Islamic finance: The GCC's opportunity to lead Canada's financial disruption

Canada accounts for close to 850 fintechs of the 6,000 that exist across the Americas. This ratio is quite high especially considering the fact that Canada's GDP is a tenth that of the US. These fintechs account for the creation of approximately 27,000 jobs across top categories such as payments, finance and accounting, insurance tech, investment tech and alternative lending. MOHAMAD SAWWAF delves further.

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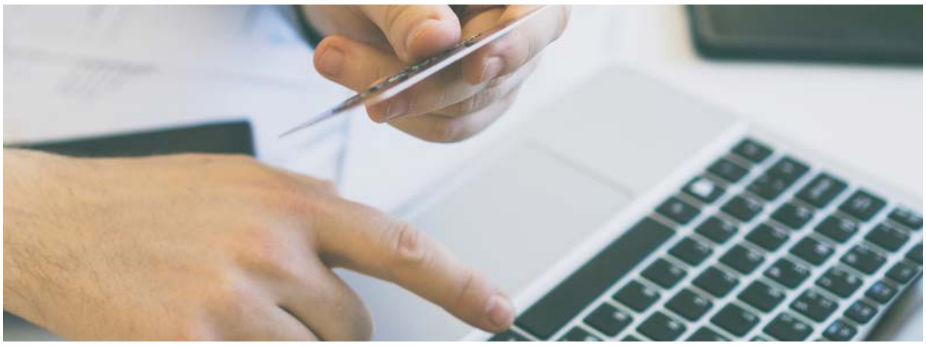

As promising as all of this sounds, the Competition Bureau has bluntly stated in a recent study that: "Despite the attention that fintech is generating, Canada lags behind its international peers when it comes to fintech adoption." This lack of adoption is attributable to heavily restricted entry into the Canadian banking industry, and the resulting oligopoly structure where six Canadian banks control well over 90% of Canadian banking assets. These banks have been very slow in adopting disruptive technologies in order to provide their clients with access to innovative products. This notion of innovation is where Islamic finance can play a role particularly when it comes to using alternative structures to create a product with less associated risk than its counterpart in the conventional system.

Despite this obstacle, there is reason for hope. Enter the venture capitalists of the north, most notably Portag3 led by Paul Desmarais III whose family controls PowerCorp, and whose venture arm has invested upwards of US$400 million into the Canadian fintech space. Similarly, the Holt accelerator based in Montreal, Quebec led by Brendan Holt Dunn, mostly known for his role in leading the Holdun family office, is making itsr mark by incubating and accelerating the top 10 tech start-ups over a 12-week boot camp program annually. This has led to Montreal being the world's leading artificial intelligence and deep learning hub thanks to partnerships and investments led by notable tech companies such as Google, Microsoft, IBM, Facebook and Samsung, to name a few. These two families have taken on the initiative to combat our outdated and closed banking system with the hopes of fully disrupting it through extensive support of fintech development.

The Canadian government is currently in the process of updating its Bank Act, with changes to be implemented in 2019. Despite objections by the major banks, the new legislation is expected to mandate some level of 'open banking' similar to what has been recently implemented in the UK, Europe (PSD2) and Australia.

The competitiveness of Canada's business tax system is supported by third-party analysis. In its publication, 'Paying Taxes 2016', PwC rigorously analyzed the impact of all federal, state, provincial and municipal taxes on business operations after accounting for allowable deductions and exemptions. PwC concluded that the total business tax rate in Canada is the second-lowest in the G20 (after Saudi Arabia).

According to EY's 2017 Fintech Adoption Index, Canada has the third-lowest (18%) fintech adoption rates across 20 markets with the average being 33% and the highest at 69% by China. The Canadian adoption rate has been trending upwards since 2015 where adoption was at 8%. This upward trend has led to increasing pressure on both fintechs and financial institutions to create simpler, more transparent and customer-centric financial services products.

With the GCC's sovereign wealth funds currently managing more than US$3 trillion in assets, therein lies the opportunity for one or multiple entities to make a mark within the Canadian fintech space – specifically by bringing in investment capital for the purpose of investing and expanding our start-up space. We have seen glimpses of this, particularly with the investment into Spotify's later financing rounds in 2015 made by the Abu Dhabi Investment Council. This is particularly imperative considering the fact that the GCC currently does not exhibit a deep fintech ecosystem and hence, with this opportunity, these world-class technologies could be exported back to the GCC to benefit the region as a whole.

A careful assessment, therefore, of the Canadian landscape is encouraging and attractive to global investors interested in fintech start-ups. In addition to a robust fintech ecosystem and a competitive corporate tax rate, Canada's competitive currency exchange rate (US$0.73) is another attractive advantage of investing in Canada. With the plethora of talent and ideas available in Canada, along with the federal government reassessing its regulations especially given the fact that Toronto is now being named as the Maple Valley – the Silicon Valley of the north – attracting investment from the GCC should not be difficult. Given the fact that Canada's banking system is 100% conventional, the opportunity for alternative finance – specifically Islamic finance – to play a role and make its mark through the medium of technology could be the answer for greater adoption and establishing the open banking we deserve as Canadians.