COLLABORATION:
A Key Component of Modernizing Payments in Canada
A BRAVE NEW WORLD OF COLLABORATION

More than 40 countries across the globe have implemented faster payments and are further along in terms of having an effective real-time payments capability, adopting open banking, embracing ISO 20022 in business processes, and evolving regulation and policy direction to promote Payments Modernization.

Faster payments are already here—but not quite in Canada. However, real progress is being made according to The Payments Canada SUMMIT, which attracted 1,800 delegates between May 14 to 16 of this year to its conference in Toronto. Timely debates and conversations occurred among varied stakeholders in the payments ecosystem over the three-day conference, proving that Canadian institutions are willing to set aside traditional competitive practices and work together in ways that combine their strengths, optimise their approach to innovation, and ultimately strengthen Canada’s competitive position.

This research paper highlights key discussions at The SUMMIT, which demonstrate the power of collaboration in modernizing Canada’s payments ecosystem.

When it comes to changes to core payments infrastructure, which benefit everyone, we need to put our organizational self-interest to the side so we can get, and stay, aligned. And if we do, the market participants – both current and new – will drive change to deliver better, faster, and safer data rich payments to their customers and everyone will win.

Gerry Gaetz
President and CEO
Payments Canada
Payments Canada's Modernization Program is a large undertaking, but a much needed one. The reality is, payments systems in Canada were built for a different era and no matter how much financial service providers layer on top of the current system, the infrastructure was never envisioned for evolving business models such as the Amazons and Ubers of the world. As the world becomes more global, Canadian consumers and financial institution clients expect to experience in Canada what they see or hear about in other markets. This modern infrastructure will also go a long way in attracting foreign investments.

Furthering adoption of payments modernization

In an effort to help financial institutions accelerate the adoption of modernization initiatives, Tata Consultancy Services (TCS) announced the launch of the TCS BaNCS for payments in Canada at The SUMMIT. The platform is built on ISO 20022 financial standards and supports real-time payment processing across multiple geographies, entities, and currencies.
Data breakthroughs

Some say data is the new oil. If that’s the case, then ISO 20022 is what will facilitate the flow of data through the financial network. To ensure that the payments community fully understands the interoperability of the standard and moves forward, the launch of the Canada-based 20022 Labs was another announcement made at The SUMMIT. The new, not-for-profit global payments lab will create a new payments ecosystem that encourages collaboration between players in fintech, paytech, financial institutions, and corporates by providing consulting, education, and research to promote adoption and maximized use.

20022 Labs.

The rise of paytech

As organizations that use technology to enable the electronic transfer of value, paytechs are increasingly being recognized in Canada for paving the way for fintech adoption. The SUMMIT marked the launch of the Paytechs of Canada Association, a newly formed trade group which aims to enhance awareness of paytech in the country and improve the payments experience for Canadian consumers. Today, there are 633 paytech companies in Canada – up 136 per cent in the last five years – and the association strives to raise the industry’s profile through advocacy and education.¹

The Paytechs of Canada Association and the Fintech Growth Syndicate (FGS) – Canada’s fintech experts – co-released the first in-depth report on the Canadian paytech landscape at The SUMMIT, titled Canadian Paytech Report. The report offers a comprehensive overview of the impact at which technology is driving disruptive change and serves as an industry benchmark that tracks progress in the payments space and spotlights innovation. It also draws attention to future considerations and opportunities for collaboration in the paytech ecosystem.

Recognizing the power of fintechs to accelerate innovation, Canadian banks are increasingly leveraging the extensive tech know-how of fintech and paytech companies to improve their financial offerings.

According to FGS, approximately 1,000 fintechs across Canada offer services or products related to crowdfunding, insurance, wealth management, artificial intelligence (AI), lending and payments, and more and have been getting the attention of Canada’s Big Five banks. In addition, more than half (57 per cent) of Canadian paytech products have been created through partnerships between FIs and paytechs, according to the Canadian Paytech Report.

Such partnerships are a win-win: banks bring unrivalled payments experience, regulatory knowledge, fraud detection and an established client base, while fintechs and paytechs use their disruptive nature to challenge the status quo and solve pain points with efficiency and innovation.

Data mining for the gig economy

Traditional bank models are falling short in big data mining. With the gig economy disrupting the nature of today’s workforce, the pressure is mounting for efficient data aggregation in financial services. At The SUMMIT, PwC quantified the Canadian the gig economy – which includes independent contractors, temporary workers and part-timers – at approximately 2.2 billion persons, equaling 25 to 30 per cent of the workforce and says this number is growing.

This is in line with PayPal’s recent study revealed by the company’s Canada President, Paul Parisi, during his keynote at The SUMMIT, which finds that 58 per cent of the millennial population expect to leave their jobs in three years or less and 25 per cent opt for a lifestyle with multiple jobs.

Improving bank lending decisions through AI prowess

A small but growing number of fintech companies have been responding to the changing workforce with solutions meant to help Canadians manage the effect of the ebb and flow of gig work on their financial statements and banking relationships.


A partnership between two Quebec-based companies, National Bank and Flinks, is one example where collaboration is bringing AI to banks’ lending decisions by providing financial insights and credit risk intelligence. AI leverages data to better assess creditworthiness of individuals and businesses and improve lending decisions.

