

THE MERITS OF OPEN BANKING IN CANADA



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 K1A 0G5

Submitted Via Email: fin.OBBO.fin@canada.ca

Dear Committee:

These comments are submitted on behalf of PayPal Canada (“PayPal”) in response to the Department of Finance’s review into the merits of open banking in Canada.

Founded in 1998, PayPal is a leading technology platform company that enables digital and mobile payments on behalf of more than 267 million active consumers and merchants in more than 200 markets worldwide. We offer online and mobile merchant acquiring services, money transmission and the most popular digital wallet in Canada. Headquartered in Toronto, PayPal Canada was incorporated in 2006. We have more than 6.4 million customers, including more than 250,000 business customers in Canada.

We appreciate this opportunity to submit comments as part of the stakeholder consultation phase of the advisory committee’s examination into the merits of Open Banking. At PayPal, we believe that an open banking framework in Canada is essential to foster innovation and competition in the financial services industry and in providing citizens with greater control over their own financial data and in turn greater control over their financial well-being.

As a leader in Financial Technology (FinTech), PayPal believes now is the time to reimagine money movement and management for all. To this we call on the government to seriously consider the merits of open banking and take a leadership role in establishing the public policy framework needed to set Canada’s financial services industry forward on the path of open banking as has been done in other countries across the globe.

What is Open Banking?

Open banking enables consumers to take control and ownership of their financial data and decide how they will use it to improve their financial health. Open Banking creates digital channels to seamlessly exchange customer information directly financial intuitions and other parties. With citizens in control of their financial data they can take an active role in deciding which firms and other financial services are providing them the products and services they need which then drives competition and innovation in the sector. This practice is already being adopted in other parts of the world, such as Europe, the U.K., and Japan. An open banking regime is also scheduled for implementation in Australia next summer.

The Canadian banking sector is highly concentrated between the largest financial institutions, who enjoy stable customer bases. As a result of this oligopolistic market structure, there has been little incentive for these institutions to innovate. In its final report in 2011, the Task Force for Payment System Review¹ observed that Canada's payment system is controlled by the major banks and other key institutions, namely payment card networks whose interests are best served by keeping payment innovators at bay. This ought to change and increasing competition would better serve Canadians while democratizing financial services for all.

PayPal recommends that the Department of Finance support open banking in the Canadian financial services industry and work with the private sector to develop clear standards for security and interoperability. We strongly believe that the success of implementing an open banking framework in Canada must be rooted in the principles of openness and transparency for the good of the public interest. The best system is one that allows for and encourages competition and innovation, while ensuring the safety and security of consumer data. With that in mind, below we have provided our feedback on three main questions posed by the advisory panel in the consultation paper.

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

Open banking has the potential to radically transform the financial services sector by increasing consumers' access to their own financial data across platforms and institutions. A well designed and implemented open banking system puts citizens at the center through increased transparency, product innovation, choice and competition.

¹ "Moving Canada into the Digital Age" December 2011 Final Report by the Task Force for the Payments System Review https://www.fin.gc.ca/n12/data/12-030_1-0_eng.pdf

A recent report from PWC suggests that open banking would be a “a major transformation” for the country’s financial services ecosystem. According to the report, open banking has the potential to reduce costs as well as mitigate risks such as fraud and money laundering since sharing data between institution could make it easier to spot strange activities. The report goes on to suggest that an open banking system in Canada could be good for the big banks that are proactive in finding business opportunities and could deepen partnerships between fintech’s and banks to offer new products for consumers.² Meeting consumer demands and fostering innovation and competition in the financial services sector will enable Canada to remain globally competitive.

Frictionless e-commerce tools are enabling people to pursue entrepreneurship when, where, and how they want. This is particularly meaningful for young people, especially women, who make up the majority of individuals who are starting part-time businesses online. More than half of these women want to turn their part-time job into a full-time job. It is also meaningful for rural and indigenous communities, as it enables them to continue to live in their communities and sell to the world. Innovation drives inclusive economic growth.

The Government of Canada needs to take positive and aggressive steps to ensure that Canada remains competitive globally and has a positive role to play to encourage innovation and competition in financial services. After a lengthy consultation into innovation in the Canadian financial services sector, the Competition Bureau concluded that “competitive forces... must be nurtured to spark innovation and drive [the financial services] sector forward”.³ To that, Canada is uniquely positioned to learn from the open banking experience and regulatory proposals being adopted or considered by other global jurisdictions.

