

# Payments Modernization in Canada – Why and How Should Small & Medium FIs Get Prepared?

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*Digital payments, done right.*

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## Summary

The **Payments Canada Modernization Delivery Roadmap** sets out an ambitious but necessary plan to enable frictionless payments. However, the roadmap will inevitably change and continue to evolve. This inevitability for change presents significant challenges for implementation, particularly for small and medium Financial Institutions (FIs), which may have limited resources and delivery capacity.

### 1. Why should your organization embark on this? (How can you justify the cost/benefit of Payments Modernization to your organization?)

- To remain competitive and retain clients – because if you don't, someone else will
- To avoid accumulating technical and business debt the longer you hold off
- To leverage and monetize the rich data modernization will bring

### 2. How can you prepare and build with the flexibility to account for the inevitable changes to the Payments Canada Modernization Delivery Roadmap?

- Plan. Plan for change and with solution flexibility in mind!
- Don't start too late, but just as importantly – don't start too early
- Foresee the future with experience – minimize costs and risks

### 3. How can you attract and retain experienced payment talent at a time of "war for talent"?

- COVID-19 has paradoxically increased talent's availability: with everyone working remotely, geographically distributed professionals can integrate with your team just like locals
- Bring in outside experience and knowledge to attract and prepare your next generation of in-house talent.
- Have flexibility! Be able to scale up/ramp down quickly.

## Background

Payments Canada is leading an ambitious but necessary journey to modernize Canada's payment systems and ecosystem. The goal is to allow “frictionless payments” for Canadians domestically and internationally, from low-value person-to-person payments to large batch payments. This journey is necessary for Canada to ensure global competitiveness.

Although the goal sounds simple, getting there is incredibly complex due to the vast scale of the initiatives, competing scope, and aggressive timeline – the most challenging part is ensuring collaboration amongst payments ecosystem players and implementing large scale change simultaneously. The main tracks of the initiative are:

- **Delivering “Lynx,” a replacement for LVTS** (Canada’s Large Value Transfer System);
- **Delivering a “Real-Time Rail” (RTR)**, enabling faster, ISO 20022-compliant payments;
- **Enhancing and then replacing ACSS** (Canada’s Automated Clearing and Settlement System).

With emerging technologies, changing market needs, competing priorities, skills shortages, and other factors, including regulatory and industry-led changes, the modernization roadmap continues to evolve. A few of those competing forces that are bound to shape further the modernization roadmaps of both Payments Canada and individual FIs include, but are not limited to:

- **Open Banking**, whether industry-led by FDX (Financial Data Exchange LLC) or the Canadian government’s Department of Finance;
- **Anti-Money Laundering (AML)** regulation changes taking effect June 2021;
- **Interac Instant** targeting June 2021;
- **Interac’s “pay-by-bank”** eCommerce strategy as part of Interac’s MintCo. Acquisition.

The continuously evolving ecosystem presents significant challenges to implementation. The **Payments Canada Modernization Delivery Roadmap** lays out the plan and vision to 2022 and identifies key pillars to target first. The journey began in 2015; it took a few years to finalize which key priorities to target and went through multiple variations and implementation timelines. For example, the Real-Time Rail (RTR) solution approach changed, ultimately delaying implementation (now targeting the second half of 2022). The overall planning phase is coming to a close for key pillars – although further changes are expected. Large Canadian FIs have begun establishing large teams to execute these multi-million-dollar initiatives.

But what about smaller and medium-sized FIs? What can and should they do to prepare for the imminent changes and take advantage of the modernized infrastructure? How can they navigate the complexity of competing priorities, become flexible enough to accommodate inevitable changes to the roadmap, and ensure manageable implementation costs and risks? In other words, how can they make a business case for adhering to payment modernization that stands up?

## Problems & Solutions:

### 1. Why should your organization embark on this? (How can you justify the cost/benefit of Payments Modernization to your organization?)

- To remain competitive and retain clients – because if you don't, someone else will

Payments Modernization aims to deliver new infrastructure to achieve frictionless payments. When discussing modernization, you can't ignore Open Banking, the movement to enable consumers to safely and securely share their financial data with other service providers. In some cases, they initiate payments, which take varying forms and are in various development stages worldwide. Payments Canada strives to ensure that Canada remains competitive internationally. It is also arguable that Payments Canada is not moving fast enough and is too beholden to incumbent interests. There is little doubt that Payments Modernization is part of an effort to let non-traditional FIs "in," broaden the playing field, increase competition, and further innovation.

Although aspects of Payments Modernization may not be mandated changes, consider the opportunity cost and client retention loss by not moving fast enough with the modernization movement. As society increasingly adopts digital payments (particularly so during the COVID-19 pandemic), many customers will inevitably continue to choose speed and convenience, having internalized new habits learned during the pandemic.

- To avoid accumulating technical and business debt, the longer you hold off.

Existing systems will not remain static: fixes, patches, and enhancements always require implementation. However, with the foundational Payments Canada infrastructure changing (modernizing), older systems will inevitably receive reduced investment and eventually be discontinued. Justifying updating your older systems will get harder and become more expensive – the longer you wait, the more money is sunk.

- To leverage and monetize the rich data modernization will bring

One of the Payments Canada Modernization Delivery Roadmap goals is to move to the ISO 20022 international standard. These goals, and the upcoming AML regulatory changes, means that accompanying each transaction will be much more information than today. These data-rich transfers pose significant challenges (such as passing and storing the data) and other opportunities. Here we will focus on the opportunities; an upcoming article from DxW will address how to navigate the challenges of passing and storing the information.

➤ How can the data be monetized?

