

February 11, 2019

The Advisory Committee to the Open Banking Review/Financial Institutions Division  
The Financial Sector Policy Branch  
Department of Finance Canada  
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**RE: Review into the Merits of Open Banking – Consultation**

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Fairstone Financial Inc. (“Fairstone”) welcomes the opportunity to offer its comments on the consultation paper relating to the review into the merits of open banking being conducted by the Department of Finance.

Fairstone is Canada's leading non-bank provider of responsible lending solutions for near-prime and non-prime borrowers. With roots in Canada since 1923 and approximately 230 branches coast to coast, Fairstone responsibly provides personal loans and home equity loans designed to suit today's borrowing needs. Fairstone also partners with a wide network of businesses to deliver flexible retail purchase and automotive financing programs for consumers. The Company currently holds over \$2.5 billion in assets, making it the largest non-bank lender in Canada.

**1. Introduction**

- 1.1. Fairstone is supportive of the Government's focus on building a financial sector that promotes consumer choice, while delivering financial stability and economic growth. Fairstone believes that opportunities exist with open banking that can help Canadians better manage and understand their financial lives.
- 1.2. The financial services sector, like many in Canada, is very active in terms of innovation and digital transformation as its players strive to adapt to ever-evolving consumer needs. The Canadian fintech industry has seen tremendous growth, bringing with it enhanced services as well as the opportunity to bring financial services to individuals who may not have had access before.<sup>1</sup> As a lender, Fairstone is equally investing in digital innovation and transformation of its operations, as customer behaviour demands that they have access to services at the time, place and using the means of their choosing. Digital has proven to be a highly-effective way to meet changing borrower needs. However, the innovation offering in the financial services sector can only progress so far without a common access to secure, validated and verified consumer financial data.

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<sup>1</sup> Global Risk Institute. “An Overview of Fintech in Canada”. <https://globalriskinstitute.org/publications/an-overview-of-fintech-in-canada/>. March 9, 2018.

- 1.3. Fairstone's submission provides the Department of Finance with the perspective of a non-bank lender providing access to Canadians who are underserved by traditional banking institutions. It is Fairstone's view that open banking can increase simplicity, transparency and even financial literacy among Canadians and accelerate the delivery of essential services.

## **2. Providing Meaningful Benefits and Improving Outcomes for Canadians**

### ***(i) Help Canadians Better Understand Their Full Financial Life***

- 2.1. As the Financial Consumer Agency of Canada (FCAC) has historically noted, Canadians face a growing number of challenges in managing their personal finances in the face of continuing innovation and that, at a minimum, a foundation of financial knowledge and skills is necessary.<sup>2</sup> Over 300,000 Canadians currently use Fairstone's services to access responsible and trustworthy credit, often driven by unexpected financial needs. For any number of reasons, these individuals may not qualify for a traditional prime rate loan. It is Fairstone's experience that borrowers sometimes lack a full understanding of basic financial items such as their various sources of income and how to manage those. The ability to have a singular view of their finances could be of significant value to these borrowers in assisting with the management of their financial lives.
- 2.2. Open data, defined as the "read" privilege of open banking, where customers can elect to share their financial data with a third party represents a significant opportunity to simplify finances for Canadians. This is particularly valuable for those who are not well-versed in financial literacy and require additional assistance in managing their financial needs. While certain technologies do exist today to provide this, they are often complex or labour-intensive due to a closed financial system. An open banking system would simplify and minimize efforts for Canadians to understand and manage the entirety of their financial lives and presumably better balance their credit needs and income flows. Initiatives should not be complex, should have low barriers to entry and adoption for the consumer, as well as clear paths to access consent and withdrawal.

### ***(ii. Improve and Accelerate the Credit Adjudication Process for Canadians)***

- 2.3. Credit adjudication remains a time-consuming process, for lenders and borrowers alike. Like all responsible lenders, Fairstone's internal credit policies and practices require that all loans go through a capacity model, or 'ability-to-pay' assessment, to evaluate the customer's current financial situation and their ability to repay the requested loan. The most time-consuming portion of this process, for both borrower and lender, remains the gathering of accurate and verified data from borrowers such as financial statements, tax returns, and housing costs. This is often a manual, paper-based process. Occasionally, the process is lengthier due to the aforementioned

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<sup>2</sup> <https://www.canada.ca/en/financial-consumer-agency/programs/financial-literacy/financial-literacy-strategy.html#3>. March 3, 2017.

lack of clarity or understanding on the part of the borrower with regards to their financial lives, such as income sources or liabilities. As borrowers may have immediate, sometimes urgent financial needs, a lengthy credit adjudication period can be stressful. This is exacerbated if the borrower does not end up qualifying for a loan at the end of the process and they must restart the exercise elsewhere or look at other solutions to resolve their financial need. The ability for a borrower to initiate lender access to their verified and validated financial data could dramatically reduce the time associated with the credit adjudication process.

- 2.4. Like many lenders, Fairstone's credit adjudication process is based on what is known about the borrower's credit history, income and expenses, using data that can be validated and verified. This leads to establishing the cost of the credit granted, if the loan is approved. Were Canadians seeking credit able to initiate a sharing of their financial data, in a secure and transparent manner, this would provide a richer financial profile of the individual to lenders. Open banking data would also enable lenders to view items that traditional scorecards may not always be able to see, including income cyclicity and seasonality. This could feasibly lead to even more accurate evaluations of the credit capacity of the borrower, resulting in even greater precision in setting the interest rate associated with the loan. In some cases, this greater transparency could lead to a lower cost of credit.

### **3. Managing Risks Related to Consumer Protection, Privacy, Cyber Security and Financial Stability**

- 3.1. Fairstone agrees that security of data would be paramount and all players in an open banking system should have fraud management controls and cybersecurity mechanisms in place. Should specific thresholds in cybersecurity be defined, consideration should be given to assisting all financial sector stakeholders to attain these thresholds. This might necessitate public sector investment, information and training, as not all players will have access to the same level of resources to devote to this issue. However, establishing these thresholds would in turn create greater security for the entire financial ecosystem.
- 3.2. Consideration should be given to a strong data stewardship model to provide for accountability and privacy across the ecosystem, including making sure the use of data is legal, fair and ethical. All sharing of data should be customer-initiated. All players should have the obligation of not only safeguarding that information but ensuring the appropriate disclosure clauses are enacted for full consumer transparency on how their data will be used, as well as an assertion of the required obligation to safeguard it.

### **4. Role of the Federal Government in Implementation of Open Banking**

- 4.1. While Fairstone would look to the federal government to establish a framework and common standards related to open banking to ensure a commonality and predictability on how the

various players should interact, it will be important to find the appropriate balance between security and accessibility. Overly-complex or fee-based access may unintentionally create artificial barriers to entry for players and stifle innovation and competition. This would result in an open banking system that falls short of positively impacting outcomes and bringing new benefits to Canadians.

Thank you for the opportunity to provide our comments and views and we would welcome any further discussion related to the contents of our submission.



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