Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget

By:

Fintechs Canada

List of recommendations

1. Make financial services more affordable for consumers. The government should implement consumer-driven banking by tabling the rest of the legislative framework at the earliest legislative opportunity.
2. Get cash in the hands of businesses quicker. The government should issue a public directive to the country's major banks to launch the real-time rail (RTR) no later than 2026.
3. Boost productivity. The government should establish competition mandates for financial sector regulators such as the Office of the Superintendent of Financial Institutions, the Financial Consumer Agency of Canada, and the Bank of Canada.
4. Protect our monetary security. Modernize the federal financial legislative framework by committing to regulate the issuance of fiat-backed stablecoins.
5. Remove friction from Canadians' tax-advantaged savings by mandating a 10-business-day maximum for registered account transfers and capping transfer-out fees at a "reasonable" ceiling
6. Make life more affordable by mandating cost-disclosure requirements to ensure Canadians understand what they pay when sending money or receiving money from abroad.

The state of play

To build a stronger and more resilient Canada, we need to make our financial sector work better for Canadians.

An effective and competitive financial sector is crucial for improving productivity, lowering costs for Canadians, and safeguarding Canada's economic sovereignty. Businesses depend on the financial sector to access capital, manage cashflow, and pay workers. Consumers rely on it to transact, borrow, and save. And policymakers depend on it to administer monetary policy and protect the economy from financial crises.

The financial sector has an outsized effect on the entire economy, but right now the financial sector isn't working for Canadians:

- **Canadians pay higher fees to access financial services.** Compared to the biggest banks in the United Kingdom and Australia, Canada's big five banks—TD, RBC, BMO, CIBC, and Scotiabank—charge more and higher account fees, overdraft fees, and NSF fees. Fee-related income, as a proportion of overall income, has increased over the past several years.
- **Canadians struggle to access financing.** Although there is increasing demand for loans from Canada's small business community, credit conditions have been tightening. According to a survey by the Canadian Federation of Independent Business, the percentage of businesses seeking financing increased from 35 to 58 percent from 2012 to 2022. Meanwhile, the ratio of loans being given to small businesses relative to large businesses from Canada's financial sector reached its lowest in recent years, with a significantly higher interest rate spread between small and large businesses in Canada compared to many OECD countries.
- **Canada's financial sector is a drag on overall productivity.** Canada's overall productivity has been declining over the past 20 years, trailing behind Australia, the United States, and the United Kingdom. This trend is also noticeable in our financial sector. In the last 20 years, Canada's financial sector's contribution to overall productivity has also fallen behind that of Australia, the United States, and the United Kingdom.
- **Canadian monetary security is at risk of eroding.** Alternative monetary infrastructures are gaining traction. Alternative money is beginning to penetrate Canada without being subject to the Canadian rules that govern

money and payments, creating a growing mismatch between jurisdictional control and economic activity. Without a credible, homegrown alternative to foreign digital currencies, Canada risks ceding control of its money.

These problems prevent Canada from being able to deliver an economy that is more productive, inclusive, and resilient. The good news is that much of the necessary work to solve these problems is already underway. What's needed now is political action to finish the job.

Our proposals

Recommendation 1: Make financial services more affordable for consumers. The government should implement consumer-driven banking by tabling the rest of the legislative framework at the earliest legislative opportunity.

The introduction of Canada's consumer-driven banking framework will:

- **Make it easier for Canadians to access the best financial services.** Financial services are often complicated by confusing pricing structures, making it difficult for Canadians to compare offers and understand what they're paying. Giving Canadians control of their data helps them shop around for the most tailored and affordable services.
- **Make it easier for Canadians to access capital.** By enabling Canadians to share their data and compare offerings, consumers and businesses can find the most affordable financing options to meet their needs. Consumers (particularly underserved Canadians) will have more access and choice when it comes to accessing the lending products they need to achieve their goals, while businesses will be able to invest more in expanding their operations and growing the economy.
- **Improve Canada's economy and financial sector productivity.** Open banking will create more opportunities for smaller financial institutions to compete with some of Canada's largest financial institutions, attracting more investment and fostering responsible innovation in the sector.

Currently, Canada is among the last G7 countries to implement an open banking system. To facilitate the quick and effective implementation of Canada's consumer-driven banking framework, the government should table the remaining legislation as part of the fall federal budget so that the Department of Finance can begin work on regulations, and the Financial Consumer Agency of Canada on supervisory guidance.

Recommendation 2: Get money in the hands of businesses quicker. The government should issue a public directive to the country's major banks to launch the real-time rail (RTR) no later than 2026, with registered PSPs able to access it from day one.

Businesses can't reinvest in the economy when they're waiting to get paid. Slow payments can result in additional expenses for those in financial distress, including overdraft and late fees, as well as a reliance on predatory lenders. A payment system that enables real-time transactions can help address these issues by:

- Giving businesses and consumers access to cheaper payment options.[1]
- Helping Canadians manage their money and avoid late fees on bills by paying in real-time instead of navigating the delays of the multi-day clearing and settlement cycle.
- Supporting workers by reducing debt, giving them a way to access earned wages instantly, rather than turning to payday loans to cover shortfalls.
- Improving cash flow for businesses, reducing their liquidity needs, and allowing them to reinvest freed-up funds into growth.
- Growing the economy, which could see billions of dollars in additional GDP through increased efficiency and productivity.

