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CANADIAN REGULATORY TECHNOLOGY ASSOCIATION  
ASSOCIATION CANADIENNE DE LA TECHNOLOGIE RÉGLEMENTAIRE



# Innovating Canada's Future

Perspectives from the RegTech Community

*May 2024*

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# Executive Summary

Inspired by a quote by Alain Francq from a published article by the Conference Board of Canada where he discusses “Canada’s Innovation Paradox”<sup>1</sup> we reached out to our membership community for commentary on the challenges RegTech’s face to reach commercial success, as well as perspectives on ways to improve Canada’s innovation economy.

**“Canada is very good at public research and development and educating its population at the post-secondary level, but we struggle to turn these advantages into commercial success and innovation-based economic growth.”**

*Alain Francq ~ Director, Innovation and Technology at Conference Board of Canada*

In this report, six unique perspectives are shared covering topics such as regulatory burden, access to funding, culture, intrapreneurship and challenges with lengthy procurement processes and sales cycles. Sound advice is offered on how we can create a more supportive environment for entrepreneurs by building more agility into how we regulate and innovate internally within our organizations as well as how we approach innovation with our peers and partners across the ecosystem.

Yet, there is another dynamic at play related to the pace at which technology is disrupting customer expectations and societal views on the risks and opaqueness of technology change. Heightened customer expectations and technology innovation requires agility within financial institutions at the strategic and operational level to remain relevant with customers and to maintain operational resilience. Yet, Canadian financial institutions (FI’s) as well as many government and regulatory agencies are encumbered with legacy systems that are costly to maintain and difficult to replace and integrate with. This coupled with the pace of change is impeding organizations willingness to explore new ideas, collaborate with peers and partner with smaller firms. Seemingly, the path of least

resistance is often to go with larger technology enablers that are well capitalized and already embedded in organizations making it easier for leaders to make the case for further investment while satisfying time-to market requirements.

If we allow this trend to continue and do not course correct, we risk seeing Canadian RegTech’s and the start-up community more broadly, choosing to move their sales efforts and headquarters elsewhere perpetuating brain drain and loss of intellectual property. We impede our ability as country to think differently and bring value to our economy. And finally, we impose unnecessary risk on our financial system. From a financial stability standpoint, concentration risk is a well-recognized risk, however as large technology enablers fall outside the regulatory perimeter, it will become increasingly difficult to assess risks, including threats to resilience and financial stability.<sup>2</sup>

If we let this momentum continue and do not address these market structure challenges and lessen regulatory burden now without stepping back and thinking through the implications and our future priorities, we may not be able to course correct.

Our report provides concrete recommendations to address a number of shortcomings within the Canadian financial services ecosystem, but we need to act now, and we need to act with collective purpose.

**Donna Bales**

*Founder, Canadian Regulatory Technology Association*

<sup>1</sup> The Conference Board of Canada, How to Overcome Canada’s Innovation Paradox, Alain Francq, 11 Sept 2023

<sup>2</sup> Financial Stability Board, Fintech and Market Structure in Covid -19 Pandemic, Implications for financial stability, 21 March 2022

# Quotes

## **Tolga Kurt**

*Managing Partner, H3M Analytics*

“In my experience, bilateral proof of concepts between a financial institution and vendor are a thing of the past as they consume significant amount of time and resources for both parties to implement and do not guarantee a successful outcome. With the pace of technology change, I believe a more targeted and efficient approach would be to set up a pilot fund where banks can come together, agree on use cases and test new technologies giving Canadian FinTech’s and RegTech priority.”

## **Layial El-Hadi**

*Executive Director, Fintech Cadence*

“Education is key, but we need to leverage our openness for collaboration to create a funding structure for early-stage start-ups that fit a country our size and allows our startups to scale”

## **Senator Deacon**

“To remain competitive in an age where the use of technology will define global competitiveness, Canada needs to learn from peer countries like the United Kingdom, European Union and the United States and adopt a more strategic approach to incorporating standards, codes of practices and certification programs into their statutory instruments.”

