

# Retail Payments in Canada: Changing Landscape and Regulatory Developments

Panel discussion: Regulation

November 10, 2015



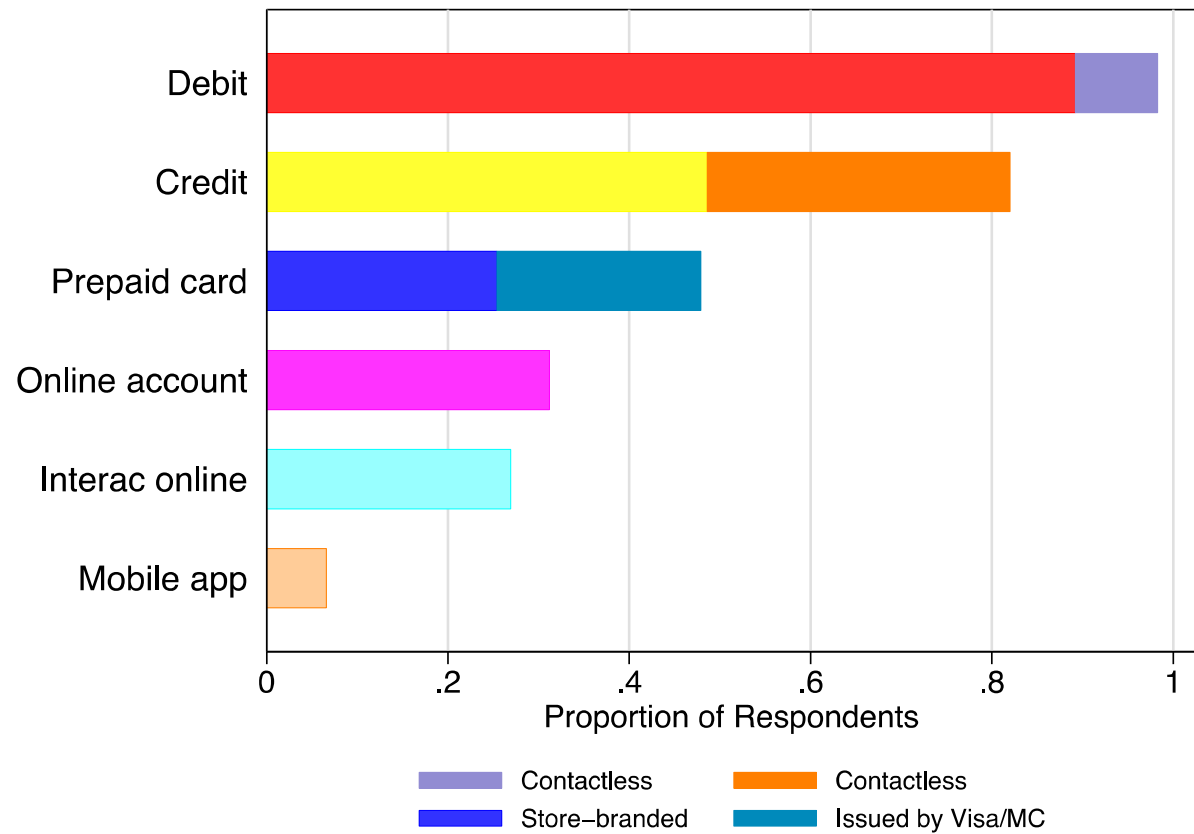
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# The changing landscape for retail payments in Canada



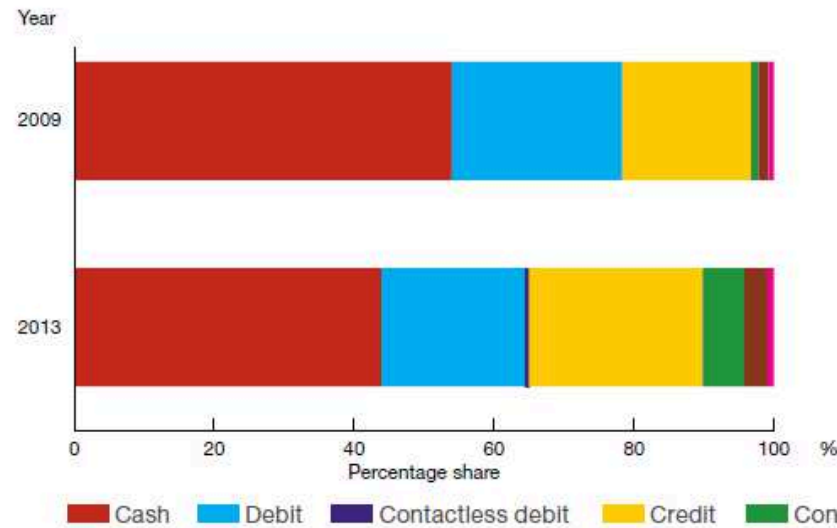
# People in Canada can pay with a range of methods



