



Expertus Technologies response to Payments Canada's
consultation on Canada's New Real-Time Payment System
Policy Framework

Expertus Technologies response to Payments Canada's consultation on **Canada's New Real-Time Payments System Policy Framework**

In the response, Expertus wants to convey its views and concerns on the key issues raised by the Payments Canada, with focus on the research and work Expertus has done with global business customers and corporations as a FinTech and a potential new member to Payments Canada under new legislation.

Background

The Real-Time Rail (RTR) is a new real-time payments system for Canada, expected to go live in 2022 following the launch of Lynx, Canada's new high-value payments system, in 2021.

Payments Canada has a legislative mandate to establish and operate national systems for the clearing and settlement of payments, and other arrangements for making or exchanging payments. Foundational to developing a new system is ensuring that there is a sound legal framework consisting of by-laws, rules and standards that govern participation and the use of the system.

Payments Canada is publishing this document to consult on the fundamental policy elements of the RTR. The policy proposals have been developed through extensive consultation with members and regulators. The proposals have also been bolstered by in-depth feedback and dialogue conducted through targeted consultations with a number of stakeholders, representing the diverse perspectives of the payments industry and end-users. The consultation document reflects Payments Canada's current understanding of RTR policies, however, there should be recognition that some policies may be subject to a degree of modification based on continuing industry discussions and this consultation effort.

RTR Consultation Discussion Questions

Payments Canada acknowledges the need for, and seeks to support the introduction of faster, innovative, and convenient payment methods in the Canadian payments ecosystem. The RTR is a real-time payments system that is intended to support a broad range of participants and to enable innovation and competition.

1. Will the RTR design and policy framework, as described in this document, support regulators' stated policy objectives to foster innovation and competition?

2. Will the proposed RTR design and policy framework support broad participation across the Canadian payments ecosystem?
3. Does the proposed RTR design and policy framework create attractive opportunities for providers of competitive services? Does the framework enable compelling payment options for Canadian consumers, businesses, and corporations?
4. Will the proposed policies in any way adversely impact the potential expansion of Payments Canada membership?
5. Are there any additional RTR considerations, impacts, or implications that Payments Canada should be made aware of?

Payments Canada proposes to adopt the same approach to address exceptions handling for RTR transactions that is in place today for common direct credit payments from deposit accounts (e.g., bill payments, wire payments, and direct deposits). Payments Canada rules will outline the processes to be followed between RTR Participants; RTR Participants will determine policies for their account holders (subject to applicable provincial and federal regulations).

6. Do you have any concerns about employing the exceptions handling approach used in today's Payments Canada system direct credit payments in the RTR environment?

Executive Summary

Expertus has been reviewing the topic of membership reform and access to Payments Canada's payments systems since the initial release of Payments Canada's modernization program vision in 2016: **A Vision for the Canadian Payments Ecosystem**.

Canadian banking is widely considered to be one of the safest systems in the world based on reports by World Economic Forum. It is extremely important to maintain that trust while pursuing Real-Time payments in Canada. The initiative done while minimizing risk will stimulate a healthy competition and fuel innovation in the financial services industry that will help and benefit all Canadians. Canada can leverage its financial standing to set an example with its Real-Time payments policy framework for other countries to follow in the future.

As a mature Fintech in operation for more than 20 years and the only third party provider for SWIFT connectivity in Canada, Expertus is always investing time, money and talent towards building the future of payments domestically as well as internationally in the ever changing world of financial service industry.

Expertus wishes to contribute the following observations to support the development of a competitive Canadian payment ecosystem.

A) Relative to Payment Canada's expected timeline for implementation

As it is currently envisioned, the Real-Time Rail delivery plan is misaligned with the membership reform process requiring amendments to the Canadian Payments Act and the implementation of the New Retail Payments Oversight Framework (RPOF). Provided no delay to the membership reform, the current plan provides incumbents a head start of over a year over participants looking to register under the RPOF.

The deployment agenda appears to position existing players to "front run" other potential participants to achieve a desired competitive position. This is then mitigated by the interim portion of the service (or final) which seems to remain within the parameters of the existing model, offering access to new players through "primary clearers"

Questions

1-What will be the motivating factors for the latter to open their door (and responsibility) to new players (RTR participants) who could possibly come to compete with them on their field?

2-Will there be a trigger such as in the case of telecoms the CRTC, which will have forced the hand of the players in a state of market monopoly (BELL), who then had to open their networks to third parties?

