

Vanguard: *cost-to-income transformation* for a Canadian mid-cap bank.

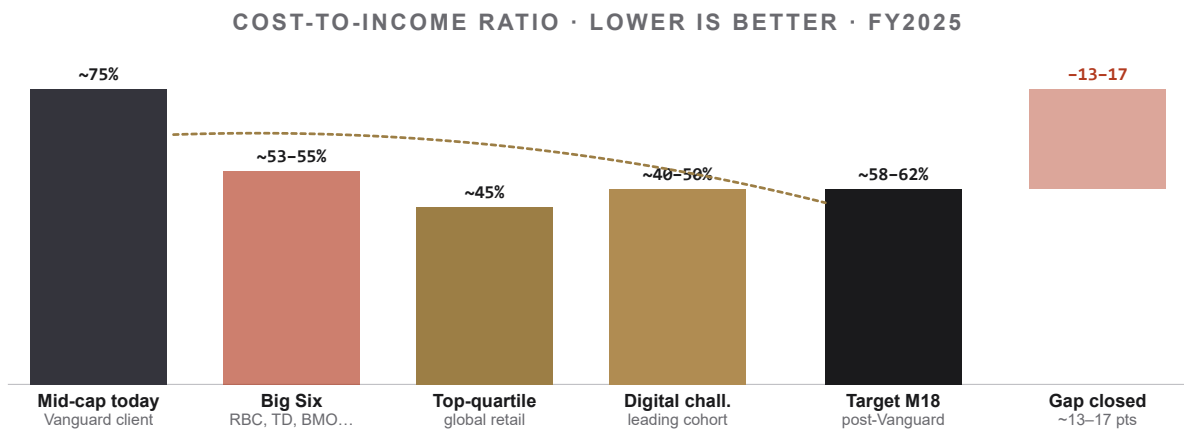
A ~\$50B-asset Canadian mid-cap bank runs a cost-to-income ratio in the mid-70s while Big Six peers operate near 53–55% and global top-quartile retail banks ~45%. The gap is not technology spend; it is an operating model that still routes most customer journeys through branch and call-center. Cost-cutting alone will not close it.

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Targets Oliver Wyman · McKinsey FS · BCG FSP · EY-Parthenon FS

The Problem

Canadian mid-cap banks face a structural cost-to-income compression. Laurentian's adjusted efficiency ratio was ~75% on a ~\$50B asset base in FY2025; Big Six runs ~53–55% (RBC ~53.5% adjusted YTD Q3 FY2025); top-quartile global retail banks ~45%. The cohort has thinned with National Bank's close of CWB (Feb 2025) and RBC's close of HSBC Canada (Mar 2024). Across-the-board cuts surface ~10–20% of the gap and break NPS doing it. The structural opportunity lives in *three workstreams in parallel: journey re-architecture to self-serve-by-default, core platform & data modernization sequenced behind it, and operating-model + workforce ratchet.*

FIGURE 1 · COST-TO-INCOME GAP, CANADIAN MID-CAP VS. PEERS



Cost-to-income benchmark, FY2025 directional. Laurentian ~75%; Big Six ~53–55% (RBC ~53.5% adjusted YTD Q3 FY2025); top-quartile global retail ~45%; digital challengers ~40–50%. Vanguard targets a ~13–17 pt compression to ~58–62% over 18 months: top-of-mid-cap, not best-in-class.

Sizing the prize

For the example client (~\$50B assets, ~\$2.0B revenue, ~75% C/I = ~\$1.5B opex baseline): a 13–17 pt compression equals **~\$260–340M / yr in run-rate opex reduction**, with ~30–40% from journey re-routing and the balance from platform consolidation and operating-model ratchet. Canadian mid-cap cohort is thin but adjacencies in commercial / specialty lending and the credit-union sector are deep. **Engagement-revenue ballpark ~CAD \$35–55M** for an 18-month, partnered, on-site Toronto/Montreal program, fixed + value-share.

