



CONSUMERS' ASSOCIATION OF CANADA
Association des consommateurs du Canada

September 8, 2021

Financial Sector Policy Branch
Department of Finance
90 Elgin Street
Ottawa, Ontario
K1A 0G5
Via email: fin.payments-paiements.fin@fin.gc.ca

Dear Sir or Madam:

On behalf of the Consumers' Association of Canada (CAC), please accept the following as our submission in response to the consultation launched on August 4 on reducing credit card transaction fees. This submission builds on the letter we sent to the Minister on this subject in May – a letter for which we have received no response.

Consumer Voices Must be Heard

I highlight that lack of response to our earlier letter because as the Government launches yet another consultation on this subject, it is once again ignoring consumers – and we are the stakeholders with the most to lose. Therefore, we must state our extreme frustration that this file has been reopened yet again at the behest of big retailers who want the Government to intervene in the credit card market to enrich merchants at the expense of consumers. Our frustration stems from the fact big retailers have been campaigning on the issue of interchange fees since 2008 and use every opportunity that arises – an election, a pandemic, a new Minister, a change in the weather – to launch their anti-consumer crusade anew.

Does anyone in the Department of Finance truly believe big retailers will drop their campaign after this round? Retailers have even stood on stage with Ministers for an interchange announcement only to offer muted praise for such while then launching a new campaign. Whatever rate interchange is set, merchants will campaign to have that lowered.

We are truly baffled that the Government continues to do their bidding, especially since this so clearly benefits retailers at the expense of consumers. It must be humiliating for the Department of Finance to continually have to sign agreements on interchange and then break its word on those agreements when the ink is barely dry.

To be very clear: the CAC opposes any government intervention in the credit card market that would increase costs for consumers, limit their access to credit, and/or negatively impact them in another way, such as the loss or devaluation of credit card rewards. And none of the latter is hypothetical; it is the reality wherever governments have intervened in the market at the behest of big retailers.

Consumers Will be Harmed

The latter point ought not be difficult to understand. If money is removed from one part of the credit card system, such as interchange, it is going to be recouped elsewhere, such as through higher costs for consumers (e.g. higher interest rates or annual fees). Alternatively, credit may be constrained for those at the lower end of the income spectrum, which seems to run counter to the middle class focus of the current government.

Moreover, it is a complete fabrication of retailers to suggest they will pass cost savings from interchange reductions along to consumers. That has not happened anywhere in the world, including here in Canada where retailers have seen successive waves of interchange reductions. Where is the evidence they have passed along savings to consumers? Has the Department of Finance even demanded to see such evidence? Has the Minister? Of course not, because it doesn't exist. This is about enriching merchants at the expense of consumers, and it is sad to see political parties and governments acting as their agents.

Therefore, if through their rent seeking via Government retailers are able to score further reductions, then those should be accompanied with strict conditions that prices be reduced for consumers, and that proof of that be subject to random audits with harsh penalties for retailers that fail to comply.

The retailer tail of woe on interchange is also not borne out by facts. By our calculations, interchange fees have decreased by 20-25% during a time when most other business costs have likely increased by that amount or more. However, these retailers feel credit card acceptance should be free – or at least free to them – and want to push the bill onto consumers, which ignores the many benefits they get from accepting them.

In addition, it is remarkable that retailer claims go unchallenged by the Government. For example, merchants will often claim interchange exceeds their profit margin. That is utter nonsense. Interchange is 1.40%, according to the agreements signed by the networks. That would mean that on a \$100 purchase, the merchant would take home \$98.60. If \$1.40 is the profit margin, where did the remaining \$98.60 go? Ought merchants not be more concerned about the 98.60% of costs that apparently are not interchange? Or is interchange simply one they feel they can address by having the Government intervene in the market on their behalf? Also, if profit margins are so small, how can retailers routinely have sales offering 50% off or more? Are they mad?

The above also demonstrates the ridiculous position in which big retailers continue to put the Department of Finance, since the Government itself routinely increases business operating costs for retailers, whether through payroll taxes, carbon taxes, regulation and so on (these are probably a big part of the 98.60% of costs that are not interchange!). Governments don't seem to care about those costs being passed on to consumers, yet when it comes to interchange, it's all hands of deck! (And don't even get us started on the lack of competition in many sectors that also drives up consumer prices – largely due to governments acting to protect vested business interests.)

In short, it is a myth that retailers care about consumers and will pass savings along, and it is a myth that governments care about the prices paid by consumers. Consumers are used as a pawn by both. If retailers want to lobby on interchange, then they should not be allowed to claim they are doing it in the consumer interest. Likewise, when governments do the bidding of retailers, you cannot claim you are doing it to benefit consumers. This is a merchant enrichment plan using government as its agent and making consumers the victim.

Rewards for Some, but Not for Others?

