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Interac Association: A Backgrounder



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Table of Contents

Introduction	2
Origins and Growth of Interac Association	3
The <i>Interac</i> Shared Services	4
Organizational Structure	6
Interac Association Membership and Functions	7
The <i>Interac</i> Network Model	8
Fees	9
Conclusion	10

Introduction

Interac Shared Services

Interac Association and its members operate two shared electronic financial services: Shared Cash Dispensing (“SCD”) at automated banking machines (“ABMs”) and *Interac Direct Payment* (“IDP”), Canada’s national debit service.

Interac Association is the organization responsible for the development and operation of a national network of two shared electronic financial services: **Shared Cash Dispensing (“SCD”)** at automated banking machines (“ABMs”) and ***Interac Direct Payment (“IDP”)***, Canada’s national debit service. The Association has been connecting the Canadian public to its money for more than 20 years, and the *Interac* shared services continue to impact the lives of Canadians every minute of every day across the country.

Indeed, Canadians love to use their debit cards. In 2001, for the first time ever, more than two billion purchases were made using *Interac Direct Payment*. And, our members continue to increase the number of ABMs available to Canadians, with the total now exceeding 55,000.

Interac Association: A Background provides an overview of the Association’s origins and growth, services, network and membership. *Ce document est aussi disponible en français.*

Origins and Growth of Interac Association

Interac Association was founded in 1984 by five Canadian financial institutions. Today, the Association's membership is diverse, including banks and other financial institutions, as well as a growing array of non-financial enterprises.

Interac Association started in the mid 1980s as a cooperative venture between five Canadian financial institutions: Royal Bank, CIBC, Scotiabank, TD Bank (now TD Canada Trust) and La Confédération des caisses populaires et d'économies Desjardins du Québec (now Fédération des caisses Desjardins du Québec). These institutions created the vision of a single national shared network that would allow Canadians to access their funds from ABMs all across the country (the service is known as Shared Cash Dispensing, or SCD). The Association quickly grew to 10 members, as Bank of Montreal, Canada Trust (now part of TD Canada Trust), Laurentian Bank, National Bank and Credit Union Central of Canada had all joined the original five by 1986.

Following on the success of its SCD service at ABMs, Interac Association launched *Interac* Direct Payment, Canada's national debit card service. IDP began as a pilot project in 1990 in the National Capital Region and was rolled out across the country in 1994. Building on the confidence Canadians had placed in the *Interac* brand, *Interac* Direct Payment was an immediate success. Today, IDP has surpassed cash as the payment method Canadians say they use most often.

Over the past 20 years, Interac Association's membership has also grown and changed considerably. The members work cooperatively to keep *Interac* shared services the most used, trusted and reliable method for electronic financial services in Canada. While the membership includes numerous banks and other financial institutions, any company incorporated Canada is eligible to join Interac Association. A complete list of members can be found on the Association's Web site at www.interac.ca.

The *Interac* Shared Services

The SCD Service

Shared Cash Dispensing allows Canadians to obtain cash or a cash advance using their banking, credit or charge card from any ABM that displays the *Interac* logo, and that is not owned by the cardholder's financial institution.

Interac Association provides two core electronic payment services: Shared Cash Dispensing at ABMs, and *Interac* Direct Payment at the point-of-sale ("POS").

Shared Cash Dispensing (Cash withdrawals at ABMs)

Shared Cash Dispensing was the first service offered by Interac Association members in 1986. SCD allows Canadians to obtain cash or a cash advance using their banking, credit or charge card from any automated banking machine that is not owned by their financial institution, and that displays the *Interac* logo. Access to cash or a cash advance from the ABM is available 24 hours a day, seven days a week almost anywhere in Canada.

Once only available in financial institution branch lobbies, ABMs can now be found everywhere from convenience stores, to gas stations, to the local coffee shop. The number of automated banking machines across Canada continues to increase, giving Canadians more access to their cash than ever. In fact, Canadians made over 285 million Shared Cash Dispensing transactions in 2006.

How does SCD work?

