



Consultation Response

A Review into the Merits of Open Banking

Interac Corp. – February 2019

Introduction & Key Summary

Interac Corp. (Interac) welcomes the opportunity to provide comments on the Department of Finance's *Review into the Merits of Open Banking* (the Review). Interac supports the concept of open banking and agrees with the Department of Finance that it can deliver meaningful benefits to both financial services providers and users. If implemented well, open banking can help to foster long-term innovation, provide consumers with greater choice and control over data use, and create new value propositions for consumers and businesses alike. Furthermore, a sound open banking framework could address and mitigate existing risks in current data sharing practices, such as screen scraping, that raise privacy and security concerns.

Interac believes in the value of great customer experiences. These must be built on a foundation of security and trust. In order to achieve these objectives, care should be taken in constructing an open banking framework to address a number of key considerations:

- 1 Enhancing customer protection through robust security and privacy measures.
- 2 Ensuring fair accessibility to the open banking system, while preserving safety and soundness of the Canadian financial services ecosystem.
- 3 Designing for practicality and efficiency for a seamless implementation of open banking.

As the Government considers the important policy decisions ahead, Interac is happy to share its lessons learned in building and operating important elements – the technology infrastructure, standards, rules and trust frameworks – underpinning key aspects of the Canadian payments system. With more than 30 years' experience as a trusted digital information exchange, these lessons can help to inform the development of an effective open banking framework and future implementation for Canada.



About Interac

Interac has operated Canada's leading digital information exchange network for over three decades. It offers **trusted products and platforms** for all Canadians, allowing access to more than 70,000 ABMs and 1.4 million POS terminals across Canada through *Interac Debit*, and last year facilitating \$132 billion in *Interac e-Transfer* volume.

An industry hub for thinking and innovation, Interac has managed to maintain a balance among diverse stakeholder interests and, along with leading edge products and services, delivers trusted governance and rule-making. With 40 shareholders and more than 300 service participants – including banks, credit unions, caisses populaires, payment processors and merchants – the Interac community represents a diverse array of financial services providers.

Interac has one of the lowest rates of fraud globally and aims to work with various stakeholders to continue keeping Canadians' **money safe and sound**. Customers' trust is reflected in industry accolades as well – Interac was ranked #1 in Financial Services according to the Gustavson Brand Trust Index.

At the same time, Interac is at the forefront of digital innovation in Canada, fostering **collaboration, competition and diversity in the financial ecosystem**. Interac is collaborating with fintech accelerators across Canada including through partnerships with MaRS Discovery District and Communitech to invest in new ventures to both extend our payments solutions and bridge into new spaces, such as digital identity. We have experience deploying APIs to financial institutions to bring new payment functionalities to scale. And, we are now actively testing 'open' APIs with third parties, with close to 40 Third Party Providers (TPPs) that are looking to connect with Interac directly. Interac was recently awarded the "FinTech Company of the Year" award at the Canadian FinTech & AI Awards for its work on fostering a community of financial innovation in Canada.

With this backdrop, we believe that our perspective, shaped by experience serving Canadians and observations from other jurisdictions, will prove a valuable contribution to the Government's consultation process.



Our Perspective

Benefits of open banking

Interac supports the Government's review of the merits of open banking and believes that open banking will change the way consumers, businesses and a full range of stakeholders interact with financial information. Open banking will help foster innovation in the ecosystem and lead to new value propositions for consumers and businesses, alike.

Through open data access, open banking can enable organizations – small and large – to leverage customers' financial data and enhance their offerings and customer benefits. By giving consumers control over their own information, they are also empowered to choose the products and services that are best-suited to fit their needs.

As the strategic importance of data grows in the digital economy, Interac believes that open banking will help evolve how customers and providers think about access to data, leading to opportunities that enhance the financial well-being of Canadians. However, to fully realize the benefits, the open banking framework must be designed to address key risks and propel participation from various stakeholders.

Key considerations for a Canadian open banking framework

To set the foundation for participation and adoption from all players, as outlined earlier, Interac believes there are three key considerations:

- 1 enhancing customer protection and trust
- 2 ensuring fair accessibility to the open banking system
- 3 designing with practicality and efficiency in mind



1 Enhancing customer protection and trust

With open banking, customers are empowered to share their financial data with a broad range of providers. A properly architected open banking framework can allow customers to better manage consent, enabling them to experiment with innovative products and services without losing control over their data privacy and security.

Enabling security and privacy

Interac agrees with the Department of Finance that protecting customers from security and privacy threats is a fundamental component of open banking. Helping customers and providers navigate these changes and opportunities, while ensuring the safety and soundness of the financial system, will be important as data access is distributed across a large number of players. To help all players adapt in this new environment, it will be beneficial to design a framework that enables innovation, while protecting consumers in an efficient and reliable manner.

