

**Deloitte.**

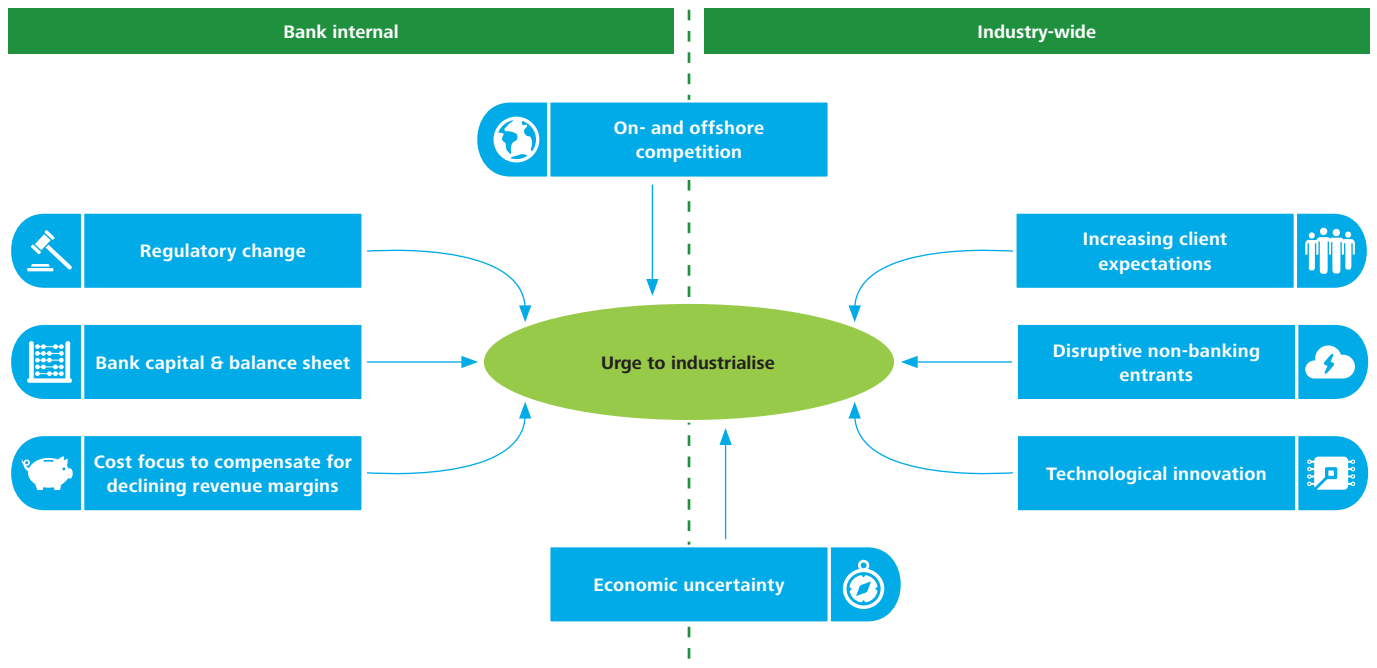
Industrialisation re-configured  
Redesigning the Swiss  
Banking Industry

Audit. Tax. Consulting. Financial Advisory.



# Internal and external drivers are challenging bank operating models

Whilst banks were facing cost pressure to achieve superior return on equity even before the financial crisis, the recent years have increased the urge for banks to review their business and operating models. Bank internal, as well as industry-wide, drivers are contributing to the need for considering a redesign of the banking value chains.



Swiss banks in particular need to deal with the greater willingness of (potential) offshore clients to choose an onshore bank for conducting business, as well as the requirement for local branches or subsidiaries in certain countries in the EU due to MiFID II.

Banks are facing a plentitude of regulatory developments, which require the introduction of new controls or new processes to ensure compliance, as well as structural adjustments to the legal entity design, e.g., to address 'Too Big To Fail' concerns.