## **Lori Weir**

*CEO, Four Eyes Financial*

“The skeletal system of the Business Development Bank and many other growth-oriented agencies are designed for old economy businesses. Government policies do not favour the development, retention, and commercialization of Intellectual Property. Canada’s entire innovation strategy – how it manages research grants, industrial subsidies, trade policies and tax laws – needs to change if

Canada is to become a place where entrepreneurs can scale globally.”

## **Ronny Aoun**

*Founder & CEO,, Valital*

“While some companies recognize the inherent value of RegTech solutions to help them transform from a reactive to a more dynamic regulatory environment, they’re hesitant to embrace a test and learn mindset and seizing the value of experimentation by working closely with developers.”

## **Nagy Ghobrial**

*CTO and Co-Founder, Halo Ai*

“Continuous improvement extends beyond progress; it entails periodic reflection to ensure alignment with business objectives. Recognizing when to pivot or leverage modern technologies to address legacy challenges is a form of innovation in itself.”

## **Donna Bales**

*Founder, Canadian RegTech Association*

“If we let this momentum continue and do not address market structure challenges and lessen regulatory burden now without stepping back and thinking through the implications and our future priorities, we may not be able to course correct.”

# Regulatory Stagnation Stifles Innovation

The Canadian government can no longer afford to rely on a culture of outdated processes and anti-competitive thinking in a time when technology is rapidly changing the trajectory of business growth and consumer behaviour. For the future welfare and prosperity of Canadians and to remain globally competitive, the federal government needs to take urgent action to modernize how they regulate and support innovation. An innovative economy needs an innovative government.

Despite Canada's increasing investments in innovation initiatives, we keep producing lacklustre results. Canada is already at the back of the pack – ranking 35th out of 38 member countries in terms of regulatory burden according to the 2023 Organization for Co-operation and Development “OECD” survey.

Currently, Canadian regulatory reform is slow and fundamentally flawed. The legislative process is overused and leans towards a command-and-control approach that focuses on the process versus the intended outcome. Innovators are forced to spend too much time proving compliance and meeting excessively burdensome regulatory requirements instead of focusing on growing their business.

Furthermore, Canadian innovators are often stalled during the procurement process due to overly burdensome and complex requirements. Innovators have the potential to effect change and be active contributors to improving public policy, but they do not get a seat at the table. Far too often, the government will focus on the solution they want to buy rather than the problem they want to solve. By taking this approach, we limit the opportunity to innovate — it hampers Canada's ability to harness the ingenuity that exists outside of Ottawa that could help to address our biggest public policy problems. By not harnessing that ingenuity we end up trying to solve the same old problems the same old way, stifling new business opportunities that could enhance productivity or surface a new sector or global opportunity. These challenges are manifestations of a culture in the government that does not understand the value of competition, the

mindset of the entrepreneur and the potential power these new innovators have to improving the lives of Canadians.

It's time for a shift in mindset but we also need to change the approach to how we regulate. Greater transparency and governance in the legislative process, and education on the value of competition, will help improve the culture and mindset within Canadian governments but more urgent steps are needed.

To remain competitive in an age where the use of technology will define global competitiveness, Canada needs to learn from peer countries like the United Kingdom, European Union and the United States and adopt a more strategic approach to incorporating standards, codes of practices and certification programs into their statutory instruments.

In financial services, this approach would enable financial institutions to adopt innovative technologies quicker and remain competitive as they would gain assurances from adhering to an accredited standard that fulfils a requirement of a current regulation. Technology providers and innovators benefit from shorter sales cycles, reduction in development costs and enhanced credibility and trust.

The time to act is now – prioritizing regulatory agility is an exceedingly low-cost way for Canada to become a globally competitive market for innovators, while delivering affordability and protection to consumers.



