Roadmap for a successful digital challenger bank:
The case of Canada's EQ Bank

Should digital banking be evolutionary or revolutionary? Is innovation best attempted within a traditional banking franchise, pivoting gradually to digital offerings to supplement existing businesses? Or is true innovation in the fintech space best left to start-up "neo"-banks? Perhaps finance will penetrate better within existing technology franchises (becoming "techfins") or non-banks offering bank-like products (Banking-as-a-Service)? This is an especially existential question for incumbent banks yet to digitize: build it in house, partner, buy or just don't bother? This case provides a compelling argument for digital banking to be provided in-house, in partnership with experienced fintechs, but only under very specific conditions. Early success may come if the digital arm adds value to the organization on day one, with all interests and goals internally aligned.

Learning Objectives:

This case is suitable for undergraduate and graduate courses on strategy, innovation, technology (fintech) and marketing management. Students will learn:

- The challenges of developing digital banking for a start-up or an incumbent, especially in a tightly controlled financial services market such as Canada;
- Alternative strategies for building disruptive technology within an existing financial company's ecosystem;
- How digital banks are created;
- How to partner with disruptors to manage digital implementation issues;
- Mistakes in digital implementation to be avoided;
- Roadmaps for digital banking success; and
- The operational importance of a fully-digital experience.

Keywords/perspectives: Competitor/Strategy, Customer/Marketing, Technology/Fintech.

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Executive summary

Equitable Group (TSX: EQB) has declared itself Canada's Challenger Bank. Though it is one of the two major players in the non-prime mortgage lending space in Canada, it is not a full service retail bank, and therefore it can not rely on inexpensive retail deposits.

Equitable has historically funded itself through non-sticky (both easy and likely to be withdrawn) and expensive third-party originated (brokered) large retail deposits and bank-provided wholesale backstop funding.[1] The firm has a pressing need to diversify and stabilize its funding sources while reducing funding costs for its currently approximately $12 bn in alternative mortgage lending.

The obvious solution to attract more deposits is to buy, start, partner with or merge with a full-service retail bank. Yet the Canadian retail banking system is oligopolistic and almost impossible to compete with.

This case documents the results of Equitable's decision to establish a digital direct-to-consumer bank, EQ Bank, created totally in house, with a new team, a new culture and separate budget.

With a blank slate, partnerships with third party fintechs ensured that EQ was fully digital from day one, and not just another pretty Application Programming Interface (API) fronting legacy systems and legacy problems.

Equitable's digital effort can already be judged a success, especially in an oligopolistic and heavily regulated market where the "Big Six"[2] incumbents maintain significant market power. EQ Bank has successfully addressed its key initial drivers of "going digital", improving their funding mix and cost, and now has the opportunity to cross sell the firm's traditional products along with those of new mostly-digital partners.

This case documents the strategy, actions and results of the EQ Bank journey. It specifically reveals that fintech can be successful if it is, in the first instance, a solution to a problem rather than a problem to be solved.

Digital banking may succeed where it offers the most value-added to the entire organization, rather than when it attempts to disrupt traditional banking by going toe-to-toe with well-entrenched incumbents with competitive advantages or competing directly with startups with Amazon- and Uber-like deep pockets and ambitions.

The conditions for success need to be carefully considered, however. Success may be best assured by creating a new team with a new culture of innovation, yet with full support from top management and the board.

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[1] "Equitable Group Inc at National Bank Financial Services Conference - Preliminary", *Fair Disclosure Wire; Linthicum*, 25 March 2014.

[2] Canada's largest six banks make up approximately 90% of the Canadian market for financial services.

Introduction

Should digital banking be evolutionary or revolutionary? Is innovation best attempted within a traditional banking franchise, pivoting gradually to digital offerings to supplement existing businesses? Or is true innovation in the fintech space best left to start-up "neo"-banks? Perhaps finance will penetrate better within existing technology franchises (becoming "techfins") or non-banks offering bank-like products (Banking-as-a-Service)? This is an especially existential question for incumbent banks yet to digitize: build it in house, partner, buy or just don't bother?

A funding problem

Though the Canadian financial system and mortgage markets survived almost unscathed, the Global Financial Crisis was a reminder–if one was needed–to new CEO Andrew Moor that alternative mortgage lender Equitable Group was overly-dependent on others for the funding of its primary business. Full service banks with insured deposits were the best able to ride out the systemic storm of 2008-9.

Several years later, in 2017, allegations of wrongdoing threatened the firm's biggest competitor and again roiled Equitable's funding markets. The effects of the resulting liquidity crunch revealed the additional idiosyncratic dangers of relying on non-sticky short-term funding, mostly sourced through third parties.

An oligopolistic market

CEO Moor knew the firm needed to "ensure that we always have access to liquidity and aren't beholden to big distributors that we see increasingly consolidated".[3] How could this be accomplished given the highly oligopolistic nature of Canadian banking, where customer acquisition and retention costs are high? The only answer was to not compete directly with the largest banks, and that could only be accomplished by going fully digital. The options for expansion online, however, are many, and fraught with problems, as demonstrated herein.

Countless fully-digital and branchless challenger banks have appeared globally, especially in countries with a regulatory focus on competition in the sector. Unicorns (multi billion dollar companies) include Revolut, N26, Monzo and OakNorth, yet very few have achieved any significant market penetration, and still fewer are profitable, or –arguably– have a clear road to profitability.[4] Indeed, some are questioning the future and long-term feasibility of online challenger banking, especially now that an increasing number of incumbents are focusing their attention on their digital offerings.

Like the "neo" bank start-ups, **EQ Bank**, Equitable's digital bank that is the subject of this case, is addressing a client base that prefers a modular and integrated user experience ("UX") that is only available digitally while also being attracted to the higher rates offered by the challengers. While an efficient interface and millennial-targeted marketing can attract customers away from incumbents, however, the costs of starting up a new bank combined with high customer acquisition and retention costs mean that revenue gains do not necessarily translate into income.

The digital solution

What is unique among the Canadian challengers is how Equitable has mostly avoided the issue of strategy sustainability by focusing on the very real benefits of more efficient funding for the firm's primary business.

By locating its innovative bank within the larger organization, Equitable can focus on so much more than an immediate profitability within the new business. In fact, digital retail banking has already provided some very tangible benefits relating to the finding of its loan origination platform, including funding diversification

[3] "Equitable Group Q4 2015 Earnings Call." http://eqbank.investorroom.com/events-webcasts?item=29. See also "Equitable Group Annual 2014 Financial Summary," http://eqbank.investorroom.com/presentations?cat=12.

[4] Marcus Bank, for example, has lost $ 1.3 bn since 2016, and faces significant headwinds, even as its deposit base is growing rapidly. In the UK, challenger Metro Bank reported a loss for the most recent quarter and curtailed its previously ambitious expansion plan. UK digital challenger Revolut lost GBP 100 mn even as it trebled its retail customer base. It needed two further funding rounds (August) in 2020.

and cost reduction. Given time and resources, EQ Bank can now additionally focus on being a relevant fully-digital competitor in the "traditional" banking market, driving top line revenue growth and therefore profitability.

Covid has accelerated growth in digital banking through customer demand, aided by recent technological improvements. Even if headwinds threaten the asset side of Equitable's business, the focus on lowering costs and diversifying funding through digital banking has resulted in a more efficient and likely stickier liability side.

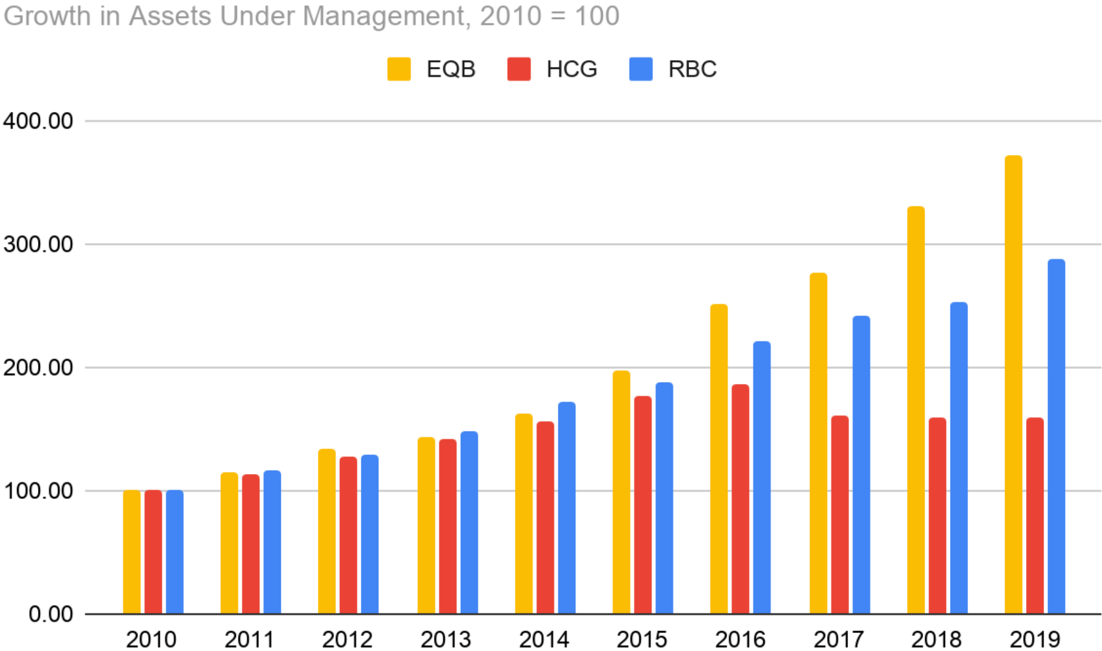
Below we discuss the context and justification for Equitable's move into digital banking, how the process is being managed and what the future may hold, for EQ Bank specifically and for banking in Canada in general.