Following the launch of FedNow in the US, Canada is now the only G7 country without a real-time payment system. In 2021, the government made a commitment to modernize Canada's payment technology. However, the development and launch of Canada's real-time payment system has faced many setbacks and delays. Initially planned to launch in 2019, this timeline was later postponed to 2022, then to 2023. Recently, Payments Canada announced yet another delay, with the initial testing of the system now set to begin in 2025, followed by industry testing in 2026. However, no specific timeline has been provided for the nationwide launch of the system.

Canada cannot afford any more delays. The government should issue a public ultimatum to the country's major banks: launch the real-time rail (RTR) no later than 2026. If they fail, the federal government should direct the Bank of Canada to

---

[1] When the United Kingdom modernized their payment system, Wise, a financial services company, was able to immediately cut costs for its customers by 20 percent.

develop and launch its own real-time payment system, as the U.S. Federal Reserve did in 2023.

Recommendation 3: Boost productivity. The government should establish competition mandates for financial sector regulators such as the Office of the Superintendent of Financial Institutions, the Financial Consumer Agency of Canada, and the Bank of Canada.

According to the Competition Bureau, Canada's financial sector is highly concentrated, vulnerable to anti-competitive coordinated behaviour by incumbents, and has several barriers to entry that limit competition from new entrants. As a result, Canada's financial service sector continues to lag behind other countries: Canadians pay higher fees to access financial services, have limited access to financing, and have a less productive financial sector.

Unlike some of our international peers, Canada's federal financial regulators do not have an explicit mandate to promote competition. In the United Kingdom, competition is a core principle in financial sector oversight and an explicit objective of UK financial sector regulators. This emphasis on Australia's prudential regulator and its central bank also both have explicit references to maintaining competition in their mandates.

To foster a more competitive financial sector, the government should establish competition mandates for financial sector regulators: the Office of the Superintendent of Financial Institutions (OSFI),the Financial Consumer Agency of Canada (FCAC), and the Bank of Canada. This would ensure that they administer policy in a way that reduces barriers to entry and encourages diversity among financial service providers.

Recommendation 4: Protect our monetary security. Modernize the federal financial legislative framework by committing to regulate the issuance of fiat-backed stablecoins.

Digital currencies like stablecoins, which can be used as alternatives to the Canadian dollar, are gaining traction. Global stablecoin volume is on the rise, with trillions of such transactions taking place every year now. Stripe and Shopify now give their merchants the ability to accept payments in a stablecoin.

This puts Canada's monetary security at risk. Today, Canadian dollars power the economy—they're used to pay taxes, buy goods, and hold savings—giving the Bank of Canada the tools to steer monetary policy. But as more people get paid in foreign-backed stablecoins, that influence fades. The Bank's rate no longer affects what you earn or owe. The reserves behind these stablecoins sit abroad, beyond the reach of Canadian regulators, while domestic banks lose deposits and turn to costlier wholesale funding, raising borrowing costs for everyone, regardless of what the Bank of Canada does.

In 2022, the federal government committed to "launch a financial sector legislative review focused on the digitalization of money and maintaining financial sector stability and security. The first phase of the review will be directed at digital currencies, including cryptocurrencies and stablecoins. The federal government should complete the work it started by committing to modernize Canada's financial sector legislative framework by regulating the issuance of fiat-backed stablecoins.

Recommendation 5: Help Canadians get ahead and remove friction from Canadians' tax-advantaged savings by mandating a 10-business-day maximum for registered account transfers and capping transfer-out fees at a "reasonable" ceiling.

Canadian savers face two needless barriers when they try to move their registered assets to a better-performing provider: transfers can take weeks, and incumbents routinely levy $100-plus "exit" fees. These frictions trap capital in low-yield accounts, reduce competition in the financial sector, and erode the long-run value of Canadians' retirement and emergency savings.

The federal government should use its powers to:

- Codify a firm service standard: no more than 10 business days from the customer's signed request to the arrival of funds at the new institution—for all federally regulated issuers.
- Cap transfer-out fees at a cost-recovery ceiling, with FCAC empowered to enforce compliance and prevent fee-shifting.
- Coordinate with provinces and securities regulators to ensure the rules extend to provincially regulated credit unions and investment dealers.

Recommendation 6: Make life more affordable by mandating cost-disclosure requirements to ensure Canadians understand what they pay when sending money or receiving money from abroad.

Many Canadians are unaware of the real costs they incur when sending, spending, and withdrawing money abroad. By amending financial sector laws to require transparency, Canadians will be better able to compare end-to-end prices, which will increase competition and push costs down and ensure more of every transferred dollar is usable by Canadians or their loved ones.

About us

Fintechs Canada is the unified voice for the most innovative financial technology companies in Canada. Our members collectively serve millions of Canadians on a daily basis. Our membership includes Canadian fintech market leaders, global fintech companies, payment networks, financial institutions, and start-ups and scale-ups that are defining the future of financial services in Canada and around the world.