

Written Submission by the Canadian Chamber of Commerce

Advisory Committee on Open Banking

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The Canadian Chamber of Commerce is the largest network of businesses in Canada, representing over 200,000 firms across the country. The Canadian business community supports an agile, principles-based approach to open banking with the highest regard for consumer privacy, security, and financial stability.

Canada's financial industries are changing rapidly as new technologies improve and automate the delivery and use of financial services. Open banking is leading this change and has the potential to offer a new, secure way for Canadian consumers to share their financial transaction data in the development of innovative products and services tailored to their needs, including helping consumers better understand and manage their finances.

Exploring new standards can help maintain the strength and competitiveness of the Canadian financial system as the industry adopts new technologies and services. Open banking should be customer-centric to build trust in new financial technologies and capitalize on benefits. It should be a fair playing field based on industry leading standards. There should be regulatory clarity and coherence, while at the same time leaving room to experiment and innovate.

The Canadian Chamber of Commerce sought input from businesses of all sizes and from various economic sectors and geographic regions to reach consensus on this important issue. The Canadian business community recommends that the Advisory Committee on Open Banking adopt these principles in developing its approach.

Principle 1: Put Customers at the Centre to Maximize Benefits and Control Risk

Open banking should provide the greatest benefits to Canadian consumers, while minimizing the risks that their financial data could be inappropriately shared. Canadian banking customers should be empowered to share the financial transaction data that is available digitally and related to their everyday banking activities. The larger the pool of available data, the greater will be the benefits that open banking can offer Canadians.

Customers sharing financial transaction data is not a new concept in Canada. Consumers and businesses are already sharing financial transaction data in a variety of ways. While these provide customer benefits, certain access methods being used today (such as screen-scraping) can increase the risk to consumers and businesses and risk to the system as a whole. In this way, the examination of open banking must focus on the safer sharing of financial transaction data to foster the trust of customers. Consumer confidence is essential to the success of any open banking system. For this confidence to exist, consumers need to clearly understand the new possibilities open banking offers

them, understand the risks associated with sharing data, and understand how this risk is mitigated and addressed by financial institutions and third party providers.

Open banking should empower customers to share their data through better data security and access. Third party providers should be required to clearly articulate the risks to customers in order to get consent to use their data and, in turn, demonstrate the capacity to take on the responsibility of handling personal data and covering the associated risks. Customers must also be provided with effective liability and redress mechanisms if something goes wrong. If done correctly, open banking can address larger privacy issues as a whole and provide new options for customers to opt-out at any time.

Principle 2: Regulate the Playing Field, Not the Players

The Canadian financial sector is amongst the most stable in the world. During the global financial crisis Canada's banks maintained their resiliency by being well capitalized, well managed and well regulated, and they remain so to this day. The system is characterized by strong prudential regulation and supervision, a well-designed system of deposit insurance, and arrangements for the resolution of failed banks. In a recent assessment, the IMF concluded that Canada's financial system is highly mature, sophisticated, and well-managed.¹

The challenge of open banking is to maintain the competitive advantage of Canadian financial stability, while continuing to promote innovation in the financial sector. An approach should be considered that fosters effective partnerships between fintechs and financial institutions. The objective should be to have the same level playing field where both segments of the industry can work for the benefit of their customers.

Open banking will also need to carefully consider the prudential requirements that should be in place for both banks and fintechs. As some fintechs and other third party service providers begin to move into providing more traditional financial services, these requirements may need to be revised to ensure a level playing field and financial stability. In the absence of these protections, customers might make false assumptions about bank regulations applying equally to all service providers. A modern and innovative financial sector will thrive if fintechs can build trust and mitigate systemic risk.

Having fair industry standards is likely to speed the implementation of open banking rather than slowing it down. Regulators should work together collaboratively with all stakeholders to consider appropriate authorization requirements for all participating third party providers, including security, governance, and insurance standards. It is the view of the Canadian business community that all those participating in the open banking network should be properly vetted so that Canadian customers can have a high degree of confidence that their financial system continues to be stable and secure.

Principle 3: Encourage Regulatory Standards that Promote Innovation

Open banking should be adaptive to advances in financial technology. Open banking should not stifle innovation or the competitiveness of Canada's financial sector.

Customer needs are already driving numerous financial data partnerships and new market relationships. Open banking regulatory standards should take into account the rapid pace of change in the industry to accommodate and respond to evolving customer needs and demands. Open banking standards should help all companies to create, share, and access financial transaction data through APIs and

¹ International Monetary Fund (2014) Canada, *IMF Country Report No. 14/27*.

maintain a secure environment. An open banking system should be nimble, promoting agility and empowering businesses to keep up with the speed of technological change.

Principle 4: Create a Regulatory Sandbox to Experiment with Use Cases

Financial innovation is an important part of the global financial system and Canadian companies must remain competitive within this landscape. As the financial services industry rapidly evolves, including the businesses and technologies within it, it can be unclear what regulations need to adapt and, if so, to what extent.

A regulatory sandbox to allow small-scale, live testing of innovations by financial services firms in a controlled environment can be helpful in providing the space to develop new innovations. It can help align compliance and regulation with the speed of technological change without drowning the financial services industry with rules or compromising on customer security. It can also help promote, develop, and accelerate collaboration in the open banking ecosystem.

Sandbox experimentation should focus on specific open banking use cases that provide the greatest benefits to consumers. For example, customers can be enabled to share their data for loan applications or for tax purposes with accountants. Developing a Canadian open banking testing ground based on the most promising use cases will help ensure our financial system continues to be at the forefront of financial technology.

Principle 5: Clarify Jurisdictional Issues and Define Scope

Canada has a unique jurisdictional context in terms of de-centralized governance and federal-provincial relationships. While it is instructive to study how open banking has been regulated in other international jurisdictions, a made-in-Canada open banking framework must take into account our distinctive jurisdictional circumstances.

Many financial services companies are regulated provincially and are looking for greater clarity on how they might be involved in a national open banking system. They suggest the federal government begin discussions with provincial counterparts to better understand the options available.

Similarly, there are larger issues involved, such as broader privacy and consumer rights. Since Canada already has a comprehensive privacy regime for consent and consumer disclosure that applies to all businesses, it would be most useful to examine open banking with a narrow scope under the current regime.