



# Task Force for the Payments System Review

## Task Force for the Payments System Review Revisited

Written Submission for Pre-budget Consultations

August 7, 2020

By former members of, and advisor to, the Task Force for the Payments System Review.

Brad Badeau  
Stephane LeBouyonnec  
John Chant  
Laura Gillham  
Lili de Grandpre  
Patricia Meredith (Chair)  
Terry Wright

Aran Hamilton (Advisor)

Over the past decade, much work has been done to lay the foundation for Canada's digital economy. Government leadership is required to continue the transition over the next 12 to 18 months.

**Recommendation 1:** That the federal government require electronic invoicing and payments (EIP) for all government suppliers and benefit recipients by December 31, 2021. That the government forgive, based on receipted expenditures, an additional \$2,500 to \$5,000 of the CEBA loan to assist small and medium-sized businesses to convert from paper to digital accounting records.

**Recommendation 2:** That the government ensure that all Canadians have access to an ISO compliant, government-issued digital ID credential with economy-wide utility by December 31, 2021. To do this, we ask that the federal government direct funding to the provinces, territories and Citizenship and Immigration Canada.

**Recommendation 3:** That the government pass legislation to implement the Retail Payment Oversight Framework and amend the Canadian Payments Act to give non-financial institutions access to Payment Canada's real-time payment system. That the government amend the Canadian Payments Act to give Payments Canada the power to own and operate the real-time payment system and the Payment Clearing and Settlement Act to give the Bank of Canada the power to oversee the real-time payment system, Payments Canada and Interac.

## INTRODUCTION

Without a trusted, reliable, real-time, data-rich payments system, Canadians are unable to take full-advantage of the benefits of “going digital”. Canada has fallen behind our peers. The organizations that we Canadians rely upon cannot conduct truly digital, data-rich transactions. The Canadian economy is less competitive because our infrastructure doesn’t allow us to access the data necessary to support digital products and online service delivery. Canadian businesses are innovating with one hand tied behind their back. Without this data, the significant investments Canadians have made in innovation in areas like artificial intelligence and other advanced technologies will not bear fruit. The pandemic has created the opportunity for Canada to complete its transition from paper to digital in 12 to 18 months. The only thing missing is government leadership in supporting trusted digital transactions.

## MAKING UP FOR LOST TIME

In its December 2011 report to the Finance Minister, the [Task Force for the Payments System Review](#) found that unless Canada develops a modern digital payments system, Canadians will be unable to fully engage in the digital economy of the 21<sup>st</sup> Century, leading to a lower standard of living across the country and a loss of international competitiveness.

Since then, Canada has continued to fall behind. In 2011 there were half a dozen countries in the world with real-time digital payment systems. Today there are more than 60. Canada is not one of them. Although Payments Canada developed the necessary specifications and standards by 2017, the Canadian banks have lobbied to delay implementation. They argued that it is too risky, but as many industries are discovering during times of disruptive innovation “the biggest risk of all, is doing nothing.” While these delays have benefited bank shareholders in the short-term, they will cost all Canadians dearly over the long-term as we will not be able to accelerate the growth of the information economy post the pandemic.

Data fuels growth in the new economy and automated record-keeping saves money. Services, such as health care, education, financial and other professional services can be delivered much more efficiently if transaction and payment data travel with the service. Studies cited in our report showed that a thoroughly modernized payment system could save the Canadian economy as much as two per cent of GDP in productivity gains, equivalent to \$35 billion in annual savings.

As important as these massive benefits are, a modern Canadian payments system will lead to far greater choice, efficiency and convenience for consumers, small and medium-sized businesses, governments, and organizations, as well as a safer, more secure system. A modern and open payments system would support innovation and increase competition in financial services.

A failure to act now will not only result in a loss of these benefits but will also trap our economy in a less productive and more costly payments system. As other countries accelerate their transition to an information economy, Canada will be trapped in the past.

## THE FOUNDATION HAS BEEN LAID

Over the past decade, much work has been done to lay the foundation for Canada's digital economy. In 2011, the Task Force for the Payments System Review, working with over 250 professionals through eight working and advisory groups, took the first steps working together on options and solutions to some of the most difficult challenges of transitioning to the new economy. The results of this collaborative effort were published in a discussion paper, [Going Digital](#).

Much has been accomplished since this report was written. Payments Canada saw its legislation, regulation, and governance amended to strengthen its mandate and independence. It has developed the necessary data standards (based on ISO 20022) and specifications for a real-time, data-rich, payment system to transport data. They are awaiting amendments to the Canadian Payments Act and the Payment Clearing and Settlement Act to build the new real-time payment system (rail).

Over the past eight years, the Digital Identification and Authentication Council of Canada has developed the [Pan-Canadian Trust Framework](#) for federal, provincial, and territorial governments and the private sector to verify individual and business identity online. This regime has been adopted in British Columbia, but other provinces are struggling to convert their paper identity records (birth and death certificates, driver's licenses) to digitally usable formats.

In May 2018, the Government of Canada passed the Digital Charter. Since then, the Standards Council of Canada has been working collaboratively with 22 organizations to develop a legislative and regulatory roadmap. Clear rules for privacy, security, ownership, and governance of data are essential for investors to make large commitments to digital enterprises.

