A Message from the President and CEO:
The Long-Term Payments Strategy – Mapping the Road Ahead

The CPA’s cross-Canada road trip is over, but the journey has just begun.

The release of the CPA’s Draft Long-Term Payments Strategy: Vision 2020 in May of this year set the wheels in motion. Nation-wide distribution via websites, press releases, and email campaigns invited Canadians to share their personal and corporate vision for payments of the future.

In June, the CPA issued open invitations to attend one of three informational webinar sessions on the draft strategy. Travel expenses are low on the information highway, and these free information-sharing sessions allowed the CPA to socialize its vision with many Canadian payments players, including member financial institutions, governments, payment service providers, large and small corporate users and consumer associations.

During the month of September, the CPA took its show on the road and hosted six cross-country town-hall sessions; forums in which hundreds of stakeholders discussed their views, learned from their industry counterparts, and helped to round out the panoramic perspective so valuable to the CPA’s policy development process.

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  Director
  Payment Strategy and Operations
  BMO Financial Group

- Mr. Bruce Cran
  President
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Editor: Geoffroi Montpetit

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What is a paradigm? In general terms, it refers to a philosophical or theoretical framework of any kind.

In May of 2009, Stewart MacKinnon, international payments expert and member of the CPA’s Payments Strategy Advisory Council (PSAC), gave a presentation to PSAC exploring the Payments Paradigm. With over thirty years of extensive experience in the banking and payments industry, fulfilling a variety of roles across a number of international locations and organizations, Stewart has...
developed a truly global perspective of the payments industry and its wider stakeholder community. CEO of Scotland’s Stewart MacKinnon Consulting Limited since its inception in late 2008, he provides payments industry clients with high quality solutions to solve their business problems and innovative advice to meet their strategic objectives.

In this October 2009 interview, Stewart MacKinnon and Brenda Wagle, Communications Coordinator, CPA, discuss the Payments Paradigm, and explore Stewart’s view of the forces driving today’s unprecedented pace of change. What do consumers want? What do businesses need? What about competition? What are the drivers behind today’s global trends? Where are the gaps in payments today? Is Canada moving in the right direction?

Question: It seems that the more payments evolve, the smaller the globe gets. Would you agree that we have much more in common than we used to as far as payments go?

Answer: I think there are a lot of common themes happening across the world, and what happens in one continent seems to drift over to the other one. So there are a lot of lessons to be learned from what is happening in other countries.

Q: Europe is typically ahead of Canada in many areas. We seem to follow along with payment trends, except with debit cards, where we jumped ahead and adopted them wholeheartedly. Do you see any other products that are going to move forward as quickly as the debit card did in Canada?

A: Well, there are a few developments like mobile payments that I think are something we should not overlook. There are more people with mobile phones than cards in a number of countries, so they would be able to take off quite quickly. The other thing is contactless cards - where there is a store of value in the card. You can use them offline with just touch and go. There's great scope for that, particularly to replace cash.

What’s Driving Consumers?

Q: So the biggest factor driving change for consumers seems to be convenience.

A: Yes, I think convenience is a real big one. From the perspective of a country that experienced bank failures, I think the credit crunch has resulted in issues for the consumer that caused them to lose trust and confidence in the banking system. So what they’re really looking for in a bank providing a banking service is security of the payment and certainty of the payment. They also don’t want to see the bank earning any floats so the elimination of floats is also a key thing for customers now.

Q: Yes that was a big concern in the United States a while back. They are slowly eliminating cheque float through electronic imaging.

A: I think what image is really doing is to preserve the cheque as a payment instrument. But as soon as the cheque enters a point of sale environment or enters the banking environment, it becomes an electronic payment. So I think all we’re doing through imaging is basically furthering the cheque’s life. But a lot of people might have very strong views on it. I think that paper is something we’ve got to eliminate quickly and that we should really set a date for the demise of the cheque. And I’ve argued that in Toronto at the Strategic Advisory Council Meetings. Not all of the banks would share my views, but some of the other industry players would.

I think that paper is something we’ve got to eliminate quickly and that we should really set a date for the demise of the cheque.
There are people who earn money at the banks through the use of cheques. And there are others, the strategy people, who would like to see the demise of the cheque.

Now the other thing that the customer really is looking for at the end of the day is faster payments. They don’t understand why it takes so long for a payment to clear, so what they’re really looking for at the end of the day are real time payments. And that would be combined with greater consumer protection. I think the consumer also wants to be informed and wants to be educated as to the payment services that are available - “Which ones are the best for me to use?”

What’s Driving Businesses?

Q: I know that for businesses faster payments are a big driver. They want straight-through processing.

