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Laying bare the evolution of payments in Canada

Introduction

Good morning, and thank you very much for inviting me to take part in this year's Payments Canada Summit.

I'm glad to have the chance to spend some time with you today. I'd like to talk about how payments have evolved in Canada and why it's important to modernize the payments system—and get the job done.

I don't think we can appreciate how far we've come without taking a look back—way back—in history.

For those of you who've had the good fortune of visiting the Bank of Canada Museum in Ottawa, you surely would have noticed the *rai* stone in the lobby, which originated on the Micronesian island of Yap. This three-tonne ancient instrument of currency was used in trading goods and services. It often travelled across the ocean to move from owner to owner. Think of it as a big, round and incredibly heavy bank note.

We've come a long way since then to develop methods of payment that are much more convenient and efficient. But bank notes still have their place. Cash remains a very useful—and unique—form of payment. It's universally accessible without the need for technology, it's resilient, and it provides immediate settlement. Bank notes are widely held and used by the public and accepted by the vast majority of merchants.[1] In fact, cash is used in one out of every five

[1] Our surveys indicate that cash is used in about 20% of transactions at the point of sale, while 96% of small and medium-sized merchants accept cash. The outstanding value of bank notes in circulation has ranged between 3% and 4.5% of nominal GDP from 1970 to today. For more details see C. Henry, M. Shimoda and D. Rusu, "2023 Methods-of-Payment Survey Report: The Resilience of Cash," Bank of Canada Staff Discussion Paper (forthcoming); and A. Welte, K. Talavera, L. Wang and J. Wu, "COVID-19 Hasn't Killed Merchant Acceptance of Cash: Results from the 2023 Merchant Acceptance Survey," Bank of Canada Staff Discussion Paper No. 2024-2 (March 2024).

I would like to thank Melanie Achtemichuk, Nikil Chande and Francisco Rivadeneyra for their help in preparing this speech.

point-of-sale transactions. That's why cash still plays an important role in our economy.

Let me be clear: cash isn't going anywhere anytime soon. Cash is the only form of public money accessible to all. It allows for privacy in transactions and it anchors our monetary and payments systems. So the Bank is committed to supporting the cash ecosystem, supplying secure and easy-to-recognize bank notes that Canadians can be proud of.[2] This also involves counterfeit prevention and maintaining an efficient cash distribution system.

All's to say that as we modernize Canada's digital payment ecosystem, the Bank will continue to do its part to support cash as a payment option for Canadians. But we must also keep our eye to the future to support individuals and businesses as their payment preferences evolve.

So let's dive in.

From bills to bytes

For the past few decades, many aspects of our lives have become digitalized. The same is true for how we pay for things. Digital payments have been on the rise for many years and have been displacing their analog equivalent, cash.

To illustrate, let's imagine a scenario where we're breaking down some payment options with 1990s Canadian musical superstars the Barenaked Ladies. You may recall their quest to determine what they would do if they had a million dollars. Their purchases represent a wide range of goods and services and the many different ways we pay for things.

As we've established, cash is still an important means of payment. So they'd be able to walk to the store—or take a limousine 'cause it costs more—with a few $20 bills to pick up some pre-wrapped sausages, Kraft Dinner (lots of it) and Dijon ketchup. They could also use mainstream digital payment methods like their debit or credit cards—a popular means of buying goods and services. Credit and debit purchases currently make up about two-thirds of payment volume in Canada.

But back in their heyday, the Barenaked Ladies would not have been able to pay online, as the internet was just starting and e-commerce was a dream. Today, like that of other Canadians, around 20% of their spending would occur online.[3] And that may very well be how they'd choose to buy furniture for their house—like a nice chesterfield or an ottoman. They could even send an e-transfer to pay the carpenter building a tree fort in their yard.

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[2] Today, the average distance Canadians need to travel to reach the nearest ABM (automated banking machine) is 2.0 km, while the average distance to the nearest branch is 4.5 km. (H. Chen, D. O'Habib and H. Xiao, "How Far Do Canadians Need to Travel to Access Cash?" Bank of Canada Staff Discussion Paper No. 2023-28 [November 2023]).

[3] Our surveys of the usage of different means of payments have shown a sizable increase in the value of online purchases, from 6% in 2017 to around 20% since the onset of the COVID-19 pandemic (C. Henry, M. Shimoda and D. Rusu, "2023 Methods-of-Payment Survey Report: The Resilience of Cash," Bank of Canda Staff Discussion Paper [forthcoming]).

To back up a bit, when I mentioned "mainstream" digital payments just now, that implies that there are other digital payment innovations that remain a bit outside the norm. Here I'm thinking about crypto and stablecoins. We may hear a lot about them in the news, but in reality they're not used very much as a method of payment.

