

next in financial services

BANKING ON CONTINUOUS IMPROVEMENT

Cost optimization and transformation
in Financial Services

Introduction

Realigning IT priorities to deliver cost reduction

Across the world, banks continue to face a challenging macroeconomic environment. High input costs and supply chain bottlenecks, rising labor costs and intense competition for talent are squeezing margins. At the same time, increased rates of defaults on lending and reduced investment and M&A activity are impacting mortgages, wealth management and commercial banking.

These pressures are having a profound impact on discretionary spending within banks. Large-scale digital transformation programs have, in some cases, been put on hold while banks focus on cost-cutting exercises. Instead, banks are targeting their digital investments towards discreet and carefully selected technology projects. The growing trend towards OPEX-led IT spend over capital investment reflects a firm desire to control costs and avoid long-term investment commitments.

Many banks are realigning their sourcing strategies to address potentially damaging talent gaps within the IT department, while IT leaders are recognizing the need to embed greater resilience, agility and security into their IT infrastructure and applications. There is also a significant focus on vendor consolidation as a way to improve return on investment.

From a technology perspective, 2023 has seen the explosion of AI adoption across all industries, with banks racing to harness the capabilities of Artificial Intelligence (AI) and Machine Learning within their operations. Many banks have set out wide-ranging programs for AI-led business process optimization and transformation.

Across the financial services industry, banks are resetting their IT strategies to optimize costs and drive efficiencies. And, in doing so, they are looking to ensure their operations and infrastructure are future-ready, with the speed and agility to embrace emerging technologies (such as Generative AI) ahead of the competition.

We see this realignment of IT priorities playing out in five core areas: the integration of business and IT operations; infrastructure modernization; smart sourcing; the move to Full Stack IT as a Service (ITaaS); and enterprise-wide software transformation. Banks are rolling out ambitious programs in these areas to strip out cost, improve efficiencies and streamline processes. But, many are finding that achieving results is harder than they anticipated.

Sustaining digital transformation

This research explores how banks across the world are adapting to the current environment and addressing new challenges from an IT perspective. There is a focus on how financial institutions are optimizing their digital investments to drive greater efficiencies and deliver savings that they can reinvest back into new products and services. Overall, the research highlights the approaches that IT leaders are taking to sustain transformation and future-proof their organizations – while also reducing costs.

The research finds that cost reduction is a major focus for almost all IT leaders, with the vast majority now driving cost transformation programs. Unfortunately, not all these initiatives are as effective as leaders would like them to be. Whether they're focused on Full Stack IT as a Service, IT and operations integration, or enterprise software transformation, cost reduction initiatives aren't delivering their full potential.

There are several reasons for this, most notably a lack of appetite amongst senior leaders within banks to tackle necessary systemic change, as well as a reluctance to prioritize cost reduction and profit margins over revenue growth. Many IT leaders also point to cultural issues and a lack of required skills within their organization to deliver on optimization goals.

Despite these barriers to progress, IT leaders remain positive about their digital transformation programs in this new environment. And many report that their bank is already experiencing wider benefits from their cost optimization initiatives (beyond financial savings themselves), such as IT modernization and increased automation.

The path to continuous improvement

Looking ahead, banks will continue to leverage digital technology to reduce costs, drive revenues and optimize business processes.

The research reveals that, above all else, IT leaders will prioritize adoption of AI and Machine Learning within their digital transformation and investment programs, and they will look to deploy these technologies right across the organization, from front line operations through to back-office processes. The research uncovers a rapidly expanding set of use cases for AI and Machine Learning within banks, and IT leaders evidently regard AI as a strategic lever to generate competitive advantage while also achieving efficiencies.

At a broader level, the research reveals a marked change in approach to cost optimization. The traditional model, where banks were required to make capital investments to achieve operational savings, has been replaced. Banks are now leaning on tech partners to deliver outcome-driven digital transformation programs. This can negate the need for upfront investment by offering partners a share of cost savings down the line.

Most significantly, the research reinforces the need for banks to pursue cost transformation with a mindset of 'continuous improvement' to deliver efficiencies on a sustainable basis. There is no end point for cost transformation – it is an ongoing journey. And this approach needs to be underpinned by a deliberate commitment to strategic evaluation, integrated learning and consistent innovation to sustain resilient transformation.

With a 'continuous improvement' approach to cost optimization, banks can work towards a wide range of goals, not just financial savings and operational efficiencies, but increased revenue, improved speed and agility and game-changing innovation. Cost transformation can become a springboard for accelerated digital transformation and genuine competitive advantage.



Looking ahead, banks will continue to leverage digital technology to reduce costs, drive revenues and optimize business processes.

Key findings at a glance

1 IMPACT OF COST OPTIMIZATION EFFORTS TO DATE

Only
26%

have fully achieved expected returns

2 BARRIERS TO SUCCESS

64%

point to a reluctance amongst senior leaders to tackle hard, systemic change

63%

call out a lack of strong partnerships

51%

report a lack of skills within their organization

3 RETHINKING APPROACHES TO DIGITAL TRANSFORMATION

94%

said access to cutting edge technologies is an important driver for outsourcing

85%

expect to transition from BPO to BPaaS within two years

4 FOCUS AREAS FOR TECH INVESTMENT IN 2024 AND BEYOND

52%

feel AI & ML are top areas for investment over the next 12 months

46%

point to legacy IT transformation as a top priority

Research methodology

To better understand how banks in North America, Europe and Asia Pacific are approaching digital transformation against a backdrop of cost reduction, Infosys has undertaken comprehensive research amongst a range of stakeholders within these organizations.

This research comprised of:

Interviews with 321 IT professionals within the banking and financial services industry, all of whom operated at senior management level – C-suite, Senior Vice President and President, and Senior Director or Head of Department or Function.

Respondents were based in the United States and Canada (North America); France, UK, Germany, Sweden, Finland, Norway and Denmark (Europe); and Australia, Malaysia and Singapore (Asia Pacific).

Respondents worked for organizations of varying sizes. 25% worked for institutions with revenues of more than USD 10 billion; 13% worked for institutions with revenues between USD 5 billion and USD 10 billion; and 62% worked for institutions with revenues between USD 1 billion and USD 5 billion.

All research was conducted in August and September 2023.

Full potential yet to be realized

There is a consistently increasing need for cost optimization to fuel greater transformation in financial services.

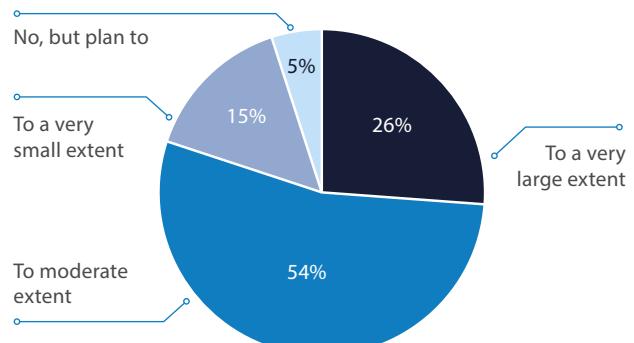
As the industry responds to massive and rapid changes in customer expectations, competition from digitally driven Fintech rivals and new, more complex regulation, including open banking, cost optimization is interconnected with goals for innovation, growth, and sustainability.

While smaller tactical efforts to cut costs may result in some gains, a holistic review is needed for sustained results. Leaders need to identify all potential levers and the correlations that exist – as well as ensure costs are attributed correctly to categories to make clear what is driving value creation and growth.



The research clearly highlights the extent to which banks are struggling to achieve the results that they would like from their cost cutting programs.

Q. To what extent have recent cost reduction initiatives in your bank delivered expected returns?



The research clearly highlights the extent to which banks are struggling to achieve the results that they would like from their cost cutting programs.

