



Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget by Interac Corp.

- August 2021



RECOMMENDATIONS

1. Enhance government-to-citizen and citizen-to-government payments through digital, real-time payment and disbursement options used by businesses and citizens alike.
2. Move forward with technical and policy changes required to support Canadians' use of digital identity, relying on foundational government credentials to allow individuals to assert their identity and authenticate themselves when accessing services and doing business both online and in-person.
3. Build on the momentum of Finance Minister Chrystia Freeland's release of the Advisory Committee on Open Banking's recommendation to implement a Canadian open banking framework by January 2023. With a successful implementation, open banking will improve the financial futures of the financially vulnerable, including those most affected by the pandemic.
4. Ensure that ongoing retail payments legislative and regulatory reforms strike a balance between fostering innovation and maintaining the robust security Canadian consumers and businesses expect from their financial services.

COVID-19 CONTINUING TO ACCELERATE DIGITAL TRENDS

The COVID-19 pandemic has had an effect on Canada's economy, including accelerating trends toward digitization in the wake of more than a year of social distancing. While Canadians did their part to stay safe, many began to either incorporate or accelerate a shift to digital solutions – whether payments, government services or business transactions.

The demand for digital payments is reflected in a 333% year-over-year increase in *Interac* Debit payments made within a merchant app or website¹ from March 2020 to March 2021, and a 113% year-over-year increase in *Interac* e-Transfer transactions being received by businesses across Canada since the pandemic began.² The merchant community has been under immense margin pressure during this period and *Interac* Debit continues to be their lowest cost payment option.

As Canadians complete a higher percentage of transactions online, they also want to support local. A survey from *Interac* Corp. reveals three-quarters of Canadian respondents said the pandemic made shopping and supporting businesses in their community more important, and 55% said their desire to support local businesses is causing them to shop closer to home.³ But they still want choice in payment options, as 72% of Canadians believe they should have the option to pay with debit when checking out online, making a purchase in-app or paying in-store or curbside.⁴ Ultimately, paying with debit promotes debt health and sound financial management, which is important for citizens in an uncertain economy.

MODERNIZING BUSINESS AND GOVERNMENT PAYMENTS

Current payment processing methods (which include cheques, paper invoices, cash, and other traditional methods) are costing Canadian businesses an estimated \$3 billion to \$6.5 billion per year, according to Payments Canada.⁵ Eliminating even a modest portion of these payment processing costs represents a large potential savings for Canadian businesses.

To help businesses take advantage of this opportunity, *Interac* recently launched *Interac* e-Transfer for Business, an innovative solution that builds on the widespread adoption of the *Interac* e-Transfer service. Millions of Canadians already use the *Interac* e-Transfer service in their personal lives, and now businesses can streamline paper-based accounting processes to maximize working capital and reduce operational inefficiencies. Key features include the ability to send and receive funds instantly with

¹ *Interac* Debit e-Commerce payments March 2020 vs. March 2021

² *Interac* e-Transfer transactions 04/01/2019 – 03/31/2020 vs. 04/01/2020 – 03/31/2021

³ <https://www.interac.ca/en/content/news/fuel-for-economic-recovery-canadians-want-to-support-local-businesses-in-their-communities-and-half-are-willing-to-pay-more-if-needed/>

⁴ <https://www.interac.ca/en/content/news/fuel-for-economic-recovery-canadians-want-to-support-local-businesses-in-their-communities-and-half-are-willing-to-pay-more-if-needed/>

⁵ <https://www.payments.ca/industry-info/our-research/payments-perspectives/business-payments-canada-trilogy-surveys-point>

real-time confirmation, richer remittance data traveling with payments and higher transaction limits.

The launch of this solution builds on a track record of delivering made-in-Canada innovation at scale for nearly four decades and follows the designation of *Interac e-Transfer* as a prominent payment system under the *Payment Clearing and Settlement Act* in August 2020. *Interac e-Transfer for Business* is the first significant change for the service following this designation.

For the Government of Canada and other governments across the country, COVID-19 has reinforced the need to move money to individuals quickly and securely. With COVID-19 support programs including employer payroll support, social assistance and unemployment payments, and direct aid to families, methods for disbursing funds have included everything from cheques to direct deposit to the *Interac e-Transfer* service.

Interac e-Transfer Bulk processing services offer a secure way to make thousands of payments through a single file upload, without the need for the recipient's banking information. Built on the *Interac e-Transfer* platform, this solution has been utilized by a number of governments to distribute aid securely and quickly during the COVID-19 pandemic, including the Provinces of Alberta and Ontario.

Interac sees an important opportunity for government to modernize government-to-citizen and citizen-to-government payments through digital, real-time payment and disbursement options used by businesses and citizens alike.

Interac Working with Payments Canada to Deliver the Real Time Rail

As recently announced, Interac is working with Payments Canada as the exchange solution provider for the country's new Real Time Rail (RTR), a new real-time payments system. Once live, the RTR will provide the Canadian economy with new digital payment tools to grow.

This work with Payments Canada will make use of existing Interac infrastructure and adoption across the ecosystem, with connectivity to the nearly 300 financial institutions that use the *Interac e-Transfer* service today. That same e-transfer platform is also being used by a growing number of innovative fintechs, giving Canadians more choice, convenience and control to move their money.

