Operating model transformation in financial services

A lean-led approach
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**Lean is an approach to fundamentally transform an organization**

### Philosophy of continuous improvement

- A leadership philosophy that creates a long-term vision for excellence and fosters a culture of continuous learning to maximize customer value, from top management down to front-line staff

#### Key benefits of lean

1. **Organizational capacity**
   - Improves productivity by reducing waste in processes
   - Creates capacity opportunities to redeploy for new business

2. **Employee engagement**
   - Enables managers and staff to share ideas, network across the division, and contribute to the future operating model

3. **Risk mitigation**
   - Enables implementation of best practices and standard technology use, in support of risk management and loss reduction

4. **Client satisfaction**
   - Improves responsiveness, including the ability to provide clients with more timely information
   - Reduces errors resulting in higher quality of service
“Lean-led transformation” uses this approach to provide rapid improvement to cost structures, client service, and risk reduction

• The lean approach originated in manufacturing in the 1940s. More recently, it has been applied by leading financial institutions, primarily through targeted improvement programs

• However, financial institutions are increasingly under pressure to cut costs and grow. By applying lean principles more broadly, institutions can fundamentally transform their operating models

• A lean-led business transformation builds a robust, factual understanding of the current state, exposing improvement opportunities to design an end-state operating model that:
  – Achieves best-in-class efficiency
  – Reduces client, financial, and regulatory risk
  – Creates measurable client impact
  – Scales with growth

• The lean-led approach is proven. Financial institutions have generated significant results, reducing relevant cost structures by 20% to 30% while generating marked improvement in client service

• A lean-led business transformation embeds continuous improvement into the organization, and engages employees to help business leaders successfully govern and execute change
**Why lean-led transformation? Market trends are adding pressure on financial institutions to simultaneously cut costs and grow**

<table>
<thead>
<tr>
<th>Trend</th>
<th>Description</th>
<th>Impact</th>
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<tbody>
<tr>
<td><strong>Commoditization of basic services</strong></td>
<td>• Value of basic stand-alone services is declining</td>
<td>• Decreased unit margins per transaction</td>
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<td>• Increase in integrated services, with custody used to sell other services</td>
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**Lean meets these challenges, helping transform operating models to improve service, restructure costs, and foster growth**

<table>
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<tr>
<th>Transformation objectives</th>
<th>Key actions</th>
<th>Executable lean program</th>
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| **Improved service**      | • Align customization, pricing, and value  
                            • Meet customer requirements  
                            • Execute seamlessly  
                            • Deliver real-time information to customers | **Differentiated Client Service**  
**Operational Improvement**  
**Risk Mitigation** |
| **Restructured costs**    | • Establish optimal global footprint with a strategy for local and regional delivery  
                            • Standardize technology and processes  
                            • Make all business units and functions clearly accountable for costs | **Operational Improvement**  
**Cost Efficiency**  
**Post-Merger Integration**  
**Risk Mitigation** |
| **Growth**                | • Deploy technology platforms that allow rapid reaction to market and regulatory demands  
                            • Create scale  
                            • Build the flexibility to expand quickly as needed | **Operational Improvement**  
**Post-Merger Integration**  
**Differentiated Client Service** |
Benefit #1: Rigorous, factual assessments of the current business, including structural factors, performance, and value

- You gain clarity on how things are actually performed, versus how they are perceived.
- You build a broad and analytic base to identify and build buy-in for improvement opportunities.

**Example:**
**Five-step current state assessment**

- **Customer and customer purpose**
  - Clients manage variety of fund types, sizes, and strategies, trading in many instruments.

- **Demand type and frequency**
  - Workload drivers: # of instrument types, # of external entities per instrument, # of exceptions, external data input.

- **Current performance**
  - Clients serviced by one or several teams, vary from 3 to 25 staffers.

- **Value Stream**
  - Several security-level controls within each team.
  - Some reconciliations in Excel.

