria that we've defined for Infinite.

The Co-Chair (Mr. James Rajotte): You have one minute, Mr. Thibeault.

Mr. Glenn Thibeault: I have one minute now, and one of the things I tried to bring up in the last session was charities. We've talked a lot about retailers. As a former executive director of the United Way in Sudbury, I've often seen the goodwill of someone giving us $100 and then losing a portion of that to pay the fees.

CanadaHelps has brought here that it has gone from 1.6% in 2003 to 2.1% in 2009. They're having a hard time understanding why credit card companies must extract increasing annual profit from the goodwill donations of Canadians.

Do you have any comments on that?

The Co-Chair (Mr. James Rajotte): Just briefly, Mr. Wilson.

Mr. Tim Wilson: I'd offer two comments. One is that for charities that have recurring monthly donations we offer a special rate that we call a recurring payments rate. The second comment is that cards deliver tremendous value to charities. They allow them to extend their reach and generate cost efficiencies.

I reflect back two weeks to my son's fourth birthday party. We decided we didn't want toys. We decided to set up a giving program at SickKids hospital. It wouldn't have been possible without the existence of credit cards. The $700 of donations that he generated through that program would possibly not have ended up with SickKids had we not had cards.

The Co-Chair (Mr. James Rajotte): Thank you, Mr. Thibeault.

We're nearly out of time. We have one Liberal spot, and they've graciously agreed to allow me to ask a couple of questions.

An hon. member: Let the record show....

The Co-Chair (Mr. James Rajotte): There are a couple of things here that are still not clear. The first is that the interchange fee is set by Visa, as you state here in your documents, but it's not revenue to Visa. So why do you set a fee that you do not collect?

Mr. Bill Sheedy: Very simply, the reason we set the fee is to encourage network participation from the banks. We want banks to be active in marketing their services and signing up merchants. We want banks to be active in issuing cards and promoting cards to consumers. The interchange fee structure, in our experience, accomplishes that.

● (1830)

The Co-Chair (Mr. James Rajotte): Do you understand, then, the frustration of a merchant?

For example, suppose you've got the four-party credit card model, and let's say there's $2 off a $100 purchase, just for argument's sake, and the merchant signs an agreement with the payment processor. Suppose the amount goes up. You're a smaller merchant, and the amount goes up. You're not paying $2, you're paying $2.20, so you say to the payment processor, “Why is this going up?” The payment processor says, “Well, it's actually still 50¢ out of every $100 purchase; it's actually the interchange that has gone up.” Then the merchant says, “Well, I'll talk to the bank, because the interchange goes to the bank”, and then the bank says to the merchant, “Well, no, we don't set the interchange fee; the credit card companies set the interchange fee.”

Do you see how a merchant looking at the system, which Mr. McKay said was Byzantine, will find it incredibly frustrating?

Mr. Bill Sheedy: I do see that. I think the company sees that. It's why I think we've tried to improve, just over the last year our two, our transparency on our rate structure, our rules. I think we can improve the number of resources that we put in direct contact with the merchant community. Probably the fastest-growing part of Mr. Wilson's organization is his merchant sales organization. I think we can do a host of things to clarify that while certain merchants have seen their interchange rates go up, just as many, in our view, have seen them go down, because the effective rate in the Visa Canada system has been flat. I think we can do a much better job of maintaining and managing our relationships with the merchants.

The Co-Chair (Mr. James Rajotte): What's the rationale for having not one middle organization but two? Why would the card issuers not set the interchange if they're receiving it?

Mr. Bill Sheedy: Card issuers are one part of the payment system. They certainly are a beneficiary of interchange. As we have established, it flows to them, but we have other constituencies here in the merchants and the acquirers, and if the interchange rates aren't set with those perspectives in mind, what we'd find is an imbalance in the system.

I've spent a lot of time with issuers and a lot of time with merchants and acquirers. If you set rates just from an issuing perspective, you might set them too high to meet short-term profit objectives, and then you'd reduce the merchant value proposition and you wouldn't be able to expand acceptance. At the end of the day, we think that the output from the network would be reduced.

The Co-Chair (Mr. James Rajotte): This model here shows the 50¢ going to the payment processor, so you have $1.50 out of a $100 purchase going to the card issuer, but it does not show the fees going to the credit card company. What are those fees, typically? How much are they? Can you describe them for us so that we get a sense of how much of those fees in fact go out of that system, out of the interchange, and back to the credit card company? Can you outline what the fees are, in detail?

Mr. Bill Sheedy: I can speak generally. We have announced and made illustrations publicly, as my colleague mentioned. We do have some restrictions in that our fee structures are confidential with our clients, but in investor presentations we have described how that works generally.

For every transaction that comes through the network, two to three cents will come to Visa for the services we provide—authorization, clearing, and settlement—in moving the money of that transaction. Then there are a few basis points, a small percentage of every transaction, that we will charge to our issuers and to the acquirers for participation in the payment system. A small number of cents and a small number of basis points for the licensing fees would be what's typical for our clients. That's not just a Canada example; it's fairly consistent with what we'd see globally.

Mr. Tim Wilson: I think the one point I'd tack on to that is that all these fees, in aggregate, work out to be a fraction of what interchange is on any given transaction.

The Co-Chair (Mr. James Rajotte): What would it be, typically?

Mr. Bill Sheedy: Typically, it would be less than 10%.

The Co-Chair (Mr. James Rajotte): Less than 10% of the interchange or less than 10% of...?

Mr. Bill Sheedy: It would be less than 10% of the interchange.

The Co-Chair (Mr. James Rajotte): Okay.

Well, my clerk is telling me that I'm out of time.

I want to thank you for coming before us, for your presentation, and for your answers to our questions. This study may in fact continue, because there are a lot of questions still out there.

Members, thank you for your participation.

The meeting is adjourned.

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