

**Submission of PayPal Canada to the House of Commons Standing Committee on Finance
Hearing on Mobile Payments System Study
February 13, 2014**

Thank you for the opportunity to discuss emerging trends in digital and mobile payments and to share the role PayPal plays in Canada to help small businesses thrive and consumers to securely pay anytime, anywhere.

PayPal is an eBay Inc. company. Founded in 1995, eBay Inc. connects millions of buyers and sellers globally through eBay, the world's largest online marketplace, and PayPal, a global leader in online and mobile payments. eBay Inc. enabled over \$200 Billion in commerce globally in 2013.

One of the most significant trends is the move to mobile. eBay processed \$22 billion in mobile sales and PayPal processed \$27 billion of mobile payments volume – globally. More than 14 million new customers were added through mobile in 2013 which is 40 per cent of eBay Inc.'s total new users.

In Canada, through eBay, PayPal and Kijiji, Canada's most popular classifieds site and StubHub, an increasingly popular ticket marketplace – eBay Inc. connects millions of Canadian buyers and sellers on a daily basis. Collectively, through these four businesses, eBay Inc. is one the largest enablers of commerce in Canada.

Payments – Then and Now

Digital and mobile. That's where the world is headed. From records, to CDs to iTunes, the music industry has gone digital. Slides and film cameras are now antiques. Today, we store our music and photographs digitally and carry them with us wherever we go on mobile devices like iPhones® and Android™ tablets.

The payment industry too is seeing dramatic changes. From cash, to credit and debit cards to the latest trends of paying with a phone or the emergence of new forms of currencies like MintChip, the Royal Canadian Mint's digital currency system. New payment trends are constantly emerging. You can send money using your phone to a relative overseas. You can buy a coffee, movie ticket, clothes or even a car directly from your phone.

Canada has the third highest smartphone penetration in the world at 62 per cent. Smartphones have become an everyday necessity. I may lose my wallet. I certainly do not know where I put my glasses. But I always know where my phone is. The smartphone has become the mission control device in our lives. That reality is changing how we shop and pay, and how businesses interact with their customers.

PayPal rooted in Digital Payments

PayPal was formed in 1998 and conceived as a service that allows users to transfer money and pay securely online. PayPal's roots and foundation in the payments industry have always been digital and mobile.

Today, PayPal is at the forefront of the digital commerce industry by helping businesses compete and by delighting people with simple, secure experiences to shop, donate or send money. PayPal is unique. PayPal is a technology company, but PayPal is also a financial services company. We sit between these two worlds and bring them together – making money work seamlessly around the globe. We are a truly global payments provider and help people in 193 markets achieve the opportunities presented by global commerce. PayPal connects to more than 50 financial networks and provides access to customers of over 15,000 financial institutions to millions of businesses of all sizes around the world.

People can sign up for a PayPal account for free online or using the PayPal mobile app. They can then link their bank account, credit card or a Visa debit card to their PayPal account as their funding source for the transactions they make. In this way, they can pay for goods and services in a highly secure way because no one sees their account details. In your physical wallet, you probably have some cash, a debit card and a credit card. Think of PayPal as a digital wallet in the cloud where people can access their money from different sources to shop at small and large online retailers across Canada, and more than millions of online stores across the globe that accept PayPal.

People can use PayPal to donate to their favourite charities through CanadaHelps or directly to charities such as the Sick Kids Foundation, Red Cross Canada or the Canadian Breast Cancer Foundation, to name a few. People can also use PayPal to send money to their friends and family members without incurring fees, if they send using their PayPal account or bank account within Canada. There is a small fee to send money internationally.

People can access their PayPal account from any Internet-enabled device – laptop, smartphone, tablet, gaming console or even a television. We do not tie our users to a specific device. PayPal is a pioneer of the digital wallet, and we have offered a secure digital wallet to our users for more than 15 years.

143 million, that's the number of active accounts that PayPal has globally and 5.5 million is the number of active accounts that PayPal has in Canada.

Multi-channel presence essential for Canadian retailers

Online commerce is booming across Canada. Statistics: Canada reported almost \$19 billion in online spending on goods and services in 2012, which is a 24 per cent jump from 2010. Fifty-six per cent of Canadian Internet users said they purchased goods or services online in 2013. They spent an average of \$1,450 over about 13 transactions. A Forrester report predicts that Canadian online retail will reach \$34 billion in 2018, and online retail's growth will outpace that of traditional stores.

However, businesses in Canada are at the early stages of their online journey as only 20 per cent of them are online. The opportunity to combine brick-and-mortar locations with online and mobile channels is a massive opportunity to drive business growth, consumer delight and the Canadian economy.

As 2014 gets under way, the conversation around ‘online’ and ‘offline’ commerce is losing relevance, the lines are blurring. Consumers see the benefit of shopping in different ways, with different devices, wherever they are, whenever they want to-- both locally and globally. And businesses see the benefit of reaching more customers, more efficiently, in ways that create ongoing loyalty.

There is a huge competitive advantage for Canadian businesses to integrate established offline footprints with online and mobile sales channels. This is something we are seeing with our retail partners such as the Hudson’s Bay Company, Roots Canada, Best Buy, Future Shop and Toys "R" Us. For example, sales staff can offer their customers the option to shop on a tablet in store for items that are out of stock in store but available online. It is this combination of an established retail heritage combined with an online presence that will allow Canadian retailers to be nimble and maintain relevance in the new retail environment. PayPal is constantly working with retail partners to solve pain points like reducing wait times at checkout lines.

