

Intelligence MEMOS



Federal budgets are an annual rite of spring in Ottawa, as is the deluge of advice to the Department of Finance. But budget-making is a yearlong process, and the work is now in progress. Accordingly, the C.D. Howe Institute is presenting a series of Intelligence Memos in the next few weeks, outlining recommendations that we hope will help inform the policy decisions that are being made now.

From: Jeremy M. Kronick and Nikki Hui
To: The Honourable Bill Morneau, Minister of Finance
Date: November 13, 2018
Re: **PATH TO OPEN BANKING IN CANADA**

In Budget 2018, the government pledged to study the merits of bringing open banking to Canada. As we pass the mid-way point to the next budget, it is time to ask how Canada stacks up, and what is needed to bring open banking to our shores.

Several countries are already a few steps ahead of Canada in developing a comprehensive open banking strategy. In the EU, the second Payment Services Directives (PSD2) came into effect in early 2018. Similarly, a new directive in the UK called Open Banking came into force last January. These directives require banks across the European Economic Area to open up their payments infrastructure and share their customers' financial information with authorized third-party providers (TPPs). The goal is to increase both the level of competition and the types of innovative products lacking in the sector. With open banking, customers get back more control over their data because they decide what data they share, with whom, and for how long. And, if structured well, customers will make better decisions that optimize both their spending and investment behaviour.

What can Canada learn from the implementation of these directives abroad as it considers open banking at home? What Canada-specific questions need answering?

First, the design of the Application Programming Interfaces (API) must be standardized. API is the digital infrastructure created by incumbent financial institutions that enables data sharing across systems. The standardization of the API specification allows easier and safer access to customers' financial data because TPPs do not have to customize their systems for each individual bank. A lack of such standardization threatens to stifle growth of open banking in the [EU](#).

Second, those standards should both ensure the safety and security of customer data, while avoiding being so complex as to turn off potential users. Unlike the EU, the UK does have a clear set of standards for API design, although the user experience has received [criticism](#). The authorization journey for a consumer is too complex, requiring too many unnecessary steps on a complicated interface that is not user-friendly.

Other questions that require answers in a Canadian context: how to regulate TPPs in a world where they are likely to straddle areas of, among others, banking, payments, and securities? How to share responsibilities across OSFI, Payments Canada, the Bank of Canada, and our flock of provincial securities regulators? In the UK, the Financial Conduct Authority, the regulator for all financial services firms and financial markets, has developed tailored support for TPPs to navigate regulatory requirements, and to test ideas in the regulatory sandbox. Coordinating a similar plan in Canada will be difficult, but likely a necessary step.

The financial services sector plays such a critical role in Canada's economy that a major change like open banking should not be taken lightly. Nor should it be dismissed. There is a lot to learn from implementation abroad. We should not squander this opportunity.

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