

# The Council of Canadian Innovators' Open Banking Submission

## About CCI

In September 2015, CEOs from Canada's fastest growing technology companies founded the Council of Canadian Innovators (CCI) to ensure their voices were heard in the public policy development process because for far too long, policy regarding job creation and commercialization in Canada had been dominated by non-practitioners, foreign multinationals and other actors whose primary purpose is not to create economic growth in Canada. Today, the Council is composed of over 100 CEOs who are the leading commercialization experts in their fields of health and clean technology, fintech, cybersecurity, and information and communication technology. All of our members are job creators, investors and philanthropists. Currently, the Council is chaired by Jim Balsillie, former Chairman and co-CEO of Blackberry, and John Ruffolo, founder of OMERS Ventures.

## Contact CCI

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The global Fintech sector has grown exponentially in response to accelerating technological development and ever-changing customer preferences in financial services. However, Canada lags behind its international peers in the Fintech space. In the first half of 2018, global investment in Fintech reached a record \$57 billion across 875 deals, up from \$17.4 billion across 1,436 in 2016.<sup>1</sup> As Fintech grows and assumes a more central role in the lives of consumers, regulators are faced with a new set of challenges. This necessitates that governments keep up with emerging technology, understand new business models, manage competing priorities, ensure systemic stability, and consumer protection while maintaining a level playing field between incumbents and new entrants in the financial services industry. Despite a sluggish start, \$183 million was invested in Canadian Fintechs in 2016 and since 2010, over 80 of our firms have attracted over \$1 billion in investment.<sup>2</sup> Fintech provides an opportunity to increase consumer choice, protection, and economic growth, but in order to take advantage of it, Canada must seize the opportunity to lead in Fintech innovation.

The concept of Open Banking, which was announced for review in the 2018 Federal Budget, has the potential to empower consumers, drive competition, and provide new opportunities for businesses across Canada. While there are a number of competing definitions, Open Banking generally requires firms to make it possible for people to share their financial transactional data far more easily with third parties online, allow third parties to initiate payments directly from a person's account as a bank transfer as opposed to credit or debit card payments, and make public and openly share their product information and, importantly, their customer satisfaction scores and other 'service level indicators.'<sup>3</sup> Open Banking, through Application Programme Interfaces (APIs), can facilitate an equal playing field for financial service providers to enable greater efficiencies, consumer choice, and transparency.

The UK and EU offer helpful regulatory guidance. The Revised Payment Service Directive (PSD2) and the UK's Competition and Markets Authority's (CMA) 'Open Banking Remedy', which both came into force on 13 January 2018, oblige banks, with permission, to give third-party providers access to their customer's accounts using APIs. Using simple call and response technology, any firm will be able to compete with major banks across the same suite of services. In Canada's highly concentrated banking industry, similar regulation can open up a new world where the bank and payment services used by business and consumers can be easily integrated into, even embedded in, the offerings of other providers. This provides an enormous opportunity for firms of all sizes, and more traditional, large banks in Europe have embraced this regulation and the opportunities it gives rise to. Increased consumer control over financial data will help stimulate competition in the financial services sector by empowering individuals to transfer between and shop for different service providers both more efficiently and transparently. PSD2 and the CMA's approach offer useful examples of pragmatic, balanced, and strategic regulation which can benefit Canadian businesses, governments, and society.

There are two main types of agents that can drive innovation in financial services through Open Banking. The first, Account Information Service Providers (AISPs), are service providers that have access to banks customers' account information. This allows them to provide customers with

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<sup>1</sup> KPMG, "Global Fintech investment soars to record US\$57B in first half of 2018: KPMG Pulse of Fintech Report," July 31, 2018; Deloitte, Global Fintech Hubs Federation, "A Tale of 44 Cities: Connecting Global Fintech: Interim Hub Review 2017," April 2017.

<sup>2</sup> *Ibid*, Deloitte.

<sup>3</sup> Faith Reynolds, January 2017, "Open Banking: A Consumer Perspective,"

<https://www.home.barclays/content/dam/barclayspublic/docs/Citizenship/Research/Open%20Banking%20A%20Consumer%20Perspective%20Faith%20Reynolds%20January%202017.pdf>.

aggregated data from all of their various accounts, keep track of their spending, and use the data they collect to make recommendations about how users can best manage their money. Canada has an opportunity to leverage its enormous pool of government data by, for example, making income data collected by the CRA sharable with permission of individuals. In this context, a consumer that wants to apply for a mortgage would be able to 'prove' their income more efficiently by allowing the CRA to disclose earnings on their T4 to selected parties.

The second agent is Payment Initiation Service Providers (PISPs), which can initiate payments on behalf of their users, allowing them to pay friends, bills, move money abroad, and shop at brick and mortar or online stores, in a wide variety of different ways. Disruptive AISP and PISP services have already begun to emerge and threaten more traditional banks' hegemony over services such as Direct Debits, money transfers, customer product recommendations, and real-time information (e.g. balance statements or overdraft alerts) supplied via open APIs.

Consider business or personal customers in Canada which, today, invariably use more than one financial institution. Those institutions tend to be heavily siloed in our financial sector, which limits consumer control over financial decisions, reduces market efficiency, and stagnates innovation. For example, if you are looking online at your account for one company, you cannot see information from another, and you certainly cannot initiate a payment from it. Instead, you must log in to another service provider's platform. In contrast, PSD2 and the CMA's 'Open Banking Remedy' open up a world of more integrated services, where information and activities can be embedded and used more broadly. This provides Canadian innovators with space for tremendous financial services innovation, economic growth, and societal benefits.

While cybersecurity, data protection, and privacy have been cited as a potential cause for concern by some, failing to seize the opportunity to implement strategic Open Banking regulation would be detrimental to Canada's economic competitiveness and consumer choice. Moreover, the 2017 Equifax data breach demonstrates that it is spurious to suggest that consumers' data is somehow safer when centralized by a financial institution. In fact, cybersecurity measures transcend almost everything in modern society and must be interwoven across several economic and policy dimensions.

Open Banking has the power to revolutionize how we move, manage, and make our money. The Competition Bureau's 2017 study on financial innovation argues "policymakers should embrace broader 'open' access to systems and data through APIs. With better access to consumer data (obtained through informed consent), Fintech can help Canadians overcome their inability or unwillingness to shop around and switch between service providers."<sup>4</sup> This is consistent with our international peers' approach to Open Banking and provides a new, secure way for customers to control their financial data and share it with third parties without the need to share their credentials. For businesses, it makes the management of cashflow and receiving payments cheaper and easier. Most importantly, it makes things simpler, faster, and more convenient for all.

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<sup>4</sup> Competition Bureau, December 2017, "Technology-led Innovation in the Canadian Financial Services Sector," p. 21.