

Implementing the Lean Approach in a Financial Organization

By Dikla Goldenbaum-Gaber and Roy Rizenbach

Introduction

As a result of the 2008 economic crisis, most financial bodies made significant emergency cut-backs in order to keep afloat during turbulent times. Now, four years later, those same organizations realize that they need a more comprehensive and strategic plan to cope with the business reality which has developed since that crisis.

This reality check has left companies facing harsh challenges, such as reduced profit margins, accelerated competition and greater consumer awareness. Decidedly out of their comfort zones, these companies are under pressure to develop and maintain comprehensive organizational processes, involving substantial changes to the way in which services are provided, a deeper understanding of how service value is perceived by customers and a closer focus on exactly how these services can be maximized to increase this value for both the customer and the company.

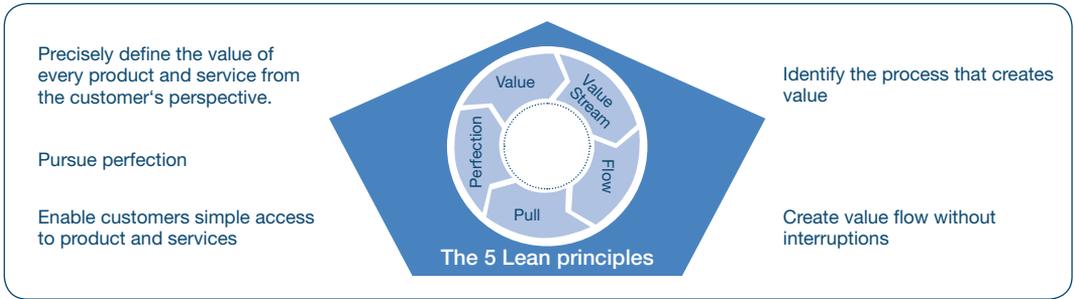
According to an updated survey conducted among managers of U.S. banks and financial organizations, 43% of the respondents thought that bank managers should devote the next two years to initiatives for improving operational efficiency, reducing costs and inspecting their operative and organizational model.

A cross-organizational analysis of this scale and significance requires a powerful method of application. One of the leading approaches employed by Tefen is based on "lean" principles. This article examines how this method has been implemented at one of Israel's leading banks.

The lean method

Lean is a managerial approach which inspects processes, services and products according to their value from the customer's perspective.

The methodology is based on five basic principles



Proper implementation of the methodology enables the organization to achieve constant long-term improvement. Profits are maximized by concentrating on products and services which are valuable to the customer and costs are minimized by eliminating "waste" in the process and reducing operations which do not add value.

With a clear focus on process standardization, quality improvement, cost cuts and efficiency enhancement, the lean method has recently been gaining momentum and crossing over from its traditional base in industry to various branches of service organizations. According to a recent survey, 17% of the organizations which have implemented this methodology over the past few years are service organizations.

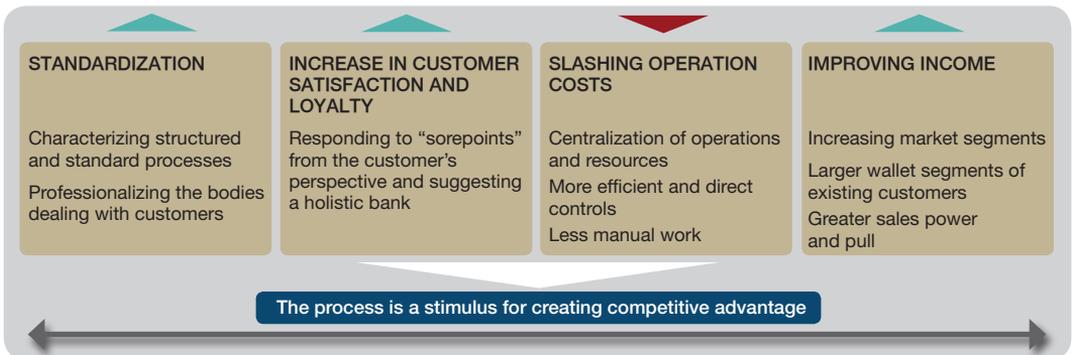
The potential of this method for process-oriented organizations, such as financial institutes, is enormous. Not only can they profit from lower costs and error rates, successful implementation of the lean approach can bring a 15%-25% improvement in efficiency and a 30%-60% increase in turnover.