- **Environmental/structural factors**
  - Workflow interruptions: unrelated e-mail, manual workarounds.
  - Limited visual controls on open task status or work allocation.

**Example:**
**Sample output of time study data**

Sample Analytical Outputs of Time Study Data

- **Shift Time by Process Step (in minutes):**
  - Collection of cycle times by process step for each fund type enables workload modeling.
  - Identification of process wastes and underutilization.
  - Capture of key benchmarks across teams and departments to drive best-practice sharing, focused improvements, etc.

- **Shift Time by Activity Type (in minutes):**
  - Illustrative.

- **Daily Time Spend per Fund, by Client (minutes):**
  - Illustrative.
**Benefit #2: A better understanding of all customers (internal and external) and their requirements**

- You redesign the operating model to maximize customer value while minimizing waste

- You capture a complete view of the process from the standpoint of the customer
  - Value added
  - Minimal value added but necessary to the business
  - No value added

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**Example: Actions taken based on customer surveys**

- **Voice of the customer**
  - "I wish my service manager was more proactive"

- **Customer issue**
  - Customer wants service manager to call him on a regular basis

- **Critical to quality**
  - Service manager calls client 12x per year

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**Actual statements and about:**
- Attribute of a product/service
- Experience with a product/service or delivery
- Encounter or experience with a business process or representative

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**The real customer concerns, values, or expectations:**
- Void of emotion or bias
- Usually describes the primary issue a customer has with the product or service.
- Describes the desired customer experience surrounding the product or service
Benefit #3: A leading-edge operating model with organization, process, technology, and footprint improvements

- You apply lean principles to process, technology, organization, footprint and metrics design
- You optimize resource utilization against demand to create capacity and improve staff satisfaction
- You articulate short-, medium-, and long-term opportunities more clearly

Example: Target state operating model

Service Delivery Model – Functional View

Client

Business Units

Client Relationship Management
- Manages client relationship on a strategic level, e.g., strategic client planning, revenue and profitability delivery, cross sale products, executive connections

Client Specific Operations
- Performs operational activities – in many cases customized or with high-level of client interaction
- Performs client-driven activities such as client set-up, account opening, billing, project management, reporting, audit support

COE and Shared Services Interactions
- Interacts with COEs and Shared Services to ensure appropriate delivery of services and gathering of KPI/SLA information

Product and/or Geographic Shared Services
- Performs more standard functions that incorporate product and geographic specific nuances
- High level of standardization across one or multiple centralized locations
- Over time, some activities may migrate to COE

Global Centers of Excellence (COEs)
- Performs activities that can be standardized and scaled across geographies and business units
- Centralized groups utilize standard processes, technology and workload balancing to execute transactions across locations
Benefit #4: A cycle of continuous improvement that promotes operational excellence

- You assign and develop "Lean Masters" to support implementation and to deploy on future Lean projects.
- You empower staff at all levels to identify challenges and suggest improvement opportunities.
- You design approaches to continually develop people over time.

Example: Improvement cycle of an operations team

- Solicit improvement ideas at all levels.
- Make results visible.
- Periodically review progress & design.
- Communicate & train.
- Pilot.
These lean benefits lead to tangible results: evident in financial performance, risk mitigation, customer and staff satisfaction

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<thead>
<tr>
<th>Financial performance</th>
<th>Customer, employee, and risk benefits</th>
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<tr>
<td>• Greater efficiency and effectiveness:</td>
<td>• Customer service:</td>
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<tr>
<td>– Better alignment of resources with demand and capacity</td>
<td>– Improved accuracy and responsiveness</td>
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<td>• Process and technology improvements:</td>
<td>– Flexibility to meet client requirements</td>
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<td>– Standardization of inefficient processes</td>
<td>– Online access to real-time information</td>
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<td>– Realization of automation opportunities</td>
<td>• Risk mitigation:</td>
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<tr>
<td>– Adoption of best practices across teams</td>
<td>– Automation of manual processes</td>
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<td>– Retirement of redundant systems</td>
<td>– Reduced losses</td>
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<td>• Additional savings opportunities:</td>
<td>– Better alignment to changing regulations</td>
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<tr>
<td>– Consolidation of location footprint</td>
<td>• Staff satisfaction:</td>
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<tr>
<td>– Low-cost worksites reduce salary inconsistencies</td>
<td>– Alignment of resources to skill levels</td>
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<td>– Rapid implementation of process improvements with little or no investment</td>
<td>– Alternative workforce strategies such as flexible and part-time programs</td>
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<td></td>
<td>– Increased confidence in knowledge and capabilities</td>
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<td>– Increased employee engagement and retention</td>
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The lean tool kit provides a rich set of tools that can be applied to meet defined corporate goals