Only a quarter (26%) of IT leaders claim that their organizations have fully achieved the returns they expected from their cost reduction initiatives. The majority are reasonably satisfied with the results of these initiatives but see room for improvement.

IT cost optimization efforts are multi-faceted. Cloud cost optimization can be significant with the 2023 Infosys Cloud Radar¹ showing that over half of respondents struggle to monitor costs, and, in more than a third of organizations, ownership of cloud decision-making is siloed, within either business or IT function. Further, 40% of respondents admit that their organization has lax policies to govern cloud deployment. These management issues contribute to cloud management confusion and costs being harder to optimize.

Another key area is the simplification and modernization of application portfolios – as well as the reduction of tech debt to create more agile, future-ready IT organization structures. This can often involve operating models moving to an AI-first, ‘automation everywhere’ philosophy.

EXPANDING THE REACH MULTIPLIES THE RESULTS

Banks typically have complex, legacy environments built over the years with complicated technology, processes, product stacks – and an exacting customer base. This makes wide cost transformation efforts challenging and leads to a tendency to work on isolated areas over a short term. Adopting an approach that is not far-reaching, however, limits the efficiency changes needed to show a sustainable improvement – and propel the widening of efforts.

Ideally a measurement of costs should be across lines of business, all your channels – and front to back-office functions. This enables you to gain a full understanding of total costs – and then work towards a strategic plan of optimization across operations.

ANMOL JAIN

Managing Partner,
Infosys Consulting Asia Pacific



Infosys Consulting IT Cost Levers Framework

Maximum automation as a design principle

Review existing tool landscape for enhanced productivity & better experience

Adoption of technology innovations quickly to experiment & adopt based on use case

Product & service innovation

Establish innovation as key cornerstone of culture & practice by all teams

Future ready IT organization structure

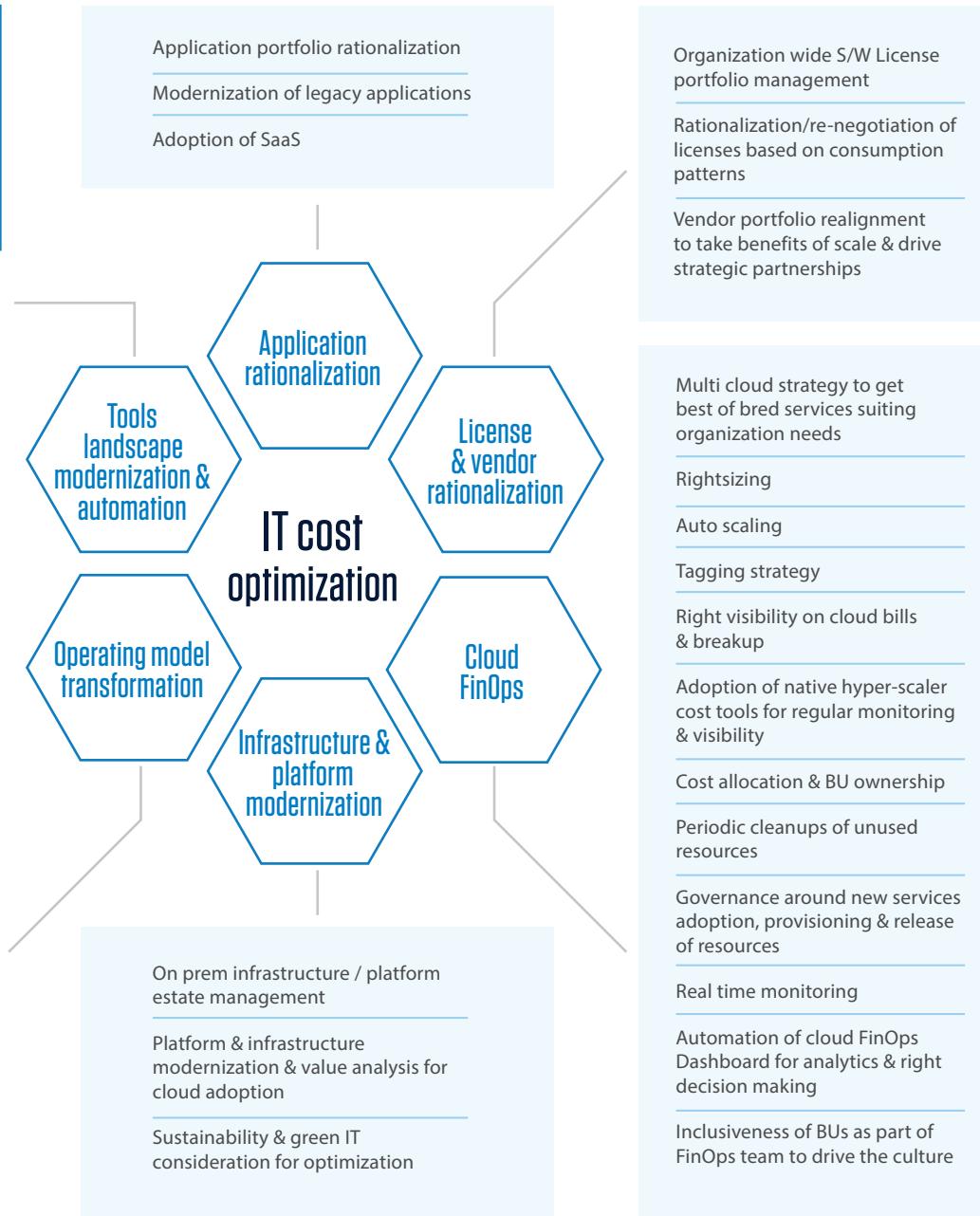
IT discipline based on Squad model/CoE based structure

Efficient IT process to drive efficient delivery

IT support model

Governance model to drive common goals & unified outcome

Green IT adoption



CASE STUDY

MODERNIZATION AND UNPLUGGING THE MAINFRAME

DBS is the largest bank in Southeast Asia, with operations in 19 markets around the world. DBS is widely known in the banking industry for value creation through digital transformation and has been named World's Best Digital Bank and World's Best Bank multiple times.

The Challenge

A decade ago, DBS was on a mainframe in a completely outsourced arrangement; the technology was operated by that vendor's employees. Everything was proprietary, with millions of dollars each year being paid for database and mainframe licenses.

Benefits Realized

Working with Infosys, DBS explored viable alternatives to mainframe core banking. These included solutions to support bank operations, wealth management and liquidity management. DBS also collaborated with Infosys on significant transformations. One of them Infosys Finacle,

a cloud-ready API solution, as the open and flexible core platform for their operations across 13 markets. Another was launching a mobile only bank, digibank, in markets like India and Indonesia to provide customers with a simple, convenient and secure way to bank on-the-go.



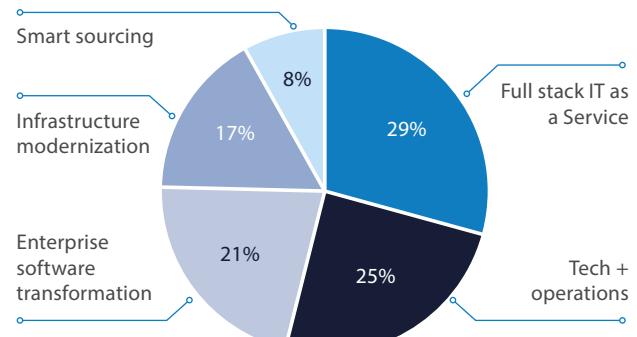
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The research reveals contrasting views between IT leaders when it comes to the most effective way for their organizations to optimize cost reduction initiatives.

29% of IT leaders point to full stack IT as a Service as the best way to support efforts to reduce costs and drive efficiencies, while 25% believe that technology and operations modernization is the most important focus area.

