

Fintech Innovation

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CDO

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Agenda

1. Emergence of Fintech – Filling the Gaps
 - (The Emergence of Fintech, causal factors)
2. A Shift in Governance
3. Fintech Impact on the Evolution of IPE
4. The Emergence of Cryptocurrencies
5. What Constrains Disruptors' Growth Trajectories?
6. Addressing the Frustrations
7. Relationships Between the Big 5 Banks and Fintech Startups
8. Regulatory Sandboxes
 - How do Other Countries do it?
9. Opportunities Spawned by Fintech Development
10. Regulatory Nightmares

The Emergence of Fintech

Traditional Global Actors

- States
- Non-state actors (i.e. Non-governmental organizations, NGOs) including issue-based advocacy organizations (i.e. Greenpeace, UNICEF, OECD, OPEC, Amnesty International)
- Multinational corporations such as banks, big commercial enterprises (i.e. Procter and Gamble, Coca Cola Company) and countless other large global companies
- Banks and non-state financial actors have become more significant participants in the international financial system than many states

A Shift in Governance

- Multinational Financial actors are governed by the rules and laws of their home country government, as well as by those of their host country.
- This is the principle of “home country control with host country supervision” as described by Ethan Kapstein in 1988.
- But over time with the emergence of new and diverse financial instruments governance mechanisms for international finance no longer suited the realities of that economic sector – witness the financial crisis of 1997-8, eroding public trust in multinational banks and the system overall.

Fintech Impact on the Evolution of IPE

- Traditionally, we saw only four activities associated with money:
 - Buying
 - Selling
 - Borrowing
 - Lending
- Until recently financial actors have either been in or worked through the banking sector of the economy, often wielding the huge/questionable power demonstrated in various currency and commodity crises.
- Now we add “mining” as a new activity associated with money, as applied to digital money

Entrance of New Financial Technologies

- \$49.7 billion was invested globally on fintech in the last 5 years.
- Fintech enthusiasts believe that fintech and blockchain, the payments infrastructure for digital currencies “cryptocurrencies” could revolutionize the global economy and that banks will be marginalized.
- Don Tapscott tell us that blockchain is to the storage and transfer of value what the internet was to knowledge and information

Emergence of Cryptocurrencies



- A cryptocurrency is a digital currency where encryption controls the generation of units of currency and verifies the distribution of funds independent of any financial institution
- Payment in cryptocurrencies goes through blockchain, which is a giant, open source distributed database (ledger system) that runs on countless computers effecting peer-to-peer payments without the intermediation of a financial institution

Restricting Disruptor Growth

- Existing regulatory challenges
 - Volume of Canadian FI regulations, three tiers of government, stifling environment
- Lack of Canadian investment opportunities
 - Results in starts-ups moving to US to obtain investments and funding, restrictions on Canadians investing in start-up ICOs
- Minimal Access to Talent
 - High demand for 'tech talent' and coders

Addressing the Frustrations

1. Introduce one single Canadian regulatory body for financial sector
 - To regulate emerging technologies in financial services industry to make Canada 'a leader in innovation', invest in regulatory sandbox initiatives
2. Continue to support growth and development of fintech start ups
 - During and post-incubator phase, will also help foster competition in FI sector
3. Increase domestic fin-tech start-up retention rates within Canada
 - Help address challenge of Canadian investors not being allowed to invest in Canadian fin-tech start up ICOs in the crypto currency and blockchain market
4. Promote the growth and need for tech talent and coders
 - Talent development and talent retention, leverage university incubator-bank relationship

Relationship Between Big 5 Banks and Fintech Start-ups

- We are seeing 2 pathways for relationships between fintech start-ups and the big 5 banks in Canada
 1. Fintech start-up stays completely independent – develops disruptive products/services separately and independently of any involvement or investment of big 5 banks
 - They are then free to choose to sell the product/service , and promotes financial services innovation by increasing competition in the market
 2. Fintech start-ups collaborate with banks to develop a product/service, that will be utilized and integrated by this one bank that acquires it
- There needs to be some independent challenges and competition to the big banks in Canada
 - Want to avoid the scenario where banks stifle and slow fintech innovation by buying up all the new innovative and disruptive fintech being developed

Future of Canadian Fintech Disruptors

Short Term

- **Fintechs disrupting the existing payment systems**
 - Nano Pay – instant clearing value transfer in secured way
 - Wealth Simple – Robo-advising investment advisor for ETFs

Medium Term

- **Fintechs using AI to disrupt the credit space**
 - Borrowell – immediate pre-approved credit loans <35K on credit, credit monitoring service
 - Mogo - immediate pre-approved credit loans <35K on credit, cryptocurrency trading platform

Long Term

- Blockchain & Ethereum Technology platforms – starting to take shape now
- On the horizon, but not yet materialized completely, restricted by outstanding policy issues and regulatory challenges

How do Other Countries Do It?

Regulatory Sandbox Initiatives Abroad

- London
- Singapore
- Australia

Regulatory Sandbox Initiative in Canada

- Toronto
 - i.e. Tokenfunder working with OSC as first provincially regulated cryptocurrency platform – started in regulatory sandbox

Digital Finance:

Huge Economic Opportunity or Regulatory Nightmare?



Opportunities

- International Development implications of fintech are significant particularly for women;
- It can create a new engine of economic growth for the financial services industry if banks understand that fintech innovation will make their existing technologies and processes obsolete ;
- Blockchain opportunities extend far beyond finance – i.e. medical, immigration, employment, and real estate ownership records
 - The first step to taking advantage of this opportunity is developing blockchain regulation

Regulatory nightmares

- How to conduct monetary policy without an accurate guide of volumes of funds in the system;
- Possibilities for hacking and illegal transfers of funds are multiplied dramatically