Equitable Group, Canada's "challenger bank"

Equitable Bank is currently the ninth largest (federally-chartered) Schedule I bank as measured by assets in Canada, with over $29.3 bn (2019) of loans under management (LUM). Equitable's business model differs from the dominant "Sched I's" in that it is the primary lender in non-prime, or "alt-A", mortgages in Canada. Alt-A mortgages are a large part of Equitable' lending business, accounting for 38% of LUMs.

Whereas prime mortgages can be funded cheaply through securitization, Alt-A mortgages must be held on the balance sheet of the lender. Without a full-service retail bank, Equitable relies on third parties to originate "brokered" deposits. Such deposits are very rate-sensitive, and there is significant risk of withdrawal (see Box 1). As such, such finding is expensive and, in times of market stress, highly volatile.

Figure 1: Comparing assets under management - Equitable Group (EQB), Home Capital (HCG) and Royal Bank (RBC, largest of the Big Six)



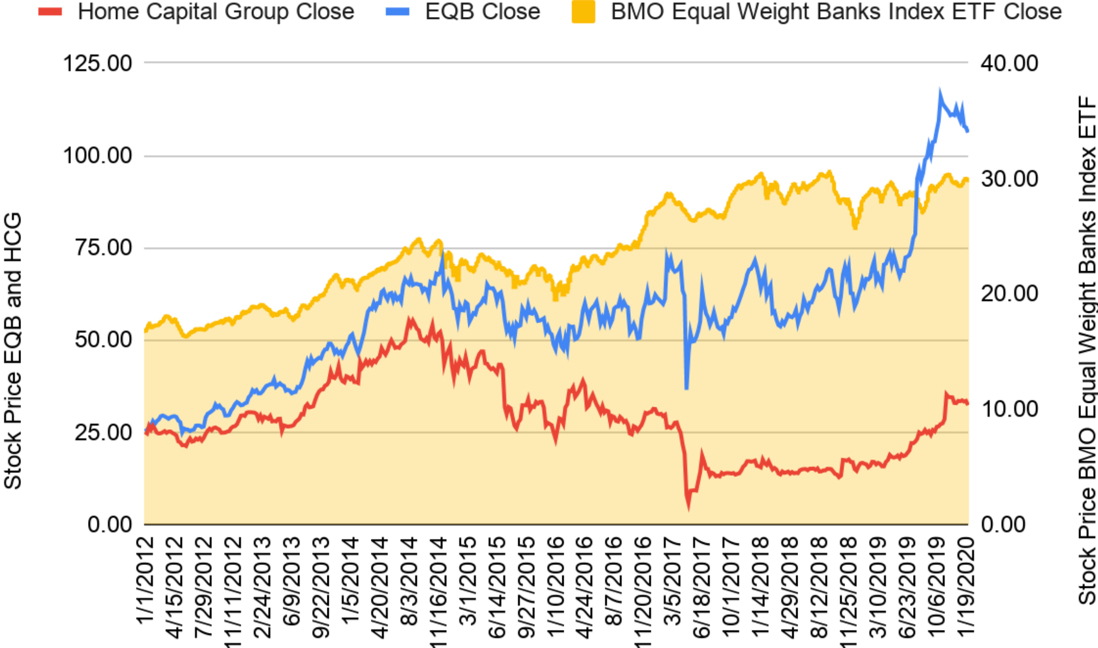
Source: Company Reports.

The concept of "challenger bank" originated in the UK, where banking regulation focused on increasing competition after the Global Financial Crisis allowed new entrants to challenge the oligopolistic

incumbents.[5] Though Equitable is an incumbent financial institution in its niche product areas–non-prime mortgages ignored by the larger banks– Equitable branded itself "Canada's Challenger Bank" in 2016, indicating its aspirations to disrupt the Canadian financial industry. Equitable also differs from the entrenched Sched I incumbents and Equitable's biggest competitor, Home Capital, in that LUMs are still growing rapidly (Figure 1 - with a constant annual growth rate (CAGR) averaging 14.26% over the last ten years), and this has translated into outperformance in the stock market (Figure 2).

There are two main challenges for any challenger bank in Canada. The first is that competing for new customers is expensive and in some cases futile (see "The Canadian banking customer", below). The second issue is that these hard-to-obtain retail customers provide the incumbent banks with inexpensive and sticky funding for other activities.

Figure 2: Equitable (EQB) Price v Home Capital and Canadian Banking Index



Source: Yahoo Finance.

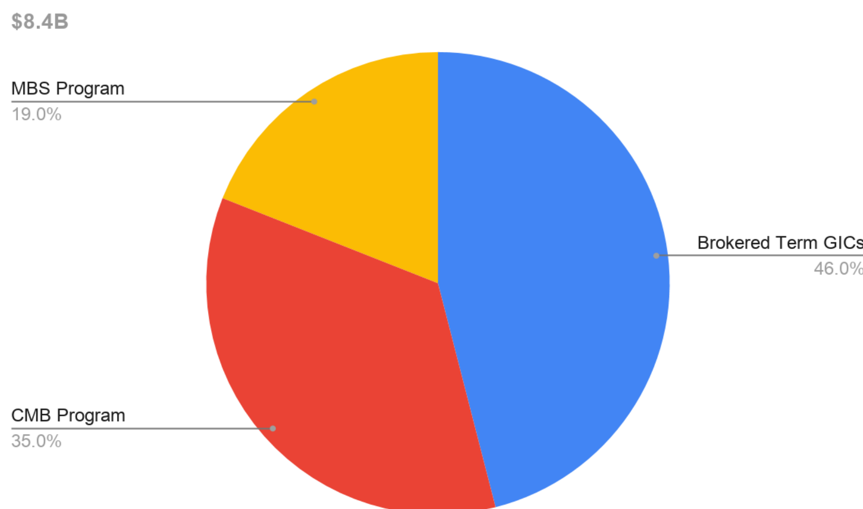
Funding costs

While prime mortgages can be funded through mortgage backed securities ("MBS" in Figure 3) or the Canada Mortgage Bond programme ("CMB"), non-prime mortgages are ineligible for government guarantees and therefore must generally be funded "on balance sheet" ("Brokered Term GICs" in Figure 3). Therefore, unlike the major Canadian financial institutions, Equitable relied on – and to a now lesser extent continues to rely on – wholesale (incumbent bank-provided) funding and brokered (retail) term deposits to fund its mortgage origination businesses. This is because historically the alternative lenders did not generally have government-insured deposit-taking capabilities. Additionally, retail customers have been reluctant to change banks, even if offered better value in terms of higher deposit rates. Lower costs or better service. As a result, the industry relied upon intermediaries such as the large Schedule I banks, with their massive deposit bases as well third-party deposit brokers for what continues to be extremely expensive funding (Figure 3). There are two problems with this "B2B" funding mix. For one, it is far from assured that this mix of funding will be stable enough to continue through any economic downturn or bad news cycle for

[5] Nicholas Megaw. "UK's bank challengers are fading in fight with big four." *Financial Times.* 29 September 2019. https://www.ft.com/content/77ef93ec-e100-11e9-9743-db5a370481bc

the industry or the firm. Additionally, this results in a higher cost of funds than its prime lending competitors, the big Sched I banks.

Figure 3: Equitable Funding Sources: 2010



Source: "Q4 Report: Three and Nine Months Ended December 31, 2019." http://eqbank.investorroom.com/download/EQB-Q4+2019+vFinal+Feb+24.pdf

This competitive disadvantage versus Sched I incumbents is also an issue if the banks with cheaper and stickier financing enter the Equitable's main businesses, or acquire its competitor, HomeCap. An alternative mortgage lender with much lower costs would be a formidable adversary.

Risk of bank runs

A higher cost of funds than the Big Six is only one challenge for Equitable's funding mix. The other is that deposits at full service banks are quite "sticky", whereas brokered certificates and deposits are not (Box 2). The 2017 run on Home Capital (Box 1) cost the Equitable's biggest challenger dearly. Equitable, however, also suffered. Equitable's wholesale line of credit from the larger Schedule I banks increased in price by 0.30%. In addition, the new facility featured a 0.75% commitment fee and a 0.50% standby fee, resulting in a cost of funds approximately 0.60% higher than alternative sources.[6] Equitable never used this line but the standby and commitment fees were punitive. The result hit earnings hard: Q2 EPS fell $0.42 per share. Coming so soon after wholesale funding came under threat in 2007, when Equitable was much smaller, the Home Capital run was a valuable lesson. Diversifying funding is a long-term survival requirement. Additionally, such diversity can bring cost savings in the form of lower interest rates.

