

**Wealthsimple**

Written Submission for the  
2024 Pre-Budget Consultation

August 2023



## Summary of Recommendations

*That the Canadian government:*

1. **Enhance Canada's payment infrastructure with an always-on real-time payment rail (RTR), on-par with all other G7 nations, delivering a public utility that reduces late and overdraft fees, lessens reliance on payday lenders, facilitates economic growth and improves cash flow and money management for all.**
2. **Mandate uniform pricing based on true cost of use for all direct participants in the RTR, an essential ingredient to create conditions for viable and scalable innovation in financial services and increased choice for consumers.**
3. **Engage with provincial and municipal governments and public agencies, to ensure they are prepared to take advantage of efficiencies to reconciliation, program delivery, tax remittance and loan repayments offered by the RTR.**



## Introduction

As the Standing Committee on Finance considers priorities for Budget 2024, Wealthsimple encourages examination of opportunities to leverage technology and global best practices to increase Canada's efficiency, productivity and competitiveness.

**Specifically, the government must address the absence of an always-on digital payment system that provides efficient, direct and immediate control over money movement - commonly referred to as a real-time rail (RTR).**

The government has been steadfast in its support for an RTR and has overseen its development via Payments Canada and the Bank of Canada since 2015. In its [2021 platform](#), it reiterated a commitment to “modernize Canada’s payments technology to deliver faster and lower cost options so that you can securely and conveniently manage money, pay bills, and transfer funds to loved ones around the world.”

The project has support across party lines and we appreciate this Committee’s intention to study its progress this Fall. However, persistent delays raise concern about the potential for undue compromise on important [policy objectives](#) - most notably the commitment to fair and transparent pricing and 24/7/365 instant settlement, both of which are necessary for the desired benefits to be achieved.

We share the concerns of [former Bank of Canada Governor David Dodge](#) that “Canada’s apparent complacency in bringing key elements of its financial system into the digital age is a result of a lack of political will, regulatory silos and the incumbent interests entrenched in our evolving economy. The end result is that Canadians and small businesses continue to face high fees - some of the highest in the world - every single time they make a payment. At a time when budgets are stretched for both consumers and small businesses, these costs are difficult to bear and inequitable.”

If implemented correctly, the RTR could be as meaningful a public utility as highways or broadband internet because of what it unlocks for consumers and businesses: control, speed, security, and choice.



## The Benefits of RTR and Costs of Delay

If executed according Payments Canada's current parameters, the RTR will:

### **Lower the cost of living and doing business**

Canadians are struggling with high costs in their daily lives. [Statistics Canada data](#) shows one third of Canadians are struggling to meet their financial needs, while a quarter are unable to cover an unexpected expense of \$500. For many, particularly younger people, newcomers and those disproportionately impacted by the rapid increase in interest rates (such as individuals with variable-rate mortgages or student loans), the inability to make and receive payments instantly can be devastating: delaying salary payments, debt repayments and remittances to loved ones. Slow payments can trigger additional expenses for those struggling the most: overdraft and late fees as well as increased reliance on high-interest payday loans.

Similarly, small businesses need to receive payments quickly to pay overheads and settle debts promptly to avoid supply chain disruptions and other penalties. [Canada's current payment systems delay settlement for days](#), making it impossible for businesses to manage cash flow efficiently, forcing them to hold money that could be put to better use, or even take on new debt, while waiting for incoming payments to clear. This is a hidden tax with a huge impact on the Canadian economy: [a 2018 study by EY](#) found that payment processing costs Canadian businesses between \$3 billion and \$6.5 billion per year. With [business insolvencies at the highest levels in nearly a decade](#), the urgency is clear.

### **Grow Canada's economy**

The economic benefits of real-time payments are multiplied when citizens and businesses are able to put their money to more productive uses, instead of paying unjustified prices for payment services or holding capital to cover delays. [A 2019 report by Deloitte](#) UK found that 63% of businesses use capital this way, concluding that real-time payments enable economic growth by reducing transaction costs, improving the efficiency of the economy, and enabling future innovations.

In addition to businesses and citizens, smaller FIs (including credit unions) can use capital more efficiently with an RTR. Instead, smaller FIs and fintechs spend millions floating money to clients while waiting for payments to clear and a small number of the largest FIs accrue benefits from delayed settlement such as interest earned on in-transit funds.



## Save taxpayers money

Governments at all levels stand to be among the biggest beneficiaries of the RTR, as they make and receive billions of dollars in payments daily, and often bear the cost of delay. With RTR governments could reduce their reliance on paper-based payment options like cheques and invoices, eliminating associated costs and risks of loss or damage. A 2022 study by [Public Services and Procurement Canada](#) found that real-time payments would enable governments to collect taxes and reduce operating costs (including inquiries to confirm filings and payment receipts). Improved reconciliation and end-to-end traceability enabled by RTR could also reduce fraud and better enable investigations.

For citizens, RTR could provide a convenient and instant option to pay for taxes, duties, services or loan repayments and receipt of government assistance when they need it most. Pandemic assistance programs like the [CERB benefit](#), the [New Grocery Rebate](#) and the [Ontario Tutoring Support Program](#) are examples of government payments that could have a greater impact if delivered securely and instantly. Ultimately, the costs of deficient infrastructure - be it administrative costs, cash flow management or fraud losses - are borne by taxpayers.

