House of Commons
CANADA

Standing Committee on Finance

FINA • NUMBER 031 • 2nd SESSION • 40th PARLIAMENT

EVIDENCE

Thursday, May 28, 2009

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 to order this joint meeting of the Standing Committee on Finance and the Standing Committee on Industry, Science and Technology, dealing with credit card interchange fees and the debit payment system in Canada.

Before we get to the witnesses, the other co-chair, the honourable Michael Chong, has a statement for the industry committee members. He just wishes to inform them of something.

The Co-Chair (Hon. Michael Chong (Wellington—Halton Hills, CPC)): As a point of information for the members of the industry committee, since we did not have a chance to review the main estimates for Industry Canada, I just want to let them know that they will be deemed reported automatically tomorrow to the House.

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

This is the fourth joint meeting we're having on this issue. We started with the merchants. We next went to the credit card companies. We had the payment processors here on Tuesday, and now we're dealing with the card issuers part of the four-party credit card model.

We have a number of witnesses here with us today. I'll just read the organizations, for information's sake. We have, first of all, the Credit Union Central of Canada; secondly, the Canadian Bankers Association; and then individual banks, including the Canadian Imperial Bank of Commerce, BMO Financial Group, TD Canada Trust, Scotiabank, and, finally, RBC Royal Bank.

My understanding is that we will have a brief opening presentation from the Credit Union Central of Canada, and then the Canadian Bankers Association will be speaking for, I believe, most of the banks. My understanding is that RBC Royal Bank will have a short addition to the presentation by the Canadian Bankers Association.

So we will start with the Credit Union Central of Canada. If we could have a presentation of between five and ten minutes long, then we'll go to the Canadian Bankers Association.

Ms. Brigitte Goulard (Vice-President, Policy, Credit Union Central of Canada): Mr. Chair, ladies and gentlemen of the committee, thank you for the opportunity to speak to you today. My name is Brigitte Goulard. I am the vice-president of policy with the Credit Union Central of Canada. I would like to introduce you to my colleague, Mr. Douglas Whalen, director of payments policy.

Before addressing the issue, allow me to begin by making a few preliminary remarks regarding the role of Canadian Central and, more generally, the credit union system in Canada.

Canadian Central is a federally regulated financial institution that operates as a national trade association and finance facility for its owners, the provincial credit union centrals, and, through them, for approximately 440 affiliated credit unions across Canada. With over 1,700 branches serving more than five million members, and over 24,000 employees, and holding more than $114 billion in assets, credit unions represent an important component of the Canadian economy.

Although the global economic downturn experienced since the latter half of 2008 continues to present challenges for credit unions and their members, we are pleased to report that our performance for 2008 will go on the record as one of the most successful years ever for the Canadian credit union system. Our financial position remains strong, and we have maintained our share of the market, in step with growth of the Canadian population.

Credit unions in Canada come in all shapes and sizes and operate in almost every community. Actually, in more than 300 communities in Canada, the only financial institution in town is a credit union. Credit unions are the first choice of a significant percentage of the population. In fact, one in three Canadians are members of credit unions and caisses populaires. We believe these numbers reflect the strong cooperative values of the system and the commitment of the system to the economic development of their communities.

Charitable donations, employee participation in worthwhile causes, and scholarships and bursaries are all part of the contribution that Canadian credit unions make every day. In fact, in 2007, the Canadian credit union community's involvement reached $35.8 million.

Let us now turn to the issue that brings us here before you today: credit card interchange fees and the debit payment system in Canada.

I will now turn to my colleague, Douglas Whalen, to speak to that issue.

● (1535)

Mr. Douglas Whalen (Director, Payments Policy, Credit Union Central of Canada): Canada's credit unions provide their members with access to a broad range of consumer card services, including both debit cards and credit cards.

While credit unions offer one of Canada's largest networks of proprietary ATMs, they are not significant providers of services to merchants for acquiring debit or credit transactions.

Visa products are offered by some credit unions and MasterCard by others, and approximately 600,000 credit union members have obtained a credit card through their association with a credit union.

Credit unions use a variety of different business models to provide credit card services to members, and each credit union makes its own decision regarding which card products and services they will offer, how they will deliver them, and which suppliers they will use, based on what best fits their business situation and the needs of their members.

For example, one credit union issues credit cards directly to their members and maintains control of the service relationship with the member, the terms and conditions of the card service, the design of the card, the marketing, pricing, fees, and interest rates, and the ownership of the card balances. Only the back office processing is outsourced to a third party.

Most credit unions, however, have completely outsourced their credit card services to a third-party financial institution. In this situation, it is the third party that issues the card, manages the customer relationship, sets the terms and conditions of the card service, and controls card design, marketing, pricing fees, interest rates, and owns the card balances.

In regard to debit card services, Canadian credit unions have issued approximately 3.5 million proprietary debit cards and are members of several ATM and debit payment networks. Credit unions affiliated with Canadian Central have access to Acculink, the national credit union system's proprietary network of over 1,700 surcharge-free ATMs across Canada.

Credit unions in British Columbia and the Atlantic provinces, and many in Ontario, are also members of The Exchange, a national network that includes credit unions and other financial institutions and provides surcharge-free access to more than 2,000 ATMs across Canada.

Credit unions have access to Interac membership and services through the group memberships provided by Canadian Central or Central 1, or through a direct membership with Interac. Credit unions also have access to international ATM and debit services networks through MasterCard Cirrus, Maestro, and Visa Plus.

It is important to note that each credit union individually determines which of these debit services they will provide to their members and at what pricing, and puts in place the service delivery models and appropriate supplier relationships that best fit the needs of the credit union and its members. This individuality is both a reflection and a reminder that credit unions are locally based organizations, delivering services that match the unique and diverse needs of the communities they serve.

To continue meeting these needs, Canada's credit unions need access to the broadest possible range of products, suppliers, and delivery models for debit and credit card services. This kind of flexibility is consistent with an open market environment that provides competitive choice for credit unions and their members. It also includes support for ensuring that a strong, domestically focused payments delivery channel, as provided by Interac, is preserved.

This should include allowing Interac to restructure its governance model to gain access to the capital and revenue generation tools needed to support development and implementation of new products and services, and a review of the regulatory and compliance environment to ensure that it provides a level playing field for all payments services.

As locally based organizations, credit unions respond to the unique needs of the communities they serve. Nationally, the tremendous success of Interac shows that it is similarly well positioned to respond to the unique needs of Canadians.

And as the card services market is transformed by the introduction of chip and other new technologies, the capability of Interac to develop and deliver new services focused on the needs of Canadians and the characteristics of the Canadian market will be of critical strategic value to Canada's credit unions in preserving their ability to remain competitive and continue meeting the needs of credit union members.

We wish to thank you once more for the opportunity to address you today. Ms. Goulard and I would be pleased to answer your questions.

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

We'll now go to the Canadian Bankers Association.

Mrs. Nancy Hughes Anthony (President and Chief Executive Officer, Canadian Bankers Association): Thank you very much, Mr. Chair.

[*Translation*]

I am pleased to be here.

With me today is my colleague, Terry Campbell, the Vice-President of Policy at the Canadian Bankers Association.

[*English*]

I'm also pleased that there are five individual bank representatives here, who have made themselves available on very short notice, and they will obviously be pleased to answer your questions as well.

[*Translation*]

We have a brief for you—and I hope you all have a copy of it. It contains information on the issues we will be discussing this afternoon.

We have met with many members of Parliament, many of whom are here at this table. In addition, we appeared before the Senate Committee on Banking to discuss the same issues you are focusing on in your study. I have also spoken with the president of the Retail Council of Canada and the Canadian Federation of Independent Business. We have heard the full range of their concerns.

● (1540)

[*English*]

While we're pleased to offer our thoughts and suggestions on issues from the perspective of institutions that issue credit cards, there are a range of matters—and I would include as examples the setting of interchange fees and the specific terms of merchant acquirer contracts—that the banking industry does not control and where we are therefore not able to provide specific detailed commentary. It's also important to remember that in a competitive marketplace, where individual institutions are actively competing for customer business, information regarding bank operations and business strategies is highly confidential and proprietary in nature. It is information that banks do not share among themselves or with the CBA to ensure we're in full compliance with the Competition Act.

That said, we're certainly very happy to have this discussion today to answer any questions we can to the best of our ability. With this in mind, I'd like to turn to our submission. As you'll see at the beginning, we've outlined the many benefits of credit cards for both consumers and retailers, including choice and competition in the marketplace. I think that unfortunately many of these benefits have been overlooked in the recent public commentary. We also need to keep in mind a few key statistics about credit cards, such as the fact that 70% of Canadians pay off their cards every month, the fact that credit card debt at the moment is only 3% of total household debt, and the fact as well that there are over 60 low-rate cards currently available in the marketplace in Canada.

In the interest of time, Mr. Chair, I'm going to touch very briefly on four issues of interest to this committee.

Starting on page 4 of our submission, I'd like to clarify a few points on interchange fees. As this committee well knows, interchange rates are set by the credit card companies, not issuers or acquirers. Further, while Visa and MasterCard do not receive the interchange fee directly, they do receive a transaction fee from acquirers and they do receive a transaction fee from card issuers like banks and credit unions. I think the important point here is that in a credit card transaction, all participants benefit from the transaction so all share in the cost.

A key issue that has been raised in the committee hearings is around the disclosure of interchange fees by both card companies and by acquirers to merchants. We have to admit that what we hear is that this is very complex. We note from their presentations to this committee that both Visa and MasterCard have heard these concerns, and we understand they will be working more closely with retailers to resolve these concerns. We've also heard the same sentiments from the acquiring companies that you had testifying before you on Tuesday.

Even though banks do not set these fees, our members agree there are things that can be further enhanced to assist consumers in better understanding this process. Banks as card issuers are considering better explanations for their card customers about the cost of interchange fees to merchants when credit cards are used. Clearly the suggestions of this committee are very welcome in that regard.

If I could turn to premium cards, it's on page 5 of our brief. We know this committee has heard a great deal about premium cards, particularly around the introduction and issuing of some of these cards to consumers. We agree there was some confusion on the part of some who received the cards, and there could have been better and clearer communications to the customer about why these cards were being introduced. Going forward, the lesson learned here is that more care needs to be taken to ensure there is greater clarity for our clients in any such further implementation.

Another matter that has been raised is the question of premium credit cards being sent to consumers without their consent. I think there's been a discussion around this, but banks have heard these concerns and they are reviewing their practices around issuing these cards. As well, there's a concern that a true premium card—and I would say "true" is one that attracts a higher interchange fee—had been sent to people who perhaps should not have received them. A step that could be taken by the banks is to further clarify for customers what the criteria and the requirements are for these true premium cards.

● (1545)

The third area I'd like to comment on—which is in our brief, on page 6 in English, *et à la page 7 en français*—is the recently introduced new government regulations. While obviously the full implications of these regulations are still unclear and we're still working through the implications and the impact of these, they will require significant changes to products, systems, and processes. They will be very costly to implement. We're still looking at what that could mean. Estimates go as high as hundreds of millions of dollars, which is exceedingly material. We would be very pleased to answer your questions today on these regulations, and of course we will be commenting to the government in terms of the period that is available for public comment.

Lastly, we have some comments on debit cards. That starts on page 6 in our brief, *à la page 8 en français.* While the current debit card system in Canada has served Canadians well, it needs to grow and evolve to meet the needs of a more integrated global economy. We know that Canadians are among the heaviest users of debit cards in the world and that Interac can rightfully take credit for that. However, Interac is an association and it operates on a strict cost-recovery basis, which limits its ability to raise capital for innovation. For competition to be an effective driver of innovation, all competitors need to have the freedom to compete fully in an open marketplace, including Interac.