A: Yes. I think there’s a dichotomy on what businesses actually want to achieve. Some of them want to get float themselves, by sending a cheque to someone and knowing it will probably take 3 days to clear. Others want faster payments because they want certainty of payment and they want it in their account as quickly as possible.

So there is that dichotomy and that will still continue for some time I think. But I don’t think cheques are a retail problem in Canada anymore. I think it’s really the business cheque that’s the key issue.

Q: Some merchants in Europe are refusing to accept cheques now.

A: Indeed…it’s much too costly to process cheques, so a number of the big retailers like gas companies, super markets, electronic goods shops, just stopped it entirely. With a few months notice they said “We’re not accepting cheques anymore”. So I think the personal customer, the retail customer, doesn’t use cheques at point of sale anymore. They got rid of the habit and are now using debit cards or credit cards. In the UK the debit card has taken over. In Europe people didn’t like credit cards. They don’t like buying things on credit, so debit card has always been the king.

Q: Now, would that be Visa and MasterCard debit cards?

A: Yes, mainly. There are a lot of proprietary domestic schemes throughout Europe which are probably co-branded with either Visa or MasterCard. But there are different rules for using them at home, or using them abroad.

What about competition?

Q: Canada is currently trying to think its way through the launch of Visa and MasterCard Debit cards here - looking at what, if any, regulation would govern these new schemes.

A: Yes. Traditionally, competition authorities have always felt that the infrastructures should be competing for the business of schemes. I think that’s probably correct, where, if we’re talking about electronic direct debits or direct credits an infrastructure sets out its stall and competes for the business of a payment scheme.

The problem with cards is that Visa, MasterCard, American Express, Interac…they are all really operating both as a scheme and an infrastructure. You know, many of their practices could be seen as anti-competitive because what we’ve done in Europe is actually separated the scheme from the infrastructure. And companies are prohibited from offering both services.

Anything that increases competition is good, but why should we have 3 or 4 competing infrastructures if we could only do with just the one. Providing risk and contingency are looked after, and the system is robust, we could actually deal with one infrastructure anywhere in the world.

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Q: Do you see having different payment schemes and different infrastructures in place as being confusing from a customer perspective?

A: I think possibly yes. I'd have thought the consumer should never be asked the question “which infrastructure do you want to use?” The man or woman in the street will merely put up their hand and say “I'm not interested – I want this to go through as cheaply and quickly as possible and I don't care which infrastructure you use.” If you're talking about a dual branded card which allows both debit and credit, I think the customer has to be asked, “How are you using this card? Is it a credit card or a debit card?” That should be the only question the consumer is asked. They shouldn't have to specify the infrastructure over which they want the payment to travel.

What's driving Global Trends?

Q: In your Payments Paradigm presentation, you speak about the increasing the “hands-on” role of government in strategic direction. Could you elaborate on that?

A: I think it stems a lot from the credit crunch.

Banks on this side of the pond have had to go “cap in hand” to governments looking for a bail out because they are billions of pounds in debt, and they actually needed government support. I think the quid pro quo for that support has been governments saying banks must be much more innovative in payments, they must lend to small businesses, etc., etc. So there has been a lot of government leadership on payments on this side of the Atlantic.

That voluntary trade-off is also being combined with the implementation of legislation. In Europe, we have what is known as the Payment Services Directive which came into force on the first of November this year. It's there, basically, to afford greater consumer protection on payments, setting all the rules that people must live by as the provider and user of the service. It's also encouraging greater competition and what we're virtually seeing is we've created a new animal in the payments business known as the Payment Institution. The Payment Institution is a non-bank, which is currently unregulated. What the directive is actually allowing is for the Payment Institution to get deeply involved in payments. In other words it can actually have access to global card schemes as if it were a bank. So we're going to see dramatic changes. I think that all stems from the fact that governments have believed that banks have been intransigent, somewhat restrictive, and probably anti-competitive. So the whole market has seen a massive shake up. We're in for a few surprises and I think that this may well happen in other countries as well.

Q: Did the Payment Services Directive grow out of the Single Euro Payments Area (SEPA) initiative and the evolution of the Euro?

A: The original intention was that it would be supporting legislation for SEPA moving forward. But the politicians took the opportunity to correct a lot of wrongs that were seen in the payment services market place, like consumer protection issues, and making the execution time for payments much quicker. The Directive actually said that a payment must be applied to an account on “day one plus one”. So day one is when the instruction is given, and plus one is the day that it must be applied to the payment account. This payment time applies Europe-wide. So that could mean a payment from London is applied to a payment account in say, Berlin, on day one plus one.

