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# **Standing Committee on Industry, Science and Technology**

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**EVIDENCE**

**Tuesday, June 2, 2009**

**Chairs**

**Mr. James Rajotte  
The Honourable Michael Chong**

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## Standing Committee on Industry, Science and Technology

Tuesday, June 2, 2009

• (0900)

[English]

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

We have with us here today four organizations: the Canadian Payments Association, Option consommateurs, the Canadian Federation of Independent Grocers, and the Canadian Community Reinvestment Coalition.

We'll start with the Canadian Payments Association.

**Mr. Doug Kreviazuk (Vice-President, Policy and Public Affairs, Canadian Payments Association):** Good morning.

First of all, I'd like to thank the members for the invitation and the opportunity for the Canadian Payments Association to speak on this important issue here today.

The Canadian Payments Association, or CPA, was created by an act of Parliament in 1980. Our membership currently stands at 136 financial institutions, including the Bank of Canada, the chartered banks, the trust and loan companies, credit union and caisse populaire centrals, cooperative credit associations, and other institutions.

Parliament has given us a very specific mandate to establish and operate the national clearing and settlement system; to facilitate the interaction of our system with others; and to facilitate the development of new payment methods and technologies. Parliament has further set out a clear public policy mandate for the CPA to promote the safety, soundness, and efficiency of our systems, taking into account the interests of all users. As such, the CPA plays a leadership role in providing safe and efficient clearing and settlement systems for Canadians.

Payments are the lifeblood of our economy. Every day, Canadians, businesses, and governments use a variety of payment instruments to purchase goods and services, make financial investments, and transfer funds between two parties.

Financial institutions need arrangements to transfer funds among themselves. This is facilitated through clearing and settlement systems and a framework of rules and standards maintained by the Canadian Payments Association. On an average day, we clear and

settle \$202 billion. Last year alone, we cleared and settled more than 5.7 billion payment transactions.

The CPA operates in a very well-defined environment. We operate pursuant to our legislated mandate and our clear public policy objectives, and under the careful oversight of both the Minister of Finance and the Governor of the Bank of Canada.

Our bylaws are considered statutory instruments. As such, they require Governor-in-Council approval.

The rules we develop in support of the various payment applications and for the operation of the clearing and settlement system are subject to scrutiny by the Minister of Finance, who has the power of disapproval on any CPA rule, in whole or in part, for public policy reasons.

The CPA also owns and operates this country's Large Value Transfer System, which has been designated as a systemically important payments system under the Payment Clearing and Settlement Act. As such, the Governor of the Bank of Canada has direct oversight responsibility for this system and the affairs of the CPA with regard to that system.

But the relationship with both of these important oversight bodies extends well beyond the formal requirements established in the legislation. As an effective self-regulated organization, the CPA fosters and promotes close relationships with all the stakeholders in the payment system.

In this regard, the CPA maintains a rigorous consultation process. In the development of new rules or policies for the payment system, we rely heavily on the advice provided by specialized committees composed of members and stakeholders alike.

Once the new policy has been drafted, it's presented to the Stakeholder Advisory Council for their consideration and guidance. Subsequently, board approval is sought for the release of this policy for broad public consultation. Only after stakeholder and member input is fully considered will the final recommendation be put forward to my board of directors. If the new or amended rule is approved by the board, it will immediately be sent to the Minister of Finance for his consideration. The minister has disapproval power of any CPA rule within 30 days of receipt.

A moment ago, I spoke of the importance of the Stakeholder Advisory Council. It's been in existence since 1996, but only enshrined in our legislation since 2001. The council is composed of 18 stakeholders, representing retailers, large and small corporate entities, provincial and federal governments, payment service providers, and consumer groups. Given the breadth of knowledge on this council and the diversity of its composition, the members of this council participate in all significant activities at the CPA.

● (0905)

Now, returning to my mandate for a moment, the first mandate, "to establish and operate the system", is in fact critical to a well functioning Canadian economy, but the CPA's facilitation role is equally important for the smooth operation of the payment system and its evolution. The change drivers to the payments system are many, but the CPA continues to be responsive to the industry's needs through the provision of a rules framework for payments and the portal for members to clear and settle these payment transactions.

As a result, the focus of financial institutions and payment service providers need not be on the back end of the payments system, but on the front end and the development of new and more efficient payments applications to meet the needs of Canadians.

Before I conclude, I'd like to briefly comment on credit cards. Credit cards have not historically been seen as part of the CPA's scope. When the CPA was first created back in 1980, payments were, for the most part, paper cheques, and our business was to clear and settle payments drawn on demand deposit accounts. Since credit cards at that time did not draw on demand deposit accounts, they were not seen to be part of the CPA's mandate, and that remains true today.

That point aside, we're all aware that the landscape continues to change quickly. In this regard, the CPA continues to play a leadership role in providing safe and efficient clearing settlement systems to meet the current and future needs of Canadians.

Thank you very much.

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

We'll now go to Option consommateurs, *s'il vous plaît*.

**Mrs. Anu Bose (Head, Ottawa Office, Option consommateurs):** Thank you very much, Mr. Rajotte.

Committee chairs, vice-chairs, committee members, the clerks of the committee, and analysts, let me begin by thanking you for giving Option consommateurs the opportunity to appear before you on the issue of fees charged to merchants and to consumers for the use of credit and debit cards.

Option consommateurs was established in 1983. We are a non-profit association whose mission is to promote and protect consumers' interests and to ensure they are respected. Our head office is located in Montreal, and we've recently opened a small office in Ottawa.

We intervene on matters of public policy with both the Government of Quebec and the federal government. We have been involved in analyses of the Canadian financial services sector for

several years, through research, surveys, and by representing consumers' interests in different fora, such as the Canadian Payments Association.

● (0910)

[*Translation*]

With me today is Ms. Geneviève Reed, from Montreal, who is the Head of the Research and Representation Department of Option consommateurs. I will hand the floor over to my colleague.

**Ms. Geneviève Reed (Head, Research and Representation Department, Option consommateurs):** There has been much recent discussion that it is consumers who ultimately foot the bill for interchange fees, whether or not they use their credit cards. In addition, it appears that all consumers "subsidize" business and premium credit card users through overall increased prices of the goods and services which they consume. This practice combined with other practices such as cuts in the minimum monthly payment, over-limit and late-payment penalties, discounted introductory interest rates, cash advance cheques, cash rebates, payment holidays and countless offers in the mail and in stores, do the consumer no favour. Instead, they only confuse the ill-informed or already indebted consumer.

Credit products are increasingly complex. Unfortunately, a significant segment of the Canadian population faces challenges of basic literacy and, most likely, also challenges of financial capacity and financial literacy. We believe that it is time, where credit cards are concerned, to reduce the imbalance between large corporations and individual consumers. We must also raise the principle of lender responsibility, by this, we mean the responsibility of the financial institution which chooses to provide a new credit card to someone already carrying \$40,000 of unsecured consumer debt, or is unable to alert a consumer immediately when he or she exceeds the credit limit.

Lending institutions often overlook their obligation to provide full disclosure, to provide sound financial advice and to assess the repayment capacity of their borrowers. Several witnesses whom you have heard during previous sessions of this committee have already demonstrated the problem. The system is complex and full of holes. Canadians are certainly heavy users of credit and debit cards. They use these payment mechanisms without really understanding how they actually operate and without always knowing what their rights and responsibilities are.

Credit cards and debit cards are electronic payment instruments, they are monetary transactions without paper currency or cheques. We have observed with alarm that in 21<sup>st</sup> century Canada, there's no recognition in the Currency Act of electronic money. It simply does not exist. Instead, electronic payment systems involve multiple stakeholders whose activities are each subject to different regulatory frameworks. No one player appears to bear overall responsibility. There must be clear and fair rules for all players in the system. At present, users bear the responsibility and risks related to electronic payments even though they themselves do not create these risks. In addition, the majority of the instruments governing electronic payments provide no penalties for non-compliance. The delegation of supervisory powers to the private sector leads to a democratic deficit since the interests of consumers cannot be properly represented as they are in a parliamentary or regulatory process.

Take the example of debit cards. Their use is governed by the Code of Practice for Consumer Debit Card Services, adopted in 1992. The application of this code is voluntary. And according to various surveys and studies, the financial institutions apply it partially and unevenly and consumers are left in the dark. Since Interac may change its business model and Visa and MasterCard may enter the debit card market, we believe it is imperative that governments ensure that Canadian users of debit cards are guaranteed a safe and fair environment.

I will now hand the floor over to Ms. Bose, who will share with you our conclusions.

• (0915)

[English]

**Mrs. Anu Bose:** We ask that the results of the investigation being conducted by the Competition Bureau on the practices of Visa and MasterCard under section 79 be made public and open to discussions; that the Competition Bureau initiate an investigation into profit levels; that the Department of Finance undertake a consultation on electronic funds transfer; and that clear and mandatory rules be established for account statements.

Thank you, ladies and gentlemen.

We would be most happy to take questions.

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

We'll now go to the Canadian Federation of Independent Grocers.

**Mr. John Scott (President and Chief Executive Officer, Canadian Federation of Independent Grocers):** Good morning. My name is John Scott. I am the president and CEO of the Canadian Federation of Independent Grocers. With me today is François Bouchard, who is the owner of The Country Grocer here in Ottawa. He's also the volunteer treasurer of our organization.

Before I address the credit card fee issue and the proposal by Interac to restructure, I'd like to put the issue into context by ensuring that members of these committees understand the unique situation of independent grocery retailers in the Canadian market. This \$72-billion retail food industry is both highly competitive and very concentrated, with approximately 85% of food distribution in the hands of only five corporations.

While statistics suggest that independent grocers account for about 40% of overall retail food sales, this seeming dichotomy is explained by understanding that independent grocers that are not large enough to buy products directly from the manufacturer must garner their goods from a wholesale operation of one of these major players. In fact, Canada is a very rare country indeed, because a company can operate retail stores, franchise, and wholesale all in the same market.

