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Chair: Mr. Joël Lightbound



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• (1530)

[*Translation*]

The Chair (Mr. Joël Lightbound (Louis-Hébert, Lib.)): Happy Monday, everyone. I call this meeting to order.

Welcome to meeting number 142 of the House of Commons Standing Committee on Industry and Technology.

Before we begin, I would like to ask all members and other in-person participants to consult the small card on the table for guidelines to prevent audio feedback incidents. This is for the health and safety of the interpreters as well as everyone in this room.

Pursuant to the motion adopted on Thursday, September 19, 2024, the committee is resuming its study on credit card practises and regulations in Canada.

We are pleased to welcome today's witnesses, who are all participating in this meeting by video conference.

First of all, from the Bank of Montreal, we have Jennifer Douglas, who is head of North American retail and small business payments.

From the Canadian Imperial Bank of Commerce, we have Diane Ferri, senior vice-president, credit cards.

From the Royal Bank of Canada, we have Ramesh Siromani, executive vice-president, cards, payments and transformation.

From Scotiabank, we have D'Arcy McDonald, senior vice-president, payments and unsecured lending.

From TD Bank, we have Meg McKee, executive vice-president, Canadian card payments, loyalty and personal lending.

I want to welcome you all and thank you for taking part in this exercise.

Without further ado, I give the floor to Jennifer Douglas, from the Bank of Montreal, for five minutes.

[*English*]

Ms. Jennifer Douglas (Head, North American Retail & Small Business Payments, Bank of Montreal): Good afternoon, everyone.

Mr. Chair and honourable members, thank you for the invitation to join you today as part of the committee's study on credit cards.

My name is Jennifer Douglas, and I am responsible for BMO's credit card business.

As Canada's oldest bank, BMO has long been committed to working with our customers to identify their specific needs and to ensure that they have the best product options for their personal situations. This work with customers is done in tandem with continually evaluating our product features on an ongoing basis to ensure that they remain competitive in the industry. It is worth underlining just how competitive the landscape is for credit cards and the resulting breadth of benefits for consumers.

For those consumers who want to take advantage of a credit facility to make purchases, this means ensuring access to no-fee and low-fee options, which constitute over half of BMO's card portfolio. We know from our customers that they greatly value credit cards as a method of payment, given the benefits and the convenience provided, whether it's protections against fraudulent transactions, whether it's cashback or travel rewards, or whether it's extra features, such as insurance or roadside assistance. We are always seeking ways to enhance our benefits.

Some of the recent examples of enhancements that we've made to benefit our customers are extra bonus points for shopping in certain categories, like wholesale clubs and drug stores; new features to get cashback on gas purchases; new redemption options, such as being able to shop at the Apple Rewards Store; and enhancing the customer experience through greater digital self-serve options.

We offer these services within a highly regulated framework. Banks work diligently to clearly communicate fees, transactions incurred on a card, and when the payment is due, among other pieces of information.

As issuers of credit cards, banks do not set interchange fees. As I believe the committee has heard, these fees are set by payment networks, like Visa and Mastercard, which, along with the card issuers, the acquirers and the merchants, comprise Canada's credit card payments ecosystem.

Our role as issuers in this ecosystem focuses on things like adjudicating credit applications, interacting with customers and servicing their needs, paying for transactions on behalf of the customer to ensure that the merchant gets paid, covering fraudulent transactions and credit losses, and competing with other issuers to provide meaningful benefits and features for our customers.

However, credit card services should not be viewed in isolation as just a product offered by the bank. We also ensure that our customers have access to resources to improve their financial literacy in order to make the choices that suit their needs best. Through a survey that BMO conducted last year, we know that this is particularly important in a digital banking context. In that survey, we found that 58% of Canadians find literacy an important aspect of online banking, and 65% want access to personalized advice.

At BMO, we are committed to leading with a digital-first mindset, and we're proud of our BMO SmartProgress financial literacy online portal as a proof point of that. The BMO SmartProgress portal organizes topics such as budgeting, credit management and preparing for retirement, enabling Canadians to learn more about how to manage their finances in a widely accessible and innovative environment.

Thank you for your attention. I would be pleased to answer your questions.

• (1535)

[Translation]

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

I now give the floor for five minutes to Diane Ferri, from CIBC.

[English]

Ms. Diane Ferri (Senior Vice-President, Credit Cards, Canadian Imperial Bank of Commerce): Thank you, Mr. Chair, and good afternoon.

My name is Diane Ferri, and I'm the senior vice-president of cards at CIBC.

Our bank traces its roots back to 1867. Since Confederation, we've been an integral part of helping Canadians achieve their ambitions. Today we have more than a thousand banking centres in Canada.

Our team of over 47,000 operates with the single purpose of helping our clients make their ambitions real. This is true for individuals, families, students, newcomers and businesses. It's also true for the millions of Canadians who have investments in our bank, either directly by holding shares or indirectly through mutual funds and pension plans, and for the many community initiatives we support.

We strive for a culture of operational excellence, enabled through our talent, technology and processes, and we comply with legal and regulatory requirements.

Credit cards are one of the most competitive offerings in the financial services industry, issued by a wide range of banks, credit unions, monoline issuers and retailers.

Consumers have many choices as to how to make their payments. Cash, debit and credit are amongst these choices, and our role as a bank is to help facilitate those payments in whichever manner our clients choose to make them.

Credit cards are the payment method of choice for many consumers, offering customers flexibility and convenience for managing their cash flow and purchasing online and at the retail point of

sale. In a world increasingly shifting towards digital and global commerce, credit cards allow consumers to shop online and internationally with ease, convenience and confidence.

Credit cards play a key role in the Canadian economy. Businesses benefit from their use, receiving immediate and secure payment instead of taking on credit risks themselves, and they enable faster checkout lines and lower cash handling costs.

In addition, credit cards provide benefits such as rewards, insurance and liability protection for fraud and merchant-disputed transactions. Youth, students and those who are new to Canada can use credit cards to establish and build credit.

CIBC offers 25 different credit card options, which we offer in the context of a broader relationship with our clients to meet their full financial needs. Our cards range from no-fee and student cards to loyalty options based on the clients' preferences, including cards that offer rewards. CIBC offers a low interest rate card, a product that was recently recognized in a report by The Globe and Mail as number one in its category.

CIBC complies with transparent sales practices in banking centres and on digital platforms. Our credit card selector tools assist clients in identifying the best product based on their needs and preferences. This puts informed choice in the hands of our clients as they select the card that best meets their needs.

We offer a range of no-charge tools for our clients, including free credit score lookup, credit bureau alerts and a budget and cash flow calculator.

We've leveraged innovation to bring more options to our clients to manage the cost of larger purchases. Our CIBC Pace It feature allows clients to pay off larger or unexpected purchases on their credit card at a pace that works for them, with a lower interest rate. There is no restriction on paying the balance off early. It's another example of putting informed choice in the hands of our clients and giving them tools to have control over their credit.

We have educational tools, including our credit card 101 guide, to help clients learn about how to manage their credit, how to choose the right card, how to read a credit card statement and how to protect themselves from potential fraud. We provide easy-to-use features in our online banking for clients to protect themselves if their credit card is stolen and to stay on top of their transactions.

Credit cards, like other consumer bank products, are overseen by the Financial Consumer Agency of Canada, or FCAC. The FCAC supervises federally regulated financial entities and monitors and supervises the payment card networks with the requirements set out in legislation, regulations, public commitments and codes of conduct. The market conduct obligations that apply to credit cards are detailed and address several matters, including clear disclosure of all applicable rates and fees to consumers.

We recognize our clients have a choice in how they choose to make their everyday payments, and we work hard in a competitive market to meet their needs by offering value, convenience and choice, with additional benefits and protections available to protect against fraud and other risks.

In conclusion, CIBC is proud to help Canadians achieve their ambitions, including providing many options for their banking and credit card needs.

I look forward to our discussion today.

• (1540)

[Translation]

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

I now give the floor to Mr. Siromani, from the Royal Bank of Canada.

[English]

Mr. Ramesh Siromani (Executive Vice-President, Cards, Payments & Transformation, Royal Bank of Canada): Thank you, Chair.

Good afternoon, honourable members. Thank you for inviting RBC to appear this afternoon in front of the committee.

My name is Ramesh Siromani. I'm the executive vice-president for the cards, payments and transformation businesses at RBC.

We at RBC are guided by our purpose to help clients thrive and communities prosper. We live our purpose each day by offering trusted advice to help clients make informed financial decisions, while driving positive change in the places where we work and live.

We are focused on offering a wide range of everyday banking, financing and investment products to meet the needs of our clients at every stage of their lives. Canadian customers are at the heart of our business, and it's our priority to offer value, convenience, choice and information to help clients determine the products and services that are right for them.

Our payments business is no different. As you would have heard from the Canadian Bankers Association earlier this month, Canadians like having access to a range of payment products, including credit cards, which offer a secure payment option with liability protection and other features such as insurance, purchase security and warranties.

We offer a broad range of payment options to clients, along with tools and advice to help them select the right product for their needs. Canada has a well-developed payment system, with credit cards playing an important role. Whether clients are looking to earn cash back on everyday spending, collect reward points, or enjoy

student life affordably, RBC offers credit card options for all of those needs and more. Once clients have selected the appropriate card, we offer a wide range of resources online and in our branches to help them manage their cards responsibly.

We provide those tools and alerts to help clients manage their credit cards, ensuring that they feel secure, aware and well connected to their finances. RBC has a process to help clients understand the implications and options associated with any lending product, and we proactively reach out to clients to discuss options through our digital channels, emails, letters, our contact centre and branches.

RBC is proud to offer value to all Canadians through Avion Rewards, regardless of where they bank. Avion Rewards operates as a loyalty and customer engagement platform that provides members with the flexibility to shop, save, earn and redeem on everyday items.

The program provides many benefits, including strategic partnerships with leading brands in Canada such as Petro-Canada, Metro, Rexall, DoorDash and others that provide RBC credit and debit cardholders more value on their everyday purchases, like instant savings on gas.

Similarly, we offer a variety of solutions to our merchant partners. By providing more choice and convenience in credit products to clients, we help drive success for merchants, who derive great value from credit card payments including guaranteed payment, access to the online marketplace, efficiencies compared to cash or cheques, and at the most basic level, not having to run a store credit system.

Finally, we have seen an increase in fraud and scams in Canada, which has affected all industries. Safeguarding the security of our systems and the confidentiality of our clients' information is always our top priority. As a trusted financial institution, we have an important role to play in prevention, education and ensuring our client's safety. We know fraudsters are getting increasingly sophisticated, and we continue to make substantial investments in our security measures and technology. We also regularly educate our clients about best practices, like staying aware of fraud scams and protecting passwords and email accounts.

RBC has a long track record of innovation in payments. Through industry efforts, Canadian merchants and customers enjoy a low-cost to no-cost debit network for purchases and Interac e-transfers, with those being the leading money movement capabilities globally.