The lean three-step process is comprehensive, but can be executed with relatively high speed

- You define program goals early, aligning how and where to use lean
- You identify the right people to involve, from the executive to the business unit level
- You define success metrics up front to measure performance
- You communicate often and clearly to embed a culture of continuous improvement in the organization

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<thead>
<tr>
<th>1</th>
<th>Current state assessment</th>
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<tr>
<td>5-step current state assessment</td>
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<tr>
<td>- Customer and customer purpose</td>
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<td>- Demand type and frequency</td>
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<td>- Current performance</td>
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<td>- Value stream</td>
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<td>- Environmental/structural factors</td>
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<td>Time and motion study</td>
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<td>Value stream mapping</td>
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<td>Identifying Waste</td>
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<td>Workload profiling</td>
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<td>Structured solutioning</td>
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<td>Risk assessment</td>
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<th>2</th>
<th>Target state design</th>
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<tr>
<td>Operating model design</td>
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<tr>
<td>Lean design principles</td>
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<tr>
<td>- Standardized work</td>
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<td>- Quality at the source</td>
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<td>- Workplace organization</td>
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<td>- Visual control and management</td>
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<td>- Pull systems</td>
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<td>- People involvement</td>
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<td>- Batch reduction/elimination</td>
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<td>- Cellular/integrated team concepts</td>
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<td>- Equipment reliability</td>
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<td>- Leveling</td>
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<td>- Reduce setup time</td>
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<td>Workload balancing</td>
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<td>Risk analytics and solution</td>
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<th>3</th>
<th>Implementation road map</th>
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<td>Quantify benefits</td>
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<td>Prioritize projects</td>
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<td>Develop implementation plans</td>
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<td>Update documentation</td>
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<td>Communicate</td>
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Successful execution requires strong governance and leadership to drive implementation and ensure results are achieved

**Governance body**
- **Executive sponsor**
  - Define strategic objectives
  - Manage scope and priorities across stakeholders
- **Lean PMO**
  - Provide executive oversight and direction
  - Serve as decision-making and issue resolution body
  - Approve major implementation decisions
  - Confirm program results and benefits
  - Drive achievement of program goals, leading overall solution development
  - Communicate to stakeholders
  - Manage program across workstreams, evaluating progress against plans
- **Working group (One per wave)**
  - Plan and execute work against plan
  - Identify issue and mitigating actions
  - Generate deliverables

**Keys to success**
- Ongoing senior management support and prioritization is imperative to success
  - The transformation team needs to be dedicated to the program
    - Create project plans
    - Enforce discipline on deadlines
    - Identify problems and quickly communicate solutions
    - Run program management office
    - Enforce chosen methodology
- Working group participants should align to the lean objective, scope, and activities
One global bank has applied lean-led transformation across multiple business lines and geographies

The overall lean transformation has created more than US$50 million in savings:

- Leading to a new service delivery model that addressed quality and product inconsistencies.
- Transforming the operating model to refocus departments on functional alignment (instead of product alignment), driving efficiency gains.
- Highlighting significant revenue opportunities by evaluating pricing against cost to serve.
- Optimizing a standard, global target operating model across two merging companies.
- Identifying opportunities to retire inefficient technology platforms and realize savings.
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