FUTURE OF FINANCE

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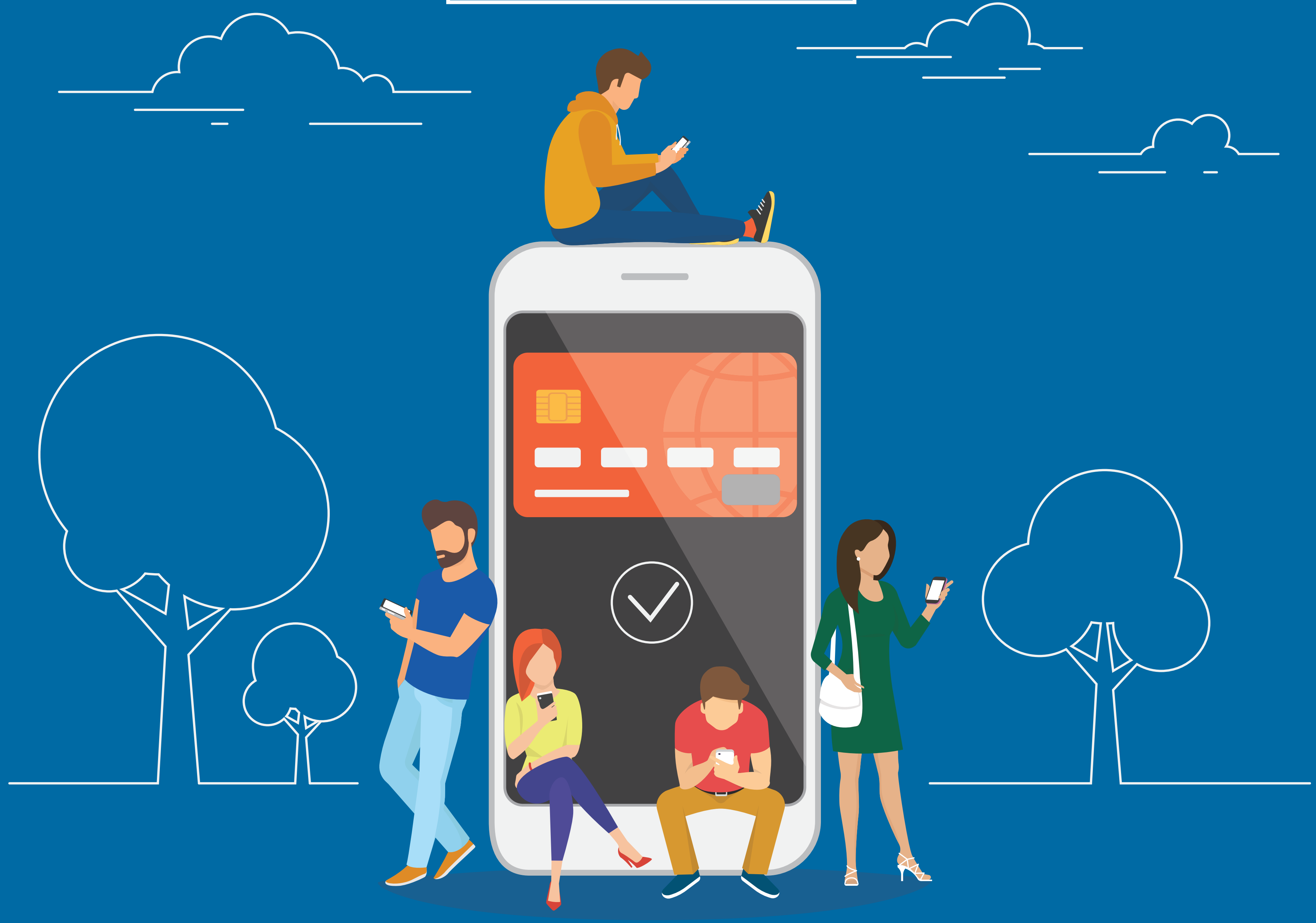

Fintechs. They Grow Up So Fast.

Fintech is maturing. The way we bank, buy insurance, and invest today is not going to look the same in the next 3, 5, or 10 years.

Our phone is our computer and a gateway to find solutions that meet our need for choice and convenience. You're a new business? If your financial institution (FI) won't extend you a business loan, there are new lenders who can. No time to meet a financial advisor to open an account? Go online with a robo-adviser.

Human interaction is not going away, but robots and artificial intelligence are enabling "cyborg" like relationships with FIs — a combination of human and machine.

Imagine if your trusted FI became like Apple, Google, or Amazon. When you need something, look in your bank's app store. What if Facebook, WeChat, or other messaging platforms also offered financial products? In Europe and Africa, this is becoming mainstream.

The innovation gap
To understand and respond to all of this, FIs have been adding digital transformation and re-imagining teams that operate inside and outside the organization to help accelerate and respond to change. That's a tough job, especially if it's not 100 percent supported by anyone in a decision-making role. The hard work is to set those teams up for success by creating the processes to support their work and make innovation everyone's job. Those that fail to do that will be practicing "innovation theatre" and wasting time and money on great initiatives that never get implemented.

Innovation strategy and designing how it should work inside a large organization is not for the faint of heart.

The partnership gap
Many fintech startups want to partner with FIs to give their customers the products they want but the processes and mindset within FIs don't let that happen fast enough. As a result, many are focusing on other partnerships with FIs in Europe, Asia, or the United States.

Sue Britton
CEO, Founder,
FinTech Growth Syndicate

But for those who have broken through in Canadian FIs, some promising ones are starting to emerge. TD partnered with Moven, CIBC partnered with Borrowell and Thinking Capital, Great West Life and Investors Group have partnered and invested heavily in Wealthsimple.

There are more that consumers won't see. ATB partnered with Finn.ai, a personal banking and financial management assistant powered by artificial intelligence. In a press release issued in late February on Canada Newswire, Wellington Holbrook, ATB's Chief Transformation Officer, said, "We are transforming banking by bringing personalized chat services to our customers that will not only simplify their day-to-day banking, but also actively support their savings goals and improve their overall financial well-being as a concierge service. We want our customers to be able to make transactions on their terms, the way they want to bank. The days of banks dictating to customers how and when they can do business are behind us."

There are hundreds more startups that are focused on advancing the capabilities of FIs through artificial intelligence, machine learning, blockchain, and digital.

The marketing gap
Marketing is the biggest talent gap in Canada. "I hear 'this innovation will sell itself' or 'we're going to build the brand in earned media.' No marketer ever said those words," says Philippe Garneau, President of GWP Brand Engineering. "Startups who want to partner with FIs need to position their product, not just cheerlead for it. That way their limited marketing dollars are focused on the right messaging."

Garneau continues, "The first lesson of positioning is that the solution is found in the prospect's mind, not in the product. Too many pitches jump straight into the features of their product before having engaged their listener — or demonstrated how it will fit into their FI's world."

So what about all of this?
If the pace of change over the next two to three years is anything like the last 12 months, we are just seeing the tip of the iceberg. Things are just getting started. Buckle up.

