



Accenture's response to Department of Finance's Open Banking Consultation

The Advisory Committee to the
Open Banking Review/Financial Institutions Division
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The following pages contain Accenture's response to the Department of Finance's Open Banking Consultation process. Accenture is delighted to have this opportunity to respond to the department's request and would be happy to discuss Open Banking in detail.

Introduction

The response below represents Accenture Canada's views on the specific questions posed in the Department of Finance's consultation on Open Banking.

The questions posed were –

- Would Open Banking provide meaningful benefits to and improve outcomes for Canadians? In what ways?
- In order for Canadians to feel confident in an open banking system, how should risks related to consumer protection, privacy, cyber security and financial stability be managed?
- If you are of the view that Canada should move forward with implementing an open banking system, what role and steps are appropriate for the federal government to take in the implementation of open banking?

Given the progress made on Open Banking across the globe in different countries, and the relative maturity of these markets, these questions and similar ones have been asked in those jurisdictions by regulators at the beginning of their Open Banking implementation journeys.

To answer these vital questions, Accenture has drawn from its breadth of global experience with regulators, governments and various market players to summarize learnings, best practices and point of views for the Canadian market. Accenture's Open Banking practice has strong credentials when it comes to supporting our clients through their Open Banking journeys, and we were recently named Overall Leader in the Everest Group Peak Matrix report for Open Banking IT Services in Q4, 2018.

To summarise our viewpoint below, there is clear evidence supporting the notion that Open Banking will provide value to Canadians and Canadian businesses based on the range of use cases and products available in other jurisdictions.

Open Banking fosters ecosystem connectivity, innovation and collaboration, and as a result drives more product personalization, improved consumer journey, and transparency for businesses and Canadian consumers.

The Canadian government is in a prime position to play a vital role in the adoption of Open Banking across the ecosystem by developing an all-encompassing set of technical standards that cover the topics of APIs, data access / transmission, security, and consent / ownership. Stewardship of Open Banking with the creation of a governance model to drive, monitor and enforce the standards outlined here can also be achieved by the government's involvement.

1. Would Open Banking provide meaningful benefits to and improve outcomes for Canadians? In what ways?

Open Banking has the potential to drive significant value for Canadians and Canadian businesses through innovation, competition and ecosystem connectivity.

It has been interesting to see varied approaches to the implementation of Open Banking across the globe. In some jurisdictions, governments and regulators have acted first (e.g. EU & Australia), launching Open Banking and data regulations in the hope of improving consumer journeys, simplifying financial management and spreading financial services to unbanked businesses. In other countries regulators have taken a softer, market driven approach (e.g. Hong Kong, Singapore, Japan) by guiding innovation with regulatory frameworks, API sandboxes and designated support groups to facilitate the collaboration between different ecosystem players.

The key point is that regardless of the model selected, regulated versus market driven, the result is that key financial institutions have started implementing new solutions that leverage the flexibility of Third Party Providers (TPP's) to bring personalized, nimble and innovative value-add products to improve consumer experiences.

The emergence of Open Banking has delivered a number of use cases that improve consumer experiences such as funds management, financing, convenience and personalization. All of these offerings are underpinned by the fundamental principle of Open Banking. The provider of the services to the customer will have a far richer and holistic view of the customer's financial information which will enable them to deliver these benefits. Institutions will be able to gain access to data they could not have seen before, and therefore must ensure their data management and analysis capabilities are strengthened in advance of Open Banking – without this, the offerings and products will provide little value to Canadian consumers.

Some use cases for Open Banking are discussed below.

Funds management

Aggregation applications aim to improve how individuals or companies manage their financial positions when they are spread across different financial institutions. Some of the most advanced aggregators provide a dashboard view of transactions, balances, investment portfolios and pension contributions to provide the user with a holistic view of their financial position. This provides the ability for customers to manage their financials in an automated fashion, whereas previously this may have needed to be done manually.

