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February 10th 2019

To:

The Advisory Committee to the Open Banking Review/Financial Institutions Division
The Financial Sector Policy Branch
Department of Finance Canada
90 Elgin Street
Ottawa, Ontario, K1A 0G5

From:

Douglas E. Steiner
Chief Executive Officer
Evree Corp.
325 Front St. West.
Toronto ON

Evree Corp. welcomes the opportunity to put forward a submission to the Department of Finance's review into Open Banking.

Evree is in a uniquely qualified position to give input to this process. Evree is a financial technology firm based in Toronto that has been relying on the promise of open banking to help consumers with their finances.[1]

We are aware of the three objectives that frame this review: Efficiency, Utility and Stability.

This submission focuses on the 3 key questions presented in the Overview. We believe that there will be many submissions discussing the 'how' of open Banking and reasons for and against advancing this initiative, with detailed focus on the risks involved in changing the way the financial system operates. Our approach is to discuss the 'why', We are financial service entrepreneurs who have pushed technology to benefit financial consumers for more than 20 years and firmly believe that transparency, combined with helping consumers with their financial affairs

[1] The two signatories of this letter have consulted and worked with large and smaller Canadian banks, advised various provincial and federal regulatory authorities on issues of technology affecting consumers, have both written extensively and lectured publicly on consumer financial intermediation. They have both started and operated and have invested in a number technology companies facing financial intermediaries all with the intention of improving the consumer experience; These have included, VERSUS Technologies(online trading), E*TRADE Canada (online retail brokerage) CBID Markets (online fixed income trading), Perimeter Markets Inc. (Automated Trading Systems) and BEworks (behaviour consulting affecting consumer financial decisions).

always leads to better outcomes, the largest of which is reducing personal financial anxiety, a mental health issue which affects a majority of Canadians.

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

The general answer to this question is yes, but it is difficult and complicated to articulate. An analogy would be that in the early 20th century, railway transport had revolutionized goods and human movement by lowering the cost by an order of magnitude. Airplanes then were a cheap hobby; expensive and risky. If the question were reframed in the same time for air transport, the answer would be the same qualified yes, but for reasons then that they didn't know. Air travel again lowered the cost of human and goods movement to places not available to former methods of transport. The same can be said for open banking.

Open Banking at the margin will allow for perfect information exchange, and transactions to be affected at the lowest marginal cost, all ostensibly to help the consumer. Banks also have employees, and shareholders. Open banking by allowing consumer choice and less friction to enjoy benefits of better pricing, could likely lower intermediary profits over the short term and negatively affect share prices. Millions of Canadians own shares in financial services companies that would be affected by Open Banking. Will it benefit *all* stakeholders? The answer is no.

If we focus the question on the consumer, the answer is yes. Large Canadian Banks continue to enjoy returns on invested capital at a rate of more the twice that of the average of their G7 competitors. These banks enjoy scale economics and intermediation margins in financial products that are as high or higher than almost any other developed country.[2] Canadian bank shares have outperformed their global peers for over 20 years. We think that Open Banking and its perceived benefits threatens this advantage and financial services companies in Canada will not act to promote this effort if they believe it will lower shareholder returns, until the Federal Government intervenes.

Predicting outcomes from Open Banking is difficult. We do know however from our experience with consumers that the ability to add friction and retard client information by financial institutions to asset movement prevents many consumers from leaving their financial institution. Open banking reverses this effort.

For example, our research has shown that as many as one million Canadians with revolving unsecured debt in Canada have funds available <u>at the same financial institution available</u> to pay off their debt. There is currently no financial institution in Canada that informs their customers of this fact, and that these institutions are essentially lending clients their own money and charging between 7 to 10 times the

[2] <u>Mutual Fund Fees around the World,</u> Ajay Khorana, Henri Servaes and Peter Tufano, *The Review of Financial Studies,* Vol. 22, No. 3 (Mar. 2009), pp. 1279-1310, Vision Critical Report, 2010, "Banking Fees Among the Worlds, Highest"

risk-free rate for this service. In discussions with banks, we have found that this information is used only to prevent client debt default, not asset/liability optimization that the possibility of open banking and related services could provide.

