

Lessons For Banks To Learn From Lean Principles During Financial Crisis

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There has been a movement in the financial services industry to adopt processes and procedures from other sectors to help them gain efficiencies. With the economic climate the way it is, banks today, more than ever, are beginning to take a closer look at the principles of Lean operating processes, says Larry Mead, VP with Guidon Performance Solutions (Mesa, Ariz.).

The concepts of Lean and Six Sigma have been very popular in manufacturing in helping them cut waste and improve quality. While Six Sigma is a very scientific rigor around quality control, Lean looks to produce more with fewer resources and to help processes flow more smoothly. Mead says these same ideas are applicable to financial institutions and are especially relevant today as wallets shrink and consolidation ramps up. “Lean focuses on making things flow, like a mortgage loan request,” he explains. “It’s an end-to-end perspective that focuses on eliminating waste and engages the workforce.”

Mead says his firm takes these manufacturing principals and applies them to a service environment. “A lot of it involves dealing with cultural change. We’re not too big into pushing people to Six Sigma, but we will if they want to take that extra step. What we want to help do is establish a high performance culture. We can also see how this can be taken into IT,” he relates.

According to Mead, times like these mean more business for Guidon is coming from the financial industry. “We are seeing a lot more inquiries from insurance companies and also from some of the smaller financial institutions,” he explains. “[This crisis] is a huge opportunity for smaller regional banks that are still doing a lot of lending. It’s a chance for them to grow and they’re starting to embrace these ideas.”

The key for banks is to use Lean and Six as the means to reducing service times, claims Mead. “They want to take out a lot of the hand-offs and simplify processes to reduce errors. There’s always a danger when a company says they are going to cut costs because they sometimes end up doing things that makes the service suffer. With Lean, you’re reducing cost by helping to smooth your processes,” he asserts.

Mead says much of his work with banks has been done with the IT people since what he does involves streamlining processes. “Most IT folks like this concept because they often struggle when developing a new platform. They don’t always know all the processes involved or even where the problem is in the first place. They are good partners to have because they have to think this way,” he explains.

Taking a process approach to IT development can be a huge cost-saver, maintains Mead. He cites the example of one bank he worked with in helping to create an end-to-end retail mortgage service. “The bank was ready to spend about \$16 million on new technology for this,” he explains. “But they paused and decided to try Lean. In the end, they developed a similar solution and only spent about \$4 million on the new platform. They did this by simplifying the processes and not spending more on IT.”

The idea is to step back and examine what’s being done with the processes and the intellectual property that exist in the company rather than always trying to solve something with a new tool. “Get the process down first,” he says.

Mead’s advice to banks is to find a balance. “I think a lot of the larger banks overdosed on Six Sigma,” he relates. “This must be complemented with Lean because Lean engages people and makes you find the simplest approach to give you the biggest bang for your buck. You also want to make sure you have the discipline in place to create a culture of continuous improvement rather than blindly cutting costs and making service suffer.”

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