



Executive Speeches

## **Building Canada's Modern Economy**

**Address by Victor G. Dodig**  
**President and Chief Executive Officer, CIBC**  
**Canadian Club of Ottawa**  
November 24, 2015

*Check against Delivery*

---

Thank you so much. And thank you to the Canadian Club for this opportunity to speak with you today.

Bonjour à tous,

Avec un nouveau gouvernement en place, je ne pense pas que le moment pourrait être mieux choisi d'être à Ottawa pour partager quelques idées sur l'innovation et la croissance économique du Canada.

With a new federal government having just been sworn in, I can't think of a better time to be in Ottawa to share some ideas about how together we can drive innovation and foster economic growth.

It is time to think about our country's economic strengths and challenges, where we stand and where we need to go, and the choices we face in building a modern economy equipped for growth and competitiveness, both at home and around the world.

Over the last decade, Canada lost 10,500 manufacturing plants or 17% of our manufacturing capacity. Even with the current weakness in the Canadian dollar, it is unrealistic to think that this "traditional" capacity will be rebuilt. The reality is that going forward economic growth will come from different kinds of businesses across all key sectors of our economy -- all driven by innovation.

And that, at least in part, is where the ideas I'm going to be talking about today fit in.

While Canada is roundly – and rightly – envied for our solid economy and how we withstood the financial crisis, I believe we need to address three major gaps if we are going to continue to prosper and solidify our place as leaders among the advanced economies:

- First, I believe we need to do a better job of building the *intellectual capital and the skills* necessary to fuel innovation and execute in a modern economy.
- Second, we need to ensure our innovative entrepreneurs are able to attract both the *formation and sustainability capital* necessary to commercialize new ideas into valuable products and services
- And third, we need to ensure that we build an *innovative ecosystem* that effectively encourages and nurtures that development.

## Building our intellectual capital

The fundamental strength of every modern economy starts with its people. As the World Economic Forum told us in a 2013 report, “The most important determinant of a country’s competitiveness is its human talent—the skills and productivity of its workforce.”

In Canada, we are not coming to this challenge from a standing start. Participation in post-secondary education in our country has grown from 41 to 53%, which is over the past decade the highest among OECD countries.

So while we *are* investing in our intellectual capital, how productive is this investment for the new economy?

Actually, some troubling issues lie behind those positive numbers.

As a country, we have a much lower proportion of graduates in the all-important STEM sectors—science, technology, engineering and mathematics—than 22 other OECD countries.

In Canada, about 20% of our graduates are from those disciplines. By way of comparison, in India and China, close to 40% of graduates have STEM degrees. In Germany, it’s around 25%.

And Canadian university and college graduates rank 19<sup>th</sup> of 21 in numeracy, 18<sup>th</sup> of 21 in literacy and 14<sup>th</sup> of 18 in problem-solving skills, according to a recent OECD study.

Remember, we’re talking here about the very people and very skills we need to need to lead our country in innovation and create the high-value jobs for the future.

As the Canadian Council of Chief Executives CEO and CIBC’s board chair, John Manley recently said, “This isn’t a problem of under-investment. [But] at least at the university level, there seems to be a significant disconnect between *suppliers* and *consumers* of education.”

In effect, getting a post-secondary education is simply not enough in today’s modern economy.

Far too many graduates don’t bring enough skills and practical experience to be ready for the modern labour force. The result is that our students, by and large, are choosing an education path that is geared toward acquiring credentials, rather than on skills acquisition and on what the labour market needs.

This is a real issue, as many of these graduates can’t find quality work. Two weeks ago, the federal parliamentary budget office reported that 40% of recent university graduates are overqualified for their jobs— up from about 32 per cent in 1991. The problem is, they are really overeducated for the jobs they can get, but unqualified for the jobs they want.

So, what do we need to do?

- At a basic level, both parents and students require better information and advice about where the jobs of the future will be, and the types of skills those jobs will require.
- More importantly, post-secondary institutions need to work with government and industry to understand the future skills and labour market needs so they can produce the graduates our economy needs.

On this latter point, it appears that some of these messages are getting through and progress is being made.

