



# INVEST IN CANADA



## MOBILE FINANCIAL SERVICES IN CANADA



## Canada's financial technology (FinTech) sector: Attracting investment and generating profits from the global mobile financial services revolution

For eight years in a row, the World Economic Forum has rated Canada as having the world's soundest banking system.<sup>1</sup> This long-term stability in Canada's banking system and an advanced banking infrastructure have created substantial opportunities for foreign investors in areas such as clearing and transaction settlement, P2P mobile payments, mobile banking, mobile wallets and tokenization.

## CANADA'S POSITION IN THE GLOBAL MOBILE FINANCIAL SERVICES VALUE CHAIN

According to GSMA, the association that represents the interests of mobile carriers worldwide, mobile money is now available in 93 countries, and 411 million mobile money accounts had been set up globally in 2015.<sup>2</sup> Some of the most prominent deployments include PayPal, Apple Pay, Android Pay and various operator-centric mobile payment platforms.

The Canadian mobile financial services sector is in the early stages of a mobile money revolution. PayPal reports that mobile commerce spend in Canada had already reached \$3.45 billion in 2013, and forecasts that it will grow by 142%, to \$4.9 billion in 2016.<sup>3</sup>

In response to this market potential, organizations like PayPal, Apple and Facebook have successfully deployed their mobile payment solutions in Canada, and the sector has seen mobile wallet deployments by all but one of Canada's largest banks.

Analyst firm IDC expects a wave of activity in 2016-2017, as banks and foreign investors continue to size up the opportunities offered by the Canadian mobile commerce market.<sup>4</sup>

Canada offers financial technology investors significant advantages in key areas of mobile commerce and next-generation financial technology. These include:

- Peer-to-peer (P2P) mobile payments
- Digital currency
- Mobile wallets
- Equity crowdfunding
- Mobile banking
- Other financial services (such as mobile insurance)
- Tokenization
- Back- and middle-office operations
- Clearance and settlement operations

## THE MOBILE PAYMENTS ECOSYSTEM IN CANADA



1 Bloomberg.com. Canadian Banks Ranked World's Soundest for Eighth Straight Year.  
 2 GSMA. 2015 State of the Industry Report on Mobile Money.  
 3 PayPal Canada News Release, Feb 18, 2015. Mobile Commerce Growth Poised to Eclipse Online Commerce in Canada.  
 4 IDC Financial Insights. Business Strategy: Mobile Payments in Canada—2016 Status Update.

# CANADIAN MOBILE COMMERCE SPEND IS EXPECTED TO REACH \$4.9 BILLION IN 2016

*PayPal launched its operations in Canada in April 2006. As the company points out, Canadians have been PayPal users for longer than that, with many using the service soon after PayPal was founded in 1998. PayPal believes that Canada is at the dawn of a mobile-first era, and points as proof of this, to the growth in mobile financial services in Canada from less than one percent of payment volume in 2010 to more than 22 percent in 2016.*

## **Q What are PayPal's core activities in Canada?**

PayPal is a leading technology platform company that enables digital and mobile payments on behalf of consumers and merchants. We are driving payment innovation and accelerating the growth of digital commerce, small businesses, FinTech and digital remittances in Canada. Our main focus is on creating compelling shopping, selling, donating and P2P money transfer experiences for our 6 million active users.

## **Q What are some of your locations in Canada?**

PayPal's Canadian head office is in Toronto, Ontario.

## **Q Why did PayPal choose Canada for investment in mobile commerce?**

In our view, Canada is ripe for foreign investment in mobile commerce. Canada has a savvy mobile population, with a 63% smartphone user base. Mobile payments are popular and rapidly growing across various consumer segments, and our research shows that 19% of Canadians have shopped on their mobile phones and 15% on their tablets. And, of course, PayPal is a trusted brand in Canada, where 42% to 45% of Canadian consumers who use their mobile devices to shop prefer PayPal over other payment methods.

## **Q Have the skills of the Canadian workforce met PayPal's needs?**

Canada has a highly educated, talented and diverse workforce. Our team in Canada is one of our smartest, hardest working and most collaborative globally. Even though they belong to different functional and business units, they work as a strong, unified team to consistently innovate and deliver the best solutions for our customers in Canada.

## **Q Why should foreign organizations invest in Canada?**

Canada is at an inflection point in commerce and payments, and PayPal Canada has an exciting and unique opportunity to lead the growth of the Canadian economy in sectors like digital commerce, cross-border trade, remittances and small business digital and mobile commerce.

The reason for PayPal's success with mobile payments in Canada is simple: We've delivered meaningful and simpler ways for people to pay with their mobile devices. We're not only keeping up with innovation, we're driving it and getting ahead of the game.



