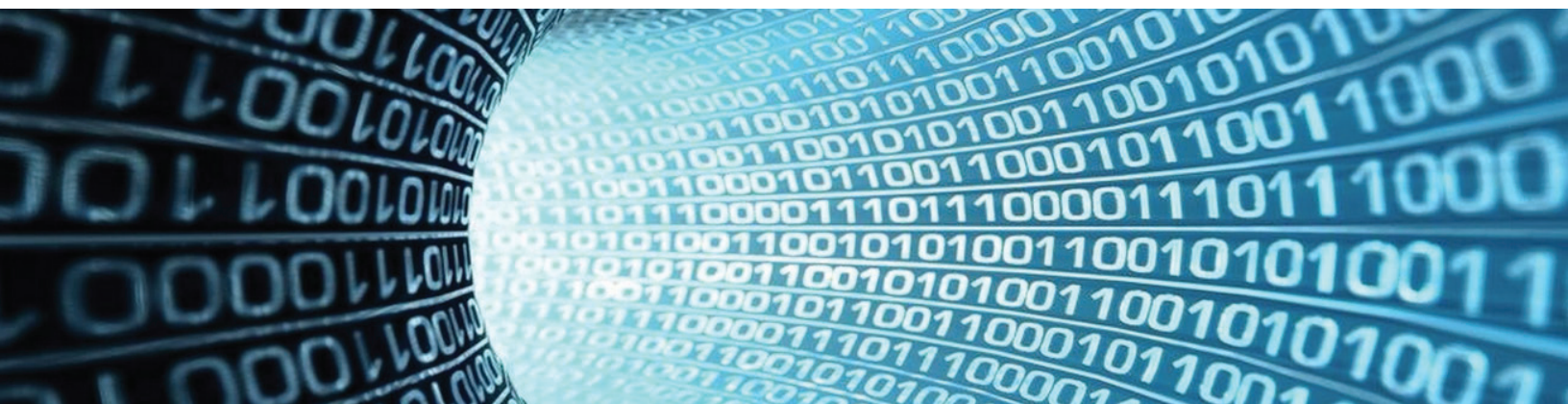


THE GAME IS ABOUT TO CHANGE

The impact of technology on the sales and distribution of
investment and insurance products



Rick Hyde, President & CEO

Introduction

Currently, the Canadian financial services and insurance industry is in an interesting and vulnerable position. Consumer demands are changing, and they expect more from their service providers. Technology is transforming, more rapidly than most companies can keep up with. And corporate giants like Google, Amazon and Facebook, and smaller start up financial companies are well positioned to become disruptive forces in the industry.

Think these changes aren't likely to affect the Canadian financial services industry?
Think again.

Consider that both Google and Amazon are already in the financial payments processing business. Google launched a mobile app for wireless payments, Google Wallet, in 2011. Amazon has offered its Checkout and Simple Pay services to merchants for a few years now, but seem to be ramping up its capabilities recently; in October 2013 they launched "Login and Pay with Amazon" services, to challenge PayPal¹, and in December, acquired mobile payments start up GoPago².

These technological innovators have already been game-changers in publishing, the music industry, smartphones, and have transformed the way we shop, find information, and use the Internet. We are now in an era where products and services (including financial products and services) can be delivered online at a fraction of the cost of traditional retail models, and as a result, consumer-direct offerings are growing at a very rapid pace. Witness the growth of Wealthfront, a software-based financial advisor that launched its low cost investment service in December 2011: they began 2013 with less than \$100 million in assets under management, and ended the year with over \$538 million - a growth rate of over 450%³.

How long will it be before providers like Wealthfront or Google take aim at the Canadian financial market, offering more choice and efficient delivery of low-cost financial products direct to consumers—pushing aside and displacing existing product manufacturers and financial advisors? Historically, Canadian financial institutions have been relatively insulated from outside encroachers through protective Canadian regulators. But this will change with the rapidly transforming global retail environment and consumer demand for more choice at lower costs than ever before.

There is a way to battle back the storm that is brewing, a way for financial and insurance product manufacturers to position themselves as innovators, to keep the advisor in the equation, and stay relevant with consumers. The solution is a shared online financial services and insurance marketplace for Canada - a flexible technology platform that will allow the industry to compete with these industry disruptors.

