



Expertus Technologies response to Department of Finance Canada's consultation on Open Banking

A competitive and innovative Canadian Open Banking ecosystem

Expertus Technologies response to Department of Finance Canada public consultation on Open Banking:
A competitive and innovative Canadian Open Banking ecosystem.

In the response, Expertus wants to convey its views on the three key questions raised by the Department of Finance Canada, with focus on the research and work Expertus has done with global business customers and corporations as a FinTech.

In addition, Expertus is developing a white paper on Canadian Payments Modernization issues and will publish its views in the coming months.

Background

On September 26, 2018, Department of Finance Canada with Minister of Finance Bill Morneau launched the Advisory Committee on Open Banking and announced the appointment of its four members: Colleen Johnston, François Lafortune, Kirsten Thompson and Ilse Treurnicht.

On January 11, 2019, Department of Finance Canada, released a consultation paper on the merits of open banking to help guide the Advisory Committee's engagement with Canadians.

Following consultations, the Committee will deliver a report assessing the potential merits of open banking for Canada, with the highest regard for consumer privacy, security and financial stability.

Expertus had already begun the process of carrying out its own assessment of Open Banking activities and estimates in order to publish a white paper on the topic.

This committee/paper seeks stakeholder views on the following questions:

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

Executive Summary

Expertus has been reviewing the topic of open banking globally over the last few years in order to recognize what the main benefits, risks and opportunities of this innovation will be for the community and the payments ecosystem around the world.

Canadian banking is widely considered to be one of the safest systems in the world based on reports by World Economic Forum. It is extremely important to maintain that security and trust while pursuing Open Banking in Canada. The initiative done while maintaining trust will stimulate and help create momentum in innovation in the financial services industry that will help and benefit all Canadians. Canada can leverage its financial standing to set an example with its open banking governance model for other countries to follow in the future.

Open banking is not merely a trend but a definite fact as globally other countries have either implemented or are in the process of implementing open banking with decisions to regulate and encourage traction for this initiative given the many benefits it brings to individuals and businesses for example the European GDPR and PSD2 directives.

Since the beginning of 2000s, the world has been moving from a closed environment to an open environment such as: Internet, Cloud (Services approach - SaaS, PaaS, IaaS...), Industry 4.0, disruption of established services or industries (Amazon, Uber, Tesla, SpaceX...), Open Data to name a few. It has already become quite common for consumers to never go into a physical bank but do all their financial transactions over the Internet.

In general terms, Canadian Open banking initiative requires a regulation inspired by the principle of similarity in data, activity, risks and rules to assure an adequate level playing field for all parties involved. Adhering to the principle will help avoid fragmentation in policies, regulations and obstacles while promoting innovation and a healthy competition.

Canadians who are mobile driven and are living in an already fully connected world will benefit greatly from better services provided through an open banking ecosystem that can be trusted and is regulated by a centralized authority. The implementation with central coordination either led by the government or by the Banking community or an organization like Payments Canada will help bring innovation in the industry that will benefit all Canadians by setting and enforcing standards for a foundation that is solid and identical across financial institutions and extends certain aspects around security to third party service providers.

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

Open banking has the potential to offer a new, secure way for Canadian consumers—including small businesses—to share their financial transaction data with financial service providers, allowing them to benefit from a broader range of financial products and services. This will help Canadians leverage better products and services by removing any obstacles from various providers that are currently difficult due to manual processes to gather and transmit data. A consumer or business could easily grant permission to a certified third party to securely access their banking data for review and benefit from unrealized savings and services.

Canadian consumers and businesses will have open access to their information from all financial institutions and accounts giving them a holistic and simplistic ability to process that information instantly and effortlessly. This will help Canadians to compare accounts, manage fees and make it easier to switch accounts by eliminating friction while receiving an improved customer experience. Canadians could easily validate and update their information, for example update a telephone number through a single click update across all institutions.

Consumers can opt-in to securely share their financial transaction data with fintechs and other financial service providers while having the ability to opt-out at any time. This will not only help Canadians leverage better products and services but allow them to budget better, categorize their spending and determine cash flow through an aggregated view potentially saving money and identifying spending and saving patterns.

Fintechs and other financial service providers, such as small and mid-sized banks, can use that data to develop competitive, innovative and consumer-centric products and services. Canadians will benefit from new ideas and modern technological advances spurred by nimble and agile processes leading to advances not realized in the past and current markets. For consumers and small businesses, open banking can help them better understand and manage their finances. This could include applications that compare financial products, the ability to change accounts more easily, and financial services that are customized to individual needs and situations.

