



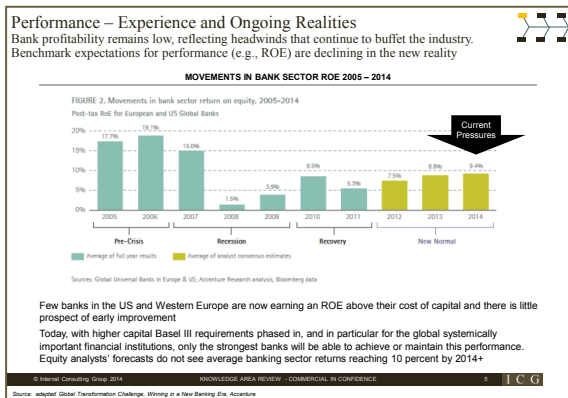
Knowledge Area Review (KAR 018)

Bank Cost Reduction Program – Product Brochure

December 2014

Effective cost reduction is not just about common sense

“Like so many other things in life, it requires experience to do it right and avoid costly pitfalls. In tough times like these, with so many “new” managers being pushed into cost-reduction exercises, identifying the right approach, capability and tools to guide the process is critical.”



Successful Demand Management
Demand management is far more than writing a new policy or establishing new rules. Success is based on a solid fact base, rooted in a thorough understanding of current practices and built on a solid, practical foundation

DEMAND MANAGEMENT LEVELS		SUCCESS FACTORS																
Aggressive approach Aggressive demand management	<table border="1"> <thead> <tr> <th>Demand Management Levels</th> <th>Examples</th> </tr> </thead> <tbody> <tr> <td>Eliminate demand</td> <td> <ul style="list-style-type: none"> Discourage ad hoc staff augmentation through use of contractors Eliminate travel for all internal, non-client meetings </td> </tr> <tr> <td>Reduce quantity</td> <td> <ul style="list-style-type: none"> Limit attendance to external conferences Implement more network printers and reduce/reimburse the number of local printers </td> </tr> <tr> <td>Simplify specifications</td> <td> <ul style="list-style-type: none"> Limit number of cell phone package options available - high product and service fee Limit maintenance on non-critical servers </td> </tr> <tr> <td>Reduce frequency</td> <td> <ul style="list-style-type: none"> Increase the refresh cycle for desktops and PCs Reduce frequency of regional meetings Reduce courier mail pickups and delivery stops </td> </tr> <tr> <td>Encourage substitution</td> <td> <ul style="list-style-type: none"> Use regular mail instead of office mail, instead of couriers Develop video conferencing program and encourage usage, instead of travel </td> </tr> <tr> <td>Impose tighter processes/tracking</td> <td> <ul style="list-style-type: none"> Require pre-approval for all external conference attendance Establish a "three-strike" rule for travelers that do not comply in the policy - refuse to reimburse expenses </td> </tr> <tr> <td>Heighten cost awareness and tighten policies</td> <td> <ul style="list-style-type: none"> Issue regular communications which highlight cost reduction success stories Publish user guides and behaviour standards </td> </tr> </tbody> </table>	Demand Management Levels	Examples	Eliminate demand	<ul style="list-style-type: none"> Discourage ad hoc staff augmentation through use of contractors Eliminate travel for all internal, non-client meetings 	Reduce quantity	<ul style="list-style-type: none"> Limit attendance to external conferences Implement more network printers and reduce/reimburse the number of local printers 	Simplify specifications	<ul style="list-style-type: none"> Limit number of cell phone package options available - high product and service fee Limit maintenance on non-critical servers 	Reduce frequency	<ul style="list-style-type: none"> Increase the refresh cycle for desktops and PCs Reduce frequency of regional meetings Reduce courier mail pickups and delivery stops 	Encourage substitution	<ul style="list-style-type: none"> Use regular mail instead of office mail, instead of couriers Develop video conferencing program and encourage usage, instead of travel 	Impose tighter processes/tracking	<ul style="list-style-type: none"> Require pre-approval for all external conference attendance Establish a "three-strike" rule for travelers that do not comply in the policy - refuse to reimburse expenses 	Heighten cost awareness and tighten policies	<ul style="list-style-type: none"> Issue regular communications which highlight cost reduction success stories Publish user guides and behaviour standards 	<p>The most successful demand management programs feature the following characteristics:</p> <ul style="list-style-type: none"> Strong partnerships – effective partnering allows team to integrate with diverse business units Performance measures – measures do two things: track performance and provide detailed feedback to resolve problems quickly Solid infrastructure – top companies build a robust infrastructure to support their demand management initiatives, including compliance, tools and processes, etc. No cost creep – successful organizations move quickly from savings tracking to monitor usage and zero-based budgeting Management change well – leaders provide a broader context, explain why, communicate alternatives, are inclusive and keep the lines of communication open at all times
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What is success?
Gartner estimates that 80 percent of enterprises spend 30 more on evaluation activities than necessary ... and still select the wrong solution 50 percent of the time. Plan ahead!

Confirm your area of focus and desired outcome

- Where do opportunities exist to reduce direct and indirect costs?
- Are we optimally positioning and deploying our assets?
- Are we organized for efficiency and effectiveness?
- Are we working with maximum efficiency and productivity?
- Are there opportunities to improve performance?

Evaluate capability, timing and risk

- What is the potential impact of this initiative?
- How complex are the task(s) envisioned?
- How can we improve what we are already doing?
- What is an alternative way to do what we are doing?
- Why do we need to do what we are doing the way we are doing it, or at all?

Lay out and execute a robust roadmap

- Will we have clear and consistent direction from above?
- Do we have the resources to get the job done effectively?
- How do we define success?
- What are the financial implications to the business?
- How do we keep our stakeholders engaged?
- What obstacles or challenges could we face?
- What mechanisms and controls do we need to stay on track?

Assess ongoing progress and outcomes

- Is the solution aligned with our objectives?
- Do we have a solid track record and the resources to ensure success?
- Have we established the necessary infrastructure and have we built in flexibility to respond to issues that might arise?
- Are the right people in place?
- Does our plan align with our culture and readiness for change?

PRODUCT SAMPLE: BANK COST REDUCTION PROGRAMS (total of 148 pages)

Commercial research relevant to any organisation seeking to choose or embark on a cost reduction strategy

Over the past few years, while profitability has been strong in many markets, banks have focused efforts on low hanging fruit – what we would call, “simple cost reduction”, With the spectre of challenging times and implications of increasing risk mitigation costs, it is becoming clearer that Banks will need to migrate more of their efforts to more impactful, comprehensive initiatives to gain the advantages they seek. In this paper, we have synthesised the global perspectives on the subject of cost reduction programs. We set out to answer the following questions:

- How do Banks think about costs and what are the key levers they have at their disposal?
- What tools do they use to manage costs?
- How do these tools differ for simple, complex and transformational initiatives?
- What are the critical aspects of managing a cost reduction program?
- What should banks and their stakeholders key considerations be in managing a single initiative or a portfolio of cost reduction initiatives?

