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C1 Momentum Conference

Deloitte Perspectives on
Opportunities, Challenges and
Key Questions for the System



CONSUMER

- **Shifting wealth curve** of Canadians
- Historic wave of **underprepared retirees**
- Mainstream entry of **Generation Z**



COMPETITIVE

- Evolving **fintech unicorns and monoline lenders**
- Expansion of **digital platforms**
- Rise of **smart intermediaries**



INFRASTRUCTURE

- Democratized **access to data**
- New **models of value transfer**
- Accelerated **AI displacement**
- **Falling barriers** of technology



REGULATORY

- Heightening **conduct expectations**
- Growing **fraud and cyber risks**
- Consumer-Driven Banking Act (i.e., **Open Banking**)



ECONOMIC

- **Volatile interest rate** environment
- **Elevated prices** from record-high inflation
- **Weak business investment** and productivity performance

As we have all heard over Momentum, we are all **facing an unprecedented level of change Which creates opportunities + challenges**

CU CORPORATE
PURPOSE THEMES

Being a trusted
financial partner

Making the
world better

Strengthening the
communities we
serve

EVIDENCE OF
IMPORTANCE

4x

78%

> \$62M

Highly trusted companies
outperform low trust
companies with up to 4x
amplification of market
value

Of consumers were more
likely to remember
companies that exhibit a
strong social purpose

Credit Unions gifted
\$62M to communities
through wide range of
giving methods

Co-operative values and social purpose form the foundation of Credit Unions; a purpose-integrated strategy offers a "purpose premium" that can drive a **competitive advantage** in an **increasingly values-driven market**

Market Examples

Forward-thinking Credit Unions are **embedding ESG strategy** into every facet of their organization

The players that **integrate their corporate purpose, corporate strategy, and ESG strategy** are able to achieve superior results

Vancity's Financial Health & Inclusion Target

↑ **74% to 80% by 2030**

11.3 ESG Score (Low Risk)

*FirstWest's Sustainalytics scoring, placing in the fourth percentile in the **global ranking of all companies***

Credit unions are a leading voice in aligning their **ESG activities with their broader corporate purpose** to drive **meaningful impact and long-term impact** for their members and communities

Market Examples

Market leaders are **setting themselves apart** from competing FIs by prioritizing **digital features, services, and experiences**



Beem has a clear digital aspiration:

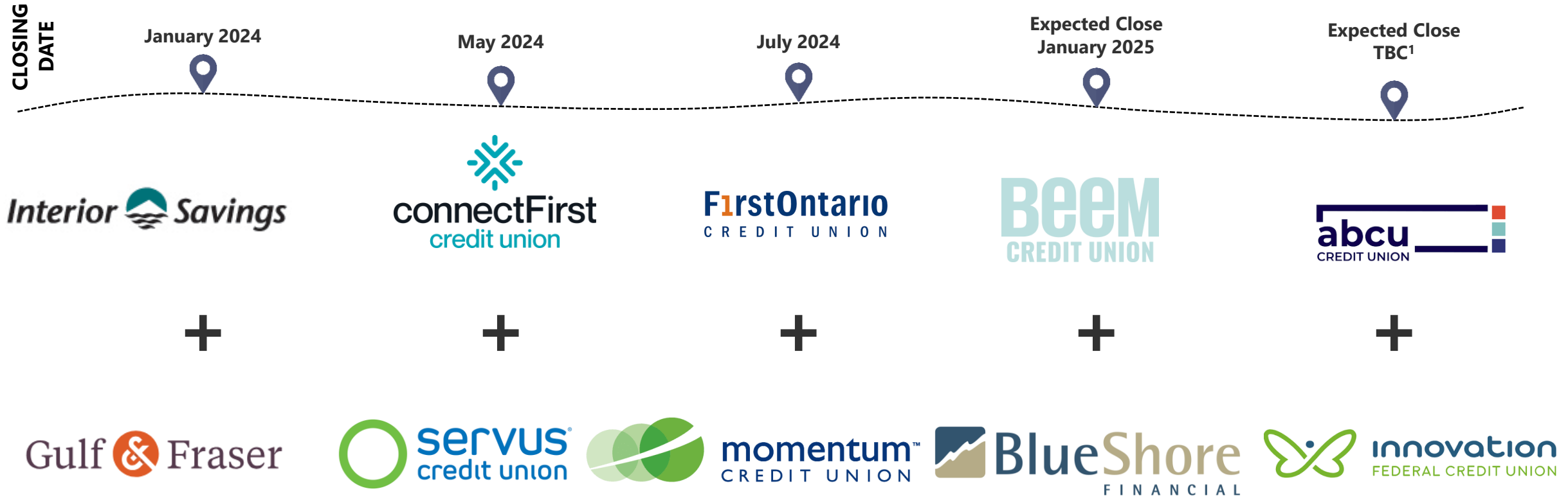
"Most people-first, digital-first Credit Union in the province"



