

**Written Submission for the Pre-Budget
Consultations in Advance of the Upcoming
Federal Budget**

By: Interac Corp.

Recommendations

Recommendation 1: That the federal government continue to support businesses, particularly small- and medium-sized ones, with the adoption of new or enhanced digital capabilities such as payments, cash flow, inventory and reporting that can support sustainable new business models and meet evolving consumer expectations.

Recommendation 2: That the federal government consider adoption of digital payment and disbursement capabilities across its departments, to ensure timely allocation of grants, benefits and other payments to both citizens and businesses.

Recommendation 3: That the federal government work with stakeholders and experts to accelerate the development of made-in-Canada digital identity solutions that will offer secure, privacy-enhancing and efficient access to services online.

Recommendation 4: That the federal government continue to provide support through the Universal Broadband Fund (UBF) to ensure all Canadians, particularly those in rural and remote regions, have access to high-speed internet and can enjoy equal access to the economic and social benefits offered by high-speed internet connectivity.

Introduction

As COVID-19 continues to impact our neighbours, businesses and communities, Interac Corp. (Interac) appreciates the opportunity to provide this submission to the House of Commons Standing Committee on Finance for its Pre-Budget Consultation process.

Interac is one of Canada's leading payments brands and is chosen an average of 18 million times daily to pay and exchange money. Interac operates an economical, world-class debit payments system with broad-based acceptance, reliability, security and efficiency. For more than 35 years, Interac Corp. along with its predecessors, Interac Association and Acxsys Corporation, has been one of Canada's leading and most trusted financial brands. We also have one of the lowest rates of fraud globally due to our work in fraud detection and prevention.

At the same time, Interac is at the forefront of digital innovation in Canada, fostering collaboration, competition and diversity in the financial ecosystem. Interac collaborates with fintech accelerators across Canada including through partnerships with MaRS Discovery District and Communitel to explore new ventures to both extend our payments solutions and bridge into new spaces. For example, through our subsidiary company 2Keys Corporation, Interac is building new capabilities in digital identity and authentication.

Interac collaborates regularly with the Government of Canada and entities such as the Bank of Canada. Recently we were pleased to provide data and insights on Interac transactions to support the Government's Economic and Fiscal Snapshot presented in July 2020 and ongoing economic modeling. We look forward to continuing this collaboration to help Canadians cope with the economic and social impact of this global pandemic.

We understand that the federal government is seeking recommendations on how Canada can help the economy recover and grow in a safe and sustainable manner. We believe that safe and secure digital payment systems, as well as robust and privacy-enhancing digital identity will play a critical role in this economic restart.

Impacts of COVID-19 on Canadian Payments

Since the onset of COVID-19, Interac has observed significant changes in spending patterns across our network.

As governments across Canada instituted states of emergency declarations and mandated staying home as much as possible, we saw an immediate decline in overall transaction volumes as a majority of daily commerce ground to a halt. While Canadians were shopping less frequently, they were spending more in one day. Between March 13 and April 12, there was a 13 per cent spike in the average daily *Interac*® Debit transaction amount. Overall transaction levels have rebounded as re-opening plans are underway and everyday commerce picks up again.

We have also seen a significant increase in the use of contactless payments, as merchants and consumers look to avoid physical contact wherever possible. Since early March, *Interac Flash*® as a proportion of *Interac* Debit transactions increased by five per cent and the average *Interac Flash* purchase size increased by 17 per cent.

However, retail and point-of-sale trends only tell part of the story. *Interac* transaction data clearly suggests that COVID-19 is accelerating the move to digital payments across Canada.

For example, first-time users of the *Interac* e-Transfer® service have grown by 43 per cent since mid-March, signalling the critical importance digital transfers are playing in keeping families safe and

businesses running. The platform reached a historical daily high on May 1, 2020, with over 3.75 million transactions sent.

The shift to digital is also reflected in the double-digit growth of *Interac* Debit for In-App and In-Browser Payments. Both services are currently surpassing forecasted growth, largely driven by food delivery services and restaurant take-out options as Canadians shift their behaviour.

These indicators are signalling larger shifts in the way Canadian consumers and businesses want to transact and proving that both digital payments and digital identity are an integral means to economic recovery in Canada, even as our economy continues to re-open.

Restarting the Economy through Digital Payments

Over recent months Canadian businesses have faced an unprecedented transition in business imperatives. For some this affirmed earlier decisions to adopt digital practices such as e-commerce, inventory management and reporting. For others, the pandemic necessitated hurried adjustments in strategy to remain viable. Whether opening an online store for the first time or serving clients virtually, businesses are increasingly seeking practical digital solutions to maintain and grow their operations.

For a business owner, the ease of immediately requesting, sending and receiving money, as *Interac* e-Transfer makes possible, is an important component of this transition. Since the end of March, businesses have been receiving 35 per cent more *Interac* e-Transfer transactions than expected¹. For many small businesses, the *Interac* e-Transfer platform is a convenient solution that allows them to adapt to the digital economy.

In 2018, commercial cheques accounted for 70 per cent of total cheque volume, but organizations are becoming more interested in streamlining payment services and automating reconciliation². These qualities become even more important in times of crisis, as many organizations need to move money quickly and securely to ensure citizens get the vital support they need.

Supporting businesses in their transition away from legacy systems like invoicing, cheques and electronic funds transfer (EFT) and towards new digital capabilities has the potential to save significant resources and support economic growth as Canada recovers from COVID-19.

