Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget

By:

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List of recommendations

1. The government should prioritize the quick and effective implementation of Canada’s consumer-driven banking framework, no later than 2026, by:
    a. Keeping consent requirements simple by relying on existing privacy laws and allowing non-accredited entities to be “sponsored” under the framework.
    b. Ensuring the framework covers all consumer and small business financial data, including chequing, savings, credit, and investment accounts.
2. The government should issue a public ultimatum to the country’s major banks to launch the real-time rail (RTR) no later than 2026, with registered PSPs able to access it from day one. If they fail, the federal government should direct the Bank of Canada to develop and launch its own real-time payment system.
3. The government should establish competition mandates for financial sector regulators such as the Office of the Superintendent of Financial Institutions, the Financial Consumer Agency of Canada, and the Bank of Canada.
4. As part of budget 2025, the government should introduce a multi-year project to modernize outdated regulations in Canada’s financial sector.

About us

Fintechs Canada is a not-for-profit association that acts as the unified voice for the most innovative financial technology companies in Canada. Our members collectively serve millions of Canadians on a daily basis. Our membership includes Canadian fintech market leaders, global fintech companies, payment networks, financial institutions, and start-ups and scale-ups that are defining the future of financial services in Canada and around the world. Fintechs are companies that use technology to deliver financial services to Canadians, helping them better manage their financial life. Such organizations are fundamental to the vibrancy of the Canadian economy.

Our proposals

Canada's financial sector plays a critical role in improving affordability for Canadians and driving the productivity and growth of the broader economy. However, the sector remains highly concentrated, vulnerable to anti-competitive behaviour by incumbent players, and hindered by barriers to entry that stifle competition. As a result, Canadians are paying the price:

- Canadians pay higher fees to access financial services. Compared to the biggest banks in the United Kingdom and Australia, Canada's big five banks—TD, RBC, BMO, CIBC, and Scotiabank—charge more and higher account fees, overdraft fees, and NSF fees. Fee-related income, as a proportion of overall income, has increased over the past several years.
- Canadians have limited access to financing. Although there is increasing demand for loans from Canada's small business community, credit conditions have been tightening. According to a survey by the Canadian Federation of Independent Business, the percentage of businesses seeking financing increased from 35 to 58 percent from 2012 to 2022. Meanwhile, the ratio of loans being given to small businesses relative to large businesses from Canada's financial sector reached its lowest in recent years, with a significantly higher interest rate spread between small and large businesses in Canada compared to many OECD countries.
- Canadians have a less productive financial sector. Canada's overall productivity has been declining over the past 20 years, trailing behind Australia, the United States, and the United Kingdom. This trend is also noticeable in our financial sector. In the last 20 years, Canada's financial

sector's contribution to overall productivity has also fallen behind that of Australia, the United States, and the United Kingdom.

When Canadians try to switch from big banks to financial technology firms to get a better deal, such as lower interest rates, better rewards, lower fees, the system works against them. Big banks make it difficult, and outdated rules keep Canadians from taking control of their own financial data to find the best deal. The government should put power back in the hands of consumers and small businesses.

Recommendation 1: The government should finish the job of open banking, prioritizing quick implementation no later than 2026.

The introduction of Canada's consumer-driven banking framework will:

- Empower Canadians to take control of their financial data. Financial services are often complicated by confusing pricing structures, making it difficult for Canadians to compare offers and understand what they're paying. With open banking, Canadians will have greater control over their financial data, enabling them to access more affordable and personalized financial services and shop around for the best deals with greater ease.
- Make it easier for small businesses to access the capital they need. By providing more affordable financing options, businesses will have the resources to innovate, create jobs, and expand into new markets, ultimately strengthening the Canadian economy.
- Improve Canada's economy and financial sector productivity. Open banking will create more opportunities for smaller financial institutions to compete with some of Canada's largest financial institutions, attracting more investment and fostering responsible innovation in the sector.

Currently, Canada is among the last G7 countries to implement an open banking system. To facilitate the quick and effective implementation of Canada's consumer-driven banking framework, the government should:

1. Simplify requirements. The government should defer to existing consent requirements under federal privacy law rather than introduce additional, separate consent requirements for open banking. Furthermore, it should allow non-accredited entities to be "sponsored" under the framework.

This approach will enable a faster launch of Canada's consumer driven banking framework while protecting the privacy of Canadians.

2. Ensure a broad scope. The framework should include all consumer and small business financial data, covering chequing and savings accounts, investment accounts, credit products, and payment routing information. A broad scope is necessary to guarantee that Canadians will fully realize the benefits of open banking.

Recommendation 2: Complete payments modernization by supporting the launch of Canada's real-time payment system.

