



"Mobile Payments: The Future is Now"  
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Check Against Delivery

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Merci... thank you for that kind introduction.

Bonjour... good morning everyone.

It is truly a pleasure to be here with you...and to be back in this beautiful, historic city of Quebec. Indeed, when you think about it... no place in Canada is more appropriate when discussing the rapidly changing payments landscape.

After all, one could credibly argue that, for Canada, payments and settlements actually began here, right in this city, more than 400 years ago.

Today, of course, Quebec City... and all of Canada... benefits from a payments system that is safe, secure, built carefully over decades, and one that is implicitly trusted by Canadian consumers... and admired and emulated for these traits internationally.

And Canada's banking system is generally regarded as the world's strongest...ranked #1 globally for the fourth straight year by the World Economic Forum.

Individually, Canada's banks also fare exceptionally well.

Just this past month, in its annual global banking survey, Bloomberg Magazine ranked four Canadian banks in the world's top ten... with CIBC leading the Canadian cohort. In contrast, the US had just three banks...in the top 20.

As Industry Minister, I viewed the strength of our financial services industry and the robust nature of our payments infrastructure as the very foundation of Canada's continued economic prosperity.

You might recall that as Industry Minister I also set the policy framework for the AWS broadband spectrum auction in 2008 where we opened wireless telecom up to greater competition. Our goals were lower prices, better service and more choice for consumers and business.

That experience was very instructive...and allowed me to develop a much deeper understanding of the telecommunications industry and the underlying technologies.

It also led me to appreciate the need for a balanced approach...one that fosters innovation, but does so within a defined regulatory framework or industry ecosystem.

Defined standards are not new of course-- think back to the early railway industry. There were many competing ideas in terms of how to build out North America's rail infrastructure. Fortunately, a standard was eventually promoted by major players and governments - a wide track gauge of 5' 6".

The advantages of this common framework for Canada's commerce were enormous... and lasting.

The only problem with this example is that standards took years, even decades, to fully develop.

When it comes to mobile payments, my topic this morning, we don't have the luxury of that kind of time.

Innovation in communications has been with us for decades. And innovation in mobile payments is about to explode...and if Canada is to take full advantage of that innovation...we need to move quickly.

So that's what I want to talk to you about.

Now, as you know... two years ago, in its' 2010 budget... the government announced the creation of the Payments System Task Force.

Let's be honest, the establishment of this Task Force was not without controversy in the payments industry. For many entrenched players, it was seen as a threat.

For new and emerging players, there was a fear that they might be dragged from an unregulated... to a regulated world.

I know there's a session on this topic this afternoon, when Task Force Chair Pat Meredith presents... and I also know that we are all looking forward to what Finance Minister Flaherty will be speaking about tomorrow.

But I do want to say this work began at a time when there were those who still felt Canada was a global leader in payments. We were, after all, leaders in areas like the adoption of smart-chip technology and debit card acceptance.

But the truth is, even in back in 2010, the Canadian payments system...and, yes, the financial institutions, including the large banks...were lagging in terms of innovation, particularly in form factors, such as mobile, and in payment methods, such as peer to peer.

I am not saying Canadian banks or the other players in the payments space did not innovate at all. In fact, many in this room know all too well the tens of millions of dollars that are invested each and every year. By every payments participant in this room – but much of the innovation has been internally focused, improving efficiencies or avoiding the high cost of fraud.

What has arguably been lacking has been innovation on behalf of customers—especially breakthrough, transformational innovation.

Consumer issues should be paramount. And what consumers want is all of the security, safety and soundness they have come to expect...but with added speed and convenience.

So, yes, the Task Force should be commended for making us focus on what the consumers will want from payments providers in the future.

And we look forward to next steps that may be the convening of an Advisory Committee by the government.

But even in the short period from its inception in 2010 to today... things in the payments arena have been moving...very quickly, all around the world. The future is already upon us.

In Japan today, consumers have been using mobile phones and near field communications, or NFC, for quite some time to pay for many small ticket transactions.

And the Americans, while perhaps slow adopters of chip cards, now seem poised for significant change going forward.

According to a recent article in the New York Times, VISA, MasterCard and Discover have all notified US merchants that if they cannot accept Chip or Smart cards, they will be liable for any losses due to fraud.

That's a pretty powerful stick.

And VeriFone, which provides payment terminals to many US merchants, is saying that while updating their terminals, they also plan to upgrade for Smartphone wallet use, providing NFC capability, in anticipation of Google and Isis wallets, among others.

That's a pretty big carrot.

VeriFone says they expect NFC to be completely mainstream in the US within five years – or roughly four times faster than it took debit cards to take hold there.

