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OPEN BANKING CONSULTATION REVIEW – DOF CANADA

To

Department of Finance

Government of Canada

Dear Team,

Firstly, I would like to congratulate the team of Department of Finance, Canada to come up with the consultation process on a very important and innovative initiative of Open Banking for the masses of the country. This initiative, as rightly outlined towards the end of the consultation paper is already been advanced by many central banks of other geographies around the world and the world have gained some experience of this journey. I am involved in one of those initiatives since the last 3 years in EU/UK emerged on the foot of PSD2 and my consultation review will be based off my experience as an Open Banking Consultant for PSD2 for large banks based in EU and closely worked with the Open Banking API development ecosystem of UK OBIE, which in my understanding is the most advanced solution to Open Banking in EU geography and globally. Hence you will notice a lot of references of EU/UK in my response.

I would also like to consent that my review can be made public along with my identity for all the portions mentioned below.

I would like to wish good luck for this initiative and may this achieve all the success and provide a great alternative to how Canadians see themselves in their financial life.

Best Regards

Amandeep Batra

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Q1 - Would open banking provide meaningful benefits to and improve outcomes for Canadians? In what ways?

Open Banking has a huge potential to deliver to the jurisdictions where it can be enforced with the right legislation and framework. Therefore, to extract the meaningful benefits out of it, a perfect balance of innovation with legislation will be required and rules of the same should be technology agnostic yet with high standard of security and put customers first in all aspects. The minimum mandatory services emerging out of this must come with no cost to the end consumer by either the banks, existing and emerging FinTechs and/or new regulated service providers. For the ecosystem to evolve in its true aspect the protection of customer privacy and rights must be kept at the heart of it. Giving an example of it, concept of consents must be very clearly and in an elaborative way be explained to all players and the end consumer which must meet the existing and potentially evolving data protection regulations. Just like EU, General Data Protection regulation must be revisited by the Canadian regulators but unlike EU I believe the Open Banking and Data Protection must be two pillars of one regulation rather than two separate ones. It can thrive the true meaning of innovation with one common goal.

One of the existing practice of screen scraping, which I also denote as impersonating customer is a dangerous practice. Unknowingly many customers are putting themselves to financial risks by using the non-financial apps. Open Banking initiative and the thrust to move towards API solutions can resolve this and this must be seen a big advantage which can deliver meaningful benefit by lowering the financial risks and measuring the risk profiling of the ecosystem and all Canadians.

Level playing field for all service providers – Open Banking will provide a level playing field for service providers of different sizes. From the likes of traditional big banks (e.g. RBC, TD, etc.), to the giant global service providers (e.g. PayPal, Google, etc.), to the existing and emerging FinTechs this will bring all of them to one platform and compete with innovation. Irrespective of the size of organizations this will generate a healthy economy with more choices to the Canadians offering innovative services which will be cost-efficient and time saving solutions in this digital era.

Remote Control in the hand of customer – Every Canadian will be able to control its personal & financial information which currently is in the hand of traditional banks. In this age, almost everyone has more than one bank account and multiple financial relationships with multiple financial institutions. To use the services, the choice as of today is of the service provider as to how I as a customer can get to know the balance in my account or see where I spent in the last week. Most obvious choice to make a payment remotely is using plastic (credit/debit cards) or card-based Apple/Google pay. With Open Banking the choices will increase and how a Canadian want to keep a relation with their bank servicer will be up to them. Multi-banked Canadians will be the biggest beneficiaries of this process and will feel the remote control is in their hand. They will be able to compare the services of two or more banks at one go and make a choice of switching to one or the other with the innovative services which can be leveraged from Open Banking.

