

Response to Request for Information on Alternative Payment Methods

Solicitation # EN891-210910/A

Submitted on behalf of:
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The Electronic Transactions Association (“**ETA**”) submits these comments in response to the Request for Information on Alternative Payment Methods (Solicitation # EN891-210910/A). ETA supports the Government of Canada’s effort to increase the use of electronic payment mechanisms to deliver funds to citizens and businesses. It is our hope that these comments will assist government in understanding the role ETA members, including Canada’s leading financial institutions, global payment networks, and the broader FinTech industry, can play in improving service delivery to Canadians.

ETA is the leading trade association for the payments industry, representing over 500 companies that offer electronic transaction processing products and services. ETA’s members include financial institutions, mobile payment service providers, mobile wallet providers, money transmitters and non-bank online lenders that make commercial loans, primarily to small businesses, either directly or in partnership with other lenders. ETA member companies are creating innovative offerings in financial services, revolutionizing the way commerce is conducted with safe, convenient and rewarding payment solutions and lending alternatives.

COVID-19 led to an unprecedented shutdown of the economy. Many businesses were forced to close or reduce operations. Millions of Canadians lost their jobs as a direct result of the pandemic. ETA commends the government on its successful and timely delivery of financial aid to Canadian citizens and businesses during the COVID-19 crisis. The Government of Canada’s delivery of over \$212 billion in direct support to Canadians is one of the important achievements of the early stages of the pandemic.¹

Early in the pandemic, the government established the Canada Emergency Response Benefit (CERB) to support Canadians who found themselves without employment as a result of the economic impact of COVID 19. Given that the pool of beneficiaries was over eight million individuals who required rapid disbursement of financial support, the Government of Canada partnered with Canada’s traditional financial institutions to deliver the CERB via direct deposit. This system allowed CERB to reach most recipients quickly.

Nonetheless, while many Canadians opted to receive the benefit through direct deposit, a significant portion chose to receive the benefit through a paper cheque, which is more costly to government and more cumbersome for citizens. According to [reports](#), 16% of those who received federal emergency support, such as the CERB, chose to receive it by cheque instead of direct deposit.²

¹ Economic and Fiscal Snapshot 2020, 13.

² <https://www.theglobeandmail.com/business/commentary/article-canadians-need-money-fast-in-the-pandemic-so-why-are-so-many-still/>

Given that this form of payment is both inefficient and costly for benefit recipients (who are often economically vulnerable), there is a strong case for government to eliminate disbursement through physical cheques. ETA believes that prepaid payment products are uniquely positioned to fill the gap traditionally played by cheques for the delivery of emergency benefits, in cases where recipients do not wish to enrol in direct deposit programs.

Payment Trends

Payments innovations have fundamentally improved how Canadian citizens and businesses interact. Canada's payments industry is characterized by more choice and innovation today than ever before. The range of non-traditional players continues to expand. FinTech companies, social media platforms and other technology start-ups are all entering the payments industry. Together, they offer a growing number of options for consumers and merchants, and ensure a healthy, competitive and innovative environment.

According to the 2019 United States Federal Reserve Payments Study³, electronic payments, including prepaid cards, continued to grow significantly as a vehicle for consumer spending across the globe.

2019	United States	Worldwide
Credit and Debit Cards	679m	20.48b
CR/DR Card \$ Volume	\$7.58T	\$24.3T
CR/DC Transactions	131.2b	482b
Prepaid Cards	2.2b	
Value stored on Prepaid	\$60b	\$1.8T

This trend is mirrored domestically, as new technology and payments innovation are also transforming the way Canadian consumers and businesses make payments. The 2019 Canadian Payment Methods and Trends Report⁴ by Payments Canada found that in 2018, the payments market in Canada grew to 21.1 billion consumer and business transactions worth more than \$9.9 trillion. The report found that prepaid card (including plastic and virtual cards) volume growth continued to be nearly double the combined growth rate of debit and credit card (nine per cent vs. five per cent) as Canadians used more prepaid cards in 2018, particularly for e-commerce.

Young and unbanked Canadians are the most common users of prepaid payment products. Interestingly, the self-employed were significantly more likely to have purchased or received a prepaid card than those who are employed or retired. Visa and Mastercard open-loop prepaid cards have also thrived in Canadian e-commerce payments. Prepaid transactions accounted for over three per cent of the total e-commerce transaction value in 2018.⁵

³ <https://www.federalreserve.gov/paymentsystems/fr-payments-study.htm>

⁴ https://www.payments.ca/sites/default/files/canadianpaymentmethodsandtrendsreport_2019.pdf

⁵ Ibid

This trend has increased exponentially since the start of the global pandemic, which has seen individuals dramatically shift their spending habits.⁶ According to the latest data:

- More than 45% of respondents say they have permanently changed how they interact with their bank since COVID-19;
- 31% of respondents will use online or mobile banking more in the future; and
- 45% of consumers have used a mobile wallet payment platform in the past 30 days.⁷

The general public are not only becoming more familiar with innovative electronic payment methods, these alternatives to traditional forms such as cash and cheque are increasingly preferred ways to pay for many consumers. This preference has been only accelerated by the physical realities of the pandemic where contactless payment has become a necessity in many retail environments where business owners are seeking to eliminate cash handling for public health reasons. In addition to these benefits, transitioning paper cheques to prepaid cards would have several other advantages including:

- allowing benefit recipients to access funds and financial services wherever and whenever needed – and without relying on expensive cheque-cashing services;
- enabling consumers – particularly in rural and remote communities – to make online purchases and access goods that may not be available locally;
- providing secure and convenient access to funds for recipients by limiting possible fraud and easing administration of payment;
- allowing prepaid recipients to receive funds without opening an account at a financial institution; and
- receiving instant payments instead of waiting for mail to deliver the cheque.

Taken together, these benefits address some of the important problems associated with disbursement via paper cheques, particularly for financially vulnerable populations.

Financial Inclusion

ETA and its members support an inclusive financial system that provides high quality, secure, and affordable financial services for the broadest possible range of consumers. ETA member companies touch, enrich, and improve the lives of underserved consumers while enabling the global flow of commerce. A key objective of ETA member companies is to continually enhance the electronic payments and financial ecosystem so that it is accessible for all consumers, while ensuring their transactions can be completed securely, efficiently, and ubiquitously.

ETA's members are at the forefront of using technology to broaden financial inclusion for underserved consumers. Prepaid cards have demonstrated clear benefits for the underserved, particularly those who use open-loop products. Providing underserved consumers with access

⁶ <https://www.bankofcanada.ca/wp-content/uploads/2020/07/sdp2020-6.pdf>

⁷ <https://thefinancialbrand.com/96502/coronavirus-covid-19-changing-banking-payments-digital-behavior-trends/>

to prepaid cards makes their money safer and helps move them into the increasingly important world of online transactions.

ETA believes that expanding the use of prepaid products for government disbursements can address important public policy goals around financial inclusion. Unbanked and underbanked Canadians – estimated to be around 5% and 15% of the population - are often face barriers to accessing assistance. Canadians in rural communities without a local bank often travel long distances to cash cheques; unbanked benefit recipients in urban areas turn to high-cost cheque cashing services. Replacing cheques with prepaid products would avoid the need to visit a bank to cash benefit cheques – the card would be preloaded and ready to use immediately – and could be deployed through a traditional plastic card sent directly to Canadians or a through a convenient mobile wallet.

Moreover, ETA believes that the use of electronic cash (eCash) vouchers would be a good complement to prepaid products to address situations such as natural disasters where the beneficiary may not even have access to a mailing address (e.g. forest fires in Northern Alberta, floods, etc.). In that scenario, the government would send a QR/barcode with the payment amount to the beneficiary's mobile phone or email, the beneficiary would then find the closest payment location such as a convenience store or post office, scan the QR/barcode and collect the cash.

International Best Practices

Other jurisdictions have already proven how prepaid products can assist government delivery of benefits. For example, in the United States one of the most common ways to receive government benefits is through prepaid products. The cards are loaded by the government, making financial assistance instantly available. Recipients can use the cards directly at retail locations or obtain cash through an ATM. In addition, prepaid cards can be reloaded to accommodate the government's delivery of any additional benefits or stimulus in the future.

During 2018, the United States Federal Reserve reported that government agencies disbursed \$137 billion through prepaid cards. Of this, more than \$20 billion were disbursed in Unemployment Benefits. With respect to the United States' COVID-19 support, ETA members delivered over \$9 billion in Economic Impact Payments (EIPs) Visa prepaid cards to 5.7 million Americans (As of June 5, 2020), and also assisted states distribute tens of billions of dollars of unemployment benefits using prepaid payment technologies.

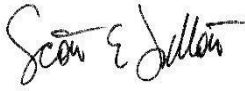
Conclusion

ETA and its members support an inclusive financial system that provides high quality, secure, and affordable financial services for the broadest possible set of consumers. We believe that prepaid products represent a key opportunity for the Government of Canada to improve the economic situation of those Canadians who currently receive government disbursements by cheque. Across a wide range of criteria, prepaid products will improve outcomes for individual recipients and enable government to more efficiently and effectively manage disbursement programs.

ETA applauds the Government of Canada for taking the initiative to better understand how it can deploy this technology for the benefit of Canadians and looks forward to providing whatever

additional information our association or members can provide to move this process forward.
ETA thanks you for the opportunity to submit these comments.

Respectfully submitted,



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