Simplify and Unleash:

One Bank's Strategy for Growth Through Six Sigma

by Janet Jacobsen

At a Glance . . .

- With a goal of ensuring controlled and profitable growth, a large retail bank sought to simplify its retail division by using a Six Sigma strategy to remove incremental costs.

- By improving core business processes through process and product elimination as well as process simplification, the bank realized $2.1 million in savings in just eight months.

In 2007, the CEO of a large national retail bank shrewdly detected trends that led him to believe the recent growth in the mortgage industry was unsustainable. Like many full-service retail banks, this organization includes lending, mortgage, and retail divisions among its operations. The CEO realized the importance of strategically focusing on the retail division to make it lean and subsequently better position his organization to weather the coming storm in the mortgage industry. This forward-thinking leader saw an opportunity to fortify his organization through a Six Sigma strategy, so he enlisted help from the experts at ProcessArc, a consulting firm specializing in Six Sigma, to create a robust and scalable business process to ensure both controlled and profitable growth.

Banking on Six Sigma

With 180 branches in seven states across the country, the bank had experienced such rapid retail expansion that growing pains like frequent transaction errors, too many new processes, training deficiencies, and customer service issues were all too common. The ProcessArc team was brought on board to focus attention strategically on the retail division and make it as lean as possible by removing incremental cost and products that delivered minimal revenue. This is where the initiative's name, *Simplify and Unleash,* came from—the idea was to simplify the retail division to make it lean and then further unleash the strategy as a model for expansion so that all future retail branches followed that model.

In many cases, when a problem situation is identified, Six Sigma is employed in hopes of fixing that problem. Here, the CEO had the vision of using Six Sigma in advance of the mortgage crisis to shore up the bank's retail operation. "This CEO had the foresight to fix the core banking processes when everything was still fine in the sector. Most often, executives do not consider Six Sigma until some calamitous event forces their hand. This CEO was active in his thinking and assessment, which led to the bank averting a crisis that most others in the sector are still negotiating," notes Shahbaz Shahbazi, a principal with ProcessArc, a Milwaukee-based company that focuses on delivering process efficiency to the financial sector.

After a quick analysis, two potential improvement targets stood out. First, the organization's back-office personnel devoted 35 percent of their time to inspection and rework. Second, customer surveys indicated that customers lacked confidence in tellers' abilities to execute their banking transactions.

As shown in Figure 1, the 35 percent figure from the back office translated into a cost of more than $1.3 million in rejected work and nonvalue-added activity. The Six Sigma team calculated that a 30 percent reduction in these activities could save the organization nearly $400,000. If the branch locations could achieve a 10 percent increase in capacity via more effective training and fewer errors, that would net the bank another $1.9 million in savings. In turn, better training and fewer errors could translate into higher confidence and satisfaction levels among customers. Detailed in the project walk depicted in Figure 1, the team aimed for a total savings of $2.3 million through:

- Process simplification
- Process elimination
- Improved communication/new product introduction
- Training
- Product elimination

Executive buy-in for the Six Sigma initiative was assured because the need for change was initiated by the bank CEO and was championed by the retail division president. Having these leaders on board would later make a significant difference, not only in driving the required changes to implementation, but also in influencing the speed of progress.
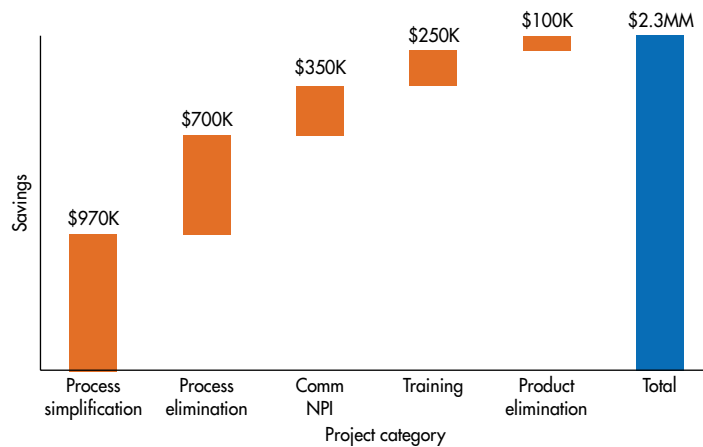
Five self-motivated employees who all had a keen understanding of the bank's systems, as well as its information technology structures and their dependencies, were selected as project leaders for the core improvement team. Each leader was assigned to one of five project silos:

- Recruiting
- Training
- Communication
- Processes
- Products

ProcessArc principals trained the five leaders as Six Sigma Green Belts using the consulting firm's Financial Services Six Sigma platform. The project leaders were intimately familiar with their areas prior to the training, which made the training process significantly more applicable: As the trainers taught Six

Sigma concepts, they also explained how and when to utilize them in specific projects. One of the first assignments the Six Sigma team leaders completed was a fishbone diagram, shown in Figure 2, to help identify the potential improvement areas in the retail division.