To purchase this KAR, contact your preferred ICG affiliate or local ICG office.

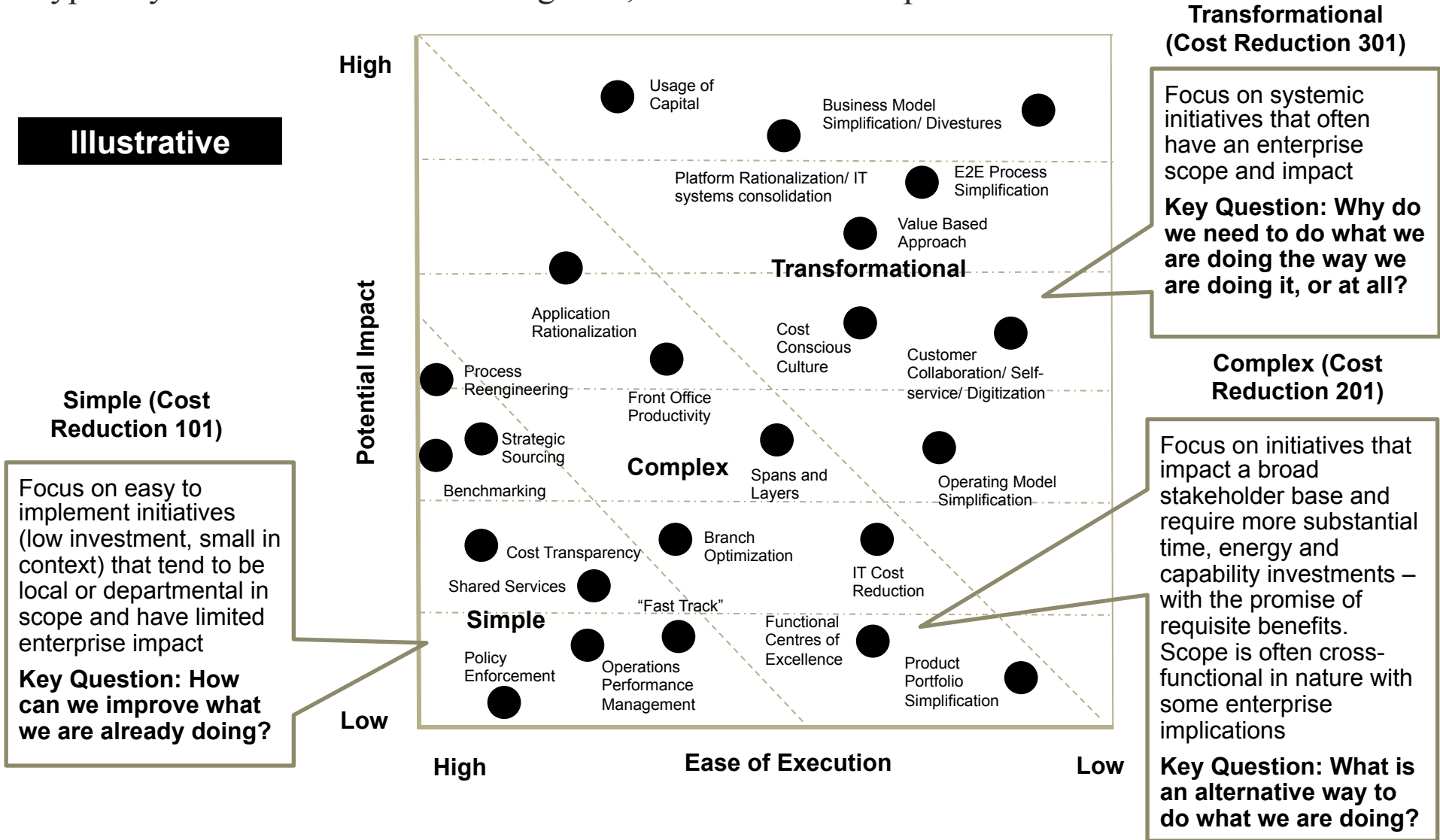
Sustainable Bank Cost Reduction Programs– Table of Contents

Section	Component	Description
1	Executive Summary	Overview of our research and findings
2	Bank Cost Reduction Programs	Overview of the Bank Cost Reduction Programs and how they have evolved
2a	Background and Context: How do Banks think about costs, what are the key levers they have at their disposal?	
2b	Simple Cost Reduction: What tools will generated short term, simple results?	For each different dimension <ul style="list-style-type: none"> • The key thinking from consulting firms, journals and academia as to what constitutes best practice • Examples of this best practice across different firms and industries
2c	Complex Cost Reduction: What tools support more comprehensive cost reduction targets?	
2d	Systemic Cost Reduction: What tools and techniques will enable systemic or transformations in Bank cost structures?	
2e	Project/Investment Management: What are the critical aspects of managing a cost reduction program?	
2f	Governance: What are the key considerations for stakeholders in managing a cost reduction initiative?	
3	Knowledge Sources	Relevant published materials for further reading

Taxonomy of Bank Cost Reduction Programs

Banks will need to choose a course of action and toolset that best suits their current situation – these typically fall into one of three categories, each with several potential characteristics

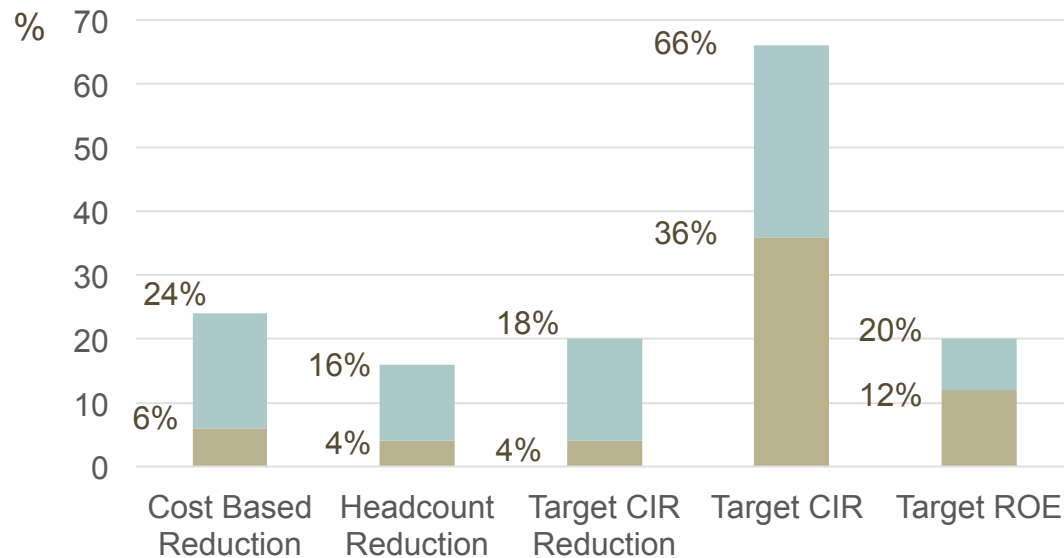
Illustrative



Towards a New Size and Shape

Leading banks across the world are facing a need for the most sweeping change effort that anyone working in them has ever encountered