In order to stay on the playing field in this extremely difficult environment, it is critical that the independent grocer be differentiated from all other competitors. But given the high concentration in this market and the impact of buying power, you can imagine how hard it is for us to maintain our competitive position. Consequently, to the maximum extent possible, the independent must have a degree of certainty in its operating cost structure.

One of those cost centres is the expense associated with financial transactions, such as the growing and ubiquitous use by consumers of debit and credit cards. At one time, acceptance of these cards in the retail food environment was a "nice-to-have". Today it's a must-have. It's almost a public utility.

I don't want to use our time to regurgitate the endless statistics and percentages that you've been bombarded with through the course of these hearings. The crux of the issue, from our perspective, is that Visa and MasterCard control 94% of the credit card market in Canada, which enables them to impose and adjust very high fees both to retailers and to consumers. Based on their history, the planned move by these two huge corporations to enter the debit and credit card market suggests that there will be an upward trajectory in fees in the future.

In the past 18 months alone, Visa and MasterCard have taken a ton from our retailers. We know that the new enhanced credit cards that have been extensively marketed to the public have resulted in totally unexpected double-digit fee increases to the retailer. There is no cost certainty here, and there is no ability to control the cost base. Simply put, the consumer is told by the issuer that the cards are accepted at all retail outlets, and the retailer, regardless of size, must accept all of those cards or lose a percentage of customers. Imagine trying to train a cashier on the different appearance of a Visa card.

We are strongly of the opinion that these fee increases, if allowed to continue on their present unchecked course with no accountability or caps, will force some of our people out of the market. You all know that the profit margins in grocery are already razor-thin, and, because of scale, an independent grocer simply does not have the ability to negotiate a lower fee. For competitive reasons, it is impossible to pass these unexpected fees on to the consumer. No, for the independent grocer, disproportionately higher fees challenge the competitive landscape of the market. In such cases, the independent grocer, because of cost pressures, simply becomes less competitive.

Second, let's be really clear on this. When small businesses such as independent grocers are forced by ever-changing and uncontrollable external cost structures to go out of business, many elements of our society suffer harm, including the consumer, local producers, employees, and indeed, the diversity they bring through their entrepreneurship to our Canadian economy. In fact, every political party represented here cites small business as being the backbone of the economy in every election campaign. Why would you do anything to damage their competitive nature?

Enhanced credit card fees present an extremely difficult problem, but issues pertaining to the potential restructuring of the debit card and Interac agreement are even more daunting. The reality is that debit cards are much more prevalent in our stores than cash or credit cards. In fact, in some cases, 60% to 70% of all transactions are done with debit. Debit fees are very important to a retailer. They're based on so many cents per transaction.

• (0920)

Independent grocers are already at a disadvantage because they don't have the ability to negotiate transaction fees at the same level as major players. However, through the non-profit status and operation of Interac, we've arrived at a reasonable degree of certainty in the cost structure, and we do compete effectively in the Canadian market on that basis.

But any adjustment to this system or, in the worst possible case, a change to a percentage-based transaction, would dramatically exacerbate the cost differential that currently exists and would artificially and negatively affect the competitive landscape.

That's why it is imperative that if Visa and MasterCard are allowed to implement a debit system here, it should operate under the Canadian rules that govern Interac. Fees must relate to the cost of processing, plus only a reasonable rate of return with no contemplation of, or ability to move to, a percentage charge.

We do not accept the contention of Interac that this non-profit entity can compete against these two multinational credit card companies by continuing to offer low-cost alternatives. In essence, Interac would be placed in the same situation as the independent grocer. Because of lack of scale, the firm would have no alternative but to raise its fee base. Small business ends up being the victim.

It is imperative that we continue to maintain an accessible and equitable debit card system in Canada. We have yet to hear a convincing argument as to why a debit fee should have anything to do with the size of a grocery bill. The money is being transferred from the customer's account to the issuer in real time, and it's not a credit charge or a loan.

Canada has allowed a very unique system to develop. This open, unregulated system has created some huge challenges that have recently been exacerbated by the unwanted charges from value-enhanced credit cards.

It is now imperative that we as Canadians ensure the development of a fair, made-in-Canada payment system. We need to control the spiralling costs of accepting value-enhanced credit cards. More importantly, we need to ensure that we maintain a flat, reasonable, and cents-per-transaction merchant fee for debit cards. We need a system that provides for accountability and oversight. In short,

together, let's develop a made-in-Canada solution that's fair to all players.

Thank you very much for allowing us the opportunity to bring our concerns to these committees today. We look forward to responding to your questions.

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

We'll go to the Canadian Community Reinvestment Coalition for the final presentation today.

**Mr. Duff Conacher (Chairperson, Canadian Community Reinvestment Coalition):** Thank you, Mr. Chair.

My name is Duff Conacher. I am the coordinator of Democracy Watch and chairperson of the Canadian Community Reinvestment Coalition. Thank you for the invitation to appear today on this very important topic, which essentially amounts to corporate responsibility and effective accountability measures in this area of access to credit, fair pricing, and the fair treatment of consumers across Canada.

The Canadian Community Reinvestment Coalition is made up of 100 organizations from across Canada. They are citizen groups that have come together and have been together now for 13 years. During this time, we have been advocating measures to effectively increase the accountability of banks and other financial institutions.

I welcome this opportunity today. I will not repeat the very well-stated concerns and problems with the current marketplace that other witnesses have already set out. Instead, I will highlight a couple of other factors having to do with access to credit and the credit card market.

I agree with Mr. Scott that this access-to-credit system is essentially now a public utility and should be regulated as such. Other public utilities are required to prove that their prices are fair and are required to go through public reviews before they can hike any of their rates. We need to apply this practice to our systems of basic credit and overall banking services.

The banks and other credit card companies have marketed credit cards much like tobacco companies have marketed their products, trying to hook youth on these products with images of security, freedom, and all the wonderful things that will come with credit, with little information about the downside. The downside, of course, is not to physical health but to financial health. Being hooked on debt can be just as damaging in the long run as being hooked on tobacco.

We need to have measures in place to ensure that these companies are providing full information, and also that consumers are receiving full information from other sources, because they generally will not trust the information that is coming from sellers. They realize that the seller is always trying to sell them something and does not have an incentive to fully inform them about any product.

The coalition was here in February 1997 before the industry committee, which held the last hearings on credit cards. Those hearings were unfortunately cut short by the election call in the spring of 1997, but I'd urge all members of the committee to read through the transcripts of those hearings. They contain some very interesting information. Pretty much all the stakeholders appeared, but because of the election, the committee did not issue a report.

Here we are now, 12 years later. The problems haven't gone away and have actually become worse as the gap between the credit card interest rate and the Bank of Canada prime lending rate has increased. We have also seen unilateral increases over the past year. It is our position that the banks are essentially trying to recoup the \$16 billion in losses they suffered mainly due to their own decisions to get involved in very risky lending.

Since then, there have been three rounds of reviews of the Bank Act and financial institutions legislation. None of the rounds has produced any measures that will protect consumers from gouging and ensure that banks and other financial institutions are serving everyone fairly, at fair prices.

We heard from John McCallum, when he was secretary of state for financial institutions and entering his first cabinet meeting in 2002, that credit card interest rates were "grotesquely high". That's a direct quote. Yet nothing has been done about these grotesquely high credit card interest rates since then.

• (0925)

These proposals by Minister of Finance Flaherty were made just a week ago. You should have before you a news release that the coalition issued on May 22 responding to the proposals. If you don't have it, you will soon, as it is being translated. The proposals are too little, too late, to protect financial consumers from being gouged.

Three of the eight proposed regulations change only credit card disclosure requirements, and only in minor ways. Another proposal only addresses consumer consent for increasing the credit limit. Another only limits debt collection practices in one way. None of these five of the eight proposed regulations will do anything to prevent gouging, nor will the proposal to create a task force on financial literacy. It will largely be redundant, given the existence of the Financial Consumer Agency of Canada, which has been doing financial literacy work for the past eight years now.

While the proposed 21-day interest-free period and a restriction on one fee, and payment allocation requirements will protect a very few customers from a very few charges, none of the proposals would decrease the likely already excessive credit card interest rates. Nor will they affect the extra interest rate and fee hikes the banks and other companies have unilaterally imposed in the past year, nor their overcharging for various credit card services.

What will actually bring accountability to the banks? What will effectively require them to do something that will actually help consumers in return for the up to \$200 billion in subsidies offered to the banks? What will balance the marketplace, especially to balance the fact that consumers pay for all financial institution advocacy simply because the financial institutions charge consumers—

• (0930)

**The Co-Chair (Mr. James Rajotte):** Mr. Conacher, could we ask you to conclude?

**Mr. Duff Conacher:** Yes, I will.

Our estimate is that consumers provide \$200 million in annual costs to financial industry advocacy efforts.

We are asking for three simple things.

Yes, you can cap credit card interest rates, but you need an independent audit first, which should go back at least 10 years. It would require the credit card companies to prove that their prices and interest rates have been fair throughout that time period and that they've only been making a basic profit that's reasonable, not an excessive profit.

Second, we need to require the institutions to enclose a one-page pamphlet like this lick-and-stick envelope in their mailings to customers. This would invite customers to join their own "bank watch" facilities at no cost to industry and no cost to government.

**The Co-Chair (Mr. James Rajotte):** Mr. Conacher, you're well over your time here. Thank you very much for your presentation.

We'll start with questions from members in a seven-minute round.

Mr. McTeague, you have the floor.

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

[Translation]

Thank you for everyone for being here today.

This is a very important subject for our party. We are the ones who pushed for these studies, both in the Senate and in the House of Commons. I am extremely pleased to see you here today.

[English]

If I may, I'll begin with you, Mr. Kreviazuk.

I have a couple of questions with respect to the CPA. You refer to and define stakeholders: a group of 18 consumer groups and provincial-federal representatives. I take it that they are experts. Can you tell us who they are specifically?

**Mr. Doug Kreviazuk:** I didn't bring the list with me, but I'll go through it. We have representation from the federal government with PWGSC. The provincial governments of Ontario and Quebec are represented; Ontario is the identified representative for the rest of English-speaking Canada. TMAC, which is the Treasury Management Association of Canada, has three representatives on our stakeholder council, which represent the interests of the utilities and the petroleum industries.

