

The Fintech Opportunity

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Issue

Despite a relatively weak domestic Fintech sector, Canada's soft power advantages afford unique opportunities to lead internationally in crafting fintech instruments for gender-sensitive economic development and the achievement of multiple Sustainable Development Goals (SDGs).

Background

The Fintech Opportunity

Despite having both robust financial and banking sectors and strong digital infrastructure, Canadians have not transitioned from traditional financial services delivery mechanisms to newer financial technologies with the same fervor as other countries. Fintech users account for only 18% percent of digitally active Canadians, lagging far behind adoption rates of global fintech-leaders such as China, India and the United Kingdom (69 percent, 52 percent and 42 percent respectively), as well as the global average (33 percent) (Watson and LaPlante 2018, 5).

The Canadian fintech market has significant potential for growth and innovation given the relative competitiveness of emerging fintech businesses and the capacity of financial hubs such as Toronto and Vancouver to attract and supply talent from domestic and international universities, connect start-ups with incubator/accelerator partners and facilitate access to Canada's largest commercial banks. However, the state of the Canadian financial regulatory environment poses a serious threat to the realization of the fintech sector's prospects. The proliferation of the fintech

sector has dramatically outpaced policy and has created an environment in which fintech businesses operate outside the current financial regulatory framework (Watson and LaPlante 2018). The introduction of the Regulatory Sandbox Initiative (RSI) by the Canadian Securities Administrators in 2017 attempted to provide fintech start-ups a more flexible regulatory environment to spur innovation and growth in the industry. While the RSI was a step in the right direction, the Canadian policy landscape is fragmented, and fintech firms remain constrained by factors such as the application of irrelevant banking-sector regulations designed for partnerships with larger banking institutions and ill-suited to the fintech industry (Toronto Finance International 2019).

Fintech for the SDGs

The Canadian government has committed to contributing to the realization of the SDGs alongside 192 other UN member states. Fintech is complimentary to many of the SDGs and specifically relevant to several SDGs, including: 1 (Zero Poverty); 5 (Gender Equality); 7 (Affordable and Clean Energy); 8 (Decent Work and Economic Growth); 9 (Industry, Innovation and Infrastructure); and 10 (Reduced Inequalities). Fintech's ability to facilitate public saving and investment, direct capital towards projects parallel to the SDGs (for example, renewable energy development), and enhance transparency and accountability in the financial sector are invaluable to accomplishing the SDGs (UN Secretary-General 2018). For example, the Kenyan bank M-PESA found that the mobile phone-based money transfer lifted as many as 194,000 households — two percent of the Kenyan population — out of poverty and has been effective in

improving women's economic opportunities (UN Capital Development Fund. n.d.). In 2018, the United Nations announced the creation of the Task Force on Digital Financing of Sustainable Development Goals in order to “expand financial literacy” and leverage the benefits of fintech towards the SDGs (Fishman 2018). Fintech has been proposed as a way to address unequal access to financial resources for the world's unbanked people. Unencumbered by legacy systems, fintech companies “... have the chance to build the right systems from the start” (Philippon 2016, 15). The digital revolution within the global economy has generated a need for fintech-based solutions to address existing and future economic concerns such as development, financial literacy and energy.

Pursuant to Canada and fellow UN-member states' commitments to achieving the SDGs, Canada should also seek to engage key allies in leveraging fintech instruments. India and select African states such as Kenya offer especially promising partnership opportunities. India's rapid proliferation of fintech users and positive diplomatic ties with Canada provides low barriers to cooperation, while the adaptation of fintech to supplement a lack of regional financial infrastructure in many African nations have especially high prospects as future global fintech markets. Multiple Chinese fintech projects are underway in Africa, including large-scale investment in African fintech, such as mobile payment-platform MFS Africa, backed by China-based venture capital (MFS Africa 2019). Canada should see states like Kenya as invaluable allies in pursuing fintech-led solutions to realizing the SDGs.

