CAPCO

Cost reduction for Asia-Pacific banks

Eight recommendations to optimize, innovate and grow

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Cost optimization is hardly a new topic in the banking industry. Over the last 15 years – as the sector navigated the global financial crisis, historic periods of low interest rates, the global pandemic and record levels of inflation – maintaining a disciplined bottom line has remained near or at the top of the agenda for CEOs. Given today's challenging macroeconomic environment, this will not change any time soon. We look at the shift in mindset required to engineer sustainable optimization success and explore key priorities around technology selection, scalability needs, Centers of Excellence and reorganizing decisively.

Despite bank CEOs' relentless focus on cost optimization, tangible results have been mixed at best in recent years. Senior executives often report that they have not hit their cost savings target – and few believe the savings they have made will stick over the longer-term.

Too often, tactical cost reduction initiatives lead to a game of 'whack-a-mole', with costs hammered down in one area popping up unplanned elsewhere. The fundamental problem is that businesses continue to grow without properly addressing the underlying scalability or efficiency challenges.

For example, banks may attempt to optimize costs through:

- Tactical offshoring to teams not equipped with the right processes or technology to deal with growing volumes
- Shifting work from operations to servicing teams via poorly implemented process or digital change
- Continuous reorganization that amounts to little more than a reshuffle
- Resorting to creative finance strategies, such as driving up the software capitalization rate, to save the day on cost targets without truly increasing productivity and scalability.

A shift in mindset

Given the pace of market innovation powered by cloud, AI and open banking – and with fintech competitors chipping away at parts of the banking value chain – simply reducing the costs of existing operating models and technology stacks will result in many banks being left behind. So what is the answer?

Balancing cost optimization and innovation requires a new mindset, especially in the fast-growing markets across Asia. To achieve true scalability and productivity, bank CEOs must move away from focusing on short-term results and avoid cutting 'muscle over fat' in ways that will inhibit future business growth.

If investment prioritization frameworks do not enable this mindset shift, the same old challenges will re-emerge. This is especially acute for banks, where most of the tactical levers have already been pulled: work easily moved offshore has already been shifted; vendor rate cards have been squeezed to the point where 'cost of poor quality' challenges arise; and infrastructure and application simplification has addressed the quickest wins.

In this context, we propose eight priorities for sustainable cost optimization in Asia-Pacific banking.

1. Use the full spectrum of intelligent automation

The latest generation of AI technologies looks set to have a seismic impact on financial services, with first movers already realizing significant benefits in areas such as customer service, digital assistants for front-line teams, internal knowledge management, fraud detection and accelerating software development lifecycles.

However, GenAI and Agentic AI should be seen primarily as levers to improve client experiences, productivity and innovation, as opposed to just driving short-term FTE savings and cost reduction.

Particularly in complex banks with a diverse footprint across Asia, such solutions should not be viewed as a 'silver bullet' to address process problems, where the underlying work has not been done to standardize processes and simplify data flows.

We recommend the following steps:

- **Simplify and standardize processes first** across markets and products to ensure AI solutions are scalable and to lay the foundation for more complex agentic solutions
- **Develop an automation and AI tool selection framework** to give prescriptive guidance on when to use each tool considering capabilities, license costs, existing use cases and opportunities to rationalize tools
- **Define the right digital toolkit based on common process patterns**, unlocking ROI by using the same fit-for-purpose tool and solution across multiple use cases and functions
- **Train cross-functional business, operations and technology teams** to identify and deliver solutions autonomously and continuously, with support, toolkits and guardrails provided through an automation Center of Excellence (CoE).

Significant cost benefits can be driven by industrializing and scaling existing intelligent automation tools and capabilities across the organization. 'Traditional' AI capabilities often have fewer integration, risk and regulatory hurdles to overcome.

These solutions can act as stepping stones towards true end-to-end agentic workflows, which can be implemented as soon as the underlying governance, data and regulatory challenges have been addressed.

2. Focus on scalability

Many banks – laser focused on quarterly results – treat longer-term 'cost avoidance' as a non-tangible benefit and therefore prioritize initiatives with a 12-month payback based on direct cost reduction.

This ignores the challenge of scalability and leads to costs popping up in other areas, as non-scalable parts of the business grow. The 'you manage what you measure' principle is applied in these organizations: tactical projects get prioritized over investment in strategic initiatives to address underlying technology and process inefficiencies in high-growth areas.

