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Canadian Payment Methods and Trends: 2015

By Michael Tompkins, CPA Research Unit

The research - simplified

- ❖ Cash is still on top, but losing speed.
- ❖ Credit & debit cards are gaining on the leader.
- ❖ Cheques: Having engine troubles?
- ❖ Online transfers are at the back of the pack, but are on the move!

CANADIAN PAYMENT METHODS LEADERBOARD

Rank	Payment Method	% of Total 2014 Volume	Change Since 2011 (Total %)
1	Cash	35%	-16%
2	Debit Cards	24%	+18%
3	Credit cards	21%	+26%
4	EFT	12%	+17%
5	Cheques & Paper	5%	-20%
6	Online Transfers	1%	+184%

Canadian Payment Methods and Trends: 2015

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INTRIA

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Euromonitor

The views expressed in this report are those of the author, and should not be attributed to the organizations named above.

Canadian Payments Association (CPA) discussion papers concern a variety of issues relevant to the role of the CPA. The views expressed in this paper are those of the authors at the time of publication, and do not necessarily represent those of the CPA.

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Executive Summary

As part of its second Payment Methods and Trends Report, the Canadian Payments Association (CPA) gathered 2014 retail payments data from payment service providers, consultants, and researchers from the Bank of Canada. This data helped form a complete picture of the most common consumer and business payments in 2014 and gain insights on emerging payments.¹

The 2014 data and analysis shows a payments market that has continued its steady transition to electronic payments with incumbent payment providers and bank-led networks predominant. However, the data also shows a payment system in transition. While traditional forms of payments (e.g. cheques, cash, credit cards) still form the majority of Canadian payments, there is fast growth in the number of transactions using newer channels to access funds from deposit and credit card accounts, including e-wallets, contactless technology, and e-commerce portals.

Further insights on the 2014 Canadian payments market include:

- The most common consumer and businesses transactions included in the 2014 study totaled 20.7 billion transactions, worth \$8.6 trillion.
- Cash accounted for nearly a third of all payments made (payment volume).
- Credit and debit card transactions combined to account for more transactions than cash.
- Electronic Funds Transfers (EFT) are challenging cheques, which have traditionally dominated the total value of transactions.
- Two payment channels emerged in the 2014 data: 1) contactless payments accounted for over half a billion transactions at the point-of-service (POS) – equivalent to about seven per cent of all debit and credit card payments; and 2) online transfers (online e-wallets and electronic P2P), grew to account for over 80 million payments.

To assess how the Canadian payments market has evolved, the 2014 data was compared to historic data, revealing several interesting Canadian payment trends²:

- Between 2011 and 2014, the total transaction average annual growth was two per cent in volume terms and five per cent in terms of value.
- While still the most widely used type of payment, cash use was down markedly in 2014, compared to the volumes observed in in 2011.
- Credit card growth was strong, particularly in POS environments. This is mostly attributable to credit card rewards and a head-start in the contactless channel.
- EFT volume has grown and cheque volume has declined.
- Online transfers, involving online e-wallets and electronic P2P transactions, were the fastest growing payment type.

¹ With the focus on retail payments or payments other than wholesale payments, LVTS payments are excluded. Business cheques (under \$25 million), direct debit, credit card, etc. payments are included in the data.

² This report provides a fully updated and revised data set from the *2012 Canadian Payment Methods and Trends report*, including all historic data from 2008 and 2011, with relevant new information and restatements to previous findings. Due to the historic data updates, the data in this report may not be entirely consistent with the data points contained in the 2012 report.

1. Introduction

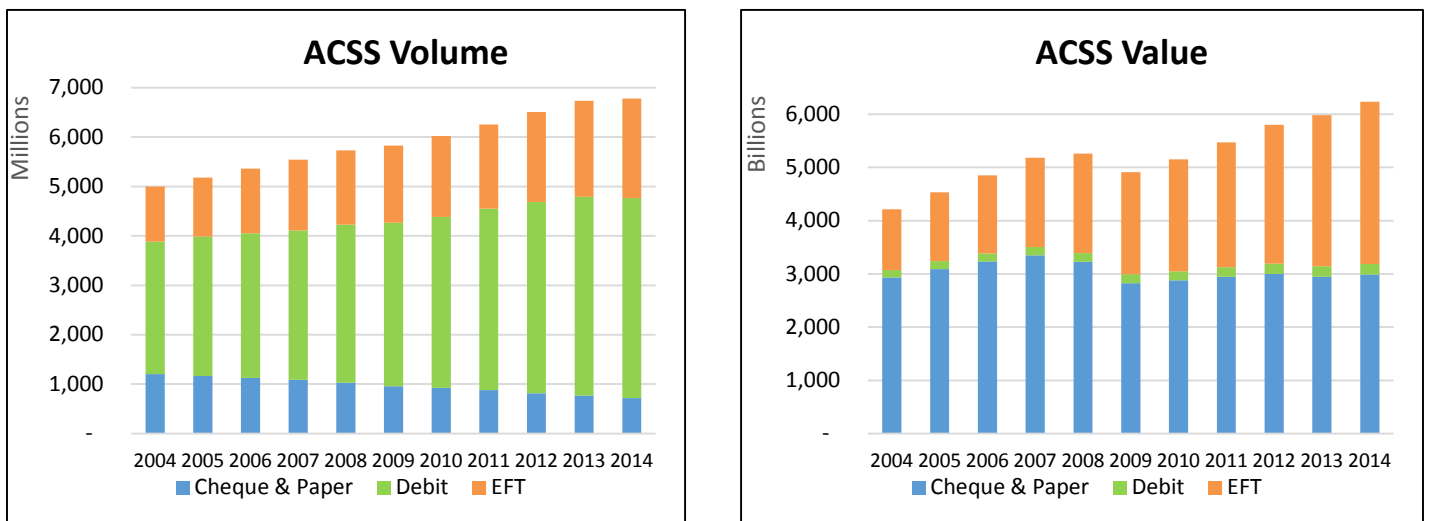
As the Centre of Excellence for payments in Canada, the CPA seeks to provide its member financial institutions, businesses, government and the public leading-edge payments research. This includes providing an understanding of the market for payments and the whole payments ecosystem in Canada. Our investigation begins with our own payment systems, which underpin the Canadian financial system by providing safe and efficient payment clearing and settlement.

The CPA’s Automated Clearing and Settlement System (ACSS) is the national clearing system for retail payments, that clears the majority of cheque and paper, debit (card and online), and Electronic Funds Transfers (EFT) transactions. As such, ACSS data can provide a vantage point to view payment trends over time. As Figure 1 illustrates, overall ACSS payment volumes have grown fairly steadily, even during times of economic contraction (i.e., 2008-09 recession). The ACSS data shows the decline in cheque and paper payment item (e.g., cashier cheques, bank drafts) volumes and the growth in debit and EFT item volumes.

