WHITE PAPER

Strategies to Reduce Cost Without Sacrificing Service

The Continuing Challenge in Banking

Introduction

Cost cutting in banking has become a way of life. Given the significant costs associated with the financial crisis, regulatory compliance and control, system upgrades and digitializing the customer experience, our clients are finding new ways to slim down their cost base and remain competitive.

But being lean on its own will not lead to success. Banks must also ensure that they stay current and competitive by developing improved products and solutions to meet customers' needs.

In this paper, we explore the following strategies to build efficiency into your model without sacrificing your service offering:

- Simplification and adding value
- Leveraging digital channels
- Maintaining momentum
- Embedding – a must!

"Big banks in Europe and the US announced almost 100,000 new job cuts this year."

***The Financial Times,* December 13, 2015**

Simplify and Add Value

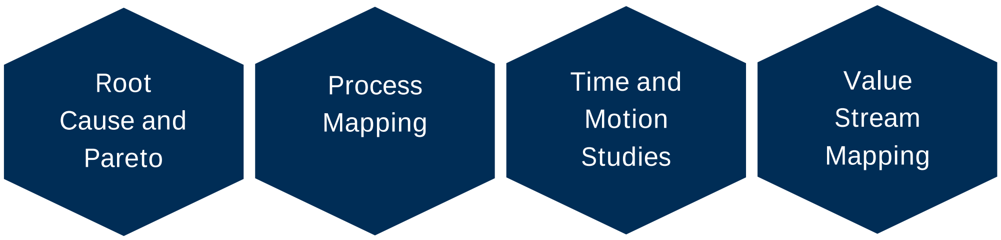
Complexity is the thorn in the side of traditional banks--it disrupts agility, security, risk, trust and cost. Non-bank alternative lenders are creating much simpler models for this reason with limited, but focused, product streams. Their operating models tend to maintain clearer lines of responsibility with a focus on innovation and entrepreneurship. The dreaded red tape, matrix management and multiple layers of governance are still at large in mainstream banks, which creates overcomplexities, barriers to innovation, and cost-to-income ratios that are less competitive as a result.

There are many initiatives that can drive simplification within your organizational model, for example:

- Clarify accountabilities and centralize across functions where there are benefits of scale.
- Remove duplication of tasks, roles and functions and re-engender trust.
- Introduce automation for manual and time-consuming processes; this may mean simplifying process logic, which often is a good thing.
- Optimize organizational spans of control and layers of management.
- Explore outsourcing based on an assessment of risk versus reward.

End-to-end simplification of processes along with the over-arching model, will not only reduce costs but also reduce hand-offs, improve decision times and encourage innovation. These elements add significant value to the customer experience.

The following tools are among several that can be applied to identify process simplification opportunities and can proportionally increase value-added activities over those that don't bring value.



Many efficiency quick wins have likely already been realized given the fact that cost challenges are nothing new. However, our experience suggests that opportunities still remain in many of the following areas across the banking sector:

- Migrate transactions to direct, self-service channels where personal touch has lower perceived value. These can be identified by understanding where customers are seeking to complete the tasks on their own.
- Eliminate low-value discretionary projects that don't align directly with corporate strategy.
- Employ front-end user solutions to simplify back-end legacy technology.
- Fully understand the cost-to-income ratio and close down products, services and channels that have low or no profit margin.

Furthermore, many banks have found that by simply eliminating some unnecessary costs, they can transfer budgets to more valuable processes and procedures, such as:

- Reducing facilities and stationary costs (homeworking, light sensors, building upkeep, and printing).
- Implementing more efficient forecasting methodologies and staffing processes by leveraging external relationships to manage high volume capacity needs so internal staffing can run leaner.
- Renegotiating supplier contracts based on ROI, consolidate and simplify vendor relationships, and eliminate non-essential services.

Is Digital the Answer?

Digital is helping to break down barriers to entry, and for those new entrants it is key to maintaining low costs and increasing market share. With new entrants such as Apple and Google competing to improve the user experience, traditional revenue streams are being challenged. The pressure is on for banks to become more progressive.

Nonetheless, while improving digital channels will undoubtedly advance the customer experience, it is less clear whether it offers a cost cutting solution. It most certainly should be considered as part of the answer but not all of it.

