
Anticipating the Electronic Era

The Seminal Statement

The earliest statement containing the idea of an association of all the institutions that provide payments services to Canadians appeared as one of the recommendations of the 1964 Royal Commission on Banking and Finance, commonly known as the Porter Commission. The recommendation was worded as follows: “The clauses of the Canadian Bankers’ Association Act which give the Association the right of operating the clearing system should be repealed, and an association of all clearing institutions formed to manage the system and allocate costs equitably among all members in relation to the work done by each.”¹ All types of clearing institutions could, via their membership in the proposed association, settle their clearing obligations at the central bank, rather than being required to make arrangements to do so with one of the chartered banks.

The Commission felt that it was inequitable for the banks alone to run the payment clearing system, which other types of financial institution had to use in order to provide transferable deposits to the public. Moreover, existing clearing arrangements were probably not as efficient as possible nor as conducive to full and free competition among all the providers of funds-transfer services.²

These views of the Porter Commission and its staff were to inform the developments of the subsequent decade. Their perception of inequitable and inadequate competition would be joined a few years later by a further idea, namely, the need to address these shortcomings in a radically different context—the electronic era.

1. Canada, *Report of the Royal Commission on Banking and Finance* (Ottawa: Queen’s Printer, 1964), 393.

2. Communication between the author and Wm. C. Hood, Director of Research of the Commission, 25 June 2001.

The Computer/Communications Revolution

It is a challenge today to recapture the degree to which the financial world of the 1970s, indeed the entire society of that time, was awakening to the astonishing power of the combined technologies of computers and communications devices. The titles of two widely read and influential books of the period are suggestive: *The Coming of the Post-Industrial Age*, by American sociologist Daniel Bell was published in 1975, and a report entitled *L'informatisation de la société*, by publisher and intellectual Simon Nora, appeared in 1978 in response to a request from the President of France. It is also noteworthy that, during this decade, the Canadian government felt it appropriate to have a Department of Communications, a ministry that worked jointly with the Department of Finance on several major policy papers shaping financial sector legislation.

Branching Out

This was the title of the 1972 report of the Canadian Computer/Communications Task Force, a semi-autonomous, multisectoral body established within the Department of Communications to recommend policies and institutions that would ensure the orderly and efficient growth of combined computer/communications systems in the public interest. Volume II of the report included detailed examinations of three fields of broad social significance, namely, education, health care, and banking. The following excerpt from the section on banking makes for interesting reading in hindsight:

“Notwithstanding their rivalry, the banks find it essential to co-operate on certain rules and arrangements in order to provide a flexible, workable payments system. Because of their mutual dependence, they have some reciprocal arrangements, such as lending equipment or services in case of emergency.... Through the Canadian Bankers Association, the banks have standardized much of their interchange of information. More co-operative efforts are almost certain to evolve in situations where there is recognizable mutual advantage. However, such changes must occur at their natural pace to gain acceptance and to undergo the development necessary for the emergence of a smoothly running system.

The managerial, technical, economic, and human problems are too complex to be amenable to solution by means other than an evolutionary process.”³

The word “evolution” would be used similarly in the Canadian Payments Association Act, eight years later.

Towards an Electronic Payments System

The Government of Canada’s 1975 Blue Book of this title on the future payments system was jointly presented by the Minister of Finance, John Turner, and the Minister of Communications, Gérald Pelletier.⁴ It noted that the movement away from a paper-based system of payments should occur in a way that protected the rights of individual Canadians and that enhanced the competitive environment for deposit-taking institutions, as well as for the computer/communications service industry. The emerging electronic payments system should be efficient and equitable. The government therefore proposed to take the lead and indicated that it supported a “common user communications network” for the payments system. An essential prerequisite for this approach was the development of suitable standards that would allow deposit-taking institutions, common carriers, and computer manufacturers to coordinate their efforts. The government therefore invited representatives of these three industries, as well as users of the payments system, to come together and develop the interface standards and then encourage their use as the network was put in place. A body called the Canadian Payments System Standards Group (CPSSG) was duly formed, but neither its output nor the pattern of evolution in the payments system proved to be as expected.

