



The Canadian Fintech Market

Prepaid's Ecosystem Offers Fintechs a Frictionless Path to Success in Canada

By: Peter Read, Peoples Card Services President

Contributor: Ben Jackson, Mercator Advisory Group, Director of Prepaid Advisory Service

Introduction

The Canadian fintech market is booming, driven by consumer and business demand for new ways to pay, get paid and manage funds.

Due to growing demand, hundreds of fintech companies are established in Vancouver, Toronto, Montreal and Calgary. Backed by the deep pockets of venture capitalists, the Canadian fintech market hit its highest level of investment in almost two decades. In 2016, venture capital financing in Canadian fintechs hit CAD \$186.3 million, up more than 35 percent over the previous year.

With solid funding and healthy consumer demand for alternative financial solutions, Canadian fintechs are poised to revamp everything from financial services to fighting fraud. Already, 43 percent of fintechs in Canada are delivering financial technology solutions in the payments, money transfer, accounting and cash management categories.

But they cannot tackle traditional banking services without leveraging the established payment ecosystem to move quickly and respond to market trends. Prepaid is the fastest-growing payment method in Canada, and a great platform to help deliver a frictionless customer experience.

Here is a look at Canadian fintech investment:

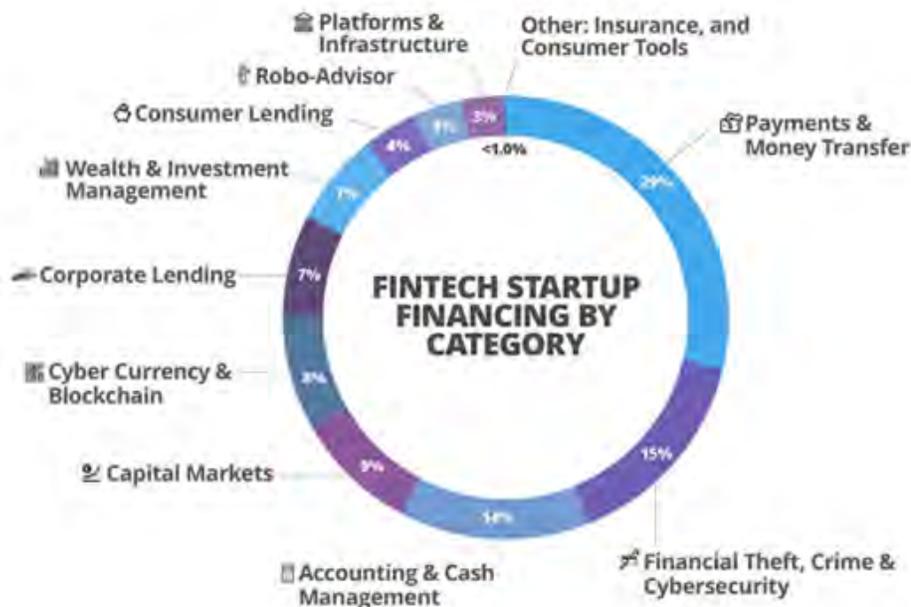


Image Source: How Fintech is Shaping the Future of Global and Canadian Finance - By Crowdmatrix

Why Prepaid Fits Fintech in Canada

Canada's prepaid market is growing immensely, with open-loop prepaid cards hitting CAD \$3.1 billion dollars in loads in 2015.

Canadians are choosing prepaid more often than ever for cheque replacement in travel, business expenses, payroll, insurance claims and even gaming – and fintechs are recognizing it as an opportunity. Prepaid's platform is a great enabler of fintech. Fintech companies may be trying to improve many aspects of the traditional payment system, but even the most innovative among them know that the fastest, most reliable and compliant way to market is to leverage the best efficiencies from the current infrastructure, rather than try to reinvent the wheel.

When determining the best payments infrastructure to rely on, prepaid is the only platform that frees fintechs from the barriers that come with credit or debit platforms. Credit infrastructures can be more burdensome for consumers who do not want to complete an application, or cannot qualify. Debit platforms require consumers to have a bank account, which is problematic for a segment of Canadians who prefer to be unbanked and those that are underbanked.

