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The impact & implications of Open Banking for Canadian personal finance consumers.

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Table of Contents

Foreward	3
Executive Summary	4
Question 1: Response	6
Open Banking will benefit and improve outcomes for Canadians.	
Question 2: Response	10
Risks need to be managed in a way that promotes openness and transparency.	
Question 3: Response	13
Government regulation needs to put Canadians first.	

Foreword

Open Banking has the potential to have a transformative impact on how Canadians can make the most of their financial lives. As with any major innovation, however, the industry must balance enthusiasm with caution to ensure the principles of transparency, openness and accessibility are applied alongside any developments in technology and processes enabled by the change. Whilst adopting an Open Banking framework opens up significant opportunity for the banking and fintech sectors, it is the needs and considerations of Canadian consumers that must be the primary consideration before any decisions are made.

Executive summary: An Open Banking future for all Canadians.

As Canadian consumers have grown accustomed to a rapid rise in technology-enabled disruption, across a host of different industries, the question has become 'when' not 'if' personal finance and the banking sector will follow suit. The past eight years has seen a step forward in terms of innovation; the big banks have evolved their nascent web offering into full service multi-platform e-commerce experiences, and the once fledgling fintech industry has matured into a strong driver of innovation and job creation.

The reality however is that with the financial lives of most Canadians being contained within the technology, systems and processes of the big 6 banks, striving for meaningful change for the betterment of consumers has been slow to gather pace. The opportunities presented by evolution in the banking sector have been clear for some time, but data and insights held under lock and key by the banks has become an insurmountable roadblock for consumers wanting to empower themselves to make better choices. This is not to say that the banking sector has acted inappropriately, they have merely lacked any strong motivation to change the system.

This comes at a time when Canadians are faced with sharp rises in the cost of living, much public discourse around record household debt levels, and downward pressure on their retirement prospects. Put simply, Canadians stand on the brink of an unprecedented personal wealth crisis.

Open Banking provides a clear way forward. Whilst it is impossible to know exactly what the financial future holds for Canadians, we do know that greater innovation enabled by technology and advances in data science are the most readily available tools on hand for the Canadian banking sector to begin bringing about change. This availability, coupled with the wealth of data that the banking industry holds on Canadian consumers means that the solution is more accessible than we think. The missing link is the impetus to create an even playing field that can encourage the kind of innovation that the industry needs to meet, head on, the challenges presented by the need to grow. This is where an Open Banking framework comes into play as the most powerful weapon in the fight for a more financially secure future for Canadians.

There is a heavy caveat to all that follows in that the privacy and data security of Canadians must be sacrosanct. If the needs and values of everyday Canadians are not first and foremost at every interaction in this consultation process, or an eventual Open Banking model, it will not succeed.

Open Banking will benefit and improve outcomes for Canadians.

The implementation of an Open Banking framework in the Canadian banking sector will have a transformative and positive effect on the financial prospects of Canadians and many generations to come. Although the scope and scale of regulation has yet to be determined, the adoption of Open Banking will herald exponential innovation in service by utilizing technology and data, alongside enhanced competition providing users more and better choices. This, ultimately will lead to the betterment of the financial health and prospects of all Canadians, from early childhood through to retirement.

Benefits from Open Banking will be centered around the following areas:

Innovation in technology, product offering, and service.

Where applied thoughtfully, advancements in technology and the use of data have proven to bring about incremental and exponential benefit to its users, the private sector, and society as a whole. There is perhaps no industrial sector where this spirit can apply with more potential than the banking sector. In an Open Banking society, Canadians will be empowered to make better choices, more confidently, due to the greater transparency they will have over their financial lives. This concept can be likened to a virtual or digital window into their financial lives. At its simplest, a user will be able to view every piece of data that is held about them by a financial institution. Beyond just increased transparency, however, 3rd party service and/or product developers, be they from within or outside of the banking or fintech sector will quickly be able to present opportunities that bring into sharp focus the usability benefits.

Example 1. Applying for a mortgage.

Financial products and services in today's world are largely consistent in their uniformity and method of consumer interaction. An example is the standard mortgage application process. Bank 'A' has a mortgage product, similar in nature to bank 'B' and 'C'. The rate is set according to a series of criteria unseen by the user, and promoted on some form of advertising. The application method is a variety of a web form and/or telephone call (or similar offline version if accessed via a brick and mortar branch) which the consumer usually instigates. This in turn leads to a back and forth of emails and faxed documents, as the various parties cobble together the requisite qualification data from a wide array of sources, prior to any final decision being made. In a world where access to Banking API's are enabled to trustworthy, accredited 3rd party providers these kinds of labour intensive, stressful and frustrating processes will be minimized as the result of the immediate availability of an individual's financial fingerprint. The technology will change not only the product on offer, but also the service by which the user will interact with the product provider.

