



## BANKING ON LEAN: EMERGING TRENDS AND WINNING PRACTICES IN LEAN BANKING

## IN THE FACE OF INCREASING REGIONAL AND INTERNATIONAL BANKING REGULATIONS, COMPRESSED MARGINS, AND CHANGING CAPITAL ADEQUACY STANDARDS, BANKS ARE LOOKING FOR A MORE ADAPTABLE, TRANSPARENT APPROACH TO BUSINESS.

A more informed, more demanding customer base is forcing financial institutions to rethink their approach to customer service and support – causing fundamental shifts in the culture of the industry, especially as millennial-friendly startups are beginning to threaten established players.

Meanwhile, the financial industry as a whole is still working to resolve its credit and capital problems, caused by the recession nearly a decade ago. Major players are shifting their focus to improving operational efficiency as a way to safeguard against future turmoil, improve customer satisfaction, and gain the momentum needed to propel them into the digital age of banking.

Many banking institutions are turning to Lean methods as a framework to embrace continuous improvement, optimize processes for delivering customer value, and gain a competitive edge. Below we will discuss how Lean practices, principles and digital trends can help banks to predict and prepare for shifts in a market rooted in uncertainty.

## WHY LEAN BANKING?

Banks have to deliver high-quality, customized customer experiences across digital channels while improving operational efficiency and reducing costs. These two, seemingly opposing, challenges leave banks looking for innovative solutions.

In today's age, providing quality experiences means having the adaptability and competitive intelligence to embrace and enable customers with new technologies. But in order to have the capacity to create high-quality customer experiences, banks first have to fix their underlying operational inefficiencies.

This – operational inefficiency – is the initial reason many banks have turned to Lean. In manufacturing, engineering, software development, services and beyond, Lean has been proven to effectively help organizations control operating costs and reduce risk.

Banking has been no different: Four Principles established through project work, that Lean practices **can effectively lower a bank's cost base by 25-30%**. Lean has proven to be a particularly effective solution for lowering back and front-office costs.

Lean helps to improve team efficiency: Our projects show **improvements in process lead times of 30-60%**. Thanks to all these operational improvements, banks are beginning to realize other less tangible, but equally significant benefits of Lean. As Patrick Wiebusch, Co-Founder & Managing Partner of Four Principles puts it:

*"Lean derives value from the customer's perspective, thus making it very transparent where improvements efforts should be focused on. Furthermore, Lean triggers an increase in employee motivation, thereby increasing engagement and reducing staff turnover. A successful Lean enterprise transformation changes the mindset to self-reliance and continuous improvement, which will sustainably improve the organization's performance in terms of quality, service delivery and costs."*

Solving underlying inefficiencies, reducing operating costs, and mitigating risk has provided organizations with the proper platform for true agility and innovation. This is the true power of Lean – aligning financial goals with the needs of customers, employees, and managers, to transform organizations from the inside-out.

## A LOW-COST, SUSTAINABLE SOLUTION

What differentiates Lean from other improvement methods is that it does not require a significant capital investment. All that's required to get started is a basic understanding of Lean concepts and a clearly defined, shared vision of organizational goals.

Lean principles empower employees to own and optimize the processes they follow – meaning that rather than relying on external consultants to solve problems, employees engage in a sustainable, lasting practice of continuous improvement.

This approach creates lasting results: Financial institutions leveraging Lean banking methods in their operations report results of **20-30% cost reduction within 12 to 18 months** and maintain cost efficiency ratios below the industry average.

### Key Concepts of Lean Banking

Now that we've covered the benefits of Lean banking, let's discuss the specific principles banks are using to transform their operations from the inside out.

### END-TO-END PROCESS OWNERSHIP

Traditionally, banks have been organized around the products they offer and push products onto the market, rather than creating products in response to expressed customer needs. This is the first issue with product-centric teams.

Secondly, when business units are organized around products, every change in the market results in department-specific initiatives – rather than an organized, strategic response across the business. In this way, a product-centric structure creates functional silos – where information, effort, and insights are distributed across the organization, rather than aligning to meet organizational objectives.

Today, banks are leveraging a leaner approach – a customer-centric structure where processes that affect the customer (such as the credit card or mortgage application process) are managed holistically, from end-to-end. This results in a far more efficient and customer-friendly approach.