"We are now in an era where products and services can be delivered online at a fraction of the cost of traditional retail models"

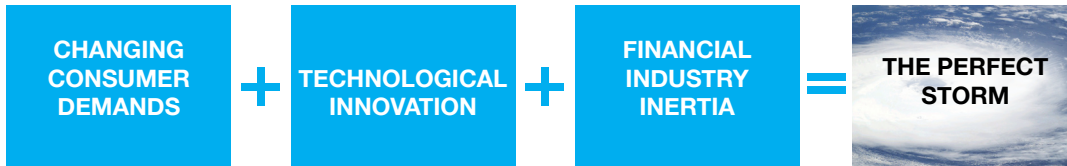
1 Tech Crunch, Oct 2103. <http://techcrunch.com/2013/10/08/amazons-pay-with-amazon-service-challenges-paypal-for-the-webs-payment-business/>

2 Tech Crunch, Dec 2013. <http://techcrunch.com/2013/12/21/amazon-bought-gopagos-mobile-payment-tech-and-productengineering-team-doublebeam-bought-the-pos-business/>

3 "Wealthfront reaches over half a billion dollars in 2013," Jan. 2014. <https://blog.wealthfront.com/wealthfront-half-billion-500-million-aum/>

The Perfect Storm

Changing consumer demands combined with rapid technological innovation and a somewhat complacent financial services industry have the makings of the Perfect Storm - an ideal environment for players outside the Canadian financial services and insurance industry to pose a serious threat.



Consumer Demands are Changing

Technology is quickly transforming the way businesses operate, and consumers' expectations are changing along with it. Increasingly tech-savvy consumers are making more demands of product and service providers in all areas of their lives. And the rapid rise in the use of mobile devices like tablets and smartphones has accelerated the trend, and is increasing consumers' desire for speed (or instant) and ease of online service. In just the last two years, the number of people accessing the Internet via a mobile phone increased by over 60%⁴.

“Consumers have been conditioned to expect lower prices for products and services they purchase online.”

Not only are consumers using the Internet more frequently, but also for many more functions than ever before. According to Statistics Canada, online shopping stats are way up; more than half of Canadian Internet users (56%) ordered goods or services online in 2012, the value of which reached \$18.9 billion in 2012, up 24% in under two years)⁵.

It's no different in the financial services and insurance context; consumers have been conditioned to expect lower prices for products and services they purchase online. Capgemini's research shows that the percentage of people using online and mobile banking worldwide (all blue shaded segments) continues to grow. (Fig 1)

The Canadian Bankers Association's survey clearly shows that Canadians are going online for their banking as well. The Internet is now the main means of banking for 47% of Canadians, popular across all age groups:

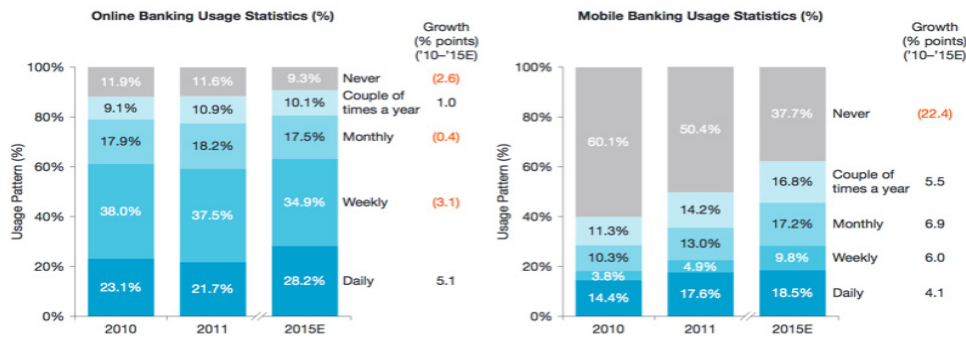
- 91% say innovations have made banking more convenient, enabling them to bank virtually whenever and wherever it suits them.
- 34% expect to be conducting their banking using mobile devices in the near future⁶.

