

Submission to
The Task Force for
Payment System Review

Submitted by:

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INTRODUCTION

I appreciate the opportunity to provide my views of the payment system in Canada. I make the submission as a person who has been involved in providing payment services to individuals and businesses in Canada for over forty years. My career has included:

- Founding Comcheq Payroll Service in 1968, a major processor of payroll funds until the company was sold to CIBC in 1993. Comcheq handled billions of dollars through a trust account that at times reached balances as high as one hundred and fifty million dollars. Much of the funding for those payrolls was by way of issuing pre-authorized debits. Payments to employees were made by cheque or direct deposit to employee bank accounts.
- Founding TelPay Bill Payment Service in 1985. TelPay provided the first telephone bill payment service in Canada and started as a service for the public at large. In 1990 TelPay provided and operated a pilot telephone bill payment system for CIBC which formed the basis for the entry into the telephone bill payment service by the five major banks in 1995. TelPay's services have been used by most of the credit unions and smaller banks for the past twenty years.

We are proud of the fact that our innovation formed the basis for the over 340,000,000 bill payments made by this method in 2009. TelPay continues to be responsible for many innovations in the bill payment field. Its unique offerings now include the ability to pay anyone, business payments integrated with the company's accounting records, international payments and by far the largest biller list in Canada.

In providing its services it is a significant user of the payment system which, for all intents and purposes, is run by our competitors.

- Founding of the Payment Services Industry Association of Canada (PSIAC) whose members handle over 8% of the national clearing volume processed through the Canadian Payments Association (CPA). PSIAC has gained membership in the CPA Stakeholders Advisory Committee and is represented on the CPA Bill Payment Task Force by myself. Unfortunately our role is purely advisory and without teeth.

The CPA has structural and governance problems that need to be resolved in order for the public to be properly served. The CPA is still an instrument of the major banks, as was the case when its functions were carried out by the Canadian Bankers Association. In fact, it is even more powerful now since it carries out its functions through the aegis of an Act of Parliament.

Both businesses and individuals use and pay for the system with fees paid to their banks. The interests of businesses and individuals are not properly represented. Numerous decisions are made that suit the banks but ignore the interests of those who are forced to use the system. Details of a number of such

issues can be found at www.telpay.ca. If the CPA were an Agency of the Canadian Government, it would not tolerate the control and influence wielded by a singular representation of the payments industry via the major chartered banks.

1. COMPETITION

In the electronic bill payment field there are a number of situations that provide current or potential threats to open competition. Rule H6 requires that a biller obtain from its bank a %CCIN+ number (Corporate Creditor Identification Number). All payments are directed to the %Lead Bank+that issued the number and which consolidates the payments from customers of all banks for submission to the biller. There are a number of negative consequences that flow from this approach:

- Fees are collected from both the customer paying the bill and, in many cases the biller that receives the payment. There is a double billing involved here that obscures the true cost of the payment. It is as though the Post Office charged both the sender and the recipient of a letter. In fact, the CPA Bill Payment Task Force that is currently meeting has had discussions about designing an agreement or other arrangement that would allow the customer's bank to also charge the biller . a three fee transaction.
- Smaller financial institutions may be forced to participate in this arrangement. They will be at a significant disadvantage due to the costs of servicing payments through a complicated network when volumes in either direction will be low.
- Billers will be required to receive what the bank systems will accept. There will be one standard format and one level of service that all banks and billers will have to accept. That standard will be set by the banks who have demonstrated that they have little understanding of the needs of the bill payers or the billers.
- There is a slowness built into the process which creates float for the banks. There is no competitive pressure to reduce or eliminate that float. (The Bill Payment Task Force was set up by the CPA to deal with complaints to a Parliamentary Committee about these very delays. The Task Force has decided that it will not make any changes to speed up the payments.)

I recommend that the banks be restricted in such a way that competition in the payment consolidation field can develop. The result would produce faster payment throughput, better information for the billers and wider use at lower cost of what should be one of the most cost effective payment methods available. There was a process proposed for the Interac system to handle the withdrawal of funds from the bill payer's account that would serve this situation well. That seems to have been dropped.

2. EFFICIENCY

Electronic bill payment is probably the most efficient and convenient method of making payments. The enormous increase in volumes over the past fifteen years is testimony to that. It is obviously far cheaper than credit cards, cheques, and other payment systems that are evolving. This applies to business payments as well as personal payments. The bill payer can use a computer or the telephone and can capture accounting information in the process if needed. The payment recipient can receive the payments in computer readable form for direct processing into its records. The payment system has only to deal with straight forward electronic transactions. In fact the process of billing is quickly adapting to this situation so that paper bills are becoming obsolete . a further saving in costs and the environment. Every effort should be made to encourage competition and innovation so that the objective of a paperless billing and payment society can take a significant step forward.

3. PRIVACY

One of the ways of ensuring that privacy is improved is by using systems that retain the individual's and business information on the owner's computer. At the very least it eliminates any opportunity to scan large data bases that so called "cloud computing" may generate.

4. INNOVATION AND TECHNOLOGY

The banking industry has not been innovative in the sense of developing completely new offerings in the technology field. They invariably wait for the leaders to show the way and then copy or take over their methods. That has been the case in the payroll and the bill payment field. A new category of Financial Service Providers needs to be recognized and proper controls put in place so that they can thrive while retaining public confidence. (See item 5.) They should be accepted by the payment system regulators in such a way that they are not subject to the whims of the large financial institutions that may see opportunities to stifle their progress.

5. SAFETY, SOUNDNESS AND SECURITY

As the founder of Comcheq Payroll Service and TelPay Bill Payment Service I have had the ultimate responsibility for the processing of trillions of dollars of other people's money. Throughout that time we at no time were a regulated body; we regulated ourselves. We have maintained very strict rules regarding the handling of the funds entrusted to us and never through over forty years provided the slightest cause for concern by the parties that used our services. While that will not change, we are concerned that others that do not have the same understanding of their responsibilities and risks may create situations that could damage us. There have been spectacular collapses of such trust funds in the U.S. and some minor ones in Canada.

We can be very easily regulated and the costs would be no more than a prudent business would now incur. But no one wants to make the decision to do so. Because there are likely billions of dollars on deposit with Payment Service Providers and the types and volumes of services are increasing it seems appropriate to do so now. A requirement that the bank that provides the Payment Service Provider with access to the clearing system must obtain an audited financial report certifying that appropriate procedures have been followed should satisfy the need.

6. MEETING THE NEEDS OF CONSUMERS AND MERCHANTS

The establishment of a financial category of Payment Service Provider with proper controls in place would help greatly to ensure that the needs of consumers and business are met. These smaller specialists dealing directly with the parties they serve would innovate or adapt to the needs of the public quickly and cost effectively. They would, for example, understand the needs of accounts payable and accounts receivable department whereas the banks, who know their own business, have shown they do not understand the needs of the parties they try to serve.

7. OTHER ISSUES

Many of the items mentioned here involve the CPA, the organization that has the responsibility of operating the payment system in Canada. There are many other issues that we could raise. They are enumerated in a paper we provide on our website at www.telpay.ca/common/pdf/cpacomments.pdf. They provide a strong case that the CPA structure and governance should be revised to provide equal representation by the public, business and the banks so that the interests of all are given proper weight in its deliberations. Had that been the case, mistakes that have cost the public many millions of dollars would likely been avoided. Systems that the public has a right to have in place would not be ignored. Canadians would then enjoy a sounder, more efficient and more progressive payment system.