

## **Canadian Prepaid Providers Organization:**

### **Written Submission for the Pre-Budget Consultations in Advance of the 2022 Budget**

## Recommendations

- **Recommendation 1:** That the Government of Canada include prepaid technology among the methods used to disburse federal benefits and support payments to improve efficiency in government operations and enable payment recipients to avoid the costs, inconvenience, and limitations associated with paper cheques.
- **Recommendation 2:** That the Government of Canada amend the regulations associated with the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA) to clarify the provisions covering prepaid payment products.
- **Recommendation 3:** That the Government of Canada accelerate efforts to advance Consumer-Directed Finance and give priority to addressing impediments to the introduction and adoption of prepaid products and other FinTech innovations.

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.

### ***Improving government benefits delivery***

CPPO commends the Government of Canada for the unprecedented financial aid programs it rapidly rolled out in response to COVID-19. While the agencies responsible for delivering these financial supports to Canadians managed to persuade most recipients to enroll in direct deposit, a sizeable number of Canadians continue to rely on paper cheques. As the government shifts focus on its economic recovery, CPPO believes that prepaid solutions can address the challenges associated with paper cheques, while providing a high degree of flexibility and functionality for citizens receiving government benefits and other payments like tax returns.

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 receive government disbursements 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).

Open-loop prepaid cards provide consumers, businesses and the 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 control how and where funds are spent by recipients and the unused portion of support payments can be returned to government on expiry. All these controls cut down on the potential for fraud.

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. In fact, PayTechs are now the most active participants in Canada's FinTech ecosystem (28.9%), among which prepaid value chain players constitute nearly 16% of all PayTechs. Just over half of the companies operating in the Canadian open-loop prepaid space are also Canadian.<sup>1</sup> 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

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<sup>1</sup> [Canadian Prepaid Providers Organization. Canadian Prepaid Ecosystem Insights. May 2021.](#)

become a leader in the adoption of these innovative banking and payments services for its citizens.

In response to COVID-19, governments, and charities all over the world turned to prepaid products 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 must leverage the innovation and enhanced capabilities of prepaid solutions to deliver financial assistance.

CPPO was pleased to see the government publish a *Request for Information on Alternative Payment Methods* in late 2020 to undertake a process to improve payments delivery. 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. Modernizing payments solutions for government benefits is also consistent with the government's Digital Government agenda.

As the government examines how it provides financial supports and other government benefits, the time has come for the agencies responsible for distributing this support to leverage the benefits of new products like prepaid cards. We understand that the need to move quickly led the 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 continue to encourage the Government of Canada to include prepaid technology among the methods used to disburse 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.

### **Improving Canada's AML regime to support prepaid innovations**

In June 2019, the Government of Canada finalized amendments to the Regulations associated with the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA) impacting FINTRAC's supervision of prepaid payment products in Canada.

Under the Regulations, the new definitions of "prepaid payment product account" (PPPA) and "prepaid payment product" (PPP) are broadly drafted. The effect is that the Regulations apply to any PPP that is tied to an account that permits funds that total C\$1,000 or more to be added to the account in a 24-hour period or a balance of funds of C\$1,000 or more to be maintained in the account. The broad drafting of these definitions has significant unintended consequences.

The definition of PPPA is broadly drafted to include any type of account that is "connected to" a prepaid payment product, provided the dollar thresholds are triggered. Given that many prepaid programs are structured with one pooled settlement account that funds the prepaid cards issued under multiple unrelated programs, *virtually all prepaid products*, even though they themselves may not allow for balance of C\$1,000 or more to be maintained, have been caught by these requirements. Although these requirements are only drafted to apply to financial entities and life insurance companies that issue prepaid products, given how prepaid programs are structured, this has also had trickle-down ramifications for everyone involved in the prepaid industry including program managers, processors, retailers, and ultimately all corporate entities and consumers who purchase prepaid products.

