Positioning for a new financial landscape
Sustainable cost management through energy efficiency
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As institutions begin to emerge from the financial crisis and global economic downturn, their thoughts are turning towards preparations for the recovery.

They are re-configuring business models to suit the new financial landscape, re-aligning their workforce to meet the new levels of demand, and re-building customer relationships that have been unsettled during the crisis. There is also urgency in these efforts, as institutions recognize that these preparations must be complete before the recovery is complete if they are to make the most of the opportunities to come.

Throughout the market turbulence, institutions have been faced with increased pressures to restructure their business models and control costs. One of the most overlooked areas for cost savings is energy consumption. This area, typically considered part of a corporate responsibility program can also play a key part of sustainable cost reduction.

This Deloitte report discusses the needs and benefits for financial institutions to have a strategy around energy and paper efficiency, and examines how institutions can save costs through energy and paper management, answering the question on how to get started on improving your company’s resource efficiency.

As the financial landscape continues to transform, Deloitte’s Global Financial Services Industry network is committed to providing continued thought leadership, surveys and studies on the issues most important to global financial institutions. Deloitte’s aim is to help guide clients through these challenging times and provide them with insights useful in preparing for a new financial landscape.

Regards,

Paul Legere
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Energy represents the single largest controllable operating expense for office buildings, typically a third of variable expenses.

The opportunity

These are unprecedented times for the financial services industry. The global financial services industry is undergoing the broadest transformation since the Great Depression. The uncertain economic environment is challenging financial services institutions everywhere to restructure their businesses and control costs. While current economic prospects may appear bleak, companies with a long-term view should leverage these difficult times to undertake transformational change; change that permeates the organization and sets the business on a sustainable path to improving profitability.

One effective, sustainable avenue for managing costs, and a potential rallying point for management, staff and customers to consider is to focus on improving resource efficiency – e.g., the use of energy and commodity-related goods and services. The expected long-term trend for energy and commodity prices to move higher is both a challenge and opportunity. Financial institutions with large physical footprints have already seen escalating energy and paper costs – two areas where significant cost savings may be available by “going green”.

With renewed focus on “green” at municipal, state and federal levels, businesses should take advantage of new regulations and financial incentives being offered to stimulate the economy, such as in the U.S. where the Energy Efficient Commercial Buildings Tax Deduction offer savings of up to $1.80 per square foot or New York’s Green Building Tax Credit Program with savings of up to $2 million per building. Expected legislative changes and incentives for companies that go green may further boost their competitive position, provide future operational flexibility, and reduce long-term regulatory risk.

Many financial institutions have already begun to realize considerable savings in these areas, and are enjoying improved productivity.

Savings in energy costs

Energy represents the single largest controllable operating expense for office buildings, typically a third of variable expenses.1 Climate control alone accounts for roughly 41% of an office building’s total electrical energy consumption — almost double that of any other building system.2 Traditional banks with large physical footprints and branch networks are among the highest energy consumers in the commercial building category.3 Improving energy efficiency of existing buildings is one of the most cost effective ways to reduce consumption and cost.

Energy costs can be managed through a variety of levers: replacing antiquated electrical fixtures, incorporating central management systems, leveraging supply and demand strategies and incorporating “green” in construction and refurbishment plans. Using these levers, the savings can be dramatic. Legacy electrical fixtures in older facilities tend to waste energy. Retrofitting older buildings with more energy efficient appliances and electrical fixtures can usually reduce costs by 30% to 60%, with payback in two-to-three years.4 Buildings that carry the Energy Star label consume about 40% less energy than typical buildings, saving about $0.73 per square foot on annual energy bills.5 For example, using this estimate of savings per square foot, a bank with five hundred branches of approximately 8,000 square feet each could save up to $3 million per year on energy costs, making this value proposition significant and compelling. After replacing overhead lighting, making improvements to Heating, Ventilating and Air Conditioning (HVAC) controls, and some additional energy saving investments in selected facilities, Ameriprise Financial in the U.S. reported saving more than $125,000 in utility costs in the first year alone.6

Centralized energy management systems are another tool that can help reduce energy costs associated with multiple corporate offices and facilities. The Independent Bankers Community of America, with 5,000 member banks, reported that by using Energy Star programs, members could save an average of $3,500 per year per branch with just a 10% energy use reduction.7 These benefits are not limited to US institutions. Deutsche Postbank AG has evaluated its energy management systems, implementing changes to use ecological heating and evaluating further measures for reducing GHG emissions and lowering costs.8

* All currency is stated in U.S. dollars
Bank of America recently announced that it intends to deploy a centralized energy management system in its 3,300 bank locations nationwide, and expects up to 50% energy cost savings using the system, compared with standard building controls. If Bank of America rolled out the program across its current 6,100 retail branches, the total potential savings could be in the order of $20 million. Savings can be much more factoring in the financial incentives offered by the public sector, such as the recent $820,000 incentive offered by New York State to Credit Suisse Bank to lower their energy costs.

Recently, the Vanguard Group reduced electrical energy consumption, lowering energy costs per square foot by 18%. Cumulative savings of $1.2 million were achieved through a combination of demand and supply side strategies. HSBC found that upgrading old heating and cooling equipment as part of its branch refurbishment program could essentially halve its energy consumption. Since then, it piloted upgrading 69 branches, with savings of £3.6 million per year. Encouraged by these results, HSBC is on track to replace equipment in 800 locations across the United Kingdom.

Significant cost savings can also be planned and expedited through denovo or refurbishment construction projects. A recent report sponsored by the U.S. Green Building Council found that constructing green buildings usually costs on average only 2.5% more than traditional construction, and results in 25% to 30% energy cost savings. In addition, the sales price for a Leadership in Energy and Environmental Design (LEED)-certified building averages $171 more per square foot than conventional buildings, clearly making these buildings better long-term investments.