Our surveys of cryptoasset users indicate the main motivation for owning most forms of crypto like Bitcoin is investment.[4] This said, there are some specialized forms of crypto, such as fiat-backed stablecoins, that can act as a bridge between the crypto ecosystem and the traditional financial system. Stablecoins are effective in this way because they're native to the crypto world, and they can also offer a stable value relative to fiat currencies like the Canadian or US dollar.

But stablecoins have risks in their current form. For example, we need to ensure that the reserves backing the arrangement are safe and liquid. Fortunately, regulators are working to address these issues.[5]

As we've seen many new digital payment technologies emerge, we've been studying whether these payment instruments might displace the use of cash. And so, as part of our core function to ensure a safe and secure supply of public money, we've been actively researching what a Central Bank Digital Currency might look like—essentially, a Digital Canadian Dollar.

We are not alone in this work. Close to half of central banks around the world, including those in most advanced economies, are in various stages of conceptualizing or developing digital currencies. Here in Canada, we've been thinking a lot about why we may want or need a Digital Dollar.[6] We've also been engaging with Canadians to explore how it could be rolled out in a way that is widely accessible and that addresses privacy concerns.[7]

As we have said before, Canadians are well served by the current range of payment options. The decision to go ahead with a Digital Dollar—or not—is one for Canadians to make, through their elected representatives and government. The Bank's job is to build the capacity to issue a digital currency, if one day we are asked to do so.

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[4] In our 2022 survey, 37% of owners of Bitcoin cited investment as their main motivation for ownership. Only 11% of owners cited payment-related reasons for ownership. For more details, see D. Balutel, C. Henry and D. Rusu, "Cryptoasset Ownership and Use in Canada: An Update for 2022," Bank of Canada Staff Discussion Paper No. 2023-14 (July 2023).

[5] There are ongoing efforts at the provincial and federal levels to assess and address potential gaps related to the oversight of crypto assets, including following the Financial Stability Board's recommendations on crypto assets.

[6] C. Henry, W. Engert, A. Sutton-Lalani, S. Hernandez, D. McVanel and K. Huynh, "Unmet Payment Needs and a Central Bank Digital Currency," Bank of Canada Staff Discussion Paper No. 2023-15 (August 2023).

[7] For more details about the Bank's work on this and the implications for financial stability, see the Bank's webpage on the Digital Canadian Dollar.

The four pillars of payments modernization

Now that we've talked about the trends and evolution of payments in Canada, let's talk about the work underway to improve our national payments infrastructure.

Over the past several years, the Bank has been working with the federal government, Payments Canada and the payments industry to support the evolution of our payments ecosystem. To this end, we have focused on four main pillars to improve speed, efficiency and competition.

A safe and secure high-value payments system

The first pillar is Lynx, Canada's high-value payment system that went live in 2021. Lynx is used by participating financial institutions to safely send large Canadian-dollar electronic payments on behalf of themselves and their customers. It is no exaggeration to call it the backbone of the Canadian payment system and even the economy. Over $400 billion a day in payments settles over Lynx—more than any other Canadian payment system by far.[8]

Lynx also allows rich data to travel with each payment—such as invoice details or purchase information. This opens up a wide range of new possibilities for companies and financial institutions when it comes to automating the tracking and reconciliation of payments.

Supervision of payment service providers

The second pillar is the supervision of payment service providers—or PSPs.

How do we define a PSP? At the risk of oversimplification, a PSP is any company that helps people store or move their money electronically. This encompasses a wide range of businesses, such as those that offer digital wallets, provide point-of-sale terminals or facilitate cross-border money transfers.

So far, PSPs have been largely unregulated in Canada—aside from complying with anti–money laundering regulations. That's certainly not to imply that they've been up to no good or have been putting Canadian consumers at risk.

But as part of our role to protect the country's economic and financial welfare, the government gave the Bank a new mandate in 2021 through the *Retail Payment Activities Act.* The Act created a supervisory regime that will build confidence in the safety and reliability of PSPs' services while protecting users from certain risks.

Our initial analysis of the PSP universe suggests that over 3,000 service providers will soon be required to register with the Bank and comply with requirements to manage operational risks and safeguard end-user funds. Registration will open on November 1st of this year, and PSPs will have two weeks to complete their registration.

[8] For more information, see Bank of Canada Oversight Activities for Financial Market Infrastructures.

After the deadline, it will take some time to process the large volume of registrations we're expecting. The verified list will then be published as an official registry in September 2025, and then our supervision of PSPs will begin.