Scalability challenges will only be properly addressed when banks factor in expected business growth and take proper account of cost avoidance benefits in their prioritization of investment. This means taking a two-to-three year view of return on investment (ROI) and building frameworks to properly measure and compare the scalability of core processes and products.

Introducing a consistent 'scalability index' across products and markets is often the first step in the journey to understand and tackle the areas where costs will proliferate.

In complex areas such as corporate payments, we recommend establishing a framework to rank products and markets based on their scalability using a number of levers such as product and regulatory complexity, STP rates, error rates and client query volumes. This can be overlaid with the expected growth of those products so that investment can be prioritized in ways that optimize cost avoidance and enable scalable growth.

3. Invest in hubs as Centers of Excellence

In many organizations, the quickest wins from moving roles and activity offshore were achieved years ago. To boost ROI, these initiatives were often delivered without addressing underlying technology, process and organizational inefficiencies, leading to cheaper operational costs but minimal improvement to underlying productivity.

Once the offshoring happens, investments to address inefficiencies in offshore hubs are often deprioritized due to their relatively low ROIs. Future growth continues to be inhibited, with offshore teams let down by poor technology and processes.

It is therefore important to invest in the right process simplification and standardization, coaching, training and technology solutions in offshore hubs to transform them into true CoEs – even when the initial ROI may be less than compelling.

Another common challenge is failing to establish the right resource blend in offshore hubs to maximize arbitrage benefits, and therefore depending on junior employees to manage work transitioned from onshore teams. It is important to establish the right pyramid in these teams to avoid future costs driven by poor-quality delivery.

Meanwhile, proper scrutiny of activities being performed in high-cost locations is sometimes avoided by playing the regulatory or client-proximity card. Here, a principles-based and detailed challenge is required, for example:

- In which lines of business and functions does client proximity matter in a digital age?
- How often are teams meeting business stakeholders or clients?
- Which specific regulations prohibit activity being managed in offshore or nearshore CoEs?

The added advantage of moving higher value activities into hubs is that they evolve from being ‘processing centers’ into true CoEs.

This means they can offer more breadth and seniority of career paths and can develop their ability to take accountability for client journeys end-to-end.

We have typically seen that applying a principles-based approach to scrutinizing onshore activities, and building stronger leadership in nearshore and offshore CoEs, can reduce the onshore footprint by a further 10-20%.

4. Reorganize decisively

Reorganizations aimed at streamlining decision-making, removing inefficient layers and reducing cost often lose momentum and fail to deliver on their promise. It can be tempting to compromise when tough decisions need to be made, turning the reorganization into a reshuffle and introducing confusion and complexity.

Given the significant disruption and impact on morale from big reorganizations, banks should endeavor to act decisively, consistently and in line with clearly defined organization design principles. For example, they need to create a consistent approach to defining responsibilities for functional versus country lead roles, and avoid 'co-leads' or overlapping roles.

Reducing the period of uncertainty across the bank helps minimize the delivery disruption that can come with reorganization, particularly when decision making stalls and focus is lost during changes in leadership.

One common mistake we see is that some banks go through rounds of redundancies without fully exploring which other parts of their organization may be struggling to ramp up, and how employees and resources might instead be reassigned to these projects.

As a result, valuable institutional knowledge is lost and, in some cases, former employees have to be subsequently rehired as contractors.

One answer is to establish a well-designed 'clearing house' for retrenched employees with the right skills data to enable mapping to new opportunities.

5. Optimize horizontally and across journeys

Traditionally, cost reduction initiatives align to either functions – mirroring cost center hierarchies and the way that budgets are allocated – or to broad cost save buckets such as application rationalization and controls simplification.

However, both approaches can give rise to a siloed approach with missed opportunities to address duplication of effort, apply technology solutions, and mend inefficient hand-offs and other costly friction points across end-to-end journeys.

These journeys often begin with front-office customer interactions/transactions and span into tasks conducted by middle and back-office teams – who may then hand back to servicing teams if things go wrong. The journeys may cover multiple functions, with inherent wastage in the overlapping areas.

Mapping costs across all functions and teams within a journey involves additional effort but reaps benefits in the longer term. It can be used to identify more cost-saving opportunities, alongside opportunities to deliver better customer and risk outcomes through more streamlined processes and controls.

For example, one client found that bespoke customer requirements, agreed to by sales teams, resulted in significant operations efforts downstream to build and maintain bespoke reports. Banks need to understand the extent of this kind of cost so they can take rational decisions about how to cut or avoid them.

