

# CAPCO

## **COST OPTIMIZATION FOR COOS**

EIGHT LEVERS FOR SUCCESS

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# INTRODUCTION

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**Over the last few years, high inflation rates and tighter competition have driven up costs and put pressure on margins, forcing financial companies to tighten budgets and adopt innovative solutions to maintain profitability. The upside is that firms laser-focused on cost optimization have often found they can increase top-line revenue growth and shareholder value, while positioning themselves to gain market share.**

**However, as markets evolve, can COOs rely on traditional cost-cutting levers alone or do they need to deploy a broader toolkit that empowers the whole organization to support cost optimization?**

Chief Operating Officers (COOs) have often been seen as the natural home for cost optimization, given the broad, front-to-back scope of their role. However, it is no longer sufficient to focus on cost-cutting measures such as headcount reductions or offshoring, which may offer only short-term or temporary results.

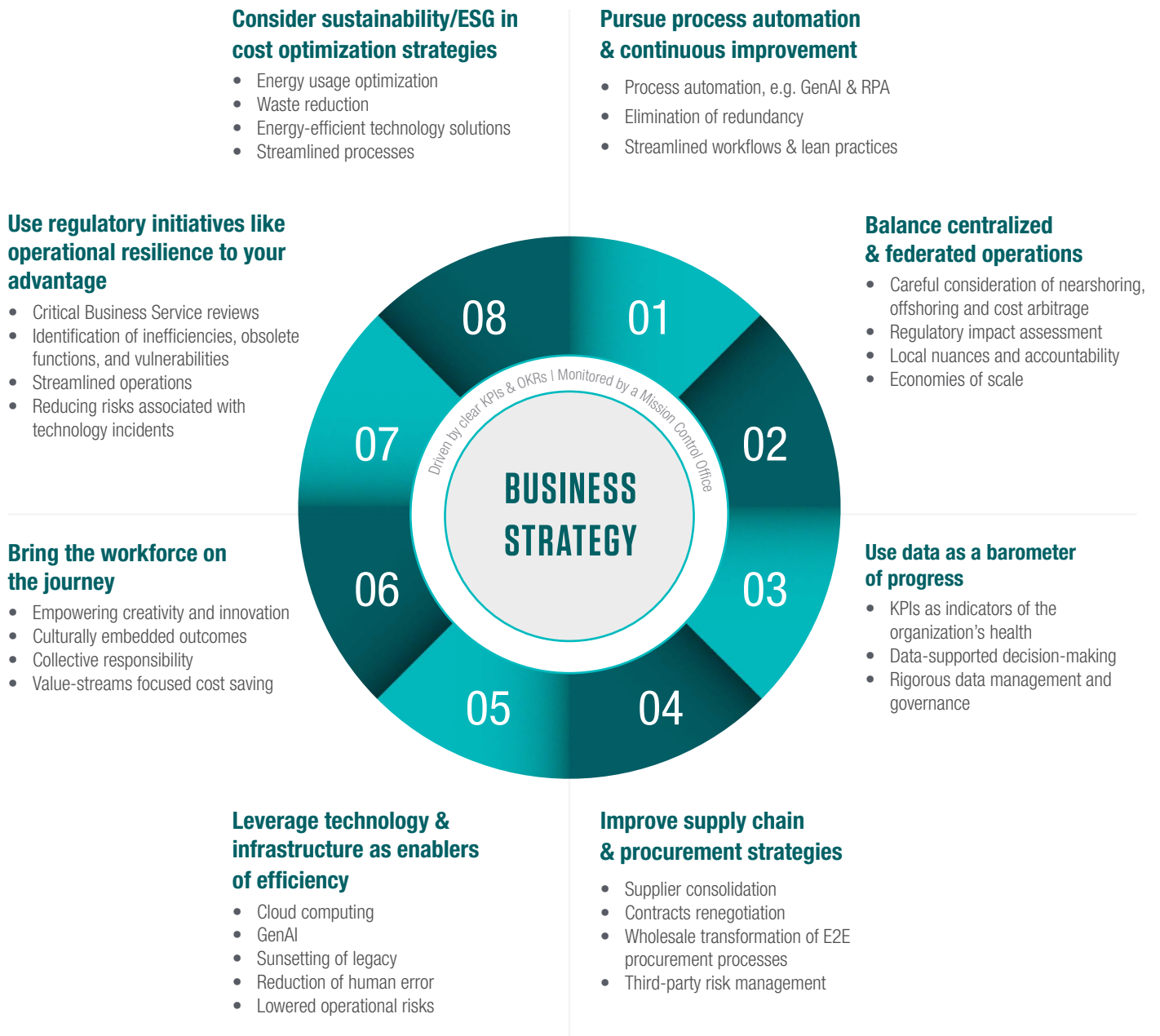
Instead, COOs and other financial services C-suite executives are broadening the set of solutions they use to achieve strategic objectives. Leading COOs are using levers such as automation and continuous improvement programs, building a better balance between centralized and federated operations, and applying data more assiduously to unlock operational improvements.