The value of the transactions cleared through the ACSS have ebbed-and-flowed with economic conditions, but cheque and paper item value have remained prominent, and fairly steady (at least in recent years). We can see the continuing growth in the value of EFT items, which is explained in a recent CPA report that discusses the relationships between certain EFT transactions and the use of cheques.³

While the ACSS provides a useful overview, it is only a partial view of Canadian payments activity. To gain a more complete understanding of the trends in Canadian payments, the CPA conducts research on data from other Canadian payment systems and networks, and compiles the findings in recurring Canadian Payment Methods and Trends research.

Figure 1. ACSS Ten Year Volume and Value Growth ⁴



³The Role of Automated Funds Transfer Payments in Canada’s Declining Use of Cheques, CPA (2015)

⁴ Figure includes all 16 ACSS streams condensed into three categories that align with the definitions used in this report (and described in Appendix II), except that ABM transactions have been counted within the debit category for illustration purposes; from ACSS system data

2. Methodology Overview

The CPA approached Canada's payment service providers, consultants, and researchers from the Bank of Canada with an opportunity to contribute in developing a 2014 payment data-set.⁵ Many contributed, providing comprehensive data on payments and transactions, through which we are able to view the most common payment methods and emerging payments.

In this report, the CPA compares the data collected from 2014, with data gathered from 2008 and 2011, to create a six-year observation span to understand the trends occurring in payments.⁶ The data was collected on an aggregated annual basis, and is primarily based on actual payment instrument use data and statistics.

The focus of this research is on common domestic consumer and commercial payments and transactions. As part of this work, we examine emerging payments and channels that have achieved significant enough volumes to substantively impact the national payments market.⁷ As such, some transactions are excluded. For example, securities and derivatives transactions (and trades), and virtual currencies (e.g., Bitcoin) are not included.⁸ Transactions that clear and settle through the CPA's Large Value Transfer System (the LVTS) are also excluded, as most would not be considered "retail" payments.⁹

The term "transaction" is used where appropriate, to be inclusive of value transfers that may not specifically be used in exchange for goods or services (i.e. "payments"). For example, ABM transactions are used to obtain cash, where the cash is used for actual payments. In our analysis, each transaction involved is in our scope, and is counted, even though it might reasonably be concluded that this represents some form of double-counting.

The distinction becomes more important as many of today's electronic payments cleared by non-bank service providers result in multiple transactions in order to make the parties involved whole. As these payment volumes grow the other consequential transactions are growing proportionally. For example, prefunded payment schemes require transactions to move funds into prefunded accounts or prepaid cards. These transactions are separate from the actual payments that are made with the prepaid product. Another example can occur with credit cards, where separate transactions from the payment are often required to move funds to the payee, and for payors to pay down resulting credit balances. The extra transactions add more transaction volume and value through the clearing and settlement infrastructure. Each transaction described is of interest and within the scope of this research, so no efforts were made to remove any of these transactions from the analysis.

⁵ It should be noted, that if a provider or scheme is included in the data, that does not mean that provider contributed directly to the research. Where data was not provided, approximations were assembled from other available data, including past data and third party sources (e.g. expert and consultant data).

⁶ This report represents a fully revised data set from the *2012 Canadian Payment Methods and Trends report*, with new information and restatements to previous findings, including the historic data (from 2008 and 2011). As such, the data in this report may not be entirely consistent with the data contained in the 2012 report.

⁷ For details on the methodology, definitions, and assumptions please see Appendix II.

⁸ The 2014 data suggest that virtual currencies had not yet had a discernable impact on national payments behavior. These transactions will continue to be tracked in future research, but are not included in this analysis.

⁹ LVTS transactions amount to less than 10 million transactions, or less than .1% of the total payments volume observed in this research. In addition, the LVTS has extremely high transaction values that serve to obscure the value trends from other payment segments of interest.

3. Findings

I. 2014 Transactions

In the 2014 data, there were 20.7 billion transactions worth \$8.6 trillion in total. **Figure 2** illustrates the breakdown of payment instruments. The Canadian payments market is in transition; while traditional payments continue to be widely used, electronic payments and newer payment channels are beginning to thrive. Emerging payment channels (i.e., contactless, e-commerce, online e-Wallet and e-P2P transactions) have become well established. However, new potentially disruptive payment types, technologies and players have not materialized in the data.¹⁰

The total transaction volume is dominated by Point-of-Service (POS) payments, including cash, debit, and credit card transactions. Cash was the most widely used payment method in 2014, accounting for just over a third of the transactions made in the year. Debit was the second most widely used, accounting for 22% of all the transactions measured. At 20 per cent of the transaction volume, credit card transactions were used in slightly fewer transactions than debit cards, but accounted for about double the total transaction value (6 versus 3 per cent respectively).

The total value of transactions is dominated by transactions moving to and from businesses, and the various levels of government (i.e., commercial transactions). Cheque and paper items account for the single largest category of transactions (46 per cent), with EFT coming in second, accounting for about 44 per cent of the total transaction value (or only about \$200 million less than cheques). Here EFT can be seen almost closing the historical gap in the total value of transactions with cheques.

II. Payment Trends Observed Over Time

During the period between 2011 and 2014, total Canadian transactions grew by an average of 2 per cent in volume terms each year and a larger 5 per cent in value terms.¹¹ As such, the overall average transaction size has increased by about 15 per cent in 2014 compared to 2011 (\$415 and \$362 respectively). The higher growth in value is partially explained by the favorable economic conditions and higher costs for goods and services observed during the period (the inflation rate was 1.6% annually, or a total of 5% during the period¹²). The growth of electronic payments, provided by non-bank service providers, have also played a role, as they frequently require multiple transactions to complete the payments cycle.¹³

