



The Advisory Committee to the Open Banking Review  
Financial Services Division  
The Financial Sector Policy Branch  
Department of Finance Canada  
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[Submitted by email to [fin.OBBO.fin.canada.ca](mailto:fin.OBBO.fin.canada.ca)]

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#### About Questrade

Questrade Financial Group Inc. is a wholly owned Canadian entity and the parent company of Questrade, Inc., Canada's leading independent, and fastest growing, online brokerage and first fully online wealth management service. Questrade has over 20 years of proven experience as a regulated entity.

**Our mission:** We care deeply about helping Canadians become much more financially successful and secure.

**Our vision:** To deliver the most innovative and cost efficient financial services for the benefit of Canadians.

We are:

- **Innovative** – Questrade is widely known as an innovator in the financial technology space, building a strong, consistently growing online brokerage and launching Canada's first fully online digital advisor.
- **Well managed** – Questrade has been ranked as Canada's Best Managed Company for the past seven years, earning Platinum status in 2018, behind an increasingly strong, trusted financial services brand.
- **Fastest growing** – Questrade, Inc. has been rated by Investor Economics as Canada's fastest growing online brokerage three years in a row.

#### Introduction

Questrade thanks the Department of Finance for consulting with industry participants on Open Banking for Canada, and we appreciate the opportunity to submit our perspective. Questrade is a consumer advocate and an engaged stakeholder in the Canadian financial services landscape. We are also a member of The Financial Data and Technology Association ("FDATA"), the leading trade association advocating for Open Banking across many global markets. Questrade joined FDATA because we strongly endorse Open Banking in Canada as a catalyst for positive change, choice, competition and innovation. We believe the implementation of Open Banking should be thoughtful and well informed but also delivered with a sense of urgency.

We consent to the full disclosure of this submission to the public in its entirety, however please omit the direct telephone number and email indicated on the final page in any public disclosure.

## Responses to Finance Canada's Consultation Questions

### *How will Open Banking provide meaningful benefits to and improve outcomes for Canadians?*

The benefits of Open Banking will be considered from several perspectives (consumers, small businesses and Fintechs) alongside considerations of digital transformation in Canada.

#### **The Customer Perspective:**

While all market participants will benefit from Open Banking, consumers have the most to gain. Open Banking is based upon the formal recognition that customers should have the legal right to own their financial data and to be able to share it easily and securely with the providers of their choice. In essence, consumers should be able to hold title to their personal data and thereby utilize it as they see fit.

In the digital age, customers are becoming increasingly sophisticated. They expect excellent, intuitive service from all providers and will pursue the best solution. Consumers are sharing and leveraging data at an accelerating pace and expecting data-driven frictionless experiences. In financial services, however, the burden of data movement, data storage and transaction verification is placed on the consumer. Open Banking is simply digital replacement for the delivery of a shoe-box of receipts to an accountant; for the exchange of emailed or paper-based financial data; and for the dangerous practice of sharing credentials to enable screen-scraping.

From consumers' perspective, Open Banking makes their financial life much easier, increases competition, facilitates greater choice and fosters customer centricity. Open Banking brings financial services into the digital economy and improves outcomes for Canadians by:

- eliminating the need for Canadians to share bank login credentials in order to share data through unverified screen-scraping tools and websites
- fostering product innovation, product comparison and rate competition
- improving overall consumer experience and value with greater transparency and choice
- enabling deeply personalized experiences, offerings and pricing based on individual needs and circumstances
- radically reducing friction in the onerous processes related to onboarding with new service providers or switching between providers
- facilitating simultaneous usage of services from multiple providers
- enabling innovation in tools and service offerings which can help consumers:
  - compare options to make more informed choices
  - inform financial decisions
  - facilitate understanding of spending and lifestyle habits
  - simplify budgeting and debt management
  - create goals and track progress
  - build awareness of all financial services in use and the associated costs
  - improve fraud detection with monitoring of transactions and deviations from normal habits
- improving financial inclusion for low income or less sophisticated users by:
  - enabling tools which build understanding of financial habits

- improving access to lower cost services and financial advice
- improving financial literacy

With Open Banking, everyone wins as all participants will need to work harder to acquire, retain and please their clients.

**The Small Business Perspective:**

Many of the benefits for consumers equally apply to small business owners. More competition equals more choice and lower fees. Open Banking will lead to greater efficiency and lower overall operating costs through the removal of barriers associated with product comparison, switching providers and general financial aspects of business operations.

