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Consumer-directed finance: the future of financial services

Introduction

Budget 2018 announced the Government's review into the merits of open banking and, as a first step in this process, the Minister of Finance appointed an [Advisory Committee on Open Banking](#), to guide the review. The Advisory Committee is supported by a Secretariat within the Department of Finance.

The Advisory Committee was tasked with considering whether open banking would provide meaningful benefits to Canadians and to deliver a report assessing the potential merits of open banking for Canada, with the highest regard for consumer privacy, security and financial stability.

This report represents the findings and recommendations of the Committee following engagement with Canadians and stakeholders on open banking – a term this report will replace with *consumer-directed finance*. Over a hundred written submissions were received in response to the consultation paper, ["A Review into the Merits of Open Banking,"](#) which was released in January 2019. Through the course of the review, the Committee and the Department of Finance have engaged, both through public roundtables and bilaterally, with hundreds of stakeholders.

A broad range of stakeholders were consulted as part of the engagement process, from traditional financial sector stakeholders to Canadian consumers and civil society organizations representing small business owners, Canadians and, their families. Multi-stakeholder roundtables were held in Vancouver, Toronto and Montreal. The Committee also engaged with international policy makers to understand best practices in other jurisdictions. To support the review the Department also undertook qualitative public opinion research, the results from which can be found on the [Submissions for Consultation Paper on Open Banking](#).

The Committee was encouraged by the results of the consultations, which saw diverse groups of stakeholders examining consumer-directed finance through a public interest lens, finding areas of agreement and offering solutions to challenging policy considerations. From the Committee's perspective, the level of engagement and collective understanding is indicative of the extent to which a collaborative approach to implementation is possible.

The report that follows provides an overview of what the Committee heard from stakeholders and learned from its examination of consumer-directed finance in other jurisdictions, formal recommendations and considerations for next steps. The Committee thanks the Minister for the opportunity to undertake the review and looks forward to continuing to support the Department in its consideration of consumer-directed finance.

Executive Summary

The Advisory Committee on Open Banking (the Committee) was given a mandate to assess the merits of consumer-directed finance to determine if it could deliver benefits to Canadians. To guide this review, the Department released a consultation paper, which posed three questions

to Canadians and stakeholders on the matter of consumer-directed finance: are there meaningful benefits for Canadians, how should risks be mitigated and what is an appropriate role/course of action for government?

We know that financial health is a significant source of concern for all Canadians and that one in six Canadians struggle with their finances^[1]. Canadians could benefit from new tools that would support them to better and more efficiently manage their finances. Consumer-directed finance could deliver tools that would support Canadians in improving their financial outcomes, by enabling them to use their information to secure better rates or products; manage their small businesses more easily; and access new tools that help improve their financial health. It has the potential to be of particular benefit to small business owners, consumers facing challenges in managing their finances, and those with limited or non-traditional credit histories.

Through the review, the Committee has determined that while assessing the potential benefits and risks of a consumer-directed finance regime is a logical place to start, the reality is that data sharing by customers is already happening in the financial sector in a significant way. The market is currently delivering services that leverage and utilize the data that Canadians themselves produce. During consultations, the Committee received information from stakeholders indicating that some 3.5 to 4 million Canadians use data-driven services that offer them convenient ways to manage their finances and their businesses, most often through a process called screen-scraping.

In this context, the questions initially posed to the Committee and the Government in this review need to be refined. Acknowledging existing, and likely growing, data sharing by customers, means that the response of both government and market actors should be considered. Will the market develop sufficiently to satisfy objectives of benefiting consumers,

promoting innovation and ensuring financial sector stability?

Alternatively, could a framework that sets the ground rules for data sharing in banking and financial services improve consumer protection, deliver broader benefits to Canadians looking to manage their finances and promote innovation in the data and digital economy? These are the principal questions that this report seeks to address.

Canada has a strong, globally competitive financial sector that has proven to be stable, resilient and well respected. In addition to the services it provides, the financial sector is a source of economic strength and employment. The strength of the sector can be attributed to both the innovative, customer-centric approach of Canadian financial institutions and regulators that are recognized for their prudential focus. Canada is also home to ambitious, leading-edge innovators, who are driving evolution in the provision of financial services.

At the same time, the global economy is undergoing a digital transformation, driving rapid change in all sectors. There is a growing expectation on the part of consumers that they be able to control and leverage the data they generate and a number of other jurisdictions are moving to recognize their right to do so. There is also significant and increasing consumer demand for the convenience offered by data-driven services, as evidenced by their near ubiquitous use.

Consumer-directed finance must be viewed in this broader context; it is not merely a natural progression in the provision of financial services, it is a fundamental part of a much broader transformation. Through this lens, it has an integral role to play not only in ensuring the sector's continued global competitiveness but also in strengthening Canada's innovation agenda and supporting Canada's successful transition to a data-driven economy.

The Committee heard that, with the strength of its financial services sector, ambitious innovators and top talent, Canada has the potential to be a leader in the development of consumer-directed finance – but that it risks falling behind if it does not take timely and concrete action.

A main focus for the Committee was the examination of the risks of consumer-directed finance, and, whether and how those risks could be mitigated. While there are risks – principally those related to consumer protection, privacy and cyber security – the Committee found that these risks exist in the current unstructured environment and implementation of a structured framework could serve to better address and manage them. Such a framework could require participants to use a more secure form of technology and set rules for how market players must design for and meet requirements for cyber security, privacy and consumer protection.