Applying these levers demands a more nuanced, collaborative, consistent and intentional approach, however, success can deliver longer term and more sustainable outcomes.

This paper identifies and discusses eight of these additional levers. Each has its strength, and together they can be harnessed to help the COO achieve broad-based cost optimization across the organization. Importantly, they also create a more empowered environment in which the entire organization can engage with the cost-optimization agenda.



# COST OPTIMIZATION – EIGHT LEVERS FOR SUCCESS



## 1. PURSUE PROCESS AUTOMATION AND CONTINUOUS IMPROVEMENT

For some time, process automation has been a mainstay in achieving operational efficiencies, especially via Intelligent Process Automation (IPA) and Robotic Process Automation (RPA). Further optimization gains can be made through the continuous review of processes to identify and eliminate waste, streamline workflows and improve efficiency.

The key here is to focus on enabling incremental cost savings and continuous improvement, rather than simply pursuing the big one-offs. Companies should focus on developing a customer-centric culture that emphasizes employee empowerment, cross-functional collaboration and waste elimination.

Implementing lean practices in the firm's day-to-day activities is key in supporting this, for example by:

- Prioritizing the standardization of work to ensure processes are repeatable, measurable and consistent
- Adopting a problem-solving culture where challenges are seen as opportunities for improvement
- Utilizing tools such as Value Stream Mapping and automation techniques (IPA and RPA) to support in streamlining processes, enhancing service-flows and driving long-term efficiency improvements.

Recently, a growing number of GenAI use cases have begun to be deployed to improve operational processes. Recent studies confirm the adoption of AI and the automation benefits it can provide, with a UK Finance survey showing that nine in ten financial institutions have deployed some level of predictive AI in fraud detection and back-office functions.<sup>1</sup>

That said, financial services players are understandably cautious, with many banks restricting or even avoiding GenAI deployment until they feel they have mastered the necessary principles, skills, controls and governance. Banks can take two steps to speed up GenAI adoption in their organizations:

- Identify and clearly define specific use cases, followed by the completion of pilots and proofs of concept
- Establish governance and control frameworks that support the adoption of AI-infused processes within functional/departmental operating models.

While the place of GenAI continues to be defined, few doubt that it will prove a key cost optimization tool going forward.



## 2. BALANCE CENTRALIZED AND FEDERATED OPERATIONS

Picking the right location strategy for operational functions – often making use of concepts such as nearshoring, offshoring and cost arbitrage – has long been part of the COO's arsenal of cost efficiencies. However, today's COO is as much concerned with maintaining the right balance between centralized and federated strategies as with short-term cost savings.

Both centralization and a more federal approach have their benefits in terms of cost savings. Centralization can facilitate economies of scale, whilst decentralization complements an agile-driven, lean organization. However, both can also generate disbenefits.

Whilst centralizing operations offers the opportunity to enhance control and standardization across the organization, it can lead to a diminished sense of ownership by individual teams, especially those physically removed from the central hub.<sup>2</sup> Decentralization, which offers great potential for increasing agility and adaption around local nuances, can lead to a fragmented and sometimes inconsistent quality of service.<sup>3</sup>

Getting the right balance means understanding the character of each process. For example, in the case of operations with a high or critical regulatory impact, centralization might offer the benefit of stronger controls.

In other cases, distinct steps within an end-to-end process may require specialized skillsets that are location-sensitive, making them strong candidates for decentralization.



The bottom line is that conversations prompted by the prospect of cost optimization quickly become discussions about the nature of the organization itself, whether that be actual or aspirational.