TRANSFORMATION TARGETS SET BY GLOBAL BANKS



As banks map out their flight paths to adjust to the “new normal”, they are finding that the level of change required is way beyond the tactical responses they have made to past challenges..

KEY POINTS

- This greater scale and impact can be seen in the sheer size and scope of transformation programs now being launched
- One sign of the scale is that the new wave of change is targeting major shifts in the strategy and economic playbook – smaller balance sheet, higher capital, lower volumes, lower income – that will require substantial changes to business models.
- Even more significantly, all areas of banks’ business models are being required to change.
- The impact ranges from investment banking to retail banking, and across all product sets from trade finance to mortgages

Sources of Complexity in Banking

Internal forms of complexity have a bigger impact upon the overall complexity and performance of banks than regulatory influences and other externalities

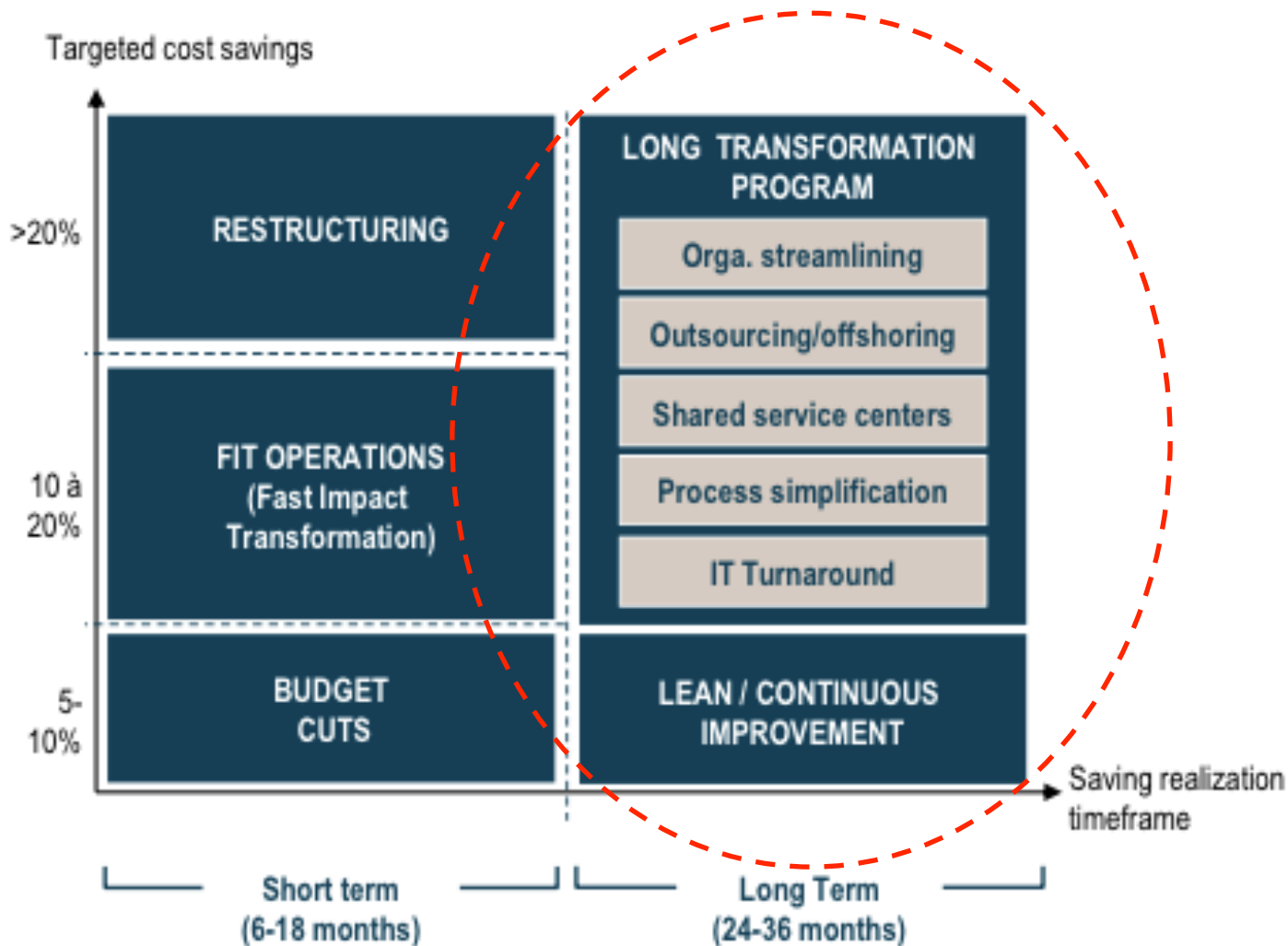
MAJOR SOURCES OF COMPLEXITY IN BANKING

Source of Complexity	Description	Causes	Examples	Degree of impact (rank)
Strategy	<ul style="list-style-type: none"> The choices made about where to focus and how to win in that particular market 	<ul style="list-style-type: none"> Lack of clarity in core strategy being pursued Wide variety of strategic initiatives that senior executives are trying to implement Frequent changes in strategy 	<ul style="list-style-type: none"> Changes in core strategy Operating in multiple markets Number of strategic initiatives pursued 	1
External	<ul style="list-style-type: none"> Complexity driven by competitive, technological, economic and other outside factors 	<ul style="list-style-type: none"> Regulatory oversight Technological change Economic cycle 	<ul style="list-style-type: none"> Number of competitors in market Amount of innovation Pressures of regulatory compliance 	2
Org Design	<ul style="list-style-type: none"> How the business is organized and structured to deploy people and make decisions 	<ul style="list-style-type: none"> Number of layers of management Overall complexity of the organizational structure and decision-making rights 	<ul style="list-style-type: none"> Levels of management Understanding decision-making rights 	3
Process	<ul style="list-style-type: none"> The complexity of the business processes that are in use 	<ul style="list-style-type: none"> Lean is a less effective tool when applied to knowledge-based processes Excessive risk management, or over-complex due diligence and compliance processes consume attention and efforts of management and staff 	<ul style="list-style-type: none"> Annual budgeting process Number of systems Understanding and following process guides 	4
Product	<ul style="list-style-type: none"> Complexity caused by the number of products, their design, and the structure of the portfolio 	<ul style="list-style-type: none"> Changing customer choices and behaviours Evolution of banking technologies and a growing variety of channels 	<ul style="list-style-type: none"> Launching new products Number of channels 	5
People	<ul style="list-style-type: none"> The everyday behaviours of leaders, managers and staff; the corporate culture 	<ul style="list-style-type: none"> Differences in cultural norms across geographies, and organisational business units 	<ul style="list-style-type: none"> International expansion 	6