The Canadian Payments System Standards Group

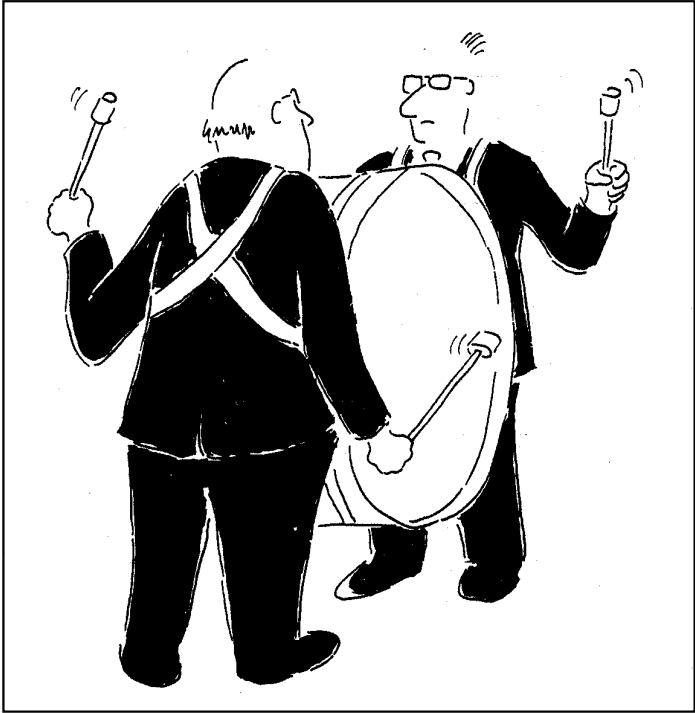
After more than two years of deliberation, the members of the CPSSG came to the following conclusions:⁵

1. Government principles and policies, as stated in the Blue Book, are based on considerations pertaining to future achievements, many of which are less certain than the Government would seem to think.

3. Canada. Task Force on Canadian Computer/Communications, *Branching Out* (Ottawa: Information Canada, Volume II, 1972), 54.

4. Canada. Department of Finance, *Towards an Electronic Payments System* (Ottawa: Information Canada, 1975).

5. R. Charbonneau and P. Lévesque, *Canadian Payments System Standards Group - Final Report* (Ottawa: monograph, 1978), 13.



From *Different Drummers: Banking and Politics in Canada* by Robert MacIntosh

2. The mandate entrusted to the CPSSG makes only indirect reference to principles that form the backbone of business in the private sector, e.g., competition, cost-benefit concepts, choice of appropriate means, and customer service. The group members generally feel it too early, as things now stand, to discern clearly how those principles will be applied within the context of developments being considered by the government or how they will affect such future developments.
3. The general framework for application of government policies extends beyond the traditional responsibilities of the deposit-taking institutions participating in the CPSSG.
4. Several bodies represented in the group find themselves in a position of “party and judge” when it comes to application of government communications policy.

The reality behind these conclusions was the fact that the closest thing to a “common user communications network” in Canada in the mid-1970s was DATAPAC, a high-capacity facility offered to businesses by the Trans-Canada Telephone System. During those years, the larger financial institutions were beginning to use terminals and software produced by companies such as IBM, Burroughs, and NCR to establish on-line services in branches. These banking systems could function economically using a combination of local and high-speed telephone lines—they did not need DATAPAC. The individuals representing financial institutions on the CPSSG therefore understandably declined to state a preference for the approach that involved the use of a common user communications network.

While the CPSSG was still at work, the Government of Canada published its White Paper on the revision of banking legislation. In it, the Minister of Finance proposed that a Canadian Payments Association be established. This “sparked keen interest” among the members of the CPSSG, who, in their own words, “virtually passed over the questions of standards setting, which they felt would be dealt with at a later date.”⁶ Indeed, five of these keenly interested persons later became directors of the CPA.

The White Paper on the Revision of Banking Legislation

The government’s 1976 White Paper stated that all institutions in Canada accepting deposits transferable by order would be required to join the CPA. The expectation was that non-bank financial institutions, such as trust companies, credit unions, and *caisses populaires*, would be better able to offer chequing facilities to their customers and they would have the right to

6. R. Charbonneau and P. Lévesque, op. cit., 14.

have their cheques cleared through the national clearing system. Members would have a voice in the management of that system; they would also have certain obligations, such as sharing its operating costs, and certain rights, such as being accorded borrowing facilities at the central bank. The White Paper also proposed that all CPA members maintain a minimum reserve against specified liabilities.⁷

The pattern of evolution anticipated in the White Paper was the gradual emergence of an electronic payments system that would lead towards greater use of a “payment card” by individuals, corporations, and other entities wishing to transfer funds to another party. This card would resemble a bank credit card, and it would meet certain established standards that would enable it to be read by point-of-sale computer terminals.

The business of the new Association would be managed by a Board of Directors that was chaired by an officer of the Bank of Canada and made up of other directors representing groups of members (i.e., classes of financial institution). The directors would propose the by-laws of the Association, which would be subject to approval by the Governor-in-Council. Although the government would have a supervisory role through its power to approve by-laws, the detailed work of running the system and planning its evolution would be the responsibility of the members of the Association.

The 1976 White Paper on banking legislation established many of the key characteristics of the Canadian Payments Association that would appear in legislation four years later and that are described in some detail in Chapter 2. A small number of the proposed elements did not, in fact, appear in the Canadian Payments Association Act of 1980; this was largely because of discussions about the White Paper with provincial financial authorities. For example, the requirement that membership in the CPA be compulsory for provincially established institutions was dropped. Similarly, the requirement for non-banks to hold a minimum level of reserve deposits at the central bank was not included in the legislation when it finally appeared.

7. Canada. Department of Finance, *White Paper on the Revision of Canadian Banking Legislation* (Ottawa: Supply and Services, 1976), 18.