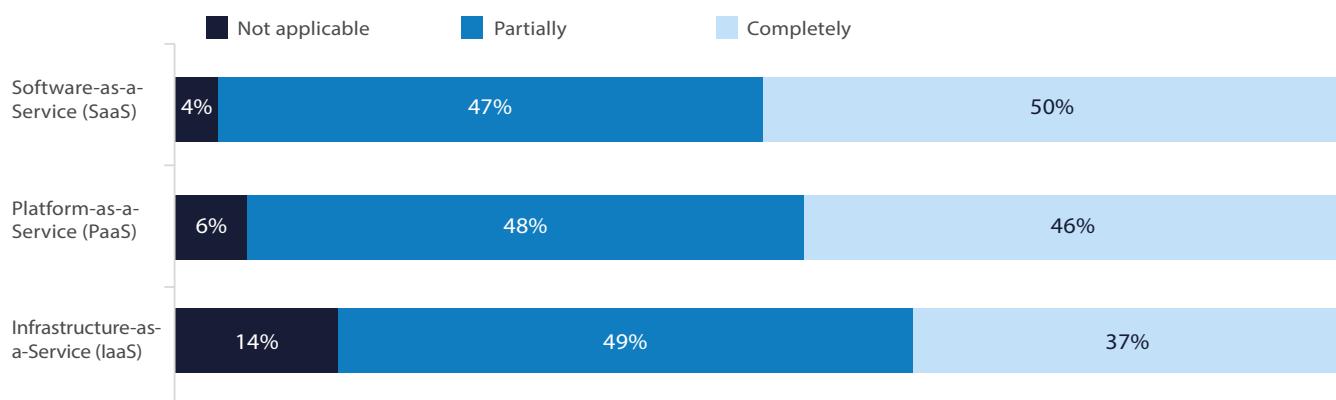
Elsewhere, significant numbers of IT leaders are prioritizing enterprise software transformation and infrastructure modernization as a key driver for cost reduction.

Q. Which of the following do you believe could best support your efforts in reducing costs and driving efficiencies?



Interestingly, the research finds that around half of banks have already fully adopted an 'as a service' approach to IT. 50% of banks are already deploying software as a service (SaaS), 46% are deploying platform as a service (PaaS) and 37% are deploying infrastructure as a service (IaaS).

Q. To what degree has your bank adopted IT as-a-Service?



Vision and consistency for sustained impact

For many centuries, banks were founded on the purpose of taking and securing deposits, making loans and realizing short-term profits.

There is now an inflection point with the financial services industry needing to move from this traditional short-term, profit-driven model towards a customer and community-centered approach where long-term value is created via greater sustainability, resilience and inclusion. To chart a viable, cost-effective path forward, banks need a clear vision. Leaders need to identify opportunities and risks, evolving cost optimization strategy with clarity. They need to challenge old assumptions and undermine their evolving business model.

One-off projects to cut costs typically have a siloed approach, with efforts set-up to fall short of expectations. This could be because some goals were not achieved – or results not seen within the expected timeline. The challenge is that optimization is a moving target – as the environment changes, goals and timelines will be impacted. The research highlights the wide range of areas in which banks will look to strip out operating costs during 2024.

CASE STUDY CLOUD-FIRST VISION FOR RESILIENCE AND READINESS

Citizens Financial Group (Citizens Bank), is the 13th largest retail bank in the U.S., with roughly 1,000 branches across 11 states. The bank provides a full range of consumer and commercial services.

The Challenge

Citizens Bank wanted to reduce costs and generate new revenue by bringing new offerings to customers and knew that digital transformation was a critical step.

Benefits Realized

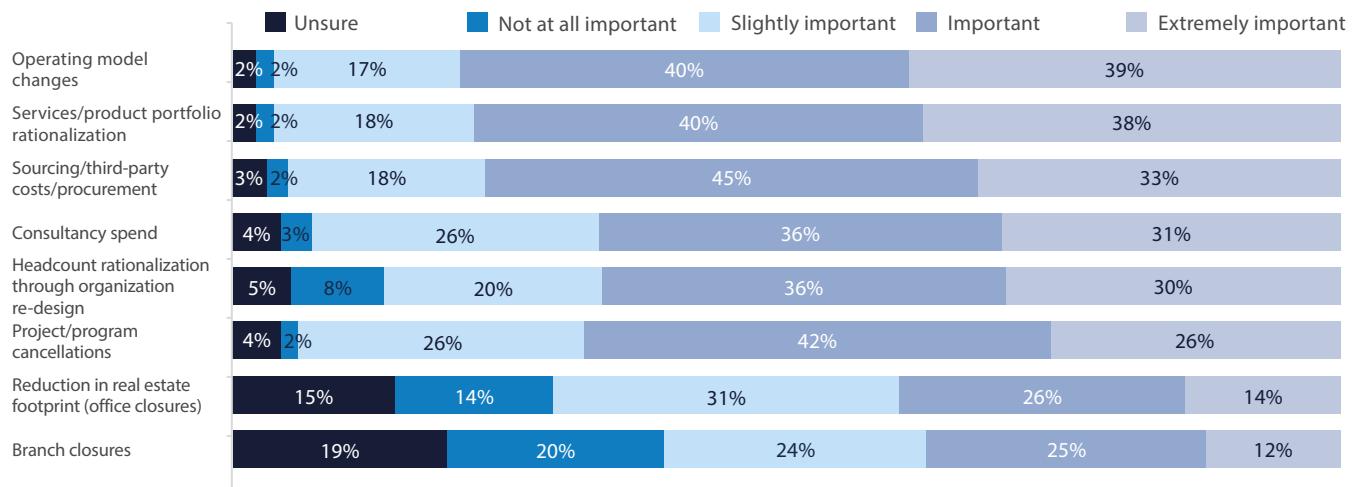
Citizens Bank began working on a multi-year, next-generation technology (NGT) plan to build core resilience. They leveraged Infosys Cobalt to build

a cloud-first architecture, agile operating models and an effective IT landscape. After setting up their foundation on the cloud, Citizens Bank was able to deliver better than ever before experiences to their customers.



[Read more](#)

Q. Over the next 12 months how important will it be for your bank to reduce costs or embark on cost take out in the following areas?



Most of all, IT leaders believe that it will be important to optimize operating models and rationalize service and product portfolios to reduce costs over the next 12 months. Significant numbers also believe that it will be vital to cut spend on outsourcing and consultancy and rationalize headcount through organization re-structuring.

Given the relative lack of success of cost reduction initiatives to date, IT leaders cite a broad range of

challenges that they face in delivering on their cost reduction objectives.

The biggest barriers to reducing costs include a reluctance amongst senior leaders to tackle hard, systemic change programs, a lack of strong partnerships, and executive focus on revenue growth instead of profit margins.

MOVING PAST THE ONE-HIT WONDERS OF COST OPTIMIZATION

Cost optimization programs that are a standalone, one-time activity have limited opportunity for success because this is a continually shifting challenge. Banks need instead to commit to a consistent culture, where cost optimization is embedded across all operational areas.

Optimization is achieved by driving strategic changes that simplify the entire ecosystem. Some transformation/simplification programs need time however and it is important to demonstrate continuous return on investment for the bank to maintain the investments required to reach completion and deliver on stated goals. Failing to complete the transformation becomes

a key reason for further complexity to be introduced, which is then the catalyst for new and often rapidly compounding costs.

