Applying Lean Six Sigma in Financial Services Compliance Environments

Standardizing Processes to Reduce Cost and Mitigate Regulatory and Audit Findings

Most financial services risk managers agree that the current risk and compliance environments have become increasingly complex and challenging to navigate. Regulators and Auditors are increasing the frequency and depth of their reviews opening up greater exposure for Financial Services companies that do not have optimal processes. This is particularly true for organizations that have grown rapidly through organic growth or through acquisitions. The costs of non-compliance are high, fines, adverse impact to reputational capital, citations and restrictions on non-organic growth opportunities are some obvious ones. Further, the cost of not proactively managing known risks increase when the Regulators or Auditors find the gaps before Management resolves them. Given this backdrop, there is real motivation to proactively address process gaps and streamline operations.

In this paper, we:

- Discuss the real challenges of a top global financial services company.
- Highlight the approaches adopted for helping the company manage through their process gaps.
- Review the results from the skillful application of lean six sigma methodologies to the challenges.

Context

This financial institution had grown rapidly through acquisitions and had not adequately integrated their processes and systems, which resulted in multiple versions of the same process throughout the operation. The OCC and Internal Audit completed reviews of the operation and cited the institution with numerous findings, several of which were related to process inconsistencies. Management was under immense pressure and tight timelines to address these findings, as the institution was hindered in its ability to complete acquisitions due to these deficiencies.

The management challenge was clear: Standardize and streamline the institution’s Compliance processes and install the proper control mechanisms to insure the operation is adopting a consistent approach.
Approach

In order to standardize and streamline the institution’s Compliance processes, the Alacer Group leveraged the Lean Kaizen methodology. These facilitated action-oriented working sessions bring the process experts together in one room to dissect, analyze and improve the process within a very short time frame (generally 5 days or less). The process or processes are reviewed End-to-End, not in silos, by all participants. Hand-offs and each process step are reviewed to determine whether they truly add value, or are unnecessary. The institution’s internal Quality Assurance defect data was also analyzed to identify where the process has historically broken down.

In a matter of days, the processes were re-worked with full buy-in from the organization, because the people who ‘do the process’ were in the room and were representing the voice of their colleagues. This is a key strategy used to increase the sustainability of the change. The improvement ideas were prioritized based on their ease of implementation and their potential impact to productivity and defect reduction. This prioritization tool was used to hone-in on the highest priority improvements:

Results

In a matter of months (not years), the institution was able to realize the following results through implementing the highest priority process improvements:

- Reduce defects by 52%
- Directly address multiple Regulatory and Internal Audit findings through the process re-engineering work
- Reduce the number of hand-offs by 44%
- Reduce the number of decisions by 35%
- Reduce the number of process steps by 28%
- Save >$20K/month in costs by implementing a paperless SAR process

Conclusion

Risk management and compliance functions are no different from other business processes. The operational processes of Risk and Compliance organizations can all be evaluated and improved like other processes through the skillful use of lean six sigma tools. Given the current regulatory environment, ignoring the opportunities for such improvements can result in financial and reputational damage to an institution. But embraced, as was the case here, the successful outcomes will be reflected tangibly as reduction in processing costs, enhanced productivity and compliance with regulatory guidelines.