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Gary Sands: Rise in cashless transactions and fees that go with them another burden for small businesses

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Many Canadians are perhaps not aware that for the billions of credit card transactions that take place at point of sale across Canada, billions in dollars are also siphoned out of the pockets of those businesses in interchange fees. Benoit Tessier / REUTERS

OPINION: Reductions in transaction fees paid to banks and credit card companies would help save brick and mortar Canadian businesses, which are facing many new expenses and significant lost revenue due to the pandemic.

Over the course of the last few months, businesses in every sector have been navigating through the rough and uncharted waters of the COVID-19 pandemic. Particularly for small and medium-size enterprises, these rough waters have been more like a tsunami and, unfortunately, many will not make it to shore.

For those businesses that do make it to dry land, there are going to be changes. Customers will have changed their buying habits, at least for the foreseeable future. Additional expenditures will be required for new in-store health and safety measures, such as the installation of plexiglass, enhanced cleaning protocols, face masks, sanitizers, implementing in-store limits on customers, and curbside pickup or delivery options.

These small businesses have already invested in the bricks-and-mortar of physical store locations, buying local and supporting the communities they themselves live in. Now, even more than before COVID-19, they must compete with online e-commerce giants that provide shopping options at all hours and on all days.

Small businesses must cope with myriad regulations, fees, zoning restrictions, taxes, higher labour costs and premiums. All of this within the context of an economy that has been ravaged by serious job losses. So the road ahead will be a tough one for Main Street Canada.

In addition to these challenges, another large pothole on this road to recovery has appeared — the significant rise in credit and contactless payment transactions. During this pandemic, many employees and consumers have shown a reluctance to handle currency. It’s a safe assumption that a large part of this shift in the payments landscape — credit cards at the expense of cash — will be permanent.

Many Canadians are perhaps not aware that for the billions of credit card transactions that take place at point of sale across Canada, billions in dollars are also siphoned out of the pockets of those businesses in interchange fees. These fees provide a windfall to banks, credit card companies and payment processors. Ninety-nine per cent of all Canadians belong to at least one of the loyalty programs that these windfalls help fund.

In 2018, the Trudeau government announced changes to reduce interchange fees and lighten the burden for small and medium-sized businesses. These measures, yet to be implemented, were an improvement on the changes that the Harper government had brought forward, but more needs to be done. The new framework, which will go into effect in the weeks ahead, will bring fees down to an overall average of 1.4 per cent from the current 1.57 per cent. That is still indefensibly and inexplicably far higher than the 0.89 per cent average that mass retailers such as Walmart and Costco pay. It is also a rate far higher than that paid by businesses in other jurisdictions.

Most critical and relevant is the fact that the reductions in fees were announced in the pre-coronavirus world. The post COVID-19 landscape will be a much different one and will clearly benefit the card companies in a way that could not have been foreseen even a few months ago.

Further fee reductions would help our brick and mortar Canadian businesses and save jobs — all without costing the taxpayer a cent. It is myopic to believe that billions of dollars in interchange fees do not have a huge impact on what Canadian consumers pay for goods and services. Can our government and, indeed, can Canadians allow that in the cratered economy we now need to repair?

COVID-19 has wreaked terrible and long lasting damage. In the spirit of being in this together, some would hope the banks and card companies would step up and voluntarily reduce their fees. But one would be advised to keep the car running while dropping by the head offices of any of those financial behemoths to discuss that suggestion. Clearly it is Ottawa that needs to recalibrate its approach to the payments industry.

Small and medium size businesses, such as independent grocery stores, restaurants, tourist venues and others, are all part of the fabric that makes up the diverse tapestry we call Canada. That tapestry has been frayed by COVID-19. We can and we will repair it. But all of us must be part of the solution — and that includes credit card companies and banks. Loyalty programs are a great perk. But our collective loyalty to Canada's small and medium size businesses should trump any reward a credit card company throws at us.

Gary Sands is senior vice-president of the Canadian Federation of Independent Grocers.

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