RUN-RATE OPEX REDUCTION
~\$260–340M / yr
 13–17 pts × ~\$2.0B revenue

ENGAGEMENT REVENUE
~\$35–55M
 18 months · fixed + value-share

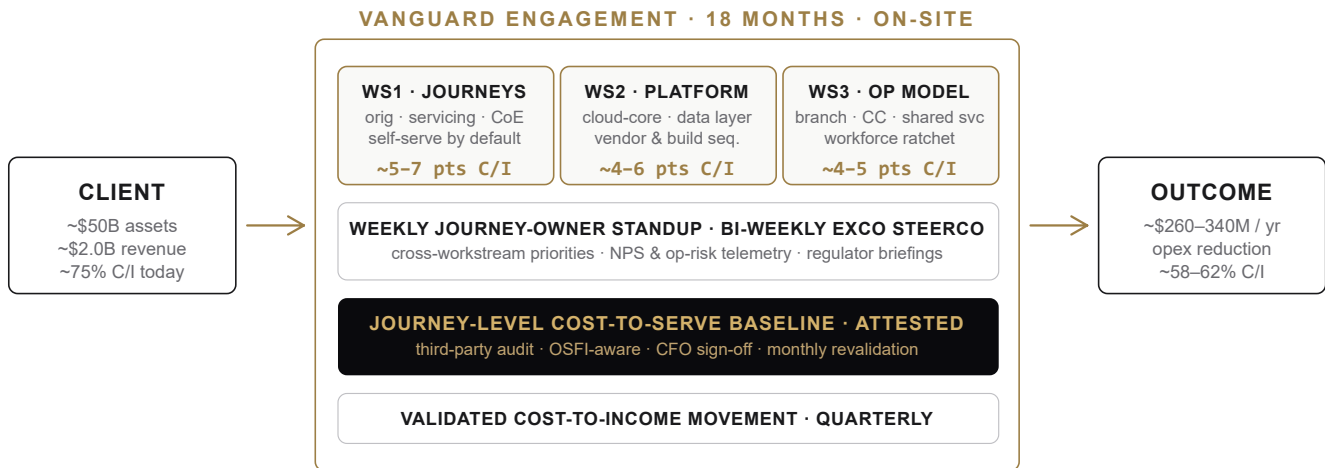
Directional sizing: public filings (Laurentian, EQB, Big Six FY2025), McKinsey Global Banking Annual Review, two FS-partner interviews. Engagement-plan ballpark, not a bid.

THE UNLOCK

Run **three workstreams in parallel against a single journey-level cost-to-serve baseline**, with a weekly journey-owner standup and a bi-weekly ExCo steerco, on one signed value-share contract. WS1 (journey re-architecture) re-routes originations, servicing, and claims-of-error to self-serve-by-default in M1-9; WS2 (platform & data) sequences a cloud-core decision behind WS1's volume signal in M3-15; WS3 (operating model & workforce) ratchets cost out of branch, contact-center, and shared services in M6-18. The wedge is originations: clearest ROI, most contained op-risk surface.

Engagement architecture

FIGURE 2 · THREE-WORKSTREAM OPERATING MODEL



Three workstreams run in parallel from week 4; weekly journey-owner standup + bi-weekly ExCo steerco governs the work; a journey-level cost-to-serve baseline (third-party attested, revalidated monthly) is the value-share anchor. NPS and op-risk events run as enforced counter-metrics; validated C/I movement reported quarterly to OSFI-aware governance.

WORKED EXAMPLE · ORIGINATIONS JOURNEY · THE WEDGE

Originations (mortgage + unsecured) is ~25-30% of servicing-cost intensity at a Canadian mid-cap. Diagnostic month 2: cost-to-serve ~\$1,400 per funded mortgage vs. ~\$700 at top-quartile; ~62% of touchpoints flow through branch / mortgage specialist. Re-architected to digital pre-qual + broker-lite + nCino-grade decisioning behind the existing core. By month 12: cost-to-serve ~\$1,400 → ~\$900; digital share ~38% → ~70%; ~3 pts of C/I from this journey alone.

