

AFP® Annual Conference



November 7-10, 2010 | San Antonio

ORIGINAL
ESSENTIAL
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INFORMATION

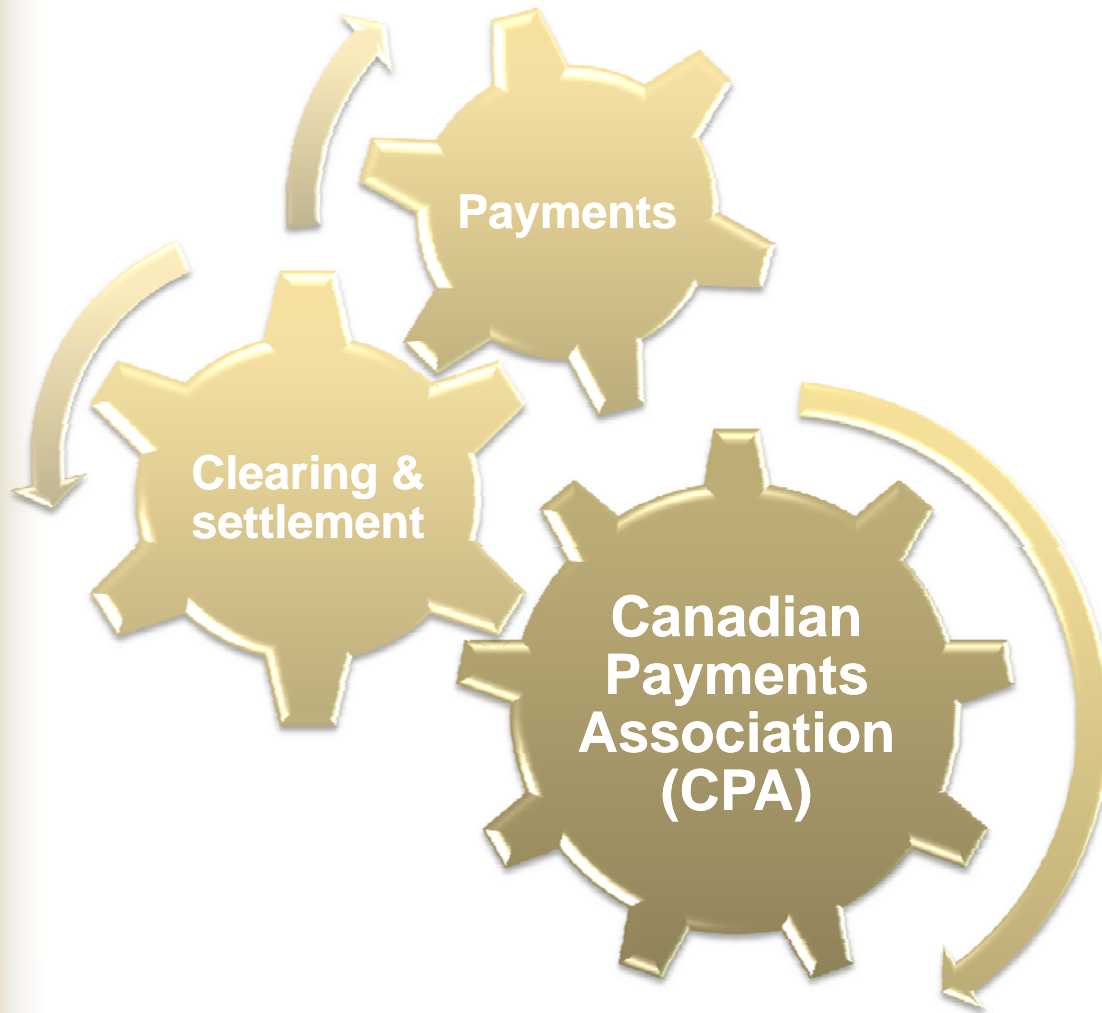


The Canadian Payments Landscape 2010

Geoffroi Montpetit
Director, Public Affairs
Canadian Payments Association

Mo Jansons
Director, Interbank Operations & Industry Affairs
RBC

CPA: Clearing and Settlement



23 million payment items cleared every day

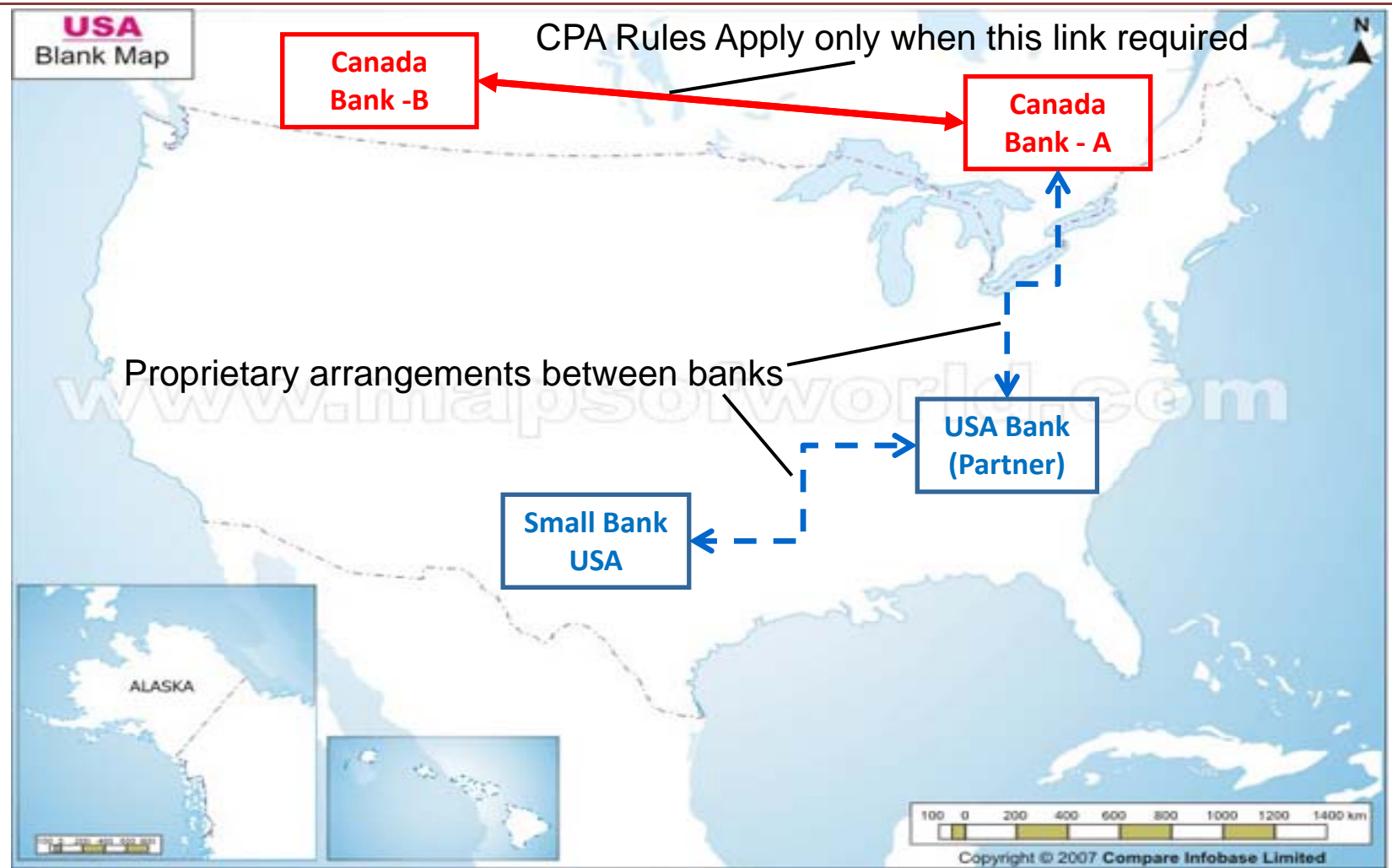
\$173 billion in transactions cleared daily

In 2009, **43 trillion dollars** cleared – a sum equivalent to 29 times Canada's GDP

The CPA Role

- The CPA might be compared to certain functions of:
 1. NACHA
 - Education, rules development, regulatory matters
 2. Federal Reserve
 - Cheque clearing centre systems and RTGS operations
 3. ACH Operators (EPN and Federal Reserve)
 - EFT clearing system operations
- The CPA has three main functions:
 1. Operates clearing and settlement systems
 2. Creates and maintains rules and standards
 3. Public policy objectives: safety, soundness & efficiency, and takes into consideration interest of users

