

Strategic cost transformation



Industry outlook and impact of COVID-19

The profitability of Swiss banks has decreased by nearly 17% since 2013, driven by low or even negative interest rates and a changing regulatory environment. Traditional value drivers in banking (e.g. transaction or interest margins) are expected by the SNB to decline further and credit quality to deteriorate post-COVID-19 while competition from Neobanks and FinTechs increases, piling pressure on cost-income ratios and profitability.

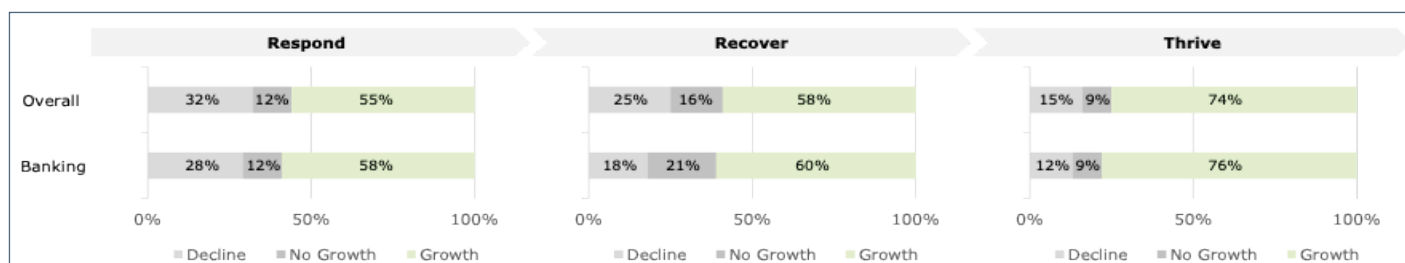
The pandemic's economic implications have intensified the challenges for the banking industry. The International Monetary Fund (IMF) forecasts a downturn in the global economy of -4.9% in 2020, much worse than during the financial crisis. The recovery scenario for 2021 is more gradual than previously expected, with the IMF predicting 5.4% global economic growth. In Switzerland the IMF forecasts a downturn of -6% in Switzerland's economic growth for 2020. According to the Deloitte CFO Survey, few companies will hit their 2020 revenue and operating margins target, and most do not expect a return to pre-crisis levels until 2021.

Deloitte surveyed over 1,000 executives to understand the impact of COVID-19 on transformation and performance improvement in organisations globally. Companies' response to the current crisis can be divided into three stages:

- 1. Respond:** Actions to immediately respond to the crisis and ensure business continuity
- 2. Recover:** Actions to stabilise operations under current conditions
- 3. Thrive:** Structural actions within a defined strategy to compete in the "New Normal."

Generally, companies in the Thrive stage are more likely to find their way back on to the growth path, and this tendency is especially pronounced in the banking sector.

In order to achieve growth, companies demonstrate increased save-to-thrive ambition through measures such as automation, supply chain optimisations, labour/non-labour cost reduction and M&A/divestments. In companies able to proceed to the Thrive stage cost reduction initiatives increased by 74% compared to pre-crisis levels, while the share of companies targeting cost reduction objectives of greater than 10% increased by 61%.



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Deloitte cost transformation framework

We help Swiss and international banks reduce their costs successfully using the Deloitte Cost Transformation Framework:

	Foundational	Transformational	Disruptive
Value creation	Product rationalisation	Economic value management	Digitalization and robotics • Digital processes (e.g., paperless client onboarding) • Big data analytics • Robots for rule-based/ repetitive tasks • Increase connectivity
Process delivery	Process excellence	Value chain re-engineering • Align value chain to clients • Re-think non-value added activities • Buy managed services for non strategic activities	Ecosystems and value chain unbundling
Organization	Organizational efficiency	Operating model design • Establish industry utilities to commercialise own capabilities • Build joint ventures with peers or other providers to create economies of scale	
Infrastructure	Sourcing • Vendor list price review incl. negotiation & volume pooling • Assessment of tech options and leverage of best practices • External benchmarking and regional comparisons	Location optimisation	IT simplification & technical enablement New digital platform architecture

Four high impact levers out in the cost transformation framework are particularly helpful in enabling banks to transit effectively from the response to the thrive stage in the current context:

Cost lever	Approach	Selected topics
Value chain re-engineering (Labour cost reduction)	Organisational refinement and span of control optimisation	<ul style="list-style-type: none"> Value creation Organisational realignment Re-dimensioning
Digitalisation and robotics (Automation)	Process review and redesign	<ul style="list-style-type: none"> RACI framework/role allocation Automation/workflow improvement Resource/labour arbitrage
Operating model design (M&A / disinvestment)	Functional review and global alignment	<ul style="list-style-type: none"> Operating model review Economies of scale and scope Geographical footprint
Sourcing (Supply chain)	Vendor management (make or buy)	<ul style="list-style-type: none"> G&A expenditures ABC vendor analysis Insourcing assessment

Selected use cases to get back to growth path

- 1. Organisational refinement and span of control optimisation** for an international wealth manager: Analysing the organisational set-up across functions, services, locations and allocating resources as well as benchmarking leads to expected annual cost savings of 10%-20%.
- 2. Process review and redesign** for a global private bank: Outlining current process design and local differences using a RACI-framework and developing globally uniform target process design for all transaction types leads to expected overall annual cost savings of 10% and to 30+% reductions in some areas.
- 3. Operating model review and global alignment** for a leading Swiss private bank: Determining the global FTE footprint by location, function and service as well as identifying the key requirements leads to expected annual cost savings of 15%-30%.
- 4. Vendor management (make or buy)** for a subsidiary of a global investment bank: Reviewing and benchmarking the cost categories of sourced services and major G&A positions leads to expected annual cost savings of 5%-20%.

Why Deloitte?

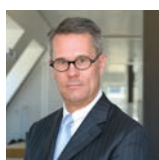
- We have the **know-how**, the **experience** and the **methods** to achieve strategic cost transformation in the specific conditions of the Swiss banking market.
- We have proven that we can immediately **identify** and **realise** room for **optimisation** for our customers.
- We are experts in developing an **implementable solution** because we have the necessary **knowledge** of cost drivers and **practical experience** in cost transformation engagements as well as in line functions.
- We develop approaches for the day-to-day operations of our clients by leveraging our technology and implementation expertise so that your bank can enhance its chosen business model and associated unique selling proposition in the market.

Our contacts

We would be happy to present our considerations in more detail and evaluate with you how your needs can best be met.



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