Towards a better funding solution

Digital banking was to be the solution for the funding issues, above. Many hurdles remained, however. The first of those is the competitive landscape in Canada's financial services industries. Operating under the same license, EQ Bank and Equitable Bank both have their deposits guaranteed up to the legal threshold by the Canadian Deposit Insurance Company (CDIC). In terms of risk, therefore, EQ offers the same security as any of the incumbents. **It has nevertheless been extremely difficult for fintechs to acquire deposits and assets under management, for the reasons given below.**

[6] Niall McGee. "Home Capital loses $300-million in market value after OSC allegations." *Globe and Mail.* 17 April 2017.

Box 1. The run on Home Capital

Home Capital Group Inc. (HCG-TSX) operates a similar lending business to Equitable through its principal subsidiary, Home Trust.

In 2017, Home Capital was almost entirely funded by a wholesale loan from one of the Big Six and short-term high interest savings accounts. This lack of diversification was tested when HCG ran into trouble due to OSC accusations of malfeasance. The result was a run on the bank as funding lines were closed and retail investors withdrew their deposits. Retail funding fell from $1.4 bn to just under $400 mn within a week. HCG's eventual bailout came at a significant cost, with Berkshire Hathaway stepping in as a new shareholder at a substantial discount; and a Canadian pension plan providing a $2 bn line of credit at onerous rates. Equitable, too, had to prove to the market it was not experiencing a liquidity crisis by paying over the odds for a similar $2 bn backstop funding facility. Funding woes forced Home Cap to curb originations, an event from which the firm is still recovering (Figures 2 and 3). Home Capital's 2017 woes and the crisis in 2008, are important lessons: as much as possible, long term investments should be funded with "sticky" liabilities. Traditionally, Canadian bank deposits and securitizations have provided that stability.

The Canadian banking customer

Retail deposit-taking over the internet varies from "branchless" fully-digital "neo" (start-up) banks to new internet- and even mobile-friendly interfaces to access traditional banking services at incumbent institutions. Digital money began with bank card services and ATMs, and online banking evolved as broadband became available in the 1990s.

Fully digital banking is a much more recent phenomenon. Just how digital the entire process is depends on each company's strategy. While early online services were focused on reducing costs, today's digital banking is driven primarily by changes in consumer demand.[7] If you are a "millennial", chances are you already do the majority of your banking online, generally via mobile.[8] There is a growing number of savers who are not only early adopters of technology, they often–though far from always–prefer not to interact in person or even on a voice line. 75% of those surveyed in 2019 by PWC would be happy to save at a bank without branches. In fact, anyone can benefit from digital banking, especially in this age of COVID-19. The share of digital banking at one traditional player leapt from 25% to 75% since the COVID crisis.[9]

Currently, smartphone-accessible services are the major focus, with the holy grail being fully digital support infrastructure ensuring low-cost and seamless processing for both the bank and the customer.

Canadian consumers of all ages have embraced digital technology in their daily life. A 2019 survey conducted by the Canadian Bankers Association found that 91% of Canadians responded that banking technology made their lives more convenient, and 88% believed that it improved their bank's service.[10] Canadians are increasingly relying on digital, and crucially, mobile methods in order to conduct and manage everyday banking and financial transactions. Online banking is popular among every generational segment (60% for the Silent generation, 62% for Boomers and 53% for Gen X). However, millennials lead the pack

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[7] David Schiff, Ashish Jain, Scott Evoy, and Greta Lovenheim Capps. "PwC 2018 Digital Banking Consumer Survey.Pdf, Interview, Q&A.". PricewaterhouseCoopers. June 2018. https://www.pwc.com/il/he/bankim/assets/2018/PwC%202018%20Digital%20Banking%20Consumer%20Survey.pdf.

[8] PwC Digital Consumer Research. "2019 Consumer Digital Banking Survey." PricewaterhouseCoopers. June 2019. https://www.pwc.com/us/en/industries/financial-services/library/pdf/pwc-consumer-digital-banking-survey-2019.pdf.

[9] Ibid.

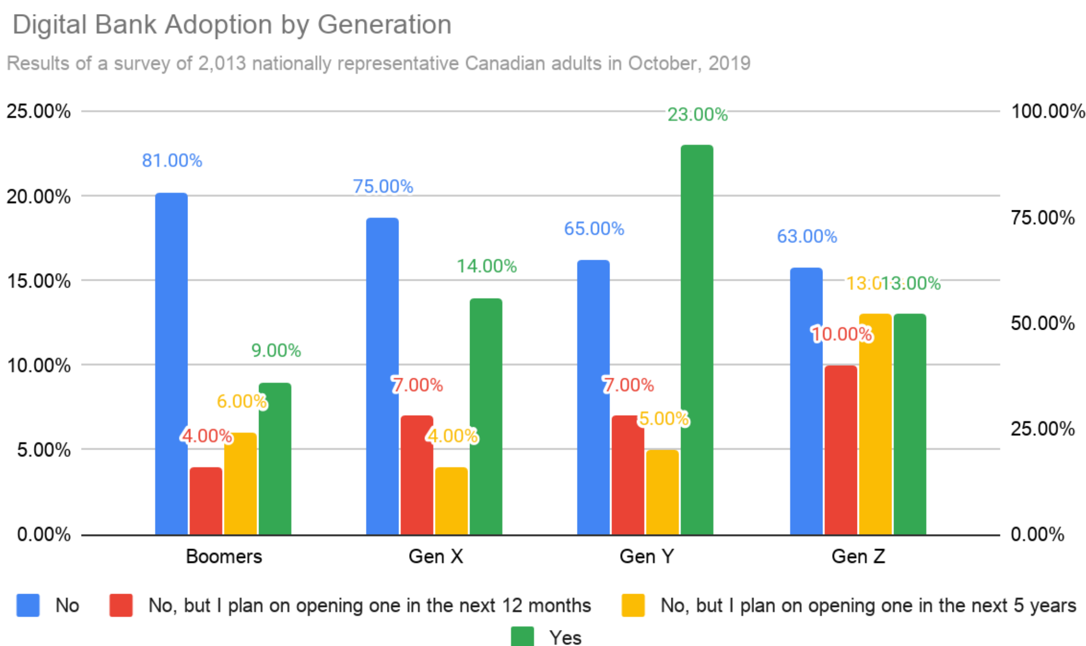
[10] Abacus Data and Canadian Bankers Association, "How Canadians Bank | Focus: How Canadians Bank," Bi-Annual Survey, Focus (Canadian Bankers Association, March 13, 2019), https://cba.ca/technology-and-banking.

in terms of their increasing reliance on app-based (i.e., mobile) banking methods: 36% app-based and 41% online.[11] Gen Y and Z, for example, are most likely to hold a digital account and most likely to open one in the near future, according to one Canadian study (Figure 4). Apps are the future of banking, and this frames the crux of the issue surrounding the limitations of traditional banks versus fintech and the advantages of their challenger banking counterparts.

Box 2. Customer loyalty and sticky deposits in Canada

Traditionally, banks in general and Canadian banks in particular have come to rely on customer inertia. Moving accounts was so difficult and time consuming that sticky customers could be relied on to pay more or receive less than the best offers in the marketplace without fear of their moving to competitors. This means that challengers have generally needed to pay well above Big Six for funding as well as pay additional marketing, on-barding and retention costs as compared to the large incumbents. Additionally, the customers most likely to switch to a challenger are likely candidates to leave should they find a better deal elsewhere. Altogether, challengers face high acquisition costs of customers, have to offer a better deal than elsewhere, and risk higher churn if their products do not remain best-in-breed. How long is that sustainable for a stand-alone challenger?

Figure 4: Do you have an account with a digital-only bank?



Source: Richard Laycock. "Digital Banking Adoption." *Finder CA* (blog). 21 April 2020.

In the context of digital disruption, however, it is also important to remember that Canadian consumers are least likely to sever their banking ties with traditional institutions. In fact, at worst, Canadians are indifferent towards their bank--the majority stating they were "ok" with their bank vs "I love" or "like" (Box 2). The Canadian retail customer is less focused on value than in other countries, resulting in a remarkably slow exodus from cumbersome savings accounts with high fees and, as of September 2020, almost zero interest

[11] Ibid.

rates.[12] Teaser rates and referral fees may encourage some customers to move, yet uneconomic propositions are unsustainable for challengers in the long run, and in any event have yet to make a serious indent into the traditional banks.

In theory, mobile and desktop interfaces allow for the creation of nodes where customers can access a variety of financial services, and switch between them, with low frictions. For example, one of the main selling points for digital banking is the ability to make every dollar "at rest" either earn interest or offset high-cost debt. Dan Dickinson calls this single platform management, or a "hub" account.[13] Bill paying, borrowing and repayment, international transfers, e-commerce and friends-and-family payments, investing and savings can, in theory, all be accessed from the same API, even if different companies provide each service.