When CPA Rules Apply



CPA Payment Strategy: Vision 2020

1. **Support** the Growth of Electronic Payments
2. **Drive** Efficiencies in Payments
3. **Modernize** CPA Legal Framework
4. **Enhance** CPA Exchange, Clearing & Settlement Technology
5. **Expand** Value-Added Services



International Payment Strategies

	Cheques	Cash Reduce	Direct Entry	Mobile New Tech	Financial Inclusion	Industry Standards	Physical Connectivity	Rule Making	Policy or Education Role
IRE	✓	✓			✓				✓
UK	✓		✓	✓	✓	✓			✓
AUS	✓		✓			✓	✓		
CDN	✓		✓	✓		✓	✓	✓	✓

Changes in Canadian Marketplace

In 2009...



Canada's national debit card provider, Interac, looked at shedding its not-for-profit status to compete with the global giants



Entry of new players in national debit card industry, e.g. Visa & MasterCard



Payments Accountability Council

- **Payments Accountability Council:**
 - Represents 250,000 merchants across Canada including:
 - Retail Council of Canada
 - Canadian Council of Grocery Distributor
 - Canadian Convenience Stores Association
 - Canadian Association of Chain Drugstores
 - And many more...
- **The Council was calling for:**
 - Regulation of Canada's credit and debit card markets
 - Minister of Finance to obtain powers to regulate the payments industry
 - Compliance with any rules or regulations that were introduced to be monitored closely to ensure that card companies, banks and processors were acting in good faith

Debit & Credit Card Codes & Legislation

Canadian Code of Practice for Consumer Debit Card Services

- A voluntary code of conduct that outlines industry practices and consumer and industry responsibilities with regard to the use of debit cards and personal identification numbers (PINs)
- The Code applies to the use of debit cards and PINs at points-of-service (POS) terminals in Canada, which include automated banking machines (ABMs)

Code of Conduct for the Credit and Debit Card Industry in Canada

- FCAC monitors compliance with the Code
- Competition – The Code prohibits competitive co-badging; excludes ABM and international applications
- Distribution of premium cards based on individual spending and income levels of an issuer's portfolio
- Prohibits negative option practices

Payment Card Network Act

- Gives the Minister of Finance the power to regulate the market conduct of the credit and debit card networks and their participants
- Proposes to expand the Financial Consumer Agency of Canada's mandate to supervision of payment card network operators to monitor their compliance with legislations

Payment System Task Force

With its
*Payment
Strategy: Vision
2020* the CPA is
well positioned
to contribute to
the
Government
review

Government Review – Payment System Task Force

Objectives:

- Safety, soundness & efficiency
- Innovation
- Competitive landscape
- Needs of consumers & businesses
- Review of oversight mechanisms

Payments in Canada: What's changing in 2010

- Cheques
 - Cheque image exchange
 - cheque printer certification
 - Project cancelled
 - New progress
 - Electronic Funds Transfers
 - Pre-Authorized Debits
 - Bill Payments
 - New Rules
 - Moving slowly
 - Cards
 - POS Debit
 - Mobile
 - No announcement
 - Slow to start
 - Wires
 - AML changes
 - New progress
-

Cheque Imaging & Cheque Printing

- **Cheque Imaging**

- CPA Project has been cancelled (fall 2008) but financial institutions continue to introduce image enabled services

- **Legal Equivalent**

- Effective June 2010, images recognized as the legal equivalent of paper cheques (Phase 1)

- **Phase 1** –

- Fully establishes legality of images as supplied to clients in statements, on line, etc.
- Also allow for returns of a “processing nature” as images
- Issue: certification of Post-dated items

- **Phase 2** – Other returns as images

- **Phase 3** - Forward presentment (i.e. Image presentment)

Cheque Imaging & Cheque Printing

- **Cheque Printer Self-Accreditation**
 - New Cheque Printing Standards still effective September 2008
 - Pilot for self certification of printers
 - 14 printers identified by number on reverse of cheque
 - Program was expanded June 2010
- **New legislation for Holds on Cheques**
 - Current agreement is 7 days; Proposed to be 4 days
 - Only applies to Federal institutions
 - Government currently negotiating details with banks