Helping small businesses grow

Small businesses are the engine of the Canadian economy. They account for 98 per cent of all business in Canada. About 40 per cent of Canada’s gross domestic product is contributed by small businesses. The success of small businesses means economic success for Canada. And the growth opportunity remains very large. The Business Development Bank of Canada notes that only 18 per cent of small businesses in Canada sell online whereas, more than 50 per cent of Canadians shop online. The opportunity for businesses to start selling online represents access to Canadian and international shoppers who love the convenience of shopping online.

Every five minutes, a small business signs up for PayPal and opens their door to new consumers they otherwise would never have had. For over a decade, from British Columbia to Newfoundland, online businesses across all categories have used PayPal to sell more locally and open their businesses to international consumers. There are no set-up costs for small businesses to set up a PayPal account and start accepting payments. Our fees for small businesses are transparent, reasonable and published on our website.

Leading the way in Mobile

Led by mobile, the next commerce revolution is under way. Consumers with their connected devices and growing expectations for simplicity and convenience are driving the future of payments. Businesses that recognize the significant opportunity to serve mobile shoppers are opening their front door to a highly-engaged customer segment.

PayPal saw the potential for mobile payments in 2006. Using their mobile devices and their PayPal account, Canadians can shop from millions of online stores that accept PayPal globally in just a few clicks. All they need to do is log in to their PayPal account from a mobile device to any site that accepts PayPal, and can then easily confirm payment. They do not have to go through the hassle of entering shipping, billing or personal details on the small screen of a smartphone. People across the country are using their PayPal account on mobile apps to buy electronics, clothes, toys and even car parts. We have collaborated with retailers like Roots Canada, Cineplex, Best Buy, Future Shop and Toys "R" Us, to offer a simple, secure and fantastic mobile shopping experience to Canadians.

Last year, we teamed up with a Canadian point-of-sale company to offer an innovative new way for cafes, food trucks and restaurants in Toronto to accept mobile payments via PayPal from their customers in a very cost effective way. Using the PayPal mobile app, people can locate nearby food places that accept PayPal and choose to pay with PayPal. When a customer enters the location with the PayPal mobile app, their name and profile picture is transmitted to the point-of-sale terminal making it easy for restaurant staff to identify customers, greet them by name and process their payment faster than accepting cash or cards. We are offering these small businesses a new and personalized way to engage with their customers and give them offers that customers can redeem right from their phone.

We are innovating and taking the convenience a step further. On their way to their local coffee shop, people can use the PayPal app to order a coffee ahead of time. When they walk in, the store personnel can hand over their coffee without a need to stand in line to order and pay. We have enabled these time saving and hugely convenient experiences in the US, UK and Australia and will be bringing them to Canada soon.

At PayPal, we have been developing our products with a mobile-first approach. eBay Inc. and PayPal have invested heavily in mobile – from product development, to hiring the right talent, and the recent acquisition of Braintree, the innovative global payment platform that powers next generation leading commerce startups like Airbnb, OpenTable and Uber.

PayPal has seen tremendous successes in enabling mobile commerce. In 2010, PayPal generated approximately \$600 million of mobile payments volume. In 2013, three short years later, PayPal's mobile payment volume grew to \$27 billion representing a 45x increase.

Security and Trust

With the growth of digital and mobile payments, PayPal recognizes that our success and the success of commerce depend on our ability to provide trust and confidence to businesses and consumers. It is our belief that without that trust, the Internet and mobile marketplaces will fail to reach their full potential. Security and trust are mutually reinforcing. It is hard to build consumer trust without ensuring the security of a consumer's financial data.

Security is one of the fundamental building blocks of PayPal. The beauty of PayPal is that it allows people to send money or pay for goods and services without ever having to expose their financial and banking information to businesses or other PayPal users. We call this 'shopping without sharing'. Our security-enhancing technology allows consumers to fully enjoy the convenience of online and mobile commerce without having to worry about the security of their transactions. It also allows businesses to receive payments without the cost and potential liability associated with processing and securing sensitive financial information.

Digital Wallet versus a Mobile Wallet

The digital payments space is exciting and more and more players are joining in every day. Companies of all sizes are launching "mobile wallets", the ability to turn your mobile phone into a wallet. Is there a difference between "mobile wallets" and a 'digital wallet' like PayPal? The answer is yes. With a "mobile wallet", all relevant financial information such as bank account

and credit-card details are stored on the mobile device. If people lose their mobile device, they are more susceptible to fraud.

The digital wallet takes a different approach. PayPal's digital wallet exists 'in the cloud' and is not tethered to any one specific device such as a mobile phone. Sensitive financial information is stored securely in the cloud and not on the actual device and it is not transmitted over the internet or cellular networks as part of the transaction. With PayPal as their digital wallet, people can securely access their account anytime, anywhere from any Internet connected device be it a computer, tablet, smartphone, gaming console, television, watch or even a car. In the future, people could shop directly from an Internet-enabled refrigerator that tells them they have run out of milk and fruit.

Conclusion

To conclude, PayPal is a global leader in digital and mobile payments. In Canada, we are focused on creating simple, secure and delightful experiences for people to shop, donate or send money, anytime, anywhere on a device of their choice. PayPal is also helping Canadian retailers of all sizes take advantage of online and mobile commerce and connect with PayPal's 143 million active account holders around the world.

The security of our customers' financial information is our top priority. PayPal is fully committed to collaborating with policymakers and private and public stakeholders to ensure that we do everything in our collective power to create an ecosystem that is secure.