As the Committee heard, the most common current method of sharing financial data, screen-scraping, is a technological work-around that allows customers to use new applications with their data and enables new business models - but it has limitations. Chief among them are security and liability risks for customers and financial institutions alike, as screen-scraping can require the sharing of log-in and password information. Without making data sharing more secure and trusted, a broader group of Canadians will not benefit from the tools that consumer-directed finance could offer.

In addition, screen-scraping is not a secure connection for businesses trying to build out new applications and it creates unreliability in the services they offer, which can seriously constrain the growth of their businesses. This will make innovators wary of growing their business in Canada, potentially resulting in the loss of talent, and placing the global competitiveness of the sector at risk.

Simply eliminating screen-scraping is not the answer either. The market has demonstrated a demand for services that data sharing can offer and consumers and market participants will continue to respond to this demand. Furthermore, eliminating screen-scraping would end the possibility of new-data driven financial tools being offered to a broader group of Canadians and would set Canada behind global developments that are digitalizing the financial sector.

The Committee heard broad-based agreement from stakeholders that the development of a consumer-directed finance framework, with appropriate safeguards, established in collaboration with industry and government, would more effectively deliver benefits to Canadians and mitigate risks involved in data sharing. The Committee also heard that the failure to put in place a framework that facilitates the development of consumer-directed finance may create a significant competitive risk for Canadian companies globally.

Following its engagement with Canadians and diverse stakeholders, the Committee recommends the development of a framework to enable consumer-directed finance. The use of the term framework through this report does not prejudge the precise roles of industry and government. In our view, the role of government in the development of a framework is to set the guardrails in a manner that protects consumers and participants, while allowing innovation to flourish.

With that in mind, we are also of the view that government has an important convening role to play – in bringing together all players in the ecosystem, and in defining objectives and setting timelines. Government must also take the lead in connecting consumer-directed finance to the discussion about the broader application of data sharing across all sectors and to efforts within government on enabling a data-driven economy.

The public consultations have affirmed that consumer-directed finance should not be approached as a fight between industry stakeholders. In our view and in the view of most stakeholders, all participants in the ecosystem – from established financial institutions, to fintechs, to other innovators and most importantly, consumers – stand to benefit from consumer-directed finance.

The Committee looks forward to continuing our work with the Government as it considers how to move forward with consumer-directed finance. At the end of this report, we have provided principles that we believe should guide the development of a framework to enable consumer-directed finance.

Report and Formal Recommendations

In addition to providing formal recommendations, this report will summarize what the Committee heard and learned from other jurisdictions in its consideration of whether consumer-directed finance would have merits for Canada:

- *Are there meaningful benefits for Canadians?*
- *How should risks related to consumer protection, privacy, cyber security and financial stability be managed?*
- *What role and steps are appropriate for the federal government to take in enabling consumer-directed finance?*

At the outset, the Committee would like to describe what "open banking" is, and what it includes. The term itself is often misunderstood; as for some, it leaves the impression that their banking information would be laid out in the open, with little consideration for personal privacy rights. This is not at all what is being contemplated.

Instead of "open banking", the Committee proposes the use of a term that more accurately captures what is in fact, being proposed: consumer-directed finance.

Consumer-directed finance is consumer controlled, secure and protects privacy. It allows a consumer to give instructions to a financial institution to share their transaction information with an accredited third party of their choosing. In some models, consumer-directed finance also includes the ability for the consumer to direct third parties to initiate payments on their behalf.^[2] A consumer-directed finance model recognizes that consumers should be in control of their information and able to benefit from the use of it. Recognizing that consumers' expectations for better control and protection of their financial data is broader than just the banking sector, we recommend using a broader term than "banking" and apply these considerations to consumers' financial products.

In a consumer-directed finance model, the consumer is able to direct their financial institution to share certain types of personal information with service providers of their own choosing, regardless of whether that service provider has a relationship with the consumers' financial institution(s). In examples around the world, these service providers include accounting service providers, fintech companies and other banks. In existing models, these service providers are regulated in order to qualify them to be recipients of such data. Just as a consumer can direct their bank to pay the people and accounts that they trust with their money, consumers are able to share their information with accredited recipients.

Are there meaningful benefits for Canadians from consumer-directed finance?

Financial health is an ongoing concern for most Canadians. We know that one in six Canadians face challenges managing their finances^[3] and a significant number of Canadians live paycheque to paycheque. Many are new to Canada and do not have established credit histories. A large number of Canadians are recent graduates, starting their careers, beginning families, looking for housing, and trying to juggle student loan debt all at the same time. An estimated thirty percent engage primarily in contract or freelance work, in what is commonly referred to as the gig economy, and have less predictable incomes and limited benefits^[4]. Other Canadians are small-business owners, who find it difficult to access credit, efficiently manage payroll, and pay suppliers. While Canada may have a relatively low number of citizens who are underbanked, we know that financially marginalized people are disproportionately represented within that group. In that same vein, residents of remote and rural communities are also experiencing challenges in accessing traditional financial services.

Canadians could derive benefits from tools that would support them to better and more efficiently manage their finances. Consumer-directed finance could deliver those benefits to Canadian consumers by enabling them to use their information to secure better rates or products; manage their small businesses more easily; access financial services not traditionally available to them; and access new tools that help improve their financial health. For example:

- A consumer could use their financial transaction data to secure an online loan in order to refinance their credit card debt; or, to more easily shop around and receive recommendations for products that would provide them with better rates, thereby saving money.
- An entrepreneur or small business owner could gain access to alternative sources of financing or faster adjudication of small business loans. They could also leverage spending data to enable

customized loans and potentially lower rates, enhancing business viability and saving money.