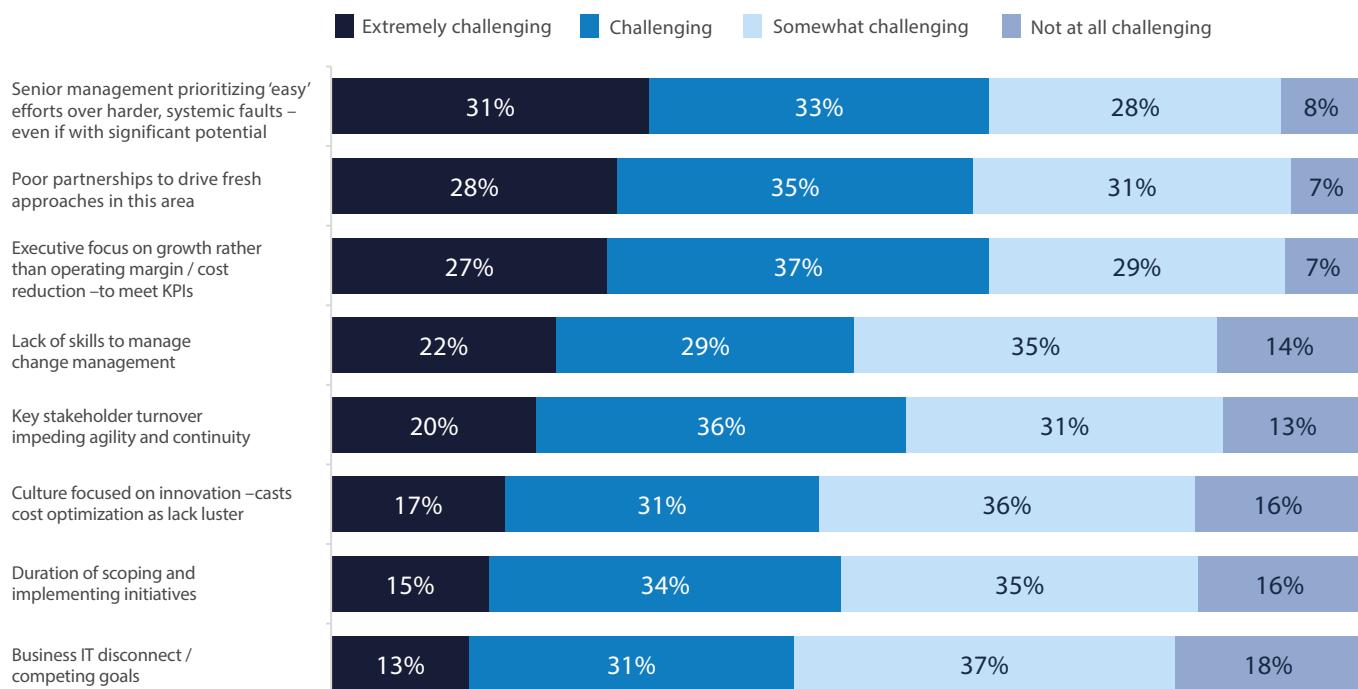
Further, incorrectly driving cost optimization without a clear and complete vision, becomes counter-productive in the long term due to a drop in morale and productivity – with increases in technical debt.

SANJEEV TRIPATHI

Senior Vice President, Australian & New Zealand Region Head – BFSI and Health, Infosys

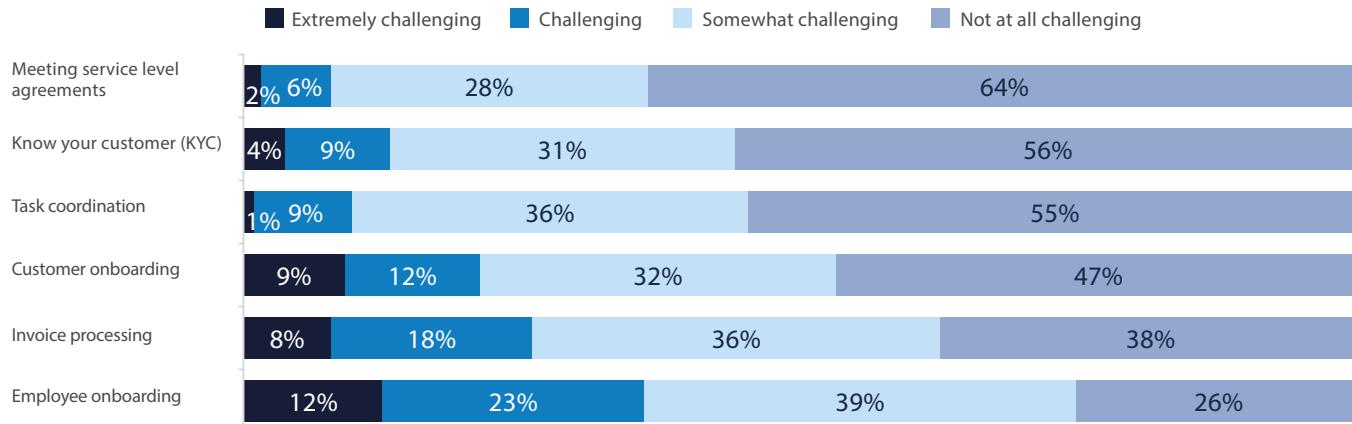


Q. How would you score the challenges your bank faces in progressing cost reduction transformation?



IT leaders have firm views on where their banks need to invest to improve operational efficiencies. Key investment areas include ensuring service level agreements (SLAs) are met, Know Your Customer (KYC) initiatives, task coordination and customer onboarding.

Q. In which of the following areas will you be investing to improve operational efficiencies?



At Infosys, we follow a structured approach to cost optimization which focuses on enhancing business value for our clients at every stage.

Our approach breaks down into three phases, with exponential increases in business value as organizations progress through each stage:

1 Baseline and increase service delivery effectiveness

This includes increased offshoring, optimizing offshore-nearshore-onsite models, role ratio optimization, and integrating service delivery models

2 Standardize and optimize processes, capabilities and tools

Improve operational efficiency and automation through process and tools standardization; advanced automation; shift left and self-help; knowledge management strategy; continuous improvements and zero distance; lean and six sigma initiatives; and quality management

3 Innovate and transform

At this stage, the focus moves to reducing infrastructure footprint; rationalizing application portfolios; reducing licensing costs; legacy modernization; leveraging captive/BOT models; multivendor and contractor consolidation; risk reward models; consumption based pricing model; managed services; business process reengineering; and digitization

Benefits beyond savings amplifies the value of cost optimization

Within many banks, there is now a growing realization that cost reduction initiatives can deliver a wide range of benefits beyond financial savings themselves.

More than 60% of IT leaders report that their cost optimization strategy has already been highly successful in modernizing inefficient IT infrastructure, while 47% state that cost reduction has enabled increased automation and more personalized customer service.

CASE STUDY UPGRADING CUSTOMER EXPERIENCE

Headquartered in Indiana, US, Old National Bank is the state's largest bank.

The Challenge

To modernize their existing infrastructure and deliver better experiences for both customers and employees, the bank chose to embrace the power of digital and leverage Infosys Cobalt to embark on a cloud-first journey.

Benefits Realized

Infosys helped the bank renew their core and amplify their heritage through digital transformation and automation. As a result, the

bank increased their efficiency, reduced costs, and significantly improved the quality of their products and services – all while accelerating their time to market and delivering a consistent customer experience.



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Other benefits of cost optimization include the digitization of back-office functions and an improved ability to link process metrics to customer outcomes.

STAYING FOCUSED ON MODERNIZATION, WHILE REDUCING LEGACY COSTS

When we think of optimization, the focus is usually on cost reduction as a key measure. There is however an important discussion teams need to have at the onset about other valued benefits. Optimization often leads to efficiencies that can improve employee experience and productivity, empowering them to achieve more. This is in turn also increases service and customer satisfaction – in addition to the direct impact when a bank is able to offer more efficient processes. In a competitive market this benefit can be a vital point of differentiation for a bank.

