A Top-Down Strategy for Accelerating Business Performance in Banking

Abstract

In a competitive global market, banks are forced to work harder to retain customers, generate more revenues, build and maintain a competitive advantage, and comply with regulatory requirements. Even as they focus on rejuvenating their business, enterprises need to constantly improve efficiencies in their practices and processes across their lines of business (LOB).

Top-down performance analysis provides a structured method of arriving at and mitigating the root cause of process inefficiencies, while enabling banks to enhance their business performance. This approach involves analyzing financial metrics and business performance, as well as the organization's functional and process performance. Banks can effectively leverage this top-down approach to protect their balance sheets and create better ways of generating revenues.

Improving Business Performance

Senior bank executives constantly strive to improve the financial performance of their bank and their LOBs. This often involves increasing the geographic spread of the business, enhancing profitability, and reducing the non-performing asset portfolio. Increasingly, these goals depend on the ability to improve operational efficiencies and manage costs to mitigate specific challenges such as:

Re-aligning operating costs

Banks need to retain and attract customers by offering differentiated services while reducing costs and ensuring regulatory compliance. Another key requirement is to realign operating budgets to accommodate technological updates and the payment of non-compliance penalties. To partially offset the penalties paid, banks set aggressive cost-saving targets to manage budgets for customer-facing service improvements and ensure consistent investor returns.

Plugging gaps in regulatory compliance practices

Implementing streamlined compliance processes is important to eliminate the risk of penalties. Banks require cost-neutral investment models to offset flat or negative growth in their core segments and handle tighter compliance controls. From TCS' analysis of financial reports of various banks, some banks might be forced to spend as much as 30–40% of their discretionary budgets on ensuring effective compliance.[1]

Improving cost-income ratio

TCS' research, based on data of multiple banks, showed that bringing down the cost-income ratio by 300–500 basis points on a constant revenue base can help banks speed up the much needed investments in technology and compliance areas.[2]

Eliminating Inefficiencies through Root Cause Analyses

The challenges faced by banks have deep-rooted origins in their internal practices and processes, which increase depending on the LOB, current market scenario, local practices, and evolving compliance norms. Determining the root cause of inefficiencies can be tricky and banks frequently tend to apply quick-fix solutions as they deal with shrinking budgets and shorter timelines. By not focusing on the underlying factors, banks end up duplicating efforts and increasing non-productive work. Addressing problems at the root can enable banks to identify areas for targeted interventions. The top-down performance analysis approach helps isolate the root of inefficiencies, and forges the missing link between financial performance and operational business process efficiency.

Adopting the Top-Down Business Performance Analysis Approach

Top-down analysis involves identifying how financial and business parameters including profitability, revenue, cost, non-performing assets, penalties, and provisioning are impacted by the performance of the underlying LOB, department, function and processes. The analysis works as the first step in defining strategic priorities for the bank while dealing with complex and conflicting demands triggered by customers, the economic environment, competition, and regulators.

A set of functions and processes form the foundation for delivering products or services to customers, generating revenue for banks. The major cost components for banks include interest paid to customers, fees, commissions, operating expenses, and now penalties and provisions.

While mature banks have set up efficient cost centers to gather a granular cost break-up, many banks struggle to calculate costs at the process level, and are forced to make decisions with department level data. This is a major stumbling block in creating a good business case for cost saving initiatives. To make smart decisions related to cost and achieve improvements, banks need to perform a structured analysis of cost by breaking the cost component down to the process level.

The performance of business functions is typically measured using metrics such as cost per customer acquisition, revenue per customer, and net credit loss. On the other hand, performance of a process is measured by operational metrics such as cycle time, error rate, full time employee (FTE) productivity, rework rate, and first time right. These metrics influence the cost of the process.

A leading bank applied the top-down analysis approach to identify areas that needed intervention across various LOBs in order to improve its cost-income ratio. 900+ processes were studied, covering 85,000+ FTEs. The top 125 processes were considered to define a holistic simplification program. The bank identified high cost functions such as collections and underwriting, broke down the cost at each level, and identified 5–7 cost centers with the highest spending. Subsequently, it was able to link them to the processes that were accelerating the costs.

Ways to reduce process costs include:

Addressing high-cost processes

Identifying high-cost processes and analyzing unsatisfactory operational metrics can help in formulating plans to improve the process cost. This helps improve the cost at the business level, and finally, the cost to income ratio at the balance sheet level.