Most major banks around the world have already begun to implement lean principles as follows:

- Improving customer experience by strengthening the interface for the customer in all channels
- Improving services and products and adapting them to customer needs
- Reducing costs (fixed and variable)
- Shortening cycle time and improving their efficiency
- Measuring performance at real time

The implementation of this approach in banks is also expressed by performing customer segmentation and mapping the value offered in each segment. This has had an impact on branch formats, with opening hours being adjusted to customer needs and operating centers being established, to reduce the workforce in branches and focus on core operations.

The following diagram summarizes the benefits which an organization can expect to reap after implementing the lean approach:



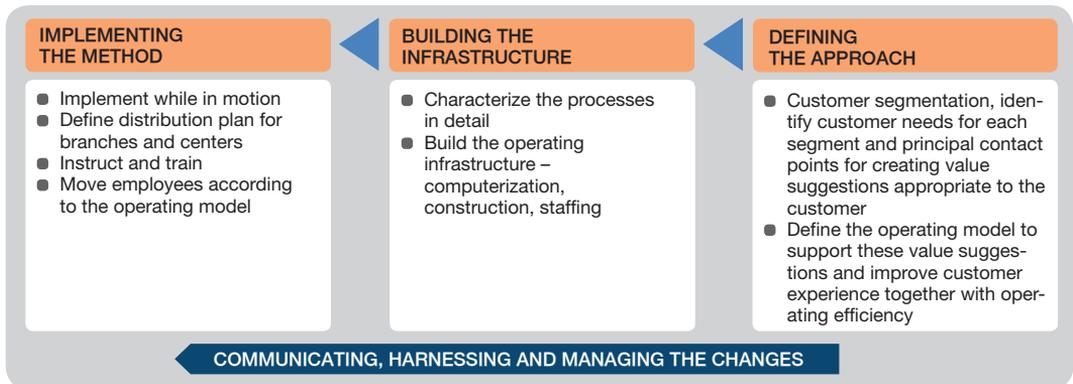
Where do we begin? (setting into motion)

The decision to implement the lean approach at your bank is a significant strategic step. This will need to be backed up with all the required resources and support to ensure its successful completion. You should also be aware that it will take

courage to make what may be substantial changes for your organization, particularly in relation to its core sectors.

How do we begin? (work stages)

The diagram below shows the various stages of the lean approach:



Defining the approach

We begin this stage with customer segmentation. This involves:

- Defining segment groups according to behavioral characteristics in the world of services. For example: technologically oriented as too personal relations / VIP etc.

- Analysis of the bank's customer population according to the defined segments and analysis of the "typical" customer in each segment
- Analysis of customer needs for each segment, including product, means of approach, manner of providing service etc.
- Formulating USP (unique selling proposition) while taking into account the bank's potential for profit

For example:

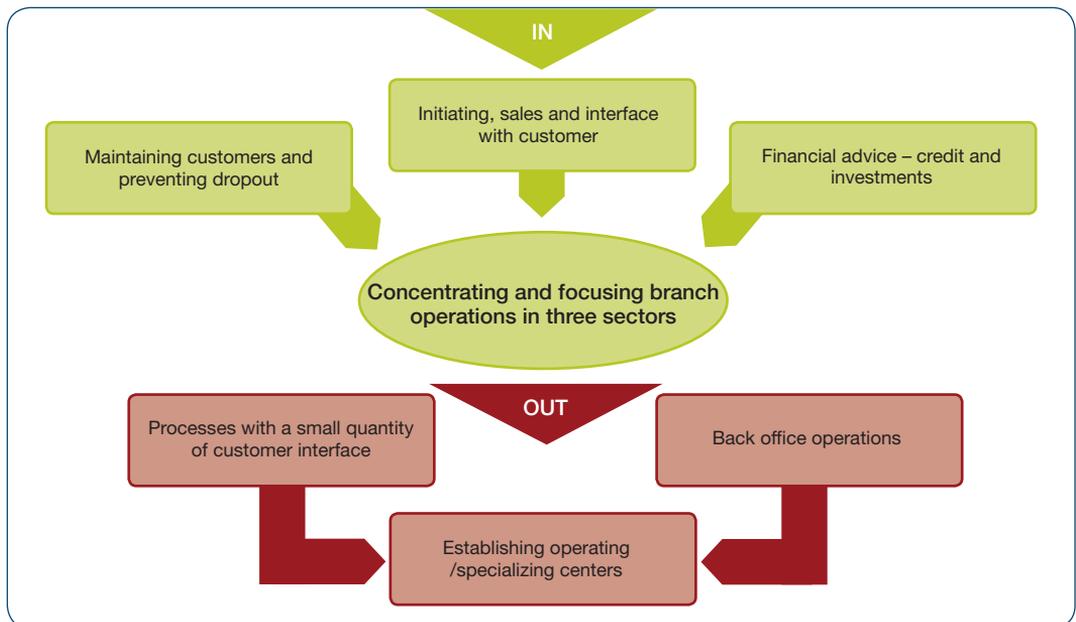
Segment	Typical customer for segment	What did the customers of the segment say?
Segment 1	<ul style="list-style-type: none"> Primarily over 45 with low income, wants human contact with bank Has limited financial knowledge 	<ul style="list-style-type: none"> "I like it when Rivka from the branch faces me and says good morning, how are you?" "The branch is what counts, not the bank."
Segment 2	<ul style="list-style-type: none"> Primarily students, soldiers and young people Some have low income and basic needs 	<ul style="list-style-type: none"> "My needs are a current account and a credit card." "Why doesn't the bank send me a credit card?" "I want to manage my account on the internet."
Segment 3	<ul style="list-style-type: none"> Young families and employees who are planning their future Customers who need credit, such as mortgage and credit frames 	<ul style="list-style-type: none"> "I need the bank to be flexible with me." "The hours that my branch is open do not suit my needs."
Segment 4	<ul style="list-style-type: none"> Customers with high salaries or with substantial wealth Customers with complex needs and who prefer direct channels 	<ul style="list-style-type: none"> "Why don't bankers have email?" "I don't need the bank often, but when I do need it, I want professional service."
Segment 5	<ul style="list-style-type: none"> Substantially wealthy adult customers Customers seeking a close banker 	<ul style="list-style-type: none"> "I am willing to pay money for better service." "Building a relationship with my banker is important to me."

We then need to define an operating model.

This should support the bank's core operations, namely sales and customer service, with a view to maintain the bank's profit goals and reaching a state of constant streamlining.

As shown in the next diagram, the optimum model for implementation of lean principles is composed of the following elements:

- Changing the branches **to focus on consultation and sales**
- **Diverting customers to direct channels** for performing simple actions and receiving services
- **Establishing service and operating centers** which perform back office, sales support operations and services instead of the branches
- **Establishing excellence centers** for giving a professional response to various subjects which require specialization



The primary significance of this model is to remove certain operations from the branches to one of the supporting channels, so that branch employees have more time for focusing on value added activities.

This process of transferring operations is not only technical. It includes an opportunity to thoroughly inspect processes, make processes leaner and more efficient, cancelling and reducing steps that do not add value for the customer, standardizing the performance of the process and preventing repeat actions, reducing/cancelling controls, etc. In some cases, process inspection can lead to the entire process being removed.

