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Insurance

Canada now has an open banking lead — here’s why that matters

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(April 8, 2022, 10:52 AM EDT) -- Abraham Tachjian — currently the director of digital banking at PwC Canada — was named Canada’s open banking lead on March 22, the first major step taken by the federal government in response to recommendations set out in the final report from the Advisory Committee on Open Banking (the final report) released last August.

The vision for open banking (sometimes referred to as consumer-directed finance) is to empower consumers and small businesses to transfer their banking data between financial institutions and approved third parties (such as fintech companies) through more secure means than are currently available.

Tachjian’s mandate is to develop the framework for Canada’s open banking system. In particular, with the support of external experts and a team within the Department of Finance, he will be responsible for establishing the system’s common rules, third-party accreditation criteria and technical standards.

Open banking — what is all hype about?

The excitement around open banking has been building in Canada for several years, following its emergence internationally in countries like Australia and the United Kingdom.

In the final report, the Advisory Committee noted that there is a strong value proposition for small businesses since open banking can enable faster loan processes, provide access to new forms of capital and streamline day-to-day invoice and payroll management.

On the consumer side, the committee expressed the view that by establishing more secure data transfer processes, consumers would gain greater access to budgeting and savings tools, allowing them to manage their finances more effectively. Additionally, for Canadians with limited credit history, open banking may bring improved access to credit.

Currently, most Canadians who want to share their financial data with third parties must do so through a process referred to as “screen scraping,” which typically requires them to provide access to their account and login information. This presents obvious privacy concerns, security vulnerabilities and liability risks. Open banking should significantly minimize such risks through built-in technical and accreditation standards.

There has also been discussion about the potential impact on insurance companies. In 2019, the Canadian Association of Mutual Insurance Companies (CAMIC) expressed concern that open banking could undermine the prohibition barring banks from undertaking insurance activities, and proposed that any open banking framework carry forward existing prohibitions regarding the use of consumer banking data for insurance underwriting purposes.

More recently, CAMIC referred to open banking as its top priority. The Insurance Brokers Association of Canada holds a similar view, with its CEO recently stating, “the current blanket provisions in the *Bank Act* and Insurance Business Regulations that prevent banks from sharing customer information either directly or indirectly with insurance operations must be maintained.” (See “New lead named to develop open banking,” *Thompson’s World Insurance News* (28 March 2022) at 8.)

The final report referred to insurance data as “a complex case” and recommended that, at least initially, banking data not be used for underwriting insurance policies. With respect to any future consideration of the role of insurance in open banking, the Advisory Committee stated that the potential for discriminatory or inequitable outcomes in insurance availability and coverage should first be studied to ensure consumer protection.

At least one stakeholder, however, has drawn a distinction between the use of consumer financial data in insurance underwriting on the one hand, and allowing banks and credit unions to sell insurance on the other, arguing that if done properly, there is no reason to exclude insurance companies from using banking data. In his view, the more data an underwriter has, the better the outcome for the consumer.

The road ahead

The federal government has not said whether it plans to implement all the recommendations set out in the final report, including regarding the scope of the open banking system. This was one of several questions posed by the signatories to an open letter addressed to Canada’s associate minister of finance, published just a week before Tachjian’s appointment.

One of the other major questions that remains unaddressed is whether the launch of an open banking system in Canada no later than early 2023 (as suggested in the final report) is an achievable goal. The results of a December 2021 survey of stakeholders suggested that more than half of respondents believed such a timeline to be unrealistic. If the government follows the 18-month implementation timeline for phase one as recommended by the Advisory Committee, then such a target will need to be pushed until at least September 2023.

Although consumers and stakeholders alike are eager for the further advancement of open banking in Canada, an expedited timeline is not without its issues. If there is inadequate time for development and testing, it is likely that privacy and data security issues will present themselves, which may hinder long-term consumer confidence. On the other hand, the longer it takes for meaningful progress to be made, the longer the risks of existing processes like screen scraping will remain.

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