Current Trending & Evolution

With short term issues a recent focus, Banks are migrating to transformation initiatives

OPERATIONAL EFFICIENCY OFFERING



Recast the Budget – think a little differently

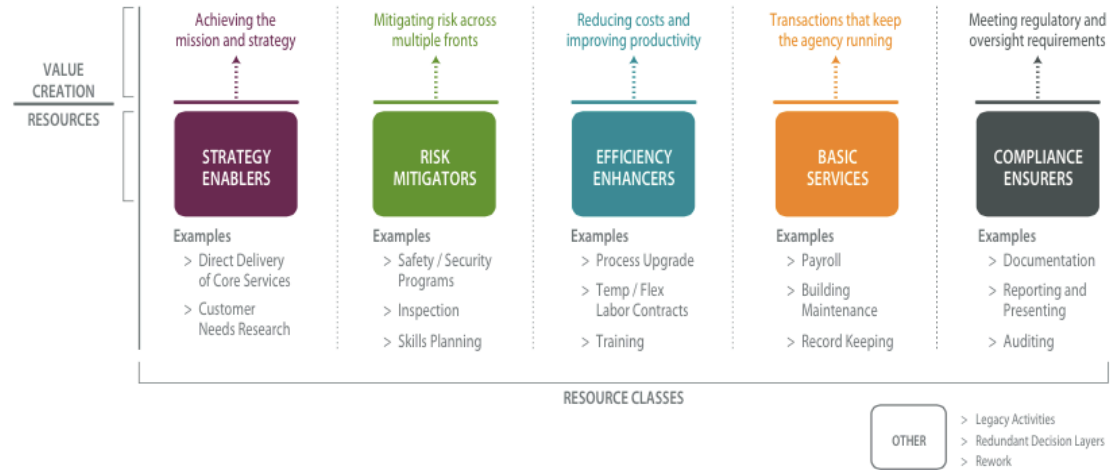
Avoid the traps of the traditional budget cutting process

KEY INSIGHTS

1. Don't analyse by expenditure line (nor indeed activity based costings), but by value created, something Monitor calls resource classes
2. Look for opportunities for collaboration where organisations share the same customer, whether across product silos, SBUs, or entities (in our industry retail wealth and banking is a good example). Similarly, look to collaborate more with the customer, so the customer can take cost out of the system
3. A new form of cost management council armed with the right data and tools and people to make the right decisions

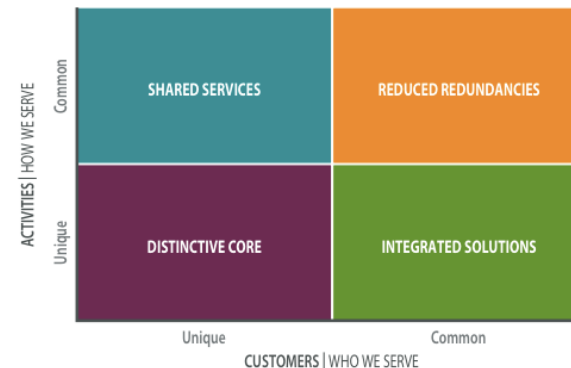
RECASTING THE BUDGET AS A PORTFOLIO OF RESOURCE CLASSES

This method enables agency managers to compare the implications of eliminating one expenditure versus another based on the value each resource dollar creates



OPPORTUNITIES FOR MORE EFFECTIVE COLLABORATION

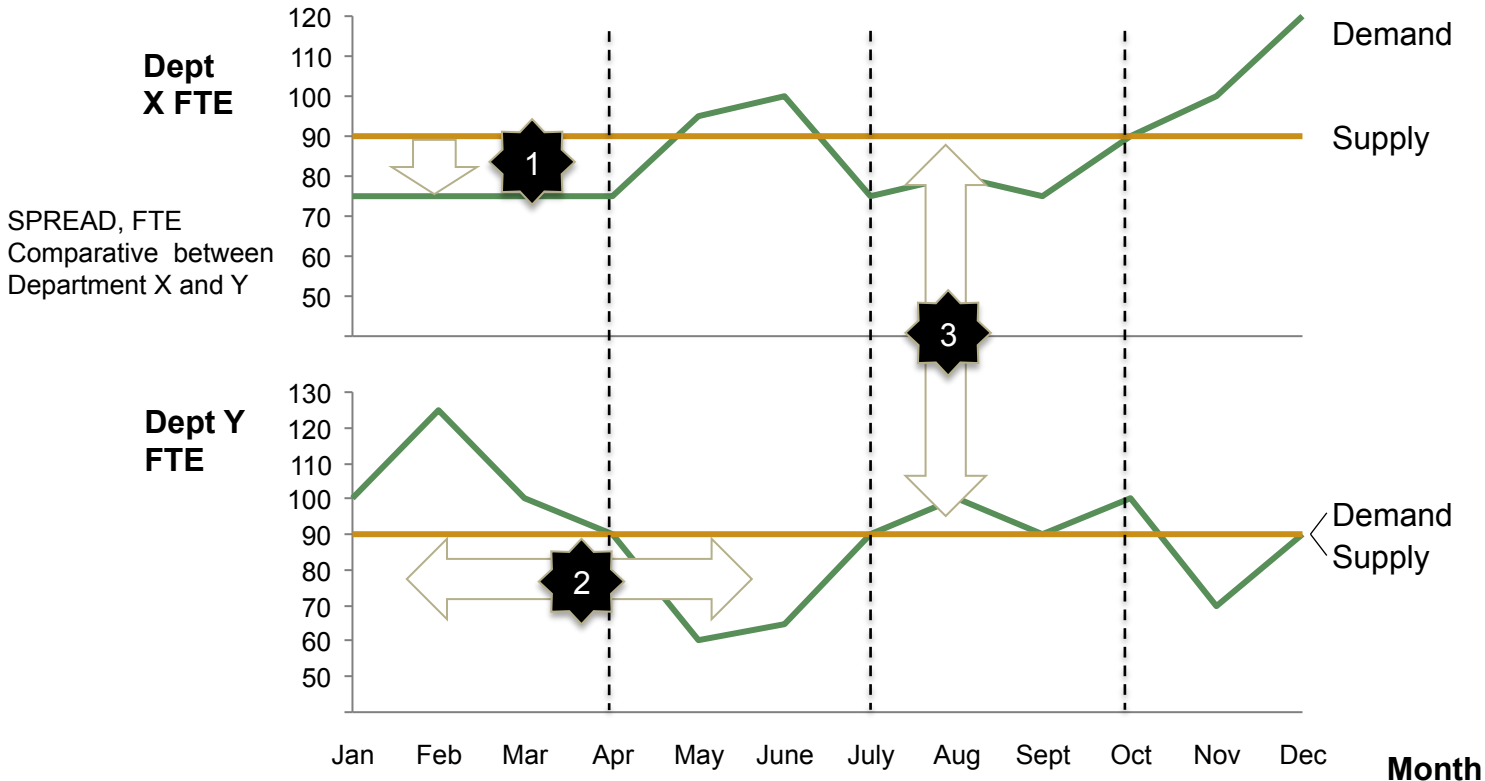
A variety of collaborative opportunities exists for managers willing to look beyond the walls of their own organizations