Reducing cost base

Key cost factors to be considered are the break-up of fixed and variable cost, and directand indirect cost. In most cases, staff or employee cost is one of the key contributors to total cost, along with funding and risk coverage cost.

Mitigating operational issues

Issues at the operational process level can impact revenues at the balance sheet level. For instance, repeated requests for documentation and delays in approving loan might cause prospective customers to exit mid-way impacting conversation rate, increasing the cost of customer acquisition. These inefficiencies must be addressed to ensure that revenue is not impacted, and the key indicators in the balance sheet are not negatively affected.

Blending Top-Down and Bottom-Up Approaches to Accelerate Transformation

While the top-down approach helps create an effective plan for improving areas that need intervention, transformation initiatives need to be prioritized based on different factors. These include the required investment and the available budget, implementation time, customer impact, the associated risks, and the benefits that will be delivered in the short and long term. The bottom-up analysis approach works as reality check, as it unearths basic challenges in the process, shortcomings in organizational capabilities, and performance gaps that need significant change to achieve the transformation targets. In addition it also provides small improvement opportunities which can be bundled with larger initiatives identified from top down analysis.

Top-down analysis provides management with a quantitative, objective-driven, and integrated approach to developing and implementing an organization-wide plan. On the other hand, the bottom-up approach helps stakeholders make decisions and identify priorities to be pursued. Thus, by strengthening top-down analysis with a bottom-up approach, banks can speed up their transformation journey and enhance their business benefits.

Conclusion

The top-down approach works as the foundation for any transformation program and helps CXOs and business owners work cohesively to achieve improvement targets. While many look at this approach as time-consuming and daunting, the initial effort that goes into analysis helps banks define a realistic and integrated transformation plan.

Banks can take a structured, top-down approach to identify the right focus areas for transformation, trace the ground-level problem based on high-level business factors, and help set clear ownership and directions for improvements. This approach aids the integration of various improvements areas across segments and departments to build a high-level view for strategic decisions. The top-down approach also enables the implementation of a benefit measurement framework, allowing banks to gain a holistic view of the value created by transformational initiatives.

References

[1] TCS internal research based on publicly available data of several leading banks

[2] TCS internal analysis of publicly available strategy announcements by banks working to improve their cost to income ratio

About The Authors

Ajay Deshpande

Ajay Deshpande heads the ValueBPS™ Group within the Business Process Services unit at TCS, with a focus on the BFSI domain. A part of TCS for the last 20 years, he has managed large transformation programs, product development, and operations for customers in North America and Europe.

Mehul Mody

Mehul Mody is with the ValueBPS™ Group in the BFSI BPS unit of TCS. He is responsible for reimagining, designing, and delivering innovative transformation solutions to clients, enabling them to address their strategic priorities and deliver a best in class experience to their end customer.

About TCS' Business Process Services

Enterprises are looking to drive sustainable growth and profitability, and stay relevant to their customers in increasingly regulated, competitive, and global markets. TCS fosters proactive and strategic partnerships with its clients to achieve these goals.

Our ValueBPS approach helps enterprises achieve significant and sustained business outcomes by leveraging our deep domain expertise and operations redesign methodologies such as FORETM. Our approach also encompasses robotic process automation (RPA), analytics and insights, our unique IT-BPS synergy, Business Process as a Service (BPaaS) models, and business process management (BPM).

TCS' Business Process Services include core industry-specific processes, analytics and insights, as well as enterprise services such as finance and accounting, HR, and supply chain management. Our cross-industry solutions ensure faster realization of business value. TCS has consistently been recognized as the leader in various service lines by leading analyst firms.

Contact

Visit TCS’ Business Process Services page for more information

Email: bps.connect@tcs.com

Blog: Agile Business

Subscribe to TCS White Papers

TCS.com RSS: http://www.tcs.com/rss_feeds/Pages/feed.aspx?f=w
Feedburner: http://feeds2.feedburner.com/tcswhitepapers

About Tata Consultancy Services Ltd (TCS)

Tata Consultancy Services is an IT services, consulting and business solutions organization that delivers real results to global business, ensuring a level of certainty no other firm can match. TCS offers a consulting-led, integrated portfolio of IT and IT-enabled, infrastructure, engineering and assurance services. This is delivered through its unique Global Network Delivery Model™, recognized as the benchmark of excellence in software development. A part of the Tata Group, India’s largest industrial conglomerate, TCS has a global footprint and is listed on the National Stock Exchange and Bombay Stock Exchange in India.

For more information, visit us at www.tcs.com