

**CIPF Podcast Series – Innovation
No. 11 - Innovation in Financial Services**

Transcript¹

Moderator: Pierre Matuszewski

Speakers: Annie Sinigagliese² and Ilana Singer

Pierre Matuszewski:

Hello, everyone. And welcome to the CIPF podcast series on “Innovation in Financial Services.” My name is Pierre Matuszewski and I am a member of the Board of Directors of the Canadian Investor Protection Fund or CIPF. It is my pleasure to be your host today. Our topic for today's podcast is “Innovation in Financial Services.” Technological and product innovations are reshaping the Canadian financial services industry. In this podcast, we will discuss some product innovations that we are seeing in the brokerage firm sector. We will explore back office innovations, changes in distribution systems, and some ways in which artificial intelligence is being used in this sector. I am here today with guests, Annie Sinigagliese, Managing Director, Investment Industry Association of Canada, or the IIAC, and Ilana Singer, Vice-President and Corporate Secretary at CIPF. Hello, Annie. Hello, Ilana.

Annie Sinigagliese:

Hello, Pierre. Thank you for inviting me today.

Ilana Singer:

Hello, Pierre. It's a pleasure to be here today with you both.

Pierre Matuszewski:

Let's start with a little bit of background on our speakers for today's podcast. Annie, would you describe for our listeners the role of IIAC and your particular areas of focus?

Annie Sinigagliese:

Absolutely. Thank you, Pierre. The IIAC is a national association representing 117 investment dealers in Canada. We provide a forum where industry stakeholders, such as investment dealers, the regulators, and the government can come together and discuss and address current and emerging issues in our industry. I personally have been with the IIAC for over six years now, and I'm in charge of FinTech, innovation, and of a few other topics as well.

Pierre Matuszewski:

Thank you, Annie. And Ilana, would you provide a bit of background on CIPF and your role at the organization?

Ilana Singer:

¹ This transcript has been edited for clarity and ease of reading. This podcast is for informational purposes only and is not intended to constitute advice of any kind.

² As of February 1, 2022, Annie Sinigagliese is Vice-President and Chief Product Officer at Croesus.

Thank you, Pierre. CIPF plays an important role in the financial industry as an investor compensation fund. We help investors by protecting client property held by a member firm, if that firm becomes insolvent. Our members are investment dealers that are themselves members of IIROC, the Investment Industry Regulatory Organization of Canada. These investment firms are also members of the IIAC, the organization that Annie represents. And they are all automatically members of CIPF. So, in a nutshell, if one of CIPF's member firms becomes insolvent, CIPF covers the missing property held by a member firm on behalf of a client. We always focus on the quick transfer of the client's accounts to a solvent broker so that the client can access their account as soon as possible after the broker's insolvency.

Ilana Singer:

In order for the loss to be eligible for coverage, the client must be an eligible client with an eligible account, and the property itself must be eligible for coverage under our CIPF Coverage Policy. Similar to Annie, I've been with CIPF for several years now, almost eight. And, in addition to my corporate secretarial role, I oversee the claims processes at CIPF, coverage-related policy issues, and our communications initiatives that aim to increase knowledge and awareness about CIPF.

Pierre Matuszewski:

Thank you for that background, Ilana. You are both the ideal persons for this podcast. Thank you. Let's now turn to our topic of Innovation. In terms of product innovations, I think our listeners would be interested in what you both see in the financial services industry these days. Annie, as head of IIAC's FinTech group, what are some of the key innovations that you are seeing investment dealers adopt?

Annie Sinigagliese:

We have seen a lot of innovations on many fronts. Because of the COVID-19 pandemic, the speed of adoption of innovative technologies has increased tremendously. When COVID-19 first hit, there was a real need for our investment dealers to use better and faster technology to keep providing good services to their customers. For example, on the communications front, mobile apps and chatbots improve the client experience by providing investors with quick and accessible ways of staying in touch with their investment firm or their financial advisor. Also regarding communication, the use of chat and video conferencing platforms have completely altered the way that everyone is working in the financial services industry. This is both for internal communications between the different departments at a firm, but also between the firm or an advisor and their client. We've also seen new ways of opening new accounts or to verify a client's identity.