Leading Credit Unions are rated in the **top 10 nationally** for digital customer experiences

To compete with **larger incumbents** (i.e., Big Banks) and **new entrants** (i.e., Fintechs) in the Canadian financial services market, prioritizing investment and innovation in **digital experiences is necessary for success**

Executing on Conditions for Success | CU Consolidation to Drive Scale



Proactive consolidation can provide the **regional, and potentially national, scale** to compete with required **marketplace reach, efficiency and effectiveness**

Sources: Press Releases

Notes: (1) Business case approved in July 2024; if application is approved by regulators, both Credit Union memberships would need to vote on whether to proceed with the merger.

Opportunity | Marketplace conditions enable disruption

1

Incumbents can be successfully challenged

Digital-first competitors in Canada are demonstrating significant growth potential and actively gaining market share from traditional incumbents that are struggling to innovate rapidly



2

Partnerships are driving efficiency & effectiveness

Credit Unions leveraging partnerships are realizing accelerated improvements in digital capabilities



3

Public policy favours more competition

Policymakers are aiming to drive more competition across financial services to create better outcomes for Canadians; Credit Unions are an answer



Market conditions are **ripe for disruption** in financial services; Credit Unions that **strategically invest in these opportunities near-term** can **increase market share** and solidify **competitive differentiation long-term**



Minimum Regulatory Bar for FIs is Quickly Rising

Canadian fraud and other scams are surging at an alarming rate; consequently, standards for and enforcement of AML and other risk protocols are becoming more stringent in lock-step



Technology Gap Between Big 5 and CUs is Widening

Big Banks are investing heavily in core modernization, data analytics, and AI to gain a competitive edge; Credit Unions may struggle to keep up without earmarked capital for similar investments



CU-Wide Efficiency Ratios are Concerningly High

To keep up with a range of competitive pressures, the Credit Union system is struggling to convert spend into meaningful growth relative to Big Bank competitors

Canadian Banking Efficiency Ratio¹ **~44%**

Canadian Credit Union Efficiency Ratio² **>70%**

Canadian Credit Unions should **prioritize investments** in **key efficiency enablers** as **essential components for long-term sustainability** and **competitiveness** in an evolving market



Cost of Core Payments Services will Rise to Recover Investments

Increased investment costs due to **Payments Modernization, regulatory compliance, and capability enhancement** will continue to drive costs higher for all competitors



PAYMENTS
CANADA



CU System Complexity Makes Mergers Slower and More Expensive

Key structural impediments will continue to challenge merger integration:

- × Limited **“aggregation”** technology platforms in the system
- × Multiplicity of **technology providers, CU system providers & partners**
- × Limited **common operating and technology standards**

As the cost of competing in the Canadian financial services market escalates, Credit Unions will need to make **strategic decisions**, balancing **investments for growth** with the **need to create long-term operating efficiency**



Relentlessly focus on Credit Unions' **“unfair advantage”** - they have never been **more impactful**.



Technology is a powerful tool to level the playing field. The system needs **fewer and more effective platforms**, particularly in **payments and digital**



Costs will rise unless they are managed down. Greater focus is required to drive down **BOTH costs from system providers AND costs by Credit Unions**



New partnership and collaboration models in existing and new areas can be explored to drive efficiency and create incremental value for members.



Accelerating Credit Union consolidation is inevitable. There is greater need to **create the conditions to enable faster & cheaper integration**.

1. Is There Commitment to Collective Sourcing ... or Not?

Highly Innovative
and Responsive
System Owned
Provider



Third Party that
Provides Common
Services to CUs +
Fintechs



Market Forces Align
Behind Common
Providers for Specific
Mandates



2. Where are there the Greatest Opportunities to Drive Collective Efficiency and Effectiveness?

Continued Focus on Payments Consolidation?



Renewed Emphasis on Common Regulatory Gaps?

Fraud
AML
Cyber



Elimination of Barriers to System Wide Consolidation?

Digital
Core Banking
Enterprise



3. How Can the CU System Accelerate the Pace of any Collective Change?

Modernize
Centrals: Mandate,
Governance,
Capabilities



Accelerate
Partnerships with
Leaders from
Outside the System



Divest System Assets
and Procure on
Market Terms





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