Changing social behaviour led by social media innovation, increased price awareness due to market transparency, 24/7-360° availability of any channel, and expectations towards enhanced user experience increase the pressure on banks to meet client demand for products and services.

In order to meet increased qualitative and quantitative capital requirements, banks need to choose whether certain business lines require restructuring or need to be exited.

Non-banking players (e.g., Google, Apple, Nutmeg, Wealthfront) have the global reach and/or the technological advantages to proliferate new services via alternative channels, threatening traditional banking businesses (e.g., payments, social investing).

Declining revenues due to clients' reduced risk appetites need to be compensated by cost savings in order to achieve return on equity levels above the cost of capital.

Technological innovation (e.g. robo advisor, integrated budget controls, contactless payment systems (NFC), big data or advanced analytics) require banks to quickly adopt new features, either by developing them from within or by partnering with technology providers.

The current market environment with record-low interest rates, modest economic growth and an uncertain outlook diminishes the banks' ability to generate acceptable margins.

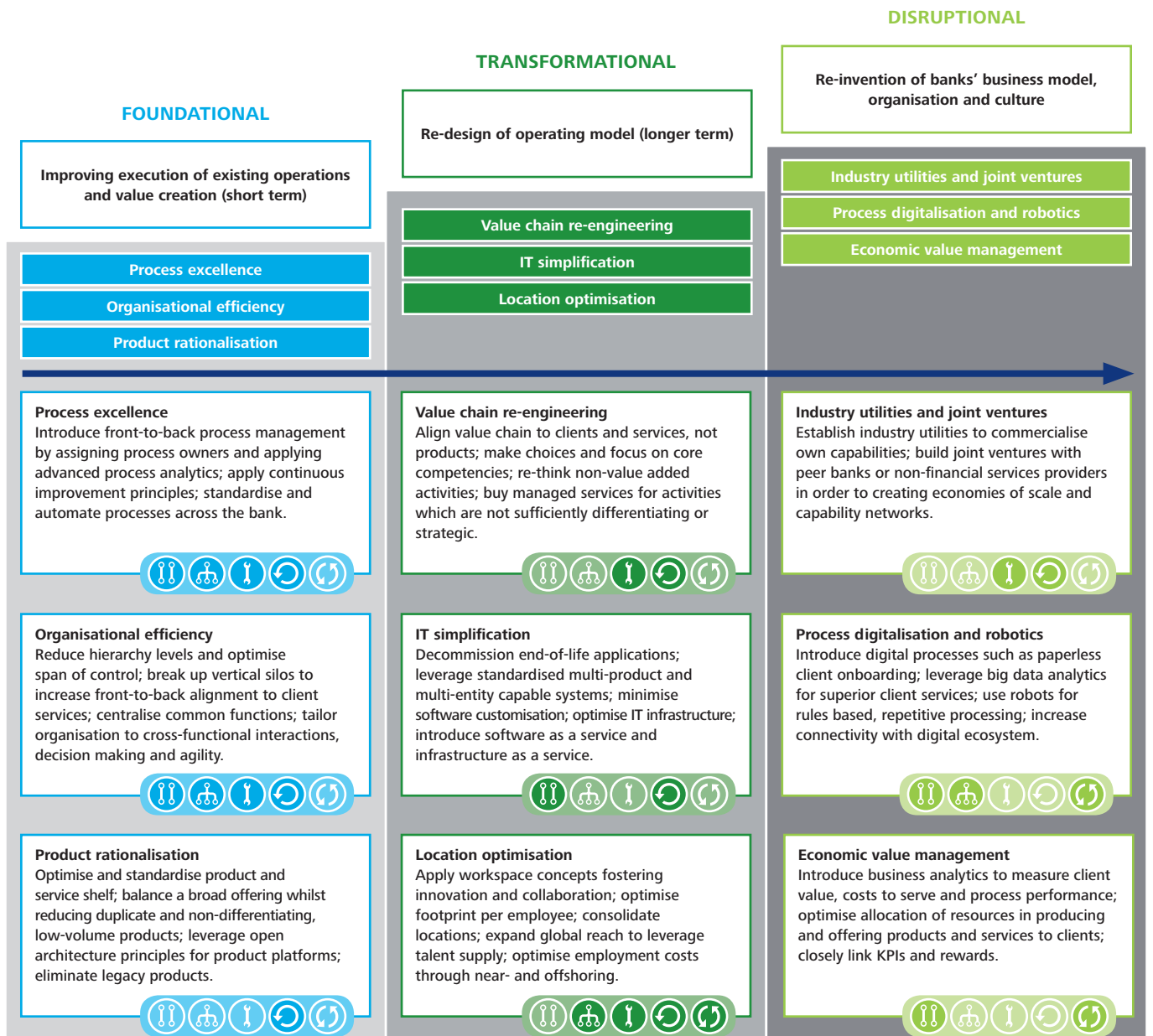
# How industrialisation can help banks overcome head-winds in the current environment

