



# Beyond savings: Strategic cost optimization for the modern bank

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KPMG International

March 2024

# Introduction

## Cost and value optimization matters.

The balance of cost and value can be the difference in how an organization does business, identifies investments and drives transformation in a fast-paced environment. Banks have been investing in programs to reduce their cost base across the enterprise for at least 15 years, with an ever-increasing focus on digital transformation. But banking leaders quickly recognized that sustainable cost and value optimization involves much more than cost cutting. It requires a careful balance of creating value and reducing cost by making better strategic decisions on business models, products and services and maximizing productivity within front-to-back operating models.

In November 2023, KPMG International conducted a survey with over 250 banking leaders, supported by extensive benchmarking and 1-1 interviews with leaders who are developing the next wave of strategic cost and value optimization investments. Through this research, it is clear that cost and value transformation continues to be a key priority for banks. Ninety-one percent of banking leaders agree that they have a clearly defined cost objective — up from 81 percent in 2020. And 85 percent of banking executives believe cost management is a critical underpinning of their strategic priorities — up from 81 percent in 2020.

Leaders are looking at better ways to deliver customer value, incorporating new processes across operating models and leveraging emerging technology and AI to develop a strategic approach that is capable of responding to consumer behaviors and seeing their organizations through the next wave of change. This, in turn, can result in a significant edge and competitive advantage.

In this paper, KPMG banking professionals highlight key insights from the survey and share how cost and value transformation priorities are changing across the banking industry. The team explores key drivers and enablers for successful transformation and discusses how leaders can leverage learnings from other industries — such as value analysis/value engineering from Japanese manufacturing organizations — to further unlock value in cost-to-serve (CTS) metrics alongside more conventional measures such as cost-to-income ratios (CIRs) and return on equity (ROE).

Read on to discover actionable insights and how KPMG can help transform your organization's cost and value optimization requirements.



**Owen Lewis**

Global Lead for Banking Cost Transformation  
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# About the lead authors



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Owen is a Partner and Head of Management Consulting for KPMG in Ireland. Owen has over 25 years of consulting experience, 10 of which were in global roles at Toyota and the remainder leading transformation in banking, telco and other sectors in the UK, the US, Asia Pacific and Ireland. Owen has led a number of large-scale customer and cost programs in financial services and other sectors, including a global customer and cost transformation program for a universal bank and a transformation engagement at a major bank in Australia to deliver more effective and efficient services to internal customers. Owen has a Ph.D. in application of Deep Learning capabilities to financial services.

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Sara is a Partner in the Transformation Services team with deep experience across financial services. Sara has significant experience in leading large-scale global transformation programs and is skilled in business advisory, operational excellence, and strategy development. She worked as Program Director at a large bank to deliver cost savings across the global retail and wealth operations. At KPMG in the UK, Sara is accountable for driving transformation; balancing cost, value and regulatory requirements and disrupting current practices through automation and AI.

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## Dr. Marty Herbert

Director, Customer & Operations  
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Marty has a proven track record in the UK and Australia in designing front office customer services to create lasting, memorable experiences that drive economic customer value. He has pioneered KPMG's approach to putting customers and colleagues at the heart of digital transformation and has recently contributed to the *2023/24 UK Customer Experience Excellence Report*, which introduces the concept of the AI Colleague and explores how organizations can drive value through thoughtful application of deep learning and generative AI.

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# Focusing on a combination of metrics to optimize cost and value

## Key insights

- There are important differences between cost and value optimization and sustainable cost and value transformation.
- While cost-to-income ratio (CIR) and return on equity (ROE) are widely used metrics for gauging bank profitability, an equally important customer metric is emerging to gauge productivity and efficiency.
- Increasing the visibility of cost-to-serve (CTS) metrics should help to support data-led decisions on customer experience.
- Underlying costs remain stubbornly high, even where targets have been set and programs put in place, and banks need to address these challenges at their core.



One of the major pitfalls related to *cost management* is that it often ends up being about cutting costs. But to make cost improvements successful, they must also be sustainable. This requires a continuous review of spend, optimizing current resources, driving efficiencies, and shifting savings to investments that deliver value to the bank and its customers.

**This is the *cost and value transformation* mindset. And it requires additional metrics for gauging success.**

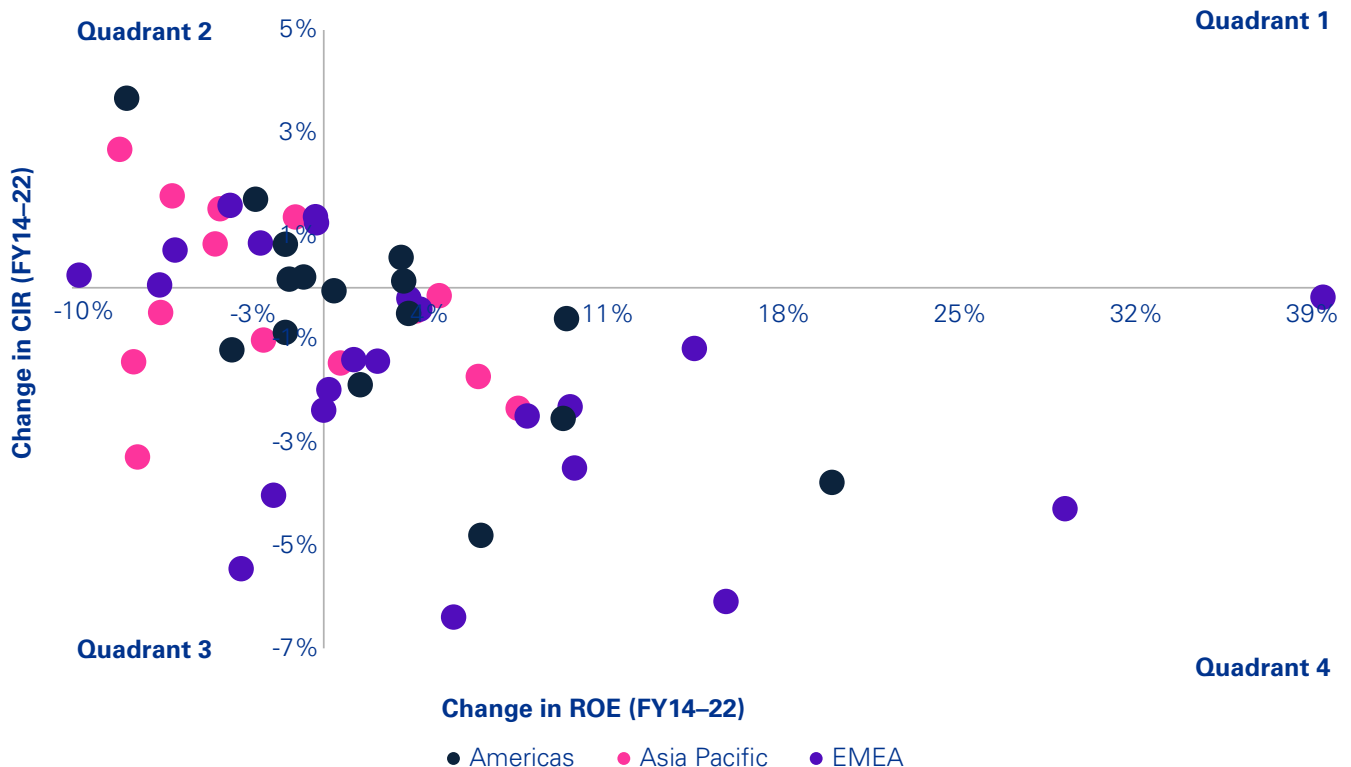
KPMG International’s initial analysis of global banks’ results shows that banks’ CIR fell slowly but consistently pre-COVID. However, CIR began to increase between FY19–21, which can be attributed to COVID driven increases in staff, technology costs and loan loss provisioning.<sup>1</sup> Only now are they starting to see some improvements in CIR again, largely due to top-line gains from rising interest rates that have helped to boost profitability.

The interest rate environment has changed for banks, but with inflation becoming a key influencer on most major economies, the challenge of managing costs has become even more important. Services and people costs tend to increase in line with inflation, and the risk of reduced income is becoming a reality in many countries due to the cost of living/borrowing crisis.

“At Westpac, by relentlessly simplifying our customers’ and employees’ journeys and challenging ourselves with ‘can this be simpler?’, we free up cost to invest and improve our cost-to-income ratio and return. As we embed simplification in all we do and invest in, improving returns becomes the natural outcome.”

**Michael Rowland**  
Group CFO, Westpac

**Change in CIR vs. change in ROE over a nine-year period**



Source: Capital IQ database; KPMG International 2024.

<sup>1</sup> Capital IQ database, KPMG International.

### Metric to consider for sustaining customer and business value

While CIR and ROE reflect the banks’ overall income — and are widely used metrics for gauging bank performance — a deeper focus is required to gauge performance more broadly. Over the past nine years, we have seen a significant shift in ROE and CIR, with the trend going in the right direction for banks.

By removing the income variable, putting a customer experience lens on traditional performance measures and looking at customer metrics — such as the CTS and full-time equivalents (FTEs) per customer — the focus can evolve to include *productivity and efficiency* as well as *profitability*.