We also have three council members for consumer representation. Option consommateurs is a member. The Consumers Council of Canada and the Consumers' Association of Canada are also represented on our stakeholder council.

**Hon. Dan McTeague:** Okay. If you could just provide that in writing as well, at some stage down the road, that would be great.

**Mr. Doug Kreviazuk:** Certainly.

**Hon. Dan McTeague:** You referred to the nexus of the two credit/debit systems. What's your relationship? What's CPA's relationship with the debit system right now?

**Mr. Doug Kreviazuk:** It's really a complementary relationship. Interac itself is not a member of the Canadian Payments Association. Our membership is set out in our legislation and it is those I identified: banks, trusts and loans, etc.

But there is a parallel between the memberships of Interac and of the CPA. Interac, through its rules structure, in explaining how the POS environment works, relies on the CPA to clear and settle all the payments from their members. At the end of the day, the members of Interac deliver their payments to the CPA for clearing and settlement, pursuant to our rules.

**Hon. Dan McTeague:** Thank you for that.

Do you see the CPA as having the ability to provide more valuable, more direct oversight if the point of sale system were included in your mandate?

**Mr. Doug Kreviazuk:** We have the mandate already to deal with all electronic payments that our members choose to deliver to us. Currently we have rules that deal not only with cheques, a dying payment technology, but also with POS, the new payments that are developing with "tap and go", the electronic bill payment, the person-to-person payment, and the business payment. We already have a very broad mandate to clear and settle payments in this country.

**Hon. Dan McTeague:** Do you think you would play a more effective role, given your position, in creating a more transparent electronic payments market by requiring disclosure of losses, for instance, as we've heard here from previous witnesses, due to fraud or other aspects of the payments market?

**Mr. Doug Kreviazuk:** There are certain elements of the clearing and settlement system that obviously are proprietary to the individual financial institution and there are those that are system related. From the CPA's perspective, on the clearing and settlement side and on the systems side, we have full disclosure. In fact, broad public consultation is effectively part of our DNA. There's no policy or rule or rule change that does not go forward for broad public consultation and to the Stakeholder Advisory Council.

• (0935)

**Hon. Dan McTeague:** Assuming the CPA some day had the power to regulate interchange fees, and considering that your board is made up of, among other things, representatives of financial institutions, would that constitute a proverbial conflict of interest?

**Mr. Doug Kreviazuk:** First, the Canadian Payments Association does not have a mandate to regulate any fees whatsoever.

**Hon. Dan McTeague:** What if you were given that authority?

**Mr. Doug Kreviazuk:** Our board of directors is broadly composed of our member financial institutions. Our composition is 16. The chair is a representative from the Bank of Canada. Six members of our board are from banks. Six are from the non-bank

constituent members. There are three ministerial appointees from the Minister of Finance for independent purposes.

[Translation]

**Hon. Dan McTeague:** Thank you.

Ms. Reed and Ms. Bose, I have two short questions for you. Has your organization seen an increase in the inflation rate as a result of these interchange fees?

**Ms. Geneviève Reed:** To this point, we have not looked at that issue.

**Hon. Dan McTeague:** Do credit card interchange fees have an impact on small- and medium-sized businesses?

**Ms. Geneviève Reed:** That does not come under our mandate. Unfortunately, we have not examined that issue.

[English]

**Hon. Dan McTeague:** *Merci.*

Mr. Scott, you and I have done a lot of work in the past, and I wish that previous committees had listened to the concern of small independent grocers in this country when there was the attenuation of competition.

You mentioned the Competition Bureau being involved to some extent. I'm not so sure, given the way it's currently constructed, that it would provide solace, given how they perceive and consider thresholds within the markets.

Regarding these fee increases on the credit and on the debit side, which you've said is 60% or 70% of your global purchases, I want to ask you or Monsieur Bouchard if you can categorize for us what impact you will see in the next two or three years for the bottom line of independent grocers, and not just in surcharges to consumers. How many will actually go out of business?

**Mr. John Scott:** Mr. McTeague, I can't forecast how many will go out of business, but just on the enhanced fee, we've seen the financial statements of several retailers in the last two weeks—and I'm quite prepared to provide them to you on a confidential basis—and you can see the dramatic change on the enhanced credit card.

Look, folks, you have no idea of the significance of this thing. We're talking about something like up 50% overall, because these cards are ubiquitous. When you look at the ads on TV and say "oh, I get 2% for groceries", no grocer has agreed to that. That's not a deal.

François, do you want to comment?

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

**Mr. François Bouchard (Treasurer, Canadian Federation of Independent Grocers):** I can only speak for myself, but if I look at my small business here in Ottawa, with 30 employees, in the last year on the credit cards alone, my fees have gone up 25%. I can't control what cards come in. My statements used to be one page long. Now there are about 10 or 15 pages of fees of different cards, such as Infinite and all these little changes.



If they change the debit structure, it's going to have a horrible impact on my business. Right now, we pay a fee per transaction. If I go on a transaction basis on a percentage basis, I have no way of passing it on to the consumer. I can't go back to the consumer and say, "Please, I'd like to charge you 2% or 3% more." I can't do that. I don't have the power to negotiate with the Visas and MasterCards. I have one store with 30 employees. A lot of members have the same thing.

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

Thank you, Mr. McTeague.

*Monsieur Bouchard, vous avez sept minutes, s'il vous plaît.*

[Translation]

**Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ):** I would first like to say thank you, Mr. Chairman.

I would also like to thank the witnesses for being here this morning to talk to us about this complex matter of credit cards and debit cards. My first question is for the representative from the Canadian Payments Association.

You said that credit cards have never come under your mandate and that this is still the case. Do you think that you should have a role to play regarding interchange fees. and if so, what would that role be?

• (0940)

[English]

**Mr. Doug Kreviazuk:** Under our legislation, we are to provide the framework for rules and standards with regard to the clearing and settlement of payment items. It does not, at this point, extend to the creation or maintenance of any fees. That is a proprietary matter between the financial institutions and the payment schemes like Interac and Visa, in which they participate.

[Translation]

**Mr. Robert Bouchard:** My next question is for Option consommateurs. You mentioned that consumers pay the interchange fees without, I assume, even being aware of them. That means that a business's costs are divided among everyone. Do you believe that consumers would change their habits if the fees appeared on the bill, if they saw the cost to them of using their credit card? Would that cause a change in buying habits? I would like your comments on that. What might that change?

**Ms. Geneviève Reed:** Thank you for your question, Mr. Bouchard.

At present, consumers generally find it hard to understand their own statements, so if more financial information were added, it might confuse consumers more rather than helping them. That is one point.

Moreover, we believe that these fees should not be paid for only by consumers. The interchange fees come on top of all the other fees imposed on consumers, whether we are talking about over-limit fees, minimum-payment rate changes or other fees.

The problem seems to be very complex, as do the impacts. The repercussions for merchants are very significant, as they have explained. There is no doubt that in sectors like the grocery industry,

merchants cannot pass along the costs to consumers because that would increase the price of the food, which is an essential commodity. In other areas, however, there might well be an increase in product prices, which worries us for the medium term. These costs cannot be absorbed by the system, but only by consumers in the long run.

**Mr. Robert Bouchard:** You also talk about having clearly established rules for consumers. Could you elaborate a bit on that? What do you mean by clear rules for consumers?

**Ms. Geneviève Reed:** Right now, the various types of electronic payment, such as credit, debit and pre-authorized payments, are regulated differently. As I mentioned, there is a voluntary code governing debit payments, which applies to debit cards, and there are the CPA rules that apply to pre-authorized payments by debit card, for example. There are all sorts of rules that no one has a comprehensive handle on.

In our view, there is a need for clear rules, in particular concerning transparency of the costs, responsibility and risk allocation. In the case of credit card advances, consumers currently bear the responsibility if there is fraud involving their card. Why are they not responsible when the fraud involves a debit card instead of a credit card?

There is also the issue of how to settle disputes. It would be important to know how many days a company has to settle a dispute, if a dispute arises, and how it is to be settled.

Finally, there is the matter of regulating solicitation. As you know, solicitation for credit, both by mail and in stores, is very widespread, and we feel that it is inappropriate.

• (0945)

**Mr. Robert Bouchard:** I would like to put one last question to the Canadian Federation of Independent Grocers.

You seem to be saying that the fees are prohibitive for a small grocer or small merchant because their business volume is not high enough. On the other hand, a larger company has a higher business volume and is favoured by credit card owners.

Does that mean that the solution lies in regulations standardizing interchange fees? What do we need to do so that small companies can use credit cards as much as larger companies can? What has to be done or regulated?

**Mr. François Bouchard:** Ideally it should be what you are saying. Approximately 70% of all transactions are done by credit or debit cards and that is increasing on a daily basis. My business is not a bank and I can only negotiate with two people. Obviously, therefore, I am at a disadvantage from the outset compared to larger businesses.

With regulations, there would be a level playing field and consumers would be able to shop anywhere. My costs would be controlled just like others and I would be able to compete with them.

[English]

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

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

**Mr. Chris Warkentin (Peace River, CPC):** Thank you, Mr. Chair.

Mr. Conacher, I have just a couple of questions for you. On May 22, you were asked by CBC News about your perspective as it pertains to hard caps for interest rates on credit cards. I know that many people have been calling for hard caps to be placed on credit card fees. I'm wondering what your perspective is and if it has changed at all since May 22.

**Mr. Duff Conacher:** No. I believe I was actually speaking about caps overall, whether they're floating caps or hard caps. It's possible to set a cap, but first you need to know what the profit levels are of the companies involved.

That's why we're calling—not just for that reason but overall—for the government to mandate one of the federal financial agencies, whether it's OSFI, the Office of the Superintendent of Financial Institutions, the Competition Bureau, or the Financial Consumer Agency of Canada, to conduct an independent audit of these companies to find out what their credit card divisions' profit levels are and whether they are excessively profitable or reasonably profitable.