To enhance customer protection and trust, Interac sees a number of opportunities that will help enable secure access to various online services, such as the use of digital ID in banking, government, and real-time money movement capabilities. Other security mechanisms, such as cyber threat management and the use of tokenization services are also examples of solutions that support the increased security and protection of the entire ecosystem; thereby making it easier for customers and financial services players to safely participate in open banking.

Interac has been a leader in the Canadian financial services sector and has been investing in secure solutions such as delivering world class fraud mitigation capabilities, digital ID and tokenization services. As a part of investing in and building these offerings, Interac has gained valuable insights and can offer expertise in this domain as Canada explores opportunities to build a strong and trusted open banking ecosystem.

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2 Ensuring fair accessibility to the open banking system

The success of open banking will be dependent on participation and adoption from various players, including large and small financial institutions and fintechs. To promote participation, it is important to design a system that is fair and accessible to all participants, while preserving the safety and soundness of the ecosystem.

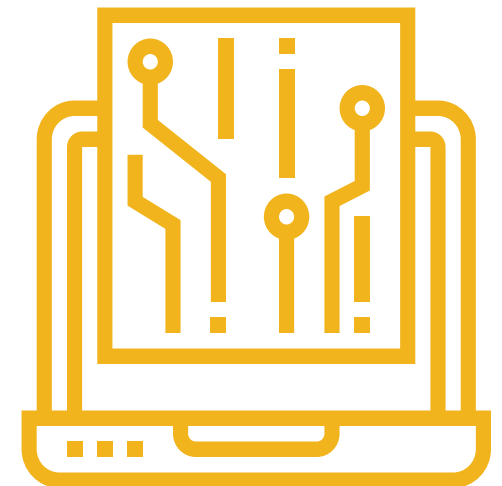
Fairness and governance

For open banking to be successful, the model needs to be fair to all of the participants involved. This includes establishing a reasonable cost allocation model across all participants, and a clear liability framework to underpin the system.

In certain markets, the lack of fair cost distribution and clear liability frameworks led to slow market adoption by various players. For example, in Australia, the cost associated with opening data access skewed towards the banks, leading to tepid response from financial institutions and slowing the move to accessibility. If the pre-conditions are not well addressed, both large and small participants could become wary of entering into uncharted territory, leading to low overall adoption.

There is an opportunity for Canada to establish a clear and fair governance model that is cognizant of the diversity of stakeholder interests. Interac can provide support to the Department of Finance as it considers options in this domain. Having worked with a multitude of stakeholders who will have a direct interest in open banking, including financial institutions and innovators, Interac has fostered fairness and ubiquity in the Canadian financial services landscape through its governance and rule-making expertise.

For the past 30+ years, Interac has balanced the needs of its diverse range of stakeholders. We have experience working with innovators, and are actively engaged with the Canadian start-up community through hackathons and the *Interac Developer Centre*, with over 2000 API access registrations, and through partnerships with MaRS Discovery District and Communitech. We look forward to contributing our expertise to the Department of Finance as it establishes an open banking framework for Canada.



Importance of customer education

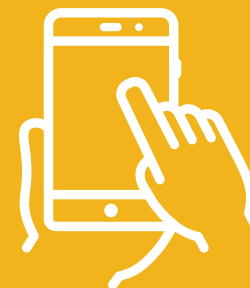
As the Review points out, one of the many benefits of open banking is its potential to improve financial literacy and access, which can empower consumers to make informed choices. In order to increase financial literacy, there should be active and ongoing customer education on rights and responsibilities in an open banking environment.

A number of jurisdictions have been experiencing challenges with customer awareness, leading to slow adoption. Due to the complexity of the concepts involved, customers may not readily understand the differences between open banking and existing account aggregation practices (e.g., screen-scraping). The lack of market response and uptake is evident in other jurisdictions – for example, according to a September 2017 survey in the UK, 92 percent of the public had not heard of the open banking concept¹.

Interac believes strongly in the importance of customer awareness and education in fostering the safe and healthy adoption of open banking. Today, we already play an important role in strengthening financial literacy through a range of education programs for Canadians, including programs designed to protect consumers against fraud, amongst others.

There is a clear need to provide customers with the education and tools to navigate open banking so they are in a position to make informed financial choices, based on their rights and risk appetite. It is also important to note that customer education is not a one-time investment, but rather a continuous journey that should evolve as the open banking framework matures in Canada. The continuous investment and evolution of customer education will encourage broader adoption and help Canadians benefit from the use cases that open banking enables.

