



Submission by the Interim Commissioner of Competition

To the Department of Finance
Canada

A Review into the Merits of Open
Banking

February 11, 2019

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I. Introduction

1. The Interim Commissioner of Competition (Interim Commissioner) is pleased to make this submission in response to the Department of Finance Canada's (Finance Canada) paper, "[A Review into the Merits of Open Banking](#)" (Consultation Paper).
2. The Competition Bureau (Bureau), under the direction of the Commissioner of Competition, administers and enforces the Competition Act (Act), and is responsible for ensuring that Canadian consumers and businesses prosper in a competitive and innovative marketplace. Section 125 of the Act gives the Commissioner the authority to make representations in respect of competition to federal boards, commissions, or other tribunals. It is in this context that the Interim Commissioner makes this submission.
3. The Interim Commissioner applauds Finance Canada's efforts to consult Canadians on the merits of an open banking framework. As set out in greater detail below, open banking has the potential to deliver significant benefits to consumers and businesses through increased competition and innovation in Canada's financial sector.

II. Merits of Open Banking

4. The Bureau's views on the merits of open banking are set out in detail in its [October 2017 submission to Finance Canada](#) on "Potential Policy Measures to Support a Strong and Growing Economy: Positioning Canada's Financial Sector for the Future" (see paragraphs 21-32) and in its December 2017 [FinTech Market Study Report](#) (see Recommendation #9 and pages 70-71).¹
5. In brief, the Bureau's research points to low levels of financial technology adoption in Canada relative to other countries, and limited consumer² engagement driven, in part, by frictions associated with shopping around and switching.³ These factors are symptoms of a market that is not functioning to its full potential. Banks would be forced to compete harder for consumers, and consumers would have access to a broader range of services, if the benefits of technology could be more fully exploited through open banking.

a. Benefits of data portability and interoperability

6. These observations are not unique to the financial sector. Digital transformation has made data a valuable input for many new products and services. However, consumers do not always have the ability to safely and efficiently share their data between service

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providers and service providers do not always have incentives to allow consumers to do so.

7. This has led some jurisdictions to mandate data portability and interoperability as a means of spurring innovation and giving consumers greater control over their personal data. While this trend is recent, the potential benefits for competition and productivity could be profound. For instance, one [study commissioned by the UK](#) estimates that economy-wide personal data mobility could increase UK GDP by at least £27.8 billion (C\$48.5 billion).
8. In general terms, “data portability” can be understood as a feature that allows users to take their personal data from one platform and securely transfer it to another. Whereas, “interoperability” refers to the ability of different platforms to interact with each other, typically through Application Programming Interfaces (APIs) and with the user’s consent.⁴ Both concepts work together to increase the user’s ability to leverage their personal data across competing and/or complementary services.
9. Open banking can be thought of as a specific application of these ideas. For example, greater data portability and interoperability enabled by open banking could facilitate:
 - **Shopping around:** Consumers of financial services could choose to make use of personalized price comparison tools to help them compare offers between different financial service providers and find the best option(s) for them based on their actual usage history. This could stimulate competition by lowering search costs.
 - **Account switching:** Open banking could ease the pain of switching providers by automating account transfers and pre-authorized payment and debit forwarding. Or it could provide consumers with more convenient ways of managing accounts across multiple providers. This could stimulate competition by lowering frictions associated with switching or multi-homing.
 - **Innovative new services:** Open banking could also make way for a variety of new or improved applications targeted to consumer needs, such as budgeting and account aggregation tools that allow consumers to securely track their financial information across service providers through a single interface.
10. These are just a few of the pro-competitive benefits of open banking acknowledged in the Consultation Paper.
11. Many of these benefits are currently being borne out in the UK. For instance:

- [17 million successful API calls](#) (a performance metric used to gauge open banking utilization) were reported by the UK's open banking oversight body in November 2018, a nearly 10x increase from the number of successful calls reported in June 2018.
- Over [100 regulated entities have reportedly enrolled](#) in the UK's open banking framework since its implementation last year and over 100 are in the pipeline waiting to join.
- The [UK CMA conservatively estimates](#) that the open banking reforms it has put in place will generate direct economic benefits of between £150 million and £250 million per year (C\$260 million to C\$440 million). In addition to these direct gains it expects "very substantial dynamic benefits...through increased pressure on banks to improve their quality of service, to innovate and to compete on prices."
- A [PwC survey](#) suggests that up to 71% of small- and medium-sized enterprises and 64% of adults are expected to adopt open banking in the UK by 2020.

While still early, these initial results are encouraging and suggest that there is significant potential demand for open banking services.

