



Consultation Document

A Review into the Merits of Open Banking

Recipients

The Advisory Committee to the Open Banking Review/Financial Institutions Division
The Financial Sector Policy Branch
Department of Finance Canada

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

Preamble

The intention behind Open Banking is to act as a force for good: bolster competition, promote fairness, further financial innovation and foster financial inclusion and literacy. Open Banking initiatives meaningfully impact how financial services are delivered and consumed and create a more customer friendly banking experience. It's understandable, therefore, why Jurisdictions in different parts of the world have already started rolling out their own set of Open Banking standards.

Open Banking gives rise to Fintechs (and other Third-Party Providers (TPPs)) who would fall into two distinct groups of service providers:

- a. Account Information Service Providers (AISP), which are granted read-only access to customer account information
- b. Payment Initiation Service Providers (PISP), which are granted read/write access to customer account information for payment facilitation and execution

Open Banking will have different implications for different groups. This submission will address the benefits retail banking customers and small/medium business stand to gain from this technology-supported banking delivery model.

There are seven main benefits:

1. Open Banking empowers customers, giving them more control over their data

- a. Open Banking will enable customers to gain a better understanding of their financial standing. It allows them to access their account information at the different institutions in one shared repository
- b. Greater visibility into their own data will also enable customers to correct inaccurate or outdated information, furthering trust in the system
- c. Increased transparency under open banking, powered by strong customer authentication protocols, should increase consumer protections and mitigate fraudulent account activities or suspicious behaviour

2. Open Banking is expected to promote increased competition among financial institutions

- a. In an Open Banking world, transparency rules. Account-holding financial institutions will be required to make available information pertaining to account fees, product rates, product performance and satisfaction scores
- b. Increased transparency will encourage competition among financial service providers, driving down costs. Incumbents and challengers will have to work harder to maintain, grow and innovate for their customers
- c. Open Banking will provide customers with greater choice, making it easier for customers to change financial services providers to organizations offering products/services that are more closely aligned with the customer's individual needs
- d. Increased competition will likely accelerate innovation and the delivery of customer-centric solutions through:
 - i. In-house (in-bank) development of such solutions

- ii. Partnerships with Fintech and other Third-Party Providers (TPP) to build customer solutions that lower the cost of delivering financial services, while improving/increasing the consumption of financial services
- 3. **Open Banking will usher in a new era of Payment services**
 - a. Democratization of data eliminates friction in the existing system and will allow for real-time payments to be executed
 - b. Increased competition from TPPs (Fintechs) should drive down costs, improve the customer experience, expedite the delivery of payment services and offer the customer multiple payment options
 - c. Open Banking gives rise to innovative solutions for payment services, such as those embedded within, or integrated with, personal financial management tools
- 4. **Open Banking furthers 'Financial Literacy' for customers and improves knowledge for incumbents**
 - a. Open Banking helps improve customer financial literacy with respect to the products customers currently purchase
 - b. Increased transparency around solutions will improve customer knowledge regarding other products or services that they could acquire to service or support their current or future financial needs
 - c. Improved financial literacy among customers should increase adoption for financial planning tools
 - d. Open Banking improves, and builds on, existing Know Your Customer (KYC) knowledge. KYC is employed by financial institutions to gain a better understanding of their clients, but also as a risk mitigation tool. With Open Banking, KYC information would be shared within the ecosystem. Financial institutions and services providers will have greater visibility over their customers and be better positioned to service them with more relevant offerings, while lowering the incidences of fraud throughout the system
- 5. **Open Banking fosters financial inclusion**
 - a. Increased competition should make delivery of financial products/services better, more affordable and accessible to consumers, particularly within low-income, indigenous and other visible minority groups who are excluded due to account-associated fees, transaction costs or other minimum balance requirements
 - i. Per ACORN Canada, roughly 3% of Canada's population is unbanked
 - ii. Per ACORN Canada, roughly 15% of Canada's population is underbanked
 - b. Credit evaluations and risk assessments should significantly change
 - i. Credit bureaus like Equifax and TransUnion will be able to augment the customer's credit history with transaction and account data from the client's banking institution. This is very meaningful for newcomers and immigrants to Canada who are often excluded access to credit (credit cards, mortgages and other lending products) strictly due to limited/no domestic credit histories
 - ii. Open Banking could turn customers away from 'Payday' lenders who often exploit these marginalized groups with predatory prices for financial products
 - c. The added competition from PISPs should significantly help individuals from low-income families living paycheck to paycheck. PISPs serve to eliminate the lag in fund transfers, reduce the fees associated with transfers and facilitate immediate access to payroll deposits and other credits into a customer's account

- d. Open Banking should enable more customers to transact online and participate in e-commerce activities. PISPs could initiate a funds transfer directly from the client's account and immediately deliver the funds to the merchant for the product/service rendered

6. **Open Banking will reform personal financial management and debt advice**

- a. Open Banking will enable Account Information Service Providers (AISPs) to access customer transaction data and build better financial budgeting tools
- b. Greater insight into customer account information and history will allow for enhanced personalized financial and investment product recommendations to be made
- c. Open Banking could also improve the delivery of debt advice:
 - i. Per the OECD, Canada ranks among the highest for Household Debt/Disposable Net Income – 178.05%
 - ii. Comprehensive visibility into a customer's financial standing and transactional history will allow for better and more affordable matching of financial services, savings and investment products
 - iii. Access to richer information, layered with Artificial Intelligence, could even work to provide warning signs that predict impending deterioration in the financial health of customers, a benefit that may even prompt financial service providers to work proactively with customers to remedy their situations
 - iv. This is an opportunity for banks to de-risk their customer portfolios