RBC has delivered numerous client experiences in innovations like tap, pay with points, and installment payment plans, offering more choice, convenience and security to the client. Canada has a strong, secure and efficient payment system, and RBC continues to invest and innovate to ensure it continues.

We remain committed to providing value, choice and convenience to clients and merchants, while providing education and advice around financial literacy, fraud and the responsible use of credit.

Thank you, members, for inviting me to speak today. I welcome any questions you may have.

• (1545)

[Translation]

The Chair: Thank you very much.

I'll now give the floor to D'Arcy McDonald, from Scotiabank.

[English]

Mr. D'Arcy McDonald (Senior Vice-President, Retail Payments & Unsecured Lending, Scotiabank): Good afternoon.

My name is D'Arcy McDonald, and I'm the senior vice-president of retail payments and unsecured lending for Scotiabank. I'm pleased to participate in this important study and look forward to the discussion today.

Scotiabank has almost 200 years of history in supporting Canadians with their financial needs, employs 40,000 people in Canada and serves more than 11 million clients from coast to coast. We take our role as an important pillar of the Canadian economy seriously. We're also a leading bank across North America, including a top ten foreign bank in the United States and the fifth largest bank in Mexico, with additional market-leading presence in the Caribbean and Latin America.

At Scotiabank, our credit card offerings are part of our overall portfolio of products and services available to both individuals and small businesses whose banking needs we serve everyday. Our array of credit cards provides secure payment mechanism, fraud detection, liability protections and, depending on the card, rewards for purchases. We are proud to provide cards that offer both consumers and merchants protection when they use a card for payment.

In addition, our cards help those with no or low credit to build their credit rating, helping them to then qualify for loans and mortgages and to make purchases for products where credit is critical.

Our goal at Scotiabank is to build relationships with our clients and ensure that they have the financial products they need and the products that work for their individual circumstances like credit cards, chequing accounts, investment accounts and/or mortgages. This is an important part of our overall strategy to act as the primary banking partner for our customers. Credit cards are often alongside other products and provide clear and substantial benefits.

Canadian consumers see credit cards as a secure and convenient tool to pay for everyday household purchases, travel and a range of other expenses. Scotiabank offers a variety of consumer and small business credit cards suitable for a variety of customers according to their interests and needs so that clients can select the best cards

for their lifestyle. We work hard to ensure that the features, services and benefits, including rewards, reflect what our individual consumers and small business customers are looking for in credit cards.

We give customers choice. Examples of the choices we provide to our personal and small business customers include cards that offer low interest rates; cards that offer no or low annual fees; cards for students and new Canadians; cards for travellers with no foreign exchange and other benefits like insurance coverage; cards that offer cash back on purchases and cards that offer Scene+ points that can be redeemed for groceries, travel, gift cards or movies. This flexibility is a critical part of our commitment to ensuring that we provide the right cards to the right customers from both a business perspective but also from a risk perspective.

At Scotiabank, we pride ourselves on the close relationships we have with our small businesses. We work with them to understand their business banking needs and provide relevant advice, tools, products and services to help their businesses thrive. We offer cards that help small businesses manage their daily expenses, enabling them to separate personal and business expenses, which simplifies tax accounting and helps with spend management and cash flow prediction. I mention this to point out that our customers are savvy users, and they use these tools to access multiple benefits from their credit cards. Both our individual and our small business customers use credit cards as a payment tool rather than a credit vehicle if it works for them as appropriate and/or their business needs.

Finally, I want to speak about a topic that we know is top of mind for Canadians and for our credit card customers: fraud and cybersecurity. As we continue the rapid evolution to more digital platforms, it is more important than ever to have robust systems to ensure that payment systems and consumer data is secure. In Canada, fraud has increased since the pandemic. The increase in fraud has impacted our clients and had a significant cost to our businesses. Scotiabank vigorously invests to monitor and protect our customers and businesses from fraud. Each year we spend tens of millions of dollars specifically to manage credit card fraud from the moment someone applies for a new card to how it is used for transactions online and in person.

I'd like to close by emphasizing two points. First, credit cards are a secure form of payment that enable retailers to facilitate payments in real time without taking on credit risk. These payments happen seamlessly, both in store and online, because of investments made by the wider ecosystem as we innovate to provide better services. We do not take those benefits for granted.

Second, Scotiabank and Canadian banks more broadly are heavily regulated compared to other institutions in the wider credit card and payment ecosystem. Aside from the code of conduct, rules set by OSFI, the FCAC, the Competition Bureau and the Bank of Canada, we reinforce the security of our credit card businesses for consumers. When customers use a credit card by a licensed bank in Canada, they have important rights and responsibilities that are protected by those rules and regulations. At Scotiabank, we are proud of our credit cards that offer peace of mind to our customers from coast to coast to coast.

Thank you for your time today. I look forward to answering your questions.

• (1550)

[*Translation*]

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

Finally, I'll turn it over to Meg McKee from TD Bank.

[*English*]

Ms. Meg McKee (Executive Vice-President, Canadian Card Payments, Loyalty and Personal Lending, TD Bank Group): Thank you, and good afternoon.

My name is Meg McKee and I am the executive vice-president, Canadian credit card payments, loyalty and personal lending at TD. I am pleased to be with you today to represent TD where I have been leading Canadian credit cards since I joined in early 2022. Prior to joining TD, I spent 20 years with Amex Canada.

During my time working in Canadian credit cards, there have been important evolutions and changes in the competitive dynamics of the Canadian credit card market. First, from a consumer's perspective, over time there has been an ever-increasing number of credit card types available, which have their own combinations of features and benefits for consumers. Canadian consumers have very healthy competition in the credit card offerings that are available to them.

TD is a major credit card issuer in Canada. We are proud of our offerings, which include partnerships with Amazon, Starbucks, Aeroplan and Expedia, as well as through the My TD Rewards platform.

There have been multiple rounds of public policy discussions led by governments about credit card acceptance fees and interchange rates over the past two decades. These discussions, under governments of different stripes, have focused largely on reducing card acceptance costs for merchants. As the committee knows, interchange and assessment fees are set by the credit card networks and not credit card issuers like the representatives of the banks that are before you today, which is why it was very appropriate that the first companies that this committee heard from were the credit card networks that set the rates in question.

Canada's credit card ecosystem is important to individual Canadians, to merchants and to its financial ecosystem participants. I look forward to the opportunity to discuss this ecosystem with you.

Thank you.

The Chair: Thank you very much.

To start the discussion, I'll turn it over to MP Rempel Garner for six minutes.

Hon. Michelle Rempel Garner (Calgary Nose Hill, CPC): Thank you, Chair.

I'll direct my questions to Mr. Siromani from RBC.

Is it true that Interac charges between six cents and 43¢ per Interac e-transfer sent to your banks for facilitating the service, which is a tiered model depending on the volume of annual transactions to your institution?

• (1555)

Mr. Ramesh Siromani: Thank you for the question.

The customers who use e-transfers use it free of cost. Interac—

Hon. Michelle Rempel Garner: I'm asking how much they charge you. The fee schedule I've seen is a tiered model that is between six cents and 43¢, depending on volume.

Is that about right?

Mr. Ramesh Siromani: Interac, as a service provider for e-transfers, would charge every institution. I'm not sure of the exact method or mechanism of the pricing. They would have a charge for using the system.

Hon. Michelle Rempel Garner: How is it that you don't know? You're the head of banking for card services and payments for RBC and you're on Interac's board.

Maybe we'll just start by saying it is a tiered service or a tiered pricing model.

Is 43¢ for the highest tier—let's work with that—about right?

Mr. Ramesh Siromani: I wouldn't know that, ma'am.

What I would be aware of is that any service like this that has volumes involved would have a system where institutions passing on large volumes would have a better unit cost associated with large volumes of the service provided.

Hon. Michelle Rempel Garner: Great. Let's start there.

According to your website, you charge clients approximately a dollar—between one dollar and \$1.50, depending on their plan—if they go over their plan for the number of transactions for e-transfers.

Is that right that you'd be charging a client between one dollar and \$1.50 depending on their plan, if they were on a pay-for-use plan or if they went over their prescribed amounts?

Mr. Ramesh Siromani: We have various plans, but all e-transfers that we provide for our customers are free of charge. We do have various plans on accounts that are provided to our customers that can range—

Hon. Michelle Rempel Garner: Where I'm going with this is I've seen a fee schedule that shows that at the best or the most expensive, Interac is charging you 43¢ a transaction, but you're charging your clients anywhere between one dollar and \$1.50 a transaction. That's obviously a big profit margin.

Interac is owned by you and the other banks, so you're making profit off of the e-transfer fee that you're charging to your clients. Interac is making money off of what you're paying them, and you just admitted that there is a tiered pricing model.

Now, the tiered pricing model that I've seen really charges a lot more to smaller institutions, so whereas you might be paying six cents—that's what I've seen for a transaction—a smaller institution might be paying somewhere in the neighbourhood of 43¢.

Has the competition commissioner ever asked Interac or any of your banks why this is?

Mr. Ramesh Siromani: There are a couple of things I would mention.

Any processing cost associated with volumes, whether it is credit card processing, debit cards, e-transfers or any mechanism like that, would have mechanisms which go through volume-based pricing. We have it, even if a company is printing statements or whether it's processing debit, credit or other transactions.

Hon. Michelle Rempel Garner: Sure, but just in terms of this being a very highly regulated industry with the federal government, I'm just curious, because it would be fair to say that Interac is the dominant player for e-transfers in Canada. Isn't that right? That's a fair statement.

Mr. Ramesh Siromani: You're right. Interac is the main player. We wouldn't be interfering in their positions on pricing. They're an independent entity and have governance, and we wouldn't be—

Hon. Michelle Rempel Garner: Thank you.

We're looking at fees here on financial transactions, and the big banks own Interac. Interac, per your admission, says that it charges a volume discount to the big banks. Interac is the dominant player in e-transfers, so don't you think it is a little sus that the competition commissioner never looked into the fact that banks—you guys—would not be motivated to move to a flat rate, to look for ways to enhance competition in the e-transfer business and to reduce Interac's dominance? As a very simple question, is this something that the competition commissioner should be looking into?

Mr. Ramesh Siromani: Interac is an independent entity with an independent board, and independent board members are also involved. As an independent entity having a commercial service in this market, I think they would be making commercial decisions based on what they see in the market as to the right thing for them to do and, using commercial benchmarks, and what we see—

• (1600)

Hon. Michelle Rempel Garner: I will just close with this. One stat I got is that Interac reported, in 2022 alone, 1.7 billion e-transfers. When you think about the profit, even on a low volume rate and then combine it with the profit that your banks might be making off of it.... I'm a Conservative, I'm all for profit, but given that Interac is the dominant player in this, do you not think this commit-

tee should be recommending that the competition commissioner look at, per your admission, a volume-based pricing schedule for e-transfers that might (a) price competitors out of the market, and (b) have a detrimental impact on smaller financial institutions?