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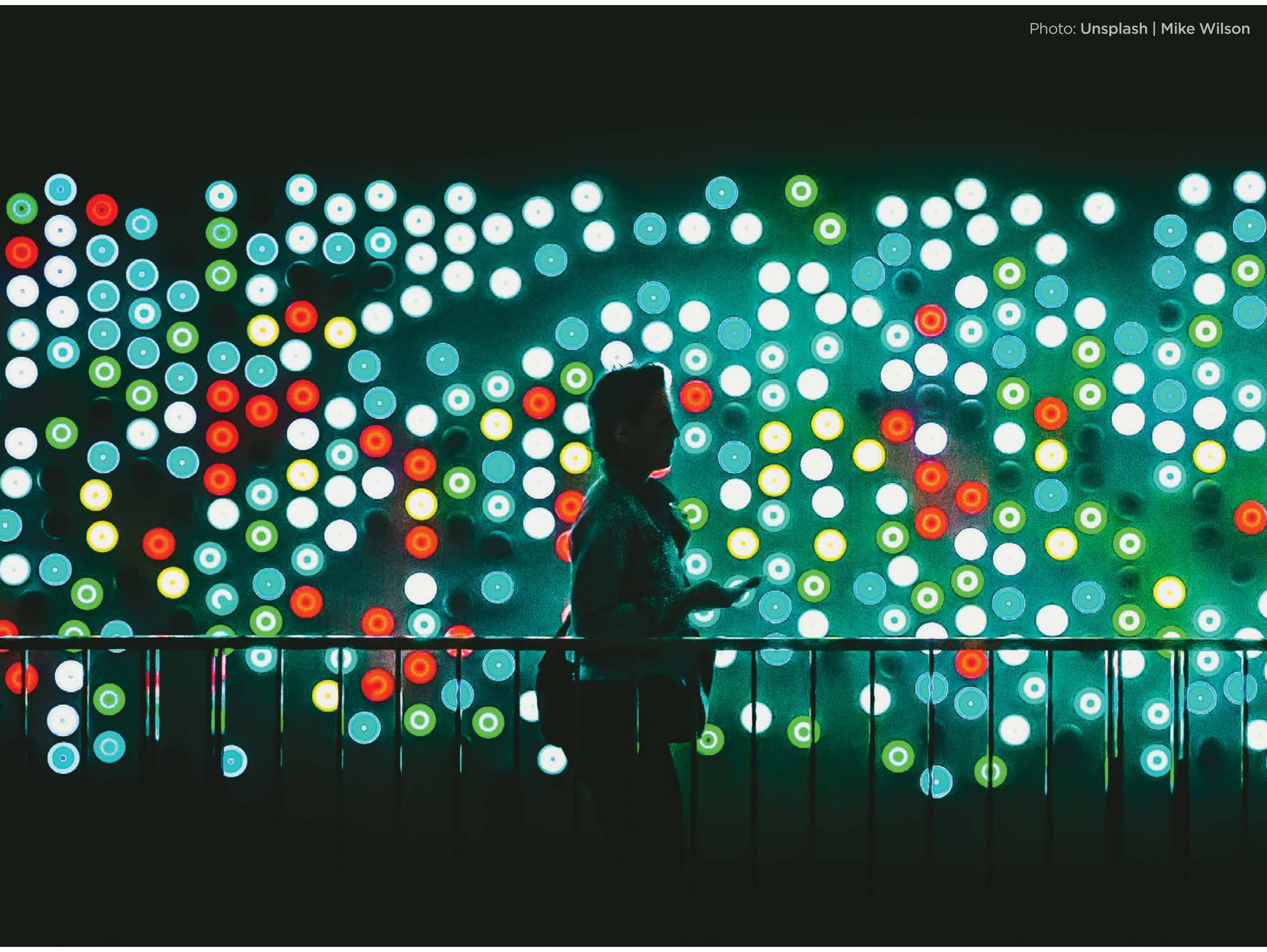

Photo: Unsplash | Mike Wilson

Accelerators and Incubators Offer Support and Mentorship for Startups

Leadervest was founded as a reaction to the issues which caused the 2008 Global Financial Crisis and saw millions of people lose their jobs due to irresponsible leadership in the big banks. We believe innovation is the key to a stable financial services industry and that innovative leaders will change the world.

Mediaplanet What is Leadervest's main objective?
Ross Campbell Our objective is to become the premier source for FinTech startups to launch and globally scale their business to create a FinTech eco-system in Canada. This will create more competition for our global financial systems, which will make services cheaper, more accessible, and ultimately improve financial equality and inclusion around the world.

MP How can incubator-accelerators help FinTech startups take the next step?
RC Incubator-accelerators have access to capital and connect startups with funding. Startups connected to incubator-accelerators have more clout, as incubator-accelerators do due diligence to ensure a startup will make money before adding it to its portfolio.

Incubator-accelerators provide much-needed mentorship. Mentorship can save entrepreneurs time, help guide startups through the minefield that is the early marketplace, and help them avoid common pitfalls. In fact, mentored startups dramatically outperform their unmentored competition, doubling the success rate of launching and surviving.

Incubator-accelerators also help entrepreneurs understand their market and increase their sales. Regardless of how ground-breaking you may think your startup is, other startups and businesses will be competing with you for your customer base. Knowing your customers' problems and what makes you unique from the competition is key. An incubator-accelerator can help startups increase sales and compete on the global stage.

MP Does Leadervest focus solely on financial innovation? If so, what is the most innovated sector you are seeing in finance?
RC We focus on FinTech primarily with specializations in social impact investing, blockchain, bitcoin, artificial intelligence, robo-advisors, crowdfunding, lending, insurtech, regtech, data analytics, and payments startups. Social impact investing and blockchain streams give us the ability to bypass intermediaries and enable transactions on a peer-to-peer basis, not only creating new efficiencies but also providing new, previously unimaginable possibilities and the opportunity to uproot other industries entirely in order to create sustainable social change.

MP It feels as though the younger demographics are the ones challenging the status quo of the financial industry. Does this mean that most FinTech startups are founded by people in their 20s and 30s?
Yes, younger demographics are challenging the status quo of the financial industry but they are also so the target consumers as millennials are set to be 50 percent of the market by 2020. There are younger startup founders, more so on the B2C channel; however, likely due to the strict regulations and barriers to entry in FinTech, the startup founders are typically more experienced in the financial sector and are in their 30s and 40s. That being said, we look for innovative leaders of any age with grit, passion, and experience who are worth the investment, hence our company name — Leadervest.

Ross Campbell
Managing Partner & Founder, Leadervest

> "Incubator-accelerators also help entrepreneurs understand their market and increase their sales."

MP What is the single biggest barrier for startups to enter to market?
RC Execution — the act of closing sales cannot happen unless startups begin speaking with customers early on, as speed is everything in a startup. Too much time is usually spent on strategy, operations, and funding. Not all startups need funding as bootstrapping is a legitimate option if you can go-to-market quickly and get clients signed up. Even if you have an idea, prototype or proof-of-concept to start the process, go-to-market, start taking orders, and get it in writing.

MP How does customer experience play into the success of a FinTech product or service?
RC Customer experience is everything. Uber and Apple have created a new way of doing business by creating a legendary digital customer experience. These companies have inspired FinTech entrepreneurs to design their products and services around the customers' problems through a process of iteration. All companies are going digital to create the optimal customer experience, as people now want to bank on their phones, from their couch, with ease. The companies who don't adapt and create a great customer experience will be left behind.

MP Do you see more startups taking the incubator-accelerator route?
RC Yes, I see more startups taking the incubator-accelerator route, mainly for the speed-to-market, mentorship and funding, and would encourage early-stage startups to connect with as many mentors as possible. Collaboration is the key to innovation. We are at a time in history when we know what we have but we don't really know what is coming next — so we need to be equipped. No one person can foresee these market changes. Many companies are even taking mentorship a step further toward coopetition, which is to collaborate with your competition for clearer foresight. Having said all that, we definitely see more startups taking the incubator-accelerator route. In fact, we would bank on it.

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Rising rates and low yields:

What's the strategy for income investors?

Canadians who invest for income may feel like they are stuck between a rock and a hard place. Bond yields are low, which makes it challenging to find income with new investments in traditional government and corporate bonds. Also, low yields on fixed-income investments provide little cushion against the effects of rising interest rates. When interest rates increase, bond prices decrease. And interest rates in the United States are rising, which has implications for income investors around the world. Low yields represent the rock for income investors; rising rates are the hard place.

Risk of rising rates

The U.S. central bank has moved to tighten interest rates and it announced its third hike of this cycle in March. Other downward pressure on bond prices came in late 2016 as bond yields increased in many countries amid positive economic growth and inflation data while central banks started shifting away from some extreme policy measures like negative interest rates.

To many investors this looks like the end of a long period of declining interest rates, an environment that benefitted investors in high-quality government and corporate bonds. For years, fixed income investors could earn the coupon on their bonds along with the price appreciation of those bond portfolios.

> *"Fixed income investments with low yields provide little protection against price declines if rates go up."*
>
> – **Kristi Ashcroft**, Senior Investment Director of Fixed Income, Mackenzie Investments

"The reality now is that the upside/downside profile of these investments is more asymmetrical," says Kristi Ashcroft, Senior Investment Director of Fixed Income, at Mackenzie Investments. "Fixed income investments with low yields provide little protection against price declines if rates go up. So the seemingly safe part of a portfolio, core bonds, may at some point deliver an unpleasant surprise if there is sustained upward pressure on bond yields."

Instead of bond portfolios offering safe havens for income investors, they now present changing risks.