**Mr. Chris Warkentin:** I appreciate that. I think you made that point a little earlier.

Here's what I'm wondering about specifically. From your perspective, what impact would a cap have as it relates to consumers? I think we're looking at two different things here. As a committee, I think we generally want to ensure that, number one, consumers are well served by the industry. Number two, we also want to ensure that small businesses and the businesses that rely on this mechanism for transactions are well served. In your opinion, what specifically would be the effect on consumers if in fact a mandate was put forward as it pertains to a hard cap?

**Mr. Duff Conacher:** On a cap, whether floating or hard, we don't know what the effect would be. I can tell you that if the government moved close to doing it, I believe the banks and the other credit card issuers would say they're going to cut off half the customers who have credit cards currently because they wouldn't be making enough money under a restricted, regulated interest rate. But they could easily be making it up, because right now they hold all the numbers. They know what their profit levels are and what all their costs and revenue streams are.

That's why you need to do the audit first. Anyway, it should be an annual audit looking at increases they may propose in the future and also looking backwards at least 10 years to find out the extent of gouging in the past. Then you could set a cap that would be workable.

**Mr. Chris Warkentin:** I'm just trying to get through a number of questions here, so I appreciate the answer as it pertains to customers and the folks who use credit cards.

In your testimony, Mr. Scott, you talked about the ever-changing and uncontrollable external cost structures that are inflicted on small business or businesses in general as it pertains to the interchange and transaction fees charged to your businesses and the businesses you represent. This is something that I think came as a surprise to many consumers as these hearings have unfolded. There is a different

interchange fee that the small business or the business owner has to pay depending on which credit card or Visa they pull out of their wallet.

In fact, if they pull out one Visa, it might be one fee for the business, and if they pull out the other Visa, it might be a different fee for the small business. It's made me a lot more aware of what I'm using when I pull out a credit card at the grocery store.

As it pertains to these uncontrolled and ever-changing fees, do you have a suggestion as to what we should come up with in terms of a recommendation? Is it so much the fact that it's ever-changing and that it fluctuates from one card to another or is it just that fees for certain cards are higher than for others?

I guess my question would be this: should we recommend that there be an across-the-board levelling of those fees so that at least, even if they're higher, small businesses would have an understanding of the cost structure they're working with?

● (0950)

**Mr. John Scott:** I honestly think the critical thing is transparency and a clear understanding upfront. There has been none. These things arrived on the market, and I can guarantee that everybody in this room has one in their wallet. There was no transparency upfront with anybody. That's number one.

Let's be really clear. In the grocery industry, with the competitive margins, there is no way to pass on these additional fees. You eat them. There is no room there. The debit card has to stay at cents per transaction. It has to stay there. If you move to a percentage, you will knock a ton of small businesses out of the market, and not just grocers. You'll knock a ton out of the market.

**Mr. Chris Warkentin:** I appreciate that, but I'm looking for some type of solution here. The credit card companies tell us that because of the new technologies they're implementing they have to charge an additional interchange fee for the processing of the chip. On the other side, we hear that transparency is necessary.

I was a small business owner. We could work in a situation of increased costs for our business as long as we knew those costs were coming. We could work them into the price and everybody was on the same playing field.

I'm not hearing your recommendation. Is it that you should know that these things are happening? We know they're all happening now, but that's not helping the situation today. Is it necessary to level these fees?

**Mr. John Scott:** That would be great, but it would take the whole concept of entrepreneurship out of the marketplace. There has to be some modicum of equilibrium. Can we charge an enhanced fee for this credit card? Sure, but if you take it to François' store, he needs to know it's going to be there. There has to be some range of fairness.

I want to come back to a point I made in my testimony. These things are not discretionary by retailers; these are absolutes. You must carry these things. You cannot train your front-end staff to accept this card and not another one. If this committee does nothing else but recommend transparency in credit fees to the merchant, that will be huge.

**Mr. Chris Warkentin:** Thank you.

**The Co-Chair (Mr. James Rajotte):** Thank you, Mr. Warkentin. We'll go to Mr. Thibeault.

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

Welcome, everyone.

Mr. Conacher, in your opening statement, you raised some important points that have been overlooked throughout a lot of this. We've heard about fair treatment, fair pricing, corporate responsibility, and transparency.

What can we do to ensure those things are put in place so that credit card companies can't gouge consumers with 26% interest rates because they're four days late on a payment? What can we do to ensure that merchants and small and medium-sized businesses won't have to increase their costs to the consumer because of what interchange fees are doing?

Maybe you can explain some of your ideas.

**Mr. Duff Conacher:** Sure. As I mentioned, the first is a price review.

In the past decade when Canadians have been asked about access to credit and these banking services, 90% have said these are essential to function in society. Whether you're trying to travel or rent a car, you just need to have access to basic credit. We view it as something that should be treated as other essential services are treated, like energy utilities. When you have the concentration of market share within a few companies, there is even more reason to do so.

So in order to establish where the fair baseline is in terms of fair prices, you need to go through an audit. Send in the auditors to these companies. Don't trust their own figures, because they can fudge them given the looseness of general accounting rules and how often their credit card divisions are mixed in with all their operations. Do these independent audits.

Nothing would be disclosed that would be proprietary. It would just simply let consumers know what the profit levels are that these companies are operating at. If they're operating at profits margins of 50% to 100%, just the news of that is going to bring down the prices and interest rates the next day. But if it doesn't, then the government steps in and goes further.

Secondly, consumers pay for all of the advocacy of financial institutions and the other companies. Why? Because these companies can easily add a loonie or a toonie to their charges or a percentage point to their interest rates and raise millions of dollars—tens of millions and hundreds of millions of dollars overall across the industry because they have 25 million customers.

How do you balance that out? Well, we're sitting here as consumer groups with very limited budgets, trying to interest people and get them to join in support across the country. It's very difficult. We can't just add a loonie or a toonie to some bill we're sending them like the institutions can. So at no cost to the industry or the government, the government can require these companies to enclose a one-page pamphlet like this one, like the magazines used to use. It's a lick-and-stick. It would describe the group and invite people to join. They'd stick their cheque in and send it back.

Twenty-five million Canadians would receive it. If only 3% responded, there would be a group of 750,000 members. If there were a \$40 membership fee, the group would have a \$30 million budget. Then you would have a group that people could call, that could help them shop around, and that could be here participating in policy-making processes. It could also help people complain. It could do a ton of financial literacy work that no other organization could possibly do as effectively as a group that's run and funded by consumers themselves.

Then you need an overall audit of competition as well.

Do those three things and you'll actually have effective accountability, fair treatment, and fair prices.

● (0955)

**Mr. Glenn Thibeault:** Great. Thanks.

Madam Reed, you mentioned—I can't rhyme them all off—a list of credit card products, from credit cheques to premium cards, and you said these products do consumers no favours.

Can you explain that?

**Ms. Geneviève Reed:** Actually, we have been conducting research on those commercial practices. The report will be out soon, so I will be glad to share the report with all the members.

For instance, we can take the example of the minimum payment. The amount of the minimum payment has changed from time to time. Ten years ago, it was 5% of your balance. Now it's 2%. If a person is paying only his minimum payment every month, it will increase the amount of interest that he will pay to the lender, to the credit card owner. This is one thing that we may want to regulate or have a framework on. This is one example.

**Mr. Glenn Thibeault:** Great. Thanks.

Mr. Scott, one of the things I've heard from my local chamber of commerce in Sudbury is that many of these small and medium-sized businesses, as I think Mr. Conacher said, see credit cards and debit cards as a public utility. I like the way he's using that.

Are we going to see, for example.... I don't want to name the financial institution, but in a television ad, there are two ladies shopping at a grocery store, and one of them says, "Hey, I got two bucks. What did you get?" Do you think people recognize that your store has just paid for that two bucks? The woman makes it seem like she just got this two dollars free and it seems like it's coming from the credit card company. Do you think the average Joe or Mary in Canadian society understands who's paying that two dollars?

**Mr. François Bouchard:** Absolutely not. My staff doesn't even understand it. If they see the ad for the thing, they're going to run and get that card and do the same thing. So no, it's misleading, absolutely misleading.

My fees go up constantly. I have to cut somewhere else. I have to cut positions. I mean, I'm looking at the future and saying, "Now what?"

I've come through a rough year with the credit cards and now we're going to debit. If they change to debit, now what do I do? You simply can't predict it. It's hard enough to be in business as a small business when all these things are changing. That's why we need the committee to make some recommendations and act on them. Nobody really gets it. To answer your question, even my staff who work in it day to day don't get it.

•(1000)

**Mr. Glenn Thibeault:** So you have small profit margins and the credit card companies are coming in and grabbing them. That means you can't expand and you can't hire more people.

**Mr. François Bouchard:** I can tell you that my fees went up 25%. I didn't see it coming. I simply got a little notice that said, "By the way, the fees are changing." That's it.

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

Thank you, Mr. Thibeault.

Ms. Coady, please.

**Ms. Siobhan Coady (St. John's South—Mount Pearl, Lib.):** Thank you very much for taking the time out of your hectic schedules to be with us today. This is a very important issue and we appreciate your time and the information you're giving.

I'd like to start, if I may, with the CPA. I have a few questions for you on clearing and settlement.

As you may be aware, as I understand it, Visa and MasterCard currently do their clearing through the Bank of America in the United States. One of the questions I wanted to ask you is on clearing and settlement should they enter the debit card market. As they're entering the debit card market, I understand they will still be clearing and settling through their traditional route. Is that your understanding as well?

**Mr. Doug Kreviazuk:** I can tell you that in our meetings with Visa, that's what was expressed to us. We've not had a similar discussion with MasterCard, although I've heard something very similar to that in these proceedings.

**Ms. Siobhan Coady:** I'm wondering about your thoughts on that. Considering that they may be settling outside of Canada, I guess that is an issue of some importance for the banking system, for the Canadian payment system. I'm wondering what your thoughts are on that. Do you think there should be a regulatory framework put around Visa or MasterCard or any entrant into the debit card market to require that they would clear and settle through the Canadian Payments Association?