“AI adds granularity to how you give credit and keeps a bank’s credit portfolio healthy. It also helps banks take advantage of new business opportunities while capping delinquencies and maintaining healthier loan books.”

This comes in handy not only for gig economy workers, but for the 1.15 million small businesses in Canada, which are more often than not hungry for loans. ⁴ AI creates new insights for a small business by expanding the pool of criteria that lenders can draw on beyond traditional considerations.

Yves-Gabriel Leboeuf
CEO and Founder
Flinks

Lending to new Canadians is another example where AI can better assess the health and prospects of a potential borrower. With Canada’s rate of immigration exceeding 300,000 annually, AI can be used to facilitate better lending decisions to this significant segment of the population, which has traditionally been labeled as high risk, with support from credit agencies when needed. ⁵

Alleviating pain points in cross-border payments

Partnership is key in the complex world of cross-border payments. Canadian businesses are pushing for real-time payments beyond the domestic money movement, and alternative financial solution providers are bringing speed and transparency to cross-border, cross-currency money transfers.

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Canadian paytech Motion Pay facilitates payments from Chinese consumers by allowing them to use money from a WeChat or Alipay e-wallet linked to their Chinese bank account, via a simple scan of their phone. Motion Pay’s handheld point-of-sale devices, which process transactions in Chinese yuan through QR code-based payment systems, were introduced in Canada in early 2017. “We processed CAD 25 million worth of transactions in our first year and are used today by over 2,000 retail locations from coast-to-coast,” said Riven Zhang, Founder and CEO of Motion Pay.

B2B also presents a huge opportunity for cross-border money movement. According to research from Juniper, the global B2B money transfer industry is forecasted to see a US 218 trillion valuation by 2022 up from its existing US 150 trillion valuation. 

Another homegrown paytech, Buckzy Payments, is relieving the pain points that exist in sending and receiving money around the world by offering an industry-first, cross-border money movement solution in real-time. Today, Buckzy works with one of the Big Five Canadian banks and one of the leading payments banks in Asia that recognize convenience is not only expected but demanded, and taking the lead in offering real-time cross-border payments goes a long way in attracting and retaining customers.

“The next step for cross-border payments will be to make progress in global trade payment transfers, which is currently challenged by different jurisdictions and domestic infrastructures, as well as ticket size limitations set by financial institutions and regulators. We expect this to improve over time as stakeholders learn more about cross-border payments and the risk and promise of adoption.”

Abdul Naushad
CEO
Buckzy Payments

Modernizing government payments

Innovative technology companies are also riding the wave of collaboration on government payments. The Canadian Revenue Agency (CRA) and Payment Source shared an exemplary public-private collaboration. Brought together at The SUMMIT in 2016, their objective was to simplify tax payments for all Canadians while overcoming barriers to modernized payments, including cost, the need for richer remittance data, and disparate departmental accounting systems.

Payment Source developed an ecosystem of payment methods that reduces reliance on costly cheques and ensures financial inclusion. Starting in 2017, it enabled over 6,000 Canada Post locations to accept in-person cash and debit tax payments using a QR code with the remittance information required to credit taxpayers’ accounts. In 2018, the CRA and Payment Source launched PaySimply.ca to accept credit cards payments, PayPal payments, and more recently, Interac e-transfers.

The collaboration didn’t stop there. Today, PaySimply.ca is integrated with TurboTax allowing Canadians to complete both tax filing and payment in a single, seamless experience. According to Payment Source data shared at The SUMMIT, the company helped the CRA process over CAD 50 million in tax payments in the first full tax season of service, and that number surpassed CAD 100 million last year as it continues to see large double-digit growth. The company’s records also reveal that feedback from taxpayers has been positive, showcasing a win-win approach.

Our relationship with the CRA is a great example of a successful public-private partnership. Payment Source brings an agile approach to delivering innovative payment solutions, while the CRA brings the scale required to make the business model successful. We definitely believe this type of collaboration will become the model for our future success.

Robert Hyde
President
Payment Source

Despite partnerships with fintechs and paytechs, traditional thinking, and legacy culture and systems still slow down efforts. Being agile in the face of change is the only way forward.

Canada’s Big Five banks are considering the rate of change as well. Over the last three years, Scotiabank has adopted a new leadership behavioural model, which includes role mobility, servant leadership, experimentation and prototyping. It revamped its global business payments to create an agile environment focused on digital solutions that deliver a better customer experience.

According to a panel discussion by Llewellyn and the Scotiabank exec team, the bank considers itself as much a technology company as a bank, with technology at the core. It established an organization structure that combines business and technology as well as a platform for accelerated development where it relies 10% on methodology and 90% on mentality and collaboration. As a result of adopting Agile, the bank has been delivering first-to-market payments products to its business and retail customers, including the first fully end-to-end digital mortgage solution in Canada. It also recognizes that doing everything on its own is no winning strategy, and is constantly exploring opportunities to partner with fintechs.

One of the bank’s key success factors is adopting Agile. People tend to confuse Agile with a methodology, but it is more of a mindset.

Rania Llewellyn
Executive Vice President
Scotiabank
Never before has the payments landscape been so dynamic. The 2019 Payments Canada SUMMIT demonstrates how Payments Modernization is bringing together fintechs, paytechs, financial institutions, policymakers and regulators to harness the power of collaboration to continue to innovate collectively and learn from one another's success stories. It's this spirit of collaboration that will accelerate progress in the payments modernization journey.