For another client, I've just been doing some work on possible implications of this arrangement. So I am fairly well versed on the legislation. It runs something like 50 pages of legislation - Quite heavy, meaty stuff.

Q: Between Canada and the United States, do you see the potential for a North American scheme evolving, and then interacting with other groups such as the Payment Services Directive? Or do you think it will happen on more of a global level moving forward?

A: What I have seen is that there is work going on at the moment between New York Clearing House and payment providers in Europe, with linkages between the US and Europe for payments. And I think the plan is to extend that to Canada and Mexico as well. And to a sort of Euro-US market place if you like, where payments can be made just as easily as they can within a single continent. Ultimately the intention would then be to extend it to the Far East as well. You would then be talking about a global payments system. But how long that would take is open to question.

Where are the gaps in today's payments marketplace?

Q: What are the biggest gaps in the payments marketplace?

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A: I think the biggest gap that we’ve had in the payments market is the face to face payment. At the moment, if I owe you fifty dollars, the only way I can pay you really is by giving you cash or by giving you a cheque. Anything that replaces that from an electronic perspective or a digital perspective is the way forward for retail payments.

Q: Your presentation also addresses the responsibility of payment counsels to provide fair and reasonable payment services to the “Unbanked”. When you speak about the unbanked in your presentation, what percentage of the global market are we talking about?

A: It varies from country to country. I spent a lot of time in Ireland – I did about 10 years there and that was a massive problem. The unbanked were probably of the order of about 10 percent of the population.

Q: That’s a large percentage.

A: Yes. So the key thing we were trying there was to pay them. Quite a lot of them were social welfare recipients, so they were in receipt of a payment from government either on a weekly basis or a monthly basis. They tended to be paid by cheque or some other form of paper instrument. They immediately cashed that cheque and got cash, took it to the supermarket, or did whatever they needed to do with the money.

What we were trying to do, really, was to increase the efficiencies of the market place by getting people away from cheque and cash and getting them onto cards. But that didn’t mean a credit card; it meant a debit card, which would give them access to an ATM or to a point of sale to purchase goods and services. So that was really the move on our end.

The percentage of the unbanked in some countries could be as much as 5 percent. They’ve no desire for a bank account. But in other countries, like the Nordic countries: Sweden, Denmark, Norway – a social welfare recipient must have some form of banking connection. And that could well be an electronic bank card where he receives his social welfare bank payment. And then can use that payment to make his purchases at any store or ATM or what have you. That’s the solution that some countries have adopted.

Q: We’ve been working towards that as well in Canada – it’s my understanding that several of the provinces have been looking at social assistance payments coming on the debit card. But there has been a little bit of push back because there is a processing fee involved when the debit card is used.

A: Yes, this is one of the arguments. I think that a retailer in accepting any form of payment – whether its cash, cheque credit card or debit card, is going to be faced with a cost in any event. I would have thought we should be encouraging retailers to accept the most cost effective methods of payment which are really card based or electronic payments.

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Key Canadian Payments Industry Developments

Mobile payments – Zoompass launch

Planned introduction of Visa and MasterCard debit cards
You know, cash is really a huge cost to any economy. I did a study when I was with the European Payments Council. We worked out that the cost of cash to the whole of the European Economy – that’s some 30 countries in Europe – it cost about 50 billion Euros per annum. Now, that’s based on something like 360 billion transactions per year.

If you extrapolate that out to the Canadian situation, looking at the size of the population which is what - 30 odd million people? You could be looking at as much as 17 billion Canadian dollars per annum for the cost of cash to the economy. So anything that reduces that huge cost – use of cards or what have you, is going to be a great benefit to the economy. Everyone benefits, and I think that retailers accepting cash and offering cash discounts instead of accepting cards are clearly going in the wrong direction.

Is Canada Moving in the Right Direction?

Q: It was interesting for me to hear that the US is moving forwards with a Euro-US market place. Where do you think Canada is positioned in the global payments market? Are we on track or are we falling behind?

A: I think that the setting up of the Strategic Advisory Council is an acknowledgement that there is a strong desire to be on track to get payments modernized and to move as if, you know, you’re “best of brands” from a world perspective. I think that’s fundamentally and intellectually the correct move.

I suppose there are a number of inefficiencies and we know what these are: the need to develop person-to-person and business-to-business solutions to replace the use of cheques and the use of cash. All of these things take time. But I think the whole intent of the Council and the Payments Strategy is to move forward and to get Canada on track, so I wouldn’t have any concerns there.