We know there are other players in the market. They have testified before you. Both Visa and MasterCard recently entered Canada with debit products. The point I wish to make is that debit market choice and competition is an international reality and Canadians should not be left behind.

I'd like to conclude by saying that the payment card system in Canada works well for individuals and for businesses. Nonetheless, there's always room for improvement. I've given you a few suggestions about areas where the banks are able to make changes to improve clarity and transparency for consumers. I would also stress that it's an exceedingly complex system. It's very important that we carefully consider the potential impacts and consequences of all aspects of the system before new measures are put in place.

Merci beaucoup. I'd be happy to answer your questions.

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

We'll go finally to RBC Royal Bank, please.

Ms. Cathy Honor (Head, Cards and Payments Solutions, RBC Royal Bank): Thank you. We appreciate the opportunity to appear before the committee today.

My name is Cathy Honor, and I head up RBC's global cards and payments business, overseeing card products in more than 20 countries around the world.

As in issuer, RBC provides debit, credit, Visa, MasterCard, and Amex products all around the world. We are also our own acquirer in many countries, but in Canada and the U.S., our acquiring business was transferred to a separately run joint venture company, Moneris, which has appeared at these hearings on its own behalf. Up until earlier this year, I also sat on the Interac board.

RBC is the second-largest credit card issuer in Canada and the ninth-largest in North America. Based on our experience globally, we believe the credit card market in Canada is functioning well for consumers and retailers who are benefiting from choice, competition, and the convenience of a thriving payment system.

Merchants have enjoyed virtually no changes to interchange rates for over a decade, despite rising fraud and payment costs. I acknowledge, however, that there have been a lot of changes over the last year to align Canada with other parts of the world. Despite these changes, Canada remains and continues to enjoy significantly lower interchange rates than similar industrialized nations.

Canadians are happy with their credit cards, both consumers and businesses who heavily use credit cards for both payments and cash management. In February 2008, Forrester Research issued a Canadian customer experience report, with overall customer experience ratings across multiple industries. Canadian credit card issuers came out amongst the highest ratings.

In closing, we are privileged to participate in one of the world's largest and most successful electronic payments markets. At the same time, we recognize that there are always areas for improvement, and we will continue to work with our customers, the industry, and the government to ensure that Canada's payment system remains one of the best in the world.

Thank you.

● (1550)

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

We'll now go to members for questions, starting with Mr. McKay for seven minutes.

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

I'm interested in the issue of credit cards. In the early part of this year, I received this card, and I have an old card I'm not going to show you. But this one has “Infinity” on it, and apparently if I take this card to a merchant, the merchant pays more money for the card than if I take the other card to the merchant. I had no idea until these hearings started that this was what was happening to these merchants. I like to think that I do pay attention to these things, but maybe that just slipped by.

So I want to know, what's the difference in the rate of interchange? If I present my Infinity card as opposed to a regular card, what's the difference in the rate between the two as far as the merchant is concerned?

Mrs. Nancy Hughes Anthony: Of course, we're all dying to know what card Mr. McKay has.

Hon. John McKay: That's why I didn't show it to you.

Mrs. Nancy Hughes Anthony: Oh, darn.

Seriously, there are so many cards.

I wonder if one of my colleagues would take that question.

Mrs. Cheryl Longo (Senior Vice-President, Card Products, Retail Markets, Canadian Imperial Bank of Commerce): It's one-fifth of 1%. Twenty basis points is the differential.

Hon. John McKay: I'm told it's about 20 basis points through to about 0.3%. If I take your base rate of about 1.5%....

Is that correct? Is that your base rate, 1.5% to 1.6%?

Mrs. Cheryl Longo: On a blended basis—and it depends for every issuer, because it depends on the consumer behaviour of where they shop—it's about 1.5% or 1.6%.

Hon. John McKay: So it's 1.5% to 1.6%. You're saying it's two basis points on top of that, and I've heard it's up to 3.5 basis points.

Mrs. Cheryl Longo: No, I'm sorry. That would make it 1.7% to 1.8%, not 200 basis points.

Hon. John McKay: In terms of an increase on 1.5% and two basis points, what does that work out to in percentage terms, in terms of the increase to your fee?

Mrs. Cheryl Longo: It's 20 basis points on 1.6%.

Hon. John McKay: You have a base of 1.5%, and you're increasing by 0.2%. You're at least 10%—

Mrs. Cheryl Longo: You're right. It's about 12%.

Hon. John McKay: Effectively, you've increased your revenues by at least 10%, possibly as much as 20%, just by issuing that card. Is that correct?

Mrs. Cheryl Longo: No, that's not correct.

Hon. John McKay: Why is that not correct?

Mrs. Cheryl Longo: That is not the only cost factor. You're looking at just the interchange factor.

Hon. John McKay: I'm only on the revenue side. I'm not on the expenditure side.

Mrs. Cheryl Longo: I agree with you. I'm still on the revenue side as well. We increased our features and our cost and our benefits to our cardholder. Our success depends on attracting and retaining our cardholders by giving them the most competitive offers, and we increased features and benefits on those cards at no extra cost to the consumer.

Hon. John McKay: You're adding toys on the card. I agree.

Mrs. Cheryl Longo: Those cost us.

Hon. John McKay: The simple math of this is that by issuing these new cards, you've increased your gross revenues by something in the order of 10%, possibly as much 15%.

Mrs. Cheryl Longo: I agree with that.

Mr. Terry Campbell (Vice-President, Policy, Canadian Bankers Association): If I can clarify, Mr. McKay, the true premium cards are a relatively small part of the marketplace. I think they're under 10%, probably only about 9%. So while there is that 20 basis point increase, it's a small part of the whole portfolio, so that takes that down.

Hon. John McKay: What percentage of the credit market did the premium cards have this time last year?

Mr. Terry Campbell: I don't have that information, but perhaps my colleagues do. It's still a relatively small part of the market.

Hon. John McKay: Could I suggest to you that you've been working that part of the market to try to increase the uptake on the premium cards? Would that be correct?

Ms. Cathy Honor: Maybe I could just respond. I think before, generally, the percentage of premium cards would have been around Amex's market share. So all of Amex's cards are premium cards. In terms of customers, we are competing with Amex for those cards in their wallet. For merchants, by taking our cards at 20 basis points higher, we are significantly reducing their cost if they had an equivalent Amex card in their wallet.

Hon. John McKay: You're all competing for this mythical customer—or maybe not so mythical—who has money in his or her pocket. So you're issuing these premium cards with some more toys attached to them. You've increased the cost, and I'm not disputing that you've increased the benefits as well.

How do you get to be a premium customer?

● (1555)

Mrs. Cheryl Longo: There were rigorous criteria. The network set the criteria for the niche amount of customers who could qualify. As Terry said, in general, it's less than 10% of customers. These represent the merchant's highest customers. They spend with a higher velocity. They spend at a higher average transaction size, and they tend to be the same customers that were on the Amex brand. We attract and displace that Amex spending onto our cards.

Ms. Cathy Honor: Some of the qualifications would be minimum household income of $100,000 and that we can't set a pre-set limit. It sounds like a lot, maybe, 20 basis points, but it's proportionate to the risk. Those consumers travel a lot, and they want to be able to go into that store and put any amount onto their card.

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

Hon. John McKay: Looking at it from your market model, you want to drive these premium cards, because it only makes sense from your standpoint.

On the other hand, a merchant is locked into accepting that card I present, regardless of the cost to him or her. So aren't you driving your growth in premium cards on the backs of the merchants?

Ms. Cathy Honor: I can respond. I can tell you our own statistics in terms of the consumers who went to a premium card. In this very bad market, where generally we have negative growth on spend, those cards increase spends. So the merchants are benefiting from the fact that this customer can now walk in and spend any ticket size they want, where before they were limited.

Hon. John McKay: Going forward, what do you see as the percentage of the market that these premium cards will occupy?

The Co-Chair (Mr. James Rajotte): Quick answer.

Ms. Cathy Honor: I don't see it changing much from where it is now.

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

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

[*Translation*]

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

I would like to say good afternoon to all of our witnesses.

In your opening remarks, Ms. Hughes, you seemed to caution us that the banking industry was not clearly in control of the whole issue of contracts between acquirers and merchants.

[*English*]

The Co-Chair (Mr. James Rajotte): I'm sorry, Mr. Laforest. Excuse me. I'm told we don't have translation.

We're okay now.

Monsieur Laforest.

[*Translation*]

Mr. Jean-Yves Laforest: Shall I start all over again, Mr. Chair?

The Co-Chair (Mr. James Rajotte): Yes, absolutely, Mr. Laforest.

Mr. Jean-Yves Laforest: Very well, thank you.

You seemed to warn us, Ms. Hughes, that you were not responsible for everything, that you did not have any control over the contracts between acquirers and merchants, or over the interchange fees, and so on.

In some ways, I think that you have put your finger on our great concern as committee members. I have learned this over the meetings we have held in recent weeks.

The fact is that there is little or no interaction between these players. There is some, if we consider the money transactions that go on between issuers and acquirers, between Visa and the merchants, and so on. However, there is no interaction or control of one party with respect to the other. On the one hand, there are the acquirers and the issuers; on the other, there are the merchants who supply goods to consumers who use their credit card.

There is no overall vision. There is one, but it is so complex that consumers really have trouble making heads or tails of the system. I am sure that many of them think they are dependent on the credit card system.

Let me give you an example. Anyone who wants to travel in Canada must use a credit card to make his or her reservations. There are some situations in which even cash seems to be less valued than a credit card. We are caught up in this system, whether we use it or not, and that causes a great deal of discontent. Committees have looked into these issues in an effort to get a better understanding of what is going on, and, at the very least, to shed some light on it.

Someone talked about competition and free markets. We understand that the objective of banks is to make money, and the same goes for the other stakeholders as well. However, once the Standing Committee on Industry, Science and Technology and the Standing Committee on Finance have completed their study, we may find that there are some injustices, either for consumers or merchants— because I do think there is some injustice, but in any case, I will not start by making that hypothesis. I would say that so far, it is hard to understand why merchants have to accept all credit cards and why the banks are offering people premium cards. Everyone seems to go along with the system, sometimes without really understanding why.

If the members of the committee realize that there is some injustice, do you not think that the government should regulate the system?

● (1600)

Mrs. Nancy Hughes Anthony: Perhaps I could make a few comments.

Mr. Jean-Yves Laforest: My question is to Ms. Hughes, but also to our other witnesses as well.

Mrs. Nancy Hughes Anthony: I will make a few comments, and then I will turn the floor over to my colleagues.

For my part, I think that rather than regulating any industry, the best approach is always to allow for competition and free choice, and to promote a good understanding on the part of all participants of their advantages and their responsibilities.

Mr. Jean-Yves Laforest: Can you tell us then why, when the Bank of Canada's key rate is now at 0.25%—it has been dropping steadily for a few years now—the rates charged by the banks for their credit cards has not dropped? The gap is growing between the Bank of Canada's prime rate and the rate charged by banks on credit cards.

Mrs. Nancy Hughes Anthony: First, I will continue with my answer to your first question. Clearly, the system is very complex, but it is also clear that the objective of each party within it is to compete with the others. So I think there is a very good level of competition among the issuers of credit cards. On one hand, there are millions of credit cards available to consumers, and on the other, there is competition among the acquirers, for example.

[*English*]

I will just clarify it for the committee because this is a frequently asked question. On the Bank of Canada interest rate, it has a very, very small impact on the overall cost of funds of any bank. It is less than 1%. It is an overnight clearing rate for banks. On that point, there is sometimes a bit of a misconception about exactly what the Bank of Canada rate is.