Mr. Ramesh Siromani: E-transfer is a very innovative payment mechanism and, as Canadians, we're all proud of what Interac has managed to do. This is one of the first payment mechanisms globally to introduce person-to-person transfers. I think Interac will be taking the right commercial decisions and, over time, introducing efficiencies into this market.

Hon. Michelle Rempel Garner: I rest my case.

Thank you, Chair.

[*Translation*]

The Chair: Thank you very much, Ms. Rempel Garner.

Mr. Arya now has the floor for six minutes.

[*English*]

Mr. Chandra Arya (Nepean, Lib.): Thank you, Chair.

One of the witnesses mentioned that it is a highly regulated industry, but when we look at the current portfolio of all the five major banks that are here today, 30% to 40% of their lending is to the residential real estate market. When we include commercial real estate it's sometimes about 50% or over, but most of it is for refinancing existing stock, not creating new housing units. Maybe we should bring in credit guidance so that we can mandate the banks to give at least 10% to 20% to create new capital stock, either in real estate or in small-scale manufacturing, which I believe is required with onshoring, near-shoring and self-reliance so that it goes up.

Anyway, to come to today's issue, I have two particular questions for all. We are a developed and a technologically advanced country, but why is it that we're backward when it comes to global south countries, developing countries, that have faster real-time payment systems? If I have to transfer from my personal bank, from one bank in Nepean to another bank in Nepean, say, about \$10,000, it takes over a week's time, whereas, in some global south countries, it can be done in a matter of seconds. Why is that?

I will start with the Bank of Montreal.

Ms. Douglas, why is it that our technology solutions are so backward that I can't transfer money instantly between my accounts within Canada, in the same area?

Let's start with that, then I can come to the other points.

Ms. Jennifer Douglas: This area is something that I actually don't work directly on, but I can tell you that—

Mr. Chandra Arya: Thank you, Ms. Douglas.

Because I have limited time, I will go to Ms. Ferri from CIBC.

Ms. Diane Ferri: I'm the credit card executive at CIBC, and I also don't work on the real-time—

Mr. Chandra Arya: Mr. Siromani of Royal Bank, at least you are in payments. Maybe you can answer this.

Mr. Ramesh Siromani: I'll try my best.

I believe you asked why Canada is maybe less innovative in payments. I would actually point to a number of innovations that Canada has made.

Mr. Chandra Arya: No, I'm not talking about innovations, Mr. Siromani. I'm specifically asking about a simple thing.

In a developing country or a global south country, one can transfer money from one bank to another in a matter of seconds, whereas here in my riding of Nepean, between two of my accounts in two different banks, it takes a week for me to transfer, say, \$10,000. Why is that?

Mr. Ramesh Siromani: Remember, there are options available to Canadians. If you use e-transfer, for example—

Mr. Chandra Arya: E-transfer's limit is \$3,000, Mr. Siromani. I'm talking about \$10,000 here.

Mr. Ramesh Siromani: We actually have increased limits for some of our customers to \$10,000. Each of these things has a different evolution in different markets.

• (1605)

Mr. Chandra Arya: I'm sorry, Mr. Siromani. I know about evolution. We are the most advanced. I think in the building next to where we are sitting, the Bank of Montreal was set up way back in 1851, if I remember rightly.

Maybe Mr. McDonald of Scotiabank can answer this.

Mr. D'Arcy McDonald: Thank you for the question. I think it represents the complexity and the maturity of the Canadian market and that, to protect the safety and security of the financial system, I think we are—

Mr. Chandra Arya: Sir, is the Canadian market much more complex than that of a global south country or a developing country with a much larger population with low literacy? If they can implement and operate it, why can't we?

Mr. D'Arcy McDonald: I think we are collectively striving for that. I think we are operating in an environment that has legacy infrastructure that we are trying to modernize collectively to make sure that we do it thoughtfully, taking into consideration the many stakeholders who are participating.

Mr. Chandra Arya: Sorry, I mean no disrespect to you, but how many years does modernization have to take? Regarding the payments, Canada has been set up and we still don't have the real-time payment system.

Ms. McKee of TD Bank, do you have an answer to my question? I still have not gotten the right answer.

Ms. Meg McKee: Neither open banking nor the real-time rail are issues that fall under my direct responsibility at TD.

Mr. Chandra Arya: Chair, maybe next time we should ask the chief executive officers of all these banks to come in so that at least they will have the answers, because whenever we get the other executives, they always say something is not their direct responsibility and walk away from it.

Again, I think somebody said that the interchange fee is not set up by the banks. It's set up by the credit card companies. As bankers, I want to ask every one of you if you have any.... I guess you wouldn't have any objections if we capped the interchange fee at, say, 0.3% as was done by Australia or 0.5% as was done by the European Union.

Since nobody's answering, maybe I should go back again.

Ms. Douglas, I'm sorry, but you're number one on my list, so you have to answer that.

Ms. Jennifer Douglas: Sorry about that.

First of all, thank you for the question.

Those other markets are quite different from Canada, so that's number one.

I don't want to speak to hypothetical scenarios where things are capped, but what I can tell you is that the credit card business is a very complex business and a very expensive business to run. We have a long list of—

Mr. Chandra Arya: Ms. Douglas, the same complexity is there in the European Union and Australia. Australia in many ways is not much different from Canada in terms of the population, etc., so why is it not complex for you guys there in Europe or in Australia, yet you can still make money? That's a good thing. There's nothing wrong with making money, but why is it that you can earn money there, yet when it comes to Canada...? The Canadian consumers are being fleeced, in my opinion.

Ms. Jennifer Douglas: As I said, it's an expensive business that we run. We have a lot of costs that we have to cover, whether it's fraud, credit losses, customer service, digital or plastics. It can go on and on, so it's an expensive business for us to run.

The Chair: Thank you very much, MP Arya.

[*Translation*]

Mr. Savard-Tremblay now has the floor for six minutes.

Mr. Simon-Pierre Savard-Tremblay (Saint-Hyacinthe—Bagot, BQ): Thank you, Mr. Chair.

Greetings to everyone.

I'd like to thank all the witnesses for their opening remarks.

I'll start with Ms. Ferri.

Can you briefly tell us what the interchange fee is for your credit cards?

[English]

Mr. Tony Van Bynen (Newmarket—Aurora, Lib.): Mr. Chair, I'm getting a sound over the translation.

Ms. Diane Ferri: Thank you for the question. Interchange fees are set by the payment networks. They are available on their website and available for you to look at the various interchange rates there.

[Translation]

Mr. Simon-Pierre Savard-Tremblay: So you don't have the information at the moment and you can't share it with us.

[English]

Ms. Diane Ferri: I don't. I would have to direct you to the Visa and Mastercard websites for that information. It's quite detailed.

[Translation]

Mr. Simon-Pierre Savard-Tremblay: I'll ask Mr. Siromani the same question.

Can you briefly tell us what the current interchange fee is?

• (1610)

[English]

Mr. Ramesh Siromani: As was pointed out, these are set by the network, Visa and Mastercard. They have a schedule of fees on their website, and it's publicly available.

[Translation]

Mr. Simon-Pierre Savard-Tremblay: My question is for both of you.

Do those fees vary according to the generosity of the reward programs, or is there no impact whatsoever?

The Chair: Mr. Savard-Tremblay, could you please indicate for whom your question is intended?

Mr. Simon-Pierre Savard-Tremblay: Actually, I did say so. My question is for the two people my first question was addressed to: Mr. Siromani and Ms. Ferri.

[English]

Mr. Ramesh Siromani: I think the way to look at cards is both on the revenue side and the cost side. Revenues include fees and interest charges and other components. On the cost side, as one of my colleagues mentioned earlier, there are a variety of cost lines, including processing fees, network fees, fraud losses, Apple Pay transaction fees, the embedded benefits we offer with the various credit cards like my peers talked about earlier, infrastructure costs, technology costs, customer support and the innovation we do on cards.

[Translation]

Mr. Simon-Pierre Savard-Tremblay: Ms. Ferri, I would like to hear your answer now, please.

[English]

Ms. Diane Ferri: I would direct you again to the Visa and Mastercard interchange schedules, which are available publicly. They

will tell you all the ways in which those fees are charged and calculated and the basis for those. That's what I would say for that.

[Translation]

Mr. Simon-Pierre Savard-Tremblay: So that is information that you do not currently possess.

My next question is also for both of you, Ms. Ferri and Mr. Siromani.

We know that the costliest credit cards for merchants are the ones with the most generous reward programs. Logically, they are often held by people who are financially better off.

Since merchants charge all customers the same fees for the same purchase, would you agree that people with fewer means are indirectly subsidizing the wealthiest reward programs?

The Chair: The question is still for both of you, Ms. Ferri and Mr. Siromani.

[English]

Ms. Diane Ferri: Could you repeat the question, please?

[Translation]

Mr. Simon-Pierre Savard-Tremblay: Yes, but that was a lengthy question.

In all sincerity, Mr. Chair, if I state at the outset that my question is for these two people, I don't want to waste my time repeating my question because they didn't listen to it.

The Chair: Don't worry, Mr. Savard-Tremblay. I'm very generous with time.

Mr. Simon-Pierre Savard-Tremblay: Thank you, Mr. Chair.

We know that the most expensive credit cards for merchants are the ones that offer the most generous reward programs. However, these cards are often held by people who are financially better off.

Since merchants charge all customers the same fees for the same purchase, would you agree that people with fewer means are indirectly subsidizing the reward programs of the wealthiest people?

[English]

Ms. Diane Ferri: I'm here as a credit card executive. I'm not here to comment on how merchants choose to allocate the cost of accepting payments amongst the customers who are shopping in their stores.

Merchants have choices. They can choose to accept whatever payment methods they want—cash, debit or credit. They can choose which payment networks to accept, like Visa, Mastercard, Amex or others. I can't comment on how they choose to distribute the cost of accepting the payments they choose to accept.

• (1615)

[Translation]

Mr. Simon-Pierre Savard-Tremblay: Mr. Siromani, I would now like to hear your answer, please.

[English]

Mr. Ramesh Siromani: By accepting cards, there are a lot of benefits to merchants, whether it's the fast guaranteed payment, not having to do a store credit, the ability to accept credit without worrying about the credit worthiness of customers, increased sales, or expanded markets online, etc. Merchants get a variety of benefits.

On the other hand, like I said in my opening remarks, we have value, choice and convenience for the customer. We provide a variety of choice for our Canadian customers, where they can choose the type of card they want that best fits their needs and that they best understand. I think that between both of them, they benefit by having choice and the merchants also benefit by having the right ability to have the right payment mechanisms.

[Translation]

The Chair: Thank you very much, Mr. Savard-Tremblay.

I now give the floor to Mr. Masse.

[English]

Mr. Brian Masse (Windsor West, NDP): Thank you. Mr. Chair.

Thank you to the witnesses for being here.

