Financial Services

A Strategic Approach to Cost Efficiency In the Banking Industry

Boosting profitability amidst new challenges

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Introduction

The financial services industry today is in a state of flux. Following the economic downturn of the last decade, financial authorities across the globe focused primarily on economic recovery. Many traditional players now face the choice of either being disintermediated or proactively disrupting their own business models to thrive in the future.

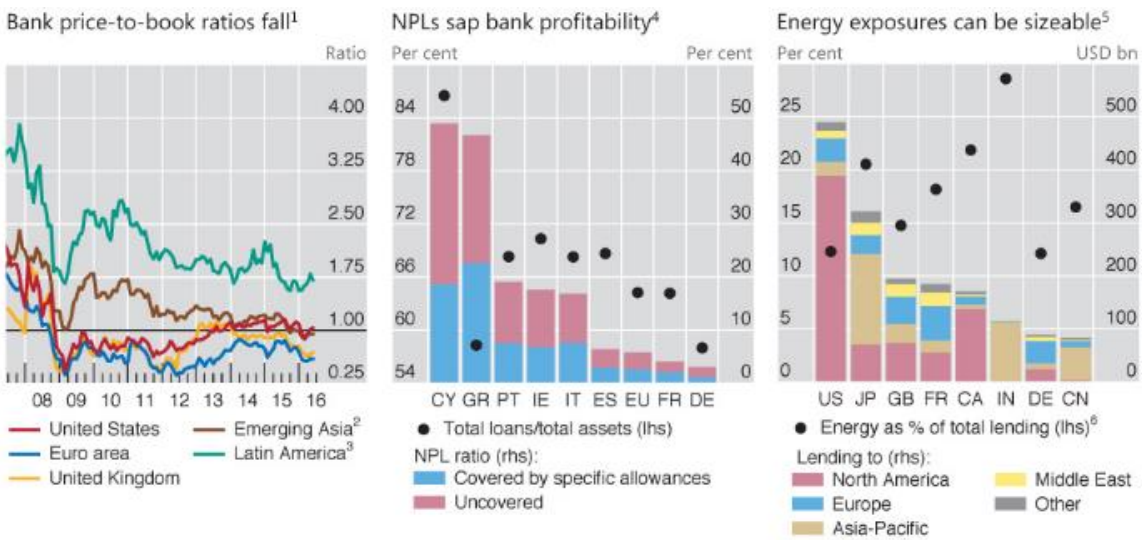
Banks and capital markets firms to their credit are not sitting indolently, but are actively engaged in this new ecosystem of disruption, while still grappling with the challenges presented by evolving regulations in a post-crisis environment. Banks continue to face the challenges of shrinking margins, increasing competition and demanding consumers. With limited avenues for growth, banks across the globe are attempting broad-based cost efficiency measures aimed at boosting profitability. Typically, most banks and financial institutions today are trying to improve cost-effectiveness by optimizing the banking channels and reducing operating and IT expenses. Others are taking traditional routes; resorting to headcount cuts and hiving off businesses to lower costs.

It is important to note, however, that the traditional strategies—headcount reductions, bolstering IT, and others—may not help banks attain cost efficiency in today's environment, nor present the same dramatic impact that they did in years past. Banks also need to ensure that cost reduction is not achieved at the cost of growth. The focus should not just be on cost reduction; banks should instead strive for improving efficiency by eliminating paper, automating more processes, eliminating unnecessary physical infrastructure and promoting straight-through processing, self-service channels, and first time resolution—all with the intention of implementing long-term, sustainable, cost optimization measures.

This white paper discusses the prevailing scenario in the global banking industry in terms of the key components of costs incurred by banks. Subsequent sections chart some of the initiatives that banks need to take to attain cost efficiency, and consequently, improve profitability.

Ongoing Pressure on Profitability and Margins in the Global Banking Industry

A recent research by Bank for International Settlements establishes what has been the prevalent sentiment in the global banking industry-banks across the globe are plagued by shrinking net interest margins and consequently, a rising pressure on profitability. Given the progress made in transitioning to stronger bank balance sheets, ensuring sustained profitability is the key issue in maintaining the sector's resilience today. Empirical evidence suggests that better capitalized banks enjoy lower funding costs and lend more. Yet equity investors remain generally cautious about the outlook for bank profitability, suggesting that the necessary adjustments to business models have so far proceeded unevenly. Price-based indicators highlight that bank equity valuations of many advanced economy banks, in particular, have yet to recover from their collapse during the Great Financial Crisis, with market values below book values in a number of economies. To counter that, some commercial banks do not pass on the negative interest rates to its customers, leading to further shrinking of margins between lending and deposit rates and a reduced propensity to lend. For any financial institution's shareholders, lower net interest margins are highly undesirable and unsustainable as they can adversely affect the bottom-line.