In a 2016 report, the UK’s Competition and Markets Authority (“CMA”) concluded that established UK banks don’t have to compete hard enough for their customer’s business, while smaller and newer banks find it difficult to grow. The CMA found that many people are paying more than they should be for financial services and not benefitting from innovation. To address this problem, the CMA is implementing wide-reaching reforms in the UK, by recognizing non-banks as legitimate players in the marketplace and have started implementing an open banking system as of January 2018.

In the UK, the government led the open banking initiative through a managed roll out starting with data sharing for current accounts. The most notable achievement in the UK is the mandated creation of an open application programming interfaces (APIs) banking standard to

² “Open Banking is Coming” <https://www.pwc.com/ca/en/industries/banking-capital-markets/canadian-banks-2019.html>

³ Submission by the Commissioner of Competition Before the Department of Finance Canada Balancing Oversight and Innovation in the Ways We Pay: A Consultation Paper Call for Comments on the Oversight of National Payment Systems June 15, 2015 (accessed on September 15, 2016) at para. 51 (Balancing Oversight).

enable customer choice and facilitate secure financial information sharing between banks and payment services providers. It means bank customers will be able to share access to their financial data with third parties, including retailers, fintech's and other banks, so that these third parties can integrate their services with those of a bank. Equally, banks can easily incorporate product and service features from third-party partners to their own offerings.⁴

What are the benefits of open banking?

Open banking is about giving citizens control over their own personal data and can take many forms. Financial technology continues to make massive strides in helping consumers, businesses and governments better interact with financial services. A major factor in development and adoption of these technologies is access to and permission to use consumer data, often referred to interchangeably as “open access”, “open data” or “open banking”.

Open banking enables consumers and small business to share their data securely with other banks and with third parties, to manage their accounts with multiple providers through a single website or mobile app, to take greater control of their money, and to more intelligently shop for financial products and services on their own terms. Open banking fosters a fundamentally more efficient, lower cost and more consumer-friendly model for banking.

Federal Budget 2018 noted that open banking “has the potential to provide consumers with greater transparency on the products and services offered by financial institutions, thus allowing them to make more informed decisions, and makes it easier for consumers to move and manage their money.” And we at PayPal wholeheartedly agree.

It should be up to consumers how they choose to control, manage and move their money and share their financial data, after all their data belongs to them, not to the institution they bank with. A truly open banking system will encourage all financial services providers to step up with better products and offerings. To that, we believe that open banking should not just be about data access, it should also include payment initiation.

Open banking would allow for third parties to come in and help Canadians better understand and manage their financial health. At PayPal, our goal is to partner with ecosystem players, including banks, to offer Canadians greater choice and flexibility in how they move and manage their money.

⁴ “The Brave New World of Open Banking” https://www.accenture.com/t00010101T000000Z_w_/au-en/_acnmedia/PDF-71/Accenture-Brave-New-World-Open-Banking.pdf#zoom=50

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?

Any industry disruption creates new values and new opportunities but also creates challenges and risks and as such regulators and consumers need to be aware of those risks. Open banking is based on the sharing of information which raises some security and privacy concerns. For Canada, it will be important to consider national and international frameworks when implementing Open Banking. Common standards, including API standards, must be created to ensure interoperability, avoid fragmentation, and drive safe adoption. Standards should be developed by public and private sectors working collaboratively. Technical standards around authentication and data sharing should comply with ISO and global standards, as closely as possible, to match rules in other jurisdictions since the issues are universal.

Security of customer data and the adoption of interoperability standards should be paramount. Some FinTech's that have a demonstrated track record of success with security and the ability to work with other stakeholders, will be ideal partners for piloting and building out data access platforms. There is a role for the Government of Canada in validating that fintech's have the appropriate controls in place aligned with the type of activity they are providing. There should also be rules around the sharing of data to ensure that the data shared is proportionate to the stated use.

Ultimately, the success of open banking will come down to customer trust. If customers don't trust that fintech's are safe, secure and reliable, then no regulation to permit open banking will suffice. Customer trust will foster adoption of open banking models and spur future innovation. Customer trust is driven by customer perception of security and customers are not all in a position to understand the risk of interoperability. They are sold on convenience but may not understand the risks. As such, the public policy framework needs to consider informed consent, disclosing risks to the customer as well as customer education. Customers must be able to provide informed consent before any data is shared and must have the ability to retract consent at any time. There should also be a way to ensure that consent is sustained throughout the use of the customers data.

Government should avoid prescriptive regulatory requirements that foreclose participation in an open banking system. Regulation and guardrails should be considered based on the type of activity such as open processes, open data, open products and so on. The approach should be principles based, rooted in the creation of standards rather than over-prescription which make it challenging for others outside of the traditional banking system to enter.