Since 2000, PNC Financial in the U.S. has constructed more than 50 trademark Green Branch locations. These retail banking offices are 50 percent more energy efficient and use 6,200 gallons less water every year than a traditional bank branch. The Green Branch locations, together with two major buildings, give PNC more LEED-certified green buildings than any other company in the world. By adopting LEED guidelines, Wells Fargo’s, a consumer and commercial bank based in the U.S.) newly built branches will use about 20% less energy and 40% less water than conventional buildings of the same type. This has translated into substantially lower heating and cooling costs as well as lower monthly utility bills.

Based on Deloitte’s research, Information Technology energy consumption typically represents 30-40% of a company’s total energy consumption and technologies, processes, and business practices are being developed to reduce data center energy consumption. Over 30% of companies surveyed by Deloitte have a Green IT program in place and over 45% are planning to establish one. Companies that get started early can realize tangible benefits.

While some institutions are reducing energy costs by outsourcing data centers altogether to third parties with better energy management expertise, others are “greening” information technology procurement policies — procuring more energy efficient hardware and using virtualization software. Each virtualized server can potentially save the company about $700 per year in energy costs. Some companies are reaping benefits by going still further and tackling energy consumption at the component level. Wells Fargo, with revenues of $52 billion in 2008, controls processes at the microlevel. By addressing the power management of the duty cycles of its servers, it achieves significant cooling efficiency gains and improves electrical distribution within the data centers to reduce power consumption.

Deloitte research suggests that typical financial services data center operating costs are $170 to $250 per square foot of raised floor per year. With data center raised floor space across the top five banks in the 800,000 to 1 million square feet range, average annual data center operating costs are about $70 million. At this high level, even a 5% improvement in costs would yield considerable savings on the order of $3 million.
Savings in paper costs

Financial Services Industry is one of the more paper intensive industries. Paper consumption intensity in the banking sector is driven by document printing and processing for both internal and external customers. These include transaction processing, legal and compliance management, regulatory reporting, marketing, and communications. The cost of direct mail alone in the banking industry exceeded $4 billion in 2005. Improving sustainable use of paper presents a significant opportunity for cost savings. Electronic delivery of documents can also reduce postage costs significantly.

By putting forms online, a large commercial bank saved an estimated $10 million, not including the savings in postage and storage. Bank of America reduced its paper consumption dramatically through online reports and forms, e-mail, double-sided copying and lighter-weight papers. By instituting a campaign to get staff to print and copy double-sided (duplex), copy paper use at Bank of America was down 18%, computer paper was down 32% and the company had saved $1 million within one year. The company also reported saving $500,000 by using less paper in its ATM receipts by making the receipts smaller and lighter.

Other ways to reduce paper usage include increasing paperless transactions and printing documents for internal and external use only as needed. Incenting or rewarding customers to go paperless is also an effective strategy. These can range from customer rebate programs like those offered by RBC bank, to annual paper consumption fee for non-electronic delivery of materials levied by Vanguard, a U.S. money manager.

Reducing paper consumption can be achieved by small changes in customer expectations and employee behavior, such as using on-line statements and duplex printing. While these actions may sound simple, the associated savings are significant. For example, if every Citigroup employee used double-sided copying to conserve just one sheet of paper every week, the company could save an estimated $700,000 each year.

The tangible monetary benefits offered by these initiatives have already begun to get the attention of large banks. State Street Corporation, a major provider of financial services to institutional investors, achieved significant reduced paper usage by implementing a new paperless payroll system, saving 13,500 pounds of paper or $7,500 in costs. The company further boosted its public image by donating those savings towards conservation efforts.
Getting started
The current market offers an opportunity to move towards resource efficiency. Sustainable cost management initiatives can provide management a rallying call for employees and customers, as well as support much needed corporate responsibility action by the financial services industry that is facing challenges not experienced since the Great Depression. Energy efficiency measures can be deployed as part of existing refurbishment, denovo, and demand management programs with marginal costs. Moving the needle can be as simple as reconsidering corporate policies, modifying ongoing capital investment programs, and marketing appropriately to the staff.

Going green is no longer a fad or a public relations activity. It can be the basis for significant cost savings as part of an enterprise cost management strategy that goes beyond just energy consumption and paper usage. Besides operational cost savings, green initiatives have been shown to boost employee productivity and morale. Even a conservative 3% productivity gain can realize nearly $3 million per year of productivity improvements in an office space of 500,000 square feet based on salary savings alone.29

Additionally, going green can help companies take advantage of expected environmental regulatory changes and reporting requirements. Recent legislation has both directly and indirectly improved incentives and benefits for companies that are working to improve environmental sustainability of their operations. Taking action can alleviate pressure from shareholder groups. For example, Comerica, a U.S. bank, initiated a Corporate Sustainability Program in 2008 which includes energy and paper efficiency initially to address a 2007 shareholder resolution promulgated by an outside investment management firm.30 The harbinger of change is at our doorstep, and smart companies need to have a strategy around their green initiatives, because demand and need for them are real, tangible, and here to stay.

Here are just a few ways that companies can realize the benefits of going green:

- Analyze their paper consumption and develop strategies to reduce both procurement and disposal costs.
- Evaluate energy consumption at both corporate and branch offices and build the business case for operational and infrastructure improvements to reduce utility spending.
- Identify and capture all relevant federal, state, and local incentives and tax credits for implementing green practices.
- Implement green practices and technology in data centers and throughout the entire Information Technology infrastructure.

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