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Cost Transformation New Imperatives in Banks

EBI Tenth Annual Conference

Egyptian Banking Institute

June 2022

Agenda

- Evolving Cost Priorities in Banks
- Emerging Operating Models
- New Skillsets & Job-roles
- The Way Forward and Q&A

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New Thinking for Cost Efficiency Emerges

Top 2 issues for banks to address post COVID-19

21% revenue loss

20% Cost management

Banks double down on cost management

83% are refocusing their cost optimization efforts

85% are accelerating them

Yet, significant savings are pushed to the mid-term

66% set a cost savings target of more than 10% of the cost base over the next 3 years

15% will look to take more than 10% of the cost base over the next 12 months

Most essential enablers to achieve greater efficiency

91% committed leadership

89% culture and accountability

As a result,

61% said cost reduction increased in strategic priority

59% said digitization is the most important cost lever

Cost reduction targets increase

61% have increased their targets by up to 10%

19% increased their targets by more than 10%

To address the challenge

28% of the banks are targeting radical change in their operating model over the next 3 years

Yet, just

58% rate their culture highly for supporting cost optimization objectives. More needs to be done.

Source: Banking cost transformation survey, KPMG International

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Evolving Cost Priorities and COVID-19

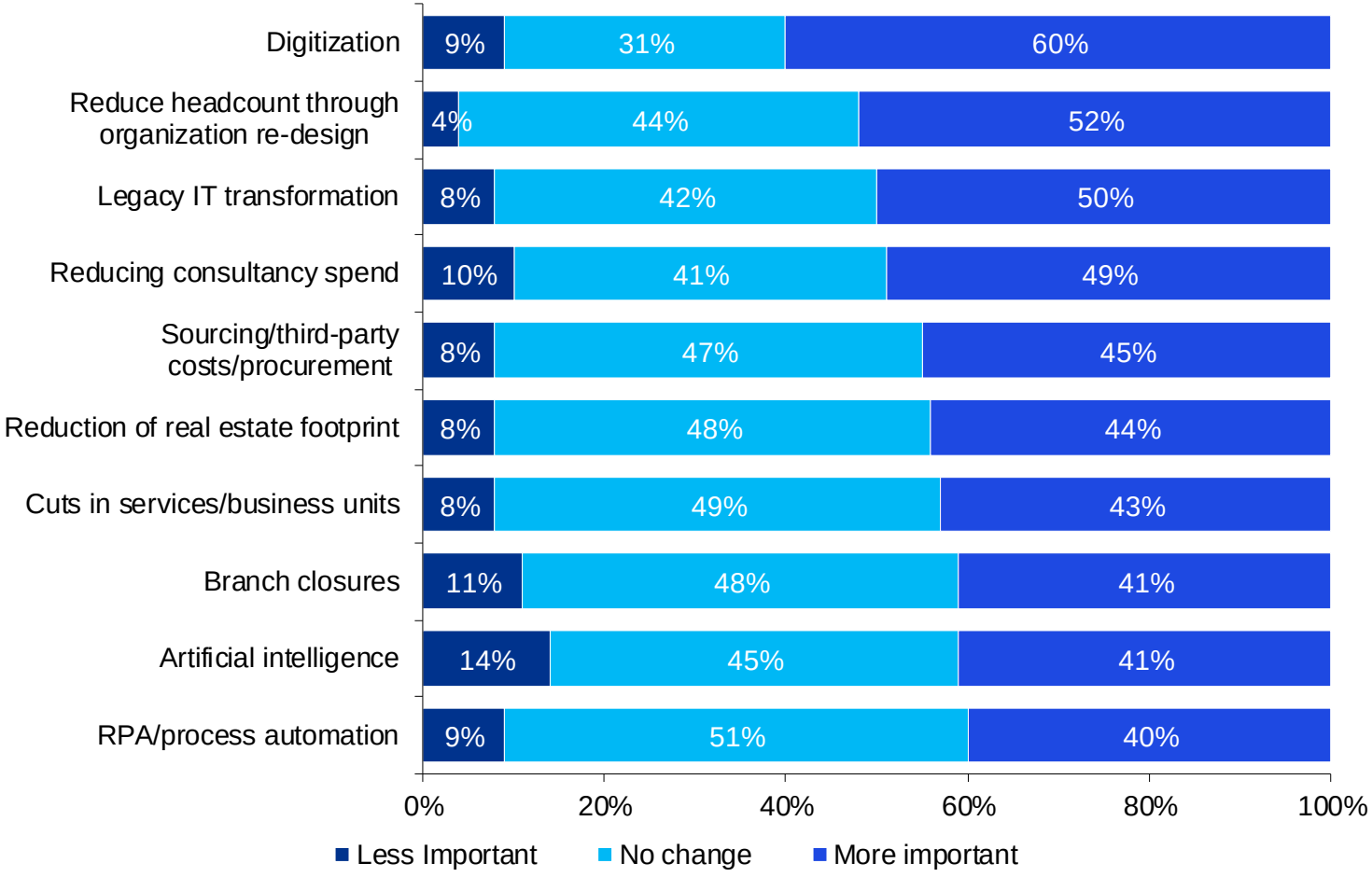
As a result of COVID-19, the cost agenda has been significantly elevated by banks:

Costs have increased as a priority

Cost efforts have been refocused and accelerated

Targets have increased (albeit mostly in the medium term)

Areas of cost reduction and their importance in helping to achieve cost reduction targets over the next 12 months



Source: Banking cost transformation survey, KPMG International

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Setting a Focused Cost Agenda in Banks

Levers of Cost Transformation

Macro cost lens	Cost reduction lever	Opportunities	% Cost saving (from total costs)	Speed to cash	Cost per $ saved	Risk
1.Strategy	1.1 Geographies, markets, products	Reduce presence in low performing customer segments and product areas	To be determined	Slow	To be determined	
	1.2 Operating model & 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	Medium	Fast	Low	
	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 & operational efficiency	Digitize work from front to back office and drive enterprise-wide automation	High	Medium	High	
	3.2 Channel optimization	Digital shift with interventions to drive behavioral change				
	3.3 Organization design & people	Drive the simplification of the organizational design throughout the bank, focus on spans and layers and realignment of pay and rewards	Modest	Fast	Medium	
	3.4 Technology optimization	Accelerate the migration of critical environments to the cloud, decommissioning of the obsolete applications and removal of data centers	Modest	Medium	Medium	
	3.5 Property optimization	Rationalization of operations between head offices and regions, adjustment of seat to desk ratio to 2.5:1	Modest	Slow	To be determined	
	3.6 Sourcing & super management	Drive third-party spend down through challenge of integrated supply and demand	Modest	Fast	Low	
	3.7 Tax & Legal optimization	Optimization of tax and legal structures	Modest	Medium	Low	

% Cost savings: Modest (<5%), Medium (5–10%), High (>10%)
Speed to cash: Fast (<12 months), Medium (12–24 months) Slow (>24 months)
Cost per $ saved: Low (<$0.50), Medium ($0.50–1.00), High (>$1.00)

Source: Banking cost transformation survey, KPMG International

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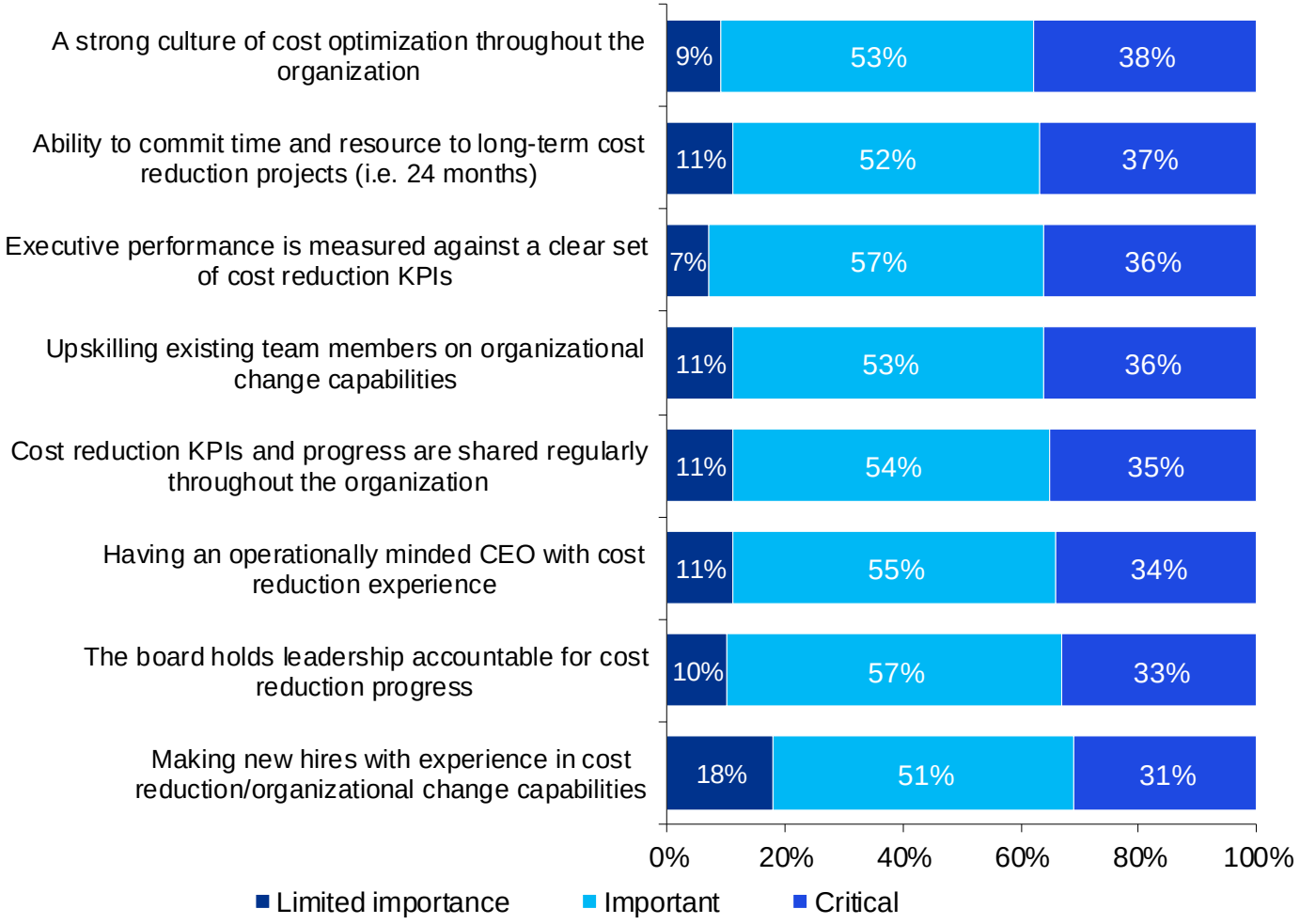
Recognizing the Importance of Cost Culture & Enablers