## Senator Colin Deacon

*Senator Colin Deacon represents Nova Scotia in the Senate. He is the deputy chair of the Senate committee on Banking, Commerce, and the Economy.*



## Four Eyes and The Innovation Paradox

Four Eyes is an emerging global leader in regulatory technology for the wealth management industry, currently serving Canada's fastest growing investment firms. We are presently completing a UK market readiness assessment by participating in a Global Affairs sponsored Canadian Technology Accelerator program for Fintechs. This is an example of the kind of programing available to help technology firms with commercialization. As the CEO of Four Eyes, I will support government agencies awakening to the unique needs for scaling innovation and will be a participant and voice for helping overcome the "Innovation Paradox". Like all change, the change is slow and frustratingly painful. We are talking about changing an ecosystem many decades in the making, complex, and involving policies that take years to modify even once you have buy-in.

Canada is a wonderful place to build a business. In New Brunswick where we're headquartered; our post-secondary educational institutions produce top talent. We participate in co-op programs and have hired many of our high performing software engineering talent directly from their time at universities in the Atlantic Region. This includes hiring international students from Jamaica, Rwanda and India who have made New Brunswick their home after joining Four Eyes full time. The provincial government agencies have forecasted the need and built-up programming to meet the growing demand for advanced Machine Learning and artificial intelligence skills, a huge benefit for firms like ours.

Canada has many federal programs supporting R&D including NRC's (IRAP) Industrial Research Assistance Program and (SR&ED) Scientific Research & Experimental Design. These programs can be tremendously beneficial for technology companies in any sector including RegTech, they can also be expensive and time consuming to engage with. As a Canadian scale

up company, there are difficulties receiving the full benefits of these programs due to the overwhelming administrative demands. SR&ED is tax incentive program worth \$3.9B annually that most of you are likely familiar with. It is currently undergoing review. I was fortunate enough to meet with senior government officials along with fourteen other growing Canadian tech companies to provide meaningful examples of where the program falls short and could be improved. In summary, the program benefits larger companies with the ability to pre-fund the R&D and manage the significant administration burden; over smaller firms looking to fund heavy R&D pre-revenue or while trying to scale their growth. Commercialization and continuous improvement are inconsequential to whether a project qualifies for funding.

Although all levels of government boast innovation funding programs their successes have been limited and distribution of capital questionable. The skeletal system of the Business Development Bank and many other growth-oriented agencies are designed for old economy businesses. Not only that, our policies do not favour the development, retention and commercialization of Intellectual Property. Canada's entire innovation strategy – how it manages research grants, industrial subsidies, trade policies and tax laws – needs to change. As Ben Bergen the CEO of the Canadian Council of Innovators, an organization I recently became a member of said, "This idea that all we need to do is just throw open competition and everything will be fine, I think is the wrong diagnosis. What we actually need is complex, robust industrial strategies that lead us from idea creation, idea retention and then the selling of that idea globally through a domestically headquartered firm".

**Lori Weir**  
 CEO & Co-founder

# i. i. Fintech :ii.i: Cadence

## Future Innovation Depends on Funding Model that Supports Founders

I am a big believer in entrepreneurship. Entrepreneurship plays a critical role in the growth and development of a country, and I have a lot of respect for creative thinkers and leaders who are willing to enter the start-up ecosystem and introduce novel ideas, products and services that drive progress and competitiveness. However, Canada faces several challenges that are preventing us from reaping the benefits of innovation and the economic productivity and prosperity it brings to our economy and our citizens.

We have a strong talent pool and a collaborative ecosystem, and we have young entrepreneurs who can see a problem and are willing to put the effort in to solve it, but the structure of the ecosystems makes it challenging for them to succeed. In financial services, there is an imbalance. We are not short on young entrepreneurs who have a promising idea, but they do not have the connections or understanding of the market structure to sell into this sector. Yet, we are short on industry veterans who are willing to give up the financial safety of a full-time role to take on the upward battle of building a new company.

The reality is that it is hard to build a company in Canada, including in Fintech. Entrepreneurs are playing in an ecosystem that does not have the numbers (of customers). We are a small country by population, we have small number of banks, (especially compared to the United States) and we have a wary consumer base; this wariness permeates into our business culture, the government and to our funding structure.