[1] Region-wide total market capitalisation divided by region-wide total book value of common equity. [2] China, Chinese Taipei, Hong Kong SAR, India, Indonesia, Korea, Malaysia, Pakistan, the Philippines, Singapore, Sri Lanka and Thailand. [3] Argentina, Brazil, Chile, Colombia and Mexico. [4] The NPL ratio is calculated as NPLs and advances divided by total gross loans (including advances), as of Q4 2015. [5] Outstanding amounts of syndicated loan commitments (including undrawn facilities) to borrowers in the metals, mining, oil and gas sectors, as of end-May 2016. [6] Share of energy-related commitments as a percentage of total syndicated loan commitments.

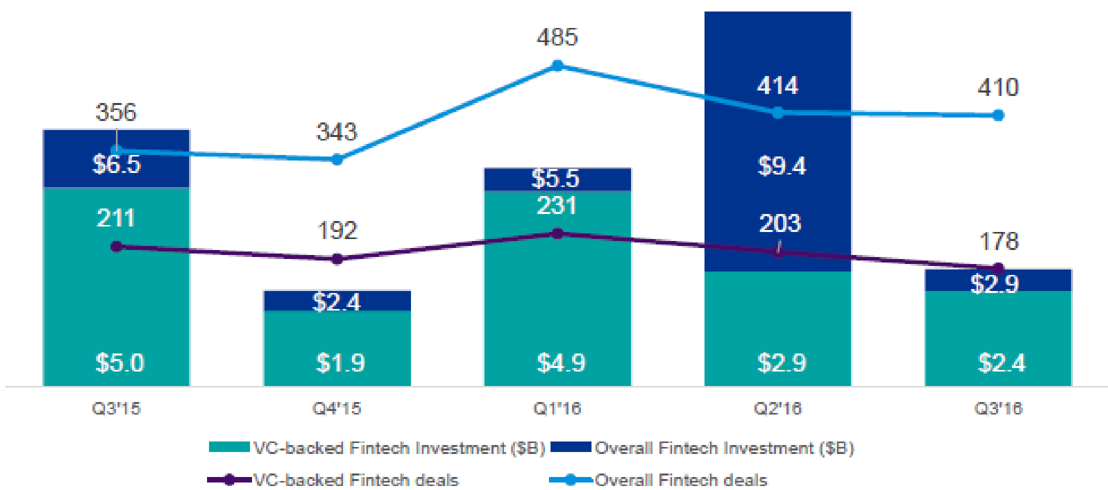
Market Valuations flag concerns about bank profitability and balance sheet risks

Source: Bank for International Settlements

The increasing focus on governance, risk and compliance has also resulted in declining profitability. As regulations become more and more stringent following the economic downturn of the last decade, banks and financial institutions are forced to dedicate more and more resources towards risk management and compliance. In effect, higher capital requirements, slow economic growth, and increasing regulatory demands have put tremendous pressure on the performance of banks.

Traditional banks are under attack from emerging specialist startups - Fintechs

Fintech companies - technology firms that focus on financial products and services—have moved quickly, forcing incumbents to reorganize their core business models and embrace digital innovations. But now, the fintech industry is itself maturing and entering a period of rapid change. Customers increasingly expect to handle their finances on the go, from sending international payments using a phone number to applying for a mortgage via video link. Established financial services companies are investing in these technologies in an effort to attract customers, cut costs and buoy profits. However, they are coming under increasing pressure from a plethora of more nimble start-ups. Digitally focused fintech companies have attracted billions of dollars of investment. Figures from advisory company KPMG show global investment in fintech companies totalled $9.4bn in the second quarter. Startups have the advantage of being free of legacy technology systems and tough regulation, both of which limit the digital developments of established financial services firms.