### 3. USE DATA AS A BAROMETER OF PROGRESS

Data is now almost universally viewed as a key asset by organizations ranging from supermarkets to global banks. Debate tends to center on the best way to harness data to gain insights into client and consumer behavior, with the goal of selling products or personalizing services.

Alongside this commercial potential, data can unlock profound insights about organizations themselves. For the COO, key performance indicators (KPIs), when meaningfully defined and monitored with an appropriate cadence, can provide powerful indicators of the organization's operating health and pain points.

This in turn can support the COO in the difficult decision-making that often surrounds cost optimization – revealing both quick wins and the best longer-term strategies.

Credibility, however, is critical. The successful use of data for operational decision-making requires rigorous data management and governance practices around the production of data itself. To be useful, data must have assigned owners and be governed by appropriately defined standards that are consistent across the firm.

With those standards in place, the latest data visualization tools can be deployed to provide the COO with powerful support for decision-making.

### 4. IMPROVE SUPPLY CHAIN AND PROCUREMENT STRATEGIES

The procurement function offers COOs notable levers for optimizing costs. These can take a simple form, such as negotiating favorable contract terms and consolidating vendor relationships, or involve wholesale transformations of the end-to-end procurement process.

Areas of focus include:

- Rationalization to gain headline cost savings on a range of services in third-party vendor, inter- and intra-group service arrangements
- Removing supply chain inefficiencies and operational workarounds that contribute to delays in the fulfillment of supplier and third-party obligations
- Structuring arrangements to help manage third-party risk
- Close collaboration with the CFO function to increase bottom line revenue through tighter management of vendor payments and their P&L impacts

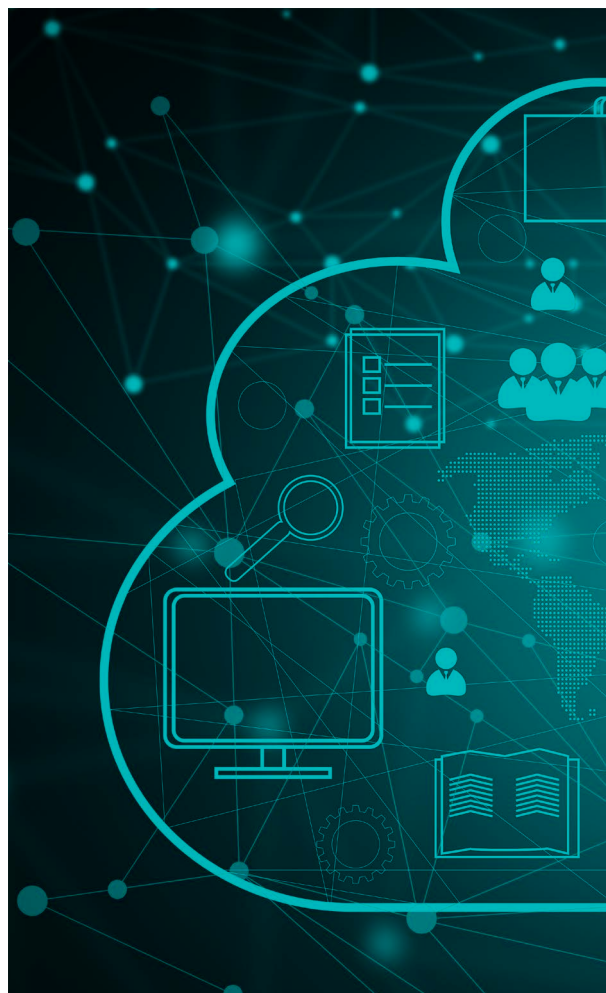
The right combination of activities can help secure cost-effective products and services and make a significant contribution to the overall cost-optimization effort.

### 5. LEVERAGE TECHNOLOGY AND INFRASTRUCTURE AS ENABLERS OF EFFICIENCY

Given today's rapid rates of innovation, technology and infrastructure continue to offer huge opportunities for enabling efficiency. COOs can deploy a variety of tools to upgrade technology infrastructure including cloud computing, Generative AI, and the sunsetting of legacy systems.