Over the past five years, Canada's major banks have seen consistently higher profit margins, largely driven by interest from credit card products, which often carry interest rates around 19.9% or higher. For example, by 2022, the combined net income of Canada's six largest banks reached \$60.7 billion, with \$102 billion from net-interest income.

Credit products like credit cards play a significant role in the earnings as higher interest rates persist, despite the broader lower interest rate environment. Banks have also benefited from several favourable conditions, including minimal defaults due to pandemic-related federal aid and low operational costs. In fact, loan loss reserve funds set aside to cover potential loan defaults were largely released as fewer Canadians defaulted than anticipated, which boosted profits further. The strong financial performance led to increased dividends and substantial executive bonuses, but did not translate to lower interest rates for the consumers.

My question is for anyone on the panel. Would you like to contest any of that?

Okay, then I'll just move on. It will be based upon that.

Ms. McKee, why is it, then, that banks and credit cards require a 20% interest rate, generally, for their products? There are some other products that are available at lower interest rates, but they generally also come with more difficulty to acquire for consumers or fewer benefits elsewhere.

Why is it consistently 20%, despite even the Bank of Canada just recently lowering its rate? Why would credit cards not have a lower rate as well?

Ms. Meg McKee: I think it's important to note that we have a variety of cards available, including credit cards with lower rates and cards that have no fee or low fees.

Mr. Brian Masse: Tiers.

Ms. Meg McKee: We want all of our customers to be using products that are right for them—

Mr. Brian Masse: I specifically want to know why 20% is even necessary in a business model when there doesn't seem to be the risk level that requires that.

Ms. Meg McKee: As an issuer of credit cards, we're focused on designing products that resonate with Canadian customers and meet their needs and expectations. Our goal is always to offer competitive products and services that meet our customers' needs while remaining competitive in the market.

Mr. Brian Masse: Do you think your customers need a 20% interest rate compounding when Canadian taxpayers did financially support the banks during a number of different issues? On top of that, interest rates are lower.

Why is it required for your bank and your credit card to have a credit card in your system that's at 20%? What's the reason for the 20%?

Can you share with us the profile of that 20%?

I suspect the ones at 20% are probably lower on the income scale than others that have a reduced credit card fee for other reasons. That's generally what consumer markets say.

Why is 20% required?

Ms. Meg McKee: For a credit card, as an unsecured form of credit, that's only one of the factors that we need to think about when considering an individual card type. You also have to think about the benefits, the rewards, the fees and other attributes of those products. We'd have to consider all of those aspects, as well as whether Canadians are paying their monthly balances, in which case, customers pay no monthly interest.

Mr. Brian Masse: Would you then contest that you're making significant, if not record, profits off the model right now? Why would you not lower your rate when the Bank of Canada rate for borrowing has just been lowered as well? Why is there no consistency there?

Ms. Meg McKee: Again, it's important to note that we have a variety of cards that are available for customers to choose from if they prefer a lower rate, with maybe fewer benefits or rewards. Those cards are available, as well as those with no fee or low fees.

What's important to us is to provide a lot of choice and a breadth of offering [*Inaudible—Editor*] in a very competitive market.

• (1620)

Mr. Brian Masse: On those choices, do you have any public data or information about who your 20% customers are and who maybe your 9% customers are or the ones who pay a fee? I know some of those cards that you offer require payments or other types of compromises by the consumer or have an income level that's higher. Do you have a model or do you have data about who has what credit cards from TD Bank, for example?

Ms. Meg McKee: I think it's a wide array of customers. Depending on the demographic, it's really down to customer choice. We offer more than 15 different products, all constructed very differently. It's really about designing products that resonate with Canadian customers.

Mr. Brian Masse: That doesn't answer any of the questions on that.

I'll move to the Royal Bank of Canada.

More data on income received from the banks has come in. Why is it that rates still don't reflect anything with the Bank of Canada for credit cards? Why do you guys put a 20% interest rate on customers? If I walked into a bank anywhere and they said, "Do you want 20%...?" People aren't snapping that up. They're taking it because they have to. Who's asking for this 20% in your customer base?

Mr. Ramesh Siromani: Along the lines of what my colleague, Ms. McKee, said, we offer different types of products, including low-rate products, low variable rate products. For example, RBC lowered the prime rate immediately after the Bank of Canada—

Mr. Brian Masse: Why do you need one at 20% when I don't know anybody out there who wants a 20% credit card? They're stuck with a 20% credit card. They're also mostly the people who can't afford to pay a monthly fee or an annual fee, or they're giving up other point systems. Who out there wants a 20% card?

How can you justify a 20% interest rate? What's in your business model that's so poorly designed it requires subsidization so significantly from people at 20%?

Mr. Ramesh Siromani: We provide products according to what customers want in terms of their choice. We provide value according to what they want, and the convenience. The benefits of credit cards for customers, whether it's access to unsecured credit, interest-free credit from the time of purchase until the end of the billing period.... Seventy per cent of Canadians pay their credit card balance in full. For them, the interest rate is zero. There is instant certainty of payments for merchants, a lot of rewards and benefits, such as air travel points, car insurance, damage insurance, extended warranty programs.

I think the answer to your question is that we provide the choice to our customers and we educate them about the choice and convenience available.

[Translation]

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

Mr. Patzer, the floor is yours for five minutes.

[English]

Mr. Jeremy Patzer (Cypress Hills—Grasslands, CPC): Thank you, Mr. Chair.

I'm going to go rapid-fire through all the different banks here.

BMO, what is your current low-cost interest rate card?

Ms. Jennifer Douglas: I believe it's 13.99%.

Mr. Jeremy Patzer: Thanks.

RBC, what's your low-cost interest rate?

Mr. Ramesh Siromani: We have a couple. One is 12.99%, and there is another one that is connected to our prime rates, prime plus, so that could vary according to the prime rate.

Mr. Jeremy Patzer: Scotiabank, what's your low-cost credit card?

Mr. D'Arcy McDonald: We have a 12.99% and a 13.99%.

Mr. Jeremy Patzer: Okay.

BMO, what is yours?

Ms. Jennifer Douglas: Sorry, I already answered.

Mr. Jeremy Patzer: I meant CIBC, sorry.

Ms. Diane Ferri: Our rate is 13.99%.

Mr. Jeremy Patzer: Okay.

TD, what's yours?

Ms. Meg McKee: It's 12.99%.

Mr. Jeremy Patzer: Okay, nice. That's actually gone down. It was 13.9% when I looked online, so if it's 12.99%, I must have missed something.

I just note that all of you are within a percentage point of each other. When I looked at what your various travel cards are worth, every single one of you was 20.99%. When you look historically, there was a gap between credit card rates and interest rates of 2% in the 1980s. It was only 2%. Do you guys know what that gap is today?

RBC, do you know what it is? Do you know what the gap is today between your high-interest rate cards and what the going interest rate is today?

• (1625)

Mr. Ramesh Siromani: I don't remember. The prime rate today is 5.95%. I would characterize this, in terms of the benefits that the customers get—

Mr. Jeremy Patzer: Just provide the number, please. What's the difference in percentage between the two?

Mr. Ramesh Siromani: Do you mean 6% and 20%? It's about 14%, which takes into account all the different costs and all the different benefits that we just went through.

Mr. Jeremy Patzer: With your 20.99% card, what's the gap between that card and the prime interest rate? Do you know what the number is?

Mr. Ramesh Siromani: It's based on the type of card and the type of rate. I can't remember. I'm sorry.

Mr. Jeremy Patzer: I know. I'm asking you specifically about the 20.99% rate on your travel card, because that's the most popular card that most people would get. That's a pretty common one. Just about everybody has one.

What's the difference in the interest rate on that travel card and what the prime rate is for interest?

Mr. Ramesh Siromani: I think we would be simplifying the business models greatly by comparing the prime rate and the interest rate charged on a card, because so many factors go into defining that business model. If you mean a simple mathematical calculation, it is 20.99% minus 5.95%, so it's about 15%. That would take into account—

Mr. Jeremy Patzer: Okay. There we go.

Thank you. I appreciate that.

The reason I'm saying that is when you compare all of the different cards that everybody offers, it's all the exact same. The differences between each and every single card that's out there is basically nothing. The only difference that is going to come down to a consumer is who they are already doing their day-to-day banking with, and that's generally who people are going to get their cards from. Sometimes people will go to a different institution, but it simplifies making your payments if you're at the same bank.

Really, at the end of the day, I've heard a lot of you talk about the different choices and the great options that are out there, but it's all the exact same. There is no real incentive to choose among all the different cards. The competition is actually quite false. There are five of you here today, but there is no competition. What is preventing one of you from saying your travel card is going to be—pick a number—12%? Is there anybody?

Let's go back to RBC.

Mr. Ramesh Siromani: As I said earlier, it is a complex business model, and it would be simplifying it too greatly by just taking a particular interest rate and saying, "Why not?" As I said, the benefits to customers are varied. The choice given to them is varied, and the costs associated with those choices are varied. There will have to be differential interest rates and differential costs in the marketplace, which we provide. There's a choice to the customer and the value and the convenience that we provide that fits that choice and its purpose.

Mr. Jeremy Patzer: I'm going to pick another one here. I'll pick TD. I want to extend the same question to you.

What is stopping you from offering, let's say, 12% on your travel card, given that all the random perks and benefits that all the different cards have are virtually identical? What is stopping you from saying, "To get more people on our card, we're going to go to 12% instead of 20%"?

Ms. Meg McKee: As an issuer of credit cards, we're designing products that resonate with Canadian customers and meet their needs and expectations. I would say that it's a highly competitive market in Canada, so it would be expected that offerings would be

similar. The benefits and rewards offerings are an example of an opportunity we have to differentiate amongst each other.

[*Translation*]

The Chair: Thank you, Mr. Patzer.

Mr. Turnbull, the floor is yours.

[*English*]

Mr. Ryan Turnbull (Whitby, Lib.): Thanks, Mr. Chair, and thanks to the witnesses.

I note that one of the witnesses earlier, and I can't remember which one, said that it is an expensive business that you run. I'm interested in understanding that extending credit to your customers is certainly a service, but I want to know how profitable it is for each one of you.

Could each one of you remark on what the profit is that your financial institution makes from offering credit card services to your clients?

I'll start with Ms. Douglas from Bank of Montreal.

Ms. Jennifer Douglas: As you know, we have quarterly results that are public, and BMO doesn't actually report credit card profitability down to that granular level, so—

• (1630)

Mr. Ryan Turnbull: Ms. Douglas, I'm not going to let you go on if you don't have an answer, I want to move on because I have limited time. I don't mean to be disrespectful, but I'd like to hear from Ms. Ferri from CIBC.

Ms. Diane Ferri: Revenue and net income from our credit card businesses are included in total revenue and net income for our personal and business banking business unit. It is not individually disclosed.

Mr. Ryan Turnbull: Okay, so no breakdown is provided.

