Open Banking: Empowering Canadians To Get Better Banking

Equitable Bank is providing this submission in response to Finance Canada's January 2019 consultation paper on the merits of open banking in Canada. At Equitable Bank, we are strong believers in the benefits of open banking and have embraced the open banking philosophy within the Canadian Banking regime. We are keen to collaborate with the Government and other banks to ensure Canada has a modern banking system suited to the needs of all Canadians.

Equitable Bank's Open Banking Point of View:

Enables competition & innovation to better serve Canadians

Privacy & cybersecurity risks exist, but can be effectively managed

Federal Government should develop regulation to enforce open banking standards

Who is Equitable Bank?

Our Customer Focus

Equitable Bank is the 9th largest independent Schedule I bank in Canada. In a highly concentrated banking market, we take pride in our position as a medium sized bank that is driving innovation by focusing on the needs of customers. We have been continuously investing in our technology infrastructure and capabilities to be able to remain nimble in response to changing customer needs, today and over the longer term. We believe our low-cost structure, which is possible because we are 100% branchless, is a sustainable competitive advantage for the bank. We will serve our customers with great products, services, and experiences, and without the attendant costs of a retail branch network.

Our customer focused mindset has already paid off. We are a leader in the Alternative and CMHC multi-family funding space, we are one of two participants in the Canadian reverse mortgage market, and EQ Bank (our digital bank) has been rated one of the top ten digital banks in the world (*Financial IT, 2017*). Our digital banking platform alone serves 70K customers and we are one of the only banks to allow customers to seamlessly purchase GICs on a mobile device.

100%
branchless

70K+
customers on EQ Bank (our digital bank)

9th
largest independent Schedule I bank

$2.2B
deposits from EQ Bank (our digital bank)

$25B
assets under management

6th
best in World Digital Banking Platform (EQ Bank)

30K
lending customers

Our Approach to Open Banking

Modern technology infrastructure

Our digital nervous system is built in anticipation of open banking and payments modernization — we will be the first Canadian bank with its core bank hosted on cloud infrastructure. Not only will our cloud based infrastructure be more secure than the current approach, it will give us the advantages of scalability, reduced costs, and faster speed of innovation.

Accessible Data

We have organized our data in a way to be most helpful to our clients and give us a single view of the customer. In contrast, many larger banks have data disbursed across silos of the organization.

Partnerships

We have collaborative partnerships in place with fintechs such as RateHub, Wealthsimple and Borrowell that have expanded our reach to new customers and enabled Canadians to manage their financial lives more effectively.

Customers and Small Businesses Win with Open Banking

Consumers Can More Easily Switch to Better Solutions

Open banking increases customer choice that results in better financial decisions for a customer's unique financial situation. By empowering customers to make their data widely accessible, open banking removes the role of banks as information gatekeepers and more importantly, reduces the likelihood of a long and arduous switchover process for the customer. Reducing the friction of the current switchover process will make customers more likely to take the steps to transfer their finances to more innovative or affordable financial services that are offered by Fintechs, smaller FIs, or even another Big Bank.

Open banking should reduce the administrative burden of transferring accounts and improve process transparency. With the customer's consent, each FI involved in the fund transfer will have full insight into the customer's financial portfolio, a time stamp will be associated with the request, and the receiving FI may even be in a position to initiate the request. In a timely and cost effective manner, FIs should be able to complete the transfer without creating friction for the customer.

Registered accounts: just one example of the need for easier switching

Most Canadians have an RRSP or TFSA with a bank or traditional money manager. These types of accounts are often subject to high management fees, uncompetitive savings rates, and mutual funds with high MERs. There is ample rationale to transfer registered accounts to a higher return or lower cost provider, but in order to maintain the tax benefits, the customer has no choice but to have their FI directly process the transfer.

In order for a customer to request a transfer from their FI, they need to locate the appropriate documentation, mail in the completed documentation with a wet signature to their FI, and then patiently wait and hope that the transfer cheque gets mailed to the receiving FI. With no guarantee of turnaround time, the customer may need to follow up, often with a generic call centre, several times over several weeks before they are told the transfer has been processed, or worse that there is an issue with the paperwork. Open banking should strive to eliminate this unnecessary friction.

Open Banking Enables Clarity of Financial Picture

The complexity and strain of managing multiple banking accounts exists for both small business and retail customers. A major open banking benefit is clarity and insight on financial health, enabled through a holistic view of all financial holdings.

Consider a typical middle-class couple's financial portfolio; a joint account for shared payments, a savings account, two credit cards, a mortgage, some registered investments, and a car loan. Assuming the customer made decisions based on which products were best suited to their situation, it is likely that their finances are spread across multiple institutions. As the number of relationships increases, so does the complexity and time required to manage and track finances. As a basic example, monitoring contributions in registered accounts across various FIs is unnecessarily difficult, commonly leading to over/under contribution. Filing annual taxes is complicated when income, expenses and investments are disbursed across accounts and need to be manually aggregated. As life progresses and financial needs become more complex — RESPs, aging parents, estate planning, etc. — keeping track of it all becomes more and more time-consuming.