Cloud computing is fast becoming a differentiator for many firms on the efficiency front, with Gartner stating that by 2028, it will "shift from being a technology disruptor to becoming a necessary component for maintaining business competitiveness."<sup>4</sup> The research firm projects that worldwide end-user spending on public cloud services will exceed \$1 trillion in 2027.

As this suggests, more organizations are realizing the cost savings and scalability that cloud computing can offer, while improving speed of response to changing market demands through improved agility and innovation. These benefits tend to off-set the hefty initial investment required to uplift outdated legacy systems.



However, it is essential that organizations manage a cohesive, standardized and interoperable approach when implementing cloud technologies. Technical debt piles up rapidly, so an uncoordinated approach can result in a convoluted knot of interconnected systems and workflows – ‘spaghetti architectures’ – that incur significant costs.<sup>5</sup>

Across the firm’s processes and infrastructure, automation can improve efficiency by cutting labor costs and manual processing/keying, in turn reducing instances of human error and other operational risks as well as freeing employees to focus on more strategic work.

However, you can’t fix what you can’t see. Organizations may first need to build a big-picture view of their operations that highlights the disconnect between current process flows and how they should flow in theory. Here, process mining can prove a valuable tool for analyzing and visualizing business processes and identifying bottlenecks and inefficiencies.



## 6. BRING THE WORKFORCE ON THE JOURNEY

Although driven by the COO, a successful cost optimization strategy should involve the whole workforce and become everyone’s concern.

The notion of shared responsibility for corporate innovation has been successfully demonstrated in various organizations. For example, Google’s ‘20% time’ policy encourages employees to spend 20% of their time working on what they think will most benefit Google.<sup>6</sup> By empowering creativity and innovation at the individual level, cost reduction can also become an embedded mindset.

It’s one thing kicking off a targeted cost reduction program, but it’s another to continue pushing the agenda and engaging the workforce after the initial drive for efficiency. Firms often fall into the trap of hitting a target – a specific overhead reduction or profit increase – and then allowing efforts to drop off. Organizations that truly succeed in long-term cost reduction see it as a culturally embedded outcome, not a specific target or metric.

To achieve this, the wider workforce needs to feel empowered by the ‘why’ and understand where they fit into the puzzle as individuals.

When building this collective responsibility for cost reduction, it’s important to avoid wasted effort fighting over who saved the money. Traditional organizational structures can lead to competition among leadership about who ‘owns’ the cost save. Instead, adopting an approach focused on value streams and structured around strategic outcomes can help make cost benefits a collective win.

## 7. USE REGULATORY INITIATIVES LIKE OPERATIONAL RESILIENCE TO YOUR ADVANTAGE

Building operational resilience has become a key imperative of financial industry regulators around the world, and the first step involves identifying the firm’s most critical business services, including those that have the largest impact on the client.

As such, Critical/Important Business Service reviews are also a perfect opportunity to scrutinize a bank’s current operations procedures and identify inefficiencies, obsolete functions, and vulnerabilities.

The output from each review offers an opportunity to introduce more streamlined workflows, technological upgrades, and increased automation. By removing redundancies, replacing or enhancing outdated systems, and addressing vulnerabilities, the firm can cut unnecessary expense while reducing the risks and costs associated with technology incidents and outages.

The COO can also benefit from increased visibility over activities that may be suitable for outsourcing or offshoring. However, management must make sure to conduct the right level of due diligence and management oversight regarding third-party risk, or they may expose the firm to substantial regulatory fines and reputational damage.

In certain jurisdictions, other regulatory initiatives complement the COO's operational resilience mandate. In the UK, the Senior Managers and Certification Regime provides an additional governance and accountability responsibility on the COO (as the 'SMF24' for a financial services organization). Critical Business Service reviews, coupled with subsequent governance, reporting and remediation initiatives, can be structured to achieve the dual purpose of regulatory compliance and cost optimization.

## 8. CONSIDER SUSTAINABILITY/ESG IN COST OPTIMIZATION STRATEGIES

Likewise, ESG initiatives can go hand in hand with the COO's cost optimization agenda. Tangible and measurable cost savings can be anticipated from initiatives such as energy usage optimization, waste reduction, deploying energy-efficient technology, and the streamlining of processes to reduce the use of labor and energy.

As an example, the digitization and automation of KYC processes represents a great opportunity to minimize the use of paper and reduce carbon footprints. Moving documents and records collection and storage to digital platforms also cuts the risks associated with physical storage and handling, as well as offering opportunities to strengthen controls.

