

PAYMENTS

Lessons from Canada's struggles with faster payments

By [Kate Fitzgerald](#) June 26, 2023, 2:35 p.m. EDT 6 Min Read



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Canada's Real-Time Rail, a payments system that has been in development for several years and was originally set to go live this month, has been delayed again as the body that runs Canada's

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Payments Canada, which drives Canada's domestic payments networks through a board of regulator and financial institution participants, this month said the RTR's rollout would be indefinitely delayed again. The first delay was announced last fall, leading to a three-month review of RTR's operations plan and risks.

RTR is a 24-hour instant payments network that's been in development for years, enabling Canadians to send and receive payments in seconds. It uses the ISO 20022 financial messaging standard that countries around the world have adopted for faster payments.

The first delay was announced in October 2022, triggering the first review. In announcing the second review, Payments Canada provided no new launch date for the service. The organization did not yet respond to a request for more details.

The instant-payments networks' delays seem somewhat incongruous for a country like Canada, which was years ahead of other nations in achieving success with Interac, its national debit network. Interac launched in 1984 and gained broad adoption, providing what appeared to be a foundation for faster payments.

But storm clouds began brewing in recent months, as Canada's largest banks have begun to balk over concerns about the cost and potential impact on revenue for adopting RTR.

"Canada has five or six banks that control what happens with anything related to the movement of money, and the only way RTR will happen is if they get on board, but RTR represents a significant investment for them — not one they see as a priority," said Christie Christelis, president and CEO of Technology Strategies International, a Toronto-based fintech and payments consultancy.

Many Canadian banks don't see a clear business case to sink the funds into building on-ramps to RTR, he said. And minus a hard government mandate to adopt faster payments — which relatively few countries have attempted — it's unclear whether RTR will get traction any time soon, according to Christelis.

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requirements — to get Canada's banks on board," he said.

Payments Canada, established by the Canadian Payments Act in 1980 to run Canada's payment clearing and settlement system, has also undergone some recent changes. In April, Payments Canada hired payments industry veteran Jude Pinto as its new chief delivery officer, and he assumed the reins for RTR's launch last month under the direction of Tracey Black, who was named president and CEO of Payments Canada in 2020.

RTR was developed with several vendors including Mastercard-owned Vocalink building the clearing and settlement infrastructure, Interac as the exchange solution provider and Tata Consultancy Services leading the integration.

One of Canada's dilemmas in getting its instant-payments network off the ground is the fact that it's operating under a "soft" government mandate to adopt faster payments, according to Scott Lapstra, a Toronto-based payments and banking consultant who previously held executive roles at Mastercard and Canada's Tangerine credit card startup through 2016.

"The Bank of Canada and Payments Canada clearly have approved both of the delays in the rollout of RTR, but I suspect there will be no tolerance from regulators after the most recent reset," Lapstra said.

One of the lessons learned so far in RTR's fraught development process is the folly of launching an instant-payments system all at once, according to Lapstra.

"Taking a big-bang approach has been a problem," he said. "It would have been better to focus on foundational development with a [longer] roadmap for enhancements."

Banks have also struggled to figure out how to make another rapidly evolving Canadian payments rail, Interac e-Transfer, fit profitably into existing services. Canada's central bank in 2020 assumed oversight of the instant-transfer service.

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Canada's banking regulators have tried to reassure domestic banks of RTR's solidity by hiring a third party to thoroughly review the rail's features during the first quarter of this year, with a focus on program management and processes. Additional testing with some recommendations for change emerged from that review.

If Canada's RTR slowdown provides more time for testing, that will be a positive development, said Ketharaman Swaminathan, founder and CEO of India-based GTM360 Marketing Solutions, which works closely with fintechs on payments.

"The value proposition for instant payments is not the same in every market, but in every case, testing has been critical. Where testing was an afterthought instead of front-and-center, instant-payments system rollouts have been a disaster," Swaminathan said.

Whether any lessons can be learned in the U.S. from Canada's troubled RTR rollout remains to be seen, he said.

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In markets with mature banking operations, heavy government intervention and mandates to adopt faster payments aren't necessarily a good idea because of the lack of a value proposition for existing operators, according to Swaminathan.

India has seen strong consumer and merchant uptake from its United Payments Interface rail, which launched in 2016, because it was building within a cash-intensive market with low credit-card penetration and where 70% of the banking industry is government-owned, Swaminathan said.

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ATM and bank transfers have declined by 25% during the same time period. Pix's average transactions remain small, and its growth is powered by the participation of many consumers who were previously unbanked. Brazil's central bank mandated that banks adopt Pix.

In the U.K., regulators spent years building the framework for open banking to power instant payments through the PSD2 legislation, but banks' adoption of open banking and faster payments has been more gradual and market-driven, according to Rod Reef, managing principal at the payments consultancy Reef Karson Associates.

This is the path the U.S. is taking with next month's launch of FedNow, and so far many banks are signaling readiness for the first phase — accepting instant payments — beginning July 27, according to FIS and other bank software platform providers.

"In the U.S., the Fed always said it wasn't in a position to mandate anything, and as things evolved here with The Clearing House's RTP product, the Fed got a lot of pressure from smaller and midsize banks to develop a system with rules that would be fair for them. While there's no doubt banks have to spend some money to connect to TCH and FedNow, in the U.S. they can do it at their own pace," Reef said.

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