4 GlobalWebIndex, "Stream Social Q1 2013 report," Apr. 2013. <http://blog.globalwebindex.net/Stream-Social>

5 Statistics Canada, Oct. 2013. <http://www.statcan.gc.ca/daily-quotidien/131028/dq131028a-eng.htm>

6 Canadian Bankers Association, Jan. 2014. <http://www.cba.ca/en/media-room/50-backgrounders-on-banking-issues/125-technology-and-banking>

Exhibit 1: Global Online and Mobile Banking Usage Statistics (%), 2010, 2011, and 2015E



Source: Capgemini Analysis, 2012; 2012 Retail Banking Voice of the Customer Survey, Capgemini; and World Retail Banking Report 2012, Capgemini and Efma

Fig 1. http://www.capgemini.com/resource-file-access/resource/pdf/trends_in_retail_banking_channels_meeting_chavnging_client_preferences.pdf

Financial Industry Inertia

These growing consumer demands for more control, flexibility, lower costs, and faster and better service are at odds with how the major Canadian financial services players operate. For most large banks and insurance companies, size is the biggest enemy of technological innovation. To limit risk and maintain internal control, they usually want closed networks, but this makes them less able to respond to change as quickly as smaller innovators. Combine this with increasing burdens of complex compliance and regulation in the industry, Canadian financial product manufacturers aren't as able to put the focus where it needs to be on innovation.

Financial distributors aren't having a much easier time of it, either.

Demographically, fewer new advisors are entering the marketplace, but according to the Gartner Group, the independent advisor market is growing by 2015, 44% of retail distribution will be done through independent advisors. Most existing advisors don't seem to be well prepared for this growth. While advisors are well above average in tech-savvy as individuals, most have been slower to change their existing process, to adopt newer, more efficient business technologies. Many still rely on face-to-face client meetings and use paper forms and lengthy and cumbersome fulfillment processes. In addition, younger generations (who will be the recipients of the transfer of wealth from their Baby Boomer parents) are not as likely to value face-to-face meetings.

“While advisors are well above average in tech-savvy as individuals, most have been slower to change their existing process, to adopt newer, more efficient business technologies”

RECOMMENDED
80%

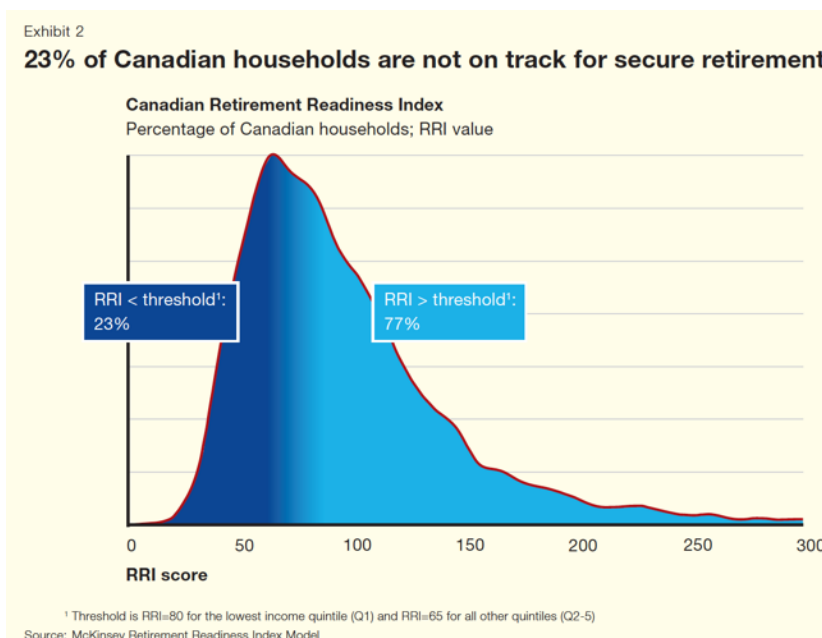
Canada's retirement income replacement rate

ACTUAL
50%

Today's retirees are leaving work earlier, living longer and leading more active lives. To maintain a comfortable lifestyle, they may need as much as 80% of their pre-retirement income. Yet the Fidelity Retirement Index™ shows that Canadians are on track to replace only 50%.