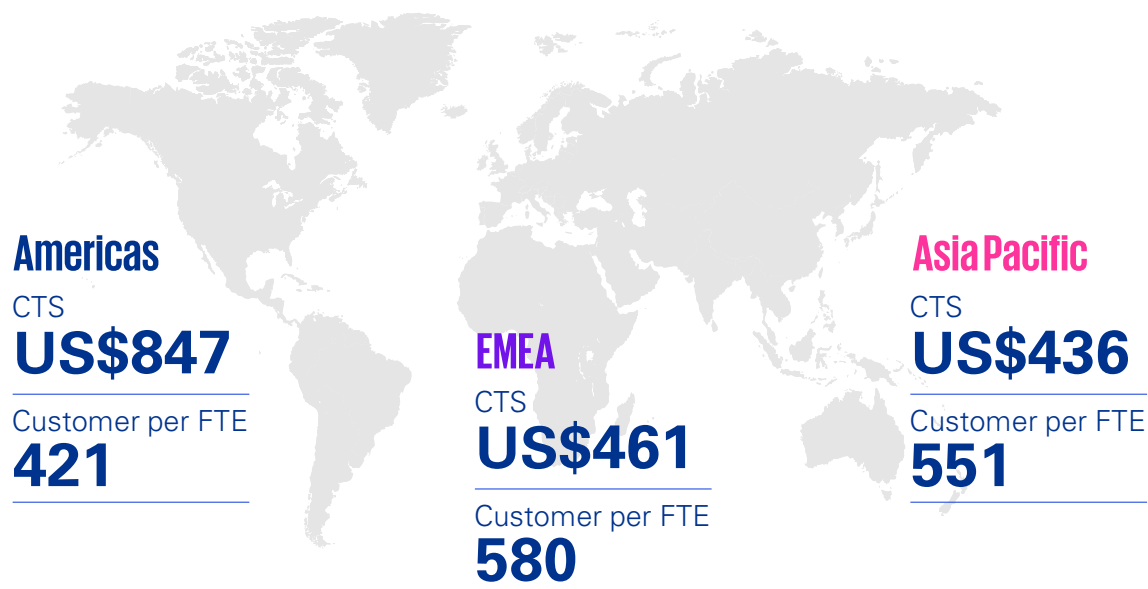
Banks that can measure CTS can address underlying root causes of inefficiencies more tangibly by deploying the right cost and value transformation levers and, most importantly, in the right sequence. Implementing new technologies, simplifying processes and introducing efficiency initiatives — while also sustaining and potentially improving customer experience levels — will ultimately increase customer value.

### CTS — A global comparison

With differences in banking models, customer preferences and operating models globally, CTS metrics for banks in the Americas is almost double that of Europe and Asia Pacific. Similarly, in terms of FTEs, the total bank-to-customer ratio is 20 percent higher in the Americas than in the other regions, which suggests there is a significant productivity improvement opportunity in the Americas.

This is partly due to the difference in banking models and the extent to which banks in North America have a greater focus on in-person banking. But it also presents an opportunity for banks to learn from each other and to take the concept of CTS and associated productivity measures down to a lower level to drive sustainable cost and value improvements.

### Cost and efficiency regional trends



Source: Capital IQ database; KPMG International 2024.

### The importance of measuring and tracking the right things

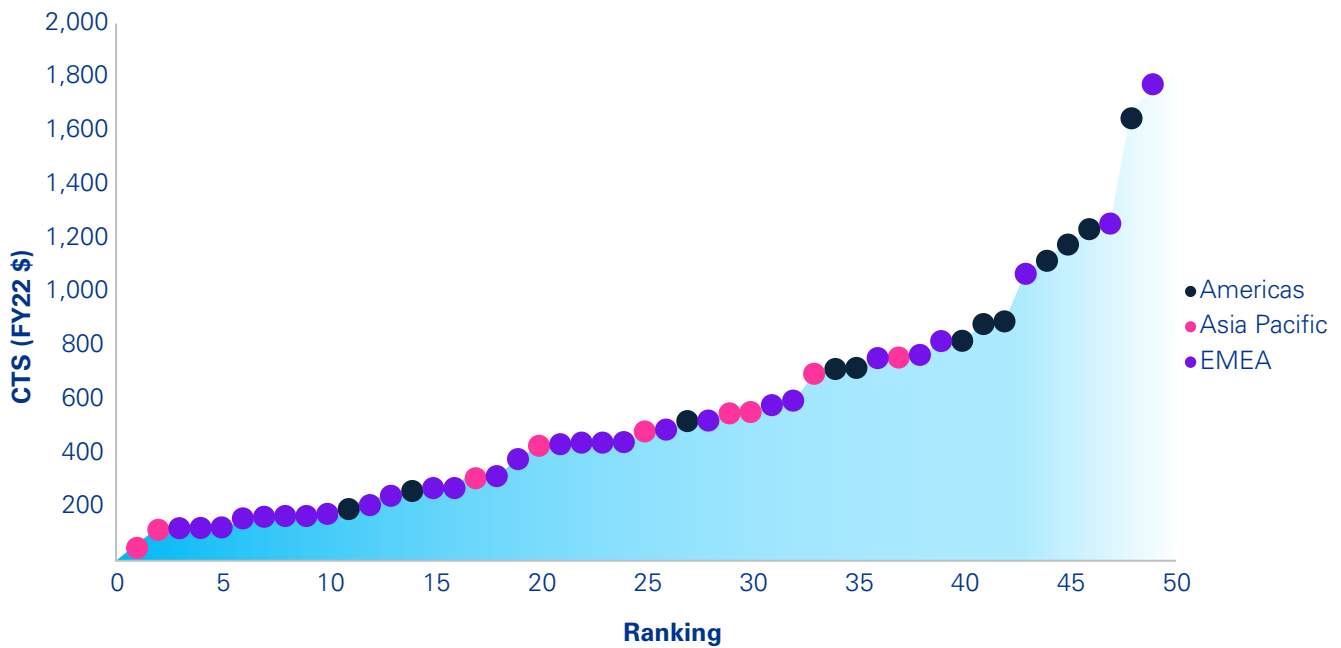
Respondents are critically aware of the importance of setting meaningful targets for efficiency and cost drivers that can be baselined, assessed against realistic cost and value optimization intervention actions, and tracked during the transformation. Global Lead for Banking Cost Transformation, Owen Lewis explains that “in the example of a contact center, often we see a focus on call volumes, average handling times (AHTs) and service levels. Instead, we should be turning our focus to the underlying reason for these calls and how to avoid receiving them by addressing the root causes. But few organizations can measure the underlying reasons for these calls, whether they are warranted, could be avoided or whether the organization has the capability to completely fulfill the call at first point of contact. Therefore, initiatives that target FTE numbers but don’t address the root cause of the activity that’s driving these resource requirements rarely result in sustainable cost reductions.”



### CIR and CTS — A peer comparison

On the surface, banks can appear to offer similar services to their customers. The wide range in the cost to serve a customer can be attributed to the variety of business models and service offerings. There are various reasons behind the differences — higher-touch interactions with customers may be more costly, for example, but they also provide cross-selling opportunities and contribute to customer loyalty, which may be an important strategic decision of some banks.

### Ranking of CTS (with regions identified)



Source: Capital IQ database; KPMG International 2024.





### Rising expectations

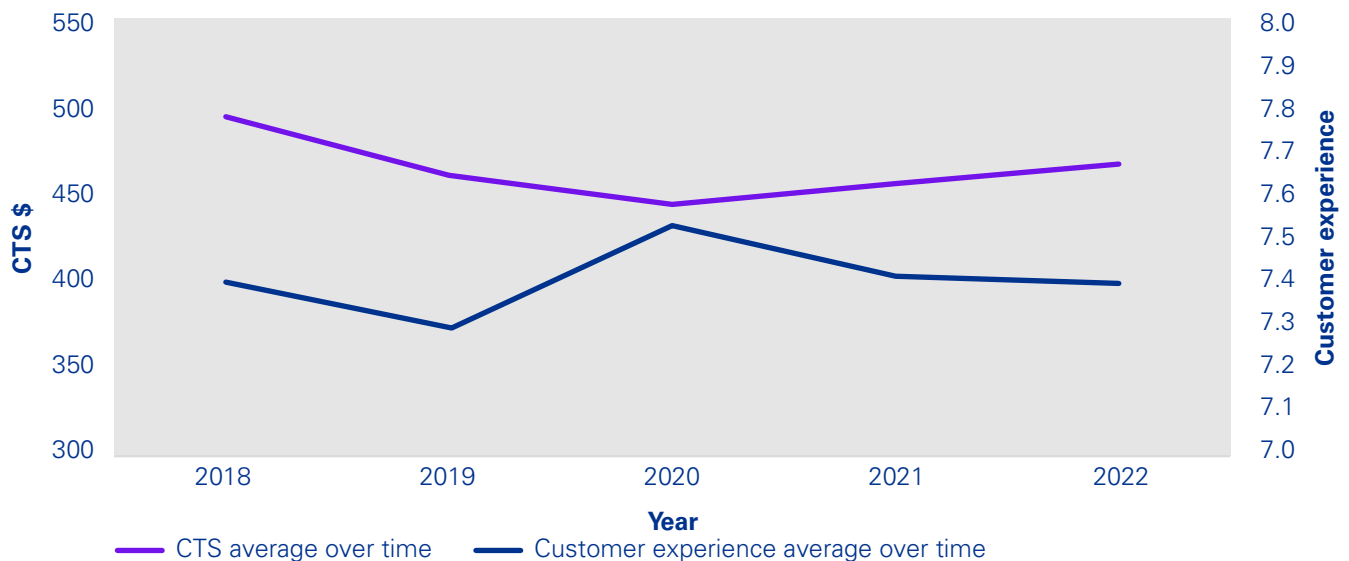
While bank profitability may be on the rise, so are customer expectations. As reported in the recent *KPMG Global Customer Experience Excellence*, cost-of-living concerns and customer deflection to low-cost and low-satisfaction channels are diminishing customer perceptions of their experiences. Sixty-four percent of all businesses saw customer experience scores fall, with empathy seeing the largest decline with a fall of over six percent since 2022.<sup>2</sup> This is also causing consumers to re-evaluate their relationships with leading organizations and make new, value-based choices.

The availability of advancing technologies offers lower-cost channels to support customers. But too often they can be a poor substitute for human interaction, leaving customers feeling underwhelmed and frustrated. Understanding the forces behind today's customer experiences can help banks to focus on the strategies that will unlock customer loyalty and deliver sustainable growth.

“Cost to serve or productivity and efficiency metrics are really interesting to consider, especially when you view these with a value indicator such as customer experience. The trends are showing cost to serve customers is going up, but perceived value to customers is going down and the gap therefore widening. Where you invest and how you measure execution to realize cost and value benefits is crucial to closing this gap.”

**Sara Forbes**, Partner, Advisory, Transformational Services, KPMG in the UK

### CTS vs. customer experience



Source: Capital IQ database; KPMG International 2024.

While banks have seen a significant positive shift in CIR and ROE, when looking at customer experience vs. CTS, it is clear that while costs have increased, customer experience (an indicator for future attractiveness) has started to decline despite significant investment.

In looking at a cross section of banks that offer very similar products and services to their customers, we would expect to see a difference in CTS and number of customers per FTE. Understanding the rationale behind these ratios is important, and it should be part of banks' North Star strategy aligned with their business model choices (such as a high-touch relationship focus vs. a low-touch digital-first bank).