Quarterly Global Fintech Financing Trend **Source:** The Pulse of Fintech, KPMG

VC-Backed Fintech Companies vs. Overall Fintech Investment, Q3'15 – Q3'16*

As a consequence, start-up companies can more efficiently create mobile-focused services or products that threaten existing financial companies.

Some established companies have drawn inspiration and are creating their own fintech projects. Clydesdale and Yorkshire Bank, for example, recently launched a mobile banking app called 'B'. Similar to the new mobile banks, B aims to help customers manage their money, for example by sending prompts when customers fall into an overdraft. Other traditional companies have devoted funds that invest in external fintech firms. This gives start-ups funding and the status of being associated with an established brand, while having the freedom to breed ideas and designs independently.

How Banks can Improve Profitability

So what do banks do to counter the impact of falling net interest margins and arrest the slide in profitability? In theory, there are two ways in which banks can improve profitability-increase revenue and decrease expenses. However, it not that simple. Although the increases were offset by a corresponding increase in operating and net interest expenses, and the net interest margins, and consequently profitability, continued to slide.

Grow Revenue

We have already established that any increase in interest rates in the current global business environment is very unlikely in the face of competition, regulations, customer expectations etc. With today's banks generating revenue from more speculative sources like trading and capital income, the impact of higher rates is more likely to be negative - interest hikes could potentially make these markets volatile, reducing bank profits further.

Therefore, banks are now exploring other options to generate revenues, such as increasing customer base, diverse product offerings for enhanced fee based incomes and developed ecosystems in which coupons, offers, merchants etc drive revenues. However, all these measures entail significant marketing expenditure, which can further drive up costs.

As a result, with low loan demands and large security portfolios, profitability is unlikely to be driven from outside the bank. That change has to come from within.

Improve Cost Efficiency

Change from within to improve profitability essentially means improved operational efficiency and productivity. With the banking industry facing low margins and hefty compliance investments, banks need to remain vigilant and keep costs well under control. While there are several potential strategies to manage costs, banks need to determine which is the most effective for them.

But even before we try to find ways in which banks can become more cost-efficient, we need to establish that the long-term gains of attaining cost efficiency in banks go beyond a mere increase in profitability. Over the years, banks have grown large and unwieldy, with several financial institutions accelerating their growth through acquisitions without complete and holistic integration of their new products, processes, and systems. The result is that many of the larger banks are complicated, matrix institutions, with broad, diverse services and products that are backed by legacy IT systems. If banks are to ensure that their costs are within optimal boundaries, it is important to identify and act on multiple areas of optimization—among which headcount reductions are but one focal point. Cost efficiency measures need to be part of an overall efficiency strategy, designed to maximize effectiveness and service efficiency, reduce organizational complexity, enhance customer service, and improve customer retention.

An added advantage is that it will allow banks to position themselves better for the wave of consolidation that is expected to hit the industry in coming years.

Avenues for Optimizing Costs in the Banking Sector

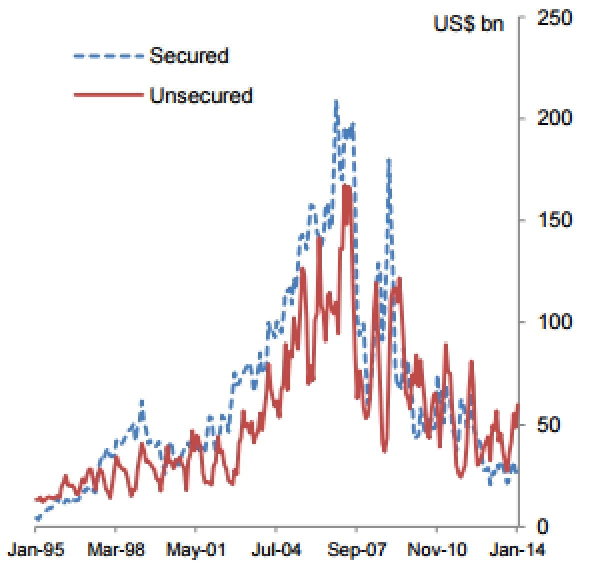
Taking a broad view of cost efficiency requires understanding that all areas of the bank need to come under scrutiny and, for the purposes of optimization, the key areas to address are:

- Cost of funds
- Fund distribution and infrastructure costs
- Staff costs
- Risk Management and Compliance Costs
- Marketing Expenses
- Product Management Costs
- IT operations and maintenance costs

Cost of Funds

Typically, cost of funds is the cost incurred by banks and financial institutions to acquire capital. It has significant impact on a financial institution's profitability since the spread between the cost of funds and the interest they charge from their borrowers governs their profits. Typically, banks globally rely on customer deposits, wholesale secured or unsecured funding and inter-bank lending for funds.