- A person with a limited credit history, such as a new Canadian or someone working in the gig economy, could use their financial transaction data as a more comprehensive demonstration of their credit worthiness and secure financial products previously unavailable to them. This could enable them to start businesses, buy financial products and services and participate more fully in Canada's economic life.
- A small business could use a platform that pulls in their financial transaction data to seamlessly manage invoices and cash flow. With sufficient real-time data, the prospect of daily payroll for those employed in the gig economy may be possible, enhancing employee's financial security.
- Similarly, new applications could support businesses to be compliant with government reporting requirements, enabling gig economy workers to remain part of the formal economy with entitlement to associated benefits.

The potential for consumer-directed finance to deliver meaningful benefits to Canadians is evident. While some Canadians are already accessing some form of these services in the current screen-scraping environment, the question at hand for both the Committee and the Government is whether a safer, rules-based approach could deliver broader benefits to consumers.

There is existing demand from consumers to do more with their financial information.

Canadian demand for and use of data-driven services extends to financial services. Figures provided by stakeholders suggest that several million Canadians already use applications that leverage their financial transaction data through a technological work-around called screen-

scraping^[5]. Many stakeholders feel that screen-scraping is an inefficient approach to enabling consumer use of their data that presents real security and liability challenges. While consumer demand for data-driven financial services is increasing, liability and uncertainty are preventing these applications from growing in a way that could deliver greater benefits to Canadian consumers, innovators, the financial services sector and the economy more broadly.

Consumer-directed finance could give consumers greater control of their information.

The Committee heard frustration from consumers about the lack of clarity regarding the use and protection of their information and that the desire for greater control of that information extends to sectors beyond financial services.

In our view, the consumer's interests must be the primary guide directing the development of any consumer-directed finance framework. This could include outlining principles of consumer interest in consumer-directed finance that would cover such elements as:

- Consumers may access and control their transaction data and supporting information in a meaningful and useful way.
- Consumers are well informed and may meaningfully consent to and direct different uses of their transaction data and supporting information. The consent process employs clear, plain language and clearly delineates what and how data is being used, by whom and for how long.
- Consumer transaction data and supporting information should be handled securely and in a manner that protects against unauthorized access or use.
- If something goes wrong for consumers, there should be a clear process by which redress and resolution of issues occurs; and which assigns liability to the appropriate party.

Consumer-directed finance could also make it easier for consumers to have accounts at different financial institutions and to use different types of specialized services from multiple providers. In this context, many financial institutions – including traditional financial institutions, small and mid-sized banks, and credit unions – are very interested in the opportunity that consumer-directed finance may present to attract new customers and grow their businesses.

Canadian financial institutions have been world leaders in delivering a customer-centric approach and consumer-directed finance presents an opportunity for Canada to build on that reputation. In that vein, the Committee heard strong agreement that in order for the benefits of consumer-directed finance to be fully realized, a framework must first and foremost be designed with the consumer in mind.

A robust consumer-directed framework could support a more innovative and competitive sector by setting rules and protections around data use, and requiring data to be transferred in a more secure form.

Canada has a strong, resilient and globally competitive financial services sector that is a significant driver of economic growth and innovation in Canada. Its strength is a competitive advantage – one that is in part, derived from its strong, world-class financial sector regulators. Ensuring the health of the financial services sector in a rapidly changing international context is critical to Canada's future growth agenda.

Canada is also home to many emerging and innovative companies that offer services to citizens and businesses that require consistent flows of consumer-permissioned transaction data, such as small business accounting platforms. These business models are jeopardized when access to that data is interrupted, and insecure access dampens growth and innovation more broadly.

A consumer-directed finance framework would provide a more secure and reliable way to enhance and expand services that are already in the market. It would also provide an opportunity for all players within the ecosystem to benefit and to build on the existing strengths of the financial services sector, while enabling innovators to participate in a way that strengthens and enhances the sector.

A recent report from the CD Howe^[6] underlined this point, arguing that a more modern framework would result in a more innovative ecosystem and increase the financial services sector's productivity, serving to boost both the sector and the economy as a whole.

A consumer-directed finance framework must also be examined in the broader context of Canada's transition to a data-driven economy. It is not simply about enabling the modernization of the provision of financial services, it is a fundamental part of a much broader transformation. This transformation, managed strategically, can bring benefits to all participants by driving innovation among a vibrant ecosystem of firms and supporting the growth of globally innovative and competitive companies. This transformation is already underway across the economy, and Canada must be proactive in ensuring that its benefits accrue to citizens and the economy. Without a proactive and strategic approach, Canada will lag other jurisdictions.

The Committee is of the view that enabling a consumer-directed finance framework, with the proper safeguards, will deliver greater benefits: to the sector, to the economy and most importantly, to Canadian consumers and small businesses.

How should risks related to consumer protection, privacy, cyber security and financial stability be managed?

Protecting consumers, enhancing privacy and robust security are key to unlocking innovation.

Feedback received through this review has underscored the flaws in the narrative that places privacy and security at fundamental odds with innovation. Instead, managing risk and fostering innovation should be viewed as equally important objectives. A consumer-directed finance framework that gives the consumer effective control of their information can be done, and has been done, in ways that protect privacy.