To begin the transaction, the cardholder inserts a valid banking or credit/charge card into an automated banking machine that carries the *Interac* logo. In response to the prompts on the display screen, the cardholder enters his or her secret Personal Identification Number ("PIN"), as well as the account from which funds are to be withdrawn, and the amount to be withdrawn.

The company that operates the ABM sends a message, using the *Interac* Inter-Member Network ("IMN"), to the cardholder's financial institution for authorization. Once the transaction is approved, the ABM dispenses the funds and a printed record of the transaction is made available to the cardholder.

The Interac Shared Services (continued)

The IDP Service

Interac Direct Payment allows Canadians to use their banking cards to pay for goods and services at participating merchants.

***Interac* Direct Payment (Payment at the point-of-sale)**

Since its launch, IDP has become a part of everyday Canadian life. The *Interac* Direct Payment service is a convenient and reliable electronic payment option. It means cardholders have the choice of using their banking card to pay for purchases at any participating merchant in Canada displaying the *Interac* logo. It is available to merchants 24 hours a day, seven days a week, so it can be accessible to cardholders during merchants' normal business hours.

In 2000, *Interac* Direct Payment surpassed cash for the first time, as Canadians' preferred way to pay for purchases (based on Market Research conducted by Interac Association). In 2005, 46% of Canadians said that *Interac* Direct Payment was their most used payment method (compared with 28% for cash).

How does IDP work?

The merchant swipes the banking or credit/charge card (in some instances, the cardholder swipes his or her card) and enters the amount of the transaction into the POS terminal for the customer's approval. Once the customer has chosen the account from which funds are to be withdrawn, and entered his or her PIN, the transaction is sent, using the *Interac* Inter-Member Network, to the cardholder's financial institution for approval.

IDP transactions are processed immediately, and the funds are typically debited from the customer's account right away. Similarly, the customer's funds are normally transferred to the merchant on the same, or within one, business day.

Organizational Structure

Together with its members, Interac Association provides the infrastructure and support needed to maintain and operate the *Interac* shared services for Canadians.

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Interac Association is an unincorporated, not-for-profit association. As mentioned earlier, any company incorporated in Canada is eligible to join the Association.

The Association's main purpose is to set and enforce the rules governing transactions routed over the IMN, and to manage the operations of the network. The Association also provides common marketing support and promotes the *Interac* services for its members. Marketing and communications efforts are directed primarily at consumers and retailers, and focus on the two shared services. Members may also conduct their own marketing of the services they provide.

A 14-member Board of Directors governs the Association. Each year, members appoint representatives to the Board based on their transaction volumes. Appointments are also subject to additional criteria to ensure that the Board includes directors from the various types of members.

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Interac Association Membership and Functions

There are two types of members:

- Direct Connectors;
and
- Indirect Connectors.

Members must carry on at least one of the following four network functions:

- Issuer;
- Acquirer;
- Connection Service Provider;
and
- Settlement Agent.

Any company incorporated in Canada is eligible for membership in Interac Association. As indicated earlier, the Association's membership has expanded beyond deposit-taking financial institutions to include a range of other companies. A current list of members can be found on the Association's Web site at www.interac.ca.

Types of Members

There are two basic types of members: Direct and Indirect Connectors.

Direct Connectors are members who connect directly to the Shared Cash Dispensing service or *Interac* Direct Payment service through the Inter-Member Network. Under Interac Association's decentralized network structure, each Direct Connector must maintain physical links with every other Direct Connector to create the IMN.

Indirect Connectors access the Inter-Member Network by connecting through a Direct Connector.

Functions

Each Interac Association member must carry on at least one of four basic functions, in either or both of the *Interac* Shared Services (Shared Cash Dispensing and *Interac* Direct Payment).

Issuers issue cards to their cardholders. These banking cards are used to access the *Interac* shared services to make cash withdrawals at an automated banking machine and/or payments at the point-of-sale. Only regulated financial institutions can act as Issuers.

Acquirers deploy and operate ABMs and/or POS terminals. These devices capture and transmit to the Issuer relevant data needed to successfully complete a transaction. Any member may be an Acquirer.