Cost transformation will depend on certain key principles:

- Clear, well-defined and understood objectives
- Inclusion of 'smart' cost transformation as a permanent feature in the bank's strategy
- Rigorously prioritized cost take-out areas
- A fully formed architecture for the transformed Target Operating Model (TOM)
- A strong cost culture supported by enablers such as aligned KPIs
- Fortitude and commitment by the bank's senior leaders to stay the course

Importance of the following attributes in achieving sustainable cost reduction within the bank over the next 12 months



Source: Banking cost transformation survey, KPMG International

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Evolving Operating Models led by Cost Priorities & COVID

Cost priorities and COVID-19 have inevitably led to newer operating models in the banking sector:

New channels in banking landscape
- Accelerating and scaling up of digital delivery
- Streamlining of bank branches and networks

Shift to digital economy
- Enhanced usage of automation and Artificial Intelligence
- Investing in digital payments, currency, cyber security

Newer operating models
- Increased focus on core functionalities
- Outsourcing of non-core functionalities

Adopting to the "new normal"
- Optimal operating model for long-term remote working
- Skill development and capacity building of professionals

New ways of risk management
- Re-evaluation of risk resiliency across risk spectrum
- Advanced data analytics in risk management

Strengthened values and purposes
- Societal responsibility & support for environmentally conscious products, services
- Development of Environmental, Social, and Corporate Governance (ESG) policy

Budgets and Board priorities in the banking sector globally

OPERATIONAL PRIORITIES

TOP THREE

1. Operational Efficiency
2. Customer Engagement
3. Agility & Speed to Market

INVESTMENT PRIORITIES

TOP THREE

1. Infrastructure/ Cloud
2. Security & Privacy
3. Customer Experience & Engagement

Source: The Harvey Nash/ KPMG CIO Survey 2020

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New Operating Models will lead to New Skills & Job-roles

Bankers expect AI and intelligent technology to transform banking landscape

99% — Bankers intend to use AI to enhance worker capabilities

77% — Bankers want to enhance automation via usage of AI

51% — Bankers believe Human-Computer interaction is important to achieve strategic objectives

66% — Bankers believe that AI will enhance workforce productivity

PRESENT	FUTURE
Customer Service agents handle calls	Calls handled by bots, people handling major exceptions
Social media personnel analyses and responds to queries	Specialists use AI and ML programs to analyse and respond
Risk management professionals handles compliance reporting	AI highlights compliance issues while professionals focus on solutions
Business Development professionals spend time to onboard customers	Customers onboard themselves online with professionals providing advice
Credit supervisor reviews loans to be granted	AI highlights major issues which are reviewed by supervisors

Source: The Future of Skills, 2020, World Economic Forum

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Egyptian Banking Sector is ready to take on the changes

Banking penetration grew by more than 200% in the last decade

Financial Institutions Efficiency Index of the country better than the US & UK

Favourable growth of the BFSI sector even during the COVID period

Robust Banking norms

- Bankruptcy law passed in 2018 to simplify post-bankruptcy procedures is likely to drive retail lending

Focus on SMEs

- In 2016, CBE mandated banks to allocate 20% of their loan portfolios to SMEs by 2020.
- Between 2016 to 2018, banks increased their credit to SMEs by E£136 billion

Digital Initiatives for financial inclusion

- Investments on technologies such as smart wallets, internet banking to extend reach

Economic factors

- Less Non-Performing Loans due to stable economy
- Positive sovereign ratings
- Access to deposit-based funding and liquid currency

National Banking Sector Competency Framework

- National Banking Sector Competency Framework and Continuous Professional Development (CPD) Plan set up by the EBI in consultation with leading banks

Source: EBI, CBE, KPMG in India Analysis

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