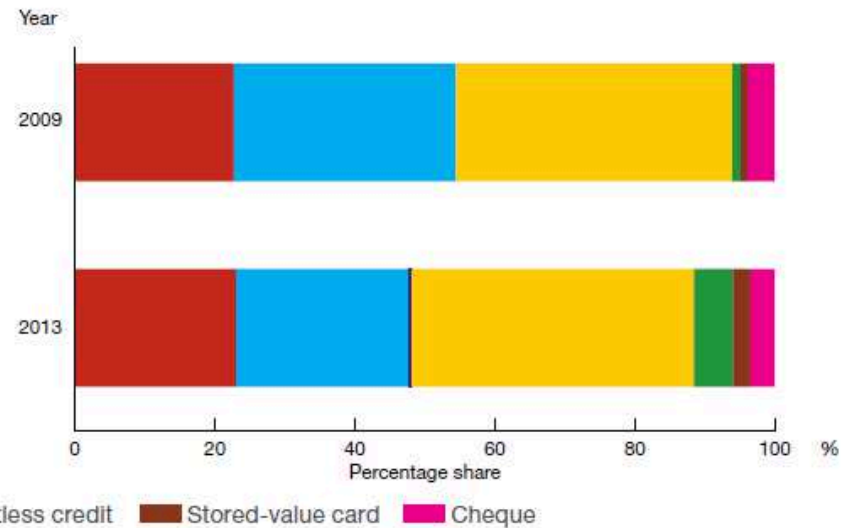
# Continuing shift from cash to electronic payments, but cash is still used a lot for small value transactions

**Chart 2: Payment shares**

a. By volume



b. By value



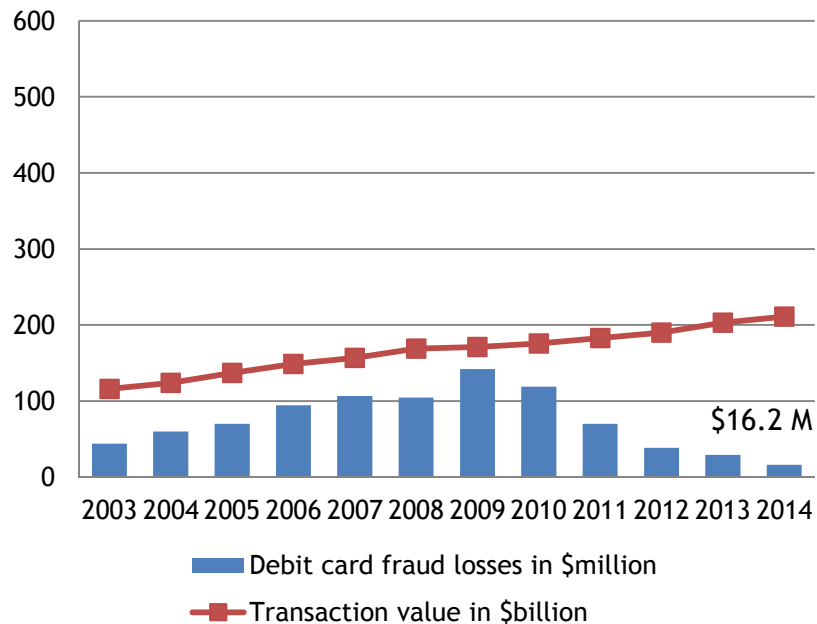
Notes: The charts show the proportion of the total volume and value of transactions by method of payment, across all diaries. The scope of the surveys is to measure payments at the point of sale, person-to-person and online. Transaction values include cashback by debit card. However, as in most diary studies, recurrent bill payments (i.e., mortgages or rent) are excluded.

Sources: 2009 and 2013 Methods-of-Payment Surveys (2009 diary and 2013 survey questionnaire weights used)

Increased usage of credit cards especially contactless.