As I mentioned, there is obviously a huge choice of credit cards in the marketplace, where you can get low interest rates, you can get rates tied to prime, etc. But the fact is a credit card is an unsecured card that has a lot of risk involved. Unfortunately, as we see in today's environment—and we've certainly seen that recently—the risks are rising, and therefore the issuers must respond to that risk for the benefit of being able to provide cards for the entirety of their customers.

[*Translation*]

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

Mr. Jean-Yves Laforest: You said that the difference between the credit card rates was only about 1%.

Mrs. Nancy Hughes Anthony: No, it is 1% of the cost of the funds. Banks have to seek out funds...

Mr. Jean-Yves Laforest: If the Bank of Canada rate were 4% today...

Mrs. Nancy Hughes Anthony: I apologize if I was not clear, Mr. Laforest.

● (1605)

[*English*]

I meant that it is 1% of the actual cost of funding for a bank. So they get 99% of their funding elsewhere and it costs much more than the Bank of Canada rate. That is my point.

Ms. Cathy Honor: In fact, over the same period, our interbank lending rates have gone up, not down.

[*Translation*]

Mr. Jean-Yves Laforest: I would like to ask another question. If necessary, you could always send us your answers in writing.

What type of investigation do you do before issuing a credit card? I would mention the example of students, who have no credit rating and who receive offers of credit cards with limits of $4,000 or $5,000. I find that rather extreme.

[*English*]

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

Mr. Jean-Yves Laforest: *Elle peut peut-être répondre brièvement?*

The Co-Chair (Mr. James Rajotte): I'll subtract it from the Bloc's second round.

A very brief response—

Mrs. Nancy Hughes Anthony: Perhaps others could answer on the student cards.

Mr. Kitchen, would you like to comment?

Mr. Mike Kitchen (Senior Vice-President, Product Management, Personal and Commercial Banking Canada, BMO Financial Group): I would suggest it is certainly not within our policy that we would see students getting $4,000 and $5,000 credit limits. Usually it's a very small credit limit, typically $500, that type of thing, which is much more in the appropriate level. We don't typically grant $4,000 to $5,000.

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

We'll go to Mr. Menzies, please.

Mr. Ted Menzies (Macleod, CPC): Thank you, Mr. Chair. Thank you, ladies and gentlemen, for appearing here today in this most interesting discussion.

I have a question to which I would like a comment or response from each organization.

I know, Ms. Hughes Anthony, you represent the Canadian Bankers Association, so I'm going to refer to a conversation that you and I had some time back, when I shared with you that we were hearing from a lot of concerned constituents, who are also your customers—or customers of the credit unions and banks, I should say. They were concerned about credit card fees, as well as issues with debit cards coming forward.

I'm quite sure you do your job well, and I'm quite sure you go back to your membership, so I had suggested it would certainly be helpful if all of the players in this, the issuers through to the banks—all of those involved in a credit card transaction—sat down and worked this out. I said that because our constituents were complaining to us, enough that we were going to have to do something about it. I suggested to you at the time that if we ended up having to regulate it, if all of the players in this business didn't get together and fix this problem, you'd probably not like the regulations we would have to put in place.

We're still trying to avoid that. We've put in what we think are some realistic regulations. The comments from Australia are that they're prepared to step back now from regulating direct interchange fees if the industry shows it can take steps to increase competition.

How was that message received when you shared it with your membership?

I would like a comment from everyone on this. Why can't we get this competition worked out, so it is fair to everybody: fair to the retailer, fair to the customer, and fair to the providers involved in the whole process?

Mrs. Nancy Hughes Anthony: If I could respond first, Mr. Chair—and I hope Mr. McTeague is not leaving the room—I think it's a very logical and sound suggestion. There are legal impediments through the Competition Act—and I mention it because I know Mr. McTeague is an expert in the Competition Act—that prevent any industry, and certainly the banking industry would be one, or any other industry, from getting together and agreeing on pricing, and on any agreements concerning the quality or quantity of products and allocations of markets or customers.

Obviously, because all the member banks of the CBA take this extremely seriously, it is just not feasible for us to get around a table and say, “How do we fix this market?” We would obviously be challenged by the competition commissioner.

I suppose there may be ways for the government to call us together, Mr. Menzies, under the umbrella of a ministerial exemption under the Competition Act. That could be done. I think at the moment what we and you would find—and I'm sure this could potentially be frustrating for you around the table to hear, because you may hear from the banks and then from individuals—is that it is very difficult, and totally against the Competition Act, for all of us to get into a big room and cook this up.

If the committee does have suggestions about better, permissible ways to resolve some of these issues, I'm sure we would be very happy to hear those.

● (1610)

Mr. Ted Menzies: By all means, I wasn't suggesting collusion.

Voices: Oh, oh!

Mr. Ted Menzies: I was suggesting leadership.

Mrs. Nancy Hughes Anthony: But, Mr. Menzies—

Mr. Ted Menzies: Leadership may have solved a lot of these problems. If leadership had been shown to make it competitive and fair for everyone involved in the system, we may not have been meeting here today—not that we're not enjoying it.

Mrs. Nancy Hughes Anthony: I know. I think it's extremely competitive, but just to clarify, I don't think all the banks could get together and suggest how Visa and MasterCard could do their business. I think there'd be a lawsuit in my in-basket in the morning.

Mr. Terry Campbell: If I could make another comment regarding your point about the concerns that are out there and whether competitors could get together to at least deal with it, I would say that a lot of these issues are commercial matters between commercial entities. I think what you're hearing from some of the players—I can't put words in their mouths, but we've heard their commentary, from the card companies, and so on—is they'd be interested in exploring commercial solutions to these issues.

I think the messages have been received loud and clear. As Ms. Hughes Anthony said in her opening comments, we've heard the messages loud and clear, too, and we're exploring ways...such as maybe having some better disclosure and some better clarity.

So I think there are different components to this game, and each of them in their own areas of responsibility is saying, “Hmm, what can we do here?” So I think some of that messaging is getting through.

Mrs. Nancy Hughes Anthony: Very much so.

Mr. Ted Menzies: Would anybody else like to comment on that, without appearing to be colluding with each other?

The Co-Chair (Mr. James Rajotte): We have about one minute.

Mr. Ted Menzies: Quickly then, let me just go back to one of the changes we did make, this minimum 21-day interest-free grace period.

Ms. Hughes Anthony, you had suggested that some of these changes that we've already put in place are quite costly, but let's look at the other side. What is the benefit of this 21-day grace period to consumers?

In our consultations we heard that this was a particular issue with many customers—constituents of ours. What benefit has that been to them?

Mrs. Nancy Hughes Anthony: For starters, Mr. Menzies, I would just remind you that we are digesting these regulations. There is a public comment period, and all parties will be commenting before June 13.

Clearly, I think there are some great improvements for consumers in terms of some of the points in these regulations. We already have in Canada, contrary to other parts of the world, quite robust disclosure regulations, the cost of borrowing regulations, and these certainly enhance and build upon those.

Some of the, shall we say, standardization of grace periods will probably make it very much easier for consumers to understand their statements. I think the challenge the industry will have is that there's a heavy burden in these regulations to explain this and change this, which will very definitely be costly for the industry to implement. We're in the middle of assessing exactly what those costs are.

There's a good idea in there about putting a personalized calculator on everybody's statement. There are 68 million cardholders. I would just say that some of the operationalizing of this is very difficult.

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

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

Mr. Glenn Thibeault (Sudbury, NDP): Thank you, Mr. Chair, and thank you to everyone for coming today. It's kind of interesting to look straight down the line and have this conversation with you.

Where I'm going to start is with some of the specific questions relating to the consumer side of credit cards. Of course, the merchant and the exchange fees ultimately come back to the consumer as well.

I had a figure of 50 million, but you're saying there are 68 million cards out there. You're saying that about 70% of them are paying their bills on time and never really have to worry about the interest rate.

You're the bankers, and I'm sure you can calculate the number a lot quicker in your head than I could, but 30% of 68 million is still a significant number of people across the country who are being affected in this economic downturn.

We understand that you have unsecured risks and you need to cover those costs, and you need to ensure you're still making a profit. I understand that.

When I started asking the questions in the House six months ago, we started to get inundated with phone calls and people showing us examples on their bills, saying, "I've always made my payment. Unfortunately, right now I'm watching every nickel and every dime, so I'm having to make the minimum payment this time. But I made the minimum payment two days late, and because I was two days late, my interest rate went from 18% to 24%."

I have examples like this: a 17-year-old who has a credit card, and now the parents are being forced to pay the credit card. This was an unsolicited mailing, and the 17-year-old submitted it and got the credit card.

The concerns we have relate to the interest rates that are being charged. You're talking about there being 60 low-rate cards right now. Well, if there are 60 low-rate cards, why aren't you, as the issuers of the card, automatically giving someone a low-rate card when they start off, and then, if they so choose, they can move up, if they demonstrate good history, rather than handing out the premium cards?

I know I'm talking a lot and there are quite a few questions in there. So I'll leave those and we'll go back from there. Does anyone want to start with that?

● (1615)

Mr. Mike Kitchen: I can begin on the low rate. I think you raise a very good point. Should customers be able to start with a low rate?

One of the things we've done for many years, and it's something we're proud of, is that customers can select, in our case, their rewards first, and then go on to pick whether they want to have the standard interest rate—in other words, they probably won't carry a balance regularly—or a lower interest rate, and they pay us a fee for that, but they don't have to give up their rewards in order to get an interest rate.

We know consumers love to have rewards but also want to have an attractive rate. So we declare right up front with our consumers, on our applications on our Internet site, that they can have an 11.9% rate on their card. We even go as far on the Internet and in the branch to give them a calculator and say, if you carried this amount every month you would be better off at the lower rate than the higher rate, paying the $35 fee.

The market does react, and I think sometimes we just look at what is advertised, but there are programs out there that can help consumers lower their cost of borrowing.

Mr. Glenn Thibeault: Does anyone else want to jump in, or do you want me to go to my next question?

The Co-Chair (Mr. James Rajotte): Is there anyone else?

Mrs. Cheryl Longo: I would like to jump in on that one.

Much like Mr. Kitchen said, we offer low-rate cards as well, including as low as single-digit interest rates. Choice is a big issue that the consumers want. Issuers provide anything from single-digit cards up to 19.5%. We've had low-rate cards in the marketplace for a dozen years, and much of our acquisition of new customers is from low-rate cards.

We deal with our customers to meet their individual needs all the time. You mentioned customers who are maybe living a little more hand to mouth, and we counsel them to move to low-rate cards, that is, to our 11.5% card. We will actively move our customers. We will actively put customers on something we call pre-authorized payment to make sure they have paid their bills from their account on a monthly basis to keep their credit bureau record in good standing, and we help the customers and advocate for them on those.

In the case of CIBC as well, whether you're on a low-rate card or a high-rate card, we provide what we call our credit smart features, where you can set your budget and we will send you alerts, so you can be your own money manager, your own smart money manager. If you say, “I don't want to spend more than *x* amount”, we will send you an alert when you hit that amount. But consumers have a choice, and they need to take accountability for the choices they make.

Mr. Glenn Thibeault: I agree that every consumer has personal responsibility. We're not saying that once you get credit, there is no responsibility. Unfortunately, what we're hearing loud and clear from these card holders is that they're not being counselled back. I'm sure that's happening, but from the people I'm hearing from, it's the opposite. We're hearing the complete opposite, that their cards were at 18% and are now going up to a punitive 24% to 25%, because they've been late or they've missed a payment, even though they've been communicating with whatever the institution it is.

