



IVEY

Scotiabank
Digital Banking Lab



The Current State of Fintech in Canada: The Good, The Bad and The Ugly

Prof. Michael R. King (mking@ivey.ca)

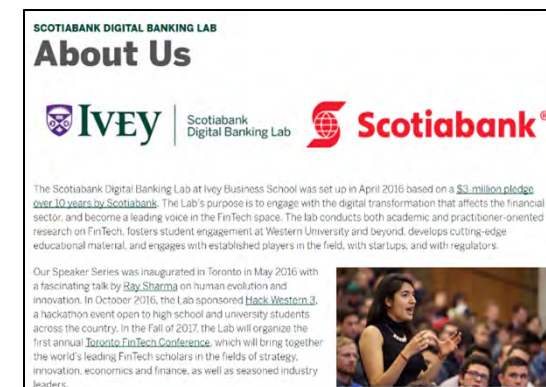
FFCON18: VELOCITY, Toronto

March 5, 2018

Scotiabank Digital Banking Lab @ Ivey



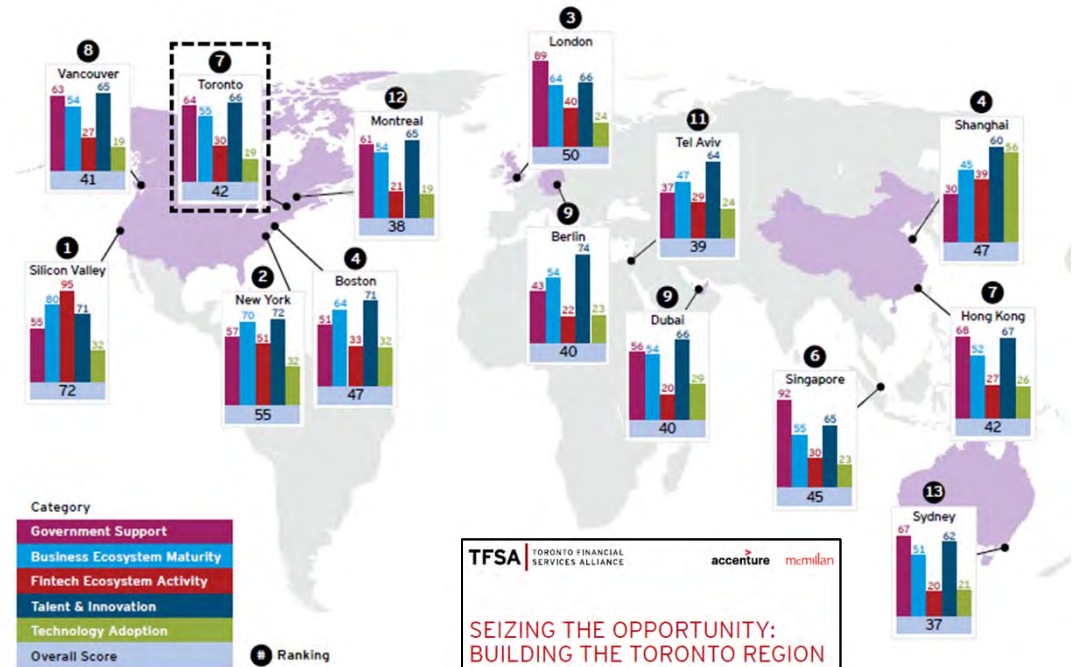
- Founded April 2016 with \$3 million gift from Scotiabank; independent
- Co-Directors: Prof. Michael King (Finance) & JP Vergne (Strategy)
- Objectives:
 1. **Research:** practitioner-focused & academic
 2. **Education:** students & public
 3. **Outreach:** alumni, practitioners & public
- Key annual deliverables:
 - Student projects, internships, hackathon & case competitions
 - Speaker series, practitioner & academic conference
 - Refereed publications, PhD theses, Ivey cases, educational material



