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February 11, 2019

Via Email

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
CANADA
Email: fin.Obbo.fin@canada.ca

Re: A Review into the Merits of Open Banking

Dear The Advisory Committee to the Open Banking Review/Financial Institutions Division,

The Department of Finance Canada has requested comments and information to assist it in reviewing the merits of open banking, and how to best approach it in Canada. And TransferWise appreciates the opportunity to comment, and to share its views, following the European Union's Revised Payment Service Directive (PSD2) and the UK's implementation of Open Banking.

Specific Comments

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

Open banking will provide meaningful benefits to and improve outcomes for Canadians. Open banking means that account providers must allow third parties to enact activities on a consumer's behalf, if they give both informed and secure consent. This action will lead to an increased openness from consumers to try alternative providers, if those providers offer better services. Overall open banking will lead to gains and benefits in the three core financial sector policy objectives:

- *Efficiency:* It increases competition by breaking down barriers to entry for new entrants to the market, primarily fintechs. And these entrants, globally, have tended to price their services more competitively in order to attract new customers and as a reflection of their more efficient and innovative business models.
- *Utility:* The concept also encourages the financial services sector to meet the needs of an array of consumers. It increases the diversity of the sector, from the traditional one-stop-shop banks

(frequently with one-size-fits-all products) to a wider array of players such as fintechs. And these players can offer niche services to more bespoke consumer groups. Moreover, the emergence of fintechs has been proven to also increase access to financial services as they enter the market with a fresh consumer driven approach.

- *Stability:* Lastly, through empowering competition and diversification of the financial services market, open banking increases the resilience of the sector to stress. However, third party providers must be empowered to compete effectively with traditional operators. And as such, any predatory practices anti-competitive practices, such as marketing services to consumers that the bank knows are being purchased from a third party, must be prevented.

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?

Data sharing in the financial sector requires audit trails, is subject to regulatory oversight, and must have an adequate risk management and liability framework. However, with modern digital technologies, data sharing can be done better while delivering increased security.

It is vital, therefore, that regulators deliver a framework where multiple players can safely share and rely on each other's anti-money laundering and know-your-customer capabilities (AML and KYC), identity validation, and fraud detection. A framework must come with clear recourse for consumers, whereby they are made aware if there are any issues in a timely, clear, and appropriate fashion.

Further, customer transparency and control must remain at the center of product design decisions. This can only be done through financial institutions making decisions based on user testing and delivering on enhanced consumer outcomes, and policy makers and regulators testing the rules against consumer outcomes. Such a framework is difficult to achieve, but absolutely vital.

Two proven methods that policy maker and regulators should deploy are through (1) developing and utilising consumer labs and user testing centres, and (2) empowering consumer organisations to engage in the policy process, and educating them on consumer understanding techniques.

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?

It is important that the federal government drives an open banking as it is in the interest of Canadian consumers, and needs a centralized initiative. And as the burden of implementation is on incumbent providers, and new entrants, a centralized role is needed to enforce open banking's standardization, development, and rollout. The federal government's role will require both investment and complex decision making.

We would therefore recommend an implementation body, with statutory objectives, and a clear mode of redress if those objectives are not being met. And an open and fair governance process is necessary to

both ensure that all parties are listened to, and consumer outcomes have prioritisation over industry ease.

There are three global case studies that justify this approach:

- *United States*: In the US there is no statutory provision requiring open or standard application programming interfaces (APIs). While APIs have been developed commercially, they are often without cohesion and many providers have withdrawn access, as they were harming their competitive advantage.
- *United Kingdom*: While the statutory basis of Open Banking has led to a delivery, it has not been easy for firms to engage. With the lack of direct oversight by any UK Government entity (Open Banking is delivering under the mandate of the Competition and Markets Authority) there is a vacuum where there should be a stronger centralized role.
- *European Union*: The EU legislated for open banking in PSD2. However, the technical delivery of the legislation actually has a weaker statutory basis. For example, firms can implement any API standard to become compliant, which harms open banking's ubiquity. As a result, there have been problems with member's unity in open banking's 2019 implementation.

About TransferWise

TransferWise is a financial technology company that was created in 2011 by Taavet Hinrikus, the first employee of Skype, and Kristo Käärmann, an ex-Deloitte consultant, out of their personal frustration with high fees charged on international money transfers. Since that time, TransferWise has raised more than \$397MM (USD) from investors such as Andreessen Horowitz, Sir Richard Branson, and Max Levchin, the co-founder of PayPal.

TransferWise addresses the challenges and costs associated with international money transfer — specifically the lack of transparency regarding fees and the calculation of foreign exchange rates — as well as the reliance on outmoded systems and technology. In response to these issues, TransferWise operates a robust international money transfer and stored value product that offers a fair, mid-market exchange rate, sources onshore liquidity when possible, provides a straightforward and transparent fee structure, uses modern technology, maintains sound customer service practices, and carefully manages liquidity, compliance and other risks.

Each month, the TransferWise group handles over \$3B CAD equivalent in volume for over 3MM customers worldwide, with approximately \$10MM in monthly CAD volume alone. More importantly, TransferWise estimates that its customers save over \$80MM CAD equivalent worldwide every month by using its platform over other providers. TransferWise has over 1000 employees and nine offices, with its head office in London. In Canada, TransferWise operates as a Money Services Business (MSB) and is registered with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC)

and licensed by the Autorité des Marchés Financiers (AMF). In addition, TransferWise maintains appropriate licenses and/or is regulated in many of the other countries where it operates.¹

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We appreciate the ability to provide our comments and support the effort of the Department of Finance Canada to review the merit of open banking for Canadian consumers and financial services. Please do not hesitate to contact us if you have any questions regarding these comment and if we can be of any assistance.

Best,

Andrew Boyajian

Head of Banking, North America, TransferWise

Cc: Nick Cantino, Government Relations, North America, TransferWise

¹ In the US, TransferWise Inc. is registered with FinCEN and holds money transmitter licenses in nearly all of the states. TransferWise Ltd is registered with the Financial Conduct Authority (FCA) in the UK and with the Australian Securities and Investments Commission (ASIC), and is registered with the Financial Intelligence Unit (AUSTRAC) as a money remitter in Australia. In Hong Kong, TransferWise is registered with the Customs and Excise Department of Hong Kong and is licensed as a Money Service Operator. In Japan, it is registered by the Kanto Local Financial Bureau and licensed as a Funds Transfer Service Provider. In New Zealand, TransferWise is registered by the Department for Internal Affairs (DIA). In Singapore, TransferWise is regulated as a remittance business by The Monetary Authority of Singapore (MAS).