OPM – pull the required optimization levers

Using three important levers Banks can optimize resource allocation for large sales, service and processing groups, ...

OPTIMIZING SUPPLY (HEADCOUNT) & DEMAND (THE WORK)

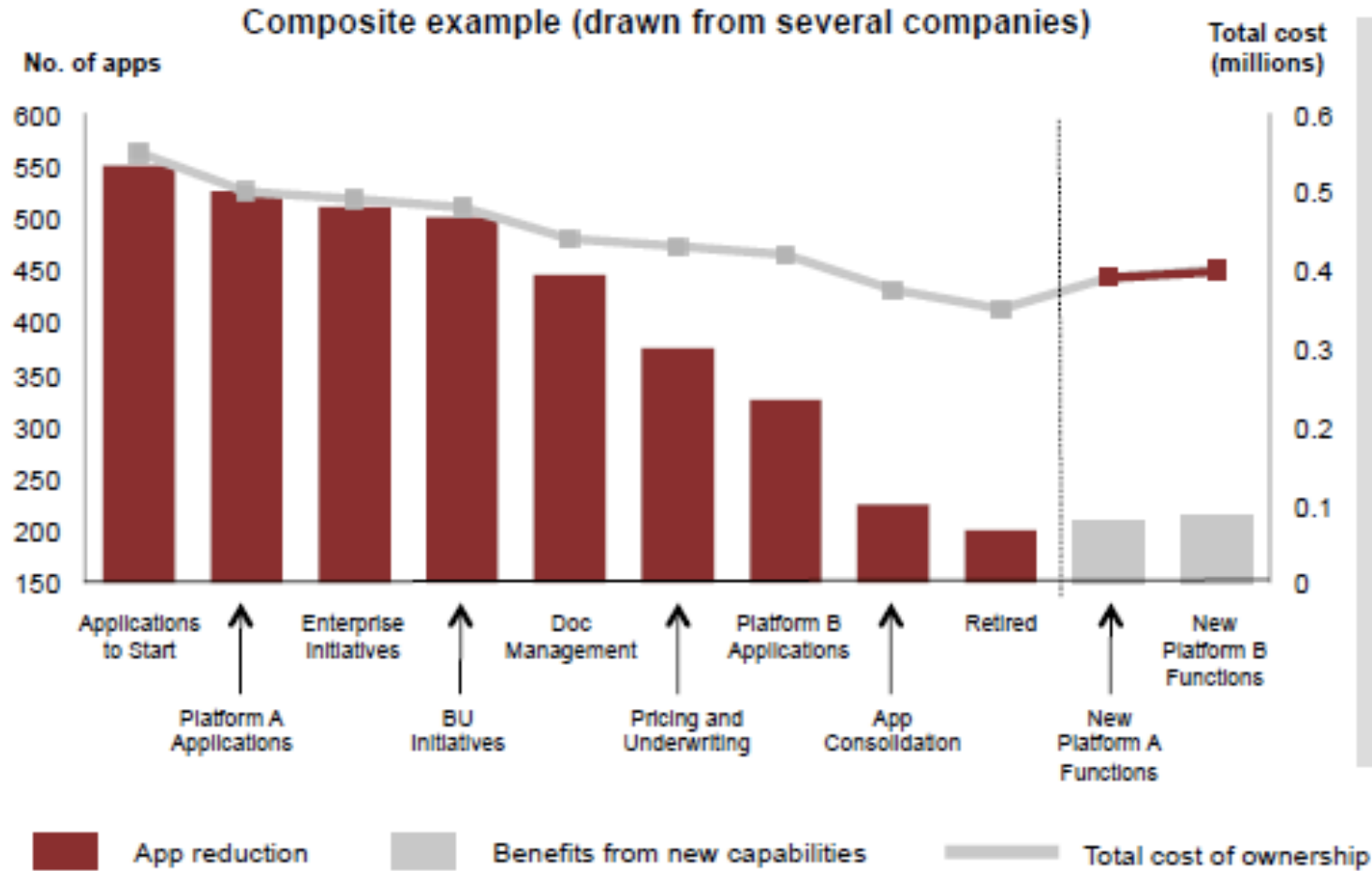


RESOURCE OPTIMIZATION LEVERS

1. Understand the tasks and their volume and component parts
2. Manage the allocation of full time, part time and contract labour to fulfill expected volumes
3. Manage the work flow to allocate work against available resources in high volume cycles, moving to a lower expected volume timeline
4. Manage work allocation by department and/or geography where one team is relatively light in expected volume

Application Rationalization – impact

The combined approach decreases the number of applications, lowers TCO and drives the development of new capabilities



