

# What we heard: Engaging with financial institutions on a digital Canadian dollar

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In February 2020, the Bank of Canada announced a [contingency plan](#) to build our capacity to issue a digital Canadian dollar if the need were to arise. The need for a digital dollar doesn't exist yet, but we're getting ready in case one day Parliament and the Government of Canada ask us to issue one.

A digital dollar would have far-reaching implications for the Canadian economy and the financial system, so we need to understand the associated risks to carefully manage them. These potential risks include:

- affecting the stability of deposit funding for banks, credit unions and caisses populaires, which could reduce the availability and increase the cost of loans to Canadian households and businesses
- increasing the frequency and speed of bank runs when widespread panic causes customers to withdraw their deposits, which could destabilize the financial system during a crisis
- becoming a new vehicle for financial crimes, such as money laundering and terrorist financing, which pose a significant threat to the safety, security and quality of life of Canadians and to the Canadian economy

From September 2020 to March 2023, we met with banks, credit unions and caisses populaires to introduce the concept of a digital Canadian dollar. This phase of discussions focused on high-level questions about policy and design and implications for their businesses and the customers they serve.

This report summarizes what we heard from these stakeholders.

## What we did

In this first series of consultations, we wanted to hear perspectives from deposit-taking institutions in Canada that varied in size, location, ownership

and customer focus. We met with 36 financial institutions from the following groups:



We hosted 40 bilateral meetings and regional roundtables, both online and in person. In each session we:

- introduced a digital dollar as a form of central bank money and the key features it would need, including:
  - being a direct liability of the Bank of Canada
  - being denominated in Canadian dollars
  - earning no interest
  - being convertible at par with cash and bank deposits
  - being usable for person-to-person, point-of-sale and online transactions
  - being accessible by all people and businesses in Canada
- discussed the potential risks and benefits of a digital Canadian dollar
- shared the policy questions the Bank is thinking about

- reviewed possible technological solutions and challenges for a digital Canadian dollar

The way we gathered feedback ensures that information cannot be attributed to individual participants or their organizations. A full list of participating financial institutions is available in the [Appendix](#).

## What we heard

Most participants were skeptical that a digital Canadian dollar would provide important benefits, stating that Canadians are well served by current payment options. Some participants said that a digital dollar may be valuable in the future, depending on how trends in payments and banking change and on the timing of other countries developing their own central bank digital currencies.

### Use cases for a digital dollar

Most participants felt existing digital payment services served Canadians well and that a digital dollar would not offer any advantages over existing private offerings. However, participants that serve primarily rural, remote, Indigenous and other underserved communities identified gaps in existing digital payment offerings and identified ways that a digital dollar could provide access to these communities.

Some participants identified Canadians who are cash dependent as potential users of a digital dollar. Participants noted that these Canadians could be further financially excluded in a future where:

- more merchants refuse physical cash as a method of payment
- more payments are made for digital goods and services

A digital dollar could provide Canadians who are cash dependent with a digital method of payment that would be universally accessible and accepted by merchants both in person and online.

That said, many participants noted difficulty reaching these heavy cash users for banking services, even with sizable marketing resources. These participants wondered if a digital dollar would face similar challenges to adoption.

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What's the use case?

— Stakeholder comment

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## More details needed on policy and design

Participants shared concerns about potential impacts on the financial system if the Bank issued a digital Canadian dollar. They frequently stated that they needed more details on the policy goals and design of a digital dollar before they could assess its potential impacts on their business models and operations.

### *Distribution model and access to the ecosystem*

Participants expressed a strong preference for a distribution model where financial institutions would act as intermediaries between the central bank that issues a digital dollar and the consumers who use it. This would be like the current distribution model for Canadian bank notes.

Participants felt that the distribution model for a digital dollar should preserve the private sector's role of directly interacting with Canadians. Reasons participants cited for keeping this model include their:

- existing customer relationships
- expertise in Know-Your-Client requirements
- customer service experience

Participants shared that the design of the distribution model could either enable or hinder payments innovation in the industry. Some suggested that any design of a digital dollar should allow for intermediaries to build their own applications and services on its platform. Others noted that the Bank could have a direct client relationship with Canadians in specific cases where doing so could improve universal access to a digital dollar. But participants also remarked that a digital dollar could provide financial institutions with a way to offer services to these Canadians in these cases.

### *Cost and fee model*

Participants were clear that the overall cost and fee structure for a digital dollar would be a major factor for its adoption and risks to the financial system.

The Bank heard concerns about the:

- overall cost, especially compared with bank notes
- sharing of costs among different players in the ecosystem
- duplication of costs alongside those already assumed for physical cash
- transaction fees

Stakeholders stated that they needed more details on how the model would work before they could offer substantial feedback on costs and fees.