Pre-Authorized Debits (PADs)

Mandatory Elements for Payor Agreement

Date &
Signature

Authorization to
Debit Specific
Account

PAD Category
(personal,
business, cash
management)

Amount Timing

Cancellation
Agreement

Contact
Information

Recourse
Statement

Pre-Authorized Debits (PADs)

- **Key Changes:**

Payor's (Consumer's) Agreement – Paper version

- mandatory elements – shorter & clearer
- format to be approved by FI and/or as per prescribed samples
- previous versions grandfathered until new version introduced

I/we authorize [Name of Company] to withdraw from my checking account the amount of \$ _____ monthly on the ____ day of each month. Please return this Authorization, when completed and signed, to [Name of Company] with a cheque marked "VOID" to [Company Address].		
Name(s):		
Address:	City or Town / Province:	Postal Code:
Phone Number (<i>Residence</i>):	Phone Number (<i>Business</i>):	E-mail:
By signing below, I/we agree to the terms contained in this Authorization.		
Signature	Signature (<i>if second signature required</i>)	Date

Pre-Authorized Debits (PADs)

- **Key Changes (ctd.)**

Electronic Agreements

- commercially reasonable process to be approved by the sponsoring FI
- written confirmation to be sent to an independently verified address
- standard wait time of 15 days for receipt of confirmation (may be shortened by mutual agreement)

Pre-Notification Requirement

- may be shortened or waived from standard 10 days as long as the clause is prominent (e.g. bold, highlighted, larger font)

Bill Payments Task Force

- **Canada**

- No online, real-time, end-to-end (i.e. from customer to biller) process to support electronic bill payments

- **Bill Payment Task Force**

- *Focus*

- Credit transfers between two FIs resulting from a customer-initiated payment to a biller (cleared and settled through the CPA's systems)

- *Driver*

- Review of existing framework commenced in response to Government concerns re: perceived inefficiency of electronic bill payment system

Bill Payment Task Force

Issues under consideration

Error corrections

Documentation standardization (introduce Lead FI concept)

Compliance by all billers with published timelines (value dating)

Inclusion of most billers and payments

Bill Payment Models in Other Countries

Other Models	Examples
<p>Bill Consolidator</p> <p><i>Examples</i></p>	<p>An electronic bill presentment and payment (EBPP) program where customer's bills are collected from multiple billers and aggregated at a central web site operated by an independent financial service provider</p> <p><i>Australia – BPAY</i> <i>Canada – Epost</i></p>
<p>Biller-Direct Model</p> <p><i>Examples</i></p>	<p>the customer goes directly to each biller's website where bills are presented for viewing and payment. Payments made through the biller's website are usually credited the same day.</p> <p><i>US – Popular with US billers</i></p>
<p>Faster clearing</p> <p><i>Examples</i></p>	<p>Services that allow financial institutions and consumers to benefit from same-day and next-day online payments</p> <p><i>US – Expedited Bill Payment, ChoicePay</i> <i>UK – Bill payments made through the Faster Clearing service</i> <i>EU – Next-day service</i></p>

Point-of-Sale (POS) Debit

- POS is the single largest payments stream cleared and settled by the CPA:
 - 3.3 billion transactions per year
 - representing \$165 billion
 - Debit transactions represent
 - **56% of total CPA payments.**
 - **18% of all payments** made in Canada
 - They are projected to grow 4% annually over the next four years in Canada.
-



POS Debit – New Developments

Chip Technology

- CPA framework EMV Chip technology compliant
- Industry-wide commitment to migrate to chip technology for enhanced security of debit products