Annie Sinigagliese:

So there have been many automated tools that have been speeding up the processes in the recent past. That's great news for the clients, but also for the firms themselves. For example, their compliance departments that can now perform their work more rapidly with better outputs because of technology. We've also seen the way artificial intelligence and FinTech innovations are allowing for a kind of system stability and efficiencies that would not have been possible otherwise. Artificial intelligence has really begun to allow structured and unstructured data to be analyzed in ways that we never thought possible before. That was for product innovation, but we're also seeing innovation for risk mitigation purposes. For example, when it comes to security, in the largest sense of the word, it has been transformed in recent years due to innovation. Some tools now allow for the detection and prevention of payment fraud in real time. And there's also other products that ensure that data is appropriately protected and stored. It's absolutely mandatory that cybersecurity and privacy keep up with the speed of innovation in the future.

Pierre Matuszewski:

Thank you for that very complete answer, Annie. Let me continue with you, Ilana. One of the issues that's top of mind for many in the industry these days, as well as investors, is crypto assets. Can you describe some of the issues in the area of cryptocurrency that CIPF has been grappling with?

Ilana Singer:

Thank you, Pierre. I'd be happy to address this question and I'll start off by saying that when CIPF staff have information that a new product or service may be offered to clients of one of our member firms, our staff make a point of learning every thing they can about the new product or service. We research. We consult with IIROC and with the Canadian Securities Administrators. We learn from the industry, for example, through the IIAC. We consult with our lawyers and we consider what our counterpart compensation funds around the world are doing with respect to the new product in question. We consider the broader implications of how CIPF coverage would apply to the new asset class or product. Now, as you mentioned, one of the issues that's top of mind for many dealers, regulators, and investors is crypto assets.

Ilana Singer:

For example, how and to what extent does CIPF coverage apply? At the moment, we do not have a definitive answer. However, we are working closely with IIROC and the Canadian Securities Administrators to better understand three key points relating to this new asset class. The first point we are looking at closely is custody. Custody is important for us because an assessment of custody will allow us to determine whether an insolvency official, for example, a trustee in bankruptcy, would be able to locate the crypto assets and return them to the clients by transferring to a solvent firm, if, of course, the investment dealer that was holding these crypto assets on behalf of the client went insolvent. CIPF is therefore closely examining and contributing to discussions about the regulatory framework for the custody of crypto assets. Second, CIPF is looking at the issue of control and access.

Ilana Singer:

How can crypto assets be accessed post-insolvency? This is relevant from the perspective of - can the insolvency trustee and CIPF have the ability to access those assets to affect the transfer of them to a solvent firm post-insolvency? This is different than the safeguarding and the custody piece, because it's about the control and the access after a firm has become insolvent. And third, and finally, there's the question of pricing. As I expect many listeners are aware, crypto assets are a 24/7 international market. If CIPF has undertaken to return client property, but is unable to do so because the assets are missing, one option is to pay the cash equivalent to the investor of the value of those assets as of the date of bankruptcy. But what would that value be? We are still continuing to work on this question in addition to all of the others, as well as with our board and legal counsel to better understand these issues as they continue to evolve.

Pierre Matuszewski:

Thank you for that response, Ilana. If I listened to you carefully, the key issues are custody, control and access, and pricing as it relates to crypto assets. Thank you. I'm sure that information will be very useful to our listeners. On the topic of crypto-related products and compensation funds, are there trends in other jurisdictions that you think may be of interest to our listeners? This question is for you, Ilana.

