

# Electronic Transactions Association



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

# Recommendations

- **Recommendation 1:** To improve the efficiency and reach of future emergency financial support payments, the Government of Canada should the adopt the use of trusted prepaid payment products as part of its suite of payment methods to deliver rapid and secure benefits to Canadians.
- **Recommendation 2:** That the Government of Canada move quickly to advance a framework for open banking in order to generate economic benefits to the Canadian economy, most importantly new opportunities for small businesses to access innovations in financial lending.
- **Recommendation 3:** That the Canadian Payments Act be amended to create an associate membership class under the Retail Payments Oversight Framework to facilitate risk-based access to Payments Canada's Real Time Rail, as well as the proposed access for associate members to the exchange networks for electronic payments streams.

# Leveraging Payment Solutions and FinTech in the COVID-19 Era

## About ETA

[The Electronic Transactions Association](#) (ETA) is the leading trade association for the payments industry, representing over 500 companies that offer electronic transaction processing products and services. Its membership spans the breadth of the payments industry to include independent sales organizations, payments networks, financial institutions, transaction processors, mobile payments products and services, payments technologies, equipment suppliers, and online small business lenders. ETA member companies are creating innovative offerings in financial services, revolutionizing the way commerce is conducted with safe, convenient and rewarding payment solutions and lending alternatives. ETA advocates for the payments industry in Canada to help drive innovation in the global market for payments technology services.

## How ETA Members are Responding to COVID-19

COVID-19 has impacted individuals, businesses and commerce on a global scale. This reality has reinforced the importance of digital commerce as people stay home to curb the spread of the virus and protect communities.

Through the pandemic, ETA members have taken many steps to help their customers during the COVID-19 crisis. For debit and credit card users, members have waived fees, lowered monthly minimums, and offered deferrals, among other actions. Members are also encouraging customers to access their financial accounts from home through either a website or mobile app. In addition, members are implementing public health measures such as temporarily closing impacted locations, increasing daily cleaning procedures on high-touch surfaces and educating teams on best public health practices.

To continue facilitating safe transactions for customers during this time, ETA members are providing digital payment solutions, including contactless payments, peer-to-peer (P2P) platforms which allow consumers to transfer funds through mobile phones, and convenient digital “Pay” solutions for customers and SMEs to make secure online purchases. ETA members are also working to ensure the security of online payments. While security of online payments has always been critical, the increase in online shopping during the pandemic has reinforced the commitment by ETA members to protect consumers by fighting fraud.

## Supporting Government Emergency Disbursements

COVID-19 led to an unprecedented shutdown of the economy. Many businesses were forced to close or reduce operations. Millions of Canadians lost their jobs as a direct result of the pandemic.

ETA commends the government on its successful delivery of support to Canadians during the COVID-19 crisis. The government responded at an unprecedented pace to support Canadians and businesses adversely impacted by the pandemic. Indeed, the government delivered over \$212 billion in direct support to Canadians and Businesses.<sup>1</sup>

One of the first response measures implemented by the government, the Canada Emergency Response Benefit (CERB) supported Canadians who found themselves without employment as a result of the pandemic. The Government of Canada’s economic snapshot indicates that the CERB received 8.16 million unique applications totaling \$53.53 billion in paid benefits.<sup>2</sup>

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<sup>1</sup> Economic and Fiscal Snapshot 2020, 13.

<sup>2</sup> Ibid., 23

Most appropriately, the government partnered with Canada's trusted financial institutions to provide the CERB via direct deposit. This system allowed CERB to reach most Canadians quickly. Nevertheless, while many Canadians opted to receive the benefit through direct deposit, a significant portion chose to receive the benefit through a paper cheque, which is more costly to government and more cumbersome for citizens. According to [reports](#), 16% of those who received federal emergency support, such as the CERB, chose to receive it by cheque instead of direct deposit.<sup>3</sup>

Given the comparably high number of Canadians who continue to opt to receive paper cheques, ETA submits that to improve the efficiency of emergency benefit delivery the Government should adopt prepaid payment products as part of the suite of options available to citizens who require emergency government financial assistance. Prepaid disbursement has several advantages over paper cheques:

- Secure and convenient access to funds for recipients by limiting possible fraud and easing administration of payment, respectively.
- While prepaid cards are issued by financial institutions, recipients do not need to have an account with the financial institution in order to receive the funds.

Prepaid disbursement would also help Government better achieve its public policy goals. Namely, prepaid disbursement would provide more inclusive financial assistance to unbanked and underbanked Canadians – estimated to be around 5% and 15% of the population - who are often forced to resort to costly cheque cashing services in order to access government support. In addition, prepaid disbursement would allow for Canadians in rural communities without a local bank to receive accessible financial assistance. Recipients would not have to visit a bank to cash the benefit cheque – the card would be preloaded and ready to use immediately – and could be deployed through a traditional plastic card sent directly to Canadians or a through a convenient mobile wallet.