Open banking services, which would focus solely on consumer financial optimization by allowing third parties to interrogate these facts, would instantly point this fact to the consumer. We believe from our commercial efforts, that financial institutions are not yet ready or willing to provide this level of transparency[3]

Open Banking would also allow for less friction of funds seeking optimal return. This is again is good for the consumer, and potentially difficult for banks that consider their deposits safe from movement away from the financial institution.

Of the largest debates involving Open Banking, the first is the legal rights and entitlement to client data. This not only involves asset and liability information, but ancillary and derived data from financial transactions. Corporations can argue legally that the information they gather on their clients, including asset and liability information is their intellectual property.

This debate should be framed from a competitive lense, where some financial institutions might decide that the information that they gather and retain for the consumer is in fact owned by the consumer. The issue comes in the interoperability

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[3] Evree Corp. (the "Company" or "Evree") was formed in 2016 to develop an engagement platform designed to scale the deployment of behavioural science through digital channels.

At Evree team of specialists was assembled to develop and create a product and user experience regime that leverages cognitive decision-making frameworks, and a scientific methodology to optimize persistent consumer engagement.

As a platform, the Company pursued a SaaS-based business model to support the deployment of consumer solutions for financial services partners who in parallel have been developing solutions to support improved digital and mobile banking. The Company's business thesis was supported by persistent investment by established Financial Institutions ("FIs") towards innovation capabilities including digital factories and incubators.

Investments to enable open-banking; consumer-focused apps and a movement away from traditional product-led offers helped define an opportunity that would be fulfilled by Evree's platform vision. A significant investment was made by the Company to develop a foundational consumer journey and coaching capabilities along with a digital platform to support an omnichannel roll-out.

The organization's strategy was to establish proof-of-product and commercial proof-of-concept through strategic pilots with a handful of FIs primarily through their innovation and digital functions.

Although several meaningful pilot opportunities were initiated, an industry sentiment shift became apparent in early 2018 that moved innovation priorities at major FIs from consumer-focused apps and services to internal enterprise optimization and blockchain projects. Further, FIs in Canada had not yet developed the secure API infrastructure necessary to operate with innovation partners offering new consumer-focused solutions in a very nascent open banking ecosystem.

As a consequence, the company shifted from a SaaS-based implementation model in mid 2018 to a direct-to-consumer financial wellness product. The pilot proposition was changed from API integration with commercial partners to direct consumer lead generation and the consumer sponsorship of rewards.

of two competing legal entitlements, because the financial ecosystem must include all players.

Money movement from one financial institution to another is a perfect example. Both paying and receiving institution needs to have validated consumer information in an open banking framework – to work properly in these two scenarios, a central referee that accepts a efficacy of the transaction. This referee has to be a neutral third party with no financial interest in the transported information. The Government has to set guidelines in this regard after consultation with all parties who potentially would form the ecosystem supporting Open Banking.

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?

Consumers already have these issues. Online access by a third party for banking information is currently protected through technology such as the https: protocol. Open banking doesn't have to initially include fungibility. It can start with simple information being surfaced through API's to third parties; past transaction information, and simple bank balances snapshots are enough to start innovation with new services. For greater degrees of safety this data can be "pushed" from financial systems and doesn't require access to core banking functions.

Financial intermediaries have a responsibility to protect client information and their assets with security infrastructure that prevents malicious intent from third parties. Innovation necessary to protect and track movement of information is available from various firms that could provide necessary infrastructure to insure validity of acceptable parties to this information.

Each financial institution, with clear legal entitlements and recourse could decide how much and what types of information would be made available to their clients. Competition between these institutions could dictate the availability of open banking services. The consumer could then decide which of these services they would use based on the risk and liability they were willing to undertake to have these service benefits

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 the implementation of open banking?

It is our opinion that until the government mandates the necessary steps that have to be taken to move to an Open Banking framework, that financial institutions have little interest in helping their clients with financial literacy or acumen. Open Banking at its essence helps third parties use personal financial information to better inform consumers of choices that they need to make both with their personal behaviour.

Hopefully, this review of Open Banking and its subsequent implementation can achieve a single benefit: that Canadian citizens gain confidence in their financial decisions and have the respect of their knowledge from their financial institution when making choices about their future.

Sincerely,

Evree Corp.

Doug Steiner

Co-Founder

Louis Ng

Co-Founder