Shifting from a product-centric approach to a customer-centric one is not a quick fix. From a purely logistical standpoint, this shift requires a deliberate, inclusive rollout, and can take months to years to complete. Here is a high-level example of what such a rollout might entail:



From a cultural perspective, building a customer-centric organization requires a mental shift that in most cases is met with resistance, especially from managers and employees who have built careers around the established culture of the industry. This is why it's critical for organizations to identify process owners to manage and own the transition. Roles and responsibilities must be clearly defined, for the newly minted process owners, as well as the functional managers who provide services to them.

### **In Real Life: Connecting the Dots to Reduce Error, Effort, and Cost**

Often, opportunities for major process improvement can be hidden in plain sight. **A bank with a large presence in the Southern United States** was struggling to effectively manage its mortgage servicing operations and default management. The bank decided to employ Lean principles to help improve process efficiency. Since they service more than 2 million mortgages in 48 states, they knew that even minor improvements could have a drastic impact.

The bank focused on improving the following areas:

- Mortgage servicing operations (including post-closing/MERS, loan administration, cashiering, and reporting to investors and credit bureaus)
- Mortgage default management (including collections, loss mitigation, post-foreclosure and foreclosure procedures, and bankruptcy and REO)

They discovered that in an effort to respond to market and regulatory requirements, the bank had developed a highly uncoordinated response to risk issues and backlogs. As a result, its processes and teams were operating in silos; the redundancies and waste created were enormous. The firm discovered over 1,400 highly manual, costly, activity-level sub-routines: handoffs, revalidations, corrections, and reviews. Many of these overlapped other activities or were simply unnecessary. By standardizing and merging the processes from end to end, 70% of this effort was eliminated.

## **RAISING OPERATIONAL EFFICIENCY**

Banks are process-intensive organizations with incredibly complex workflows; within this complexity lies a significant amount of hidden waste. Process waste can present itself as **"Rework due to process errors, unnecessary checkpoints, physical dispersion of information, process loopbacks, multiple storage of information, delivering services the client doesn't need..."** and more.

Lean helps organizations systematically uncover and eliminate hidden sources of process waste, thereby creating new opportunities for improving operational efficiency.

### In Real Life: Testing Assumptions to Raise Operational Efficiency

After several successful decades, a top 3 super-regional financial services group was looking to improve productivity faster than revenue growth. The board was demanding cost cutting measures to increase profitability – the bank's hard-won competitive advantage was being threatened by its mediocre operations.

This process required everyone in the organization to reconsider previous assumptions in order to boost operational efficiency. For example, executives had long believed that customers appreciated zero wait times in branch locations. The bank found out that customers were actually indifferent to wait times as long as they did not exceed 90 seconds. Reducing this over-service resulted in a major cost reduction – roughly 20% of branch operating costs.

### LEAN CULTURE OF CONTINUOUS IMPROVEMENT

One of the most critical elements of any Lean transformation is the establishment of a sustainable culture of continuous improvement. A true Lean culture is rooted in the idea that every employee, at every level, tries to improve his or her work environment, processes, and habits. Organizations need to invest into teaching employees Lean practices and principles to everyone, at every level. Continuous improvement has to be the goal and priority for everyone. This cannot be accomplished without executive sponsorship and leadership.

Clear and enthusiastic communication by leadership is critical to the success of any Lean initiative. In order to combat the feelings of uncertainty and resistance that change can bring, leaders need to lead by example – by practicing continuous improvement in their own work, celebrating failures and successes equally, and communicating expectations clearly and openly (walk-the-talk).

Leaders need to demonstrate how to make decisions that put the customer first, so that everyone feels comfortable and confident in doing the same. **Paul Cobban, COO of DBS Bank** in Singapore, wrote about their bank's leadership like this:

*"We are fortunate to have a very inspirational CEO, who has been around for eight years and always very consistent with the strategy. He has also supported our improvement initiatives very visibly. One way in which top leadership showed how strongly they believe in lean thinking was by encouraging people to start as many "RED projects" as they wanted, even though – as I mentioned – they knew many of them would fail. By letting them try, they allowed people to share their ideas, attempt new things, and learn from the experiments they ran. Early in our transformation, we hired an ex-journalist, whose job was to write two stories a week about the change we were trying to bring about. We still take communication extremely seriously, and we have gotten to a point where we don't have enough people to write all the stories we have. We have also found that sharing what improvements take place at DBS with the outside world helps us get traction internally and attracts talent."*

