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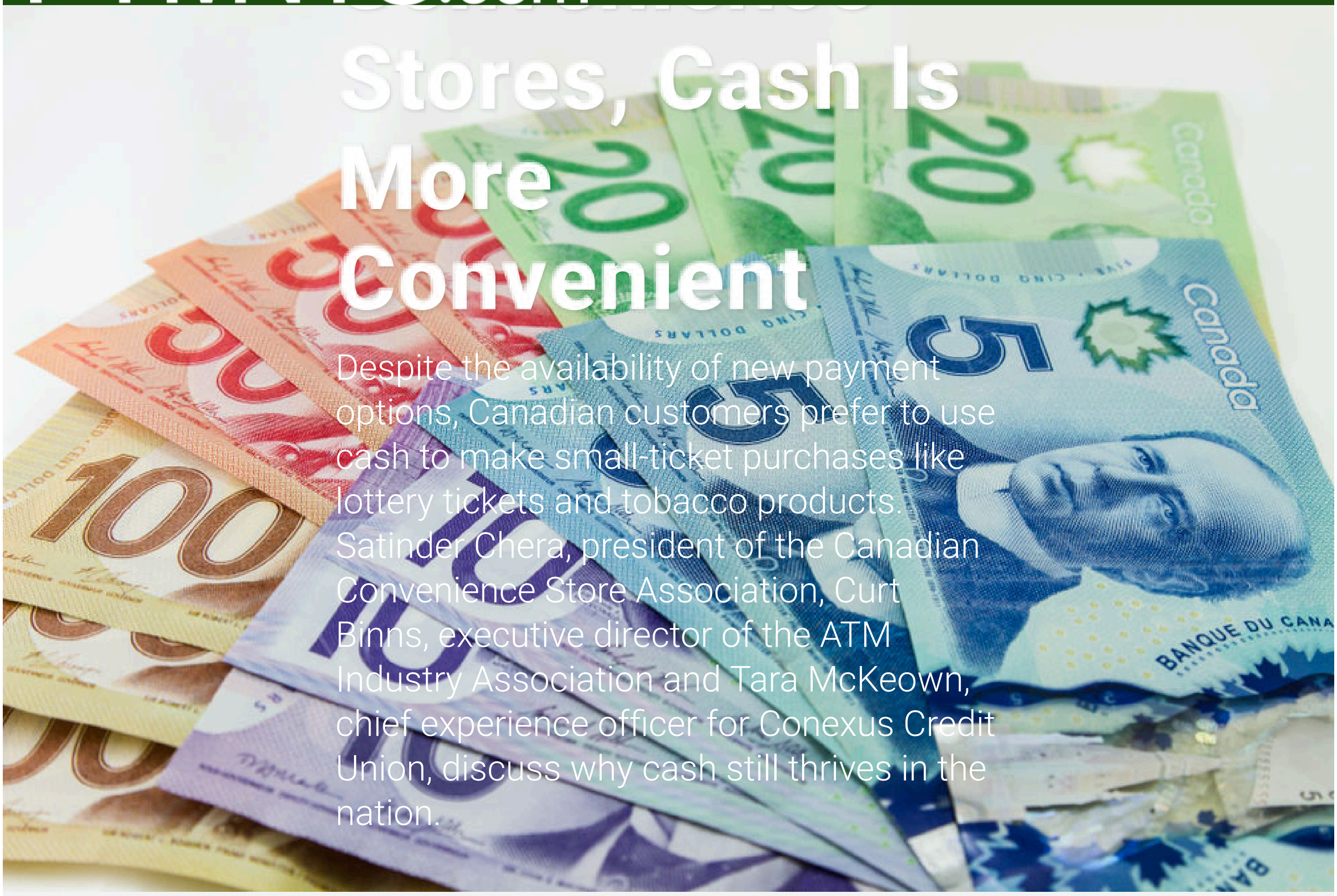

Stores, Cash Is More Convenient

Despite the availability of new payment options, Canadian customers prefer to use cash to make small-ticket purchases like lottery tickets and tobacco products. Satinder Chera, president of the Canadian Convenience Store Association, Curt Binns, executive director of the ATM Industry Association and Tara McKeown, chief experience officer for Conexus Credit Union, discuss why cash still thrives in the nation.

