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Chair

Mr. James Rajotte

Standing Committee on Finance

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● (1530)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this meeting to order. This is meeting number 19 of the Standing Committee on Finance.

I want to welcome you all here today for the start of our study pursuant to Standing Order 108(2) of emerging digital payment systems. We are very pleased to have five organizations presenting here today.

We have, first of all, from EnStream a former colleague, Ms. Martha Hall Findlay, chief legal officer.

Welcome to the committee. It's nice to see you on that side.

Some hon. members: Oh, oh!

The Chair: No, I mean that in a very nice way.

Ms. Martha Hall Findlay (Chief Legal Officer, EnStream): Wait until things get started before you say that.

The Chair: Ms. Findlay was a very active member of this committee and I always appreciated her input.

We'll next have PayPal Canada speak, and we have Mr. Cameron Schmidt, general manager.

Welcome to the committee.

From MasterCard Canada we have the vice-president, emerging payments, Mr. William Giles.

Welcome as well.

From the Royal Bank of Canada we have vice-president, international cards and Canadian regulatory payments, Ms. Carolyn Burke.

Welcome to you.

And from Visa Canada Corporation we have the head of mobile innovation, Mr. Derek Colfer.

I'm sorry, we should have these in the proper order here but we are going according to the agenda. You each have five minutes maximum for an opening statement, and then we'll have a round of questions from each member, and then I believe there will be a presentation at the back of the room of any of your technologies.

We'll start with EnStream, please, for your opening statement.

Ms. Martha Hall Findlay: Thank you, Mr. Chair.

It is indeed a delight to be back. It's interesting to be on this side of the table.

Hello to former colleagues, it's great to be here.

[*Translation*]

Welcome, everyone.

[*English*]

My name is Martha Hall Findlay. I am the chief legal officer for EnStream, a joint venture established almost a decade ago by Bell, Rogers, and Telus. You have received a more complete brief, and my remarks today are therefore summary in nature. However, I do look forward to any questions you may have.

When it was first established, EnStream's purpose was to develop the technology that would permit Canadians to make purchases using their cellphones instead of credit cards and debit cards, or cash. After significant investment and years of work, we're very happy to say that the technology works. I now buy my soup and sandwich at my local Tim Hortons with my phone—no cash, no cards, no purse, just my phone.

It is important to stress that this technology is very different from limited value prepaid cards or stored value bar code apps, such as the one you can see at Starbucks. I think most of you might have seen that. The fundamental difference between what those applications are and what EnStream is involved in now is security. When I buy my coffee with my phone, it is as secure as when I use my chip and PIN credit card, whether inserted or waved. That same credit card's credentials are simply now securely loaded into my phone.

The convenience for consumers is terrific, and the opportunities for far more than payments is exciting. It is doubly exciting—and you can forgive me a bit of nationalistic pride, but given Canada's current successes at the Olympics, we obviously can't compare—in that in this regard, mobile payments, Canada is indeed a world leader. We're already a world leader in contactless payments. We're far ahead of most other countries on this, most notably the United States, where chip and PIN and contactless payments are almost non-existent.

In Canada, 19 of the top 25 merchants, by volume, accept contactless payments—where you can wave your card over the terminal. That is 75% of our major retailers, which have 250,000 contactless payment readers already. Compare that to the fact that fewer than 2% of U.S. retailers accept contactless payment. By far the majority of credit card transactions in the United States still use the magnetic strip reader, which is far less secure. In Canada, 10% of all transactions are now contactless, and some reports have that number growing by as much as 1% a month.

The good news for all those retailers who have invested in these new terminals that already use chip and PIN and contactless is that it is those same checkout terminals that will accept payments from your phone. The level of standardization in this area in Canada is in fact very, very high. As a note, the lack of standardization in terminals is one of a variety of reasons for why things are so far behind in the United States.

Also key for the merchants is that, whether a customer uses their credit card information to pay by inserting the card or waving the card or tapping their phone, the terminal sees exactly the same credit card information.

Now, we recognize that there are concerns about the level of merchant fees associated with certain cards. I'm sure some of my other colleagues will speak to that. We understand that. But in the case of a mobile payment, what we want to stress is that the merchant fees are the same for any card, regardless of which payment method is used. The system is form-agnostic. At the Tim Hortons where I pay, the fee would be the same for that retailer whether it was inserted, waved, or I was using my phone.

It is EnStream's mobile payment technology and services, and those of our key partners, which enable financial institutions to securely download encrypted financial credential information to their customers' smartphones, in real time, over the air, through the mobile networks. This enables those customers to in turn securely use their phones to make those purchases. EnStream's technology is rapidly becoming a standard in the market for Canada, as our customers now include most of the major Canadian mobile network operators, as well as several of Canada's major financial institutions. We continue to grow.

Our business model is based on the benefits of ubiquity. EnStream's technology and services are completely open to all mobile operators and all financial institution issuers, in effect acting as a utility. The market for the technology that permits mobile payments is somewhat unique, in that all participants—financial institutions, mobile network operators, consumers, and merchants—benefit from the ubiquity and the standardization of the implementing technology, from both the deployment and cost-effectiveness perspective.

● (1535)

These are key reasons that Canada is so far ahead.

The Chair: Okay.

Ms. Martha Hall Findlay: Am I done?

The Chair: Yes.

Ms. Martha Hall Findlay: I'll look forward to any questions that anybody has for me.

The Chair: There will be a lot of rounds of questions and opportunities to follow.

Thank you very much, Ms. Findlay.

We'll now go to PayPal Canada, please, for their presentation.

Mr. Cameron Schmidt (General Manager, PayPal Canada): Bonjour. Thank you very much for the invitation to come here and speak today. I look forward to sharing with you how PayPal helps Canadian businesses to thrive and Canadian consumers to securely pay anytime and anywhere across the emerging digital commerce landscape.

PayPal is an eBay Inc. company, along with StubHub and Kijiji. Through eBay's marketplace, we connect millions of buyers and sellers across the globe and in fact enabled over $200 billion of commerce last year. PayPal was founded in 1998 to allow users to transfer money or pay securely online. Today, we have 143 million PayPal accounts globally and 5.5 million here in Canada.

I want to describe briefly what PayPal is and how it works. You sign up for a free PayPal account, either online or through the mobile app, and then you link your bank account, credit card, and/or debit card to that account. This enables you to make highly secure transactions online because no one sees your account details. In your physical wallet, you probably have some cash—if your kids haven't swiped it—a credit card, and maybe a debit card, so you can think of PayPal as a bit of a digital wallet, whereby you can access your money from your PayPal account on your laptop or smartphones and then shop online across Canada and at millions of stores globally.

The thing I particularly like about PayPal is that you can also use PayPal to raise funds for your favourite causes or to donate online to various charities. You can do this through CanadaHelps or directly to charities such as the SickKids Foundation or the Canadian Red Cross. You can also use PayPal to securely send money to your friends and family.

Access to your account is quite easy. All you need is an Internet-connected device. Whether it's your laptop or your cellphone, or even gaming consoles and television sets, all are access points to your account.

I think you probably all know that online commerce is booming across Canada. Fifty-six per cent of Canadian Internet users said they bought goods or services online last year. However, what I find kind of interesting is that only 20% of Canadian businesses are actually selling online today.

The opportunity to drive business growth, consumer delight, and the Canadian economy is quite compelling and substantial. As we all know, people are increasingly connected through these devices, and they have increasing expectations in regard to being able to pay any time, anywhere, and in any way they want, so a brick-and-mortar retail presence alone just isn't enough anymore. Thankfully, retailers such as our partners, the Hudson's Bay Company, Roots, Best Buy, and Future Shop, among many others, are recognizing the need to have a multi-channel footprint to cater to the connected consumer.

Also, as we know, small businesses in Canada are a critical engine of the economy. Every five minutes, a small business signs up to accept PayPal payments and opens their virtual doors to new consumers in Canada and around the world. There are no set-up costs or hidden fees for a small business to start accepting payments, and our fees are completely transparent and published on our website.

I have a brief comment about mobile. The next commerce revolution is being driven completely by mobile. Sixty-two per cent of Canadians have a smartphone. You may not know that this is the third-highest penetration level of any country in the world. The reality of this fact is that it's changing how we shop and pay. Businesses are interacting with these consumers in completely new ways, and the expectations, as I've said, are changing. Just to give a sense for how big this trend is, in 2013 PayPal processed $27 billion in mobile payments, up from $600 million only three years ago. There are many examples—we'll show some in the demo here—of how we are helping Canadian businesses, small and large, securely engage with today's connected consumer in useful ways.

