



Valitas Insights: Disruptive Partnerships and “Sandbox” Regulation: What’s Ahead for Canadian Fintech?

At JP Morgan Chase, software is expediting the review of commercial loan documents, a process previously completed by lawyers and loan officers, which consumed about 360,000 hours per year. Reporting on this milestone development, [Bloomberg](#) news noted that the software “reviews documents in seconds, is less error-prone and never asks for vacation.”

And this is just the start.

Faced with the threat of losing customers to startups, JP Morgan is determined to stay ahead (or at least abreast) of the innovation curve. The firm, which has a technology budget that is double the industry average, has set up big data, robotics and cloud infrastructure hubs to identify new sources of revenue, while reducing risks and expenses.

In a [recent Globe and Mail Article](#), Michael King considered how fintech might disrupt industry incumbents. He notes that banks might use fintech to “disrupt” their own costs, in the manner that JP Morgan is doing, but points to the current consensus that banks and fintech startups are likely to collaborate, to mutual benefit.

We’ve seen this as recently as this week, with the announcement that JP Morgan Chase will use Canadian fintech startup Dream Payments’ technology to roll out a mobile-payments service across Canada. Other bank/startup partnerships have formed as well over the past year. CIBC has partnered with Borrowell, a consumer lender, and Thinking Capital, a small business lender, for online loans; Scotiabank and TD Bank have similar relationships with, respectively, Kabbage Inc. and Movencorp Inc..

Regulators are paving the way for fintech startups to operate more seamlessly across Canada, which should make these partnerships more appealing to incumbent banks. In February, Canadian regulators announced the “Regulatory Sandbox Initiative”, established to streamline the regulatory approval process for fintech startups across Canada.

While fintech investment declined last year in the U.S. and the U.K., in Canada, we are on the upswing. PitchBook reports that venture capital financing in Canada was US\$137.7 million in 2016, a 35% increase over 2015. With a friendlier regulatory



environment and the banks looking to fintech startups to collaborate, our view is that we're just getting started.