- Algorithms will integrate a blend of individual level and aggregated mass consumer data to provide more intelligent products and competing product choices, from a variety of institutions, not just the incumbent bank. The end user will know why they have qualified for the rates that they are seeing, and will be aware of the criteria used to determine them. They will know how this compares to the average Canadian from the closest user cohort, enabling them to confidently determine whether they are getting the best deal.
- The service processing the mortgage application will be aware of the unique preferences of the user, set by both the user itself and on data supplied by host of different institutions. This would cover a range of individual factors, e.g. how often they would like to be communicated with, and by which contact method, the best day to deduct payments from their checking account, and whether they also require any insurance coverage.

- The supporting data sets that are required to complete the application, be it an updated credit score, proof of income or specifics on the property that the user wishes to purchase are then ‘pulled’ by the various API’s into the digital application, completing a fast, secure and effective mortgage application process.

This virtual ‘window’ into the financial life of the user will have almost limitless future application as advancements into predictive analytics will make the financial choices presented to the user ever more accurate and relevant. Ultimately, technology will empower users to make the very best financial choice for their own needs and circumstance. Far from taking the decision making away from people, technology and data will be the most powerful way of making Canadians accountable for their financial wellbeing.

Machine learning and big data.

Much has been said in the media about the future of AI and machine learning and its likely impact on our lives. The stark reality is that these concepts have struggled to make it out of the lab and into our lives in a meaningful way. The scale of the data asset owned by the banking industry does, however, provide clear use cases of how this data can start to be understood for the betterment of financial health. Macro analysis of data from a range of financial providers and fintechs will reveal trends and patterns in the financial behaviour of individuals and groups that have been unknown until now. This will in turn enable a greater level of transparency leading to Canadians being able to confidently make better financial choices. This will include steering consumers away from products that don’t suit their lifestyles, spending patterns, or ability to repay. It will lead to easier decisions on whether people have the best banking arrangements or should consider switching their provider to get a better deal. An entirely new methodology for segmenting Canadians according to their financial needs, vs say demographic group, or income level, will emerge as a guiding light in how the industry can better serve its users.

Competition.

With the dominance of the top 6 Canadian banks unlikely to change of its own accord, Open Banking will be one of the main market forces with the ability to increase competition in the sector. As data becomes more available, and the tools to analyze the data become more sophisticated, the playing field will be leveled leading to greater availability of products and services offered by challengers to traditional banks. It is not just new upstarts that will benefit, however, as the big 6 will react to newer entrants to the space by accelerating innovation. Big banks may also see greater willingness of their loyal customers to switch providers, leading them to rethink the incentive model towards keeping existing users engaged vs encouraging new sign ups. Schedule 2 banks, and credit unions will also see their attractiveness grow as they too step into gaps created by a more open lending market. At the user end, it means that consumers will be able to access more competitive deals on lending products by shopping from a wider pool of interest rates. As illustrated above, the affordability and credit worthiness algorithms will ensure that they will only ever see products that are, a; competitive, and, b; they will actually qualify for.

Transparency and choice.

Presently, the majority of Canadians have little idea about the data that is collected and held about them by financial institutions. Furthermore, most have a very limited understanding of what their consumer rights are regarding data privacy and security. Prior to making any substantial strides forward in uses of technology, the advent of Open Banking should be used as an opportunity for consumers to take accountability over their financial fingerprint. This will in turn lead to people understanding the power that they have to make better financial choices.

Risks need to be managed in a way that promotes openness and transparency.

In order for Canadians to feel confident in an Open Banking system, consumer protection, privacy, and cyber security need to be at the forefront. It is crucial that Canada's Open Banking system be managed in a way that is transparent and that promotes openness. As a fintech company that has been operating in Canada for almost nine years, this is one of our core values. There are a few key measures that should be in place:

A robust accreditation standard accessible to participants of all sizes.

It is imperative that consumers feel confident and safe that the companies they are choosing to share their data with meet government requirements. In the UK, only startups that have been approved by the Financial Services Authority (FSA) are allowed to use the system.¹ Licensing requirements for service providers to access Open Banking APIs should be clearly understood and providers should be required to prove they can adhere to certain standards. With this being said, the governance system must be designed to facilitate participation from a wide array of 3rd party providers, from startup to established financial institution or bank. If the licensing framework is restrictive or cost prohibitive to all but the large players, the benefits of Open Banking risk being drastically limited to the end consumer.

Third party regulation and auditing.