Would you give me your perspective on that?

**Mr. Doug Kreviazuk:** I think there are two points to that question. The first is with respect to processing the payments. At the Canadian Payments Association, all of the clearing and settlement is done within the borders of Canada. Even our backup contingency, and our second backup, and our third backup remain within the borders of this country.

If for any reason they all failed at one time and we had to go to a fourth level of backup, it could conceivably be routed through the United States, because that's really where the only other system is. But that would only happen if the supplier of our services contacted

the CPA and we subsequently contacted each of the member institutions to safeguard any of the issues related to the Patriot Act, etc. That's the first point.

The second point was with respect to settlement. Settlement in this country happens across the books of the Bank of Canada. The reason it does is so that the bank itself is the lender of last resort. In the event that at the end of the day there was a failure or a systemic failure, the Bank of Canada stands in as the lender of last resort in order to preserve the soundness of our system.

**Ms. Siobhan Coady:** Based on that interesting information, would you think that we should consider regulations for Visa and MasterCard to debit and clear in Canada should they enter the field of debit?

**Mr. Doug Kreviazuk:** I've not opined on that question, but I can tell you that it raises significant public policy concerns.

**Ms. Siobhan Coady:** Thank you. I agree with you there.

I'm sure you have an observation on the U.S. system. As you may be aware, STAR was similar—and I'll say "similar"—to Interac. They've basically been crowded out of the market by Visa and MasterCard. What have been your observations? Have you seen increases in exchange fees, for example, on the debit product because of this? What are the shifts in the U.S. marketplace? What observations do you have?

**Mr. Doug Kreviazuk:** Well, we're not directly involved with the United States, although in my capacity at the CPA I do have occasion to meet with my colleagues both south of the border and overseas.

I can tell you that particularly in the United States their current preoccupation is with regard to risk, I guess, both liquidity risk and safety risk, but it is, as it is in Canada, a very dynamic industry. There are a lot of players moving into the space and new payment products happening. Some are succeeding and some are failing, but as you point out, Visa and MasterCard have done exceptionally well in their growth rate in the United States, and I guess you could say at the expense of some of the smaller regional networks.

•(1005)

**Ms. Siobhan Coady:** Thank you.

I'm going to have to move to the grocers' association. I have a couple of seconds left. I have two quick questions.

Have you seen a huge increase in these premium cards? I understood that it was only 8%. Some retailers are telling me it's 25% to 30%.

Second, there are 50% more Aeroplan miles given on gas and groceries and in drug stores as per their information in their own leaflets. Are you seeing more people using credit and premium cards at the grocers?

**The Co-Chair (Mr. James Rajotte):** Be very brief, please, Mr. Bouchard.

**Mr. François Bouchard:** Definitely, the increase has been significant. We're seeing people use them more and more. I can track back four or five years. We're seeing a double-digit increase in the usage. You've seen the ads. People are saying, "I spend \$5,000 on groceries a year so why don't I use my points and collect?" There is no doubt about that.

The other thing we're seeing a lot of is those Infinite cards. The consumers are coming into our stores saying that "well, they changed them to put the chip in the card", but sure enough, it's not just a chip. It's now an Infinite card. We're seeing that at the store.

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

*Monsieur Laforest, vous avez cinq minutes, s'il vous plaît.*

[Translation]

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

Good morning to all our witnesses.

I have a few questions for Option consommateurs.

You raised a point that hasn't really been discussed throughout our hearings. You stated that the whole credit card payment system is complex and is full of holes. Without presuming which conclusions the committee will make, I would say that I agree with you. In fact, the system is rather complex and there are several holes. There are individuals who profit from this who are not necessarily consumers.

You raised the issue of cash. You say that electronic cash does not exist in Canada. Do you think it exists in other countries?

**Ms. Geneviève Reed:** Thank you for the question Mr. Laforest.

In fact electronic transactions are usually subject to legislation, for example they have been in the United States since 1978. So we'll agree that we are a little behind. The legislation that was passed in the United States, the Electronic Fund Transfer Act, is not perfect but at least it provides a minimal framework for fund transfers.

There is another law as well as a code that works in the same way in other countries, including Great Britain and Australia. So this does exist in other countries.

**Mr. Jean-Yves Laforest:** We've been told that in Canada there are more and more electronic transactions—one can call this electronic cash. People are using paper money less and less. At the same time there is legislation that defines what currency is, without referring to electronic cash. That is rather archaic.

Do you think that adding a part on electronic cash to the Currency Act would be a good start in dealing with the issue of regulations or a framework?

**Ms. Geneviève Reed:** Unfortunately I don't know what all the ramifications of such a change would be. The issue involves much more than simply recognizing the existence of electronic cash.

In Canada, for several years now, we've been asking that consumers be made aware of any harmonization procedures that are initiated and the responsibility that each party has when corrections to mistakes are made, when there are losses, thefts, solicitation, etc. These are all part of a much broader issue than simply that of including electronic cash in the Currency Act.

**Mr. Jean-Yves Laforest:** Option consommateurs is a consumer advocacy group. Last week, the Canadian Bankers Association appeared before us. One might say that they are a bank advocacy group.

In your brief you say that people—and, unfortunately, a significant segment of the Canadian and Quebec population—are poorly informed and not very literate with respect to the financial sector. I agree with you. Is it not your impression that the people advocating for interests other than those of the consumers are benefiting significantly?

How do consumers react to your demands, to your crusade to defend them? I sometimes have the impression that consumers don't mind paying more when they use their credit cards because they don't know that they're paying more.

● (1010)

**Ms. Geneviève Reed:** Yours is a two-part question.

First, one mustn't forget that in Canada, 42% of adults between the ages of 16 and 65 years old—almost half of the population—have a number two literacy level, which means that they are able to understand a simple text. The Financial Consumer Agency of Canada is currently proposing a broad study on numeracy, that is, the financial knowledge of Canadians.

Second, it's all very well to provide information to consumers. However, too much information should not be provided. Minister Flaherty recently tabled regulations on disclosure, information etc. In the United States there is what is called the Schumer Box, and even Senator Schumer has said that this is not necessarily the best way to inform consumers. When information is provided, it's important to always consider the consumers' perspective, and not necessarily that of the company.

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

Thank you, Mr. Laforest.

Mr. Bernier, you have the floor.

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

I will pick up where my colleague Mr. Laforest, and Ms. Reed left off, that is, about the information that should be provided to consumers. They spoke about this earlier.

You raised Minister Flaherty's draft regulations. How do you perceive those regulations? We heard comments from other consumer associations that told us that this draft regulation is a step in the right direction. We're hoping that it will be passed as quickly as possible, and that this specific need for the consumer to be better informed will be met.

If you were going to amend this draft regulation, what would you do?

**Ms. Geneviève Reed:** Thank you for your question, Mr. Bernier.

I do not have the regulation before me. I'm sure you will be receiving our comments between now and the end of the consultation.

However, it should be pointed out that in Quebec, the Consumer Protection Act which has been in existence for about 30 years, goes very far and provides very good protection for consumers. We would like to see the same kind of legislation and regulations for all Canadian consumers.

We think that the regulation on the 21-day period is very positive. We feel that this is the right step forward. However, we do have some concerns with respect to other regulations.

It is good to provide information to consumers but the information truly has to be tailored, an example being the regulation on minimum payments. I know that the banks told you that it would cost millions of dollars. No, it can't cost millions of dollars. Statements of accounts are tailored to provide individuals with points, to inform them on how many points they have and what they can do with those points. Could they not be informed about the implications of only making minimum payments each month? Honestly! What are we, stupid? I think that it is doable and that it must be done. This kind of information has to be tailored. It cannot only be about general minimum payments. That's one example.

**Hon. Maxime Bernier:** Are there any other precedents in other countries on tailoring information regarding minimum payments, as you suggested?

**Ms. Geneviève Reed:** I can't tell you that today because I do not have the results of our study. We recently undertook a study on this issue. I could send our findings to the committee members, as I stated to Mr. Thibault earlier on.

**Hon. Maxime Bernier:** Thank you.

I have a question for Mr. Scott.

Earlier on it was stated that credit cards are very popular amongst consumers. The Bank of Canada also undertook a study and they told us that credit cards are one of the most costly methods of payment.

Why do you think consumers still use credit cards to such an extent? There are other ways of making payments instead of credit cards. Is providing information sufficient to make the consumer aware of this issue?

● (1015)

[English]

**Mr. John Scott:** That's a very interesting point and it's one the committee should take note of.

Of course, the consumer continues to use credit cards, and I don't know whether the committee has been told this yet, but Canadians are the number one points collectors in the world. That's not proportional, but absolute: they're number one in the world. It's an interesting point.

But one thing we should remember in Canada is that our consumers use their credit cards less in the grocery store than consumers do in the United States. There's still that thing in the back of the consumer's mind that the debit card or cash is the way you pay

for required commodities, as opposed to borrowing against the necessities of life.

So the enhanced credit cards are a problem for us, for sure, but they're not as significant a problem as the debit card. Why would consumers continue to use the credit cards? I think the consumers associations are in a better position to answer that than I am, sir.

[Translation]

**Hon. Maxime Bernier:** Thank you very much.

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

[English]

We'll go to Mr. Rota, please.

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

Thank you for coming out.

I have a quick question, Mr. Scott, regarding your partnership. Do you have any partnerships with credit card companies? Do you receive any reward or memberships? Is there any kind of negotiation that happens en masse for all of your members or does each member negotiate on his own?

**Mr. John Scott:** Do you remember when I started off and tried to explain the structure of the industry? If you're buying or you franchise from one of the major players, the odds are that you can piggyback on the rate they have negotiated. Different rates are negotiated by the major players in the country.

If you end up in a situation such as that of Mr. Bouchard, who has a single store and an affiliation with a couple of stores, he's negotiating on his own. That's a choice you make. You either want to be a franchisee of a major company that controls everything you do, in which case you may get a lower transaction charge, or you're on your own to negotiate the best rate you can.