**The Fintech Perspective:**

In recent years there have been a number of government and regulator led industry consultations, which focus on identifying and strategizing around the challenges facing Fintechs in the Canadian ecosystem. These discussions are taking place with recognition of the importance of financial services for the economy and the financial well-being of Canadians. The same key issues prevail in every discussion:

- access to talent
- access to venture capital
- understanding and navigating regulation
- access to data
- need for regulatory reform to accommodate technology lead business models

Understanding and traversing regulation can be made easier for new entrants with the help of regulatory sandboxes and concierge services and some steps are being taken in this direction. Talent and venture capital, which are both key to Fintech success, tend to follow opportunity. If there is a good business opportunity, the venture capitalists are ready to fund and participate.

Likewise, technical talent is attracted to challenging work that delivers meaningful value for companies embracing opportunity. The implementation of an Open Banking framework is a catalyst for innovation, thereby attracting greater capital, retaining Canadian talent and attracting foreign talent. The digital economy is a substantial driver for job creation and the retention/attraction of high-tech talent as well as overall economic growth. Once Open Banking is in place, regulatory reform will need to be an ongoing effort to allow technology-enabled business models to thrive while ensuring consumer protection.

**Considerations of Digital Transformation in Canada**

While all financial service providers, big and small, recognize the importance of technology in providing best of breed digital experiences, in practice it is exceedingly difficult to deliver.

Gartner, the world's leading IT research company, summarized the technology challenge as follows.<sup>1</sup> For every \$1 spent in innovation, companies will spend \$7 in core execution in which core execution, refers to integrating with existing systems, efforts to operationalize in production, etc.

Gartner's research also shows that companies exist across a spectrum largely influenced by company tenure and scope of legacy systems. A new, cloud-native fintech start-up has a ratio of \$1-\$3 (For every \$1 spent in innovation, \$3 will be spent in core execution). An old, monolithic institution like a traditional large bank has a ratio of \$1-\$10+ (For every \$1 spent in innovation, \$10+ will be spend in core execution).

The research highlights that the capability to translate innovative ideas and offerings rapidly into consumer-ready digital experiences resides much more strongly with new entrants than with incumbents burdened by large legacy systems. If we want to give Canadians personalized experiences, if we think Canadians need more choice, if we want to enable the best quality of life for average Canadians by maximizing modest means, we need a financial services industry in which the sharing of secure data enables new digital entrants to do what they will do best, that is, help Canadians be more financially successful and secure.

While it will be, inevitably, more challenging for large incumbent banks to compete on customer experience, there remains plenty of opportunity to thrive in a healthy competitive financial services marketplace. Banks may consider new business models such as offering banking as a service platforms. These distributor models are becoming more commonplace in more advanced financial service markets.

***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?***

Questrade is of the view that Canada *must* move forward with implementation of Open Banking – the sooner, the better. Detractors of Open Banking will naturally highlight the risks and downplay the benefits. It is imperative to recognize that the cost of not moving forward is far greater than the alternative. The risks with Open Banking can be identified, planned for and mitigated with defined controls, standards, and governance. Doing nothing does not mean preserving the *status quo*. Canadians will be worse off in the long term relative to citizens living in countries that enable financial services participation in the digital economy through an Open Banking framework.

***Status quo in a changing world fueled by technological innovations***

Doing nothing while other major banking markets around the world are translating technology-driven capabilities into consumer and economic value will significantly affect the quality of life for Canadians. Change is clearly inevitable; it is a constant and it is accelerating. The degree to which transformative technological capabilities are a hindrance or a help to Canadians and our economy, correlates with our collective ability to embrace change. The overarching question is: how do we shorten the path between innovation and policy in Canada? How do we bolster the digital economy? There is Open Banking momentum in many areas around the world. The EU,

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<sup>1</sup>[https://www.gartner.com/binaries/content/assets/events/keywords/cio/ciode5/top\\_strategic\\_predictions\\_fo\\_315910.pdf](https://www.gartner.com/binaries/content/assets/events/keywords/cio/ciode5/top_strategic_predictions_fo_315910.pdf)

USA, Singapore, Japan, Australia, India, China, Russia and many other significant markets are already at varying stages of review and implementation.

#### **Status quo with changing customer behaviors, needs and expectations**

Data must be exchanged in order to enable the experiences consumers expect and the tools consumers need. However *status quo* is placing consumers unknowingly at risk. In the absence of Open Banking, the alternative mechanism to exchange data is screen-scraping, which requires consumers to share full login credentials for their bank accounts. Consumers, by and large, do not realize that sharing credentials is contrary to service terms and conditions and can therefore negate the validity of the security guarantee.