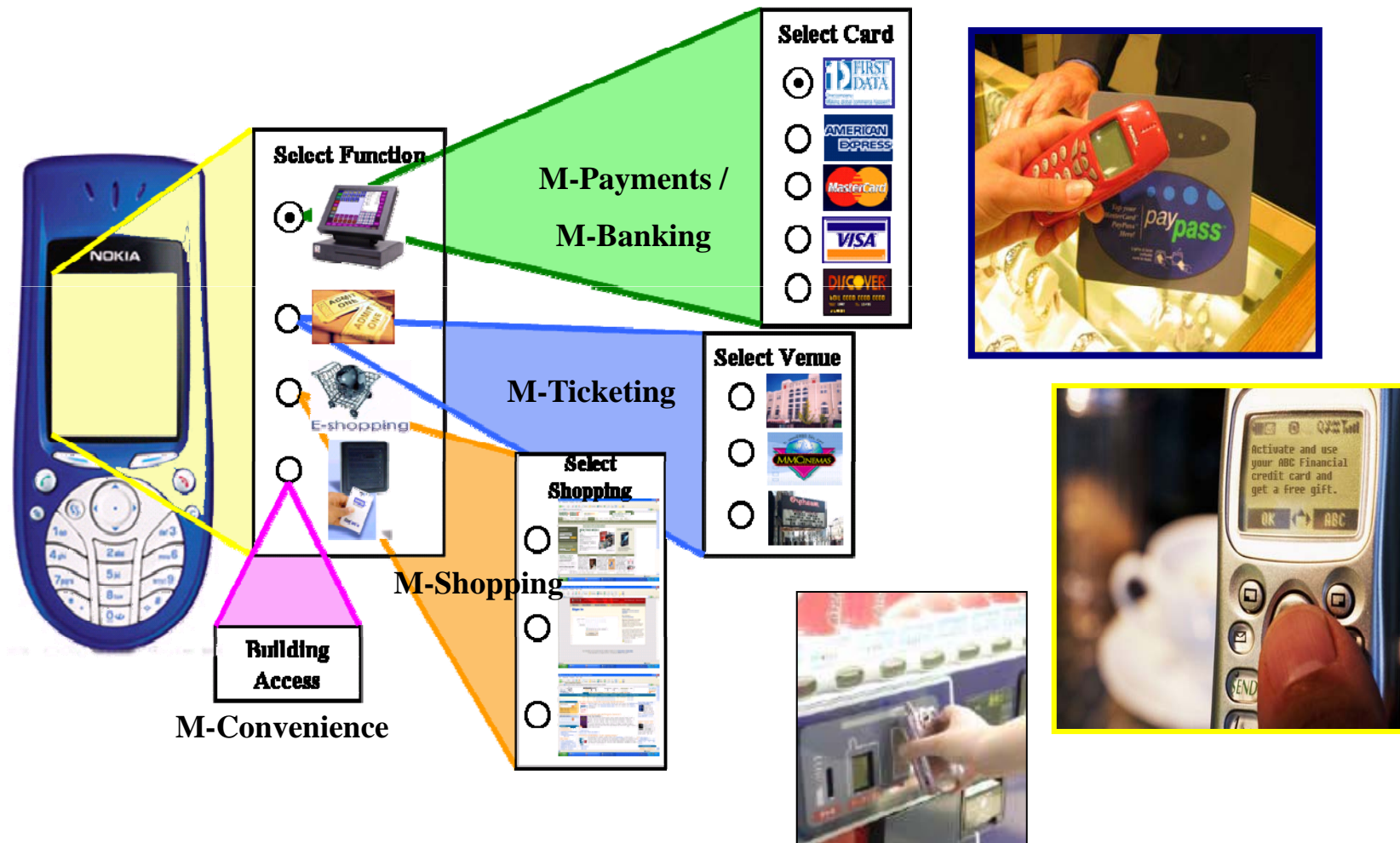
Pre-Funded Debit

- Guidelines for Pre-Funded Debit Products provide clearer guidance to the Canadian marketplace in the exchange, clearing, and settlement of such products

PIN-less POS Debit

- Contactless payments
- No requirement for the customer to enter a PIN
- Mainly expected to replace small-value payments generally conducted using cash

Mobile Payments: Definition Issues



Mobile Technology

- The mobile payment schemes to date fit under three technological models:
 - **Contactless** & Near Field Communication (**NFC**) → *for Point-of-Sale (POS)*
 - Short Messaging Service (**SMS**) → *for P2P payments or Mobile Money Transfers (MMT)*
 - Wireless Application Protocol (**WAP**)/internet applications → *for online commerce*
- Each technology offers a distinct option for mobile payment providers

Mobile Payments in Canada

- **Zoompass**

- Essentially a pre-funded multi-channel payment scheme that requires users to load funds into Zoompass accounts in order to make payments