Let me talk a bit about security. It's the foundation of our entire business. We recognize that our success and the success of commerce generally depends on our ability to provide trust and confidence to businesses and consumers. Without that trust, digital commerce will fail to reach its full potential. As I've said, security is a fundamental building block of PayPal's business. We allow people to send money or pay for goods and services without ever having to expose their financial or personal information. It also allows businesses to receive payments without the costs and potential liability associated with processing and securing financial information.

● (1540)

I look forward to answering any of your questions.

The Chair: Thank you very much, Mr. Schmidt, for your presentation.

We'll now hear from MasterCard Canada, please.

Mr. William Giles (Vice-President, Emerging Payments, MasterCard Canada): Thank you for the opportunity to take part in your study.

The subject matter at hand is very complex, and MasterCard recognizes that with the rapidly evolving nature of payments all stakeholders, including government, will have questions. We'd like to tackle those head on.

I'm going to focus the discussion today on a few areas that you've addressed in your study, but first let me start by giving you a little bit about MasterCard's role in the payment system. MasterCard is a technology company. Our technology and expertise powers 1.9 billion cards accepted at over 35 million locations around the world in 210 different countries. MasterCard runs a network that allows card transactions to take place. Individual banks get our cards into the hands of consumers. Those individual banks are the ones that manage the relationship with the customers. Our acquirers connect merchants to the network and enable them to take card payments.

Our goal is to offer all payment stakeholders—be they consumers, merchants, or banks—the widest array of technologically advanced products to meet their needs, which is a good place to begin the discussion about mobile payments, starting with an overview of where we stand with credit card payments in Canada today.

First and foremost I can assure you that the plastic cards in your wallet right now are not going away in our lifetime. That will remain a payment option for consumers and merchants for the foreseeable future. However, consumers want options and access to new payment technologies. The first evolution of this is the contactless payments, the tap-and-go features like MasterCard PayPass. These have offered tremendous benefits to consumers and merchants, particularly those in high-volume, low transaction value environments, by offering a fast checkout experience. Just think of the line at Tim Hortons and how fast it is when the person in front of you taps.

The next evolution will be the use of the same contactless technology, but incorporated into a mobile device. The MasterCard Mobile Payment Readiness Index ranks Canada second in the world in gauging the readiness of markets for mobile payments. For such payments, consumers will create a mobile wallet on their smartphone by downloading an app from a traditional app store, load their preferred cards into that device, and make purchases at the point of sale by tapping that same device I mentioned earlier.

For merchants there's no change from the regular contactless card purchase other than the form factor being the phone. Because they use the same basic technology, any merchant that accepts contactless cards will be able to accept mobile payments. Let me stress that the cost is the same. As for the state of mobile payments in Canada, there has been limited rollout to date, but you should begin to see the technology in market more frequently this year.

Let me now turn to the role of government. MasterCard believes the government has taken the right approach by creating an environment that allows companies such as MasterCard to offer innovative payment options in a competitive market. The protection that already exists for merchants and consumers, such as the code of conduct or the MasterCard zero-liability policy for unauthorized transactions, still applies to mobile payments, and that doesn't change when the form factor changes.

● (1545)

The Chair: You have one minute.

Mr. William Giles: We want to continue having a competitive environment for innovation. We recommend against any further government role. Competition and choice breed innovation. Where government has sought to limit competition, as with Canada's debit system, the result is an isolated domestic system that lacks economies of scale, international interoperability, and innovation.

Let me now address the third aspect of your study, and that's the benefit for consumers and merchants from these new options. This is almost an impossible task since the benefits are unlimited and continue to evolve as entrepreneurs and programmers the world over introduce new functionality for mobile phones. What we do know for sure, though, is that all of this new technology is improving the customer experience and convenience. It also benefits merchants through reduced staffing costs, shorter checkout lines, and fewer lost sales.

Thank you.

The Chair: Thank you very much, Mr. Giles.

We'll go to Ms. Burke from RBC, please.

[*Translation*]

Ms. Carolyn Burke (Vice-President, International Cards and Canadian Regulatory Payments, Royal Bank of Canada): Good afternoon. My name is Carolyn Burke and I am a vice-president of the Royal Bank of Canada.

I am very pleased to have this opportunity to speak to you about electronic commerce.

[*English*]

My colleague Jeremy Bornstein will be giving a demonstration following these discourses.

RBC is committed to providing both consumers and merchants with easy and secure payment options. We have a proud history of innovation in payments and strongly support Canada's leadership position as an electronic economy.

We are pleased to speak with you about our emerging commerce strategy and activities, and I'm going to address how our solution meets consumers' and merchants' needs for choice, security, and low-cost payments.

Having a credit or debit card on the phone, so consumers can pay differently, is not terribly interesting or very different from how your plastic card works today. What we are doing is working with a cross-section of merchants and consumers to understand their needs and deliver an easy, safe, and rewarding mobile commerce experience. We are working with merchants to help get consumers into their stores more often, giving consumers choice in how they pay—Interac debit, credit, or store gift card—and then providing live receipts in online and mobile banking. Our objectives with this program are to make commerce easier, safer, and more rewarding for consumers and merchants. RBC has always stood for providing clients with choice—choice in how they bank and choice in how they pay. We deliberately waited to bring mobile commerce to market until we were able to offer both Interac debit and credit for payment options.

That said, security is our clients' primary concern and our top priority. We developed a patent-pending mobile payment process and technology called RBC Secure Cloud to protect client payment data behind our firewall instead of putting it on the telephone. This is the first mobile payment service of its kind in Canada. We embedded commerce in our established mobile banking application to make the user experience simple. Payment is never more than two clicks away.

We rely today on the phone's NFC antenna as the last inch between the consumer and the merchant. We believe NFC, near field communications, provides the greatest opportunity today for ubiquitous, universal acceptance, with 19 of the top 25 merchants accepting contactless payments. But we are ready to work with merchants on however they want to get paid, be it NFC, QR code, or even flashes of light.

Finally, our commitment to merchants is that mobile commerce will not increase transactional costs. We will deliver the payment at the lowest cost based on how the client chooses to pay, whether it be Interac debit, credit, or store gift card.

Rather than create a solution in-house and hope that it addresses the needs of consumers and merchants, we engaged more than 60 consumers and merchants in a collaborative road test of our solutions and concepts. Over six months, we discussed how we are thinking about our emerging commerce, shared prototypes of our solutions, and worked together based on their feedback.

To meet those needs, we developed RBC Secure Cloud to make mobile commerce an easy, secure, and cost-effective solution. We started with the industry solutions, but then as RBC has consistently done to maintain our market-leading fraud and client experience, we created a proprietary solution to provide a higher level of security, choice, and client experience. Instead of putting sensitive client data on the telephone, we leave it securely behind our firewall. Importantly, this also allows our clients more choice. They can put all of their average of 2.1 RBC payment cards—Interac debit, primary credit card, and often a store-based co-brand credit card—on the phone. RBC Secure Cloud works by calling down encrypted data from our data centre, decrypting it, and then transmitting it to the payment terminal by NFC. The architecture is extensible to other purposes beyond payments, such as loyalty, identification, or access; however, our focus today is on enabling payment.

Thank you for having us here today. We hope we explained how our solution addresses consumers' and merchants' need for choice, security, and low-cost payments.

● (1550)

The Chair: Thank you very much, Ms. Burke.

We will now hear from Visa Canada Corporation.

Mr. Colfer, please.

Mr. Derek Colfer (Head, Mobile Innovation, Visa Canada Corporation): Thank you for the opportunity to speak today. My name is Derek Colfer, and I lead Visa Canada's mobile solution development. Although I am based in Toronto, I grew up in Ottawa. It feels good to be home. Thanks for having me.

As this committee knows well, there is a great deal of interest and excitement right now around the future of mobile payments. Visa's brand is really quite well known, but the organization's core functions are less understood.

Visa is not a bank. We do not issue cards. We do not issue debit cards or credit cards. We do not make loans. We do not set interest rates or the fees associated with card usage or acceptance. What we do is facilitate commerce between millions of people, businesses, governments, and their financial institutions around the world. We do this by operating a global electronic network, called VisaNet, that connects 1.6 billion payment cards, 29 million merchants, and more than 16,000 banks in 170 countries worldwide. VisaNet is capable today of processing 47,000 transactions per second. On an average day, VisaNet sustains 300,000 cyberattacks, not one of which has ever been successful. In fact, in the five minutes' time I am making these remarks, VisaNet has the potential to process over 14 million transactions in 175 local currencies, and block over 1,000 cyberattacks.

All of these capabilities are designed to advance our goal: facilitating the flow and encouraging the growth of electronic payments. Today's topic is a key element of this broader mission as mobile payments technology becomes more and more popular. A range of different mobile payment solutions in the market are now available to consumers in Canada to make their experience more rewarding and more cost effective.

