A vast vista

Jenna Lomax analyses the innovation abound in Canada's second city, the country's mammoth task ahead to regulate crypto assets, and why the streamlining of data analytics is crucial to achieving greater investment governance

Home to an exquisite landscape of ethereal forests and vast lakes, Canada also hosts vistas of opportunity in the field of asset servicing.

After years of crafting and developing a robust financial market, Canada now possesses, among its many attributes, a strong governance of investment structures that are admired globally, as well as a collaborative mindset toward technological innovation.

Of course, Canada does not sit in a vacuum; this is evident when external global factors have contributed to its defined benefit pension plans closing the first quarter of 2022 in the red — with a median return of -5.5 per cent.

The reasons for this are twofold: record high inflation, and the Russian invasion of Ukraine, outlines RBC Investor & Treasury Services (RBC I&TS).

By no means taking away from the very human horrors of the latter, both international reasons have had a major impact within the country's asset management industry. Institutional investors are looking for a safe asset haven for higher returns, while trying to protect themselves from rising inflation.

"The market experienced growing economic and geopolitical uncertainties during the first quarter of 2022," observes RBC I&TS' Niki Zaphiratos, managing director, asset owners. "Russia's invasion of Ukraine has amplified existing investor anxiety over growing inflationary pressures and the COVID-19 crisis," she adds.

Despite these external factors affecting the front-office, Canada's back-offices still house proven data infrastructures and efficient settlement mechanisms.

There is also a balance of controlled innovation paired with technological advancement — in addition to collective knowledge there is always more to be learned in this space.

As Darrell Campfield, vice president of Canadian business development at Broadridge Financial Solutions, says: "Canada has to recognise that the democratisation of investor options and convergence of banking and wealth really reflect the investor and consumer landscape. Investors are looking to play more active roles in their investment choices and have more options in portfolio content."

This expectation, Campfield adds, "leads dealers to be looking to find new ways to meet investor needs, and deliver broader and higher-value services through digital channels."

In Canada, a willingness to invest in such digital channels that enable levels of greater efficiency is underpinned by a well-evolved, but adaptable, regulatory framework.

This is in addition to a sincere consideration for ethically- and sustainably-guided investment governance, in line with the country's liberal leanings.

A green view

Just like every other major jurisdiction would be in a modern, regulated market, Canada has promised its own ESG targets on both an international and domestic scale. In September 2015, Canada and all other 192 United Nations Member States adopted the 2030 Agenda for Sustainable Development at the UN General Assembly — a global call to protect the planet, pledging to make significant changes to promise this by 2030.

Like much of the wider financial industry, Canada is using data analytics to its advantage to strengthen its ESG initiatives and institutional investment. In Canada, it is the "G" element that holds weight when considering the relevance to asset servicing.

"Our I&TS clients are seeing investment governance as a core priority along with ESG and data analytics, and our current initiatives include digitising the client onboarding process in an effort to increase timeliness of onboarding and improve the overall client experience," outlines RBC I&TS' Zaphiratos.

However, Canada is not just concentrating on the "E" of ESG, but also the "S" — the social and societal aspect.

"Institutional investors look to their asset servicing providers for local insights, a consultative service experience, and to proactively explore new solutions to help clients achieve their goals," highlights Lloyd Sebastian, vice president of global financial institutions at CIBC Mellon.

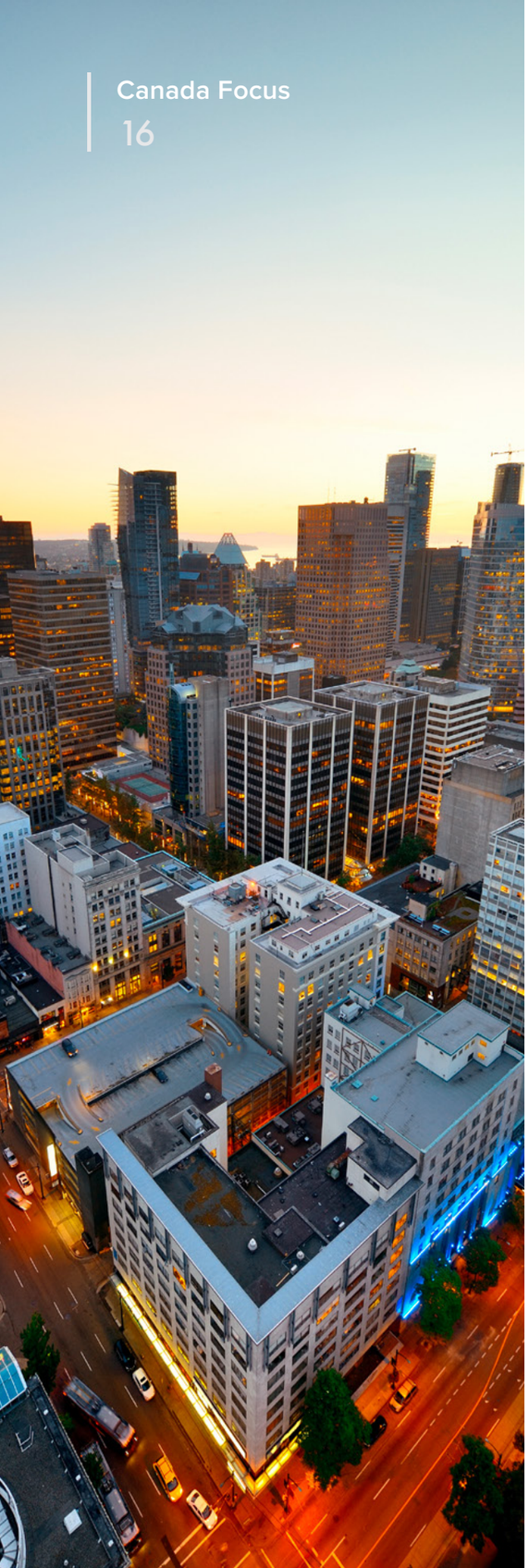
Therefore, he says: "One of the most important investments in an organisation is into its people. The "S" in ESG increasingly focuses on how an organisation treats its own employees."

