




The era of Open Banking

Five considerations for developing an Open Banking framework



Open Banking has the potential to reshape the future of the financial services industry. However, realizing its full potential will require prudent thinking on its design, applications, and implications. This article is Deloitte's first release of a multi-part series that explores the most pertinent Open Banking issues facing Canada's financial services sector.

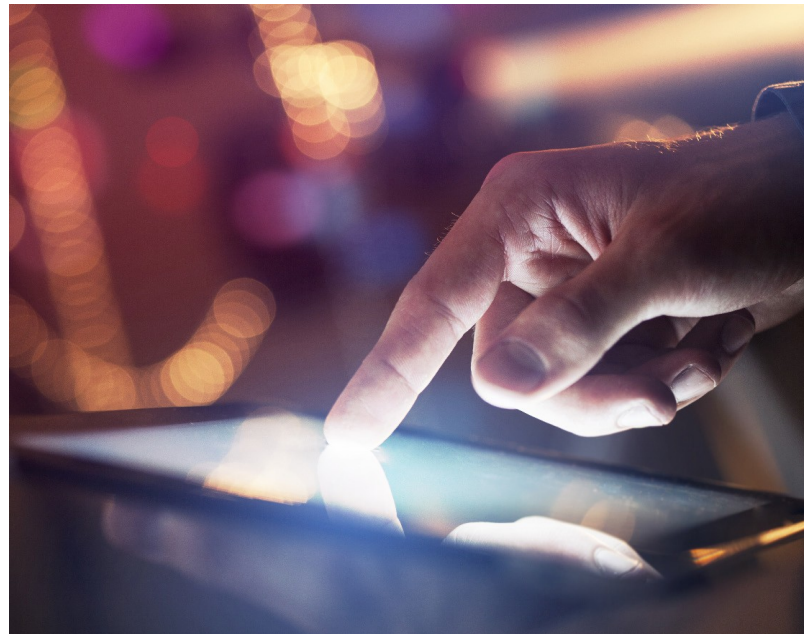
Like many countries, Canada is on a journey to safely enable consumers' right to share their financial data. Open Banking offers many promises, from promoting innovation and competition to reducing the risks associated with current data sharing models. However, to achieve these benefits, we must focus on enabling valuable propositions to end-consumers and consider our country's unique circumstances and associated challenges, such as a bifurcated regulatory system and the growing adoption of screen scraping activities. Canada can learn from the experiences of other global jurisdictions in its framework approach. For example, there are learnings to be applied from the United Kingdom and the European Union, in which a costly initiative failed to materialize anticipated adoption due to misalignment in customer values, abrupt compliance requirements, and a disjointed user experience. To this day, a ban on screen scraping activities in the United Kingdom has not yet been successful due to the risk of hindering innovation. We believe enabling an Open Banking model that is accretive to Canadians and efficient for the sector as a whole cannot be achieved through a unilateral approach. Policymakers, financial institutions, and innovators all have roles to play in driving a collaborative, user-centric model forward. In Deloitte's *Creating a Canadian Open Banking Framework* paper, we discussed key choices required to design an Open Banking framework. Here, we discuss the five considerations that will ensure Open Banking in Canada drives the most value to consumers through collaboration.

1. Data scope expansion: To achieve the ultimate objective of Open Banking—whether it is to deliver innovative and competitive solutions to consumers or to prevent screen scraping activities—the scope should extend to customers’ broader financial data ecosystem at pace. The first step should be creating a secure path for consumers to share their transaction data on core transaction accounts. The largest service gaps in the financial sector, from scalable decumulation planning to cashflow management, can only be filled when access to holistic data is provided, including lending, investment, insurance, and pension data. Screen scraping practices continue to evolve to fill these gaps and will not be effectively replaced until a suitable alternative is created. These consequences are evident in jurisdictions where a narrow scope for Open Banking was defined, and scope expansion is now being discussed. Canada’s broader data strategy should also describe a clear path toward data portability in other sectors, including the public, healthcare, and technology sectors. Canada’s bifurcated regulatory model can be a barrier to scope expansion, as many institutions fall under provincial jurisdictions. To overcome this execution challenge, privacy laws should be aligned and modernized to promote consumer data portability across various sectors. Collaboration with the private sector that includes representation from data custodians and data consumers across financial services subsectors could expedite the time-to-market. Lastly, this framework should not be isolated to the financial services sector. We believe an economy-wide lens must be applied to enabling open data rights for Canadians. Therefore, collaboration across various policymakers, regulators, and the private sector should include players outside financial services. Achieving such collaboration will define policies that align with consumers’ rights and industry solutions that embed incentives to promote reciprocal participation.