Mr. Siromani, how about RBC? Is it the same answer? If it is, we'll just move on.

Mr. Ramesh Siromani: Yes, it is the same answer.

Mr. Ryan Turnbull: Mr. McDonald?

Mr. D'Arcy McDonald: Yes, it is the same answer.

Mr. Ryan Turnbull: Ms. McKee?

Ms. Meg McKee: Yes, it's the same answer.

Mr. Ryan Turnbull: Okay, so nobody knows how much money they make—or no one is willing to disclose how much money they make from their credit card services, which is more true, I would say. It is highly profitable, is it not? I'm going to assume that the answer is yes.

What is the justification for the interchange fees? I well know that the credit card companies have stated that the banks are essentially responsible for setting the fees. You guys say that you're not responsible, that they're responsible for setting the fees. It may be both of you. I note also that the banks all own their own payment processors. I have that in my briefing note here.

What percentage of the interchange fees do your banks get to set? Can you please explain that?

Mr. Siromani, I'm going to you first.

Mr. Ramesh Siromani: We don't set interchange fees. They are set by the networks.

One thing I would add in terms of the processing fees that you mentioned is that we do incur those processing fees. In addition to that, we incur network fees, fraud losses, the cost of all the benefits that we provide to the cards, Apple Pay transaction fees, IT and infrastructure costs, customer support and innovation costs.

Mr. Ryan Turnbull: Is it true that you're only a receiver of fees, that you set no portion of the interchange fees and that you do not collect any fees for the transactions through the credit card services that you offer?

Mr. Siromani, I'm going to you because I'm just following up on what you said.

Mr. Ramesh Siromani: The interchange fees are set by the credit card networks, yes.

Mr. Ryan Turnbull: Okay, so your only cost recovery on those fees is the interest rate on the credit that you're offering to your clients. Is that correct? How are you recovering all of those fees if you only receive those fees that are set by the credit card companies? You are a payer of those fees and don't set any portion of them yourself, correct?

Mr. Ramesh Siromani: We don't pay interchange fees. The credit card companies set those interchange fees. We have some revenues from those fees, but we have a variety of costs associated with those fees.

Mr. Ryan Turnbull: That's what I'm asking, Mr. Siromani. What are the revenues you're getting from those fees? Can you explain that to us, please?

Mr. Ramesh Siromani: It is not possible for me to break down the revenues associated with those fees.

Mr. Ryan Turnbull: Okay, but we know your business is highly profitable, offering credit to your customers, so you must be making money on the fees and the interest rate that you're charging for offering credit. We know that. I mean, that's common sense. I don't think anyone here would disagree that the banks are making considerable money from offering credit card services to their clients.

People have said that it's an expensive business. I'm trying to understand the cost structure and how you're involved in setting those interchange fees. If you both run a payment processor and are the issuer of the credit card—and we know that you're running a highly profitable business—why are you guys hiding from the very fees that you're setting for the consumer? Just be clear and consistent about it.

Mr. Siromani, I'm going back to you. I would like to ask all the witnesses, but I'm limited in my time, so I'm going back to you.

Mr. Ramesh Siromani: Again, the interchange fees are not set by us. They are set by the networks. It is commercially sensitive information, as all of us have said, to divulge the full revenues associated with credit cards.

If you're trying to understand the model better, we get fees and interest income. Against that, we have a variety of costs, including fraud losses, processing fees, network fees, Apple Pay transaction

fees, the cost of benefits, IT and infrastructure costs, customer support and the innovation costs that we have to bear.

• (1635)

Mr. Ryan Turnbull: Okay.

Thank you, Chair.

[*Translation*]

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

Mr. Savard-Tremblay, you have the floor.

Mr. Simon-Pierre Savard-Tremblay: Thank you, Mr. Chair.

I'll carry on with you again, Mr. Siromani.

A number of stakeholders, particularly in the area of fintech, told us that a cap on interchange fees would be indirectly circumvented by banks and credit card issuing companies, as they would be able to increase other fees.

Would you agree with that?

[*English*]

Mr. Ramesh Siromani: I'm sorry, honourable member. I could not understand that question. Could you please ask it once more or clarify it a little?

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: All right.

Since I was asked to repeat my question, Mr. Chair, you're going to be able to give me my speaking time back, aren't you?

The Chair: Yes, certainly, Mr. Savard-Tremblay.

Mr. Simon-Pierre Savard-Tremblay: That's fine, thank you.

A number of stakeholders, particularly in the area of fintech, told us that a cap on interchange fees would—

[*English*]

Mr. Tony Van Bynen: I have a point of order, Mr. Chair.

[*Translation*]

The Chair: Go ahead, Mr. Van Bynen.

[*English*]

Mr. Tony Van Bynen: Mr. Chair, I keep getting an overlap between the French language and the English language, and this may be what's confusing our witnesses. I hear the shadow, but I also hear both languages when I hear the translation. I don't know if anybody else is receiving that.

[*Translation*]

The Chair: All right.

Are others having the same problem? I'm getting nods from Mr. Perkins, as well as from Mr. Patzer.

I'll try to find out what's going on with the interpretation. I don't see anyone in the interpretation booth at the moment.

Is the interpretation working properly at the moment or is there an echo?

[English]

Mr. Ramesh Siromani: There is a bit of an echo, but I'm able to understand the question.

[Translation]

The Chair: Very well.

Don't worry, Mr. Savard-Tremblay, I always give you a little more time, because I take into account the time needed for your comments to be interpreted and understood by the witnesses.

Mr. Simon-Pierre Savard-Tremblay: What's more, I've been asked a few times to repeat my question.

The Chair: Yes. Don't worry, I'll take that into account when allotting your time.

I'd also like to point out that we are joined today by representatives of five national banks that provide services to the 25% of Canadians who speak French, but they haven't spoken a single word in French. Nor are they accompanied by people from their teams, of whom there are certainly many, who could have spoken some French before the committee. I find that somewhat puzzling.

Mr. Savard-Tremblay.

Mr. Simon-Pierre Savard-Tremblay: Allow me to express my support for your comments, Mr. Chair.

I will now reiterate my question.

A number of stakeholders, particularly in the area of fintech, told us that a cap on interchange fees would be indirectly circumvented by banks and credit card issuing companies, who could simply increase other fees.

Would you agree with that?

[English]

Mr. Ramesh Siromani: No. I'm not aware of any getting around by the banks.

[Translation]

Mr. Simon-Pierre Savard-Tremblay: Actually, my question used the conditional tense.

Can you list all the fees that are charged to merchants when a credit card is used?

[English]

Mr. Ramesh Siromani: When a transaction happens, it can differ in different places. It can be an online transaction. It can be a transaction at a store. It can be a transaction at a big store or a small store or with a different type of card. It can be a tap. It can be through various methods and forms of payment.

It depends on what kind of transaction it is. I wouldn't be able to tell you exactly what it is. It depends on the transaction. It depends on the form of payment. It depends on the mode of payment and where it is made. It could be a domestic transaction. It could be a cross-border transaction.

[Translation]

The Chair: Thank you very much, Mr. Savard-Tremblay.

Mr. Masse, you have the floor.

[English]

Mr. Brian Masse: Thank you, Mr. Chair.

One of my recommendations that I'm looking to move in this committee is to require a regulatory change to report earnings quarterly from credit card products. Is there anybody on the panel here who would oppose that recommendation?

I'll leave it up to you to speak up now, or I'm going to assume there is consent and that recommendation would be supported.

● (1640)

Mr. Ramesh Siromani: I'm not in a position to talk for our investor relations in a broader enterprise. It would have financial ramifications on how we divulge information to the investor community. I wouldn't be able to comment on that, but I'm sure there would be some comments from them.

Mr. Brian Masse: Yes, it would have some financial ramifications for the benefit of consumers, I know, and transparency.

Is there any problem with any of your organizations providing more information about the type of customers and the products that you serve in terms of the interest rates? Would that be something which the five banks that are represented here would be willing to do? Could you provide us with statistical profiles of the people, in a general sense, using the different percentages of the credit cards like 19% and so forth? Is that something that could be supported in terms of more financial literacy to consumers?

Okay. Well, thanks, Mr. Chair. I appreciate my time, and I have the answers I need.

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

I'll now turn it over to Mr. Généreux.

[Translation]

Mr. Bernard Généreux (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, CPC): Thank you, Mr. Chair.

Thank you to the witnesses. I'm going to start with Ms. Douglas from BMO.

I have a small business with five different services, and for each of those, we can determine what generates profits and what does not. We make adjustments based on what the business community commonly refers to as the cost of doing business. I imagine it's the same with banks.

All the witnesses today have said that they were unable to determine how much profit credit card transactions generate, because they weren't able to extract that information from their general figures. That seems rather strange to me. Honestly, I find it very hard to believe that they aren't able to extract data as simple as the net profits generated by credit card transactions, based on revenues and expenses.

Can you explain why it's impossible to access those numbers? That is the case at BMO, but also elsewhere, in all Canadian banks, it seems.

[English]

Ms. Jennifer Douglas: We do, as a bank, disclose many, many metrics on a quarterly basis that are public. Our policy is not to disclose to the public down to that granular level.

[Translation]

Mr. Bernard Généreux: Why don't you do that?

[English]

Ms. Jennifer Douglas: It's from a competitive perspective. Like I said, I'd be happy to send you our last quarterly results and our annual report. You'll see there's a myriad of metrics that we do disclose, but we usually don't go, from a product perspective, down to that level.

Our numbers are found within our division, the personal and business banking.

[Translation]

Mr. Bernard Généreux: In that case, are you able to provide the information to the committee?

I'm asking all the witnesses here, but you can probably answer for the others, Ms. Douglas, since you all seem to have the same policy.

From your overall numbers, are you able to extract the revenue and expenses related to credit card transactions, as well as the resulting profits, and provide those figures to the committee? Our committee is independent, as I understand it, and we can handle these numbers confidentially.

Is each of the banks able to provide that information to the committee, so we don't have to do that work ourselves?

• (1645)

[English]

Ms. Jennifer Douglas: As I mentioned, we have a certain policy for disclosures, so I wouldn't be able to commit to your request in this forum today.

[Translation]

Mr. Bernard Généreux: Ms. Ferri, is CIBC able to do that?

[English]

Ms. Diane Ferri: I am not able to provide those. As I mentioned earlier, the numbers related to our credit card business are not individually disclosed, which is consistent across the industry.

[Translation]

Mr. Bernard Généreux: I'm trying to understand why you're not able to extract that data or share it with the committee. We're not interested in disclosing this information publicly, but we must be able to assess the excessive profitability—in our opinion—of these transactions.

As my NDP colleague said earlier, together, all the banks in Canada make \$67 billion. I don't know if I understood correctly. If that's the case, I imagine that the credit card fees or the interest

rates you charge are largely responsible for the profitability of your banks.