In addition to changes in consumer demands, significant demographic shifts are helping to change the financial environment. Longer life expectancy, an aging population, and a massive decline in defined benefit pension plans will inevitably put a much greater burden on individuals and government pension plans in future years. It's leaving many Canadians financially unprepared for

retirement. Fidelity's 2008 retirement readiness study shows that many Canadians are not on track for retirement savings. A more recent study from McKinsey & Company indicates that 23% of Canadian households are not on track for secure retirement⁷



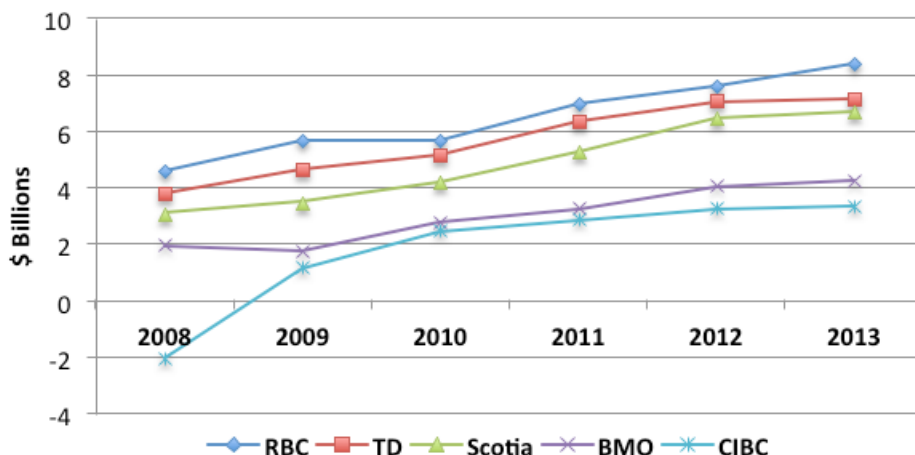
“They continue to operate the business within the same old structure, the same supply chain, and the same model for client interaction.”

None of this is news to the Canadian financial industry. Unfortunately, the financial establishment has failed to act in any meaningful way to adjust to the new (online) world order. They've all developed multiple channels to serve online consumers websites, tools, apps, etc. - many of which are excellent. But they continue to operate the business within the same old structure, the same supply chain, and the same model for client interaction.

It's a model that is unfriendly to independent advisors challenged by multiple product manufacturer websites and processes, and one that doesn't allow for lower-cost product development. And in a long-term low interest rate environment, Canadian FI's have chipped away at consumers' investments through product and service fees - while realizing record-breaking profits. It has eroded consumer loyalty, and created an ideal environment for new entrants to threaten traditional financial product and service providers.

⁷ McKinsey & Company, Apr. 2012. http://www.mckinsey.com/locations/Canada/~/_/media/Reports/Canada/Are_Canadians_Ready_for_Retirement_04May2013.ashx

Annual Net Income of Canada's 5 Big Banks



Unfortunately, most of the Canadian financial industry, dominated by a relatively small group of big players, doesn't appear to have an effective strategy to transform itself to meet the needs of the changing online landscape. In this, they are not alone in what a recent BDC Study calls the "underdeveloped online Canadian retail presence:"

"Historically, Canadian e-commerce has lagged behind that of most other nations, with some of the lowest penetration levels in the developed world. Indeed, most Canadian brick-and-mortar stores remain reluctant to develop online retail channels. This situation has left the door wide open to foreign-owned retailers, such as Amazon, Apple, Walmart and Dell, which together represent 57% of all online sales by US retailers in Canada in 2013. Meanwhile, Canadian retailers, such as Indigo, Grocery Gateway, The Bay and Canadian Tire, represent less than 3% of total online sales by Canadian retailers, and have been losing market share in recent years"⁸

As part of the Canadian retail landscape, Canadian financial institutions are in much the same place - they understand that something has to change, that they need to embrace new ways of doing business, but have been relatively slow to respond. The door has been opened for new, low-cost innovators to make their mark.

The Threat of New Entrants

The Canadian financial services and insurance industry is fairly ripe for the plucking. New technologically innovative and lower-cost entrants to the market in the last several years have taken advantage of Canadian consumers' dissatisfaction with current providers, picking the low-hanging fruit and slowing building (and often usurping) client relationships.

