

Intelligence MEMOS



From: Thorsten Koepl and Jeremy M. Kronick
To: Chrystia Freeland, Minister of Finance
Date: September 25, 2020
Re: **AN OPEN BANKING PLAYBOOK**

Open banking may not seem like a pressing matter in the middle of a global pandemic, but it is exactly the type of productivity-enhancing file that can stimulate the economic recovery.

Every time a person or business makes a payment or engages in a financial decision – taking out a mortgage or tapping a debit card – data are generated within the financial system. Financial institutions create internal records as they intermediate these transactions, gaining valuable data about their customers.

Financial institutions are thus in an enviable position. Data possession is a massive competitive advantage. Consequently, financial institutions profit from this information to charge customer-specific prices, or by selling the information to third parties.

Open banking changes this dynamic fundamentally, by putting customers (be it households or businesses) back in charge, allowing them to decide when a provider can access their financial data from institutions that have collected them. If customers so choose, they can give a third-party provider, or for that matter any other financial institution, open access to all the data from their bank or non-bank financial institution. Put another way, open banking breaks the monopoly banks and non-bank financial institutions currently have on their customer data.

The big idea behind open banking is, therefore, that giving customers of financial institutions control over when and how to share their financial data would help spur the development of the types of tailored products and services that create a more innovative and competitive market.

In Budget 2018, the federal government announced that it would review the merits of open banking. In January 2020, the Advisory Committee on Open Banking determined that the benefits of open banking outweighed the cost and what was needed was a plan for implementation.

In our recent C.D. Howe Institute [Commentary](#), we outline a possible plan to get open banking to the finish line, along three key themes:

- how to generate value for consumers;
- how to build a secure infrastructure for data sharing; and
- how to improve the regulatory framework to protect consumers.

With respect to value for consumers, we argue that constrained market experimentation should be the guiding principle. Third-party providers should be allowed to start offering their services to consumers in a controlled environment where policymakers take into account potential risks that not all consumers may benefit from open banking.

On building a secure infrastructure for data sharing, consumers need to gain control over the data they generate. Technology needs to be standardized and improved so that consumers can manage data access in a ubiquitous, secure, and easy way.

We argue for clear legislation for data privacy, a digital ID system, and a clear liability framework regarding data sharing and usage.

Lastly, on regulatory framework and consumer protection, Canada's regulatory framework needs to be brought into the age of Fintech. This will involve a new framework for handling consumer complaints from TPPs and a concerted effort by the federal government and the provinces to streamline financial regulation across jurisdictions and integrate such regulation across different areas.

Our message is one of cautious optimism that open banking will ultimately benefit Canadian households and businesses. The development of a modern digital ID system and an overhaul of privacy laws are clearly pressing issues where open banking may very well provide a push in the right direction.

Our considerations and recommendations could move open banking along, but are unlikely to solve the regulatory fragmentation problem writ-large, a problem that hampers innovation in the financial services sector more generally.

Therefore, open banking will very likely have to stay narrow at first in reach and in the types of activities allowed. In the long run, for open banking to become an unequivocal success, Canada will require a fundamental and extensive overhaul of its regulatory framework. Open banking may very well be the catalyst to achieve such change. If not, Canada is unlikely to realize the same benefits from Fintech that other countries like the UK and Australia are likely to enjoy. All the more critical as we look towards the economic recovery.

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