PAYMENTS CANADA

August 6, 2021

Submission to FINA Pre-Budget Consultation in Advance of 2022 Federal Budget

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Recommendations

Recommendation 1: That the government amend the Canadian Payments Act to expand Payments Canada's membership to enable credit unions, non-financial institution payment service providers and financial market infrastructure entities to participate in Canada's national payments, clearing and settlement systems.

Recommendation 2: That the government proceed expeditiously with legislative and regulatory changes to implement open banking (or consumer-directed finance) in Canada, including transaction initiation.

Recommendation 3: That the government reduce its reliance on paper cheque payments by adopting more cost effective and secure electronic alternatives, and encourage the private sector to embrace a similar approach.

Summary

Payments Canada is pleased to submit recommendations to the House of Commons Standing Committee on Finance as part of its pre-budget consultations in advance of the 2022 budget. We recommend that the Government of Canada continue to implement initiatives to broaden access to Canada's payment systems, introduce open banking in Canada, and support the migration of cheque payments to digital alternatives.

Introduction

The Canadian economy depends on the transfer of billions of dollars each day and Payments Canada plays an essential role in the safe and efficient operation of Canada's payment systems. We are a public purpose, non-profit organization, delegated by the Canadian government to collaborate with our financial institution members in meeting the payments needs of consumers and businesses. Payments Canada owns and operates Canada's payment clearing and settlement infrastructure, including associated systems, bylaws, rules and standards, which underpin the Canadian financial system and economy. In 2020, Payments Canada cleared and settled over $107 trillion - more than $420 Billion every business day - in a wide range of payments made by Canadians and businesses.

Payments Canada is in the midst of an ambitious multi-year program to modernize Canada's national payments systems - the technology and rules that support the exchange of hundreds of billions of dollars every day in Canada. Modernized payments infrastructure and related regulatory reform will deliver significant benefits to individuals, small and medium enterprises (SMEs) and larger corporations as Canada emerges from the global pandemic and beyond.

Context

Embracing electronic payments and online commerce has been a defining characteristic of how Canadians have adapted during the pandemic. In the first four months of the pandemic, cash and cheque payments declined dramatically, and we saw a significant growth in the use of contactless payments and electronic payments. A year later, Canadians continued to demonstrate a preference for electronic payments, with 42 per cent indicating COVID-19 has changed their payments preferences to digital and contactless for the long-term.

Businesses are also shifting to digital payments in order to take advantage of the choice, convenience and cost savings that they provide. In order for Canadians and Canadian businesses to realize the full benefits of payments modernization, regulatory changes are required. To date, the federal regulatory framework for electronic payments has not kept pace with global and domestic payment trends. Consumers and businesses lack full protections and non-traditional payment service providers (PSPs) are challenged to effectively compete with established financial institutions. The government has recognized this imperative, and must move swiftly.

In Budget 2021, the government took an important legislative step toward enabling modern payments regulation through the introduction of the Retail Payments Activities Act (RPAA). RPAA was first announced in Budget 2019 (then referred to as Retail Payments Oversight Framework) in response to the rapid pace of innovation in the retail payment space. Implementation of the RPAA will require non-financial institution PSPs to establish sound operational risk management practices and protect users' funds against losses. We commend the government, and in particular the Department of Finance, for following through on this Budget 2019 commitment, especially while simultaneously advancing the extraordinary policy making activities necessitated by the pandemic. The combination of RPAA, and the forthcoming amendments to the Canadian Payments Act, will provide broader access to Canada's national payments systems.

Implementation of RPAA is a critical step towards Payments Canada's ability to safely open our systems for payments service providers to participate and compete in Canada's payments market, which is an important step toward Payments Canada's ability to safely make Canada's systems - including the Real-Time-Rail (RTR) that is expected to go live in 2022, accessible to non-financial institution PSPs. The next step is to introduce required changes to the Canadian Payments Act to support broader Payments Canada membership.

Recommendation 1: Amendments to the Canadian Payments Act

As the Bank of Canada proceeds with the implementation of RPAA, it is important that the government expand Payments Canada's membership to enable credit unions, non-financial institution PSPs and financial market infrastructure entities to participate in Canada's national payments, clearing and settlement systems.

Membership in Payments Canada is currently limited to banks, credit union centrals, and a select few other financial institution types; only members may exchange, clear and settle payments across our systems. The industry continues to evolve and now includes a range of non-financial institution entities who are driving competition, and payments system enhancements are being made under Payments Canada's modernization programs that are accelerating the evolution.