South of the border, start up companies are raising venture capital specifically to challenge the big banks and investment houses: "Since the beginning of 2013, venture investors committed over \$800 million in new funding to develop businesses providing new investment, lending, mortgage and real estate, and

⁸ BDC Study, Mapping Your Future Growth, Oct. 2013. http://www.bdc.ca/Resources%20Manager/study_2013/consumer_trends_BDC_report.pdf

"Historically, Canadian e-commerce has lagged behind that of most other nations, with some of the lowest penetration levels in the developed world."

wealth management services in the U.S.”⁹ These venture capitalists believe there’s an opportunity to take over large segments of the industry because they see the financial services giants as complacent, and not well suited to making transformational change:

“This is one of the only markets that’s actually measured in trillions,” said Adam Nash, the chief executive officer of Wealthfront, a startup investment management firm. “The market can be massively inefficient for hundreds of billions of dollars and somehow that is still not enough for the incumbents to go after.”¹⁰

But that is just the beginning. Bigger things are coming.

In addition to these smaller upstart financial companies, currently moving into the financial marketplace with transaction and data processing are giant tech innovators like Google, Amazon and Facebook. Making more and more retail incursions into various industries, it’s only a matter of time before they expand their financial offerings to products and services. Don’t think so? That’s likely what book publishing, and the music and entertainment industries thought a decade ago. These corporate giants are moving into previously uncharted territory every year, diversifying, building new products and services, and using their vast amounts of consumer data to ensure success. Consider journalist Rebecca Thomson’s warning that retailers must be ready to respond to Amazon’s next move:

“South of the border, start up companies are raising venture capital specifically to challenge the big banks and investment houses”

“The list of new services it [Amazon] has introduced to e-tail is impressive. Innovations include product reviews, personalised offers and a one-click checkout process. It has overhauled the entertainment category, and traditional players such as HMV and Waterstones languished in its wake. And its ability to creep into new realms, launch new services and steal market share with little fanfare has made retail’s biggest players take notice, particularly over the past couple of years.”¹¹

And they may have a relatively easy time of moving into financial services because they don’t face the same regulatory and compliance challenges that the traditional players do - partly because they will offer products rather than advice. Because they operate outside of the traditional regulatory environment, they’re able to innovate more quickly than a financial institution. Advanced technology means they can automate for significant cost savings. Deep pockets means they have the capital to spend on innovation and marketing, and their extensive existing relationships with consumers (through smartphones, online tools, online retail and other services) means they can reach consumers directly.

Consider Google’s recent offering of a new “Send Money” service to its Gmail users. It’s a very simple service that allows users to transfer money online to friends and family. All they need is a Gmail account and to sign up for Google Wallet.

9 Jonathan Shieber, Tech Crunch, “Startup Financial Services Companies come of age,” Mar. 2014. <http://techcrunch.com/2014/03/24/startup-financial-services-companies-come-of-age/>

10 Jonathan Shieber, Tech Crunch, “Startup Financial Services Companies come of age,” Mar. 2014. <http://techcrunch.com/2014/03/24/startup-financial-services-companies-come-of-age/>

11 Rebecca Thomson, Retail Week, “How Amazon changed retailing,” Jun. 2012. <http://www.retail-week.com/technology/how-amazon-changed-retailing/5037276.article>

“Google almost certainly doesn’t care whether you use it [Google Wallet] to send money. What it cares about is getting you to sign up to Google Wallet and capture your bank account and credit-card information. And it’s using Gmail, which has a reach comparable to that of Facebook - 425 million as of June 2012, the last time Google released numbers - to do it.”¹²

The popularity of Gmail (and its 425 million active users) gives Google tremendous marketing reach, and a huge advantage over competitors in the payment services space. PayPal, the giant of e-payment services, has only 143 million active accounts¹³ in comparison.

These new entrants have the capacity and opportunity to seriously disrupt the current financial environment. Ribbit Capital founder Meyer Malka, a heavy investor in financial services start ups, has indicated that “we only invest in companies that are disrupting the experience for consumers in financial services. Over the next ten or fifteen years we are going to see a whole new field of financial services brands that are being built.”¹⁴ These new entrants have the potential to change the game.

The Case for a Shared Financial Services Marketplace

New players are potential game-changers, but it’s not a certainty yet. In fact, solutions already exist to help ameliorate the problem, but many traditional firms often remain so risk averse that they continue to focus on traditional methods for deploying technology. It won’t continue to work, and despite the huge size of Canadian financial companies, their resources can’t compete with the innovation and marketing budgets of an Amazon, Facebook or Google in the long run.