According to an IMF Working Paper on Bank Funding Costs for International Banks, the key factors governing the cost of funds can be either market-led or internal to a bank. Market factors such as investors' risk appetite, which in turn is affected by the state of the global economy, significantly affect the cost of funds. For instance, following the US sub-prime lending crisis in 2007 and the sovereign debt crisis in the Euro Zone in 2011, the cost of funds rose sharply in these regions.



Source: Dealogic and authors' calculations

(a) Issuance of term bank senior secured and unsecured debt. Includes major international banks in the Euro Area, the US, UK and Nordic countries.

Global Banks' Debt Issuance — Source: IMF Paper

However, the trend of increasing cost of funds following the crisis the US was reversed to a great extent for a majority of banks by the end of 2012. This reversal was largely because these banks looked inward, working towards improving the quality of capital and their credit-worthiness. More stringent regulations for capital adequacy also ensured that banks were forced to focus on quality rather than the quantity of assets.

Essentially, over and above the external and market-led developments, banks need to adopt the following measures to ensure that cost efficiency is achieved in funding:

- Increased market capitalization over the long-run
- Higher capital quality
- Better quality of credit
- Resilience to market volatility
- Improved market perception

Fund Distribution and Infrastructure Costs

Distribution and infrastructure costs constitute a significant proportion of the cost base of banks and banks looking to optimize costs need to find ways to optimize their distribution channels. Physical infrastructure and distribution costs, particularly branch costs, need to be managed to minimize the overhead of traditional operating models and allow banks to get more done with less.

Banks are addressing distribution cost structure through self-service and automation. Automation will reduce the time taken to process a back office request and eventually help in simplifying back office operations. Modification in distribution of prioritized undertakings will evolve, which would help banking staff to prioritize tasks as per business severity and cascade it to the back office as and when required. An increased number of exception cases will be curbed since the manual errors will be minimized.

Staffing Costs

Often, faced by a bleak economic outlook, organizations adopt a knee-jerk reaction aimed at short-term cost-cutting. This could involve pruning the workforce, hiving off businesses, cutting down employee benefits etc. However, these measures can end up being counter-productive once the organization recovers from the downturn, since these very measures can impede economic growth. Hence, the response to diminishing profits should not be ad hoc and reactive, instead is should be proactive organization-wide attempt at improving cost efficiency.

IT Operations and Maintenance Costs

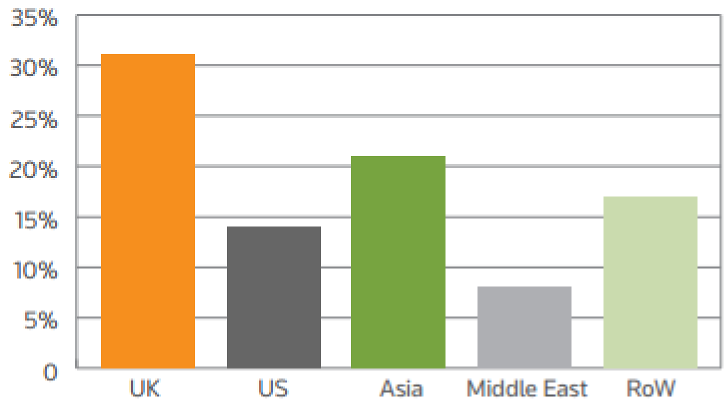
A key cost component in the banking and financial services industry is IT expenditure. Worldwide IT spending is forecast to be flat in 2016, totaling $3.41 trillion, according to Gartner, Inc. This is up from last quarter's forecast of negative 0.5 percent growth. The change in the forecast is mainly due to currency fluctuations. For instance, working with a technology firm is fundamentally different than what banks do today with traditional outsourced service providers. However, firms that have decided to invest in their in-house infrastructure and talent will look to maximize their value by sharing and monetizing these resources with others in the ecosystem, akin to the many examples we see today in the sharing economy. Hence, optimizing IT expenditure can help banks manage costs and consequently improve profitability.