<https://www.ivey.uwo.ca/scotiabank-digital-banking-lab/>

AGENDA

- Fintech Ecosystem
- Talent
- Capital / Funding
- Demand
- Policy & Regulations



Ranking of 14
Global Fintech Hubs
#7 Toronto
#8 Vancouver
#12 Montreal



FINTECH ECOSYSTEM

GOOD

- 800+ Canadian startups
- Strengths: AI, Blockchain, P2P, Digital ID, Robo, Payments, Mobile Banking, Crypto
- Incubators, Accelerators & Hubs across country
- Consultancy & Legal
- Dedicated conferences
- Associations & lobbies
- University centres

BAD

- Few partnerships with big Banks & Insurance (FIs)
- Not enough Cdn startups pitching FIs
- Productivity of FI Innovation Labs (innovation theatre)
- Fintech concentrated in a few cities
- Fragmented
- Data availability

UGLY

- Explosion of stand-alone apps with little integration
- Fraud in ICOs
- Money laundering
- Cyber threats
- No Fintech supercluster
- ...No national strategy & champion



FinTech Growth Syndicate

FinTech in Canada - Tracking over 700 Canadian FinTechs

Corporate Finance

Q4

Insurance

Payments

Capital Markets

Compliance & Security

Lending

Crowdfunding

Data

PFM

Cryptocurrency & Blockchain

Challenger Bank

Wealth Management

Enabling Technologies

Other

Health & Wellness



Noteworthy successes



ethereum



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SECURE KEY

Sun Life announces another industry first and joins forces with a leader in Blockchain technologies

May 11, 2017

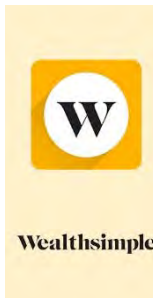
Real Matters Inc. Completes Initial Public Offering of Common Shares

AI

ELEMENT



Lightspeed POS announces US \$166 million of investment led by Caisse de dépôt et placement du Québec



You've Trusted Us with \$2 Billion. And We're Growing Faster Than Ever.

Today we announce that we hit the \$2 billion mark in assets, and have secured an additional \$65 million investment so we can grow better, faster.

BY MIKE KATCHEN — MARCH 02, 2018

TALENT

GOOD

- Depth & breadth of financial expertise
- Visa schemes to attract foreign talent
- Success of Waterloo in Silicon Valley
- Creative Destruction Labs across Canada
- Blockchain Institute
- Bank investment AI



Canada launches fast-track visa program to lure top talent

BAD

- Talent shortages: tech, coders, data scientists, machine learning & AI
- Little on curriculum at universities & colleges...



UGLY

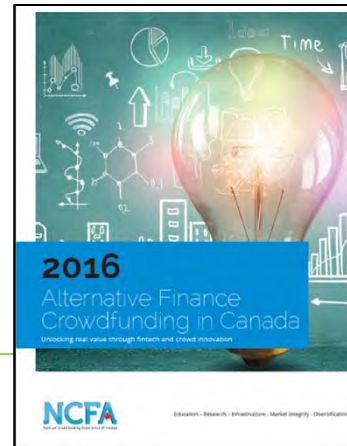
- Waterloo alumni in Silicon Valley
- Turnover of FI innovation leaders

CAPITAL / FUNDING

GOOD

- Record VC dollars invested 2017 \$3.5B
- Increased VC funding to Fintech USD 456m 2017
- More Fintech VC funds
- Dedicated Corporate VCs (Portag3, National Bank, Intact)

- Funding for AI & cybersecurity
- Outreach by C100

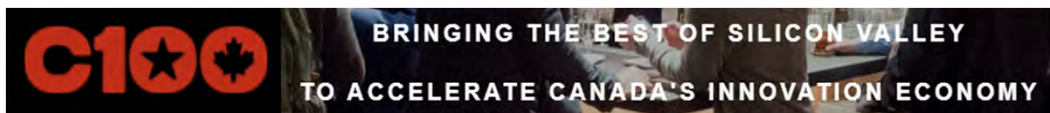


BAD

- Availability of Late Stage / Growth Equity
- Few unicorns
- Few exits
- Foreign acquisitions (hollowing out)

UGLY

- \$\$\$ hard to get!!!





