

PLANNING AN EVOLUTION:

The Story of the Canadian Payments Association, 1980-2002



James F. Dingle
Bank of Canada

A JOINT PUBLICATION OF THE BANK OF CANADA AND
THE CANADIAN PAYMENTS ASSOCIATION

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The Canadian Payments Association was established by an Act of Parliament in 1980 as a regulated public-purpose organization, with a mandate to “establish and operate a national clearings and settlement system and to *plan the evolution of the national payments system.*”

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Introduction

In simple societies, money itself—whatever its physical form—provided the medium of exchange in economic transactions. More recently, payments systems have evolved to provide the medium of exchange, facilitating the numerous transfers of money—now largely recorded as deposit liabilities of financial institutions—from payors to payees. In Canada, as generally in the world, the decades of the 1980s and 1990s saw the medium of exchange move away from paper and increasingly towards electronic form. This was true both for individual consumers, who began using payment cards to make purchases at retail stores, and for corporate treasurers, who increasingly paid for manufacturing inputs or financial investments by using a direct computer link to their financial institutions.

Such evolution in Canada and elsewhere can be viewed as the latest phase in the long and diverse history of money.¹ What makes this two-decade Canadian story noteworthy is that, for the first time, a national government established a planning mechanism in order to reconcile in one entity—the Canadian Payments Association (CPA)—the views of the numerous parties involved in *consciously* changing a national payments system.

This account is organized chronologically. Chapter 1 addresses the ways in which Canadians in the 1970s anticipated the electronic era—in particular, foreseeing some sort of payment card. Chapter 2 presents the details of the 1980 federal law that created the CPA, emphasizing the planning mandate of the Association. Chapter 3 deals with a key theme for the early years of the CPA; namely, how non-bank, deposit-taking institutions would fit into the existing clearing arrangements for cheques and the forthcoming electronic payment items. Chapter 4 describes the first major information technology application of the CPA—namely, the Automated Clearing Settlement System. Chapter 5 presents the cautionary tale of the default of two small western Canadian banks in 1985, events that

1. See J.K. Galbraith, *Money: Whence It Came, Where It Went* (Boston: Houghton Mifflin Company, 1975).

revealed the noticeable level of systemic risk in the national arrangements for the clearing and settlement of payments and the need for a radically different method for handling large-value funds transfers. Chapter 6 covers the appearance of card-initiated electronic payments at the point of sale in Canadian retail establishments. The theme of minimizing risk returns in Chapter 7, which describes the building of Canada's large-value transfer system, the LVTS. The final chapter summarizes the contents of the 2001 Canadian Payments Act, which refocused—and articulated more fully—the planning mandate of the CPA for use during the expected developments of the decade to come.