QUANTIFYING THE IMPACT OF PAYMENTS MODERNIZATION: TAKING A HOLISTIC VIEW

Coupling cost saving projections with broader benefits improves our understanding of economic impacts

By Gerry Gaetz, President and CEO, Payments Canada

Researchers and industry experts have long aimed to quantify the benefits of payments system infrastructure modernization using a variety of strategies and approaches. And while this research agenda has produced valuable insights into specific areas or cohorts impacted by payments modernization — suggesting a solid value proposition in many cases—experts continue to pursue a more holistic view of the broad benefits to national economies.

In Canada, our attempts to quantify benefits began in 2011, as Canada's Task Force for Payments Systems Review found that a modernized payments system, where consumers and businesses took full advantage of electronic invoicing and payments, could save the Canadian economy up to $7.7 billion annually. Since then, Payments Canada has conducted additional research to refine our understanding of the broad economic impacts.

The scope of impact is large

Trying to understanding the knock on effect of benefits is a good starting point for any discussion on the overall economic impact. As payments modernization programs roll out around the world, new opportunities for different population segments begin to crystalize. How consumers, businesses, governments and financial institutions interact with the new systems evolves in unique ways. Recent studies on the use of ISO 20022 put a spotlight on this reality.

In 2015, we published a research paper that estimates savings of reduced cheque use in Canada in favour of electronic methods of up to $4.5 billion over five years. Adoption of ISO 20022 is expected to lead to cheque reduction, but it is also anticipated to achieve much more: smoother cross-border payments, lower compliance costs, product and service innovation and economies of scale. It became clear that $4.5 billion over five years was only the tip of the iceberg of possible ISO 20022 cost savings. To shed more light on these potential benefits, we took a look into some current business operation and process use cases.

Last February, Payments Canada published a **study** in partnership with Ernst & Young LLP (EY Canada), quantifying the current cost of payments processing for Canadian business at $3 billion to $6.5 billion annually. These figures represent the cost implications of delays in payments processing and a lack of data and transparency in payment messaging. The findings re-enforced our discovery in 2015 that businesses are spending too much time matching customer payments to invoices, they have poor visibility into supply chain and collections, there is limited predictability of cash inflows and outflows, it is difficult to track cross-border payments and, as a result, they continue to rely on manual processes and legacy technology.

Through identification of the current pain points in Canadian businesses' daily payment interactions, we were able to get a clearer picture of the tangible, end-game value that more data will provide and also a window into how other changes being delivered through Canada's modernization effort will have a positive impact on all Canadians. The benefits of better payments data is clear, but ISO 20022 is only the tip of the iceberg of payments modernization.

The payment experience matters

On average, consumer payments account for a fraction of the volume and value generated by business payments. But our research tells us the economic influence of consumers stretches far beyond those metrics. As we've seen with the likes of payments innovators such as Uber, Amazon and Alibaba, delivering a frictionless payment experience can help transform a business, if not an industry. Increasingly for businesses in any sector, the price of ignoring payments innovations can be costly.

Canada and many other countries are now responding to customers' expectations for instant, always-on experiences. This summer we dug deeper into the preferences and behaviour of Canadians through our **2018 Consumer Pulse Survey**. Notably, we found that more than half (53%) of Canadians abandonment of purchases could be due to friction at the end of the path to purchase - both instore and online. Now that friction-free methods or "invisible" payments are becoming mainstream—for example, walking out of an Uber without any payments interaction—it's evident

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this is creating negative consequences for retailers that don’t adapt, and is introducing economic ripple effects.

To try and measure the impact new payments methods could have on Canada’s economy, naturally it might make sense to turn to our global counterparts for projections, especially those countries that have already introduced real-time payments capabilities. Unfortunately it’s not that simple.

Comparing modernization programs is never ‘apples to apples’

Starting conditions matter. While most countries will end up trying to deliver similar outcomes with payments modernization, each starting point and journey has been unique. As a result, the ensuing economic costs and benefits will be different.

After the public launch of Australia’s real-time capability in February this year, the country is expecting to see more adoption, as two more of the large banks have recently gone live. Adoption by consumers may take some time, but should be aided by this critical mass. Unlike Canada’s approach, which is to build speed, data and a new settlement model onto existing P to P infrastructure, Australia chose to build new. The challenges may well be adoption, pricing and expanding access due to a large investment by existing industry players. Canada’s investment for the industry will be significantly lower, with pricing and access determined by Payments Canada, independently from infrastructure ownership. Adoption and ubiquity will be ensured, because 100% of existing near real time volumes (from Interac e-Transfer), will ride on the new rail. The challenge with this strategy is ensuring that existing technology can support faster speed, richer data and an expanded set of proxy routing options, including corporate account numbers. And like Australia, the more extended benefits will come from innovations that are “overlayed” onto the faster, easier, data rich infrastructure.

Gaining ground on a holistic view

There is, of course, a cost to payments modernization. Because system-wide changes to payments infrastructure have not been made for many years in Canada, a relatively large investment is required, especially when modernizing high value (RTGS - real time gross settlement) and retail systems at the same time. Our high level analysis suggests that savings will significantly outweigh costs over time. We know the current cost of cheque use and payments processing is sizeable, and the adoption of ISO 20022, across both high values and retail platforms, and faster payments will introduce new efficiencies, which ultimately is a win-win for Canada’s economy. We also know the potential impact of better consumer payment experiences enabled by real-time capabilities, among countless other benefits of modernization, will be significant. We are also keenly aware of the limits of making comparisons to other countries.

Despite the challenges estimating the benefits of payment system modernization, we are confident that they will, over time, greatly exceed the costs. Our Canadian studies alone, which differed in scope and measurement of payments modernization, pointed to significant benefits and opportunities on the part of Canadian businesses.

And we will continue to work to better quantify benefits, as creative banks, technology companies and others bring their collective energy and creativity to improving the ways we pay.

About Payments Canada

Payments Canada ensures that financial transactions in Canada are carried out safely and securely each day. The organization underpins the Canadian financial system and economy by owning and operating Canada’s payment clearing and settlement infrastructure, including associated systems, bylaws, rules and standards. The value of payments cleared by Payments Canada’s systems in 2017 was approximately $50 trillion or $200 billion every business day. These encompass a wide range of payments made by Canadians and businesses involving inter-bank transactions, including those made with debit cards, pre-authorized debits, direct deposits, bill payments, wire payments and cheques. Payments Canada is a proud supporter of the Catalyst Accord and the 30% Club.

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