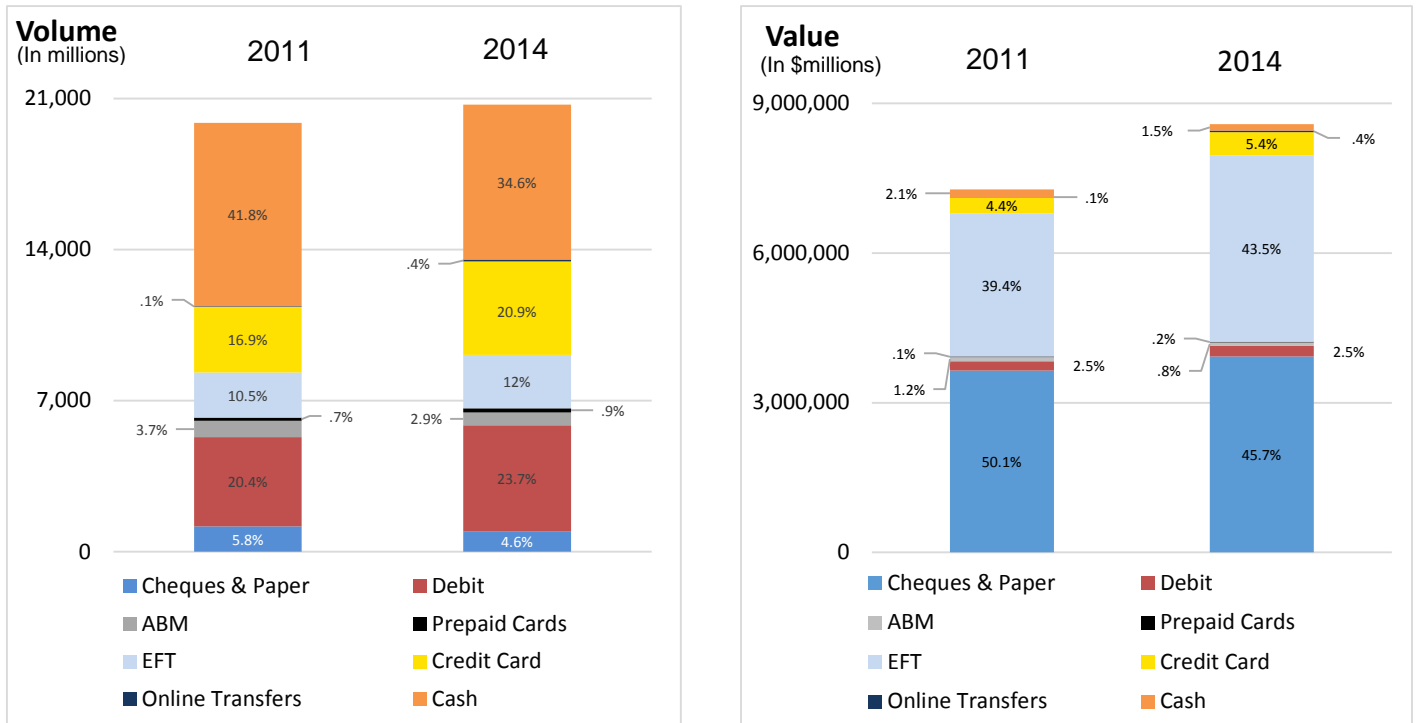
¹⁰ Including mobile payments provided by Google or Apple and virtual currencies such as Bitcoin. *Canadian banks see threat in tech companies offering mobile payments*, Globe and Mail (March 2015, accessed October 28, 2015): <http://www.theglobeandmail.com/report-on-business/big-banks-see-threat-in-technology-companies-offering-mobile-payments/article23720027/t>.

¹¹ Compound Annual Growth Rates (CAGR) figures are used, as we are comparing three separate years of data (2008, 2011, and 2014), to show general trends in the payment segments. CAGR assumes a steady growth rate.

¹² Bank of Canada Inflation Calculator figures from 2011 to 2014, accessed on Sept. 16, 2015 <http://www.bankofcanada.ca/rates/related/inflation-calculator/>

¹³ As is described in the *Methodology Overview*.

Figure 2: Change in Payment Categories between 2011 and 2014



*Detailed segment values and descriptions can be found in Appendix I and II.

i. Cash and Paper Item Decline

The decline of paper based payment instruments has been well documented for a number years. CPA research conducted on ACSS transactions from 2012, shows cheque and paper items declining by about 50% from their peak in 1990.¹⁴ The historic data collected in this analysis, shows that since 2008, cash, ABM, cheque and paper item volumes have all decreased by at least a quarter (in total). As a result, Figure 2 shows each of these instruments losing shares in the total transaction volume in 2014, compared to 2011.

Cash and ABM

Cash has lost 7 per cent of the total transaction volume since 2011. As a category of payments, cash payment volume was 16 per cent lower in 2014 than in 2011, yielding about a five per cent average decline each year. ABM transactions are closely related to cash use, and are the fastest declining payment category in our study. There were 21 per cent less ABM transactions in 2014 than in 2011, representing an average annual decrease of 8 per cent.

Since 2008, cash volume has declined by a total of 26 per cent in volume terms and 29 per cent in value terms. The data reveals that cash use is declining at a much faster pace than had been documented or anticipated in previous research, such as our 2012 payment trends report.¹⁵ The growing use of credit and debit cards, including via the contactless payment channel, helps to explain much of the trend. In addition, Online transfers have begun to have a discernable impact on cash use (each is described in detail in the sections below).

¹⁴ *The Role of Automated Funds Transfer Payments in Canada's Declining Use of Cheques*, CPA (2015)

¹⁵ *2012 Canadian Payment Methods and Trends report*, CPA (2012): had cash declining by only 1% annually (2008 – 2011), as such, 2008 – 2011 cash volume has had to be restated in this report.

Cheque and Paper items

The volume of cheque and paper items are declining while the value of these items are growing, albeit slightly.