It would be important for the committee to have that information extracted from your overall numbers and forwarded to the committee. I am therefore making a request to the committee. I'm asking that all the witnesses present provide us with data—unredacted, of course—indicating the profits that credit cards generate for each of the banks.

The Chair: Thank you, Mr. Généreux.

I think there's consensus around the table to try to obtain that kind of information. With the help of the clerk, we will prepare a letter that we will send to today's witnesses to formally request that they send us that information.

Thank you, Mr. Généreux.

I now give the floor to Mr. Gaheer, who is joining us by video conference.

[English]

Mr. Iqwinder Gaheer (Mississauga—Malton, Lib.): Thank you, Chair.

Thank you to the witnesses for appearing.

I want to focus on interchange rates, which are the fees charged by the card issuers for the transaction. They're obviously set by the credit card companies. We've heard that throughout this testimony and in the testimony of Visa and Mastercard as well. Again, these are the fees charged by the card issuers, and a percentage of them is obviously kept by the card issuers themselves.

We had Mastercard appear before committee a few meetings ago. They said:

We set interchange to maximize participation—for our banks to make cards available and for merchants to accept them. Our priority in setting rates is to maintain a balance.

Mastercard does not receive interchange revenue. Were it left to merchants, they would want the benefits of card acceptance without paying for it, but that would make card issuance unattractive to banks. Were it up to the banks, they would want high interchange to maximize revenue, but then merchants would not want to accept the cards.

I found that testimony to be a bit disingenuous, because we know that merchants, obviously, will pass on a large percentage, if not all, of the cost of interchange fees to their consumers, the customers. When we look at banks, again, I don't want to hear in testimony that you don't set the interchange fees—we know that to be true—but I'm looking at the statement that Mastercard made about incentivizing banks to be card issuers.

We've heard in testimony that 1.4% is the average interchange fee that's charged. Obviously, that can vary across different products and different banks. What I wanted to ask of the different banks—and we can go in order of the initial speaking order—is this: Do you feel as though the interchange fees could be lowered and card issuance would still be attractive for the banks to engage in?

Ms. Jennifer Douglas: I believe Mastercard made the comment about incentivizing banks because, as I had mentioned previously, to run a credit card business is expensive. We have multiple costs in fraud, systems, rewards, digital, etc.—

Mr. Iqwinder Gaheer: I don't want to interrupt you. I'm sorry to be rude, but we have a short amount of time.

I just want to know if you feel that interchange fees could be lowered and card issuance would still be attractive in Canada.

Ms. Jennifer Douglas: If you look at the voluntary commitment that the government and the payment networks have done, they've done three of them in the past decade, and we've seen interchange rates come down. Even this month, there's another one going in that's going to help the majority of small businesses.

• (1650)

Mr. Iqwinder Gaheer: I want to ask the other banks the same question.

Do you feel that interchange rates could go down and card issuance would still be attractive?

Ms. Diane Ferri: I would say that would be a forward-looking statement, and I would be unable to comment on that.

Mr. Iqwinder Gaheer: Sure.

Mr. Siromani, go ahead.

Mr. Ramesh Siromani: It's a finely balanced ecosystem, and many factors go into that, making up the receipt and the charge—

Mr. Iqwinder Gaheer: Sure.

What about the other two banks?

Mr. D'Arcy McDonald: I think we would be similar. It depends on the policy objective that you're seeking. Dropping interchange would require us to recalibrate the value propositions for our products.

Mr. Iqwinder Gaheer: What about the last bank? I think there's one more.

Ms. Meg McKee: Yes, my answer would be very similar to what we heard.

Mr. Iqwinder Gaheer: The reason I ask this is we know that the Reserve Bank of Australia sets the credit card interchange rates at a weighted average benchmark of 0.5% of the transaction value, and there's a ceiling of 0.8%. We know that the U.S. does not regulate this. In the EU, the interchange rate is at 0.3%.

The reason I state these figures is that, contrary to what Mastercard said, which is they want to make card issuance attractive for you guys, the banks in Australia or the EU haven't run away from credit cards and haven't stopped offering credit cards just because interchange fees are obviously much lower than they are here in Canada. It's still attractive for them to engage in card issuance.

I also want to echo comments from my colleagues around the table who have said that they'd like to see a breakdown of that revenue, what percentage you make off interchange fees and what percentage you get to keep.

We keep hearing in testimony as well that it's very expensive to engage in this business of issuing credit cards. We'd like to see a breakdown by every single bank of what the real costs are for participating in credit card issuance and then what interchange fees you're making off of it, essentially the cost, the revenues and then the net profits that you make off of this. You guys are public corporations. Your shares are owned by the Canadian public, and I think they should know the breakdown of your participation in this industry.

Thank you.

[Translation]

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

Mr. Perkins now has the floor for five minutes.

[English]

Mr. Rick Perkins (South Shore—St. Margarets, CPC): Thank you, Mr. Chair. I'm going to start in order.

When I worked at a bank at Bay and King, the primary big measure, the starting point measure for everyone's performance individually and collectively as employees was the overall return on equity.

What's the return on equity target for the Bank of Montreal this year?

Ms. Jennifer Douglas: I believe our year-to-date return on equity from the last results was 10.7%.

Mr. Rick Perkins: Okay.

I'll go to the CIBC.

Ms. Diane Ferri: I don't think I'm able to comment on the target for our return on equity. Our return on equity would be similar to what Jennifer Douglas just indicated.

Mr. Rick Perkins: No, it isn't. It was 16.3% last quarter—sorry, 13.3%.

I'll go to the Royal Bank.

Mr. Ramesh Siromani: We target about 16%.

Mr. Rick Perkins: It's 16%.

Would TD respond?

Ms. Meg McKee: I don't have the exact number at my fingertips; my apologies.

Mr. Rick Perkins: It's a fundamental measure that you guys are all judged on. It hasn't changed in the history of the banks.

I won't ask you to divulge the profit that you make or the profit margin. I get that you want to be secretive of that on credit cards. You each run your credit card divisions.

What's the return on equity, the profit per shareholder, the return on equity percentage you make on your credit card business?

This is for the Bank of Montreal.

Ms. Jennifer Douglas: I'm sorry. Can you clarify the question?

Mr. Rick Perkins: You have a return on equity measure for the overall profitability of your credit card business. What is it?

Ms. Jennifer Douglas: From a credit card perspective, we don't disclose down to that granular level, as I mentioned before.

Mr. Rick Perkins: What about CIBC?

Ms. Diane Ferri: We don't disclose an ROE.

Mr. Rick Perkins: I expected as much.

I can tell you, when I worked at a major bank, it was 52%. It wasn't 10% for the overall bank. It was 52% that was a credit card return on equity internally, so this line that you're not making any money at a 1.6% credit card loss rate, according to the Canadian Bankers Association, relative to, say, 100 basis points generally for your lending, is a fantasy. That difference between all of you, between a 1.6% credit card loss and charging 21% interest on the credit card, is a monstrous profit decision, and it isn't a few bells and whistles on buying points from Air Canada's Aeroplan or Avion

I will move to TD.

Can you tell me about your regulatory failing in the U.S. on money laundering? Was that a result of the regulator or a result that you guys do the bare minimum in money laundering? You don't absolutely say, "I'm going to stop this no matter what." Is that correct?

• (1655)

Ms. Meg McKee: I will say that money laundering is a serious global threat. Our U.S. operation did not maintain an adequate AML program to thwart some criminal activity. We've taken full responsibility for the failures.

Mr. Rick Perkins: Do you know for a certainty that this can't happen in Canada?

Ms. Meg McKee: We are learning, from the programs that we're putting into place, from the U.S. and our AML program is getting stronger every day.

Mr. Rick Perkins: Since you're only meeting the regulatory minimums, what are the regulatory failings in Canada that would lead to the type of money laundering that went on in the United States?

Ms. Meg McKee: Our U.S. AML program was not sufficient to address the risk aligned to our business activity. We've enhanced governance and controls. We've invested in new talent, training, process redesign, technology, implementation and revised policies and procedures.

There's more work ahead. Addressing these failures is a top priority.

Mr. Rick Perkins: You had individuals clearing a million dollars through a bank account in one day and then taking it back out and laundering it. Was there absolutely no internal compliance measures on it that would check for that, regardless of what the regulation is?

Ms. Meg McKee: Leadership of our U.S. AML team has the necessary expertise. They're focused on this critical work to enhance our program. Significant work is under way to meet our obligations—

Mr. Rick Perkins: What about in Canada?

Ms. Meg McKee: We're strengthening our governance and structure, improving our policy risk assessment enhancements to process and controls, and investments in technology—

Mr. Rick Perkins: Okay. I know you're reading the prepared notes by your PR division.

I'll start with RBC.

Would what happened to TD in the U.S. happen to you?

Mr. Ramesh Siromani: We are committed to actively maintaining and continuously investing in an effective AML program enterprise-wide to detect, deter and improve upon what we do. This is among our highest priorities. Financial crimes are increasingly —

Mr. Rick Perkins: Can I take that as a yes or no?

Mr. Ramesh Siromani: We work with regulators—

Mr. Rick Perkins: Is it yes or no?

Mr. Ramesh Siromani: We are working very hard—

Mr. Rick Perkins: You're working hard, but it doesn't mean that it can't happen to you.

I'll go to CIBC.

Why is it that the banks don't take the initiative themselves to go higher than what the regulator says and say that they're not going to let this happen at all, regardless of what the regulator says? It appears to me that all the banks do is the bare minimum.

Ms. Diane Ferri: CIBC has a very strong and comprehensive AML program. We do transaction monitoring on all of our cards—

Mr. Rick Perkins: Are those the notes from TD or am I looking at the screen wrong? Because it sounds exactly the same—very strong AML program, so much so that people in TD were allowed to.... The employees were encouraging people to exchange a million dollars a day going in and out of a bank account and thought this was great.

There's something wrong with all of your compliance measures, and I can't imagine that it doesn't exist here in Canada to the same extent.

I'd like a quick yes or no. I'll start at the top.

Bank of Montreal, can this happen to you in Canada, yes or no?

Ms. Jennifer Douglas: We follow regulatory compliance very strongly, especially AML.

Mr. Rick Perkins: I take it that's a maybe.

CIBC, we know you were reading the TD notes, so that's a maybe as well.

What about the Royal Bank?

Mr. Ramesh Siromani: We are actively maintaining and investing continuously in—

Mr. Rick Perkins: Scotiabank, are you a maybe, too?

I want a yes or a no on the money laundering in Canada.

Mr. D'Arcy McDonald: We take AML very seriously. We're making considerable investments in AML all of the time.

• (1700)

Mr. Rick Perkins: We all know that TD has already failed in the U.S., and that doesn't mean they have anything in place in Canada.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Perkins.

We'll now go to MP Badawey for five minutes.

Mr. Vance Badawey (Niagara Centre, Lib.): Thank you, Mr. Chair.

My first question is for all of you.

A significant concern relates to vulnerable communities being exploited because of their limited or constrained access to traditional borrowing vehicles, as well as having to turn to credit cards to borrow at substantially higher rates of interest.