Ilana Singer:

Thank you, Pierre. That's an excellent question. It is amazing how many investor compensation funds worldwide are grappling with this same issue. We recently organized and hosted a virtual coffee chat of international compensation funds, which included the U.S., the U.K., Japan, and Australia among others. Crypto assets was one of the key topics that many of our international counterparts raised and discussed. In fact, out of all of our colleagues from around the world, the majority are currently not in a position to cover crypto assets, although most are in the process of further reviewing the issue as are their regulatory colleagues. And this is very similar to what is occurring in Canada. It was quite helpful to know that we are all navigating the world of crypto assets at the same time together with our domestic and international compensation fund and regulatory counterparts. It was also very helpful to have had the discussion with those same international colleagues about the three points that you mentioned, Pierre, in introducing this question - custody, control and access, and pricing.

Pierre Matuszewski:

Thank you, Ilana. It's certainly very comforting to know that there's consultation on the world scale around this issue. As you said, it is helpful to know that CIPF is right in sync, as you say, with its counterparts around the world. Annie, do you have anything you would like to add in this regard?

Annie Sinigagliese:

Yes, absolutely. Thank you. I think it's important to note that the IIAC has commented in the past on the need for increased regulation for crypto assets, what we also call digital assets in Canada. The Canadian regulators are now improving the framework for crypto asset trading platforms, which is really good news. However, I believe there's still education that is needed on the crypto product themselves. For example, the vast majority of people purchasing cryptocurrencies right now don't understand the fundamentals of these products, but they know that the value of these products has increased exponentially over the last few years, so they want in. So they purchase these cryptocurrencies, but they really don't seem to be cognizant of what factors drive the price up or down. Personally, I find that very scary.

Pierre Matuszewski:

Thank you, Annie. I totally agree with you. I would be very interested in hearing about how you approach your role as a leader in the FinTech space. It is amazing how quickly technological and product innovations are transforming the financial services space. How do you stay abreast of changes that might affect the investment dealer industry?

Annie Sinigagliese:

The IIAC created its FinTech Committee about five years ago. Through these meetings, we hear from our members, which are usually technology officers of investment dealers, but we also hear from IT vendors, from innovation hubs, such as MaRS Discovery, or Finance Montreal, and we also hear from startups. In order to keep up to date with innovation, we really need to collaborate with other organizations, such as CIPF, and we need to share knowledge. I personally attend a lot of innovation events in a year, and I follow innovators on LinkedIn and on other social media in order to try to remain up to date on innovation and to see what different developments are here and elsewhere when it comes to innovation.

Pierre Matuszewski:

I love what you said about collaboration, Annie. That is really the way to go. Now, Ilana, can you outline for our listeners how you help your organization stay informed on new developments that might affect the investor compensation area specifically, or the investment dealer industry generally?

Ilana Singer:

Yes, absolutely, Pierre. And I do want to echo what Annie said in terms of it being an ongoing challenge in this space to remain up to date on innovation, because it really is moving at breakneck speed. I would also support what you've said, Pierre, about collaboration. As I mentioned earlier, we really do try to stay up to date in terms of collaboration with domestic and international counterparts. And that really does yield a lot of good, helpful, current information. In addition to all of that, one practice that we have at CIPF is a biweekly news scan. And this news summary gets circulated to the entire organization, as well as to the board. Everyone has limited time. We get that. And in terms of trying to seek out relevant news from sources around the world, this is one way that we feel helps to keep everyone at CIPF, including our board, up to date on a national and international level.

Ilana Singer:

I think that another initiative I'm particularly proud of is the creation of our podcast series, including this one, of course. We're proud to have launched our first podcast in October of 2020, deep in the middle of the pandemic, entitled "Lessons Learned from Past Crises." This podcast explored how the lessons learned from past crises can help us navigate through the current global crisis caused by the COVID-19 pandemic. Our second series focused on leadership in times of crisis. We are currently working on a series focused on innovation in financial services, which includes this podcast. As you know, we've had very good feedback on the podcasts that we have released to date. And we look forward to hosting a variety of leaders from the financial services, regulatory and compensation fund sectors from across Canada and around the world.