To comment on something Mr. Menzies was mentioning, I think it's important to recognize that if you want to police yourselves, so to speak...and yet we're hearing these stories and are getting constant examples of this; it's starting to tie the hands of government from having to say, “We're going to have to get in there and do something.”

What do you recommend we do? You're talking about the counselling side of it, and I'm sure everyone else can give me some examples of that, but we can give you stacks and stacks and stacks from the opposite side, of e-mails and letters of people saying, “How is this fair and how is this right?”

● (1620)

Ms. Cathy Honor: What I would recommend is if we can get those back...because we're not seeing this. We monitor our top client concerns. Yes, we go to the FCAC and ask them for their concerns. They're not seeing this.

So I think for transparency and communication's sake, get those back to us. We're not saying we are perfect; there could be exceptions. But I would echo the comments here that the general practices are exactly as we said, that most people carrying balances are on low-rate cards.

The Co-Chair (Mr. James Rajotte): There are 30 seconds.

Mr. Glenn Thibeault: Just to clarify this, you said your “top clients”. I'm assuming—

Ms. Cathy Honor: No, no, I meant that we monitor all of the complaints, all of them.

A voice: The top concerns.

Mr. Glenn Thibeault: The top concerns—

Ms. Cathy Honor: Because this is not among the top concerns.

Mr. Glenn Thibeault: I'm not trying to be specific about anyone, but I literally have e-mails from people who are talking about this, so I'd be more than happy to send them to you.

Ms. Cathy Honor: Send them to us, absolutely. We'd welcome them, and we'll deal with every one of them.

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

We'll go to Ms. Coady, please.

Ms. Siobhan Coady (St. John's South—Mount Pearl, Lib.): Thank you very much.

Thank you, all of you, for appearing here today. I appreciate your taking the time from your hectic schedules. I know it's very interesting in the banking community these days, given the need for access to capital, which I say on behalf of all of those people across the country who need it. So we really do appreciate your taking the time today.

I have five minutes, so I'm going to be rapid-fire.

Mr. Whalen or Ms. Goulard, are you offering premium cards as well?

Ms. Brigitte Goulard: No, we do not offer premium cards.

Ms. Siobhan Coady: So you're not having the same issues around premium cards?

Ms. Brigitte Goulard: No, we don't.

Ms. Siobhan Coady: So you didn't do a mass mailout.

I'm going to go to Ms. Hughes Anthony. Thank you again for joining us today. On behalf of your banks, we understand that the premium cards were issued within the last year. They were basically sent unsolicited to clients—I am one of them. I received my little premium card in the mail; I didn't ask for it, and I didn't want it, actually. I have been using it successfully since, I guess, but I did not realize the impact of it on merchants.

Could you tell me what percentage of your current...? You made a reference to a fairly low number, but how has it grown? How has your premium card market grown over the last year?

Mrs. Nancy Hughes Anthony: I'm not sure I have the actual base figures from a year ago. I know right now that premium cards represent about 9%.

Ms. Siobhan Coady: I understand it's more like 20%.

Mrs. Nancy Hughes Anthony: No, I don't believe that is a fact. Anyway, we can clarify that it's less than 10%; it's about 9%.

Mr. Terry Campbell: The term “premium card” tends to be used very generically. You could have a gold card or something. The premium card that I think is the focus here—

Ms. Siobhan Coady: A chip card, shall we call it?

Mr. Terry Campbell: A chip card is a different issue entirely.

The premium card that is targeted to very specific levels of customers but also attracts that somewhat higher interchange is the one, and that's the 9%.

Ms. Siobhan Coady: Okay. I'm going to go even faster now.

Is it correct to say you have no impact on interchange fees?

Mrs. Nancy Hughes Anthony: That's correct.

Ms. Siobhan Coady: Obviously the merchant discount increased over the last year. I mean in a general sense. I have to get to debit cards, so that's why I'm being—

Ms. Cathy Honor: I'm sorry, what was the question?

Ms. Siobhan Coady: Have you, as part of the banking system, increased merchant discount fees?

Ms. Cathy Honor: That would be an acquirer question. The merchant discount fee includes the interchange rate, so if the interchange rates have gone up for the premium cards, then by definition the merchant discount rate would too.

Mrs. Nancy Hughes Anthony: To clarify, that is not something the bank sets.

Ms. Siobhan Coady: The banks don't have any impact on it.

Mrs. Nancy Hughes Anthony: Yes.

Ms. Siobhan Coady: I'm going to move on to debit. As you know, Visa and MasterCard wish to enter the market. Do you see this as a positive, a negative? I have read your statement. Could you comment on that?

Mrs. Nancy Hughes Anthony: Generally speaking, as we said in our brief, the members feel that the best thing for the consumer is to have a wide choice. Certainly we understand the issue with Interac, which I believe is going to be testifying in front of this committee shortly. At the moment it is asking for some kind of restructuring that will help it compete.

Clearly there are other products already introduced in the market, and our view is that the best policy is to allow this competition for the benefit of consumers.

● (1625)

Ms. Cathy Honor: I would add to that. I sat on the Interac board, and I would echo Mr. Laforest's comments around merchants not being forced to accept credit cards.

Part of the problem is that Interac debit cannot be accepted or used at vending machines or for online spending, and it can't be used internationally, so we need to innovate and invest in our debit system.

Ms. Siobhan Coady: I'm going to go back to the chip card and the chip, because the chip applies to both debit and credit. Would you say generally that chip cards exist so that you can have less fraud, and you're concerned about fraud? I see nodding heads everywhere.

Ms. Cathy Honor: Yes.

Ms. Siobhan Coady: Okay. Would you clarify that in general, as I think RBC said, your fraud issues have been going down over the last—

Ms. Cathy Honor: Up.

Ms. Siobhan Coady: You're saying they're going up.

Is it fair to say that when you're moving to this new technology, this chip card, you are now passing on that fraud-related cost to merchants?

Ms. Cathy Honor: No.

Ms. Siobhan Coady: You're saying no. It's my understanding that debit cards especially will pass the cost of fraud to the merchant.

Mrs. Nancy Hughes Anthony: No, that is definitely not the case.

It's unfortunate that the cost of fraud is increasing generally. The bad guys, unfortunately, are continuing to get smarter and smarter all the time.

Ms. Cathy Honor: The chip will prevent fraud. The chip is being implemented around the world. If a merchant doesn't put in a chip reader and therefore is preventing it, then they would be responsible for fraud. As long as they put in a chip reader, the issuer is responsible for fraud.

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

Go ahead, Mr. Vincent, please.

[*Translation*]

Mr. Robert Vincent (Shefford, BQ): Thank you, Mr. Chair.

I would like to continue along the same lines as my colleague. He said that the Bank of Canada interest rate is 0.25%, and that money could be borrowed from this institution. But the interest rate you charge on credit cards may vary from 18% to 19.5%. If we compare that to the Bank of Canada interest rate, is your rate not much too high for consumers?

Mrs. Nancy Hughes Anthony: No. As I just said, the Bank of Canada rate accounts for less than 1% of the cost of funds for banks. Banks have to find sources of funds in Canada and abroad, and the cost they pay is much higher than the Bank of Canada rate.

I will ask my colleague to continue.

Mr. Robert Vincent: Is money available from the Bank of Canada? Can people borrow whatever amount they wish from the Bank of Canada at the rate of 0.25%? Otherwise, is the Bank of Canada talking through its hat when it tells banks and credit unions that it is making money available to them at a very low rate in order to get the economy going?

Mr. Terry Campbell: I'm going to have to speak in English.

[*English*]

The Bank of Canada rate is literally an overnight rate. It only applies to that overnight settlement; that's literally all it is. As Ms. Hughes Anthony said, it's less than 1%.

Let's look at credit card interest rates. A lot of people talk about 19%, and so on, but there is a wide array of low interest rate cards. You have to look at the whole array of interest rates available. That's the first point.

The second point, again, is that when you look at how cards are used, 70% of people pay them off. So, in effect, the interest rate is 0%. From the bank's perspective, that means there is an interest-free period of up to 51 days that has to be managed, and it's unsecured credit.

You also have to take into account all of the costs of issuing the cards and running the system. We talked about fraud a moment ago. There was half a billion dollars of fraud last year. That was actually up 34% from the year previously. All of that has to be managed in terms of the offering of that card.

We talked about the chip and security. Again, that is a continual battle to keep ahead of the game. All of that also has to be reflected in that card.

All of those things are taken together, and we've seen the risks growing. This is unsecured and relatively risky credit, and it must be priced accordingly.

● (1630)

[*Translation*]

Mr. Robert Vincent: What is the difference between the money you need from the Bank of Canada and the money you need overall for credit card payments? If you tell me that 70% of people pay off their credit card balance, that means that only 30% of them are using your money. So, the total amount of money you need is much less than it is for others. The money you need can come in part from the Bank of Canada, and the money consumers have in their bank accounts, on which you pay 0.75% or 1%, should be enough to cover the rest.

You said we could find out the interest rates on the Internet. I therefore did a little test. I entered the amount of $2,500 at 18%. Did you know that if consumers pay the minimum monthly amount required by the credit card company, it will take them eight and a half years to pay off the $2,500?

Mrs. Nancy Hughes Anthony: I will make two brief comments.

[*English*]

The banks fund themselves globally, and they tend to fund themselves on a matching basis. They need so many funds for the short term; they have so many mortgages at five years and so many mortgages at ten years, and they need to match those funds in the global market. So there are no funds actually set aside for which it's said, these are for credit cards.

But I would also point out, Mr. Vincent, that a credit card is only one type of financing. Someone might be better off with a line of credit. They might be better off with a short-term loan. A credit card is not the potential answer for everybody's financing needs. People have the opportunity to shop around for the type of credit card they need, but they might be better off with a line of credit at a totally different interest rate, if they want to hold a balance for some period of time.

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

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

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

I want to thank our guests here today.

To start off, I want to thank the Canadian Bankers Association. I've asked them for information, which I've been able to use for my constituents at home to explain the banking situation in this country, including credit cards. They've done an excellent job of providing that information, and I appreciate that effort.

And, to be frank with you, as Canadians, we're pretty proud of the banking system we have here compared with what's happening south of the border and elsewhere in the world, and I appreciate the work the banks do. However, there are problems, and that's why you're here.

Nancy, I'll ask you a question first. You talked about disclosure and transparency, and you think you've been pretty good about it. I happen to be a customer, so I can say this. To my friends from the TD Bank who are here—that is, Mr. Sallas—here is the agreement that I hold up here. It's four or five pages, printed on both sides with very small print. Then we have the actual agreement that I signed, with very, very, small print. Let me just read you a little bit here. You talked about interest rates and being transparent on interest rates, so I read:

> The preferred variable annual interest rate for the TD Emerald Visa Card is one of the following: "TD Prime" + 1.9%, "TD Prime" + 3.9%.
>
> "TD Prime" means the annual interest rate established and reported by us to the Bank of Canada from time to time as a reference rate of interest for the determination of interest rates that we charge to customers of varying degrees of creditworthiness in Canada for Canadian Dollar loans.

That is not very transparent. That's not very clear, in my view. Do you agree that we need to clean that up, as has been announced, so that consumers at least know what they're signing up for?

Mrs. Nancy Hughes Anthony: I would agree, but I would also say, Mr. Wallace, that we, as an industry, need to respond to the cost of borrowing regulations, and chances are that behind every one of those darn little paragraphs there is a regulation that makes us explain that. So now we have a whole bunch more regulations, which we're going to have to add to.

That said, I know there are some suggestions in the regulations the government has brought forward—for example, to put a box very clearly on an application that will provide the top statistics for the consumer. Boy, if that helps, and if that does clarify that for consumers...obviously you can't do enough to explain it.