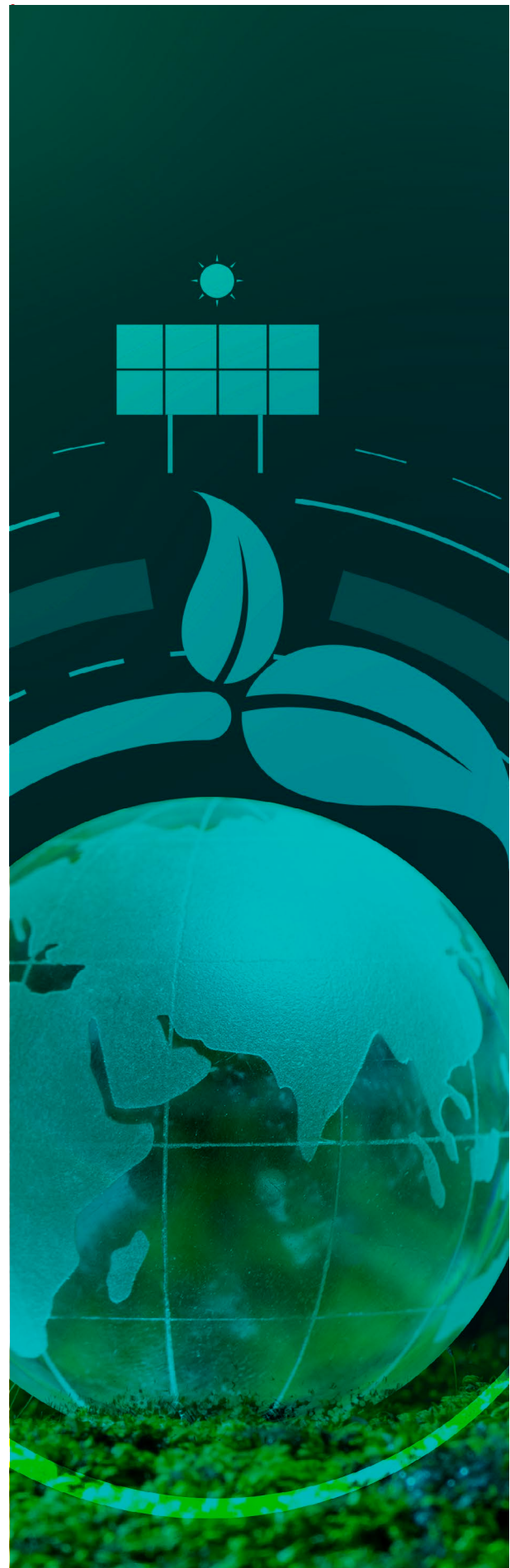
## CONCLUSION

The role of COOs has morphed over the years to embrace more than running an efficient, lean, low-cost operation. COOs are increasingly recognized as playing a fundamental role in organizational success.

Whilst there are several strategies that COOs can employ to meet their cost optimization agenda, it's worth noting the delicate balance they must achieve to maintain the integrity of their organizations across multiple agendas – all of which will fundamentally define the future success of their organizations.

## REFERENCES

- <sup>1</sup> [Capco Journal](#)
- <sup>2</sup> [Corporate Finance Institute](#)
- <sup>3</sup> [World Economic Forum](#)
- <sup>4</sup> [Gartner](#)
- <sup>5</sup> [Capco](#)





# HOW CAPCO CAN HELP IMPLEMENT COST OPTIMIZATION

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Capco has a rich history of working with COOs and financial services clients to achieve step changes in their cost optimization agendas. Our approach focuses on value creation rather than purely metric-driven transformation. We adopt a holistic, all-encompassing approach to ensure that all aspects of cost transformation are fully considered. We also use accelerators in key areas including process reengineering & automation, third-party and sourcing strategies, technology and people, location strategy & ways of working.

## USE CASE 1 – OPERATING MODEL DESIGN

### The challenge

Following the merger of two very large asset managers, the global operations team needed to reorganize to dramatically increase client-centricity and business value, reduce duplication, and increase efficiency.

### The outcome

Capco partnered with the COO leadership team to design the strategic and detailed organizational model, understand the talent and change management implications, and position the client for successful execution of a new model that increased business value and efficiency.