Implementing the RTR would advance fiscal responsibility and support the government's [Budget 2023 commitment](#) to reduce departmental spending by 3% by 2026-27.

## Real-Time Payments in Other Jurisdictions

Following the launch of [FedNow](#) in the U.S in July 2023, Canada is the only remaining G7 country without a publicly managed instant payment system that provides 24/7/365 settlement. RTR systems are stimulating economic growth and innovation in financial services in peer countries, while Canada is being left behind.

In the U.S., the Federal Reserve's development of the centrally-owned and operated FedNow service was [centered](#) on the needs of consumers and small businesses and promotes [equal access and pricing](#) for FIs of all sizes. One study estimated consumers could save [\\$10 billion a year in overdraft and late fees with real-time payments](#).

In the E.U., instant transfers in euros are processed via the [SEPA Instant](#) payment scheme, launched in 2017. SEPA Instant is available 24/7/365, and takes no longer than ten seconds to verify and complete a transaction and make the funds available to the recipient. In the U.K., the [Faster Payments](#) scheme launched in 2008 delivers confirmation of each payment within 15 seconds, and charges all participants a uniform fee per transaction processed. Japan's [Zengin](#) system, which



has been processing real-time payments since 1973, was upgraded to 24/7/365 service in 2018.

Outside the G7, many more countries have successfully implemented RTR systems, with [over 70 countries](#) worldwide now supporting real-time payments and reaping the benefits. [Brazil's Pix system](#) is one of the best known examples. South Korea recorded 7.3 billion real-time transactions in 2021, generating an additional [\\$US8 billion in economic output](#) and \$US2 billion in cost savings for businesses and consumers, streamlining tax refunds and social benefits, and reducing opportunities for fraud. The Danish system, [Straksclearingen](#), has fraud pattern detection and anti-money laundering screening built in. The Centre for Economics and Business Research estimates that by 2026, the world's five largest RTR markets (India, China, Thailand, Brazil and South Korea) will generate [an additional \\$US131 billion in GDP](#) as a result of their real-time payment systems.

Canada's proposed RTR system aligns with global best practices and the needs of our modern economy.

## Role of privately-owned payment systems

Canadians benefited from the early innovation by private entities in this area. But these companies have fiduciary responsibilities to their shareholders. Privately-owned payment rail providers are entitled to monetize their infrastructure to their advantage, but this precludes them from being suitable to deliver the stated objectives of the RTR.

Currently, private networks within Canada may leverage tiered volume-based pricing, where the largest financial institutions are charged the lowest fees per transaction — unlike Payments Canada's fee structure, which is fair and transparent with each participant paying the same rate — and employ delayed settlement, during which intermediaries collect interest and benefit from increased liquidity. Both features advantage a small number of large incumbents at the expense of smaller and newer entrants. Neither align with the government's vision. It is fair to say that the current system creates perverse incentives to delay or overstate risks, such as fraud, that unquestionably exist but are mitigated around the world and pale in comparison to the shortcomings of the status quo. Put simply, privately-owned payment systems play an important role in Canada's payment landscape but are not a substitute for a government-led RTR. This is why the government directed Payments Canada to build a real-time rail in the first place and is consistent with the conclusion drawn by the U.S. Federal Reserve with its decision to expedite the implementation of the FedNow service, despite the prevalence of an existing privately-owned system.



## Conclusions

In 2016, the government had [promising words](#) for innovators: “We need to position Canada as a world leader in turning ideas into solutions, science into technologies, skills into jobs and start-up companies into global successes.” This objective remains equally relevant today. As a Canadian startup with global ambitions, it is at the heart of our recommendations.

Wealthsimple firmly supports the existing [vision for the RTR](#), directed by the Bank of Canada and Department of Finance to Payments Canada, that “promotes fair and open access, enables competition and innovation, fosters fair and transparent pricing, implements appropriate risk controls and considers end-user interests.” We believe that the government must reiterate and act on this vision today.

As our CEO has said, Wealthsimple is committed to building products that positively impact our clients, like the 4% interest we offer to all cash accounts, [expanded CDIC coverage](#) and our FX-free spending card. And we are ready to unlock more. We know what products and services are possible. We have the talent capable of delivering. And we have approval from the Bank of Canada to access the RTR directly once live. What we need now is the infrastructure.

For these reasons, we have made the specific recommendations on page 1.

## About Wealthsimple

Wealthsimple is a financial services company on a mission to help everyone achieve financial freedom. Using smart technology, we take financial services that are often confusing, opaque and expensive and make them simple, transparent, and low-cost. Founded as an automated investment manager in 2014, we now serve over 3 million Canadians (including 1 in 5 adults under 40) with products across investing, DIY trading, cryptocurrency, tax filing, saving and spending. Our 1,000 employees work from coast to coast, in large cities like Toronto and smaller communities like Nelson, BC, Saint-Lazare, QC and Iqaluit, NU.

Wealthsimple has a track record of launching innovative and inclusive financial products while prioritizing early and ongoing engagement with regulators and policymakers. In 2020 we became Canada’s first regulated crypto platform and, in 2022, we became the first ever non-bank, non-credit union to be granted a settlement account with the Bank of Canada. We are a member of the Bank’s Retail Payments Advisory Committee, the Department of Finance’s Open Banking Implementation Group, and Payments Canada’s Member Advisory Committee and RTR Working Groups.