Bottom line, debit and credit infrastructures are more cumbersome for fintechs trying to launch alternative payments solutions in the Canadian market.

Prepaid payment platforms are nimble, flexible and managed by experienced, well-established and long-standing issuers like Peoples Trust Company, through its subsidiary Peoples Card Services and its partners. At the forefront of technology, prepaid payment platforms allow program managers, fintech companies and others to implement innovative programs that achieve greater integration, efficiency and control.



"Prepaid at its core, is a very elegant infrastructure. It offers the access and functionality of credit without the risk of credit exposure for the user and the issuer. If you think about the behaviour and psychology of today's millennials, they really just want information, simplicity and autonomy; and the traditional offerings struggle to deliver those benefits."

- Daniel Eberhard, Koho founder and CEO

Canadian regulatory landscape is stable.

Prepaid is more easily integrated into the financial landscape in Canada, because the regulatory environment is more clear and stable than in the U.S., especially under the new administration. This allows fintechs and program managers to quickly and efficiently build compliant and profitable prepaid programs. Additionally, long-standing financial institutions hold strong positive relationships with regulators, which is invaluable for fintechs' successful go to market strategy in the payments space.



Canada is the world's second-most “ready” country for mobile payments.

Prepaid excels in the mobile world.

As the fastest-growing payment card products in Canada, prepaid cards are an excellent payments solution for fintechs looking to offer consumers alternative payment solutions – like digital spending accounts – all through a mobile device.

Prepaid payments platforms excel in a mobile environment due to issuers' established network of partners that enable collaboration and a frictionless experience for fintechs and program managers. By leveraging nimble platforms through prepaid issuers like Peoples Trust, startups like Koho, Stack and Instant Financial are delivering electronic payments through a mobile experience to consumers and businesses.

Tokenization, NFC or “Tap” transactions, and access to the major open wallets such as Apple and Samsung, combined with gamification and chat environments are just few of the features that drive fintech payments success by making the consumer experience simple, secure and engaging.

Canadian Fintechs and the Prepaid Ecosystem

Here is a look at the successful adoption of fintech and the prepaid ecosystem in the payroll, insurance and gaming industries:

Payroll and Mobile Funds Management

With a large millennial-based working population redefining how employers hire, motivate and retain their workforce, payroll is one of the most impacted business operations. The 'gig economy' is booming with more than half of the Canadian workforce estimated to be freelance by 2020. In both the U.S. and Canada, more workers are looking for faster payment from their employers and clients, and more millennials are choosing to be unbanked, preferring to use prepaid-based mobile apps, rather than traditional accounts with financial institutions, as the core of their financial system. Traditional shift, migrant and temporary employment segments also present huge fintech opportunities in this space.

For unbanked or underbanked consumers seeking innovative and effective mobile tools to manage their financial health, apps like Koho pair a Smart Spending Account with a prepaid card to automatically track spending and available balances in real-time. Account holders may have their employer deposit their earnings directly to their prepaid accounts.

Employees across the restaurant, construction and transportation industries – among others – struggle to make ends meet in between conventional bi-weekly or monthly payment schedules, and companies are beginning to offer more frequent and flexible payment alternatives to remain competitive. When running payroll on a prepaid platform, employers have more options to be responsive to employees' varying needs and pay them instantly at the end of each shift.

Employers benefit by offering prepaid cards to their employees because it reduces costly cheques and helps achieve 100 percent electronic payroll. Prepaid reduces fraud, guarantees funds, eliminates transaction friction, sidesteps debt, and frees buyers and sellers from the restrictions of traditional financial institution relationships. In some industries, it can also help to attract the best employees for more shifts as they may work at more than one establishment and favor the ones with end-of-shift payment. Combine this with a mobile application, and you have a winning combination.

One Canadian fintech riding the prepaid infrastructure successfully is Instant, a company that, as their name implies, offers the Instant Financial Prepaid Mastercard® that allows employers to pay their staff instantly, resulting in a seamless payroll solution and cheque elimination. Further, in an effort to assist with financial management, some funds may be held back from the end-of-shift remuneration and paid on a traditional bi-weekly cycle to provide more stable cash flow to shift workers.