Ilana Singer:

Finally, I'd like to say, and this is a plug for you, Annie, and for the IIAC, one example of a really valued partner organization for us in all of this is the IIAC. With your assistance, Annie, and support, and that of your colleagues, the IIAC has created a webpage on its site, as you know, dedicated to CIPF. We greatly appreciate this support. You've also been very helpful in posting our various initiatives to this dedicated page and to social media. It is a partnership that we truly value and that we plan to continue to develop in the future.

Annie Sinigagliese:

We're happy to help, Ilana.

Pierre Matuszewski:

Another great sign of collaboration and cooperation. Thank you both. Very interesting, Ilana. Would you care to continue with other examples?

Ilana Singer:

Sure. Thank you, Pierre. And thanks, Annie. We also find it to be a pleasure to collaborate with you and your colleagues at the IIAC. In terms of other ways to stay informed on new developments, I recently moderated a retail investor forum focused on innovation, FinTech, and crypto, as part of the North Wind Professional Institute. I also spent some time pre-pandemic with staff at the FinTech lab at the AMF in Montreal to gain a better hands on understanding of blockchain and the creation of securities tokens. And similar to what Annie described, I really try to stay up to date by focusing on innovators in the space, following them on social media, and attending as many conferences, admittedly virtual at this time, and whenever possible to gain a hands on understanding. I could go on, but I'll give just one more example of how I try to help CIPF stay on top of new and innovative best practices and developments. Together with

the senior management team at CIPF, we actively forge relationships and stay in touch with other compensation funds around the world, as I mentioned previously.

Ilana Singer:

And I did also talk earlier about the virtual international coffee chat. This approach helps us stay abreast of any new best practices, and also learn about what has worked successfully in terms of implementing technological or other changes for our own internal processes. One concrete example is the claims process. That is a key component for any compensation fund. During the early part of the pandemic, for example, we learned from our counterparts in Spain, that they had launched an online claims process using a web portal. This was because they had to manage a full claims process after the insolvency of one of their member firms 13 days after the lockdown was announced in Spain. They shared with CIPF how they managed the process during the pandemic entirely from home, how the transition was done, what technology partners and platforms were used, and this information has truly been invaluable. We will undoubtedly benefit from it as we move to our own online claims process.

Pierre Matuszewski:

Thank you, Ilana. I can see that this process of staying current with the world affairs in this space must take a lot of your time. And actually, in fact, it's an essential endeavor to stay abreast of changes and new developments that might affect the investor compensation area and the broker industry as a whole. It's great to hear about the innovative podcasts and other things you have introduced to CIPF, Ilana. Congratulations. Now turning to distribution systems if I may, I'd like to move on to my next question.

Pierre Matuszewski:

In a previous podcast hosted by CIPF on the topic of innovation, we heard a senior executive from the World Bank Group, Practice Manager for Financial Inclusion and Infrastructure in the Finance, Competitiveness and Innovation Global Practice, predict that in the coming months and years, we'll see a lot of activity relating to things like stablecoins and central bank digital currencies. He indicated that this is an area where advanced and emerging markets will both be grappling with the issues without a playbook as to how to regulate or manage these new technologies. I'm going to turn to you, Annie, for the next question. Do you agree with this observation made by this World Bank senior executive and how is your work affected by this type or any other type of potential, fundamental change in the industry?

Annie Sinigagliese:

Well, my opinion is that regulators need to adapt to accommodate innovations and not the other way around. Regulators must up their game. They need to change as organizations. For example, instead of hiring more lawyers, they may need to hire more tech-savvy staff, data scientists, for example, who understand the innovative products and the technology behind them. Regulators must also stop drafting regulation in silos by physical jurisdiction. When we think of data in the cloud, for example, that data is everywhere and nowhere at the same time. Countries really need to get together and regulate innovation. Regulators just need to reinvent themselves.

