

Intelligence MEMOS



From: Helen Sinclair
To: Finance Minister Bill Morneau
Date: March 9, 2020
Re: **WHY THE SLOW TRACK IS THE WRONG TRACK**

Open banking in Canada appears to be losing steam. The British and European systems launched in 2018, and the first phase of Australia's will roll out this year. Many other countries are also out of the gate.

The common thrust: Customers own their personal information and may direct their banks to share it, through secure channels, with other banks, brokers, and technology providers that have something to offer.

On January 31, the Department of Finance released the first report of the Committee advising on Canada's way forward in open banking. While embracing the cause, proposing a more privacy-sensitive name ("consumer-led finance") and calling for a "bold, clear and concrete timeline for moving forward," the report falls short on action.

Its next steps are further consultation and research, culminating in a white paper, to be followed by more consultation. At that pace, it is highly improbable that open banking in Canada will launch within the one to two-year timeframe cited in the report.

Delay will have its consequences. Disruption in financial services is progressing rapidly and any expectation that the players will wait out a protracted consultation process is fanciful.

The tech giants are the elephant in the room. Google is already offering a chequing account – through Citibank. Amazon provides Open Bank, a subsidiary of Spain's Santander, with its IT infrastructure. Alipay, an arm of Alibaba, building off a budding relationship between China and Luxembourg, has won the right to roll out its mobile payment solution across the European community.

Given the disruptive forces at play and the market structure of their industry, Canadian banks will inevitably maneuver to partner with the techs. The banks' capital pales in comparison to the large players, and they struggle to catch up on the digital front, notwithstanding large investments in their technology platforms.

The risks are high as one-on-one deal-making takes over. First, are the inconsistent approaches to data protection, technical standards and liability when things go wrong. Second, Big Tech, with its outsized access to capital and excellence in matters digital, will assume a growing presence in financial markets without the obligations and protections of government regulation. Third, liquidity risk will grow as consumer savings are pulled in various directions.

Against this backdrop, it is critical that the Department of Finance take concrete steps now. In so doing, it will need to tread carefully, with due regard for the fractured state of jurisdiction over financial services in Canada.

Here is a path forward:

- First, set a firm schedule for a staged approach to open banking, including a timeframe for upfront consultation.
- Second, focus initially on institutions that are indisputably within the federal jurisdiction: the banks – starting with the largest – and their lending and deposit-taking activities. Participation should also be open to, but optional for, smaller banks, other deposit institutions, technology players and service providers. Experience in the U.K. and Europe suggests many will join.
- Restrict information access to organizations that qualify for membership in an independent central registry, demonstrating they meet stringent data protection, security, and technical proficiency standards and agree to the legal and liability terms and conditions.
- Third, require each registry member to grant other members access to the customer information it holds, as directed by the owners. This reciprocity condition is a central feature of the Australian open-banking system and a natural leveller of the playing field.
- Fourth, keep the legislative and compliance framework that will eventually be required to a minimum, with required standards and rules embedded in registry's conditions of membership.
- Finally, emphasize that alongside government's commitment, success hinges on the expertise and collaboration of the banking and technology communities. Look for leadership from a well-respected, independent outsider to bring everyone into the tent.

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