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 sit below 50%. The gap traces to an operating model that still routes most customer journeys through branch and call-center rather than to technology spend. Cost-cutting alone will not close it.

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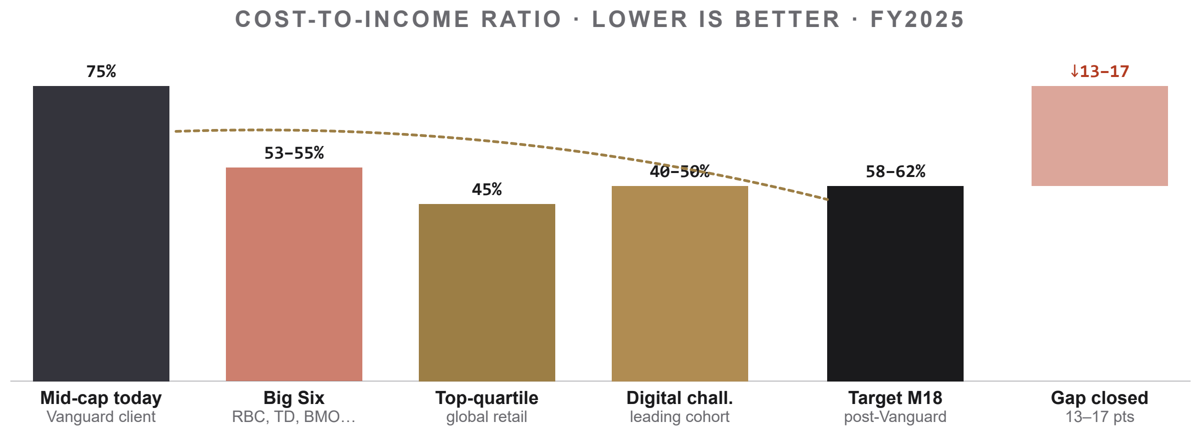
Targets Oliver Wyman · McKinsey FS · BCG FSP · EY-Parthenon FS

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, Q3 FY2025); top-quartile global retail banks sit below 50%, with best-in-class at 30–40%. The cohort has thinned with National Bank's acquisition of Canadian Western Bank (completed Feb 2025) and RBC's acquisition of HSBC Canada (completed 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 ratio, FY2025. Laurentian 75%; Big Six 53–55% (RBC 53.5% adjusted, Q3 FY2025); top-quartile global retail below 50% (best-in-class 30–40%); leading digital banks 40–50%. The target compresses 13–17 points to 58–62% over 18 months, landing at the top of the mid-cap band.

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 CAD $35–55M** for an 18-month, partner-led, on-site Toronto/Montreal program, fixed + value-share.

Sources: Laurentian Bank Q3 2025 and RBC Q3 2025 disclosures; National Bank acquisition press release (2025); KPMG Cost Transformation Benchmarking (2025); McKinsey Global Banking Annual Review (2025); OSFI capital and efficiency data (2025). Per-mortgage and per-journey costs reflect an internal cost study for the example client.

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

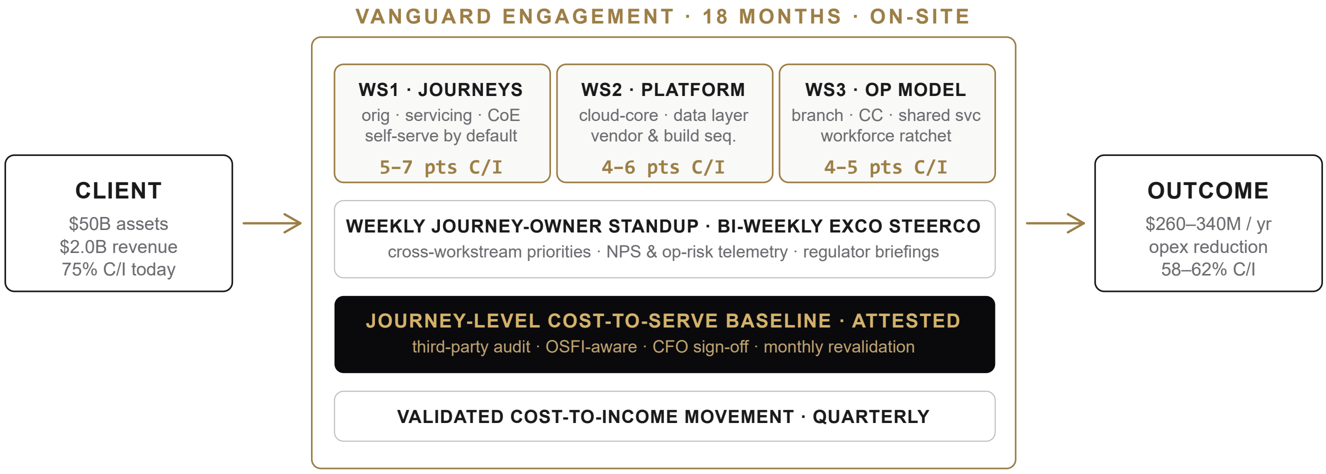
ENGAGEMENT REVENUE
$35–55M
18 months · fixed + value-share

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 for advice-heavy moments rather than eliminated; phone remains first-class for vulnerable segments. The compression target stops at 58–62% rather than chasing a neobank's sub-45%, keeping the franchise intact.

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.