Consumer Protection Matters

Leveraging Global Affairs Canada's (GAC's) current infrastructural capabilities towards fintech should be a joint endeavour to locate affordable interventions in favour of fintech, while preserving its current mandate towards feminist international assistance (Tiessen and Carrier 2015). GAC's international assistance projects represent a central opportunity to further galvanize fintech support in line with current projects related to digital inclusion, financial literacy and empowering unbanked households. Based on our research, since the year 2000, Canada has supported over 200 projects based in the banking and financial services sector through international development assistance. Based on a sample of these project descriptions, technical assistance has been provided to enhance the governance of the financial sector in countries around the

world (Government of Canada 2019). These initiatives also strengthen multilateral cooperation on global fintech development projects with institutions such as the World Bank, the IMF and the United Nations.

GAC has a particularly strong comparative advantage in its knowledge and expertise on consumer privacy and protection. Part of the adoptability of new technology is developing trust and institutional capacity to protect consumer financial records (Arner, Barberis and Buckley 2015). Through these international development assistance programs, Canada can provide training to institutions on fintech privacy considerations, help develop the infrastructure necessary to support consumer privacy, and could even help draft consumer privacy legislation that has worked well in Canada and can be adapted to local conditions. GAC could collaborate with the Department of Finance to develop these interventions as well as partner with other states and/or institutions to help provide this type of technical assistance on fintech consumer protection. This recommendation is backed by the finding that fintech use is positively correlated with information technology infrastructure, for example, a higher number of internet service providers and cellphone network capabilities (Haddad and Hornuf 2016).

Consumers are drawn to fintech because of the ease of access and low barriers to creating an account (Gulamhuseinwala, Bull and Lewis 2015). Customers who use fintech are looking for intuitive, convenient financial options that expand their financial choices. However, consumer protection should remain paramount. Protection-oriented policies should focus on the consumer level, not only to reinforce the stability of the sector as a whole through decreased volatility, but also to reduce predatory and discriminatory lending practices (Bartlett et al. 2017). In this way, Canada can support the financial safety net that fintech provides for the world's unbanked and financially disadvantaged.

Fintech Grand Challenges Program

The “Grand Challenges” model is highly effective at directing companies, entrepreneurs, civil society and other actors to help each other find innovative solutions to big policy problems. There is a range of examples where this model has been used successfully. The Carbon XPrize is one such example. The XPrize is a global competition to develop breakthrough technologies aimed towards CO2 conversion. Another example is Grand Challenges Canada, funded by

GAC, to find innovative solutions to and technologies for global health issues. It has supported over 1,000 innovations in 95 countries. Like other initiatives, a fintech challenge fund for the SDGs could leverage private sector capital to be invested into solutions that create financial inclusion and create a network for collaboration and innovation.

A hybrid Grand Challenges model would work best for GAC's purposes. The first element in a hybrid model would be an inter-state partnership, in which Canada seeks out another state to help support a specific fintech Grand Challenge. For the fintech Grand Challenge, GAC could seek out partners that have strengths in fintech and a similar desire to create positive global change. When potential partners are positively identified, GAC could form bilateral or plurilateral partnerships, provide joint funding for the initiative to spur innovations and investment, and work together to build a pipeline of innovations that could help solve one of the SDGs. A final winner could be selected and given a monetary reward.

Second, following the example of Grand Challenges Canada, GAC could provide Grand Challenges Canada with a separate mandate for fintech. Nothing in the existing Grand Challenges Canada model would necessarily need to change. GAC could outline four or five priority areas (such as female financial empowerment and financial inclusion) for those funds and direct Grand Challenges Canada to create the programs necessary to find solutions in priority areas.

Lastly, the hybrid model would foster the development of a fintech for a community of best practices and enable different state and non-state actors to share best practices in evidence-based policy and programming that leads to an overall improvement in fintech uptake and help solve problems on the 2030 Agenda for Sustainable Development.

Recommendations

1. Develop an International FinTech Grand Challenges Program.
2. Adapt and build capacity in consumer protection.
3. Engage key state and non-state actors and organizations such as India, Kenya and the Global Financial Innovation Network on fintech-development projects.

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