Accessibility to funders is not the problem. Organizations like [Fintech Cadence](#) can help make the right introductions but obtaining funding is an exhaustive process. The

current funding landscape for start-ups is characterized by risk aversion, on the part of investors, who often require early and significant results from the start-ups they support. Add to this a sector that has glamourized raising funds from VC's to a point where start-ups are spending too much time focusing on how to raise too early on and, at times, at the detriment of building a sustainable business model.

We need to change this and do a better job at educating founders so that they understand the trade-offs and the differences in selling to a VC and selling to an end customer. We need to shed light on alternative funding options and the importance of developing a sustainable business model early on.

Additionally, the funding landscape in Canada also needs a shake-up. Not only do we need more capital and therefore more angel investors and alternative investors to enter the space, but we also need to level the playing field with the U.S to retain talent and business in Canada. We need to reach a mutual understanding of risk and ensure the requirements on start-ups are commensurate with the level of investment.

Education is key, but we need to leverage our openness for collaboration to create a funding structure for early-stage start-ups that fits a country our size and allows our startups to scale.

### Layial El-Hadi

*Executive Director, Fintech Cadence*

*Fintech Cadence is a not-for-profit organization that support early-stage startups from coast to coast through education and other collaborative programs.*



## Fostering Innovation from Within: Pioneering Canada's Path to Prosperity

Innovation often conjures images of specialized hubs, incubators, and agile teams within organizations exploring cutting-edge technologies and ideas. Yet, these spaces can operate in isolation, detached from broader business insights and daily challenges. True innovation, in my view, must permeate the entire organization—a collaborative chain of individuals and partners leveraging technology to advance shared objectives. For Canadian financial institutions (FIs) to thrive, embracing entrepreneurial practices is crucial. Such practices drive new product innovation, enhance competitiveness, and infuse organizational agility.

Today's landscape demands a relentless focus on customer needs to sustain loyalty and market relevance amidst escalating digital interactions. Each innovative idea must resonate directly with customers, delivering tangible value. This necessitates identifying individuals passionate about financial services and technology, nurturing their capabilities. Consider artificial intelligence (AI): it's not about AI displacing jobs, but rather empowering those who harness AI to solve challenges and optimize organizational efficiencies.

To cultivate an innovation-driven culture, organizations must incentivize employees to contribute ideas. After all, transformative ideas often originate from frontline staff rather than senior leadership. Recognizing and empowering these innovators involves more than token gestures—it means elevating them to executive forums, inviting their participation in strategic discussions, and validating their insights.

Toyota Motor Company epitomizes innovative practices through its longstanding Creative Idea Suggestion Program, dating back to 1951. This program's success underscores the

transformative impact of employee engagement in driving continuous improvement.

Continuous improvement extends beyond progress; it entails periodic reflection to ensure alignment with business objectives. Recognizing when to pivot or leverage modern technologies to address legacy challenges is a form of innovation in itself. Senior leaders must have the foresight to depart from outdated approaches guided by their unique vision, rather than mimicking industry peers.

As an immigrant to Canada who ascended the ranks at the Royal Bank of Canada, I've witnessed firsthand the untapped talent and potential within Canada. Embracing change, fostering creativity, and forging a distinct path towards a brighter future are imperative. Instead of mirroring others' strategies, let's chart a progressive course aligned with Canada's strengths and aspirations. Let us embrace Einstein's advice "Be a voice not an echo; let your uniqueness resonate."

Together we can ignite an innovation culture that transcends conventions, propelling Canada towards a prosperous future built on ingenuity and unwavering determination.

### **Nagy Ghobrial**

*Nagy Ghobrial is the co-founder and CTO of Halo Ai, a cutting-edge platform empowering customer to autonomously assess and manage third-party risks using real-time forensic risk intelligence.*





## What are the challenges Canadian RegTech firms face and the impact it has had on commercial success?

Canada's strong R&D culture and tech ecosystems mean innovation plays a pivotal role in the Canadian economy.