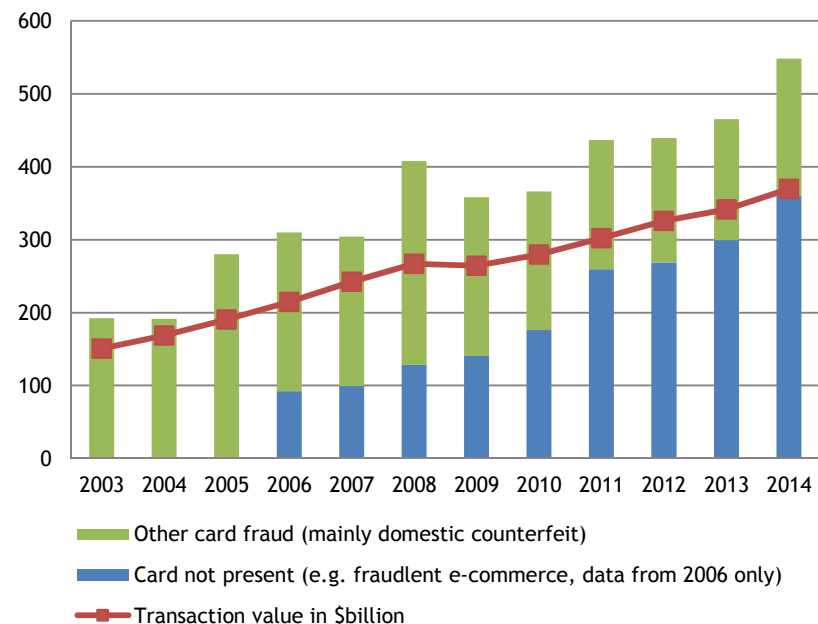
# Chip and pin help reduce payment card fraud in Canada at the point-of-sale

## Debit card fraud is declining



Source: Interac Association

## Credit card fraud remains high owing to rising card not present fraud



Source: Canadian Bankers Association

## The use of new payment methods is growing

	2012		2013		2014	
<b>Market share (%)</b>	Volume	Value	Volume	Value	Volume	Value
Contactless credit	2.3	2.3	3	2.8	4.9	4
Contactless debit*			1.4	1.2	1.8	1.4
Online payments**	0.8	0.8	1	0.9	1	0.9
Mobile payments	0.1	0.1	0.1	0.1	0.2	0.0
<b>% of respondents who used at least once in a month period</b>						
Contactless credit	19		22		28	
Contactless debit*	9		7		7	
Online payments**	17		19		18	
Mobile payments	1		1		2	

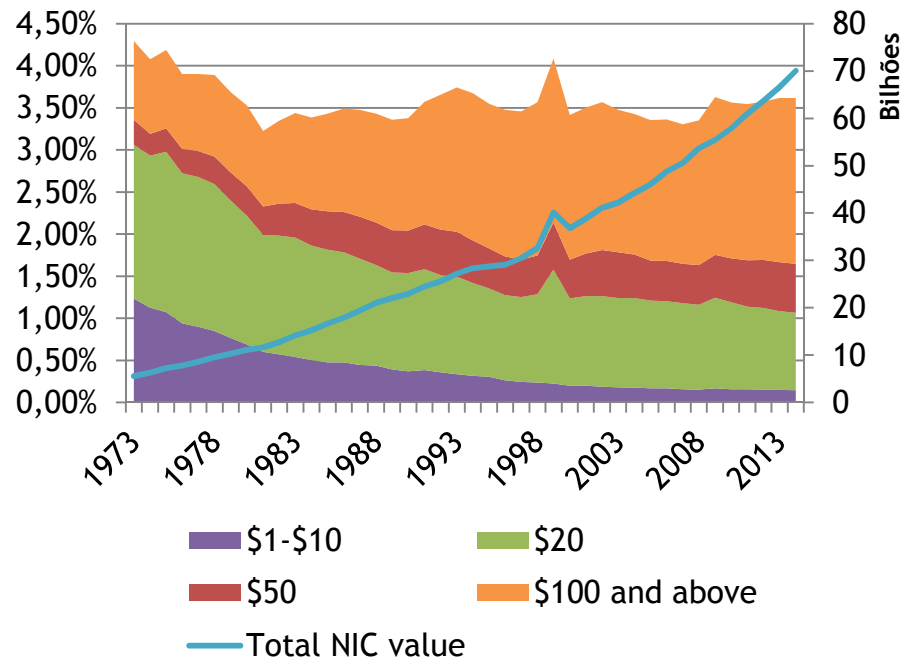
\* Major merchants started accepting contactless debit around fall 2012.