I mentioned Google – whom I think we all know—but I also mentioned Isis. Isis is actually a cooperative venture of AT&T, Verizon and T-Mobile. Cooperation... even among companies we think of as fierce competitors... will be the new normal in this new world.

Just two weeks ago, in a special report on International Banking, the Economist magazine singled out mobile payments as the one sector to watch in 2012, saying “an upheaval is coming, driven by technological change.” So change is in the wind...with powerful new global players on the horizon. If we want a Canadian solution...now is the time.

It is this reality that spurred the financial services industry, led by both banks and credit unions, through the CBA, to recently announce a set of voluntary, secure, open guidelines for the development of mobile payments at point-of-sale in Canada.

Known as the Mobile Reference Model, the guidelines serve as a blueprint for how mobile payments can be offered in the Canadian market, including how information is exchanged among various parties -- financial institutions, payment card companies, telecommunications companies -- and merchants.

The goal is ensure safety, security and ease of use for merchants and consumers while allowing needed innovation and competition among market participants.

The industry guidelines have the added advantage of building on the payments infrastructure already widely installed across Canada, including thousands of contactless readers.

It was on the heels of these guidelines that CIBC and Rogers announced an agreement to launch Canada's first joint mobile payment solution, allowing

Canadians to pay with their CIBC credit card at the checkout counter using their Rogers NFC-enabled Smartphone... a blackberry just like this.

Beginning later this year, customers can access their existing credit cards – VISA or MasterCard—at no extra cost. And they will continue to earn loyalty points, just as they do today.

The good news is that Canada has all the right ingredients for moving ahead with innovations like this.

We do have the ideal conditions in this country to be true innovators. I have mentioned the incredible dynamics of our banking system. But we also have multiple, world-leading wireless networks that cover 97% of the Canadian population. And we have an innovative ecosystem of application developers.

These ladies and gentlemen, may just be the perfect ingredients for success.

MasterCard's latest Mobile Payments Readiness Index ranks Canada ahead of the United States... and second only to Singapore... out of 34 countries.

A key finding emphasizes that partnerships among the key players in the mobile payments ecosystem – financial institutions, payment networks, Telco's, governments, technology providers—are essential to accelerate the move to mobile payments.

A separate study looking specifically at the Canadian mobile market, conducted by Deloitte and released late last year, reached a similar conclusion regarding the need for cooperation among key players.

And this cooperation is precisely at the heart of the CIBC initiative I just outlined.

One thing that attracted me to join CIBC in 2011...was their proven willingness to innovate in the mobile space.

CIBC was the first bank in Canada to launch a mobile banking App in 2010...and more recently became the first bank in Canada to deliver an App to trade stocks through their mobile device.

The bank also offers a Home Advisor App free to all Canadian homebuyers. It is innovations such as this that compelled Global Finance magazine to name CIBC “Best in Mobile Banking” in 2011.

But that is no reason for CIBC...or any of us in the payments industry...to rest on our laurels.

In this time of hyper-rapid technology development and ceaseless consumer demand for greater convenience... complacency is a recipe for irrelevance.

And I am sure we can all think of instances where complacency has led to companies finding themselves in dire straits.

Perhaps the best example... and I say this because it offers hope in the form of a happy ending... is IBM.

IBM in the 1970's and 1980's could seemingly do no wrong. Their mainframe computers, in particular, were dominant in the marketplace and immensely profitable.

In fact, they were so dominant and profitable... that when a scientist at IBM's Watson Research Centre in 1970 came up with a more elegant and far cheaper solution – Reduced Instruction Set Computing, or “RISC”... the company sat on the innovation for more than a decade.

Why? The simple fear was that they would cannibalize their own main frame sales, the company's cash cow. Nobody could figure out how to make the transition to distributed processing... without taking a big hit financially.

So they dithered.

At that time only one IBM senior executive really pressed home the folly of this strategy... a very young, new President at IBM Canada... named John Thompson.

John was nothing if not persistent – indeed, he became famous for his presentations on the imperative to change the entire IBM business model, not only in terms of new computer technology, but expanded offerings in areas like software and services, including consulting.

He kept coming back to head office in New York...people listened politely... but nothing much changed.

Then IBM hit a wall. The company went from making billions...to losing billions...overnight. The CEO was ousted... and a non-IBMer... a fellow named Lou Gerstner... rode into town.

Somebody remembered that there was this guy from Canada... who had some interesting ideas. The summons went out.

Gerstner liked what he heard... and before long virtually all the old management team was gone... and John Thompson became Vice-Chair, second only to Lou himself.

Gerstner also liked what he saw in the rest of the IBM Canada leadership team... and many of them, including a fellow named Bill Etherington, went on to very senior positions at head office in New York.