For example, a posted interest rate for a credit card from—I'll name you—Bank of Montreal is between 19.99% and 22.99%; Royal Bank is between 19.99% and 22.99%; Scotiabank is 9.99% to 22.99%; and TD Bank is 8.99% to 23.99%. These are the ratios I read online, yet personal loan interest rates for all you in the same order are 6.7%, 6.45%, 6.45%, and 8.99% to 23.99%.

That's a 16%-plus difference. It's a huge margin.

My first question for all of you is: Why is that? Why is there such a huge margin between the credit card interest rates and the personal loan interest rates?

It sounds like you need instructions in terms of who will answer first. I'll go with TD Bank first.

Ms. Meg McKee: I would say that as an issuer of credit cards, we're focused on designing products as a whole that resonate with our Canadian customers in meeting their needs and expectations. We have a wide variety of cards that are available, cards that have low rates, cards that have no fees, cards that have low fees, cards

that are robust with benefits and rewards. We have a very diverse portfolio roster of up to 15 different card products.

We want all of our customers using products that they feel are right for them. That's what we work towards doing, making sure that our customers are sitting on the right products.

Mr. Vance Badawey: Thank you.

What about BMO?

Ms. Jennifer Douglas: When we do product pricing, we do consider a range of factors because we have to ensure that we're operating competitively and bringing the best products to our customers.

Mr. Vance Badawey: What about Royal Bank?

Mr. Ramesh Siromani: The card product is different from other lending products in the sense that you can use it anywhere. It helps almost grease the wheels of commerce, whether you're tapping it at the transit station or whether you're travelling abroad and using it somewhere else. There are various benefits associated with cards. With the value, convenience and choice that are provided to the customer, a credit card is a different product, and we make sure, even within the credit cards, that we provide that choice to let the customer choose what kinds of cards they want based on their needs.

Mr. Vance Badawey: What about CIBC?

Ms. Diane Ferri: Similarly, I would say that we are in the business of providing advice to our clients. We want to make sure that our clients have the right products to meet their needs.

Mr. Vance Badawey: I guess, quite frankly, you all have the same answer to some extent.

My next question is based on that. Do you secure loans at less than \$10,000?

We'll start off with Scotiabank.

Mr. D'Arcy McDonald: You could have a secured loan on something like a used vehicle, yes.

Mr. Vance Badawey: What about TD?

Ms. Meg McKee: Sorry, but I'm not sure I understand the question.

Mr. Vance Badawey: Do you secure loans that are less than \$10,000?

Ms. Meg McKee: Yes, we do.

Mr. Vance Badawey: Thank you.

What about BMO?

Ms. Jennifer Douglas: It's not my area, but I do believe that we do.

Mr. Vance Badawey: What about Royal Bank?

Mr. Ramesh Siromani: I have a similar answer. It's not my area, but I believe we do.

Mr. Vance Badawey: Okay.

You mentioned earlier that the networks establish the rates. Who is the network?

We'll start off with Royal Bank.

Mr. Ramesh Siromani: The network is Mastercard and Visa.

Mr. Vance Badawey: They're actually the network that establishes the rates, not the network that manages the rates, but establishes the rates.

• (1705)

Mr. Ramesh Siromani: Establishes the rates, yes.

Mr. Vance Badawey: Thank you.

Mr. Ramesh Siromani: I don't know what you mean by manages, but establishes and provides the rates.

Mr. Vance Badawey: Okay, thank you.

This is my last question. I think I heard a similar question earlier, but I just wanted to get clarification. What is the justification for interchange fees and the percentage received by banks on every transaction fee?

Once again, I'll prompt. Let's start off with CIBC.

Ms. Diane Ferri: Once again, CIBC is not responsible for setting interchange rates or for justifying what those rates are.

I would say that businesses benefit from the use of credit cards, and our banks provide authorizations for their confidence that they will be getting settled on a transaction, and we transfer any risk related to that transaction to the credit card issuer. The merchants also have a faster checkout line with reduced cash handling time by using credit cards. They also are enabled for e-commerce by using credit cards. There are benefits to businesses for accepting credit cards.

The Chair: Thank you, Mr. Badawey. You're out of time, and I doubt you'll get wildly different answers from all the banks, so we'll move on.

[Translation]

Mr. Savard-Tremblay, you have the floor.

Mr. Simon-Pierre Savard-Tremblay: Thank you, Mr. Chair.

Ms. Ferri, I know that you are not responsible for the choices made by credit card companies. That said, Visa and Mastercard say they agreed to temporarily reduce their interchange fees for some businesses. However, in order to benefit from these so-called agreements, merchants must have completed transactions of up to \$175,000, in the case of Mastercard, and \$300,000, in the case of Visa. In the end, no convenience store, grocery store or restaurant will benefit from this fee reduction.

Isn't that, in itself, proof that we need regulations and that the major credit card companies aren't taking the food price crisis seriously?

[English]

Ms. Diane Ferri: We adhere to all the regulations appropriate for our business.

[Translation]

Mr. Simon-Pierre Savard-Tremblay: We could quickly go around the table to see if representatives of the other banks are making the same observation.

Do you think regulation is necessary?

[English]

Mr. Ramesh Siromani: Yes.

Mr. D'Arcy McDonald: Yes.

Ms. Meg McKee: Yes, that's correct.

A voice: Yes.

[Translation]

Mr. Simon-Pierre Savard-Tremblay: That's called unanimity.

We see that countries with the lowest interchange fees apply rigorous regulations. This is the case, for example, in the United Kingdom and New Zealand. That is also the norm among the countries of the European Union.

Where does Canada rank internationally when it comes to interchange fees? Does anyone have that information?

I'm very sad to see that no one has that information.

In that case, what would you think of a potential regulation requiring merchants to post on every invoice the fees that credit card companies charge them for each transaction?

The question is for all of you. Whomever wishes to answer it can put up their hand. This time, I'm not going to let the witnesses off the hook.

The Chair: I see that Mr. McDonald has unmuted himself.

Go ahead, Mr. McDonald.

[English]

Mr. D'Arcy McDonald: I think we'd be very supportive of enhanced transparency, period. I think you have to be thoughtful about how you display that on a receipt. It's a cost not borne by the customer, so it may create some confusion. However, I think we're all for creating transparency for the payments value chain, which is what I think we're talking about today.

• (1710)

[Translation]

Mr. Simon-Pierre Savard-Tremblay: Very well. Since you seem to be the only one willing to dip their toes into these issues, I'll ask you my next question.

Some credit card companies privately say that it is necessary to have high interest rates on unpaid balances, as well as high interchange fees, because this type of credit represents a significant risk for the lender.

How is it that banks are willing to provide credit cards to virtually anyone, including vulnerable people? Isn't that predatory behaviour?

[English]

Mr. D'Arcy McDonald: Certainly at Scotiabank we take extending credit very seriously. We work very closely with customers to make sure that they get the products and services that best meet their needs. There's certainly zero predatory lending, or lending to those who cannot afford to pay us back. That would be financially not prudent. We take lending credit very seriously and have good controls around how we do it.

[Translation]

Mr. Simon-Pierre Savard-Tremblay: Many people tell us that they often receive credit card offers, even though they're already deeply in debt. Already, this logic escapes us. Afterwards, however, no one insists on offering them a line of credit at the prime rate.

Could you explain that to me?

[English]

Mr. D'Arcy McDonald: I think we are experiencing a very competitive environment. I can't speak to those specific offers, but customers have lots of choice in Canada for sources of credit.

[Translation]

The Chair: Thank you, Mr. Savard-Tremblay. I've already given you double the normal speaking time. As you can see, I wasn't lying when I said I was generous with your speaking time.

Mr. Simon-Pierre Savard-Tremblay: I greatly appreciate that, Mr. Chair.

The Chair: You're welcome, Mr. Savard-Tremblay.

Mr. Masse, you have the floor.

[English]

Mr. Brian Masse: Thank you, Mr. Chair.

From the perspective of your 20% interest rate credit card customers, I'll ask this of all the banks.

Is there a point in time, maybe after a couple months of witnessing one of your customers struggling to pay the balance of their credit card, when you would reach out to that individual to find out if there is a problem and offer them a lower percentage card proactively so you could get your customer into a better situation and out of debt?

I'll start with the Bank of Montreal.

Ms. Jennifer Douglas: We do take financial literacy very seriously, and we do have data models that would predict customers who may be having challenges. Even before they get to the point where they can't pay, we actually will reach out to them through various channels. We have various tools that we can work with. For anyone who's having challenges paying their bills, we will do our best to try to help them make their lives easier.

Mr. Brian Masse: Would you call that customer and say, "Hey, do you know what? Your 20% card really doesn't work for you and you're not getting through your principal. Here's a 10% card." Does that happen? That's really what I'm getting at.

Ms. Jennifer Douglas: We would ask them, first of all, what their situation is and try to understand. We do have a list of things we can do for them, and some of them are lower interest rates.

Mr. Brian Masse: I'll put that to the Canadian Imperial Bank of Commerce next.

Ms. Diane Ferri: Yes, we also proactively call clients who we think may be starting to have challenges. We do proactively reach out and talk to them about their situation and potentially move them to a different solution that would best meet their needs.

Mr. Brian Masse: What about the Royal Bank of Canada?

Mr. Ramesh Siromani: Similarly, we at RBC have different options available.

Mr. Brian Masse: I'll go to Scotiabank next.

Mr. D'Arcy McDonald: Yes, we would help customers with interest rate reductions or product switches to best fit their needs.

Mr. Brian Masse: How about TD Bank?

Ms. Meg McKee: We have very similar programs in place.

Mr. Brian Masse: Thanks.

To conclude, I'm going to move to something else, but that just proves my case that the business model does actually incorporate a lower rate that could be profitable.

I'll thank the witnesses, and with that, Mr. Chair, I would like to move a motion at this point in time.

• (1715)

The Chair: I understand notice was given, so you may move your motion.

Mr. Brian Masse: Thank you, Mr. Chair. I move:

That, in light of the recent report that Rogers Communications is attempting to price gouge Canadians by failing to honour the original intent of TV and internet service contracts signed by its customers, and recognizing that this exploitative behaviour unfairly impacts Canadians, the committee, pursuant to Standing Order 108(2), invite Rogers Communications chief executive officer Tony Staffieri to appear before the committee for a minimum of two hours by November 1, 2024, to explain how the company intends to rectify the situation and that a report of this meeting be prepared and presented to the House.

The Chair: Thank you, Mr. Masse, for bringing forward this motion and moving it today. It's on the floor right now.

Do I have anyone on the list to speak to it?

Mr. Perkins, go ahead.

Mr. Rick Perkins: I wouldn't mind proposing an amendment, but I won't drag this out. I propose that we add the chief corporate affairs officer for Rogers, Navdeep Bains, to the list.

The Chair: Are you moving an amendment, Mr. Perkins?

