TD BANK GROUP
BARCLAYS GLOBAL FINANCIAL SERVICES CONFERENCE
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PARTICIPANTS

Raymond Chun
Group Head, Canadian Personal Banking

Brian Patrick Morton
Barclays Bank – Analyst

PRESENTATION

Brian Morton – Barclays Bank – Analyst

Good morning, everyone. Our third Canadian Bank presentation this morning is from Toronto-Dominion Bank. Joining us today from Toronto-Dominion is Ray Chun, who is the Group Head of Canadian Personal Banking. Welcome, Ray.

Raymond Chun – TD – Group Head, Canadian Personal Banking

Thanks for having me, Brian.

QUESTION AND ANSWER

Brian Morton – Barclays Bank – Analyst

Thanks, Ray. So, it's closing in on close to a year since you took over responsibility for the Canadian Personal Banking segment and having previously been serving as Group Head, Wealth Management & Insurance. Tell me how your experience in the previous role has shaped your approach to the Canadian Personal Banking business?

Raymond Chun – TD – Group Head, Canadian Personal Banking

Thanks. I mean it is amazing. The time does fly. It is fast approaching a year. What I would say, though, is that in the 30 years that I've worked at TD, it is a bit of a homecoming for me, that I grew up mostly on the Canadian Personal Banking side and having led the global contact centers, I ran British Columbia and all the branches out there and ran all of our products, both for the deposit side and the unsecured lending. So this is a familiar territory, if you want to say. And then as you just said previous to this role, I was Global Head for Wealth and Insurance.

One of the things I do think having done both roles now that I see as a terrific opportunity, and we did highlight this even during our Investor Day about a year ago – the interconnective sort of relationship that we have within TD between wealth management and retail branch banking. I don't think there's anything stronger in the industry in the sense that our financial planners actually now all sit inside of every one of our retail branches. Our small business banking advisers all sit inside of our retail branches. One of the things that people here may not be aware of is that in Canada, the other banks over the last 2 decades did acquisitions for the Wealth Management side. TD decided to grow our Wealth Management business organically. And so it's taken us a bit longer to build scale. We now have scale. That just presents, I think, terrific opportunities as we move forward. And I'll finish with – that of the 14 million customers that we have at TD Bank, we bank 1 out of every 3 Canadians in Canada, still only 15% of those customers have a wealth management relationship. That's where I see terrific opportunities as we move forward, having done both roles.

Brian Morton – Barclays Bank – Analyst

Ray, as you mentioned, with 1 in 3 Canadians and 1 in 2 Torontonians banking with TD, you have a unique insight into the health of the community consumer. From your perspective, how is the Canadian consumer managing against the slowing economy, rising unemployment and the impact of higher interest rates on residential mortgage renewals? And are you seeing any differences in payments and the delinquency rates between the various consumer segments?

Raymond Chun – TD – Group Head, Canadian Personal Banking

I just got the tail end of the BMO presentation. I think the 2 big headwinds that you have in Canada for consumers is this high elevated household debt levels, probably at some of the highest that we've seen. You overlay that with housing costs today and the price for homes have certainly appreciated significantly over the last few years. And then you have higher interest rates. And even with interest rates coming down in Canada, 0.75 of a point, probably another 50 basis points, we think, TD Economics for the balance of this year and 1, 1.25 next year – it is still elevated mortgage rates, versus the historical lows that the Canadians actually have today. And just as a reminder in Canada, the difference between Canadian mortgages and U.S. mortgages – our mortgages renew around every 5 years, some every 3 years. So we don't have a lot of customers that are in these 30-year mortgages. That plays a big factor. What I would say is that from an unemployment perspective, although unemployment is up in Canada, the reason why unemployment is up is typically when unemployment is up, you see job losses. That's actually not the case in Canada. Population growth is outpacing the labour supply – the supply of jobs. What you're not seeing is a big deterioration in our credit portfolios because you're not seeing job loss. So when I look at our mortgage portfolio, the credit quality of the portfolio is certainly normalizing from pre-pandemic. It's still from a PCL perspective, lower than our pre-pandemic levels, and it's totally in line with our expectations. I would say, overall, we look at 2 customer segments from a mortgage quality delinquency perspective. One is that low income, low credit bureau, and the other is those customers that are renewing. And if you look at that low income, low credit bureau cohort, that's probably less than 1% of our portfolio. And that quality hasn't changed much. And if I look at our 12 months renewing customers – because those are the ones that are renewing from very low historical rates to the rates that you see today, the quality of that cohort from a credit perspective is consistently in line with the broader portfolio. So overall, pleased with the credit quality of the RESL portfolio.