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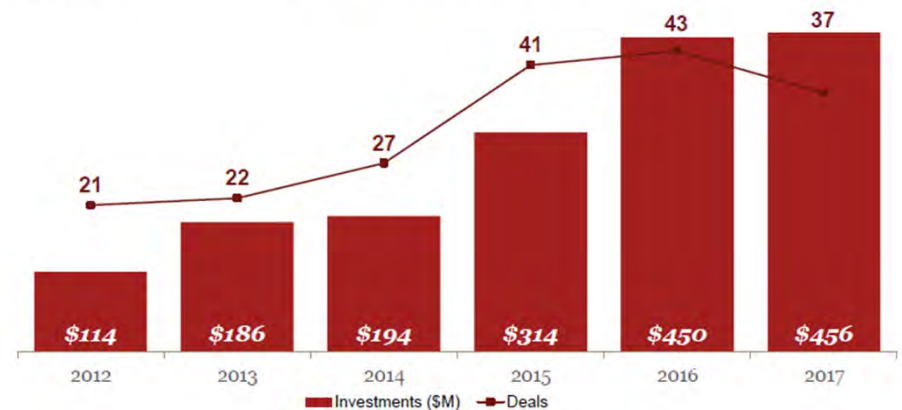
RECORD NUMBER OF MEGA-DEALS SPUR 2017 ACTIVITY // PRELIM 2017



**VC dollars 2017
C\$3.5 billion**

Fintech funding up despite a decline in total deal numbers

- Total annual funding to Canadian fintech companies increased to \$456M, up from \$450M in 2016. Deal activity declined from 43 deals in 2016 to 37 in full-year 2017.
- Total annual funding was buoyed by a \$150M+ mega-round.
- Average deal size increased 38% from 2016, from \$11.8M to \$16.3M.