\*\*Online payments include PayPal, Google Checkout

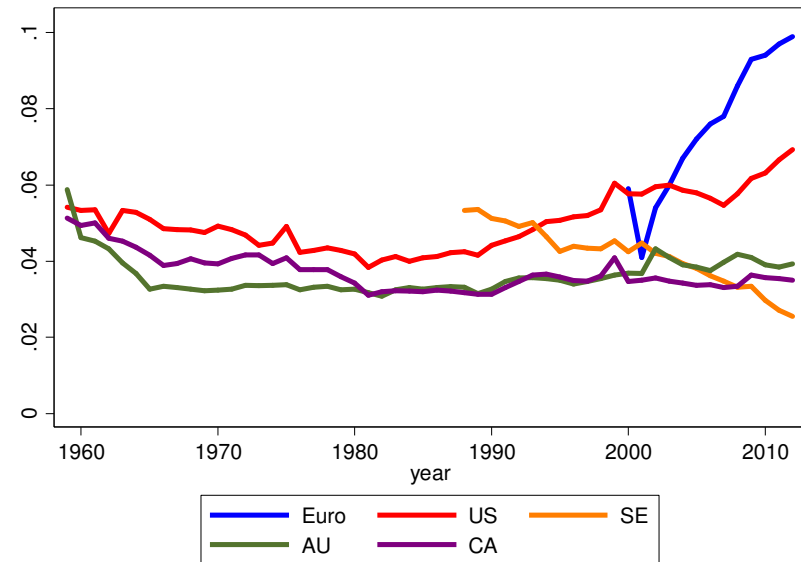
Source: Canadian Financial Monitor

# Bank notes demand remains high in Canada and elsewhere, but declining in some countries

Banknotes/GDP ratio remains steady in Canada



Bank notes/GDP ratios in several industrialized countries



## Payment system statistics in Canada, as of 2014

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System	Value (\$billions)	Volume (millions)
LVTS (systemically important)	38,653	8
ACSS	6,234	6,776
Cheques and paper items	2,989	715
Automated fund transfers	2,681	1,575
EDI and e-remittances	368	438
POS debit and credit	169	3,839
ABM transactions	25	208
Credit card (Visa/MC)	370	3,676



# Regulatory Developments



# Public policy objectives for payments systems

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## Safety

- Risks are measured, managed and controlled appropriately
- What risks are raised by innovations and new developments in retail payments? Are these new risks?
- Are the existing legal and regulatory frameworks sufficient to manage and control the risks?

## Efficiency

- Payment needs are met and resources used to deliver the service are efficiently allocated
- What payment needs are not met now (or underprovided) ?
- Can the costs of providing existing payment methods be lowered?

## Protection of user interest

- Privacy and security of payment information
- Reasonable access to payment services by all groups of users

# Three possible roles for the central bank to achieve public policy objectives

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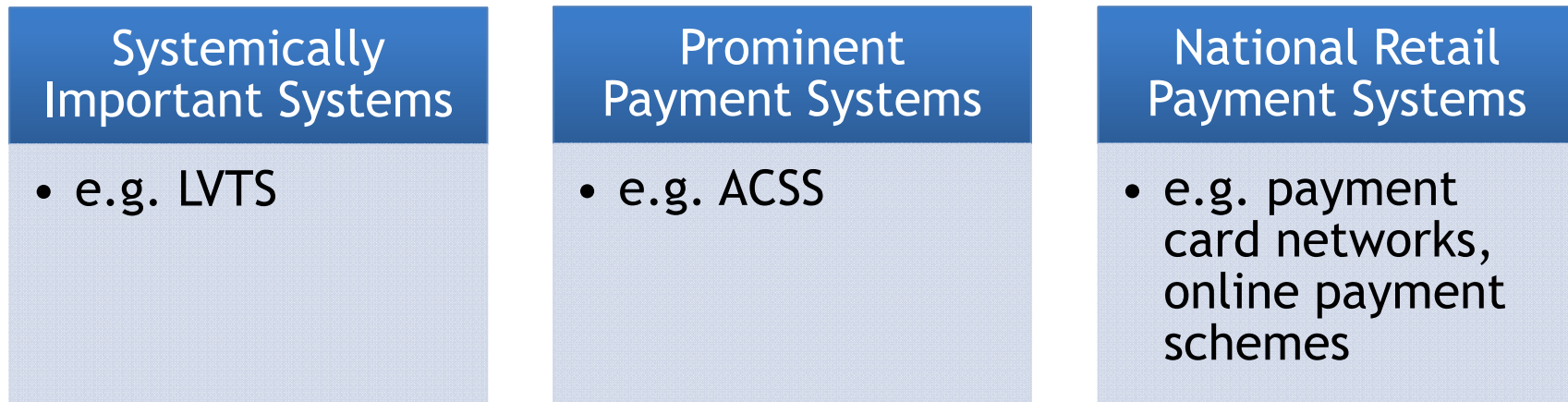
# Canadian Approach to Achieving the Public Policy Objectives