Brian Morton – Barclays Bank – Analyst

Great. Based on 3 rate cuts from the Bank of Canada, we've got a few more likely before the end of the year. Do you think this is enough to release pressure on the consumer side? Or do you need to see more rate cuts throughout 2025?

Raymond Chun – TD – Group Head, Canadian Personal Banking

Like I said, I still think with the rate cuts, the rates are still elevated from what they were in the past. I do think we'd be cautious. What you haven't seen in the Canadian marketplace is a resurgence of the mortgage industry. So, on a year-on-year basis, mortgage sales would still be down or home sales would still be down on a year-on-year basis. So, I do think there is a reflection point at some point to come as rates continue to decline, where consumers in Canada start to then reenter, I do think there is pent-up demand, but you haven't seen that sort of reflection point where Canadians are jumping aggressively back into the home buyer's market. But I do suspect speaking with TD Economics that as the rates continue to decline, that reflection point that, that bottle capital will pop, and we'll start to see that. But I would still say that consumers with the indebtedness that we have in Canada, we still need to see interest rates come down more, will be useful.

Brian Morton – Barclays Bank – Analyst

Great. Maybe talk about kind of, gathering, and retaining personal deposits has been a cornerstone to TD's Canadian personal banking strategy. With the leading deposit market shares, how are you looking to continue to grow deposits and increase market share? And are you seeing the same pressure on deposit costs as in the U.S.?

Raymond Chun – TD – Group Head, Canadian Personal Banking

For TD, we are the market leader in Canada from a non-term deposits. I think our market share is about 25.56%. That's about 220 basis points higher than any of our competitors. Key to that as we think about a go-forward perspective, Brian, is winning on New to Canada. So that is, if you speak with any economists in Canada, if it's not 100%, it's 98% of the growth of Canada, will be based on New to Canada. We have always been the choice for New to Canada. Our branch banking strategy, our footprint has been a winning strategy. We speak 80 languages in our branches, 92% of our branches are located within large urban markets, and we have a disproportionate market share of branches in the New to Canada markets across Canada. It is an acquisition engine for us. And when you win on New to Canada chequing accounts, there's a downstream benefit – credit cards, mortgages, deposits, so on and so forth. That is going to be a key competitive advantage for us as we move forward. One of the pivots that we've made on the New to Canada strategy is actually pre-arrivals. We've been historically good with arrivals. The battle for me now is, I think, pre-arrivals. Partnerships like the one we just signed with HDFC, the largest private bank in all of India for exclusive referrals before they come to Canada from a digital perspective, we've actually done with different other organizations, partnerships to win on the pre-arrival, not just the arrival. So, all of those types of things, Brian, I think are going to be important to win on a deposit basis.

From a pricing competitiveness perspective on deposits, I think it is a competitive marketplace. But we price for long-term relationships. So, it is about managing both the profitability but also from a market share perspective.

Brian Morton – Barclays Bank – Analyst

Interesting. Aside from mortgages, cards has also been a driver of growth. Can you talk about your position in the segment with rewards programs and partnerships? Where are you seeing the largest competitive trends?