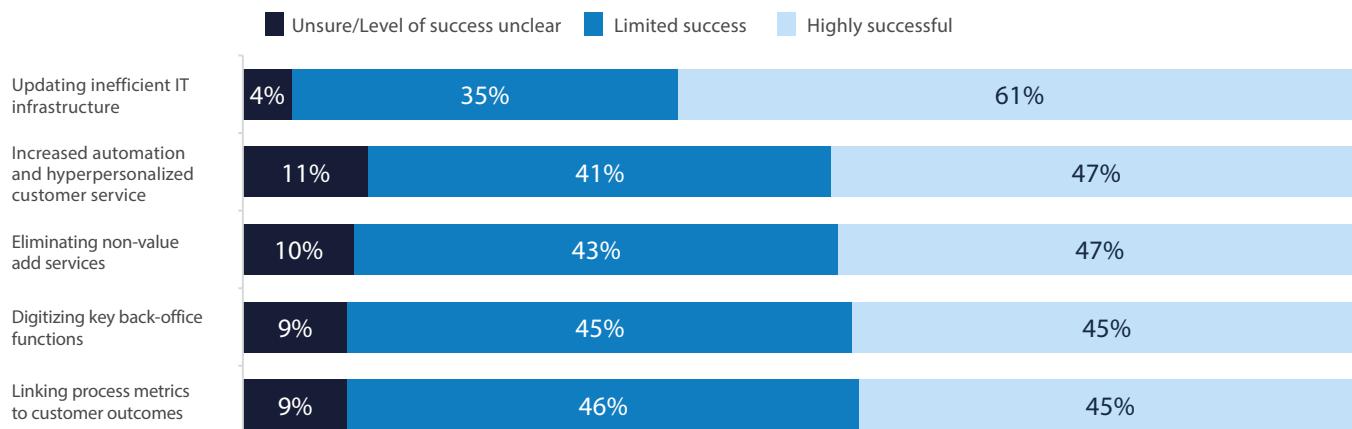
IT teams who live and breathe technology may forget to 'sell' the business value of transformation they are undertaking – both from an employee and customer experience point of view.

For example, when a bank embarks on an aggressive plan of growth that includes acquiring other banks, they may inherit large technical debt and be saddled with business silos that create cost silos, such as duplication in software and infrastructure licensing. A key goal of post-merger/acquisition projects that are focused on upgrading infrastructure is to ensure that you stop running multiple banks and leverage the real economies and benefits of one team – to serve your customers better.

A simple approach to cost optimization is to set in place checks to identify and remove complexity for customers and employees – simplify and streamline!

JAY NAIR
Senior Vice President
Industry Head - Financial Services, EMEA

Q. Beyond savings, how successful has your bank's current cost optimization strategy been as the driver to achieve the below outcomes?



The research indicates that larger banks are more likely to be experiencing benefits from their current cost optimization strategies than smaller banks. As many as 83% of banks with more than 10 billion USD revenues report that cost reduction programs have been highly successful in modernizing inefficient IT infrastructure and 58% have increased their ability to link process metrics to customer outcomes.

Strong use cases accelerate investment in AI and machine learning

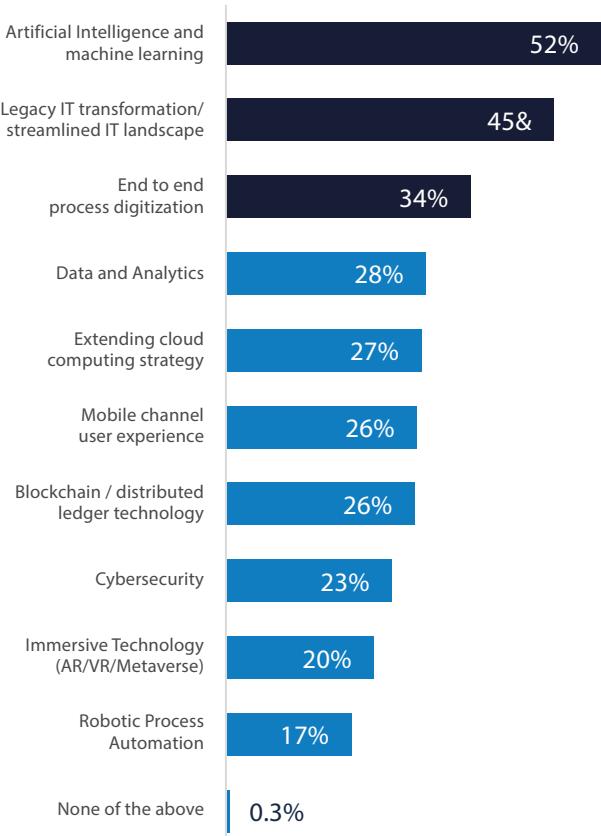
Banks across the world are focusing on increasing their deployment of AI technologies during 2024.

Financial services organizations have higher than average success at data collection, validation and deep learning – the foundation for positive AI outcomes. The Infosys Data+AI Radar² shows that while banks are reporting high satisfaction with current AI deployments, most are yet to define many of the complex problems AI can address. For example, there is much to be done in leveraging AI to fight one of the largest issues in banking today – trust. AI can bring down the cost of fighting fraud and improve customer experience.

Reflecting this, more than half (52%) of IT leaders state that AI and Machine Learning will be one of their top three

areas for investment over the next 12 months. Other key investment areas for digital transformation include legacy IT transformation, end to end process digitization and data and analytics.

Q. Which digital transformation programs will your bank be looking to fund in the next 12 months?



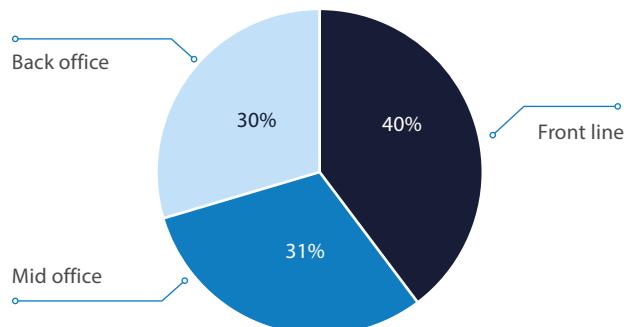
Within banks where AI and Machine Learning is one of their top three investment areas within digital transformation, there is a relatively even split in terms of where this funding will be spent within the organization.

Overall, 40% of investment in AI and Machine Learning is expected to be directed towards front line operations and processes, with remainder evenly divided between mid-office and back-office functions. And these figures are consistent across banks of all sizes.

Within banks that are prioritizing investment in AI and Machine Learning within their digital transformation strategies, IT leaders point to a wide range of use cases for these technologies across their organizations.

For front line operations, the strongest use cases are seen as customer 360 profiling, customer sentiment analysis and customer engagement such as the use of chat bots.

Q. Given that you have selected Artificial Intelligence and machine learning as a top investment area, in your opinion, what is the percentage of funds allocation go to below business processes?



AI-FIRST BANKING CHANGES THE GAME

AI has huge potential in banking. There are strong use cases in automation of common tasks such as client authentication and payment routing. In banks across the world, there are still significant efficiency gains that can be achieved through process automation and end to-end digitization, removing error prone, manual processes.

The second area with great potential is in deploying the predictive capabilities of AI. There are aspects of the back and middle office risk and credit servicing where AI can bring greater accuracy and speed to areas such as fraud detection.

A third key area is in improving customer experience. Banks can use AI to better support customers such as those with language difficulties or disabilities. AI can be used to empower customers with access to the right information to help them make better, more informed decisions that support their financial wellbeing.

As an AI-first organization, one area Infosys is focused on is addressing any potential to perpetuate exclusion. An algorithm can only be unbiased if its creators recognize and ensure this. In essence, we know there is a critical need for transparency and accountability in AI algorithms. A system of algorithmic auditing at the very early stage can provide effective assurance of robustness, transparency, fairness and privacy within an algorithmic system. At Infosys, we envision the emergence of this at the center of an ecosystem of trust in AI.



ANDREW GROTH

Executive Vice President, Asia Pacific

Within mid-office functions, research analytics, operations and identity authentication are seen as the strongest use cases, while within the back-office, IT leaders point to fraud monitoring, risk servicing and employee performance management as the greatest opportunities to deliver value through automation, AI and Machine Learning technologies.