There is a representative here from TD who I know is going to speak to every one of those little paragraphs and codicils—

● (1635)

Mr. Mike Wallace: I don't have that much time, though.

Mr. James Sallas (Vice-President, Personal Lending and Credit Cards, TD Canada Trust): The only thing I would like to add is that we recognize that the words are very complicated. We've been struggling hard to try to find plain language to help explain some of these terms. However, the net result of what you have read is that the customer would enjoy an interest rate as low as 4.15% or as high as 9.15%, so—

Mr. Mike Wallace: There is no way I would know that. I'm not the smartest in the toolbox, but I'm not too bad, and there is no way I would have figured that out.

Part of the announcement was the 21-day grace period. I know you have number crunchers at the bank. Have you figured out what those savings are to consumers, and would you share that with us, on average, of course?

Mrs. Nancy Hughes Anthony: That has an industry-wide implication. It has implications for many more institutions than those around this table. The minister said, when he announced that specific change, that it probably had an impact of tens of millions of dollars. I think that is a low estimate, quite frankly. I think there will probably be more impact just on that change.

Mr. Mike Wallace: Is that more impact on the consumers?

Mrs. Nancy Hughes Anthony: That is on costs. I'm sorry, I thought your question was on costs.

Mr. Mike Wallace: No, my question was what have you estimated are the savings to consumers, the people who hold your cards?

Mrs. Nancy Hughes Anthony: It is the same thing. In other words, the change in that calculation that previously would have cost consumers in the tens of millions will not be there.

Mr. Mike Wallace: My final point—and it doesn't really need a response—is that this has been a very complicated area. First, when people on my street say TD or MasterCard, they think it's Toronto Dominion Bank or Bank of Montreal, and you are the issuer. They don't think of Visa or MasterCard as separate companies, and they definitely don't know about the spinoff you guys have done on these individual companies that administer: middlemen, the payment guys, or whatever you want to call them. In my view, my constituents are your consumers. They are the consumers of the card. In my view, the banks are the consumers from MasterCard and Visa. I don't understand how they come from three levels of different interchange fees—

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

Mr. Mike Wallace: —to 19%, without any pushback. I don't get that.

You can think about that. It wasn't a question.

The Co-Chair (Mr. James Rajotte): Okay. They will think about your question, Mr. Wallace.

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

Mr. Anthony Rota (Nipissing—Timiskaming, Lib.): Thank you very much, Mr. Chair.

Thank you for coming out this afternoon.

I'm going to ask a question and request some homework. I don't expect an answer right now.

There's talk of preferred clients and the ones who are asked for premium cards. Could each and every one of you submit in writing what constitutes a premium or a preferred client? I'm sure that would take up the five minutes and then some. If your answers are submitted in writing, we can all look at them and study them. It's just to clarify the way the system works.

I keep hearing that competition is a good thing for any system. What happens is we have four basic players: we have the credit card company, we have the banks, we have the merchants, and we have the cardholders. The idea is that each and every one of those has a component, but the credit card company is trying to get banks as customers and the credit card company is also trying to get the cardholders as customers. The merchants are customers as well, but they're using the system.

The competition is really to get the banks and the cardholders onside. What ends up happening is the cost to the merchants goes up, which helps the bankers. It's increasing the costs to the merchants, and in the end the cost to the merchants eventually makes its way back to the cardholder. It sounds like a pretty good system: when you raise your prices, the credit card issuers make the money, the banks make the money, and the two people paying for it are actually the losers.

I've got two questions. I'll ask all my questions, and then you can go on so that there's no back-and-forth. We'll hopefully cheat a little bit more and get an extra few minutes while you're answering.

What controls are in place to stop banks and credit card companies—I'm putting them both in the same place, and I know you're going to tell me they're different—from changing their rates to the merchants? As the competition gets more fierce, what's stopping the interchange rate from continually rising so that we can get higher fees for the customer, the customer really being the banks of the credit card companies?

I'm going to refer to the "Householder Information for Constituents", which you passed out. It's an excellent document. I'm going to read a little bit, and I'll ask you to comment on that as well. I'll quote:

> The differences between our system and some others (notably the US) boil down to a few key features—a national system that is well-regulated, well-managed and well-capitalized....

Then on the next one it says:

> Canada's banks are well-regulated by the Office of the Superintendent of Financial Institutions and the Financial Consumer Agency of Canada.

Here is my question: what kind of regulatory system do you suggest for the credit card companies and banks so that we can have something reasonable for Canadians, merchants, and banks and credit cards, so that everybody works well together?

● (1640)

The Co-Chair (Mr. James Rajotte): There's about a minute and a half left.

Mr. Campbell, do you want to start?

Mr. Terry Campbell: I'll start with the first question, and maybe some of my bank colleagues will wish to step in.

Your first question, sir, was on the question of interchange and how it's set and all that. Again, you're absolutely right: you predicted that we will say that the banks do not set that rate. That is the card companies.

I think it's broadly known that.... What is their product? The product of the card companies is the network. They're interested in trying to drive as much traffic through that network as they can. Their mechanism for that is the interchange. What they try to do, as we understand it, is set the interchange to balance it. They have to make it attractive enough for issuers to say, "Yes, we'll take that card", but they also have to make it attractive enough for merchants to say, "Yes, we'll accept that card". It's that balance between the two.

The question is, have they set it right? That's a matter for the card companies, but they do try to achieve that balance so that they get flow-through on their network.

Would any of my colleagues like to elaborate on that, or do we want to move on to the second question?

The Co-Chair (Mr. James Rajotte): We've got about 30 seconds, so why don't we do the second question?

Mr. Terry Campbell: Nancy, do you want to take the second one?

Mrs. Nancy Hughes Anthony: On the second question, Mr. Rota, I think you were asking about the type of regulatory system. We would clearly endorse the fact that the best regulation is fierce competition and very good information and disclosure, and also a lot better financial literacy among Canadians. We already have cost-of-borrowing disclosure regulations. They are very extensive. We have new regulations that the government is just in the process of consulting on. We have the FCAC, which monitors all kinds of consumer-side complaints and problems, should there be any, and provides additional information, which is very useful.

Our feeling is that regulation is not necessary in this context.

Ms. Cathy Honor: We mean more regulation than what's out there.

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

If we could have the information on the two issues you wanted addressed on paper submitted to the clerk, we will ensure all members of the committee get it.

Mrs. Nancy Hughes Anthony: You wanted a definition of qualifications for premium cards....

The Co-Chair (Mr. James Rajotte): It was a definition of preferred clients who qualify for premium cards.

Mrs. Nancy Hughes Anthony: Fine. We're happy to do that.

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

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

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Mr. Chair, and thank you all for attending. I have a number of questions I want to ask, and you may not have the answers to them. Maybe you can get those for me later. I think, though, that if we're going to complete this loop, if we're really going to understand what's happening in credit card usage today, we need the answers to these questions.

How much cash is in circulation in Canada today? Does anybody know that? Can you get me that information? How much money would be needed in circulation if credit cards were eliminated?

I also want the numbers of credit cards over the past years. Over the last 20 years, let's say, how many credit cards have entered into the system? How many more credit cards are we using? Maybe if you have some of those answers, Ms. Hughes Anthony, you can answer those questions.

Do you have statistics on sales revenue in the marketplace? I've asked that question before and nobody has given me the answer in regard to the increase of credit card usage. In other words, can we see a reflection of what's happened in the marketplace as credit cards accelerate?

There's also personal debt. How much is personal debt? You mentioned personal debt; what is personal debt today in Canada? Do you know what the figure is? You said it was a percentage, but what percentage is credit card? What is personal debt today? Do you know the figure?

● (1645)

Mr. Terry Campbell: I don't have that figure right off the top of my head, but we'll get it, and credit card debt is about 3% of it.

Mr. Dave Van Kesteren: You said it's 3%.

Mr. Terry Campbell: That's for households.

Mr. Dave Van Kesteren: In relation to, or in comparison to, say, the U.S. or Germany, do you have those figures? Do you know what the U.S. credit card debt is?

Mr. Terry Campbell: I would say.... We can look at the specific figures, but I can tell you that in Canada the household balance sheet, household indebtedness, ability to repay, and debt servicing ratios are considerably better than in the United States. Delinquency on mortgages is less than 1%. It's 0.3% in Canada and considerably higher in the United States. We have a much better system in this country.

Mr. Dave Van Kesteren: Can you give us some statistics? It's fine to say we have a better system, but I'd like to see a comparison to, say, the U.S., Germany, and possibly Japan.

Mr. Terry Campbell: We can do that.

Mr. Dave Van Kesteren: As well, is personal debt on the increase or is it on the decrease?

I've also asked this question, and nobody has been able to give me the answer: what are the statistics on business expense for bad debts over the past 20 years? Where has that gone? Most businesses write off bad debts at the end of their fiscal year. Could you tell me if that has changed? Has it improved?

Ms. Cathy Honor: Just to clarify, are you asking how much of our credit card balances we've had to write off?

Mr. Dave Van Kesteren: No, but I'm surprised that banks don't have this information if they're using credit cards or trying to advocate the use of credit cards. I want to know what has happened with businesses with bad debts. Traditionally businesses write off a certain amount or percentage of bad debt every year. Has that changed? Has it gotten better? Has it gotten worse since the advent of credit cards? How has it changed as credit card usage has increased? I think you should know where I'm going with this.

Also, do you have a breakdown of the credit card profit versus the percentage of profits in your banks, in each individual bank? I'd like to know just how important this part of the business is to your banking. I'd really like to have that answer too.

Finally—and this one might be a little bit tougher—you talked about the 17% interest rate. If people ask for a lower rate, how many of them don't qualify for the lower rate? Can you give me some...?

Mr. Mike Kitchen: In our case, there's no difference in qualification criteria for the standard rate or the low rate. There is the choice, and a fee for service.

Mr. Terry Campbell: It's the features you get from it. You can say you don't want these features, but you'd like those, so you'll pay a different rate. It's not that people are disqualified from the low-rate accounts. They can get them.

Mr. Dave Van Kesteren: If you had a balance of $5,000 and you paid off $4,900 by the due date, what would the interest apply to?

Ms. Cathy Honor: There are two types of customers. It would depend on whether you were using the card for payment and paying off your balance every month, in which case we're loaning money for 51 days, or whether you're a borrower. If you're a borrower, just as with any other credit product, you're going to pay interest on the entire amount as of the date that you borrow it. So if you made the purchase on the 15th of the month, you'd pay interest on that full amount until it was paid off.

Mr. Dave Van Kesteren: Okay. Thank you.

That's all, Mr. Chair.

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

We'll now go to the next five-minute round.

We'll go to Mr. McTeague, who is making his way back to the table as we speak.

Hon. Dan McTeague (Pickering—Scarborough East, Lib.): Thank you, Chair.

I'm glad I got that opportunity, and I thank you for that wonderful introduction.

Ms. Hughes Anthony, thank you again. After 15 or 16 years, I'm still doing the same thing I've been doing. I haven't been able to shift gears, so I'm going to stick on something that works: competition.

You mentioned competition in the debit area and in the advance, down the road, the possibility of greater competition for consumers. I think most of the colleagues here from the banks have Visa as their issuer. I think every one of you does. Well, you might have one with MasterCard there. For the purposes of the question, let's say it's the majority here.

Visa has told us that they're interested in a flat fee or in perhaps going to a percentage fee, making it more expensive, obviously, for merchants. If the model is the same as the one used in the United States, where we know that debit fees are much higher than they are currently with the interchange, in the way you see it, and knowing how practical that proposal is and how it's implemented in the United States, how do higher prices constitute better competition? How do we sell that to consumers?

