



Open Banking

02/27/2019

Remarks by Marina Mandal,
Vice-President, Banking
Transformation and Strategy

Delivered to the Senate
Standing Committee on
Banking Trade and Commerce

Thank you, Mr. Chair, and good afternoon. It's always a pleasure to appear before the committee. My name is Marina Mandal and I am joined today by the CBA's General Counsel & Vice-President Angelina Mason.

As Senators are aware, in January, Finance Canada released its first consultation document reviewing the merits of open banking. The banking industry welcomes the opportunity to work with the federal government on fully understanding the policy objectives, the potential benefits and the potential risks of open banking. The CBA submitted a response to the consultation document and I am happy to speak today to the key points made in our submission.

The banking industry is a strong proponent of a competitive and innovative financial services sector that uses rapidly developing technological solutions to better serve customers and meet their evolving expectations. Canadian banks are leaders in the adoption of new technologies that make banking simple and convenient for customers while also fostering customer trust and confidence. Constantly looking to the future, banks have established internal innovation hubs and partnered with outside organizations, including universities, incubators, and technology companies, in an effort to pursue, design and deliver digital innovations and solutions for bank customers.

We believe that open banking offers benefits to individual consumers, as well as small businesses, financial institutions such as banks, and other third party financial service providers. Provided the inherent risks associated with open banking are effectively managed, open banking provides an opportunity for consumers to more easily share their financial transaction data and benefit from new and innovative products and services customized to their needs.

Varying approaches to open banking are being considered or adopted in different jurisdictions based on the level and scope of market activity, and the range of catalysts that triggered market and policy responses in those jurisdictions. Several jurisdictions started exploring open banking in the aftermath of the 2008-2009 global financial crisis. Systemic failure of banking systems, and the subsequent loss of trust, required the marketplace and policy makers to search out alternatives to the banking system. In contrast, Canadian financial institutions performed well through the financial crisis, maintaining a high degree of public trust. As the government continues its examination of open banking models being explored, introduced or implemented in other jurisdictions, we strongly encourage the government to assess these models through the uniquely Canadian lens.

Part of the unique Canadian context that was identified in the government's consultation document is the broader environment of ongoing policy initiatives affecting the financial services industry in Canada. We agree with the government that the merits of open banking should be reviewed in the context of these initiatives, which include payments modernization, the national digital and data strategy consultations, and

the development of the federal government's national cyber security strategy. In examining the interplay between open banking and these other initiatives, it is imperative that Finance Canada continue discussions and collaboration with all relevant policy makers and regulators. .

The potential benefits of open banking require the associated risks to be addressed and mitigated through appropriate allocation of responsibilities between all participants whether consumers, financial institutions, or other third party financial service providers. We believe those associated risks revolve around four key areas:

- consumer protection;
- privacy and confidentiality;
- financial crime; and,
- financial stability.

Customer information should only be shared with informed customer consent obtained in a transparent manner that allows the customer to understand how their financial transaction data will be used and secured. It is also crucial for customers to understand the mechanisms of recourse and redress available to them in the event of a data breach or misuse of financial transaction data by a third party financial service provider. Once third party financial service providers receive financial transaction data, they become accountable for the information and therefore liable for mishandling it. It is important for customers to be protected, regardless of the nature of the third party financial service providers involved.

The appropriate handling of highly sensitive personal and confidential information is key to any open banking model, and necessitates consistent standards for the responsible use and management of customer financial transaction data, and the safeguarding of that data. Open banking must include appropriate security and other safeguards for financial transaction data across the ecosystem in order to achieve the benefits highlighted in the government's consultation document.

Specific characteristics of open banking could increase the risk of financial crime, including data proliferation, increased connectivity and the use of log-in credentials by third party financial service providers to access data on behalf of customers. It is crucial to understand these risks, and how they can be managed by open banking participants.

Stability is central to Canadians' trust in our financial system, as evidenced by the banking industry's performance during the 2008-2009 global financial crisis. As the federal government explores the merits of open banking, it is important to ensure that Canadians' trust in their financial system is not put at risk. Potential risk to financial stability in the context of open banking should be closely monitored.

To conclude, the formal consultations are only just beginning in what is sure to be a thorough and rigorous review process. As the government proceeds with its review in the months ahead, we welcome opportunities to continue to engage on these issues assessing the merits of open banking in Canada.

Thank you, and I look forward to your questions.