A strategy for income investors

One option available to income investors is to expand the range of their investments beyond traditional core bonds while staying within their risk profile. Creating a more diversified portfolio with the desired risk characteristics can be done by integrating asset classes like high yield bonds, floating rate loans and emerging markets debt, says Ms. Ashcroft.

"These asset classes have a lower correlation to traditional fixed-income securities, so this diversifying effect helps to mitigate the overall volatility of a portfolio," she adds. "The strategy of expanding into non-investment grade securities helps reduce a portfolio's exposure to any single economic development or risk and also tends to boost the portfolio's yield."

Avoiding undesirable risks is the first pillar in Mackenzie's strategy to protect the capital of investors, says Ashcroft. "The Mackenzie Fixed Income Team applies rigorous fundamental credit research while building portfolios. Every security is reviewed by our credit analysts and portfolio managers, which is one big source of value from active management."

Mackenzie also manages risk through portfolio monitoring and tactical positioning for prevailing economic and market conditions. When appropriate, portfolio managers may also use downside hedging strategies.

Today's environment of low yields and rising interest rates creates an opportunity for financial advisors to talk with clients about what they should really expect from their bond portfolios. Conservative investors can still count on fixed-income assets to generate income, preserve capital and mitigate equity volatility but different assets may be needed to help with the heavy lifting. That's one strategy to avoid getting stuck between a rock and a hard place.

PERSPECTIVE

Sponsored by TD

Innovations in Digital Banking

Designed to Empower Customers

Colleen Johnston
Group Head, Direct Channels, Technology, Marketing and Corporate & Public Affairs TD Bank Group

The rise of FinTech (financial technology) presents an opportunity for established banks and innovative startups to work together to empower consumers with more knowledge and control over their finances.

Photo: Unsplash | Crew

FinTech is an industry composed of companies that use new technology and innovations to compete with traditional financial institutions in the delivery of services. These leading-edge new financial companies have a host of advantages in that they are typically very lightweight, entrepreneurial, and nimble. However, FinTech firms often need to partner with traditional banks in order to scale their ideas and make them relevant and helpful to consumers.

"Established banks have the important element of trust, along with security, privacy, a known brand, and a very large customer base — in the case of TD, over 25 million," says Colleen Johnston, Group Head, Direct Channels, Technology, Marketing and Corporate & Public Affairs at TD. "Combining the strengths of FinTech and established banks is very powerful."

Staying relevant in a dynamic environment

Canadian banks also aren't new to change, having always focused on — and embraced — transformation and progress. Throughout the history of banking in Canada, institutions have moved with intention to meet customer demand, from the introduction of ATMs and telephone banking to online platforms and mobile banking. As the pace of change accelerates, banks are moving with a new sense of urgency and purpose, while continuing to adapt, adjust, and innovate.

"Consumer needs and demands are changing, and FinTech firms are bringing a lot of imagination and new experiences to the table by focusing on areas where services can be delivered faster and more efficiently," says Johnston. "Banks can't afford to be complacent. We have to keep thinking about the customer experience and we need to be sure we can meet their changing needs."

Realizing the urgency and the need to adapt, TD has been motivated to accelerate its own transformation, a process that's been underway for several years. The arrival of FinTech has increased the intensity. Knowing that FinTech has a lot to teach established banks, TD is listening, learning, and using their momentum to drive its own change agenda, both by partnering with FinTech firms and refreshing its own offerings.

> **"We have to keep thinking about customer experience and we need to be sure we can meet their changing needs."**

"For TD, it's not only about FinTech partnerships, but implementing FinTech principles," says Johnston. "It's not who does it better, but what does the consumer want. That's what we must always keep in mind."

The power of innovative partnerships

In pursuit of a more engaging customer experience, last year TD partnered with Moven — a New York-based FinTech company — to develop TD MySpend, an app that allows users to keep track of their spending on the go. Used in concert with the TD mobile app, it provides real time information about spending. The app puts information into the hands of consumers, enabling them to have greater visibility into their finances and updates about whether they are trending above or below their typical habits. No input is needed. Instead the app relies on banking information based on their credit and debit history.

"It was the top rated free app in Canada when it was released, with almost a million registered users in the first year, and we now have empirical evidence that it is actually changing our customers' behaviour — they're saving more and spending less," says Johnston. "It's fair to say we've both learned a lot working together. It's really a perfect partnership."

It's also a perfect example of how banks and FinTech firms can work together to shape a new future in financial services for millions of Canadians. Spurred on by FinTech, the banking industry is adapting, collaborating, and ultimately evolving to deliver for the customer.

Gavin Davidson

The Future of Payments Has Arrived in Canada

Christine Hunter
VP, Payments
TD Bank

According to Payments Canada — the organization charged with underpinning the Canadian financial system and economy by owning and operating Canada's payment infrastructure — the value of payments cleared and settled in Canada in 2015 was nearly $50 trillion, or $197 billion per business day. Considering that works out to $3 million in electronic payments made every second, it's safe to say that the future of payments has arrived in Canada.

Putting the spotlight on payments modernization

Led by legacy banks such as TD and a host of innovative FinTech start-ups, banking and financial services in Canada are evolving. Canada's modern payments system is fast, flexible and secure, while also promoting innovation, improving the consumer experience, and strengthening Canada's competitive position globally.

"The future of banking is changing dramatically and is being led by the payments sector, which we believe will be a major differentiator going forward in terms of competing in a digital economy," says Christine Hunter, the VP of Payments at TD Bank. "In a lot of ways, it's helping banks think about the future and ensuring we invest in our foundations and infrastructure."

The mass adoption of new technologies has set the expectation for commerce to be available anywhere, anytime. These innovative technologies are challenging traditional payments systems, while new global players are entering the payments arena. Businesses and consumers are demanding increasingly flexible, convenient, and simple payment experiences with the same level of security and privacy that they've always depended on. Around the world, investments in payments infrastructure are being made to drive economic growth and efficiency.

"TD is viewing the payment area with clear vision, as it's a very dynamic space," says Hunter. "We're looking internally at simplifying our own technology and processes, while keeping pace with the payments industry, staying ahead of the trends, and partnering with the right firms to deliver great value to our customers."

TD leads the pack in payment innovations

TD is working tirelessly to bring consumers a better and more seamless payment experience by focusing on the needs of a modern payment system. It's not just about the underlying system, though — it's about creating potential and laying the framework for innovation. To that end, TD recently established the Enterprise Payments Council, which focuses on payments oversight, reporting, and education across the bank in order to foster potential and encourage innovation.

"Keeping up with the rapid changes across all payment sectors is not something you do overnight," says Hunter. "It can only be achieved through continued focus and agility. That's why we're continually looking at the landscape and adjusting our path going forward, while only deploying change in a calculated way."

This change is geared toward providing payment options that are faster and easier, while also being data-rich and transparent. TD believes payment systems should be a platform for innovation that meets the specific needs of Canadian consumers, such as cross-border convenience, while also being safe, private, and secure.

"Security is paramount for TD," says Hunter. "It needs to be as strong as or stronger than ever, so we invest heavily in our infrastructure, knowing that without adequate security, the entire ecosystem fails."

What's next for the payments industry?

A recent survey from Payments Canada revealed that a full 50 percent of Canadians are ready to completely ditch cash, while two thirds are ready to say goodbye to personal cheques. End user needs and expectations are evolving, and payment experiences need to keep up. As such, investments are being made in payments infrastructure to support data-rich payments that make funds available in less than a minute. With Canadians having already embraced near real time options such as Interac e-Transfer, it's an area in which Hunter feels considerable innovations are still to come.

"On the near-term horizon, you can expect to see some enhancements from TD Bank with respect to Interac e-Transfer, whereby you'll be able to request money if you're a small business," says Hunter. "This promises to be a very helpful product for businesses that want to make it easy for customers to pay invoices electronically."

TD is also part of an innovative partnership between the major Canadian banks and SecureKey, a leading identity and authentication provider that simplifies consumer access to online services and applications. The consortium of banks recently committed $27 million to develop a new service providing verified credentials for online e-commerce. While ensuring that safety, security and privacy remain paramount, this service will provide consumers with the option of leveraging the customer information held by the bank in proving their financial bona fides to people and companies with which they are doing business.