DIGITAL ID

The world is being transformed digitally, with Canadians increasingly relying on technology to exchange not only money, but also their identifying information. According to a survey from Interac, 75% of Canadians say government services should be accessible online instead of in-person, with about half agreeing it is more important

now than pre-COVID-19 to access health (55%) and government services (50%), such as renewing a driver's licence and registering for benefits, online.⁶

At Interac, we believe digital identity is a key innovation that will support our recovery post-COVID and can serve as a bedrock for an inclusive digital economy. Digital IDs offer the promise of giving individuals more privacy and control over how their information is used and shared, while at the same time reducing threats linked with physical ID documents such as theft, counterfeiting, and most recently, hygiene concerns.

For digital identity to fully provide its benefit to society, it needs to be underpinned by foundational government credentials such as birth certificates, citizenship documents and driver's licences. These documents sit at the centre of the identity ecosystem and are the means by which we obtain other trusted identities such as banking cards and employment credentials.

Industry also has an important role to play in establishing common standards and platforms to allow for digital identities to be used widely by all Canadians. Some recent steps, such as the launch by the Digital Identification and Authentication Council of Canada (DIACC) of the Pan-Canadian Trust Framework™, a set of digital ID and authentication industry standards for the implementation of digital ID across Canada, show progress in this work and a path for the acceleration of digital ID adoption.

Interac encourages the Government of Canada to move forward with technical and policy changes required to support Canadians' use of digital identity, relying on foundational government credentials to allow individuals to assert their identity and authenticate themselves when accessing services and doing business both online and in-person.

OPEN BANKING

Finance Minister Chrystia Freeland recently released the final report of the Advisory Committee on Open Banking, which recommends that open banking be implemented in Canada by January 2023. The report acknowledges the meaningful benefits of a secure open banking system for Canadians, enabling them to do more with, and have greater control over, their financial information. Open banking could help improve access to financial services, ensure a more level playing field, improve competitiveness and foster innovation.

While open banking can benefit a wide array of stakeholders, it holds special promise for three target audiences hard-hit by COVID: those that were already financially vulnerable, women, and small- and medium-sized businesses. In 2016, the financially vulnerable included 37% of Canadians under age 35, 47% of Indigenous people, 50% of recent immigrants and over 50% of single mothers. As a result of the pandemic, 30% of all Canadians reported having difficulty meeting financial obligations or essential

⁶ <https://www.newswire.ca/news-releases/three-in-four-canadians-want-government-services-to-be-available-online-post-covid-19-816215447.html>

needs.⁷ Open banking holds great promise to support the development of data-driven products and services that will facilitate debt reduction, benefits processing and financial management using real-time spending.

Women have been disproportionately impacted by the pandemic, both in their private and professional lives. They've been more likely to leave the labour force to handle increased childcare or homeschooling needs, among other pressures. Women made up 39% of global employment, yet accounted for 54% of overall job losses from May to September 2020.⁸ Open banking can help underserved women entrepreneurs get easier access to funding, as it will widen their options for lenders, and open banking may also support the delivery of government programs.

Small- and medium-sized businesses, which employ 8.4 million Canadians or 68.8% of the private Canadian labour force,⁹ can use secure, innovative technology founded on open banking products to streamline financial operations, improve cash flow and financial management and access new sources of data insights, and use those cost savings to grow their businesses post-pandemic.

Regulation in this emerging sector is important to get right, both to protect the over 4 million consumers already using open banking-style services¹⁰ and to keep pace with other countries such as the United Kingdom, Australia, New Zealand and Singapore, which have established a customer financial data right (CFDR) within their economies. Combined with the modernization of Canada's payments infrastructure with the Real Time Rail and the launch of the Pan-Canadian Trust Framework for digital ID, the addition of a secure open banking system will represent a significant leap forward for consumer-driven financial services in Canada.

We are encouraged by Minister Freeland's release of the report and the Advisory Committee's recommendation to be bold and ambitious in making open banking a reality by 2023. We look forward to influencing a made-in Canada implementation, setting up an ecosystem that will improve the financial futures of those who stand to gain the most.

PAYMENTS POLICY AND LEGISLATION

Interac is supportive of the overall direction of the government on the Retail Payments Oversight Framework and the *Retail Payment Activities Act* as contained in the 2021 *Budget Implementation Act*. We believe that a modern retail payments sector needs smart, agile regulation and look forward to continued progress in this area by the Department of Finance and the Bank of Canada. We encourage the government to continue working collaboratively with industry to ensure forthcoming regulations and

⁷ *Statistics Canada*

⁸ *Harvard Business Review*, Sept. 2020 (<https://hbr.org/2020/09/dont-let-the-pandemic-set-back-gender-equality>)

⁹ *Statistics Canada*

¹⁰ *Final Report from Advisory Committee on Open Banking 2021, Department of Finance Canada*

guidelines strike a balance between fostering innovation and maintaining the robust security Canadian consumers and businesses expect from their financial services.

ABOUT INTERAC

Interac Corp. empowers Canadians to transact digitally with confidence by providing payment and value exchange services. Through our world-class privacy, fraud mitigation, governance and digital identity and authentication expertise, we help keep Canadian customers safe and secure when transacting. With nearly 300 financial institutions connected to our network, Canadians choose Interac products an average of 18 million times each day to pay and exchange money.

We are a Canadian company that prides itself on being one of Canada's leading and most trusted financial brands. Our continued growth is evidenced by a workforce that increased by 35 per cent in 2020 to fill new technology and business mandates.

Interac champions workplace culture, community investment, and excellent corporate citizenship based on the principles of responsibility, diversity and inclusion. Over the past two years, we've made significant progress in creating meaningful and action-oriented change through our diversity, equity and inclusion efforts. This work was recently reinforced through a certification by Diversio – a people intelligence agency that measures, tracks and works with organizations to improve their inclusion efforts – as a Canadian organization that is prioritizing D&I to create a more equitable workplace for all employees.