

USBanker

January 2007

Beyond Business as Usual

OpEd

Intelligent Cost Cuts Are The Only Option in This Market

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WELL, IT'S THAT TIME AGAIN. IT'S THE POINT IN THE ECONOMIC CYCLE when bank senior executives and shareholders understand that the top-line growth that powered the industry for this economic cycle is ending. The pressure is on and shareholders are not in a patient mood. The choices for CEOs and their management teams are three-fold: Make an acquisition, or two or three; aggressively cut costs; or stand pat and take a beating in the markets. Only the second one has merit.

Cost cutting is occurring at almost every bank today. In many cases, the efforts are reactive, financially driven and won't create a long-term, lower-cost platform. So, the key challenge is to implement the reductions without negatively impacting the operating business and its customers. Here's a good hit list:

- Integrate governance, risk and compliance functions. The last decade has seen an unprecedented rise in the cost of compliance. The basic problem is that compliance requirements and fear of regulatory sanctions have driven extremely conservative behavior in financial institutions, particularly those that have had regulatory problems. Therefore, a number of duplicated and unaligned compliance and control processes and functions have been created. Banks can implement a comprehensive integrated governance, risk and control framework and add consultation with regulators.

- Look again at non-discretionary costs in the expense base, especially "off-limits" areas. Data and legal fees are ripe for trimming. Data costs cover market data used in trading environments and non-real time data used in research and other business functions. But an average of 10 percent to 15 percent of this expense can be cut without any business changes at all. In addition, a combination of behavioral changes, vendor negotiation and technology modifications can generate another savings of up to 15 percent in the medium term. The trick is to have the ability to perform the data analysis and drive fruitful decisions with heads of business lines. Legal fees, particularly deal/transaction-related fees, are also a significant portion of banks' expenses. Some firms are applying standard professional-service procurement techniques such as rate cards, limitation on daily billing hours and volume-driven rate reductions.

- Create a "right placement" framework in sourcing. Most firms have some form of low-cost location strategy, but often what has emerged is a patchwork of options and little to no consistency in location identification, execution and management. This environment has created additional opportunities for significant cost reduction, if organizations can develop a consistent framework to assess, manage, deliver and relocate a business process and its technologies, staff and infrastructure. Some banks have seen savings generated in between 12 and 18 months.

- Move from project management to project-execution excellence. Historically, project-management organizations and the costs associated with them increase disproportionately during expansion. But during times of cost cutting, it makes sense to significantly reduce the project-management infrastructure. First, institute a more comprehensive and consistent approach to evaluate priorities in the existing portfolio and eliminate projects, if necessary; this is where much of the real money is. Second, examine the project-management role. Many PMOs have become information-management and reporting functions, staffed by individuals with no project execution experience. The answer is a combination of disciplined project-portfolio analysis and instituting a consistent framework to determine priority efforts. When combined with a structured project execution approach and a function staffed with experienced project executors, overall costs are significantly reduced and the results greatly improved.

The key question is how to move forward with these efforts. Some banks have established an expense-management committee, staffed by senior managers. This group sets the overall tone, drives areas of focus, and appoints key managers. The expense-reduction groups include business-unit drivers, along with support from the corporate expense-management group. Not only does this new team support the process from a project management and content perspective, but it also performs an independent "savings tracker" function that allows project sponsors to deliver independently validated results to senior management.