"Employers using Instant to pay their employees are seeing a massive reduction in payroll costs and happier employees. This isn't surprising given the efficiency of the prepaid card as a funds movement vehicle. Instant customers are seeing reductions in employee turnover, theft and absenteeism, while seeing increases in employee engagement. As we know, happier more engaged employees sell more and waste less. The full annualized value of the Instant program is measured in hundreds of dollars per employee."

- Steve Barha, Instant founder and CEO

Insurance

The Canadian insurance market holds a wealth of opportunity and is well-suited for fintechs looking to leverage prepaid platforms to help the traditional industry streamline and modernize their operations. The trend has begun with large Canadian insurance companies embracing the "InsurTech" movement, which seeks to modernize everything from pricing strategy to customer service, claim processing and payments. On the surface, this is a tremendous cheque-replacement opportunity for prepaid payment solutions, but it can go deeper with efficiencies, client satisfaction and retention.

In 2013, Canadian insurers wrote CAD \$47.8 billion in direct premiums for insurance on consumers' homes, cars and businesses, and more than half of every dollar of those premiums was paid out in claims. An abundance of insurance payouts paired with hefty costs to print cheques are driving insurance companies to find more cost-effective payment solutions to manage claims, drive profitability, reduce administrative costs and mitigate fraud.

By using a restricted authorization network (RAN) prepaid card, insurance claim payments can be limited to a specific list of approved providers – but this opportunity has thus far been largely underutilized in Canada. However, the demand for prepaid paired with the adoption of “InsurTech” will likely drive more fintechs like Thesl, a South African-based fintech, to pop up in Canada.



“Even though South Africa has a sophisticated payments ecosystem, insurers were not able to leverage their purchasing power due to their inability to settle property and casualty claims directly with suppliers. These payments have traditionally been settled via cheque or EFT.”

“ClaimsCard was developed to allow insurers to allocate claims directly onto a Restricted Authorization Network (RAN) prepaid Mastercard, in turn, allowing them to directly pay approved suppliers. This is made possible by quantifying the claim beforehand via Thesl's quantification solutions. Besides the income earned from rebates and interest, insurers receive a treasure chest of spending data to analyze customer behaviour as well as ensure that items are replaced and brought onto the policy again.”

- Craig Rawray, Thesl executive director

Fintechs that can offer insurers a safe and cost-effective way to disburse claims and improve the customer experience will be the most successful tapping into the Canadian market.

Gaming



The Canadian gaming industry is the largest entertainment industry segment in the country and generates more than CAD \$31 billion in gross output and CAD \$14 billion in purchased goods and services each year.

Nearly 40 percent of Canadians have gambled at a casino or a slot gaming center in the past year. With billions of dollars flowing through the Canadian gaming market, casinos and their payments partners are constantly looking for ways to capture their share.

Win or lose, casinos count on players spending on other activities too, such as dining, shows and shopping. As funds move around a property, casinos can provide new, more secure and convenient ways for their guests to transact, and be rewarded for their spending and loyalty.

Casinos can integrate their players' clubs and other loyalty programs more seamlessly with guest and transactional data by using custom-branded prepaid payments. In doing so, casinos can replace cash operations and deliver a one-stop payment and loyalty solution for every experience in the casino. Both players and casinos benefit from the integration.

Convenience, security and rewards for players

Prepaid cards are more convenient and safer for consumers to carry than cash, especially when a zero-liability policy is offered for lost or stolen cards. Players can make purchases anywhere the card is accepted, and eliminate the cash-out process entirely – no more printed receipts or long lines to cash out. In addition, payment cards tied to loyalty programs become valuable membership cards that can provide players with status, event- and venue-access, or perks and benefits throughout a casino's properties. Players can easily track and use their spending and rewards online, via a mobile app or onsite.



Electronic, streamlined, secure operations for casinos...and of course data

Prepaid cards enable casinos to manage cash flow electronically – eliminating the burden of counting cash and coins. A card system also allows operators to minimize risk and fraud that are inherent with cash, while enabling a positive customer experience and increasing customer loyalty.