Canada's RegTech industry is proof of this. Canada's strong regulatory environment coupled with increasing compliance costs have given rise to a growing cohort of innovative companies that leverage leading-edge technology to simplify and streamline regulatory governance, reporting, compliance, risk and data management obligations.

RegTech solutions help companies reduce costs, tackle complexity and evolve more quickly around changing market dynamics. Despite this, Canada's RegTech companies face a number of challenges that negatively impact their ability to achieve timely commercial success.

### Resistance to change

Many companies in highly regulated industries remain tethered to legacy systems that don't integrate with new technologies. Instead of focusing on the enormous opportunities for growth, efficiency and agility, they focus on the effort involved in integrating new systems.

### Cautious approach toward experimentation

While some companies recognize the inherent value of RegTech solutions to help them transform from a reactive to a more dynamic regulatory environment, they're hesitant to embrace a test and learn mindset and seizing the value of experimentation by working closely with developers.

### Lengthy procurement cycles

Those organizations that embrace change often rely on lengthy, outdated legacy processes for onboarding new solutions. Long delays in onboarding lead to impossibly long sales cycles that are not conducive to success.

### Cost and retention of key skills

RegTech start-ups cannot compete against large organizations that can hire more remote workers and afford higher compensation.

### Limited growth potential at home

These challenges make it difficult for innovative RegTech solutions to achieve success at "home." Overcoming these barriers requires a concerted effort on the part of regulators, government, institutions and investors to increase awareness of how Regtech can lessen compliance burdens, increase opportunities for growth and create more agile businesses.

**Ronny Aoun**

*Founder & CEO*

## Navigating the Divide: Growing RegTech Software Companies in Canada vs. the US

In the bustling world of software, RegTech (Regulatory Technology) has emerged as a niche yet vital sector, aiding businesses in navigating complex regulatory environments. Canada and the United States both offer diverse opportunities and challenges for RegTech ventures. Despite universal goals, how we can achieve product-market fit, effective marketing, and successful sales strategies vary between the two countries. As a Canadian-domiciled firm with a growing US market footprint, here are a few of our key learnings:

### **Product Market Fit: Understanding Regulatory Landscapes**

RegTech companies must develop products tailored to specific regulatory frameworks. In the US, companies have to navigate a complex regulatory landscape spanning federal and state regulations across various industries. This requires not only understanding regulations but also addressing diverse business needs. Conversely, while Canada offers a more uniform regulatory framework, its smaller market size presents challenges for rapid scalability and product-market fit.

### **Marketing: Navigating Cultural and Market Differences**

Effective marketing helps RegTech firms differentiate themselves in crowded marketplaces and communicate the value of their solutions. Fierce competition in the US drives firms to adopt aggressive tactics and tailor campaigns to diverse customer segments, leveraging digital channels, industry events, and strategic partnerships to amplify brand presence. Canada's smaller, tightly knit tech ecosystem emphasizes building relationships within niche industry communities and relies on word-of-mouth referrals, emphasizing trust and reliability in messaging.

### **Sales Functions: Navigating Procurement Processes and Customer Relationships**

Navigating the complex US procurement landscape requires thorough market research, solution customization, and adept negotiation skills, particularly when targeting large enterprises or government agencies. Canada's market size and centralized processes offer advantages, allowing firms to build relationships with key decision-makers and leverage collaborative networks to overcome sales barriers. Demographic differences between the two countries drive radically different go-to-market strategies, requiring adaptability and multi-level direct sales engagement for success.

RegTech companies should ensure they fully grasp the opportunity costs associated with operating in either market to make informed decisions based on each country's product market fit and propensity to acquire technology solutions. RegTech firms need assess factors like timing, product positioning, and regulatory environments to ensure that the environment is prone for innovation. Firms also need to leverage the business and regulatory structures of each market to gain agility and adaptability, as well as consider the talent pool available to them, enabling calculated decisions that mitigate the risks associated with innovation. With a proper understanding and plan of such market dynamics and regulatory frameworks in place, RegTech firms will be able to develop steadfast and targeted product and sales strategies tailored to their specific needs and challenges in each country.

**Parham Nasser**  
*President*