



February 28, 2019

*The Advisory Committee to the Open Banking Review/Financial Institutions Division*  
The Financial Sector Policy Branch  
Department of Finance Canada,  
90 Elgin Street, Ottawa, ON  
**Sent via email to:** [fin.OBBO.fin@canada.ca](mailto:fin.OBBO.fin@canada.ca)

**Re: A Review into the Merits of Open Banking**

Dear Advisory Committee:

Payments Canada welcomes the opportunity to provide feedback on the Department of Finance's consultation paper entitled *A Review into the Merits of Open Banking (published in January 2019)*.

As outlined in the consultation paper, open banking presents great opportunities for Canadians, but also risks and complexities that need to be considered. In Payments Canada's view, the main objective for the government should be to create a strong and safe base from which the private sector may compete and innovate to the benefit of all Canadians, and maintain our global competitiveness in financial services. This includes establishing a level playing field with clear and fair rules and standards, as well as education and protections for Canadians. Under the above conditions, open banking would enable the development of a wide range of products and services, including those that have yet to be imagined.

We understand the government is currently exploring the merits of enabling consumers and businesses to authorize third-party financial service providers (TPP) to access their financial transaction data through Application Program Interfaces (APIs). It is important that the government take a holistic view of open banking from the start, including payment initiation, to be able to fully consider all of the potential risks and benefits for Canadians.

As noted in the consultation paper, the opportunities of open banking will benefit from alignment with Payments Canada's Modernization Initiative and with the regulatory reforms being pursued in the retail payment services space. Modernization will bring richer data, greater speed, and broader access to the payments ecosystem (please see the appendix for details). Payments Canada is eager to continue to engage in dialogue with the government and is pleased to provide responses to the following questions asked in the government's consultation:

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

*Open banking would provide benefits for Canadians, especially if implemented and aligned with payments system Modernization and the legislative initiatives that are already underway.*



The use of API technology is facilitating innovation across the financial industry, by bringing efficiencies to legacy systems and transforming customer experiences. To date, most of the innovation has taken place with financial institutions' private use of APIs, and through partnerships with FinTechs. However, we agree with the government's consultation paper that there is potential for much more to be gained with open banking.

Safer and more convenient access to financial transaction data could benefit the financial sector as a whole, as well as consumers and businesses. Greater innovation should translate into efficiency gains for financial institutions, new opportunities for service providers, and improved convenience for consumers and businesses.

Open banking would complement the ecosystem being built around Canada's modernized payment systems (in particular the real-time payments rail). Modernization will bring increased transaction speed through real-time capabilities, as well as the provision of richer payments data through adoption of ISO 20022 message standards. Another main objective of Modernization is to provide for open and risk-based access, meaning that, over time, regulated non-financial institution payment service providers will have greater opportunity to participate on Payments Canada systems as they serve consumers and businesses. Modernization will also support an ecosystem where TPP can provide additional value-added services to Payments Canada members. As this ecosystem enables data-rich payments and seamlessly connects existing financial institutions with TPP, we anticipate improved usage of real-time payments, improved efficiency across the financial system, and innovative enhancements in the end-to-end payment experience.

Payments Canada supports the government's commitment to align its open banking initiative with payment system Modernization. We will continue to work closely with our members and other stakeholders to develop the policy frameworks for our new systems that will ensure their efficiency, safety and soundness, while taking into consideration the interests of users.

While the government explores the merits of broadening access to financial transaction data, it should also consider broadening the scope of open banking to include payment initiation. Open banking can use API technology to allow TPP to initiate payments or transfer funds on behalf of consumers and businesses. Payment initiation has the potential to increase the range of new financial services developed under open banking by combining the ability to reliably access consumer data with the ability to initiate payments. Should the government include payment initiation as part of open banking, Payments Canada will work with the government, our members, and other stakeholders to ensure the various initiatives underway in the ecosystem, including Modernization, are well aligned.

**B. 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?**

*To build and maintain trust in open banking, the oversight regime will need to be robust, coherent and transparent. To complement such oversight, the government should consider appointing an*



***independent body to assist in the development of the appropriate industry standards and implementation of open banking.***

The risks and issues associated with open banking include those related to consumer protection, privacy, confidentiality, and financial stability. Robust standards and requirements aimed at managing these risks and issues should also ensure that only trusted TPP are able to access end-user data, and only with informed end-user consent. Regarding payment initiation, there are additional risks and issues to consider, for examples, transaction liability and recourse.

Actively managing the risks and issues associated with open banking will require extensive consultation and widespread agreement across a broad range of stakeholders. In order to gain and maintain support for open banking, the government should consider appointing an independent body to develop the rules and standards required to support open banking, and manage implementation across the industry. An established body within the financial sector with experience in standards development and maintenance may be best to develop the open banking requirements, standards, and API specifications.