I've circulated a chart to the members, entitled “Various Mobile Payment Solutions”, that I will be referring to.

First we have mobile acceptance. This mobile payment type turns a mobile device essentially into a payment terminal. A consumer plugs an accessory into the mobile device and it allows a consumer to accept payments. The mobile device becomes a card reader. Examples of this include the Square product that is currently in the market today in Canada.

Next is app purchases. This mobile payment type is something that millions of Canadians utilize on a daily basis. Purchasing and upgrading apps is an everyday occurrence for Canadians today.

Third is mobile e-commerce. This category of mobile payment is essentially an e-commerce experience, but instead of using a desktop or a laptop, you're using your mobile device to access the Internet.

Next is non-NFC at the point of sale. These types of mobile payments allow a consumer to utilize their mobile device at the physical store to make a payment. One of the most successful examples of this in the market today is the Starbucks app, which uses QR codes.

Finally we have mobile NFC at the point of sale. These types of payments are beginning to really take off in Canada. They utilize our payWave technology and require a consumer to wave or tap their mobile device onto a payment terminal to make a payment.

I would like to expand on NFC. Visa payWave provides the foundation for NFC payments. The Visa payWave application safely transmits encrypted data through an antenna on a card or the mobile device. For Visa, payWave is payWave, regardless of whether it's on a plastic card or a mobile device. The story of the growth and consumer adoption of payWave technology in Canada is truly remarkable. The majority of Visa cards issued today are payWave-enabled, and 80% of smartphones by 2016 will be NFC-enabled as well. For merchants, the benefits of payWave can be profound. Shorter lines, improved customer experience, and greater consumer experience are particularly valuable in today's fast-paced consumer environments. For consumers, using a mobile device is faster and easier than inserting your card or entering your PIN.

Visa sometimes hears security concerns about mobile NFC payments. I would like to address these concerns today.

Visa payWave credentials are dynamic. Every time you use your card, that payment credential actually changes. They can only be used once, and they can only be used once for a merchant limit, which is usually set at between $50 and $100.

The mobile device itself never leaves a consumer's hand during the entire payWave transaction. The risk of a card being used for fraudulent transactions is greatly reduced.

The vast majority of payment applications provide the consumer with the ability to actually password-protect that payment app. The mobile device itself provides the ability to have a second layer of password protection.

Finally, all of our transactions are covered by Visa's zero liability policy. If a fraudulent transaction is made through a consumer's Visa card, the consumer will not pay for that fraudulent transaction.

It is because of these safeguards that so many consumers and merchants are excited about this technology. The facts are clear: today mobile technology defines the lifestyle of millions of Canadians. Whether it is Visa, a large chain, or a small merchant, we need to make the shift to mobile payments in line with consumers, because when consumers win, we will all benefit.

● (1555)

Thank you for your time, and I look forward to taking any questions you might have.

The Chair: Thank you very much for your presentation.

We'll begin members' questions. We have five-minute rounds for everyone.

We'll start with Mr. Thibeault, who has a few opinions on the subject.

● (1600)

Mr. Glenn Thibeault (Sudbury, NDP): One or two. Thank you, Mr. Chair.

Thank you, everyone, for being here today. This is I think a very topical discussion and study that we are having right now. I know at the industry committee we've also looked at mobile payments. It's something that truly merges between the two committees.

Canadians are very active in terms of engaging in the mobile market, in the e-commerce market—I think if you went through everyone in this room, we would all have some type of smartphone that has NFC on it—and how we're going to engage that because we want to be able to be part of that next wave of technology.

One of the concerns though, and I know we've been talking about it quite often, is the interchange rate that affects small businesses. When this comes to a lot of the conversations that we've just been having, a lot of the information we've been hearing, the concern for small-business owners, and of course medium-sized enterprises, is about whether there is going to be another layer of cost tapped on top of the current interchange rate.

Mr. Colfer, maybe you can clarify for me, because I believe I heard you say at the beginning that Visa doesn't have any fees associated with it, but there's the interchange rate right there that Visa is part of. Did I just hear you inaccurately, sir?

Mr. Derek Colfer: No, you didn't at all. I think your question is around the cost for NFC payments. As Visa we are steadfast in the notion that payWave is payWave, so whether you wave a plastic card at a merchant terminal, or a mobile device at a merchant terminal, that merchant is absorbing the same cost. There are no incremental costs for—

Mr. Glenn Thibeault: Sorry, sir, what I was asking about was the interchange rates. Right now if you have a credit card, when you go up and you swipe that card there's a fee that's paid, of course negotiated with your acquirers, and your banks, and all of that other stuff.

I posed a question in November 2011 to Mr. Bradley, and at the time he said it was too early to comment on a fee structure. So I asked the same question. It was too early to comment on a fee structure related to an extra cost going on top of the interchange for a mobile payment. He said they embrace a transparent, open environment, and will make no secret of their interchange fees. They'll make sure that merchants and consumers are making wise choices. In that timeframe that Visa has now settled on are you saying that there will be no extra cost on top of an interchange rate when someone uses their phone?

Mr. Derek Colfer: When Mike was responding to that...was two it years ago now?

Mr. Glenn Thibeault: Yes.

Mr. Derek Colfer: There were no NFC commercial deployments in market then. To date there are two. There is one with RBC, as we've heard, and there is one with CIBC. For both of those there are no incremental costs. So it may have been too early when Mike responded to that, but to date there are no incremental costs.

Mr. Glenn Thibeault: So if there is an interchange rate of 1.7% on a plastic card, that's going to apply to my mobile payment. So as a small-business owner, when the consumer taps that then I'm going to be paying 1.7% as a small-business owner, if that's my negotiated rate, correct? There will be not another 0.02% for having a mobile payment.

Mr. Derek Colfer: Correct, to date payWave is payWave. I think when Mike responded to that the reality was there were no commercial launches in market, and we have two now, and it remains payWave is payWave. There are no incremental costs for a merchant.

Mr. Glenn Thibeault: Thank you, sir.

To Mr. Giles, during the same study at the industry committee, MasterCard said there was most likely going to be a payment, an extra fee on top of that. Has that changed, or has there been a fee added through MasterCard on any type of their mobile payments?

Mr. William Giles: The pricing remains the same, no matter what the form factor.

Mr. Glenn Thibeault: So just to clarify, if it's a MasterCard and the swipe fee on that is 1.7%—to make sure that they're both the same between Visa and MasterCard here—there would be no other fee on top of that. So small-business owners and medium-sized business owners don't have to worry about all of a sudden saying, I'm going to take mobile payments, but my 1.7% will now be 2%, because there's an extra fee on top?

Mr. William Giles: It will remain at 1.7% if that's what they're currently paying for a standard card.

Mr. Glenn Thibeault: Excellent. Thank you.

How much time do I have?

The Chair: You have 30 seconds.

Mr. Glenn Thibeault: Very quickly, the safeguards that are in place—I believe, Ms. Burke, you talked about that briefly—against fraud, identity theft, inaccurate tax reporting, I think would be three things we'd like to know about.

Ms. Carolyn Burke: All of those are included in the solution.

If I may, Mr. Thibeault, I'd also like to add that with the RBC Secure Cloud solution, the mix the merchant currently experiences with Interac debit and credit will remain the same. Interac Flash, which our consumers use at point of sale, is free of charge for consumers.

● (1605)

The Chair: Thank you.

Thank you, Mr. Thibeault.

We'll go to Mr. Saxton, please, for your round.

Mr. Andrew Saxton (North Vancouver, CPC): Thank you, Chair, and thank you to our witnesses for being here today.

As I'm a former banker this subject is very interesting for me. I think mobile payment is probably the greatest innovation in banking since the invention of the ATM back in the 1970s. I think it has huge potential. We're also seeing that there's still a generational gap between the users. Younger people seem to be embracing the new technology a lot quicker than the older people. What I find interesting today is that younger people don't even use cash; they pay for everything with plastic. Most of it's debit though, not credit. The older people such as me, our generation, still use credit cards, and still use cash for small-ticket items.

What are you doing to bridge that generational gap? I know back in the 1970s when ATMs were invented it was exactly the same thing. The younger people used them first, and the older people still preferred to go to the wicket and talk to the teller. What are you actively doing today to help bridge that generational gap?

Maybe Visa would be the best place to start.

Mr. Derek Colfer: You caught me off guard. You were pointing at—

Mr. Andrew Saxton: Sorry, I always get Visa and MasterCard mixed up.

I have both in my wallet, by the way.

Mr. Derek Colfer: Well done.

