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ARTICLE

The Canadian FinTech Sector Has The Potential To Be a World Leader

The FinTech sector in Canada has seen significant growth in recent years and has the potential to grow further as collaborations between FinTechs and regulated financial institutions continue, new and improved regulations are adopted, and a growing number of young tech superstars focus their energies on developing technology applications for financial services in Canada and the world.

Canada is home to a number of financial hubs, including Toronto which is considered a leading international hub. It also has some of the world's top technological talent and the Government of Canada has taken steps to facilitate the relocation of international talent to Canada. Canadians have long been early and enthusiastic adopters of new financial-services technology. From the first automated tellers to mobile payment systems, we have always embraced innovative ways to bank and invest.

Canadian financial institutions have so far welcomed innovative technologies and have collaborated with FinTech firms to improve efficiencies and product offerings.

According to a PwC 2017 Global FinTech Report, the number of financial institution-FinTech partnerships in Canada is much higher than in most other countries. 62 per cent of Canadian financial institutions declared they are actively involved in partnerships with FinTechs and 88 per cent said they would increase partnerships going forward.

While the FinTech Adoption Index found that Canada lags behind the global average FinTech adoption rate of 33 percent a recent report of the Global Risk Institute in Financial Services titled [An Overview of Fintech in Canada](#) found that adoption of FinTech in Canada has reached the Early Majority Adoption phase and is expected to continue to grow.

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How Do Maximize Our Competitive Advantage?

In some respects, FinTech has been around longer than most people realize. For decades, Canada's big banks have used technology to accelerate workflows, reduce costs and improve the customer experience.

What's new is the speed at which ground-breaking technologies are coming online. Machine learning, artificial intelligence, big data — they're reshaping an entire industry. If we're to achieve our full potential, we need to take a number of steps.

To begin with, we need to ensure that access to private capital and our public markets are sufficiently robust enough to support the development of Canadian companies throughout the development cycle. It is not enough to fund successfully the early stage development of FinTechs. We need to be sure that they have sufficient access to capital to grow into global enterprises where their mind and management remains in Canada. Governments in Canada have an important role in creating a policy environment that facilitates capital formation for FinTechs, including from individual investors, and institutional investors, including pension funds.

In addition, there is no doubt that many of the federal, provincial and territorial regulatory regimes that touch FinTech ecosystems can be improved. We need to be sure that regulations that were designed for an earlier time are appropriate for an increasingly digital economy. It is important to note that Governments are actively working on regulatory reform projects, including reform of federal financial institution and payments legislation that will facilitate activity by both FinTechs and financial institutions. In addition, Canadian securities regulators are beginning to take steps to clarify the circumstances in which digital currencies can be launched and developed in Canada, without the requirement to comply with securities laws of general application.

Along with an updated domestic regulatory environment, the FinTech sector in Canada will benefit from comprehensive global regulatory standards. Work in that area is getting underway, but until global standards are established, we will need to work hard to encourage FinTech developers to continue to use Canada as their base for global expansion and success.

"The FinTech brain drain

Canada's complicated regulatory environment has already driven some innovators and entrepreneurs outside the country. Case in point, Vitalik Buterin. This Thiel Fellowship winner and University of Waterloo dropout is the inventor of Ethereum, the blockchain-based operating system and distributed computing platform. Since its invention in 2014, Ethereum has become the foundational software for many FinTech applications. On the surface, this is a true made-in-Canada success story. But the Ethereum team soon shifted operations to Switzerland to take advantage of that country's friendlier regulatory environment."

Reasons for Optimism

With the right leadership, Canada can be at the forefront of the new FinTech economy. This country is home to brilliant technology developers who are creating game-changing financial-services products for a global market.

Canadians have long excelled in the commercializing of the risky resource sector. We have every reason to believe that a similar attitude toward extracting the opportunities offered in the emerging FinTech space will become an ever increasing reality in Canada.

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economy."

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