**Mr. Anthony Rota:** That's exactly what I expected as an answer. It leads me to my next question concerning small grocers.

Mr. Bouchard or Mr. Scott, I think it'll be a combined answer, if you don't mind.

Small grocers are forced to negotiate on their own and basically have no clout. If you have your one store, you're on your own. There are small specialty stores in large urban centres, and it's very important to have those stores, because they cover a certain niche.

I'm in northern Ontario. I have small communities that are served by one store. There is one store, and the community is isolated, but it's not far to go to one of the majors. The cost of the interchange fee or that transaction in the smaller stores is passed on directly to the consumer, or it's more than likely absorbed by the store, because they can't afford to add any more to the cost. The cost is already up there. The larger stores can pass it on because they have a little bit more play, and they can play better with the suppliers as well.

Here's the scenario I'm thinking about. We have small communities that have the one store, which is struggling to be there in the first place. We're talking about service to small communities. We're talking about jobs, about where people work. It's a major employer in a small community.

Realistically, what are the chances of those stores getting wiped out or having to close down because they can't afford to stay open? They have that extra cost that makes them just a little more expensive, causing people to leave the community, go elsewhere, drive for an hour, and maybe save a few dollars on their groceries. More and more, this really leaves the community at a disadvantage. It causes more and more of a drain on the population because the services aren't there.

I'm pushing and pulling and maybe digging a little deeper than the purview of this committee, but I really am concerned about the survival of small communities that really centre around a grocery store or a central store that supplies them with goods.

If I can have your comments on this, I'd appreciate them.

**Mr. John Scott:** You are absolutely correct about the competitive situation. Because of the strength of the large players in Canada, there really isn't any centre where there isn't some form of competition within driving distance, except in the case of some very remote communities. You don't pass those costs on to the consumer.

In some of the northern communities that you're talking about, somebody might pay, for example, as high as 7¢ a transaction on a debit card, whereas the corporate rate might be 1¢ or even less than 1¢. That's the strength of negotiating power.

Let's get back to the certainty. That grocer has figured out how to compete despite the 7¢ per transaction he is paying, but if you go to a percentage transaction, those stores won't be there anymore. That was our point earlier.

• (1020)

**Mr. Anthony Rota:** That's exactly what I was concerned about. With a fixed rate of 7¢ on a transaction, or even as high as 40¢ or 50¢, you have a fixed cost. It's there. The cost of the transaction, whether it's a large or a small one, is going to be the same. Whether it's on \$10,000 or 10¢, that transaction cost is basically not much different. To go to, say, a percentage-based debit fee to make that transaction happen could be devastating to the small grocers.

**Mr. John Scott:** Just take, let's say, your 3¢ or 3% on a \$200 bill. Even with my simple ability in mathematics, I can see the difference.

**The Co-Chair (Mr. James Rajotte):** You have five seconds, Mr. Rota. I'm sorry. Thank you.

We'll go to Mr. Wallace, please.

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

Thank you to our guests for coming.

I'll start with Mr. Scott.

Just so I'm clear, obviously you're in favour of competition. If you're an independent grocery business, obviously you're keen on competition, because there's a lot of it out there. Your basic premise to us on the debit side is that you're not concerned with Visa and MasterCard entering the marketplace as long as the rules are that they are at fixed costs, not percentages. Am I accurate in that statement?

**Mr. John Scott:** That's right: cents per transaction. Now—

**Mr. Mike Wallace:** Here's my thinking about this. Do we even need more players or do we just keep Interac the way it is? Do you think there's an advantage to having more players?

**Mr. John Scott:** The way to go is to keep Interac the way it is. It's non-profit. I know that Interac has been here and they've talked about going into a profit mode and that kind of thing. They don't have the buying power. They're in the same situation we're in.

If you leave the system the way it is, it's not a bad system right now. We've all learned how to work within it. We can deal with that.

**Mr. Mike Wallace:** Okay. Well, there are some arguments that the world is changing in terms of buying stuff over the Internet and things that you can't do with a debit card, but that's another argument they're using.

Mr. Conacher, you've talked about Visa and MasterCard as individuals. There aren't a lot of them left, I don't think, but there are the Canadian Tires of the world, and the Bays, those that have their own credit card systems. They tend to have really high interest rates. People treat them as a credit card, but they're specific to their stores. Do you include those in the issue? Do you think we should be seeing them at this table alongside the other credit card issuers that we've seen?

**Mr. Duff Conacher:** Although those retail companies represent a much smaller proportion of the market than the bank-issued cards, no business has a right to gouge. Government, in this area of access to credit, has a particular role to play in terms of ensuring that everyone is treating everyone fairly and well at fair prices and fair interest rates.

So send in the auditors to the divisions of those companies as well, and require them to prove that they are making a reasonable profit from their credit card divisions.

**Mr. Mike Wallace:** I appreciate that. I have one more question for you. I just want to clarify something.

We have heard at this committee about premium cards, and I was as ignorant as the next guy about this. I have two cards in my wallet. One's a plain old Visa, with nothing on it, and then I have a Visa that collects air miles. Neither one of them is what the banks and the Visa companies call premium cards. Premium cards, like an Infinite card, have no credit limit. These others actually do have credit limits; I'm not at them, but they do have credit limits.

So there's a regular card, a premium card that would collect points, and then an Infinite card, which really.... When they say 12%, that's what they're talking about. They're competing against Amex and those guys, who have no limits on their credit, and they are charging more for that.

Mr. Conacher, you've compared the banks to a public utility. I don't necessarily agree with you on that, but that's okay. To me, a public utility is the gas company. One gas line comes into my house. The hydro comes into my house. They're public utilities and they are regulated based on ROI, return on investment.

You keep talking about gouging profits and reasonable profits, so it sounds like you believe in profit, which is nice to hear. What's your definition of "reasonable profit"? What's your return on investment?

• (1025)

**Mr. Duff Conacher:** Well, according to those who are much more knowledgeable in this area than I am, an average corporate profit margin is somewhere around 10%. When you're talking about the provision of access to credit in particular—

**Mr. Mike Wallace:** Is that before tax or after tax?

**Mr. Duff Conacher:** That is an after-tax profit.

When you're talking about this area, you don't want banks and other financial institutions providing access to credit to be profiting excessively, because they are increasing the cost of capital, the cost of money that runs through the entire economic system, and the entire economic system can be damaged by that increase.

It's not that we call them a public utility' Just place them on the spectrum, from a sole entrepreneur private company to the other end of the spectrum, a monopoly public utility, but they're closer to that because they are providing this essential service. If the consumers are right, and according to everyone's ideology, the consumers are always right, 90% of consumers believe that access to basic banking services and credit is an essential service. Therefore, they're right, so treat it like an essential service and regulate it like an essential service.

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

We'll go to Mr. McTeague, please.

**Hon. Dan McTeague:** My question is for Option consommateurs.

You seem to have some faith in the Competition Bureau and its ability to conduct and make public its current investigation into the breadth and size of possible profits made by at least two of the credit card companies, which constitute, as we have heard many times before, 94% of the market. Are you actually convinced that, with the interpretive guidelines and the track record of the Competition Bureau, they are going to be able to find what you seek?

Let's be very blunt about this. MasterCard and Visa didn't just start out last evening. They've been around for a few years. And there have been other six-person reports on this issue that have triggered investigations.

[Translation]

Are you convinced that these people are able to identify problems, given the state of the Competition Act which was drafted by the large companies in 1986?

**Ms. Geneviève Reed:** That is an excellent question Mr. McTeague.

We feel that this study on Visa's and MasterCard's practices, which are probably anti-competitive, is a first step. We hope and we recommend that the Competition Bureau use the necessary resources to conduct a study of the kind undertaken in England and Australia on all the fees charged by credit card issuers. We think that this information is necessary in order to understand what the situation is for all stakeholders and in order to identify an appropriate framework for this issue, or appropriate legislation.

**Hon. Dan McTeague:** I don't think that that organization has the necessary resources. Regardless, we could discuss this further.

[English]

I am going to come back to you, Mr. Scott, because I've raised a couple of very important questions and I'm wondering what your reaction might be. Ms. Coady referred to a document that was from CIBC Aeroplan and that was actually to me. As one of its Infinite gold promotions, it offers 50% more aeroplan miles at "grocery, gas and drug stores".

Given where it is being targeted and who it is targeting, is it your experience that with premium cards people are actually spending more money at your stores?

**Mr. François Bouchard:** I don't think they're spending any more. They're just changing the method of payments. We have seen the cash business decrease. We are seeing the debit card increase, obviously, and the credit card. People's shopping habits have changed, but the credit card doesn't necessarily allow them to buy more. They're coming in to buy what they want. I haven't seen an increase because they're getting more aeroplan miles. They're just changing their method of payment, as far as I can see.

• (1030)

**Hon. Dan McTeague:** I just opened that envelope this morning, so I was glad to see groceries and gas, two areas that I am rather familiar with, as part of the target of the new Infinite cards.

Mr. Bouchard, you said something very interesting, which some of us who have worked on this in the past may not have picked up on.

Mr. Scott, you suggested that in the case of your industry, when you have an increase, it has a devastating impact on the bottom line.

Perhaps you could explain to us whether the 30 people you have working for you or had working for you have been affected.

The Canadian grocery association came to us and said that when they see an increase, they pass it on to consumers, the practical effect being that the poor guy who happens to walk in to get a bag of milk for his family actually winds up having to pay for this increase to grocery stores.

In your case, however, you can't pass it on. You have to absorb it. So I want to know, from your perspective, how many people may wind up on the employment insurance lines as a result, if they can qualify.

**Mr. François Bouchard:** I have 30 employees who work for me. Obviously, if I go out of business, they're all out of business. I could probably fill this room with retailers just like me, all across Canada, in your ridings, who are going through the same thing. We're looking at it every month.



I get my statement. My statement shows up and I say, okay, now it's increased again, so where else can I cut? Where else do I adjust?

**Mr. John Scott:** This is the number one issue of concern from independent grocers across Canada and has been for many months. It has exacerbated the cost issue in the stores. It has made things extremely difficult.