"At this point, the sky is the limit for this new and emerging space," says Hunter. "One potential application is when a customer wants to rent an apartment. Not only would this allow for their monthly rent to be paid seamlessly, it would enable the landlord to easily verify the identity and creditworthiness of potential tenants."

It might also be said that the sky is the limit for the entire payments sector in Canada. While branch visits and ATM transactions continue to decline across the country, innovative electronic payment options are multiplying. Led by trailblazers like TD Bank, *instant* and *always on* electronic payment transactions and infrastructure are becoming the new normal.

"This is a very dynamic space where the opportunities to make life easier for our customers are endless," says Hunter. "I'm excited about the potential to move faster, be even more innovative, and provide Canadians with a truly seamless payment experience."

Photo: Unsplash | rawpixel.com

Gavin Davidson

How Embracing Innovative Payment Technologies Benefits Businesses

When you're in the business of serving customers, payment transaction systems that save seconds without sacrificing security can make sales.

According to a recent *Vancouver Sun* article, cash is predicted to make up only 10 percent of the money spent in Canada by 2030 — compared to 35 percent today. With Canadians of all ages, especially the younger generations, predicted to continue adopting innovative payment technology in record numbers, mobile payment solutions and terminal-based systems could soon comprise the vast majority of day-to-day transactions.

"On a global stage, the Canadian consumer is very tech-savvy and the payments market is considerably different than in, say, the United States," says Chris Tyghe, the VP of Strategic Development at Ingenico Group. "Usage data shows that the average Canadian consumer is completely comfortable adopting new technologies, like 'tap' for example."

Indeed, contactless — or tapped — payments in Canada have grown exponentially over the past two years, with recently released industry figures pointing to an over 60 percent increase in the volume of dollars tapped in the first quarter of 2017. Compare this to a 20 percent increase in the United States.

In fact, Canadians have long been at the forefront of adopting new payment and transaction technology, from the early days of the "Johnny Cash" ATMs to today's high rate of credit and debit card transactions through Ingenico's network of smart terminals.

"I believe Canadians are extremely receptive to payment services, including smart terminals and mobile solutions. These continually enhance the consumer experience, while enabling merchants to secure the sale as soon as the consumer has made their purchase decision," says Richard Giannini, the SVP of Product Development at Ingenico Group. "To achieve this, our innovative and reliable payment solutions combine the most advanced technologies with the latest security requirements."

> "We have to anticipate that the retail experience of the future is going to be radically different from that of today."

Security remains a top consideration

Consumers today are better informed than ever before, which means that increased convenience and an enhanced experience are important elements of the consumer purchase decision. But security is the most vital element, for merchants and consumers alike. Business owners equipped to offer shoppers the payment convenience, simplicity, and security they demand are able to increase sales.

By investing heavily in security, with an annual research and development budget nearing a double-digit percent of its annual revenue, Ingenico has brought several innovations to the market, including the proprietary Telium operating system. Combining the latest cryptographic schemes with future-proof key length, Telium TETRA OS adds another level of security to Ingenico's devices.

"The Telium TETRA operating system combines our expertise in secure payment with the agility of the web by embedding the best security mechanisms to protect transaction privacy," says Giannini. "Backed by Telium, our payment terminals provide the most secure form of payment available."

The future is connected

With the shift to new and secure payment methods already in full swing, there are more ways for consumers to pay and buy than ever. The sheer number of purchase options available in such a competitive environment means retailers are increasingly beefing up their technological offerings in order to survive and thrive.

Ingenico makes it easy for businesses to do both, by providing a comprehensive range of systems and software designed to make purchasing quick, seamless, and secure — whatever the sales channel or payment method. And thanks to Ingenico's ongoing investment in research and development and its extensive worldwide network, the latest payment systems are affordable to businesses of all sizes, especially when compared to potential growth in both sales and customer loyalty.

"We are at a very unique moment of time in terms of both FinTech and consumer expectations. We have to anticipate that the retail experience of the future is going to be radically different from that of today," says Tyghe. "As either a business owner or consumer, you want to be part of defining that future."

Gavin Davidson

Dream Payments Expansion a Dream Come True for Small Businesses

Accepting payments, managing cash flow, and ultimately growing their business are more attainable and easier than ever for Canadian small businesses thanks to Dream Payments' recent partnerships with key players in the financial services industry.

Dream's cloud-based mobile payment technology — available through a retail distribution network — has been selling out since it came to market two years ago. The secure, affordable, mobile point of sale (POS) device connects to a mobile phone through Bluetooth, enabling small business owners to accept Interac debit and credit card payments. "Over half of all card payment transactions in Canada are actually debit," says Christian Ali, the Chief Marketing Officer at Dream Payments. "So if you're a small business and you can't accept debit or if you limit the amount by which a customer can pay with debit, you're losing sales and money."

Unlike traditional POS solutions, like tethered cash registers and payment terminals, the Dream technology enables business owners to go completely mobile and to focus on growing their businesses. "It's the first and only off-the-shelf device that accepts Chip and PIN cards and that allows owners to accept payments anywhere their business goes," says Ali. "Unlike traditional service providers, which can take several weeks to get up and running, with Dream you can set yourself up and start accepting payments within minutes."

Brent Ho-Young
Chief Executive Officer, Dream Payments

Christian Ali
Chief Marketing Officer, Dream Payments

Partnering with established players

With a proven cloud based infrastructure, software and technology, Dream is expanding and growing by bringing its mobile payment services platform to established players in the financial sector. "Companies like Chase Paymentech are leveraging the Dream platform to deliver mobile experiences to their customers that are vastly better than what they've been able to offer in the past," says Ali.

Financial institutions have legacy systems that, while robust and reliable, are not flexible or easily adaptable to the new devices and technology on the market. "By the time these institutions bring new features and products to market, they're already dated and obsolete," says Ali. "Because the Dream platform is hardware agnostic and doesn't require changes to the legacy environment, it can power whichever new technology and hardware the institution chooses. This puts them in a better position to service their small business clients quickly with something that's customer-centric and meets the needs and expectations of today's merchants and consumers."

Seamless integration with other apps

Though usable primarily as a mobile payment device, Dream also integrates with other business and workflow apps. "Our ability to seamlessly integrate with app partners is meeting a huge demand for small businesses seeking inter-operability across the tools they already love to use," says Ali. The company's partnership with Intuit QuickBooks, which launched in February, is a perfect example. Using Dream, users now have the ability to reconcile all QuickBooks transactions instantly. "Every payment they take automatically updates their QuickBooks accounting in real time," says Ali. "Sales line items, taxes, and inventory are all synced instantly, which allows small business owners to better manage their cash flow and overall business."