III. Implementation and Risk Management

12. Notwithstanding the pro-competitive benefits described above, the Bureau strongly agrees with the statement in the Consultation Paper that "[f]or an open banking framework to deliver on its possible benefits, it must secure customer trust by having appropriate consumer protection and privacy safeguards, and support the safety and soundness of the financial sector." Indeed, trust is a key underpinning of competitive and innovative markets⁵, and will be fundamental to consumer and business participation in open banking.
13. This means that issues like privacy and data protection, and competition, need not be conflicting considerations. In Australia, for instance, the [Office of the Australian Information Commissioner](#) has expressed support for open banking, stating: "By way of an overall comment, I am strongly supportive of initiatives which seek to give individuals greater choice and control over how their data is used. I also acknowledge the important policy objectives of the [Review into Open Banking in Australia]...which include ensuring that individuals can use their data to enable the provision of new or better financial services, to increase competition, and to drive innovation." Similarly the [UK Information Commissioner's Office](#) has stated that it "views Open Banking as a key way in which individual's rights to data portability...may be given practical effect."

14. Further, the Consultation Paper rightly recognizes that a robust open banking framework may serve to alleviate certain existing risks, for example, by steering consumers and firms away from less efficient, and less secure, “screen scraping” applications currently used to aggregate consumer financial data. Such methods, which rely on consumers providing third parties with their personal account log-in credentials, reportedly [expose consumers to significant security risks](#) relative to more secure alternatives such as open banking APIs.
15. The Consultation Paper also rightly recognizes that some of the privacy and data protection risks associated with open banking are not specific to open banking but stem from digital transformation and increased commercial use of data more generally. The Bureau therefore supports Finance Canada’s efforts to take into account other government initiatives, including [ongoing initiatives](#) aimed at reviewing or modernizing Canada’s overarching privacy and data protection frameworks.
16. Should open banking go forward, the development of technical standards will also present an opportunity for Finance Canada to ensure that the framework is overseen and implemented in a manner that creates a level playing field and minimises the risk of abuse.⁶
17. Lastly, as a general matter, given that many of these issues have been confronted by other jurisdictions in the context of their own open banking initiatives, the Bureau encourages Finance Canada to consult with those jurisdictions with a view to identifying best practices and areas for potential harmonization.

IV. Conclusion

18. The Interim Commissioner welcomes the opportunity to provide these views on the merits of open banking. As set out above, open banking has the potential to deliver significant benefits to consumers and businesses through increased competition and innovation in Canada’s financial sector.

¹ The Bureau also supports ongoing efforts by Payments Canada to modernize the Canadian payment system, including through “[open and risk-based access to the payments systems to foster competition and innovation, without compromising safety and soundness](#)”. The Bureau considers such reforms to be part of a robust open banking framework and welcomes the statement made in the Consultation Paper that, “[s]hould the Government proceed with open banking, appropriate staging and alignment with payments modernization would be undertaken.”

For further detail on the Bureau’s views regarding payment system modernization, see the Bureau’s: December 2017 [FinTech Market Study Report](#) (Recommendation #8 and pages 23-41); [October 2017 submission to Finance](#)

[Canada's](#) consultations on "A New Retail Payments Oversight Framework"; [February 2018 submission to Payments Canada](#) as part of its "Modernization Target State" consultation; and [July 2018 submission to Finance Canada](#) as part of its review of the Canadian Payments Act.

² In this submission, the term "consumers" refers to all consumers of financial services—business and retail consumers.

³ For example, according to a survey published by [Ernst & Young in 2017](#), approximately 18% of digitally active consumers in Canada had used at least two FinTech products in the prior six months—roughly half the average (33%) of the other nations surveyed. An earlier survey published by [Ernst & Young in 2013](#) found that only 14% of Canadians had switched banks over the previous 5 years, and that 71% had been with the same bank for over 10 years. This is comparable to the low levels of consumer engagement found in the [UK CMA's retail banking market investigation](#) (where 8% of consumers had switched banks over the previous three years, and over 50% of consumers had been with the same bank for over 10 years), and which led it to implement a [wide-reaching package of reforms](#) to stimulate competition and innovation, including open banking.

⁴ [What We Mean When We Say "Data Portability"](#).

⁵ [Competition Bureau's 2018-2019 Annual Plan: Building trust to advance competition in the marketplace](#).

⁶ For more on the benefits and risks of collaborative standard setting, see [FinTech Market Study Report](#) (page 71) and the [Competition Bureau's Intellectual Property Enforcement Guidelines](#) (section 7.4).