### *Security, privacy and compliance*

Many participants are implementing anti-money laundering measures to comply with federal and provincial privacy requirements. They stated that this experience would make them better suited than the Bank to deliver on these requirements.

Participants said that they incur costs to meet privacy and security requirements. They identified similar costs associated with a digital dollar, for which remunerations would be required.

### *Other design considerations*

Participants understood that many design questions remain unanswered but were interested in information for the following topics:

- structure—whether it would be token- or account-based
- physical and digital product design
- product support
- ownership and design of the ledger
- universal accessibility
- uniformity of access
- offline availability
- programmability of money and payments
- cross-border payments

The Bank heard a clear message that a digital Canadian dollar should not be interest bearing.

### Disintermediation and bank runs

A key issue that participants identified was a scenario where consumers hold a large amount of their money in digital dollars instead of in deposits with a financial institution. This could lead to a situation where financial institutions are less able to fulfill their role connecting savers to borrowers, known as disintermediation. Almost all participants were concerned about the potential impact of these risks, but opinions varied considerably on the likelihood and severity of them happening.

Financial institutions rely on retail deposits as an important and stable source of funding to make loans. A significant risk to the banking and the financial

system could come from customers substituting retail deposits for balances in digital dollars, which would reduce the availability of loans and increase their cost.

Because converting retail deposits to digital dollars would be easier than converting retail deposits to bank notes, a digital Canadian dollar could increase both the likelihood and speed of bank runs in normal times and in times of crisis. Financial institutions wondered how the central bank might respond to such a liquidity crisis if a digital Canadian dollar existed. Participants wanted more information on the custody relationship for a digital dollar was needed to better evaluate this risk.

Generally, the seriousness of these substitution and liquidity risks would depend on the level of adoption of a digital dollar by their customers, and participants weren't sure how extensively Canadians would use digital dollars in their daily lives.

A digital dollar that is widely adopted and frequently used could reduce retail deposits, tighten liquidity and increase lending costs. Credit unions said this scenario could harm their ability to compete with larger banks and threaten the viability of their businesses.

Many credit unions identified themselves as being more vulnerable to the risk of disintermediation because they:

- have a higher proportion of customers already in non-paying accounts (i.e., low-to-non-interest bearing)
- rely more heavily on retail deposits for funding than larger banks
- lack access to lender-of-last-resort liquidity facilities

Most participants indicated that offering interest on deposits was likely to mitigate these concerns. However, participants said that some communities may not respond, or not respond as strongly, to interest as an incentive. In particular, participants noted that Indigenous communities may see interest as being less important because of historical funding models where governments clawed back interest earned on transfers.

## Other payment system modernization efforts

Many financial institutions have invested significantly in initiatives to modernize the payment system, including Lynx and Real-Time Rail (RTR). Participants felt that these expenditures should be taken into account before developing another payment system.

Some participants advocated for exploring the use of RTR as the platform for a digital dollar. Others suggested that a digital dollar could serve as a separate backup payment rail, like cash today.

In general, if a new payment system were needed to implement a digital Canadian dollar, participants would hesitate to make further investments.

Financial institutions face several digital disruptions on the horizon, including open banking. This initiative has important links to a digital Canadian dollar that carry implications for privacy, regulatory compliance and the overall design of a digital dollar. How open banking and other disruptive initiatives could interact with a digital dollar in the future should be explored.

More broadly, participants noted that the design of a digital Canadian dollar should be as open and flexible as possible to any innovations in the future.

## Appendix: Participating organizations

- Access Credit Union
- Alberta Central
- Alterna Savings and Credit Union Limited
- Assiniboine Credit Union
- ATB Financial
- Atlantic Central
- Bank of Montreal
- Bank of Nova Scotia
- Caisse populaire acadienne ltée
- Cambrian Credit Union
- Canadian Imperial Bank of Commerce
- Canadian Western Bank
- Central 1 Credit Union
- Coast Capital Savings Federal Credit Union
- Conexus Credit Union
- Credit Union Central of Manitoba
- Credit Union Central of Saskatchewan
- Desjardins Group
- East Coast Credit Union Limited
- First Nations Bank of Canada
- First West Credit Union
- Fusion Credit Union
- HSBC Bank Canada
- Innovation Federal Credit Union
- Laurentian Bank of Canada
- Libro Credit Union Limited
- Meridian Credit Union Limited
- National Bank of Canada
- Peoples Bank of Canada
- Prospera Credit Union



- Royal Bank of Canada
- Servus Credit Union
- Steinbach Credit Union
- Stride Credit Union
- Toronto-Dominion Bank
- Vancouver City Savings Credit Union