As an example, in May of 2018, Barclays launched their account aggregation capabilities in UK, allowing their 6 million mobile banking consumers to have an aggregated view of accounts from 6 leading UKI Banks. Similarly, Yolt, the smart thinking money app, allows UK and Netherlands banking consumers to manage their money with a host of unique features. Yolt consolidates

balances from a consumer's accounts, automatically deducts funds that are used for bill payments and typical spending, and shows discretionary income. It also allows a consumer to have a holistic view of their expenditure, have visibility into their average spending habits and budget savings for financial goals. These are two of multiple similar products on the market which are taking advantage of Open Banking for funds management products.

Accenture's hypothesis is that the primary market segment benefitting from funds management / financial management product offerings will be the Small to Medium Enterprises (SME) or small Corporates which do not have their own corporate treasury departments. These companies can gain significant benefit from having access to a real-time view of the aggregated cash flow / liquidity position across their accounts, enabling better, real-time decisions making around payables and receivables. These companies may even pay for unique and tailored insight generated from the aggregated data, if the information provided adds value to their business.

Financing

Open Banking introduces new capabilities for how financial service providers can assess and provide loans to their customer base, using a much wider range of customer financial information to make more accurate and consistent credit decisions. Canadians and Canadian businesses could benefit from various financing use cases that have been brought to life around the world.

Retail purchasers for example, could potentially receive an instant loan or line of credit at the point of sale to experience the benefits of financial flexibility at a fraction of the price of credit. Siam Commercial Bank and The Mell Group in Thailand arranged a partnership where SCB consumers can open an instant revolving credit at a much lower rate than that of a typical credit card. Another innovation involves Xero, an accounting SaaS company in Australia, which has partnered with National Australia Bank (NAB) to provide SMEs with unsecured lending options up to AUD \$100,000. Xero's accounting software determines the eligibility for the loan and automatically populates NAB's loan applications so that SME's can receive funds days earlier, enabling improved capital budgeting and cash management capabilities.

Finally, IWOCA in the UK, has integrated with Lloyd's Bank to reduce the loan underwriting time to under 60 seconds. IWOCA can analyse and process up to 5 years of transaction history to determine if the business is a viable consumer for Lloyd's as a lender.

These products allow for better credit decisions to be made with complete financial information, as opposed to the financial information held with just one institution, and can also provide varied options for Canadian customers in the future.

Convenience

Open Banking has the potential to streamline consumer journeys by creating convenient marketplaces. The fundamental advantage is that a provider will be able to assist their Canadian customers with both their financial and non-financial transactions, by creating products and services that are tailored to their customer's spending patterns and lifestyle choices.

An example of this is the Development Bank of Singapore (DBS) which launched its Marketplace in December 2018 consisting of 3 main pillars: Auto, Property & Electricity. Each market place is a partnership with various TPPs and resides within the DBS digital platform. DBS consumers can buy/sell used cars, list/search for property and search/switch to more cost-effective utility plans. DBS consumers who interact with these services are given preferred prices, have access to auxiliary services (auto insurance, home insurance, etc.) and have their applications instantly populated.

In this way, DBS can gain far greater insight into their customer's behaviour and tailor offerings to their customer base. DBS can also continue to build out their ecosystem or marketplace, adding partners that add value to their customers and take away points of friction in the ecosystem.

Personalization

Rewards and loyalty programs in Canada have the potential to change dramatically with the introduction of Open Banking. Based on global Open Banking implementations, we can expect a far greater range of options for Canadian customers.

A good case study is Standard Chartered's new Good Life platform in HK, Singapore and Malaysia. This platform allows Standard Chartered's consumers to redeem their reward points with over 1,000 different merchants, for services that best suit their lifestyle. Similarly, Citi Bank and HKTVMall have teamed up to allow Citi consumers to redeem their reward points during point of sale transactions on HKTVMall's online platform. Since the introduction of this partnership, 50% of Citi Bank credit card holders have used the service.

In summary, financial institutions have the ability to hyper-personalize reward and loyalty programs for their consumer base.

Based on the use cases detailed above, Accenture's view is that Open Banking in Canada can significantly improves customer's journeys, providing benefits and meaningful outcomes in both regulated and non-regulated environments.

2. In order for Canadians to feel confident in an Open Banking system, how should risks related to consumer protection, privacy, cyber security and financial stability be managed?