Following the launch of FedNow in the US, Canada is now the only G7 country without a real-time payment system.

For many Canadians, the inability to make and receive payments instantly comes at a cost. Slow payments can result in additional expenses for those in financial distress, including overdraft and late fees, as well as a reliance on predatory lenders. A payment system that enables real-time transactions can help address these issues:

- Businesses and consumers can access cheaper payment options.[1]
- Canadians could avoid late fees on bills by paying in real-time instead of navigating the delays of the multi-day clearing and settlement cycle.
- Workers could reduce debt by accessing earned wages instantly, rather than turning to payday loans to cover shortfalls.
- Businesses could improve cash flow, reduce liquidity needs, and reinvest freed-up funds into growth.
- The economy could see billions of dollars in additional GDP through increased efficiency and productivity.

In 2021, the government made a commitment to modernize Canada's payment technology. However, the development and launch of Canada's real-time payment system has faced many setbacks and delays. Initially planned to launch in 2019, this timeline was later postponed to 2022, then to 2023. Recently, Payments Canada announced yet another delay, with the initial testing of the

[1] When the United Kingdom modernized their payment system, Wise, a financial services company, was able to immediately cut costs for its customers by 20 percent.

system now set to begin in 2025, followed by industry testing in 2026. However, no specific timeline has been provided for the nationwide launch of the system.

Canada cannot afford any more delays. The government should issue a public ultimatum to the country's major banks: launch the real-time rail (RTR) no later than 2026, with registered PSPs able to access it from day one. If they fail, the federal government should direct the Bank of Canada to develop and launch its own real-time payment system, as the U.S. Federal Reserve did in 2023.

Recommendation 3: Make Canada's financial sector regulators accountable for competition in the financial sector.

According to the Competition Bureau, Canada's financial sector is highly concentrated, vulnerable to anti-competitive coordinated behaviour by incumbents, and has several barriers to entry that limit competition from new entrants. As a result, Canada's financial service sector continues to lag behind other countries: Canadians pay higher fees to access financial services, have limited access to financing, and have a less productive financial sector.

Unlike some of our international peers, Canada's federal financial regulators do not have an explicit mandate to promote competition. While this does not prevent regulators from promoting competition, it discourages them from seriously considering the competitive effects of their decisions and actions.

In the United Kingdom, competition is a core principle in financial sector oversight:

- The Financial Conduct Authority, which regulates market conduct for deposit-taking institutions, is explicitly tasked to "promote effective competition in the interests of consumers."
- The Payment System Regulator, which oversees payment systems in the UK, is mandated to "promote competition and innovation and to ensure payments systems are operated and developed in the interests of the people and businesses that use them."
- The Prudential Regulation Authority, which is responsible for supervising deposit-taking institutions, has a secondary objective to "facilitate effective competition between firms."
- The Bank of England, when overseeing financial market infrastructure and payment systems, is required to "act in a way which facilitates innovation."

This emphasis on competition isn't unique to the UK. Australia's prudential regulator and its central bank both have explicit references to maintaining competition in their mandates. Regulators in other jurisdictions have also taken proactive steps to bolster competition in their financial sectors, such the U.S. Consumer Financial Protection Bureau through its open banking rule.

To foster a more competitive financial sector, Canada should follow suit.The government should establish competition mandates for financial sector regulators such as the Office of the Superintendent of Financial Institutions (OSFI),the Financial Consumer Agency of Canada (FCAC), and the Bank of Canada. This would ensure that they administer policy in a way that reduces barriers to entry and encourages diversity among financial service providers.

Recommendation 4: Introduce a multi-year project to modernize outdated regulations to encourage competition and innovation.

Over the past decade, Canada has fallen behind other jurisdictions in fostering a competitive and innovative financial sector. The sector is highly concentrated, with the six largest banks, controlling over 90% of the market.

New players face significant barriers that limit their ability to compete. One key issue is regulatory complexity: Canada's financial sector is governed by a patchwork of overlapping laws and frameworks that create compliance burdens, particularly for small and medium-sized firms. This regulatory duplication increases costs, delays innovation, and discourages new players from entering the market.

To address these challenges, the federal government should launch a multi-year project to modernize outdated regulations in Canada. This project should:

- Review existing financial sector legislation to eliminate regulatory overlap, streamline compliance requirements, and ensure that regulatory frameworks do not unnecessarily restrict competition. Many financial regulations were designed for a different era, leading to duplication and inconsistencies that create barriers for new entrants.
- Ensure that compliance requirements are up-to-date by reviewing existing regulations to remove outdated or unnecessary burdens, particularly for smaller and newer players. Compliance should be aligned with modern industry practices and risk profiles, preventing unnecessary costs that slow innovation.