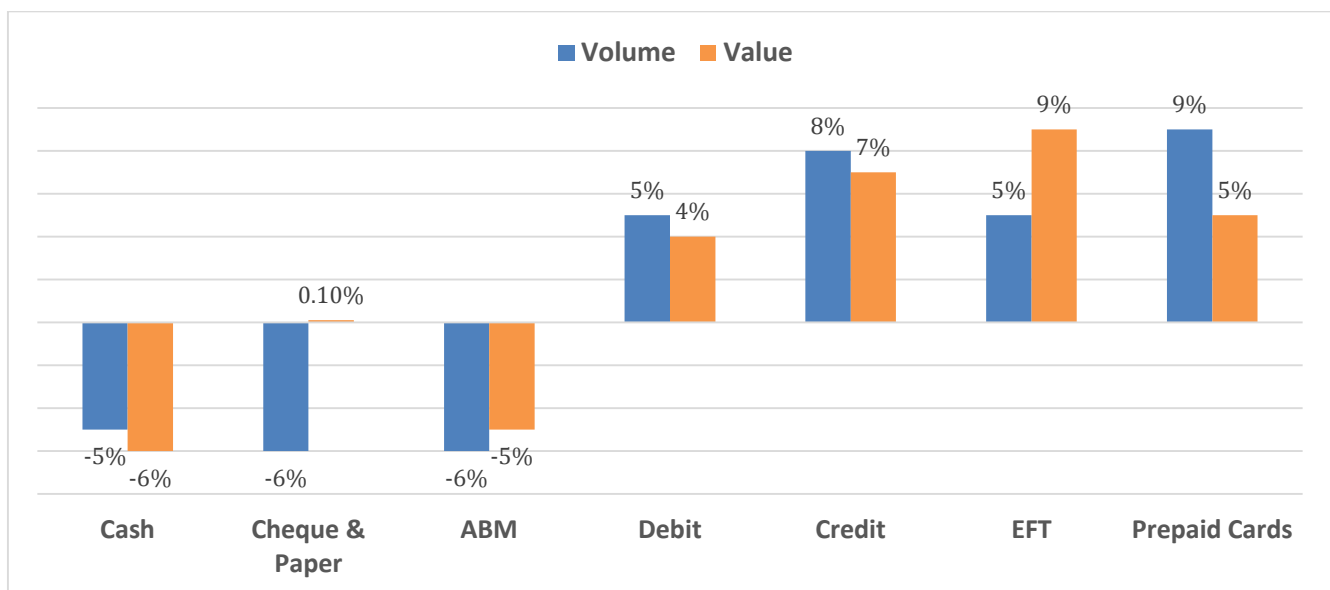
On the volume side, there were 400 million fewer cheque and paper items in 2014 than in 2008, a full 30 per cent decline. The decline has picked-up pace since 2011, to about 7 per cent on average each year, up from 5 per cent in previous years (hence a CAGR of 6% over the six year period in **Figure 3** below). However, because cheques are such a small portion of payment volume, the segment only lost about 1 percent of the total share of payments volume, in 2014 (over 2011).

The total value of cheques is growing slightly as cheques are written for higher amounts. The 2014 average transaction size of cheques jumped by 25 per cent (since 2011), to nearly \$4,200, the highest average transaction size observed. Interestingly, despite the growth in cheque transaction sizes, the total value of cheques only grew by about 2.5 per cent on average each year [narrowly outpacing annual inflation (1.6%) since 2011¹⁶], and cheque value lost 4 per cent of the total value of transactions. The data reveals the main reason is because cheque volume decline is occurring faster for lower value cheques, so each year there are less cheques being written, but for increasingly higher values. This highlights the important role that large value cheque and paper items continue to play in the Canadian payment system.

ii. Areas of Growth: Payment Cards, EFT, and Online Transfers

Past ACSS analysis showed that over 90% of the total growth in payments occurred with electronic payments.¹⁷ This trend continues in this report; electronic payments have absorbed almost all of the new payment growth experienced. In general, payments have been growing in the debit, credit card, EFT, and online transfer segments. Debit and credit cards have led the growth in volume terms, while EFT and online transfers have led in terms of transaction value growth rates.

**Figure 3: Key Transaction Areas of Growth and Decline
(6 year Average Annual Growth)**



¹⁶ Cheque and paper value of payments had declined in the 2008-2011 period, but that has been mostly attributed to 2009 recession.

¹⁷ Based on an analysis of ACSS volumes and values between 2002 and 2012, found in the *The Role of Automated Funds Transfer Payments in Canada's Declining Use of Cheques*, CPA (2015)

Credit Cards

Credit cards are the fastest growing “traditional” form of payment found in the analysis, growing by a total of about 60 per cent volume and 49 per cent in value since 2008. Credit cards’ average growth rate was 8 per cent in volume and value terms each year (see **Figure 3**).

The key to credit card growth has been expansion in both traditional card transactions, and in the newer payment channels. Credit card rewards and incentive programs for payors have helped to grow the use of credit cards in all types of traditional card transactions, from bill payments to small transactions at the POS. In addition, credit cards have become the dominant payment methods in important newer payment channels of contactless and e-commerce, where the data shows credit cards comprising the vast majority of transactions in Canada (details can be found in Section 3.3 below). The result has been credit cards growing to account for 21 per cent of all Canadian transaction volume, capturing an additional 4 per cent of the total volume (between 2011 and 2014, see **Figure 2** above). On the value side, credit cards account for only 5 per cent of all of the transaction value, but have grown to account for over double the total transaction value of debit cards.

Debit Cards

While debit card growth has been outpaced by credit card use in recent years, debit card transactions continue to be an integral part of the payment market in Canada. As is evidenced by the nearly 3 per cent gain in total Canadian transaction volume since 2011 (see **Figure 2** above). Debit cards continue to grow at a good pace, averaging about 5 per cent on in volume growth, and 4 per cent value growth, since 2008 (see **Figure 3** also above). Most of this growth has occurred in the traditional POS channel via chip-and-PIN payments. This may suggest a potential for further growth, if they are able to become more established in the newer channels (i.e., contactless and e-commerce).

EFT

The EFT payment category contains electronic transactions made through deposit accounts held at Canadian financial institutions. These include direct deposits, electronic remittances, pre-authorized debits, and other online bill payment transactions. EFT demonstrated strong category growth, expanding by an average 5 per cent in volume, and 9 per cent in value per year, since 2011. EFT growth is strongly linked to cheque decline, and the growing use of online banking and direct deposit payments from businesses and all levels of government.¹⁸

EFT transactions have grown to become a large part of the total value of Canadian transactions. The EFT segment has grown by a total of 67 per cent in value since 2008, and was the second largest payment segment in 2014. At 44 per cent of all transaction value, EFT made a 4 per cent gain in the total value of transactions between 2011 and 2014. EFT is on pace to pass cheque and paper items as the largest segment of transaction value in 2015, which will represent a key milestone in Canada’s transition to electronic payments.¹⁹

Online Transfers

Online transfers include online e-wallet and electronic P2P transactions, initiated through online services and providers that are prefunded or linked to deposit accounts at financial institutions (e.g., PayPal). Online transfers only made up 0.4 per cent of the volume and value of transactions in 2014.²⁰ While a small segment of payments, online transfers have grown at the fastest rates observed in the analysis, growing by a total of 184 per cent in volume terms and 228 per cent in value terms (since 2011). That is

¹⁸ *The Role of Automated Funds Transfer Payments in Canada’s Declining Use of Cheques*, CPA (2015)

¹⁹ Cheques have been the largest segment of transaction value for at least the past 40 years.

²⁰ This segment does not include online e-wallet or electronic P2P transactions made via credit card and debit card accounts, as these items are accounted for under the debit and credit card segments.

an average annual growth rate of 42 per cent in volume and 49 per cent in value terms. Both e-Wallet and e-P2P payments are benefitting as Canadians become more inclined towards the convenience of electronic payments, and more comfortable with online and mobile device banking and commerce.

