



CIBC and its Canadian rivals are eager to innovate in the mobile banking space.

# Banking on the digital revolution

The rise of disruptive 'FinTech' is transforming bricks-and-mortar banking

**S**tep to the corner of a major intersection in virtually any large Canadian city, and you'll notice a common feature: a bank branch perched on at least one corner, its presence a symbol of our country's financial strength and robust global economic standing.

Now imagine the same corners stripped of these iconic structures – perhaps in little more than a decade – and you can begin to understand the impact the financial technology (FinTech) revolution is having on the Canadian banking sector. "I think (the financial services sector is) going to be completely revolutionized," says Adam Nanjee, head of the financial technology department at MaRS Discovery District, a Toronto startup incubator.

"We see companies building digital wealth managers or robo-advisors [software that provides customized wealth-management advice], we have banks going strictly digital without branches or ATMs," says Nanjee. "We're going to see more digital banks emerge in the future. I think the traditional way of getting mortgages or insurance will change forever. There is so much innovation and disruption happening across the industry, we can't even quantify it."

The emergence of complex financial software, mobile communications technology and advanced predictive analytics are fuelling the push towards an entirely digitized financial sector across developed countries. Add improvements to digital security and networking to the equation, along with the growing popularity of crowdfunding and peer-to-peer lending – not to mention the Millennial generation's preference for digital banking – and the stage is set for a transformation.

"Millennials don't want to go into a bank to meet with an investment advisor, who may try to sell them expensive, actively-managed funds," says Pauline Shum, founding director of the Master of Finance Program at the Schulich School of Business and an expert on portfolio analytics. "Millennials want simple and low-cost ETF portfolios that they can track on their phones, and hence the rise of robo-advisors that cater to this particular demographic."

Adds Prof. Shum: "Traditional banks are beginning to get into that space too. Investment with robos are probably the millennials' core portfolios, and then they'll have some money to play the stock

market on the side – don't forget, this is the generation that grew up with online trading simulations."

Cash may eventually become obsolete, replaced by mobile wallets or barcode accounts, a radical shift that will see capital markets become increasingly democratized. For banks, these changes present risk – namely the disruption of a lucrative, centuries-old business model based on engaging with customers at bricks-and-mortar retail locations – but also new opportunities. Mobile devices allow financial institutions to sell more products and services directly to customers in real time. What remains to be seen is whether these massive organizations can pivot fast enough to compete with technology startups that are already threatening their grip on the marketplace.

According to MaRS, global investments in FinTech reached \$6.8-billion last year, an increase from \$3-billion in 2013, while technology spending across the Canadian financial sector is predicted to jump from \$12-billion to \$14.8-billion. As such, firms across the technology spectrum – such as digital payments, data collection and mobile security – will see demand for their products and services rise.

"I wouldn't be shocked if, 20 years from now, Apple is the biggest bank in the world," says Moshe Milevsky, associate professor of finance at Schulich, best-selling financial author and founder of a FinTech startup focused on insurance products, which he recently sold to CANNEX Financial Exchanges. "If most people start doing transactions on the (Apple Pay) platform, they're one step away from it, but banks won't go into the night quietly."

Banks are trying to work with technology companies to develop innovative mobile banking solutions, while making the shift to improve digital banking systems. Canadian Imperial Bank of Commerce recently launched

a banking app for the Apple Watch, for example, while Royal Bank of Canada began allowing peer-to-peer fund transfers via Facebook Messenger in 2013. Many Canadian banks are investing in technology companies that can deliver digital solutions to help them remain competitive globally.

Meanwhile, government agencies across Canada and around the world are in a constant struggle to understand and regulate emerging financial tools such as crowdfunding. That's why balancing consumer protection rules with those that can help spur innovation requires a creative approach, according to Prof. Milevsky.

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