<sup>2</sup> KPMG International, "Artificial Intelligence and the orchestrated customer experience: KPMG Global Customer Experience Excellence Report 2023–24," (January 2024).

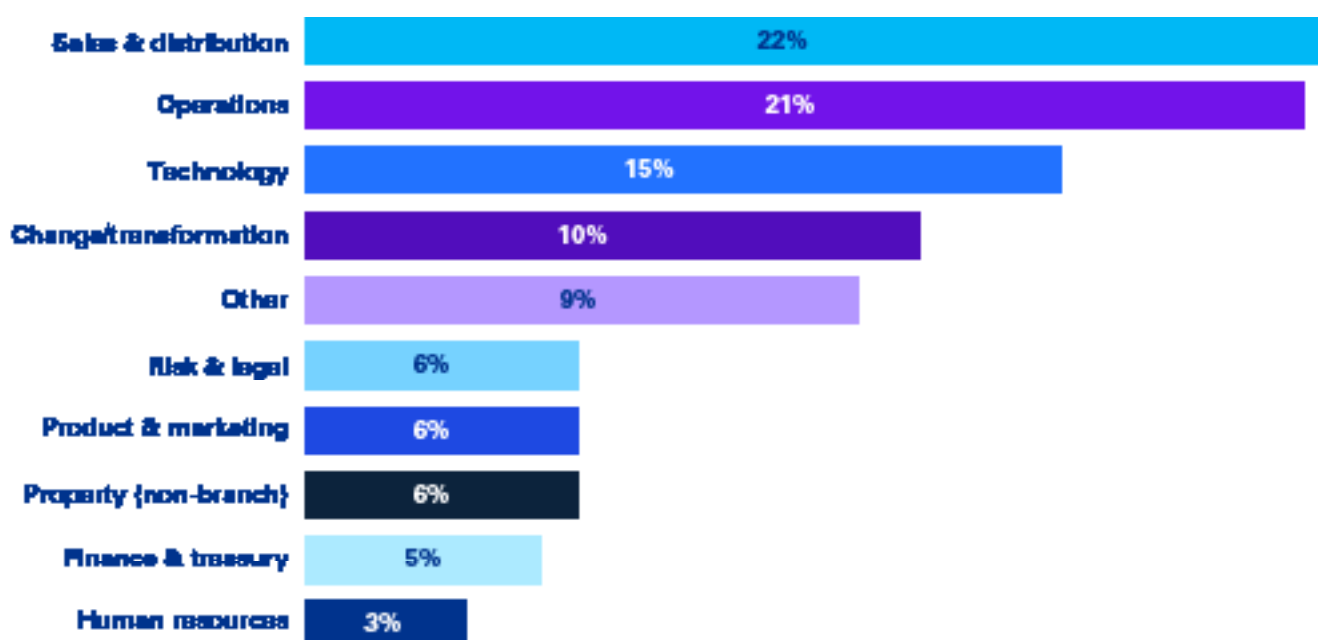
## Looking at the CTS through a functional lens

KPMG International analysis noted that the cost-per-FTE levels varied considerably, with some banks being 30 percent higher than the peer average of US\$48,000 per FTE.<sup>3</sup> Consequently, an equal number were lower than the average. This is likely due to the level of outsourcing to lower-cost countries by some banks. However, it was also noted that those with the lowest FTE costs did not fare well on FTE efficiency levels due to the amount of work that continued to be performed manually.

When the efficiency of those FTEs was examined further across key products and services delivered by retail and small- and medium-sized banks, the productivity range was even wider. Some banks are spending twice the effort to open a product such as a mortgage for a customer and three to five times the amount of manual effort is required to maintain that product over its lifetime.

Sales and distribution, including branch and call center staff, sales teams and support teams, are the highest FTE function across the industry. Operations accounts for a significant split of operating expenditures (OPEX), due to the scope of work in operations functions being expanded to play a more significant role across other functional areas to build scale. New capabilities being onboarded into operations include financial crime, know your customer (KYC), fulfillment and transactional processes.

## OPEX split by function — industry average %



Source: KPMG analysis, KPMG International 2024.

Building out a view of CTS relevant to each function and which productivity metrics are appropriate to baseline and measure improvement is critical.

## Where does cost and value transformation go from here?

And so, while banks may have improved their CIRs and ROE, the underlying costs remain stubbornly high. Even where work has shifted to lower-cost resources, they often continue to be manual processes that include the risk of human error.

To address the true inefficiencies in the underlying operating model, KPMG banking professionals suggest that banks should cascade the analysis from the overall bank CTS through to the functional and value stream elements with associated productivity metrics. This needs to be done within each function, while also connecting the front, middle and back offices to truly understand value and costs from front-to-back in order to shape the right efficiency levers.

The next wave of cost and value transformation needs to tackle these challenges at the core.

<sup>3</sup> Capital IQ database, KPMG International (January 2024).

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# Adopting a cost-culture mindset



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## Cost reduction or cost and value optimization?

In the KPMG banking cost transformation survey, 82 percent of the survey respondents pointed to deep cultural challenges in achieving sustainable cost reductions, even among banks that have made significant technology investments. While the majority of banks (and other industry sectors, for that matter) are focused on reducing their costs, tangible and measurable cost-reduction objectives often are not aligned with their wider ambitions and a cost-culture mindset is not embedded throughout the organization.

“Rather than merely slashing expenses everywhere, concentrate on finding the underlying causes of inefficiency and putting targeted remedies in place.”

**I US survey respondent<sup>4</sup>**

**56%** of banks rank cost management as one of the industry’s top three concerns; 18 percent say it is the main concern for the industry.

Source: KPMG International, “Banking cost transformation survey” (November 2023).

### Creating a cost culture: The trickle-down effect

Despite the critical importance of cost management, cost transformation in banks doesn’t necessarily trickle down through the organization, even though some executives are compensated for meeting cost objectives.

Some banks have adopted horizontal and vertical cost structures to ensure there is a connection between the needs of the business and the spend. Accountable executives who are given responsibility for the business needs of a vertical, such as retail banking, are also responsible for the costs associated with it. This has proven to be a strong spending control mechanism among some European banks and some with the lowest CIRs and CTS targets.

Several banks have also been re-orientating their operating models to ensure there is clear accountability to ‘domain executives’ who are able to understand, influence and own the full end-to-end profit and loss of their units.

“While re-orientating the operating model around value streams makes logical sense, consideration needs to be paid to the risk of losing scale in the operating model and adding costs through localized ownership and management structures related to operations, technology and contact centers and other functional duplication.”

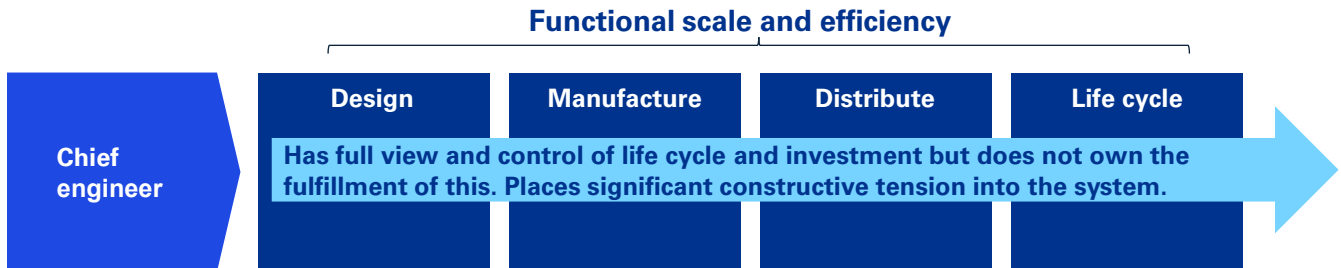
**Owen Lewis**

Global Lead for Banking Cost Transformation  
KPMG International and Partner  
KPMG in Ireland

<sup>4</sup> KPMG International, “Banking cost transformation survey” (November 2023).

### Beyond banking: Gaining a fresh perspective on accountability

Several alternative models outside the banking industry have real potential for ensuring accountability. Take, for example, the structures developed in manufacturing that empower executives to assume ownership, transparency and accountability for an end-to-end value stream. This is common in Japanese automotive manufacturing where strategic problem solving is cross-functional.<sup>5</sup>



Source: KPMG International interpretation, February 2024.

<sup>5</sup> Journal of Operations and Strategic Planning. "The Toyota Way to Effective Strategy Deployment: How Organizations Can Focus Energy on Key Priorities Through Hoshin Kanri to Achieve the Business Goals" (September 2020).



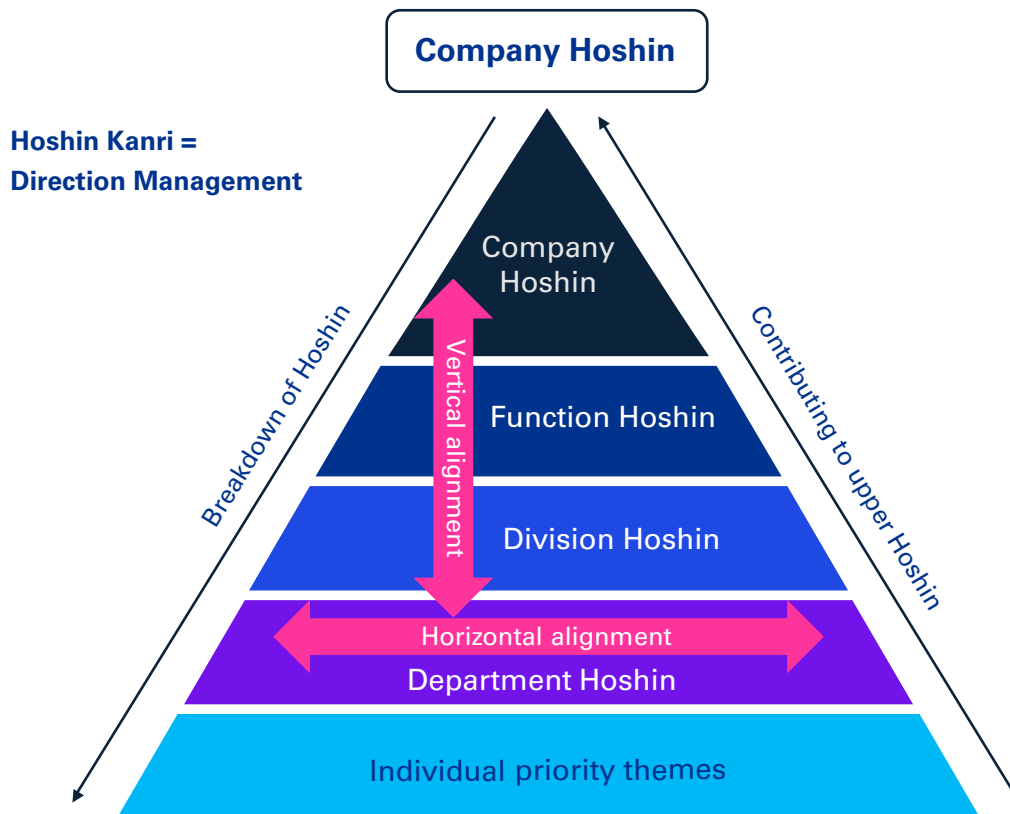
## The need to fill the execution gap

Lean and similar process improvement philosophies have had various levels of impact in financial services and unfortunately, in some cases, a somewhat tarnished reputation through poor application. Often, this is the result of cherry-picking parts of the much-admired systems from Japanese manufacturing organizations and missing some of the key enablers. A good example of this is what Harvard Business Review (HBR) describes as the ‘execution gap’ between the strategic ambition and objectives of an organization and a culture that is capable of learning, problem-solving and aligning their energy with a few critical and measurable priorities.<sup>6</sup>