Raymond Chun – TD – Group Head, Canadian Personal Banking

Credit cards is a very important business line to us. It's a high-growth business for TD. We just crossed a milestone, 8 million active accounts for credit cards in Canada, the largest credit card portfolio in Canada. I'd say one of the strengths that we have is that we have signed exclusive partnerships with terrific iconic brands in Canada. Think Air Canada, Amazon, Expedia, Starbucks, Uber. Many of these are terrific partnerships, and it's a win-win, a win for them, a win for us. We just crossed the 1 million new cards on the Aeroplan and that's our premium credit card. In the credit card portfolio, what you're actually seeing is a mix shift. If you sort of look at it from pre-pandemic to now, that more of our credit card book is now moving towards our premium sort of higher-class credit cards. Our revolver rates are improving, but they'll never get back to the pre-pandemic because the quality and the mix of it, actually. But the quality of the portfolio from a delinquency is better on that side of it. So overall, the thing that I do watch carefully is our acquisition on the credit card side. And if I look at it over the last 2 years, we've had terrific acquisition momentum. And on the credit card portfolio, it takes about 2 years for the balances to sort of bleed in for your loan balances. When I look at the acquisition momentum our credit card portfolios had, the loan balance momentum will actually follow over the next year or 2. So I'm pleased with the portfolio overall. From a competition perspective, it is a competitive market, different than the United States. I think most Canadians would typically look to where they bank is where they would probably first look for their credit card. I come back to the New to Canada. For New to Canada, all of our research would say for most New to Canada, they look to get a credit card within the first 90 days of coming to Canada. Winning that bank account gives you the first opportunity. That's why again, winning on New to Canada is not just important from a deposit perspective, it's important for all the downstream implications for credit.

Brian Morton – Barclays Bank – Analyst

Great. One of the questions I get from clients a lot is regarding kind of the BSA/AML issues. And in the U.S., the TD BSA/AML compliance program has come under increased regulatory scrutiny. Maybe can you talk about the relationships with the Canadian regulators, how that may be different structurally from U.S. regulators? And are you seeing a corresponding increase in regulatory scrutiny on BSA/AML in Canada?

Raymond Chun – TD – Group Head, Canadian Personal Banking

So, if I talk about it from a Canadian perspective, we have consistent ongoing open dialogue with our Canadian regulators. But I would say you do have to distinguish between both the Canada and the U.S. issue at hand. And for Canada, if you look at sort of the examination that we had with FINTRAC – and was an industry-wide examination. But for TD, when we had that examination, the penalty that came from that was $9.2 million, and we paid that on April 9. It identified 5 administrative findings that came out of that. We've paid the fine, we're certainly taking it very seriously – the remediation that we need to do. But it's 5 findings that have been actually publicly disclosed. We're moving against that to remediate those situations and ensure that we actually build out our controls within. But it is very different. I just want to highlight that from a FINTRAC perspective, we've identified it, we've paid the fine, and we're moving forward. And then the U.S. piece, as everybody knows, we can't sort of talk more than what's actually been disclosed already by Bharat.

Brian Morton – Barclays Bank – Analyst

Okay. One of the things that comes up a lot, too, is technology and digital offerings. How would you compare TD's technology platform to your Canadian competitors? And are there any specific areas such as data analytics or AI where you think you need to invest to remain competitive?

Raymond Chun – TD – Group Head, Canadian Personal Banking

If I go back to – sorry, before I even say that – I do think Gen AI and AI in general is absolutely going to be transformative, not just to most industries and certainly for banking. But when we think about TD, back in 2018, we made an acquisition of Layer 6, and Layer 6 back then and still is a world-renowned AI company. To me, that gave us a competitive advantage that we actually got into the AI space much, much earlier than some of our competitors in Canada. We use Layer 6 for all of our research, talent – therefore, deployed into our businesses. From an AI perspective, and Gen AI specifically, I do think it is going to transform most things, and we're looking at things like, for example, pricing, fraud, leads management, customer service, and I can talk a little bit more about stuff, some of that. We've got a number of different initiatives that are on our roadmap as we move forward. From a platform perspective, what I would say is we are accelerating our investments in our mobile digital platforms and what I'll call omni platforms to be able to make sure that customers can start, stop, and finish in their channel of choice as they move forward. That's probably the area that you'll see accelerated investments by TD – is in mobile digital as we move forward. Having said that, we have 8 million active mobile users, the largest active users in Canada amongst any of the Canadian banks. We have made significant investments. I just think that the whole world is mobile, mobile, mobile. We'll just need to continue to up our game as we move forward.