## USE CASE 2 – MIDDLE OFFICE INTEGRATION

### The challenge

The client needed to design and implement a global middle office target state operating model (TOM) for process, people, location strategy and technology aligned across KYC and client onboarding, business intelligence, client exits and post-onboarding client servicing & maintenance. This involved merging the Global Banking and Markets and Commercial Bank middle office functions to create a single Wholesale function and client experience.

### The outcome

Capco designed the TOM covering location strategy, service catalogue, process design and target architecture. This allowed for the realization of synergies and alignment of constructs, resulting in enhanced customer service, and efficiencies.

## USE CASE 3 – SHARED SERVICES GOVERNANCE

### The challenge

Following an initial current state assessment, the client wanted to pursue cost savings on some of the selected areas identified: specifically, through reorganization and centralization, predominantly focused on IT and HR.

### The outcome

Over a seven-week period, Capco defined target state operating models for both IT and HR to prepare both functions for transition execution. We also defined a comprehensive shared services governance model and a guide for an e-PMO and developed SLAs and KPIs for critical services for IT, HR, Legal, Risk & Compliance and Finance & Accounting.

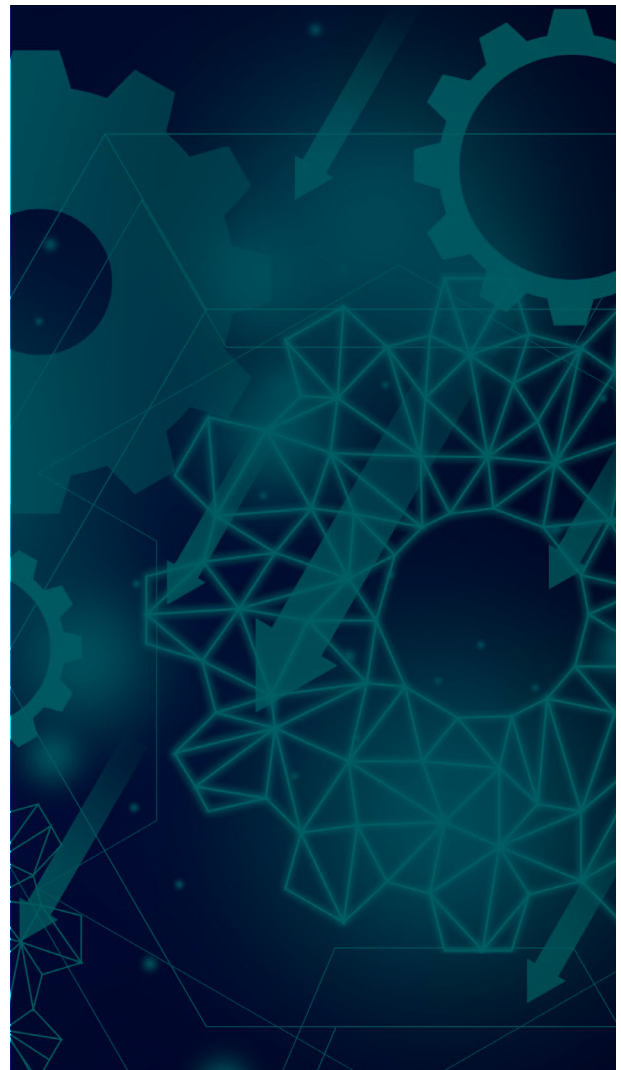
## USE CASE 4 – OPS DIGITAL TRANSFORMATION

### The challenge

The client wanted to automate large parts of its back-office operations to achieve ambitious cost-savings. The bank engaged Capco to design and implement a three-year operations strategy.

### The outcome

Capco transformed the bank's operations through implementation of digital solutions, building core sustainable capabilities and empowering the workforce of the future.





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## ABOUT CAPCO

Capco, a Wipro company, is a global management and technology consultancy specializing in driving transformation in the energy and financial services industries. Capco operates at the intersection of business and technology by combining innovative thinking with unrivalled industry knowledge to fast-track digital initiatives for banking and payments, capital markets, wealth and asset management, insurance, and the energy sector. Capco's cutting-edge ingenuity is brought to life through its award-winning Be Yourself At Work culture and diverse talent.

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