



Submission for the Finance Committee Pre-Budget
in Advance of the 2021 Federal Budget

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Recommendations

Recommendation 1: That the government introduce and bring into force legislation and supporting regulations to implement the Retail Payments Oversight Framework (RPOF), as announced in Budget 2019, at the earliest opportunity.

- The RPOF framework is urgently required to allow Payment Service Providers (PSPs) to become members of Payments Canada to utilize the core national payments systems to offer new and innovative services, bolstering competition and consumer benefits.

Recommendation 2: That the government amend the Canadian Payments Act to allow for broader membership in Payments Canada, and amend the current liability model 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.

- These changes are needed to allow a greater number of ecosystem participants to leverage the capabilities of Canada's enhanced and new payments systems, to level the playing field and support the introduction of innovative payment products and services

Recommendation 3: That the government move forward expeditiously with legislative and regulatory changes to implement consumer-directed finance (including transaction initiation) in Canada, leveraging the energy of the private sector and organizations such as Payments Canada.

- Consumer-directed finance 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.

Recommendation 4: That the government, a major payments system user, reduce its reliance on paper cheque payments by adopting more cost effective and secure electronic alternatives. The government should encourage the private sector to embrace a similar approach.

- Direct deposit is a faster, safer, more convenient and environmentally friendly payment option than a cheque. 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.

Payments Canada is pleased to submit our Budget 2021 recommendations to the House of Commons Standing Committee on Finance. We request that the Government of Canada implement announced initiatives to broaden access to Canada's payment systems and introduce consumer directed finance in Canada, and to support the migration of cheque payments to digital alternatives. These actions will provide Canadians with increased access to secure digital payments and enhanced financial services, and will bolster economic growth and productivity.

Who We Are

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. We own and operate Canada's payment clearing and settlement infrastructure, including associated systems, bylaws, rules and standards, which underpin the Canadian financial system and economy. In 2019, Payments Canada cleared and settled over \$55 trillion in a wide range of payments made by Canadians and businesses.

Payments Canada is also leading a pan-Canadian effort to renew national payments systems and the policies that support them. Payments [modernization](#) is an accelerator for our economy, with far-reaching gains for Canadian financial institutions, payment service providers (PSPs), businesses and consumers. For our members, enhancing Canada's payments systems will support product and service innovation. For other PSPs, the planned expansion of Payments Canada's membership will support the innovation and competitive benefits that modernization can provide. For businesses and governments, the introduction of faster, safer, data-rich payments will allow for more efficient payments processing and lower operational costs¹. Migrating paper-based payments such as cheques and government remittances to digital payment options will benefit the environment. For consumers, modernization will enable the introduction of new payment products and services to meet their evolving needs.

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

¹ It's expected that businesses will be able to reduce a significant portion of the \$3 to \$6.5 billion [we estimate](#) they spend on payments processing each year.

and cheque payments declined dramatically, and use of contactless payments and other types of electronic payments increased; 62 percent of Canadians reported using cash less often, while 53 percent of Canadians reported making more contactless payments in-store.² This has coincided with a shift to online banking and digital commerce. Approximately 85% of Canadians are receiving COVID-related benefits through direct deposit rather than paper cheque. Payments Canada expects that digital commerce and services will be key drivers to support growth as we restart the economy.

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 of Canada has announced its intention to address these gaps through the introduction of legislation that will allow for broader access to Canada's payments systems resulting in increased competition and innovation. The Government needs to move swiftly to ensure that Canadians and Canadian businesses can reap the full benefits of payments system modernization.

Recommendations

- **Recommendation 1:** That the government introduce and bring into force legislation and supporting regulations to implement the Retail Payments Oversight Framework (RPOF), as announced in Budget 2019, at the earliest opportunity.

Budget 2019 announced the government's intention to introduce a function-based regulatory regime to apply to Payment Service Providers and the services they provide to Canadians. This will include requirements to safeguard end-user funds and promote operational stability. Given the focus on payments services, RPOF will be a lighter oversight regime than the prudential regulatory framework that applies to deposit-taking financial institutions. It will also provide the federal government with tools to attract new entrants into the market and promote financial stability.

