

# A Review into the Merits of Open Banking

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## Presented to

The Advisory Committee to the Open Banking  
Review/Financial Institutions Division  
The Financial Sector Policy Branch  
Department of Finance Canada

Canadian Life and Health Insurance Association  
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## **Re: A Review into the Merits of Open Banking**

Dear Members of the Advisory Committee,

The Canadian life and health insurance industry appreciates the opportunity to provide comments on the Department of Finance's consultation on open banking. We appreciate the government's efforts to promote competition and innovation through open banking and that the government is consulting with industry on this initiative. The industry's comments are set out below.

### **About CLHIA**

The CLHIA is a voluntary association whose member companies account for 99 per cent of Canada's life and health insurance business. The industry provides a wide range of financial security products such as life insurance, retirement income solutions and supplementary health insurance to almost 29 million Canadians. It also holds nearly \$860 billion in assets in Canada and employs more than 155,000 Canadians.

### **Industry Comments**

The industry is supportive of initiatives that lead to greater competition and innovation in the financial services sector. To this end, the industry supports examination of the merits of open banking in the Canadian financial services market.

There are a number of potential benefits raised with respect to open banking. For instance, as noted in the consultation paper, open banking could allow consumers and businesses to access new products and services. Open banking could also allow Canadians to better manage their financial affairs. In achieving these benefits, the industry believes there are a number of key issues that must be considered carefully.

For example, we believe that a robust consumer protection framework would need to be in place to protect consumers' privacy. Consumer data privacy concerns are on the rise. For example, popular social media sites have come under scrutiny lately over their data sharing policies. One of the main concerns by consumers is how their information is being sold to and used by third parties for marketing without their proper or informed consent. We note the work being undertaken by the federal government to ensure that Canadians must have trust and confidence in a digital and data driven world in the context of a national data strategy.

The security of banking information is critical. Within the banking sector, the type of information collected is very sensitive and could cause significant harm should a breach occur. Any open banking regime must therefore have appropriate data privacy policies in place, including provisions that restrict third parties from using customer data for purposes other than originally intended, without the consumer's informed consent.

The framework would need to address issues such as those raised above as well as certain questions around enforcement. For instance, one must consider who is liable for any breach of data and who is the true owner of the data. It is important that any entity operating in the banking sector should have appropriate security controls in place and sufficient resources to mitigate potential security breaches and protect the consumer. To meet the needs of consumers, the framework will also need to be flexible enough to work with smaller financial institutions in the banking sector and a strong education program. Companies should also have response and recovery mechanisms in place in the event of a security breach, including notification protocols.

There are a number of ways in which open banking could be approached. Internationally, approaches can range from a market driven approach to a government mandated approach. The U.S., for instance, has taken a market driven approach with discussions to date focused on data sharing. In a recent report, the U.S. Treasury identified the need to remove legal and regulatory uncertainty that has prevented, for example, banks and data aggregators, from establishing sharing agreements. The EU, on the other hand, is an example of a government mandated approach with the introduction of PSD2, a revised payment services directive. While developments in this area are still relatively new and each jurisdiction has its own unique characteristics, we can draw on those experiences and apply learnings to the Canadian context. In advance of any payments services directive however, we believe it would be best practice to focus on a phased approach to data sharing requirements.

As set out in the consultation paper, the focus of the review on open banking is with respect to *“financial transaction data (e.g., withdrawals or account balances) from federally regulated banks.”* We note, however, that the consultation paper at times discusses federally regulated financial institutions or ‘financial services’ rather than ‘banks’ and ‘banking/banking information’. It is important to be clear and consistent on the scope of the review. Critically, we note that any changes made to existing legislation or regulation should maintain the separation of banking and insurance activities. These rules are in place to ensure consumers are properly protected, to promote competition and to provide sufficient regulation to reduce systemic risk. We believe any changes made should not weaken the strong prudential regulatory regime that is in place.

## Conclusion

The industry appreciates the opportunity to provide input on the consultation of open banking and would be pleased to assist in any way we can, including providing further detail on our comments, if it would be helpful.

Sincerely,

*Original signed by*

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President and CEO



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