**Cameron Schmidt,**  
General Manager, PayPal Canada

PayPal's history is closely linked with the start and growth of e-commerce and m-commerce. PayPal's Canadian subsidiary helps more than 250,000 Canadian retailers and businesses with their e-commerce and m-commerce transaction needs. Today, PayPal has over six million active users in Canada, which means that one in five Canadians has a PayPal account.



# MOBILE FINANCIAL SERVICES: KEY BUSINESS ATTRACTION FACTORS IN CANADA

Canada's mobile financial services sector offers foreign FinTech investors significant growth potential. Canada's relatively low labour costs for key job titles such as programmers, computer engineers and contact centre staff, coupled with the presence of some of North America's largest financial institutions has resulted in deep, vibrant clusters of activity in this sector.

## SKYROCKETING MOBILE SPENDING



Source: PayPal. *Mobile Payments in Canada*.<sup>6</sup>

## HOST CARD EMULATION IS A GAME-CHANGER FOR THE MOBILE PAYMENTS VALUE CHAIN IN CANADA



Canadian banks are moving towards cloud-based HCE mobile payment solutions, which will supercharge opportunities for foreign technology vendors in 2016-2017

## HIGH UPTAKE OF CANADIAN MOBILE PAYMENTS SOLUTIONS

**1 in 5**

CANADIANS HAVE SHOPPED ON A  
SMARTPHONE IN 2014

Source: PayPal. *Mobile Payments in Canada*.<sup>6</sup>



## A GROWING TOKENIZATION ECOSYSTEM IN THE CANADIAN BANKING SECTOR

The increased requirement for tokenization of Primary Account Numbers has created new opportunities for token service providers in the mobile financial services ecosystem<sup>7</sup>

## APPS ARE EMERGING AS A KEY SALES CHANNEL FOR RETAILERS IN CANADA



Canadian retailers are increasingly developing in-house apps that are specific to their businesses, thereby creating opportunities for mobile app developers

## SINCE 2010, CANADA'S FINTECH SECTOR HAS ATTRACTED

**\$1 billion**

IN CAPITAL INVESTMENT

Source: "A Snapshot of Next-Gen Financial Technologies" - OMERS Ventures/PWC.<sup>8</sup>

**\$14.8 billion**

Technology spending by the Canadian financial services sector is expected to rise from \$12 billion in 2013 to \$14.8 billion by 2018.<sup>10</sup>

## LARGEST CANADIAN FINTECH VC DEALS



Source: MaRS Discovery District.<sup>10</sup>

<sup>6</sup> PayPal/Ipsos. *Mobile Commerce Poised to Eclipse Traditional Online Spend*.

<sup>7</sup> Canadian Bankers Association. *Payments Security White Paper*, p. 14.

<sup>8</sup> PwC. *Canadian Banks Embracing the FinTech movement*, p. 9.

<sup>9</sup> PayPal Infographic. *The Mobile First Era*.

<sup>10</sup> MaRS/Information Venture Partners. *Ten Surprising Facts About FinTech In Canada*.



# FINTECH ACTIVITY IN CANADA



Ontario's Technology Corridor—Toronto, Waterloo, London, Ottawa: Toronto is Canada's financial capital with 12,000 financial services firms employing over 350,000 staff.<sup>11</sup> Waterloo and Ottawa are also home to numerous Canadian FinTech companies. Global FinTech companies such as **PayPal, Avant, OurCrowd, Ondeck, Square, Sage** and **Intuit** have established operations in Ontario's technology corridor.

Montréal: Montréal is home to over 3,000 financial services companies employing over 100,000 people.<sup>12</sup> Global FinTech firms such as **WorldPay, eFront, Computershare, EVO Payments, Global Payments** and **Pivotal Payments** have their Canadian headquarters in Montréal.

Vancouver: Vancouver is the North American hub for mining finance, with over 55,000 professionals employed here in the financial services sector.<sup>13</sup> Vancouver is also home to over two dozen FinTech start-ups, including **Zafin, Payfirma, MatchSpread** and **Control**—all providing leading-edge payment solutions.

Calgary: Calgary has over 1,400 financial services firms where more than 20,000 people are employed.<sup>14</sup> Calgary is home to numerous FinTech companies, including **Celero, Benevity, Pandell** and **Splice Software**.

## Advances in technology have eradicated barriers to entry in the sector, with Canadian banks investing hundreds of millions of dollars in their mobile payment platforms

Canada's transition to HCE and tokenization ensures that Canadian banks are investing heavily in NFC retail and mobile wallet solutions. RBC was the first bank in North America to add HCE support to its mobile banking app. However, products such as Open Wallets—through which consumers can store and use multiple cards—have not yet reached the majority of Canadian consumers. This is changing rapidly as Canada's banks look for innovative solutions throughout the mobile payments value chain.

