

Driving Financial Sector Innovation in the Digital Economy

The Electronic Transactions Association (ETA) is pleased to submit the following comments in response to the invitation for submissions by the Office of the Superintendent of Financial Institutions (OSFI) regarding its consultation on technology risks in the financial sector.

About ETA:

[The Electronic Transactions Association](#) (ETA) is the leading trade association for the payments industry, representing over 500 companies that offer electronic transaction processing products and services. Its membership spans the breadth of the payments industry to include independent sales organizations, payments networks, financial institutions, transaction processors, mobile payments products and services, payments technologies, equipment suppliers, and online small business lenders. ETA member companies are creating innovative offerings in financial services, revolutionizing the way commerce is conducted with safe, convenient and rewarding payment solutions and lending alternatives. ETA advocates for the payments industry in Canada to help drive innovation in the global market for payments technology services.

The Benefits of FinTech Innovation:

Financial technology (FinTech) innovations are changing the way Canadians use financial services. Increasingly, consumers are relying on new, digital technologies for the convenience, speed and security. FinTech companies are developing innovative products that help consumers manage their financial lives, expand financial offerings and access to financial services, lower costs, improve financial management, and increase transaction security. Developments in these areas have resulted in a number of direct benefits for consumers:

- Ease and convenience;
- Empowering consumers to control their financial lives; and
- Helping consumers solve financial problems in a timely manner

In countries, notably the United States, financial institutions and fintech companies are capitalizing on technological advances to use consumer account data from several accounts held at different financial institutions to create new products and services that empower consumers to manage their financial lives. Consent-based data access allows financial services providers to provide consumers with a comprehensive picture of their financial situation. In turn, financial service providers can better tailor products and services to consumers, including:

- Personal financial management tools that allow consumers to use a single account to manage all their financial accounts
- Savings apps and budget tools
- Lending services that provide consumers with access to simple loan application and underwriting processes
- Bill payment services
- Investment management services

FinTech innovations have resulted in benefits not only for consumers but businesses as well. FinTech solutions can provide many useful services to businesses such as facilitating B2B payments between companies. This function reduces the use of cheques by providing transparency in the payment, detailing the invoice, and allowing for the automatic reconciliation of accounts. Similarly, technological advancement can facilitate treasury functions by aggregating bank account information in order to transfer money between corporate accounts.

In addition to providing innovative products and services to both consumers and businesses, FinTech innovations also strengthen security. This feature is critical in today's digital world of cyber threats and online malpractices. For example, the FinTech sector uses new technologies such as artificial intelligence (AI) to combat fraud and ensure compliance with AML and anti-terrorist finance laws. In the payments industry, AI is deployed to examine transactions for indicators of fraud in real-time. Transactions are compared against identified fraud schemes to detect nefarious activity and the data is examined for any new or emerging fraudulent activity. The payments industry also relies on AI to detect unusual activities on consumer bank accounts. Tokenization is also used to fight fraud by replacing sensitive customer information with a unique identifier that cannot be traced back to the account. Point-to-point encryption is an additional level of protection through a payment transaction lifecycle. Like tokenization, this form of encryption limits opportunities for hackers to gain data during purchases.

COVID-19 has disrupted the economy, effectively increasing the demand by Canadians for digital tools and services. ETA members have been leaders in developing technologies that allow contactless commerce such as "tap" payments, peer-to-peer (P2P) transactions, among other convenient digital "Pay" solutions for both consumers and small and medium-sized businesses. The FinTech sector also offers financing solutions to small businesses. While large businesses can rely on traditional financial institutions for funding, small and micro-sized businesses are often perceived as too risky under traditional lending programs. This alternative solution for lending is particularly important as small businesses have been mandated to close doors or reduce operations in the effort to reduce the spread of COVID-19.

The FinTech sector is developing and deploying innovative solutions to support financial management for consumers and businesses, while also ensuring the security of financial data is upheld. COVID-19 has accelerated the need for digital solutions and FinTech has played an important role in supporting both consumers and businesses during this unprecedented time. It is critical that Canada's regulatory approach to the financial sector does not restrict advancement in these important areas.

A Regulatory Framework that Supports Innovation:

Access to financial data and information is an important issue for consumers, financial institutions, FinTech, and third-party application providers alike. As a result of the increase in digital solutions, the Canadian financial sector is experiencing an increasing convergence between these groups.

ETA believes a regulatory approach that is flexible and principles-based will drive innovation within Canada's financial sector. The FinTech ecosystem is a highly dynamic space consisting of multiple players, as well as emerging technologies and services that present different benefits and risks. As the FinTech sector continues to grow, it will be critical that the regulatory framework is able to embrace advancement within the sector. A 'one-size-fits-all' approach to regulation will impede innovation by failing to account for the dynamic nature of the space. By ensuring that proper safeguards are implemented, consumers will be protected, and the industry will be reassured that it can continue to innovate in a manner that upholds the principles of safety and soundness.

This view is consistent with the recommendations brought forward by Canada's Competition Watchdog. A [December 2017 report](#) by the Competition Bureau of Canada proposed several recommendations to support innovation in the financial sector. The Bureau recommended that, to the extent possible, regulation should be principles-based to account for technological change. In the spirit of creating a regulatory landscape to support innovation, the Bureau also recommends that 1) regulators promote greater access to core infrastructure and services to facilitate the creation of new FinTech services and 2) policymakers should embrace broader "open" access to systems and data through APIs whereby FinTech can assist Canadians in choosing service providers. These are examples of where a

flexible regulatory framework would support new, innovative solutions by FinTech that benefit Canadian with their financial lives.

Conclusion:

The digital economy is changing the way Canadian consumers and businesses manage their financial lives. COVID-19 is accelerating the use of digital financial solutions as Canadians are asked to stay home and businesses are forced to shutdown or operate in a reduced capacity. FinTech innovations provide useful products and services with security at the heart of these solutions. Stability in Canada's financial sector is directly linked to consumer and business confidence. FinTech innovations provide solutions that support commerce – whether at the level of individual transactions or small business financing programs.

A flexible and principles-based regulatory framework is central to supporting innovation in Canada's FinTech sector. ETA understands the importance of efficient regulations and laws while maintaining consumer protection, and safety and soundness standards. This regulatory approach will ensure Canadians continue to benefit from convenient, secure, and reliable financial products and services.