

February 11, 2019

The Advisory Committee to the Open Banking Review/Financial Institutions Division

The Financial Sector Policy Branch
Department of Finance Canada
90 Elgin Street, Ottawa ON K1A 0G5

RE: OPEN BANKING IN CANADA - CVCA FEEDBACK

About the CVCA

The CVCA is the voice of venture capital and private equity industry in Canada. We believe that a favourable and competitive ecosystem for private capital will enhance Canada's economic growth.

The CVCA proudly links venture capital and private equity firms, debt and equity providers, international investors, institutional funds, government entities, angel and family offices. We bring all the pieces together to keep our industry fluid and strong.

Our member network consists of over 1,500 individual and over 250 corporate members across 180 firms in Canada.

We are Canada's ultimate resource for data on Canadian private capital investments.

Context

We are pleased to participate in the Government's consultation regarding the potential benefits and risks associated with establishing an open banking system in Canada.

Private capital investors, particularly venture capital investors, help to build and grow financial technology companies in Canada. Since 2013, CAD \$2.17B has been invested in 99 fintech companies through 207 deals.

Last year, in 2018, CAD \$361M was invested in 31 fintech companies as part of over 38 deals. The average financing size in 2018 into fintech companies was CAD \$9.51M. Two fintech financing rounds were in the top 20 overall venture capital deals since 2013 including Real Matters' round in March 2016 and Clearbanc's Series A round in Nov 2018.

Open Banking Impact

The CVCA surveyed our membership, specifically those that invest directly in financial technology or have a vested interest in an open banking system in Canada. What follows is a summary of the feedback we received.

Would open banking provide meaningful benefits to and improve outcomes for Canadians?

- Having secure access to the data from an open banking system will enable more competition, new services, and potentially lower costs to Canadian consumers.
- Canada has a thriving fintech startup industry with robust private investment and regulatory oversight to support the ecosystem. An open banking system would further stimulate and drive innovation in the financial services sector in Canada.
- There would be a potential increase of economic spinoffs from fintech companies built in Canada. If the data from open banking is not available in Canada, these economic spinoffs will occur elsewhere. In order for open banking to be successful, Canadian businesses need access to lower borrowing costs, lower spreads on borrowing costs and improved economic outcomes for Canadian businesses needing capital.
- Open banking allows all ecosystem participants to offer tailored financial services to consumers by democratizing consumer data from the control of current financial institutions. These tailored financial services tend to be more competitively priced and better suited to clients than generic offerings.
- End users and consumers benefit from a healthy competitive environment. Increasing competition will improve the products and services and overall industry's performance, will open business opportunities to other Canadians and will reduce the cost to Canadians of these goods and services.

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?

- The open banking system should be designed by an industry consortium made up of fintech's, banks, regulators and consumers bringing all stakeholders together.
- An open banking system will increase consumer protection, privacy and cybersecurity. The current work-arounds employed by participants, including screen-scraping financial information, cause significant privacy and security concerns.
- In order for Canadians to feel confident with an open banking system Canada should adopt state-of-the-art cyber standards and make it mandatory for all participants.

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 implementation of open banking?

- If Canada moves forward with an open banking system, the federal government has to ensure that new entrants are subject to the same Office of the Superintendent of Financial Institutions (OSFI) compliance requirements as the incumbent, regulated banks.
- In order for open banking to be successful in Canada, the government of Canada should continue to seek feedback through deep consultation with fintech's, banks and regulators.
- The federal government would be helpful in overseeing and determining the demark point of which services should become open and those that should not. This process should include fairness and take in consideration price and competition. It should also assist in establishing the privacy and security standard in partnership with industry.
- For a successful change over from the current system to an open banking system, the change should be rolled out in phases.
- The Canadian federal government should be integral in setting security and privacy standards with a new open banking system. There should be clear regulations with penalties; prosecuting breaches of security and privacy.

Conclusion

The CVCA believes that an open banking system in Canada would positively impact job creation, and help propel innovation in the financial services industry.

A sensible regulatory authority comprised of experienced financial technology, traditional banking, and privacy and cyber security experts as well as consumers will help to mitigate the risks associated with the system change.

The CVCA would like to thank the Department of Finance for the opportunity to provide feedback on this topic.