While the Simplify and Unleash strategy had many possible dimensions to pursue, the team focused on simplification as a means of addressing the process issues affecting the back-office operations and improving teller performance. Their strategy honed in on three distinctive goals:

- Increase capacity by reducing the amount of waste and rework in the organization.
- Reduce the costs per account by eliminating unprofitable services and control processes by eliminating inefficiencies.
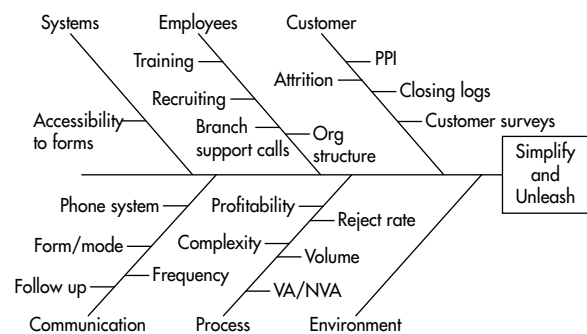- Increase customer satisfaction through improved training and organizational structure.

Stabilizing Operations and Collecting Data

Once the phase one strategy was determined, the team began improving core processes to create a more stable environment in the bank's retail operations. To accomplish this task the team relied on basic Six Sigma tools such as process mapping, fishbone diagrams, and failure mode and effects analysis (FMEA), as well as tools for designing and implementing data collection plans.

Unfortunately, this bank, like some of its peers in the financial sector, had very little operational and process data to use for decision making. The bank lacked the proper infrastructure to collect process data, as only 30 percent of its processes had rejection rates associated with them; therefore, calculating error rates or rejection rates of back-office transactions was nearly impossible. Under the direction of the improvement team, processes were implemented to collect error rates for all transactions performed at the retail locations. With the error reports, the bank could track the most frequently occurring errors in the organization, which had positive impact in three areas:

1. Improving the training content. By studying error reports, training leaders could make sure to address the transaction elements that were critical to the branch staff. In the past,

Figure 1—Simplify project financials and project walk

	Annual cost	Percent capacity spent on rejects/NVA	Cost of rejects/NVA	Increase capacity	Savings goal	FTE equivalent
Back-office labor cost	$3,750,000	35%	$1,312,500	30%	$393,750	13
Branch labor cost	$19,600,000			10%	$1,960,000	65
			Total project savings		$2,353,750	

Preliminary estimates indicated the bank could save more than $2.3 million by eliminating errors and nonvalue-add activities (increasing capacity) in both back-office and branch operations. The project walk separates the projected savings into five project categories: process simplification, process elimination, communication and new product introduction, training, and product elimination.

Figure 2—Simplify and Unleash fishbone

The improvement team used a fishbone diagram to organize potential improvement projects.

key points were not effectively communicated to branch tellers and associates. Establishing a feedback loop between the branches and the training division further improved communication and training.

2. Driving the concept of accountability. By measuring the efficiency and effectiveness levels at each of the 180 branches, the bank could calculate the associated costs of specific transaction errors. Prior to this new data collection process, determining which tellers were doing well and which needed further training was difficult.

3. Giving a voice to the back office. Error reports also gave a voice to the employees in the organization's back office concerning repeated issues that were taking a great deal of time to resolve. Systematically fixing these issues through process redesign would reduce pressure on these employees. A feedback loop was implemented among the branches, the training division, and the back office.

The concept of collecting data can be a cultural change for financial organizations, says Sheila Shaffie, a ProcessArc principal. She explains to clients that there's a need for data collection points within the business processes to drive change. "Collecting data to drive that level of consistency and documenting processes may seem basic, but it can be an 'aha' moment," notes Shaffie.

Initially the team encountered some resistance around data collection because it was a manual process and the burden fell on those who were already most stretched for time. Eventually the resistance faded when these staff members realized that by collecting data they could help drive improvements that would reduce their workload. In addition to the data collection centered on errors and rejection rates, the team collected voice of the customer information from branch employees to gain their perspectives on what processes were working and what processes they wanted to see changed. Branch employees provided more than 170 suggestions for improvements.

From the data collection efforts, it became apparent that the process flow from the branches to the back office operations was broken, which in turn was a root cause of back-office employees spending 35 percent of their time on rework. The Six Sigma team worked to recover 30 percent of that waste by process simplification and elimination of broken processes and unprofitable products.