The HBR article describes this as an annual process that engages the entire organization in aligning their efforts to deliver the most value to customers in the most efficient way and giving everyone a sense of purpose with tangible improvement metrics.<sup>7</sup>

In several of the more efficient Japanese automotive firms, the concept of Hoshin Kanri exists to challenge the whole organization to continually focus on the North Star (the ‘Hoshin’) and to adopt management principles (‘Kanri’) that enable continual learning, organizational problem solving, pace and agility to pivot while remaining steadfast on achieving three to five simple strategic objectives.

## Hoshin Kanri strategic planning system



Source: KPMG International interpretation, January 2024.

<sup>6</sup> Harvard Business Review, “How the most successful teams bridge the strategy execution gap” (November 2017).

<sup>7</sup> Ibid.



## Adapting Hoshin Kanri to the banking sector

Famously in 1962, JFK was visiting the NASA Space Center. During his visit, he noticed a janitor carrying a broom. He walked over to him and said, “Hi, I’m Jack Kennedy. What are you doing?” The janitor responded, “Well, Mr. President, I’m helping to put a man on the moon.”<sup>8</sup>

This is the level of alignment and commitment that is required in a learning organization: driving value and innovation but also being unmatched on efficiency, which is seen when organizations adopt the cultural ‘Hoshin Kanri’-enabled aspect of Japanese automotive cultures rather than just the tools of lean process improvement.

When combined with the relentless focus on value that exists in manufacturing environments and tools such as value analysis/value engineering (VA/VE), banks have the opportunity to focus on where value can be created and costs can be reduced.

Often, this step is not managed effectively, with many banks focusing on costs that can be removed, without further analysis on the value that could be created through the services they provide to their customers.

“Bank executives should develop an insightful CTS metric cascade and orchestrate a mechanism to engage the enterprise on the equivalent of their Hoshin process. The initial value is in the dialogue with people to help them understand the impact they can make through a VA/VE challenge, then ultimately execute it as a fully aligned, highly effective problem-solving team.”

### Owen Lewis

Global Lead for Banking Cost Transformation  
KPMG International and Partner  
KPMG In Ireland

## Considerations:

1

Review the mechanisms your organization has in place to drive commitment and action with tangible metrics — are they driving the impact you are expecting? Do people feel they have clear line of sight to make a valuable contribution?

2

Sometimes the most important investments are those that get the organization working together across the front, middle and back offices of the bank, as this is where collaboration is built for bigger things to come. Connect your strategy execution road map or investment plan with a combination of priority areas (such as regulatory) backed by the strongest personnel and the most compelling business case.

3

Define your strategy in tangible and meaningful metrics against a baseline, and segment this into smaller pieces that can be influenced and delivered across the organization.

4

Be prepared to pivot when things change. Think of the North Star as the destination in your GPS and management as the routing algorithm. Take steps to ensure you foresee challenges quickly enough and make decisions on detours that will get you where you want to be at the time you committed.

5

Consider what can be learned from highly productive organizations, including those outside the banking industry.

<sup>8</sup> The Business Journal, “What a NASA janitor can teach us about living a bigger life” (December 2014).



# Get ready for the next wave of cost and value transformation

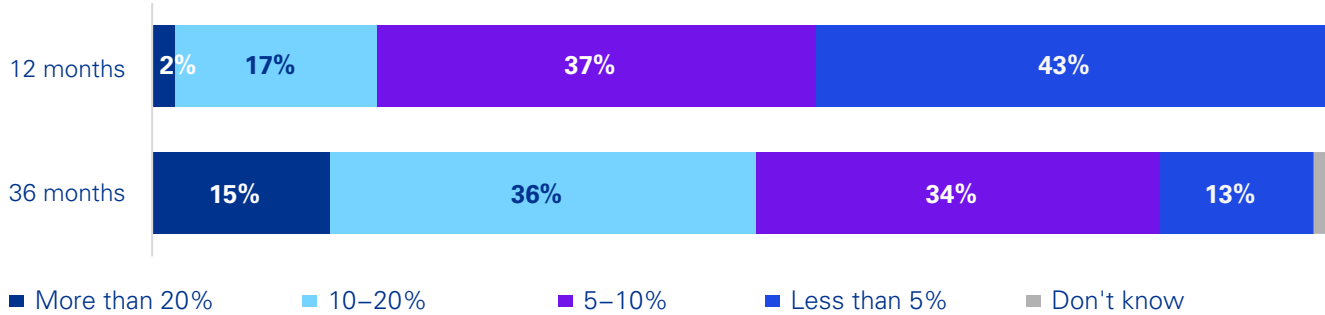
## Key insights

- Banks have a strong ambition to deliver increased value at a faster pace through their cost and value transformation investments.
- Bank executives are confident that strong cost-base mapping is in place. Cost-reduction targets will likely be aggressive and significant.
- Emerging technologies, such as generative AI, will likely be critical in helping to unlock costs that have been difficult to access in the past.
- Leaders expect the next wave of cost and value transformation investments to extend beyond traditional frontline functions and into the FTE base in corporate-headquartered departments and functions such as Finance, Risk and Compliance and Marketing.
- The most significant barriers to cost and value transformation are related to leadership, momentum and buy-in throughout the organization.

## Leveraging the opportunities — What are global banks focused on?

The KPMG Banking cost transformation survey showed that despite recent improvements in CIR, there is a clear need to deliver additional value — and at a greater pace — in the next wave of cost and value transformation investments. Research suggests that this will be in the region of 10 percent in cost efficiencies over the next 12 months and as high as 20–30 percent over the next three years.<sup>9</sup> Set against an inflationary headwind, these will be significant targets to achieve.

### What are the cost-saving targets for banks over the next 12–36 months?



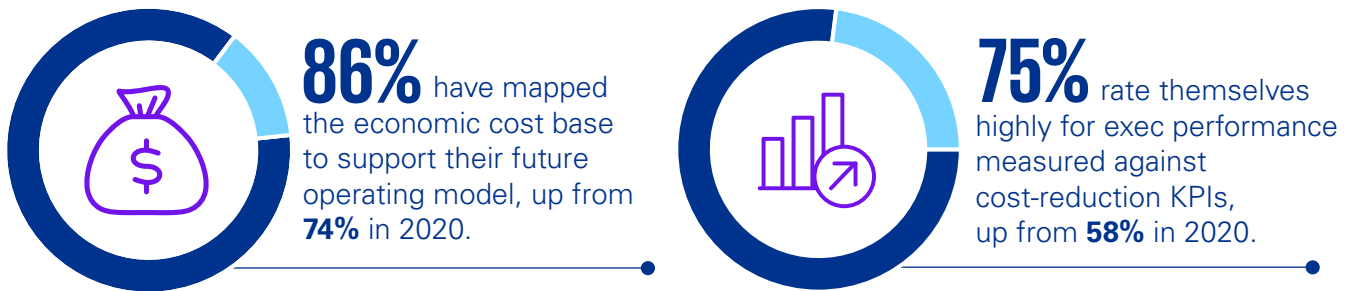
Source: KPMG International, “Banking cost transformation survey” (November 2023).

<sup>9</sup>KPMG International, “Banking cost transformation survey” (November 2023).



Based on the foundational work that many banks have already put in place, leaders are more confident about where the costs sit. Eighty-six percent of bank executives feel they have strong cost-base mapping in place, with three out of four believing they have the right incentives in place for leaders to achieve their targets.

In KPMG professionals' experience working with bank executives, many examples point to the impact of these executives' investments on the operating expenses of contact centers and branches that shift to digital channels, the front-to-back digitization of core value streams such as personal lending and mortgages, and the consolidation of functions to drive scale. However, unanticipated headwinds, changes in customer demands and the challenges of stopping to do certain things means that all too often the gains made are reversed as other costs are added.