## CUSTOMER/CLIENT FOCUS

Because bank processes have traditionally been organized around products, and not people, banks have long-struggled to deliver high-quality customer experiences. Moreover, the banking industry has a reputation of not always acting in the customer's best interest. Lean banking is on the rise, but many implementations place far too much emphasis on achieving operational excellence – and not nearly enough on creating a customer-centric culture.

When applied holistically, to include both operational efficiency measures and cultural improvements, the Lean banking approach encourages financial institutions to align organizational goals with customer needs, creating a stronger foundation for delivering authentically customer-centric experiences. As **Paul Cobban, COO of DBS Bank** in Singapore, put it:

*"It's hard to fathom the amount of waste we avoided generating by simply talking to our customers. And the truth is that, regardless of how much waste you can remove from your processes, there will never be a bigger form of waste than offering customers a service or product they don't want or need."*

A holistic implementation of Lean ensures that the entire organization is enabled, empowered and motivated to deliver consistently excellent customer experiences – and therefore, improve the bank's bottom line.

## DIGITALIZATION TRENDS IN BANKING

As global tech leaders like Amazon or Apple and Fintech companies like Affirm (easy financing app) or Monzo (current account that lives on customers' smartphones) are beginning to establish roots in/are disrupting the banking industry, it's becoming clear that the ability to embrace and leverage emerging technologies is essential for any organization hoping to compete. Here are three key banking trends that will shape the industry in the years to come.

## SEAMLESS MOBILE BANKING EXPERIENCES

Virtually all banking institutions have a mobile app, but not all of them enable a seamless digital banking experience that modern consumers demand. Patrick Wiebusch, Co-Founder & Managing Partner of Four Principles, says that in the next few years, mobile banking experiences will **become more enriched and data-informed**, including consumer-to-business seamless digital banking, consumer-to-consumer one-click payments, new cryptocurrency opportunities, password-free biometrics, locational services and offers, and conversational interfaces.

In general, **banks are using advanced data and analytics** to gain a marked advantage in this cutthroat market. The mobile experience is just one opportunity to use data to support better customer experiences. Apple's move into peer-to-peer payments is pushing banks to improve the interfaces on their own mobile offerings. Customers are demanding ease of use and seamlessness in their mobile experiences. Wiebusch adds, *"Nowadays, banks rely on advanced data and analytics as the core of their decision making process throughout the different value streams that are driving the targeted revenue growth, cost control and risk mitigation. If done right, this will remain a competitive advantage for the foreseeable future"*.

It might not even be enough to have a beautiful, user-friendly mobile app. As consumers are using more devices in their daily work, they need consistency and ease of use across all channels – something they will come to expect from every tool in their arsenal. Banks will have to learn how to adapt their strategies and effectively leverage Cloud services to create effective systems for integrated, omni-channel delivery.

Restructuring around solving customer problems is going to be critical for banks hoping to meet rising customer demands. Lean end-to-end process improvement efforts can help facilitate the creation of more streamlined, customer-friendly workflows, enabling banks to create the customer experiences required to remain competitive.

## ARTIFICIAL INTELLIGENCE ENABLING STRONGER CUSTOMER SERVICE

Just a few short years ago, tools like the Amazon Echo or Google Home would've seemed impossible. Today, they're quickly becoming a part of our everyday lives, the intelligent assistants that enable us to live and work more productively. Banks are now beginning to embrace artificial intelligence to help automate processes and improve the customer experience.

*"We see banks simplifying processes through intelligent automation, creating transparency on data that has been buried deep in the bank's complex core systems,"* says Stefano Gaspari, Principal at Four Principles.

Artificial intelligence, robotics process automation (RPA), and cognitive computing (the simulation of human thought processes in a computerized model) are moving the industry towards a completely new way of servicing clients. Cognitive computing involves self-learning systems that use data mining, pattern recognition, and natural language processing to mimic the way the human brain learns. This enables banks to leverage both structured and unstructured data, both proprietary and public, including data collected from social media channels, to improve efficiency and increase customer awareness.