Federal and provincial governments have indicated that they intend to make high-quality, reliable, and affordable internet available to all Canadians.

The COVID 19 pandemic has accelerated the transition to the digital economy, as a New York Times article recently stated, "more has been done in two months than two years." The ongoing pandemic is shifting behaviours much faster, creating a tremendous opportunity for Canada to make up for lost time. We must anchor our economic recovery in the new information economy, rather than trying to rebuild the old industrial economy.

## NOW IS THE TIME TO ACT

Experience in other countries shows that government leadership is critical to accelerating the shift to digital payments and a trusted digital economy. Indeed, no country has successfully made the transition without government intervention. We recommend that the federal government act now to leverage the behavioural changes brought about by the pandemic to accelerate the growth of Canada's digital economy. Implementation of our four recommendations would position Canada's economy for future prosperity.

## 1. Require Electronic Invoicing and Payments by December 2021

To make up for lost time, the federal government should require electronic invoicing and payments for all government (including provincial and territorial governments) suppliers and benefit recipients by December 2021 (10 years after our initial report and twice as long as necessary for Payments Canada to complete the required work on system requirements and standards.) The banking industry has delayed implementation by insisting that Interac provide the account to account exchange; a demand that has delayed implementation of the real-time, data-rich, payment system necessary for EIP for years. The current timeline for implementation of the real-time small payment system is late 2022, long after the opportunity to accelerate Canada's transition to the information economy has passed.

Implementation of EIP will require businesses to replace manual and paper-based accounting systems and processes with automated, electronic ones. Small and medium-sized enterprises are most likely to find this most challenging. To encourage this conversion in a timely manner, we recommend that the Government of Canada forgive, based on receipted expenditures, \$2,500 to \$5,000 of the Canada Emergency Business Account (CEBA) loan for businesses that make the conversion from paper to digital accounting records.

## 2. Digital Identification and Authentication

To accelerate the adoption of the Pan Canadian Trust Framework™ (PCTF), the Government of Canada must support the provinces, territories and Citizenship and Immigration Canada to ensure that all Canadians have access to a government-issued digital ID credential with economy-wide utility by December 31, 2021. The provinces, territories and Citizen and Immigration Canada will require funding to convert paper records (birth and death certificates, drivers licenses and Permanent Resident Cards) to digital credentials.

Our 2012 report recommended that Canada “propel the build of a digital identification and authentication (DIA) regime to underpin a modernized payment system and protect Canadians’ privacy.” For that purpose, the Digital ID and Authentication Council of Canada (DIACC) was created. Over the ensuing eight years, the DIACC has convened and worked in collaboration with public and private sector members and partners to design and implement an interoperable and secure digital ID framework that will enable all Canadian businesses, governments, organizations and citizens to participate in and benefit from the global digital economy.

The pandemic has underscored the importance of Canadians transacting securely online. Education and healthcare, as well as other private and public services, were forced to deliver services online. Canada's full participation in the digital transformation of the global economy depends on developing reliable, secure, scalable, privacy-enhancing, and convenient solutions for trusted digital identity transactions. Made-for-Canada solutions reflect Canadian principles, business interests and technical models, and ensure compliance with Canadian regulations. They also enable paths to safe and secure cross-border transactions and service delivery.

The adoption of the PCTF demonstrates a multi-sector commitment to establish trusted digital identities within their respective jurisdictions and enable the development of an adaptable infrastructure that will make the Canadian ecosystem more resilient to future crises.

### 3. Pass Legislation to Enable Oversight and Competition

For Canada's payments system to substantially modernize, the government must pass legislation to:

1. Implement the Retail Payment Oversight Framework.
2. Amend the Canadian Payments Act to give non-financial institutions access to the real-time payment system.
3. Modify the Canadian Payments Act to give Payments Canada the power to own and operate the real-time payment system, including operating parameters, risk models, participation, etc.
4. Amend the Payment Clearing and Settlement Act to give the Bank of Canada the responsibility to oversee the real-time payment system, Payments Canada, and Interac.

Most of the work necessary to implement the real-time payment system has already been done. Once this legislation is tabled, the Finance Minister and the Bank of Canada must require Interac to build the "exchange" infrastructure, Payments Canada to build the "clearing and settlement infrastructure" and financial institutions to connect to this new infrastructure. These steps could be completed in 12 to 18 months giving Canada an account-to-account, data-rich real-time payment system. This is what we need to grow our economy in the Information Age.

To encourage competition and innovation both in payments and the broader economy, the payments system must be accessible by non-financial institutions on reasonable terms and conditions. This is a concern to us, as Interac, which does not have a board that is independent from its financial institution members, will be operating the "exchange" infrastructure.

### GOVERNMENT MUST LEAD THE CHARGE

Building digital societies that deliver services including health care, education, and other public and private services to all citizens, especially remote, rural, and vulnerable populations are essential to ensure that no one is left behind.

Canada's future prosperity depends upon Investments in data-rich real-time payments, digital identification and authentication, legislation and regulations clarifying the Digital Charter, and reliable and affordable Internet access.

We have built the foundation; now is the time to complete the transition.