We've certainly spent a lot of time with consumer focus groups doing qualitative and quantitative research on who is going to use this. You have what everybody refers to as the early adopters. The demographic for the early adopters, certainly in our research, has been pretty exciting. Because you have those early adopters, and usually the demographic for them is the youth, as you say, but there are a lot of early adopters out there who are my age, who are my parents' age. We've found that really refreshing. We've actually seen a lot of folks who wouldn't necessarily fit the profile, if you will, engaging with these technologies a lot sooner than we had anticipated.

So we're very excited about that.

Ms. Martha Hall Findlay: If I can jump in with just a couple things, I've been in the wireless business since very close to its beginnings, when a cellphone was this big, and there were maybe 10 people in the country who had them. They're everywhere now, among all ages. In a relatively short period of time people have embraced that technology.

One of the things we're really excited about is that with this layer of security that we have now, that we're all talking about, the opportunity is massive. Because it's not just payments. It is government identification, driver's licences, health cards, loyalty cards, gift cards, couponing, and my personal favourite, hotel room keys. When I was telling somebody that just the other day, a young person who was talking about the generation, he said, “You know, it's the hotel room key. My parents use their phones a little bit, but guaranteed, if their hotel room key is loaded on the phone, they'll be thrilled because they won't have to wait in a line to check in.”

I think there are some applications that are going to cross generations that are really exciting.

Mr. Andrew Saxton: Those are uses that I hadn't even thought of.

Ms. Martha Hall Findlay: Oh, they're pretty exciting things.

Mr. Andrew Saxton: I lived in Singapore in the late 1990s, and the biggest thing in Singapore at that time was the stored value card. Mondex was one of them—I think MasterCard owns Mondex today—and it was huge. But it never seemed to catch on in Canada.

Are we leap-frogging that technology and going straight to mobile—we're not even going to go through that stored value card?

Ms. Carolyn Burke: One of the reasons that did catch on in Singapore during that time is that they also used it for transit applications. Many of the stores that surrounded transit also took it, so it became an inevitable part of daily life. As payments roll out, other applications that are also compelling will cause different groups to be able to switch to mobile.

The Chair: You have one minute.

Mr. Andrew Saxton: With the use of mobile we're going more paperless. Are we seeing some real savings in cost as a result of that?

That's to anybody who wants to answer.

Ms. Martha Hall Findlay: There are huge cost savings. Imagine when you are issuing a credit card or gift card, or you walk into a grocery store and there's a whole row of gift cards that you can buy, when you can deliver those over the air in soft version.... There's the whole cost of producing plastic cards, of stamping them, and in the case of the credit card, the requirement to stamp it with the chip, put it in an envelope, send it to somebody, and then of course, when the expiry date comes, another card has to be issued. The cost savings in being able to download those credentials over the air in real time, no paper at all, no mailing, no distribution, can be really quite exciting.

There is a payment piece, but a lot of participants looking at some of the other applications are looking at terrific cost savings, yes.

● (1610)

Mr. Andrew Saxton: Would anyone else like to comment on that?

The Chair: Unfortunately, we're out of—

Mr. Andrew Saxton: What about my friends at MasterCard?

The Chair: Okay. I just remind members to allow enough time for witnesses to answer.

Mr. Giles, please be brief.

Mr. William Giles: I'll be very quick. Some of the paperless options take costs away, but the traditional card, as I mentioned before, will not go away; so we'll still be having the traditional card in the market and the costs associated with that, and any additional costs of rolling out the mobile, including potentially rental of space on the SIM. So some of the new technology has costs associated with it.

The Chair: Thank you.

I'll go to Mr. Brison, please.

Hon. Scott Brison (Kings—Hants, Lib.): Thank you, Mr. Chair.

It's great to see you all, particularly Martha.

I have a question related to merchant fees. It's exciting to see the development of ubiquitous payment technologies and the adoption of them in Canada. That's largely a positive development. But the challenge that smaller merchants have in terms of these fees is quite significant. Larger merchants have the capacity to negotiate lower fees. It's very difficult for smaller merchants to refuse either mobile payments or a credit card, because consumers have the expectation that they're going to be able to use these ubiquitous technologies or approaches and do not want to be told by a small merchant, “I don't accept those”.

We're told by organizations, including CFIB, that in fact even with a Visa or MasterCard, a merchant fee applies. Not only when you acquire something is there a 3% fee—say, if you buy a pair of shoes and pay $100 and you use a card, as an example—but then if you take it back, there's another 3% fee, and the merchant still hasn't sold anything.

Is there no delta between, for instance, PayPal and Visa or MasterCard in terms of merchant fees? Is there potential opportunity for mobile payment providers to provide lower fees than the credit card systems currently?

Mr. Cameron Schmidt: If I may, I'll start.

The PayPal business model is based upon a flat-rate fee to the merchant, and behind the scenes there is a blending of the various card types. So the merchants don't have to worry, for example, if everybody comes into their location and is using a premium card of some kind, or Amex, for example. They still get a flat rate. So we blend the various rates together and offer a flat rate to consumers, which is quite a big benefit to them. They don't have to scramble around trying to figure out what, in fact, they're paying in terms of rates. That's how we address it, and we haven't changed that in years.

Hon. Scott Brison: Does it have the capacity, then, to actually reduce merchant fees for—

Mr. Cameron Schmidt: In a sense; the example I was implying is this. Imagine you have a merchant, 100% of whose consumers come in and use Amex or some premium card. That rate is far above the base rate we charge them, and we eat that, in a sense. So in that sense we are offering that value to them. Conversely, if people come in and are using just a blend of different cards, then it's hard to judge whether it's a benefit or a relative cost.

Ms. Carolyn Burke: I was a home-based female entrepreneur merchant 20 years ago, before I could use credit cards online. The time it took me to collect from many of my clients, and the NSF cheques I received, made the company go into receivership, quite frankly. So I look at the actual value of collections and surety of payment.

Also you've all seen the issue that happened with large U.S. retailers over the holidays. Compared with the U.S., as we look at Canada, we see that we've collectively invested in chip technology, and we have a much safer, more secure, environment. The U.S. retailers right now need to invest in their own encryption technology, so as not to lose data. That's a horrendous cost. As I look at the smaller retailers there, I see they are asking to pay more for mobile and more for wallet, and that's not what you're hearing in Canada, which I think bears witness to the fact that Canada does have a balanced, leading, electronic commerce infrastructure.

● (1615)

Hon. Scott Brison: I would agree with part of that, because I do think we're advanced in terms of the adoption of mobile payments. But the challenge, again, is that we're hearing from organizations representing small businesses not to use credit cards all the time, but to use Interac cards, as an example. There's currently a campaign with CFIB encouraging Canadian consumers, and it's affected my behaviour. When I'm buying something from a small merchant in rural Hants county, Nova Scotia—and I know the margins they're getting are pretty small when buying gas for a car, or something—I use my Interac card now instead of my Aerogold card, as an example, because I know those fees are significant. We're hearing from the small-business owners that they're onerous.

The Chair: You have one minute, Mr. Brison.

Hon. Scott Brison: It is a significant issue, and the degree to which you collectively can address it is one that is important to the small business community in Canada.

Martha, you said in your presentation, or we read in your presentation, that consumer profiling is a concern to some customers, but not to others. For consumers who are concerned about this issue of profiling, how do you inform them of the risks inherent in mobile payments?

The Chair: Just a brief response, please.

Ms. Martha Hall Findlay: It's a great question. What we're seeing already in the market is that consumers at least want to have the choice. If they know that a certain retailer can offer them a tailored discount, for example, in a lot of cases they like that. A lot of consumers would prefer not to have that.

You'll see that newer smartphones, for example, have the ability to turn your GPS, your location services, on or off. On the older ones, you couldn't do that. That's a really important innovation in the technology to give consumers more choice as to whether or not they are going to give that data to others.

I know I have to be quick, and it's a longer answer, but we're all recognizing that consumers need to have, want to have, the choice to be able to do it, and that's a very important aspect.

The Chair: Thank you.

Thank you, Mr. Brison.

We'll go to Mr. Keddy now, please.

Mr. Gerald Keddy (South Shore—St. Margaret's, CPC): Thank you, Mr. Chairman.

Welcome to our witnesses.

This is a fascinating discussion. I'm looking at it in more of the macro sense. I think what's happened here is that there's been some transformational change that's almost unrecognized.

Ms. Burke, to your comment on credit, all of us bitch about credit card fees and debit card fees, and I appreciate Mr. Brison's comment on using your debit card, which is using your own dollars versus using someone else's, but the difference it has made for small business is that they're not carrying the credit. That's been transformational. It truly has. A small business typically goes out of business when they fail because of cash flow. This difference actually gives to small business I think an advantage that 30, 20, or even 10 years ago they might not have had.