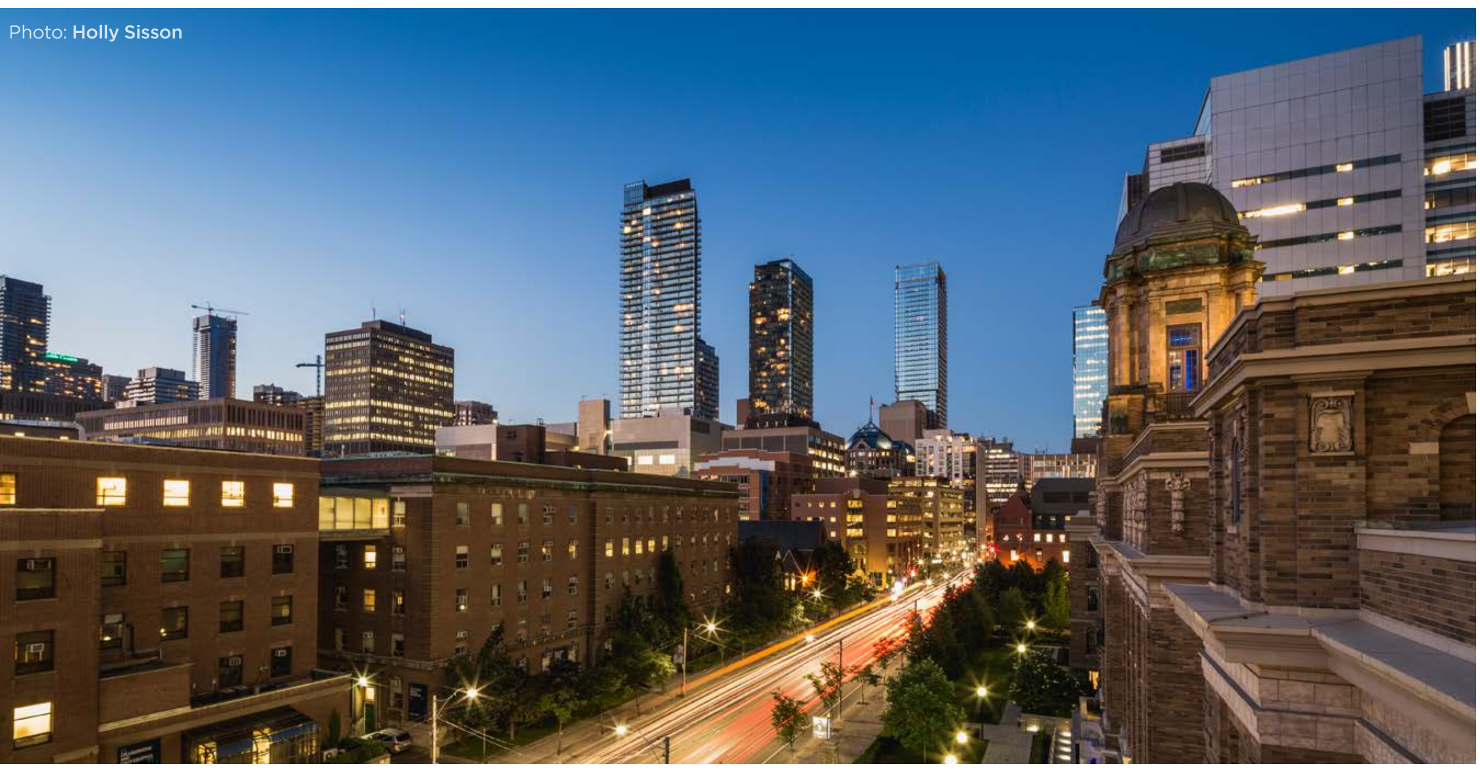
Compared to other solutions with similar integrations — where a batch update is performed at the end of the day and the business owner still has to go through the day's transactions to reconcile — the Dream system has internal checks and balances built in. "We save business owners many hours of reconciliation in accounting efforts every month," says Ali. "We're giving them back time and saving them money at the same time."

Going forward, Dream is expanding its retail distribution and partnerships in keeping with its mission of helping businesses succeed. "Whether it's small businesses needing mobile payment technology or large financial service providers seeking to offer differentiated service offerings, Dream provides the platform and technology that helps businesses of all sizes grow and succeed," says Ali.

Anne Papmehl

INSIGHT

Photo: Holly Sisson



CANADIAN FINTECH COMPANIES ARE ON THE RISE

More high-potential fintech startups are emerging thanks to venture capital investments. Dinaro Ly, head of the fintech cluster at MaRS, discusses the figures and how fintech is evolving.

Mediaplanet How has fintech grown in the last five years?

Dinaro Ly The number of fintech companies across Canada has grown from approximately 40 in 2015 to over 250 high-potential startups in 2017. This growth has been fed by venture capital (VC) — $1 billion USD invested into Canadian fintech companies between 2012 and 2016.

Additionally, fintech working groups have evolved to help galvanize a strategy from all key stakeholders — government, policymakers, regulators, investors, industry professionals, and academics (eg. the Fintech Advisory Committee). Discussions around policy and regulation have also accelerated with the introduction of a regulatory sandbox called Launchpad, setup by the OSC.

Dinaro Ly
Director, Fintech Cluster at MaRS

MP What are the most innovative areas in fintech?

DL I believe some of the most popular sectors are lending, with leading companies such as Borrowell, Financeit, Fundthrough, and Thinking Capital; digital wealth management, including companies like Wealthsimple and NestWealth; and digital banking, with companies like Koho and Mogo.

I'd love to see more Canadian-based insuretech companies emerge. There are many aspects of the insurance industry that could be modernized and potentially disrupted with exponential technologies.

MP Has collaboration between startups and incumbent financial institutions improved?

DL The question of "build, buy, or partner" is still very much top of mind. Together, they are working to improve the reception of new technologies and products to better serve their customers and create more efficient core banking systems. In 2016, MaRS tracked over 20 partnerships developed between fintech companies and incumbent banks across Canada.

MP What role does MaRS play in advancing fintech and financial innovation?

DL MaRS' role is to continue to catalyze collaboration, investment, and commercial opportunities for Canadian fintech companies. Specifically, in the areas of capital, talent, customer opportunities, and partnerships.

In addition to our advisory role, we are committed to amplifying the voice of the fintech community to the necessary stakeholders in government, policy, and regulation. MaRS aims to help ensure Canada has a strong global presence in financial services, which will continue to attract investors, talent, and financial institutions to Canada.

MP Where would you say Canada ranks in terms of global fintech? Are there any statistics or reasons why?

DL Canada remains one of the world's strongest and most stable financial services centres. The country ranks high in a few categories:

VC investments — Fintech in Canada continues to demonstrate strong year-over-year (YoY) growth when compared with fintech in other countries.

Talent — Canada continues to produce world-class software engineers, developers, and STEM graduates.

Industry support — There is a strong desire and motivation from the industry to drive more change in policy, regulation, and open banking initiatives.

MP Where do you see fintech in 2018?

DL More open banking initiatives. The PSD2 (Second Payment Services Directive) initiative will go live in Europe, which will allow for more Canadian-specific open banking initiatives. As these initiatives grow, cybersecurity, compliance, consumer privacy, and regulation will become more prevalent themes in fintech too.

More industry sandboxes. They will play a larger role in fintech, in addition to regulatory sandboxes.

Companies considering initial public offering (IPO). We expect at least one fintech company to consider going IPO in 2018. This will fuel the fintech community and set the foundation for other founders in terms of investment opportunities, and Canada's overall fintech profile.

CANADA EMBRACES OPPORTUNITY FOR PAYMENT SERVICES INNOVATIONS

Kristy Duncan
Founder, CEO, Women in Payments

With Netflix and other video streaming services at our fingertips, it's hard to believe that not long ago we were watching our movies on DVD players. The home viewing entertainment industry has undoubtedly undergone a complete transformation in less than a decade.

Now, thanks to technological, economic and demographic shifts, as well as the growing impact of regulation, the global payments landscape is undergoing a similar change — and Canada may be in danger of getting left behind.

Modernizing payment practices is difficult for traditional institutions. "The single biggest hurdle is a company's legacy infrastructure, their current application process, and practices," according to Sanjay Tugnait, CEO of Capegemini, a financial technology consulting company.

"This, coupled with the fear of cannibalizing traditional revenue streams as a result of the deployment of innovative payment practices, and fear of changing," he says, "leads to an inertia in them to lead the market with disruptive payment practices."

Banks have been the main players in the payments industry for decades, but in recent years, other payment providers have been gaining ground in the market. Among those are financial technology startups — including Ripple and Venmo— and non-payment technology behemoths such as Apple, Google, and Amazon.

In response to the arrival of these non-traditional players and to heightened demand for customer data privacy and security, many regulators are taking steps to facilitate innovation and create a level playing field.

In Europe, for example, the Payment Services Directive 2 is intended to increase competition by opening up the market to third-party payment initiation service providers and account information service providers.

The United Kingdom's Payment Systems Regulator aims to foster innovation in the industry by giving non-bank institutions access to the Faster Payments Service, which shortens payment times between various banks' customer accounts from three days to just a few hours.

China has also seen transformative innovation. In 2004, Alibaba Group introduced a digital payment platform called Alipay to the country. The service works similarly to PayPal, except that funds are kept in escrow and not released until the customer receives the goods paid for. Alipay has expanded its services in recent years, and today it offers online transactions, money market accounts, and small business loans. It has 400 million users, similar to PayPal, and boasts control of nearly half of China's online payment market. Traditional financial institutions in the country are now using Alipay's APIs to offer innovative new services.

A golden opportunity to become digital leaders

Canada has yet to see this degree of innovation. Our national landscape is much more conservative, with people having long relied on the big banks for traditional financial services.

However, these institutions must now act quickly and decisively to meet the changing needs and demands of their customers when it comes to payment services, or they risk taking a back seat to new technological startups.