Dr. Elizabeth Cannon, Chair of Universities Canada recently announced their intent to “continually strengthen connections with our broader society to ensure that higher education meets the evolving needs of students, the labour market and our communities.”

We can also look to the Ontario government, who recently concluded agreements with post-secondary institutions – both colleges and universities – to ensure they are promoting education choices that match the needs of the job market. They also ensure universities specialize in different sectors to prevent redundancies between institutions. For example, McMaster will focus and invest even exclusively more on health research, a sector where it already excels.

## **Sustainability Capital**

The second element required to build and grow Canada’s new economy is ensuring innovative young companies can access the needed capital and expertise both to get started and to sustain their growth. In recent years, policy makers have been more focused on *protecting* small business than creating the environment in which it can *grow* and *thrive* – we need to change that.

Successful innovation strategies require investment, and that’s where banks and other financial institutions come into the picture.

Thomson Reuters’ recent Canadian Venture Capital Review reported that deal activity and investments in the first half of 2015 were up by 21 per cent and 23 per cent respectively over the previous year. And private equity investments in the manufacturing sector are up 38 per cent year-to-date over last year.

That said, there are some indications of a funding gap among early stage innovation-based companies, especially among asset-light firms and those looking to expand into international markets.

Perhaps we can look at programs in other countries. One model worth considering is the Business Growth Fund created a few years ago by five of the United Kingdom’s largest banks, which have a committed pool of capital totalling £2.5B.

This model aims to fill a gap in funding and grow lending. The BGF takes patient minority equity stakes in businesses with revenues between £5MM and £100MM to foster growth. As importantly, it provides the investee companies with access to a network of 3,000 experienced business advisors.

That fund is now a little more than four years old, and has invested over £500MM in more than 100 SMEs across the UK – from oil services companies to children’s luggage makers.

To-date it has not sold off any of its investments and has not had a single failure in its portfolio. Its annual costs of some £20MM are covered by the income it generates from fees.

Could a similar approach work here? We’ll see. I understand the Australians are giving consideration to a similar program.

But it is not good enough to just provide capital to drive growth for our startup companies, we also need an environment that supports their continued success and helps them turn into global players. Far too many Canadian high tech start-ups get bought out before they have a chance to grow. They often sell out before their value exceeds the \$40-\$50 million range.

Kik Messenger seems to have overcome those odds. Kik is a hugely successful messaging app started by Ted Livingston in 2009, when he was a student at the University of Waterloo.

His idea was to shift the centre of computing from the PC to the smartphone, and to give users more control over who was in their network and the privacy of their data. As of this January, Kik users in the U.S. spend more time on the app per session than do users of both Facebook Messenger and Snapchat.

Kik is a Canadian success story. It's grown to more than 240 million registered users around the world, and now has joined the "unicorn club", with a valuation over \$1 billion. It also recently attracted a \$50 million investment from a strategic partner abroad.

Despite rapid growth and investment challenges, Kik has maintained its independence, and still has its headquarters in Waterloo.

While Kik has been succeeding, many Canadian start-ups do not.

Transitioning from a start-up having a serious market presence is all about access to the business-side skills necessary to help you scale up. Scaling up means:

- Ensuring access to the process experts who can help with the final steps in commercialization;
- Developing the marketing and sales force to find the right customers and make the initial sales;
- Creating the manufacturing capability necessary to meet orders;
- Having a Chief Financial Officer to put in place the contracts, the financial controls and accounting systems the company will need for the long haul; and
- Retaining the legal and intellectual property experts necessary to protect your discovery from the trolls and market competitors and predators.
- Having experienced advisors who know how to take a company global.

One thing is certain. When small and midsized start-ups are sold early, our country is weaker for it. We are much better off with entrepreneurs who see the merit of investing for scale and for reinvesting their wealth.

Why? Because the really smart innovators never stop. After a successful sale and a big payday, many are back the next day looking for the next opportunity and dreaming of the next big discovery. And retaining highly paid head office jobs in Canada rather than seeing them farmed out elsewhere will help spread those benefits to our broader economy.

Fueled by several hundred successful innovators with their own money to invest, the innovation ecosystem regenerates and starts the discovery process all over again.