CASE STUDY

ZERO DEFECT DELIVERY



National Australia Bank (NAB) is a leading financial institution in Australia, renowned for exceptional service.

The Challenge

- Cloud testing involved key challenges in terms of effort and time for data validation as data from more than 25 heterogeneous source systems was being ingested into cloud databases (AWS)
- Difficulty in reading the parquet/nested parquet files as they are in column oriented binary file format (non-human readable)

Benefits Realized

- 100% test coverage leading to zero production defects, increase in test coverage which helps identify defects early
- Up to 80% effort saving in execution cycle for faster time to market

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Q. Given that you have selected Artificial Intelligence and machine learning as a top investment area, in your opinion, what do you see as the strongest use cases in terms of their impact on Front Office, Mid Office and Back Office?

	Overall	Region			Revenue		
		North America	Europe	APAC	USD 1 billion to USD 5 billion	USD 5 billion to USD 10 billion	More than USD 10 billion
Front line	40%	45%	34%	36%	41%	37%	38%
Mid office	31%	28%	34%	32%	30%	32%	31%
Back office	30%	27%	32%	32%	29%	31%	31%
Base	167	85	53	29	98	27	42

Sustained efficiency hinges on digital strategy

To move from transactions to trusted relationships, banks must leverage faster, data-driven decisions that exceed customer expectations, personalizing the experience, no matter where banking is done.

There are also important social goals such as serving the unbanked and underbanked, and minimizing the threat of cyber fraud.

Looking ahead, IT leaders still see enormous scope for increased use of digital technologies to drive efficiencies within their bank. Almost three quarters (74%) of IT leaders report that their bank is now able to leverage digital technologies in an efficient manner.

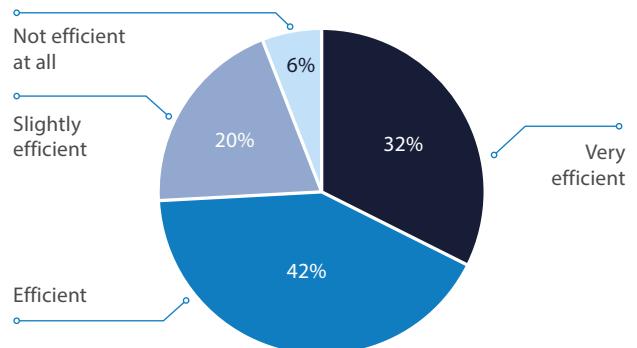
From business process optimization and increased speed to market through to revenue growth and streamlined costs, IT leaders believe that digital technologies can deliver wide-ranging efficiencies across their organization.

Digital technologies are also seen as having the potential to mitigate banks against risk, deliver market and customer insight, and prepare banks to thrive in the future.



Almost three quarters (74%) of IT leaders report that their bank is now able to leverage digital technologies in an efficient manner.

Q. How efficient do you feel your bank is today in leveraging digital technologies?



CASE STUDY

WHAT DOES A DIGITAL TRANSFORMATION JOURNEY LOOK LIKE FOR A TRADITIONAL BANK?

TSB Bank is a UK-based retail and commercial bank, a subsidiary of the Sabadell Group, with over 5.2 million customers, with over 500 branches across the UK.

The Challenge

In order to improve customer responsiveness, TSB were looking for a system that handles customer requests seamlessly across disparate systems.

Benefits Realized

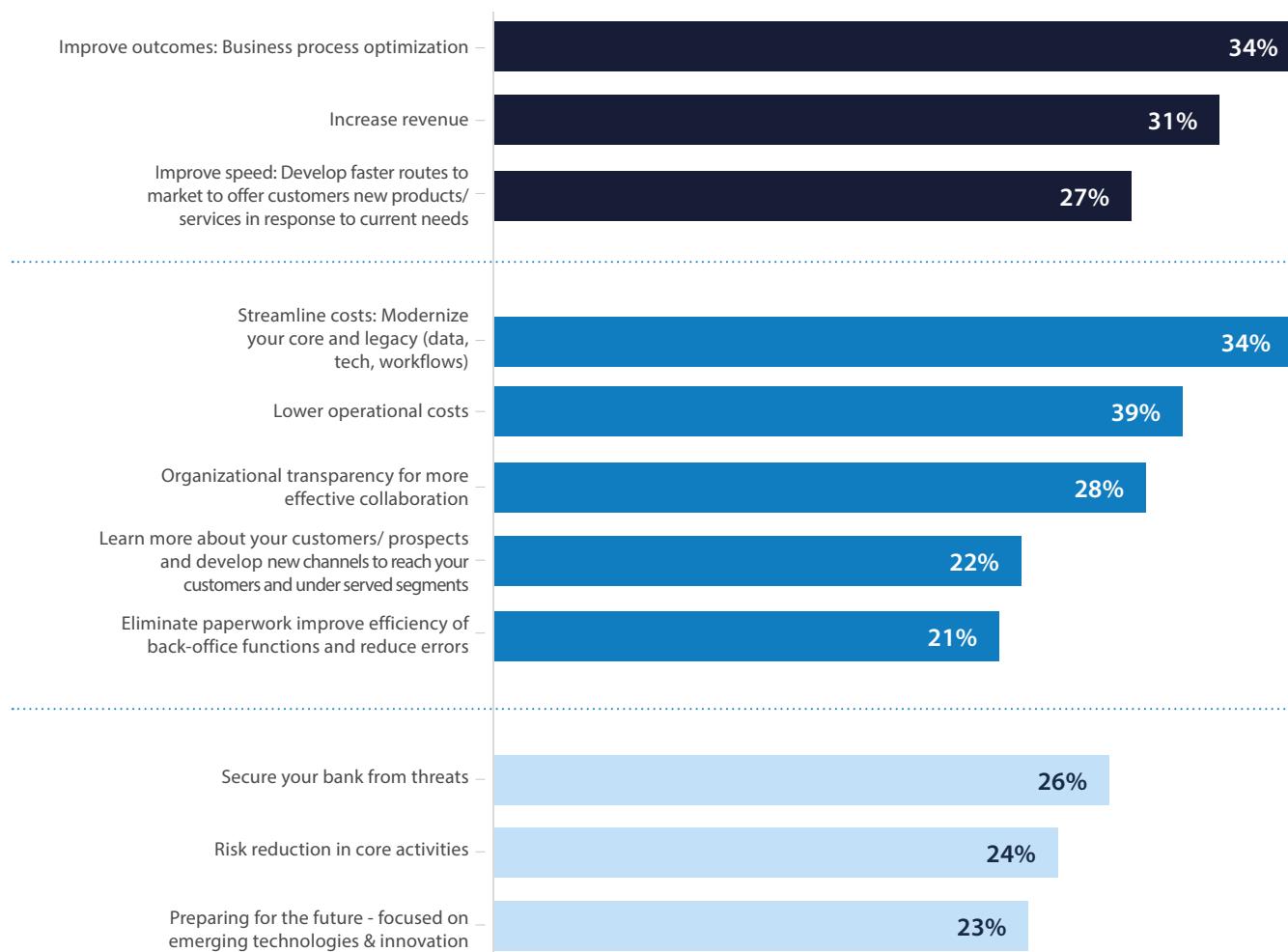
The bank is managing a significant volume of transactions via the new platform. For example, there have been two thousand changes, and over a hundred management activities and associated workflows automated and orchestrated.



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Internally, the business could execute projects faster and spend more time on productive work. Many IT processes that used to take days and even weeks to complete manually are now automated.