In total, this segment accounted for nearly 82 million transactions valued at \$32 billion in 2014. While these payments are still in the early stages of growth, they have the potential to impact nearly every other payment segment, depending on the uses where further adoption takes hold.

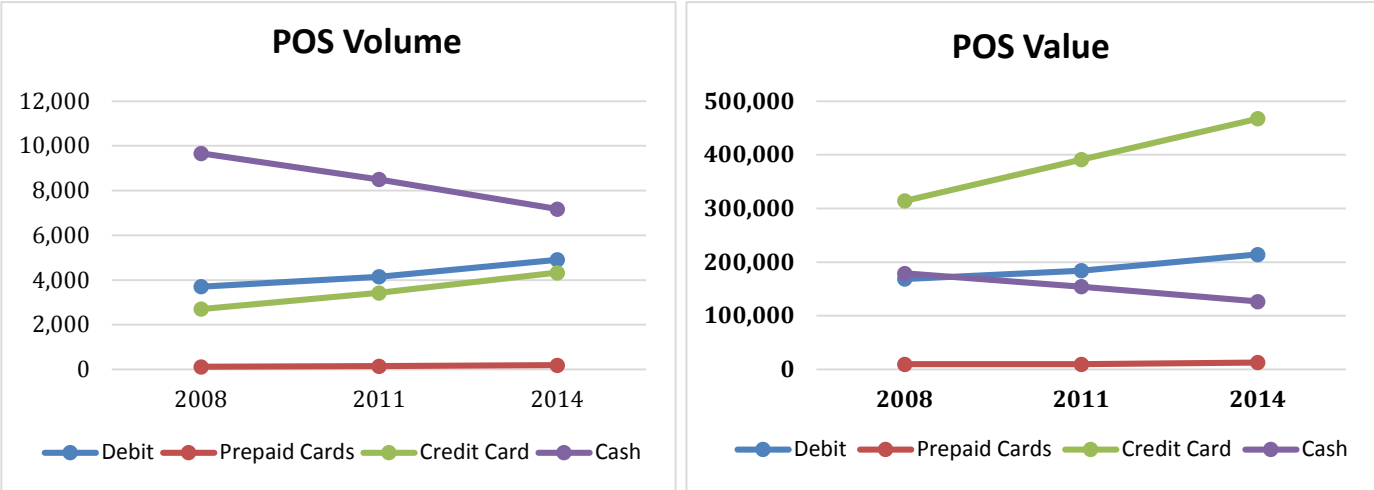
III. The Changing POS

In this section, we isolate the segments that are mostly associated with payments in POS environments, to better understand the trends occurring in this space. Here POS, or point-of-service (point-of-sale) includes physical and online merchant environments, where over 15 billion payments, worth about \$822 billion, were observed in the 2014 data.

The most pervasive trend revealed on both the volume and value side of POS transactions is the decline in cash use. In 2014, cash was used for around 25 per cent fewer POS transactions (in both value and volume terms) than in 2008. On the volume side, debit and credit card transactions can be seen making gains as cash use recedes. However, the growth appears tilted towards credit card use, where credit cards gained over 900 million transactions since 2011, and expanded to 57 per cent of the total value of POS transactions. Prepaid is growing at a brisk pace, but still amounts to only a fraction of the total POS payments at about 195 million transactions worth \$13 billion.

The research suggests two main reasons for the credit card growth at the POS. First, credit cards provide an effective enticement for use, with about 75% of cardholders' primary credit cards having some form of reward-incentive.²¹ In addition, credit cards have a sizeable head-start in the expanding payment channels of contactless and e-commerce (see sections that follow) and appear to be successfully leveraging this position.²²

Figure 4: POS Segment Volume and Value Since 2008 (in millions)



²¹ 73% of Canadians have a reward program associated with the credit card they use most: *2013 Methods of Payment Survey Results*, Bank of Canada, April 2014 (p. 5)

²² *Passport: Financial Cards and Payments in Canada (2014)*, Euromonitor International (p.44, Dec. 2014)

In our past research, we noted credit card's dominance in higher value POS transactions, as evidenced by the high average transaction value of credit cards.²³ The 2014 data shows credit cards continuing to have the highest average transaction size of the POS payments²⁴; however, the average credit card transaction dropped by over \$6, since 2011. This finding provides some evidence of the success of credit card growth into lower-value transactions.

Credit card transaction growth is also showing signs of disrupting debit card use. A recent Bank of Canada survey suggested debit cards lost about 4 per cent of total payment volume share between 2009 and 2013.²⁵ Data derived from the ACSS suggests a slowing down of debit growth rates in 2014, but no decline. INTERAC[®] debit data (used in this analysis) shows continued growth rates of over 5 per cent over the last several years.²⁶ It may be the case that the survey data and the ACSS data are foreshadowing a slowdown in debit that has yet to manifest in the aggregated Interac data.²⁷

Contactless

The data collected from 2014, revealed that contactless transactions have grown to account for a large segment of the total POS transactions. Contactless transactions are defined as using a payment card or mobile device tap to initiate a payment, through a proximity reader (in physical merchant locations). The 2014 data suggests that about 7 per cent of all consumer debit and credit card transactions were performed using the contactless channel, equating to over 650 million total transactions.

In 2014, credit cards dominated the contactless channel, being used in about 7 out of 10 contactless transactions, and accounting for over 90 per cent of the value of contactless transactions. However, credit cards have had a multi-year head-start on debit card contactless payments, which have just started to gain traction in 2014. The fact that debit was able to make gains in contactless so quickly, suggests the potential for debit to become a larger source of contactless transactions moving forward.²⁸

e-Commerce Payment Channel

We define e-commerce as the use of web based store fronts and applications to procure goods (including digital items) and services. E-commerce payments result from completing transactions through online store fronts and software applications, via computers, tablets, cell-phones, or other mobile devices. Our data suggests that e-commerce payments are still a small piece of the overall commerce conducted in Canada. By measure of transactions, e-commerce only accounted for about 3 per cent of all of the POS payment value in 2014, or about \$26 billion. Though a small portion of POS value, e-commerce is still considered an important part of Canadian commerce; as many believe this channel will grow to become a significant part of the shopping and payments experience in the years to come.²⁹

In 2014, the e-commerce payment channel was dominated by credit card company transactions, including the online debit payments using credit card company networks for clearing. The analysis points to credit card transactions (either entered directly or through services such as PayPal) equating to about 90% of the volume and 85 per cent of the value of e-commerce in Canada. Interac online debits and e-

²³ Examining Canadian Payment Methods and Trends, CPA, Oct. 2012

²⁴ In 2014, the average transaction size of credit cards was \$108, compared to \$44 for debit cards, and \$18 for cash. Please see Appendix I (*Table IV*) for details.