### **Building a better innovation ecosystem**

As I mentioned earlier, traditional manufacturing in Canada has shrunk dramatically in recent years, but there are businesses that are creating solutions that we should look to.

Recent research by Benjamin Tal of CIBC Economics found firms that focus more and more on creating solutions as opposed to just building products, are emerging to fill some of the gap. Trade in industries like engineering, architecture, computer and financial services is already almost as large as the merchandise sector.

If we are serious about building a strong and competitive economy for Canada's future, then we need to shape our policies and models to include these emerging industries. These companies are creating products and services many of us never imagined – and certainly never thought there was a market for.

These emerging firms share a common outlook – they are innovators. And to put it simply, these innovators are all about finding new and better ways of adding economic value. In today's context, innovation is the generation, commercialization, and adoption of new ideas, processes, products, and services in the marketplace.

Make no mistake, innovation is absolutely essential in today's economy. This is true for emerging players, and established companies like ours. It's the doorway to the future, enabling our economy to be more competitive, produce the high-value jobs we need for the future, and enable companies to create real value for shareholders.

Canadians are no strangers to discovery and innovation but today's innovation ecosystem is highly complex.

We recently spoke to our small and medium sized business clients about the role of innovation in their business and in their industry. Overwhelmingly they said it was critical to their success but the challenge they face today, as it was yesterday, is finding the time and the resources to make it happen.

So how do we fix that?

First, we need to look again at our post-secondary system. Canadian educators must embrace the need to develop the next generation of economic builders and business owners with the necessary practical and applied skills to turn great ideas into commercial successes.

Second, we in established businesses all need to encourage intelligent, risk-taking young people, and provide them with the resources and support they need to succeed on the business side. We can do that by harnessing their innovations to provide better services to our clients.

We have started to do this at CIBC, and we're very proud of our results. We've created our own technology hub that is blocks away from our head office and is casually known as #digital. It employs about 300 people in an environment that is not what you would think of as a traditional banking work culture.

Our work here is necessary to respond and adapt to the changes in our industry. Clients today expect a lot more from their bank. They have extensive and varied online experience and they are tech-savvy. They've seen technology simplify transactions that used to be complex and time-consuming in other parts of their lives.

But they will only embrace innovative technologies if they integrate seamlessly into their lives, fulfill real needs and deliver additional value.

At MaRS in Toronto, we established an innovation lab, where a small team of bright young co-op students and developers created the CIBC Apple Watch Banking App. Because technical specs were not yet available from Apple, they designed the proof of concept on the basis of what clients would want from a CIBC Banking App on the Apple Watch.

The speed of development was unprecedented and caught the attention of the Apple team and resulted in another first for our bank.

By acting like a bank and like a tech start-up, we were able to achieve a better outcome for our clients.

But we also believe in the importance of partnering with Fintechs, those startups that leverage innovation and technology to provide financial services in new and innovative ways. We believe that by working with some of these firms we can deliver a better outcome for our clients and for our economy.

We recently turned the \$30 billion Canadian foreign remittance market on its head by eliminating the fees associated with sending money overseas. We did so by partnering with Earthport, a UK based Fintech that specialized in this area. By combining our technology and business strengths we were able to drive costs out of the process and truly disrupt the market.

And last week we partnered with a Montreal Fintech called Thinking Capital to provide small businesses with faster and easier access to relevant lending solutions. Again, the combined strengths of our two firms is good for clients and good for our economy.

In the world of innovation, partnerships are key to success and we are seeing great examples of this across the country, with private enterprise and post-secondary institutions creating ecosystems or hubs that are off to a great start.

At Ryerson in Toronto, the Digital Media Zone known as the DMZ is one of Canada's largest business incubators for emerging tech startups. In just five years it has raised \$120 million in seed funding, incubated over 200 startups and so far helped create 1,964 jobs.

There are also fine examples of innovation partnerships in more traditional spaces, like the energy sector. The Institute for Oil Sands Innovation at the University of Alberta is developing innovative technologies to address emission and water consumption challenges in the energy sector. There, a University of Alberta engineering professor developed a cutting edge technique using solar energy to clean up oil sand waste water.