By PYMNTS

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Canadian consumers may have a wide range of available payment options when they decide to make purchases, but cash is still one of the most popular being put to use for everyday retail.

Few businesses understand cash's role in Canada's retail economy better than convenience store merchants. After all, they play a large role of their own in enabling these common retail transactions. The nation is home to nearly 26,000 convenience stores, according to the **Canadian Convenience Store Association (CCSA)**, serving 10 million customers per day and pumping approximately $56 million CAD into the economy each year.

These customers still prefer cash to make small-ticket purchases like lottery tickets, tobacco products, candy, beverages and other items, said Satinder Chera, president of the CCSA. From the convenience store perspective, Canada is not positioned to go cashless anytime soon, he added — contrary to what some recent **reports** may have argued.

"There's still a strong cash component for paying for such items," Chera explained.

The cost of convenience

Data from the **Bank of Canada** indicates cash is accepted at near-universal rates among small businesses of all sizes. Its "Acceptance and Use of Payments at the Point of Sale In Canada" **report** found 94 percent of small businesses and 98 percent of large currently accept cash.

That includes the country's network of convenience stores, which cater to consumers who have varying payment preferences. Two-thirds of Canadian convenience stores are independently-run — not corporate chains or franchise-owned — and are very accepting of cash, Chera said.

It's important for these small players to accept a wide array of payment methods, though. As a customer's final checkout tab grows, so does the likelihood that he will want to pay using a credit card, debit card or other electronic payment option. As such, convenience stores would be wise to offer electronic options for completing transactions.

While smaller merchants recognize the importance of electronic payments, non-cash options can come at a cost, Chera noted. The expense of installing credit card point-of-sale (POS) systems, and the fees involved in payment acceptance services, can often outweigh the benefits for many independent convenience stores.

"Technology is obviously a double-edged sword," he added. "There's a certain convenience to it, [but] at the same time, there's also a cost."

According to the Bank of Canada, the price tag for Canadian merchants to accept payments at the POS was $10 billion in 2014, $6.2 billion of which went toward covering credit card acceptance. Cash cost $2.4 billion to accept, and debit cards cost $1.5 billion.

The bank's research points out that cash is viewed more favorably than credit and debit cards among smaller businesses. Surveyed small and medium-sized businesses (SMBs) reported cash had considerably lower fees, offered better speed, posed less risk and was more reliable than credit cards.

This put can put independent convenience store merchants in a difficult spot, as they must either take on the cost of accepting card-based payments or risk alienating potential consumers. In the end, most will choose to ensure they can accept electronic payments, Chera said.

"Nobody can afford to turn away a customer," he noted. "If you walk into any convenience store, you should be able to pay cash and also by electronic means."

A tech-savvy nation

The CCSA is not the only active trade organization to argue that cash is still thriving in Canada. Curt Binns, executive director of the **ATM Industry Association (ATMIA)**, said his organization works to promote the interests and usage of ATMs, and represents the various industries behind them — including software developers, manufacturers, credit unions and security companies, among others.

While smaller merchants may be willing to accept the costs to enable electronic payments, that does not mean cash is fading into the sunset, Binns said. Instead, electronic payments technology adoption speaks to Canada's willingness to embrace modern payment solutions.

"When it comes to changes in the payments space, Canada tends to be an early adopter," Binns admitted.

Despite the nation's willingness to embrace new payments tech, cash still plays an essential role in the Canadian economy.

"Cash is woven into the fabric of our whole lifestyle," Binns explained, adding that many families turn to it for budgeting, regarding it as "safe" because it's a physical good that cannot be hacked.