- **Pilots**

- *RBC Mobex Mobile Payment Service*
 - The scheme used SMS (text) messages to initiate P2P payments (and payment requests) from pre-funded user accounts
- *RBC, Rogers & Visa NFC Pilot*
 - This scheme utilizes NFC chips embedded in a mobile phone and builds on contactless payments currently offered by Visa
- *BMO, Bell, & MasterCard NFC Pilot*
 - Uses contactless RFID PayPass tags or stickers attached to smartphones
- *Interac Mobile Payments*
 - Interac has confirmed that it does plan to build mobile devices into the contactless equation, although the timeframe has yet to be established

Country Comparison of Mobile Proximity Payments

International Mobile NFC Payments Market Development

	NFC Pilots	Strong Industry Collaboration	Mass Transit NFC Capable	Dominant NFC Standard & Strategy Pursued	Commercial NFC Products	Successful End-User Adoption
Japan	█	█	█	█	█	█
S. Korea	█	█	█	█	█	█
Singapore	█	█	█	█		
UK	█	█	█			
France	█	█	█	█		
China	█	█	█		█	
Turkey	█	█	█	█		
US	█					
Canada	█					
Australia	█					

Country Comparison of Remote P2P Mobile Payments

Mobile Remote Payments Characteristics	Asia	Europe	N. America	Developing Countries	International Schemes
Wide SMS Technology Acceptance		✓	✓	✓	✓
Wide WAP Technology Acceptance	✓		✓		
Pre-paid schemes predominate	✓		✓	✓	✓
Direct Billing Predominates		✓			
High P2P Payments Adoption	✓		✓	✓	✓
P2P Payments Closed Loop		✓	✓		
P2B Payments Open Loop	✓		✓		
Proprietary Schemes Predominate	✓	✓	✓	✓	✓
Bank schemes prevalent					

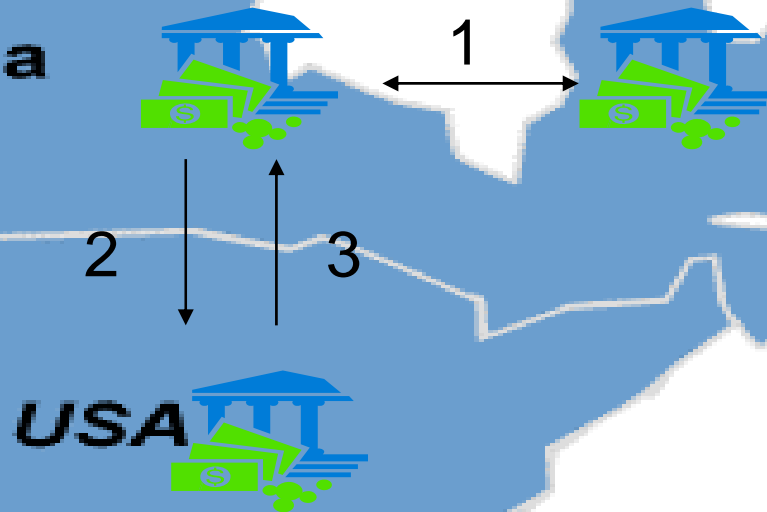
Wires & ACH: AML Changes

- Canada consistently remains the US' biggest trading partner
 - Estimated average of 20,000 wire transfers per day between CDN and US FIs
- Amendments were made to the *Canadian AML Act and Regulations* to bring Canadian requirements in line with the US FATF SR VII
- **Two new “Rules”**
 - Record-Keeping Rule
 - Travel Rule

Wires & ACH: AML Changes

Rules apply to: **Canada**

1. Domestic MT103s
2. International MT103s (originate in Canada)
3. International MT103s (originate outside Canada)



Credit Card Security

- PCI Security Standards Council:
 - An open global forum for the ongoing development, enhancement, storage, dissemination and implementation of security standards for account data protection.
 - Mission:
 - To enhance payment account data security by driving education and awareness of the PCI Security Standards.
 - Founded by:
 - American Express
 - Discover Financial Services
 - JCB International
 - MasterCard Worldwide
 - Visa, Inc.
-

Credit Card Security

PCI started in US > then to Canada & Europe

Merchant & Acquirer impact in Canada...not yet issuer compliance

Starting to see compliance & audit requests from merchants & billers ...Canada not quite there yet

Questions