● (1650)

Ms. Cathy Honor: I can answer that. From a merchant's standpoint, there's more competition. Merchants right now have one choice, Interac, and we have concerns with it because we've been declining in market share. The ultimate control over the pricing is that merchants decide whether they're going to accept Visa debit, whether they're going to accept MasterCard debit, and whether they're going to accept Interac. When they're competing, you're going to make sure that the prices stay intact.

Hon. Dan McTeague: Let me ask you something. With Visa and MasterCard constituting 94% of all the action from a credit perspective, given the advent of chip technology, if you're able to offer the same inducements on debit that Visa and MasterCard are proposing to do with higher rates, as Visa is certainly proposing to do, what options do merchants actually have?

You're presenting this as if there's competition, when in reality there's very little competition to begin with. I think we're seeing this thing from a very different perspective, but I'm trying to get from all of you here an understanding of how you think there's going to be more competition when in fact the proposals that are going to be made on the side of debit will actually mean higher fees for merchants and, ostensibly, higher fees for consumers, who are simply going to be asked to have their bank accounts opened within a microsecond and closed. It doesn't cost very much to do this. Competition, in this case, looks like it's going to cost a lot more money, not less.

Ms. Cathy Honor: I think there are some issues that we're confusing here. One is—

Hon. Dan McTeague: I'm not confusing the issue at all—

Ms. Cathy Honor: One is competition and the other is interchange on debit. Canada is one of the only countries in the world without interchange on debit. I agree that any interchange is going to be higher, but the no-interchange model is not sustainable for Interac or any other competitor.

Hon. Dan McTeague: I come from a different school, which says, “If it ain't broke, don't fix it”—

Ms. Cathy Honor: It is broken; it is broken.

Hon. Dan McTeague: —and improve what you have.

Well, it's broken from the perspective of a consumer and a merchant. It's certainly broken, because higher prices are being proposed.

Let me ask you a simple question. Earlier you made a comment to my colleague, Siobhan Coady, about the question of fraud and how fraud was on the increase. The Canadian Bankers Association website, to my knowledge, suggests that in fact fraud from your bank, RBC, is down. Can you reconcile the discrepancy?

Ms. Cathy Honor: I can answer for credit card fraud. It is up. It has been growing every year.

Hon. Dan McTeague: And debit fraud?

Ms. Cathy Honor: I'm not sure on the debit card for RBC in Canada.

Hon. Dan McTeague: It seems to me that as a committee we have to be very careful to ensure that we're not asking for something that's going to cost some groups a lot more and volunteering someone else's money to pay for these wonderful new procedures that may be legitimate in some cases and somewhat dubious in others.

Let me shift to the issue that we began with, the question of debit. You're admitting that there will be an increase for consumers under the new guise of competition, which, Nancy, I think you mentioned a little earlier. If that is the case, let me go back to the beginning of this question. Without regulatory involvement, how do we justify to Canadians that the great new wonderful world means that they're going to have to pay more for your services? Other people may be able to get an advantage or certain rewards as a result of that, but how do we justify it to merchants and consumers? Are we supposed to stand here and say, that's the real world, that's the way it is outside Canada? I would rather think that we have a great system here, as Mr. Rota suggested.

Ms. Cathy Honor: Consumers aren't going to pay anything for it.

The Co-Chair (Mr. James Rajotte): Go ahead, Mrs. Hughes Anthony.

Mrs. Nancy Hughes Anthony: I think, Mr. McTeague, you may be jumping somewhat prematurely to conclusions. Could I ask Mr. Kitchen to add a few words?

Mr. Mike Kitchen: I understand that today Maestro, MasterCard's PIN-based offering, is out in the marketplace. It is actually priced below what Interac is charging, so we're already seeing a case in which a new competitor has entered the market and has offered a fixed fee per transaction. They're not doing a percentage of purchase value, and the price is actually lower to those merchants who want to sign up for it.

Hon. Dan McTeague: How does that relate to consumers?

Mr. Mike Kitchen: There is no price differential to the consumer at all in that particular case.

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

We'll go to Mr. Lake, please.

Mr. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): Thank you, Mr. Chair.

I'm finding this study to be quite a communications exercise. Mr. Wallace holds this brochure up and reads off a whole bunch of legal mumbo-jumbo and gets an answer in about eight words about what the stuff that he read actually means. Then I note that we get these simple charts from almost everybody who appears before us; it's taken us four meetings so far, and we still don't know where all the arrows really are on these charts. It's quite an exercise in communication.

I have a question for the CBA. I want to follow up on Mr. Menzies' line of questioning. In talking about the CBA, the second paragraph of the document that you handed us says, "...we provide a forum for discussion on issues of common interest to our members and we advocate for sound policies for banks at the municipal, provincial and federal government levels".

Do you communicate with the banks when you do that?

● (1655)

Mrs. Nancy Hughes Anthony: Of course, and when I say "we", I mean "we" as our members, Mr. Lake. The CBA staff doesn't make these things up. We have a variety of committees and different processes. It's really the members who make these policies.

Mr. Mike Lake: Do you ever get together in a room with your member banks to discuss issues of common concern to the industry?

Mrs. Nancy Hughes Anthony: Of course we do. In those discussions we can discuss a wide variety of matters common to us, including such things as standards and exchange of information. As I mentioned, we must make sure we are compliant with the Competition Act, as is the case with any industry association.

Mr. Mike Lake: You meet to have discussions about areas of common concern.

Mrs. Nancy Hughes Anthony: Of course we do. Yes.

Mr. Mike Lake: You don't consider that to be collusion.

Mrs. Nancy Hughes Anthony: Well, no. As I said, we guide ourselves by the letter of the law of the act to make sure that we don't cross any of those boundaries.

Mr. Mike Lake: Would you consider the concerns raised by merchants and consumers—our constituents and your customers—to be areas of common concern to the industry?

Mrs. Nancy Hughes Anthony: Of course they are. We've had many discussions about the things that we think we can do better, and some of those are obviously in our brief today. Areas around disclosure, for example, absolutely can be improved and do not represent any problem in terms of our discussion. We certainly are willing to entertain those kinds of discussions.

As I said, we can't go into areas that relate to anything to do with pricing or anything to do with the quality or quantity of the product or service. That's where the line has to be drawn.

Mr. Mike Lake: I'll just make the point, though, that if you could get together and make this clear to me in a lot less words and clearer language, I won't be calling for the Competition Bureau to investigate you, I promise.

Mrs. Nancy Hughes Anthony: No, your point is well taken. In the dialogue your committee has facilitated, the whole area of disclosure has raised a lot of those concerns. In a number of meetings of bank representatives, we've looked at our own material and said, boy, this is something that can be improved.

Ms. Cathy Honor: The FCAC came to us over a year ago to simplify the application form. They worked with MasterCard and the CBA, and we've been working on that. That's a great example.

Mr. Mike Lake: Fair enough.

I want to turn my attention to this issue of the merchants and the fees.

During these hearings I've heard your organizations and several other organizations talk about the concerns raised by the merchants and defend those concerns by saying that it's good for the merchants and that the merchants benefit.

Shouldn't the merchants make that decision? Doesn't it seem fair that it should be the merchants, if they're saying they don't like it and you're telling us that it's good for them?

Mrs. Nancy Hughes Anthony: No, I think our view would be more balanced, Mr. Lake. In other words, you can't forget the benefits. Our point would be that you can't forget the benefits. There has to be a balanced viewpoint.

For example, we could obviously say to merchants that perhaps they could just offer transacting in cash. They'd say they can't, that it's just not feasible—

Mr. Mike Lake: I've got about 30 seconds left.

The point is that one of the things we've learned so far is that the way this program is set up certainly benefits the banks, the credit card companies, the acquirers, and the consumers who are receiving the cards, but it certainly works to the detriment of the merchants. That's what they've expressed to us. It also potentially works to the detriment of any of the consumers who don't particularly use those cards and wind up having to pay indirectly for the cost of those cards.

The Co-Chair (Mr. James Rajotte): Ms. Hughes Anthony, could you give a very brief response?

Mrs. Nancy Hughes Anthony: We would certainly disagree, Mr. Lake. Merchants have a very significant benefit from using credit cards, and I think that if you talked to them, you'd see they understand that. At the moment, they obviously have concerns, specifically around.... There is confusion, justifiably, about new kinds of rights, and they are also concerned about costs at a time when their bottom lines are very much in difficulty, and we have sympathy for that.

● (1700)

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

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

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

I wanted to follow up with Mr. Kitchen from BMO. You were talking about the Maestro card and the interchange rates that Mr. McTeague was asking about. Are you saying that rates are cheaper right now for Maestro than...?

Mr. Mike Kitchen: That was certainly the testimony of MasterCard. It's so small in Canada. There are not enough merchants for us to look at, but my understanding is that the testimony indicated that the pricing right now for Maestro is cheaper than for Interac. I know nothing else.

Mr. Glenn Thibeault: In situations like that, how long can that rate stay...? That's the point, right? With credit card interest rates, it could be 1.9% with those introductory offers, and then six months down the road you're at 10%, 11%, or 18%. There's nothing regulating what MasterCard can do six months or a year from now in terms of where they want to bring these rates. This could be an introductory rate to get people used to it. Do you think that's a fair opinion?

Mr. Mike Kitchen: I think you'd have to take that up with them. I'm not qualified to comment on their actions. It would be inconsistent with their actions; the acquirers are setting up contracts with the merchants, so they wouldn't likely set it up in that fashion. I think they could provide you with some clarity on the nature of their contracts.

Mr. Glenn Thibeault: Fair enough. Thank you.

I'd like to open this up to anyone who wants to answer. Can you explain why banks and credit card companies are able to benefit from the advertised incentives that are offered to consumers—insurance payback, products, etc.—and yet they don't have to finance any of those incentives, as the credit card processing and the merchants are ultimately the ones left holding the bag on that, so to speak? Can people comment on that?

Ms. Cathy Honor: I'm not sure I understand the question.

Mr. Glenn Thibeault: Well, right now you have all these premium cards and incentive cards out there, and ultimately it's the merchants and the fees they have to charge to the consumers that actually pay for the incentives that you get when you get one of those cards. They pass that on to the consumers.

I'd like to hear your comments. How is it fair that it's being offered by—I don't want to single out anyone, but I can think of the Avion commercial just because I think it's quite funny, and then you've got the Scotiabank one. Those are advertising, I know, but could you please just comment on how it is fair to put those costs onto the merchants and consumers, when the cards themselves are being put forward by credit card companies?

Mr. Terry Campbell: Maybe I can take a first stab, and I think some of our members would like to comment.

First of all, I'd make two points. One is that there's a mix of costs and benefits across the system. As Ms. Hughes Anthony said in the opening comments, banks, individual customers, and merchants each have costs and each have benefits. Yes, the merchants pay the interchange, but they certainly get a range of benefits from that. They don't have to carry cash, they get immediate security of payment, and they don't have to set up their own credit adjudication system. It's all done for them. They get online payments and they get increased spend. There's a mix there.

In terms of the costs being all on one side and the benefits all on the other, if you look at what the banks have to do, you see that the banks have to fund all the costs of issuing the cards. They have to fund the costs of the systems and the interface with the network. They take care of all the fraud costs; last year those costs were half a billion dollars, and it's going up. They take care of the costs of the security system to enhance that. They have to take care of the costs of loan losses; the results of the banks are just coming out, and in some cases they're—

Mr. Glenn Thibeault: I understand what you're saying, but if it's—

Mr. Terry Campbell: All of that has to be taken into account.

