



# A Review into the Merits of Open Banking: Canadian Lenders Association's Response

<https://www.fin.gc.ca/activty/consult/2019/ob-bo/obbo-report-rapport-eng.asp>.

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## Canadian Lenders Association's Response

Canadian Lenders Association (CLA) | l'Association des prêteurs canadiens (APC) is writing this response to *The Advisory Committee to the Open Banking Review* representing our CLA members and their borrowers nationally. We view open banking standards as an essential step in normalizing the Canadian marketplace and bring vibrant, customer-first financial services to our economy.

We view Open Banking as the next step and natural evolution of banking and financial services in Canada. Open banking aligns with the government of Canada's mandate to become a global player in innovation, data, and technology. An open banking mandate in Canada will position the country as a global leader, alongside the European Union and United Kingdom.

### Definition of Open Banking

Open Banking is the creation of well-defined protocols and standards for sharing and exchanging real-time data in a secure and in a trust manner between financial institutions, third parties and customers.

## Similar Transformation in Open Data Standards

The CLA sees this as analogous to the transformation of other verticals both internationally and in Canada. One illustrative example is the airline industry. Travellers historically were required to contact incumbent airline companies directly in order to book or manage reservations, check availability, check in, and check arrival times. Modern standards in our airline industry placed the customers in control and enabled customers to decide what, when, where and how they wished to consume airline services. This amounted to expanded and improved services for the would-be traveller.

The modernization of the travel industry allowed for open functionality through secure APIs. This re-visioning of the industry enabled customers and third-party apps to perform most, if not all of the travel functions, without the need to ever contact the airline through slow, analogue channels. It allowed for a proliferation of enhanced functionality and services which are now accepted and indispensable and helped incumbent business continue to thrive while opening the door to innovation across the sector spurring a larger and more vital economy.

Similarly, open standards in banking will bring that vitality to the financial services marketplace and spur new and enhanced functionality and services that will become an indispensable part of our growing economy.

## Benefits of Open Banking

Open banking brings significant benefits to the Canadian market for customers and businesses. Providing all Canadians agency over their data also allows them to benefit from the resulting financial access, efficiency and innovation.

Here is a list of some of the meaningful benefits that the CLA and its members expect from open banking standards:

### 1. INNOVATION & COMPETITION

- Open Banking will fuel and fast track the fintech and innovation ecosystem in Canada and will open the doors for fintech start-ups to offer customers the ability to better manage their debt and get sound real-time investment advice and offers.
- Increased competitiveness between financial institutions and opens doors for new entrants to provide increased financial services and options to Canadian customers.

### 2. ACCESS & EFFICIENCY

- Open Banking removes a huge burden off the customer by giving them the ability to consent and choose what data can be shared with whom and thus allowing for faster and broader access to funds.
- Open Banking will allow customer to effectively access third-party financial tools and products.
- Make it easier for customers to pay and get paid.
- It opens up the door to third party providers to deliver services such as consolidation of payments (multiple invoices) and consolidation of account statements for treasury and investment purpose.
- Customers can give consent and provide instructions to their bank(s) to make multiple payments on their behalf, share their account balances with other banks and/or payment providers and save themselves the inconvenience of logging in to each bank separately.

### 3. STANDARDIZATION

- Open Banking gives the customer a consistent user experience across all banks.
- Customers can better manage their financial health through better and broader access to their financial data: customers will be see their credit score in real-time through their bank account; get real-time advice to improve their credit score and better manage their debt.
- Customers will have the ability to change their address with all banks and/or service providers without the need to do so separately with each bank.
- Without Open Banking Fintechs rely on offerings that might compromise the bank's security such as bank scrape technology. Open Banking allows for these services to be more standardized and secure and will give banks the ability to monetize these services and make them readily available to customers.

### 4. UNDERSERVED

- Open Banking will make banking broadly available to the underserved market including women, new Canadians (immigrants) and indigenous peoples.

- Lenders are requiring more and more banking data to understand their customers' spending habits and behaviour to be able to provide funding. Open Banking streamlines access to this data and will result in more access to funds for the underserved customer segment.

## 5. CUSTOMER-FIRST DESIGN

- Allowing customers to have agency over their data is critical to develop trust, accountability and allow the customers to better participate in essential financial services. With Open Banking, customers need to be able to access and safely transfer their banking data to trusted parties.
- Open Banking will provide the customers with more control over their data as they are able to have more visibility into what data the bank has on them and will be able to select which parts of that data can be shared and with who.
- Open Banking provides customers more options to shop and compare products and end up with best products and rates.
- Crucially, Open Banking will result in a more educated, active financial services customers.

