The Canadian Payments Landscape 2010

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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 Rules Apply only when this link required

Proprietary arrangements between banks

Canada Bank - B

Canada Bank - A

USA Bank (Partner)

Small Bank USA

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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

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# International Payment Strategies

<table>
<thead>
<tr>
<th></th>
<th>Cheques</th>
<th>Cash Reduce</th>
<th>Direct Entry</th>
<th>Mobile New Tech</th>
<th>Financial Inclusion</th>
<th>Industry Standards</th>
<th>Physical Connectivity</th>
<th>Rule Making</th>
<th>Policy or Education Role</th>
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Changes in Canadian Marketplace

In 2009...

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

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

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<th>Canadian Code of Practice for Consumer Debit Card Services</th>
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<tr>
<td>• 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)</td>
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<tr>
<td>• 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)</td>
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<tr>
<th>Code of Conduct for the Credit and Debit Card Industry in Canada</th>
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<tr>
<td>• FCAC monitors compliance with the Code</td>
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<td>• Competition – The Code prohibits competitive co-badging; excludes ABM and international applications</td>
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<td>• Distribution of premium cards based on individual spending and income levels of an issuer’s portfolio</td>
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<tr>
<td>• Prohibits negative option practices</td>
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<th>Payment Card Network Act</th>
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<tr>
<td>• Gives the Minister of Finance the power to regulate the market conduct of the credit and debit card networks and their participants</td>
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<tr>
<td>• Proposes to expand the Financial Consumer Agency of Canada’s mandate to supervision of payment card network operators to monitor their compliance with legislations</td>
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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 chequing 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 (Residence): ____________________________ Phone Number (Business): ____________________________ E-mail: ____________________________

By signing below, I/we agree to the terms contained in this Authorization.

Signature ____________________________ Signature (if second signature required) __________ 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

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<tr>
<th>Other Models</th>
<th>Examples</th>
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<tr>
<td>Bill Consolidator</td>
<td>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.</td>
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<td><strong>Examples</strong></td>
<td><strong>Australia – BPAY</strong></td>
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<td><strong>Canada – Epost</strong></td>
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<tr>
<td>Biller-Direct Model</td>
<td>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.</td>
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<td><strong>Examples</strong></td>
<td><strong>US – Popular with US billers</strong></td>
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<tr>
<td>Faster clearing</td>
<td>Services that allow financial institutions and consumers to benefit from same-day and next-day online payments</td>
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<tr>
<td><strong>Examples</strong></td>
<td><strong>US – Expedited Bill Payment, ChoicePay</strong></td>
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<td><strong>UK – Bill payments made through the Faster Clearing service</strong></td>
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<td><strong>EU – Next-day service</strong></td>
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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

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Mobile Payments: Definition Issues

- M-Payments / M-Banking
- M-Ticketing
- M-Shopping
- M-Convenience
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

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# Country Comparison of Remote P2P Mobile Payments

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

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