



LEAN RETAIL BANKING

BACKGROUND

Since the heydays of investment banking seem to be over, attention is again turning to the retail side of banking to deliver steady profits and stable funding that banks need to regain the support of investors. It seems that the timing for retail banking is right to regain attention, since consumers are evidently changing their ways of interaction with retail banks through the use of mobile technology. Yet a central discussion point remains: the future of the bank branch. Will branches, who have been prematurely reported dead several times over the last decades, join the same fate as book stores, music stores and travel agents which keep on disappearing from high streets globally? Or is trust still paramount in retail banking, where people will leave their savings only with banks that have a vast network of branches symbolising their stability?

We at Four Principles believe that the branches play a vital role in retail banking and that their days are far from over. This holds true, only if retail banks focus uncompromisingly on delivering outstanding customer value through following Lean values and implementation of a continuous improvement processes that improve product/service quality, service delivery lead time and reduce costs sustainably, with savings being partially passed on to their customers.

CHALLENGES

Retail banks are increasingly fighting over a higher share of wallet from their customers, with customer loyalty being the key driver for growth. Customer loyalty forms through customers' key interactions with their retail bank, also called "moments of truth". In order to constantly impress customers, it is not sufficient any more for the retail bank to merely meet customers' expectations - it has to continuously over deliver throughout all "moments of truth". How does bringing Lean into this picture help?

Lean empowers retail banks to continuously and sustainably improve their product/service quality, service delivery and cost position, while at the same time constantly surpassing their customers' expectations.

FOCUS AREAS

Operational processes in front- & back-offices of retail banks will become more efficient through Lean implementation, resulting in freed-up time for the sales and customer service personnel to enhance service level delivery to their customers, triggering a positive impact on customer loyalty and hence increasing overall revenues and profits.

RESEARCH SHOWS THAT THE BIGGEST IMPACT ON CUSTOMER LOYALTY IS CREATED THROUGH THE FOLLOWING SIX “MOMENTS OF TRUTH”:

- Arranging a mortgage
- Seeking financial advice
- Opening a bank account
- Pro-actively offering a product
- Troubleshooting
- Communicating a price increase

Flexible processes are required to deliver positive “moments of truth”, which can rapidly become very costly. On the other hand, customer interactions that cannot be classified as “moments of truth” can be standardised to a very high extent and therefore should be delivered in the most cost-efficient way. While the six “moments of truth” are costly to deliver individually, they do not occur as frequently as the standard customer interactions, which in turn account, due to their high volumes, for the highest share of total costs. Lean addresses both sides of the spectrum through continuously and sustainably eliminating waste.

FOCUS AREAS - CONTINUED

AREAS OF WASTE IN RETAIL BANKING, USING THE EXAMPLE OF A MORTGAGE PROCESS:

TRANSPORTATION

Hard copies of mortgage documents mailed from branches to back office and vice versa.

INVENTORY

Customer mortgage files waiting to be processed after changes in repayment intervals.

MOVEMENT

Searching manually through piles of print-outs by various employees to find relevant mortgage contract pages.

WAITING

Customer relationship manager waits for scoring of credit rating for approval of mortgage, which could be done in real-time.

OVER-PRODUCTION

Mortgage contracts are 30 pages long, when a 3-pager alternative would be possible.

OVER-PROCESSING

Checking property valuation several times, instead of just once.

DEFECTS

Rewriting a mortgage contract due to wrongly input information, such as mortgage duration, value, etc...

UNUSED SKILLS

Using overqualified employees (graduate level) to move hard copies of mortgage contracts from office to office.

On top of the above-mentioned types of waste, an insufficient error-tracking process leads to double work, when employees have to repeatedly fix the same problem over and over again without being able to identify and to tackle the root-cause of this problem - and therefore eliminate it, once and for all. This re-work, combined with no proper forecasting and a highly inflexible workforce, produces long and highly volatile lead times for a mortgage customer's service delivery.