Q. Where do you believe the use of digital technologies can help your bank the most to become more efficient?



TRANSFORMATION DEMANDS DISRUPTION

In digital transformation, the keyword is 'transformation', and not 'digital'. If the process or way of working has not changed then digital will not deliver much improvement. Banks should not outsource business models and product innovation under the pretext of leveraging other banks' experience. It leads to a lack of differentiation and only enriches big consulting firms. In an increasingly dynamic business environment, where technology disruption cycles are shorter, a bank may not be able to own the customer relationship at all times

AND provide a product which is fully manufactured in-house. Curation and distribution along with manufacturing are necessary to deliver customer value.

ASHOK HEGDE

Vice President and Delivery Head
Domain Consulting Group, Infosys



Focus on outcomes and trusted partnerships essential to outsourcing

The research explores the reasons why banks continue to outsource operations and business processes.

The biggest driver for outsourcing within banks is to access cutting edge technologies. This now sits above long-established outsourcing objectives such as enabling banks to focus on their core competencies, improving process quality and flexibility to scale.

Overall, more than two thirds of banks are already looking to move from business process outsourcing (BPO) to Business-Process-as-a-Service (BPaaS). However, the research suggests that some banks are already a lot further along this journey than others.

A third (33%) of banks expect to transition to BPaaS within the next 12 months, and more than a half (52%) expect to have done so within two years.

CASE STUDY

INFOSYS COMPLETES ACQUISITION OF DANSKE BANK'S IT CENTER IN INDIA

Headquartered in Denmark, Danske Bank provides banking services to personal and business customers, as well as large corporate and institutional customers.

In a bid to accelerate the bank's technology transformation, optimize its access to talent and capabilities, and to further develop customer-facing digital solutions, Danske Bank chose Infosys as its strategic partner.

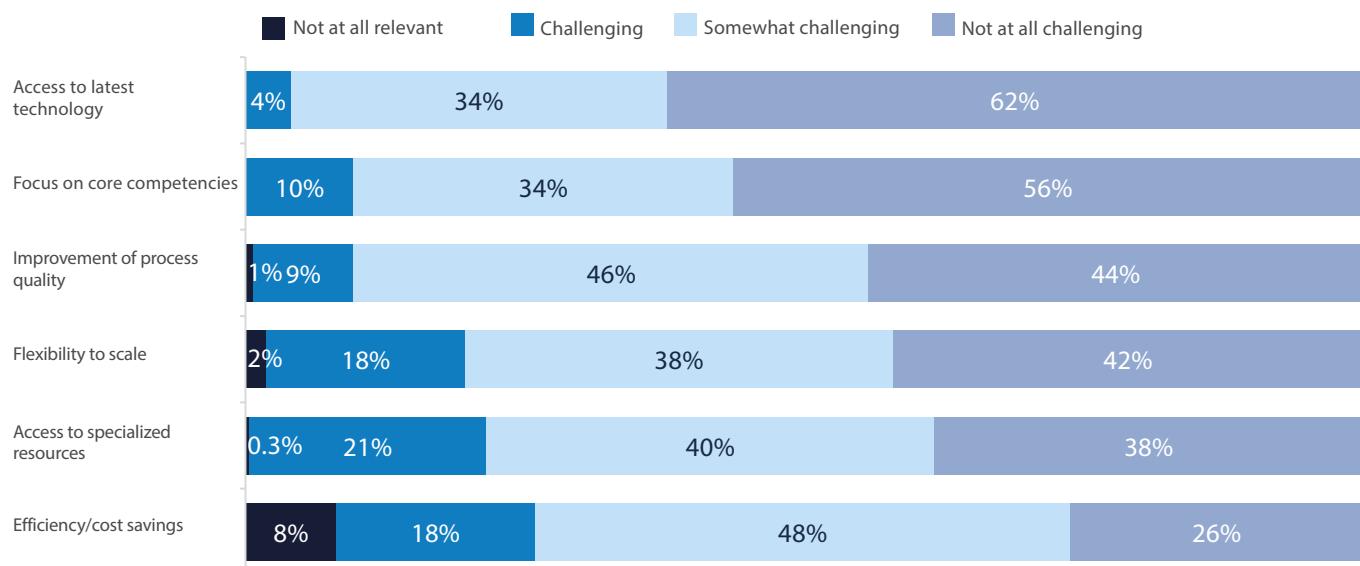
As part of this collaboration, Infosys acquires Danske Bank's IT center in India, where over 1,400 professionals are employed. With global expertise and industry-



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solutions, Infosys will accelerate the bank's digital agenda by significantly enhancing its IT operations and capabilities, powered by Infosys Topaz, an AI-first set of services, solutions and platforms, experience design, and services that support operations.

Q. What are the most relevant drivers for outsourcing at your bank?



PARTNERING FOR GREATER OUTCOMES AND REAL IMPACT

In an outsourcing decision for banks, cost often is weighted higher than the value created. By instead considering the value exchange you have with your outsourcing partner, banks can become more outcomes-focused while building a relationship that has the opportunity to drive transformative results – rather than merely deliver to a narrowly defined order.

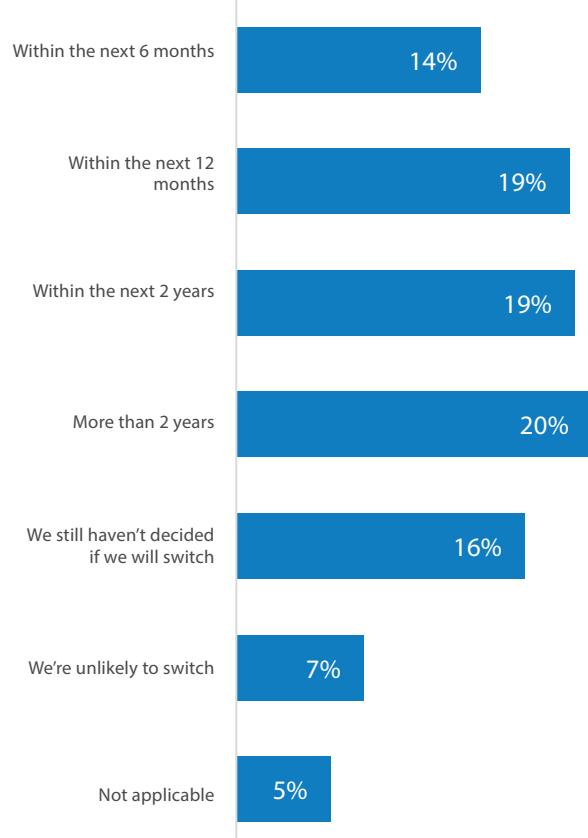
A simple question is: Do you have a strong enough relationship with your outsourcing partner to have the difficult (but necessary) conversations to ensure the partnership goes beyond 'deliver to order' to help you "navigate your next"? Do you have a strong vendor or a capable partner?

AJAY BHANDARI

Vice President and US Regional Head, Financial Services



Q. In what timeframe do you expect your bank to transition from BPO to Business-Process-as-a-Service (BPaaS)?



Leading an efficiency charge with AI: The perspective for North America

When compared to other regions, North American IT leaders are most positive about the results of their cost transformation programs to date.

A third (33%) claim that cost cutting initiatives in their bank have fully delivered the expected returns, far more than in APAC and Europe. Beyond financial savings, IT leaders in North American banks point to several wider benefits resulting from their cost optimization strategies, including the updating of inefficient IT infrastructure, increased automation and hyper-personalization within customer service.

Going forward, banks in North America will focus on full-stack IT as a Service, enterprise software transformation and Tech and Operations to support their efforts to reduce costs and drive efficiencies. IT leaders are more likely to be prioritizing these areas than their counterparts in APAC and Europe. In terms of specific focus areas for cost take out in 2024, banks in North America will be focusing on a broader range of areas than those in other regions. IT leaders point to operating model changes, services and product portfolio rationalization and sourcing and third-party costs as the three key focus areas for cost reduction over the next 12 months. However, significant numbers also state that their banks will be looking to cut costs through project cancellations and headcount rationalization, and by reducing consultancy spend.

