Inside the Industry by Deryl Schuster

Six Sigma Business Process Refinement Reduces Costs, Improves Customer Service

The Keynote Luncheon at the 2007 Management Retreat featured a presentation on the Six Sigma corporate and process strategy that the financial sector is increasingly embracing. During the address, co-founders of ProcessArc (and former GE executives), Sheila Shaffie and Shahbaz Shahbazi, explained how organizations use Six Sigma to solve operational problems, improve customer service and enhance the bottom line.

Any existing business process that increases cost or inefficiency—and lowers customer service and profitability—can be subjected to Six Sigma methodology. Six Sigma is a disciplined, data-driven technique used to systematically refine business processes through the discovery, analysis, measurement and eventual reduction of 'defects' (e.g., the need to repeat work, wait time, rejects, lost customers and other shortcomings). Eliminating defects—or achieving Six Sigma—means operating close to perfection. Through the Six Sigma system, organizations identify, measure, analyze, improve and eliminate the root cause of variation in processes or service (e.g., lack of process standardization, passing incomplete transactions to the next step, or passing inaccurate information, etc.). Continual collection of metrics helps fine-tune process and service improvements.

Motorola, followed by General Electric (GE), pioneered Six Sigma practices in manufacturing and service, respectively. Publicity surrounding GE's impressive results using Six Sigma led to an increased awareness of the concept.

In the late 1990s, Bank of America (BOA) paved the way for the financial sector when they adopted Six Sigma as part of their growth and customer service campaign. Once BOA announced attaining over $2 billion in cost reductions, numerous financial institutions followed suit. BLX was also an early adopter, deploying the systematic approach to improve business processes in the functional areas of origination, operations and servicing. Even the SBA has begun using Six Sigma in order to streamline processes and eliminate variation in service. Today, financial organizations—of all sizes—employ Six Sigma to improve response time to customers, reduce losses, increase origination volume and streamline business processes.

Case Study

Centralize and Standardize Appraisal Process

Vision: Create one appraisal process with clear roles and responsibilities, reducing cycle time, cost and losses.
Success Metrics: 1) Improve response time to borrower by addressing overall process cycle time (from the date appraiser engaged to approval date); 2) Create one vetted, centralized vendor list to control quality and minimize fraud; 3) Standard process with improved efficiency.

Discovery Phase Process:
1) Identify two top and bottom performing underwriters.
2) Process map their appraisal engagement, receipt and review process.
3) Identify sources of variation, risk and inefficiency.

Key Findings for Benchmark:
1) Each office has a unique process
2) Four to five people touch the process (accountability risk)
3) More than a 45-step process
4) Process cycle time = 30 days
5) Process time range = 10-80 days
6) No standardized vendor list
7) No formal engagement procedure
8) Appraisal review range = 15 minutes to 2 hours (no formal training)

Six Sigma Process:
1) Define an Area of Focus
Cycle time driven by appraisal performance, underwriting issue escalation process, and process complexity
2) Streamlining the process
- 45 process steps reduced to 10
- 5 process owners reduced to 2
- 6 inspection points to 2

3) Delivery Improvements
- Standardized engagement letter with due date noted
- Developed and implemented a vetting process for vendors
- Designed standard process to remove excess touch points
- Centralized review process and created a feedback review with liquidation department
- Created uniform check list
- Developed scoring process for appraisal performance

4) Benefits Realized
- Loss reduction
- Reduced process cycle time 25%
- Reduced number of appraisers by 50% (improved controllership)
- Increased operational capacity by 10% through
  - Eliminated all non-value add process steps and redundancies
  - Reduced number of process steps by 35%

7(a) Gross Loan Approvals

	FY 2006, 02-23-2006		FY 2007, 02-23-2007		% Change	
	#	$	#	$	#	$
7(a) Loans	34,333	5,233,575	38,247	5,347,454	11.4	2.2
Minority	11,144	1,753,568	12,322	1,756,185	10.6	0.1
Women	7,801	981,125	8,593	1,013,446	10.2	3.3
SBA*Express*	23,113	1,175,763	26,488	1,306,569	14.6	11.1
PLP Loans	6,419	2,988,311	7,036	3,248,872	9.6	8.7
$150K & Less	26,787	1,223,903	30,489	1,326,053	13.8	8.3
504 Loans	3,588	2,087,443	3,761	2,179,396	4.8	4.4

In thousands of dollars.
Approval amount reflects the gross value of the loan at time of initial approval. Does not reflect cancellations or disbursements.