**Hon. Dan McTeague:** Would it help if you could add surcharges? You obviously can't add surcharges, but could you at least not honour some of the cards if these abuses continue?

**Mr. John Scott:** We have to find some way to get some transparency, some constant, in there somewhere, Dan, I think.

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

We'll go to Mr. Lake, please.

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

Thank you to all the witnesses.

I have a question for Mr. Conacher.

Just taking a look at the statement you made, much of what you said in your statement we hear regularly from the NDP in question period, and some of the stuff almost word for word. You make a claim here that the Conservatives' economic action plan offers "public-funded subsidies to the big banks of more than \$200 billion".

Now, we have a budget in this country of \$230 billion or \$240 billion. You're saying that \$200 billion of that goes to the banks. Can you quantify that in terms of a breakdown?

**Mr. Duff Conacher:** Sure. The subsidies I'm talking about are the offers to buy back mortgages through the Canada Mortgage and Housing Corporation, the more than \$40 billion in capital the Bank of Canada has injected into the financial markets, and the other programs being provided to various financing streams in which the banks and other large financial institutions all participate. If it were all drawn down on by the banks, it would add up to a subsidy of more \$200 billion.

We're saying that the government should require the banks to do something meaningful in return. The best thing to do is to ensure that they're serving everyone fairly and well at fair prices and interest rates. One of the main ways to empower consumers and give them a subsidy in the same way is to require the banks and other financial institutions to send out this one-page pamphlet in the envelopes they mail out to customers every month.

In case you're wondering whether this idea comes out of left field, it was endorsed by the MacKay task force on financial services and also by the House and Senate committees in 1998. It just hasn't been acted on by any finance minister since. It's about time, because there would be no cost to the government and no cost to the industry. It would give customers a place to call their own and would balance the marketplace in many key ways.

**Mr. Mike Lake:** I want to move on for a second, but I will point out that the money you're talking about in terms of the Canada Mortgage and Housing Corporation was money set aside so that consumers could afford to take out mortgages and buy houses. Those

consumers, represented by all of us, are our constituents. I think it's hardly fair to call that a \$200-billion subsidy.

I want to move on to Mr. Bouchard, if I may.

I have a couple of questions for you. A fellow from Visa came before us and talked a little about the Infinite card. He was talking about customers who use the Infinite card. He said that these are the highest-value customers to merchants. We've heard a lot about the value these consumers offer to merchants.

I would assume that someone who's using an Infinite card doesn't choose The Country Grocer simply because he or she has a Visa Infinite card. Is that fair to say?

• (1035)

**Mr. François Bouchard:** That's fair to say.

**Mr. Mike Lake:** Do you take Visa and MasterCard?

**Mr. François Bouchard:** Yes.

**Mr. Mike Lake:** When that customer comes into The Country Grocer, is it your experience that the person buys more butter, bread, or Dijon mustard than a regular customer who comes in?

**Mr. François Bouchard:** No.

**Mr. Mike Lake:** Is it likely that customers would choose to use a high-reward card versus paying cash? I use my Air Miles card whenever I can, versus paying cash, because it doesn't cost me more and I pay off my balance. Is it fair to say they would do that?

**Mr. François Bouchard:** Exactly. Most customers do that.

**Mr. Mike Lake:** Is there any benefit at all to The Country Grocer when a consumer chooses to use the premium card?

**Mr. François Bouchard:** There is absolutely none.

**Mr. Mike Lake:** Do you have any choice whatsoever in terms of taking that card versus taking some other form of payment?

**Mr. François Bouchard:** We have to accept them. Our competitors do. We have to do the same. In many cases, people had a regular credit card and were switched over to the Infinite card, which raised my fees. It's the same consumer, the same pattern, and the same \$100 order every week. My fees have gone up because the customer's card was changed.

**Mr. Mike Lake:** Does Visa consult you when they send out more Infinite cards? When they run an ad campaign that has someone using a Visa card at a grocery store and getting 2% extra because of it, do they consult you before they do that?

**Mr. François Bouchard:** I find out when I watch TV, the same as we all do.

**Mr. Mike Lake:** How do you feel when you see that card? What crosses your mind? Do you ask the same question I do: who pays that 2%?

**Mr. François Bouchard:** I know the answer. I do.

**Mr. Mike Lake:** As we go down the road in terms of action on this issue, because it does seem to be an issue, would it be an advantage to you if Visa, for example, had to clearly brand their card differently so that there wasn't a conflicting Visa brand situation? Whether they decide themselves to do this or it's through regulation, or whatever the case is, you could choose to take one form of Visa card, the lower-interest one, and not necessarily have to take the one that charges 2% more.

**The Co-Chair (Mr. James Rajotte):** Very briefly, Mr. Bouchard.

**Mr. François Bouchard:** I wish that was the reality, but I honestly can't see the day where I'll tell my cashiers, "You can accept this one but not that one". In their minds, it's a Visa, it's a MasterCard, and it's an acceptable form of payment, unfortunately.

**Mr. Mike Lake:** It's not really a choice.

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

We'll go to Mr. Thibeault, please.

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

Last week we had most of the major banks here talking about what they think of this issue. One of the things I heard loud and clear from them is that they're receiving no complaints.

Although the RCC, the Retail Council of Canada, has 250,000 members who are bringing forward the "Stop Sticking It To Us" campaign, the CFIB has 2.4 million businesses that they support, and of those, 97% percent are under 50 employees, and they're hearing no complaints on the side of business. Again, they say they're hearing no complaints from the side of consumers.

Let's start with you, Mr. Scott or Mr. Bouchard. Is that an accurate statement? Are you not hearing complaints about credit card interest rates on both sides of merchant interchanges?

**Mr. John Scott:** That can't be accurate in the experience of our businesses, but don't forget that our businesses will take that to their local bank where they're dealing. The complaint will go through there as opposed to possibly through Visa. That's probably what happens.

But I cannot conceive.... In fact, I guarantee you that you have no idea how much cost this has layered on small business. You have no idea. I mean, we're sitting here comfortably talking about this in very esoteric terms, but for a lot of people, this is the essence. The profitability of their business is at risk here. With businesses surcharging and that kind of stuff, we need some transparency in this country and we need some acceptability. That's what we're doing here—at least, I hope we are.

**Mr. François Bouchard:** Too, I think the issue is, where do I go? I need Visa and MasterCard to work with me. Do I go and complain to them? I don't really have a choice. I'm happy that I'm able to come here and speak about my personal experience because I can't go to Visa and MasterCard to complain.

**Mr. Glenn Thibeault:** Madam Reed, I see you nodding your head a lot. Maybe you'd like to comment a little bit about that.

**Ms. Geneviève Reed:** I will respond in English. In fact, as a cooperative association for family finance in Quebec, we meet with consumers face to face every day. Those consumers face serious budget problems. This is not a direct response answer to your

question, but they sometimes have big problems with business, first because of the lack of knowledge of those rates, and second, because of the accessibility of credit cards for some and the lack of accessibility of credit for others.

That is also an interesting point. Some people have too much access to credit and other people do not have access to credit.

As well, you have to bear in mind that if credit cards are used so much by consumers, it's because banks are no longer giving small loans. Consumers are using their credit cards to buy furniture. Before that, they were using loans. This is not the same.

• (1040)

**Mr. Glenn Thibeault:** So things have changed. I can tell you that since I've started asking questions in the House of Commons relating to credit card interest rates, on both sides, I've been getting calls right into my riding of Sudbury from Vancouver and from St. John's, Newfoundland, with people trying to track me down to say that this is an issue they're having.

I think what we need to do is really bring forward to the banks some of these complaints, which I plan on doing. At the same time, I believe Mr. Bernier was talking similarly. We're seeing a lot more credit cards out there. With my credit card, I apparently can surf, go to see these beautiful waterfalls, and attend the Olympics. I think it's Visa that says "go". I have no idea what that has to do with the credit card.

I think Mr. Conacher was the one who brought it up initially, but the marketing of these credit cards is now something that we're seeing day in and day out. They're trying to entice people to get a card, to use their card and, of course, to continue to increase the profits for the banks and the credit card companies at the expense of consumers and small and medium-sized businesses.

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

**Mr. Duff Conacher:** I have just a very small collection here. I get about three a month: get more credit, get more in debt, and get hooked on debt more. This is just a small sample of the pamphlets that are sent out enclosed in bank statement envelopes, all trying to get you to do something else.

All we're asking for is to require them to send out one other pamphlet. If you're not going to require them to send out a pamphlet inviting people to join the consumer watchdog group that consumers would fund and direct, at no cost to the industry and no cost to government, at least require them to send out a pamphlet that educates people about the dangers of debt, as opposed to just trying to entice them to go further into debt.

At least do that as a financial literacy mechanism. If you want to reach people, reach them through the envelopes that the businesses are already sending out.

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

We'll go to Ms. Coady now, please.

**Ms. Siobhan Coady:** Thank you very much.

I have a couple of questions along the debit side, if I may, Mr. Bouchard and Mr. Scott. I'm concerned about a couple of things around the debit card and the impact that it may have on you as independent grocers. Specifically, are you at this point changing over your terminals so that you can have the chip debit card?

What cost is that to you, Mr. Bouchard?

**Mr. François Bouchard:** We're in the process of changing right now. What's happening is that obviously since we're "one of", the payment processing companies aren't necessarily first with us, so we have to wait for the technology to be finalized before we're able to do that.

Once we do that, the responsibility will also switch. We're now responsible for the full pop on anything that happens with fraud on those cards, whereas right now we are protected in some fashion, so we are obviously preparing for that.

**Ms. Siobhan Coady:** I want to reiterate that, and I want you to reiterate that again, because I asked the same question to the banks. They assured me that no indeed, the fraud component will still rest with the bank. You're saying no, it will not. Would you please—

**Mr. François Bouchard:** The current rule is that on any card I accept now, as long as I do everything by the book, I will be covered to a certain level. It depends on whether it's an online transaction or an in-store transaction.

Once the chip payments are in place, if I don't have the technology to accommodate it and I have to pay for that technology, the responsibility lies on me—no one else.