To succeed in this app-centric future, traditional banks must fully embrace the customer-centric approach. Intelligent banking "will be a bank that will seamlessly and digitally offer a whole range of services to its customers, with payments as the glue to hold it all together—services that are personalized, proactive, relevant, convenient and safe; services that fully exploit data, analytics and intelligence."[14] Traditionally, however, financial services are not set up in a way to allow for cross-selling and low-friction, painless transfers. This creates a conundrum for any financial services firm. The degree of automation behind the scenes of a pretty UX varies tremendously across the banking industry. However, it turns out that seamless execution for the customer is best supported by a seamless and scalable fully-digital platform. The back end has to function to execute what the front end promises in terms of ease and use and timely execution. Otherwise costs will soar, delays will occur and customers will be disappointed: a toxic trio that could result in the termination of the digital effort due frustrations on both sides, customer and bank.

The technological infrastructure required is API-driven, leverages big data and machine learning capabilities, automates system development and update processes, and is cloud-native. This is the antithesis to legacy banking infrastructures, which rely on outdated technology (COBOL was invented in the fifties), and siloed customer data. Additionally, the sheer size and scope of organizational hierarchy, risk-averse corporate cultures, and product-centric approaches do not lend themselves well to the agility required of banking in a digital ecosystem dependent on agility, faster time to market, and pre-emptive response to trends in consumer preferences.

The Canadian bank landscape

Over their hundreds of years of history, the Big Six have developed habits and methods of banking which are deeply ingrained into their systems. The benefit of being born closer to or during the digital era, like most challenger banks, is that the technological foundations were built upon easily upgradeable core banking systems. Traditional banking institutions often use core banking systems that are impossibly difficult to upgrade as they utilise outdated programming language, which reaches down to every level. Switching core banking systems is oftentimes not a realistic or cost-effective solution. One expert equates the magnitude of the problem with "performing open-heart surgery" because "you have to keep the bank alive – you can't shut down the operations and ask your customers to come back in three years' time. You have to continue maintaining the day-to-day activities and at the same time, implement new systems, integrate with other solutions, train all your staff, move all your data from the legacy systems, reconcile everything and make sure all of it works and is compliant."[15]

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[12] Marc Ferriera. "In a Low-Interest-Rate World, High-Interest Savings Proving a Big Winner for Smaller Banks." *Financial Post.* 25 March 2020. https://business.financialpost.com/investing/in-a-low-interest-rate-world-high-interest-savings-proving-a-big-winner-for-smaller-banks.

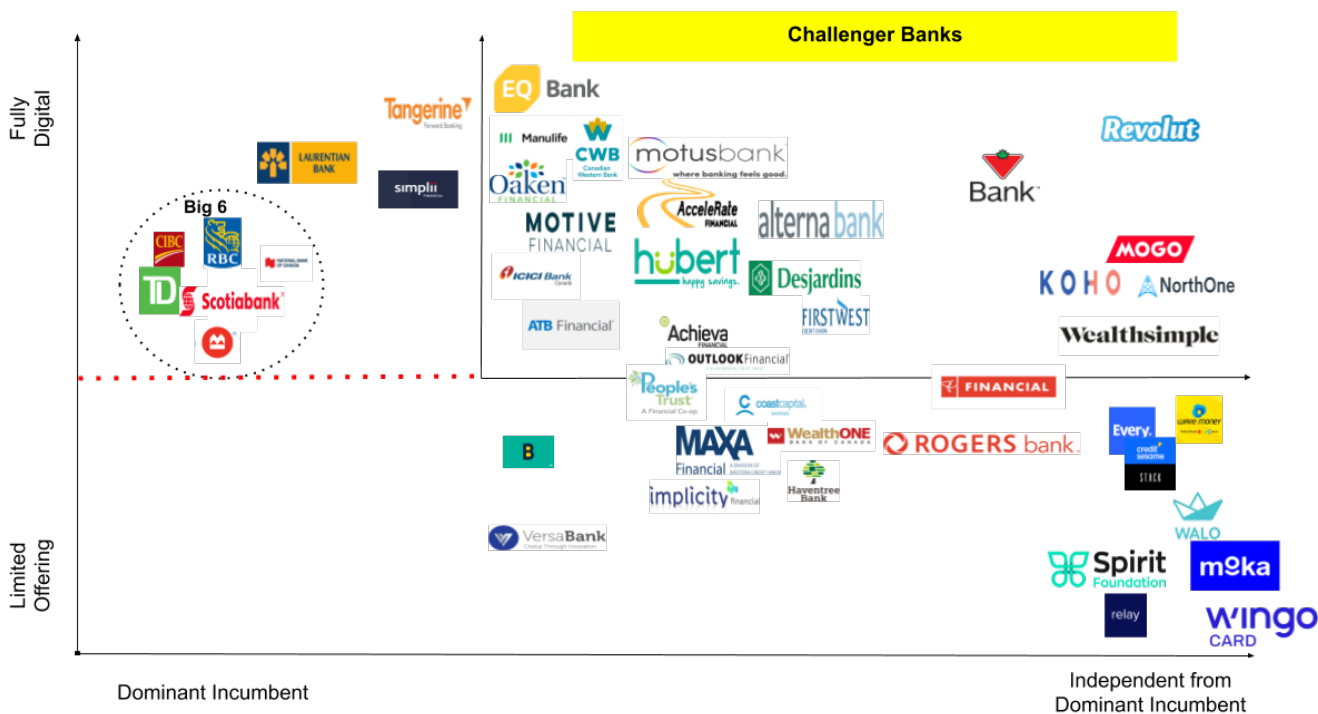
[13] Dan Dickinson. "How I Bank Now," LinkedIn, *How I Bank Now* (blog), October 7, 2017, https://www.linkedin.com/pulse/how-i-bank-now-dan-dickinson/.

[14] Kanika Hope. "Build Greenfield: How Traditional Banks Are Breaking the Mould." *International Banker.* 16 September 2019. https://internationalbanker.com/banking/build-greenfield-how-traditional-banks-are-breaking-the-mould/.

[15] Kathleen Boyle. "BANK X: The New New Bank." Citi GPS: Global Perspectives & Solutions (Citigroup). March 2019. https://www.citibank.com/commercialbank/insights/assets/docs/2019/Bank-X.pdf.

As legacy systems and regulatory hurdles prevent larger firms from easily pivoting to using new technology, in many countries a new wave of neo-banks have been tempted to enter previously well-gated financial markets, such as credit cards, money transfers, lending and foerign exchange. Deposit taking, however, has posed more of a challenge, even in countries with more competition than Canada.

Figure 5. Digital banking in Canada



The earliest fully-digital branchless challenger banks–such as OakNorth and Starling–have revolutionized consumer-facing banking by growing a scalable and flexible tech infrastructure backing a user-friendly API. Such new technology also allows for rapid change. Adding a partner or re-scaling has been made easier with the entry of new service providers. Growth in the sector has been phenomenal, as the demand for fully-digital platforms is the result of many societal changes.

Supply has kept pace with demand, primarily due to regulatory pressures in countries such as the UK for increased competition and, especially government-mandated open banking and payments. Open banking requires the incumbents to make certain data portable to other financial service providers, even competitors. Simultaneously, incumbent banks in Europe have been distracted by the effects of the global financial crisis in 2008-9 and the subsequent demands to improve controls and reporting.

Canada's experience is different. Threats of open banking have yet to become reality, and the primary Canadian regulator appears to favour the status quo of oligopoly.[16] Additionally, the inflexibility of licensing (either you are a bank or not) in Canada has somewhat deterred stand-alone neo-banks. Canadian banks were also less affected by the 2008-9 crisis, and did not lose their focus on the profitability of the retail sector. As a result and as previously mentioned, Canadian banks don't have to compete on price, and rarely compete on service.

[16] This Canadian bank oligopoly is viewed positively by regulators as it is easier to monitor a few large players. Lawrence Pruss."The Differences Between Banking in the US and Canada." *The Financial Brand*. 2 October 2015. https://thefinancialbrand.com/54467/comparing-united-states-canadian-banking-systems/.

An unwelcoming atmosphere has not completely halted the rise of challenger neo banks in Canada, as shown in Figure 5. Also challenging the incumbents and each other are the banking arms of large retail B2C companies (middle right); and offshoots of smaller Canadian banks, trusts and credit unions (middle). VanCity Savings and Canadian Western Bank (under the Motive Financial brand) provide two examples of the latter. Luring apathetic savers away from their oligopolistic suppliers has proved nearly impossible without very high savings rates and very low cost offerings, however. Some neo banks acquired by the traditional players (middle left of Figure 5), but generally the Big Six grew their digital businesses incrementally, if at all. Only one established a stand-alone bank CIBC's Simplii). This occurred mostly because the traditional banks realised they did not have a culture that would optimise the development of start-up challengers. EQ Bank its competitor Oaken fit right in the middle of Figure 5: greenfield banks of non-Big Six financial incumbents.