Although not a new concept, the driving factors described on the left bring industrialisation back on banks' priority agendas. Derived from industrialisation in other industries, industrialisation in banking can be characterised by five principles aimed at increasing productivity, economies of scales and reduced error rates.



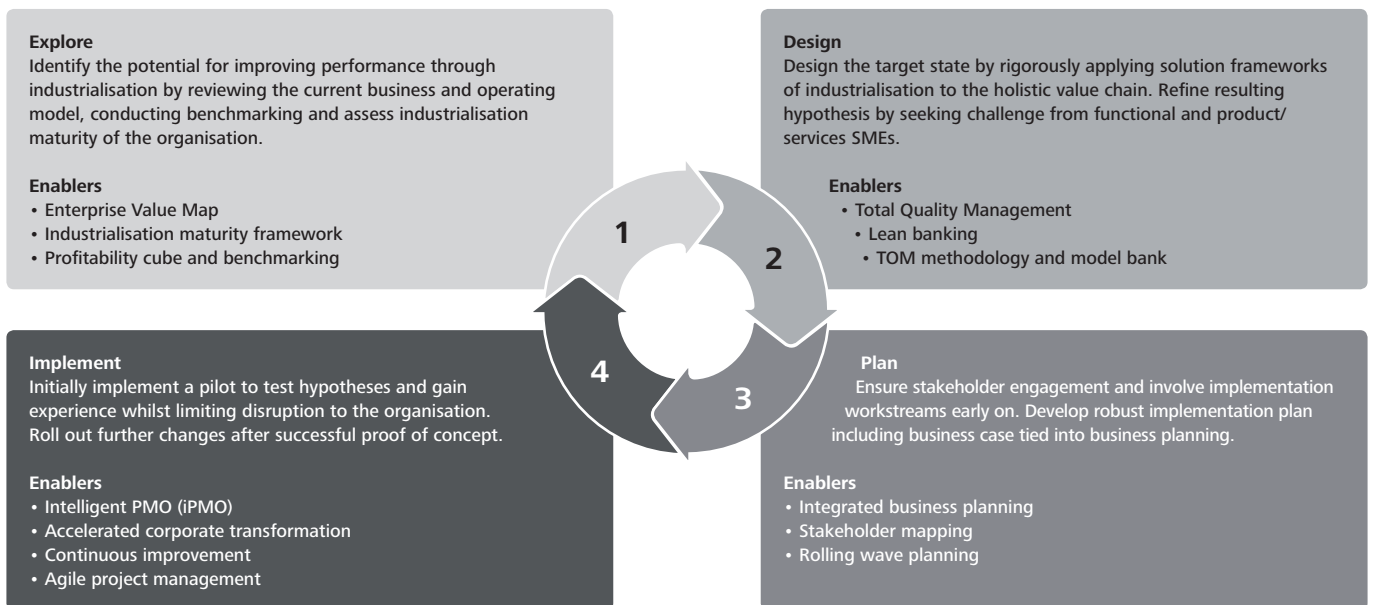
## Levers of industrialisation

In essence, industrialisation efforts aim towards doing things better and doing things differently, thereby questioning the status quo. We have identified nine industrialisation levers, which banks can use to re-configure their journey to a truly industrialised financial institution.