²⁵ *2013 Methods of Payment Survey Results*, Bank of Canada, April 2014 (p. 5)

²⁶ Trade-mark of Interac Inc,

²⁷ Interac publishes annual data for point-of-sale debit card use, accessible here: <http://www.interac.ca/en/total-transactions>

²⁸ ACSS debit card data is not the full data set for debit cards, as it excludes On-Ups items, so ACSS only includes about 80% of the total debit card transactions.

²⁹ 2015 Canadian Payments Forecast, TSI (p. 124, July 2015)

³⁰ Looking at other countries' proportion of online sales (to physical retail sales), Canada would appear to have a lot of room to grow. The U.S. is 13% and some high adopting countries are above 20%. <https://www.biv.com/article/2015/3/cross-border-online-shopping-stunts-canadian-e-com/>

Wallet funds, such as through PayPal funds (not linked to credit cards or debit accounts)³⁰, make up most of the remaining e-commerce transactions – about 9 per cent of the volume and 15 per cent of the value.

IV. Commercial Payments

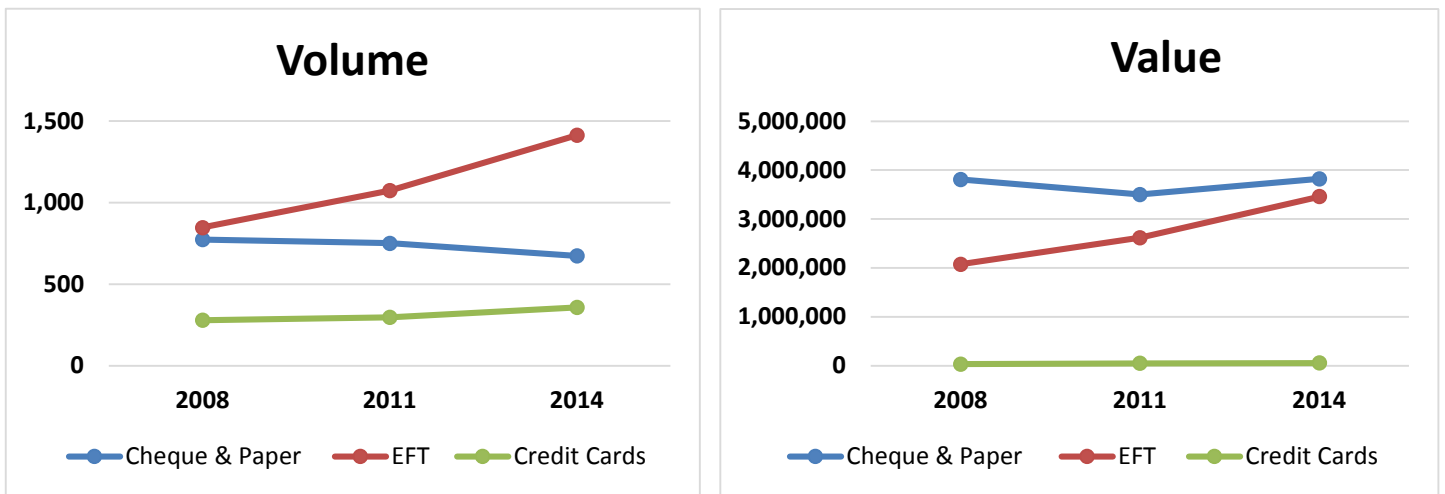
In this section, we focus on commercial payments, which includes transactions that originate from Canadian organizations, businesses, and governments. In total, about 2.4 billion transactions valued at \$7.3 trillion were extrapolated from the 2014 data. EFT payments have become the most common form of commercial payment, growing to account for more transaction volume than cheques and credit cards combined. On the value side EFT and cheques dominate the total commercial transaction value, with each constituting about half of the total value (47% and 52% respectively).

EFT growth for commercial payments closely mirrors the strong growth rate observed for all EFT transactions, growing by an average 9 per cent in both volume and value terms between 2008 and 2014. In total, commercial use of EFT grew by about 560 million items worth about \$1.3 trillion since 2008.

While commercial use of cheques is clearly on the decline, commercial cheque volumes only decreased by about 100 million items or about 13 per cent in total since 2008 (a 2 per cent annual average). In addition, the value of commercial cheque transactions has continued to rise slightly, since 2011. Both observations support previous research that found cheques to be an important payment instrument for certain commercial transactions, including business-to-business and real estate transactions.³¹

Commercial use of credit cards grew by about 30 per cent to just under 400 million transactions. While credit cards account for a low proportion of total commercial payments, their value has nearly doubled since 2008, demonstrating the potential for longer term growth.

Figure 5. Commercial Transaction Volume and Value (in millions)



³⁰ Balances from prefunding PayPal accounts, or the balances from PayPal payments received, can be spent without the use of a credit card or debit account transaction. These funds can be spent at any online merchant that accepts PayPal.

³¹ *The Role of Automated Funds Transfer Payments in Canada's Declining Use of Cheques*, CPA (2015)

Conclusion

The 2014 data and analysis shows that traditional forms of payments occupy the largest segments of Canadian payments. Instruments such as cash and cheques are still prominent, and established electronic items including EFT, credit and debit card network payments have become hallmarks of the Canadian payments market. This has placed the incumbent payment providers and bank-led networks at the center of almost all Canadian payments volumes in our data.

The 2014 payment data shows a payment system in transition though. While traditional forms of payments maintain the largest segments of Canadian payments, there is fast growth in transaction volumes using newer initiation and delivery processes (i.e. channels). Here the existing networks are providing different avenues to the use of deposit and credit card account funds, through the use of e-wallets, contactless technology, and e-commerce portals and applications. Additionally, EFT growth shows that businesses and governments are reducing their use of cheques, and are beginning to better leverage online banking, invoice, and treasury management tools to send and receive funds.³² Taken together the trends have resulted in a high proportion of electronic payment use in Canada.

Additionally while traditional paper payment methods are prevalent in the 2014 data, the data reveals that paper forms of payments have been outpaced by the volumes of card payments and payments initiated online. As these trends continue, Canada is poised to reach significant milestones in its displacement of paper forms of payments. As a result, Canada (and the CPA) are facing important challenges to prepare more end-users to accept and originate payments in online environments (online banking, ecommerce, e-wallets) and manage the migration away from the remaining bastions of paper payment use.

