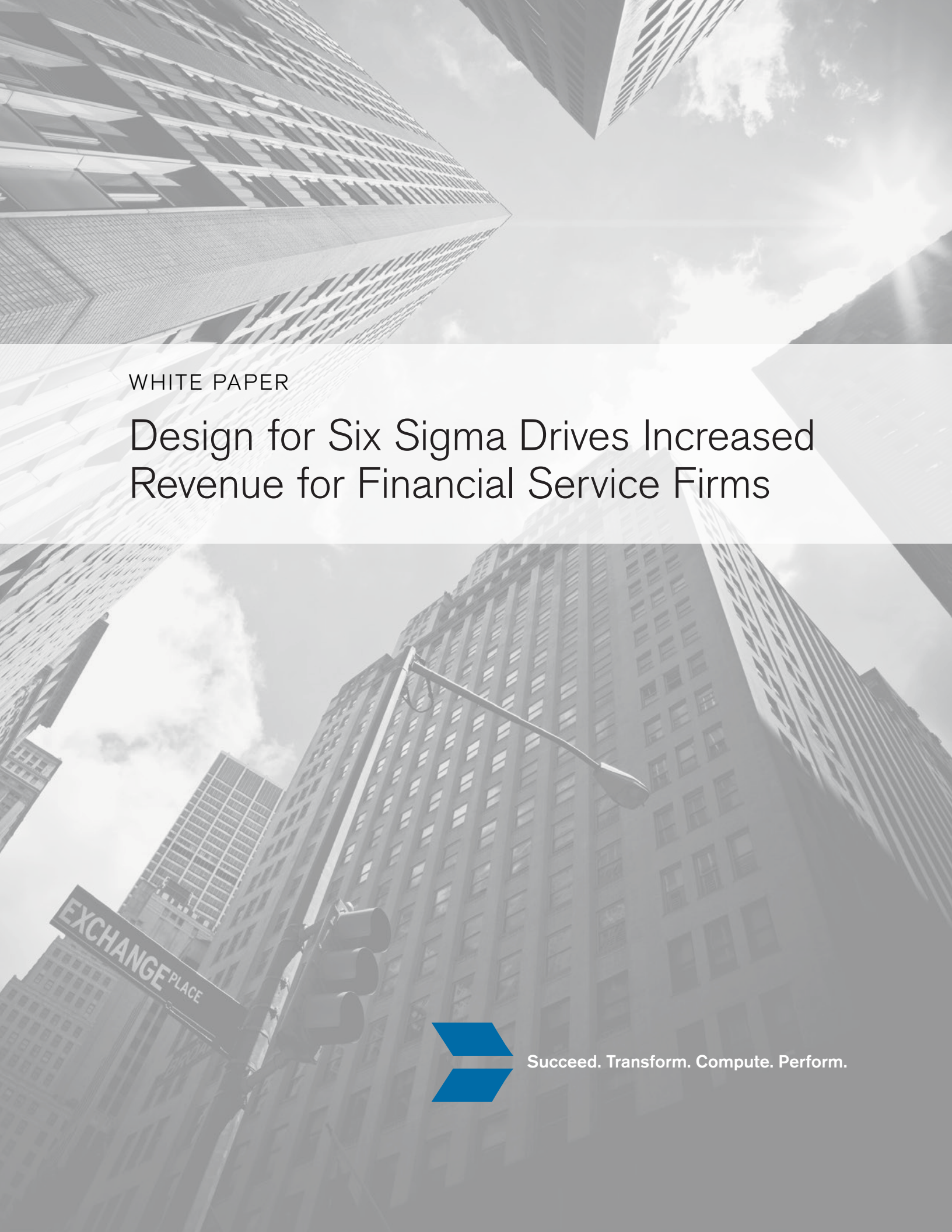

WHITE PAPER

Design for Six Sigma Drives Increased Revenue for Financial Service Firms

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Design for Six Sigma Drives Increased Revenue for Financial Service Firms

Highlights

Design for Six Sigma tools can significantly improve a financial organization's processes, ranging from how to address a costly SARs backlog to revamping a mortgage approval process.

EXECUTIVE SUMMARY

In today's high-tech world of banking, complex processes – some of which are legacy processes and no longer operating at peak efficiency – are the norm. Design for Six Sigma (DFSS) is one way to bridge the gap between profitability and these cumbersome processes, increasing regulatory requirements and higher overhead costs.

DFSS is a separate and emerging business process management methodology (process generation rather than process improvement) that helps organizations determine its customers' needs and to use that information to create a solution. These techniques also include tools and processes to predict, model and simulate the product delivery system (the processes/tools, personnel and organization, training, facilities, and logistics to produce the product/service) as well as the analysis of the developing system life cycle itself with proper investigation results and gains to ensure absolute customer satisfaction with the proposed system design solution.

