Banks and Innovation: Change You Can Trust

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It's a pleasure to speak at the beginning of a new year that promises to be filled with change: some developments will be welcome, some could be challenging and many will be unexpected. Today I'll describe what I believe is in store for Canada's banking sector.

When I'm asked to speak about what's next for banking, I'm keenly aware that between the time I prepare my remarks and the day I deliver them, whatever I forecast might already be happening.

Every part of the economy evolves over time, but it's impossible to discuss banking without acknowledging the unprecedented rate of change in this sector. It's a pace that intensifies year after year. The easy conclusion is that technology is responsible for the transformation of our industry. But that's only partially true.

Today I'll make the case that the more important dynamic is a shift in the position that banks have in relationship to their key stakeholders: customers, government and regulators. It's a transformation that has taken banks from simply facilitating transactions to serving as central pillars of trust in the modern economy.

Many of you have probably come across some variation of the notion that banks are essentially tech companies now. That's an oversimplification. To be sure, technology is reshaping almost every facet of our lives and banking is no exception. However, the fundamental essence of banking is a combination of a great customer experience with strong prudential oversight and a dedication to protecting privacy and data**. Service, responsibility and trust – in its simplest form it's what banking has always been about.** Technology plays an important – but a supporting -- role in advancing those central goals.

Last year, the CBA conducted polling to discover how Canadians feel about their relationship with banks. When presented with a dozen choices to describe what they think banks in Canada have delivered over time, the number one answer - with 96 percent of the 3,000 people surveyed, was "**Convenience through technology**." Within that sentiment, we see that technology is the driver of something much greater, which is convenience. It makes life easier, removes pain points and has the power to satisfy customers' needs.

The good news for Canadians is that trend will only accelerate in the future. The *Bank Act* was updated last summer with new provisions that specifically govern the intersection of banking and technology. With the passage in June of Bill C-74, policy makers modernized a regulatory framework that had become outdated. The updates now better enable banks to accelerate innovation across Canada by investing in their own technology, as well as bringing the fintech community much needed capital, trusted customer relationships and brand power.

Importantly, the revisions to the *Act* removed barriers to the way banks and fintechs can work together. Banks now have a greater ability to invest in and make referrals to fintechs. Some of these start-up companies have lines of business that fall outside the traditional understanding of banking. So, the updates to the *Bank Act* reflect the reality that customers have embraced the digital world and want to do as much as possible with their devices: make a payment, shop, hail a ride, or order food.

The changes also reflect the reality that disruption means the lines will increasingly blur for companies focused on the customer experience in a digital economy. Think of Uber – is it a ride sharing service? A payments company? A food delivery company? Yes to all of the above.

Honda recently announced that it will be experimenting with in-dash mobile payments in its vehicles. This could change the way drivers pay for gas but also reflects consumers' use of drive thru restaurants and the growing trend for curbside grocery pick up. This 'blurred lines' trend will only accelerate and could revolutionize home buying, travel and entertainment.

Of course, underlying all of this convenience is security. Canadians want their privacy to be protected and their data to be safe. And as the industry has done for generations – banks bring peace of mind. Banks have earned a strong reputation for safety by investing heavily in cyber security measures and by working with each other to share the latest intelligence and best practices on defeating threats to systems.

Banks also collaborate with government, law enforcement and academia – in Canada and abroad – to gather the best thinking in a field that is truly borderless and rapidly evolving. In the rare instances where events have occurred, the resiliency of their digital operations has helped banks contain the situation, keep critical operations functioning and retain confidence in the system.

The evolution of banking driven by technology **represents change you can trust**.

This is actually the continuation of a pattern that goes back decades. Because Canadians place such high trust in banks, they've been willing to embrace new technologies when those innovations were introduced by a financial institution.

For instance, when bank machines arrived in the 1970s, Canadians quickly became among the world's fastest adopters of the new terminals. Their faith was justified because the machines were accurate and reliable. The same is true for the introduction of direct-deposit payments, online banking, e-transfers and mobile apps. Each of these were new ways of conducting personal finance at first glance, but they worked. They proved to be dependable and secure. And now it's the primary way many people do their banking.

A question I'm often asked in representing this great industry that employs 280,000 Canadians is "Won't all of this technological change – AI, automation, digital transformation come at a cost to employment?" My answer to that is: I couldn't be more bullish about the future of work in banking and the greater Canadian economy!

You may have seen a widely quoted study showing how quickly Canada's tech cluster is growing. Toronto created more skilled technology jobs in 2017 than San Francisco, Seattle and Washington DC – combined. In Ottawa, technology as a percentage of total employment now stands at 11.2 percent, more than three times the U.S. national average. Montreal is becoming known for AI and Vancouver keeps winning new business, like Amazon's tech hub expansion, which will create thousands of new jobs in e-commerce, cloud computing, and machine learning.

The widespread consumer acceptance of new banking technologies helps to drive the overall innovation economy. First, bringing these new features to market requires substantial resources, which creates jobs and investment in the tech sector and beyond. Second, it creates demand for other advances. To give you an example, the move to online and digital banking channels led people to accept that their money could be moved around digitally. This enabled healthy competition with the growth of start-ups in areas like payments, robo-advisors and virtual wallets. In turn, that spurred demand for knowledge workers, computing power, office space, and so on.

We also know that many of these jobs harness the power of a young, dynamic workforce at companies who are charting a path in the future of work. In an age where the customer experience is central to what banks offer, the employee mix required to get this right, embraces a surprising set of skills representing a broad swath of the Canadian population. Certainly, much talked-about innovations in big data, blockchain, and AI demand the talents of graduates in the STEM areas of science, technology, engineering and math.