International frameworks recognize that knowing the source of funding is an important factor that reduces AML risk.<sup>2</sup> Arguably, a card purchased anonymously in a retail setting, where cash can be used to purchase prepaid products, holds more risks than a corporate card program, where the corporate entity funding the products is known and where it is very uncommon for cash to be used. While Canadian AML laws do not explicitly require “know your customer” processes (“KYC”) to be conducted on corporate entities purchasing prepaid products, this is already a common practice in the industry and is much less costly, burdensome, and personally intrusive than conducting KYC on individual recipients of a corporate-funded prepaid program. The same international frameworks support that it is the maximum load value of the prepaid product itself—and not necessarily an account connected to the prepaid product—that correlates with AML risk.

Since the Regulations already contemplate an exception for prepaid products less than C\$1000, we submit that it would be logical for this exception to apply to all PPPs, regardless of whether the PPP was connected to a PPPA exceeding C\$1000. We recommend that FINTRAC publish guidance that:

- a) explicitly requires KYC on corporate entities purchasing PPPs over C\$1000, and
- b) requires KYC on cardholders, only if the PPP itself is over C\$1000.

We believe this change would help address FINTRAC’s concerns with corporate-funded programs while targeting only those PPPs that have elevated AML risks. Other comparable jurisdictions, including the US, Australia, and the European Union have implemented AML regulations that focus on the maximum load amount of a PPP, and not a PPPA.<sup>3</sup>

If the Regulations or guidance do not clarify the issues discussed above, virtually all holders of prepaid products—regardless of the amount the PPP holds or is capable of holding—will be required to complete “Know Your Customer” (KYC) validation. At-risk groups such as immigrants, the elderly, and the underbanked are more likely to be intimidated by this process and leave funds unused or stop using prepaid products altogether. The widespread collection of individuals’ data—where there does not appear to be a meaningful AML risk—also runs counter to Canada’ privacy laws.

Furthermore, the higher costs associated with KYC requirements will ultimately be passed down to the consumers and businesses that purchase them—making them a less attractive financial product, despite all the benefits they offer. Lastly, prepaid industry stakeholders who are unable to upgrade their systems or who find it too expensive will inevitably leave the market, shrinking Canada’s prepaid industry and reducing the level of fintech innovation.

### ***Creating a regulatory and policy environment that enables prepaid innovations***

Canada is trailing other jurisdictions in allowing consumers to benefit from the significant innovations available through FinTech, notably Consumer-Directed Finance, commonly known as Open Banking. Uncertainty arising from the lack of clarity around the rules that will govern consumer-directed finance have impeded the introduction and adoption of prepaid products and other FinTech innovations in the Canadian market.

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<sup>2</sup> “Wolfsberg Guidance on Prepaid & Stored Value Cards,” October 14, 2011.

<sup>3</sup> The US Prepaid Access Final Rule requires KYC for cardholders if the maximum load value of the product exceeds US\$1000. Australia’s AML Act requires KYC for cardholders where the maximum load value of the product is AUD\$1000 or more and the cardholder can use the prepaid card to withdraw cash. The EU’s 5<sup>th</sup> AML Directive requires KYC on cardholders if the prepaid product’s maximum load value exceeds €150.

COVID-19 has only underscored the urgency for the government to act. 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's policies that will govern how consumers can leverage FinTech to improve their finances and make their lives better. Accordingly, the CPPO urges the government to expedite its efforts to advance Consumer-Directed Finance (Open Banking) in Canada. Advancing the work on Consumer Directed Finance needs to be prioritized to address the impediments to the introduction and adoption of prepaid products and other FinTech innovations.

From a prepaid products perspective, the patchwork of varying rules governing open loop products in Canada has also held back the growth of this industry on a national basis and remains an issue that needs to be addressed in key jurisdictions. CPPO therefore encourages the federal government to work with provincial regulators to create a predictable, harmonized approach to prepaid consumer protection rules to ensure that the latest innovations in open-loop prepaid can be accessed by all Canadians irrespective of where they reside.