We see this in manufacturing as well. Siemens Canada for example, has established an innovative manufacturing hub in Burlington. As Robert Hardt, president and CEO, said recently, "Companies that innovate and commercialize the fastest in today's environment are going to be the leaders". Part of its strategy is to partner with area colleges where it provides guest lectures, technical workshops and curriculum development recommendations. Siemens also provided a \$458 million product lifecycle management software grant to McMaster University in Hamilton that gives students the ability to work with the same design and manufacturing research technologies used by many of the world's most sophisticated manufacturers.

All of these hubs demonstrate that the right ecosystem can produce great innovation and commercial success. They are creative and necessary partnerships between schools, government and business. But we need to do more to compete and grow – including cross partnerships and greater collaboration between governments and institutions on a national basis.

On this front we can learn from global leaders like Germany who have succeeded in implementing a national collaborative innovation policy. Germany has implemented three key strategies:

- Firstly, the German Science, Tech and Innovation system (known as BVIZ) operates 150 business incubation centres with more than 5,800 companies and 46,000 employees. The Centres help entrepreneurs and ensure that innovation gains in productivity are spread across all economic sectors rather than just being concentrated in a specific area.
- Germany created a network called the Fraunhofer Society, an organization of 80 institutes in Germany, and now around the world. Through a mix of public and private funding, these institutes help move radical ideas into the marketplace. As independent researchers they act as 'intermediate policy makers' to help businesses commercialize and achieve scale.

- Finally, Germany is ensuring skills training is a lifelong endeavor, teaching existing workers, not just young people, how to use new technologies to increase productivity.

There's another area that needs some urgent attention by the federal government to create the right innovation infrastructure in Canada—we need a public and private policy framework to support the capture of wealth from ideas. This starts with stronger intellectual property protection for innovators.

High tech innovators create two kinds of value: the profits they generate from selling their products, services and processes, and from the ownership of ideas – the intellectual property rights that lie behind their innovation.

Jim Balsillie and John Ruffolo, two highly successful leaders and innovators, recently joined forces with a number of elite high-tech companies to create the Canadian Council of Innovators, a lobby group that will work with government to establish a stronger infrastructure for supporting emerging Canadian innovators as they grow their companies beyond Canada.

## **Close**

The Canadian economy today faces some difficult challenges but we are in a period of transition with even more opportunity. It's not a transition from an "old" economy to a "new economy," it's a transition from "today's economy" to a "future economy."

That will first take a tight focus on fixing the way we value and build our intellectual capital, as well as how we inform our choices on where and how to invest in our intellectual resources.

Second, we need to need to become much more innovative about innovation. Financial services will remain strong. Commodities prices will eventually rise. But in the meantime, we need to build on the innovative genius of Canadians to build the framework for increased and sustained future growth across all economic sectors.

We need to marry up the necessary business skills with the genius of our discoverers and inventors to push great ideas through to marketable and valuable products and services.

A focus on value-added, R&D intensive manufacturing will be one way to restore and bolster our capacity and return jobs we have lost in this sector.

In the banking sector, as in many others, it means being open to new ideas, it means inviting the innovators inside to help us be sharper, faster and smarter in serving our clients.

And finally, the providers of capital – banks, pension plans, venture funds and others – need to ensure we are there with the necessary capital to help the early-stage innovators and those seeking to scale and grow their businesses to be world class.

We at CIBC certainly don't have all the answers. We are but one stakeholder.

But along with other employers and employer groups, with post-secondary institutions and with our partners at both levels of government, we believe we can help build a Canadian economy that is competitive and prosperous and meets the national objectives that all of us share.

À la Banque CIBC, nous n'avons certainement pas toutes les réponses. Mais nous sommes bel et bien parties prenantes.

Aux côtés d'autres employeurs et associations d'employeurs, d'institutions postsecondaires et avec nos partenaires des deux paliers du gouvernement, nous pensons pouvoir aider à bâtir une économie canadienne qui est concurrentielle et prospère et répondre aux objectifs nationaux que nous partageons tous.

Merci beaucoup. Thank you very much.