**Ms. Siobhan Coady:** Do you know approximately what kind of impact that's going to have on you financially?

**Mr. François Bouchard:** I'd have to get back to you. Sorry.

**Ms. Siobhan Coady:** If you would be so kind, please get back to me, because I've been reassured at committee that there will be no cost to the merchant on this. I'm quite concerned about the downloading of the cost of the terminals onto the merchant, as well as the potential cost of fraud being downloaded onto the merchant and, ultimately, of course, onto the consumer.

What other concerns might you have on this potential of Visa and MasterCard entering into the debit card market?

• (1045)

**Mr. François Bouchard:** My concern is that now we have a system that works and I know what I'm going to pay. They can come back to see me, and they have; certainly last April they sent me a notice saying that on the Interac the interchange fee had gone up by  $x$  percentage on a transactional basis. But it presently works. I can live with that reality. Why change the whole thing? The impacts are atrocious.

**Ms. Siobhan Coady:** I have a couple of comments on the potential of the debit card. I'm going to ask CPA as well as you.

One of the concerns I have on the debit cards with Visa and MasterCard entering into the debit card system is the potential of this points accumulation. We've already talked about that significantly on the credit card side and the costs that are now being borne by merchants and, potentially, ultimately the consumer. Do you share that same kind of concern on that side?

The other concern I have is that currently the interchange rate on debit cards is set at zero. If it were moved to a potential interchange fee versus a flat fee, could you comment on both of those? I'd ask CPA to comment as well.

**Mr. François Bouchard:** Certainly. There is no doubt that the concern is there. If they're going to start collecting points on their debit cards, I'm not going to get any more consumers than I currently have. I'm not going to gain anybody. I'm going to change that regular debit card for a points card that's going to cost me more as a merchant and that may cost the consumer because they're going to have a card or a fee to pay for as well. I don't benefit as a merchant in any way, shape or form. I can't see any benefits to it.

Again, I'm stating that the system currently works the way it is. As for why they would want to change it, it's just going to have an impact on me and 3,800 of my colleagues all over Canada, and we're not ready. We can't deal with that.

**Ms. Siobhan Coady:** Thank you.

If I could, I'll ask a similar question to the CPA. I have two questions for you, but I'll start with the first one. It's on the debit card side of things. Has it been your experience or is it your knowledge in this area that perhaps with a debit card they may potentially add value to that card, as they have added value or points to the credit card system? Has that been an experience? Have you seen that elsewhere?

**Mr. Doug Kreviazuk:** That's not really an issue from the CPA's perspective, but my observations are that within Canada we do see, for example, at least two financial institutions that offer debit cards that attach loyalty points to them. I've not done a survey, but I am aware that there are at least two.

**Ms. Siobhan Coady:** Outside of Canada's borders, in Australia or the United States, are you starting to see the use of points on debit cards?

**Mr. Doug Kreviazuk:** Yes. They're tending to go that way.

**Ms. Siobhan Coady:** Could you comment on interchange fees on debit cards? What has been your observation? Currently with the Interac system in Canada, it's a flat fee, a consistent flat fee. With interchange, of course, it could go up. Would you comment on that?

**Mr. Doug Kreviazuk:** Well, you are correct. The interchange fee within the Interac environment has been set. I'm not sure of the exact level, but I know what it was.

Around the world, the fees all vary, and the direction of the interchange fee could vary between whether it's a POS system at the merchant versus taking money out of a banking machine. They are generally set by the scheme or the payment systems that operate those, and that has really been the focus of discussion within government, regulators, and competition authorities around the world.

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

Thank you, Madam Coady.

[Translation]

Mr. Carrier, you have the floor.

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

Good morning ladies and gentlemen. Thank you for coming to this meeting on credit card issues. My first question is for Options consommateurs.

The Bloc Québécois was the one who originally moved the motion that was passed by all our colleagues, that is to study the issue of credit cards. We were originally motivated to suggest this study because the consumers are the ones suffering this situation. The purpose was to resolve this situation. I expected rather strong recommendations from your organization, which represents consumers.

Someone said earlier that the banks appeared before us last week. We asked them what percentage of their profits came from issuing credit cards. They are supposed to be sending us that information. They are the only ones who can benefit from the current system, that is, a system that allows them to set interchange fees at their discretion, with no obligation to negotiate at all. Retailers therefore have to pass the costs of this system on to the consumers.

Your first two recommendations refer to the Competition Bureau. You even state that: "[...] the Competition Bureau should initiate an investigation into the profit levels associated with charges on the use of credit and debit cards [...]". In your third recommendation you suggest that the government do the following: "[...] undertake a consultation on the changing patterns of electronic funds transfer, including credit and debit cards and their regulation;"

In other words, you are recommending that other studies be undertaken. I would be disappointed, as a parliamentarian and as a member of Parliament, if we chose to do that. We are hoping to recommend solutions to improve the situation, and not simply to submit this to the Competition Bureau. We know where that will lead. That organization has often been asked to deal with the issue of fuel prices, which fluctuate significantly. Yet we have never gotten any concrete results. Personally I wouldn't give them very many mandates.

You referred to the illiteracy and financial inability of some consumers. Should we not be looking at that? Do you not think you should recommend that the interchange fee related to the use of their card be indicated on their bill? Earlier on my colleague asked you if you would be in favour of indicating the charges to retailers for using credit cards. The grocers here today seem to favour the idea of regulations. Those haven't yet been defined. Do you not think the government should take that route?

• (1050)

**Ms. Geneviève Reed:** Thank you for your question, Mr. Carrier.

Options consommateurs' recommendations can also be very strong if you wish. According to everything you have heard over the past two or three weeks, regulations dealing with electronic payment systems are deficient. For years now we have been recommending that this sector be regulated so that the responsibilities and interests of all parties be clearly defined.

As I already stated, users of Interac cards and users of credit cards are not equally protected, which is dangerous. Furthermore, information has to be provided and emphasis has to be put on

certain points, for example, the impact of minimum payments, interest rates and so on. Providing too much information does not help the consumer especially if they already have problems in understanding their statements.

That is why providing consumers with interchange fees information does not give them any more power or protection. Measures have to be passed that will protect consumers. Regulations were tabled by the Minister of Finance. We do not agree with all these regulations, because we feel they lack substance, especially in terms of over-limit fees. We cannot fathom why a bank is not able to call a merchant in order to tell them Ms. so and so is going beyond her credit limit and to please not authorize any more purchases.

[English]

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

*Merci, Monsieur Carrier.*

Finally, we'll go to Mr. Van Kesteren, please.

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

If I have the time, I am going to split my time with my colleague.

Mr. Conacher, I want to ask you about fraud. We all agree that transparency is a must in respect of credit cards, and we support protecting our consumers. The issue is that credit cards are being skimmed by fraudsters. We know this. It's a growing concern. As a matter of fact, I think last year over \$1 billion was skimmed off. But we can't find out where this is happening because banks withhold the information. This can hurt retail business as well.

There are consumer advocacy groups, like the Consumers Council of Canada, that feel the law should be altered—we did deal with this in the ethics committee last year under PIPEDA—to simply allow banks to tell consumers where their credit card was breached. To quote the council, your agreement to get the credit card is with the bank, not with the retailer.

Would you be supportive of such a change and do you think consumers have the right to know?

• (1055)

**Mr. Duff Conacher:** Yes. The coalition's position is that it's information that should be shared with customers, but there would have to be some further details provided so that the customer would be able to understand, to some extent, what happened, whether it was the fault of the business or whether something else occurred, with another customer, for example.

In terms of the level of fraud, again, one of the reasons we're calling for the audit is that I wouldn't trust the figures that are out there. In 1997 hearings on credit cards, government officials from the Office of Consumer Affairs at Industry Canada very much disputed the claims of the banks and other financial institutions about the actual level of fraud in the marketplace and the actual cost to those institutions. That's why an independent audit is needed to know what's really going on.

But consumers also do have a right to know this about businesses so they can take the self-protection measure of possibly not going to certain businesses—if it's actually the fault of the businesses that the fraud occurred.

**Mr. Dave Van Kesteren:** Thank you, Mr. Chair.

I'll turn the questioning over to my colleague now.

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

**Mrs. Cathy McLeod (Kamloops—Thompson—Cariboo, CPC):** Thank you.

As a person who's sitting in on this committee today, I have heard a particularly fascinating conversation. I really appreciate hearing what the witnesses had to say.

I would like to talk a little about the literacy issue and some of the changes that we have made. I certainly remember the advantage of consumer education in grade 9. I have three young adult children. I'm carefully making sure they move through this marketplace with full knowledge. Having said that, I recognize that perhaps not all consumers in Canada have those same advantages, so I was particularly pleased to hear about transparency and literacy.

Our government did announce a number of changes. I think they were well received in many ways. I guess my question would be to Ms. Reed. These issues around credit cards have been going on for a long time. Has anything happened over the last 10 years in terms of moving forward on this issue?

[Translation]

**Ms. Geneviève Reed:** Thank you for your question Ms. McLeod.

There are two important things you should know. On the one hand, with respect to numeracy, that is the financial ability of Canadian consumers, the FCAC is currently doing a survey to understand the situation and it will then take any necessary measures. In Quebec and in other parts of the country, home economics courses have been dropped in high schools. That is a loss for everyone.

On the other hand, with respect to regulations and a framework for credit cards, for years we have wanted the federal government to set minimum thresholds. There are also provincial regulations and that is where it gets very difficult: we're often caught in between.

[English]

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

You have 30 seconds, if you want to make a brief comment.

**Mrs. Cathy McLeod:** Again, it sounds like this action by our government is the first positive action in many, many years towards meeting some of these needs.

Thank you.

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

I want to thank all of the witnesses for coming in today, for your presentations, and for your responses to the committee. I believe there was one question from one member on which we need follow-up to the clerk. If there's anything further, please submit it to the clerk. We will ensure that all members get it.

Colleagues, we will adjourn the joint meeting and then start with the finance committee meeting in about two or three minutes.

The meeting is adjourned.

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