## Canada has the lowest cost structure, among G7 countries, for professional services in financial services operations

According to KPMG's *Competitive Alternatives 2016* report, Canada offers the lowest overall cost structure in the G7 to investors looking to establish international financial services (IFS) operations. Total IFS operating costs in Canada are a full 27.6% below the United States and 14.3% below the United Kingdom.<sup>15</sup> This is why many large FinTech companies have established their back-office and middle-office clearing and transaction settlement operations in various parts of Canada.

## Canada has the lowest software development cost structure among G7 countries

According to KPMG's *Competitive Alternatives 2016* report, Canada offers the lowest overall cost structure in the G7 to investors looking to establish software development operations.

Total labour costs in Canada are 31.2% lower than in the United States.<sup>16</sup> This is an important consideration for FinTech companies looking to establish operations in North America, as software development is the single largest operating expense in this area.

## Strong venture capital-backed FinTech clusters

According to Omers Ventures, there are 100 next generation FinTech companies in Canada.<sup>17</sup> These companies are seeing increasing investment from venture capital funds. The Canadian Venture Capital Association reports that three of the top ten venture capital deals in Canada in 2015 were in the financial technology space, with companies such as LightSpeed and Blockstream raising \$79 million and \$73 million in financing. Further, Canada's top private equity exit in 2015—Shopify—which raised \$100+ million through its IPO, was also a FinTech company.<sup>18</sup>

<sup>11</sup> MaRS/Information Venture Partners. *Ten Surprising Facts About FinTech In Canada*.

<sup>12</sup> Ibid.

<sup>13</sup> Ibid.

<sup>14</sup> Calgary Economic Development. *Calgary's Financial Landscape*.

<sup>15</sup> KPMG. *Competitive Alternatives 2016*.

<sup>16</sup> Ibid.

<sup>17</sup> Omers Ventures. *A Snapshot of Canadian Next-Gen Financial Technologies*.

<sup>18</sup> MaRS/Information Venture Partners. *Ten Surprising Facts About FinTech In Canada*.

# WHY CANADA FOR R&D AND INNOVATION?

KPMG shows that Canada has emerged once again as the most cost-competitive country in the G7 in which to do business, with a **14.6%** cost advantage over the US.

Canada demonstrates very strong results in Services, with a **27.6%** cost advantage in Professional Services relative to the US baseline. These cost advantages are significant for foreign investors.

## CANADA-WIDE PROGRAMS



### INDUSTRIAL RESEARCH ASSISTANCE PROGRAM

Provides technical advisory services and financial support to small and medium-sized enterprises engaged in technology innovation in Canada.

<http://www.nrc-cnrc.gc.ca>



### SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT PROGRAM

Supports systematic investigation or research in a field of science or technology

<http://www.cra-arc.gc.ca>

### Ontario Programs

Jobs and Prosperity Fund: The New Economy Stream of this fund supports projects with at least \$10 million in eligible project costs, including in the FinTech space.

<http://www.ontario.ca>

Ontario Centres of Excellence (OCE) Collaboration Voucher Program: This program provides funding to early-stage companies in areas such as technology assessments, prototype design and development, proof-of-concept demonstrations, etc.

<http://www.oce-ontario.org/>

MaRS Investment Accelerator Fund (IAF): The IAF invests up to \$500,000 in early-stage companies in a wide range of sectors, including FinTech.

<http://www.marsdd.com>

### Quebec Programs

ESSOR (Investissement Quebec): Supports entrepreneurs seeking to carry out substantial long-term development projects.

<http://www.investquebec.com>

Development Capital (Investissement Quebec): Provides financial support for consolidations, expansions, mergers or acquisitions, and works to increase competitiveness.

<http://www.investquebec.com>

Tax credit for the development of e-business (Investissement Quebec): Provides financial assistance to specialized corporations in the information technology sector.

<http://www.investquebec.com>

### Western Canada Programs

Western Innovation Initiative: The program supports commercialization and growth of innovative technology in Western Canada.

<http://www.wd-deo.gc.ca>

Interactive Digital Media Tax Credit—British Columbia: The tax credit is available to eligible registered corporations involved in developing interactive digital media products in B.C.

<http://www.gov.bc.ca>

Northern Business Opportunity Program—New Investment Projects: The program supports business productivity, expansion and investment in Canada's northern communities.

<http://nohfc.ca>

### Atlantic Canada Programs

Atlantic Innovation Fund: Run by the Atlantic Canada Opportunities Agency (ACOA), this fund provides Research & Development funding to firms in Atlantic Canada.

<http://www.acoa-apec.gc.ca>

Business Development Program: Under this program, ACOA provides interest-free repayable loans to help start up, expand or modernize small and medium-sized enterprises.

<http://www.acoa-apec.gc.ca>

### Yukon Territory Program

Strategic Industries Development Fund: Facilitates the development of projects with potential to generate significant wealth and growth in Yukon.

<http://www.investyukon.com>









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