Marketing Expenses

Today, driven by evolving customer expectations, banks are tailoring their product and service offerings to suit individual customer needs. With increasing competition from within and from non-banking players, banks need to provide multiple value-added services to clients with targeted marketing campaigns based on rich CRM data. Such initiatives will increase high quality leads and the conversion of prospects into new customers. Banks will increasingly need to offer different brands delivering unique value to attract different customer sub-segments. All these initiatives entail significant expenses on market research, brand management, marketing campaigns etc. With online and mobile banking gaining traction, banks now have the option to apply predictive analytics for focused marketing efforts. Efficient data analytics and the optimum use of social media to build the bank’s brand can be cost-effective measures that banks can adopt to optimize marketing expenses.

Risk Management and Compliance Costs

Regulatory compliance remains an area that banks need to maintain constant focus on, particularly in light of how stringent the requirements have become. In an average week, compliance teams spending more than 10 hours tracking and analyzing regulatory developments (by region) -



Analyzing regulatory developments (by region) Source: Thomson Reuters Study

Compliance budgets are on the rise, with as much as 67% of banks expecting their budgets to increase to cater to regulatory pressure. 40% of banks have their compliance officers spending half a working day on updating policies and procedures to cater to regulation and compliance changes. The compliance officers also spend upwards of 15% of their day—ranging from 15 to 35% across UK, US, Asia, and the Middle East—simply tracking and monitoring regulatory developments.[1]

Banks are also increasingly investing on compliance initiatives, and working towards ensuring that they strike an effective balance between ensuring compliance and driving growth initiatives. This is also just the beginning. Simply handling capital regulation is expected to generate 70,000 full-time finance jobs in Europe in the next 2 years.[2]

With regulatory demands increasing the cost of capital in banks, banks need to balance compliance and growth.

[1] COST OF COMPLIANCE SURVEY, SUSANNAH HAMMOND AND JANE WALSHE, THOMSON REUTERS
[2] BANKS RUSH TO BOLSTER COMPLIANCE, NICK PATIENCE, BANKING TECHNOLOGY

Product Management Costs

Aggressive expansion strategies over the years have left banks with a tremendous range of products, spread across a number of business lines. With management focused on driving all business lines to market, focus has increasingly drifted away from what was once the core business and primary revenue source of the bank. If banks need to drive greater business success, along with optimizing channels for service delivery, they need to reconsider the products that they deliver to their customers as well.

The need of the hour appears to be a clearly rationalized product portfolio, which includes standard components and reusable features, as well as a clear understanding of the profitability of each product in the portfolio.

For several banks, years of mergers, acquisitions, and add-ons to product lines have resulted in a massive, highly diversified product portfolio. These portfolios present banks with a slew of problems. First, they are both complicated and expensive to manage, sell, and service. Second, the proliferation of products, distributed under multiple brands, does little more than confuse customers. Third, product variations are often so slight, that they represent little real choice for customers—which negates the original intention of diversification itself.

Although customers want a variety of banking products and services, an overly complicated portfolio can eat away at a bank's profits. In the front office, more products results in staff having to spend longer on customer interactions and process a greater variety of transactions—each with its own complexities, ranging from cash payments, deposits, and selling investment funds, to saving plans and more. Not only does the complexity present a potential point of frustration for customers, but also it also dramatically increases the front office's time-to-serve, reducing overall sales efforts and efficiency.

For the back office, a broader product base requires that staff maintain the entire portfolio for an indefinite period, to address potential customer queries about legacy products and historical transactions. IT is also directly impacted because of the legacy systems required to host data on legacy products.

Banks are similar to other industries that offer periodic product rollouts, but differ in that legacy products are not systematically phased out over time. This, in part, is also responsible for the increased complexity of product offerings—it is not uncommon for banks to have over 500 products in their portfolio, of which two-thirds may not generate new sales or revenue.

Lost sales due to time spent by front office on back office functions can be mitigated easily if the bank management performs rigorous quality checks on this recurring problem. Implementation of universal and historic cost reduction strategies tend to focus on back office or enterprise layers. Hence, transforming the back office first would be a wise strategy to assert further possibilities in revamping the front office operations.

More critical tasks will be transferred to the back office and it will progressively become a secondary line of adept support to front office.

How Banks can Achieve Optimum Cost Efficiency

In the previous section, we discussed the key constituents of costs incurred by banks and tried to arrive at the approach banks need to adopt to optimize these costs. In this section, we will discuss how banks can execute these steps towards attaining cost efficiency.