Other jurisdictions have already proven how prepaid products can assist government delivery of benefits. For example, in the United States one of the most common way to receive government benefits is through prepaid products. The cards are loaded by the government, making financial assistance instantly available. Recipients can use the cards directly at retail locations or obtain cash through an ATM. In addition, prepaid cards can be reloaded to accommodate the government's delivery of any additional benefits or stimulus in the future. With respect to the United States' COVID-19 support, ETA members have delivered over \$9 billion in Economic Impact Payments (EIPs) Visa prepaid cards to 5.7 million Americans (As of June 5, 2020), and assisted states distribute unemployment benefits.

**ETA recommends that to improve the efficiency and reach of future emergency financial support payments, the Government of Canada should the adopt the use of trusted prepaid payment products as part of its suite of payment methods to deliver rapid and secure benefits to Canadians.**

## **Open Banking as an Opportunity for Small Business Lending**

COVID-19 has underlined the importance of ensuring capital is available to small businesses at a time of need. When the pandemic struck Canada and a shutdown was mandated, many small businesses had to close doors or operated in a reduced capacity.

While Canada's largest businesses can tap capital markets to find the liquidity needed to operate, many of the smallest businesses have struggled to easily access the financing they require during the pandemic. Canada's financial technology (FinTech) sector has the ability to provide lending support to

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<sup>3</sup> <https://www.theglobeandmail.com/business/commentary/article-canadians-need-money-fast-in-the-pandemic-so-why-are-so-many-still/>

small businesses, particularly when expediency and adaptability is so critical. For example, in the United States ETA members – banks and FinTech lenders – have deployed innovative solutions and products that have helped tens of thousands of American small business owners access billions of dollars under the Paycheck Protection Program.

FinTech lenders in Canada are important players given many small businesses rely on them for financing. Canadian FinTech have designed lending models that can capture small businesses traditionally excluded from Canada's large financial institutions. Often micro small businesses can be perceived as too risky under traditional lending mechanisms. Fintech lenders also have the technological capacity to provide rapid access to products and services. This capability is particularly important in the context of COVID-19 where small businesses may be assessing viability in a matter of days or weeks. ETA submits that the completion of the government's open banking framework would create an opportunity for small businesses to receive lending from FinTechs as an alternative to traditional lenders.

Open banking has several other key features that can facilitate faster adoption of FinTech and can catalyze the economic potential of financial services in Canada, while enhancing privacy and security. Notably, open banking drives innovation. ETA members have developed innovative open banking enabled products and services that help consumers manage their financial lives, expand financial offerings and access to financial services, lower costs, improve financial management, provide more affordable options, and increase transaction security.

As Canada restarts its economy following the COVID-19 crisis, it will be important to ensure businesses continue to have the necessary capital to bridge the period. Many Canadian small businesses were adversely impacted by the crisis and have relied on financial support. FinTech can provide another avenue for lending to small businesses – a reality that will be increasingly important as Canada moves forward through the COVID-19 crisis. Open banking in Canada would create new business models for Canada's FinTech players. This would not only increase the opportunities for Canada's FinTech sector, but it would allow for small business to benefit from the lending capacity of FinTech.

**ETA recommends that the Government of Canada move quickly to advance a framework for open banking in order to generate economic benefits to the Canadian economy, most importantly new opportunities for small businesses to access innovations in financial lending.**

## **Payments Modernization**

ETA and its members support the modernization of Canada's payments systems and recognize the importance of establishing eligibility requirements for obtaining access. In that regard, ETA cautions that if the ability to participate in Payments Canada's Real Time Rail (RTR) is too restrictive or overly cumbersome, this will have a negative impact on competition. As such, **ETA recommends the creation of an associate membership class under the Retail Payments Oversight Framework (RPOF) to facilitate risk-based access to the RTR, as well as the proposed access for associate members to the exchange networks for electronic payments streams.**

In determining eligibility for access to the RTR, the gatekeeping function should be proportional to the risks that the system aims to mitigate. Accordingly, ETA believes that the rules for allowing entities to access the RTR should take into consideration an entity's risk profile, size, entity type, the products it offers and what regulatory regime it is already subject to. In formulating the access rules, ETA favours a tailored approach so that it is appropriate for the FinTech industry's participation. Here, the access rules should provide equal opportunity and ensure that the FinTech industry is provided with a level playing field so that it can effectively compete in the Canadian market and have a positive regulatory framework for innovation.

ETA and its members believe greater access for non-traditional payment services providers using objective, risk-based criteria will serve as a platform for innovation in the Canadian payments ecosystem. At the same time, regulation of associate members under the RPOF and oversight by Payments Canada through its compliance and enforcement standards will ensure that the safety and soundness of the payments systems are preserved.

## **Conclusion**

COVID-19 has disrupted the economy. Many Canadians suddenly found themselves without employment. Small businesses were forced to either close doors or operate in a reduced capacity. As Canada moves forward to restart the economy, it will be important to have effective mechanisms in place to deliver support and capital to individuals and small businesses, respectively. The Government of Canada should leverage payment solutions and FinTech to help bridge the COVID-19 period.

By leveraging existing payment products such as prepaid cards, the Government of Canada can deliver benefits to a wider range of Canadians in a secure and rapid manner. Open banking in Canada would create new business models for Canada's FinTech players. This would allow for small businesses to benefit from the lending capacity of FinTech and, in turn, create additional opportunities for Canada's FinTech sector.