Process mining tooling can help to quickly identify inherent process inefficiencies across multiple functions, teams and systems, without having to complete a lengthy period of current state mapping to target the highest-value optimization journeys.

6. Reduce your cost of data

If data isn't just the new oil but the new air, then it's critical to make sure you're not paying too much for it.

Optimizing costs across the data value chain, from sourcing to processing, storage and distribution, is often an overlooked opportunity. This is only going to become truer as the volume of data processed – and the need for high quality data to feed AI models – grows exponentially.

Examples of how to reduce data costs include:

- Optimizing data governance costs using AI tools
- Rationalizing data controls
- Shifting to self-service reporting through a standardized data distribution strategy
- Increasing data quality to reduce the costs driven by poor data, expensive remediation activities and regulatory fines.

The key to investing in the right strategy is first being able to accurately measure the true cost of data sourcing, management and reporting. These costs will be dispersed across many teams outside of the CDO's team, especially where cottage industries of manual, duplicative reporting and reconciliation have sprung up across front, middle and back-office functions.

These inefficiencies often appear as a result of inadequate data controls and limitations in both self-service reporting and analytics capabilities around the bank's 'golden sources' of data.

7. Take a strategic approach to vendor value

Vendor costs are often the first go-to lever for rapid cost reduction. It makes sense to identify and eliminate waste and duplication and to aim for fewer, more strategic partnerships.

However, the focus must be on value, not just cost. Introducing a race to the bottom can save costs in the short term at the expense of quality.

This will ultimately result in increases in the 'cost of poor quality', for example longer and more costly testing cycles to identify and resolve defects, longer time to market and even, ironically, delays to the implementation of other cost reduction initiatives.

While vendor rationalization should clearly have cost optimization as a target, a balanced scorecard based on other factors such as 'delivery/resource quality' and 'time to onboard' is required to prevent unintended consequences.

Additionally, aligning vendor commercial constructs to your organization's goals, such as cost reduction and efficiency, will typically improve long-term results. But there must be true skin in the game for your partners.

The approach is generally better than assessing vendors on a simpler time and materials basis, which may appear cheaper at the outset but ultimately fail to account for value delivered.

8. Understand cost-to-serve

Catering for unique client requirements by offering bespoke products, solutions and servicing can generate revenue and help build strong and lasting relationships, especially in corporate and institutional banking.

However, as with any investment of effort, the benefits should be weighed against the long-term costs.

Many of our clients find it challenging to accurately map ongoing operations and servicing costs to customers and to understand the true cost-to-serve. The cost of bespoke services and processes often remains hidden and difficult to address.

The first step is to accurately measure this cost-to-serve by allocating underlying operational activities and costs – such as query handling, bespoke report production and technology change requests – to specific clients through the right tooling, data and governance. This can then inform rational, data-driven decisions about the servicing and tiering of clients.

Strategies to address a mismatch don't need to be as drastic as exiting clients or simplifying product offerings, and can include:

- Charging for certain bespoke services or products
- Introducing additional servicing tiers
- Educating clients on the self-service solutions available
- Investing in integration efforts to enable clients to use standard offerings.

Creating continuous optimization strategies

If banks are to build optimization strategies that are successful in both the short and long-term, they need to find better ways to track and measure their success.

Too often, as programs are rolled out, we see an over-reliance on tracking lagging indicators such as FTE saves or direct cost reduction. These depend on lengthy HR and finance processes for attestation, often meaning it is too late to course-correct once it becomes apparent that the target benefits have not been delivered on time.

Embedding the right quarterly targets and reporting on leading metrics is key. For example, banks can measure the reduction in the number of manual controls, the reduction in a process turnaround time, or the increase in productivity of operations teams, which all act as precursors to cost reduction or avoidance.

As specific initiatives are completed, banks must continuously monitor costs horizontally and watch out for costs popping up again in unexpected areas, such as cost savings in operations that result in additional client servicing efforts.

They must also watch for other unintended negative consequences, for example, by monitoring the impact on the client and employee experience, on sales growth and on the ease of innovation.

Lasting success means treating cost reduction and containment as a continuous discipline and mindset, enabled through constant measurement. The bank must empower operations, technology and sales teams with the funding and tools to continuously improve processes and reduce costs in a sustainable way – even when these efforts are not part of a formal program.

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