



**Canadian Bank Machine Association**  
**Submission to the Standing Committee on Finance**  
**2011 Pre-Budget Consultations**  
**August 12 2011**

## **Executive Summary**

The Canadian Bank Machine Association (CBMA) represents Canada's four largest non-bank automated bank machine (ABM) service providers. With operations from coast to coast, and ABMs located in more than 2,000 rural and urban cities or towns, our members provide Canadian consumers with convenient access to their currency. As of December 31 2008, CBMA members represented more than 15,000 ABMs (26 percent of all ABMs in Canada), and conducted more than 33% of all Interac ABM currency withdrawal transactions. ***In short, the CBMA and its member companies are key players in the Canadian Payments System.***

Canada's automated bank machine (ABM) industry is considered to be one of the most efficient, safe and competitive in the world, allowing Canadians safe and convenient access to their currency. The non-bank ABM industry contributes significantly to this success, increasing consumer access points – often in communities where other banking services may not be available.

The Canadian payments landscape is undergoing profound change with the emergence of alternative payment technologies and the entrance of new players in the marketplace. Throughout all of this change, cash continues to be a valuable and important component of the payments system in Canada. The CBMA is committed to an open and transparent dialogue with government and stakeholders to ensure that Canadians continue to have safe and convenient access to their currency.

### ***Recommendation 1:***

*The CBMA recognizes the stability of the current regulatory environment and recommends that the government, through the Task Force for the Payments System Review, recognize the importance of cash within the Canadian Payments System.*

### ***Recommendation 2:***

*The CBMA recommends that the government continue to uphold the Competition Tribunal's 1996 Consent Order, allowing the Interac Association to continue as a not-for-profit corporation specifically with respect to the ABM market.*

### ***Recommendation 3:***

*The CBMA recommends that the government continue to focus on improving the financial literacy of Canadians, including measures to mitigate financial fraud.*



## **About the Canadian Bank Machine Association (CBMA)**

The Canadian Bank Machine Association (CBMA) was formed in 2009. Its founding members include the four largest non-bank automated bank machine (ABM) operators in Canada: Access Cash, Direct Cash ATM, Stanley-Frisco ATMs and Threshold Financial Technologies Inc. The CBMA's objective is to demonstrate commitment to the integrity of the Canadian Payments System, and to provide representation and a voice for non-bank ABM operators in dealing with regulatory, legislative and industry issues. Together, CBMA members account for over 15,000 active ABM locations, and comprise 26% of Interac's total shared cash dispense network.

## **Importance of Non-Bank ABMs in Canada**

Non-bank ABMs offer Canadian consumers safe and convenient access to their currency. At the end of 2009, over 60% of the 58,217 ABMs in Interac's network were non-bank ABMs. Each year, Canadians conduct approximately 150,000,000 non-bank ABM withdrawals, supporting their interest in, and value of, the non-bank ABM network.

Non-bank ABMs provide availability of cash at seasonal locations (such as ski resorts, golf courses, etc.) and events (sporting events, concerts, etc.) that are not generally served by bank ABMs. Non-bank ABMs serve to increase the availability of currency for Canadians, especially in many rural communities where other banking services may not be available. CBMA has ABMs located in more than 2,000 rural and urban cities and towns across Canada. In these ways, nonbank ABMs are meeting a demand which may not be fully satisfied by the existing network of financial institution owned ABMs.

For small business and retail merchants, non-bank ABMs provide an additional source of revenue through fees charged for ABM services, while at the same time enabling merchants to offer new services for their customers, attract new customers to their premises and potentially increase sales. Across the non-bank ABM industry, Acquirers, ISOs, service companies, paper providers, ABM manufacturers, armored carriers and telecommunications firms all benefit from the business activities of the non-bank ABM sector and employ thousands of Canadians in delivering these services.

Finally, banks are able to offer their debit card holders access to a dramatically extended network of ABMs (i.e. 58,000 total ABMs versus 18,000 without non-bank ABMs), requiring the banks to provide no capital outlay, nor ongoing management support.

## **Canadian Payments System**

The CBMA believes that the Canadian Payments System and the existing regulatory environment as it relates to the ABM industry is serving the needs of Canadians. We were an active stakeholder in the development of the *Code of Conduct for the Debit and Credit Card Industry* and strongly support the final outcome.