Brian Morton – Barclays Bank – Analyst

Like you said, mobile, mobile, mobile. Maybe you compare how you're investing in mobile and the need for branches and ATMs and where you may be dialing back on the branches or how important the branches are to the Canadian customers?

Raymond Chun – TD – Group Head, Canadian Personal Banking

That's a great question, and it's a question that we debate inside of the 4 walls. Let me just say that the branch banking is going to continue to play a critical role, specifically in Canada. From a New to Canada perspective, the fact that we speak 80 languages in our branches; in our contact centers, we offer more than 200 languages. Language matters when you're New to Canada. That's important. Our branches are open 27% longer. One of the core strategies that we've had at TD is longer hours, and we continue to have the longest hours in every single market that we have branches. We have, on average, 27% longer hours. And all of this matters. Where you've seen a shift is in what people want to do when they come to the branch. Since the pandemic, we have seen a 50% reduction in over-the-counter transactions. What we've actually been doing over the last couple of years is shifting the complement mix. It used to be one service FTE for every one sales FTE. Now we're at 2 sales FTE for 1 service FTE, and you're seeing productivity levels in our branches in every measurable productivity metric is higher than it was pre-pandemic.

What we'll have to think through is how do you combine the digital and mobile world into the branch. And what you're seeing globally, if you actually go to Australia and Singapore and some of these other countries that are probably a bit further ahead on that journey is that the digital journey – actually, they call it phygital – is how do you combine the physical and digital. What you're actually finding is more and more customers are walking into branches, and they're actually doing all their transactions on their mobile device in the branch. It's blurring the lines between what is mobile and what is physical. That's something that actually we're going to be working our way through over time. I suspect the footprint, the size of the branches over time don't need to be as big if you're seeing transactions actually dramatically reduce. And then we'll have to think about what can we do? I think the biggest one is actually making sure that customers can start their journey in any channel, resume and finish in any different channel, if that's what they want. And that's probably what we call omni-channel, that's the space that many of the banks, certainly in Canada, probably in the United States, probably haven't figured up fully yet on that journey. But if you look at other industries, you certainly would say that omni is important.

Brian Morton – Barclays Bank – Analyst

One of the things that you mentioned earlier that you said you believe AI is going to be transformational. How transformational do you think it will be for the banking industry? And how close do you think your TD Invent segment is to bringing some of these ideas to market?

Raymond Chun – TD – Group Head, Canadian Personal Banking

I think it is going to be incredibly transformational, not just for banking, but for all industries. I'll give you a couple of examples of where we're using it, and these are early days, but we just tested and rolled out now on scale inside of all of our contact centers – we're using Gen AI. Historically, and I ran the contact centers globally many years ago, you have the agents and the agent's high turnover rates because they're just those types of roles, flow-through roles. So, their knowledge level would be not at the proficiency level that experts would be adding. You'd have a resource desk that would be staffed by more seasoned experts. And every time they had questions, they would then move it to the resource desk and back and forth and back and forth. So, from a customer experience, longer hold times, wait times, but it's also just costly to have to wait 5, 6, 7 minutes for an answer. So, we tested with Gen AI actually having our phone agents leveraging the Gen AI tool that we have now created to ask the questions and the accuracy of the response rate is higher with Gen AI than with humans now – than when we went to the resource desk. Think about that, what used to take 5, 6, 7 minutes is now taking seconds. That is a significant, not only greater experience for customers and colleagues, but a significant efficiency from a cost perspective. Then we're taking those learnings and we're now rolling that out into all of our branches. And saying there's thousands of times during a day where a branch colleague would be looking for someone more experienced to ask questions. Now we're going to deploy Gen AI into all of our branches. And again, better customer experience, better colleague experience, but the efficiency that we're going to get from that is significant.

We've also from an engineer's perspective, coding perspective, we're using Microsoft copilot to actually help from a coding perspective. And you can imagine the thousands of lines of code and leveraging Gen AI now, you can actually detect errors in the codes in a significantly more efficient way as we move forward. So, we've only scratched the surface in the insurance business that I ran before, we were using AI for fraud, pricing sophistication, you name it. I think almost every element of what we do is going to, in some way, be touched with either AI or Gen AI as we move forward.