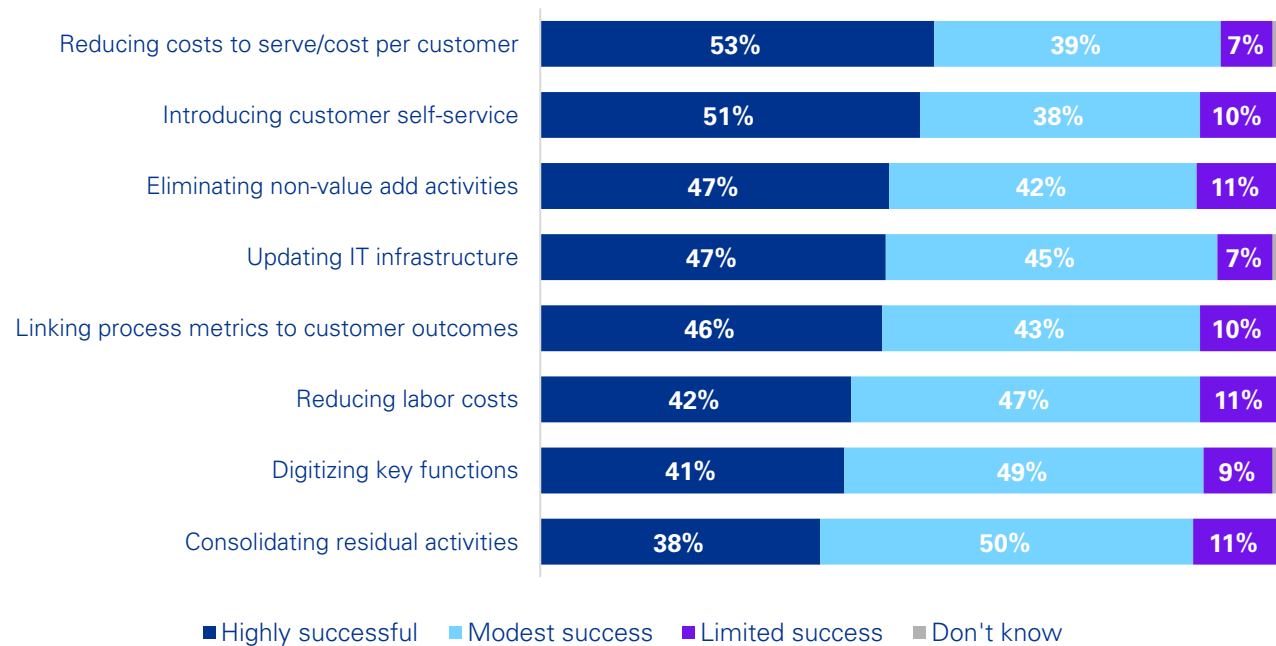
Source: KPMG International, "Banking cost transformation survey" (November 2023).

As banks look at the next wave of cost and value transformation investments, the themes are consistent as the strategy begins to extend beyond traditional frontline functions into the FTE base in corporate-headquartered departments and functions such as Finance, Risk and Compliance and Marketing.

There's also more focus on controlling and optimizing third-party spend as a faster way to savings than what has sometimes been achievable with internal functions. And outsourcing is becoming another important lever in the effort to reduce costs by becoming more central to their operating models.

During the survey, banking executives ranked the considerations that were highest in their strategies, and these are consistent with first-hand observations of KPMG banking professionals.

### The biggest factors that banks are considering to drive cost efficiencies



Source: KPMG International, "Banking cost transformation survey" (November 2023).



## Case Study: A winning combination

### How KPMG in the UK helped a large global bank find and reinvest US\$2 million to leap forward in tech

This large global bank had been underinvesting in technology for several years and, as a result, had become a very people-intensive business. There was a growing need for technology transformation, and the bank had two important objectives: To find cost savings in the bank's operations and reinvest those savings into building out its technology capabilities.

KPMG in the UK was selected to work with the bank's leadership team to identify how much cost could be saved from the future-state operating model and how this could be reinvested in the business to improve efficiencies.

The team developed an end-client feedback program to help prioritize the challenges and opportunities ahead. Through this, it became clear that a significant shift in the use of technology would be required to better support resources across the customer experience and operation teams. The existing processes to complete a customer request or transaction were complex and could often take nearly three times longer than anticipated.

The KPMG team worked closely with the bank to make changes to the operating model and identify opportunities for improved front-end workflows, and to document management and cloud adoption to reduce costs. Through the work, the bank was able to save US\$2 million and invest this into a series of technology implementation projects. KPMG continued to support the changes that were introduced, along with testing and assessing user feedback to ensure everything was working properly as the transformation came to life.

## Considerations:

- 1 Engage with functional leads and senior leaders to ensure the strategic plan aligns with business objectives, and develop a success story to encourage and influence support.
- 2 Identify areas in the organization that have the potential to optimize costs. Consider opportunities to achieve early wins and build stakeholder buy-in.
- 3 Identify and set out key targets that need to be achieved. Identify who will be responsible to see these through to completion.
- 4 Ensure the team has capability and bandwidth to deliver the transformation plan.

“Cost and value transformation and technology transformation can work together hand in hand. When we looked at all the potential cost levers that could be pulled, KPMG professionals recognized that a lot of technology would be involved. And we had to work closely with the client to understand the people impacts of all the changes they were making... and how we could then help those individuals on their next path in the transformation journey.”

**I Isabel Zisselsberger**, Partner, Advisory, KPMG in the UK

# Key challenges that bank executives are facing in delivering their cost ambitions

## Key insights

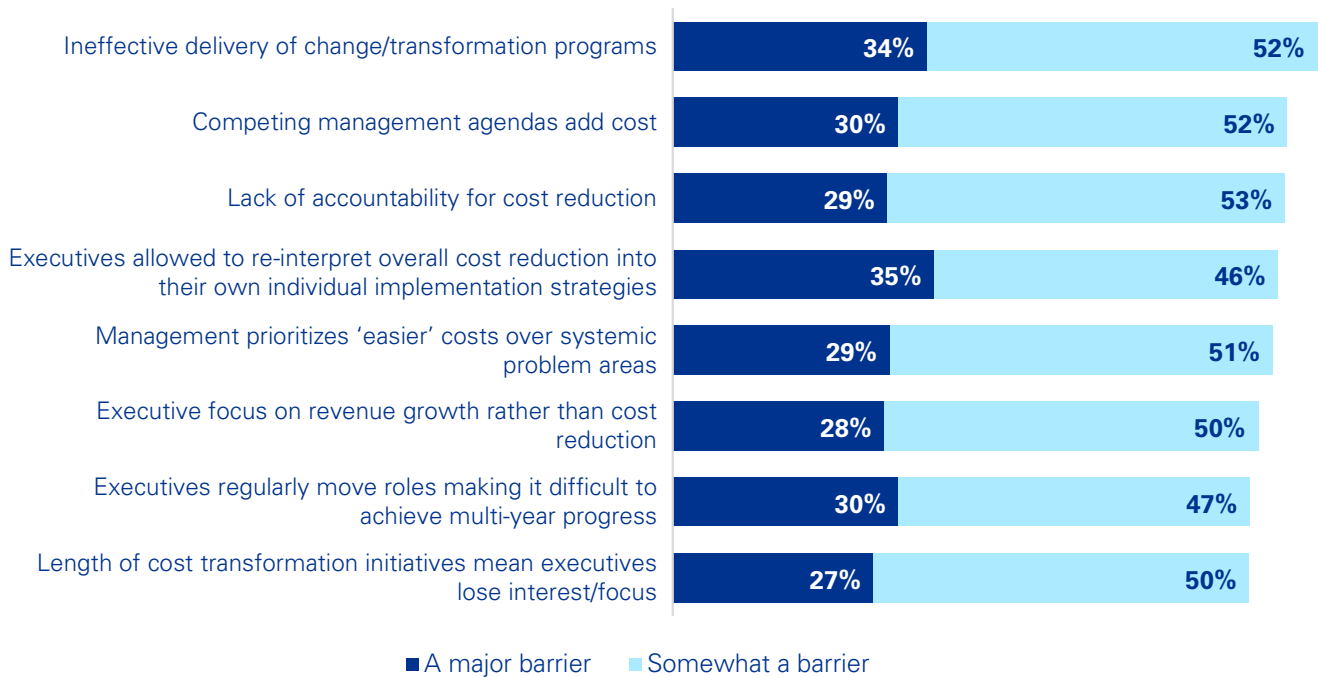
- Change programs are challenging to complete successfully despite short-term energy bursts.
- People in the bank who are tasked with delivering the change strategy may need to build or buy additional capabilities.
- Many of the barriers to successful cost and value transformation are related to leadership, momentum and senior stakeholder buy-in.
- Implementing new technology can be complex unless they are part of an enterprise-wide transformation and are able to work alongside existing platforms.
- It is important to understand the capability of colleagues in supporting the technology transition and the opportunity to upskill in new areas of focus such as data skills and generative AI.



With no shortage of ambition, it is critical for banks to execute and deliver their cost and value transformation commitments while also being able to adapt and innovate. However, in the KPMG banking cost transformation survey, respondents across all regions highlighted current economic conditions as the biggest risk to achieving their future cost-reduction targets.

The delivery of change programs is a key challenge as well, with almost 90 percent of respondents stating that their organization often struggled to deliver complete and successful outcomes. Often there are short-term and unsustainable energy bursts — sometimes driven by strategy refreshes and benchmarks. However, this can lead to low morale with employees feeling that they have been through another ‘done to’ project rather than being engaged throughout the development of the process itself.

### Potential barriers to realizing the benefits of cost and value transformation



Source: KPMG International, “Banking cost transformation survey” (November 2023).

In the KPMG banking cost transformation survey, bank executives identified several barriers to successful cost and value transformation initiatives that contribute to business and customer value. Many of these barriers related to a set of key topics: leadership, momentum and senior stakeholder buy-in.

Eighty-six percent say that ineffective delivery of transformation programs has prevented their ability to fully execute and realize the benefits in recent years.<sup>10</sup> Executives need to drive accountability by committing to the plan and making hard decisions to reshape the workforce.

“Before implementing a cost transformation project, goals and strategies need to be clearly defined.”  
China

“Clarify the objectives of the execution activity so that everyone knows why the change is being made and how it will support the overall strategic objectives of the bank.”  
New Zealand

“Define the performance indicators of the transformation activities to ensure that the transformation actions are carried out effectively.”  
US

“Clearly define the goals and objectives of the cost transformation to provide a roadmap for activities.”  
Canada

“Set clear targets.”  
UK

“Establish key performance indicators (KPIs) that will be used to track progress and demonstrate the impact of the cost reduction efforts.”  
Canada

Source: KPMG International, “Banking cost transformation survey” (November 2023).

### The challenge of tech solutions and new skill requirements

As expected, the challenge of implementing technology solutions as enablers of cost and value transformation is an important hurdle to overcome. Often, banks rely on a matrix of legacy systems to drive the engine of the organization. Implementing new technology can be complex and — unless it is part of an enterprise-wide transformation — these new systems need to integrate accurately and work alongside existing platforms to deliver the value expected. Leaders also need to consider the capability of colleagues in supporting the transition and the opportunity to upskill in new areas of focus such as data skills and generative AI (genAI). It is challenging to achieve the right balance between what is needed now and what is needed in the future.

There are also concerns regarding the associated financial investments required to implement new technology to achieve sustainable cost reductions. As one US survey respondent suggested, “The introduction of Artificial Intelligence and automation is difficult. These technologies require significant investment and training.”