Shoring up Operations Through Simplification and Elimination

Process Simplification

After compiling a master list of all customer-facing processes in the organization, the improvement team found more than 120 unique processes that required teller training. The team analyzed the volume of each process to gauge how often it was completed and its error or rejection rate. They found that transactions with low volume had higher error rates. A quick study of training materials uncovered discrepancies regarding which tellers were

receiving training on certain processes. In some cases, the training processes were updated so that only senior associates were trained on selected infrequent transactions. Funneling the majority of these sporadically used transactions to a few senior employees would increase the volume for the trained employees and help drive accountability when looking at error rates by employee.

Eventually the Six Sigma improvement team identified 10 high-volume core transactions, based on frequency of client complaint, error rate, and total financial impact to both the bank and its customers. The list included processes for new account openings, wire transfers, automated clearing house transfers, and more. Simplifying these processes, the team determined, would translate into nearly $1 million in cost savings for the organization.

Product and Process Elimination

Team members also focused on the myriad products offered by the bank's retail locations and studied the growth and cost per account of the products. One team member, Kathy, a vice president of branch administration and a project manager, explains, "We used a profitability analysis of our current products [prepared by the finance group] and the volume of accounts in each product category to determine which products we wanted to keep and which we wanted to eliminate."

The team brainstormed on key critical to quality factors to consider for product elimination. Five key drivers like income and losses were selected. Eventually the bank decided to drop 18 products, including several specific types of checking and savings accounts, as well as three certificate of deposit options. Eliminating these products was a major step toward simplification in the retail branches.

In addition to discontinuing the unprofitable products, the team focused on reducing the number of processes used in the retail division. The branch services listed in Figure 3 were categorized as high risk, redundant, or unprofitable. Since these processes take capacity away from the branches and the back office, they were identified as candidates for elimination.

Impressive Results Come Quickly

In phase one, the improvement team, led by ProcessArc, went after the low-hanging fruit by eliminating processes and products that had little value to the bank and by implementing a feedback

Figure 3—*Process elimination project list*

The following branch services were categorized as high risk, redundant, or unprofitable. They were identified as candidates for elimination because they took away capacity from the branch locations and the back office.

Services	Potential Savings if Eliminated
Counter checks	$230,000
Cash advances	$45,000
Bond redemption	$320,000
Signature guarantees	$6,000
Miscellaneous	$95,000
Total Savings	**$696,000**

loop between the bank office and the 180 branch locations. What was the bottom-line impact? These improvements provided a staggering $2.1 million in financial benefits in just eight months, primarily related to cost reductions.

As shown in Figure 4, five project silos were initially targeted. Ultimately, the team focused on three silos—process simplification, process elimination, and product elimination—reaching the $2.1 million mark on just those three areas and leaving a healthy pipeline of work for phase two of the Six Sigma project.

When products are eliminated and processes are streamlined, some may fear that a number of employees could lose their jobs due to cutbacks. Not so in this case. In fact, prior to the Six Sigma initiative the organization had plans to reduce staff, but studying process volume uncovered a need for more senior-level people to handle higher level transactions. Thus, rather than some employees losing their jobs, several received promotions.

To ensure the consistency of the new and improved processes, cycle time and error reports were implemented. The training for the new processes was updated to make certain that new associates understand the process requirements. Another new introduction centered on the new product launch process: Now, when the bank rolls out a new promotion, it must have success metrics associated with it.

Looking Forward

After phase one of Simplify and Unleash was completed, a second phase focusing on fixing processes for new account openings, e-statements, and online banking processes quickly followed. Once the concept of continuous improvement was securely rooted in the bank's culture and the required data points were in place, the employees took the lead on phase three and now continue to use Six Sigma successfully to keep the financial institution lean and strong.
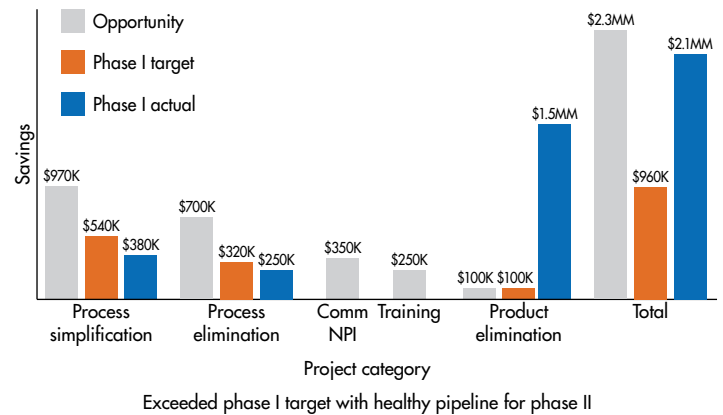
About the Author

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Figure 4—*Simplify project financials—phase 1*

Exceeded phase I target with healthy pipeline for phase II

Phase one financials show that $2.3 million in savings were realized through process simplification, process elimination, and product elimination. Communication and new product introduction, as well as training improvement opportunities, were addressed in greater detail during phase two of the project.