At present, the CBMA is contributing to the work of the Task Force for the Payments System Review as they develop recommendations to government on the future of the Canadian Payments System. Our overall message to the Task Force is to recognize that Canada currently owns one of the world's most efficient, safe and competitive ABM markets. The use of cash remains an important medium for many Canadians, and is accessible to consumers at the lowest fees.

***Recommendation 1:***

***The CBMA recognizes the stability of the current regulatory environment and recommends that the government, through the Task Force for the Payments System Review, recognize the importance of cash within the Canadian Payments System.***

**The Interac Association as Not-For-Profit With Respect to ABM's**

The Competition Tribunal's 1996 Consent Order, which turned the Interac Association into a not-for-profit organization, gave birth to the non-bank ATM industry in Canada, creating greater access for Canadians to their currency. It led to new suppliers who employ hundreds of Canadians, increased consumer choice and convenience, and more choice of ATM services for site owners, including retailers. There are an additional 37,000 ATMs in service today in Canada as a direct result of the Tribunal's decision.

Currently, financial institutions are not generally increasing their deployment of off premise ABMs, therefore limiting convenient access for Canadians, while the deployment of non-bank ABM's continues to expand. Non-bank ABMs provide consumers with access to currency in many places across the country where bank owned ABMs are not present. For some rural and remote communities, non-bank ABMs represent the only access point for residents to acquire their cash, traditionally the least expensive method of acquiring goods and services. Canadian's have the second highest number of ABMs per million inhabitants globally.

Historically, Interac has operated as a non-profit organization, facilitating a low cost delivery of services, principally ATM and POS services in Canada. We believe that this regulatory environment has served the Canadian consumer well and has not created more value for one Interac member over another.

The CBMA applauds the February 12, 2010 decision of the Commissioner of Competition not to vary the Competition Tribunal's 1996 Consent Order. The Consent Order should continue to be upheld with respect to ABMs, maintaining a competitive market landscape that has provided benefits to Canadian consumers, merchants, ISO's, small communities, rural areas, and banks alike.

***Recommendation 2:***

***The CBMA recommends that the government continue to uphold the Competition Tribunal's 1996 Consent Order, allowing the Interac Association to continue as a not-for-profit corporation specifically with respect to the ABM market.***

## **Financial Literacy and Fraud Mitigation**

Strengthening financial literacy in Canada is a tremendously important initiative that will pay dividends for years to come. The CBMA applauds the efforts of the government in this respect and will make best efforts to add value to the work of the Task Force on Financial Literacy.

The CBMA is especially interested in two key issues with respect to the financial literacy of Canadians: non-bank ATM convenience fees, and financial fraud.

### Non-Bank ABM Convenience Fees

It is important that Canadian consumers understand the difference between a convenience fee charged by operators of non-bank ATMs and a regular account transaction fee charged by their financial institution.

Canadian consumers who make use of non-bank ATMs or a Bank ATM that is other than their Bank pay a convenience fee at the ATM. This fee generally ranges between \$1.50 and \$2.00. Non-bank ATMs provide consumers with access to currency in many places across the country where bank owned ATMs are not present. Convenience fees permit this added network and benefit consumers, merchants and the banks alike. Currently, consumers using a non-bank ATM or “other” Bank ATM will be notified in advance of the convenience fee and must agree to the convenience fee before their transaction can be processed. This proactive disclosure and consent ensures that Canadians knowingly pay a convenience fee to access their currency. The CBMA and its members are supportive of such measures.

### Financial Fraud

Financial fraud is a serious matter that causes much harm to Canadian consumers. It is critical that Canadians are provided the facts on fraud in order to best protect themselves. Unfortunately, there is a misconception among many Canadians that non-bank ATMs are a vehicle for financial fraud, and specifically money laundering. This is in fact not the case.

As part of industry security frameworks, all ABMs (both private and bank owned) follow stringent reporting methods and create extensive and complex electronic footprints. Furthermore, every ABM merchant must sign a contract stating they will comply with Interac security regulations. In addition, the typical private ABM is in a supervised location and dispenses relatively low volumes of cash each month which diminishes their value to those wishing to commit financial fraud.

In February of 2008, the Financial Action Task Force (FATF) released its official report, “Anti-Money Laundering and Combating the Financing of Terrorism in Canada”. FATF’s evaluation included a focus on the non-bank ABM industry and identified the non-bank ABM sector and surrounding controls as an area where the regulations had not been documented and thus may need to be strengthened in an effort to further mitigate the risk of money laundering.