In the telecom business had it not been for the CRTC, Bell would not have opened its network, the entry costs acting as a tariff barrier would never have allowed the entry of competitors having the effect of improved service and lower costs, not to mention better access to services in the regions.

B) Fostering innovation

As it is quite often the case, when migrating from one model to another, the transition process is probably where the most unanticipated events happen, sometimes influencing the final desired outcome taming some of the intended features or impacts.

While highlighting some of the key desired outcomes of the RTR initiative;

- Act as a platform for innovation allowing ecosystem players, including financial institutions and

payment service providers to develop enhanced and new ways for Canadians to pay for goods and services, and transfer money,

-Support ecosystem players being able to provide new competitive services to help improve the customer experience in a wide range of payment scenarios such as bill payment, social media payments and QR-code payments

One cannot highlight enough the importance of protecting and encouraging the entry of new players as it is well known that many of these new ideas and initiatives will not come from the incumbents, well established actual members rich in legacy systems.

As referred to, in section A of this document, the implementation timeline will create intermediate states allowing for incumbents to seize opportunities before they become apparent to newcomers.

Questions

1-Has Payments Canada thought of using a sandbox approach to allow external players to get an early start of testing new ideas and products while protecting their IP?

2-If not, which scheme does Payments Canada intend to provide to allow safe prototyping?

C) Multiple RTR exchanges and lower risk

The RTR suggested design, built on multiple exchanges, provides a platform for innovation and competition. This same design can be used to create multiple participant classes to provide for a risk mitigated earlier access into RTR for new players.

We suggest the build of a secondary exchange available to existing members and participants looking to register under RPOF. This exchange will have additional limitation to lower the overall risk (ie. Limit number of transactions, limit transaction value, etc.).

Questions

1- Are RTR participants under a third-party exchange required to be Payments Canada members or participants registered under the RPOF?

D) Compliance, a central issue;

As shown and described throughout the literature surrounding the modernisation project, an

important part of payments seems to have been sidelined.

For those of us who have been in the business for a certain amount of time, we have seen the introduction and development of compliance, namely KYC, AML , fraud detection and all associated measures aiming to circumvent terrorist activity financing.

Being able to integrate and manage these requirements has become paramount to being able to execute, clear and settle any payments as a delay in the settlement for example will have a much lesser impact than the inefficient application of a filter, allowing for a non conform payment to take place.

We would like to see which consideration may be given to alleviate the burden of each member having to support and entire function towards a more centralized compliance function also alleviating the requirement for new players to invest heavily in implementing new compliance systems.

One may compare with the progress allowed by creating centralized counterpart clearing mechanisms to offset operational and settlement risks to inspire the development of a similar function to manage compliance risks.

E) Digital currency

As we are witnessing a race to the start in terms of announcements from various countries declaring their imminent launch of a virtual currency, Canada being one of them, how will the new RTR scheme interact with such a novelty?

Conclusion

We commend Payments Canada, the Bank of Canada and the department of finance for building a Real-time Payment system that “promotes fair and open access, enables competition and innovation, fosters fair and transparent pricing, implements appropriate risk controls and considers end-user interests”.

We stand today at the crossroads where the payments industry must decide whether to allow incumbents to achieve and unrecoverable market lead and risk falling into a restricting model or to protect and encourage the entry of new players to fuel competition and innovation to offer the best services to Canadians and Canadian Businesses.

About Expertus

Expertus is a Montreal-based Fintech founded in 2001 and a leading provider of payment and cash management solutions. Pioneer in Cloud solutions in the banking industry, Expertus provides services to corporates, financial institutions, fund managers and market infrastructures.

Our core product features include real-time cross-border payment processing and account centralization through our multi-bank portal. Expertus distinctiveness comes from the unique combination of its business model, its expertise in the payment industry and a rich and innovative product portfolio. More than 1000 entities and 50 financial institutions worldwide process an average of 25 billion dollars daily through our infrastructures.

Our vision and commitment to provide our customers with modern and innovative solutions aligned with market needs and standards is what drives our roadmap into the future. We hope our industry expertise and aligning our teams with our client's modernization initiatives and digital transformations, will help our clients run, change and grow their businesses.

Expertus accelerates digital transformation using an industry model that brings new ideas and new standards dedicated to the continuous improvement of the global payment landscape while complying to regulations and financial policies.

Learn more about our capabilities and industry expertise by visiting: <https://www.expertus.ca>
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