Transform Business Processes

Banks must recognize that digital transformation is not a "mobile-only" initiative, but that it affects the entire enterprise. Digital Experience represents a fundamental shift in capability, and the shift needs to transpire in these five areas of the institution.

Source: IDC 2016

Business Process Reengineering can be defined as an organization-wide transformation of business processes, technology and management systems to align with the organization's short-term goals and long-term vision. In the banking industry, a key component of business process reengineering is transformation of IT systems, driven by advances in technology and evolution of customer expectations. Process reengineering to cut costs is a somewhat myopic approach and can lead to ad hoc piecemeal changes, which can end up becoming counter-productive in the long run. Banks must now think in new and innovative ways, or risk becoming a mere back-office utility. Indeed, ac to Accenture study, by 2020, different business models could impact up to 80 percent of existing banking revenues. [3] Hence, every process transformation initiative should be focused towards delivering incremental value to the customer. Improved productivity and effective utilization of resources allows banks to focus their efforts towards product and process innovations, which, in turn, can further enhance productivity and efficiency. If banks can identify processes that are outdated, they need to be eliminated or replaced with more efficient, customer-oriented frameworks. Cracking down on high-cost areas and implementing reduction strategies can allow banks to reallocate their resources into projects and initiatives that yield better ROI than current activities and potentially recapture a dwindling customer base.

A key factor governing the successful future of banking is scale. Scale allows banks to reduce concentration risk and lower dependency on a specific customer segment, geography, or product. Spreading out can also result in lower funding costs, reduced unit costs, reduced regulatory pressure and, naturally, offer access to a broader base of customers.

In spite of the high costs and complexities associated with a business process transformation project in a bank, the industry abounds with instances of successful transformation initiatives. For example, in 2013, Banca Transilvania, a

[3] ACCENTURE STUDY,2016

leading Romanian bank, embarked on a broad-based business initiative to modernize and expand its operations. The result of the enterprise-wide transformation was an enhanced capability to cater to an expanding customer base and handle growing loans and deposits with improving profitability. The bank migrated from its legacy core banking system, implemented additional solutions and modernized CRM applications, running them on pre-integrated engineered systems, which support high performance and easy infrastructure management. The project enabled the bank to improve customer experience, optimize costs, increase automation and simplify processes, resulting in improved profitability.

Right-staff and Right-source

To manage staffing costs, banks need to adopt available tools and methodologies that can help them measure and manage staff performance, evaluate training needs and encourage cross-selling and up-selling. A lean organization is more likely to allow its staff to concentrate on enhancing the customer experience by offering tailored investment advice, addressing potential queries and concerns proactively and essentially offering customers a personalized experience.

Going forward, banks' desires to expand into new geographies, enhance product capabilities, and derive more opportunities to reduce cost are likely to drive strategic acquisitions as well as outsourcing. Smaller institutions in particular, and especially those proven to be at the forefront of disruptive innovation—as well as those potentially catching up with the market leaders in financial technology—can be potential partners for large and established banks looking to establish a foothold in unexplored geographies and niche segments such as Islamic banking and wealth management. Banks should develop a clear, reliable, and sustainable brand strategy that is impervious to transitory shifts in consumer perceptions.

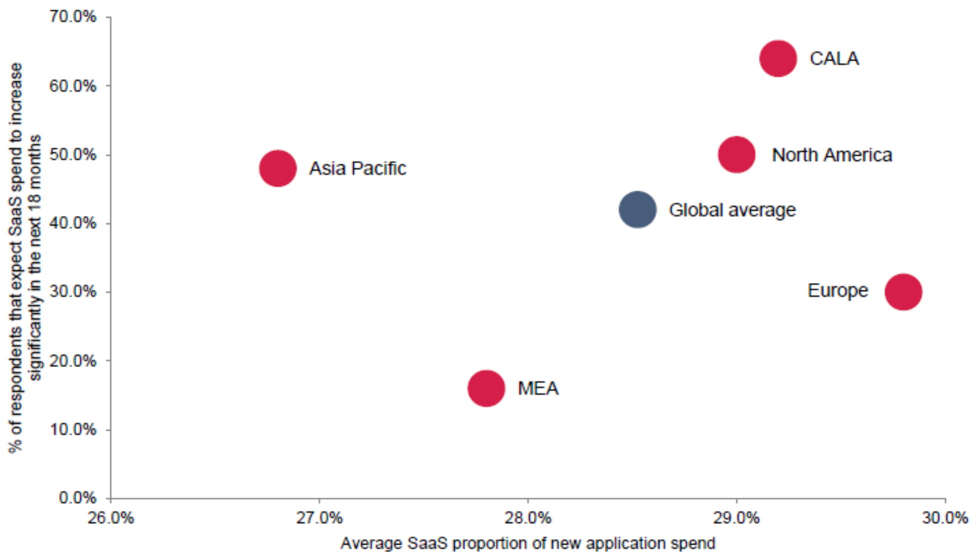
Evaluate Alternate Operating and Delivery Models