The credentials are initially shared to fulfill a specific need or to enable a specific experience, and yet they could be used to obtain a much broader set of data without consumer knowledge or consent. Once the credentials are given, they cannot be readily revoked, and this is all happening in the absence of government-mandated security and privacy standards and in the absence of a regulatory framework to protect the consumer.

Contrast the *status quo* with an Open Banking Framework in which two fundamental principles apply:

- 1) The data can only be used with explicit consent, which can be revoked at any time
- 2) The data can only be used for the intended purpose of the data

There would be absolutely no need to share credentials once Open Banking is in place. Consumer needs and consumer protection would no longer be at odds. Canadians can have the transparency, choice and tools they expect and need without sacrificing the protection they deserve. Technical standards in Open Banking will eliminate the risks associated with current screen-scraping practices, while the adoption of identity and authentication standards will reduce the risks associated with misuses of personal information such as identity theft and fraud.

When consumers are given the right to own their data and determine which entities have permission to use it, consumers are in control. Open Banking empowers Canadians, alleviates a burden incorrectly placed on consumers, and eliminates friction within the financial services industry.

#### **The role and steps for the federal government to take in the implementation of Open Banking**

Both government and regulations are required to make Open Banking a reality. If Open Banking is not mandated by government, institutions in Canada will not embrace a true Open Banking framework designed to propel competition and facilitate choice for consumers. Instead, any external APIs created by institutions will be subject to bilateral agreements that promote the commercial interests of the largest domestic financial institutions, with only their shareholders being the primary beneficiaries rather than all Canadians.

The role of government is to take a stand in the interest of Canadians, in the interest of Canadian businesses of all sizes, and to protect the health of the Canadian economy in a rapidly changing world. Maintaining the *status quo* will, in the longer term, also harm these financial

institutions and their shareholders as it will only lead to an inevitable lack of ability to compete internationally. Competition, on the other hand, will increase the ability of all Canadian business to compete both domestically and internationally.

The Federal government needs to lead and to institute policies that mandate an Open Banking framework, which provides that:

- consumers are the only owners of financial and personal data
- the consumer is empowered to give permission the use of the data, and the financial institutions must make it available through secure, open APIs
- financial institutions that serve consumers are regulated custodians of the data
- participant firms know how to comply with the laws and regulation and how to handle disputes
- firms transferring and receiving data should be appropriately regulated in alignment with the scope of their customer base and market risk
- firms transferring and receiving data should gain access by complying with a common standard which is openly shared among market participants. Implementations of the standard cannot be declared the intellectual property of any participant firms.
- firms cannot charge for sharing data as the data is an asset owned by the consumer
- resolution of complaints should be easy for customers and standardized within the market
- standards and quality requirements must be established but are technology agnostic (i.e. data quality and integrity, performance, uptime, etc.)

***How should risks related to consumer protection, privacy, cyber security and financial stability be managed for Open Banking going forward?***

Risks related to consumer protection, privacy, cyber security and financial stability must ultimately be managed by establishing industry standards and assurance frameworks in an open and consultative manner with stakeholders in the private sector, government and consumer advocacy groups. There are two crucial areas of risks and opportunities to be addressed in the context of Open Banking:

- Establishing a trust model for all participants in the Open Banking supply chain; and
- Enabling ease of comprehension to facilitate consumer privacy and cyber security choices

**Establishing a Trust Model**

Confidence among consumers is tied to ease of comprehension, ease of use, ease of service and ease of issue resolution. Confidence is a reflection of trust. To ensure the chain of trust is preserved from an end-to-end perspective, a well-defined privacy and security standard and assurance framework for Open Banking must be established. Consumers consenting to the disclosure and use of their personal information must be assured they are dealing with legitimate and reputable organizations and that these organizations, and the services offered by them, have implemented sound and effective technical and administrative controls to protect their information. Risks associated with the potential proliferation of consumer information (redundant copies of the consumer information along the supply chain of Open Banking services) must be addressed at the policy and technical levels.

Participation within the Open Banking framework would be an organization's privilege as opposed to a right. While all institutions would be required to make the consumers' data available, the organizations who can consume it would be limited to those who have complied with regulation and received explicit consumer consent. The policy and regulatory framework would outline the minimum set of privacy and security requirements for participating organizations, with specific attention given to the need for transparency and consumer protection. Assurance of good standing and compliance within the Open Banking framework requires independent certification and validation for the type of services provided to ensure minimum levels of protection are met. This would be similar to the creation of the Payment Card Industry Data Security Standards (PCI DSS) for the payments industry.