The described waste in a retail bank's mortgage process can usually be linked to a few common root-causes, such as human/processing errors, over dimensioned quality regulations, excessive movement between offices/departments, lack of standardisation and automation of simple procedures and missing/not working interfaces between IT infrastructure and software.

In a typical retail bank's mortgage process the total value-added time in terms of capacity is approx. between 10% to 30%, with the remainder (70% to 90%) being waste. 50% to 60% of the waste has its root-causes in the above-mentioned common root-causes, whereas 10% to 15% are rooted in inflexibility (inflexible work schedules, high degree of specialisation of resources) and the remaining 10% to 15% are rooted in variability (absenteeism, product/service demand seasonality, differences in productivity between individual employees). This means that in the best case a retail bank might work only at 30% of its total capacity although, when looking at it from the surface, every employee and department appears to work extremely hard.

The above example clearly shows that there is plenty of room for improvement through the application of Lean in retail banking.

LEAN SOLUTIONS

IN ORDER TO TACKLE THE ABOVE-MENTIONED AREAS OF WASTE, LEAN CAN BE APPLIED IN RETAIL BANKING AS FOLLOWS:

TAKT PRINCIPLE

Through application of the Takt Principle the workload is levelled out throughout the entire mortgage application process. This allows the retail bank to create/maintain a steady workflow and to identify bottlenecks. A mortgage “production line” is structured into three stages: opening of application, processing of application and checking of credit. Stage one and two are necessary for all mortgage applications, the third stage is required in approximately only 50% of all mortgage applications. Since each stage takes a different amount of time, it has to be calculated how many employees are needed at each stage to keep the mortgage “production line” balanced and therefore the mortgage application flowing.

VISUAL PERFORMANCE MANAGEMENT

Creates transparency that helps employees identify problems easily and find solutions to eliminate the root causes swiftly. Transparency is the first and most important step in starting and maintaining a continuous improvement process. Notice boards with displayed daily key performance indicators (e.g. file processing rates, productivity of each employee) are put up in every team area, so that the daily, weekly and monthly performance can be tracked, discussed between the supervisor and their team and necessary countermeasures thereby derived.

GENERALIST AND SPECIALIST TEAMS

This helps to increase flexibility and fine-tune team capacity with regards to volume fluctuation. Productivity is locked-in and scheduling/ performance management is simplified by setting up specialised teams which handle a clearly defined scope of tasks or cases, thereby stabilising their workload, and subsequently the remainder of the tasks or cases being absorbed by the generalist teams. Employee numbers will have to be dynamically adjusted following the volatility of the “remainder” workload, which can be done by using a mix of full, half time and temporary contracts.

CENTRALISATION BACK OFFICE

Full centralisation of back office functions is not a means in itself, due to reasons such as scale of operation, number of time zones to be served and specific customer/branch requirements. Generally, it can be said that centralising all operations of a given type together in a single location will boost efficiency, as long as it is treated as a means to achieve a goal and not a means in itself. For example, a retail bank could consider consolidating its closing operations while keeping several underwriting centres separate to accommodate regional variations, whilst leaving a widespread sales network intact to allow its sales team to stay close to their customers in their respective markets.



TANGIBLE IMPROVEMENTS

LEAD TIME

- Customer-to-customer mortgage application process time reduced by 65%, by reduction of data points to be filled in in branch with customers, reduced overall document complexity and signatures needed
- Customer waiting time to be served from teller in branch reduced by 75%, by introducing new branch Lean layout reducing movement of employees/ overall process time and introducing multipurpose ATMs with a higher degree of self-service functionalities

QUALITY

- First-time-right mortgage applications increased from 40% to 80%, through reduction of incomplete file submissions from front line sales staff to back office staff by introduction of clear roles and responsibilities, linked to KPIs and team/individual incentive structures

COSTS

- Resources devoted to overdraft authorisation reduced by 70%, through reduction of authorisation levels from 10 levels to 3 levels
- Customer serving costs in branches reduced by 50%, through elimination of process inherent waste and thereby increasing value-added time available for customer service representatives to meet additional customers



Should you be interested to know more about our Lean services regarding this topic, then please contact us:

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