Global shared services, built atop global enterprise architecture, can go a long way towards simplifying the IT operating model, via greater proliferation of open systems, common applications, and simplified application architecture. For achieving greater efficiency, banks can also evaluate repatriation of core activities from regional or global shared services to domestic jurisdictions.

New operating models need to be flexible enough to function successfully in this new environment. Banks therefore need to consider componentized operating models supported by flexible and configurable architectures. Each component should be able to operate independently or at least only loosely connected to other components and industry hubs.

Fintech companies are using digital technologies to disrupt parts of the industry and basis for their success is their ability to follow customer behavior very strongly and isolate places in the value chain where they can plug into the growing digital ecosystems. Few fintech-based banks like Berlin-based solarisBank , use cloud computing to reduce operating costs, data analytics to personalize offerings, deploys mobile channels to reach its customers, and offers open APIs to other fintech companies to plug into their back-office infrastructures.

Cloud Deployment is going to be the Next Big Area of Investment with Europe seeing the highest penetration of SaaS as a share of new spending after North America. In response to high costs and regulatory priorities, banks are turning to the cloud to redefine the relationship between IT departments, and financial institution business units.



Source: Ovum Research

Cloud computing enables banks to efficiently use their IT resources and maximize returns on investment through cost savings, enhanced customer satisfaction, newer and faster product bundling etc. Banks may choose to outsource all or part of their hardware architecture, software applications & other systems and platforms. In short, cloud computing is an enabler for the next wave of bank transformation projects.

Cloud offers banks the flexibility to have minimal capital investment, variable pricing options such as pay per use for the customer, quick product deployment and lower operating costs.

Rationalize Product Portfolio

A key focus area for product portfolio simplification lies in the adoption of a customer-centric strategy. First, banks need to evaluate how many of their products and which ones in particular are important to maintaining their current customer base. Second, using the same assessment system, banks also need to determine which of their products will help expand on that customer base.

Rationalizing the product portfolio in this manner, sorted by kind of complexity and level of complexity, will allow banks to drive simplification initiatives more effectively and develop truly differentiated products that deliver actual value to customers.

Driving costs efficiency through stronger and more focused product management demands that banks analyze products from the perspective of customers, revenue, and costs to determine which products represent clear differentiators and which are simply legacy products that are part of the system. The strategic importance and regulatory obligation of each product will then allow the bank to determine if the product can be removed from the portfolio.

Optimize Banking Channels

Aggressive reconfiguration or realignment of bank branch networks could have a dramatic impact on costs. Automation of core banking services and the effective application of existing technology could potentially be a quicker way to better margins. An increase in online account and loan origination, coupled with incentives to use mobile and online banking as opposed to branches and call centers, as well as branch automation for better efficiency can go a long way towards helping banks cut costs of fund distribution.

Banking staff working in bank branches should not be spending their time cashing cheques for customers. Instead, banks should find ways to shift the burden of routine transactional tasks away from branch staff and into lower-cost channels, such as call centers and the internet.

With mobile gradually becoming the preferred banking channel the world over, banks need to ensure that they enable a device and operating system-agnostic banking experience to their customers. Banks need to recognize that what were once two separate forms of reaching customers—mobile and online—have now converged, with customers expecting to be able to use the medium they prefer as an entry point into a process and have a seamless experience irrespective of the medium that they choose.

Convergence for banks means that they need to be present intelligently on devices, offer converged channels, revisit ageing infrastructure that is incapable of or inefficient at supporting the convergence, and refocus their attention on legacy processes and procedures that are a hindrance to capitalizing on this growth.

