

The Advisory Committee to the Open Banking Review/Financial Institutions Division
The Financial Sector Policy Branch
Department of Finance Canada
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Re: Submission in response to the Department of Finance Canada’s Consultation Document “A Review into the Merits of Open Banking”

Wealthsimple

Wealthsimple is a financial technology (FinTech) company based in Toronto. Our mission is to offer financial advice and services that are accessible and affordable. We do this because we believe that financial freedom is one of the greatest forces for good in the world. It enables people to live the lives they want, to provide for their loved ones, and to invest in their communities.

We offer financial products and services, but we operate like a technology company, and our focus is on developing the software that enables us to deliver high-quality financial products at a low cost. More than half of our employees are software developers, designers and product managers.

Currently, we offer three main services:

- Wealthsimple Invest: Our primary business today offers simple, accessible, transparent investment products. We have no minimum account size — clients can start with as little as \$1 — and our fees are significantly below industry average
- Wealthsimple Save: A high-interest savings product with no minimum account size or transaction fees
- Wealthsimple Trade: We're in the early phases of launching Canada's first commission-free stock-trading brokerage

We deliver our services to clients primarily through our mobile application and website; however, we also place great emphasis on offering clients a human experience and the option of speaking to an advisor whenever needed. Our services are used by over 115,000 Canadians, approximately 85% of whom are aged 45 and under. We have also leveraged our innovative technology and product design to expand to the United States and the United Kingdom.

Introduction

We believe that Open Banking is essential to fostering innovation and competition in Canada's financial services sector, and for providing Canadians with high-quality, low-cost financial services. Failing to adopt Open Banking in Canada, or lagging in our adoption, poses significant risks to the future health of Canada's financial service industry, Canada's innovation economy and the well-being of all Canadians.

In this moment, Canada has all the ingredients to become a leader in financial technology innovation. Canada has a significant concentration of world-class technical and finance talent. There is also more venture capital available to ambitious Canadian FinTech entrepreneurs than ever before. However, Canada's opportunity will be squandered without the appropriate legislative and regulatory framework to promote competition and encourage innovation.

The choice is clear: Canada can either become an importer and consumer of innovative financial services developed in other markets, or it can be a creator and exporter of these innovative services. To be a creator and exporter, it is essential to foster an environment that enables innovative Canadian companies to create high-quality, technology-enabled financial services that have broad application both inside and outside Canada.

Establishing a legal and regulatory framework for Open Banking is one of the best ways to foster FinTech innovation in Canada. While the development of such a framework is inherently complex and should be done carefully to ensure the stability of the Canadian banking sector, stability without utility or efficiency will put Canada at a significant disadvantage. Canadians will eventually demand the benefits of Open Banking that consumers in other major economies already enjoy. We believe that it's better to enable the development of Open Banking services now, while there is still an opportunity to be a global innovator, rather than delay and have the opportunity pass Canada by.

Benefits to Open Banking

Efficient and secure data sharing

Currently, if a Canadian banking customer wishes to share their financial information with a third party like Wealthsimple, the process is inefficient and cumbersome. Customers often must resort to sharing data as paper statements or by downloading and exporting PDF or CSV files. In response, many FinTech companies seek to automate access to consumer and small business banking information using data aggregation technology.

Data aggregators, which include Yodlee, Plaid, and Flinks, aggregate data from large financial institutions so that customers may efficiently share it with FinTech

companies. At Wealthsimple, we use data aggregators so that clients may connect their online banking accounts with their Wealthsimple accounts. This helps ensure that we accurately transfer funds into a Wealthsimple investment or savings account. Unfortunately, data aggregation is an imperfect solution for customers looking to share their own financial data with the services of their choice. Data aggregators have high failure rates because they depend on third parties — the large financial institutions — for the data, and these institutions often do not have the technology designed to handle these data requests.

With Open Banking, including the use of standardized Application Programming Interfaces (APIs), customer data can be transmitted in a much more secure, efficient, consistent way. At Wealthsimple, while we use data aggregators, we have also designed our software infrastructure to use APIs for data sharing. We've positioned ourselves for growth by being able to connect with partners through APIs. This has been particularly important for our operations in global markets like the United Kingdom, where APIs are the standard. Given the ongoing demand for data aggregation services, we believe that there is significant opportunity to rapidly migrate toward APIs in Canada as part of an Open Banking initiative.

Payment Initiation

We believe that payment initiation should be a core component of Canada's Open Banking strategy. By including payments initiation in Open Banking from the start, Canadian consumers would ultimately benefit from far richer experiences and offerings with the financial services companies of their choice.

Payment initiation will open up exciting new innovation opportunities for both FinTech companies and banks. For example, currently there are services that aggregate a customer's financial data from across the institutions they use to show a complete picture of their financial position, and provide recommendations on how to pay down debt or save for the future. With payment initiation, a service like this could go a step further, and, with a customer's authorization, not only make the recommendation that a new cash inflow be used to pay down debt, but automatically authorize the payment to do so. Innovation of this kind will ultimately be to the benefit of Canadian consumers, in the form of more personalized, sophisticated, and convenient financial tools.