Brian Morton – Barclays Bank – Analyst

Interesting. And you did talk about how some of this will improve efficiencies. Maybe you can talk a little bit more about the efficiency program. TD expects about $800 million in annual savings from its recently completed restructuring program. Can you talk about maybe how much of that is coming from Canadian Personal Banking and do you see opportunities for more efficiencies? And how much of that is being reinvested in technology initiatives versus how much you think can fall to the bottom line?

Raymond Chun – TD – Group Head, Canadian Personal Banking

So, on an annualized basis, I think what we've said is exactly what you just said, Brian, about $800 million is the restructuring benefits that we'll get going forward starting in 2025. And then I'd say that $800 million is coming from 3 components. First is FTE reduction. And we had said that we at an organizational level, we'd look to take FTEs down 3%. And as Bharat reported at the last quarterly analyst call, we've achieved that. And the Canadian Personal Bank being the sort of the largest contributor from an FTE perspective, has delivered on our 3%. And that would be the big part of that reduction. Real estate, as can be expected, is another big cost saver and we've actually optimized our real estate footprint and then asset write-downs would be the third category.

I'd say within the Canadian Personal Bank, we've also gone through a significant productivity review and just trying to review all the different levers. And I would say whether it's branch banking, whether it's our spans and layers within our various different areas of our organization, I still think there's opportunity as we move forward. And all of this is in line with us making sure that we deliver positive operating leverage on a go-forward basis.

Brian Morton – Barclays Bank – Analyst

I want to ask how do you view the Canadian banking business in terms of capital? How does that fit into TD's overall capital strategy? Do you feel like you're generating more capital than you need, where are you investing the capital and how do you feel about the capital as being kind of sent up towards the other parts of the business?

Raymond Chun – TD – Group Head, Canadian Personal Banking

I'd say when it comes to capital, I think our philosophy at TD has been pretty consistent for a number of years. Number one, we value the diversified businesses that we actually have at TD Bank. We look to make sure that we're investing to the initiatives that apply to the various different businesses. And by doing that, we actually think those initiatives are the ones that are going to drive the biggest franchise value long term. Making sure that we're investing in this diversified business of TD. I'd say the second is where we have capability gaps – that's another place that we will deploy our capital to close those capability gaps. And you saw that with Cowen here in the U.S., you saw that with Greystone in the asset management side for the Alt business when I ran the wealth business. Where we find there's capability gaps and opportunities, that's where we'll deploy capital also. I would say, overall, we feel we're very well positioned from a capital perspective as we move forward. And I think Bharat commented that on the last quarterly call.

Brian Morton – Barclays Bank – Analyst

Great. open up to see if there's any questions in the audience. You can wait to see if the microphone comes down. Question up front?

Unknown Analyst

Could you just give us an idea of the New to Canada influx? And how you see their wealth helping TD as well as Canada. And how are you figuring out how much money they have and much that they could spend and so on? How do you figure that out when they're so new?

Raymond Chun – TD – Group Head, Canadian Personal Banking

I'd say the New to Canada, we really do segment down to quite a micro segment. It's not sort of one big group. We've got what makes up New to Canada are sort of obviously the new permanent residents, international students is a big segment and then sort of the temporary. I would say for us, international students is a big one. For a lot of the international students now, the pathway to the programs here in Canada require you – or fast track you as a requirement – to put sort of a GIC investment in advance of you coming to Canada to demonstrate you can afford all of the costs and what have you. That's why the pre-arrival is so important is that you're actually having to select banks before you get to Canada and that's a large cohort of Canadians – sorry, international students. And for a lot of them, they choose to then stay in Canada, get their degrees, work, and build those relationships. So, winning on that side is important. What we also know for the vast majority of permanent New to Canada is that they look to buy a house within 3 to 5 years. A lot of them are bringing assets certainly from Asia or India. That's a very different cohort of New to Canada today than was 15, 20 years ago. Those are the 2 segments, in my opinion, that if you win at the beginning, you can not only grow your deposit base because you're starting with a very different starting point. But if you don't get that first entry chequing account, it's really hard to get access to the credit down the road. And for us, we've implemented a number of different credit card strategies, mortgage strategies that are specifically geared towards New to Canada and helping them get established here in Canada, critically important.