Connection Service Providers are Direct Connectors who provide Indirect Connectors with access to the *Interac* services.

Settlement Agents are Canadian Payments Association ("CPA") members who settle the financial obligations of other Interac Association members through the CPA's Automated Clearing Settlement System.

The *Interac* Network Model

The *Interac* Inter-Member Network

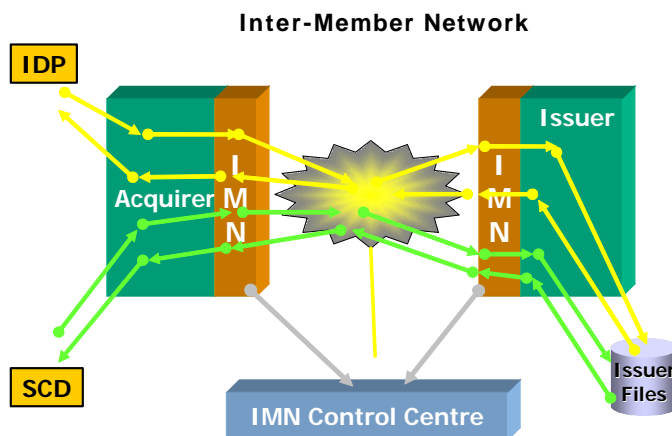
Each Direct Connector maintains physical links with one another to form the IMN. The network has no single switch and it is, therefore, virtually impossible for the entire system to shut down at any given time.

When a cardholder initiates an SCD or IDP transaction at an ABM or POS terminal, the information from that transaction is communicated to and from the cardholder's financial institution using the Association's Inter-Member Network.

The *Interac* IMN is unique. Unlike other networks that operate around a central hub, the IMN is completely decentralized. Essentially, the IMN is a national network of nodes distributed amongst *Interac* Association's Direct Connectors. As there is no single switch, there is no single point of failure and it is virtually impossible for the entire system to shut down at any given time. This provides added security and reliability.

Each Direct Connector must maintain physical links with every other Direct Connector to form the IMN. Indirect Connectors connect to the network via a Direct Connector.

In addition, when SCD and IDP transactions are carried out using the IMN, a settlement obligation is created between the cardholder's financial institution and the Acquirer that operates the ABM or POS terminal. The Association's role is to facilitate the exchange of these messages between members; it plays no part in the actual transfer of funds.



Fees

Interac Association does not set or collect fees from cardholders. Members may choose to charge their customers for transactions made using the *Interac* shared services.

Interac Association does not set or collect fees from cardholders. The only fees the Association collects come from its members, and these fees are sufficient enough to cover annual operating costs only. Members may, however, choose to charge their customers for transactions made using the *Interac* services.

Issuers – members that issue cards to their cardholders – often charge their customers a transaction fee for making a debit on their account (this type of fee is often covered under a fee package) or for using an automated banking machine belonging to another institution. Fees charged by Issuers are proprietary. Financial legislation regulates the setting and notice of these fees.

Acquirers – members that operate banking machines and/or POS terminals – may also charge fees called “surcharges”. Interac Association maintains strict rules to ensure that these surcharges are properly disclosed on the ABM or POS screen. A cardholder must always be informed of the amount of the surcharge before authorizing the transaction, and must have the option of cancelling the transaction without cost, should he or she not wish to pay the additional fee. In the case of IDP, merchants are not permitted to impose a surcharge to consumers on the transaction unless a specific agreement is made with their Acquirer, and the adequate disclosure rules are complied with.

Conclusion

Since its origins in 1984 with a membership of just five financial institutions, Interac Association has grown and evolved into a vibrant and diverse organization. Members spanning a wide variety of businesses and services work together to provide Canadians with the high level of service they have come to expect from the two *Interac* shared services.

Indeed, Interac Association is a made-in-Canada success story. Today, Canadians are among the world's most active users of ABMs and debit cards at the point-of-sale, and the success of the *Interac* services has provided Canadians with a level of banking convenience seldom matched around the world.
