



# Reducing Cheques in the Investment Funds Industry

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In recent years there has been a dramatic global shift towards removing cheques as a payment method. In the Netherlands and Sweden, banks have fueled this change by charging fees for the use and processing of cheques and by reducing the availability of free cheques to account holders. These measures have produced great success with a significant decline in cheque payments.

## The Canadian payments landscape

The Canadian financial services industry is lagging far behind their European counterparts in reducing cheques as a method of payment. Only recently have institutions like Payments Canada begun to review the use of cheques and research alternative methods of electronic payment. As per Payments Canada, for the first time, in 2016, the value of Electronic Funds Transfers (EFT) surpassed value of cheques. This monumental achievement signaled a shift in thinking. In 2016 alone, cheque usage declined by almost 9%, compared to 2015.

Payments Canada determined that in terms of transaction value, cheques are still declining as a percentage of overall values which has resulted in a declining trend since 2011 (Figure 1). Additionally, cheques and EFT have represented an astonishing 89% of the total value of money movement (Figure 1).

**Figure 1: Value of transactions<sup>1</sup>**

PAYMENT METHOD	Value (in millions of dollars)					
	2011	2011 % OF TOTAL	2014 % OF TOTAL	2015 % OF TOTAL	2016	2016 % OF TOTAL
Cheques	\$3,648,447.70	50%	46%	45%	\$3,991,848.60	44%
EFT	\$2,868,754.90	39%	43%	44%	\$4,167,111.40	45%
<b>Totals</b>	<b>\$7,351,362.00</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>\$9,169,458.80</b>	<b>100%</b>

Payments Canada also took into consideration the overall volumes of different payment methods and concluded that cheques represented only 4% of all transactions in 2016 (Figure 2). However, EFT represented a relatively low overall percentage of total volume at 12% in 2016 compared to just 10% in 2011. This slow rate of adoption implies a delayed improvement in automation and transformation for the financial services industry in the upcoming years.

**Figure 2: Volume of Transactions<sup>1</sup>**

Volume (in millions of transactions)						
PAYMENT METHOD	2011	2011 % OF TOTAL	2014 % OF TOTAL	2015 % OF TOTAL	2016	2016 % OF TOTAL
Cheques	1,186.60	6%	5%	4%	798.3	4%
EFT	2,124.00	10%	12%	12%	2,631.00	12%
<b>Totals</b>	<b>20,313.10</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>21,267.50</b>	<b>100%</b>

The average transaction size for a cheque has grown by 69% from 2011 to 2016. This suggests that cheques are used for large purchases by individuals, moving large sums of money for investment purposes, or businesses making payments for business expenses.

**Figure 3: Average transaction size<sup>1</sup>**

VALUE					
PAYMENT METHOD	2011	2014	2015	2016	% CHANGE
Cheques	\$3,074.71	\$4,130.87	\$4,557.33	\$5,000.44	69%
EFT	\$1,350.64	\$1,507.42	\$1,532.51	\$1,583.85	26%
<b>Totals</b>	<b>\$361.90</b>	<b>\$414.29</b>	<b>\$427.11</b>	<b>\$431.15</b>	<b>24%</b>