That brings me to the continuing transformation in this. I have to ask this question, because it popped into my head when you folks were speaking. You have 1.6 billion Visa cards and 1.9 billion MasterCards, or whatever the numbers were. We used to carry both, because you'd go to the States and they might not accept Visa. Or in a small town or somewhere else in the world, they might not accept your card. You covered that by carrying both.

This technology is going to make you not irrelevant, but close to it, because, quite frankly, I can use my smartphone to pay that bill. I may do it with MasterCard, I may do it with Visa, or I may do it with PayPal, but I don't need to have that card in my pocket. How's that going to affect your business down the road?

● (1620)

Ms. Carolyn Burke: Well, Mr. Keddy, at RBC, as I've said, we want consumers and merchants to have choice. So whereas today in your online banking or in your physical wallet, you have an Interac debit card, you have a credit card that could be MasterCard—

Mr. Gerald Keddy: Oh yes, we have them all.

Ms. Carolyn Burke: It could be Visa. It could be a store co-brand card. It could be a loyalty card. It should be as easy for you to use that wallet—with all of those cards—in the mobile sense as it is today online or physically.

Mr. Derek Colfer: First, I think we're still going to compete in the way that we have always competed. I think you're still going to have multiple payment cards in your digital wallet the same way you have multiple payment cards in your physical wallet. It's essentially just a digital representation of the cowhide that's in your back pocket—

Mr. Gerald Keddy: I'm not quite so sure that's the way it's going to work out, but I have another question, and that is on PayPal.

The other service that PayPal offers is a guarantee of your product.

Mr. Cameron Schmidt: Buyer protection in a sense, yes.

Mr. Gerald Keddy: No one else really offers that. I can go on Amazon.com, buy with my Visa, and get my product. I can keep it, or I can send it back, or I can be dissatisfied. But if I use my PayPal account, you're telling me that the product is exactly what I'm buying.

Mr. Cameron Schmidt: That's right, and if it's not, then we will help you to resolve it.

Mr. Gerald Keddy: That's a service that you have cornered that no one else has picked up on.

Ms. Carolyn Burke: I don't think that's accurate.

Mr. Gerald Keddy: Well, go ahead.

Ms. Carolyn Burke: Purchase protection is offered with each of our credit cards, and if you do buy something and you don't receive the goods....

If you buy something in Singapore and it doesn't arrive home in Canada—

Mr. Gerald Keddy: It's not an original Samurai sword.

Ms. Carolyn Burke: —you are protected, and you're also protected from fraud.

The Chair: You have about 30 seconds.

Mr. Gerald Keddy: I can't ask a question in 30 seconds, and I know better than to try. It wouldn't give the time to answer it.

The Chair: All right.

Thank you, Mr. Keddy.

[*Translation*]

Mr. Caron, you have the floor.

Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP): Thank you to all of you for your fascinating presentations on this inherently interesting topic.

As Glenn mentioned, I sat on the Standing Committee on Industry when we studied a very similar issue. So I am becoming more familiar with the topic.

My questions on EnStream technology are for Ms. Hall Findlay. This technology is really interesting, but I have some concerns regarding competition.

EnStream was established by Bell, TELUS and Rogers. The documents you sent say that the technology will be made available to all cell phone users, issuing institutions, and all the banks.

They also mention that the modalities will be standardized. Are these modalities known at this time? Is the technology currently available to all of the competitors of Bell, Rogers and TELUS?

Ms. Martha Hall Findlay: If you don't mind, I will answer in English, because it has been quite a while since I've had the opportunity to speak French frequently, and I have more trouble with the technical terms in French.

[*English*]

The question is in terms of competition and whether what we provide is openly available to everybody.

Mr. Guy Caron: It's actually more on what the modalities are right now that make the technology available to all the competitors, of Bell—

Ms. Martha Hall Findlay: The technology that we provide is already in use by Bell and Telus. We're in pilot with a couple of the banks. We hope to have that launched very soon. I think you'll find in Canada that there will be a lot of announcements over the next number of months. We're all very excited about it.

We have made it very clear right from the beginning that our model is in effect a utility, that it is beneficial to all of the players to have it available to all of the players. On the mobile network side, any mobile network operator in Canada is free to come to EnStream and say they'd like to participate. In fact, for the most part our business model has been a cost recovery one to date, partly because we all benefit from the increase to the ecosystem.

It might be useful to use an example of what's happening that's very different in the United States. The entity in the United States that is similar to EnStream—it's not the same—is an entity called Isis. It's owned by T-Mobile, Verizon, and AT&T. It is actually a closed shop. They've set it up very much as a money-making entity, to provide service, when they are able to, through very expensive licensing to other carriers. It's a bit different in the States because there are way more carriers— there are a lot of smaller ones—and there are way more financial institutions.

In Canada, we've seen the benefits, with past technologies, of that kind of ubiquitous approach, that we all benefit from the increase in the ecosystem. However, when you talk about the competitive piece, the other part that's very important is to understand that Rogers gets no benefit by saying, “We're the only ones who can offer this, so we're going to get RBC, or this bank, instead of the rest of you”. There might be a slight advantage timewise, but one third of RBC's customers are on Rogers, one third are on Bell, and one third are on Telus. Then, of course, there are others in other parts of the country. That's in terms of market share. They all want to have all of the players participating.

● (1625)

Mr. Guy Caron: Our time is short. I have a quick question on this, and then I have a last question.

Are you going to make the technology available for free, or through royalties, or a low fee, for example, for those competitors who want to access the technology?

Ms. Martha Hall Findlay: It can't be free because we would lose money. We have structured it, so far with all of the carriers that have come to us, for the most part on cost recovery. I mean, we're still in stages of trying to figure out what those are because of some of the challenges that occur in deployments with any technology. It very much is something that we have made clear, certainly in similar circumstances, to the existing carriers that own us—absolutely.

The Chair: You have 30 seconds.

Mr. Guy Caron: I'll ask my question. You're free to try to answer it at a different time.

In terms of the protection of data, we've heard the story about the metadata being collected in airports. I'd like you to tell us how personal data, especially our personal financial data, will be protected against that type of intrusion. If it's possible, for example, for our security services to collect that metadata in airports the way they did, what would prevent anybody who potentially has a similar technology from doing the same?

The Chair: Maybe you could give a brief response now, and if we want to follow up later we can.

Ms. Martha Hall Findlay: The first response is that whether it's RBC's solution, where the customer data is in their cloud behind their firewall, or the other NFC solutions, where the information resides on the SIM card, all of that information has been encrypted, de-encrypted, re-encrypted. The level of encryption and security is extraordinary. There is no way for somebody to see personal information based on what is actually residing on the SIM card. That's one of the reasons this is moving forward so well, because of that level of security.

The Chair: Thank you.

We'll go to Mr. Allen, please.

Mr. Mike Allen (Tobique—Mactaquac, CPC): Thank you very much, Mr. Chair, and thank you to our witnesses for being here today.

I'm going to follow up a little bit on Mr. Caron's line of questioning. I want to understand how this all fits together.

Ms. Burke, you said that the secure nature of your transaction in the cloud is downloaded every time you do a specific individual transaction, as opposed to.... I'm still carrying that information in my digital wallet, though. Is that not true?

Ms. Carolyn Burke: There is very little on your mobile phone. It would be simply a way to go to the secure cloud, get the data that's required, and then deploy it as the merchant requires.

If you think of it, your phone has basically nothing on it. It's all in the cloud behind a firewall.

Mr. Mike Allen: As opposed to...?

Ms. Martha Hall Findlay: Just to explain, RBC's solution is unique. It's the first deployment that's in the cloud. CIBC has deployed with both Rogers and Telus, so I think technically we have three deployments now. But those two, the credential information, the credit card information, encrypted and all, are actually resident on the secure element of the SIM card.

It is different as a solution, but the information that is on the SIM card in those other two solutions has been so heavily encrypted and dealt with that it's not something that anybody would be able to use. There's been a great deal of effort into making sure that's the case.

Mr. Mike Allen: Okay.

Martha, when you were talking about this, you talked about the U. S. being way behind and that part of that is the lack of terminal standardization. It was one of the things you commented about. It strikes me as...the whole market for this and for the businesses that are into this.

Are there major barriers for entry to this technology for other providers? Do we see a situation where it could become very fragmented, or do you see a consolidation phase as this goes on?

● (1630)

Ms. Martha Hall Findlay: Our history in this country has been of getting the value of standardization and ubiquity. We were world leaders in embracing debit. We're world leaders in embracing the use of the Internet even. There are a number of players in the business now. There's no barrier to entry, other than technological capability.

There are a couple of other participants in the world market. There are a couple of players that have a history of being SIM card manufacturers, for example, and they're involved in some cases in some of this technology. There are players out there. But speaking for EnStream, it's looks like we're doing a really good job. And once you do that, it seems to take off.

