

## Foreword

As the CEO of Sagard Holdings and a co-founder of Portag3 Ventures and Diagram Ventures, I am excited by the changes taking place in financial services. We are moving from an industry built on geographic proximity, product offering, and efficiency to one that competes on customer service, product suitability, and adaptability.

Historically, the business and service models of many financial institutions revolved around the local branch or regional office. These outposts were spread across the country, serving geographic catchment areas. For customers, the competitive differentiators were branch accessibility and access to a wide range of financial products that met their personal and business needs. For financial institutions, the quest for economies of scale drove a strategy of building highly integrated businesses. The customer experience was poor, featuring complicated onboarding, long wait times, and highly inflexible systems.

Our world is changing rapidly. We are moving from a financial industry that competes on local presence and generic products to one focused on specialized products tailored to each customer's needs. Customers are no longer constrained by physical proximity. They are supporting businesses that differentiate themselves based on convenience, service, specialization, and product suitability. The

Internet, mobile phones, and data networks are enabling customer-segmented businesses that provide entire suites of financial or other services tailored to a specific sector, business, or individual.\* This customization was not possible in the geographically constrained world of the past; there were simply not enough clients in a specific industry or targeted demographic within the branch catchment area to justify such an expensive, specialized service.

But end-to-end integration and scale are becoming a handicap more than a competitive advantage as these business models reduce adaptability. Every component of financial services can be outsourced from innovators whose modern technology stacks enable a superior customer service and more efficient operations at a lower cost.

The drive towards specialization and the reorganization of the financial-services industry – into either narrow service providers or vertically integrated incumbents – is opening the door to both specialized new entrants (fintechs, technology companies, etc.) and platform businesses that combine payroll, payments, e-commerce, and other services. These digital utilities – think Amazon, Shopify, Ceridian, Stripe – hold significant customer data and are positioned to provide customers with a simple, highly segmented and focused solution (for example, merchant loans). These new entrants will be powered by specialized business-to-business service providers offering Banking-as-a-Service, Know Your Customer (KYC)-as-a-Service, and other innovations.

To compete, it has never been more important for incumbent financial institutions to gain a deep understanding of their customers' needs and to provide the services in a truly differentiated way.

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\* Companies will think of themselves as more than just financial-services providers. For example, American Express thinks of itself as a travel, dining, and lounging company. Wealthsimple thinks of itself as a lifestyle company.

Financial institutions built to serve everyone will end up serving no one. Incumbents who believe they need to keep all products, services, and processes in-house will not be competitive in any of them.

I believe the most successful financial-services companies of the future will be highly focused on a specific customer segment. They will keep a few proprietary services and functions in-house while partnering with outside providers to compete in what will become a highly segmented and competitive marketplace.

Paul Desmarais III

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