7. **Open Banking will spur the growth of Small/Medium Businesses**

- a. With increased visibility around account information and transaction data, businesses will be better positioned to comparison shop for rates and access financing through Peer to Peer lenders and other non-traditional financial institutions
- b. Open Banking should empower small businesses to gain greater visibility around their financial health, better manage liquidity, risk and bill payments using integrations with accounting software providers like QuickBooks
- c. Open Banking should also help SMBs accelerate receipt of funds from their customers

2. *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?*

- **Strong Consumer Data Protection regulations lay the groundwork for Open Banking Frameworks**
 - In jurisdictions globally, implementation of Open Banking standards was carried out in conjunction, or subsequent to, an update/review to existing Consumer Data Protection Standards
 - Jurisdictions where Open Banking was market led:
 - Japan overhauled the Act on the Protection of Personal Information (APPI) and put it into force as of May 2017
 - Singapore will set a timetable to begin implementing its 'Cybersecurity Act 2018' and has also updated its own version of consumer data protection

- Jurisdictions where Open Banking was legislated:
 - Data protection legislation in Europe (GDPR) was rolled out to coincide with the implementation of PSD2
 - Australia's plan to introduce Open Banking standards were part of a broader effort to strengthen and introduce new Consumer Data Protection rights
 - Canada's Personal Information Protection and Electronic Documents Act (PIPEDA), which was signed into law in year 2000 and is subject to review every five years, needs to be modernized to keep up with emerging and evolving data protection regulations globally
- **An Open-API Architecture should form the foundation for Canadian Open Banking standards**
 - APIs are a secure means for banks to begin data sharing with Fintechs and other TPPs
 - The Office of the Superintendent of Financial Institutions (OSFI) and the Competition Bureau should jointly certify, publish and update a list of approved TPPs and Fintechs
 - OSFI should launch an Open Banking Sandbox Program for fintechs and TPPs to experiment with dummy data, build product, demonstrate data security capabilities, ensure adherence to relevant technical and privacy concerns and ultimately apply to receive required accreditations
 - Two-Factor Strong Customer Authentication must apply to both AISPs and PISPs. Authentication should be based on two of the following:
 - Knowledge: "Something that only the user knows" like a password/pin
 - Possession: "Something that only the user possesses" like a phone/wearable
 - Inherence: "Something that is unique to the user" like biometrics (thumb print/facial (or retina) recognition)
 - Accenture Payment Services & Accenture Technology Advisory
- **Consumer Data and Liability Protection should be at the heart of any Open Banking framework**
 - Canada should maintain the spirit of PSD2 in developing its own Open Banking regime
 - PSD2 requires banks to reimburse customers in the event of unauthorized payments/transactions
 - If the Fintech or TPP is liable for the unauthorized transaction, then they are required to 'indemnify' the bank
 - Per PSD2, the burden of proof falls on the TPP to demonstrate that it was not at fault for the breach, or unauthorized transaction
 - In jurisdictions where Open Banking was market driven, explicit bilateral agreements (contracts) are established between the banks and the TPPs they choose to work with
 - Open Banking legislation should entail the establishment of a Liability and Dispute Management system, similar to the one in the UK, to be overseen by the Competition Bureau, to arbitrate disputes between relevant parties
- **Education should be a key tenet for any Open Banking framework**
 - Customer education is primarily the responsibility of the main stakeholders: Government, Fintechs and TPPs, and Banks
 - The consumer should be educated with respect to the data that banks, TPPs and Fintechs hold: how it will be stored, how it will be shared and how it will be processed

- Open Banking should give rise to new and innovative product solutions. Ongoing education to inform customers about these new offerings should be table-stakes
- The increased transparency should help customers become more educated with respect to the different products, fees and products satisfaction scores across the different financial institutions
- Customers should be constantly educated by relevant government entities with respect which TPPs and Fintechs are accredited
- The customer should be educated with respect to phishing attempts and other scams that fraudsters and criminals may pursue to gain illegal access to customer account information

3. *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?*

- **Open Banking standards must empower customers to assume full control over their data**
 - Customers should retain control over their data, understand why it's collected, how it's processed and determine which accredited TPPs or Fintechs they decide to share it with
 - Legislation-driven approaches to adopting Open Banking frameworks can strengthen public confidence in an already robust system
 - If the spirit of Open Banking is to foster competition, then leading with legislation will level the playing field, and will ensure that all accredited TPPs could gain access to customer account information, and not just the ones the banks choose to work with
 - Open Banking should reduce/eliminate risks associated with screen-scraping that users are exposed to. TPPs must be required to undergo extensive checks and scrutiny prior to gaining accreditation, to ultimately allow consent-driven access to standardized (and tokenized) customer account information that a user could revoke at any time
- **The move towards Open Banking is increasingly appearing as more of an inevitability**
 - The global rollout of Open Banking standards suggests that foreign banks, like HSBC, operating in Canada may build on their international experience with Open Banking regimes, and begin their own set of data sharing partnerships with Fintechs to gain a competitive advantage
 - The government has an opportunity to proactively champion and protect the customer, increase competition, drive innovation and foster financial inclusion. Any push towards Open Banking should also coincide with a concerted effort to modernize existing customer data protection laws, in adherence to global standards
 - There is much to learn from global Open Banking implementations, which is why a government led approach to Open Banking would increase the odds of a soft-landing.