The Bank has a lot of support available to PSPs to answer their questions and get them ready for the new supervisory regime. Our website has a wealth of resources, including a self-assessment tool to see if an entity is subject to supervision, guidance about registration criteria, and information about how we'll approach our supervisory responsibilities.[9]

We also have a booth here at the Summit in the Interactive Zone—we're in space #12. And we'll have interactive breakout sessions later today to spell out this process in greater detail and give you an opportunity to ask questions. We want to make this process as seamless as possible because there will be consequences for those who don't comply.

Retail payments supervision isn't just about providing greater oversight of those that help Canadians move money around. PSPs that are supervised by the Bank will also be eligible to become members of Payments Canada. As members, they will be able to apply to become direct participants in national payments infrastructure like the Real-Time Rail—or RTR. I'll come back to that shortly.

At the end of the day, the Bank's supervision of payment service providers will give Canadians further confidence in the safety and reliability of PSPs' services by bringing PSPs into a regulated sphere. In addition, we believe that broadening participation in infrastructure like the RTR will support a more competitive and innovative payments ecosystem.

Real-Time Rail

Now, back to the Real-Time Rail—Canada's first real-time payment system. The system will allow businesses and consumers to send and receive payments 24/7, 365. Payments will be data rich as well, creating potential efficiencies such as automated invoice processing.

I think it's fair to say that we're all disappointed this initiative hasn't yet been launched. We're behind other jurisdictions in rolling out real-time payment capability. But the good news is that, despite the delays, we now have a clear way forward. Payments Canada recently indicated that the system should be ready for industry testing in 2026.[10]

Once it's up and running, the RTR will open up a world of possibilities—not the least of which is the potential to link real-time payment systems across borders. This could have innumerable benefits for countries like Canada and the United States. We are each other's largest trading partner, and linking real-time payment systems would give individuals and businesses the ability to move money across the border instantly and seamlessly.

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[9] For more information, please consult the Bank's Retail payments supervision webpage.

[10] For more information, see Canada's Real-Time Rail program resumes with renewed momentum.

Batch payment systems

Last but certainly not least in the modernization journey is the Automated Clearing Settlement System—or ACSS. This is Canada's batch payment system. ACSS clears cheques and other electronic items, such as pre-authorized debits.

Let's go back to the very beginning of "If I Had a Million Dollars."

Their first promise in the song is to buy you a house. That would likely involve taking out a mortgage at a financial institution—especially because of all the other expensive purchases being planned in the song. Mortgage payments represent one form of pre-authorized debit that is frequently cleared through the ACSS.

ACSS celebrates its 40^{th} birthday this year. As you can imagine, its 1980s design and launch could not have predicted the technological innovations of the last four decades. Its antiquated network architecture makes it challenging to add new participants. And perhaps most importantly, the system doesn't meet the Bank's risk management standards.

Payments Canada and its members have started to consider solutions to these problems. It's still early days, but these could include introducing a new batch payment system or migrating payment streams to the RTR, like they're considering in Australia.

These four pillars aren't the only efforts underway to modernize our payments ecosystem. Here I'm thinking about broader consumer protection for clients of payment service providers—which I know my colleagues at the Department of Finance Canada are looking at.

We are also concerned about detecting and preventing fraud in the Real-Time Rail. It's important that Payments Canada and its members address this before the RTR goes live.

Finally, the recent announcement in Budget 2024 about the government's broader efforts toward consumer-driven banking will create more opportunities to evolve the payments ecosystem in Canada.

Conclusion

It's time for me to conclude, and in doing so I want to leave you with two messages.

First, let me emphasize the national importance of the two outstanding pillars of the modernization agenda I just spoke about: the RTR and batch payment systems. Throughout history, economic progress has gone hand in hand with improving the speed and safety of how we pay for things. That's why it's no exaggeration to say that if we didn't take steps to continuously improve our payments systems, our economy would suffer.

The second point is that we expect innovation in payments to continue, and probably accelerate. The Bank is ready to do its part so that Canadians can continue to rely on public money in whatever form it may take. And we will continue to coordinate with other departments and agencies to best harness the potential benefits for Canadians.

As I said at the outset, cash will be with us for the foreseeable future. Many Canadians rely on it, and the Bank will continue to supply and support it. But as the digitalization of the economy progresses, we need to make sure the payments ecosystem evolves with it and takes advantage of future innovations.

The Bank is eager to continue our collaboration with the Department of Finance, Payments Canada and the industry to ensure that Canadian households and businesses can benefit from efficient, competitive and safe payment systems. Ultimately, we all want to make sure your $1 million can get you anything your heart desires—like a nice Reliant automobile, a llama or an emu.

But not a real green dress—that’s cruel.

And with that, I’d be pleased to take your questions.