Integrating consumer privacy and protection at the design level, enables broader innovation as it establishes a foundation of trust that allows consumers to truly control their personal financial information. In many respects, this is a much broader conversation than preventing adverse events in the financial sector. At its core, addressing the risks and controls related to data use and privacy is about preparing Canada for an innovation economy rather than just policing breaches.

From its discussions with stakeholders, and in the review of submissions, the Committee understands very clearly that there are risks related to consumer-directed finance. On privacy and security, there are concerns that sensitive financial information remain secure, private and in the control of the consumer, and that consumer-directed finance could amplify risks to meeting those objectives. For the security of the framework more broadly, there are concerns that the increased number of participants dealing with financial information could increase avenues through which cyber-attacks and data breaches could occur. On consumer protection, there were calls to ensure the system does not exacerbate existing inequalities and a unanimous view that consumer education and oversight are fundamental to achieving success for consumer-directed finance.

On financial stability, stakeholders pointed to the rapidly evolving nature of the sector and of the economy more broadly. In that context, many were of the view that a key consideration should be designing a

framework that doesn't lead to unintended consequences, which could negatively impact financial stability through data concentration and unbalanced market power.

While all stakeholders raised risks, the Committee did not hear they were insurmountable. There was consensus that the following considerations apply when considering consumer-directed finance:

- Risks are present in the marketplace today and are currently unaddressed in a screen-scraping environment;
- The adoption of a market framework could make the current environment considerably safer;
- Existing risks could be addressed and possibly mitigated through an accreditation framework; and,
- The risk of inaction – particularly from its dampening effect on innovation – is also real.

Risks exist in the market today.

Many of the concerns related to consumer-directed finance exist now and are only increasing. The prospect of consumer-directed finance cannot be compared against a pre-smartphone age where data sharing was more limited. As previously noted, absent a secure and permissioned mechanism to enable data movement, consumers are resorting to work-around technologies to use their data. This is creating security and liability risks for consumers, market entrants and financial institutions.

In this context, the Committee is of the view that the risks in-market today need to be addressed expeditiously and that a framework, which sets ground rules and protections could be a useful and appropriate way to do so.

Processes could be developed to manage risk.

There was broad agreement among stakeholders that an accreditation system to admit service providers into the ecosystem could be an appropriate way to manage and address privacy and cyber security risks. Although there are a number of different models to consider, most simply, an accreditation system could require participants to meet certain standards for risk management, and could be overseen on an ongoing basis by either a regulator or independent expert body. There could be varying levels of standards and ongoing oversight for different types of data or activities, risks and /or participants that could achieve the balance of encouraging new entrants, while still managing risk.

In this context, we heard that standards should not be a means to introduce competitive barriers. Stakeholders agree that minimum standards for participating in consumer-directed finance are required, but were firm that there must be a clear, transparent and fair pathway to accreditation through an independent process.

In addition to ensuring that all service providers in a consumer-directed finance system are trusted entities, stakeholders underlined the need to ensure that there are strong processes to authorize and identify consumers in order to ensure the security of the system and prevent financial crimes. In this context, consumer-directed finance could unfold with initiatives to roll-out broader digital identity. This would translate into strong in-person identification systems to online transactions.

Text Box: Digital ID

Digital Identification refers to an online form of individual identification that, like physical identification can include a number of components such as an individual's date of birth, social insurance number, driver's licence or health card number as well as information like financial transaction history or biometric data. Digital ID, like physical ID, serves as a method of

authentication. Some stakeholders have advocated for the adoption of a system of Digital ID, being of the view that it would, among other things, bring greater fraud protection and enhance privacy.

Opportunities to address privacy concerns.

Privacy was identified by all stakeholders as a key risk, and an area where there is an opportunity to modernize the existing privacy framework.^[7] In this context, consumer-directed finance could present the possibility of improving on the existing framework as it would be centered on empowering a consumer to be more in control and knowledgeable with respect to their personal information. Consumer-directed finance would rest on a process to establish meaningful, opt-in consent by consumers when they direct their bank to share information with other participants. The opt-in nature of consent means that there would be no requirement to participate in consumer-directed finance nor take any action to remain outside consumer-directed finance.

As the consent process is central to consumer-directed finance, stakeholders were largely of the view that there would need to be enhancements to the existing consent process.^[8] From the perspective of stakeholders this process could, among other things:

- clearly define what consumers are agreeing to, and what the implications are of that agreement, in plain language;
- provide a level of control over what data could be shared with what party, for what purposes and for how long; and,
- provide control over cancellation of permissions at any point by the consumer; and,
- be accountable to and traceable for consumers.

While privacy and cyber security concerns are real, and must be addressed, the Committee is of the view that equal weight must be given to the growth of a vibrant financial ecosystem and technological

innovation.

Inaction presents risks to the global competitiveness of Canada's financial sector.

The risk of inaction was a key theme of the roundtables. If Canada hesitates, or becomes bogged down by the complexities of acting to enable consumer-directed finance, we stand to lose significant ground on innovation and competitiveness.