Unknown Analyst

On the New to Canada front, with the recent political, let's call it, changes that are pulling out their support in particular and the possibility of upcoming elections as well as maybe concerns about the magnitude of immigrants in recent years, although it's been a considerable strength in the economy it's maybe also underpinned home pricing. Could you comment on whether or not the New to Canada strategy, to the extent to which it faces vulnerabilities and what you might do if it doesn't continue in the way that it's been over the past?

Raymond Chun – TD – Group Head, Canadian Personal Banking

What I would say is that even with the reduction in Canada that has been stated, the number is still a big number. So, I would just say, international students as an example – before any of the reductions was about 500,000 international students were coming to Canada. And now it's about 350,000, 360,000. It's still a big number. I won't comment on the politics of that. But I would say that if you don't win that segment, it is still going to have a drag on any bank in Canada as they move forward. What I would also tell you is from a credit portfolio perspective, that the quality of the New to Canada when we give credit, that quality is better than the non-New to Canada. It's a win-win in many cases. But I suspect that there'll be some slowing impact because of the reduction, but I don't want to take away from the fact just how big that cohort of customer still will be on an ongoing basis.

Brian Morton – Barclays Bank – Analyst

Another question on New to Canada. How much is high home prices a barrier to New to Canada? And is that an impact that would slow immigration?

Raymond Chun – TD – Group Head, Canadian Personal Banking

Listen, I think a high home price is a challenge, whether you're New to Canada or have been in Canada. What you've actually seen, and I was reading some TD Economic reports is that the gifting from parents, family has become significant over the last number of years. That continues to, I think, put pressure on Canadians. But with rates now coming back down, I think this is why I was saying it – previously that in Canada, you still have a lot of people sitting on the sidelines because that even with the rates coming down, it is still quite a bit higher than the record low mortgage rates that were there during over the last 3, 4 years. I suspect in the next year, you're going to see that inflection point where rates will have reduced to a point where the affordability of homes actually becomes more in line, but the price of homes is still very high in Canada. And in certain markets like Toronto, Vancouver, they really are quite inflated. I think it's still going to put pressure on Canadians from a homeownership as we go forward.

Brian Morton – Barclays Bank – Analyst

Maybe another on the New to Canada. Maybe talk us through the life cycle of a New to Canada customer. How long does it take to go from like that initial primary relationship, card, mortgage, wealth? And then at what point do they kind of resemble in terms of a product relationship with TD, a non-New to Canada? And maybe talk about how important and how you're able to retain those customers throughout that lifetime.

Raymond Chun – TD – Group Head, Canadian Personal Banking

We followed the cohort quite closely. And I would tell you that within 3 years of New to Canada customers starting a relationship with us, they start to be very similar to anyone else that's actually our customer base. This is why it's critical to win the acquisition at the front end because they are looking to build all of their other needs. And I would tell you, credit cards is within the first 30 days, they are looking to get a credit card while they're in Canada. And I would say that's quite reasonable. If any of us moved to another country, having access to credit is critically important. But over the first 3 years, we don't see a lot of difference past 3 years from a credit quality perspective, from a deepening relationship perspective, than the rest of the portfolio.

Brian Morton – Barclays Bank – Analyst

Great. Does anyone else have any questions?

Raymond Chun – TD – Group Head, Canadian Personal Banking

The only other thing I would comment on the mortgage piece, Brian, is just remember I was saying that the population growth in Canada, that population growth in Canada is still going to continue to put, I think, pressure on housing costs, right, because there's the demand for housing and the supply of housing in Canada is still a bit of an imbalance.

Brian Morton – Barclays Bank – Analyst

Okay. Anyone else have any questions for Ray? All right. Please join me in thanking Ray for his presentation. Thank you very much, Ray.

Raymond Chun – TD – Group Head, Canadian Personal Banking

Thanks for having me.