Data sharing through open banking enables the creation of hub/dashboard platforms where an individual or business is given a complete view of their finances and associated documents. Multiple days of administrative effort annually are eliminated through innovation. Moreover, once information is organized in a useful fashion, fit-for-purpose cash flow and investment insights can be provided to customers and small business to improve overall financial health.

Screen Scraping is a *bad* solution to a real problem

By making a customer's banking data available in a single space, screen scrapers are filling a real gap in the Canadian ecosystem, but with less than ideal technology.

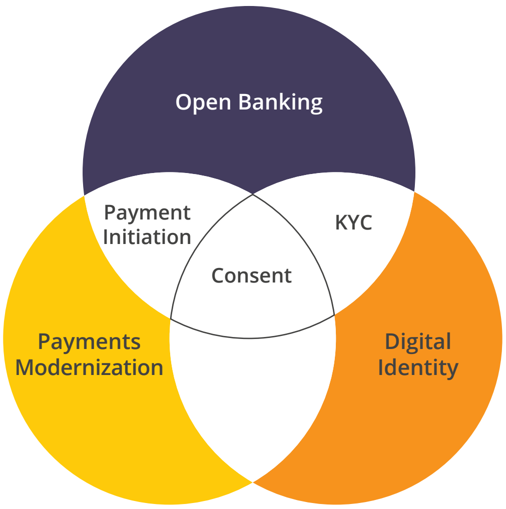
Issues with screen scraping:

- Providing credentials to 3rd party screen scrapers is a violation of most customer agreements with banks, leaving customers potentially liable in the event of a data breach.
- Screen scraping is unreliable due to constant front end changes, errors, maintenance etc. on host sites. Also, many banks block screen scraper traffic.
- Screen scrapers must invest heavily in man power to try and stay ahead of website changes.
- Screen scrapers are not held to the same security requirements as banks, yet some are storing customer credentials.

With open banking, screen scraping organizations will be able to evolve to standard and regulated APIs and appropriate standards around data storage and information security.

Optimization of open banking benefits needs to include payment initiation and digital identity

While open banking will help to give Canadians a clear and complete picture of their finances, taking full advantage of this clarity requires a linkage with Payments Modernization, and ideally Digital Identity.



Enabling customers to instantly invoke a payment from their bank account, without first needing to access their bank's portal to "push" the payment, is a key to a *truly* open banking model and should not be constrained by Payments Modernization.

Streamlining the requirement to prove identity via Digital Identity is the third key step to enable customer choice and access in Canada. Our view is that for a Digital Identity model to be successful, it needs to remain autonomous — it should be a federally driven government initiative with passport systems for provinces/territories, avoid fee for service, and allow customers to choose to opt-in.

Portfolio management: example of benefits from payment initiation

For example, consider a 3rd party application where — with customer consent — the transfer of funds is automatically initiated between two of the customer's accounts. When the customer's pay is deposited, the application allocates funds for upcoming expenses, pays down any credit cards, and transfers the remainder to an investment vehicle that best fits with the customer's financial goals (RRSP, TFSA, savings account, etc.). This service would help customers optimize their savings without requiring much time, effort, or knowledge from the client.

Digital onboarding (KYC): example of small business benefit from digital identity

Open banking can improve financial access for Canadians and small businesses by simplifying onboarding and adjudication processes. Increased access and a wider range of solutions for small businesses is especially important because of their diverse set of needs. A key barrier for traditional banks is that they cannot easily extend their corporate onboarding and adjudication processes to small businesses in a cost-effective manner.

To understand current small business onboarding, imagine a financially prudent small business owner who wants to shift their account from a traditional bank to a new bank that is offering an attractive savings rate with no monthly fees. The new account also allows the business to segregate expenses and payments into unique accounts to better manage operating cash flow. Ultimately, KYC and AML processes at the new bank will require the small business owner to track down original or recently notarized articles of incorporation, and provide Board meeting minutes to a lawyer for review. In addition to requiring the business owner to have their identification verified, the new bank will also require their 3 silent partners, 2 of which are currently overseas, to be identified. The business owner recalls the pain he endured to open their current account, and ultimately decides their time is better spent focused on business operations.

With open banking, small businesses would ideally undergo a KYC process only once. Corporate identity should become part of the open banking ecosystem, and a small business owner would have control over when and how it is used. Small businesses are critical to the success of the Canadian economy; giving them control over their financial and identity information would increase their access to innovative financial services that better meet their needs.