Across the board, stakeholders viewed Canada as having a world-leading and competitive financial sector that has been well served by collaboration between government and industry participants. This experience positions Canada to harness the innovative power of data in the financial sector, while developing a framework that delivers a data-secured, well-protected consumer experience. Stakeholders are aligned in the belief that there is a need to act to preserve Canada's competitive advantage, as without a framework for consumer-directed finance in Canada there is a risk of our talent going elsewhere and the sector becoming less globally competitive. Stakeholders were clear that a failure to act could also result in foreign players dominating the Canadian market, to the detriment of both the financial services sector and the Canadian economy more broadly. Stakeholders also cautioned the Government to consider how the Canadian financial services sector will evolve in the context of potential participation by global technology players, carrying the potential of both benefits and unintended consequences.

The innovative potential of the financial sector is an important source of economic strength for Canada – accounting for 10.6% of GDP and 275,000 jobs^[9]. Canadian banks are among our most globally respected companies. The sector also has an outsized impact on economic growth and unleashing innovation potential in Canada, through the provision of credit and capital to Canadian innovators and growth businesses. This is

a sector that, in many respects, has led the world on financial sector innovation – we heard for instance, of the widespread success, adoption and utility of the email e-transfer. In this context, consumer-directed finance is about government collaborating with all stakeholders in the ecosystem to set a framework that can further unlock the innovative potential of a productive asset, data.

What role and steps are appropriate for the federal government to take in the implementation of a consumer-directed finance framework?

Consumer-directed finance should work as well as the systems we have for money. We heard that for consumers, the background mechanics of consumer-directed finance are of limited interest. They want it be to secure, safe and useful. For many, the existing protections for money are a good proxy for how secure consumer-directed finance should be, and the government is viewed as the guardian of that system of oversight and protections.

Establishing consumer confidence likely entails a role for government, but in close collaboration with a broad range of stakeholders.

In the context of both the benefits, and the opportunity to mitigate associated risks, the majority of stakeholders were of the view that government and industry should work in tandem to develop a consumer-directed finance framework. They also articulated the need for government to act as an accelerant by providing a decisive timeline, with concrete deadlines, in order to drive action and priorities across the sector, and in government. In the view of the vast majority of

stakeholders, the role of government is as an enabler – to set the guardrails in a way that protects consumers, participants and the sector, but allows innovation to flourish.

While there was alignment among stakeholders that there was a role for government to play, there were varied views on the nature of that role. For many, this could involve the government establishing the process for implementation in order to ensure fairness for all participants, and in deciding how participants would be accredited in a consumer-directed finance framework. Other stakeholders viewed a more significant role for industry participants in the creation and ongoing governance of the system, given the expertise and agility required to enable consumer-directed finance.

Given that consumer-directed finance is a market-led phenomenon, coupled with a strong history of collaboration between actors in the financial services sector and the government, we concur that industry and government must come together to determine how to enable consumer-directed finance. With this in mind, all players in the ecosystem must be engaged in this process and we see a defined role for government in setting out the objectives that an ultimate framework must meet.

Consideration of how liability will work for participants is necessary for a framework to function well.

Stakeholders were of the view that enabling consumer-directed finance would involve consideration of how to attribute liability between different participants. The current market for data sharing either involves:

- financial institutions establishing a bilateral contract with third parties such as fintechs and data aggregators (with financial institutions holding the overall liability in the system); or,

- fintechs and data aggregators accessing data with customer permission through the technological work around of screen-scraping (potentially exposing consumers to liability).

A framework would need to consider approaches whereby different participants would assume liability rather than financial institutions assuming all the risk, or consumers unknowingly assuming the risk.

Stakeholders agreed that those handling consumer-directed finance data should be responsible for securing and protecting it, and should be expected to hold liability and provide redress when issues occur. While bilateral contracts are one way in which participants can manage their risks, and, are in use today, they can also create barriers to new participants, create risk fragmentation, and prevent scaling consumer-directed finance to a larger system, since participants have to enter into contracts with many different financial institutions. There were different suggestions for mechanisms to share risk such as holding insurance or capital.

Technical infrastructure should be world-leading and driven by industry, but meet the policy objectives for consumer-directed finance.

The Committee heard agreement across all stakeholders that industry should drive the technical standards for a consumer-directed finance framework. Industry participants are seen as the source of the quickly evolving technical knowledge that will be needed to deliver and maintain the technical standards governing how data is permissioned, moved and protected. However, we heard that in order to ensure the system is fair to everyone, this process needs to be representative of a variety of participants.

We also heard that the technological solution – the current industry standard are APIs^[10], the "pipes" of consumer-directed finance – should be interoperable. There is a view that a common technical approach is both more secure and more efficient. In light of the urgency to move forward, there was strong support for examining technical standards currently in use in other jurisdictions and adapting them for use in Canada. This would allow Canadian innovators to participate in other markets and support the demands of global trade.

From a consumer perspective, attention must also be given to designing an experience for the end user that is straightforward, seamless and convenient.

In considering how consumer-directed finance may evolve, there was also consensus that the technical approach must be nimble and avoid being overly prescriptive. The government should not mandate specific technologies as technology infrastructure, tools and governance systems evolve quickly.

Canada has the opportunity to learn from the work of other jurisdictions.

There is a considerable advantage to Canada in being a so-called "fast-follower" and leveraging the experience of its international counterparts. While frameworks in most other jurisdictions are relatively nascent, our work in examining those jurisdictions has led us to conclude that there both are successful elements to draw on and pitfalls to avoid. Canada should draw on these experiences in the development of its own system.

Having said this, Canada has a different federal structure, market dynamics and policy drivers than other jurisdictions and it will be important to develop an approach that is reflective of our unique

experience. This approach should involve collaboration between industry and government; play to our strength as it relates to financial stability and, respect the provincial landscape as it relates to financial services.