He adds: "The outlook for 2022 is one where employees, workforce and talent are rapidly coming into sharper focus. Firms are looking to build and reinforce an engaged employee culture that is collaborative, insightful, and puts clients at the centre."

In the city: Toronto

Canada's bordering neighbour, the US, became the world's main victim of the Great Resignation last year. The phenomenon, which saw the US workforce leave their jobs in droves, witnessed the country lose a "historically high" 4.3 million workers, as of December 2021. Yet, thanks to years of investment from local universities, government agencies and business leaders, as well as Canada's liberal immigration policies, Canadian banks and vendors may not need to worry about this statistic too much when Canada's financial sector has the pick of a well-educated and diverse population to fill their offices.

To boot, Canada's second city, Toronto, is now the third-largest tech hub in North America, according to the New York Times.



It is actually home to more tech workers than Chicago, Los Angeles, Seattle and Washington D.C, according to CBRE, a real estate company that tracks tech hiring — a promising and reassuring statistic for the asset servicing-related challenges that may lay ahead for Canada.

Therefore, not just in Toronto, but across the cities of Canada, "managers [are] digitising manual processes and leveraging advanced technology such as artificial intelligence and data analytics to improve efficiency and enhance the client experience," observes RBC I&TS' Zaphiratos.

Providing better information is of course not just essential to the clients' experience, but also to advisors, which can only enhance data accuracy while making sure it is accessible to the right teams in-house, and at the right time. This has become an everyday experience for many back-offices and technology vendors, thanks to the country's technological strengths.

"Canada, with its well-educated and technology-savvy workforce can be a vital and essential force in the global asset servicing industry," says Katie Pries, president and CEO of Northern Trust Canada. "Our workforce is adept at developing and delivering novel tools and solutions to the marketplace."

On the horizon

One asset class dominating the marketplace in recent years is of course digital assets, whether it be non-fungible tokens, Blockchain or Ethereum. Canada's financial regulators are no different from the rest of the world's in treading carefully when having to consider this relatively new phenomenon.

For its part, Northern Trust's Pries says Northern Trust Canada is "committed to developing solutions that allow institutional clients to benefit safely and securely from the digital transformation of asset servicing."

"We have taken an agile approach to creating financial industry applications for emerging technologies," she adds.

Though many countries are yet to produce a definitive framework or standardisation of rules around the sometimes mysterious and murky world of digital assets, Canada is at the forefront in setting the rules to monitor against rogue instances. Canada is notoriously well-regulated with cryptoasset service providers that enable crypto transactions, all of which are required to register with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) as a money services business. From there, they are subject to the anti-money laundering monitoring and reporting rules set out in FINTRAC's guidance.

Currently, cryptocurrencies in Canada are not trading in securities. And the question remains as to whether Canadian authorities will one day make them so. Like many financial initiatives in the country, the endgame is to increase opportunity for betterment, and wherever possible for institutional investment, of course.

"As the approach by regulators toward oversight matures in Canada and globally, it will provide institutional investment and servicing with greater clarity and certainty," voices Paul Folk, managing director, head of asset managers, client coverage at RBC I&TS.

The path ahead

Living up to its reputation as an outward-looking country and to answer the call of its international responsibility, Canada has offered a loan of up to CAD$500 million to the Government of Ukraine in response to the Russian invasion, in addition to a CAD$120 million loan through the Sovereign Loans Program to support the country's economic resilience and governance reforms.

Canada has also offered a technical assistance grant of up to CAD$6 million to support the loan's implementation.

Amidst this conflict and upheaval, CIBC Mellon's Sebastian highlights that, despite the past two years having brought about "challenging circumstances for markets, investment operations and for many individuals", both Canadian and international market participants and stakeholders "have worked hard to deliver on the fundamental themes that distinguish Canada."

These themes are, concludes Sebastian: "confidence, stability and innovation." ■