Mr. Rick Perkins: Yes, but only if it doesn't prolong our debate.

The Chair: I understand that if I don't see consensus, Mr. Perkins, you're not moving the amendment. Is that correct?

Mr. Rick Perkins: That is correct.

The Chair: Has everyone heard the amendment proposed by Mr. Perkins? Is there some form of consensus?

I don't see consensus around the table on the amendment, so I'll proceed as if you haven't moved your amendment, Mr. Perkins, if that's okay with you.

We're back to the motion.

On the motion itself presented by Mr. Masse, I see everyone nodding in agreement.

We'll do our best with the clerk to try to get this done before November 1, but November 1 is right around the corner. Allow me some flexibility in scheduling, but we'll do our best.

Mr. Brian Masse: Absolutely, Mr. Chair. I trust your judgment on this. It's not a hard date if you need to make the adjustments.

The Chair: Thank you very much, MP Masse.

(Motion agreed to)

The Chair: That's dealt with, and I am amazed by the efficiency of members on this. I appreciate it a great deal.

We'll now turn it over to MP Chambers.

Welcome to the committee. The floor is yours for five minutes.

Mr. Adam Chambers (Simcoe North, CPC): Thank you, Mr. Chair.

I was struck by some earlier testimony with respect to Interac fees in an exchange with my colleague Ms. Rempel Garner.

Mr. Siromani, it's true that volume-based pricing occurs at Interac, but can you just confirm that the largest tier of volume transactions is at six cents that banks are charged for an e-transfer?

Mr. Ramesh Siromani: I don't have that information.

Mr. Adam Chambers: Sir, you're on the board of Interac, are you not?

Mr. Ramesh Siromani: The board does not discuss pricing matters.

Mr. Adam Chambers: Sir, you don't discuss your pricing of e-transfers. Do you stand by volume-based pricing, then?

Mr. Ramesh Siromani: As I said before, for any transaction that is of a large scale like this, whether it involves large-scale processing, whether it be credit cards, debit cards or e-transfers or statements or anything, typically service providers would have tiered pricing. I'm not aware of the exact pricing that Interac charges.

Mr. Adam Chambers: Thank you for that testimony.

What I'm struggling to understand is the highest tier based on the volume pricing by Interac, on the information that I have, is that the largest institutions pay Interac six cents for a transaction and the smallest institutions pay 43¢ a transaction. That seems like a very wide chargeback difference between large and small institutions, and I'm trying to understand why that might be the case.

Mr. Ramesh Siromani: I'm not aware of the pricing matrix that Interac has.

Mr. Adam Chambers: Okay, you are aware, though, sir, that we could ask for that fee disclosure.

Mr. Ramesh Siromani: I'm sure you can ask Interac. I don't have access to that.

Mr. Adam Chambers: Maybe it's worth pushing on this a little bit more, because if the large financial institutions charge a receiver and a sender \$1.50 each, and there's three dollars of gross revenue going into the system, and the largest institution only pays six cents for that transaction, that sounds like a lot of gross margin to me.

Do you support moving to uniform pricing that does not discriminate based on the size of the institution at Interac?

• (1720)

Mr. Ramesh Siromani: Today I'm not able to comment on the economics of e-transfer pricing and transactions.

Mr. Adam Chambers: Okay, so this is exactly what's wrong with the entire payment space.

By the way, my understanding is that when this volume price scheme was implemented, there were only two financial institutions that met the highest volume threshold, that is, Toronto Dominion, TD, and RBC. Lo and behold, who was the co-chair of Interac's board at the time that these volume-based pricing schemes were implemented? It was TD and RBC. Then you wonder why there's a slowing and a delay in real-time payments. Is it because there is an inherent conflict of interest on the board of Interac that they don't want to move away from volume-based pricing and give smaller financial institutions an opportunity to compete on a fair level?

Do you believe you're in a conflict of interest, sir, in your role at Interac?

Mr. Ramesh Siromani: Interac is an independent entity with independent board members.

Mr. Adam Chambers: It's an independent entity with board members that are made up of its customers. Isn't that correct?

Mr. Ramesh Siromani: If I may, I think the Interac board members are available on their website.

Mr. Adam Chambers: Yes, sir, it's available on their website. I saw your name there.

I guess what I'm pointing out is the inherent conflict of interest that exists by having the customers of Interac sit on the board to set the pricing that disadvantages smaller entities.

This is the final question, sir. I appreciate your being here today in the hot seat.

You're an independent member of the board of Interac. Would you support forcing the banks to divest their ownership of Interac?

Mr. Ramesh Siromani: First, I want to address your earlier point. The board does not set pricing matters. There's an independent committee of the board with independent members. We don't discuss pricing at the board. I just wanted to make that clear.

Interac is a unique Canadian financial institution. Over the years, it's been innovative and brought various fantastic payment products into the market. We're all proud of what Interac has accomplished, and I think it will continue to do more.

Mr. Adam Chambers: Thank you.

I believe I'm over my time, but I think we'll be sending the competition commissioner the transcript of today's testimony.

The Chair: Thank you, Mr. Chambers. Your contribution to the committee has been greatly appreciated today.

Mr. Turnbull, the floor is yours.

Mr. Ryan Turnbull: Thanks again to the witnesses.

Our government recently negotiated an agreement with credit card companies to lower the interchange fees by up to 27%. I want to ask the panellists if they acknowledge that would save merchants money.

Could I ask RBC to start? Will that save merchants money?

Mr. Ramesh Siromani: I believe the undertaking was to bring down the interchange for merchants of a particular size. Yes, it would save them money.

Mr. Ryan Turnbull: Okay.

I'll go to CIBC.

Ms. Diane Ferri: Yes, I think it would save money for small businesses.

Mr. Ryan Turnbull: Thank you.

Scotiabank, what are your thoughts?

Mr. D'Arcy McDonald: I would agree. Small businesses are saving money.

Mr. Ryan Turnbull: Okay, great. I'm going to take it that all of you will agree with that. I think it makes sense.

Do you support the lowering of those interchange fees given the fact that merchants would save money? That's a thing that our government.... You've all said that you do not set the interchange fees, and that credit card companies do that, or the networks do that, as you call them. Would you support the lowering of those interchange fees, then?

I'll go to CIBC first.

• (1725)

Ms. Diane Ferri: We are supportive of the assistance that has been provided to small businesses through the interchange undertaking.

Mr. Ryan Turnbull: Excellent.

The Bank of Montreal is up next.

Ms. Jennifer Douglas: Similarly, we're happy that the small businesses are able to have lower interchange rates.

Mr. Ryan Turnbull: Okay.

Now I'll go to Royal Bank.

Mr. Ramesh Siromani: I have a similar response. We are happy to see the small merchants benefit.

Mr. Ryan Turnbull: Does anyone not agree with the fact that was a good thing for small businesses and not support it?

I'll take it that you all agree. That's great. I guess if we were to continue to negotiate further decreases to those interchange fees, you wouldn't have any issue with it, which is great to hear.

I also want to ask you another line of questions.

When inflation was sky-high and the Bank of Canada decided to increase interest rates to get a hold of inflation, your fees and the structure of your fees seemed to respond extremely quickly, I must say. Your fees and interest rates were very responsive to those changes.

We know that inflation has come down now to 1.6%, and the Bank of Canada has cut rates four times, with the latest one being 50 basis points. The rate is now at 3.75%, which is great news for Canadians. How are you responding in kind?

I'm remarking here on the incredible asymmetry I see between the responses as the interest rates went up and as they have come down, when the response rate has seemed to be very slow. In fact, many of my constituents have said to me that if they don't call the bank and fight with the bank, they won't see any of those rate cuts immediately with regard to their products.

What are you doing to help Canadians out now, when, finally, they're getting some relief from the central bank rate cuts?

I keep starting with RBC, and I apologize for that. There's no bias here.

I'll start with Ms. McKee from TD Bank.

Ms. Meg McKee: I'm not sure what products you might be referring to where you're seeing rates responding quickly. Our products in the credit card space tend to have a fixed rate, and we would look at those products and the set of benefits, services and features as a whole on a regular basis, according to product line strategy management. We're focused on designing products that resonate with Canadian consumers, so as needs and expectations change and evolve, we modify our products.

Mr. Ryan Turnbull: Ms. McKee, I was referring to fixed and variable rate mortgages, both of which have not responded as quickly as one would expect, according to my constituents.

I'm asking you whether you're doing anything to restructure fees, knowing full well that the cost of capital is coming down from the central bank rate cut. Can you remark on where you're responding and how, as a bank, you're offering Canadians some relief? You could offer it in your credit card line, but it doesn't seem like that's an option, given the fact that you won't even disclose how much profit you're making from that line of business.

Ms. Meg McKee: I can't speak to real estate secured lending. That's not my area. That sits elsewhere in the bank.

I can say that, for credit cards, we have many programs in place to help support our customers if they're struggling with paying their bills. We have proactive services called TD Helps, Ready Advice Centre. We mine our base, looking for signs of stress and proactively reach out to help restructure debt, debt consolidation activity, moving to a more appropriate product. It's a very robust program.

Mr. Ryan Turnbull: How about Scotiabank?

Mr. McDonald, can you help me out here and give me a straightforward answer, please?

Mr. D'Arcy McDonald: On secured lines of credit we moved quickly with the Bank of Canada rate decrease, which Canadians are feeling and benefiting from. As my colleagues mentioned, we manage credit cards at the portfolio level, so we have all those tools to make sure that we help customers who are feeling distressed and they get the support and the advice that they need.

Mr. Ryan Turnbull: I have a last question, Chair.

Multiple members asked for a breakdown of your credit card services, both the costs and revenues. I ask you, officially, for that information. You can provide it in writing to the committee. I'm going to go to each very quickly.

Will you agree, Mr. Siromani, to provide that information to the committee in writing at a later date?

• (1730)

Mr. Ramesh Siromani: It's commercially sensitive information, and we won't disclose it today. I am not able to provide you an immediate answer. No.

Mr. Ryan Turnbull: I assume that all of the banks will give a similar response. Please shake your head if that would be your standard response. Okay.

Thank you very much.

The Chair: In any event, Mr. Turnbull, along your line of questions, I'll be sending, as chair, given that I heard from all parties, the ask for a little more information about the pricing mechanism that our witnesses have in their respective institutions. I'll be sending a letter with the clerk. Then I guess the legal teams at the various banks will be responding, and then we'll see what we get as a parliamentary committee.

Go ahead, Mr. Perkins, briefly.

Mr. Rick Perkins: Thank you.

That's a good letter. Can we make sure that we ask for the return on equity percentages, the information that MP Turnbull asked for? Can we also ask for the Interac fee schedule?

The Chair: Thank you, Mr. Perkins. We will.

Expect this correspondence from us.

[*Translation*]

Witnesses, thank you very much for joining us today and taking part in this exercise.

Colleagues, thank you for a productive meeting.

The meeting is adjourned.

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