Historical and current data available via open banking API's will help determine credit ratings, affordability and serviceability of loans for better terms and processing speed, which will lead to better decisions for consumers and businesses.

Reconciliation of payments and other process that are manual today will become easier and free up valuable time. Consumers and businesses will be able to monitor the activity for fraud either through manual or automated means including products that have not been envisioned yet.

Open Banking will trigger innovation and disrupt the financial industry including the way consumers deal with financial information. This in turn will open new venues and opportunities for the market by leveraging new technology and capabilities that will further accelerate development and innovation.

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?

Open banking is the next frontier in the banking ecosystem that promises better customer experience similar to one-click ecommerce. Online and ecommerce solutions have been evolving over the years and adapting to increasing threats and risks to maintain consumer confidence by creating controls and systems along the lines of PCI PA-DSS, PIPEDA and tokenization to safeguard consumer data while offering better customer experiences.

Limited knowledge in both consumer and business circles on open banking in general, ambiguity around ownership of data, security, liability and fraud could all lead to uncertainty and loss of confidence in the system.

The consent and ownership of data especially when sharing with third party providers will need to be fully understood by the users to gain consumer confidence. An informed consent that addresses the scope, privacy and security which is clear and simple to understand by the users of open banking ecosystem needs to be at forefront of any initiative. The consent should cover the limitations and permissions on authorization for the third party to ensure consumer protection and prevent fraudulent use of such consent. Canadians must feel confident that they have the capabilities to just as easily revoke the rights to any authorization, limit access by time and duration, and set payment limits for such consent.

Privacy and ownership of personal data is often misunderstood and should be thoroughly considered when the standards for open banking are being drafted in Canada. Uncertainty around the security of personal data, controls, data purge on cancellation of accounts, liability due to hacking or security breaches and losses due to inappropriate advice should all be addressed or listed for further consideration. All participants must understand their rights and obligations in regard to privacy and personal data in a transparent manner.

A shared responsibility model around privacy, data and cyber security should be considered and implemented to discourage cyberattacks by criminals who see open banking as an opportunity to attack. The open banking standard in Canada must extend the responsibility of security of data from the bank systems to all participants in the open banking ecosystem.

Consumers and businesses must be made aware of possible social engineering attacks and other tactics that might be deployed by criminals due to lack of familiarity with the standard. Storage and aggregation of data by third parties requires rules preventing consumer data from being shipped outside Canada for legal and security reasons. Data sharing further downstream by third party providers with inappropriate security measures should be governed and restricted by policies.

The security and policies around risks and threats must evolve rapidly and the standard must recognize the need by third party providers to have policies on incident and information sharing around such incidents just like PCI PA-DSS. Consumers will be confident that the information they are sharing with such providers through open banking initiative are subject to appropriate security standards and controls to prevent fraud.

A common framework or protocol for all participant to share any information on fraud, security threats, vulnerabilities, breaches in the open banking ecosystem should be put in place to support investigations and auditing to reduce fraud and in turn improve the standard. Different facets of resilience will need to be examined and built, including the abilities to cope with various disruptive events that could impact the infrastructures and systems to sustain the ecosystem in the event of a critical disaster requiring advanced risk management capabilities.

The open banking API's should have a balanced approach on protection and potential benefits with advanced security measures to mitigate risks but ensure that they are not restrictive and unreasonably difficult to implement across the ecosystem participants. A peer group formed by members derived from ecosystem participants could help with balancing the security and controls in the process of creating the open banking standards. A further consultation or opportunity to review and comment from security experts and independent specialists in the form of consultations is recommended.

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?

Expertus recommends that the federal government take a “Controlled Approach” for the implementation of the open banking system in Canada with leadership role to ensure consumer literacy, open banking foundation, policies and regulations are created to benefit all Canadians. The principles to guide the industry using technological neutrality, literacy and market integrity along with trust and consumer protection must be established before the rollout of the open banking standard in Canada.

The mitigation of cyber risks is highly important to protect consumers and their personal data including vulnerable individuals of different age groups. The open banking standard should be delivered with the same level of applicability for everyone. Anyone with a bank account must be able to get access to all services, regardless of income, age and other different criteria.