The number of ATMs in Canada has grown since 2000, he noted — an observation that PYMNTS' research supports. ATM access increased by 10 percent since 2006, from a rate of 170.8 ATM terminals per 100,000 people to 187.7 ATMs per 100,000 by 2016. That network growth is a strong endorsement of cash usage in Canada, according to Binns.

View from the credit union

Not only is Canada's ATM footprint growing, but it is also becoming more affordable for residents to access ATM services, thereby improving their accessibility to cash.

Tara McKeown, chief experience officer of Saskatchewan-based **Conexus Credit Union**, noted roughly 200 credit union-backed ATMs belong to the **"ding free"** network, which covers ATMs from British Columbia to Newfoundland. This allows members of one credit union to withdraw cash from another's ATM without incurring a surcharge fee.

While access to such ATMs is becoming easier through initiatives like the ding free network, Canadian cash usage is facing new challenges from more modern digital payment tools — even in rural regions like Saskatchewan. McKeown noted that cash-friendly venues like farmer's markets are also adopting modern payment innovations to complete transactions.

"We have great farmer's markets here in Saskatchewan, being such a rural-based economy, and it used to be that you could only pay in cash," McKeown said. "Now, more than ever, I'm seeing [sellers] accept digital payments. Whether it's through innovations such as Square that fit into their smartphones or through the Tap and Go, whatever it is, I think the cost of accepting those payments for merchants has also gone down, which has also lessened the reliance on cash."

Canada's cash future

The expenses involved in accepting electronic payment methods will have to continue to drop before Canada can realistically consider going cashless, though, Chera said. If the cost to accept credit cards or other payment methods is too high, adopting them will outweigh the potential merchant benefits of offering more convenient payment options to customers.

“As new technologies come online, our job is to ensure that there are options available out there that are going to be easy for our members to adopt,” he explained.

While new payment methods might be gaining ground in Canada, cash still enjoys near-universal acceptance at thousands of its convenience stores nationwide. That means the country’s path to going cashless is still a long way from becoming a reality.

“Going to a cashless society?” Chera asked. “I don’t see that happening anytime soon.”

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SMARTER PAYMENTS

Deep Dive: The UK’s Open Banking Experiment

By PYMNTS

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Financial services are no longer limited to banks. The landscape is now crowded with third-party vendors, startups and FinTechs that operate outside the rules of traditional institutions and are eager to offer their services to consumers.

These emerging players lack the leverage, reputation and experience of old-school FIs, however — elements which would prove they can successfully serve their customers — specifically when it comes to consumers' data. They're not alone here, either. Even rival banks need access to that data to serve customers who want to switch financial services providers or to enable a third party to execute a financial service on their behalf.

But banks' grip on consumer data appears to be weakening, and that could create avenues for new players to introduce their offerings to the market. For example, the U.K.'s Competition Markets Authority (CMA) recently **ruled** that banks do not face enough competition. Its investigation found more than half of U.K. consumers had been with their banks for more than 10 years, another 37 percent had been with them for 20 years and just 3 percent had switched from one bank to another in the previous year. Customers need greater flexibility that makes it easier to control their financial data, the CMA concluded, enabling them to seamlessly switch bank providers and gain access to a wider set of financial products.

The U.K. made its first foray into the **open banking** landscape in January to address these issues. Under the new regulations, U.K. and EU regulators are requiring the U.K.'s nine largest banks to make it easier for competitors to access their data, and that financial services providers share consumer data with other companies — provided those consumers consented to the data exchange.

In addition to encouraging banks and FinTechs to step up their innovations, open banking aims to provide consumers with greater control over their financial lives by changing how their data is handled. The following Deep Dive explores the financial services landscape issues the initiative aims to address, including how APIs are being used to help both traditional banks and financial newcomers more easily exchange consumer data.