Everything is Mobile – In this digital age where trend of shopping over the internet is more popular, this can give a boost to how merchants deal with the payment service providers with a faster way to getting the money directly into their account and using the payments rails within Canada. An alternate way of payment will be offered to the masses parallel to the cards rails. This has given rise to the challenger

banks to exist where there is no need of a physical branch or any paper-based instruction. With Open Banking, this would be possible for customers who are with large traditional banks operating on legacy systems to also have everything they want from their accounts to be mobile and a different way to look into their relationship with their financial institution.

Q2 - 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?

I am an avid believer of strong data protection policy of the jurisdiction which act as a deterrent for the service providers to invest in the most efficient security mechanisms. However, I understand these policies are not so commonly understood by the masses of the jurisdiction. As people hear about financial data, they get conscious of any fraud which could happen on the foot of it. In today's age we hear a lot of scams in financial sector which are based off social engineering and in large percentage targeting vulnerable customers (young or old age) leading to risks of identity theft, damaging financial position, etc. Recent episodes of data breach within Facebook have already taken a lot of attention of masses and has changed people's opinion of how they see personal data now. Financial data, obviously, is much more crucial and sensitive.

In order to mitigate these risks, one of the main area where focus needs to be given is the fundamentals of what consent will be and how easily that should be explained to the masses. Consent and authentication is the heart of open banking to work in the ecosystem. One thing which was debated to the most extent with the EU/UK jurisdiction as part of Open Banking is Concept of Consent and why it is different from Authentication. There was a lot of wiggle room within the regulated documentation which was being interpreted differently by the industry across EU affecting the customer journeys. Learnings can be taken on this from the EU/UK market and implied by the Canadian regulators to the fundamental framework in a customer friendly way to boost confidence in the market to the masses.

Of course, it will not be easy as every new initiative comes with its own uptake risks, but as the concept is picking up very fast in other jurisdictions, there will be a examples available from these jurisdictions to boost the awareness in Canada with prototypes.

Be it a card based or non-card based approach, strong customer authentication was made a must in EU/UK which means at least two factor authentication (2FA) as part of the open banking transactions (e.g. making a payment or checking the transaction history) and with the penetration of mobile apps in our day to day life, it becomes more and more important that the security of every financial transaction is checked through in-app experiences. In my opinion, the same must be mandated by Canada as part of its Open Banking initiative. This will give masses a confidence that everything they do via Open Banking will have several gates before it could be brought to fruition

Q3 - 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?

I strongly believe Canada should move towards implementing Open Banking initiative. Looking and working within other geographies where this is implemented as a regulatory initiative (PSD2 in EU and UK) I have some opinions on what federal government can do in order to implement this.

Firstly, there is a need of a regulatory framework to be laid out which must be technology agnostic and must lay down the fundamental rules of the game. The framework must identify what service types can come under this initiative and for what account types this can be applicable at the minimum. It is very important to define this clearly for all the financial institutions and the impacted players to commonly understand the scope. PSD2 has done the same to a fair extent possible which was seen as a stepping stone towards innovation in this space. Like PSD2 defined new third party providers (TPPs) within the legislation and a model to regulate them via central registries, I think the same must be taken up by the federal government in Canada and assign this task to Central Bank.

Secondly, this initiative is going to have customer data at the heart of its processing, therefore, federal government must bring in the data protection stream as part of this single initiative which lays foundation rules of data privacy and customer rights. Account data and history of a customer is key for customer profiling which can only be shared with customer consent and rules of consent must also be taken care as part of the same. These will differ for making a payment and sharing the account history i.e. write v/s read operations, which the government must control. Any breaches must have serious penalties to the party at fault.

Thirdly, due to the very nature of this, it can be labelled as a technology innovation initiative which will involve a heavy lift to be done by all the financial institutions, identity services to authenticate service providers and customers and secure mechanism to communicate between the service providers (via APIs and similar digital innovations) hence, there will be a need to construct a security and common communication standard framework to be laid down by the central regulators. In my opinion the government must appoint a body from within the Bank of Canada / Payments Canada to come up with a rulebook of framework of common and secure standards for everyone in the ecosystem to follow.