Consumer-directed finance principles could be applied to the broader economy.

A consumer-directed finance framework is part of a broader conversation about Canadians' ability to use, control and protect their data across all sectors, and accordingly, we heard calls for Canada to apply the principles of consumer-directed finance to all sectors of the economy.

We heard that the benefits of consumer-directed finance do not stop at financial transaction data, or just at financial information – enabling principles of broader, more secure data sharing are applicable economy wide. In order to truly unlock the potential of Canadian innovation, a broader economy-wide scope should be considered. To build the trust and confidence of Canadians, the enhancements of greater consumer control and protection should be available to all consumer data.

In this respect, we see consumer-directed finance as a first step on the continuum toward broader digital transformation within the financial services sector and in the broader economy. For this reason, it is critical that the development of consumer-directed finance framework be aligned with other work underway to transform the financial services sector, including payments modernization.

In the Committee's discussions with international policy makers, many representatives noted their own efforts to set policy frameworks for the data economy in order to increase their economy's innovation and productivity. Canada should not forego the opportunity to similarly improve our economic growth and productivity potential.

Based on these findings, consumer-directed finance could be a first application of the principles of enhanced data choice and control for Canadians, and provide a blueprint for the Government for how to transpose these principles to other sectors.

Consumer education is a critical component of ensuring the successful implementation of consumer-directed finance.

A key takeaway from the review is that consumer awareness and education are critical components of a successful consumer-directed finance regime.

We heard from many stakeholders that there is a direct correlation between consumer trust in a system and consumer take up, a view supported by our international counterparts. In order to participate, consumers will need to have confidence in the system and to be clearly educated on the benefits and risks as well as their rights and responsibilities. Notably, financial and digital literacy remain a challenge for jurisdictions across the globe.

Given these challenges in reaching consumers, government and industry should work collaboratively to ensure that the system minimizes friction and is consumer-centric; and, to develop a strategy to inform and educate consumers.

Consumer-directed finance presents the potential for greater financial inclusion, but a system will have to be designed for inclusion to ensure this is realized.

The Committee heard from a number of stakeholders about the potential for consumer-directed finance to advance financial inclusion, by:

- increasing access to financial services for those who are underbanked, less financially literate or marginalized individuals and communities;

- improving access to credit for traditionally underserved markets including women and new Canadians; and,
- supporting better financial health for traditionally underserved markets through the creation of accessible and innovative products.

We also heard concerns about the potential for consumer-directed finance to have unintended consequences for those on the financial margins, and that in the absence of due consideration, consumer-directed finance presents the risk of further alienating traditionally underserved individuals. This includes the potential of deepening the existing rural-urban divide if connectivity issues prevent rural communities from taking full advantage of consumer-directed finance.

Any framework must consider unintended consequences and design for inclusion and in this respect, the Committee notes that there are insights to be gained from international experience. A successful consumer-directed finance framework should support expanded provision of financial services to underserved individuals and communities and provide low-cost financial tools to these individuals to help understand and improve their finances. Any plan forward should include tracking the impact on these communities to ensure that the introduction of consumer-directed finance is not leading to negative outcomes.

Conclusion

The Committee recommends that the Government move forward to enable consumer-directed finance. It is an opportunity to position Canada's financial sector to compete effectively in the data and digitally powered world, and to do so in a way that puts consumers first.

There is no going back. A significant amount of data sharing is already undertaken in the market through inefficient technological workarounds that present liability and security risks for all.

Unlocking consumer-directed finance will not be straightforward. There are a number of complex policy questions to be answered; collaboration with provinces and territories that is required, and a need for multi-sector engagement and leadership from all partners. Government should acknowledge that this is a journey and take the first steps.

There remains only the question of how to move forward. In that effort, we recommend the following principles guide the Government's approach to consumer-directed finance:

1. Consumer-directed finance should be focused on enabling consumer choice and meaningful control. Consumers, including small businesses, should be able to securely direct and control the use of their data in ways that benefit them.
2. Consumer-directed finance should give consumers confidence and engender trust. It should be secure; respect and enhance privacy; and, be an improvement over the status quo. If something goes wrong, there must be a clear and straightforward accountability mechanism for consumers and a means to ensure that liability rests with the appropriate party.
3. Innovation should guide the development of consumer-directed finance, founded on a safe, secure and standardized data-sharing mechanism. While privacy and cyber security concerns are real and must be addressed, equal weight must be given to ensuring the growth of a vibrant financial ecosystem and technological innovation.

In considering a process to enable to consumer-directed finance, we recommend the following:

4. There is a role for government to play in catalyzing the move towards consumer-directed finance and a role for industry to deliver leading-edge technical solutions given its expertise and innovation capacity. Regardless of the approach taken by government it should

set a clear timeline for moving forward, prioritize consumer interests and the development of an ecosystem that is accessible to a broad range of stakeholders.

5. Consumer-directed finance should serve as a blueprint for the Government to enable enhanced data choice and control for Canadians across all sectors of the economy. To that end, it should be done in consultation with regulators across sectors and in alignment with other related initiatives including payments modernization, updates to privacy frameworks, consideration of digital identity and the Department of Innovation, Science and Economic Development's digital and data initiatives.
6. Canada has the opportunity to take advantage of the experience of other jurisdictions that have enabled consumer-directed finance. While recognizing the unique Canadian context, Canada should draw considerably on the experience of these existing models – to both benefit from successful elements and avoid pitfalls. Canada's approach must also provide for interoperability with international systems.
7. Striking a balance between the imperative to act identified by many stakeholders and the need to mitigate risks is critical. The Government should consider developing a policy framework, in collaboration with stakeholders, which delivers on the above principles.

