

**Remarks to the Standing Committee on Industry and Technology**  
**Karl Littler, Senior Vice President, Public Affairs, Retail Council of Canada**  
**Monday, October 7, 2024**

Thank you for the opportunity to present a retail industry perspective on credit card payments.

I want to begin by putting a big number in front of you. That's the \$60 billion - six zero billion - in credit card interchange fees that will be pulled out of Canadians' wallets over the next five years.

When you contrast that with the roughly \$200 million a year of savings outlined in the government's announcement last week<sup>i</sup>, you can see how very little is being done to address the interchange problem for consumers. Simply put, 98% of the issue is not being addressed at all.

Let's take it from the perspective of a Canadian family. Credit card interchange costs Canadian households<sup>ii</sup> an average of \$643 each year, or \$10.7 billion<sup>iii</sup> all told. This week's response by the government might save them \$13 of that \$643. A savings of only 1/50<sup>th</sup> of the cost is flimsy by any standard and Canadian families could really have used that help with affordability.

The Bank of Canada sees it as a consumer issue, as does the Competition Bureau, as does every competent authority worldwide, including central banks, competition bodies and academics<sup>iv</sup>. Only the Government of Canada seems determined to paint it into a corner as a small business issue, presumably because it is less unsettling to the banks and credit card networks.

Not only does that \$60 billion in bank revenues weigh heavily on Canadian consumers. It does so in a particularly regressive way. The highest credit card interchange is on premium and super premium cards, typically those held by Canadians with higher incomes. The costs for all of this get passed on in the price of goods borne by all Canadians<sup>v</sup>, including those paying with cash or debit, and especially by low- and modest-income earners, many of whom could never have qualified for those high fee cards in the first place.

It is a reverse Robin Hood problem, with the card companies and banks taking from the poor and giving to the rich. Continuing to perversely portray the problem as a small business issue rather than a consumer issue perpetuates this regressive and growing problem.

And at an *average* rate of 1.4%, interchange in Canada is among the highest in the world. By comparison, credit cards in Australia have a capped average of 0.5%<sup>vi</sup>, the UK rate is fully capped at 0.3%<sup>vii</sup>, as are all the 27 countries in the European Union<sup>viii</sup>. Rates have also been capped in jurisdictions like Switzerland (0.44%)<sup>ix</sup>, Israel (0.5%)<sup>x</sup> and China (0.45%)<sup>xi</sup>.

And yet, remarkably, the same card networks manage to operate globally at a fraction of the cost imposed on Canadians.

So, in a nutshell, Canada needs to address the \$60 billion elephant in the room, stop pretending that this is only a small business issue, echo the pro-consumer approach taken by other countries and introduce a meaningfully lower interchange cap or average, whether through regulation or much more purposeful negotiations with the credit card networks.

Thank you.

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<sup>i</sup> <https://www.canada.ca/en/department-finance/news/2024/10/government-announces-significant-new-support-to-help-small-business-owners.html>:

<sup>ii</sup> 16.6 million households as of 2023. Source: Statistics Canada

<https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3610010101>

<sup>iii</sup> Average interchange rate of 1.40% x \$763 billion in annual credit card sales = \$10.682 billion. 2023 sales date is derived from Payment's Canada's *Canadian Payment Methods and Trends Report 2024*, at page 46.

[https://www.payments.ca/sites/default/files/PaymentsCanada\\_Canadian\\_Payment\\_Methods\\_and\\_Trends\\_Report\\_2024\\_En.pdf?utm\\_source=web&utm\\_medium=pdf&utm\\_campaign=cpmtreport&utm\\_ID=02-10-2024&utm\\_content=&utm\\_keyword=](https://www.payments.ca/sites/default/files/PaymentsCanada_Canadian_Payment_Methods_and_Trends_Report_2024_En.pdf?utm_source=web&utm_medium=pdf&utm_campaign=cpmtreport&utm_ID=02-10-2024&utm_content=&utm_keyword=)

<sup>iv</sup> The regressive impact of interchange on consumers is well understood: (Bank of Canada, *Distributional Effects of Payment Card Pricing and Merchant Cost Pass-through in Canada and the United States* <https://www.bankofcanada.ca/2021/02/staff-working-paper-2021-8/> which assumes 100% pass through), noted by the Consumers Council of Canada <https://www.consumerscouncil.com/payment-choices-reverse-robin-hood-effect/>) and most recently in the study by UofT's Professor Park cited in the following Toronto Star article <https://www.thestar.com/business/2022/10/20/low-income-shoppers-hit-by-swipe-fees-on-premium-credit-cards-they-dont-even-use-experts-say.html>.

<sup>v</sup> The understanding that merchants typically pass on interchange costs to consumers also informs the Competition Bureau's 2015 recommendations to government (<https://ised-isde.canada.ca/site/competition-bureau-canada/en/how-we-foster-competition/promotion-and-advocacy/regulatory-adviceinterventions-competition-bureau/submission-finance-canada-oversight-national-payment-systems>) and the views of every competent central bank, competition authority and legislature that has looked at this issue globally (e.g., <https://www.bostonfed.org/publications/research-department-working-paper/2020/distributional-effects-payment-card-pricing-merchant-cost-pass-through-united-states-canada.aspx>).

<sup>vi</sup> <https://www.rba.gov.au/payments-and-infrastructure/review-of-card-payments-regulation/q-and-a/card-payments-regulation-qa-conclusions-paper.html#interchange-fees-q3>

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<sup>vii</sup> <https://www.merchantsavvy.co.uk/card-processing-fees/interchange-fees/>

<sup>viii</sup> [https://ec.europa.eu/commission/presscorner/detail/fr/memo\\_16\\_2162](https://ec.europa.eu/commission/presscorner/detail/fr/memo_16_2162)

<sup>ix</sup> <https://www.six-group.com/dam/download/banking-services/debit-and-mobile-services/en/learning-nugget/learning-nugget-vier-parteien-modell-en.pdf>

<sup>x</sup> <https://www.boi.org.il/en/communication-and-publications/press-releases/the-interchange-fee-will-be-reduced-by-approximately-30-percent-from-07-percent-to-05-percent-in-three-stages/>

<sup>xi</sup> <https://www.airwallex.com/blog/how-do-interchange-rates-differ-between-credit-and-debit-cards>