Player tracking on and off the casino floor becomes easier than ever when each player’s account is connected to their loyalty program and personal preferences. Casinos have more immediate access to spending-, playing- and winning-trends and data that allows them to make custom offers to players, and further inform marketing, operations and strategy decisions.

Canada’s extensive lottery activities also contribute significantly to the gaming industry. Gaming Post estimates that more than a quarter of Canadians over age 18 play weekly, and there are a wide range of provincial, interprovincial and national lottery options. Games can be purchased in-person and online and some provinces, like Ontario, offer single-use and reloadable gift cards, which are just one way lottery organizations can incorporate prepaid cards into their strategy.

Several lotteries in the U.S. have implemented prepaid card programs that can be used for both game purchases and to receive winnings. These cards allow players to play without cash and eliminate the inconvenience of visiting a lottery center to collect winnings via cheque. This is particularly attractive to players who don’t have a chequing account or prefer to manage their winnings separately from their household budget.

With millions of dollars on the table, fintechs have a great opportunity to partner with a prepaid issuer to bring these prepaid payments solutions to the Canadian gaming industry.

Conclusion

Prepaid is a 360-degree payments solution that benefits cardholders, program sponsors and program managers by using established payments technologies to offer secure, easy-to-use electronic payments across numerous industries and scenarios.

The Canadian payroll, insurance and gaming industries illustrate three specific growth opportunities for fintechs and prepaid to modernize payments, while also leveraging spending data to offer more timely, relevant and personalized programs that improve customer loyalty and program profitability.

As fintechs embrace this opportunity to capitalize on the continued adoption of prepaid across Canada, they will do well to understand their role and that of industry experts in the prepaid value chain. Payments industry experts are an invaluable resource to fintechs who may not be well-versed in the operational details of the payments ecosystem.



“Peoples Trust is an invaluable resource within the Canadian prepaid value chain, and our partnership has enabled Koho to execute on our vision of building a low cost, high engagement beachhead. We have real relationships with our customers on their terms and that's a really great position to be in.” says Daniel Eberhard, Koho’s CEO.

Card-issuing partners who have broad national relationships serve as dedicated project advisors and ensure the following key areas are addressed to support frictionless integration and launch: compliance, reconciliation and settlement, card manufacturing and/or provisioning, processing and customer service.

Established card issuers work with fintechs, businesses and program managers to oversee and enable card-program setup and BIN sponsorship. Across Canada, fintechs are finding well-experienced prepaid issuing partners that ensure seamless cross-country implementation to deliver well-managed, compliant payment solutions.

Let's Connect

*Peoples Card Services
David Rambaran*

*Manager, Business Development & Sales - Issuing
davidr@peoplescardservices.com*

1-844-358-8140

SOURCES

1. <http://www.reuters.com/article/us-canada-fintech-idUSKBN14N1N5>
2. <http://crowdmatrix.co/home/fintech-shaping-future/>
3. <http://cppo.ca/news/cppo/survey-younger-consumers-using-alternative-payment-tools-more-and-would-rather-use-bank-account-less>
4. <http://www.cppo.ca/>
5. <https://mobilereadiness.mastercard.com/country/?ca> <https://www.koho.ca/#/home>
6. <https://www.instant.co>
7. <http://news.nationalpost.com/life/if-the-gig-economy-is-booming-why-is-freelance-still-considered-a-dirty-word-associated-with-failure>
8. http://www.canadiangaming.ca/images/stories/cga_research_and_studies/CGA_Leaders_Opinions_2015_Final.pdf
9. http://www.canadiangaming.ca/images/stories/cga_research_and_studies/CGA_Market_Understanding_Report_2016_Summit_reduce.pdf <https://www.gamingpost.ca/canadian-lottery-news/canadian-rules-for-winnings-taxes-and-lottery-support-for-american-players/>

Vancouver Office
14th Floor - 888 Dunsmuir Street
Vancouver, BC V6C 3K4
Tel: 604-694-6214
Peoplesgroup.com

Peoples Card Services and Peoples Trust are divisions of Peoples Group.

Peoples Trust is a principal member of Visa® Canada, Mastercard® Canada, Discover® and a member of Canada Deposit Insurance Corporation, Interac® and Payments Canada.