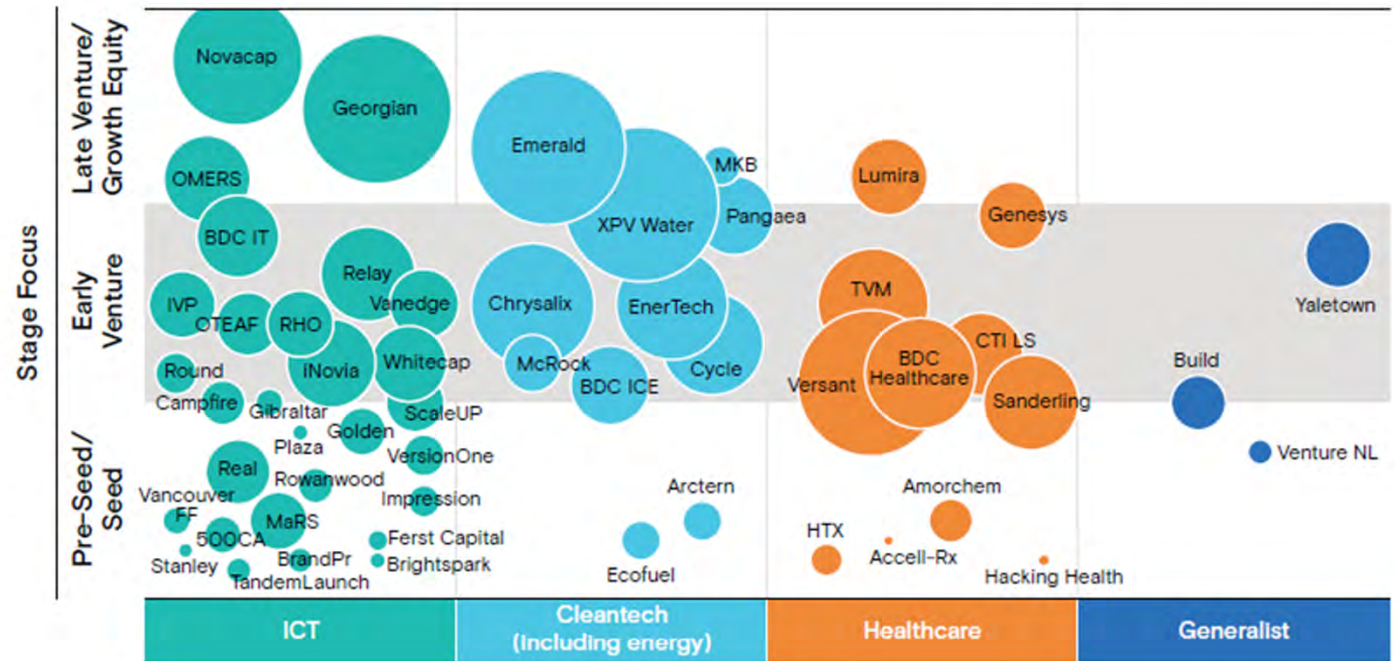


**VC dollars in Fintech 2017
US\$456 million**

Figure 2

Overview of active funds in the Canadian VC sector⁶

Canada's Venture Capital Landscape:
Challenges and Opportunities
June 2017

Bubble Size Legend:

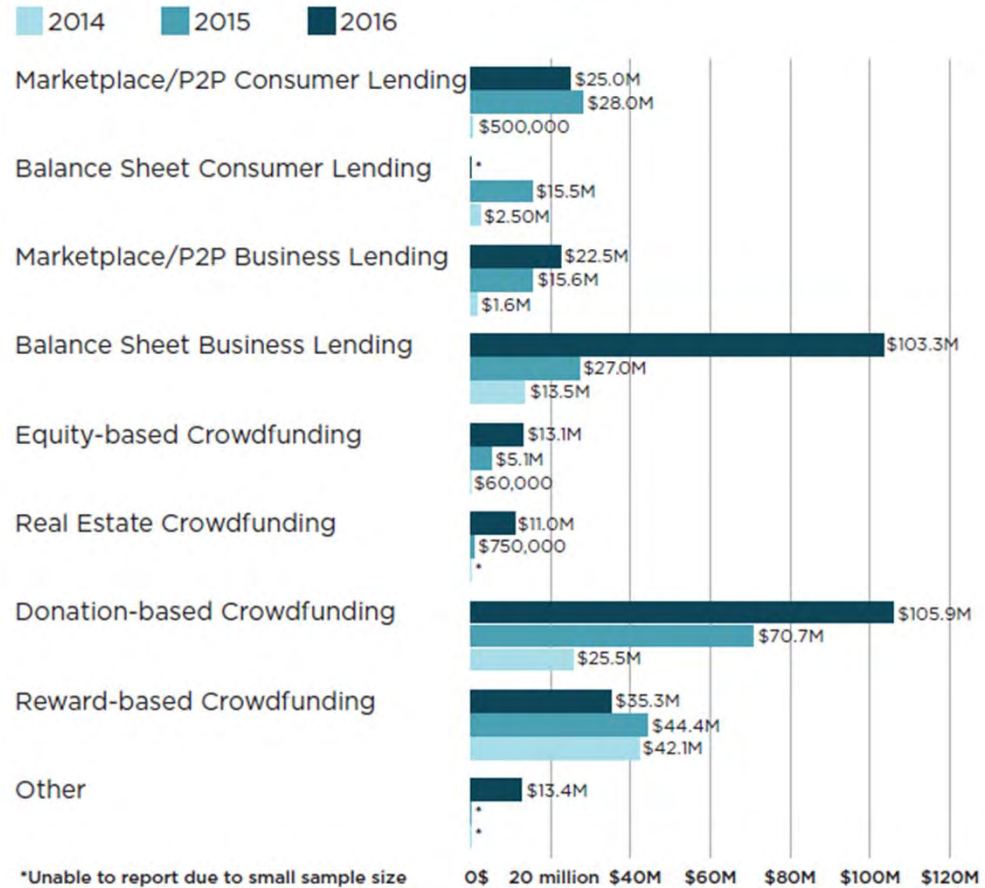


Source: BDC Internal Data

Note: Bubble size represents actual/expected fund size (C\$). Fund size includes full commitment amount—not all capital will be deployed in Canada (some cross-border investing)