"Our financial institutions and regulators are behind the curve compared to countries like Australia, the E.U., the UK, Singapore, and others," says Kristy Duncan, founder of the organization Women in Payments. "We have to invest in innovation and make changes to our financial infrastructure so that it's more forward-looking. Otherwise, other countries are going to leave us in the dust."

With the field of consumer payments rapidly changing, Canada would do well to adopt some of the new innovations that other countries are. Having independent developers and startups create new APIs and services autonomously would have many benefits. First of all, it would help to meet consumer demand in an increasingly consumer-centric and digital landscape. It would be a great opportunity for growth (for Canadian businesses and tech professionals) and job creation. It would also benefit the big banks that could form partnerships with these new innovative companies — helping Canada's traditional financial institutions to not only survive but thrive in an increasingly competitive industry. Lastly, it could help to position Canada as a digital leader, giving us a competitive advantage in the global marketplace and driving investment.

In its report, Global Payments 2020: Transformation and Convergence, the Bank of New York Mellon reports, "The world of payments is going to be fundamentally transformed between now and 2020." If Canada doesn't want to be left behind, we need to get on the innovation bandwagon and to stop relying on the big banks for all new developments.

Industry could benefit from more women

The report identifies one of the factors influencing these changes as retail customers' expectations. Duncan sees a lot of room for improvement in that area, noting that consumer payments could be "faster, better, and more innovative."

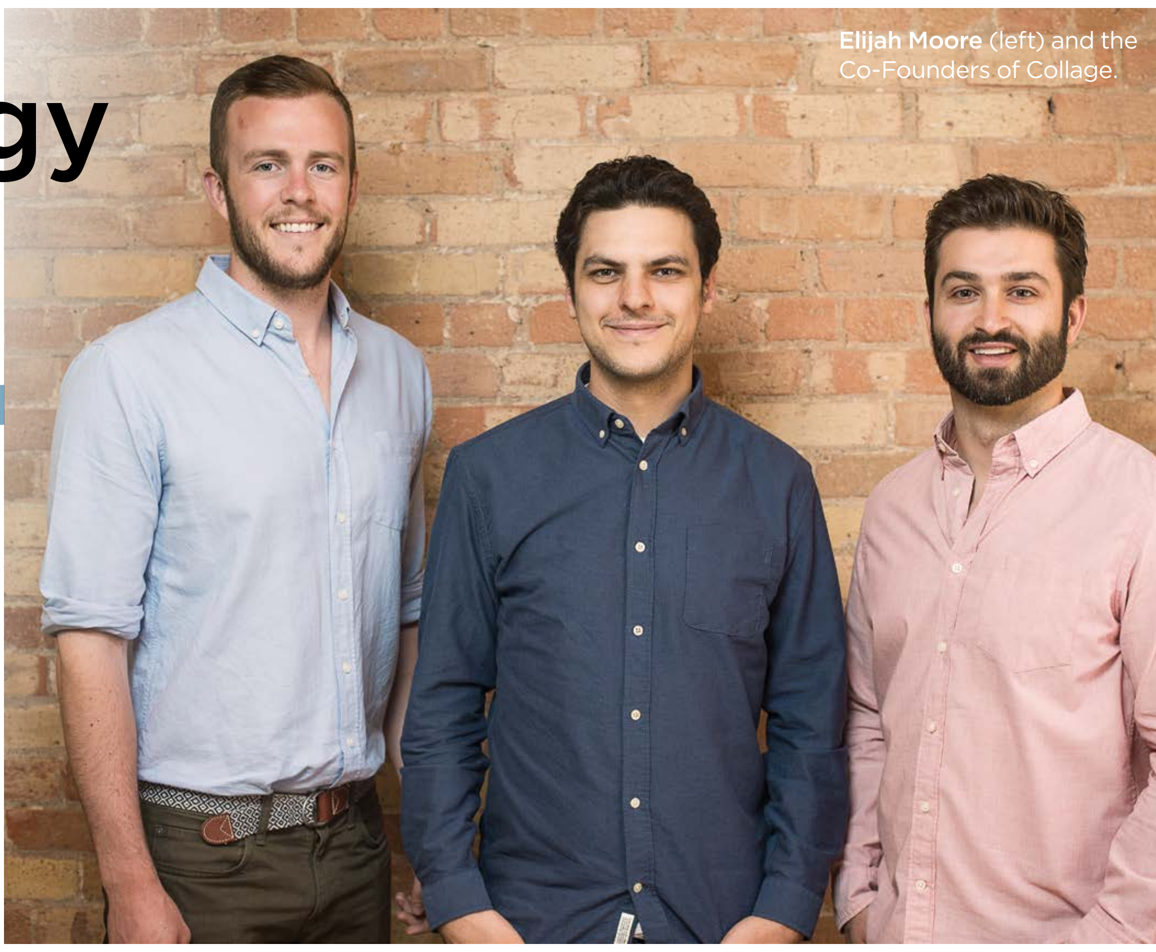
"Women drive 70-80 percent of all consumer purchases. What I'm suggesting is payments product design teams should be reflective of that so they better understand the customer experience and can therefore design more relevant products", says Duncan, who obtained an engineering degree before forging a long career in banking.

"Women are often better able than men to put themselves in the customer's shoes," says Duncan, "and they would bring some much-needed diversity to any design team."

"Overall," she says, "Canadians have a golden opportunity to modernize our payments infrastructure and to position ourselves as digital leaders in the 21st century."

Randi Druzin

New Technology Is Causing an HR Revolution


Elijah Moore (left) and the Co-Founders of Collage.

Collage (www.collage.co) is a Toronto-based company on a mission to make premium HR technology free and accessible to every Canadian business. Mediaplanet sat down with the founders to learn how fintech is revolutionizing the HR and insurance ecosystem.

Mediaplanet So you're the co-founder of an HR technology company. What does HR have to do with FinTech?
Elijah Moore HR certainly doesn't come to mind when most people think of FinTech. But when you look at the major systems that the HR function is built upon — like group insurance, payroll, and group retirement management — you start to see that financial technology is actually at the centre of the HR universe.

MP What is happening at the intersection of HR and FinTech that is so interesting to you?
EM What's happening is a new tech-centric business model is enabling startup companies to fundamentally change a big, established market. Disruption is an overused term, but what is happening is market disruption in its truest sense.

The markets for payroll, insurance, and HR management are colliding, which is causing a fundamental shift in the way businesses are buying HR services and group financial products. New US companies like Zenefits, Gusto, Namely, and Maxwell Health are making it hard for established HR, payroll, and group benefits providers to compete using business models that have worked for the last 30 years.

New technologies and innovative revenue models have allowed startups to provide amazing HR products for businesses at a very low cost. These new products make it easier and cheaper for businesses to manage HR and provide benefits for their employees. This is great for businesses because their administrative burden is reduced, and it's great for employees because their access to healthcare through company-sponsored benefits is improved.

We started Collage in order to lead this type of change for the Canadian market. We set out to reinvent the way Canadian businesses manage HR and group benefits, and along the way we think we have the opportunity to build the future distribution model for group financial products as well.

MP Collage is focused on HR and group insurance, but what other opportunities for innovation exist in the insurance space more broadly?
EM The insurance industry has been a victim of stagnation for the last 50 years, but we have arrived at a point where startups and technology are starting to accelerate progress in an industry that needed an outside push.

The insurance industry is really not built to innovate. At its core, insurance is about pricing risk — and the lower the risk the better. Most insurance products are underwritten by an insurance carrier and then sold or distributed by a broker. Neither insurance carriers nor brokers are well positioned to implement new technologies. Add in the fact that insurance is highly regulated, capital intensive, and profitable in its current state, and you can understand why technology has been a bit slow to infiltrate the insurance value chain.

Over the last few years, the insurance tech financing markets have been really heating up, specifically in the US. There are some awesome new companies doing some interesting thing across the entire insurance ecosystem.

Big data is a common thread among new insurance tech startups. If you really think about it, insurance underwriting is one of the original applications of big data in human history. In this vein I think that there are huge opportunities when it comes to improving how insurers make use of data — both in terms of collecting new data through wearable or mobile technologies, and through analyzing these new data in order to make risk pricing more fair and accurate.

I'm also intrigued by the creation of entirely new, tech-driven insurers like Oscar Health in the US. Starting a new insurance carrier is difficult, and it requires a lot of capital; however, I think if properly executed the "startup insurance carrier" can be a powerful force for change in the traditionally conservative insurance industry.