2. Clearly defined oversight for new entities: Open Banking applications that generate net new value for Canadians will likely be built by companies operating under new business models. As a result, many of these companies will not fall within the jurisdiction of federal regulators, nor the boundaries of the current entity-based regulatory framework. For example, companies that help consumers change their service provider(s) or provide recommendations for everyday finance management would either be provincially governed or not sufficiently overseen under the current framework¹. A clearly defined oversight model for financial data-driven businesses should be created for better consumer protection, sector stability, and lower compliance uncertainty for new entrants. Since the shift to a business activity-based framework will be a long journey, an effective interim solution could be a jointly defined committee across federal and provincial regulators or a national fintech

licensing model. In addition, the most impactful applications of Open Banking will occur at the intersection of payments modernization and digital identity. Creating a streamlined and consistent governance model across these in-flight initiatives would minimize oversight gaps, generate synergies on security, and lead to greater efficiencies across industry participants.

3. End user adoption by design: Without meaningful consumer adoption, Open Banking will become a cost to the industry as well as the consumers. It will be critical to build a trust-generating consent model that embed consumers’ needs in its design to drive widespread adoption. Educating users about consent-driven data sharing between entities and its



associated benefits and risks is a step toward gaining trust. In addition, the design process must prioritize elements that lead to a straightforward, clear, and frictionless user experience. We believe there should be consistent, industry-wide standards for how users provide, manage, and revoke their consent to data custodians and data consuming entities. A lack of consistency will confuse users and reduce the efficacy of consent and consumer control. For example, the shortcoming of a user-centric approach to Open Banking created a disjointed experience in the United Kingdom². In contrast Australia’s approach made the experience central to its design through standards³. Ideally, these standards should extend beyond financial data as part of Canada’s digital transformation agenda. Embedding the consumer’s voice should not be treated as a formality. A user-centric design approach, where consumers are actively engaged in testing and refining components that impact trust and usability, should be applied to promote adoption.

¹ <https://gowlingwlg.com/en/insights-resources/articles/2016/fintech-companies-what-are-the-key-laws-regulat/>

² <https://www.openbanking.org.uk/wp-content/uploads/open-banking-report-150719.pdf>

³ <https://consumerdatastandardsaustralia.github.io/standards/#consumer-experience>

4. Frictionless migration: Given that over four million Canadians currently use applications that leverage screen scraping technology, we believe the design of Open Banking should consider the migration experience for entities that rely on this technology. Along with the limited scope of Open Banking data, one of the common roadblocks to data-consuming entities adopting Open Banking is customer churn associated with relinking accounts during the switch to an Open Banking solution. The degree of effort required by users to reauthenticate and provide consent to access such data for an existing service can create disruptive outcomes, especially for fintechs whose main value propositions are enabled by data aggregation. To combat migration challenges, we believe Canada's Open Banking framework must involve an uncomplicated migration path that gradually incentivizes participants, and is backed by targeted consumer education and industry stakeholders' collective support of user acceptance.

5. Supporting the innovation ecosystem: Open Banking should not become another barrier to new innovators entering the financial services value chain. A core component of Open Banking is risk-based standards that set the minimum bar for a data-consuming entity to gain consumer data access. These standards are imperative to protect consumers and the financial services industry as a whole. However, they can also act as a competitive barrier for new market players with data-driven business models to stand up their offerings. To incubate a healthy innovation ecosystem that balances safety and competition, we must create a pathway for those new entrants to prove their value proposition and business model. This may include building a sandbox with real test data or working with data aggregators to enable small-scale, limited access.

In conclusion, we must not lose sight of the 'why' behind Open Banking—to deliver greater value to Canadians and Canadian businesses. To accomplish this, the consumer trust, confidence, needs, and experiences must be at the core of the Canadian Open Banking model's design.





In the next article, we will explore the five most promising applications of Open Banking to serve as an inspiration for organizations that are exploring its potential.

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