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

Mr. Glenn Thibeault: So if...but that's not getting me the camera that I'm going to get with my points, right? And that's being paid for.

Mr. Terry Campbell: Well, they have to fund those as well.

Mr. Glenn Thibeault: Okay. Thank you for that.

Ms. Goulard or Mr. Whalen, we hear a lot from the banks in relation to interest rates and merchant fees. Are you hearing those same issues from the credit union side? Are these concerns coming to you from your customers and your card holders as well?

• (1705)

Mr. Douglas Whalen: We're much more active on both the debit card side and on the Interac side. In terms of fees and some of the things you were just talking about, credit unions themselves pay for those in terms of offering those types of services. So they do provide special features, such as fire protection, and those are paid for by individual credit unions.

We are hearing concerns from some credit unions, primarily around making sure that their Interac services will be able to compete on a fair, level playing ground. We are primarily issuers of Interac services, and we want to make sure—we are Canadian only, as is Interac—that it remains a strong player in the services marketplace.

One of the things we see in the move to chip cards is that in the move to chip cards, all those terminals get changed. That introduces the opportunity for new applications to come into the marketplace. We believe it's really important that Interac has the opportunity to participate, with those new applications that are going to come into the marketplace, on a fair and even playing field.

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

Thank you, Mr. Thibeault.

We'll go to Mr. McKay, please.

Hon. John McKay: Thank you, Chair.

I want to follow up on that question with the credit unions. It's pretty obvious that there's a bit of predatory pricing going on here in the debit card market by Visa and MasterCard in order to be able to crack into the debit card market. It's also pretty obvious that in the United States, the cost is three times what we pay here.

To be specific, what would you like to see this committee recommend in order to at least give Interac a fighting chance?

Mr. Douglas Whalen: Certainly there are two specific things, as we said in our address. The first thing is that Interac does need to change its governance model. As a non-profit association, it does not have the capability to develop new products and services. It needs to move to a new type of model that would allow it to have the capital and revenue necessary to develop products and services and get them out on the market and compete more effectively.

The second thing would be a review of the regulatory environment to make sure that any new payment scheme—Visa, MasterCard, Interac—is playing on the same field and is subject to the same regulatory requirements.

Hon. John McKay: Would that include the lifting of the consent order?

Mr. Douglas Whalen: Yes, or the change to the consent order based on the discussions that are already under way between Interac and the competition.

Hon. John McKay: Thank you.

The Co-Chair (Mr. James Rajotte): Ms. Coady.

Ms. Siobhan Coady: Thank you very much.

Just on that line, I appreciate your comment about the regulatory environment around debit card issuance. I'm concerned about the fact that Visa and MasterCard, I understand, may be settled outside this country.

Is that your understanding as well, that they settle through Bank of America? Is that your understanding?

Mr. Douglas Whalen: In terms of making sure that they're all subject to the CPA rules, for example, yes, that would be one of the concerns.

Ms. Siobhan Coady: Your recommendation would be to use the CPA rules for any debit card provider in Canada?

Mr. Douglas Whalen: Certainly the issue is let's review the regulatory environment and make sure that all the payment schemes are subject to the same level and same type of regulatory rules.

Ms. Siobhan Coady: Okay.

How much time do I have left, sir?

The Co-Chair (Mr. James Rajotte): You have almost three minutes.

Ms. Siobhan Coady: Oh, I have lots of time. I'll pass to Mr. Rota in a few moments as well.

Ms. Hughes Anthony, you talked about a kind of misunderstanding or some confusion with the merchants around this whole issue of costs. I'm confused as to why it would be a misunderstanding.

Basically, what they're saying to the committee is that with the change in interchange fees, with the change in the merchant fees, and with the introduction of these premium cards, their margins are being completely squeezed. Their costs have risen dramatically over the last couple of years.

Would you care to comment?

Mrs. Nancy Hughes Anthony: Certainly. When I was mentioning confusion, Ms. Coady, I think I was mentioning the fact that I personally have seen a number of billing statements that these merchants do receive. I have to say that they're very complex and very difficult to understand. So perhaps one of the issues, when we're talking about transparency and disclosure, is, boy, let's try to make it a little easier for them.

Perhaps some of the other members here can comment as well, but we don't seem to have the same numbers, shall we say, that the merchant community does with respect to the impact of, in particular, the implementation of premium cards.

To go back to something my colleague said previously, people might have in their wallets a gold card of some kind. It may not actually attract the additional interchange fee. It may not be a true premium card. When we looked at this whole premium card issue, we collectively looked at the entire industry. We think that represents about 9%. It's not the same sort of number that we're dealing with in terms of the merchant community.

I don't know if others have other items to add to that.

We don't have the same statistics, shall we say.

● (1710)

Ms. Siobhan Coady: We've been given clarity, I guess, around that issue from some of the merchants. They showed us their actual statements that showed this increase in cost. It's kind of a perfect circle. You led off your comments today by saying that the banking community has learned a lot, in this introduction of the premium cards, about the cost to consumers and the cost to merchants.

I'll leave it at that. I know that Mr. Rota has some questions.

The Co-Chair (Mr. James Rajotte): Mr. Rota, you have only 15 seconds, but there will be time for another round.

Mr. Anthony Rota: I have one question.

The Co-Chair (Mr. James Rajotte): It will have to take five seconds.

Mr. Anthony Rota: I'll wait until the next round. It's a lengthy question.

The Co-Chair (Mr. James Rajotte): You will have time for another round.

Monsieur Carrier, s'il vous plaît.

[*Translation*]

Mr. Robert Carrier (Alfred-Pellan, BQ): Thank you, Mr. Chair.

Good afternoon, ladies and gentlemen. Before I forget, I would like to congratulate the representatives of the Canadian Bankers Association on their fine presentation. The work has been done very professionally, and I wanted to mention that fact. And it is very well done in both official languages.

I'm going to ask a question which cannot be answered here, because it would take up too much of my time. Since you are in the credit card market—that is why you are here—you must definitely make some profit on this. I would like a representative of each bank to tell me what percentage of your profit comes from credit cards. What percentage of your profits can be attributed to credit cards? I would like a detailed answer from each of the banks, since you represent the Canadian Bankers Association. You could send me that later.

Mrs. Nancy Hughes Anthony: That question was also on Mr. Van Kesteren's list of questions, Mr. Carrier. I have to say that we will have to consult our members on this, because I do not think we can provide you with those figures, because the banks do not report their results in this way. I will just make that comment, but we will get in touch with the members of our association to find out whether we can get an answer for you. If we cannot, we will tell you why.

Mr. Robert Carrier: We just want to know more about what credit cards represent as part of your market activities.

I would ask the same question of the representatives from the Credit Union Central of Canada. You said earlier that you represent the *caisses de crédit*, the credit unions in the Desjardins Movement in Quebec. Do you represent the Desjardins Movement?

Ms. Brigitte Goulard: No, we do not represent the Desjardins Movement, we represent credit unions outside Quebec and *caisses populaires* in Ontario, the Alliance des Caisses populaires de l'Ontario.

Mr. Robert Carrier: I see. I would nevertheless like to know what percentage of your profits are generated by credit cards. It would be interesting to have that information.

Ms. Brigitte Goulard: That would be a little bit difficult, because, although we are the Credit Union Central for the provincial centrals, credit unions do not have to report to the provincial centrals. In addition, we do not issue credit cards ourselves. They are issued by a different entity.

Mr. Robert Carrier: I see: most of my information comes from the Desjardins Movement in Quebec, for which credit cards are an important activity, but outside Quebec, the situation may be different. I accept your answer. That is all I have on this subject, because I will now turn to other matters.

My question is to the Canadian Bankers Association. In your presentation, you often talk about the importance of competition in your field. I think you want to highlight that point as regards the possibility of regulating credit cards. As has been said several times, the costs are passed on to the merchants. There is a coalition of merchants representing 250,000 businesses in Canada that are complaining that they are being forced to pay interchange fees that are higher than they were supposed to have been. I think the decisions made when credit cards are issued to increase the number of users are designed with competition in mind, but the cost of this competition is being passed on to people who were not at all involved in making the decision.

If there were regulations on an interchange rate, do you not think that there could still be competition? Interest is charged on unpaid credit card balances. It is the same as with all other bank operations. You are involved in areas other than credit cards, such as mortgages and personal loans. The banks are in competition to provide these services. So there could still be competition.

Would you care to comment on this?

● (1715)

[*English*]

The Co-Chair (Mr. James Rajotte): Please make it a brief response, Ms. Hughes Anthony.

[*Translation*]

Mrs. Nancy Hughes Anthony: The Canadian Bankers Association represents 17 credit card-issuing companies, including the companies at this table and a few for which this is their only activity, such as MBNA. This is not a business model that applies to everyone, and it is very important to emphasize that fact.

[*English*]

The other point, which I was going to ask my colleague to speak to, is that in terms of the regulation of interchange fees, the only proven example is in Australia.

I know that the chair is trying to....

The Co-Chair (Mr. James Rajotte): I'm sorry, but we're well over time here. I have members who still want to ask questions.

Mrs. Nancy Hughes Anthony: I think our conclusion was that it was not....

Mr. Robert Carrier: Not a success.

Mrs. Nancy Hughes Anthony: It wasn't an experience that was of benefit to consumers.

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

If there's anything further you want to submit to the committee, you can always do so in writing after the meeting.

I have Mr. Chong on the list, for five minutes.

Hon. Michael Chong: Thank you, Mr. Chair.

I believe in competition. In my view, the role of government is to regulate the marketplace in such a way as to ensure sufficient competition so that the invisible hand can then set the appropriate price.

What would you, the bank issuers, say to the following two-part proposal? First, the government does not cap interchange rates. Rather, it allows the bank issuers—you—to set your own interchange rates by forbidding Visa and MasterCard from setting those rates. In other words, you could set those rates at 1.2%, 1.5%, 2%, 10%, or whatever you wish.

Secondly, the government mandates that the interchange rate be added on to the final bill of sale at the point of sale so that the consumer can make a choice between cash or credit. For example, if the consumer chooses credit, then that interchange rate is added on at that point to the bill of sale, at the point of sale, and itemized on the bill of sale so that the consumer can see what the rate is and what they've paid on the interchange, just as we do with the GST.

This seems to me to be a way to empower the consumer to choose the credit card and interchange rate that best fit their needs.

Ms. Cathy Honor: I'll answer that.

First of all, interchange rates are a charge to the merchant—not to the consumer, to the merchant—for the benefits that they receive.

Hon. Michael Chong: Yes, and I'm suggesting that we change that. I'm suggesting that a potential solution is to change that, and charge it to the consumer rather than to the merchant.

At the till, let's say the consumer is asked, “Cash or credit?” If the consumer says cash, they don't pay the interchange. If they say credit, then boom, the interchange is added on of whatever bank issuer, of whatever credit card they are using. It's itemized on the final bill of sale at the point of sale, just like the provincial sales tax and the GST are, thereby empowering the consumer to choose the credit card and interchange rate that best fit their needs.

Ms. Cathy Honor: There are a couple of things here.

Let's say you allow each bank to set the interchange. The first problem is that payment cards are not a Canadian phenomenon. We have to allow those cards to be used everywhere else in the world, and those merchants need to know what the rates are. So by allowing me to say, okay, it's going to be 2%, and at CIBC it's going to be 6%—

Hon. Michael Chong: With all due respect, we've just gone from, I think, two interchange rates to a plethora. Obviously the computer systems and the wherewithal to handle that kind of complexity exist.

● (1720)

Ms. Cathy Honor: No, but the problem is for the merchant. I don't think the merchant would want that. The merchant will not know whether she, coming in with her Visa card, and I, coming in with my Visa card, will have different rates.