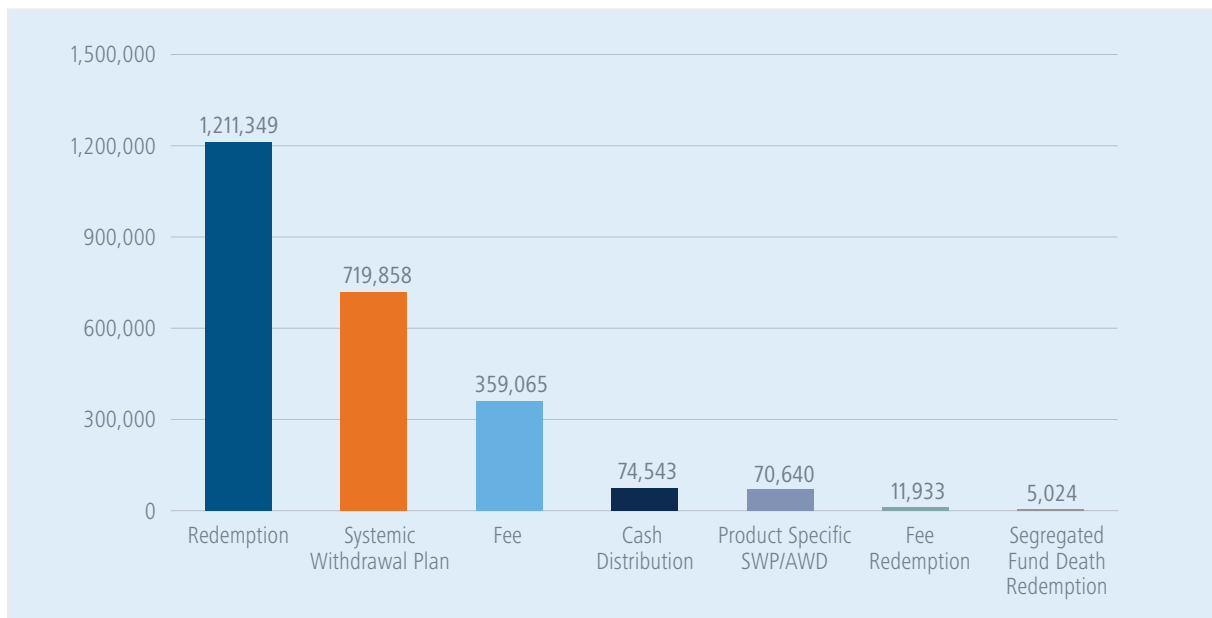
## The Investments Funds industry

The research clearly points to an opportunity for change within the financial services and Investment funds industries that could significantly impact the current volumes and figures (as shown above).

In 2017, the investment funds industry had a staggering amount of transactions that were settled via physical cheques. As per Fundserv Inc. (Figure 4 below), over 1.2 million redemption cheques were sent and suggests that many clients have requested redemptions via cheques. Therefore, the costs associated with the usage and processing of cheques still continue to be significant.

Systematic withdrawal plans account for the second highest transaction volume. Although majority of these payments are done electronically, a large number of cheques are still being sent for these payments. Payment frequencies across the industry can range from weekly to annually and in retrospect can account for upto 52 cheques being sent for a single account.

**Figure 4: Total Industry Cheques Issued 2017**



## Mackenzie's Efforts

We evaluated our volume of cheques (sent over the last two years) and concluded that Retirement Income Fund (RIF) payments accounted for highest overall number of cheque issuances. Based on our consolidated data (Figure 5), we were able to conclude that RIF cheques have increased in overall number while redemptions and cash distributions have declined year-over-year.

Figure 5:

MFC 2016 + 2017 Cheques sent volumes for client name accounts										
	2016					2017				
	CHEQUES	CQ % OF TOTAL	EFT	EFT % OF TOTAL	TOTAL	CHEQUES	CQ % OF TOTAL	EFT	EFT % OF TOTAL	TOTAL
<b>RIF Payments</b>	13,651	4%	292,091	96%	<b>305,742</b>	14,744	4%	319,492	96%	<b>334,236</b>
<b>Redemptions<sup>1</sup></b>	5,025	13%	32,576	87%	<b>37,601</b>	5,933	13%	39,124	87%	<b>45,057</b>
<b>Cash Distributions</b>	1,458	4%	31,941	96%	<b>33,399</b>	1,327	4%	36,066	96%	<b>37,393</b>
<b>AWD</b>	1,184	2%	58,383	98%	<b>59,567</b>	905	1%	65,690	99%	<b>66,595</b>
<b>Transfers In (total)<sup>2, 3</sup></b>	0	–	0	–	<b>0</b>	0	–	0	–	<b>0</b>
<b>Transfers Out (total)<sup>2, 3</sup></b>	5,163	100%	0	0%	<b>5,163</b>	7,512	100%	0	0%	<b>7,512</b>

### Notes

1. Not including RESP, RDSP redemptions
2. Not including RESP, RDSP transfers
3. Transfers – all transactions (cheque figure above may be consolidated cheque for multiple transactions in an account)

With the aging baby boomer demographic, we expect the number of RIF accounts and payments to continue to increase. With combined efforts of the fund companies and other industry partners, we can educate clients and advisors about the benefits of receiving payments electronically. We can expect the resulting impacts to be beneficial for both, the clients and for the industry. Mackenzie is continuing to work with other manufacturers to find innovative ways to pursue this cause holistically.

### Sources:

1. Payments Canada – 2017 Canadian Payment Methods and Trends  
<https://www.payments.ca/industry-info/our-research/canadians-motivated-convenience-and-rewards-when-it-comes-payment-choices>
2. The role of cheques in an evolving payments system  
<http://www.apca.com.au/consultation/>
3. Total industry cheques issued (Figure 4) Fundserv Inc.

## GENERAL INQUIRIES

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