Third party regulation would provide an essential proof point of data security in the eyes of consumers. There should be access to audit trails for consumer queries, similar to the way credit checks are able to provide clarity to users who are accessing their data. Different levels of API access could also be defined with different permission levels. To

¹ www.wired.co.uk/article/open-banking-cma-psd2-explained

add further robustness to the integrity of user data, a set of clear and easily visible standards should be provided, which detail the guidelines under which companies have to operate. These standards would include stipulations such as scrubbing of all connected data if access is revoked or suspended. Revocation of access should be centralized and all organizations should comply with notification from the centralized controls within 1-2 days. Furthermore, users should not be required to request that information be deleted. There would be benefits to a phased approach to the roll-out. As an example, phase one would be read-only and only after some level of trust/comfort is established, with the consumer, do we move to making transactions.

Clear consumer data standards and protection rules.

All participating providers should be mandated to comply with data protection rules, and the provider should have a statement of purpose, telling consumers exactly which data it will use, for how long and how they intend to use the data. For this to meet the stringent 'user first' approach, all of these points should be made clear prior to the user signing up, or consenting to any use of their personal data. A key principal across the Open Banking model should be that consumers have full control over granting access to their data, and withdrawing it at any time. Further to this, any data must not contain enough information to identify an individual, and consumers should be able to trust that their information will not be shared (i.e. selling data, ad targeting and marketing). Failure in any of these areas risks irrevocably damaging consumer trust. Responsibility for consumer protection has been split up in the UK model: for payments, protection for consumers is done by the banks, and for data, protection for consumers is done by the Information Commissioner's Office.² In addition to this, having an impartial third party that creates standards and rules will be key. In Australia, the government appointed a third party, Data61, to develop standards that will support Open Banking and the Consumer Data Right (CDR).³

² www.wired.co.uk/article/open-banking-cma-psd2-explained

³ www.theconversation.com/how-the-open-banking-api-could-transform-financial-services-to-benefit-consumers

Clear messaging provided to consumers.

Materials need to be available to consumers so that they can educate themselves about all things Open Banking; what they need to know, their responsibilities, and their rights. All messaging, including terms and conditions, needs to be simple and easy to understand, devoid of jargon and overly technical terminology (where possible). There should be clear messaging around opting-in and opting-out, and when a consumer does opt-in, what exactly that means for them.

Government regulation needs to put Canadians first.

The objective of the role and steps taken by the government when implementing the Open Banking system should be to maximize benefits to consumers, empower Canadians by giving them control over their data, and to provide a seamless user experience.

Maximizing benefits to consumers.

The government must regulate the Open Banking system in such a way that benefits to Canadian consumers are maximized. Regulation should include all Schedule I banks, credit unions, and caisses populaires under the Open Banking system. Everyone using Canadian banks, whether they bank at one of the big banks or at a credit union, should gain control over their data. Furthermore, government should include a broad scope of financial products in the Open Banking system (credit cards, mortgages, loans, payment services, insurance, financial instruments, and credit scores). The more products included the more data customers have control over and the more possibility for different forms of innovation by the fintech industry. Regulation, that fosters competition, provides more opportunity for consumer surplus gains in the form of lower costs, via fees and rate reductions, and making it easier to switch between banks.

Empowering Canadians.

The government must create regulation that empowers Canadians by giving them control over their data. A system that allows consumers to choose to opt-in or out of sharing their data will give Canadians control over who has access to their information. Government must regulate the cost of access to banks' APIs to be free to access. Fees to access APIs causes a barrier to competition. As noted, competition directly benefits consumers and therefore, should be promoted in government regulation.

Lastly, government should ensure that Open Banking is a fully opened system, in the sense that 3rd party providers should only need to register with a government regulating authority one time to gain access to all banks' APIs. Individual contracts between each 3rd party provider and each bank, or bank-specific registration processes, diminishes the "openness" of an Open Banking system. An overly complicated registration process limits a 3rd party's ability to innovate.

Seamless user experience

A seamless user experience is one of the biggest ways that Open Banking adds value to the financial industry.⁴ Getting the user experience right helps to ensure that Canadians buy-in to the new system. Government needs to create one entity responsible for developing a single API standard. Alternatively, government can mandate a legally binding working group to develop the API standard.⁵ This promotes clarity and will reduce costs for banks when making the shift to the new system. Fragments in the data directories could lead to a fragmented user experience.⁶

⁴ <https://www.finextra.com/blogposting/15715/the-art-of-open-banking-regulation>

⁵ <https://www.finextra.com/blogposting/15715/the-art-of-open-banking-regulation>

⁶ <https://www.finextra.com/blogposting/15715/the-art-of-open-banking-regulation>



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Thank you.