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¹ <https://www.theguardian.com/money/2018/jan/08/open-banking-bank>

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Designing for practicality and efficiency

Interac agrees with the Government that open banking is designed to benefit a multitude of market participants, including end customers, financial institutions and innovators. To help realize these benefits, there are a number of important practical considerations as Canada explores the development of an open banking framework.

Customer-centric design

The Canadian open banking framework should put customers at the centre of its design, while acknowledging the vital role that various stakeholders play. It is important to think through implications from an end-user perspective as the principles of open banking are defined. With clear guidance from the Government, the industry and organizations like Interac, are in a strong position to take these principles through to implementation.

In other jurisdictions, the move to open banking has been marked by slow consumer adoption and poor compliance by financial institutions, partly due to the suboptimal design of the model. These issues are pronounced in markets such as the UK., where open banking has seen tepid responses from all parties.

A prominent example of suboptimal design is evident in the UK., where consent management has caused customer friction in adoption. In this market, the CMA9 banks have adopted a redirect-based consent and authorization

model, which has created customer experience challenges and is purported to have hindered adoption². More recently, the U.K. has published customer experience guidelines to help various institutions think through the user experience design as part of implementing open banking.

In Canada, there is an opportunity to reduce friction and increase adoption of open banking by learning from other markets. Making adoption and compliance as easy as possible for all parties will contribute to the success of open banking implementation in Canada.

Consistency and flexibility

Another trade-off comes in finding the right balance between improving customer experience and efficiency through consistency, while allowing for flexibility in technology and product design. When looking at other jurisdictions, markets like the U.K. and Australia skew towards consistency, while markets like the E.U. allow for more flexible implementation choices. Both models involve trade-offs around build cost, time to market, and interoperability that have created unintended challenges. The Canadian Government is in a privileged position to learn from these implementations and to set effective frameworks under which open banking strikes a balance between consistency and flexibility.

As Canada considers its own open banking operating model, we can learn from the experience and challenges of other markets and ensure we create a framework for a successful implementation, from both a customer and financial institution / TPP perspective. The following operational elements



² <https://www.finextra.com/blogposting/14986/the-cmas-open-banking-nursery-is-playing-fast-and-loose-with-customer-consent>

also need to be considered when designing a successful open banking framework:

- identity validation and authentication
- consent management
- data sharing consistency
- data reciprocity

The goal is to ensure that all of the key pieces of an open banking system are in place to encourage a high rate of customer adoption, a fair and interoperable data sharing environment for financial institutions, and ubiquitous access to data by accredited TPPs. Consideration of how these pieces fit together can begin at the framework development stage, positioning Canada for future implementation success.

Interac has worked through a number of initiatives that have required deep consideration of the operational and practical elements required for successful implementation, such as tokenization services and the formulation of a digital ID strategy. Furthermore, Interac believes there is a potential to lower costs and improve the experience for all market participants by enabling market-wide shared services that tackle many of the operational elements outlined previously. Interac is in a unique position to help advise the Department of Finance on a sensible open banking framework and believes it can be a beneficial voice at the table for the Canadian financial services ecosystem.

Role of the federal government in implementation of open banking

Interac sees the federal government playing an important role in designing the principles for open banking in Canada. Canada has a track record of success where government sets the regulatory framework, while allowing the market the flexibility to operationalize the details. This would balance the need for interoperability with flexibility, allowing all participants to realize benefits and make reasonable trade-offs.

For this approach to work, Interac believes that clear guidance from the Government is imperative for stakeholders to align on the direction of open banking governance in Canada. At the same time, organizations that play across the financial services ecosystem like Interac can help customers and stakeholders work together to operationalize the framework.

In supporting the healthy development and adoption of open banking, we would encourage the Government to take a clear role in promoting education and awareness of open banking as part of its broader financial literacy agenda. As mentioned earlier, ensuring that customers understand what open banking is, how to take advantage of its benefits, and how to mitigate risks, will be important in promoting consumer uptake.

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Conclusion

Open banking will change the way in which Canadians interact with their financial data, with the potential to drive increased value for customers through innovation. Interac supports open banking and views it as a step towards a connected economy of the future. To help the Government think through how to fully realize its potential benefits while mitigating risks, Interac has offered its perspective around three main considerations, drawing upon its operational

expertise as a digital information exchange as well as close observations of other jurisdictions.

We look forward to working with the Department of Finance in further dialogue as the development of open banking in Canada progresses. Interac is willing to support the Government through its governance, operational and technical experiences within the Canadian financial services landscape.