Case Study: Efficient Support Disbursement for Government Relief Payments

Interac applauds measures taken by the federal government to date to mitigate the economic impact of COVID-19. Fiscal programs, including the Canada Emergency Response Benefit (CERB), and the Canada Emergency Wage Subsidy (CEWS), among many others, have offered a lifeline to both Canadians and businesses.

In recent years, Interac has provided bulk money disbursement solutions that have enabled organizations such as the Canadian Red Cross to disperse money quickly, securely and in real-time to recipients in need. During the Fort McMurray wildfires, the Canadian Red Cross distributed \$50 million through approximately 100,000 transfers using the *Interac* e-Transfer Bulk Disbursements service in a short period of time. Recently, the provinces of Alberta, Quebec and New Brunswick have also distributed one-time emergency funding in a similar fashion for citizens impacted by COVID-19.

¹ Based on *Interac* e-Transfer transaction data from March 30, 2020 – May 3, 2020

² https://www.payments.ca/sites/default/files/canadianpaymentmethodsandtrendsreport_2019.pdf

These payments were made possible by *Interac* e-Transfer Bulk Disbursements, a product built on the widely used *Interac* e-Transfer platform. By offering governments and businesses a secure and cost-efficient way to initiate many payments at one time, funds can be sent quickly and without the need for a recipient's banking information. This process reduces reliance on cheques, allows for payments to be accepted in real-time, offers easily trackable data and ultimately reduces costs.

Restarting the Economy through Digital Identity

Across the globe, COVID-19 has accelerated an already rapid push towards digital service delivery across nearly all facets of life. Emergency lockdowns implemented to control the pandemic have shone a light on the state of digital readiness and the ability—or inability—for citizens, businesses and governments to access key services, conduct business and engage securely online.

Being able to validate and prove who we are has for decades been a primarily analog function (e.g. ID verification in person). However, in the context of today's pandemic, expectations are rapidly changing. Citizens want, and in many cases need to use government and corporate services online, without stepping foot into public spaces.

Digital ID offers promise as a means to prudently and responsibly allow all Canadians to engage digitally in a secure, privacy-enhancing manner across a variety of areas such as new government e-services, consumer directed finance, digital health, real-time payments and connected cities.

In a world where a high percentage of our interactions are not done face-to-face, providing citizens with a means to say with confidence that they are engaging with the people and organizations they want to engage with will increase trust in these areas and can accelerate adoption and economic growth.

For example, consumer directed finance has the potential to support businesses in accessing capital and to enable consumers looking to utilize new services to manage their finances. Interac was pleased to provide a response to Finance Canada's initial consultation on consumer directed finance and looks forward to future opportunities to engage.

Asserting and verifying our identities digitally is expected to have an immediate positive economic impact not just today, but in the years to come. Indeed, a McKinsey study found that digital ID, if implemented at scale, can unlock significant economic value for countries across the world.³ Furthermore, the Digital Identity and Authentication Council of Canada (DIACC) estimates the potential value of trusted digital identity to the Canadian economy is at least one per cent of GDP, or approximately \$15 billion⁴.

There are several factors critical to implementation of robust digital identity including technology, standardization, coordination and trust. There is also the challenge of moving towards greater digital adoption without exacerbating inequalities for those currently without access to the technology, knowledge or economic wherewithal to participate.

Building from the trusted role and presence Interac has in the lives of most Canadians, we are currently working with governments across Canada to enable stronger forms of digital identity for citizens and businesses, with the goal of enabling innovation and economic growth for all Canadians in the same way we do with payments. We encourage the Government of Canada to work towards

³ <https://www.mckinsey.com/business-functions/mckinsey-digital/our-insights/digital-identification-a-key-to-inclusive-growth>

⁴ <https://diacc.ca/wp-content/uploads/2018/05/Economic-Impact-of-Digital-Identity-DIACC-v2.pdf>

adoption of made-in-Canada digital identity capabilities, in collaboration with private sector as well as standard setting bodies.

Better Broadband Connectivity and Digital Literacy

While digital ID and digital payments will provide economic and social benefits, these transformations will not be fully realized unless backed by key pillars including robust broadband access and digital literacy.

Despite being declared an essential service by the CRTC in 2016, nearly 60 per cent of rural communities still lack access to high-speed broadband⁵, and approximately 1.4 million low-income households lack basic internet access⁶. At the same time, while positive steps have been made in expanding digital literacy at both the national and local level, there is still a strong push to do more⁷ and ensure efforts between various levels of government and the private sector are coordinated.

As such, Interac encourages the federal government to continue to provide support through the Universal Broadband Fund (UBF) to ensure all Canadians, particularly those in rural and remote regions, have access to high-speed internet and can enjoy equal access to the economic and social benefits offered by this connectivity.

Conclusion

We appreciate the work being undertaken by the federal government, Parliament, and the House of Commons Standing Committee on Finance, as well as the public service, to support Canadians during this challenging time. We stand ready to play an even larger role in helping our fellow Canadians in the economic recovery, as well as seize future opportunities for modernization in Canada.

⁵ <https://crtc.gc.ca/eng/internet/internet.htm>

⁶ <https://www.nationalobserver.com/2020/04/24/features/pandemic-forced-home-schooling-widens-digital-divide>

⁷ <https://policyoptions.irpp.org/magazines/may-2018/the-quest-for-digital-literacy-in-canada/>