Mr. Mike Allen: Are there other comments on that?

Ms. Carolyn Burke: Mr. Allen, if I may respond, I think the ultimate barrier to entry is the consumer. Are they being offered choice? Do they perceive it as safe and secure, cost-effective, and easy to use?

Technology can come up with many wonderful things, but if we as consumers don't find it easy to use and we don't have confidence in it, that's a real barrier to entry.

Mr. Mike Allen: Thank you.

Mr. Cameron Schmidt: The other barrier to entry is the cost to provide all the fraud protection and all of the security that is required. We do that across 193 countries, and in a regulated market that's not cheap. That's a lot of money to fund that day in and day out.

Mr. Mike Allen: We commented a little bit about the retailers and how this helps them keep their costs down, with respect to this and with less credit card usage. Have there been any hard studies or anecdotal evidence that would suggest the level of process savings that some of the retailers are experiencing—not just the cost of transactions, but in their actual business processes?

Mr. William Giles: Maybe I could weigh in with an answer to that one.

The technology we're deploying here is based on EMV, which is the chip technology. It builds on top of that contactless, but those are just the first stages because this infrastructure will enable us to do all sorts of new things that will help the processes and merchants.

One example might be the ability to check out within a store using an account that's on the Internet; those types of things. So I could walk down the aisle, pick up a piece of merchandise that I want, scan the bar code into my phone, check out on the Internet, and show the receipt on my phone on my way out the door. These are all things we're testing and demonstrating at the MasterCard labs that we run.

The Chair: You have 40 seconds if you have a quick one.

Mr. Cameron Schmidt: I'll just add one more comment similar to the last one, which is that the business process from a merchant's standpoint that can really be a cost savings for them is getting people through lines faster. So if you can blow more people through your store, that's a lot of money.

The Chair: Thank you, Mr. Allen.

We'll go to Mr. Rankin, please.

Mr. Murray Rankin (Victoria, NDP): Thank you very much, Chair.

Welcome to all the witnesses, I appreciate your coming today.

I'd like to focus a few of my questions to Ms. Burke, if I could.

First of all, I want to say I appreciate your comment about how Canadians are leading in e-commerce and I'm very proud of that initiative.

You mentioned that currently there are no additional fees for mobile payments beyond those of apparently existing credit cards and the like. If I'm understanding it right, the merchant fees have remained unchanged thus far. We keep hearing, however, from merchants in a small business context who are very concerned about the credit card rates. You spent a lot of time stressing in your remarks the choice for consumers, but I didn't hear a lot about choice for merchants.

I understand that Royal Bank, for example, has a number of different premium cards and other cards that are offered with varying interchange rates and so consequently a merchant really has to accept those cards. And correct me if my premises are wrong. So for an RBC branded card, they really are not aware, often, of how much they are having to pay. Is that an accurate statement?

Ms. Carolyn Burke: No, I do not believe that's an accurate statement.

The merchant's acquirers would have to inform them and in fact the level of disclosure that's required has increased. I'm sure you're aware of the Commissioners Guidance 10 that came out in the fall; it is much easier for merchants to shop around and find a competitive offer.

At RBC, we have 25% of Canada's small businesses that we bank. We are most concerned that the payment system remain in balance, and that Canada, collectively, invests in the electronic frontier.

So as we looked at small businesses and as we looked at our solution, which is a secure cloud, we were not prepared to introduce that secure cloud solution until we had Interac debit on there as well as credit. We did not want to force consumers to choose the credit card in their wallet, if they would normally pay debit.

● (1635)

Mr. Murray Rankin: But isn't it the case that the merchants—at least in my riding I keep hearing this—have to accept the premium cards? They frequently claim that they don't know what the actual rates are. You say that they're given paper on that, but certainly the information I receive from small business is extreme frustration.

Like my colleagues, I don't even use my premium card in small businesses because I realize that I'm punishing them to do so.

Ms. Hall Findlay used the expression—I thought very accurately—of utility, that's what these mobile payments are ultimately becoming. Doesn't that suggest to you that the industry needs government regulation like other utilities, to make sure that there's a level playing field for merchants and consumers?

Ms. Carolyn Burke: Let's take a look at it from a consumer perspective, though.

You've chosen to use your Interac debit card in those circumstances and I think we respect that choice, and certainly the CFIB would assist merchants in making consumers aware of that choice.

There are occasions, though, where a credit card and an Interac debit card have appreciably different benefits to consumers. A credit card does offer purchase protection for consumers, it offers you insurance protections, and it offers you—

Mr. Murray Rankin: But with respect I'm not talking about consumers, I'm asking you to reflect on the reality for merchants. That's a very different proposition.

Ms. Carolyn Burke: It has been shown that merchants have a higher level of spend when consumers present credit cards and even higher when they present premium credit cards at point of sale. It's our intent to allow merchants and consumers to choose what they would like to take and how they would like to pay and to accommodate both.

Mr. Murray Rankin: So that would mean merchants don't have to accept in the future, according to you, premium cards if they realize that will be more painful to them and their bottom line if they were to do so. Is that what you mean by choice?

Ms. Carolyn Burke: Many merchants do not accept credit cards. I frequent a Chinese takeout in my neighbourhood in Oakville, and I pay a 5% discount for cash. That's certainly their prerogative.

Mr. Murray Rankin: But if I use a Vanilla credit card without any premium versus a premium card, you're saying that you believe merchants should be allowed to only accept the Vanilla card and not be required to accept the premium card?

Ms. Carolyn Burke: That's not what I said, Mr. Rankin. What I said is that we respect the choice of credit and debit, and we accommodate both for consumers and merchants.

Mr. Murray Rankin: So you wouldn't accept the differentiation between the two.

Ms. Carolyn Burke: I believe the tribunal has already looked at that, and they have determined to maintain and honour all cards, as you know.

Mr. Murray Rankin: Finally, you mentioned that the RBC secure cloud is secure and behind your firewall, which I think is a terrific thing. Do you know whether other banks or other financial operations are having their data stored in a cloud that is under U.S. regulation, and therefore subject to the U.S.A. Patriot Act data protection concerns?

Ms. Carolyn Burke: I couldn't comment on that at all.

Mr. Murray Rankin: In the States, if I buy something with my RBC credit card, is there a chance it will be found in the U.S. Patriot Act subject databases? Or do you know?

Ms. Carolyn Burke: I would need to have Amanda and George get back to you on that.

Mr. Murray Rankin: Okay.

I'd appreciate knowing that, Mr. Chair.

The Chair: Thank you, Mr. Rankin.

You can get back to me as the chair, and I'll ensure that all members get it.

We'll go now to Mr. Adler, please.

Mr. Mark Adler (York Centre, CPC): Thank you very much, Chair.

Thank you to all of you for being here this afternoon. This is an absolutely fascinating topic.

To begin, Mr. Rankin mentioned the word “utility”. Ms. Hall Findlay spoke about utility also. But I want to speak about utility in terms of social utility, in terms of how mobile payment systems would benefit not just the traditional consumer, as we know them, but people who have disabilities, seniors, and people who are in rural areas.

How would mobile payments—the mobile payment “ecosystem”, as you've referred to it, in terms of the entire environment—help people who are traditionally disadvantaged? This is a huge benefit or boon.

Ms. Martha Hall Findlay: I don't know that mobile payments can solve a lot of the other challenges that some of those people might have in terms of their disabilities or—

● (1640)

Mr. Mark Adler: You know, if you have....

Ms. Martha Hall Findlay: If you're able to use a phone, then you can pay for things more quickly, right? So that's wonderful. That's true regardless of your background or your location. If you can use a smartphone, or if you have a smartphone, you can make payments more quickly at a retailer who has the appropriate terminal.

Mr. Mark Adler: Right. But I'm just making reference to the fact that someone doesn't have to go out now and actually buy a gift card, for example. You can get it online, and you can send it to somebody halfway across the world, if you so choose.

Ms. Martha Hall Findlay: That is actually a great example, because you don't have to go and physically buy the card.

Another really nice thing about cards, which I find is a bit of a generational thing too, is that if you don't remember necessarily how much you have left on your card, you tend to not use it. I know this wasn't your question, but I'll point out that this is actually another benefit to merchants. It's the ability to use a card, to go in and buy something, when it's on your phone you can tap it, and it will tell you how much you have left on it.

But again, Mr. Adler, that's a benefit to everybody.

Mr. William Giles: I think you will also find there's a benefit in the interface that a phone provides that is superior to things we have had historically, which will give people an opportunity to...and as we have developers build in new applications for these phones, you will have some great advantages there.