At the receiving end of the trust chain are the consumers. Customer-centricity within Open Banking is not only about choice and increased value in financial services, it is also about transparency and a concerted industry effort to provide simple easy-to-use and easy-to-understand experiences. Plain language and intuitive interfaces/flows will assist consumers in their decision-making process and their ability to navigate the choices and determine the most suitable providers.

### **The Open Banking Framework**

In consideration of privacy, cybersecurity, and the integrity, availability and confidentiality of data, the following should be incorporated into the framework:

- Businesses have to properly secure and protect client information, and maintain and retain records in accordance with best practices and industry standards to remain in good standing within the Open Banking framework;
- Businesses should be mandated to disclose material breaches, including threat intelligence to prevent others from becoming victims. Openness and transparency will allow for the sharing of information that is currently kept secret in addressing advanced and evolving threats; it should also enable the dissemination and adoption of proven industry best practices.
- Cyber insurance and protection in case of failures. Consumers should be adequately protected and compensated if things go wrong;
- The Open Banking system needs to provide a classification system for the nature of consumer complaints, provide data traceability, and provide guidance to navigate liability and resolve disputes;
- Consumers should have the right to request and update their information and have the option to delete information within the limits of record-retention regulations;
- Compliance with The Personal Information Protection and Electronic Documents Act (PIPEDA)
- Consumers should rely minimally on governments to protect their data. This means that they should make informed choices about sharing their financial/Banking data, as well as the institutions, and businesses they share it with
- Consumers should have the right to participate or abstain from participating in Open Banking and also to determine which market participants can access the data. Consumers should be able to easily provide explicit consent and easily revoke consent. Consent should be a defined term, written in plain language;

- Consumers should be provided with proper, easy-to-understand terms and conditions by their financial institutions regarding Open Banking; Plain language terms and conditions must be required;
- Consumers must be provided with appropriate and up-to-date privacy and incident policies regarding their information;
- Proper contingencies must be in place to accommodate and compensate consumers in cases of violation of privacy or terms of service;
- Consumers must have the ability to explicitly approve non-traditional credit checks by any service provider.

***Because the digital transformation presents similar risks across sectors, views are welcome on whether cross-sector or sectoral responses are most appropriate.***

Because many industries fueled by consumer data are undergoing transformation and reinvention, the holds that the design patterns within Open Banking are likely to be applicable to other industries. Within financial services, numerous transactions - everything from pensions to investments, from insurance to mortgages and loans, from credit to payments - are all based on data exchange. This explains why friction and barriers to the open and secure flow of data between firms are so detrimental to innovation and competition within financial services. This is in contrast to industries that depend on the delivery of physical goods and, yet the consumer-centric transformation of industries such as retailing is significantly more rapid and profound than in financial services. To be competitive and responsive to changing consumer expectations, businesses need to offer best-of-breed digital experiences and participate in a data-driven economy.

The government can enable and encourage a data-driven economy by the development and implementation of:

- Policy – legal and regulatory frameworks and governance
- Standards – human and machine processes, security and ethics
- Infrastructure – open APIs

Jointly, government and market participants can encourage a data-driven economy by cultivating environments that support:

- Culture – demonstrating leadership, press and public communications
- Learning – educating Canadians, supporting user needs, training needs, business needs
- Making – launching new businesses and new consumer offerings, evidence through inspiring demonstrations of what is possible
- Review and adjustment of current legislation, regulation and current practices in conjunction with Open Banking to foster competition and innovation (i.e. elimination, disclosure of financial and non-financial incentives, and conflicts of interest, that limit open competition such as interchange fees, credit card merchant fees, etc.)

Canada should approach Open Banking while recognizing the need for ongoing attention and effort as opposed to a one-time endeavour. We should aim to be flexible, adaptive to change and ready for expansion, but we should not allow perfect to be the enemy of good. Time is of the essence, and this initiative ought to be treated with a sense of urgency. Further expansion to other sectors over time will



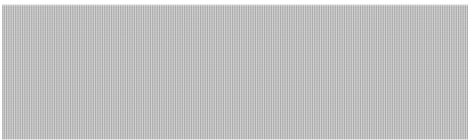
be fuel in the engine of innovation and ultimately higher standards of living in Canada. Open Banking is coming. We can choose to embrace it by taking substantive, determined actions, or we can miss crucial opportunities by standing on the sidelines.

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We thank the Department of Finance for launching this initiative and providing us with an opportunity to make a submission.

We would be pleased to answer any questions or make any clarifications.

Sincerely,



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