Open Banking is not only about enabling innovation and increasing competition in the financial industry – it is also about the sharing of sensible private information to enable the display of the aggregated financial standing of consumers. While many consumers share personal information such as age, address, religion and pictures on social media platforms, financial information is much more important for consumers to be protected from being shared publicly. That is why confidence in the system and security in granting access to bank account information is highly important to the success of the Open Banking ecosystem development in Canada and elsewhere.

Customer-centricity and consent management is key

Canadian consumers may not be interested in Open Banking as a concept, but they will be interested in the types of user-convenient products and value-adding services that justifies access to account information. Third Party Provider (TPP) services that are attractive will be able to gain the customer's consent to access their bank account details.

As the number of TPPs in the market will vary from time to time, consumers could lose track on which TPPs have their consent and what happens with their data. It is key that the government ensures that a central consent management infrastructure is created by the market and guided by the government. Customers should be given tools and instruments to control consented access rights to TPPs in a user-convenient and centralized way – managing all consents, including information on what type of data, transaction history interval, validity, and the TPP name. This infrastructure could be enhanced later for other “open data” services provided by other industries (e.g. insurance, health, automotive). This level of consumer control will generate confidence in the Open Banking ecosystem and contribute to its financial stability.

TPP certification and directory

Consent management is one aspect, but what about the trustworthiness of a TPP? How can a customer determine if their financial information can be shared in a secure manner with a specific TPP? TPPs should meet minimum standard requirements (uniform in all Canadian jurisdictions) in order to get a license / electronic certificate from the regulator in their jurisdiction - these entitle them to act as an account information service (similar to PSD2) towards the bank. A central TPP directory would include all registered TPPs in a consistent and standardized way. TPPs should be accessible by customers and other participants of the ecosystem. This directory service could also act as a reliable central

warning system in case of fraud and cybercrime to inform banks, customers and regulators in real-time so that they can apply control measures to these TPP services.

The process of granting access to a TPP needs to be standardised not only technically but also from the perspective of user experience. Authorization steps should be the same across all banks in Canada, including the legal text modules for TPP permissions. This will allow consumers to easily understand what they are permitting the TPPs to do, creating better awareness of how Open Banking services work and building trust in the services.

Strong Customer Authentication

TPPs and banks are the key players in the facilitation of an Open Banking ecosystem. High requirements for strong customer authentication and common security standards are one of the measures which help manage the bigger risk of cybercrime in an open ecosystem. This is critically important for the success of Open Banking as consumers need to be assured that the new ecosystem is secure and safe – fraud cases in the initial phase of Open Banking could jeopardise consumer confidence in TPP services.

In PSD2, Strong Customer Authentication (SCA) is based on authentication methods (such as one-time-passwords) using 2 out of 3 elements - “Knowledge” such as username/password, “Possession” such as a smartphone, “Inherence” such as biometrics data. Access to an account can only be granted if the consumer enters the username/password correctly and receives an authentication token on a dedicated channel (e.g. smartphone or hardware token) which is then entered to complete the authentication process. The authentication steps allow TPPs to build convenient and frictionless applications – without unnecessary authentication steps and redirections to different apps or sites. Some examples for different SCA approaches to realise authentication journeys between customer, TPP and the bank are “redirect”, “embedded”, “decoupled” and “delegated” (see the latest Berlin Group NextGenPSD2 API framework¹).

Security is key, but there should be a balance between convenience and security. Extremely high security standards could result in a poor customer experience and jeopardize the success of Open Banking.

¹ <https://www.berlin-group.org/nextgenpsd2-downloads>

3. If you are of the view that Canada should move forward with implementing an Open Banking system, what role and steps are appropriate for the federal government to take in the implementation of Open Banking?

Accenture views the rise of Open Banking, and eventually Open Data, as an inevitable change for which the Canadian financial ecosystem and regulator needs to prepare. Therefore, having regulations in place in line with the rise of an open marketplace is necessary to not only ensure a successful launch, but also to minimize potential misuse, fraud and confusion. In addition, a strong understanding of the current regulatory roadmap in Canada for the Payments Canada Modernization journey would help in deciding the timelines and scope of Open Banking regulation. Keeping these two considerations in mind, the federal government can play an active role in the following ways to ensure that Open Banking is implemented in a safe, secure and efficient manner:

As a first step, the Canadian federal government should define which stakeholders should be included within the open banking mandate. In some countries all banks are under open banking regulation, while others target select banks. Open banking regulations can also be limited to one type of product (e.g., payment account transactions), or cast a wider net and include all product types. The federal government should determine product scope, with emphasis on a larger product set to truly foster innovation and competition.