Mr. Mark Adler: Yes, and that was exactly my point. That's what I was getting at. Maybe I just wasn't clear.

Ms. Carolyn Burke: Mr. Adler, perhaps I could give two concrete examples of where I think you're spot on in that analogy.

Royal Bank has had what we call northern outposts, where we've had difficulty bringing cash in. They are quite remote. We had tried to work around it in different ways. This would actually be an ideal way for people to exchange value.

As well, we have vulnerable senior citizens who are often in retirement homes, and we have had to send bankers in there so that they could pay for their hairdresser or their pharmaceuticals. This would allow the senior to retain their cash, and there would also be a trace on what they spent so that people who are vulnerable would be able to have their affairs audited.

Mr. Mark Adler: So this is a boon, then, to not just the traditional consumer, as we know them, but to society as a whole, really.

Ms. Carolyn Burke: That's right.

Mr. Mark Adler: I also want to talk a bit—

The Chair: You have about a minute and a half, Mr. Adler.

Mr. Mark Adler: Thank you.

I also want to talk a bit about the sector in terms of employment and the growth of technology. In terms of where Canada stands in the world on this technology, we're near the top, aren't we?

Mr. Derek Colfer: We're at the top.

Mr. Mark Adler: At the top, so this is a huge Canadian success story that you're representing here today.

Ms. Martha Hall Findlay: Yes.

Mr. Derek Colfer: It is.

Mr. Mark Adler: Are we exporting this technology abroad at the moment or not?

Mr. Derek Colfer: We are exporting a number of the painful lessons learned in deployments.

Voices: Oh, oh!

Mr. Mark Adler: That's important too.

Mr. Derek Colfer: Yes. We can't wrap those up, though.

Mr. Mark Adler: No.

Mr. Derek Colfer: But no, we really are at the tip of the spear in Canada. There are replicates of me in different markets where Visa sees a lot of opportunity with NFC payments: Hong Kong, Singapore, Australia, and New Zealand.

We really are far, far ahead from an NFC perspective. Our contactless issuance.... All of our banks issue contactless cards, so from a behaviour perspective, there's no difference between waving a plastic card or waving a mobile device. It's already embedded in the psyche. We have a lot of merchants accepting.

On the earlier point about 62% of Canadians owning a smartphone, that's world class.

Ms. Martha Hall Findlay: When you add in past payments and you are then looking at government identification—as I mentioned earlier, driver's licences, health cards, hotel room keys—EnStream is very excited about this, because now we are getting calls from outside Canada. The irony is that in a few cases we've had calls from Americans. We have to explain to them that we'd love to do this technology for them but it won't do them much good, because they don't have retailers who have contactless capability. But it's exciting. It's a good start.

The Chair: Thank you very much, Mr. Adler.

We'll go to you now, Mr. Van Kesteren, for your round.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thanks to all of you.

This is fascinating stuff, especially for an old guy like me who's still getting used to his iPad.

Voices: Oh, oh!

Mr. Dave Van Kesteren: One of the questions that I have you may already have answered. Just to show you how far in the past I am, are we at the point where I can wave my smartphone in front of my iPad and make a payment?

Mr. Derek Colfer: It's certainly technically possible for that to happen. There are some folks from different companies working on that.

Both would need to have an NFC antenna. In the instance of that iPad, Apple has made a decision not to include NFC antennas in any of their products, whether they be phones or tablets, so for that specific example, probably not.

● (1645)

Mr. Dave Van Kesteren: That leads me to a question about the Americans. Is that part of the culture? Because you're right: I go to the States, I buy some gas, and they won't take my smart card—I have to go inside. Is that a cultural thing with the Americans?

Mr. William Giles: The Americans are now in the process of implementing chip. Last week, I was at a conference in Salt Lake City. It was called the Smart Card Alliance. We had a Canadian panel there. We were showing them the way to chip and contactless.

Mr. Dave Van Kesteren: So there is a lot of opportunity for exporting, Martha, in your firm and other firms, maybe some—

Mr. William Giles: Some of the expertise, yes.

Ms. Martha Hall Findlay: Yes.

Mr. Dave Van Kesteren: They're looking for that. I—

Mr. Cameron Schmidt: I have one other example. You mentioned waving a phone over a tablet.

Mr. Dave Van Kesteren: Yes.

Mr. Cameron Schmidt: One of the things that we're testing—and that Apple is as well—is beacon technology, Bluetooth technology that essentially allows you to walk into a store, and, if you've opted into this, you've checked in. You don't even have to take your phone out of your pocket. Through facial technology, facial recognition, you pay. Your face is transmitted to the POS system, and you pay and walk out. We're on the bleeding edge of change that we can't even imagine—

Mr. Dave Van Kesteren: It's incredible. Congratulations.

Ms. Burke, I couldn't agree with you more. Coming from a business background myself, the best thing that ever happened was the cards, and the amounts of money.... I've said many times, and in this committee as well, that the benefits far, far outweigh the costs.

But I'm hoping that with enough competition, and I understand even with a new procedure.... If I have this right, you're saying that with your technology the information has to pass beyond a barrier, whereas for the phone, Martha, it's all in the phone. The firewalls are in the phone. Do I have that right?

Ms. Martha Hall Findlay: RBC is the only bank so far that has deployed a cloud solution. CIBC is out with a solution that is not cloud based. In our view, they're equally secure. The security resides in a slightly different place, but they're both incredibly secure.

Mr. Dave Van Kesteren: Okay.

Ms. Martha Hall Findlay: In the traditional bank deployments that we're seeing, either out there already with CIBC or about to come on stream, the information resides, but all incredibly encrypted, on the SIM card. But they're different.

Mr. Dave Van Kesteren: Chair, how much time do I have?

The Chair: You have two minutes.

Ms. Carolyn Burke: Can I just make one point on that?

Mr. Dave Van Kesteren: No, I want to get this first.

You mentioned cyberattacks and you said that nobody's been successful. But the implication is that they're trying. Have I got that right? I'm thinking about the security of all this.

Go ahead, Mr. Colfer.

Mr. Derek Colfer: People are definitely trying, yes. In a five-minute window, we have about 1,000 coming into VisaNet.

Mr. Dave Van Kesteren: Okay, my wife is constantly chastizing me when I pay for things over the Internet. I guess at the back of my mind, too, I'm thinking, "Well, geez, I am offering this information." But how safe is that? Are you suggestion that your system is somewhat safer? Although there is no example of—

Ms. Carolyn Burke: At large, you should tell your wife that she has zero liability when she pays for things over the Internet, which means—

Mr. Dave Van Kesteren: I pay for it, she doesn't.

Some hon. members: Oh, oh!

Ms. Carolyn Burke: So she has no liability in any case.

Some hon. members: Oh, oh!

Ms. Carolyn Burke: You would have no liability if she used it over the Internet.

One of the things I was going to say, and it feeds into the security discussion, is also how quickly technology is moving. We at RBC did not want to be wedded to any single form factor. Just looking around the table here, I see we have a number of different devices. Nobody can actually say which technology will win and where it will go. So we wanted our technology to be flexible enough to be safe and easy, but not wedded to an individual form factor.

Mr. Dave Van Kesteren: Just very quickly, I'm going to ask the final question, which I think is what everybody wants to know.

Can't somebody steal this thing? I know this is not like the smartphone, but can't somebody steal it and use it to—

Mr. Derek Colfer: You could steal that device the same way you could steal a plastic card. The intelligence inherent in that device allows for a lot of protection, though. That device itself can be locked down from a password. The payment app that you would actually be utilizing to make a payment can also be locked down.

When we talk about putting credentials under secure elements in the cloud—and we're starting with payment today, and it might include licences and passport details tomorrow—everybody can acutely recall, maybe, losing their wallet and having to make the 15 phone calls. In the instance that those are digitally provisioned on a phone, it's one call and they're all shut down, and then all reprovisioned. That's a really powerful thing for consumers.

● (1650)

Ms. Martha Hall Findlay: I can just add that the huge value is the reprovisioning, because if you lose your wallet, how long does it take you to replace all of your cards? You can do it in real time over the air.

The Chair: Thank you so much.

Thank you, Van Kesteren.

We'll go to Mr. Thibeault, please.

Mr. Glenn Thibeault: Thank you, Chair.

Last year it was $4.2 billion that was made off of interchange, which the small businesses right across the country paid. We've heard that there is one single rate, but there are many different rates depending on which premium card you carry in your wallet. If you have a negotiated rate with whatever organization and whatever member agency you're with—maybe it's 1.7%—when someone uses a premium card that jumps to anywhere up to 6%, as we're hearing now, with some cards, especially if it's one of the higher premium cards that are coming out. Small businesses are extremely concerned.

