

Six Sigma for Financial Transactions

Operational Cost Reduction in the Millions - Back-Office Transactions

The financial services industry is faced with growing pressures. Differentiation is eroding as industry products and services become commoditized. Financial and regulatory constraints are growing while there is increased pressure on fees. Combined, these factors are creating enormous downward pressure on profits. Today more than ever, there is an urgent need for the financial services industry to improve process efficiency and employee productivity. Many early adopters have started on an efficiency and improvement path by employing the Financial Services Six Sigma methodology. They are leveraging this “Quality culture” to focus their energy on a historically overlooked area – *back office transactions* (operations). Over a two-year period Bank of America saved approximately \$2B by reducing operational cost while increasing customer satisfaction by 25%.

In the world of Banking, Brokerages and Mutual Funds branches or retail divisions most often receive the greatest amount of “attention.” This is understandable given that branches are the first point of customer contact and a primary source of revenue generation. Conversely, back office transactions or the operations division is the most overlooked unit. This neglected area is riddled with operational inefficiencies and processes that are not-customer centric. The end results have been:

1. High cost per transaction
2. Operational risk in the millions \$
3. Customer service delivery variation

The operations unit represents a key milestone in the overall supply chain of a transaction. This unit, while invisible to the customer (as there is no direct interaction with them), **delivers equal value via the speed and accuracy** with which it completes a transaction.

If the operations unit maintains the status quo and does not engage in process improvements, it will continue to pose great risks - operational and financial - to institutions for the following reasons:

1. **Inconsistent Service Delivery** - The customer experience does not end at the branch. It ends at the back office where their requested transaction is completed i.e. opening a new account, performing a wire transfer or an ACH transaction. Inefficient operational processes lead to inconsistent service delivery. Just

- remember that your customers remember “foul-ups” and not average performance.
2. **High Operational Costs** - Process inefficiencies are directly linked to high transaction cost and unidentified operational risk. Given that most financial transactions are not visible, improving them is difficult. Therefore, the first step to reducing cost is through mapping out the current state of your operations.
 3. **Poor Process Controllershship** – Sarbanes-Oxely has been the force behind process documentation in order to help institutions identify process failure and risk points. When processes are inefficient they inherently bear risk.

As stated earlier, the way to overcome the issues outlined here is to employ the methodology and rigor of Six Sigma which has been tested and proven successful by institutions like BOA, Morgan Stanley and Vanguard, to lower operational risk and high costs.

Here is a short case study of how Six Sigma was employed in a bank to *identify over 30% excess capacity, \$500,000 misapplied labor cost and an IT infrastructure that would not support growth within 3 weeks*. The case illustrates the critical link that defines process efficiency between back office and the branch.

The bank had an aggressive growth strategy and their central concern was the scalability of their processes. Their central goal was to ensure highest level of profitability at the lowest possible cost. The ProcessArc team was invited to assess the efficiency of the banking procedures. Since the growth strategy was based on an increase in transactional volume, a good starting point for the study was the account opening procedure. To ensure that points of process variation and risk were correctly identified the following criteria was utilized: 2 branches were selected one with high volume and another with low, at each branch 2 new account reps were selected. The selection was based on years of experience – one was deemed “seasoned” while the other had been with the bank for less than one year. Additional operational data such as head count, account opening volume by branch and customer feedback data was collected the process-mapping activity started. For each branch and representative the various account types i.e. savings, checking, business was documented and process-mapped from the inception of the transaction request at the branch to completion in the back office. For each transaction the following characteristics were defined:

1. Operational risk points – any process steps that could have been completed incorrectly or inaccurately without being caught
2. Process inefficiencies - rework, wait, follow-up, QC...
3. Average cycle time for transaction completion

Upon reviewing and process mapping over 50 distinct processes the following key characteristics emerged:

1. 25% of process steps are “inspection” points - implemented to support ineffective processes
2. 45% of processes add no value to end product (or generate costs that cannot be passed on to the customer) i.e. rework, wait, follow up...
3. >50% of process wait time is due to branches not providing the required data
4. High levels of process and customer experience variation – process not standardized & required customer information not defined
5. Minimal customer face time – 50% of time spent entering data into various screens by customer service agents at branches
6. 40% excess capacity at some branches while others experience bottlenecks
7. No systematic data collection process for customer feedback
8. Over 28 distinct back office reports to verify 60 data points – a means of compensating for ineffective processes.
9. No performance metrics to gauge process robustness and cost

The outlined issues led to increased labor costs, unnecessary re-contacting of customers and the reduction of valuable face-time with customers (to resolve issues, branch involvement is required). To a large extent the effectiveness of the operations unit is dependent on branches supplying the required information correctly the first time. Every time a transaction has to be re-worked, revisited, and revalidated both the operation and branch need to be involved – robbing both units of capacity.

Other root causes of the inefficiencies outlined were: requirements for the successful completion of each process step were never clearly outlined and the IT infrastructure was not adequately leveraged to support the workflow reducing manual intervention/input.

The critical path to recovering the \$1.5MM is outlined below:

1. Clearly outline all required information that needs to be collected and documented as early on in the process as possible
2. Complete all quality inspections early in the process to avoid passing defective transactions to the next step
3. Understand the root cause and eliminate all non-value add process steps
4. Leverage the IT infrastructure to support the refined work flow

It is critical at this stage to understand that this “exercise” is a small increment on the path of continuous process improvement. This is a journey that cannot be rushed or sped up. True success comes with studious data collection and a strive for excellence.