USING DFSS TO CREATE BIG RETURNS

Lean Six Sigma has been used within the financial community for more than a decade, particularly in the area of continuous process improvement. It is still a popular and effective tool to improve financial services operational efficiency; however, many organizations are finding that identifying and reducing incremental defect variability does not fully maximize the full spectrum of improvement opportunities. To achieve a larger return on investment, many organizations are discovering how DFSS can help them re-examine, radically recreate and often build entirely new processes.

In a 2010 article for *iSixSigma*, author Randy Woods asked Richard Paxton, co-founder and CEO of the Alacer Group, about the growing interest in DFSS as a preferred approach to process design and reengineering. Specifically, he was interested in Paxton's take on DFSS versus the DMAIC improvement cycle (**D**efine, **M**easure, **A**nalyze, **I**mprove and **C**ontrol).

"In financial services, a typical DMAIC project can deliver somewhere between $500,000 and $600,000, whereas DFSS

projects can be upward of $20 million," Paxton said. "The key is knowing where and how to apply the technique."

He added that, 10 years ago, many financial institutions were wary of using DFSS tools and thought of them primarily for application in manufacturing industries. Additional apprehension centered on a misperception that massive technology deployments had to be part of DFSS solutions. Today, DFSS is being embraced for its ability to provide robust designs for reengineering existing processes and products and developing new ones.

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"Financial services today are very similar to large technology organizations; relying upon a complex network of interrelated processes and systems to deliver quality products and services for their customers," Paxton said. "By taking an end-to-end view, and designing across functional boundaries, new levels of performance and quality can be realized. This is where DFSS is a perfect fit, and can help bridge the gap between business and technology."

Similar to Lean and DMAIC, DFSS does take time to implement. Depending on the scope and level of complexity, a large-scale design and build can take 12-18 months to complete. Alacer recently finished a project where the core business processes for a large financial institution were completely redesigned. It took 18 months to flawlessly execute a new workflow environment, support processes, user interfaces and system integrations.

As another example, Alacer recently worked with a national bank with thousands of branches across the U.S. to solve its increasing Suspicious Activity Report (SAR) workload. While SARs play a significant role in reducing the country's vulnerability to terrorist threats by identifying potentially fraudulent activities, the process was causing an increased financial burden on the financial organization. Specifically, the bank was experiencing an unanticipated related cost of $40 million in vendor and contracting expenses.

Alacer partnered with existing bank vendors to develop a multiphase approach that focused on expense controls, end-to-end process reviews and the identification of high variability areas. Using DFSS principles, Alacer developed new processing and staffing models to address work backlog and to mitigate operational impact. As a result, the bank realized $36 million in savings over three years, and $16 million in savings through vendor contract reductions. The result outperformed regulatory expectations and was designated "Best in Class" by government agencies.

"…powerful tools for creating new business processes within financial service organizations… to better meet business needs."

DFSS AND FUTURE PROOFING

"Over the years, the functions of banking have remained the same – sales, fulfillment, and service," Paxton commented. "What has changed is the way those functions are delivered. In the future, what will differentiate a financial institution will be its ability to deliver products and services customers want, in the way they want it and at a level of efficiency that makes sense for the business. When used in conventional and unconventional ways, DFSS can help organizations deliver this value to customers and, simultaneously, increase the bottom line."

This tactic proved effective for a Fortune 10 financial organization looking to revamp its mortgage process. It was highly inefficient, cumbersome and lacked standardization, resulting in costly rework, increased risk exposure and loss of business. The Alacer project team applied DMAIC and Lean principles to identify defects and waste in the end-to-end process, where it was discovered that the steps to income verification and credit guidelines would be the areas where radical improvement was most possible. The DMADV (Define, Measure, Analyze, Design, Verify) roadmap of DFSS was then selected to design a new automated income verification process.

The results were impressive. The financial organization's end-to-end mortgage processing time was reduced by 30 percent and overall risk exposure was lowered, freeing up $500 million in capital for funding new loans. Thousands of man-hours were restored to bank branches, enabling them to significantly increase customer service and sell additional products.

CONCLUSION

DFSS and its DMADV methodology can be powerful tools for creating new business processes within financial services organizations. It isn't necessarily about identifying solutions, but rather it's a system for honing in and refining existing processes to better meet business needs. From the reconfiguration of drive-up banking to improvements in setting up new customers, DFSS can help an institution create new products and systems that best respond to the needs of its user base…all while adding revenue to the bottom line.