Another respondent from Germany reiterated this concern, saying that, “Implementing the technology entails significant costs and time.”

There is no question that digital transformation remains a global priority for organizations that are seeking value creation based on the use of technologies for improved processes, products, services and experiences.

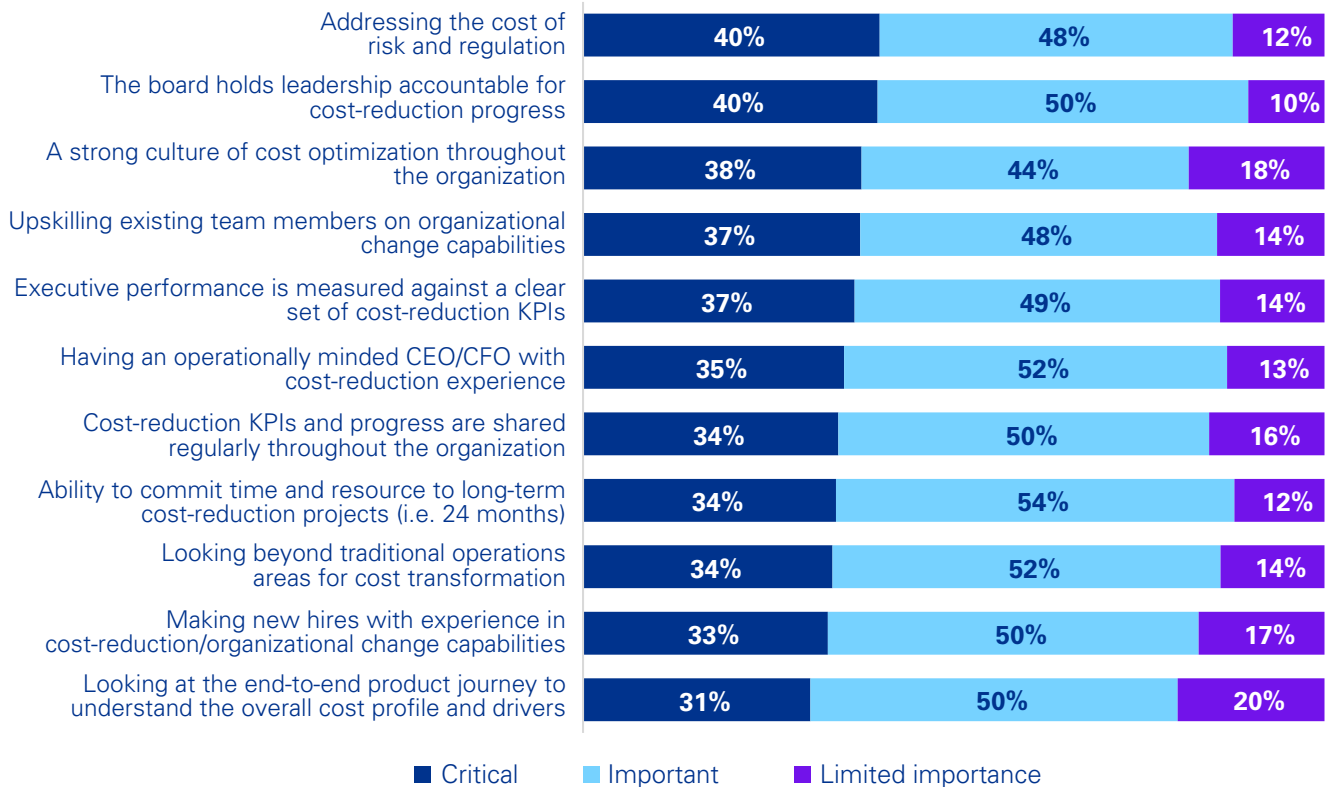
It does take time and money to achieve those objectives, and worldwide digital transformation spending is forecast to reach nearly US\$3.9 trillion in 2027 with a five-year compound annual growth rate of 16.1 percent.<sup>11</sup>

<sup>10</sup> KPMG International, “Banking cost transformation survey” (November 2023).

<sup>11</sup> International Data Corporation. *IDC Worldwide Digital Spending Guide, 2023*.



## The main focus areas for banks in unlocking cost and value optimization opportunities



Source: KPMG International, "Banking cost transformation survey" (November 2023).

### Cost of risk and regulation

The survey findings clearly point to the role of leadership in assessing the optimal ways for teams to adapt, adopt regulatory requirements and maintain an appropriate focus on risk management across a broad array of topics.

Banks are considering how they can break down different risk types and look for ways to mitigate them efficiently with a common taxonomy for defining the banks' functions and processes. This has enabled some banks to find synergies and opportunities to deploy digital capabilities across the risk and compliance agenda.

### Looking beyond traditional areas for cost and value transformation

Contact centers and operations represent a common area for banks to address costs, and they are undergoing renewed focus given the opportunity that genAI brings to the new wave of 'chatbot' agents. But banks often return year after year to the same areas in search of cost reductions. While these are areas, along with the branch network, where digital transformation can and does

make an impact, more banks are looking outside these operational areas towards head office functions where the volume of repeated activity may be lower. However, purpose and value in delivering customer outcomes is sometimes difficult to justify, and the cost per FTE is often higher.

### Having the right capabilities is key to actually delivering against the targets

It is worth emphasizing that while the language of cost reduction is common among bank executives and managers, the people tasked with setting the strategies, designing the initiatives and leading what are often complex implementation programs may need to build or buy additional capabilities to supplement their own. Do you need to develop a strategy that is benchmarked against peers or do you need experienced people to help put their shoulders to the wheel to deliver the outcomes? This is an important consideration in developing people within the organization and/or in contracting outside help.



## Considerations:

Barriers can be found across corporate changes: cultural, capacity, capability, politics, return on investment challenges, technology maturity and risk among others. It's important to use each wave of transformation to not only deliver an outcome but to tackle these barriers and unlock new opportunities.

- 1 Understand what skills will be required and how to develop a dynamic workforce capability through strategic workforce planning.
- 2 As part of your 'Hoshin cascade process', engage the organization in determining the capabilities and investment that will be required to deliver on the bank's commitments to improve the success rate in achieving the desired outcomes.
- 3 Identify and break down different risk types and look for ways to mitigate them efficiently.
- 4 Set meaningful targets and realistic timelines for achieving outcomes.
- 5 Track progress regularly in working towards the outcomes to assess the speed of progress, incremental improvements that are being made and the impact and roadblocks encountered along the way.

“Strategic Cost Management is a core discipline that drives material shareholder value. To harness that value, it needs to be fully embedded in the culture and business as usual (BAU) operating rhythm of an organization; both in near term actions and longer term decision making. Driving day-to-day efficiencies continues to be important, but how you make effective investment and transformation choices is where you can really unlock the creation of value.”

**Simon Parsons**, Global Head of Strategic Cost Management, HSBC

# Can banks be efficient and effective in managing risk?

## Key insights

- Despite the increase in regulations and compliance, the risk function is under pressure to reduce costs.
- New risks (such as cyber risk, ESG and geopolitical risks) have emerged and may require very different resources compared to the more traditional risks managed in established risk functions.
- Risk functions are exploring opportunities to offshore capabilities for the more mature and standardized elements of the risk framework to save additional costs.
- The use of generative AI is a top priority for risk and compliance teams.



## Risk transformation — The cost of managing risk and reducing costs while keeping the bank safe

Due to changes in the interest rate environment — and the associated liquidity risk exposure faced by banks following the March 2023 banking crisis — the risk function itself is under pressure to respond to regulatory changes while simultaneously having to meet cost-reduction targets. As mentioned, 87 percent of survey respondents noted that addressing the cost of risk and regulation was a main focus area for banks in unlocking their cost and value optimization opportunities.

It has become clear that banks need to rethink how they are managing the implementation and run-cost of all the regulations across their operations efficiently. That includes identifying potential synergies and considering how to automate and standardize processes.

According to a KPMG in the US report, *The generative AI advantage in financial services*, 68 percent of executives indicate that compliance and risk is the top priority area for the use of genAI in their companies. In risk management, genAI could be used to analyze historical data to better simulate different risk scenarios and stress-test investment strategies and portfolios.<sup>12</sup>

### Addressing new risks in a consistent manner

Organizations across the financial services sector face increasing pressure to grow, enter new markets and innovate while facing the need to do more with less.<sup>13</sup> This dynamic is not unique to the financial services industry. What is unique, however, is the highly complex nature of the risk, regulatory and compliance landscape that firms must navigate. First and second line executives have labored successfully to balance the cost associated with effectively managing risk with the commercial realities of the business.

That is no small matter.

But emerging challenges, such as cyber risk, ESG and geopolitical risks, may require very different resources compared to traditional risks managed in established risk functions (and financial risks in particular). Adapting and building a response to these will likely increase costs to the business. Treating new risks in isolation will likely lead to silo-building and reduced interconnectedness between risk types. But addressing this challenge will potentially open up an opportunity for many banks to unlock some important unused potential.

In addition, there are opportunities to explore offshore capabilities for the more mature and standardized elements of the risk framework to save additional cost. The journey starts by asking the right questions: “Why does the bank need different frameworks for financial and non-financial risks and different styles of KPIs?” “Why are these KPIs monitored and reported differently from a process perspective?”

Exploring the answers further can be the start of your bank’s transformation.

### AI: Emerging challenges and opportunities

AI is growing at pace and the technology is attracting a lot of attention as a result. The use of AI in various risk functions has demonstrated the potential for increasing productivity and reducing costs. While the initial implementation may pose additional risks and costs, long-term efficiency gains make AI a viable option for standardizing and automating processes.

<sup>12</sup> KPMG in the US, “The generative AI advantage in financial services” (March 2023).

<sup>13</sup> KPMG in the US, “Balance cost, efficiency and effectiveness — Considerations for Risk and Compliance Leaders” (2023).

Collaboration with advanced technology partners on AI also presents profound opportunities for innovation. Identifying these opportunities and leveraging them effectively can lead to significant benefits for the risk function.

But with these opportunities also come new potential challenges for risk and compliance leaders, such as algorithm hallucination, lack of customer consent and incoming regulations such as the EU AI Act in Europe, which is leading the race to regulate AI. While there is no regulatory equivalent in other jurisdictions at present, several countries are developing guidelines for responsible AI development and deployment, AI ethics and safety. All of these regulations and guidelines will need to be managed across banks' risk areas such as people, AI, cyber and operations.