# Deloitte's methodology to boost industrialisation

Our approach to industrialising banks leverages our broad banking industry and delivery experience reflected in a tailorable decision framework, our specific knowledge about banking functions and processes, as well as our business case tools and the target operating model design methodology. Industrialisation potentials are identified by assessing for each activity, how, by whom and where the activity should be performed. The resulting high-level target operating model design can then be benchmarked against a model bank before a business case is developed. Eventually, the detailed target operating model is designed across all layers and implementation is initiated.



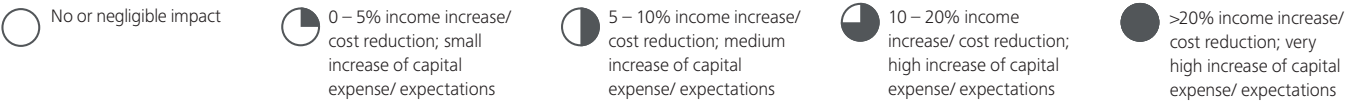
## Keys to success

Realising the full potential of an industrialisation initiative requires holistic change management adhering to seven success factors.

- 1 Ensure stakeholder buy-in across the bank from day one whilst initiative is being driven from the top
- 2 Prioritise change areas to focus momentum
- 3 Apply systematic hypothesis generation
- 4 Balance green-field approach versus continuous improvement
- 5 Apply agile development and involve implementation workstreams in solution design early on
- 6 Develop solutions around the complete front-to-back value chain
- 7 Communicate successes and milestones to the whole organisation to foster cultural change

# Benefits of industrialisation

The Enterprise Value Map identifies four drivers for firm value: income, expenses, capital expenses and expectations. Industrialisation levers mainly aim at optimising costs and expenses. Through improvements in customer-facing aspects and efficiency of processes, income can also be directly affected. Furthermore, capital expenses can be addressed through operational risk-related capital charges that banks incur. Finally, a number of levers affect market participants' expectations – especially when publicly-visible projects are under way. The following graph exhibits the impact of industrialisation levers on bank value.



Source: Deloitte Project experience

# Case study

## Setting the stage for a bank's renaissance

**Client situation**

**Approach**

**Solution**

**Achievements**

In the aftermath of the financial crisis, a **global financial institution** was facing excessive **cost pressure** whilst gearing up for the **new regulatory requirements**. In order to meet these requirements, the bank's leadership targeted a revised operating model and legal entity architecture, allowing the cost burden to be overcome.

**Deloitte** was brought in to develop the **high-level architecture** as well as the detailed **Target Operating Model** in order to significantly improve the client's ability to keep up with the dynamic regulatory environment and emerging technological advancements, **securing a leading position in the next generation of banking**.

Based on an agreed **industrialisation project framework**, Deloitte conducted an in-depth **analysis** enabling a granular view of the **existing operating model**. A tailored "**decision tree**" helped **determine the re-allocation** of these existing functions to the new architecture in terms of geographic location, centralisation and sourcing requisite (in- vs. outsourcing). Thereon, several **opportunities for cost cutting initiatives** were defined and **Deloitte developed a detailed business case**, matching industrialisation aspirations to the respective **financial targets**.

**1**

**2**

**3**

**4**

**5**

Define project framework


Bank model analysis


Decision tree: re-allocation of functions

Identification of initiatives

Business case / initiatives testing

The savings initiatives comprised industrialisation and reinforcement of corporate functions as well as the strengthening of the service unit. The program delivered **substantial cost relief across the organisation** and ultimately a **centralised set-up with a flexible sourcing model**.