## 5. COMMERCIAL BENEFITS

- Open Banking will allow more SMBs to access capital more efficiently than ever before, which increases economic output
  - Open Banking will increase cash flow by streamlining access to capital for SMBs
  - Open Banking will increase the competitiveness of alternative lending options
- Open Banking will decrease the amount of time SMBs dedicate to business administration, allowing them to spend more time investing in the success of their operations.

## Security Risks of Open Banking

Open Banking relies upon the accessibility and sharing of customers data, and thus demands a higher degree of privacy safeguards, protection and information security provisions.

APIs provide access to broader sets of data in a simpler more scalable manner. Additionally, this means that a breach of these APIs could be extremely costly and could have significant consequences due to the vast amount of data that could be breached/leaked.

In order for customers to feel safe and protected, there must be government mandated standards and framework that *all* financial institutions must comply. The rules within these standards should be comprehensive and cover all risk profiles and tiers by putting the customer in control of what data can be shared, when and with whom.

Banks today use their customers transactional data to educate their fraud detection systems and algorithms. Since Open Banking allows customers to perform certain third-party tasks and transactions from within their bank, those transaction details might not be available to the bank to analyze and thus could make it more difficult for banks to protect customers from fraudulent transactions that are not within their control.

Open Banking will introduce new types of transactions that incumbent banks are not necessarily familiar and might require time to adopt proper security to manage. A period of transaction history may be required to build appropriate fraud detection tools and algorithms.

In order to make Open Banking operate effectively and efficiently in Canada, unlocking its full potential and value for the customer, we believe that standardization and compliance is crucial.

The PIPEDA act already provides a robust framework for the privacy and protection of customer data and can be enhanced to make it more comprehensive by including Open Banking standards.

## Role of the Federal Government in Advancing Open Banking Standards

The Government must play a leadership role in bringing open banking to Canada by helping the industry:

- As any Open Bank initiative necessitates that all stakeholders in the financial sector participate, it is essential that the government mandate standards and enforce them in order to create a unified vision of Open Banking that all stakeholders in the industry can comply.
- The government should establish and advance standards working horizontally with incumbent and alternative sector stakeholders.

- The government should evolve the customer-first data policy, ensuring the protection of customer data by placing the customer in control of their own data.
- The government should work across ministries, benefiting from standards in privacy and consent investigated by the Treasury Board's Digital ID ongoing initiative.

## Background on the Canadian Lenders Association (CLA) | l'Association des prêteurs canadiens (APC)

The CLA | APC [www.canadianlenders.org](http://www.canadianlenders.org) was established in 2016 as a body representing and promoting services and innovation in the Canadian lending sector nationally. The CLA supports the growth of companies that are in the business of lending, or providing other means of credit, to small businesses and individuals by non-conventional or innovative means. The CLA: facilitates the exchange of ideas to improve the lending sector; encourages principled and professional practices by innovative lenders; educates the public at large about innovative lending; encourages individual potential borrowers to be informed about the appropriateness of innovative lending to the borrowers' circumstance; and advocates on behalf of, and represents the interests of innovative lenders.

The CLA's lending members provide credit to both the SME market and the consumer market. These company's innovative models service the needs of Canadian businesses and individual borrowers nationally. The CLA seeks broad membership from all lenders (other than payday lenders) that carry on business in Canada and seeks to support the establishment of good governance and strong internal standards to strengthen and support the development of this important business activity.

The CLA services innovative lenders that are seeking to bring access-to-capital to markets not served by incumbent lenders through legacy underwriting practices. Practices that make it too difficult for incumbent lenders to service this market.

Through the use of innovative digital solutions and underwriting practices, intelligent risk-assessment and data tools, as well as properly risk-adjusted credit granting, the CLA's lending members are better able to serve borrowers across Canada. In many cases, our leaders are able to provide loans to higher-risk borrowers who do not meet the criteria of traditional lenders.

The CLA currently has 60-member companies which are collectively focused on fostering an environment of competition and innovation in Canadian lending. Our association works both nationally and internationally to champion initiatives that promote transparent and responsible business practices in Canada for Canadians. We have partnered with leading organizations globally, such as the ILPA (Innovative Lending Platform Association), to bring best-of-breed solutions to the Canadian market.

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