Next Steps

We recommend that this report be made public. Stakeholders are actively engaged in this conversation and are looking to the Government to demonstrate progress on its review into the merits of consumer-directed finance. As stakeholders across the board have pointed to the importance of providing clear expectations and timelines, we also recommend that the Government announce a bold, clear and concrete

timeline for delivering consumer-directed finance. As a form of guidance, the Committee notes examples of other jurisdictions suggest that time frame of one to two years is reasonable.

As an immediate next step, the Committee and Department intend to explore in greater depth some of the themes raised by stakeholders in the context of the roundtables, among them: liability, accreditation, governance, the question of how screen-scraping should be dealt with and how to build an ecosystem that is accessible to all participants.

Following the results of these discussions, the Committee recommends that the Department develop a white paper on a proposed consumer-directed finance framework for further consultation with stakeholders.

Annex A – List of stakeholders that participated in public engagement

Accenture

Amazon

Assembly of First Nations

APEXA Corp

A.T. Kearney

ATB Financial

Autorité des marchés financiers

Avato

Bank of Canada

Bank of Montreal

Bank of Nova Scotia

Bayfield Mortgage

BC Freedom of Information and Privacy Association

BC Ministry of Finance

BC Financial Institutions Commission

BC Securities Commission

Bench

Blueshore Financial

Borrowell

Business Council of Canada

Canadian Association of Mutual Insurance Companies

Canadian Association of Retired People

Canadian Bankers Association

Canadian Bond Investors Association

Canadian Chamber of Commerce

Canadian Credit Union Association

Canada Deposit Insurance Corp.

Canadian Federation of Independent Business

Canadian Foundation for the Advancement of Investor Rights

Canadian Life and Health Insurance Association Inc.

Canadian Mental Health Association

Canadian Tire Bank

CD Howe Institute

Celero

Certn

Centre for International Governance Innovation (CIGI)

CGI

Canadian Imperial Bank of Commerce

Cinchy

Citibank

Coast Capital Savings

Competition Bureau of Canada

Conexus Credit Union

Council of Canadian Innovators

Credit Counselling of Canada

Curexe

Deloitte Canada

Desjardins

DGen

Digital Finance Institute

Digital ID and Authentication Council of Canada

DMZ Ryerson

Drop

Electronic Transactions Association

Entraide Budgetaire

Equifax

Equitable Bank

Everlink Payment Systems

Evree

Ferst Capital Partners

Finance Montreal

Financial Consumer Agency of Canada

Financial Data and Technology Association of North America

FinTech Growth Syndicate

FiSpan

First National

Flinks

Fintech Cadence

FundThrough

Great-West Life Assurance Company

Grow

Holt Accelerator

Home Trust Company (Home Capital Group)

HSBC Bank Canada

Impression Ventures

Innovation, Science and Economic Development Canada

Insurance Brokers Association of Canada

Information Venture Partners

Interac Corp/Acxsys Corp.

INTRIA

Intuit Inc.

KOHO

Law Society of Ontario

Lendified

Lending Loop

Luge Capital

Manulife Financial

MaRS Discovery District

Mastercard

McCarthy's

Mogo Financial Technology Inc.

National Bank

Octonomics

Office of the Privacy Commissioner of Canada

Office of the Superintendent of Financial Institutions

Options consommateurs

Osler

Paradiso

Payments Canada

Paypal Canada

Paytm Canada

Plaid

Planswell

Portag3 Ventures

Power Financial Corporation

Price Waterhouse Coopers

Progressa

Promontory

Prosper Canada

Questrade

Ratehub

Relay

Retail Council of Canada

RPM Technologies

Royal Bank of Canada

Salt Edge Inc

Securekey

Sensibill

Senso.ai

Sunlife Assurance

Sunlife Financial

Suntec Business Solutions

TD Canada Trust

Timia Capital

Thinking Capital

Toronto Finance International

TransUnion

Vancity

Visa Canada

Vigilant CS

Walmart Bank of Canada

Wave

Wealthbar

Wealthfactor

Wealthica

Wealthsimple

World Economic Forum

Yodlee

YodoPay

Yupp

Annex B: What we heard – Consultation themes

Financial Inclusion

During the consultation process three themes emerged on the subject of financial inclusion. The first was the potential for consumer-directed finance to support greater financial inclusion and improve financial health by increasing access to financial services and to new tools for those who are underbanked, less financially literate and marginalized individuals and communities. The second was the ability of consumer-directed finance to facilitate greater access to credit for traditionally underserved markets including women and new Canadians. The third

theme was the potential for unintended consequences including: further alienation of financially marginalized individuals and communities; and, an increase in predatory sales practices and products targeted at vulnerable or less financially literate populations.

Key Takeaway: Consumer-directed finance has the potential to deliver greater financial inclusion, but in order to achieve this, government must consider unintended consequences, design for inclusion and ensure that vulnerable consumers are adequately protected.