Pierre Matuszewski:

Thank you very much, Annie. What a refreshing point of view that you just explained. Turning now to artificial intelligence or AI, as it is known. Another field that I find very interesting is the impact of artificial intelligence on the financial services industry. For example, can investors' behavior be predicted? Continuing with you, Annie, for the fifth and last question, what are your thoughts on how AI could be used to benefit all stakeholders in the financial services industry and also on the responsibilities of those using AI, such as privacy and accountability issues?

Annie Sinigagliese:

I think there are two key concepts to your question. First, the innovation itself, and then the framework around such innovation. If we take it starting with innovation, artificial intelligence is really used in different areas of the financial services industry, and there's many, many benefits to using AI. For example, it can enhance efficiency through automation. It can reduce human biases and errors. And it can really improve the quality and conciseness of data analysis. Now, coming back to your question - can investors' behaviors be predicted? My answer to that is that to a certain extent, yes, in the same way that Netflix can figure out what series or movies you personally like. AI tools can really predict behavior. And simply put, AI just reads data, which is the input. It analyzes that data and it creates an output. The output can really only be as accurate as the inputs itself.

Annie Sinigagliese:

If there's high quality input, and if the programming of those tools for assessment is working properly, AI will work well. But in other words, if you put garbage in, you get garbage out. I think it's also important to note that the human supervision of AI is really a must. Humans really need to give feedback to these AI models to make sure it all works properly. I spoke previously about some of the ways artificial intelligence is used in the finance world. There's actually many, many more ways in which AI tools are being used right now in the services industry. For example, AI can identify which investment offerings would best fit one of your clients. It can help surveillance teams in identifying possible insider trading or market manipulation. We see some AI tools that are used to provide better client experience. For example, we can think of chatbots on a firm's website that are more and more frequently used to provide answers to a client's general questions.

Annie Sinigagliese:

There is really a lot of innovation when it comes to AI. Now, if we go back to the second portion of your question, which was the framework around AI - well, it's mandatory that there's a framework around privacy, around risk management, and that there's really good governance being established at the dealer level. And the regulators are really aware of this. For example, there's IOSCO, which is the International Organization of Securities Commissions, that recently came out with six measures that absolutely need to be implemented when a firm uses AI. And, once again, because data is everywhere and nowhere at the same time, the regulation of innovation really has to be harmonized and implemented globally. This is no time for provincial regulators to implement different rules for their particular jurisdictions. And lastly, regulators and governments must really work together to oversee the ethical and responsible use of AI.

Pierre Matuszewski:

Thank you, Annie. Very clear, very thoughtful answer on your part. Thank you. Ilana, anything you'd care to add?

Ilana Singer:

Thank you. Annie, I could not agree with you more in terms of having a macro level approach to AI that is globally consistent and focused on the ethical and responsible use of AI. At CIPF, we are always focused on investor protection as being paramount.

Pierre Matuszewski:

Thank you, Ilana, for those additional comments. Well, I guess our time together is now coming to an end. I would like to thank you both, Annie and Ilana, for participating in this podcast today and for sharing all this important information with our listeners. I would also like to thank our listeners for their time. I hope they found the discussion interesting. The best way to share your feedback with us is through

our website at www.cipf.ca. Finally, we invite you to listen to CIPF's other podcasts available on CIPF's website and podcast channels, or to read the transcripts, which are available in both English and French on our website. Ilana?

Ilana Singer:

Pierre, thank you for your questions and for being such an excellent moderator. And thank you, Annie, for taking the time to participate in this podcast with us today.

Pierre Matuszewski:

Thank you, Ilana.

Annie Sinigagliese:

Thanks for inviting me. It has been a real pleasure.

Pierre Matuszewski:

Ladies and gentlemen, I am Pierre Matuszewski and on behalf of Annie Sinigagliese of the IIAC, and Ilana Singer of CIPF, thank you for joining us and see you next time.