Banks in North America are most likely to be investing in AI and Machine Learning as part of their digital transformation programs over the next 12 months. As many as 62% of IT leaders state that their bank will be funding AI programs in 2024, a much higher figure than in other regions. Almost

half of North American banks (47%) will be investing in legacy IT transformation, and a third (34%) will fund initiatives for end-to-end process digitization. Interestingly, North American banks are also most likely to invest in immersive technology (such as augmented reality, virtual reality and the metaverse).

The research also reveals that banks in North America are more likely to be directing their investments in AI and Machine Learning into frontline operations than in other regions. IT leaders expect 45% of their AI investments to go into customer facing operations, with the remaining budget evenly split between mid and back-office functions.

Looking ahead, IT leaders cite a number of operational, structural and cultural challenges that their bank will need to overcome to achieve its ambitions for cost reduction transformation. Above all else, cost optimization efforts are being held back because senior management teams are prioritizing 'easy' quick wins, rather than addressing more complex systemic issues which could deliver much greater impact. Linked to this, executives are also highly focused and incentivized on topline revenue growth, rather than improving operating margin.



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AJAY BHANDARI

Vice President and US
Regional Head,
Financial Services



The modernization and innovation two step: The perspective for APAC

The vast majority (85%) of IT leaders within APAC report that cost optimization initiatives within their banks have delivered the expected returns to at least a moderate degree, but only 20% claim that they have fully achieved their goals.

To date, cost optimization programs have enabled banks in APAC to update inefficient IT infrastructure and digitize back-office functions.

The challenge is that in a more open financial system, not all banks will be able to achieve the economies of scale they have been used to. Along with economic changes that impact the overall cost of financial intermediation, banks may find profitability challenging.

Going forward, infrastructure modernization is the top priority for IT leaders in APAC to support their cost optimization objectives and drive efficiencies, ahead of Full stack IT as a Service which is viewed as most important in other regions. Tech and operations is also viewed as a key area which can accelerate banks' cost reduction programs.

The leaders we work with across APAC are leveraging technology to simplify and automate their products, services – and underlying processes. This decreases operating costs and provides more competitive offerings. In terms of specific focus areas for cost take out in 2024, IT leaders in APAC point to services and product portfolio rationalization as the most important priority, followed closely by sourcing and third-party costs. Significantly, the research finds that banks in APAC are also more likely to focus on reducing consultancy spend than those in Europe and North America.

More than half (56%) of IT leaders within APAC banks report that their organizations will prioritize investment in legacy IT transformation initiatives over the next 12 months, a higher figure than their counterparts in both North America (47%) and Europe (38%). Banks in APAC are least likely to be investing in AI and Machine Learning transformation

programs, although there are still a significant number (44%) that plan to fund initiatives in this area. APAC banks are most likely to be investing in major cybersecurity and data and analytics programs in 2024.

Looking ahead, IT leaders in APAC see a broad range of challenges that they will need to overcome in order to progress cost reduction transformation within their banks. More than any other region, they point to cultural challenges within their organizations as a barrier to cost optimization – the majority of banks in APAC are focused heavily on innovation and this can undermine efforts to drive efficiencies. Other major challenges include a lack of strong partnerships to bring fresh approaches and ideas to cost transformation strategies and an executive commitment to topline revenue growth rather than operating profit.

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ANDREW GROTH

Executive Vice President, Asia Pacific



The infrastructure to serve and prosper: The perspective for Europe

Banks in Europe have so far seen relatively modest returns from their cost cutting initiatives.

59% of IT leaders claim that their organizations have seen moderate returns, but none claim to have fully delivered the cost savings that they were expecting to achieve.

However, IT leaders in Europe feel significantly more positive about the wider benefits, beyond financial savings, that their cost optimization programs have already delivered within their banks. Two thirds (67%) report that their cost cutting initiatives have helped to update inefficient IT infrastructure, and 57% state that they have enabled their bank to link process metrics to customer outcomes (a much higher figure than in other regions).

Going forward, IT leaders within European banks believe that prioritizing full-stack IT as a Service, and Tech and Operations will best support their efforts to reduce costs and drive efficiencies. And in terms of specific focus areas for cost take out over the next 12 months, they point to operating model changes as the most critical priority for their organizations.

Interestingly, however, European banks will be looking to address a wider range of important focus areas for cost reduction in 2024, more than their counterparts in other regions. Whether it's headcount rationalization, reduced consultancy spend, project cancellations or branch closures, European banks are likely to be pursuing far-reaching cost take-out initiatives over the next 12 months.

Banks in Europe will be looking to improve operational efficiencies by investing in areas such as meeting service level agreements, Know Your Customer (KYC) processes and customer onboarding. Alongside this, they will also be pursuing major strategic transformation projects, with

investment in Artificial Intelligence and Machine Learning and legacy IT transformation (although investment is likely to be slower than in North American banks).

Looking ahead, IT leaders in European banks cite a number of operational, structural and cultural challenges that their organization will need to tackle in order to achieve its goals for cost reduction transformation. Most of all, they see a lack of strong partnerships to add fresh thinking and new ideas into their cost optimization strategies as a potential barrier to success. IT leaders also believe that there is a lack of appetite amongst senior leadership to take on the complex systemic change required to deliver results.

Interestingly, IT leaders in European banks are significantly more likely to consider the high turnover of key stakeholders and a lack of continuity and agility as a hindrance their cost cutting programs.



European banks will be looking to address a wider range of important focus areas for cost reduction in 2024, more than their counterparts in other regions.

JAY NAIR

**Senior Vice President
Industry Head - Financial Services, EMEA**



Conclusion

Cost optimization has been a focus for a wide range of teams within banks for many years. However, the survey data shows that, even now, few banks are able to achieve their desired results with cost levels stubbornly remaining at higher-than-expected levels. The research uncovers some variances between banks in North America, APAC and Europe when it comes to their success to date in driving down costs, as well as their approaches and priorities for cost reduction and efficiency optimization going forward. Overall, however, much more can be done to deliver on potential for consistent cost optimization that fuels transformation.

With the disruption growing in the industry, banks can no longer risk a piecemeal approach to optimization with disconnected and siloed projects. Banks need to rethink their strategies for cost transformation, pursuing a 'continuous improvement' approach. This means creating an organization-wide commitment to cost reduction and securing sponsorship and buy-in at the most senior executive level. Everyone across the business should be clearly incentivized around cost savings to keep cost optimization top of the agenda. At a cultural level, banks should be attaching the same importance to cost transformation as they do to growth. Only then will they start to generate the efficiencies they are searching for.

There is also a need for banks to be bold and tackle major (and hard) systemic change, rethinking processes and operating models to effectively leverage the capabilities of digital technology.

The major focus and investment on AI and Machine Learning over the next 12 months will provide a strong impetus for radical transformation. Banks can leverage AI to improve efficiency, predict risk and dramatically improve customer service with hyperpersonalized insights.

Further, banks need to ensure they have the skills and expertise required to pursue widespread cost transformation programs. And this means leaning on trusted partners to better understand gaps, co-create robust and targeted strategies, and drive through effective and sustainable change.

Banks with highly simplified models have a significant cost advantage and an ability to move faster – to seize competitive advantage and drive a greater experience for their employees and customers. This goes beyond the products and services they're able to offer across the customer journey; increasingly, it is about providing wider support and information to enable individuals to make smart decisions which enhance their financial wellbeing.

The major focus and investment on AI and Machine Learning over the next 12 months will provide a strong impetus for radical transformation. Banks can leverage AI to improve efficiency, predict risk and dramatically improve customer service with hyperpersonalized insights.

Ultimately, banks need a clear roadmap towards a future state where efficiency is consistently optimized across the organization. This will result in wider benefits such as modernizing critical IT infrastructure. Teams can then move forward with agility, leveraging emerging technologies and delivering the products and services that will give their organizations a competitive edge now and in the coming years.



References

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