The solution is a shared online financial services and insurance marketplace—a flexible front-end focused platform that allows users to choose from a wider variety of products and services, and the ability to fulfil and administer those sales quickly and easily.

Imagine something for the financial services industry akin to the travel website Expedia.ca, where users input search parameters for what they’re looking for, and based on that input, the platform displays a list of options to choose from and purchase. One single platform acts as a central marketplace with access to all products across all investment manufacturers - allowing advisors and consumers unprecedented choice and easy, efficient online purchase. It’s a solution that:

- Enables product manufacturers to easily sell their products through multiple online distribution channels

“Because they operate outside of the traditional regulatory environment, they’re able to innovate more quickly than a financial institution.”

12 Christopher Mims, Quartz, “Google’s brilliant plan to get millions to adopt its e-money system: Gmail,” Mar. 2014. http://www.theverge.com/2012/6/28/3123643/gmail-425-million-total-users?_ga=1.206904339.1678493572.1396363635

13 Christopher Mims, Quartz, “Google’s brilliant plan to get millions to adopt its e-money system: Gmail,” Mar. 2014. http://www.theverge.com/2012/6/28/3123643/gmail-425-million-total-users?_ga=1.206904339.1678493572.1396363635

14 Jonathan Shieber, Tech Crunch, “Startup Financial Services Companies come of age,” Mar. 2014. <http://techcrunch.com/2014/03/24/startup-financial-services-companies-come-of-age/>

- Enables advisors to easily sell and administer products and services from all product manufacturers
- Enables consumers to choose how they want to do business

At the same time, a more open financial services and insurance network allows its participants to:

- Save money, increase efficiencies
- Greatly reduce their own technology development costs
- Greatly reduce compliance costs
- Focus on product development, innovation
- Give their clients more product and delivery choice
- Perform better data analysis for more targeted marketing programs, and maximization of spend

How Ticoon Can Help

Ticoon has already built a market utility platform that will enable product manufacturers, distributors, advisors and consumers to interact and do business through a single space. The shared marketplace that the Canadian financial services and insurance industry needs already exists—at Ticoon.

Partnering with Ticoon makes product manufacturers part of the online technology play, letting them position themselves as innovators. It also keeps the advisor, and the all-important component of advice, in the equation. Clients get the best of both worlds—lower costs, greater product choice, simpler fulfillment processes, and the advice component where they need it. The Ticoon platform helps the product manufacturer compete, and keeps the advisor relevant in today's market.

We can help. Contact us today. We'd love to sit down and talk about how your company can adapt to meet the needs of the future.

Read more about Ticoon on our blog.ticoon.com or ticoon.com, or contact us at our offices to arrange for a demonstration.

“The solution is a shared online financial services and insurance marketplace—a flexible front-end focused platform that allows users to choose from a wider variety of products and services...”

About Rick Hyde (Ticoon President & CEO)

The founder of Ticoon, Rick's expertise in the financial services industry is based on almost twenty years of experience designing, selling and implementing web-based wealth management and financial services solutions for many of North America's leading banks, life insurance carriers, fund dealers and brokerage firms. Rick works with executive teams to design solutions that drive ROI and support the strategic vision.

Rick believes that technology creates a winning situation all around:

- Product manufacturers win because technology can automate business processing, reduce error rates, perform compliance checks and ultimately, save time and money.
- Dealerships & Advisors win because technology can help them automate business processes, get paid more quickly, better identify opportunities, and deliver a higher level of service.
- Consumers win because they can get appropriate products at a savings.

"We all need to work together to drive behavioral change and adopt technologies that let everyone reap the benefits."

Rick Hyde
President & CEO
Ticoon Technology Inc.
56 the Esplanade, Suite 404
Toronto ON M5E 1A7
T: 416.513.9523
F: 416.513.9525
W: www.ticoon.com
E. rick.hyde@ticoon.com



TICOON

 56 the Esplanade, Suite 404
Toronto ON M5E 1A7

 www.ticoon.com

 TicoonTech

 416.513.9524

 416.513.9525

 info@ticoon.com