## Case Study: Risk simplification

### How KPMG in Canada helped a Canadian global systemically important bank (G-SIB) realize CAD14–20 million through risk simplification

KPMG in Canada was selected as the partner to a Canadian G-SIB that had been seeking to expand its US presence. The bank was exploring ways to reset the baseline of how to meet its various risk management obligations, as well as altering the slope of their cost curve. Specifically, the client had looked for support to understand how their enterprise risk operates against its peers, while seeking to discover cost-saving opportunities to realize operational efficiency.

KPMG in Canada worked closely with the bank's leadership team to identify 10–15 percent of cost-saving opportunities on second line of defense operations and establish avenues for operational efficiency gains. Five functional areas were selected based on discussion with the client leadership team for cost and value optimization focus.

Leveraging data from Finance, HR, and Risk teams, KPMG in Canada was able to build a 'cost cube' to quantify the addressable costs allocated to each focus area. The KPMG team collaborated with the client to establish tailored cost levers and worked through the focus areas for improved operational processes, labor and resourcing plans, and technology enhancements. The team developed tangible opportunities to improve efficiency across the cost base that span functions and geographies.

The team validated findings and opportunities with key leadership stakeholders in each focus area, and developed a tactical road map to extract the savings. Through the work, the bank was able to realize CAD14–20 million in the first year in second line risk. KPMG in Canada continued to support the implementation of opportunities that were introduced, along with documenting change management plans to facilitate the cost and value transformation.

## Considerations:

A holistic assessment of risk processes in the light of regulatory requirements, the evolution of technology and cost efficiency are crucial for a successful risk transformation journey.

1

Identify potential opportunities for standardization and automation.

2

Determine how to eliminate silos between risk functions and encourage a collaborative culture.

3

Identify processes that need to be redesigned, with consideration to anticipated regulatory requirements and how the operating model will align with wider business objectives.

4

Explore offshore opportunities across mature risk areas such as sanctions screening and customer onboarding.

5

Review alliances and partnerships with advanced technology service providers.

# Driving value through digital transformation and generative AI

## Key insights

- Banks expect AI to make servicing customers' needs more efficient and effective.
- Despite their value, bank executives are concerned about the size of the financial investment required to implement new technologies.
- There is too much focus on technology delivery, without equal attention on ensuring that the right structures and mechanisms are in place to take costs out of the business.
- Large-scale automation of customer touchpoints has enabled some banks to accomplish high volumes, lower costs per FTE and lower overall unit costs.
- As banks continue to look for ways to cut costs, they need to be cognizant of customer experience levels and the possible consequences of reducing the CTS.



## Can AI help to reduce costs?

Globally, banks are recognizing AI and other automated technology as one of the highest potential cost-reduction levers. Eighty-eight percent agree that it will play a more central role in their future operating model.<sup>14</sup>

Survey respondents pointed to the huge potential they and their organizations are expecting from AI working hand-in-hand with their people to be more efficient and effective in servicing customers' needs.

### A shift in focus towards technology and digital solutions

Banks are investing in more efficient, automated processes to improve the effectiveness of their cost transformation activities. AI and digital solutions have been successful in automating and streamlining processes, reducing costs and analyzing big data sets across several key areas, such as introducing self-service applications and eliminating activities that don't add customer value.

Despite its value, in the *KPMG global tech report 2023*, 65 percent of executives surveyed were concerned about the significant financial investment that's required to implement new technologies and train employees.<sup>15</sup>

However, taking the focus away from innovation and settling for their existing tech would be a mistake from a cost reduction point of view.

A common challenge is putting too much focus on technology delivery, without equal attention on ensuring that the right structures and mechanisms are in place to take costs out of the business. To realize cost savings, the right operating model should be in place to ensure that happens. When automation is implemented effectively, it makes a tangible difference to group operation functions. Similarly in areas where AI has matured — such as AI-enabled chatbots — there is also a notable difference.

### The evolution of customer value

The *KPMG Global Customer Experience Excellence 2023–24* report, which surveyed more than 80,000 consumers on their experiences interacting with over 2,500 brands, showed that overall experience has dropped to pre-COVID-19 levels. This includes a six percent drop in the latter part of 2023 vs. 2022 in customers feeling they have been dealt with empathetically.<sup>16</sup> To some degree, this is likely a function of the extra care exhibited during the pandemic, which is now reverting to business as usual.

As stated, empathy dropped significantly in the past year while consumers were likely seeking help with cost-of-living pressures. Many organizations have been diverting consumers to lower cost digital channels over the past few years — channels that may not always deliver an empathetic engagement at a time and in a manner of the consumers' choice.



60% say AI will be more important for achieving cost-reduction targets, compared to 42% in 2020.

Source: KPMG International, "Banking cost transformation survey" (November 2023).

<sup>14</sup> KPMG International, "Banking cost transformation survey" (November 2023).

<sup>15</sup> KPMG International, "KPMG global tech report 2023" (September 2023).

<sup>16</sup> KPMG International, "Global Customer Experience Excellence 2023-24" (January 2024).

But new genAI technologies are giving organizations the ability to relate as empathetically as a chatbot's human counterparts — providing customers with the ability to interact with a brand in an intelligent and emotionally engaging way. As organizations continue to look for ways to cut costs, they need to be cognizant of the need to maintain an engaging customer experience while also exploring innovative ways to lower CTS.

### Where AI colleagues can add value

AI is changing the face of the technological ecosystem and unlocking unprecedented opportunities for innovation. Applied well, the anticipated economic benefits over this decade are significant. It's estimated that global GDP will increase by as much as 14 percent in 2030 due to the development and adoption of AI.<sup>17</sup>

The early adopters of AI are making striking progress in:

- Improved efficiency: AI is automating repetitive and time-consuming tasks, reducing the need for manual labor.
- Chatbots and virtual assistants: AI-driven chatbots and virtual assistants can provide 24/7 customer support.
- Cost reduction: Automation and AI-driven processes are reducing labor and operational costs. Telecoms, for example, are using AI to predict equipment failures, reducing downtime and repair costs.
- Enhanced cybersecurity: AI can detect and mitigate threats in real time by identifying fraudulent activities and protecting financial transactions.
- Content generation: AI is helping to create written, visual and audio content efficiently, aiding in marketing and content production.
- Supply chain optimization: AI is optimizing inventory management, demand forecasting and logistics, thereby reducing costs and increasing efficiency.<sup>18</sup>

<sup>17</sup> European Parliament, "Economic impacts of artificial intelligence (AI)", European Union, 2019.

<sup>18</sup> KPMG International, "Global Customer Experience Excellence 2023-24" (January 2024).



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Bringing it all together. The way forward...



# Bringing it all together. The way forward...





Despite the challenge to achieve sustainable cost outcomes amid global economic cycles, there is renewed enthusiasm among banking leaders for some of the 12 levers — particularly high-impact digital capabilities, such as AI, that have the potential to support their cost and value transformation strategies.

There is also an evolution in banks’ thinking where they are combining cost and value when forming their strategies to deliver better customer experiences and more efficient operating models — rather than seeing them as one or the other.

This isn’t easy. It takes time and lots of learning to achieve this level of strategic execution.

### Three steps towards successful cost and value transformation

The broad learnings gained from KPMG professionals’ experience with banks and other financial services organizations (and what is seen in other industries such as Japan’s manufacturing sector) leads to three steps for banks to consider in developing their cost and value transformation strategies and assessing, funding and executing the supporting business cases.

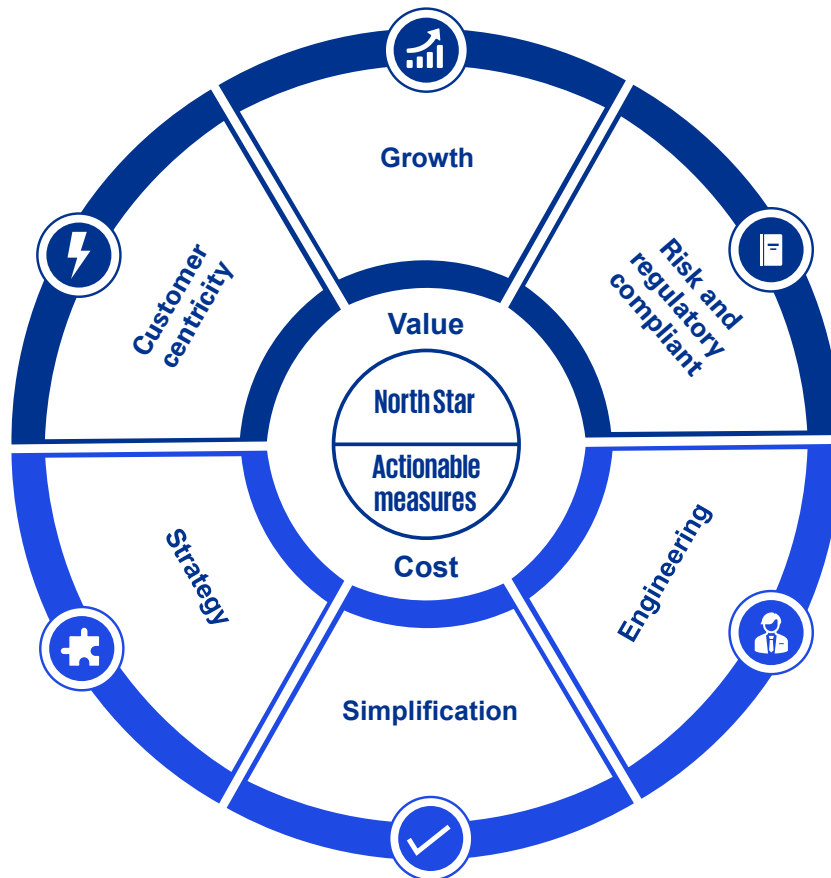
First, think about value *and* cost as the main optimization

objectives. In some banks, there is more investment in contact centers or relationship managers to drive differentiated service and increase market share. When tied with AI supported co-pilots, this can be a powerful resource for banks to invest in.

Second, design the cultural mechanisms that will have the biggest impact for your organization. For some, this can be top-down cost boards and cost management units tied to zero-based budgeting concepts. For others, more value may be achieved through a Hoshin Kanri-style concept to fully align your organization around the highest-impact investments.