Addressing Privacy, Cybersecurity & Customer Protection Risks

Addressing Privacy & Cybersecurity Risk

Privacy: To avoid customer confusion about what data they are consenting to share, and to whom, standards for consent emphasizing clarity and simplicity for customers (versus legalese) will be vital in helping to protect customer privacy. Rather than suggest a new scheme, we envision leveraging in-progress work regarding privacy legislation at the federal level. A federally-regulated (not market-driven) digital identity scheme would be beneficial in this regard.

Cybersecurity: We do not believe open banking presents new cybersecurity risks, rather it should reduce the current prevalence of screen scraping and thereby reduce cybersecurity risk. Clear requirements, roles, and responsibilities for both "publishers" and "consumers" of customer data will further ensure the Canadian banking system remains safe, secure, and stable.

Consumer protection: All the parties in the ecosystem need to understand their obligations and associated liabilities. A common understanding ensures that obligations can be appropriately managed and customers have the appropriate recourse available. Today in the absence of understanding where obligations lie, customers are unknowingly bearing risk while banks may be unwilling to offer useful services without clarity around where the risk lies.

Suggestions for Mitigating Risk

1. **Robust accreditation process:** Regulators should consider establishing an accreditation and monitoring process for 3rd parties to ensure appropriate standards for privacy and security.
2. **Alignment on informed consent:** Outline consent and authentication standards to ensure the appropriate level of security is met by all parties and consent is easy for users to review and update. Establish dedicated efforts and budget to increase customer awareness and understanding of risks.
3. **Strong security expectations:** Government, with industry consultation, should define principles and security standards at least as robust as those offered by banks today.

Any financial stability risks of open banking have been blown out of proportion

A key open banking risk quoted by many industry players is the risk to financial stability of the banking sector. Take for example an application that allows customers to open multiple new bank accounts instantaneously and then moves around deposits based on the best interest rate offer. In this case, the risk is not to the overall financial stability of the Canadian banking sector but rather to the individual Treasury departments at each affected bank. In reality, Treasury departments are resilient and will find a way to manage the liquidity and stability risk of flighty deposits from the app in question.
Let's take the risk a step forward: if there was a widespread increase of flighty funds, the business logic to continue offering attractive savings rates would no longer hold. The reserve requirements against unstable funds would make the savings rates unsustainable. Stability controls that are already built-in by regulators force the system to self-regulate.

A Government-led Mandate is Most Likely to Succeed

Only the Regulators will foster a system that drives the greatest benefit for the most number of people

The transition to open banking will no doubt be a complex and time consuming journey for all banks. It is therefore only natural for these multifaceted, profit-minded entities to be concerned around having to respond operationally to a rollout of open banking. This structural challenge illustrates the need for a regulatory body with a utility-driven approach to step in as the voice for customers. Only through a Government-mandated initiative are all parties in the ecosystem likely agree to accountabilities with defined milestones, service levels, and timelines.

Structural Impediments Require Government Intervention

Concentration of market power

At Equitable Bank, we recognize that the customer owns the right to their own data from transactions in their accounts. By establishing an open banking framework espousing that principle, the competitive intensity of the banking industry will increase. In a concentrated banking sector, such as Canada's where 87% of bank assets are held by 6 banks (Moody's; 2019), it is clear that an open banking regime defined with a strong regulatory framework and enforcement mechanism will help shift more power and choice into the hands of Canadian consumers. In comparison, a market-based approach is likely to be ineffective.

A complex ecosystem of regulators

Transitioning to an open banking platform requires a multifaceted approach, involving multiple regulatory bodies. These facets include privacy, cybersecurity, payments, anti-money laundering, and consumer protection regulations. For example, open banking can improve the effectiveness of Canada's Anti-Money Laundering regime while making life easier for customers if FINTRAC and the banking industry work with this goal in mind. The government is the only body that has the ability to create harmonization amongst regulation, legislation, and the standards.

Ideal Level of Government Involvement For Open Banking

- **Accreditation criteria:** Define criteria for those wishing to access data on a customer's behalf
- **Consent & Authentication:** Determine commonly accepted criteria to be followed by all parties
- **Defining Data:** Clearly define the types of data in scope (open data, transaction data, etc.)
- **Defining technical standards in consultation with industry players:** Create technical standards for implementation by FIs and 3rd parties to allow data sharing, payment initiation, and improved KYC
- **Liability:** Define clear scope of liability for all players, and a clear path of recourse for customers.

Many countries will end up with financial systems that struggle to keep up with the pace of digital innovation and corresponding customer expectations. We are proud to be part of a banking system that is taking the initiative to listen and act in an encompassing, decisive and transformative way that addresses the challenges of open banking.

Thank you for the opportunity to share our views on open banking. We applaud the government's initiative in regards to open banking and look forward to the next phase of the initiative. As an advocate for innovation and customer-centric banking, Equitable Bank is an ardent supporter for open banking in Canada and the benefits it will bring to both customers and our society as a whole.

Andrew Moor
CEO & President