The y axis of Figure 5 identifies the degree to which the digital bank is full service digitally. Does it offer savings and chequing accounts? Credit cards? Registered retirement accounts? Investment advice? The x axis is the degree of independence from dominant incumbent financial institutions. The most obvious takeaway is that EQ has many fully-digital and even more mostly offline (all of the remaining Sched I's) savings banking competitors. EQ competes with the well-funded start-ups, joint ventures, digital offerings of the incumbents, greenfield online banks of the smaller players and the bricks-and-mortar Sched Is.

Even as the competitive environment is difficult digital savings banking in entrenched markets, fintech innovators face another huge hurdle, the Amazon/Uber effect. Many fintechs point to the long money-burn experiences of current industry giants such as Amazon to justify their large losses to date. Revenue is the focus, with the hope that profits will come in time, as with Amazon. But the elephant in the room that is rarely mentioned in fundraising pitches or strategic plans is the cost of bank customer acquisition and retention, and how many years of net losses are required to penetrate industries much less well-defended than Canadian finance. Amazon and Uber models require domination of the market, something no fintech can ever hope to achieve in the near term in Canadian banking.

In the meantime, it is not disruption–and certainly long-term unsustainable–to offer uneconomically high savings rates and products below cost by eating through capital. While consumers who switch may gain, the losers are the innovators, who all need to match the most aggressive so-called "disruptor". Zero commissions? 2.5% savings rates when other rates are near zero? Such is the norm in fintech.

Unprofitable businesses may shake up the sector but are far from long-term practical. On the other hand, while online banks are generally far from profitable, it is clear that there is client demand for such offerings. Online only banking is being adopted quickly, and it has sparked significant curiosity and challenge in Canada from the mainstream. Tangerine, the digital banking arm of Scotiabank, was an early disruptor that is now owned by an incumbent.

Buy, build, ignore or improvise?

Success in launching a greenfield digital bank is anything but guaranteed. Headwinds resulting from the clash between traditional bankers and fintech disruptors can be fatal for projects without complete buy-in from all parties, and for the long term. PwC has recently claimed that $ 900 billion has been "wasted" on fintech transformation, around 2/3rds of the total spent in 2018, while IDC suggests that 70 percent of digital efforts do not meet their goals.[17] According to PWC, the main barriers to a successful in-house digital implementation for an incumbent are: (1) differences in expectations between upper management and the executing teams; and (2) failure to follow through to a fully-digital implementation with strong execution. This would therefore indicate that the best course of action for an incumbent is to buy or partner rather than build in-house. Or if launching within the larger firm, upper management will need to fully support the internal effort, and up to and even after full digitization.

[17] Ravi Kittane. "Banking on digitalisation: A transformation journey enabled by technology, powered by humans." PwC Malaysia. September 2020. https://www.pwc.com/my/en/perspective/digital/200907-pwc-blog-banking-on-digitalisation-a-transformation-journey-enabled-by-technology-powered-by-humans.html

Broadly speaking, the most important differentiation in approach begins with the decision to begin from scratch, by building a completely separate digital-only brand from the ground up, or integrate the brand into the institution's existing IT infrastructure.[18] This deviation in course determines whether or not the parent bank will adopt a parallel or greenfield approach to building a digital only bank.

The key differentiation between the two approaches is in the degrees of separation between the parent institution and the digital only brand. A parallel bank remains "an extension of the original organization, relying on the same legacy technology infrastructure" and really serves as an important branding or targeted marketing strategy.[19] On the other hand, a greenfield approach is a completely independent endeavour, within the parent bank, to experiment with creating something new outside of the restraints of a legacy system. For all intents and purposes, a greenfield approach functions as a startup within the bank, and allows the organization to achieve digitization over time. Startups are free to engage meaningfully with the fintech ecosystem and innovate their own products and services. Parallel banks often lack the true intention to achieve transformation, which means that the parent institution forgoes the long-term benefit of becoming a digital bank and achieves the short-term benefit of responding to current market disruption and consumer demand for digital products.

Greenfield approaches to digital banking are increasingly being marketed to traditional banks as the ultimate quick fix solution for their failure to gradually accommodate and integrate digital transformation (especially where parallel brands have failed to fill the gap).[20]

EQ Bank is not a neo-bank, as it operates under the same legal entity as the original Equitable Bank. Having its own brand and innovative marketing strategy, however, allows EQ to look and act like both a challenger neo-bank and a greenfield bank, combined. A digital challenger bank must focus on providing a seamless and 24/7 customer experience (UX) available anytime and anyplace (mobile, computer, tablet), and use customer data to provide automated financial services. Operationalizing this requires a highly flexible and integrated technology infrastructure, known as a platform, which allows the bank to connect it's back-end core banking systems and data stores to a front-end, through a system of channels which allow for the exchange of customer data, so that services (often by third party providers) can be provided in a timely and accurate manner. For traditional banks updating and altering their legacy infrastructure, with its extremely huge and unmanageable data silos, is a herculean task. Without fully transitioning a bank's core systems to a digital banking platform, it is impossible to provide a full user experience.

An entire industry has emerged providing neo-banks and incumbents alike with the building blocks needed to supply a wide array of digital experiences, from UX to cloud operationality. The options are endless, and therefore the successful customer-facing bank does not have to reinvent the wheel. An incumbent can simply "white label" a neo-bank, essentially subcontracting out the entire service to fintech. Alternatively, the incumbent could choose amongst a wide variety of plug-and-play options: cloud computing, UX design, AI-enhanced credit decisions, etc. This is the route that EQ Bank followed.

EQ Bank as digital challenger

Equitable officially announced its intention to set aside revenue in order to pursue a digital banking solution to investors soon after it became a Schedule I bank in 2013 and hired Dan Dickinson, from Schedule I Bank

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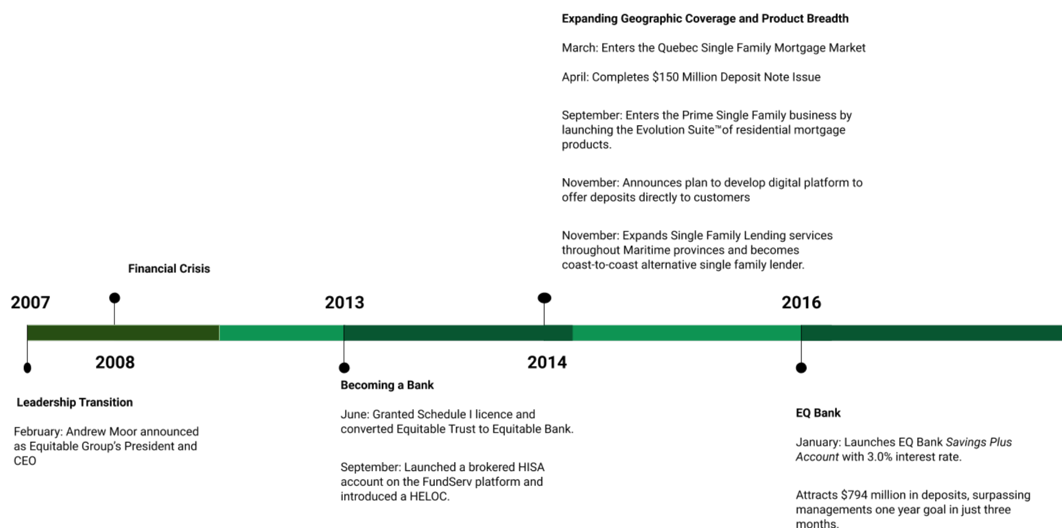
[18] Paul Schaus. "The Right Approach to Digital-Only Banks." *American Banker.* 26 November 2018, https://www.americanbanker.com/opinion/the-right-approach-to-digital-only-banks.
[19] ibid.
[20] See for example: Ronan O'Kelly, Martin Sommer, and Katrina Bowen, "Time to Start Again: How Greenfield Can Transform Corporate Banking," Corporate Banking Insights (Marsh & McLennan, 2019), https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2019/sept/greenfield-corporate-banking.pdf.; "The Greenfield Approach: Accelerating a New Era of Growth and Innovation in Insurance." *FinTech Futures.* 16 June 2019. https://www.fintechfutures.com/2019/06/the-greenfield-approach-accelerating-a-new-era-of-growth-and-innovation-in-insurance/; and Kathleen Boyle. "BANK X: The New New Bank." Citi GPS: Global Perspectives & Solutions (Citigroup). March 2019. https://www.citibank.com/commercialbank/insights/assets/docs/2019/Bank-X.pdf.

of Montreal, to lead the project as VP of Digital Banking (Figures 6 and 7). To bolster their leadership and further streamline the process, Dickinson and new VP of technology Dan Broten enlisted the help of several technology and consulting houses and merged their service providers with their in-house team. Vendors became partners. Deloitte Digital, Konrad Group, Temenos, Microsoft Azure, Long View Systems, Atlassian, Blended Perspective and Blanc Labs were critical to each stage of digital transformation–from the launch of EQ Bank to its subsequent cloud migration.