Third, start measuring the real costs that exist across entire value chains and the options you have that will move the value equation in the right direction vs. just cutting costs, leaving the functional elements underdeveloped and finding that costs begin to creep back into the business over time.

## Cost value wheel



Source: KPMG International, February 2024.

## KPMG can help

KPMG has developed a 12-lever model that sits alongside VAVE thinking and provides banks with an opportunity to consider their options for increasing value and reducing the CTS. With most banks endeavoring to drive value with one or more of the levers, it continues to maintain its relevance.

Determining how best to apply the 12 levers in combination, and in what sequence, is a critical part of the planning phase. Often, it's also the reason why banks fail to realize their ambition by placing too much focus on elements of the engineering levers without considering the cultural aspects, simplifying the organization and making better and faster decisions.

Alongside these measures, we are increasingly seeing banks consider how they can leverage their balance sheet in a more optimized way to take advantage of capital redeployment as part of a continuous adaptive execution of the North Star strategy.

## 12 levers of cost and value transformation

Macro cost lens	12 levers of cost reduction	Example opportunities
1. Strategy	1.1 Geographies, markets, products	Reduce presence in low-performing customer segments and product areas
	1.2 Operating model and balance sheet	Reduce the cost of funding by optimizing the balance sheet
2. Simplicity	2.1 Organizational model	Reduce organizational complexity, including reporting, decision-making and governance structures
	2.2 Transformation optimization	Create a core organizational capability around transformation
	2.3 Cost management focus	Drive a cost focus through strategy and accountability
3. Engineering	3.1 Digitization and operational efficiency	Digitize work from front to back office and drive enterprise-wide automation
	3.2 Channel optimization	Digital shift with interventions to drive behavioral change
	3.3 Organization design and people	Drive the simplification of the organizational design throughout the bank, focus on spans and layers and realignment of pay and rewards
	3.4 Technology optimization	Accelerate the migration of critical environments to the cloud, decommissioning of the obsolete applications and removal of data centers
	3.5 Property optimization	Rationalization of operations between head offices and regions
	3.6 Sourcing and supplier management	Drive third-party spend down through challenge of integrated supply and demand
	3.7 Tax and legal optimization	Optimization of tax and legal structures

“Cost and value management is a strategic capability needed in banks to help maximize shareholder value. This is even more important due to the changing nature of the workforce, the move to cloud technologies, and agile investment delivery. Providing transparency of costs and investments benefits across the value chain (process, service, asset, etc.) between the suppliers and consumers of costs in the bank instead of functional silos allows better outcome management, aligned to the strategy of the bank, and decisions to be made on cross-functional optimization. However, accountability is key, and this capability needs to be a partnership between the CFO and broader C-suite, with senior mandate from the top to be successful.”

**Minochehr Vania**, Partner, Financial Services Finance Transformation — Cost and Value Management Proposition Lead, KPMG in the UK





## KPMG – Leaders in cost and value transformation

KPMG firms have an international team of cost and value transformation professionals who have worked with the world's leading global, regional and local banks. We can help assess potential earnings improvements, define functional cost-saving strategies and develop an execution plan tailored to your organization. KPMG professionals:

- 

1 Have deep experience in helping clients drive value by creating integrated digital strategies, improving M&A integration and organizational alignment and restructuring operating models. We dig deep into the root causes of inefficiencies and provide holistic insights that can help make your organization more responsive, cost efficient and effective in the face of change.
- 

2 Are driven by data, providing you with data-led insights on your position against global and regional industry trends, enabling:  
a. Knowledge of where to focus cost and value optimization efforts.  
b. Identification of cost and value optimization opportunities.  
c. Holistic views of cost anatomy at both enterprise and functional levels.
- 

3 Know how to facilitate true organizational alignment around change, with engagement and commitment at the C-suite level and visible ownership by the organization's leaders. We help to embed sustainable change by working back from the target state and identifying the key steps to get there.
- 

4 Have broad and deep expertise. The breadth of our cost, change and functional expertise means we can identify, design and deliver change across the organization. Our sector experts understand the key drivers in your industry, the competitor set and the sector-specific risks that need to be mitigated.
- 

5 Will work with you as a collaborative partner; to comprehensively understand your business and constructively challenge you along the way.

## Industry analyst recognitions and accolades

### **KPMG firms recognized as one of the “World’s Best Management Consulting Firms” in Banks, Insurances and Financial Institutions by Forbes.**

KPMG firms have been recognized by Forbes as one of the “World’s Best Management Consulting Firms,” receiving stars in all 27 industries and categories, including Banks, Insurances and Financial Institutions. Forbes awarded KPMG Financial Services professionals with a top five-star rating, for being “very frequently recommended” by thousands of customers and consultants in numerous countries around the globe.

The annual ranking recognizes KPMG firms for their capabilities in delivering insights-driven consulting services to commercial and public sector clients across the globe.

### **KPMG named a Worldwide Leader in the IDC MarketScape: Operations Improvement Consulting Services 2023-2024 Vendor Assessment**

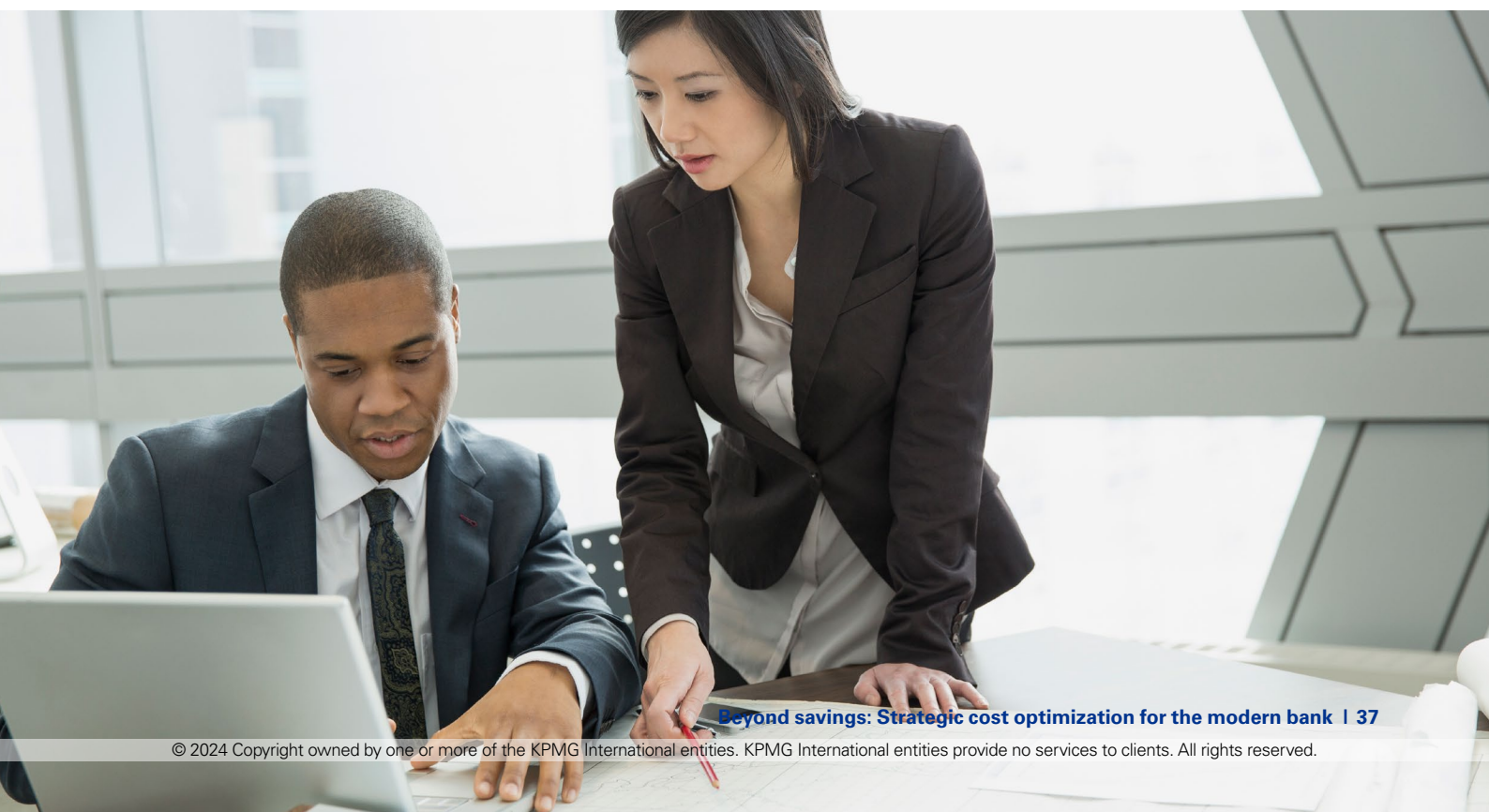
KPMG has been recognized as a Worldwide Leader in the IDC MarketScape Worldwide Operations Improvement Consulting Services 2023-2024 Vendor Assessment. The report notes “KPMG is seen as a practical and patient firm that can pivot when necessary. These three aspects are not always possible with business consulting providers that support operations improvement work.” Further, “KPMG’s assessment methods and playbooks provide a practical baseline for organizations making operation model shifts. The company exhibits patience through its willingness to listen and sense a problem instead of rolling through a set approach with clients.”

### **KPMG named a global Pacesetter (a Leader among ALM Intelligence Pacesetter Research: Digital Transformation & Digital Services 2022–2023)**

According to the report, “For KPMG, digital transformation is about solving business problems using technology as a solution-enabler. In this sense, digital transformation engagements for KPMG are ‘experience transformation projects.’ KPMG’s approach to digitalization is summed up in what it calls the ‘Connected. Powered. Trusted.’ organization, where a fully digitally-powered business model utilizes total cross-organizational connectivity, the latest advanced technologies, and laced with embedded risk and compliance frameworks.”

### **KPMG named a Leader in The Forrester Wave™: Customer Experience Strategy Consulting Practices, Q4 2022**

Forrester’s 28-criterion evaluation of customer experience strategy consulting providers identified, analyzed, and scored the 14 most significant providers. KPMG was one of only four providers named a leader, receiving one of the three highest scores in the strategy and current offering categories. According to the report, “KPMG powers CX revolutions through culture transformation. KPMG has built its CX strategy consulting practice in the past decade, leaping forward through a combination of external acquisitions and internal investments in service development, staff, and training.”



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