I guess, Mr. Schmidt, I'm going to put this question to you. If a customer comes to someone who's using your service at PayPal, if it's a classic Visa or a high-end MasterCard or an American Express card, what is the rate that is charged by PayPal?

Mr. Cameron Schmidt: In most cases it's 2.9% plus 30¢. That's for whatever they use. If they funded their account with a premium card, debit, different kinds of credit, or anything they have in their wallet that's funded, what we offer the merchant is a flat rate. That's really a core benefit.

Mr. Glenn Thibeault: We're hearing that there are as many as 20 different rates, depending on which card a customer is using. So we can understand where small businesses are concerned in this.

Hang on here guys. It is in the budget, so it is something that we were happy to see again—

The Chair: Did you like the budget?

Some hon. members: Oh, oh!

Mr. Glenn Thibeault: No, I didn't say that. I said to hang on. I said it's in the budget; it may be addressed. There aren't a lot of details, and this isn't the place to have that discussion.

We've been pushing the government to act on this. It's getting close, because small businesses are really starting to struggle. I believe I heard earlier that there are going to be no new fees on top of this, so that's great. But what about the terminals? We're hearing that you're going to give choice to consumers. So now we're going to have a debit terminal and a credit card terminal. Are we going to be able to ensure that it's just one, or are they going to have two separate ones? How is that going to unfold?

Mr. Derek Colfer: Those terminals accept multiple payment networks.

Ms. Martha Hall Findlay: It's only one terminal.

Mr. Glenn Thibeault: It's only going to be one.

And there will be no extra fee?

The Chair: Could you direct your questions—?

Mr. Glenn Thibeault: Sorry, sure.

I'll go to Mr. Colfer, since he started.

Mr. Derek Colfer: Those terminals accept multiple....

A lot of merchants have recently deployed contactless. Contactless is an umbrella term that means Interac Flash; it means Mastercard PayPass, and it means Visa payWave. All of those are contactless. Terminals will accept all three, if that merchant chooses to accept all three.

Mr. Glenn Thibeault: Ms. Burke.

Ms. Carolyn Burke: We're indifferent as to what the merchant has. Most merchants have contactless. Some have QR, and some have other methodologies. A secure cloud works with all of them.

I will say, Mr. Thibeault, that many merchant acquirers, including this country's largest, do provide a flat rate to merchants for all cards, in the same way that PayPal does. This is not unique for small merchants; they do blend the rates for very small volumes.

Mr. Glenn Thibeault: You hear more and more small-business owners talking about PayPal and other organizations, even Square, for example, because they cannot guarantee what their bill is going to be at the end of the month. When you have premium cards that have different interchange rates, there is no way for the small-business owner to figure out how much they actually paid at the end of the month. The payment is taken out even before they can question it.

This whole system needs to be looked at, to ensure we're bringing this forward on behalf of small business. As consumers, we're the ones who end up paying these prices.

You were talking earlier, Ms. Burke, about the Competition Tribunal allowing for the moving forward of honouring all cards. That's not entirely accurate. What they said after they made their ruling on July 23, 2013, is that there are anti-competitive practices in place, and they've punted it back to Parliament to make a decision on it.

Small and medium-sized enterprises are looking for change. I think the opportunity for mobile payments presents that, but if we don't allow for that change, it's going to continue to skyrocket the costs.

The Chair: Okay.

Ms. Burke, a brief response, please.

Ms. Carolyn Burke: We believe that the system has to be balanced and respectful of the needs of merchants as well as consumers in order to work. We don't want to see small businesses' interchange rates spiral. We want to keep them affordable for them. This is evidence of one of the things that we are doing.

I will say, though, that there are many acquirers that offer a flat rate that is independent of card type, even though in the background those rate types are very different. Those packages are available.

● (1655)

The Chair: Thank you.

Thank you, Mr. Thibeault.

I'm going to take the next round as the chair.

I'm going to come back to the theme of ubiquity and standardization, which Ms. Hall Findlay broached. I think most of you are probably familiar with the famous *Seinfeld* episode, where George Costanza has the big wallet with 1,000 cards.

Ms. Burke, in the RBC presentation, you showed us how you have three cards. You have the RBC client card; Visa Infinite Avion; and you have Target, so you have a store card within the secure cloud.

How far are we from the situation whereby every card, such as Shoppers Drug Mart, would be able to be stored in the cloud?

Ms. Carolyn Burke: We are not very far at all. In fact, what you don't see behind that are loyalty points. For example, RBC Avion loyalty points are part of the card offering that is in there, so it doesn't take very much to extend it to Shoppers, to other programs. It's virtual.

We've shown you those three cards because they are the ones most typically carried by consumers today in Canada.

Mr. William Giles: I'll weigh in, if you don't mind. The demo that Nicolas Dinh and our team has brought in today demonstrates loyalty, couponing, and payment, all in one tap. You can see it live at the back of the room later.

The Chair: Mr. Schmidt.

Mr. Cameron Schmidt: I was just going to say that PayPal enables the same thing. Any nature of cards—

The Chair: And you're all in very active discussions with the various retailers to do this.

Mr. Cameron Schmidt: Absolutely.

The Chair: Ms. Hall Findlay.

Ms. Martha Hall Findlay: I think it is helpful to understand that the RBC solution for having its credentials residing in the cloud is terrific. However, that's not all of the solutions. I think you might have been asking about the ability to have all of these different card capabilities in one place. That is what we call the wallet capability that is on the phone, and I think Rogers is going to be appearing at a future date.

There are two types of wallet; one is the simple piece that we have right now. I have a CIBC mobile payment app on my phone, but it's just CIBC. The real wallets, the open wallets, will be the ones that allow for all of those cards, coupons, gift cards. That is the really exciting part, from a consumer perspective, because that's where you have the ability to use.... You'll see a demonstration on that.

There are two wallets that are very close to commercialization in Canada. One is the Suretap one, which has been worked on to date by Rogers. It's very exciting. Another one that was announced a while ago by TD and PC bank is called Ugo. Those are examples of the full open wallet that provides the capability that I think you were asking about.

The Chair: Yes, exactly. Thank you very much for that.

I want to then move to the second topic I wanted to raise, which is the cloud technology.

PayPal, your information is stored in the cloud as well. Maybe I'll use the RBC example. If I tap to pay, the information is sent. It's not stored on my BlackBerry, the information is stored in the cloud. But during that transmission is there any concern?

We're always told to hide our PIN, that during the actual transaction itself, in terms of using a debit or credit card, that's actually the most concerning time with respect to someone taking that personal information, stealing someone's personal identity in that way. During the transmission from here to getting the information from the cloud, are there any security concerns that the committee should be aware of?

Ms. Carolyn Burke: Absolutely not. In fact, if there were any at all, we would not have launched. Safety and security is first, followed by choice and ease of use.

The Chair: Okay.

Mr. Schmidt, do you want to comment on that?

Mr. Cameron Schmidt: I'm not a technology person, so we can give you details on all of that, but, essentially, there is no issue there.

The Chair: So when someone's actually paying for something and the information is being transmitted, there's no concern whatsoever of that information, while it's being transmitted, being stolen?

Mr. William Giles: SIr, can I weigh in a little on how the technology works?

The Chair: Sure.

Mr. William Giles: The information is travelling from a secure location, in the case of EnStream it's the SIM in the card to the point-of-sale terminal, and then it travels through the normal channels that every card transaction travels through from there.

The Chair: My final question—I only have 30 seconds—follows up on Mr. Van Kesteren's point. If I lose my BlackBerry, which I have in the past, I actually phone my office from someone else's BlackBerry and say, tell the House of Commons I've lost my BlackBerry. They sell what's known as a “kill pill” and they kill any and all information, any and all connection. So there's no way, at least they tell us, they can get any James Rajotte information from that BlackBerry that's lost somewhere. My impression is that would be the exact same thing that would happen if I lost my BlackBerry with the SIM card with the basic information. Does anyone want to address that?

● (1700)

Mr. Cameron Schmidt: In the case of PayPal, there's nothing stored on the phone at all.

The Chair: Nothing stored on the phone at all.

But the SIM card, Ms. Burke, do you want to address that?

Ms. Carolyn Burke: It's the same at RBC, the phone has nothing that would be of any value.

The Chair: So you wouldn't even have to send a so-called “kill pill” because whatever's on the SIM card would be of no value to the person who would find it?

Ms. Carolyn Burke: Correct. But you should still do it for your email.

Voices: Oh, oh!

The Chair: Yes. Okay. All right.

Thank you very much, it's been a very interesting panel and a very interesting discussion here today.

Colleagues, as previously agreed, we will stop the meeting now, and then we are going to go back and get a little technology session, a little demo, from those companies that wish to participate.

Thank you so much for your presentations here today.