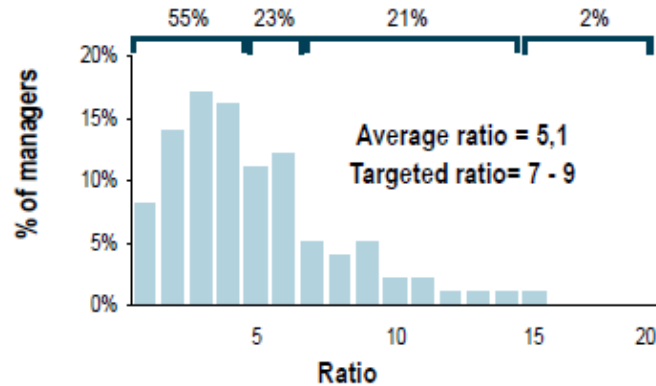
Observations

- The top-down approach enables the identification of the key business capabilities required to achieve strategic priorities, along with the necessary IT support
- The tech projects portfolio is aligned to deliver IT support in a way that better fits the company's strategy
- Plans for the affected applications are incorporated into the rationalization strategy
- The final TCO assessment reflects the savings from rationalizations and the incremental spend for new capabilities

Framework: Spans and Layers

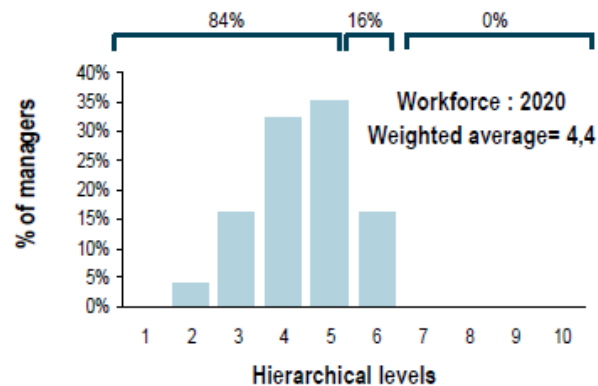
Reduce complexity and improve management leverage by increasing ratio of direct reports per manager

Span of control [# of employees per manager]



Implication: 20%+ potential reduction in # of managers

Width of hierarchy [# of hierarchical level]



Implication: Organization may be simplified and accountabilities improved by removing one hierarchical level

DESCRIPTION

Objectives:

- Reduce complexity and improve management leverage by increasing ratio of direct reports per manager

Approach:

- Assess headcount and levels – number, status, cost per unit and reporting relationship of each individual
- Model organization from top to bottom determine fact base – e.g., number of direct reports, etc
- Review and identify anomalies – e.g., individual contributors, strategic investments (special project, new region)
- Develop and implement structural recommendations

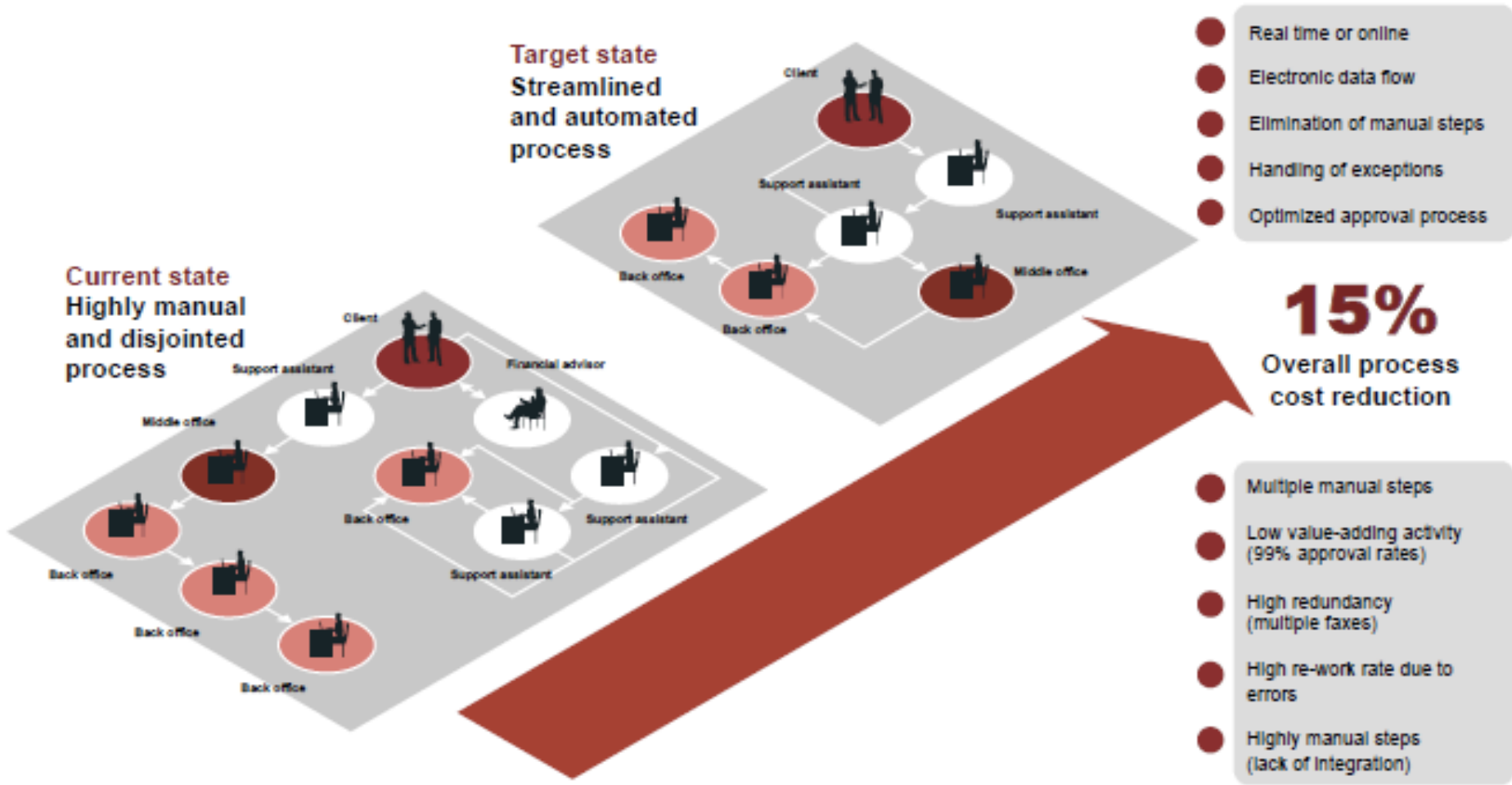
Results:

- Reduced layers and realigned governance
- Improved communication and results

Case Example: Customer Self-Service/ Digitization

Digitizing front-end client interactions and processes can further improve client experience and reduce costs