Innovation and competition

Open access to data and tools for payment initiation are vital to enable Canadian FinTech companies like Wealthsimple to scale both within and outside Canada. We rely on clients being able to easily and securely share financial data with us, and our clients increasingly expect us to be able to fulfill their instructions to invest or save their

money, and take into account their up-to-the-minute financial position when providing financial advice.

The difficulties we face enabling clients to share their financial data with us in an efficient, frictionless manner is one of the most significant hindrances to the growth of our business. Relying on data aggregators, which can be unreliable, limits our ability to develop truly innovative products that work best with real-time access to our clients' data. Additionally, services that require a connection through a data aggregator can only be used by customers who use a financial institution that is supported by these aggregators. Typically, aggregators support larger institutions; smaller credit unions and digital-only banks are often not supported. The result is that clients who choose to bank with these institutions are unable to take advantage of certain FinTech services. This hinders our ability to offer services to *all* Canadians, thus limiting consumer choice and introducing anti-competitive pressures.

Case study: Roundup

In 2018, Wealthsimple introduced a service called Roundup. Roundup allows our clients to connect their payment card, such as a debit card or credit card, to their Wealthsimple low-fee investment account or high-interest savings account. We round up each purchase on the client's payment card to the nearest dollar and on a weekly basis deposit the difference in a Wealthsimple account of the client's choosing. It's designed to be a simple, frictionless way for people, especially first-time investors, to get into the habit of saving and investing. Since launching the feature in September 2018, nearly 12,000 people have signed up for the feature. Those that signed up have saved more than \$750,000 in "spare change." More significantly, many clients who start saving using Roundup later graduate to making more significant transfers into investment or savings accounts, and do so on a regular basis.

Roundup requires a consistent, stable connection between a client's payment data — stored in their bank account — and Wealthsimple. Clients who use Roundup have chosen to share this data for the purpose of rounding up their purchases and depositing the difference. But because we must rely on third-party aggregators for this data, the connection is often unreliable. Temporary disconnections are common, and every day, an average of 10 connections between the Wealthsimple Roundup service and a client's financial institution fail completely. Accordingly, clients who have determined to invest or save more using Roundup are consistently prevented from doing so. With an Open Banking framework in place, we believe that these disconnections would be avoided entirely, and that there would be an opportunity to develop far more interesting and effective tools to help clients save and invest their money.

Managing potential risks from open banking

In the current environment defined by rapid technological innovation, the issues of data sharing, privacy, cyber-security and financial stability require constant attention and effort by policymakers and industry alike. We believe that the development of a Canadian Open Banking framework in a thoughtful and comprehensive matter, with reference to best practices in other markets, can be a positive catalyst for addressing these issues.

FinTech companies are often on the leading edge of information security and privacy. At Wealthsimple, we have made significant investments in our engineering talent and technology to ensure that client information is protected and private. Companies like ours rely entirely on modern software and software architecture, which we believe results in a much safer infrastructure than some of the legacy systems that still form the core technology of many Canadian financial institutions. We are therefore not convinced by the argument that Open Banking creates new security or privacy risks due to the involvement of FinTech companies. In our view, FinTech companies like Wealthsimple can help achieve a more stable and secure financial system. Also, we expect that the technology investments likely necessary for banks to upgrade their legacy systems in response to an Open Banking directive would further enhance Canadian financial technology security, scalability and resiliency.

The role of the federal government

Wealthsimple believes the federal government, with support from provincial governments as required, should play a central role in the implementation of Open Banking in Canada. Industry and consumers will require regulatory clarity around how data is owned, shared and accessed.

We are not aware of a purely market-driven approach to open banking that has proven successful anywhere in the world. Government has always played an active role in successful open banking models. We believe that Open Banking needs to be developed within a framework that equally supports:

- efficiency, in the form of competitively priced products and services while accommodating innovation and contributing to economic growth;
- utility, in meeting the needs and protecting the interests of consumers; and
- stability, in ensuring the system is safe, sound and resilient.

It is also important that Canada embrace global standards when developing its Open Banking strategy and implementation plan, and that these standards are maintained and kept current. Finance Canada is well placed to accomplish this.

Ultimately, we believe that open banking presents a great opportunity for Canada. Currently, banks have an effective monopoly on the personal financial information of Canadians and control where and how Canadians make payments. Requiring banks to give control of that information to their customers, and giving customers the power to determine the most cost-effective and convenient methods for making payments, will spur innovation and competition, both from established banks and FinTech companies. We strongly believe that this innovation and competition will be for the benefit of Canadian consumers. We also believe that it will spur new investment by both established financial institutions and FinTech start-ups alike.

Thank you for the opportunity to provide our comments on this important topic. We welcome the opportunity to discuss our response or otherwise continue to engage with the Department on this topic.