Figure 6. Timeline of Evolution Towards EQ Bank Launch



Source: Company Reports and Press Releases

What advantages could an EQ Bank have, given the highly competitive marketplace on one hand and the apathy of the traditional Sched I customer on the other? This is where Equitable's huge disadvantage became EQ Bank's tremendous opportunity. The only solution is to provide a sustainable value proposition for the customer. Most non-majors need teasers and incentives above those of the majors. Yet if stickiness is low, which is likely for first mover customers, when the value proposition moves beyond giving away free money and eating away at capital, the customers will leave. For such an unsustainable business model, both customer acquisition costs and churn are high.

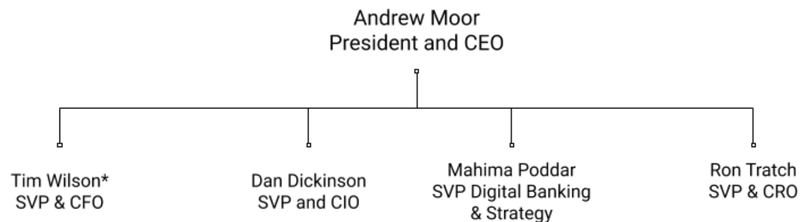
EQ avoids this major hurdle by knowing it can offer rates higher than the incumbents and even higher than most competitors in the long run, and not as a teaser. Thus, customers can come for the rate and stay for the rate as well as an enhanced user experience in a full-digital world. In this way, a non-sticky business becomes a sticky business. The "moat" in this case is the ability to pay a high savings rate and still improve the quality of funding for Equiable's primary business of originating and funding alternative mortgages. Indeed, Equitable has an extremely profitable business model, which only benefits from diversifying and reducing the costs of funding.

Equitable's starting position as an incumbent challenger bank did not include the advantage neo banks have of being born digital, nor the name recognition of the incumbents. The experience of building EQ Bank, however, indicates that opting for a digital-only offshoot presents a potential game changer, especially for banks that can successfully match Equitable's implementation. Equitable demonstrated key characteristics of an agile bank, capable of successfully implementing a digital transformation, namely

1. a customer-first mindset;
2. minimal ongoing fixed costs, due to tech-heavy branchless model;
3. full board and upper management support and the resulting rapid decision making and product distribution; and

4. a “phygital” approach to channels which responds to consumer behavior and avoids relying solely on digital channels: Fully digital is not the solution to every Equitable product or service.[21]

Figure 7: Equitable top management



* Tim Wilson resigned on 10 August 2020.

The Consumer

The first phase of the project required identifying a consumer need–a gap in the market. Equitable's existing business model emphasized identifying niche, or underserved, areas of the Canadian mortgage lending market and then capitalizing on the opportunity to streamline its services and products to fill these gaps. Therefore management was well-placed to challenge in digital as well.

According to Dickinson, part of the pleasure in constructing a “greenfield bank,” is that one is able to start anew, unencumbered by these dilemmas in the design and building process. Dickinson identified his consumer segment and the gap his product was to fill based on a board and deep investigation into consumer behaviour. In particular, a report commissioned from Canadian market research group Environics revealed that consumers desired an easier way to track spending habits, operate jointly, and manage money from one account.[22]

The mobile app journey began with Deloitte Digital, and a digital design consultancy. The standard approach in the banking community, as Dickinson describes it, is to “start from a 200-page requirements document detailing what they want systems to do, versus what the customer should experience.”[23] This misstep results in trying to push existing products onto the consumer and misses the chance to win over digital consumers that are not as persuaded by trust in a banking license as they are in ease of use, and maximum technological portability.

The growing trend in millennial banking habits towards increasing reliance on smartphones indicates the importance of digital channels as the face of the bank. Unfortunately, incumbents often underperform in this area, attracting the ire of their younger customer segments. And waste money in the process.[24]

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[21] Brett King. *Bank 4.0: Banking Everywhere, Never at a Bank.* (Newark, United Kingdom: Wiley, 2018): 300. “Opti-channel and Digital Omni-channel Phygital strategies, or optimising physical and digital channels to work in concert, is pretty key for future agility. Reliance on one channel for any core activity is a constraint Agile banks don't want—they watch customer behaviour and respond accordingly.”

[22] “Are We Spenders or Savers? EQ Bank Survey Conducted by Environics Research Finds Canadian Couples Wear Rose-Coloured Glasses.” Environics Research (blog). 18 October 2016. https://environicsresearch.com/insights/spenders-savers-eq-bank-survey-conducted-environics-research-finds-canadian-couples-wear-rose-coloured-glasses/.

[23] Dan Dickinson. “Digital Bank Ingredient #3: Air Traffic Controllers.” LinkedIn. 1 February 2017. https://www.linkedin.com/pulse/digital-bank-ingredient-3-air-traffic-controllers-dan-dickinson/.

[24] “The Bank Branch and Call Center Traffic Jam.” Bain Consulting. 29 November 2016. https://www.bain.com/insights/bank-branch-call-center-traffic-jam/. Though digital solutions are usually intended to be

Dickinson navigated this issue by “using the usual story map / wireframe / design process [,which] really helped us surface where systems or regulations would constrain the UX so we could resolve those issues early.”[25]

EQ Bank’s first product, the Savings Plus Account, allowed customers to set and track savings goals, manage bills/payments, make transfers between chequing and savings, and earn higher interests all from one account (hence the “Plus”). Though the customer is meant to experience the account as a simple and fluid set of applications and functions, in reality, this is a very complicated and heavy load of tasks which could not have been achieved without implementing a single platform, front-to-back, fully integrated solution. The platform needed to be as seamless as the customer experience.

The Platform

EQ Bank is built for banking in a dynamic and rapidly changing fintech ecosystem, in which a legacy infrastructure consisting of brick and mortar branches and methods for storing customer data that have been around since the 1960s simply cannot implement the procedures necessary to leverage customer data and enhance end-to-end customer journeys.

A necessary condition for fully realizing the structural/technological infrastructure necessary to implement “frictionless banking,” building and designing an advanced tech platform and software system presents a series of important decisions for a bank’s management. EQ outsourced the bank’s core system to Temenos.[26] This allowed EQ Bank to launch in 18 months, several years later migrating seamlessly to the cloud, and to scale when needed, now and in the future. Temenos’ retail banking platform–a common solution among its competitors, such as Canadian Western Bank (Motive Financial) and Coast Capital Financial–offered a versatile and easily upgradable architecture, around which the Equitable both built their own services and products and integrated those of their third party partners (Figure 8).[27]

Years later, EQ Bank benefitted from its easily upgradable and modular core banking system. Migrating to the cloud in 2019 merely required an upgrade and plug-in implementation of cloud-based products. The global research and advisory firm recently named EQ Bank as “Model Bank of The Year” for Banking in the Cloud. Celent emphasised that they were persuaded by the fact that “this was not just a migration to the cloud but also a core system upgrade to a core five versions ahead of where the bank was at the time.”[28] Dickinson stated the post-cloud platform “looks and feels the same, but it should accommodate our growing family for a few more years to come.”[29]

Figure 8: EQ Bank architecture

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a cost-saving measure at an incumbent, when improperly implemented they are a net additional cost in follow up non-digital service requirements.

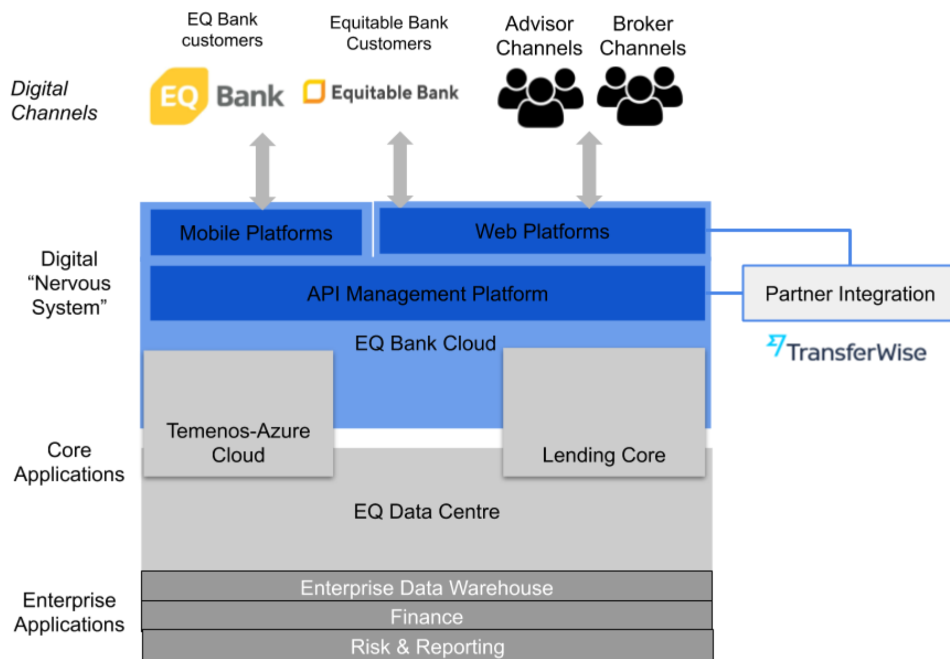
[25] Dan Dickinson. “Digital Bank Ingredient #3: Air Traffic Controllers.” LinkedIn. 1 February 2017. https://www.linkedin.com/pulse/digital-bank-ingredient-3-air-traffic-controllers-dan-dickinson/.