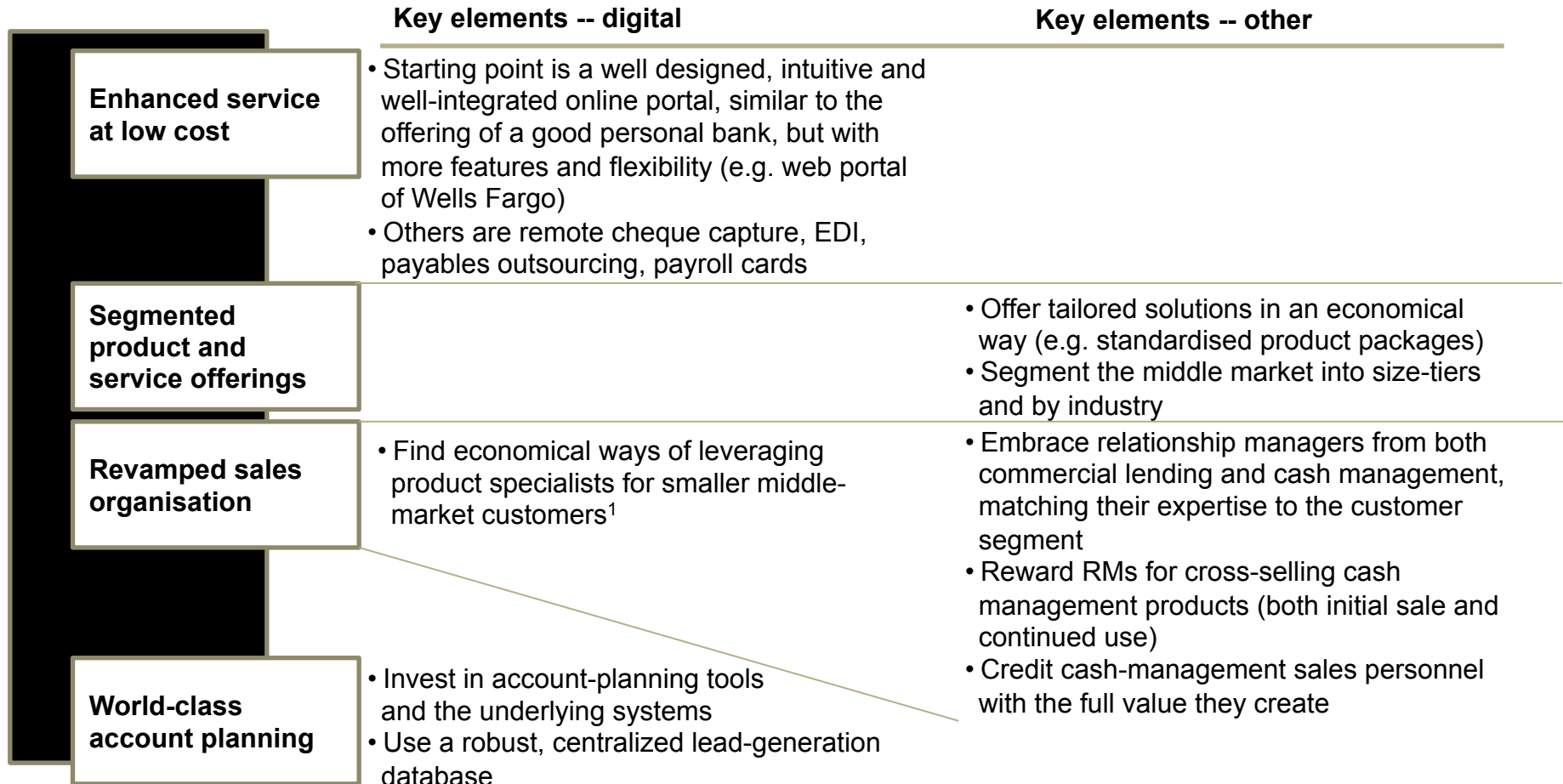
Case Example



Case Example: Four best practices in middle-market banking

Several of the best practices in middle-market banking require the leveraging of digital technologies

Case Example



Three Predominant Operating Model Options

Then, Banks have several options at their disposal when it comes to putting in place operating models involving third parties, each with potential benefits and drawbacks

OPTIONS	BENEFITS	DRAWBACKS	LESSONS LEARNED
<p>1</p> <p>In-House (i.e., no venture)</p>	<ul style="list-style-type: none"> • Full control over the line of business • Benefits are retained in full by the Bank 	<ul style="list-style-type: none"> • Significant investment in technology, managerial skills and other resources borne by Bank • 100% risk retention • Lack of outside perspectives and learning • Diversion of resources from developing core capabilities 	<ul style="list-style-type: none"> • Keep abreast with industry best practices through mechanisms for ongoing monitoring of the market and recruitment of outside human talent
<p>2</p> <p>Utility, Joint Venture or Partnership</p>	<ul style="list-style-type: none"> • Opportunity for significant revenue generation • Lower fixed cost than under own operation; reduced financial risk • Ability to leverage third party core competencies with internal capabilities 	<ul style="list-style-type: none"> • Success dependent on ability to grow scale and attract new participants • Difficulty in aligning participants' investment interests • Partner exit consequences 	<ul style="list-style-type: none"> • Establish common ground rules for working together • Clarify exit provisions in advance • Select one management team capable of resolving cultural conflict • Continually assess whether the JV structure continues to match goals
<p>3</p> <p>Outsource</p>	<ul style="list-style-type: none"> • Ability to focus on core capabilities • Limited fixed cost structure • Low financial risk • Transactional relationship with relatively low switching costs 	<ul style="list-style-type: none"> • Potentially less control over end product or process quality, speed to market or technological innovation • No options for sharing the revenue upside of a utility • Limited access to and transferability of business related knowledge 	<ul style="list-style-type: none"> • Structure contracts to allow more control over performance delivery / service level agreements • Near shore vs offshore – both can have benefits and depend on the stage of development, the complexity of the work, etc.