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- Market-based approach
  - To rely primarily on market forces but to provide a role for government where it can contribute to the achievement of a preferred outcome
  - Intervention in the form of regulation or direct provision only when the market by itself will not achieve the desired balance among public policy objectives
- In practice, often a mix of public and private actions.
  - What is the appropriate timing of intervention?
  - What is the relative importance of safety versus efficiency in the context of retail payments (relatively low value but high volume)?

# Oversight of payments systems in Canada (under review)

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← Increasing weight on safety/soundness

→ Increasing weight on efficiency

→ Increasing weight on user protection

# Oversight of National Retail Payment Systems (under review)

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Policy objectives	Types of risks or issues	Examples of oversight issues
Safety	Operational	<ul style="list-style-type: none"> <li>• System integrity, fraud prevention, security policies and guidelines</li> <li>• Protection of user funds</li> </ul>
Efficiency	Competition, barriers to entry, innovation	<ul style="list-style-type: none"> <li>• Rules on access and barriers to entry</li> <li>• Monitoring and rules against abuse of market power</li> </ul>
End-user interests	Market conduct	<ul style="list-style-type: none"> <li>• Transparency/disclosure requirements (pricing, fees, charges; user rights and responsibility)</li> <li>• Rules on liability (unauthorized payments)</li> </ul>

# Oversight of National Retail Payment Systems (under review)

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- Perimeter of oversight
  - What would fall within scope: institutional versus functional approach
- Oversight measures and implementation
  - Legislation and regulations based on relevant laws (e.g. the Canadian Payments Act, and the Payment Clearing and Settlement Act)
  - Voluntary codes of conduct (e.g. Code of Conduct for the Credit and Debit Card Industry in Canada)

# Debit and credit cards in Canada

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- Card networks are not subject to formal oversight and no interchange fee regulation
- Debit card
  - Interac debit card is the only domestic debit card network and can be used only within Canada for POS transactions
  - Interac Association is currently non-profit; interchange fee=0
  - Visa debit is available as co-branded but can used only for online and international transactions
- Credit card
  - Competition Bureau cases against credit card companies rejected by the Competition Tribunal
  - Voluntary reduction of interchange fee from an average of 1.65% to 1.5%
- Code of conduct on payment cards (also applied to card-based mobile payments)



# Code of Conduct for the Credit and Debit Card industry in Canada

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- Introduced for consultation in 2009 and released by the Department of Finance in 2010. The purpose of the code:
  - Ensure that merchants are fully aware of their payment card costs
  - Provide merchants with more pricing flexibility (e.g. discounting) to encourage consumers to choose the lowest-cost payment option
  - Allow merchants to freely choose which payment options they will accept
- The code applies to card networks, card issuers, and acquirers
- The Financial Consumer Agency of Canada (FCAC) monitor compliance to the code
- Updated in 2015
  - E.g. Merchants can cancel their contracts without penalty if the interchange rate reductions announced are not fully passed-through

# E-money/digital currencies

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- Regulatory developments around Bitcoin
- What are the main issues or concerns?
- What role(s) should the central bank play?
  - Can the private sector provide digital currencies with adequate safety, efficiency and user protection?
  - Should the government regulate e-money/digital currency schemes? How?
  - Should the central bank consider issuing its own digital currency?

## Conclusion Remarks

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- Developments in retail payments raise issues and pose challenges for the central bank and other public authorities
- To achieve the public policy objectives, it is important to
  - Monitor these developments,
  - Conduct research in understanding these developments and their implications
  - Have a clear oversight framework

# Thank you