CBMA members worked closely with Interac, Visa, MasterCard, law enforcement, the Department of Finance, and the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) to negotiate a set of anti-money laundering requirements for non-bank ATM owners which have subsequently been translated into Interac Regulations to specifically address the following: *customer due diligence requirements (identity and entity verification and reporting); source of funds declarations; criminal background checks on those identified as high risk; and; annual reviews (a specialized procedure review process) to ensure compliance.*

The CBMA is prepared to partner with both public and private sector partners to educate the public on financial literacy and anti-fraud measures and we applaud the efforts of the Task Force and the federal government towards educating Canadians about financial services.

### EMV Chip Migration

The industry shares common goals of maintaining the security of Interac's network, which also supports consumer confidence in the network and the Interac brand. CBMA members have committed significant time and financial resources to complying with Interac regulations, and look forward to supporting the industry in its common goal of a secure payments systems.

The CBMA supports the migration to chip and pin EMV cards in Canada. Working closely with Interac and presenting a white paper on the issues associated with EMV migration for non-bank ABMs, the Interac Board of Directors approved the alternative risk-based non-bank ABM chip migration program on June 15, 2010. While on-going challenges with ABM manufacturers, software issues and switch access to testing and certification caused most operators to fall short of an interim milestone at December 31, 2010, efforts have been enhanced further and we believe all CBMA members will meet the pending EMV milestone at December 31, 2011. The program to promote chip migration and mitigate fraud includes adopting a risk-based, collaborative approach between Interac and the non-bank ABM operators to prioritize chip migration efforts to make the results more impactful.

This program demonstrates the ability and willingness of network partners to work together, within the existing regulatory environment, to promote and protect the Canadian Payments System and Canadian consumers.

### ***Recommendation 3:***

***The CBMA recommends that the government continue to focus on improving the financial literacy of Canadians, including measures to mitigate financial fraud.***

**APPENDIX A**

<b>CONTACT INFORMATION AND 2008 STATISTICAL INFORMATION</b>			
<b>Name &amp; Contact Information</b>	<b>Active ATM Locations as at December 31, 2008</b>	<b>Total Completed ATM Transactions in 2008</b>	<b>Total Number of Towns Where 1 or More ATMs are Located</b>
Access Cash General Partnership 35 Kelfield Street Toronto, Ontario, M9W 5A3 Attention: Chris Chandler Telephone: (416) 247-0200 ext. 2237 Email: chris@ezee-atm.com	4,067	19,284,336	1,177
Cash'N Go Ltd. 16060 - 114 Avenue Edmonton, Alberta, T5M 2Z5 Attention: Ken Nichols Telephone: (780) 451-2274 Email: ken@cashngo.com	1,201	8,202,946	468
DirectCash ATM Processing Partnership Bay #6, 1420 - 28th Street N.E. Calgary, Alberta, T2A 7W6 Attention: Jeffrey J. Smith Telephone: (403) 387-2101 Email: jeff@directcash.net	6,270	30,507,721	1,410
Stanley Capital Corporation 160 Graveline Ville St. Laurent, Quebec, H4T 1R7 Attention: Clifford Richstone Telephone: (514) 738-5295 Email: crichstone@stanleyworks.com	2,403	11,902,716	798
Threshold Financial Technologies Inc. 3269 American Drive Mississauga, Ontario, L4V 1V4 Attention: Mathew Mclver Telephone: (905) 678-4499 Email: matthew.mciver@threshold-fti.com	1,337	15,888,572	425
<b>Totals for 5 ATM deployers sending this letter</b>	<b>15,278</b>	<b>85,886,291</b>	<b>1,500</b>
Totals for Canadian Financial Institutions (approximate based on annual reports)	21,000	Not Available	
Totals for Non-Financial Institutions (including the 5 ATM deployers sending this letter)	36,864	Not Available	
Totals for all of Interac	57,864	257,000,000	
Percentage of Interac Totals Represented by	<b>26%</b>	<b>33%</b>	

<b>CONTACT INFORMATION AND 2008 STATISTICAL INFORMATION</b>			
<b>Name &amp; Contact Information</b>	<b>Active ATM Locations as at December 31, 2008</b>	<b>Total Completed ATM Transactions in 2008</b>	<b>Total Number of Towns Where 1 or More ATMs are Located</b>
the 5 ATM deployers sending this letter)			