[26] Temenos Press Release. “New Digital Bank Launches on Temenos RetailSuite.” 25 February 2016, https://www.temenos.com/news/2016/02/25/new-digital-bank-launches-on-temenos-retailsuite/

[27] ibid.

[28] Craig Focardi and Stephen Greer. “EQ Bank: EQ Bank to the Cloud!” Celent Insights,.15 April 2020, https://www.celent.com/insights/455872201.

[29] Dan Dickinson. “Lifting the House & Rebuilding the Foundation.” LinkedIn, 11 November 2019, https://www.linkedin.com/pulse/lifting-house-rebuilding-foundation-dan-dickinson/.



Source: Based on a diagram from Craig Focardi and Stephen Greer. "EQ Bank: EQ Bank to the Cloud!" Celent Insights. 15 April 2020. https://www.celent.com/insights/455872201.

The ability to quickly scale a product is critical for a digital bank. At first, EQ was unprepared for the demand for their high interest savings account. As a result, EQ Bank had the classic conundrum of not being able to open accounts fast enough in the initial stages: a waitlist was adopted. Dickinson is quoted as saying "It was a good problem to have but we didn't feel at all good about how that went."[30] A lesson was learned. Currently (2020), the cloud migration and updates to the platform have prepared the bank for more recent rapid growth. This was needed during the early stages of COVID: EQ Bank experienced triple its historical average in new account signups in the twelve months ending 30 June 2020.

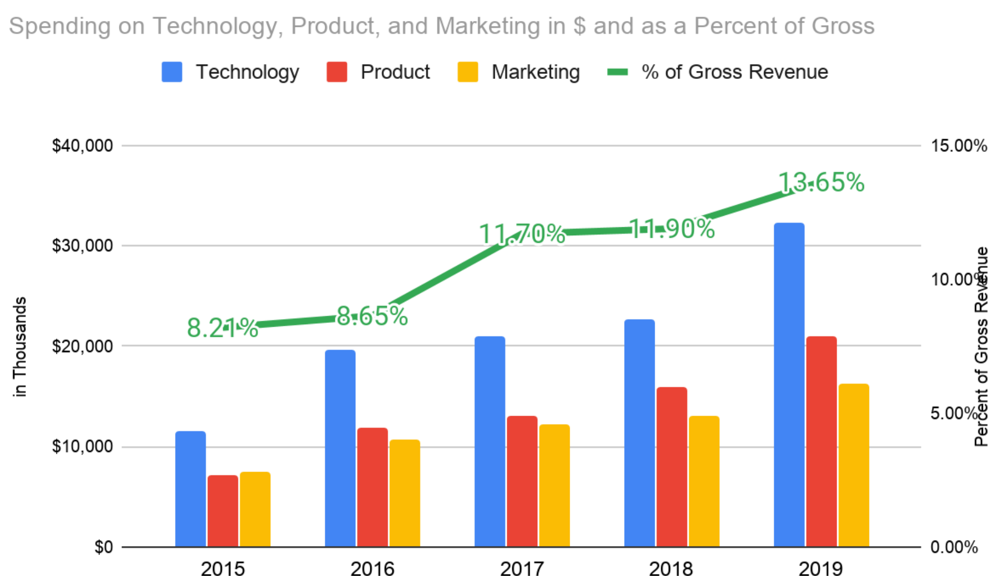
Unsurprisingly, the initial development costs for the digital bank translate into skyrocketing technology budget, even as a percentage of growing revenues (Figure 9). Though the ongoing cost of maintaining and expanding the platform are lower when the bank is digital, incumbents often fail when confronted with increasing costs without immediate revenue, never mind income, gains. Equitable can stay the course due to its advantage on the funding side of the business as well as the vision to believe that Canadian' want a seamless financial "hub" experience.

Cross selling and partnerships

A bank that has a moat around its high non-teaser savings rate and committed to a seamless customer experience sets itself up to be used as a portal for other financial services, effectively digitally perfecting a bricks-and-mortar one stop shop. Now any product can be plugged into the EQ Bank platform, allowing for cross-selling. Whether this was part of the original plan or not, Moor quickly publicly revealed a plan to capitalize on partnering on its platform, striking deals with other digital product providers. In some cases arrangements have roots in direct investment at for example, Borrowell and Wealthsimple.

[30] "Canada's Twist On The Digital Banking Model." Pymnts.com. 13 August 2018. https://www.pymnts.com/news/digital-banking/2018/eq-bank-canada-savings-plus-account-consumer-banking-technology-solutions/

Figure 9: Technology and marketing spending trends for EQ



Source: Equitable Group Reports

In any case, cross-selling and seamlessly delivering profitable products such as foreign exchange services/money transfers further justifies the digital bank as a stand-alone business, even ignoring the funding benefits. Perhaps the most interesting of the cross-selling initiatives is Equitable's partnership with Transferwise. EQ Bank was the first Canadian bank to partner with TransferWise in 2019. TransferWise's API integrates directly into the EQ Bank digital platform, thus allowing customers to access cheaper and faster international payments. Such value-added is possible once customers are "hooked" on your site.

Results

In hindsight, Equitable had no choice but to go at least mostly digital to expand its funding options. Equitable's major competitor was moving in the same direction with Oaken Financial, its online bank. And the dual threat of either a Big Six takeover of Home Capital or a monopolization of deposit hubs by competitors required Equitable to seek its own direct deposit source. Yet EQ Bank went beyond expectations to build a fully digital platform that used its competitive advantage on rates to attract cross-selling opportunities through a nearly-seamless UX.

EQ Bank's digital strategy achieved a laudable list of firsts. In 2016, EQ Bank became the first digital banking platform to launch mobile first and broke records by surpassing $2.5bn deposits, 3 years post-launch--faster than any branchless bank. In 2017, EQ Bank surpassed TD bank by becoming the first to completely migrate their core banking platform to the cloud. In the shadow of Covid-19, being Canada's first "born digital" bank has secured its survival, even forged ahead, whilst competitors desperately grab at digital solutions.[31]

The pace of EQ Bank's growth since they first launched their SavingsPlus Account in January 2016 outpaced Equitable's 1st, 2nd, and 3rd year growth plans in 12 months. In 2017, despite several glitches,

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[31] Steve Randall. "EQ Bank sees sharp rise in digital banking." Wealth Professional. 9 June 2020. https://www.wealthprofessional.ca/news/industry-news/eq-bank-sees-sharp-rise-in-digital-banking-amid-global-trend/330354

savings deposits increased by 52% alone and by 2018 EQ announced that it had surpassed $2 billion in deposits from over 60,000 customers. Overtime, it has grown its SavingsPlus account product to offer GICs and has integrated partner APIs directly into its system.

Funding goals achieved

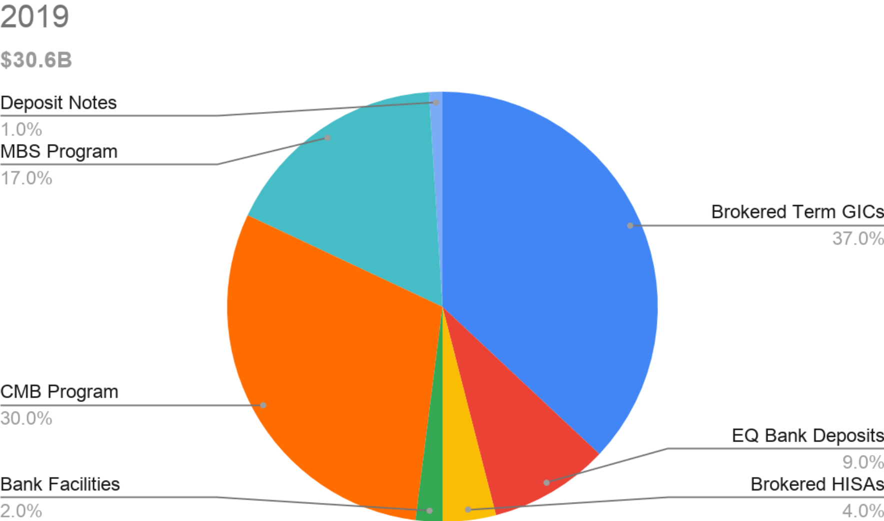
Equitable has a huge advantage on its competitors as deposits result in immediate savings in addition to added diversification, fully justifying the decision to go digital. When a neo bank pays its depositors a high rate of interest on demand deposits, there is a cost to this subsidy that must come from outside funding in the beginning. Equitable can match these rates as they are cheaper than its current average cost of funds, while bank deposit diversifies Equitable's funding base and allows cross-selling opportunities for its other business lines as well as partnerships. As a result, the early growth strategy does not have to be cross-subsidized or otherwise funded. Patience is permitted and, indeed, preferred.