Another trend revealed in the data is Canada's widening appetite for credit card use. Credit card payments are becoming dominant in the new payment channels, and are continuing to take a greater share of the payments made to merchants. This trend might be of particular interest to policy makers, as credit card use has created considerable policy friction in the past (i.e., 2009 Senate and House of Commons hearings on credit card use and fees in the development of the Credit Card Code of Conduct, and subsequent Department of Finance consultations and updates in 2013 and 2015).³³

The modernization of the CPA's systems – including the adoption of ISO 20022 messaging standards - is an important step forward in supporting and enabling the continued migration to the new electronic payment channels. In the meantime, continued research into the future impacts of credit cards and new disruptive players and payment types is needed. New players and payment niches might take hold quickly and the trends observed in 2014 might take-off in new directions, impacting existing payment instruments and the payment environment. As such, the CPA will continue to gauge the data and the trends through on-going Canadian Payment Methods and Trends research.

³² As was established in the *The Role of Automated Funds Transfer Payments in Canada's Declining Use of Cheques*, CPA (2015)

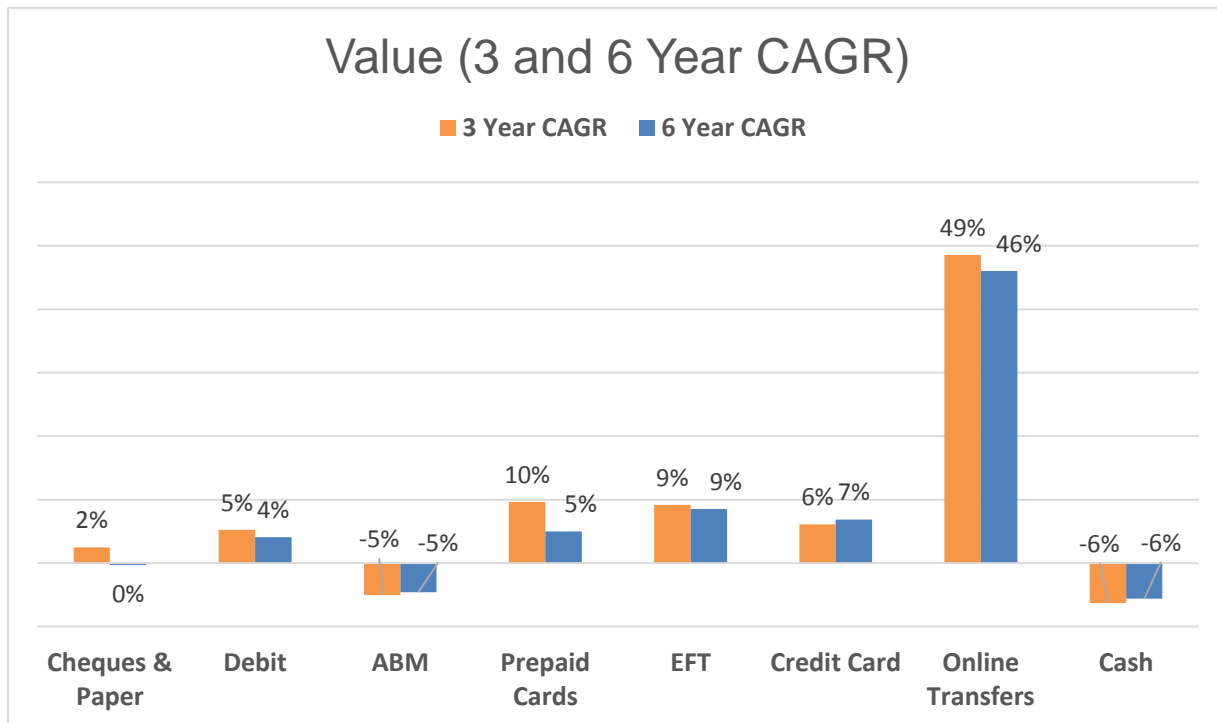
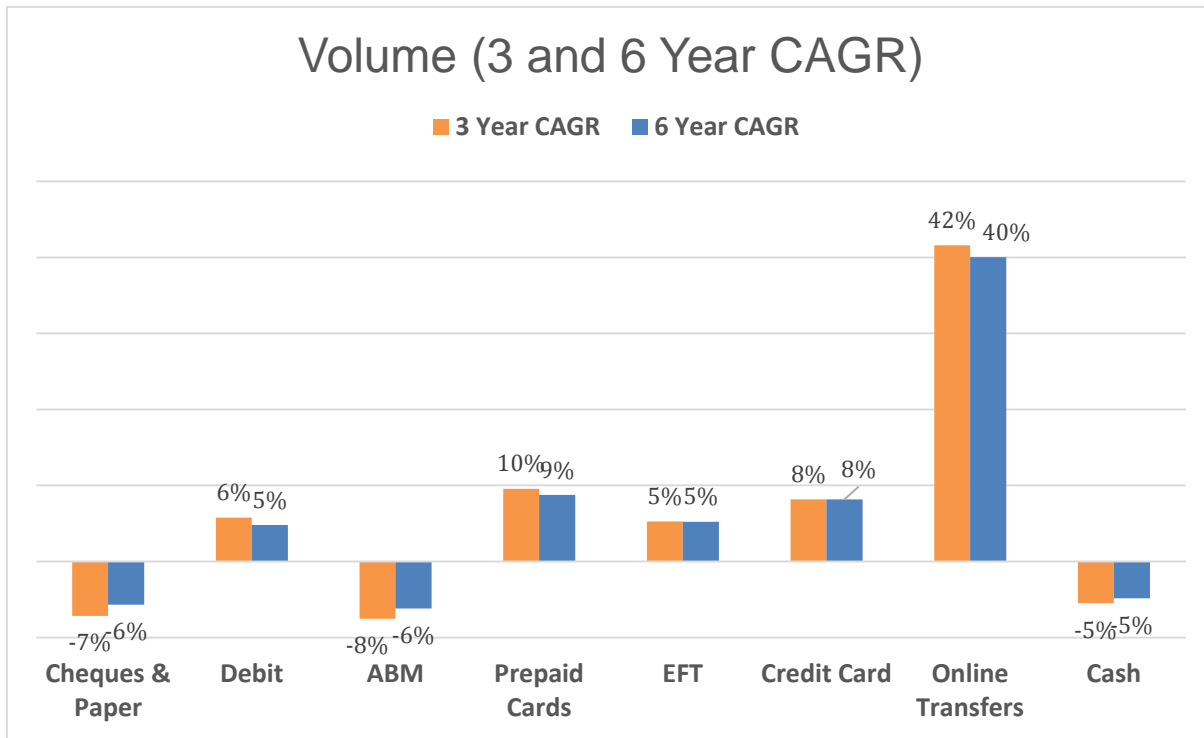
³³ A useful timeline of the events unfolding between 2009 and 2015 can be found at the following link: <http://www.cfib-fcei.ca/english/article/5279-timeline-of-cfib-s-fight-to-keep-debit-and-credit-interchange-fees-low.html>