Cyber security

Stakeholders approached cyber security from the perspective of consumer protection, privacy, data security and financial stability. Specifically, stakeholders expressed concerns about increased risk of data breaches, unauthorized payments, and defective transactions. Stakeholders were generally aligned in the view that consumers must have information that enables them to understand their rights and responsibilities in the context of consumer-directed finance, including the risks of sharing data and how financial service providers mitigate cyber security risks. Stakeholders noted that there are many considerations for the protection of data against cyber security risks, including such issues: as how data is managed; how participants are accredited for best practices and how consumers are securely and digitally identified.

Key Takeaway: Cyber security best practices and standards should be core to any consideration of how government proceeds, existing frameworks should be leveraged, and industry expertise should be integrated.

Privacy

There was consensus that privacy is key to fostering consumer trust and that existing privacy legislation, including *The Personal Information Protection and Electronic Documents Act* (PIPEDA) or substantially similar provincial legislation would continue to apply (which covers both financial institutions and other commercial actors, such as fintech firms). To this end, some stakeholders, including the Office of the Privacy Commissioner of Canada, believe that updates to Canada's privacy legislation are required. Market participants emphasized that with greater data control and mobility must come enhanced privacy literacy, so that all consumer-directed finance participants understand their rights and responsibilities under PIPEDA. There was broad recognition that consumer-directed finance may amplify existing privacy-related risks, such as data misuse, re-identification, behavioral targeting, and fraud. However, these were not viewed as insurmountable and could be potentially managed through measures such as enhanced consent and control, data governance and enforcement (e.g., privacy standards for data use and management, limitations on data sharing, transparency and accountability requirements), as well as technical solutions (e.g., Digital ID, de-identification techniques).

Key Takeaway: Privacy and data protection should be at the heart of consumer-directed finance implementation. Existing privacy frameworks may need to be adapted to enable and operationalize consumer-directed finance.

Financial Stability

Stakeholders were aligned in the view that moving to a consumer-directed finance system could amplify risks to financial stability, but noted many of these risks are already present in the marketplace and that a framework could serve to mitigate them. Among the factors cited

as increasing risk were: new technologies and increased access, risk of contagion due to a cyber attack, potentially higher disintermediation, changes in liquidity concentration and eroded profitability margins.

At the same time, many stakeholders were of the view that financial stability may improve under a system of consumer-directed finance, particularly if the new system reduces cyber risk, increases the diversity and agility of financial market participants, and enhances the financial literacy of consumers.

Key Takeaway: Canada's financial stability is viewed as a global competitive advantage; any changes should not weaken the existing system's prudential integrity or the high level of consumer trust in the system. At the same time, further consideration should be given to fostering efficiency and utility.

Liability

Liability was a key discussion point for a great number of stakeholders both through the consultation process and in written submissions. There was a common view that the status quo approach to liability was insufficient and that any new system must have a framework for addressing liability. Though there was divergence on how responsibility could be distributed among market participants under a new liability framework, there was consensus that liability should be clearly attributed with a stronger focus on protecting consumers.

Key Takeaway: All market participants in the ecosystem must be responsible for securing and protecting consumer data, following the general principle that liability should rest with the party at fault. For consumers, there must be a clear process by which issues are resolved and redress provided.

Technical Standards

There was a view among stakeholders that industry has the expertise to develop leading-edge technical standards, but that this should be done with government oversight to ensure fairness and consumer protection. Stakeholders diverged on the extent of government's role, and among the possibilities proposed were: a technical advisory group with a consortium of market leaders; or a central implementation authority model with a mandate to set up technical standards. Many stakeholders called for the government to mandate standardized APIs. There was general agreement that any implementation of consumer-directed finance should be done in alignment with payments systems modernization.

Key Takeaway: Technical standards should be market-based and industry-led, but consistent with government objectives.

Related document

[Submissions for Consultation Paper on Open Banking](#)

¹ <http://angusreid.org/ari-poverty-study/>

² As per the January 2019 consultation paper, the focus of the review is in respect of financial transaction data from federally regulated banks but informed by other ongoing government initiatives including payments modernization. Should the Government proceed with consumer-directed finance appropriate staging and alignment with payments modernization would be undertaken.

³ <http://angusreid.org/poverty-in-canada/>

⁴ Randstad Canada – Workforce 2025 Study – May 2019

⁵ Screen-scraping requires consumer to share their financial institution usernames and passwords in order for the application to access their transaction histories). Doing so may violate the terms of consumer's service agreements with their financial institutions and result in consumers unknowingly bearing the risk of loss.

⁶ CD Howe (2018). "Productivity and the Financial Sector – What's Missing". Toronto, Ontario: Kronick, J.

⁷ The privacy framework covers the collection, use and disclosure of personal information in the course of commercial activity, regardless of the technology used. It does not have specific requirements for specific sectors, but rather applies to organizations across industry sectors including financial institutions and financial technology firms. The Office of the Privacy Commissioner provides oversight when it comes to privacy.

⁸ The Office of the Privacy Commissioner provided guidelines on meaningful consent, which took effect January 1, 2019, and the Office of the Privacy Commissioner expects businesses to comply.

⁹ Statistics Canada, 2016 (Banking: 3.4% of GDP; Financial and Insurance 7.2%)

¹⁰ API stands for Application Programming Interface. This is a secure, standardized method through which software applications communicate with each other. In the example of consumer-directed finance, APIs are the method through which financial data is transmitted between two parties. The API communicates the user's request for data to be shared to one party (usually their financial institution) and then securely communicates that information to the trusted third party of their choosing.

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