Hon. Michael Chong: But the merchant doesn't care, because the merchant's not paying the interchange rate. The merchant will be paying a separate fee to the acquirer for the service the acquirer pays, but it's simply a fee added to the bill that the consumer would pay and pass on, through the acquirer, to the issuing bank.

Ms. Cathy Honor: But the interchange rate, by definition, is the cost to the merchants for the benefits they derive out of the payments. So it doesn't make sense.

Hon. Michael Chong: Thank you.

The Co-Chair (Mr. James Rajotte): Would anyone else like to respond?

Mr. James Sallas: To a certain extent, you have that in existence somewhat today, because merchants can offer a discount for cash. That ultimately is really the biggest break on excessive interchange rates, I think. If all of a sudden MasterCard or Visa tomorrow wanted to charge 10% interchange, I think you'd quickly see merchants offering significant discounts for cash payments.

The model you're describing is surcharging. That could also work as the flip side of a discount for cash. Merchants can compete on whether or not to absorb the cost of interchange, as they absorb the cost for shipping or other features they offer their customers.

But I think you're on the right path when you say let the market be transparent and let it compete.

Mr. Douglas Whalen: I think there's an assumption that cash provides more value for the merchant. That's not necessarily so. Cash can be an expensive thing for a merchant to handle—

Hon. Michael Chong: I understand that.

Mr. Douglas Whalen: —so if you're incentivizing consumer behaviour that says “I'm going to pay cash because it's cheaper to do that”, it could actually increase costs for the merchant.

Hon. Michael Chong: But clearly, credit cards, in the view of the Retail Council of Canada and other retailers, are also expensive for them to process. But I understand the bleed from the till, fraud and the like, and theft at the till in terms of cash.

Thank you very much.

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

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

Mr. Anthony Rota: Thank you, Mr. Chair.

I'd like to shift over to debit and maybe spend a little bit of time on that regarding priority routing. This is for the banks, I guess, more than the association. Have you been asked or have you signed agreements to ensure priority routing for VISA or MasterCard?

I'll just open it up. If anyone's been asked to get on board, how does that help or how doesn't it help?

Mr. Mike Kitchen: I'll take that question, being a Maestro issuer. Just for the record, we've been a Maestro issuer for north of 15 years because we think it makes a ton of sense to allow our debit consumers to use their debit cards around the world. We've had Maestro in place all along.

As Maestro has started to enter into Canada, even on a limited basis, what priority routing does, if two networks are available to make the purchase, is allow the determination of which network is provided. We have made agreements relative to wanting to be able to pick the low-cost alternative. As a result, we can elect to priority route our customers.

We think that makes a lot of sense, because we're worried about the alternative. If you ask the customer to choose whether he wants to go to Interac or Maestro, what will happen in the marketplace over time is that we'll start competing to win that customer's choice. For all of your concerns around the merchant today, those convincing the consumer to choose will start to enter more cost into the system. We think the priority routing keeps it in a lower-cost model.

Mr. Anthony Rota: Just to clarify, I like what I heard there, which is that the lower cost will automatically be chosen.

Mr. Mike Kitchen: Because of the number of parties in the system, the merchant makes his decision on whether he wants to accept each of those network providers and—

Mr. Anthony Rota: So if there are two, does the machine look at the two rates and decide on the lowest one, or is it just whichever one the agreement is with?

Mr. Mike Kitchen: It's whichever one the agreement is with. There is no particular issuer.

Mr. Anthony Rota: So there is no real saving there.

Mr. Mike Kitchen: The merchant decides who it is. The merchant decides whether he wants to participate at all—

Mr. Anthony Rota: I understand that.

Mr. Mike Kitchen: —and then it's the person who has the relationship with the cardholder who makes the decision on which network it goes through. It's our card that's in use and it's our customer who is using the card, and there are costs passed along to us as well.

Mr. Douglas Whalen: Credit unions tend to have very different business models for how they deliver an Interac service, let's say, versus a Maestro service. There are very different cost structures associated with those two deliveries, so the credit union as a card issuer really needs to be able to set which channel that would come down, because the costs would need to be reflected in that.

We are concerned with making sure that on the merchant's side it's a fair and level playing field in terms of making sure that, say, undue pressure isn't brought to bear to limit the opportunities and options out there.

● (1725)

Mr. Anthony Rota: Thank you.

I'll shift over to liability. The new chip cards are coming out. I've heard conflicting stories on the chip cards. The big concern is the shifting of liability. You can correct me if I'm wrong, but my understanding is that with the new chip card it will be a safer system. It will be safer for the users, as well as the merchants and the banks, and the liability is shifting from the banks to the individuals. Or is it just shifting to the individuals who don't change over to the chip by 2010 or 2011?

The question I have there is on the cost for the equipment. For those who are leasing, I understand that it's just a matter of shifting the lease. Is the lease rate going to remain the same, more or less? Or is it going to be something much more expensive? On the corporations—I guess this would apply mainly to the larger merchants who have their own equipment—is there anything built in there so that they can acquire new equipment, or do they have to buy new equipment and bear all the costs themselves?

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

Mr. Terry Campbell: I would say that's primarily a question for the acquirers. I know you had them here the other day. They're the ones who put the machines on the desk.

The basic thing is that it is more secure. It really is in the consumer's interest, because it's very traumatic to have your card compromised. This will take care of that.

This has been under way for a long period of time. There is going to be an end date. In the shifting over to the new system of chip, there will be no shifting of liability. The banks will still have that burden of liability. However, it should be a much better system all around because of the chip.

Mr. Anthony Rota: Other than....

Sorry, Mr. Chair.

Mr. Terry Campbell: As you say, when you're renting it or leasing it, there's no cost to that merchant.

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

We'll go to Mr. Dechert, please.

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

Ms. Hughes Anthony, you mentioned in your presentation that approximately 70% of Canadians pay off their credit card balances every month. By contrast, in the U.S. it's only about 50%, and the same in Australia. It's 56% in the U.K. You also mentioned in your materials that the delinquency rate in the U.S. is much higher than in Canada.

Can you tell us how credit card interest rates on Canadian cards compare with those in the U.S., the U.K., and Australia, given those circumstances and facts?

Mrs. Nancy Hughes Anthony: May I ask Terry Campbell to answer?

Mr. Bob Dechert: Sure.

Mr. Terry Campbell: I would say there are two things.

First, when you're comparing rates, the key point is precisely the point that you raise. For 70% of Canadians, the effective rate is zero. For Americans, that's a much smaller rate.

To do a real card-by-card comparison, you have to look across the board. Of course, interest rates tend to be affected by the local economic conditions, inflation rates, the strength of the economy, and so on. You'd have to look at the low-rate cards, the premium cards, the standard cards.

I think Canada compares very well. If you look at fees, and certainly compare with the United States, our closest competitor, we have fewer fees and we have lower fees.

Mr. Bob Dechert: In terms of interest rates, can we do some analysis of the range of interest rates that consumers pay in the U.S. on credit cards versus in Canada? One would expect, given the more favourable situation in Canada, that interest rates would be somewhat lower.

Mr. Terry Campbell: We can do a comparison, but again, you have to bear in mind that they are very different markets. With U.S. cards, yes, you have an interest rate, but you have a whole bunch of other fees that you would not find here.

Mr. Bob Dechert: Okay. Understood.

I have one other question for you. Can you explain to us how banks arrive at, say, a 19% or higher interest rate on credit cards at a time when interest rates are at historic lows in terms of prime rates? What is the average effective yield to banks on rates for credit card interest?

Mrs. Nancy Hughes Anthony: Once again, as I think I explained earlier, very often people do misunderstand the issue about the relationship to the Bank of Canada rate.

Mr. Bob Dechert: No, I understand that point.

Mrs. Nancy Hughes Anthony: So I think we can set that one aside.

Mr. Bob Dechert: I'm asking how you get to 19%.

Mrs. Nancy Hughes Anthony: You know, I think, once again, there are cards that are prime plus, the very low end of the market. There are cards that go up to higher rates.

Jim, do you want to take this one?

● (1730)

Mr. James Sallas: Let me try, because this is a difficult thing to try to understand.

What happens is that a comparison is drawn between the Bank of Canada rate and the 19%. You go, "Wow, that's much too much." But what's really driving it in there, and the biggest cost in there, is the cost of credit losses. That is a bigger cost component than in fact the cost of funds to supply the credit.

If you do some rough math, just very quickly, 70% of customers pay the balance every month, 30% don't.

Mr. Bob Dechert: And that effectively reduces your yield.

Mr. James Sallas: That reduces your yield.

Now, one way to think of it is that industry statistics for the last quarter would suggest that loss rates in Canada are running at about 4.5% on credit cards, but that's across the whole population of 100%. In terms of those 70% who pay off every month, you can't rightly attribute any losses to that population. It's the 30% who don't.

So if you have 4.5%, divided by 0.03%, all of a sudden the attributable loss rate to that 30% of the population is in the 14% range. Now you have 19%, less 14%, less the cost of funds, another four percentage points, and pretty soon you're down to a margin of 1% or 2% plus interchange.

Mr. Bob Dechert: Can you say that this is a kind of average yield rate that banks earn on credit cards?

Mr. James Sallas: In today's market, with today's loss rates, that's a pretty credible example, I think.

Mr. Bob Dechert: If you could demonstrate that, I would think it might be helpful to consumers.

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

To all of you, thank you for coming in. I know that you'll be responding to Mr. Rota's question. I've also been asked by Mr. Lake if we could get information on all of your low-interest cards—your list of your low-interest cards, the rates, and the qualifying conditions. If you could submit that to the clerk of the committee for members' information, we would appreciate it.

I do want to clarify two points. I think I know the answers, but....

Who proposed to first introduce premium cards? Was it the card issuers or was it the credit card companies?

Mr. Terry Campbell: It was the card companies.

The Co-Chair (Mr. James Rajotte): Okay. It was the card companies.

The second one is just for clarification. How much of the interchange rate goes back to the credit card companies? Visa did give us an answer a couple of weeks ago, but perhaps we can just get a response on that today.

Ms. Hughes Anthony.

Mrs. Nancy Hughes Anthony: Let us perhaps take that away, in the interests of time, and get back to you on that point.

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

Monsieur Carrier, you have a point of order.

[*Translation*]

Mr. Robert Carrier: The list of issues you referred to, for which you will be providing answers, will include the percentage of each bank's profits attributable to the issuance of credit cards.

[*English*]

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

If could also get a response on that, I think that was Monsieur Carrier's question as well as Mr. Van Kesteren's.

Mr. McTeague.

Hon. Dan McTeague: Just for clarification, I want to determine, through you, Chair, whether we can receive, if it's at all possible, one way or another, the fees received from acquirers versus the fees that the banks get from acquirers. I'm not sure that was made clear. If I'm mistaken, I apologize.

I would make that request, if it's at all possible, through you, Chair.

The Co-Chair (Mr. James Rajotte): So it's the fees received by the banks from acquirers...?

Hon. Dan McTeague: No, from acquirers to the banks; I'm wondering what those fees would be.

A voice: [*Inaudible—Editor*]

Hon. Dan McTeague: Chair, do you want me to respond? I think the record will show that in one of the responses....

I believe it was you, Ms. Hughes Anthony, who said that banks receive a fee from acquirers. Did you say that? Was I mistaken?

Mrs. Nancy Hughes Anthony: It's not the case, Mr. McTeague, so if I did say that, it was in error, and I apologize for that.

Hon. Dan McTeague: Thank you.

Thank you, Mr. Chair.

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

Thank you for coming in, for your presentations, and for your responses to our questions today.

The meeting is adjourned.

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

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