Figure 19: Canada Alternative Finance Market Volume by Model, 2014-2016 (\$USD)



bank
Banking Lab

See: <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/>

DEMAND (Consumers, Business, Govt)

GOOD

- Mobile transactions > branches
- Provincial efforts to raise awareness at home & abroad

BAD

- Low fintech adoption
- Poor consumer awareness & high risk aversion

UGLY

- FIs: 120+ bank signatures to partner with fintech
- Lack of government procurement

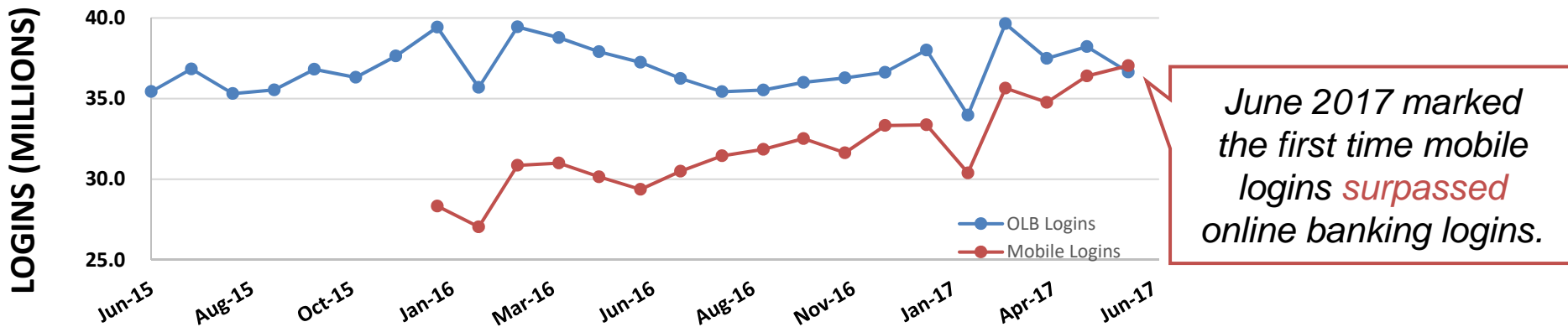
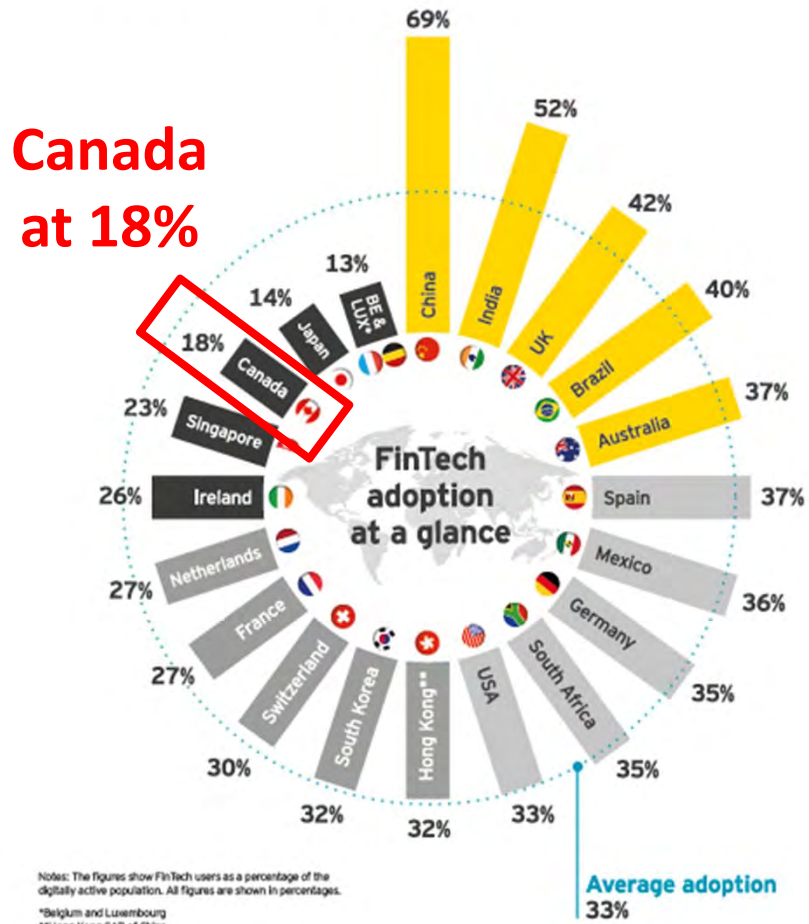
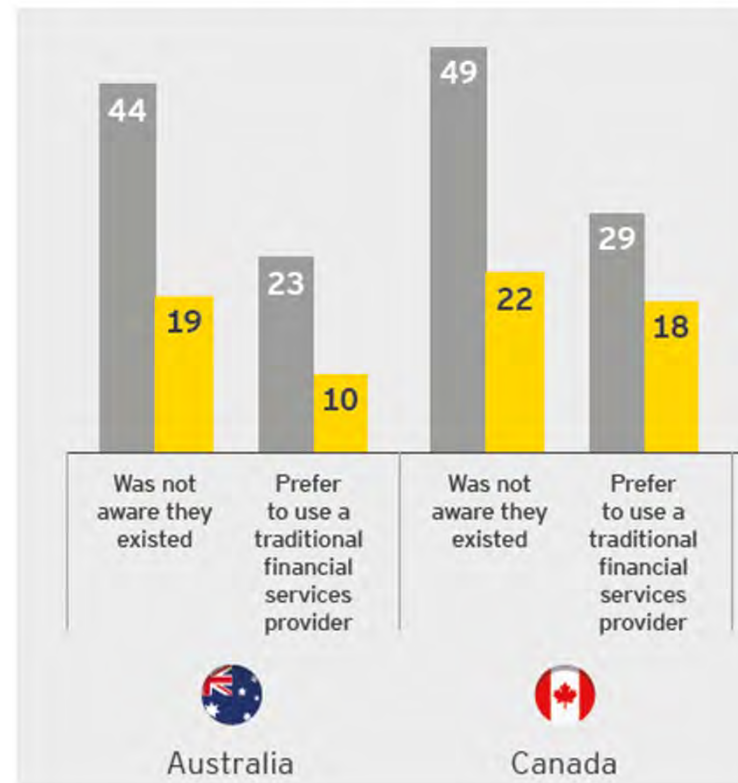


Figure 1: FinTech adoption rates across our 20 markets



Notes: The figures show FinTech users as a percentage of the digitally active population. All figures are shown in percentages.
 *Belgium and Luxembourg
 **Hong Kong SAR of China

Figure 5: Comparison of two selected barriers



POLICY & REGULATIONS

GOOD

- Competition Bureau 2017 Fintech Study
- Ontario Experts Panel
- CSA Sandbox; OSC LaunchPad
- Review of Federal Financial Sector Framework (Bank Act)
- Open banking / data, flexibility to make non-controlling investments
- CSA approach to ICOs

- BoC Proof of Concept on e-money & blockchain (Jasper) + research
- Modernization by Payments Canada
- Focus on innovation