Appendix I: Data Trends & Figures

I. All Segment Annual Totals

	2008 Volume (mill.)	2011 Volume (mill.)	2014 Volume (mill.)	2008 Value (\$mill)	2011 Value (\$mill)	2014 Value (\$mill)
Cheques & Paper	1,350.6	1,186.6	950.3	3,902,557.3	3,648,447.7	3,925,570.2
Debit	3,704.4	4,148.1	4,906.9	168,579.2	184,037.9	214,340.2
ABM	880.2	759.3	600.7	96,436.2	85,061.9	72,799.5
Prepaid Cards	117.6	147.9	194.5	9,783.9	9,929.6	13,088.7
EFT	1,824.1	2,124.0	2,476.4	2,239,735.2	2,868,754.9	3,732,905.4
Credit Card	2,701.5	3,423.6	4,330.5	314,122.5	391,198.0	467,421.9
Online Transfers	10.8	28.7	81.5	3,266.0	9,658.6	31,678.4
Cash	9,662.9	8,494.9	7,172.3	179,099.1	154,273.5	126,784.0
TOTALS	20,252.1	20,313.1	20,713.1	6,913,579	7,351,362	8,584,588.3

II. All Segment Average Annual Growth



III. 2014 Payment Segments with On-us Items Breakout

	Volume (millions)	Per cent of Volume	Value (\$millions)	Per cent of Value
Cheques & Paper	715.3	3.5%	2,989,156.3	34.8%
Debit	3,839.2	18.5%	169,441.8	2.0%
ABM ¹	208.7	1.0%	25,293.0	0.3%
Prepaid Cards	194.5	0.9%	13,088.7	0.2%
EFT	2,013.3	9.7%	3,049,759.3	35.5%
Credit Card	4,330.5	20.9%	467,421.9	5.4%
Online Transfers	81.5	0.4%	31,678.4	0.4%
On-Us	2,157.8	10.4%	1,711,964.9	19.9%
Cash	7,172.3	34.6%	126,784.3	1.5%
<i>Total</i>	20,713.1	100%	8,584,588.6	100%

¹The vast majority of ABM transactions are on-us, so only about 20% clears via the ACSS

IV. Average transaction size

	2011	2014	% Change
Cheques & Paper	\$ 3,342.0	\$ 4,178.9	25%
Debit	\$ 44.9	\$ 44.1	-2%
ABM	\$ 114.2	\$ 121.2	6%
Prepaid Cards	\$ 67.1	\$ 67.3	0%
EFT	\$ 1,376.0	\$ 1,514.8	10%
Credit Card	\$ 114.3	\$ 107.9	-6%
Online Transfers	\$ 336.5	\$ 388.7	15%
On-Us	\$ 670.4	\$ 793.4	18%
Cash	\$ 18.2	\$ 17.7	-3%
<i>TOTAL</i>	\$ 361.9	\$ 414.5	15%

Appendix II: Definitions and Segment Descriptions

Where actual data could not be found, information from direct sources was leveraged to help create informed estimates. The data is a combination of CPA system data, payment service provider and scheme operator data, and estimates made in consultation with industry experts.

Participants contributed either by sharing their internal research and data, or by providing expertise that enhanced the data-set's accuracy. As was assured during the data collection, the CPA has made every effort to keep participant data non-discernable, where asked to do so.

This report includes the full data set gathered from past efforts (2008 and 2011), and contains appropriate updates in methodology, data, and findings. As such, this report represents a full replacement of the previously published data points (including those provided in the 2012 report), and should be viewed as essentially replacing the previous data.

CAGR

Compound Annual Growth Rate calculates the annual average growth over multiple years, while taking into account the effects of average compounding growth experienced in each year.

Cash

Total cash was estimated based upon data from Bank of Canada survey research data (the data was also leveraged for their *2013 Methods-of-Payment Survey*)³⁴. Estimates from the data establish the mean number of cash transactions per Canadian per day was (.65), and the mean cash expenditure per transaction was \$11.49. We used these numbers to extrapolate to the larger Canadian population (30.2 million people between the ages of 10 and 80 according to StatsCan statistics), to formulate cash payment estimates (value and volume) for 2014.

On-Ups

Refers to transactions drawing upon direct deposit accounts (e.g. bank checking accounts or business accounts) where both the payor and payee reside at the same financial institution. A variety of payment types, normally associated with CPA cleared payments, are impacted by On-Ups items, including cheques, debit, and EFT. On-Ups payments do not result in a CPA clearing entry (and do not appear in CPA system data); thus, On-Ups payments data must be determined from sources other than the CPA. On-Ups amounts were derived from participant data and estimates. The analysis determined On-Ups payments to amount to approximately 20% more transactions than can be found in the CPA data (On-Ups amounts differ by payment type, e.g. Cheques ~ 21%, Debit ~ 25%, EFT ~ 20%, etc.)

Paper/Cheques

Based on CPA ACSS data for cheque and paper items, including paper remittances.

EFT

EFT was calculated using a combination of CPA AFT (debits and credits), electronic remittances, and EDI transactions.

³⁴ *2013 Methods of Payment Survey Results*, Bank of Canada, April 2014

Credit Card

Credit card data is a combination of consumer and business card payments found in proprietary published reports³⁵.

Debit Payments

Debit payments include CPA POS debit and online debit transaction data, INTERAC® debit card data, and data provided by participants.

ABM Payments

ABM data is derived from data found in published proprietary reports³⁵, and validated with published payment network and CBA data.

Prepaid

Credit card company and store branded prepaid product data (both open and closed-loop) is based on proprietary publication data³⁵.

Online Transfers

Online transfers include online e-wallet and electronic Person-to-Person (P2P) transactions, initiated through online services and providers that are prefunded or linked to deposit accounts at financial institutions (e.g., PayPal). Includes data and estimates for online and mobile environments used to make remote electronic person-to-person payments and payments to merchants, *excluding* transactions based on credit and debit cards (which are counted in the *Credit Card and Debit Card* categories).

LVTS

LVTS payments were excluded from the analysis because the report is focused on more common payments made by consumers and businesses.

³⁵ Euromonitor International (2014), *Passport: Financial Cards and Payments in Canada*, and TSI (2014), *Canadian Payments Forecast 2014*.

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