Sequenced delivery (parallel-track from week 4)

| PHASE | WORKSTREAM CADENCE | FORCING-FUNCTION DELIVERABLE | AUDITED PROOF POINT |
|---|---|--|--|
| M0-6 Diagnose · attest baseline | WS1: journey-level cost-to-serve build · WS2: core / data architecture diagnostic + vendor shortlist · WS3: branch + CC + shared-services taxonomy | Journey-attested baseline · vendor shortlist (Thought Machine / Mambu / Temenos / FIS / nCino) · OSFI / FSRA / AMF risk register | Baseline signed by client CFO + auditor; ExCo green-lights wedge journey |
| M6-12 Design · pilot · ratchet | WS1: originations re-architecture live, servicing pilot · WS2: cloud-core selection + data-layer build · WS3: branch micro-format + CC self-serve ratchet | Originations cost-to-serve ~35% validated · platform contract signed · first-tranche workforce action committed | ~5-7 pts C/I run-rate; NPS holds; op-risk events ≤ baseline |
| M12-18 Scale · sustain · transfer | WS1: claims-of-error + remaining journeys · WS2: core go-live tranche 1 · WS3: operating-model permanence + capability transfer | Validated C/I movement ratified by Audit Committee · capability handover signed by journey owners | C/I at ~58-62% run-rate · client team owns 100% of cadence |

Metrics that matter

| LAYER | METRIC | M18 TARGET | WHY IT MATTERS |
|-------------------|--|-------------------------------|--|
| North-star | Cost-to-income ratio (audited, quarterly) | -13-17 pts vs. baseline | The number the value-share contract is signed against |
| Cash | Run-rate opex reduction vs. journey baseline | ~\$260-340M / yr | Below this, the program does not return its cost |
| Throughput | Self-serve / digital share by journey | ~70%+ digital, originations | The compounding lever; physical evidence of model change |
| Counter | NPS by journey segment | ≤ 2 pt decline · any segment | A larger NPS drop voids the value-share; non-negotiable |
| Counter | Operational-risk-event frequency & severity | ≤ baseline · no Tier-1 events | OSFI sees op-risk before C/I; regulator-facing trip-wire |
| Capability | Journey-owner cadence continuity post-engagement | > 80% of weeks at M21 | The work doesn't sustain without the rhythm |

Risks & mitigations

HIGH Core-platform replatform overruns scope and consumes WS1 / WS3 oxygen.

Mitigation: WS2 sequences *behind* WS1's volume signal; no big-bang core. Cloud-core decision (Thought Machine / Mambu / Temenos / FIS) is taken only after the originations wedge has produced 9 months of journey telemetry. Vendor contract carries explicit scope-creep brakes; OSFI Tech & Cyber expectations baked into RFP scoring; partner has standing to halt WS2 without halting WS1 or WS3.

HIGH Workforce / branch-network ratchet triggers regulator, union, or political pushback.

Mitigation: WS3 actions gated on journey-volume evidence from WS1. Branch micro-format and re-skilling sequenced ahead of net-reduction; affected employees enter a structured re-skilling pathway co-designed with HR and (where applicable) the labour partner. OSFI / FSRA / AMF briefed at gate decisions.

MED NPS deteriorates on re-routed journeys, especially among older / lower-digital-fluency segments.

Mitigation: segment-level NPS trip-wires (65+, rural, language-minority) monitored weekly with mandated remediation if breached. Branch is re-purposed (not eliminated) for advice-heavy moments; phone remains first-class for vulnerable segments. Compression target accepts ~58-62%, not 45%: not asking the franchise to look like a neobank.

30 / 60 / 90, first-quarter sprint plan

30 DAYS

Diagnose · attest baseline

- › Journey-level cost-to-serve ingest, top 5 journeys
- › Core / data architecture diagnostic + vendor longlist
- › Branch + CC + shared-services taxonomy started

60 DAYS

Sign · stand up cadence

- › Attested baseline + value-share contract signed
- › Weekly journey-owner standup live
- › Bi-weekly ExCo steerco · OSFI / FSRA / AMF brief delivered

90 DAYS

Wedge · originations live

- › Originations re-architecture pilot in market
- › Vendor shortlist (Thought Machine / Mambu / Temenos / FIS) issued
- › ~1 pt run-rate C/I validated; NPS holds

DECISION ASKED

Authorize an 18-month engagement with a ten-person on-site team (partner + four senior consultants + three FS SMEs + two banking-tech architects on rotation), priced **40% fixed + 60% value-share** with a ~CAD \$14M fixed envelope against an expected ~CAD \$35-55M total take on validated C/I movement. Success: ~13-17 pt C/I compression at M18, ~\$260-340M / yr opex reduction, NPS within 2 pts on every segment, no Tier-1 op-risk event, capability handover verified at M21.