FROM THE EDITOR'S DESK

Greetings!

Strategic Cost Management is the application of cost management techniques in order to continuously identify and analyze cost drivers to lower costs and maximize total value. An effective Strategic Cost Management programme can not only lower costs of an organization but also create a strategic competitive advantage. It also provides a framework for decision making, enables measurement of progress, provides a guideline for objective assessment etc. Strategic Cost Management is very crucial for an organization to maintain its sustainability and profitability.

In this difficult economic environment, there is great urgency to reduce costs and improve efficiency. But cutting indiscriminately or too deeply may severely hamper the ability to grow revenues when the economic outlook improves. Strategic Cost Management helps financial services companies like bank and insurance to measure profitability more accurately and in richer detail in two key ways: it helps capture and update cost information across multiple dimensions, and it extends cost modeling to include the customer dimension in cost and profitability analysis. It works in the following ways to enhance profitability and efficiency:

- Find out various avenues to minimize cost
- Using a smart combination of tactical cost reductions, proactive cost governance and strategic cost management initiatives to achieve high performance efficiency
- Minimize staff related costs
- Reduce the operating cost by optimizing the operating model
- Rationalize the product portfolio so that it offers standardized components and reusable product features to the customers
- Adopting cost governance
- Adopting Cost management benchmarking and planning
- Classify the cost drivers so that bank or insurance company can take efficient investment decision
- Strategically allocate resources with accurate profitability and cost information
- Managing aggressive cost reduction initiatives
- Developing and continuing sustainable cost management programmes
- Ensuring competitive advantage
- Effective utilization of resources
- Strategic decision making

Presently, banks have to fight on two areas, viz. speedy recovery of bank dues from the existing NPAs on the one hand and arresting further slippage in standard loans on the other. For these purposes, the NPA portfolio needs to be analyzed to determine the reasons for loan default both due to external and internal factors. External factors, over which the bank may not have much control, include economic slowdown, low industrial growth, debt crisis in euro zone and a global meltdown, rupee depreciation, high lending rates, etc. However, internal factors, such as inadequate result oriented recovery efforts and weak credit monitoring system in the banks have also contributed towards the present high level of NPAs.

Corporate Debt Restructuring is another important area to be addressed properly. It is basically a mechanism by way of which company endeavors to reorganize its outstanding obligations. Debt restructuring should aim to transform and reduce debt in a timely manner to restore solvency, reduce leverage, and restore credit to viable firms, as well as to improve the capacity to provide financial intermediation.

This issue has a quite a good number of articles and interviews by distinguished experts and authors on 'Strategic Cost Management in Banking and Insurance', the cover story theme of this issue. A new section, 'Letters to the Editor' that started a few issues ago, continues. We look forward to constructive feedback from our readers on the articles and overall development of the journal under this section. Please send your mails at editor@icmai.in. We thank all contributors for this important issue and hope our readers enjoy the articles.

Wish you all a very happy New Year.