**Before**  


**After**  


● Operational / advisory services

📍 Local client facing unit

● Low cost service centre / outsourced

The **comprehensive reorganisation** of the bank's locations into **processing, advisory and client-facing units** with differentiated responsibilities and capabilities, enabled a harmonised structure and governance.

The streamlined operations did not only **reduce overall business complexity** but also **improved end-to-end performance** by leveraging the globally aligned operating model. Along with an enhanced, global IT solution the bank improved **time to market, throughput and quality of service** and thus **promoted customer experience**.

- ✓ **Cost savings:** significant streamlining of services whilst leveraging economies of scale
- ✓ **Quality:** concentration of skills with clear responsibilities generating economies of scope
- ✓ **Customer experience:** customer-centric services improve the overall client experience
- ✓ **Agility:** industrialised operating model with open architecture enables strategic flexibility

# Why Deloitte?

With our unrivalled industry experience and project capabilities demonstrated at clients across the globe, we are now widely acknowledged as the number one experts in industrialisation-related topics such as operating model design and transformation. We have dedicated teams on the ground to serve the Swiss financial industry with best-in-class advisory, based on local industry expertise and a proven track record in project execution.

## Credibility in the industry

- We have demonstrated our ability to successfully deliver industrialisation engagements within the banking industry and hence exhibit a plentitude of premium credentials in this field.
- Our clients appreciate our end-to-end approach, from defining the Target Operating Model to engaging the Front Office as part of the implementation.
- We are not only the preferred advisor to our clients when it comes to transforming their business, but also renowned Analysts confirm Deloitte's pole position in business operations consulting.

## Analysts rank Deloitte No. 1 in business industrialisation

- Kennedy Information ranks Deloitte #1 in Global Financial Services Consulting.
- Further, Kennedy Information names Deloitte a global leader in Operating Model Strategy & Organisation Design Consulting.
- Deloitte also named a global leader in Digital Strategy by Kennedy Information.
- Gartner again named Deloitte a global Leader in Business Operations Consulting Services.

## The Deloitte difference

- We are the leading Management Consultancy worldwide with a total staff of 52'000, serving clients in more than 150 countries and territories and earning USD 11.4 bn revenue (2014 figures).
- With our unique combination of excellent management consulting capabilities and profound implementation skills we offer end-to-end solutions with an unmatched breadth of services.
- Global Access – Local Touch: We have a local face and our international network provides access to a wealth of insight.



# Who?

Please get in touch with us if you have any questions. We are happy to share our expertise with you.

## Key Contacts



**Adam Stanford**  
Partner  
Head of Financial Services Strategy  
& Operations Consulting  
+41 58 279 67 82  
astanford@deloitte.ch



**Dr. Daniel Kobler**  
Partner  
Head of Private Banking Industry  
+41 58 279 68 49  
dkobler@deloitte.ch



**Andreas Timpert**  
Partner  
Head of Investment Management Industry  
+41 58 279 68 58  
antimpert@deloitte.ch



**Fabrizio Napolitano**  
Partner  
Sourcing & Procurement Advisory  
+41 58 279 67 66  
fnapolitano@deloitte.ch

## Authors



**Patrik Spiller**  
Partner  
Head of Monitor Deloitte Financial  
Services Strategy Consulting  
+41 58 279 68 05  
pspiller@deloitte.ch



**Dr. Stefan Bucherer**  
Senior Manager  
Monitor Deloitte Financial Services  
Strategy Consulting  
+41 58 279 67 74  
sbucherer@deloitte.ch

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/ch/about](http://www.deloitte.com/ch/about) for a detailed description of the legal structure of DTTL and its member firms.

Deloitte Consulting AG is a subsidiary of Deloitte LLP, the United Kingdom member firm of DTTL.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte Consulting AG would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte Consulting AG accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© 2015 Deloitte Consulting AG. All rights reserved.

Designed and produced by The Creative Studio at Deloitte, Zurich. J2726