Regardless of future synergies with partners or revenue resulting from directly competing with the "banking establishment", Moor readily admits that the funding obtained from EQ Bank greatly improves Equitable's lending business (Figure 10):

> *A differentiating factor in Equitable's business model as compared to many other challenger banks around the world is our ability to deploy the deposits that we gather consistently and profitably. We operate an integrated balance sheet and lend across a growing range of retail and commercial asset categories.*[32]

Credit and equity analysts note regularly that EQ Bank has added funding stability through access to direct deposits.[33]

Figure 10: Equitable Funding Sources: 2019



Source: 'Q3 Report: Three and Nine Months Ended September 30, 2019', http://eqbank.investorroom.com/download/EQB+Q3+Nov+5+10+am.pdf.

Brand awareness

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[32] "Equitable Group Fourth Quarter Report 2019 For the Three and Twelve Months Ended December 31, 2019." 1 January 2019.

[33] Maria Khoury and Sohail Ahmer. "Equitable Group Inc. and Equitable Bank: Rating Report." DBRS Morningstar. 8 August 2019.

Early adopters have been attracted to EQ Bank in the first instant by its rate. Since that rate is in no way a "teaser", EQ Bank has less churn risk than its neo-bank and greenfield competitors. EQ Bank has gambled on its customer experience, betting that clients that come for the rate will stay for the seamless hub experience. EQ Bank can then act as gatekeeper, selecting the best products to provide by banking-as-a-service (BaaS, writ large).

Plug and play partnerships with other fintechs, other traditional providers and internal product offerings

By acting as a client finance hub, EQ Bank should be able to use data analysis to streamline or add to its product offerings. With B2B BaaS product offerings only likely to improve, being in the position of gatekeeper with a moat is ideal. EQ focused most recently on developing partnerships with highly value-added products such as international transfers, and EQ's marketing reveals its knowledge that its cross selling is as important as its savings product for future growth.

Scalability

Equitable's own words speak for themselves on the advantages of their seamless platform and cloud-centric strategy. According to the 2019 annual report, outsourcing most of its platform development and locating it in the cloud gives EQ "the advantage of scalability, reduced costs in the long-run, enhanced security, and the agility to change our products and services quickly."[34]

Crossover into incumbent business line / Streamlining legacy operations

The EQ Bank journey has resulted in synergies with the firm's dominant alternative lending platform. Equitable has been able to improve its traditional businesses by creating a new borrower UX and replacing legacy systems with cloud-based scalability.[35] Lower costs and better customer experiences in the firm's primary business lines should improve profitability and/or competitiveness. Equitable Bank (lending and deposit-taking) can run on the same platform as EQ Bank (Figure 7). Once complete, the move to a fully-digital infrastructure similar to EQ Bank will also improve scalability and responsiveness to chase in the industry landscape.

Improved data analytics

By being fully digital, EQ can easily apply techniques such as ML/AI to all aspects of its business. This makes a change from the difficulty in harvesting information from disparate legacy systems, which is often the case for incumbents.[36] The value of being a gatekeeper is, like with Facebook or Google, being the owner of customer behaviour data.

Equitable's future in fintech

When describing the rationale behind building EQ Bank from scratch, in-house, to investors and industry press, Equitable's CEO, former CFO Tim Wilson, and CIO Dan Dickinson often prioritise diversifying

[34] "Equitable Group Fourth Quarter Report 2019 For the Three and Twelve Months Ended December 31, 2019." 1 January 2019.
[35] "Equitable Bank Launches MyEquitable Customer Portal in Collaboration with Blanc Labs." Blanc Labs Portfolio. 22 February 2018. https://blanclabs.com/news/equitable-bank-launches-myequitable-customer-portal-in-collaboration-with-blanc-labs/.
[36] Capgemini and Efma. "World FinTech Report 2020." World FinTech Report 2020 (Paris, France: Capgemini, 21 April 2020), https://www.capgemini.com/us-en/news/world-fintech-report-2020/, especially pp.7-10 and Figure 4; Fintegrate Zone 2019, in collaboration between Oliver Wyman and BRINK/Marsh & McLennan Insights., "FinTech in the Age of Attacker Expert Perspectives on FinTech in Asia." in *Brink Compendium*, vol. 4, Embracing Disruption: 53. https://www.mmc.com/content/dam/mmc-web/insights/publications/2019/apr/Fintech-compendium.pdf; Flybits. "The Fundamental Truth About Digital Transformation In Financial Services." 2019. https://www.flybits.com/resources/blog/digital-transformation-in-financial-services/.

funding as the primary motivation. However, a more in-depth review of Moor's interviews in the press and commentary from transcripts of quarterly calls with investors highlights the long-term strategic aims of the Bank concerning their "digital vision". Particularly revelatory, Moor pitched the successful launch of EQ Bank in his 2016 fourth quarter earnings summary call as "positioning Equitable to innovatively answer the needs of a cashless society."[37] Moor explained that "over the next few years by building on our competence in digital banking, continuing to broaden our services in the mortgage broker community, and investing with the fintech committee, we intend on cementing our leadership position as Canada's challenger bank."[38]

Beating the Big Six is not an immediate goal. But Equitable knows it can find profitable niches given the right strategy, data and execution. Equitable's funding problem required it to figure out what changing a marketplace for not only retail client deposits and alternative mortgages but also cross-selling alternatives looked like.

Client retention - the ultimate challenge

Will EQ Bank eventually be able to lower its savings account rate? For now, the goal is to get as many people to sign up as possible, which they do by offering a higher interest rate over competitors. This they can afford to do for reasons previously given, for now. The *Financial Post* quotes Mahima Poddar, SVP of Digital Banking and Strategy, as justifying "lower profits on our end" by the hope that "cross-sell opportunities will pay off the investment we have on the savings side."[39] As RateHub's president points out, however, in a *Financial Post* piece, "It's quite clear the majority of Canadians either aren't paying attention or don't care enough about the difference between 0.05 and two per cent."[40] Yet even Equitable's high rate, while not a "teaser" as such, is limited in that it applies to a maximum of $100,000. High savings interest rates are not ideal for any of the challengers. COVID, however, may have hastened the move to digital, and Equitable is confident that it currently has the products, service and UX to compete with all digital comers.

The recent pandemic has created an imbalance in the tension between banking with a full-service incumbent and a challenger bank, and it is unclear how the competitive landscape will be altered. There is some evidence that incumbent financial institutions are gaining market share. Yet other evidence indicates that Canadian savers are taking the time to investigate non-traditional options and may eventually switch as long as rates justify it. Poddar concludes, "Canadians are becoming more value conscious, and we've noticed a willingness to invest the time to find options that will make their money go further."[41] Apathy may not last forever.

Open banking

Moor is a major supporter of open-banking and is committed to securing Equitable's position as a digital banking leader in a rapidly evolving FinTech ecosystem. The Canadian banking market is as closed as is possible in a developed economy. As Moor wrote in an open letter, he believes that "it is easy to see how Canadian society can benefit both from a dialogue related to data rights and greater transparency on pricing and products in what, by global standards, is a concentrated financial services sector". But this is a view that would be expected, as allowing better access to customers' data by the customer and by competitors is a threat to the entrenched banking interests. Client confidentiality has also been cited as an issue by the incumbents. Nevertheless, many of the largest financial institutions are partnering with

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[37] "Q4 2016 Equitable Group Inc Earnings Call - Final." *Fair Disclosure Wire*.17 February 2017.
[38] ibid.
[39] Victor Ferreira. "In a low-interest-rate world, high-interest savings proving a big winner for smaller banks." Financial Post. 25 May 2020. https://financialpost.com/investing/in-a-low-interest-rate-world-high-interest-savings-proving-a-big-winner-for-smaller-banks.
[40] ibid.
[41] Omar Faridi. "Canadian Banking Challenger EQ Bank Has Reportedly Surpassed $3 Billion in Total Deposits." Crowdfund Insider. 7 June 2020. https://www.crowdfundinsider.com/2020/06/162415-canadian-banking-challenger-eq-bank-has-reportedly-surpassed-3-billion-in-total-deposits/.

fintechs to launch the Financial Data Exchange (FDX)[42] to set common standards for data sharing while waiting for a more official response from government regulators. A move to open banking will offset customer apathy to some degree, theoretically making it much easier to transfer accounts, or to select the best of breed from each financial service provider.

A VC investment in the future

Imagine what it would be like to have a magic mirror into the future of fintech in Canada? Equitable has attempted to achieve just that by investing in Portage Venture's second fintech fund, Portag3 Ventures II LP, which are invested in Borrowell and WealthSimple. An active interest in venture capital can only help Equitable identify trends to get in front of, or perhaps even to avoid.

Competitive landscape

Many of Equitable's new and mostly digital competitors have had to maintain high interest rates. Competitors lacking the Equitable's characteristics may not be able to sustain this momentum. Eventually though, high and teaser rates may be for nought if the big banks catch up in offering a satisfactory digital experience.

Big banks can afford to provide the widest online experience, if they get execution right. In the meantime, techfins such as Google and banks with similar pedigree as Equitable are also growing, and may eventually eat into Equitable's market share. Equitable has succeeded with EQ BANK with a superior platform (UX and internal), a competitive advantage with savings rates and superior execution in terms of marketing and partnering. But the states are high for the challengers ranging from techfins to neos, and the incumbents have not been standing still.

[42] See https://financialdataexchange.org/ for details.