The Act is currently a barrier to providing more open, risk-based access for three groups to the core national payments system:

1. PSPs who will be regulated under RPAA will seek to compete with traditional financial institutions in the payments space to enhance services and lower costs for Canadians.

2. Credit union locals will seek to access the payments system infrastructure to better serve their consumer and small business clients with enhanced electronic payments services that rival bigger institutions.
3. Regulated financial market infrastructure entities who wish to access the high-value payments system to directly settle securities, derivatives and foreign exchange transactions.

Since Payments Canada's membership was last reformed twenty years ago, the credit union marketplace in Canada has evolved to become significantly more concentrated, with some locals now larger than their provincial centrals. The Act currently prohibits locals that are a member of a central credit union from becoming members of Payments Canada. Not only is this blocking an existing demand for access, credit unions have proven to be important drivers of competition and access to financial services. They also play a particularly important role in rural communities, providing access to financial services to Canadians from coast to coast to coast. Likewise, the ineligibility of designated systemically important financial market infrastructures to be members of Payments Canada prevents these entities from being direct participants on our systems, as they are in comparable jurisdictions.

The government should remove these barriers, level the playing field and allow for more competition, to contribute to economic growth and productivity gains that will help Canada sustain the recovery and economic growth following the COVID-19 pandemic. These amendments to the Canadian Payments Act are urgently needed to ensure Payments Canada can make necessary changes to its bylaws that govern participation and will open access to payments service providers. Optimally, the changes to the Canadian Payments Act should be made early enough to enable broader participation on Payments Canada's systems, especially the RTR, by PSPs (once RPAA is fully implemented), and earlier by credit union locals and regulated financial market infrastructures.

Recommendation 2: Implementing open banking in Canada

As consumers and SMEs in countries like the United Kingdom reap the benefits of a well regulated open finance regime, it is becoming increasingly urgent that the government proceed with a Canadian open banking regulatory system. Open banking, including transaction initiation, will provide Canadians with more control over how their financial information can be used to support the introduction of innovative and cost-effective financial services and payment options.

The government can benefit from the experience and lessons learned in other advanced economies, while leveraging the energy of the growing number of highly competitive Canadian fintechs and organizations such as Payments Canada. Payments Canada has expertise in open banking and is available to convene our membership and stakeholders.

Canada lags other jurisdictions as they empower consumers to have more control over how their financial information is used and to take advantage of innovative and less costly financial services. The Department of Finance's Advisory Committee on Open Banking concluded that open banking should be implemented as it can provide tangible benefits for Canadians, including those facing financial insecurity. The increased consumption of digital payments and other financial services by Canadians as a result of the COVID-19 crisis is adding to the urgency.

For open banking to become a reality in Canada, the private sector needs to align on technical standards and business models. The government must lay the regulatory foundation, including updates to PIPEDA, and provide public policy direction on issues including liability and accreditation of third-party service providers that seek enhanced access to Canadian's financial data. Consumers need protections and financial service providers need clear guardrails to drive business decisions.

The Advisory Committee also noted in its final report to the Minister of Finance that consideration should be given to the intersection of open banking with payments modernization, and Payments Canada stands ready to help with the implementation of open banking. Our new Real-Time Rail (RTR) payments system will support payments initiation by third party service providers, as is being introduced in countries such as Australia as part of its open banking regime.

Advancing the open banking framework is crucial to unlocking the full value of enhanced retail payments regulation (RPAA) and Canadian Payments Act changes. Standards will be needed to support the ecosystem, and Payments Canada has the mandate and expertise in the payments space to develop and support these standards and is eager to contribute in this capacity.

Recommendation 3: Reduce reliance on paper cheque payments

As a major payments system user, the government should reduce its reliance on paper cheque payments, adopt more cost-effective and secure electronic alternatives, and encourage the private sector to embrace a similar approach.

Today, direct deposit is a faster, safer, more convenient and environmentally friendly payment option than a cheque. And with the introduction of the RTR, funds will be able to be sent instantly and securely to a business or individual's account with important information, like what the payment is for, travelling alongside the payment. Additionally, by accelerating the shift from cheques to electronic payments that incorporate rich data including remittance information, Canadian governments and businesses will realize millions of dollars in savings from payments processing and reconciliation costs.

Conclusion

The national payments systems in Canada underpin the financial system. These proposals ensure Payments Canada will continue to deliver world class national payments systems that deliver benefits to the ecosystem, economy, and all Canadians.