Building the infrastructure

Building the infrastructure to support the process is complex and involves many channels:

- **Detailed characterization of the operating model –**
 - Define branch operations by process/ sector/ subject/ customers/ segment
 - Define joint center structure and work methods
 - Define branch interfaces and work methods in conjunction with centers

■ Workforce changes –

- Plan and estimate number of employees required to perform operations in joint centers versus number of employees required in branches, where workload has been cut
- Build plan for transfer of workforce from branches to centers, based on skills and bank's needs
- Formulate plans for early employee retirement where necessary

■ IT support –

- Find technological solutions and expertise for successful implementation of the approach and operating model. Update work plans and direct resources to where they are needed (recruiting more if necessary)

■ Detailed characterization of work processes –

- Inspect and analyze processes and topics transferred to centers and define optimal work process. This includes interfaces to the branches, data system requirements, process controls, indicators etc. Maintain lean principles to create efficient and streamlined processes in branches and centers

■ Instruction and training –

- Formulate means of instruction and training for all branches and centers: concentrated training for employees/ implementation teams in branches and centers, etc.
- Define training content for branches and centers

■ Construction and real estate –

- Reduce the physical size of branches and locate areas for new joint centers

The organizational effort required to build an infrastructure in line with the work plan, as well as allocating resources and synchronizing individual elements demands good overall management of the process. We recommend using the following organizational infrastructures to:

■ Leading, managing and control:

- Establish a body responsible for management, lead and control of progress
- Establish a steering committee for key decisions, to include senior managers from all bodies, businesses and operating areas involved
- Define a detailed work plan for implementation, management routines, control and escalation of progress
- Establish work teams for each sector

■ Integrating mixed units:

- Allocate a body responsible for each mixed unit
- Define areas of responsibility, functions and level of contribution required of each party involved

Implementation

Implementation while in motion

Implementation of the lean approach and the operating model covers a wide variety of operations and areas across units and branches. It takes time to build all the infrastructure required.

Nevertheless, to reap rewards from the process, even at the early stages, specific work packages for short term realization should be defined. This maintains the basic implementation principle – “implementation while in motion”.

This means that the team need to work in parallel, continuing to implement long term work packages while characterizing and developing future work packages.

Deployment plan for branches and centers

Parallel to defining work packages for removal of processes from the branches, a deployment plan needs to be developed to ensure that these processes are delegated to the correct centers. In detail, this schedule defines the pace of terminating branch processes and moving employees to the centers. In addition to operating importance, this plan clarifies and presents the bank management's commitment to the wider process.

Change management and communication

The success of such a wide-ranging process will be measured by means of two main indicators – customer satisfaction and the quantity of resources saved. The first indicator is subjective. In reality, customer satisfaction is measured in those “moments of truth” when the customer needs bank services. Add to this the banker’s satisfaction and the message the customer receives from that banker.

We cannot stress enough the importance of the communication channels and the management of change which accompanies this step, both in presenting the change and twice in giving the correct messages which reflect the lean approach to customers and bank employees alike.

Correct formulation of these messages, both internally and externally, contributes significantly to the success of the process. It is therefore important to clarify the factors influencing these channels and to review the situation with every central operation performed.

Summary

The implementation of such a wide-scale process undoubtedly constitutes an enormous challenge. For the process to succeed, the business, operating and human elements involved must work together perfectly.

The business component includes logical formation of the approach and the operating model. The operations to be removed from the branches must be clearly defined and their value in the eyes of the customers understood. Courage is required to

break away from traditional paradigms, conceptions and clearly defined responsibilities are essential to ensure that the new “products” are developed correctly.

The operating component involves establishing the management team, implementing management routines, formulating a deployment plan, work plans, tracking and control.

The human component focuses on transparency, routine communication of successes, matching human resources to operations, establishing centers with quality spearheading forces and including employees in the process right from the early stages.

The correct combination of these components, with the assistance of external support to help discard old paradigms and breaking through new paths, will help your organization build the infrastructure for constant improvement and for attaining the required efficiency objectives.

TEFEN has led and managed many similar projects and has the experience and ability to implement large-scale projects in any organization which embraces the necessity of carrying out such a move.

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Material

Articles:

The Lean Evolution: From Factory Floor to Service Centers - and Beyond/ Wharton

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Lean Financial Services - Cutting Costs While Reducing Risks | Published : November 11, 2009 in Knowledge@Wharton

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Extending the Lean Enterprise | Published: February, 2008 | Author: Aberdeen Group

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