

## **Canadian Prepaid Providers Organization:**

### **Written Submission for the Pre-Budget Consultations in Advance of the 2021 Budget**

August 7, 2020

## **Recommendations**

- **Recommendation 1:** That the Government of Canada include prepaid technology among the methods used to disburse the Canada Emergency Response Benefit (CERB) and other federal support payments to enable recipients to avoid the costs, inconvenience and limitations associated with paper cheques.
- **Recommendation 2:** The Government of Canada's efforts to establish a Retail Payments Oversight Framework and advance Consumer-Directed Finance (Open Banking) need to accelerate and give priority to addressing impediments to the introduction and adoption of prepaid products and other FinTech innovations.

### **About CPPO**

The Canadian Prepaid Providers Organization ([CPPO](#)) is a not-for-profit organization and the collective voice of the open-loop prepaid payments industry in Canada. The association is supported by major financial institutions, card networks, program managers and fintech innovators. The CPPO is focused on awareness and education to help consumers, governments and businesses understand the value of prepaid platforms and to enhance the experience associated with these solutions.

### ***Recommendation 1: Leveraging prepaid technology to deliver benefits***

The Government of Canada should be commended for the unprecedented financial aid program it was able to roll out rapidly in response to COVID-19. The Canada Emergency Response Benefit (CERB) provided Canadians with the relief they needed through the country's existing financial infrastructure. While the agencies responsible for delivering this financial support to Canadians used this opportunity to persuade the majority of recipients to enrol in direct deposit, a sizeable number continued to rely on cheques. Those who are issued cheques, in many cases, are either unbanked or underbanked. As a result, some of the most vulnerable Canadians are not able to access programs like CERB via direct deposit. The drawbacks of relying on cheques is well documented: it can be difficult to deposit funds, meaning recipients need to count on costly cheque cashing services; cheques can be lost or stolen; and funds are not immediately available for online purchases (this latter issue is particularly important for Canadians living in remote communities).

CPPO believes that prepaid products could complement direct deposit and address many of the limitations of cheques, particularly around the needs of the unbanked or underbanked. These Canadians are often part of the most vulnerable segments of society – including those living in remote communities or Canada's Indigenous population – who would see a greater benefit to receiving prepaid cards versus a cheque. In the era of COVID-19, the ability to use prepaid cards for online purchases for such essentials as groceries, is critical for those Canadians who are unable to leave their homes due to health concerns or who must order their essentials online due to the inability to access goods and services where they live. A prepaid card may act as a convenient replacement for cheques, while also delivering some of the features of a conventional bank account. A cardholder can use a prepaid card:

- like any debit or credit card by presenting it at point of sale, including using touchless point of sale technology, which is particularly advantageous during the pandemic;
- for online purchases, enabling access to the benefits of ecommerce, which has proven to be a critical channel for the purchase of goods when access to retail stores has been reduced or discouraged; or
- if enabled, to access funds at ATMs, thereby avoiding the need to cash cheques through alternative money services businesses.

This payment method is also becoming ubiquitous as traditional Financial Institutions and FinTechs are enabling the use of prepaid to provide innovative banking and payment services to consumers. According to The Canadian Open-Loop Prepaid Market 2019, an annual benchmark study commissioned by the CPPO and conducted by Mercator Advisory Group, [\\$4.8 billion in total dollars](#) were loaded onto open-loop prepaid cards in 2019 across corporate,

government and consumer-funded cards, a 12 per cent increase from 2018. General Purpose Reloadable (GPR) cards—used as a bank account alternative—recorded 10 per cent growth in the past year, driven by new fintech companies offering digital banking and payment solutions on the prepaid platform. Canada needs to become a leader in the adoption of these innovative banking and payments services for its citizens.

