Saudi arabia cost savings

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Cost management in the banking industry often falls into focusing solely on cost-cutting. However, for cost improvements to be successful, they should be sustainable. This requires a continuous review of spending, optimizing current resources, driving efficiencies, and shifting savings to investments that deliver value to the bank and its customers.

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

Explore our survey data and get the latest insights on cost optimization in banking in this new report by KPMG International.

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KPMG International"s initial analysis of survey results from global banks,indicates a consistent decrease in banks cost-to-income ratio (CIR) pre-COVID, followed by an increase during FY19-21 likely due to staff, technology costs, and loan loss provisioning. Recently, improvements in CIR have been observed, largely due to top-line gain from rising interest rates that have boosted profitability.

However, with rising inflation, cost management has become more crucial for banks. 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.

While CIR and return on equity (ROE) are widely used to gauge bank performance, a deeper focus is needed to measure performance more broadly.

By considering customer metrics such as the cost-to-serve (CTS) and full-time equivalents (FTE) per customer, banks can focus on productivity, efficiency, and profitability. Implementing new technologies, simplifying processes, and introducing efficiency initiatives can increase customer value.

In the KPMG Banking cost transformation survey, 82 percent of respondents identified deep cultural challenges in achieving sustainable cost reductions, despite significant technology investments. Most banks aim to reduce costs, but their cost-reduction objectives often do not align with their broader ambitions, and a cost-culture mindset is not embedded throughout the organization.

Cost transformation in banks does not always permeate the entire organization, even when executives are compensated for meeting cost objectives. Some banks have implemented horizontal and vertical cost structures to align business needs with spending. Executives responsible for a vertical, such as retail banking, are also responsible for its associated costs.

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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 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. Set against an inflationary headwind, these will be significant targets to achieve.

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.