Source: ICG

PPM Maturity Models

Tracking capability building in any discipline can benefit from quantitative and qualitative benchmarking

KEY INSIGHTS

- Higher maturity yields higher performance
- Maturity is directly correlated with success
- Poor estimation during the planning phase continues to be the largest contributor to project failures
- Most desire a higher maturity level, but require improvement in structure, human resource management, and quality assurance
- Advancements in PM methodologies leading to greater maturity have raised the bar for standards in project maturity
- As maturity levels indicate, businesses focus on maximizing resources, efficiency, and effectiveness through PM
- Effective tools, along with innovation, measure progress, increase value, minimize risks, reduce costs, and promote the on-time delivery of projects
- Leveraging efficient and effective communication methodologies positively affects projects' quality, scope, and business benefits performance levels; however, lower performance levels were noted in meeting schedule and budget objectives

FIVE PROGRESSIVE LEVELS OF THE PPM MATURITY MODEL

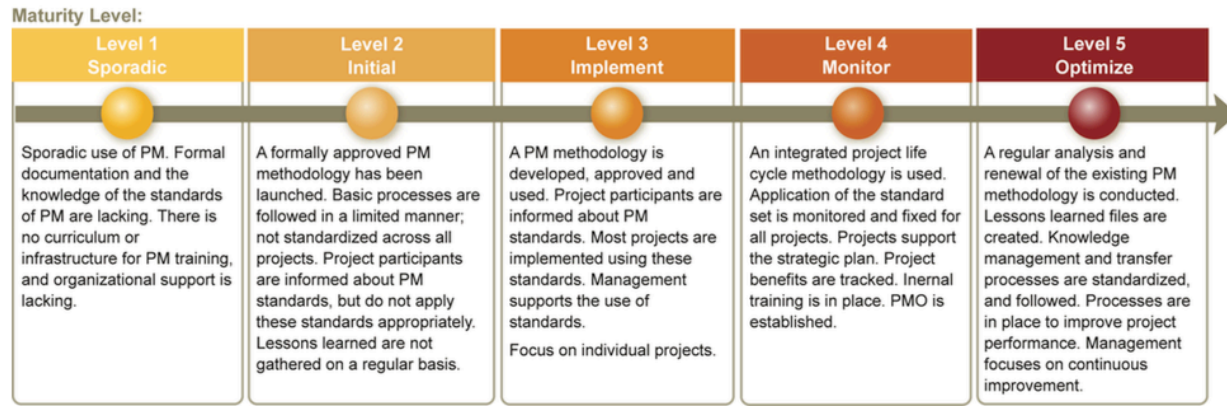


Figure 9: Key Performance Indicators for a Project Implementing the Typical Organisations Approach to PM

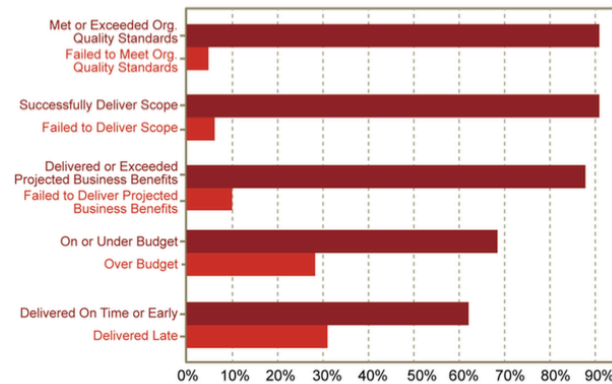
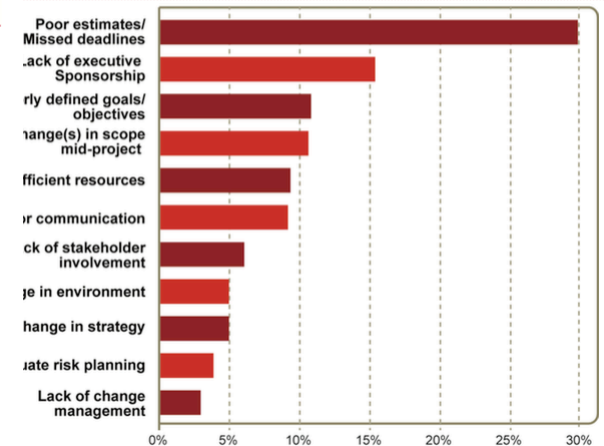


Figure 10: Factors contributing to poor project performance when implementing an organisation's approach to PM



PPM & Governance

How governance and financial discipline can improve portfolio performance

KEY INSIGHTS

- Successful PPM strategy must comprise an end-to-end framework that methodically guides organizations from project selection through execution
- The payoff can be substantial. Companies that excel at PPM typically complete projects on time and under budget while increasing ROI
- Robust PPM is essential, AND
- A rigorous governance model is critical to help enforce accountability, optimize cross-functional alignment, and escalate issues to the appropriate decision makers.
- Well aligned communications, calendars, and strategies across business units
- Unwavering financial discipline and regular reviews of portfolio performance throughout the entire process are necessary to guide informed decisions.

TOP BUSINESS PRESSURES DRIVING A FOCUS ON PORTFOLIO MANAGEMENT

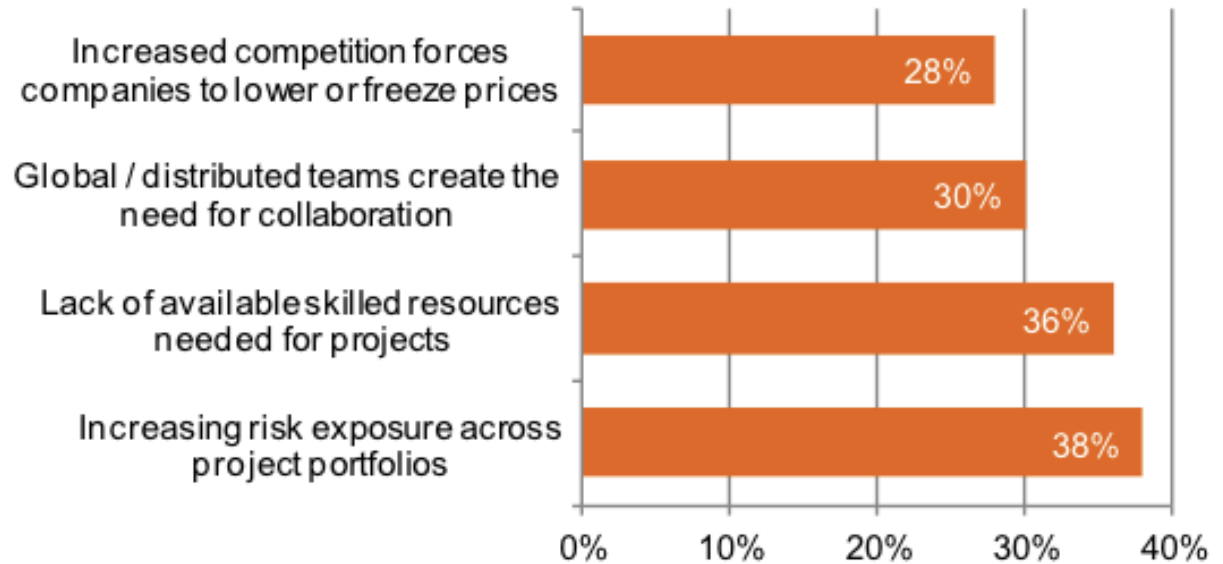


Figure : Top drivers of portfolio management; Aberdeen Research



Internal Consulting Group

Email enquiries@internalconsulting.com or
visit our website at www.internalconsulting.com