Embracing convergence also has a number of benefits for banks. First, it enables cross selling by improving the customer experience. Second, banks can drive cost-effectiveness much more easily, by influencing the channels that customers use. Making the most of lower cost, self-service channels for lower value transactions can allow branches to handle higher value traffic, turning the branches into a more powerful medium for channeling revenue to the bank.

Automate, Consolidate and Simplify Processes

Many large and diversified global banks are known for fragmented back office architectures, using different systems to support legacy products, and having multiple teams perform identical tasks on different sites. To optimize costs in the back office, banks need to consolidate, simplify, and automate core processes, both within a single region and across multiple geographies.

An added advantage of refocusing attention on IT and operations is that cost efficiency initiatives, such as increased automation, can translate into better customer service, as well as offer a direct revenue impact. Increased use of data and analytics engines can also have a similar, double impact, delivering richer insights into banks' customers and their business, offering the opportunity to develop more customer-centric products and services, and driving more targeted business outcomes with potentially greater likelihood of profit generation.

Simplification across the value chain offers the greatest possibility of better profitability for banks, and institutions with clear business models, greater focus on their differentiators, more streamlined product portfolios, and simpler, more transparent processes and systems, will be much better poised than the competition for success.

In this current financial scenario, banks will not only have to worry about classic performance measures such as Return on Equity (ROE) and Earnings per Share (EPS). They will also have to focus on regulator driven measurements, such as delivering minimum capital and liquidity ratios and complying with new resolvability requirements. Banks adapting quickly to these changes will emerge as winners in the marketplace.

Treat Regulations and Compliance as Enablers of Business

While banks are investing a tremendous amount of resources into ensuring regulatory compliance, investments in compliance need not necessarily be separate from innovation and growth initiatives. Banks should be viewing the new regulations as an impetus to develop sophisticated approaches to steering financial resources. Moving beyond compliance and towards, perhaps, greater transparency and forecasting could result in a significantly higher ROI from regulation-oriented investments.

With regulation resulting in technology upgrades and increased pressure on functionality, such as calculations and reporting, as well as the underlying infrastructure, particularly storage and computing capacity, banks have the chance to leverage upgrades to drive transformational and growth efforts.

Clearly, improved transparency and greater insight is one of the goals of regulatory reforms. However, banks can do more with the technology they build if they seek to achieve an even greater degree of transparency and clarity. Achieving transparency, for example, can allow banks to deploy highly automated systems that consolidate data in data warehouses. It can also facilitate the implementation of an integrated reporting architecture, and support a move towards greater organizational and technological flexibility, allowing banks to respond faster and more effectively to issues.

Finally, the demands that regulation places on forecasting can allow banks to be more prepared and more agile. Banks can develop scenarios to understand the role of specific events in key regulatory and economic figures. These scenarios can be integrated by IT into models, and reporting capabilities extended further to provide forecast analysis, allowing the business side of a bank to steer resources and manage risk by developing and running scenarios as needed.

Overall, compliance with regulatory requirements, if exercised correctly, has the capacity to make banks better prepared and more agile.

Conclusion

In a changing market banks have to find the bright spots for them to be involved and look into how to work with their existing strengths. The fast-track growth path demands significantly more than just a focus on products and markets .In addition to identifying and evaluating opportunities for new and/or expanded market and product opportunities, banks also need to transform legacy business models and institutional capabilities to align themselves more closely to the realities and pressures of today's banking environment.

Banks need to treat the challenges they are facing in terms of rising costs, shrinking margins, increasing competition and stringent regulations as drivers, and not impediments to their growth. However, growth without profitability is not sustainable for any commercial establishment. To remain sustainable, competitive and profitable, banks need to manage costs efficiently. Cost management, though, does not necessarily mean cost control and cost reduction. Short-term cost reduction exercises may result in quick benefits. However, such an approach may not be sustainable in the long-term and could result in the bank losing its competitive edge. A comprehensive and detailed cost-benefit analysis of processes, products, people and infrastructure can help banks strategically plan an approach to efficiently manage costs and improve profitability.

We have, through this paper, tried to differentiate ad hoc cost-cutting approaches from a strategic, long-term cost management approach that will, in the long-term, help banks become lean, agile, innovative, customer-centric enterprises.

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A Strategic Approach to Cost Efficiency in the Banking Industry

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