Submission to the consultations on Open Banking
February 2019

Open banking presents a significant opportunity for Canada. With proper implementation, it will give consumers more choice and the country a more robust and innovative financial services sector.

At Borrowell, we have a unique vantage point on Canada's financial services landscape. We have broad reach; more than 850,000 Canadians use the services we offer, typically with the aim of monitoring and improving their credit. Outside of the large banks, there are few financial services companies that have relationships with more Canadians. At the same time, we are a relatively new entrant. We're a fintech—that is, a technology company focused on making financial services better—driven by the belief that financial services must evolve to serve Canadians better.

Customer Choice and Competition

The need for more innovation and competition in Canada's financial services landscape is well understood. The Competition Bureau, published its Market Study Report in December 2017, and has noted subsequently, "FinTech promises to "radically improve" the way Canadians pay, save, borrow and invest by providing more flexible options that increase choice and convenience, improve quality and lower the prices of Canadian financial products and services."[1]

At its heart, open banking is about consumer choice. By allowing consumers to, for example, port their data from one institution to another, it makes it easier from them to use multiple institutions, assembling a portfolio of products to suit their needs—for example, a chequing account from one bank, a mortgage from another, a personal loan from a digital lender and credit monitoring from a company specialized in it, all brought together in a seamless and integrated dashboard.

We know that open banking would be transformative to our business at Borrowell. For example, we originate online loans for prime consumers typically looking to refinance credit card debt at a lower rate. Our application process is made more complex by the lack of open banking regulation. It takes time and effort to ensure that bank account details match up with other credentials supplied by an applicant. Surely a consumer should have the right to easily prove ownership of an account and permission the sharing of transaction data to verify income when applying for a loan.

Fintech in Canada today

[1] http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/04392.html

Canada should be a leader in fintech, because it has the key constituents: successful banks and a dynamic technology sector. Take banks first. Of the world's 20 largest banks by market capitalization, three—RBC, TD and Scotiabank—are Canadian. Supporting these banks is sophisticated regulatory infrastructure that ensured that Canada saw no bank failures during the 2008 financial crisis. This is a remarkable achievement for a country of just 35 million people.

Canada's technology ecosystem is also dynamic, particularly where the banks are headquartered, in Toronto. For example, a recent report from BMO Capital Markets noted that Toronto has 241,000 people employed in technology, a figure that has doubled in the past five years, the fastest rate of growth of any city in North America[2].

And yet, Canada's fintech ecosystem remains underdeveloped. Of the world's 20 or so fintech unicorns—private companies valued at more than $1 billion USD—none is Canadian[3]. This should worry policy makers and bankers alike, for two reasons. First, as a country, we are missing an opportunity to create new, large, wealth-generating companies in a sector where we have deep expertise. Second, the future of our incumbents is at risk because too little cutting-edge innovation is present in their ecosystem; instead, it's being driven by fintech companies headquartered elsewhere. This is the lesson from successful clusters like tech companies in Silicon Valley: successful incumbents benefit from interaction with startups, learning from them, partnering with them and occasionally acquiring them.

Canada's dearth of large fintechs has many contributing factors, including domestic market size and availability of funding. However, as the Competition Bureau noted in its report, Canadian financial services regulation is frequently cited as far less fintech-friendly than that of other jurisdictions. Open banking is a key piece to this: it enables new entrants, including fintechs.

Example: Katie from Ottawa

Katie (not her real name) is Borrowell customer living in the Ottawa region. In her twenties and working two jobs, she was forced to take out a high-cost, payday-style loan to pay for emergency surgery for her pet. In fact, Katie likely had better loan options but wasn't aware of them, until she signed up to monitor her credit with Borrowell. She switched into a low-rate Borrowell loan, saving thousands of dollars a year in interest.

Unfortunately, it can be hard to underwrite consumers like Katie because of their short credit histories and irregular incomes. If Katie—and customers like her—could, under an open banking regime, easily grant access permission for account data held by banks and income data maintained by the CRA, it would lower fraud and credit risks for lenders, allowing customers like Katie to access funds less expensively.

The Promise of Open Banking

[2] https://www.thestar.com/business/2019/02/05/torontos-tech-industry-on-the-rise-report.html

[3] https://www.cbinsights.com/research-unicorn-companies

Adopting open banking would be neither straightforward nor without risk. Highly sensitive consumer data would be involved and proper safeguards would need to be put in place. But as other countries have shown, this is possible, and Canada's highly competent and sophisticated financial services regulators are certainly up to the task.

The federal government has a key role to play, particularly through federally-controlled regulators such as OSFI. The federal government also maintains key data, such as income data gleaned through tax returns, that could also be part of an open banking regime.

The upside of a robust open banking approach in Canada would be substantial. Consumers would have more choice of providers and more control over their finances. New entrants and incumbents alike would find it easier to market innovative services to consumers, increasing competition. And Canada would increase its odds, in the coming decades, of retaining its strong global standing in financial services.

About Borrowell
Borrowell helps people make great decisions about credit. With its free credit score and report monitoring, automated credit coaching tools and AI-driven financial product recommendations, Borrowell empowers consumers to improve their financial well-being and be the hero of their credit.

Borrowell is one of Canada's largest financial technology companies, with more than 850,000 members. The company has received significant recognition, including being named to the Fintech 100, a list of the top 100 fintech companies globally; Fintech of the Year (2018) by the Digital Finance Institute; and a finalist for "International Innovator of the Year" by LendIt.

Borrowell has become a true platform of financial products with over 40 financial services companies on its dashboard. Its investors include leading venture capital and financial services firms including Portag3 Ventures, White Star Capital, and Equitable Bank. Borrowell is based in Toronto, with 65 full-time employees. It was a named in 2018 a Great Place to Work and has received wide recognition for its leadership in diversity and inclusion.

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