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?

PayPal is pleased to see more attention being paid to Canada's growing fintech community, including this review of the merits of open banking – giving Canadians more control over their financial information – which we believe will foster increased innovation and competition in financial services. Ultimately, open banking creates an opportunity to better serve Canadians.

As technology evolves, it's important to ensure regulation adapts in a manner that facilitates innovation while ensuring a robust and secure environment. Open banking has the potential to make it easier for consumers to move and manage their money, and to make informed decisions by providing greater transparency on the products and services offered.

PayPal is in a unique position to reimagine financial services. We make it simpler, safer, and cheaper for people to spend, save, manage, and move money. We have always been supportive of open banking because we have an open platform. We opened our platform and our APIs in 2004 to third party developers and eco system partners so they could build complementary solutions.

On a global basis, the EU has legislated banks to allow qualified third parties access to customer account information and to initiate payments on a customer's behalf. In 2015, the European Parliament adopted the Revised European Payment Services Directive ("PSD2"). Beginning in 2018, PSD2 requires European financial institutions to allow authorized third-party service providers access to customer account information and initiate payments on a customer's behalf with explicit consent. PSD2 represents the first major regulatory push for open banking.

PSD2 aims to improve the playing field for payment service providers (including new players), make payments safer and more secure, and protect consumers. Under PSD2, upon request from customers, banks and other account-holding payment service providers must grant registered/authorized PISPs and AISPs secure read and write access (including payment initiation) to the customer's account data through open APIs.

The UK has proven legislative success, with its roll out of an open banking platform in early 2018. The UK approach is a strong case study for the role government should take in open banking initiatives. This government led initiative has seen great success in the financial services ecosystem. Imran Gulamhuseinwala, trustee of the Open Banking Implementation Entity (OBIE) noted in his reflection on the first year that while it was first regarded as "a typical compliance exercise championed only by a handful of fintech's," the past year has shown that "banks have very firmly moved from viewing open banking as a compliance exercise to an opportunity to compete and innovate. In short, it is clear there are signs of an

emerging dynamic, vibrant and developing ecosystem – an ecosystem which is rapidly becoming more sophisticated and expansive in its coverage.”⁵

Notably, key to the success of moving forward with an open banking system in the UK was the establishment of the Open Banking Implementation Entity (OBIE). This not-for-profit entity responsible for the implementation also included a focus on consumer benefits. We recommend the Government of Canada strike a similar implementation entity to be laser focused on a successful roll out of open banking in the Canadian marketplace.

PayPal supports The Government of Canada’s efforts to encourage innovation and increase competition in the financial services sector. We are asking the government to take a leadership role by establishing public policy framework that would define the scope and scale of an open banking system in Canada with clear data governance requirements and implementation timelines. We believe any first steps in establishing a public policy framework should scope in data sharing, governance and payment initiation requirements.

Summary of Key Recommendations:

- 1) Government of Canada should take a leadership role in establishing the public policy framework needed to set Canada’s financial services industry forward on the path of open banking. With the scope of data sharing, governance and payment initiation requirements.**
- 2) Department of Finance to support open banking in the Canadian financial services industry and work with the private sector to develop clear standards for security and interoperability.**
- 3) Government of Canada should strike an implementation entity to be laser focused on the successful roll out of open banking in the Canadian market.**
- 4) Any public policy framework for open banking needs to manage requirements for informed customer consent and the need for customer education.**
- 5) A customer centric open banking system is not just about data access it’s also about payments initiation. It should be up to consumers how they choose to control, manage and move their money and share their financial data.**
- 6) Government of Canada should take a principles-based approach to regulation around privacy and security.**

⁵ Open Banking One Year On: Where are we? <https://www.computerworlduk.com/data/open-banking-one-year-on-where-are-we-3690264/>

- 7) Regulation should ensure a level playing field that allows for customer choice while ensuring a secure environment through appropriate standards and guardrails.**

Conclusion

PayPal appreciates the opportunity to address the important issues raised in the consultation paper set forth by the advisory panel. We strongly believe that open banking in Canada will enable citizens to take control and ownership of their financial data and decide how they will use it to improve their financial well-being. PayPal looks forward to working constructively with the Department and other stakeholders as this conversation evolves.

As a global payment's innovator, operating in more than 200 markets around the world, PayPal has expertise in navigating the complex international regulatory framework. If there are any questions or to further discuss the topics addressed in these comments, please do not hesitate to contact us.

Sincerely,



Paul Parisi
President, PayPal Canada