Open banking: An overview

The U.K.'s open banking initiative was born out of a broader initiative, the EU-wide **PSD2**. Its goal is to make it both easier and safer for consumers to make cross-border EU payments, requiring EU member states to adopt laws and national policies that align with it.

The initiative has three key components. First, it aims to allow consumers to authorize the sharing of their personal data with third-party vendors. Second, it looks to enable those third parties to perform payment transactions — such as a bank transfer — on a customer's behalf. Lastly, it wants to encourage financial services providers to publicly share product and customer satisfaction information, thereby promoting greater competition and investment in product innovation.

This final component is perhaps the most significant. Industry experts and associations — including the G20's Anti-Corruption Working Group — **believe** sharing information is key to promoting greater financial transparency, developing new financial products and driving economic growth.

Challenges and opportunities

API-based solutions are crucial for financial institutions that want to remain compliant with the new rules of open banking. APIs can serve as pathways that enable multiple parties to securely share data in a seamless manner, without investing heavily in updating and overhauling existing infrastructure.

While many incumbent banks — and some customers, too — might be wary of sharing financial data with competitors, such FIs would do well to **consider** the potential opportunities these changing rules present. Banks are required to more easily provide data, but they are also able to leverage new data sources. This means using information from competing institutions to better understand consumer frustrations, allowing the banks to learn how they could step in to address that need.

APIs also represent an opportunity for banks to invest in a range of new financial offerings that can quickly respond to a variety of payment services. Through APIs, banks can invest in tools that use more innovative technologies, like AI, machine learning and predictive analytics. These investments can prompt banks to ensure their available products properly align with customers' demands.

Banks also realize the challenges that open banking presents, however. Many worry that APIs could leave them more vulnerable to cyberattacks, or that they will give their partners access to their internal operations, but these concerns can easily be addressed.

If banks abide by a strict **set of rules** for API implementation, these concerns should all but disappear. FIs are urged to implement a layer of access control over their APIs, quickly detecting potential threats, protecting customer and enterprise confidentiality and maintaining the integrity of all partners involved.

Open banking around the world

Open banking initiatives are designed to disrupt the market by making it easier for third parties to access data, explore opportunities to innovate and develop new financial services products. While the U.K.'s open banking initiative was put in place by the country's CMA, a similar nationwide initiative would be more difficult to implement in the U.S. market. The U.S. currently hosts approximately 12,000 FIs, meaning implementing a centralized framework for data governance would be nearly impossible.

That's not to say open banking initiatives won't ever have a place in the U.S. A recent **study** found 63 percent of surveyed bank executives in North America are interested in open banking, seeing it as necessary to stay competitive with FinTechs and larger tech players. The U.S. Office of the Comptroller of the Currency (OCC), a division of the U.S. Department of Treasury, recently sought public comments on the potential of a special purpose charter to allow FinTechs to engage in some level of banking activities.

Some U.S. banks have already entered into open banking partnerships with competing FIs and emerging FinTech challengers, however. **JPMorgan Chase** and data aggregator **Finicity** recently **agreed** to allow the former's customers to share their data with third-party financial apps without requiring login credentials. Chase customers could then more easily share their data with Finicity-supported apps, including personal financial and income verification services. Meanwhile, **Wells Fargo** already has its own **partnership** with accounting software provider **Xero**, enabling it to share bank account data with accounting software programs using APIs.

Other open banking initiatives are underway in other global markets, too. In Sweden, data-driven FinTech **Tink** recently **launched** its own API to enable Nordic banks to more easily exchange data with third-party partners. It reportedly also has plans to expand the reach of its API platform. Similarly, **YES BANK**, one of India's largest FIs, recently announced it had integrated APIs from digital lending platform **Paisabazaar.com** into its service to enable a more seamless lending experience for borrowers.

The ability to exchange data more efficiently creates opportunities for both banks and the customers they serve. In the competitive financial service landscape, information is key for all parties to make more informed decisions — choices that will ultimately affect their bottom lines and financial security.

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