- Use the stored information to pre-populate customer data within your secure client-facing environment to reduce abandonment rates throughout the conversion funnel of other transfer, shopping, or purchasing products;
- Leverage the data to cross-sell other products that your customers would be interested in;
- Reduce fraud losses by improving fraud detection rates;
- Reduce dispute costs (e.g., chargebacks) and operational effort to investigate unrecognized transactions and resolve disputes by enhancing transaction tracking and receipt capabilities.

DxW has extensive experience and ideas on how to leverage data. Contact us, and we can start the brainstorming process.

## 2. How can you prepare and build with the flexibility to account for the inevitable changes to the Payments Canada Modernization Delivery Roadmap?

➤ Plan. Plan for change and with solution flexibility in mind!

The concept of the flexible solution is essential, as is planning for it right upfront. For example, a key source of complexity with international transfers is that every country and currency can require varying information to be collected before the transfer initiates. Most importantly, those requirements can (and will) change.

- A seemingly “quicker/cheaper” solution would be to build for each corridor’s present local requirements and regulations, hope they don’t change, and accept that system changes will be needed in the future in case they do change. Key risks here are that regulations change mid-development, delay the launch, or post-launch changes resulting in outages. Also, ongoing system maintenance budgets will need to provide for such changes (sometimes with less predictability or an advance notice than hoped).
- Conversely, taking additional time and effort to design a flexible solution that accepts and expects requirements to change by making each corridor’s data-capture needs configurable will mitigate risk during project delivery and substantially reduce the maintenance cost of adapting to ever-changing regulations and local requirements.

Flexible planning can be achieved by adopting an “agile” mindset and practices, to allow built-in flexibility in requirements and your solution to pivot with minimal waste. It needn’t be a barrier if your organization does not currently run capital-A “agile” projects. An agile mindset is what’s most important; concepts from capital-A “agile” can be borrowed, with a side benefit of helping your organization assess whether formalized agile delivery makes sense on future projects.

➤ Don't start too late, but just as importantly – don't start too early.

The Real-Time Rail (RTR) has had its approach pivoted a couple of times and seen implementation target dates come and go over the last few years. RTR now targets the second half of 2022, and it's finally looking like "this is it." The big FIs are standing up teams to implement RTR. Still, dates are likely to change again as it is always tricky to corral the Big 5 into delivering at the same time, on time (recall Interac e-Transfer auto-deposit and request funds enhancement initiatives). Understand sunset periods for legacy systems rendered obsolete by these enhancements, start lining up the right teams to execute quickly, but don't begin execution until the timing is "just right." The big players are starting now, but it usually takes them longer to move, and inevitably the implementation challenges they face will be tabled. They will lobby for change and modifications. Get plugged in to the network of people implementing these changes at the various FIs. Understand if anything else is coming that could disrupt plans or alter priorities (e.g., Interac's "pay-by-bank" eCommerce initiative announced with Interac's 2019 MintCo. acquisition, or Interac Instant). Assess what it means to come in too late (where you're not taking advantage of the new shiny systems), and implement a routine of what we at DxW like to call "regular temperature checks."

➤ Foresee the future with experience – minimize costs and risks

The previous example of international transfers and the need to build a flexible solution to meet ever-changing regulatory requirements specific to country and currency is also an excellent example of when an inexperienced payment implementation team can cost you. Given the **Payments Canada Modernization, Delivery Roadmap** is inevitably going to change. Hire experienced payment professionals to foresee the changes coming and build solutions that can accommodate. Hire talent that knows when a discussion hasn't been yet, but is looming, and helps ensure you implement these expensive modernization changes with manageable risk and contained costs.

### 3. How can you attract and retain experienced payment talent at a time of “war for talent”?

- COVID-19 has paradoxically increased talent’s availability: with everyone working remotely, geographically distributed professionals can integrate with your team just like locals

Although far outweighed by the pandemic’s negative and tragic impacts, one of the silver linings has been to accelerate remote work adoption. Many experienced payment professionals in Canada are concentrated in hub cities like Toronto, Montreal, and Vancouver, and it costs organizations outside those centres substantially to attract and move them. With practically everyone in the financial industry working from home, more organizations and individuals are set up to work remotely. This work from home approach means hiring from hub cities becomes on-par with hiring locally, and less disjointed (or at least, no more disjointed than working with “local” team members working remotely for the foreseeable future).

- Bring in outside experience and knowledge to attract and prepare your next generation of in-house talent.

Star employees are often driven and ambitious. They are attracted to experienced and skilled experts in their fields to satisfy their voracious appetite for learning and build their contacts and network. Make your organization more attractive and boost your talent pool by hiring experienced consultants that can turbocharge your team and foster the next generation of payments talent and knowledge within your organization.

- Have flexibility! Be able to scale up/ramp down quickly.

One theme of this article has been the importance of building in flexibility to reduce costs and risks. The same is true for staffing. With the evolving Payments Canada Modernization Delivery Roadmap, challenges to the world economy, and many other factors, it is more important than ever to have staffing plans that can scale up and ramp down quickly to meet your needs. DxW provides flexible staffing options that can help you navigate this challenge and turn it into an opportunity. Contact us today, and we can come up with creative solutions to meet your needs.

## About DxW

DxW helps you navigate the evolving digital payments space and deliver the implementation of new payment capabilities, infrastructure, and operations – whether you are a financial institution, a service provider to financial institutions, or a fintech.

DxW brings over 30 years of experience in the digital payments space. Whether you're looking to start your organization's payments arm, or have an established payments team, our group of experienced digital payments experts helps you bridge the gap between strategy and execution and successfully deliver business benefits.

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