BAD

- Pace of legislative implementation of revised Bank Act

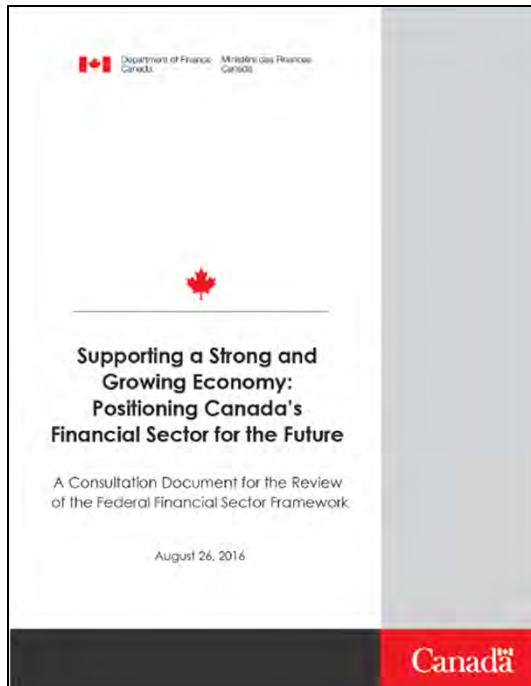
UGLY

- No national strategy & champion
- Equity crowdfunding rules
- Regulatory spaghetti (26 bodies), cost, uncertainty
- Lack of engagement (OSFI, FINTRAC)
- Promotion of Cdn fintechs abroad
- MOUs with foreign regulators

Federal Financial Sector Review 2019



- For FinTech, focused on open data & ability of Cdn FIs to invest in FinTechs.



Fostering Innovation and Competition

Review of Open Banking

Financial technology (fintech) is driving change in the financial sector, and has the potential to increase innovation and competition, providing Canadians with more affordable and useful services, and increasing financial inclusion as specific customers or markets (e.g. small and medium sized businesses) are better served.

Within this overall context, a number of international jurisdictions are implementing open banking platforms. At its core, open banking is about empowering consumers to share their financial data between their financial institution and other third party providers through secure data sharing platforms. This in turn enables financial service providers to offer more tailored products and services, on a more competitive and innovative basis. Open banking also has the potential to provide consumers with greater transparency on the products and services offered by financial institutions, thus allowing them to make more informed decisions, and makes it easier for consumers to move and manage their money.

Recognizing these potential benefits, the Government proposes to undertake a review of the merits of open banking in order to assess whether open banking would deliver positive results for Canadians with the highest regard for consumer privacy, data security and financial stability.

Supporting an Innovative Retail Payments System

Innovative, well-functioning retail payments systems allow consumers and businesses to transfer payments smoothly and efficiently. The Government is undertaking consultations with stakeholders, including provinces and territories, on a proposed oversight framework that aims to ensure that retail



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OPINION

Federal budget keeps Canada's fintech sector in the 'valley of death'

MICHAEL KING

CONTRIBUTED TO THE GLOBE AND MAIL

PUBLISHED 2 DAYS AGO

Michael King is associate finance professor at Ivey Business School, University of Western Ontario.

In the world of startups, the period when entrepreneurs are spending cash to build out a new product or service but have no revenues is known as "the valley of death." The only way to survive is to find an investor who believes in the idea and is willing to finance it to production and to find customers fast. Almost as important as cash, however, is mentoring and strategic advice from someone who believes in the founders.

Currently, Canada's fintech industry is in the valley of death and is looking for mentoring, strategic advice and customers. The sector has been growing rapidly, investing in innovative

The Future of Digital Advice Conference



Scotiabank
Digital Banking Lab

WHEN

April 16, 2018

Add to calendar

WHERE

Scotiabank Centre, 40 King Street West,
2nd Floor, Toronto, Canada

View map

<https://www.ivey.uwo.ca/scotiabank-digital-banking-lab/events/>



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FINANCIAL ADVICE IN CANADA: A WAY FORWARD

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