The risks identified in the consultation paper will need to be understood in the context of payments system Modernization and other legislative initiatives already underway (including the review of the *Canadian Payments Act*) to broaden access to payment systems and facilitate competition and innovation in payment services. Existing legislation, regulations and codes of conduct, in combination with Payments Canada's by-laws and rules, mitigate a variety of payment-related risks, including errors and the unauthorized movement of money under defined third-party payment-initiation arrangements. Should third-party payment initiation fall within the scope of open banking, Payments Canada will work with the government as we modernize our systems to ensure our frameworks continue to provide the industry with safe, sound, and legally enforceable arrangements and processes.

**C. 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?**

Governments around the world have been actively involved in open banking initiatives, and Canada has the opportunity to learn from their challenges and successes. The government can set an ambitious timeline for open banking implementation, and provide leadership to ensure progress and success. Further, the government can play a key role in public engagement and communication to help Canadians understand the merits of open banking as well as their rights and responsibilities. There is also a potentially larger role for government to educate and act as the catalyst to move Canadians safely forward in embracing emerging and future technology.

More broadly, the government might consider establishing a modern open data framework that addresses the handling of Canadian's data. Here the government could establish a framework that considers new technology and new providers in light of more open data, and sets the necessary standards for privacy, disclosure, and the appropriate use of consumer and business data. Once the data framework is in place, the government might consider setting an example in being one of the first



to leverage the standards, opening up its data and permitting Canadians to share their government held data safely with TPP under the new standards.

Finally, there may be an additional role for the government to play in providing information and education for Canadians regarding the value and importance of their data. In this role, the government could create the conditions where better informed Canadians may safely embrace and benefit from new technology, including all of the new capabilities envisioned for open banking.

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More analysis and consultation will be required to further the thinking in Canada on open banking. We hope our submission will be helpful as the Department of Finance continues its work. We look forward to ongoing engagement with the government at this pivotal time for Canada.

Sincerely,

A handwritten signature in black ink, appearing to read "Justin Ferrabee".

Justin Ferrabee  
Chief Operating Officer



## **APPENDIX**

### **About Payments Canada and Modernization**

Established by the Canadian Payments Act (CP Act) and regulated by the Minister of Finance and the Bank of Canada, Payments Canada is a public purpose entity comprised of required and eligible financial institution members.

As an organization, we underpin the Canadian financial system and economy by owning and operating Canada's payment clearing and settlement infrastructure, including associated systems, bylaws, rules and standards. In 2018, Payments Canada cleared and settled transactions totaling \$53 trillion, averaging \$209.7 billion each business day. These values encompass a wide range of payments made by Canadians and businesses involving inter-bank transactions, including those made with debit cards, pre-authorized debits, direct deposits, bill payments, wire payments and cheques.

Under the CP Act, Payments Canada has a legislated mandate to:

1. Establish and operate national systems for the clearing and settlement of payments and other arrangements for the making or exchange of payments;
2. Facilitate the interaction of its clearing and settlement systems and related arrangements with other systems or arrangements involved in the exchange, clearing or settlement of payments; and
3. Facilitate the development of new payment methods and technologies.

In carrying out our mandate, Payments Canada has a legislated duty to promote the efficiency, safety and soundness of its clearing and settlement systems, as well as take into account the interests of users.

In managing systems and related operations, we establish a broad framework of by-laws, rules and standards that govern the daily inter-member exchange of payment items that clear and settle through our systems. Developed in an open and transparent manner, and in consultation with a wide range of ecosystem stakeholders, our framework defines the attributes of payment items acceptable for exchange, as well as the rights, roles, and responsibilities of participants in our payment systems.

Considering the interests and needs of end users into our policies, by-laws, rules and standards is also a primary component of our overall approach. We achieve this through regular dialogue, consultation, research, policy development and outreach. In developing rules that govern payment products and services, the industry often looks to Payments Canada to play a role in ensuring that end-user protection is part of overall considerations.

### **Payments Modernization**

Payments Canada's Modernization initiative began in 2015. We have now reached the third stage of the four-stage journey, which consists of building a vision for the Canadian payments ecosystem, creating



a roadmap and high-level plan for modern systems, compiling requirements for the target end-state and moving to implementation. Our end state vision is a fast, flexible and secure payment system that is efficient, convenient and interoperable—one that will promote innovation and strengthen Canada’s competitive position.

A key component of Payments Canada’s Modernization program is the establishment of a national real-time payments rail (RTR) for Canada. The end-state RTR will satisfy the needs identified in our vision, including real-time clearing, rich remittance information through ISO 20022, and enhanced functionality to better serve consumers and businesses. To fulfill our mandate and foster innovation, Payments Canada envisions the RTR at the centre of a vibrant ecosystem of bank and non-bank participants, leveraging and offering innovative services in conjunction with a myriad of FinTech service providers.

As the government continues to explore open banking, Payments Canada will be focusing on setting the rules and policies for our modernized systems, including the new RTR. Payments Canada is working collaboratively with the Department of Finance, the Bank of Canada, our members and stakeholders to develop risk-based open access criteria for national payments systems. This open access will be critical to establishing the RTR as a platform for innovation in payments in Canada.