



Fintech Race: A Big 6 Bank Has a Head Start

Description

The fintech space is the domain of startups that integrates technology and financial services. It's not only a booming industry but a high-growth marketplace. Canada's Big Six banks are in a race of their own in the [banking sector](#). There's ongoing competition and rapid migration from legacy computer systems to the cloud.

Apart from increasing digital demands, the most compelling reason for the frantic shift to cloud infrastructure is that fintech companies pose a threat. Traditional lenders must make tech-driven changes to attract the younger or tech-savvy millennials.

Strong fundamentals

Fitch Ratings expects the fundamentals of fintech in North America and Europe to remain strong through 2022. According to the credit rating agency, secular tailwinds are underway. Among the identified growth areas are digital payments (cryptos, contactless, and mobile).

Software & mobile solutions and increased e-commerce adoption will also drive growth. Digital payment, in particular, is growing in importance. Fitch says the growth trends should support industry players' healthy revenue and profitability growth.

The big banks are in a dilemma, because executives must have the right mindset. According to Sanjay Pathak, KPMG Canada's head of technology strategy and digital transformation, "Untangling current operations from some old technology is very, very complex, and it can be very risky and disruptive to business."

A head start

After reporting its Q4 and fiscal 2021 results, **National Bank of Canada** ([TSX:NA](#)) president and CEO Laurent Ferreira said the bank would continue to pursue fitting strategies in terms of business mix, capital allocation, and risk management.

On August 25, 2021, Canada's sixth-largest bank announced investing \$103 million, including \$30 million in growth capital, in Flinks. The fintech startup from Montreal has an established presence in the United States. Its goal is to become a global leader in financial data connectivity and analytics.

Louis Vachon, former chief executive of NA, said, "Flinks is strategically positioned at a key moment in the evolution of customer experiences." Flinks's CEO Yves-Gabriel Leboeuf said in response, "With this investment, we have the financial backing, expertise, and network to make it even more easy and efficient to use financial data."

The move to raise its ownership stake in Flinks to 85.9% should make the bank stock [more attractive to investors](#). In fiscal 2021 (year ended October 31, 2021), the \$32.48 billion lender reported superior organic growth and an industry-leading return on equity. Its net income rose 53% to \$3.17 billion versus fiscal 2020.

Management likewise raised its [dividends](#) by 23% in Q4 fiscal 2021. The bank stock trades at \$98.01 per share (+40.01% year to date) and pays a 3.48% dividend.

Risk of losing market share

National Bank of Canada has a head start, although its industry peers are also moving to enhance digital capabilities. PricewaterhouseCoopers (PwC) has reported that Canada's big banks are collaborating with fintech companies.

Royal Bank of Canada and **Uber**, **Canadian Imperial Bank of Commerce** and MaRs, and **Bank of Montreal** and **Amazon** are among the partnerships. According to PwC, banks risk losing their market share if they do not keep up with the offerings of smaller tech startups.

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Date

2025/09/05

Date Created

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