Goldman Sachs Chief Executive Lloyd Blankfein identified in an internal memo published by the Wall Street Journal, "The traditional means by which financial services are delivered to consumers and small businesses is being fundamentally re-shaped by advances in technology." With the launch of Goldman's consumer banking, they have made it clear they see an opportunity to take advantage of digital channels with low servicing and maintenance costs.

The other side of the coin is the benefits that digital brings to the customer and the value it can bring to your overall proposition. Anthony Thomson (Founder of the UK's Atom Bank) has said "Our research shows that the most satisfied customers are self-servers who want their banking to be quick, easy and frictionless."

In the digital age, banks can leverage technology to enhance data-led strategies, product tailoring, compliance evidence trails, quicker turnarounds and much more. As such, it represents more than a cost saving initiative.

> *"It is a myth that the take-up of digital drives costs down, it is the externalities of digital that achieve this; digital forces banks to make their processes simpler, reduce the number of rules associated with products and have less exceptions – all drive costs down."*
>
> ***Chris Popple, RBS***

Momentum

Maintaining momentum is hugely difficult when cost cutting challenges have become the norm. It is important that each initiative and the corresponding component parts are well defined, well communicated and well executed, with "Change Champions" put in place at all levels of the organization to help ensure change is embraced.

Five things that should not be forgotten during periods of intense or elongated change are:

1	Create excitement and buy-in for the change
2	Communicate openly and frequently
3	Define accountability and ownership for driving the change
4	Monitor, escalate, make decisions and resolve issues quickly
5	Create champions and incentivize

The risk here is that the overriding vision can get lost and folks become disengaged. The original strategy of most cost-based initiatives is to create greater efficiency and effectiveness for the benefit of the organization and to better serve customers. Yet, over time this can become diluted and too focused on cost cuts to meet arbitrary targets, disengaging both staff and customers along the way.

Embed

When embedding, (or ensuring a change initiative "sticks") you must demonstrate the impact of change. Measuring deliverables against pre-defined success criteria and the baseline is critically important to gain credibility. Groups find success when they continually reward efficiency, effectiveness and cost improvements while encouraging revenue growth and innovation and have the senior team lead by example.

Another way to ensure changes are embedded is by establishing dedicated "Change Champions" to own and sustain the change from idea through execution. This provides dedicated accountability to project completion and ensured sustainability.

For initiatives where the focus is on cost reduction, embedding is particularly important. Too often, efficiencies created can dissipate when teams move onto the next thing without truly realizing the first. Significant efforts toward change are wasted if they are not realized, embedded, and then built upon further.

Conclusion

Cost cutting is here to stay and will not be solved wholly by increasing the use of digital channels. A combination of well-thought out initiatives to increase the simplicity and added value in the organization alongside digital improvements will however, enhance the customer offering as well as reduce operating costs in the long run.

Bridgeforce has decades of industry-wide experience in enhancing operating models and reducing execution risk for our clients. Contact us if you would like to hear more about our experiences or discuss your specific strategies and goals.

Contact Us for More Information

We would be happy to talk freely about our experiences in this area and help you understand where our services would be most valuable.

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About Bridgeforce

Bridgeforce, a specialized multi-national consulting firm, has been solving complex problems for companies involved in consumer and/or small business lending and payments for nearly 15 years.

Over 75 percent of Bridgeforce consultants come directly from client-side leadership positions across multiple parts of the credit lifecycle. Combined with subject matter expertise in operations, technology, strategy and regulatory issues, Bridgeforce brings a deep and practiced understanding of the lending and payment environment to each new client.

With market, regulatory and technological changes continually altering the risk landscape faced by sophisticated lenders, corresponding business changes require hard choices and the courage to make them. Bridgeforce has a strong record of helping clients make these choices by providing best-fit solutions that are achievable and provide meaningful change for each client.

The company operates in several regions with core markets and offices in the US and UK and additional operations in North America, the Euro Zone, and Latin America. The close working relationships between Bridgeforce with the US and European banks gives the company valuable insight into the interconnected regulatory movement and strategic trends across countries.

The Bridgeforce success can be attributed to a culture of collaboration, support and trust fostering innovation, thought leadership and evolving best practices recognized within the industry.

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