Next, the federal government should consider access type. Should third-parties have “read-only” access which may limit type and variety of use cases, but reduce overall data and security risks? Or should “read and write” access be pursued, which would allow third-parties to initiate transactions – increasing the number of open banking use cases, but exposing more systemic risk?

The following additional considerations should be taken into account by the government when drafting any Open Banking regulations:

- Perusing Open Data v/s Open Banking – While Open Banking provides opportunities in the banking sector only, Open Data extends the reach of innovation and widely available consumer data to other sectors (such as insurance, auto, health). This is both a great opportunity for a competitive market and the benefit of consumers, and a sign to develop regulations and controls which are future proof and cover data shared anywhere versus just in the Banking sector.
- Developing API and other technical standards and policies – Well-defined API standards are a cornerstone of a successful implementation and consistent consumer experience, and hence, adoption. Markets where Open Banking regulations are implemented without the base of API and other technical standards have seen slow adoption. For example, the UK experienced limited traction until the release of CMA

Regulations in February 2018 which required the nine biggest banks to enable payment initiation and account information APIs.

- Devising strict data standards – Secure handling of data is key for consumer protection and confidence in an Open Banking system. Data access, transmission, storage and protection requirements should be set out clearly by the federal government to ensure there is a strict data security standard for the industry. For example, SBA (Swiss Bankers Association) rejected PSD2 regulation in its current form due to the possible issues regarding security and data protection. SBA plan to support Open Banking changes, but as a part of open market and not as an obligation under PSD2.
- Requiring high security standards – As explained in Section 2 above, today's security requirements will need to be bolstered in the Open Banking marketplace, while balancing them with a frictionless consumer experience. The Berlin Group's NextGenPSD2 framework published in February 2018 includes multi-factor strong customer authentication requirements as one of the guidelines.
- Inclusion of Payment Initiation services – One of the questions embedded in the consultation paper was whether Payment Initiation services should ultimately be included in an open banking framework. In mature markets, there have been attempts to introduce Payment initiation services, but take up has been extremely low to date, with one of the main reasons being the Strong Customer Authentication requirements that have made the consumer experience sub-optimal when compared to existing payment methods. There is a real challenge to balance consumer ease of use with security and authentication requirements. However, including Payment initiation as part of an Open Banking framework can be beneficial for the development of consumer-friendly products and services.
- Ensuring clear consumer consent and protection rules – As explained in Section 2 above, consumers must not only be able to consent, but also be made aware of consumer protection rights in a clear and transparent manner. This will help consumers make informed decisions about sharing their data and at the same time explain their avenues of recourse in case their data is not protected by third parties or financial institutions.
- Establishing a central TPP register – To ensure control of TPP's in the market, and to build trust and confidence, the government need to maintain a central TPP register. TPP's should be subject to certain entry criteria and standards which will give confidence to the consumers to share their financial data with these companies.
- Establishing an Open Banking Governance model - To drive, monitor, manage, and enforce the Open Banking regulations, mature markets have developed strong a governance model. In the UK for example, the Competition and Markets Authority (CMA), a non-ministerial government department, promotes "competition for the

benefit of consumers, both within and outside the UK”² ... with the aim to “make markets work well for consumers, businesses and the economy.” The CMA established the Open Banking Implementation Entity, which developed “Operational Governance Rules and Guidelines” as a governance framework for the delivery of the Open Banking ecosystem delivery for March 2017 for open data.

Conclusion

Open Banking is fast approaching and will soon become our reality in Canada. The federal government can certainly play a key role in ensuring that Canadians are ready for this exciting new chapter by introducing regulations that are detailed, specific and timely. This change brings the opportunity to transform the Canadian financial services ecosystem and, along with the Payments Canada modernization initiatives, ensure that Canada has a world-class banking and financial services sector.

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CONSENT

Accenture consent to the disclosure of this submission in whole.

² <https://www.gov.uk/government/organisations/competition-and-markets-authority>