Open-loop prepaid cards provide consumers, businesses and government with an efficient, secure and flexible online payment option that does not have to be tied to a bank account (improving financial inclusion) and is far less expensive and more secure than a cheque. A government disbursement solution on a reloadable or single-use prepaid card can be accepted anywhere the payment network is accepted (in-person or online), adheres to all applicable consumer protection, AML and privacy requirements and maintains the same fraud and loss protection in accordance with the Zero Liability protections of the payment network. With respect to disaster relief and emergency payments, field issued prepaid cards can be tracked, and the funds can be managed to increase the utility of each relief dollar (e.g. funds can be tracked or restricted to specific geographies, merchants or POS terminals). The government agency can see and control how and where funds are spent by recipients and the unused portion of support payments can be returned to government on expiry. All of these controls cut down on the potential for fraud.

Prepaid solutions look and function like traditional credit and debit cards with the benefit of allowing citizens to access funds immediately and can be tailored to the specific requirements of particular government programs.

Amid the COVID-19 crisis, governments and charities all over the world turned to prepaid for an immediate, inclusive means to distribute benefits and emergency funds. The level of partnership between the Canadian government, whether at the provincial or federal level, and fintech companies in the prepaid ecosystem is trailing other countries. Given the drawbacks of cheques for this population, we believe the Government of Canada needs to leverage the innovation and enhanced capabilities of prepaid solutions to deliver financial assistance during the pandemic.

As the government looks at the extension of CERB and other forms of financial support for individuals whose incomes have been affected by the pandemic, the time has come for the agencies responsible for distributing this support to leverage the benefits of new products like prepaid. We understand that the need to move quickly led government to turn to tried-and-true methods for delivering benefits. We also know that for many of the most vulnerable Canadians this involved settling for cheques rather than alternatives that would have avoided costly cheque cashing fees and enabled them to leverage the benefits of ecommerce and touchless point of sale technology.

Accordingly, we wish to recommend that the Finance Committee include in its prebudget report a recommendation urging the Government of Canada to include prepaid technology among the methods used to disburse the CERB and other federal support payments. Such a change will provide recipients with an alternative that will allow them to avoid the costs, inconvenience and limitations associated with traditional payment methods, most notably cheques.

***Recommendation 2: Creating a regulatory and policy environment that enables prepaid and other FinTech innovations***

Canada is falling behind other jurisdictions in allowing consumers to benefit from the significant innovations available through FinTech. Uncertainty arising from the lack of clarity about both the oversight framework that will guide the regulation of retail payments and the rules that will govern consumer-directed finance have impeded the introduction and adoption of prepaid products and other FinTech innovations.

The COVID-19 crisis has only underscored the urgency for government to address these issues. Since March 2020, the switch toward electronic payments and away from cash has demonstrated that Canadians have moved faster and farther in adopting digital payments than policy makers could have ever anticipated. Yet, ambiguity remains about the content and direction of the federal government policies that will govern how consumers can leverage FinTech to improve their finances and make their lives better.

The CPPO applauds the recently announced commitment in the 2020 Economic and Fiscal Snapshot to invest \$5.6 million over five years to develop a Secure Financial Data Sharing Framework and review the merits of Open Banking. The industry hopes that these resources can serve to accelerate the government's work plan in ways that lead to tangible steps toward a Consumer-Directed Finance framework that encourages FinTech and leverages innovation for the benefit of Canadian consumers.

Similarly, CPPO urges the Finance Committee to support the early introduction and timely passage of legislation to establish a federal Retail Payments Oversight Framework in the fall session of Parliament. The regulations arising from this framework legislation will be important to providing clarity for new entrants that have been held back by regulatory ambiguity and uncertainty about doing business in Canada. From a prepaid products perspective, the patchwork of varying rules governing open loop cards in Canada has held back the growth of this industry on a national basis and remains an issue that needs to be addressed in key jurisdictions. COVID-19 has changed how Canadians approach commerce and how they pay for goods and services. These frameworks need to be a priority for government in order to accelerate and give priority to addressing impediments to the introduction and adoption of prepaid products and other FinTech innovations.