It is also worth reminding the Government that Canadian consumers are big fans of credit card rewards. We have conducted polling on this and found 66% of Canadians feel credit card rewards are extremely important and provide real benefit to cardholders and their families. This is what retailers want to take away – and rather than wear it themselves, they are using the Government as the vehicle. It may be strategically brilliant, but it is anti-consumer.

It seems like the Government knows this, which is why the consultation mentions protecting the existing reward points of consumers. Hopefully the Department of Finance is aware that issue is already addressed through provincial legislation. We are more concerned about future credit card rewards and benefits, which the Government seems willing to sacrifice to appease big retailers.

We caution the Government to tread very carefully along this path, and to recognize that the vast majority of people who use credit card rewards are middle class and often do so out of necessity. Very few people these days have guaranteed jobs, generous incomes and a pension, yet it seems to be those people who are making decisions that impact those who do not. Families may save points for years with the goal of helping pay for a major purchase or vacation. The fact the Government is working with some of the largest and most profitable companies in the world to take that away is unseemly.

The Government also needs to move beyond its obsession with rewards and the notion fed to them by big retailers that rewards are for the rich and drive up prices for all consumers. On the first point, something like 80% of Canadians collect rewards, and 80% of Canadians are not rich, so hopefully no one is making policy based on that merchant canard.

As for rewards driving up prices for all consumers, that may or may not be the case, but to suggest that is due to credit cards alone is completely false. Thousands of businesses have their own in-store reward programs, which offer things like rebates, free goods and so on. If credit card rewards drive up prices for all consumers, then surely these programs do as well. Therefore, to apply the government/merchant logic on interchange to retail as a whole, in-store reward programs should be banned since they drive up costs for all consumers.

To recap then: if merchants wish to go down this path – again – then they should have some skin in the game. First, any further interchange reductions must come with mandated price reductions for consumers, subject to independent audit and penalties for non-compliance. Second, in-store reward programs should be banned because they drive up prices for all consumers (using the merchants' arguments).

Now, are we in favour of banning reward programs? Of course not, but that shows the level of ridiculousness around this debate and the fact merchants keep coming back to it again, and again, and again. And they will continue to do so until the Government lays out the consequences for them, such as the two ideas floated above. Merchants cannot have their consumer cake and eat it too.

Bizarro World Retailers

It is ironic that retailers complain about credit card acceptance costs when they have taken steps to drive consumers to that method of payment, such as pay-at-the-pump gas stations or self-checkout at grocery stores. In fact, some retailers are abandoning storefronts altogether and going online only, making card payments the only option. In case it is not obvious: these moves are made to reduce costs like staffing or rent, so it is rather disingenuous for retailers to then complain about credit card costs when these other savings likely dwarf those significantly and are made possible because of credit cards.

In effect, consumers now pump our own gas and bag our own groceries (and have to pay for the bag too!), and now retailers want consumers to pay them for the privilege of shopping by credit card as well. They want us to pay to buy from them! It's outrageous and needs to stop. No government that claims to work on behalf of the middle class can support this action, and any political party that supports it will face a backlash from consumers.

Then there is the fact that merchants seem unwilling to use the tools already available to them, such as offering a discount to use cash. We polled on this issue as well and found that 91% of consumers would be willing to pay with cash or debit if offered a discount on their purchase for doing so. However, 65% had never been given that opportunity. Why? Do merchants not want cash? If so, doesn't that suggest they like card payments and that they deliver benefits and value to the merchant?

We also understand merchants will soon have the ability to surcharge on a credit card transaction, though they seem unwilling to use this privilege. While the CAC is opposed to surcharging, it is interesting that merchants don't want to use it and would instead like the Government to intervene in the market. It is another example of retailers not wanting to appear like the anti-consumer bad guy through surcharging and instead want Government to do their work for them by reducing interchange. This whole situation is even more bizarre when you consider that it was merchants themselves who pursued the right to surcharge through the Competition Bureau.

Perhaps you can see a theme emerging:

- Merchants wanted interchange reductions, got them, and then came back demanding more.
- Merchants wanted the right to surcharge, got it, and then came back demanding more.

Department of Merchants?

It is time for the Department of Finance to recognize it must represent the interests of all payments stakeholders, not just merchants. Minister Flaherty recognized this and we were routinely consulted by him when these matters were first discussed. Since then, consumers have been sidelined, and our patience is wearing thin.

Finally, merchants would be wise to note a key finding from our consumer polling: 88% of Canadians feel retailers concerned about their profits should focus on better customer service. Instead, we have Canadian retailers campaigning to harm consumers through higher fees, lost rewards and benefits, and reduced access to credit – while offering zero benefits to consumers through lower prices. This is shameless on the part of merchants, and it is shameful that the Government has become the vehicle for retailers to carry on in this manner.

Thank you for your time.

Sincerely,

A handwritten signature in cursive script, appearing to read "Bruce Cran".

Bruce Cran
President
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