The intelligent customer data AI provides is enabling banks to create services and experiences tailored to each customer's unique needs. Instead of pushing one product or service on a diverse group of people, banks can rely on AI to create targeted solutions that are more likely to satisfy customer needs.

Robotics process automation (RPA) is providing players in the financial services industry with a virtual workforce that is rules-based, allowing banks to automate and build an automation platform for front and back-office, and support functions.

Does this mean all our bankers will be robots? No – it simply means that banks can make better use of their employees' problem-solving abilities. AI bots can help solve common customer questions, creating space for humans to handle more complex cases. Lean thinking can help prime organizations for identifying processes that can be automated through AI. This is one way Lean banks are practicing the **Lean principle of building quality into processes**.

## ENHANCED SECURITY MEASURES USING BIOMETRICS

In an age of cyber hackers, mass identity theft, and political turmoil, security is more important to customers and banks than ever before. Banks are looking for new, more infallible, ways to increase security measures.

The IDC predicts that in 2018, **spending will rise by 20 percent on next-generation security-based authentication methods**, as banks strive to increase the trust level of their customers.

What does this look like? Thanks to Touch ID and facial recognition capabilities on the iPhone and other Apple devices, customers are now comfortable using fingerprints and facial recognition to verify their identities. Likewise, banks plan to extend this to facial and even vocal recognition in coming years. In addition to adding a more fool-proof layer of security, these biometric-driven security measures also enable smoother, more frictionless customer experiences. Rather than having to remember yet another set of login credentials, customers can use their own person to quickly and easily access their accounts.

We mentioned earlier that an often overlooked concept in Lean implementations is respect for people. This goes beyond simply treating customers and employees with respect – really, it means aligning business and customer interests, so that when the customer wins, everybody wins. Using biometrics to enhance and bolster security measures is one of many ways banks can use technology to enable stronger, more sustainable customer relationships.

## LOOKING FORWARD: IOT AND BLOCKCHAIN WILL LEAD AN INDUSTRY OVERHAUL

Each of the technologies described above has emerged out of a need to bring the industry up to the standard of technology employed by top tech firms.

Increasingly, banks and other financial firms are experimenting with ways to use emerging technologies in combination to improve the customer experience, provide enhanced insights, reduce operating costs, and increase agility and speed to market.

Some banks are looking to invest into the world of **IoT (Internet of Things)** as a way to increase connectivity. The potential uses of this technology are still widely unknown: One major application could be customer and product monitoring, as a way to combat higher levels of online fraud, difficulties with identity verification, and fears of hacked computer systems and networks. More advanced IoT implementations could include the ability to conduct banking using wearables, voice-activated devices (such as Amazon Echo), the integration of invisible payments in transportation and dining, and leveraging smart home devices as tools for banking.

Meanwhile, **TechCrunch predicts that bank-based blockchain projects will transform the financial services industry** in 2018. Some of the largest projects currently in progress include the **IBM-backed Hyperledger Fabric project**, the **Utility Settlement Coin**, and **R3's** blockchain consortium, which signifies a growing acceptance in institutional policy to support blockchain growth.

While still largely unknown, the eventual impact of blockchain technology could be transformative. Blockchain projects could reduce, and possibly eliminate, settlement times between banks, which cost the industry \$65-80 billion a year by ensuring the timely and secure processing of these operations. Other uses could include secured global currency exchange rate speeds and increased transaction security, among other benefits. These changes could pave the way for a complete industry overhaul in years to come, replacing traditional mediums that exist between asset sellers and buyers.

## THE CASE FOR LEAN BANKING

After a challenging decade of rebuilding, the banking industry is looking for ways to improve operational efficiency while laying the groundwork for a stronger future. Many banks are turning to Lean methods as a framework for facilitating necessary change.

Don Duet, global head of the technology division at Goldman Sachs, says this about digitalization in modern times: *"It's a process of continual transformation—moving more and more core parts of our business into models in which things are done electronically, at higher scale, and delivered in a more seamless fashion."*

Lean concepts, such as end-to-end process management and continuous improvement, are helping banks embrace disruptive technologies and create better experiences for both their customers and their employees.

## GET IN TOUCH

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

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