And of course IBM ended up with one of the great turnarounds in corporate history.

So I like this story for a couple of reasons. First, it shows that it is possible to recover if you make a misstep...if you are decisive and bold.

Second, it makes the point that we Canadians do not have to take a back seat to anyone when it comes to strategy, leadership and innovation.

And third, I like the fact that both Thompson and Etherington went on to Chair their respective boards at two Canadian banks, TD and CIBC.

And that's just one example of where Canadians are willing to take a chance and innovate... where others hesitate.

I mentioned earlier that Canada has the foundation to become true mobile innovators. We have decades of experience in knitting together technology, a relatively small population and a vast land mass.

Successfully.

And we Canadians are capable of not only of effecting change... but embracing it.

In this world of change, we still have day to day realities to deal with. Cash is still king. Today approximately 20% of all transactions in Canada continue to be conducted in cash and there is about \$8 billion of currency in circulation – a number that has been pretty stable over several years.

Paper cheques? That may be another matter. Cheque volumes are currently declining at about 5% per year. Some experts believe cheques could essentially be gone by early next decade...much as Traveler's Cheques have all but disappeared and are being increasingly replaced with prepaid cards.

But others are doubtful. The UK, which had targeted a 2018 end to cheques, recently pulled back from that commitment.

But while cash will not disappear and cheques may linger, the e-wallet is coming soon than we think.

And the attraction is obvious. Ultimately, all kinds of information can be stored on these devices, from driver's licenses, to loyalty cards, to pictures of children and grandchildren.

Fumbling through a wallet at point-of-sale will soon, for many, become as distant a memory as 8-track stereo...or rotary dialing.

A lost conventional wallet...is a lost wallet. While we'd like to think that here in Canada they are mostly returned intact...in reality the money and credit cards are often missing...if the wallet is returned at all. Arguably, the risk of identity theft is actually the much more important potential loss.

A lost e-wallet...or enhanced mobile devices, like a blackberry... can be encrypted, have a password...or, in the not too distant future...a retinal scan feature.

There are also worries that these new systems I have been describing might impact small business, in terms of cost. But if the past is any guide, new technology will lead to the opposite.

Before credit card and debit card point of sale, merchants were burdened with cheques and cash. The former presented problems in terms of insufficient funds – bouncing – and the latter created issues around security and petty theft.

In practice, creating greater convenience and purchase speed at point of sale only accelerates the propensity of people to buy. So what we are likely to see is a win-win situation.

If we are smart – if we compete at some levels, and cooperate at others, around things like standards—Canada has a real opportunity to move into a leadership position in mobile payments.

And we absolutely have the capacity to be leaders.

We just need the will.

We should be inspired by the example of the MaRS Discovery District on the edge of the U of T campus in Toronto.

All three levels of government, a great university, banking partners, some visionary individuals...and some fierce competitors in the medical field, AstraZeneca and Eli Lilly...all teamed up to create what will undoubtedly be a world-beating hot-house for biotech and medical innovation.

We should also be inspired by the recently announced Oil Sands R & D consortium... which brings together competitors in the oil and gas industry...in common cause to come up with positive solutions to environmental challenges in the industry.

The mobile payments opportunity deserves no less attention.



We need government to set mobile standards...creating a level playing field. Players currently not regulated... need to be.

My friend and former colleague, Minister Flaherty, is expected to soon announce an Advisory Council made up of retailers, banks, the credit card network players and others.

One approach would be an amendment to the legislation that would broaden CPA membership...and bring all the payments players under the same regulatory umbrella.

And there is precedent for this – CPA membership was broadened in 2001 to include life insurance companies and certain securities dealers and money market funds.

Government needs to do this in a way that does not impede innovation or cooperation, but fosters it...so that those who choose to play in this newly defined space...can accelerate the pace of change.

It also has to be done quickly. I am sure some of you may have seen that new regulations are going in place to raise the review threshold for foreign takeovers from \$330 million to \$1 billion.

As it happens, I first announced the intent to do this in early 2009 as Industry Minister. So it took almost three years to define and implement the change. Not exactly a bureaucracy moving at the speed of light.

Of course we as an industry – all of us—need to take up the challenge as well. Government may level the playing field...but it won't do us...or Canada...much good if we stand on the sidelines.

I think of us as having just entered a new, beautiful, large, modern house. We are just barely into the front foyer... and many rooms beckon us forward. We may take slightly different paths to explore the house...but ultimately it is a space we can all inhabit. And thrive.

We simply need to be bold enough to act and wise enough to partner with other like-minded leaders to make the best use of the opportunities before us to best serve our customers and Canadians.

Thank you.