Legislation to implement the RPOF framework is urgently needed and should not wait for the next *Budget Implementation Act* in 2021. Similar regulatory frameworks providing broader

² <https://www.payments.ca/about-us/news/covid-19-pandemic-dramatically-shifts-canadians%E2%80%99-spending-habits>

access to payment systems have already been successfully implemented in comparable jurisdictions. There are currently over one thousand PSPs operating in Canada, and RPOF is essential to allow these PSPs to safely unlock their full potential to bolster employment, innovation and productivity.

• **Recommendation 2:** *That the government amend the Canadian Payments Act to expand eligibility for membership in Payments Canada, to enable credit unions, non-financial institution PSPs and financial market infrastructure entities greater opportunities for competition by participating in Canada's national payments, clearing and settlement systems.*

Today, membership in Payments Canada is 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 is evolving to include a range of non-financial institution entities who are driving competition, and payments system enhancements are being made under our modernization program 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 RPOF will seek to compete with traditional financial institutions in the payments space to enhance services and lower costs for Canadians.
2. Smaller credit unions 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; instead, they must rely on the Bank of Canada for this service, which adds costs.

The government should remove these barriers in a safe and fair way, levelling the playing field and allowing for more competition, to contribute to economic growth and productivity gains in the restart of Canada's economy. Urgent action is needed to ensure these changes coincide with the rollout of our new Real-time Rail system in 2022.

• **Recommendation 3:** *That the government move forward expeditiously with legislative and regulatory changes to implement consumer-directed finance (including transaction initiation) in Canada, leveraging the energy of the private sector and organizations such as Payments Canada.*

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 Banking³ concluded that consumer-directed finance 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 consumer-directed finance 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 report to the Minister of Finance that consideration should be given to the intersection of consumer-directed finance with payments modernization, and Payments Canada stands ready to help with the implementation of consumer-directed finance. Our new Real-Time Rail payments system will support payments initiation by third party service providers, as is being introduced in countries such as Australia as part of its consumer-directed finance regime.

Advancing the consumer-directed finance framework is important for unlocking the full value of RPOF 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 4:** *That government lead by example as a major payments system user to reduce its reliance on paper cheque payments by adopting more cost-effective electronic alternatives, and encourage the private sector to embrace a similar effort.*

As one of the largest payments system users, the federal government has an opportunity to lead by example. When COVID-19 emergency benefit programs were introduced this spring, Payments Canada and financial institutions collaborated with the government to implement support for CRA Direct Deposit through online banking, replacing a complex registration process

³ The Committee has coined the term "consumer-directed finance" to replace "open banking".

requiring interaction with Service Canada. As of July, 2.7 million individuals and 90,000 businesses have enrolled for CRA Direct Deposit.

Direct deposit has existed for more than 25 years and is a faster, safer, more convenient and more environmentally friendly payment option than a cheque. For COVID-19 benefit payments, direct deposit provides Canadians with access to their first payment in about three days rather than up to ten days, with all the funds available immediately upon deposit, unlike cheques.

As we emerge from the crisis, Payments Canada continues to collaborate with federal government departments and our members to identify opportunities to further reduce the issuance of paper cheques and the number of submitted to the government. We expect the government will realize millions of dollars in savings in payments processing and reconciliation costs as paper payments shift to electronic payments.

Conclusion

The Canadian payments industry has evolved over the forty years since Payments Canada was established. Non-traditional PSPs are growing in relevance and provide innovative services and increase competition. Consumer-directed finance will offer Canadians more control and choice over how they share their data. The pandemic has illustrated the value of direct deposit and movement away from cheques. The implementation of RPOF is a necessary precondition for innovation and increased competition, a level playing field, and sound regulatory oversight in the Canadian payments ecosystem.

The time is now for public sector leadership on payments regulation to allow our economy to reap the full benefits that will derive from our recommendations and ensure we emerge from the COVID-19 crisis stronger, resilient and more efficient.