

Cost reduction

A first step towards profitable growth

Despite AuM growth, the average cost-income ratio stagnates around 80% in Swiss Private Banking and an increasing number of small and medium banks record red figures. Reducing costs and increasing operating leverage seem inevitable to get back on a profitable growth track.

What our clients tell us

Profitability of the industry is under pressure

- The AuM revenue margin, especially commission related has decreased over the past ten years
- Growing regulatory and compliance standards have been increasing the complexity and the cost to operate
- Investments are required to catch-up on digital, maintain compliance of systems and attract talents
- Overall, there is a lack of scalability and operating leverage, with operating costs growing as fast as, if not faster than, revenues

There is an urgent need for Swiss Private Banks to act in order to improve the operating leverage

Our perspective

In such a situation, cost reduction is an initial - but required - step in the transformation journey towards profitable growth

Profitable Growth

Reallocate investment towards growth areas (e.g. markets, segments, products...)

Operational Excellence

Increase scalability and operating leverage, realign operating and business models

Cost Reduction

Quickly improve financials and unlock funds for investment in key areas

...as it allows building cleaner foundations and unlocking funds that can be invested in future growth

A pragmatic and systematic approach to optimize costs

Our experience shows success comes from a systematic activation of three complementary types of cost reduction levers with different time horizon and lasting impacts

1. Tactical cost cutting

2. Streamlining of operations and services

3. Strategic transformation of the operating model

Examples of initiatives

Reduce direct personnel costs

- Management span optimization and layers reduction
- Right-sizing and full-loading of front and operation teams, removal of low performers
- Pooling of support resources
- Salary adjustments to actual role and benchmark

Reduce third party spend

- Systematic review of high-value contracts, optimization, renegotiation of terms or termination (e.g. market data, telco, licenses)
- Reduction / optimization of contractors

Simplify and refocus capacity

- Product and service shelf rationalization and standardization
- Reduction of complexity drivers, SLA adjustments, and drop of non value-added activities
- Prioritization and cut through project portfolio, marketing & communication, trainings, and events

Optimize delivery

- Optimization and digitalization of core processes (e.g. onboarding)
- Team synergies and skilfulness, workload balance optimization

Rationalize infrastructure

- Real estate right-sizing (work from home) and locations (lower cost)
- Obsolete tools decommissioning

Refocus business model

- Footprint rationalization, turnaround or drop of unprofitable markets, segments, clients

Smart sourcing and procurement

- Group shared services, off/near-shoring, outsourcing, and partnerships
- Optimization of supplier portfolio, procurement pooling (e.g. group, peers), internalization of activities

Platform modernization

- Cloud enabled transformation, APIs and micro-services architecture

Simplify governance

- Legal structure simplification, optimization of governance bodies and reporting

Contact us:

Daniel Corrales - Partner, Geneva

dcorrales@chappuisshalter.com

+41 79 305 92 22

Loïc Paquette - Director, Geneva

lpayette@chappuisshalter.com

+41 79 554 92 11

How we can help

Examples

Cost reduction program	Cost reduction potential assessment workshop	Smarter and leaner organization and processes	Smart sourcing initiatives
Get full transparency on your cost structure (fact-based single source of truth), firm-up a cost reduction target, build a comprehensive action plan and make it happen	In a workshop with the top management, evaluate a cost reduction potential, based on internal and external insights, assess scenarios and prioritize required actions	Provide transparency on current efficiency and improvement opportunities, streamline and digitalize processes, optimize organizational structure and reallocate or lay off extra-capacity	Development of business case for outsourcing, nearshoring and offshoring of activities to mutualize and reduce costs

Success factors

1 Do not break the engine, understand cost and value drivers



- One typical pitfall is to cut costs across the board, without paying attention to what is behind the cut. The worst adverse effect would be that the bank ends up in a worse situation after cost reduction, destroying value, losing revenues and clients.
- One thing is to understand and address cost drivers, to free-up extra capacity to be laid off or reallocated, the other, not less important, is to understand value drivers to **avoid cutting into so called “good costs” that are critical to quality or value creation**. In this perspective, one good practice is to **stress-test scenarios to assess the impact on quality of service** and get a factual basis to inform your decision.

2 Manage change



- Reducing cost could be perceived as a positive sign of action, but could as well be frightening for others, including talents, who might be willing to leave the boat. To transition from cost reduction to profitable growth, you will absolutely need motivated and talented staff and leaders.
- This requires well thought and prepared change management and communication plans to **maintain motivation and retain talents**.
- You also need to **progressively onboard and empower the managers**, to ensure that defined cost reduction initiatives are applicable and to lead the implementation.

3 Make the effect last



- Experience shows that cost can pop up faster than the time it takes to get rid of them.
- That is why beyond a one-off initiative, optimizing cost is about transforming its operating (and business) model in order to **improve scalability and operating leverage**.
- Also, to make the benefits stick, **cost consciousness** should be embedded into the culture, the monitoring, and the governance of the bank to maintain accountability and discipline over time.

Why CH&Co.

- ✓ Deep knowledge of the Private Banking business and operations
- ✓ Proprietary benchmarks focused on the Swiss Private Banking industry
- ✓ Strong methodology elaborated and refined through past successful assignments for Private Banks and Wealth Managers of all size in Switzerland and abroad
- ✓ Tailor-made approach to adapt our methodology to the specific situation, objectives, and culture of the bank
- ✓ Action-driven and pragmatic recommendations, as our consultants are used to support Private Banks from the strategic assessment, throughout the implementation, to post-implementation monitoring

Please contact us to discuss your specific needs.

We would be pleased to work out and discuss a solution tailored to your specific situation and objectives.

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dcorrales@chappuishalder.com

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lpayette@chappuishalder.com

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