MP How is Canada doing?
EM We are lucky as Canadians to have access to an amazing financial system; however, we are undoubtedly slower to innovate than our US counterparts. This is a common thread across financial technology as a whole, but it runs doubly true for insurance. There just haven't been a lot of companies that have managed to push insurance tech forward in the Canadian market — yet.

It is going to take a coordinated effort in order to fix this gap in innovation. Entrepreneurs need to take initiative, providers of capital need to open their wallets, and insurance carriers need to be committed to implementing change.

Canadian insurance tech may be in its infancy, but we are extremely excited about the future of our market.

FACTS ABOUT FINTECH

The use of physical payment items, like cash and cheques, dropped

26.4%

over the last 4 years

43%

of global banks developed a program to help grow fintech startups

Banks will spend

$19.9 B

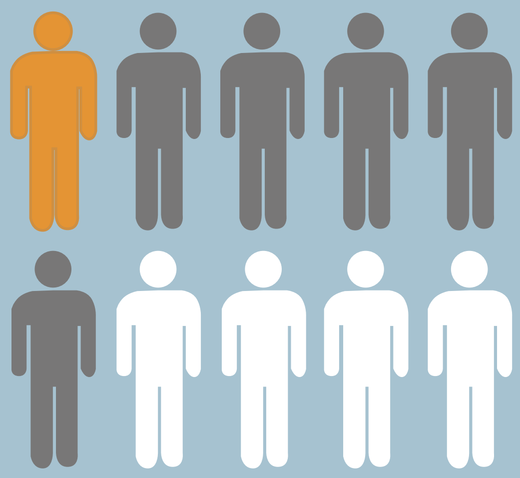
on fintech innovations in 2017

73%

of financial managers believe fintech will help reduce operating costs

8.2%

of digitally active Canadian consumers have used at least two fintech services in the last 6 months



57.2%

of Canadians who don't use fintech don't know it exists

Sources:
Glorium Technologies
Payments Canada
Ernst & Young Global Ltd.
Zafin

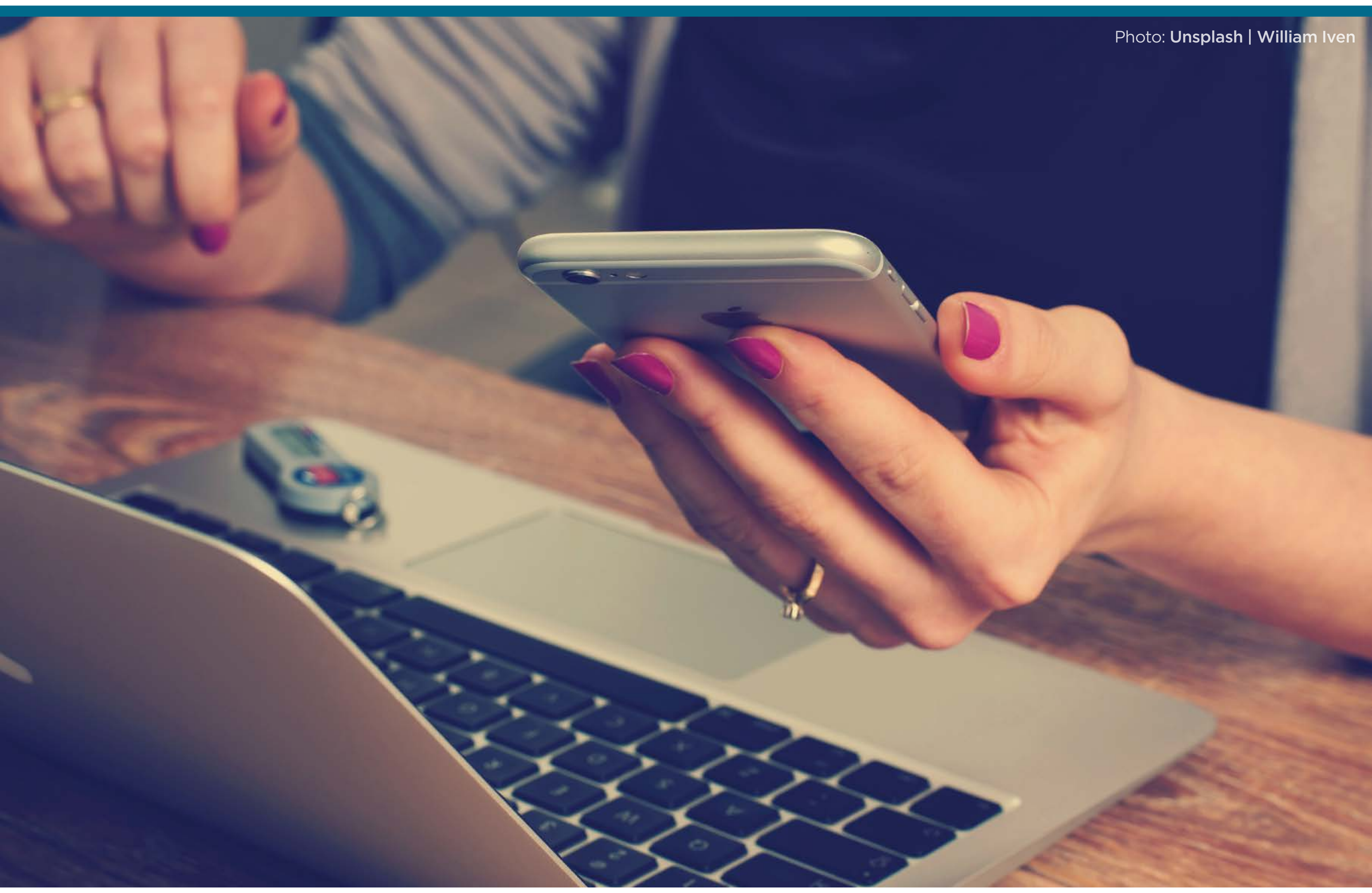


Photo: Unsplash | William Iven

The Future of Payments

RBC: Investing in the customer and the science of innovation

Technology is changing the way people go about their day-to-day activities — from the way they bank to the way they shop and pay. By building a digitally enabled relationship bank, and investing in fundamental science and research, RBC is becoming a valued and integral part of the everyday mobile experiences of its clients.

> "For RBC, advancing mobile payments in the digital age is about connecting what is possible to what is valuable for our clients," says Sean Amato-Gauci, RBC's Executive Vice-President, Cards, Payments, & Banking. "Our clients are increasingly looking for seamless, convenient, and secure payment experiences that make banking — and their lives — easier. Maintaining our leadership role in payments innovation ensures we continue to anticipate and meet evolving client needs while maintaining consistently strong client relationships and high satisfaction."

Mediaplanet Why have payments taken on such an integral position in financial technology?
Sean Amato-Gauci (SA) Payments enable commerce and economic activity around the world every day and they represent the highest frequency transaction for financial institutions. Using a credit or debit card at your local mall, shopping online, pre-ordering and paying for your morning cup of coffee in-app, splitting the cost of lunch by sending a person-to-person (P2P) payment via a mobile banking app — these traditional and emerging payments are an established and growing part of Canadians' lives.

MP What is the most popular form of payments?
SA Traditional physical payments at a point of sale — including credit and debit cards — are the most popular form of payments. That said, our clients are gradually abandoning cash and cheques and moving toward P2P payments — the fastest growing form of payments at RBC, which often take place in mobile apps. Currently over 60 percent of our clients' Interac e-Transfer transactions are sent via the RBC Mobile app. Last year, RBC was the first bank in Canada to offer unlimited free Interac e-Transfers on all personal chequing accounts, which helped contribute to the explosive growth in this category.

MP How important is customer experience to the success of a payments product?
SA Customer experience is of utmost importance for many products and services — especially in payments. By providing solutions with impeccable security and ease of use, we always set out to earn our clients' continued trust and satisfaction. As clients embrace new technologies and increase their use of mobile payment solutions, we must innovate to develop engaging, relevant, frictionless and highly secure experiences, and most importantly, add value and convenience above and beyond the payment transaction.

MP How has RBC influenced the evolution of payments innovation?
SA RBC has a significant history of payments innovation and continues to shape its evolution. From our patented RBC Secure Cloud payments technology to being the first Canadian bank with a mobile wallet solution, and more recently our innovative RBC Rewards mobile app, we are continually innovating to ensure we are meeting our clients' evolving expectations.