The federal government can create an independent organization with a mandate to oversee the implementation of open banking in Canada and provide appropriate funding to support it in its duties. The public or private organization should ensure that the open banking foundation in Canada is secured by standards, policies and defined scope around how data is structured, shared, secured and standardized. It can create further subcommittees or work with independent organizations to set and evolve standards necessary for success of open banking in Canada. It should have the authority to arbitrate and sanction open banking ecosystem players for membership, compliance and noncompliance and certify the work of participants under the standard, assess risks and set guidelines.

The Financial institutions should begin introducing open banking API’s as per established standards on an agreed date to a limited set of validated and trusted partners, revise their publications in an agreed order of priority, and finish all revisions by another agreed date as established by Finance Canada or an independent organization.

An active participation of regulators, financial institutions and fintechs is desirable and Canada can follow the proven methods used by international regulators that have been successful in promoting such open banking activities.

The organization can further implement certification of applications against the standards to mitigate risks or certify independent audit firms to certify such application and institution or third-party vendors. It could act as an intermediary or set up an appeals board for resolving issues between consumers, financial institutions and third-party application providers when escalation is necessary and make decisions in the future in the best interest of Canadians.

The organization or independent body must act transparently to enable innovation and allow participation from institutions of all sizes. It should promote open banking and help evolve the open banking standard to new trends and technologies fostering further work in the future. The organization should review existing models around the world and leverage the best industry practices and policies that work in favor of all Canadians. Canada must continue to pursue a balanced approach in regulating open banking in order to avoid over regulation and not hinder innovation.

Conclusion

Several other countries have already made decisions to regulate open banking initiatives to minimize risk and are encouraging the customers and businesses alike to benefit from all the opportunities that open banking brings to the masses. **Trust** holds the most significance in any digital transformation and in our view will remain the single most important factor that determines how successful open banking will be for Canadians.

As a business in the financial technology sector, Expertus' primary focus has always been to determine how best to enable and ensure high transaction security which is a critical foundation to building and maintaining trust. We strongly believe that a mixture of security and compliance achieved through regulation that does not impede development in the modern and rapidly changing world needs to be at the forefront of any open banking regulation in Canada.

Europe has fostered a vibrant financial technology environment using GDPR and PSD2 as the cornerstone for open banking standard ensuring that the benefits and trust built from these regulations could be realized sooner than many other nations who had no directive. A similar directive in Canada based on experiences from GDPR and PSD2 in Europe can define the future of successful digital transformation using open banking in Canada while bringing valuable data and insights into the hands of consumers and businesses alike.

Expertus believes that the human interaction between consumers and businesses including financial firms is being greatly impacted and replaced by newer technologies and software tools. The digitization/digitalization and changing consumer behaviors have led many industries to adapt and review how the consumer receives, or perceives to receive, information, advice and recommendations.

The reality today is that consumers and businesses are relying on a multitude of segregated information coming from existing mechanisms and available software tools that are complex, provide limited access to information and limited ability to action or process the information. Consumers and Businesses alike will benefit greatly from an open banking ecosystem built to foster competition and innovation that allows consumer or business data from various financial institutions and accounts to be accessed and consolidated in real- time so that decisions can be made

Canadians have multiple checking accounts, savings accounts, business accounts, RRSP's, TFSA's, RESP's, Mortgages, loans, credit cards and other products with different institutions and giving them a holistic view of their data through an open banking solution using their permission is a necessity in the modern world.

About Expertus

Expertus is a Montreal-based Fintech founded in 2001 and a leading provider of payment and cash management solutions. Pioneer in Cloud solutions in the banking industry, Expertus provides services to corporates, financial institutions, fund managers and market infrastructures.

Our core product features include real-time cross-border payment processing and account centralization through our multi-bank portal. Expertus distinctiveness comes from the unique combination of its business model, its expertise in the payment industry and a rich and innovative product portfolio. More than 1000 entities and 50 financial institutions worldwide process an average of 25 billion dollars daily through our infrastructures.

Our vision and commitment to provide our customers with modern and innovative solutions aligned with market needs and standards is what drives our roadmap into the future. We hope our industry expertise and aligning our teams with our client's modernization initiatives and digital transformations, will help our clients run, change and grow their businesses.

Expertus accelerates digital transformation using an industry model that brings new ideas and new standards dedicated to the continuous improvement of the global payment landscape while complying to regulations and financial policies.

Learn more about our capabilities and industry expertise by visiting: <https://www.expertus.ca> or by contacting us at sales@expertus.ca