Readers interested in learning more about the Payments Paradigm or Stewart MacKinnon can visit his website. www.mackinnon-consulting.com

PAD Deadline Rapidly Approaching

A pre-authorized debit (PAD) is a withdrawal from an account at a financial institution (FI) that is initiated by a company or an FI that has an account holder’s authority to debit the account. PADs are often used as a convenient way to make recurring payments to an organization or transfer investment funds on an ongoing basis. Frequent uses of PADs include mortgage and utility payments, membership dues, charitable donations, RSP investments, and insurance premiums.

The CPA is actively engaged in ensuring that all parties are fully aware of the new requirements for Pre-Authorized Debits that were established by the Canadian Payments Association in June of 2008. Recently, CPA staff (Ryan Huggett, Legal Counsel and Lisa Sattler, Policy & Research Analyst) provided presentations to Cornerstone Fundraising Services, the Canadian Life and Health Insurance Association, and the Investment Funds Institute of Canada (IFIC) and their respective members on the new requirements for CPA’s Rule H1 – Pre-Authorized Debits.
Agreements that must be updated to reflect the requirements are:

- Payee Letters of Undertaking between the financial institution and the party collecting the funds (the Payee) in which the financial institution agrees to process debits for the Payee and the Payee agrees to abide by the terms of Rule H1 and other CPA Rules that apply to PADs;

- New Payor’s PAD Agreements that will be signed on or after February 28, 2010 in which the holder of the account that will be debited (the Payor) gives their authorization for the Payee to debit the account. (Payor’s PAD Agreements signed prior to Feb 28, 2010 do not need to be updated.)

As a result of the new requirements, FIs will work with their Payee clients to ensure that all Letters of Undertaking are updated prior to February 28, 2010. The manner in which the Letters of Undertaking are updated, and in which updated Payor’s PAD Agreements and processes are approved is at the discretion of each financial institution. FI clients can contact their own financial institution or visit the FAQ section of the CPA’s website to obtain additional information.

The new mandatory elements for Payor’s PAD Agreements include:

- A statement giving the Payee the authority to debit a specific account;

- The Amount and Timing of the PAD (If the amount or the schedule is variable, the PAD Agreement must indicate this, and further requirements apply. See Sections 14, 15 (paper agreements) and 16 (electronic agreements) of Rule H1 for details.);

- The PAD Category (i.e. business, personal or funds transfer);

- The date of the agreement, and for paper agreements, the Payor’s signature;

- A statement indicating that the Payor may cancel the PAD Agreement at any time, with the minimum advance notice specified. The method of cancellation should be clearly set out within the Payor’s PAD Agreement. The lead time required to cancel the PAD before the next one is processed should be based on operational requirements; it must not exceed 30 days and should be shorter in most cases;

**NOTE:** Cancelling the PAD Agreement does not affect the obligations between a Payor and Payee under any broader contract for goods or services. For example, if the Payor has signed a one-year lease and agreed to make monthly payments by PAD initially, the Payor may cancel the PAD Agreement at any time but must make arrangements with the Payee for another form of payment to fulfill his/her obligations under the lease.

- A statement advising Payors that they may obtain a sample cancellation form, or further information on their right to cancel a PAD Agreement, at their financial institution or by visiting the CPA’s website (www.cdnpay.ca);

- Payee contact information that the Payor may use to make inquiries, obtain information or seek recourse in the event of an error or improperly authorized PAD;

- The following standard statement about the recourse available to the Payor:

  “You [or I/we, depending on the context] have certain recourse rights if any debit does not comply with this agreement. For example, you [I/we] have the right to receive reimbursement for any PAD that is not authorized or is not consistent with the terms of this PAD Agreement. To obtain more information on your [my/our] recourse rights, [I/we may] contact your [my/our] financial institution or visit www.cdnpay.ca.”

Additional requirements apply for variable PADs, sporadic PADs and in cases where the Payee seeks the Payor’s agreement to reduce or waive the standard pre-notification period applicable in certain circumstances as set out in Rule H1. Learn more by visiting the FAQ’s on Pre- Authorized Debits section of the CPA website. www.cdnpay.ca
Forum Survey – Fall 2009

Dear Forum Readers,

You may have noticed content changes in the Fall 2009 edition of Forum. The CPA’s Public Affairs unit is committed to transforming this former CPA reporting tool to an industry “voice”, reflective of its name.

As we improve Forum, and expand its significance, we would appreciate your input on what features you value most. Please take a moment to provide us with feedback by completing the survey located at the following link (the survey should take no more than two minutes to complete). The information collected is completely anonymous.

http://www.surveymonkey.com/s.aspx?sm=d2_2f_2b_2f1lZ8oDyXs6hec1Pew_3d_3d