Today, our clients expect personalized financial advice, service, and solutions when, how, and where it is most convenient for them. Within our Canadian banking business, over 82 percent of our transactions are performed in self-serve channels, including digital and on mobile. The number of mobile banking app users has increased 21 percent year-over-year. In March, we were the first Canadian bank to launch Interac e-Transfer capability using Siri voice commands, capitalizing on the explosive growth in person-to-person payments and the emergence of voice assistance technology.

We employ some of the top technical minds, and to create truly innovative products and services, our agile teams rely on us to provide them with the next generation of tools and capabilities. Our R&D is at the leading edge of the financial services industry. Over the last few years, we've been rapidly growing the number of our global patent filings, and now have close to 100 patents that are either pending or issued. Our innovation labs — in Toronto, San Francisco, New York, Orlando, London, and Luxembourg — will continue to innovate and file for patents that balance the speed of innovation with bank-grade security and a seamless, frictionless client experience.

MP What will be "the next big thing" in the payments industry?
SA It's such an exciting time in payments. Bots and voice-based Natural Language Processing will increase the seamlessness of payments and will be essential in enabling payments in chat and social networking platforms. We will also continue to expand our integrated client experiences with payment and banking services delivered across different social networks and chat platforms.

Augmented and virtual reality are also hot topics right now. In December 2016 RBC changed how people interact with their RBC Rewards program with its first interactive virtual reality (VR) experience. The VR technology gave RBC Rewards clients the ultimate "try before you buy" experience by taking them on an immersive journey into the world of rewards, allowing clients to experience the benefits of the rewards in a tangible way while making their redemption decisions. This was another industry first. In payments, virtual reality combines the brick and mortar shopping experience with the convenience of online shopping in a highly personalized and secure environment. And now, blockchain technology is making it fast, secure, and easy to view and pay with points, in real-time, just like currency.

Today, we're one of the leading voices on artificial intelligence (AI) in Canada. We established the RBC Research Institute with labs at the University of Toronto and the University of Alberta to push the boundaries of the science around machine learning. At the same time, we're investing in Canada as a global destination for the study of AI and as a home for AI-focused ventures. Our clients are already benefiting from our advancements in AI. For example, we're using it to enhance client security through biometrics and fraud detection algorithms. These are just a few of the areas where we see AI's vast potential.

What's really exciting is that new ideas emerge every day, be it from our clients, our employees in the branch, or at our innovation labs. Our scope, scale, talent, and investment in the future of payments means that the best is always yet to come — we haven't imagined it yet, but we will. And when we do, we have everything in place to make it happen quickly. We're creating the bank of the future, today; a highly connected and interconnected community of value and personalized experiences for every client.

Jessica Pollock

[1]*Interac* e-Transfer not available in US dollar accounts. ® / ™ Trademark(s) of Royal Bank of Canada. [‡]All other trademarks are the property of their respective owner(s).

The Payment Ecosystem Imperative

Why We Need to Act Now

As payment methods evolve from cash to digital, small businesses can seamlessly integrate new methods to profit and serve customers better.

As payment technology evolves and new trends emerge, small businesses need to adapt. If not, PayPal Canada's president, Paul Parisi, says they risk losing out on revenues and reaching tech-savvy consumers.

While every payment company has a unique approach and value proposition, Parisi says they all share the same core objective — they want to eliminate the inefficiencies in payments.

"I was hired to forge partnerships that solve real customer problems," he says. "As leaders in the rapidly changing Canadian payments sector, we all have a responsibility to enable more small businesses to start accepting online and mobile payments."

Parisi says two main trends are playing out in payments. First is the digitization of money — the monetary shift from cash to digital — which has been redefined by the mobile phone. The second is contextual commerce — the method of seamlessly offering up purchase opportunities when consumers are on the Internet.

"Even if you haven't heard of contextual commerce," Parisi says, "You've likely experienced it in action — Uber, Pinterest and Instagram's Buy Buttons, and Amazon's Alexa are all examples of the way contextual commerce is slowly changing how consumers buy."

Parisi says it's a solution to the "want it now" mentality of today's consumers.

Although online payments have the benefit of reducing the sales cycle significantly and increasing customer conversion, many Canadian small businesses are not ready to take advantage. In fact, 83 percent of Canadian small businesses don't accept any form of online payment, and only seven percent have a website capable of doing so.

Paul Parisi
President
PayPal Canada

> "As payment technology evolves and new trends emerge, small businesses need to adapt."

Part of this is because of an age divide in Canadian small business owners that affects the adoption of these technologies. Most small business owners in Canada — 63 percent — are 55 years of age or older. Conversely, the majority who accept payments online are younger.

"Canada's small businesses need to know how they can keep pace with payments," Parisi says. "That way they can best serve their own customers, grow their businesses, and have the full positive impact on our economy of which they are capable."

Canadian small businesses report concerns that keep them from taking online payments. Their chief concern is providing the same level of service to customers. Other concerns include online fraud, a limited understanding of payment technology, and distribution or delivery issues.

Parisi says that despite these concerns, taking payments online actually improves customer service.

The new reality of payments, he says, centres on meeting consumers where and where they have the most interest and intent to purchase and giving them the easiest checkout experience possible.

Parisi says that a thriving e-commerce environment in Canada can lead to greater trade, employment, and income opportunities for business owners, and that PayPal is listening to business clients to find out how to help them take advantage.

"We are constantly collaborating with our customer merchants to learn about the roadblocks they encounter in everyday business operations and showing them how we can help," he says.

In the future, Parisi says there will be even more payment options for commercial transactions. Only a few years ago, swiping the screen on a mobile phone was a new concept, and the forms new payment methods could take are endless.

"It could include a chip-embedded finger, an Internet-enabled refrigerator or washing machine, a pair of glasses, or even a shirt button," he says.

As PayPal forges partnerships to add more services for businesses, Parisi is excited about the potential for Canadian small business growth as payment methods continue to evolve.

"Together we can help propel Canadian businesses toward their full potential of participating in the global digital economy."

Rob Csernyik

Mediaplanet's Financial Publisher On

Why the Futures of Finance and Millennials Are One and the Same

Fintech, fintech, fintech, everywhere I look fintech. As a millennial, I am probably the last age group that will remember the way Canadians used to bank, buy clothes, or invest. Newer generations are walking into a digital age where the only interaction between you and your bank is what you see on your phone. For people who have seen both sides of the coin, it is very clear how beneficial fintech and financial innovation are to customer experience and financial happiness.

Mediaplanet What is fintech and why is it so popular?

Aaron Rosin Fintech is any technology that can improve financial function. Fintech has become popular due to the vast problems being solved through financial innovation. The easiest example is tap payments. Do you even carry a wallet anymore?

MP Why is fintech and financial innovation such a hot topic?

AR There is a very real benefit to financial innovation. Innovation in the financial sector has created a standard that strives to always improve customer experience. Access to your finances on-the-go and being able to handle everything via mobile devices was just the tip of the iceberg. I can now ask my phone to send a friend money with just a fingerprint for verification. Very different from putting a cheque in the mail.

MP How has your life been affected by fintech?

AR A better question is, how has it not been affected? For starters, I rarely carry a wallet anymore. Cash is pretty much non-existent in my life with the emergence of free e-transfers and Starbucks' mobile pay app. I never receive Visa statements or bank bills in the mail, as everything can be viewed on a phone. I haven't deposited a cheque at an ATM since 2016. And that's just on a Monday.

MP Why the future of finance?

AR Fintech is an amazing topic, and something that is truly ground-breaking for the industry. But technology is only one aspect of the ever-changing financial sector in Canada. There are many other aspects that influence change, specifically the people who try to change the norm. Financial innovation doesn't start with technology, it starts with the talent and the idea that progress comes from challenging the status quo. The brave few who were willing to "test the waters" are paving the way for the future of finance in Canada.

MP What interests you most about the financial sector?

AR I love that startups and smaller companies have been able to get a foot in the door. There are so many clusters, accelerators, and incubators present to help these companies get to market and bring their idea to life. Also, financial inclusion with large financial institutions will help a large portion of Canadians have access to these amazing new offerings. We would not be having this conversation 10 years ago.