These ground-breaking technologies must still resonate with customers or the investments made to develop them will struggle to find traction. That’s where STEM morphs into STEAM, with the critical addition of arts into the equation.

Branches have become advice centres, which means the standard bank interior is being re-imagined by human-centred architects. Graphic designers, visual artists and voice experts ensure apps are intuitive and embrace the elements of elegant design and seamless experiences. HR professionals are striving to create workplaces that are accessible, flexible and inclusive to reflect the diversity of contemporary Canada.

With customers increasingly in the driver’s seat, front-line employees have become far more than order-takers. They must exhibit both strong IQ and EQ to be attuned to changing customer preferences and actively listen for cues about advice.

Successfully managing this exciting yet disruptive environment requires a leadership style built on an understanding of collaboration and communication, not just crunching numbers. A new crop of leaders now coaches cross-functional teams designed to foster continuous career learning to harness the full spectrum of each employee’s talent, because a new recruit at a bank is just as likely to have an MBA as a fine arts degree.

The workplace is evolving. Society is changing. Customer expectations are advancing.

So, what’s next?

What’s next is a concept the CBA began championing last year: Canada must create a digital identification system to unlock the full potential of this digital revolution.

I’m pleased to report that two recent developments have added momentum to this idea.

First, the updates to the *Bank Act* now expressly allow banks to provide identification, verification and authentication services. This is a modern way of acknowledging what has always been true about banks – they know who their customers are, know about their financial status, and can attest to both of these. Historically, this took the form of Letters of Introduction that banks would write for customers to help them in personal or business matters in distant locations. The endorsement of a bank created trust among strangers.

Believe it or not, these letters are still commonly used in some developing nations. But in advanced economies like Canada, where most daily interactions are quickly going online, providing identification services means replacing the letters of yesterday with a trusted digital solution for the future. The *Bank Act* now acknowledges that.

The second development is that the CBA produced a white paper that lays out an approach for making digital ID a reality in Canada. The need to modernize our outdated paper-based, face-to-face process is widely recognized, but the path to getting there has been unclear.

You might be familiar with Estonia's ground-breaking e-government and digital ID network, but Estonia isn't Canada. The CBA took our country's unique characteristics, advanced institutions and sophisticated infrastructure into account when developing a framework for what could work here.

We call for a federated model of Digital ID because it would align with Canada's political structure. A federated model works by creating linkages between federal and provincial identity management systems. Right now, identity is spread across multiple isolated regimes: the federal government has your social insurance and passport information. The provinces manage health cards and drivers' licenses.

The first step in our model envisions maintaining these distinct systems, but connecting the disparate elements in a way that someone's identity can be authenticated electronically, using a combination of different attributes. Instantly verifying who someone is using multiple digital reference points is more secure than relying on a photocopy of a drivers' licence. Because this digital network is connected, yet decentralized, the risk of compromising the system is reduced by eliminating "honeypots" of data that hackers tend to target.

The second step is to harness the power of the private sector. This would enable the creation of a digital ID system without the cost and risk of building complex infrastructure from scratch. Canada's banks already operate across the country and around the world. We have robust, interconnected digital systems that citizens can access from branches, bank machines, home computers and mobile phones. These networks are up and running 24 hours a day, all year long.

More importantly, banks are already held to a high standard when it comes to collecting and safeguarding the personal information of customers. We're subject to rigorous oversight to ensure this data is held accurately and securely, from end-to-end.

The third step in our federated model involves passing legislation that would allow business and government to accept digital ID. Banks must know their customers as part of Canada's fight against money laundering and terrorism financing. This involves thoroughly gathering and maintaining customer information and financial intelligence, subject to strict regulations. And while it's true that some customer ID requirements under anti-money laundering and anti-terrorist financing legislation have been modified to allow non-face-to-face verification, many of the rules continue to be rooted in physical ID and ink signatures.

We believe in collaborating with Treasury Board, Finance Canada, Innovation, Science and Economic Development and other government departments and agencies to explore ways to accommodate the technologies of the modern age.

To build a functioning digital ID system in Canada, we should be open to innovative identity verification methods like document review through a live video connection, use of blockchain, biometrics and other methods that have begun to see widespread adoption in other parts of the economy. These methods have the potential to prove a person's identity more securely and accurately than showing physical identification.

With Ottawa exploring the possibilities of open banking, the modernization of our payments system now underway, blockchain and artificial intelligence pushing into new frontiers, the need for digital ID will only grow more urgent.

To return to a theme I noted earlier: banks have not become tech companies. But banks are unusually good at leveraging technology to enable deeper connections to customers by giving them the convenience they want in an environment they understand and accept as safe.

By working with regulators and entrepreneurs, banks have driven innovation in Canada, creating a virtuous cycle of new products and experiences that customers embrace.

At the beginning of my remarks, I acknowledged that it's difficult to predict the future. On the other hand, we have a much better handle on the past. From the standpoint of early 2019, looking back ten years ago to January of 2009, what banks primarily focus on has clearly shifted.

A decade ago the world was just emerging from the global financial crisis and the preoccupation was with stability, security and soundness. Canada's banks were rightly recognized for having come through the storm in much better shape than most of their global peers.

To be sure, sound risk management and capital adequacy standards are still of central importance to our sector today. But a new paradigm – in which the customer is at the centre of a relationship that cuts across financial services and into areas of identification, innovation and new ways of working – is now in the spotlight.

And just as Canada's banking sector earned a sterling reputation for smart regulation and good risk management ten years ago, today and into the future we can be the envy of the world for moving society forward by leveraging our core strengths with the modern demands of a digital society.

Banks represent change you can trust. And with trust at the centre of a relationship, the possibilities for the future are boundless.