White Paper

We’ve Done Everything Else

Now Let’s Get Customer Service Right

SIX SIGMA QUALTEC

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A White Paper from Six Sigma Qualtec

As growth in interest income for banks stagnated over the past decade, non-interest income rose dramatically. In 1992, non-interest income accounted for approximately 35% of total bank revenue; in 2002 that figure had risen to 45%. The growth occurred not only in retail banking fees but also in wealth management and in similar services throughout retail, commercial, and wholesale banking. Revenue enhancement initiatives, which continue to some extent today, were pervasive in the industry and produced dramatic increases designed to compensate for decreasing margins on interest income. To maintain profitability banks increasingly depended on non-interest income, and it appears that they will have to rely on these sources of income for the foreseeable future.

However, some industry observers believe that the higher fees have not come with higher levels of customer service. In retail banking, for example, a recent survey by Forrester Research found that almost half of U.S. households have switched their financial provider at least once because of dissatisfaction. More than a third of those "less than satisfied" customers switched providers more than once. The same survey also found that 38% of customers with checking accounts used no other products from their bank; and only 28% said they would consider their bank for a product in the future.

Six Sigma Provides Results

Increasingly, financial services businesses are seeing the power of Six Sigma as a performance improvement methodology that leads to:

- *Improved service to top priority customers*
- *Realization of customer initiatives*
- *Improved employee satisfaction*
- *Reduced complaints and associated costs*

How much longer customers will be willing to stick it out is anyone's guess. To date, it appears that many customers have absorbed the fees without deserting their banks. But it's a safe bet that if fees continue to rise without a commensurate improvement in service, significant numbers of customers will rebel. Before that day comes, banks that want to keep – or attract – customers must finally get customer service right. This is such a recognized need today that there are more bank presidents and CEOs leading quality and service improvement committees in banks than ever before. Many industry insiders believe that this issue of service quality is the new frontier for real and sustainable growth.

Through the Customer's Eyes

Consider from the customer's point of view the successive waves of change that have washed over banking in recent decades:

- From the late 1980s through the mid-1990s, many banks devoted themselves to "right sizing." They reengineered processes – not to improve customer service – but to cut staff and increase the productivity of those who survived the layoffs. For customers these "improvements" meant that cycle times for such processes as loan approvals, problem resolution, and other dealings with banks often became even more drawn out. Banks lost the personal touch and customers felt its absence.
- From the mid 1990s through the late 1990s, banks focused on centralizing and consolidating functionality. Throughout banks and financial service companies much of this centralization was enabled by technology. Call centers were developed to handle all products and to reroute calls from the original touch points to "specialists" so that branch and production personnel could sell more. Then internet banking emerged, but the industry was slow to truly understand the needs of customers using this channel. With CRM and other tools, the industry also more tightly defined the boxes into which customers were supposed to fit. Although segmenting customers and aligning service levels with customer profitability has merit, the execution of this strategy needs nearly flawless execution in order to work. At best, few banks have accomplished that level of customer delivery and satisfaction.

In some respects, customers benefited from these changes. For example, handling retail loan applications in a centralized, automated environment can be faster than the old way of seeking approval. Nonetheless, to increase productivity and reduce costs, some meaningful touch-points with the customer may have been lost. Customers increasingly felt like numbers. Problem resolution became even more cumbersome, as customers no longer knew who to call for answers. Instead of moving closer to customers, banks moved decisively farther away from them.

- Beginning also in the mid-1990s and continuing to today, banks themselves consolidated in a wave of mergers and acquisitions that is yet to recede. It has become a common experience for customers to see their bank change names and ownership several times in the space of a few years. During the initial wave of mergers and acquisitions, the American Customer Satisfaction Index(ACSI) – the highly regarded consumer survey maintained by the Stephen M. Ross Business School at the University of Michigan and the American Society for Quality – recorded a drop in customer satisfaction from a stable 74 (1994 through 1996) to 68 at the end of 1999. This continuing consolidation has affected virtually every major market, product, and service – and the horror stories abound of un-posted loan payments, slow problem resolution, and duplicated services to missing loan documents, poor communication, and failed collateral releases.

From the customer's point of view, the recent rise in fees for services is only one of the items from the long list of potentially disturbing customer experiences. Many customers respond by changing banks, creating costly customer churn. In fact, according to a survey conducted by Terradata of top bankers at U.S. financial institutions with assets of at least $25 billion, preventing customer churn became a key competitive issue for American bankers in 2004. Will customer churn be down and wallet-share up in 2005 at your bank?

With renewed talk of "relationship banking," banks may now be looking for ways to finally get customer service right the first time and, in the process, justify their incremental fees and protect their non-interest income now and in the future. To put it more positively, if customers have been willing to pay higher fees for mediocre service, how much would they be willing to pay for excellent service? Even if excellent service were to translate only into greater customer retention, then that alone would justify increased focus on the customer.

The Solution: A Comprehensive Approach to Customer Service

Getting customer service right requires a comprehensive approach to enterprise performance improvement. Using such proven comprehensive methods as business process management (BPM) and Six Sigma, you can understand what customers truly value, identify the products and services that provide it, and optimize the processes that deliver it to them. Only then can you achieve your desired business results: higher customer retention, increased share-of-wallet, greater market share, and enhanced profitability.

The Voice of the Customer

It begins with listening to the Voice of the Customer (VOC). The perfunctory annual customer survey no longer suffices. Such surveys fail to capture a comprehensive view of customer expectations – at every point of contact with the bank and with every business process. However, through a set of proven methodologies that capture both quantitative and qualitative data, you can systematically capture the true Voice of the Customer – the information that is critical for retaining customers and expanding relationships. The information can be used to improve communication with customers, make frontline employees more aware of customer needs and perceptions, and identify opportunities for improvement.

For example, a prominent U.S. bank achieved its goal of reducing problem incidence to less than 8% but found that overall customer satisfaction did not improve. Through the use of sophisticated VOC methodology, the bank discovered that for customers the issue was not the problem itself but rather how the problem was handled once reported to the bank. Most customers said they did not expect to avoid problems but that they did expect the bank to resolve them quickly, efficiently, and in a way that showed that the bank cared about their relationship. More specifically, the customers wanted problems resolved the same day, with one contact, and with follow-up the day after resolution and extra benefits if the problem was the bank's fault – that is getting service right.

Focusing on Processes

Once you truly understand the real needs of the customer – not just the customer's desire for better service in the abstract – you must be able to fulfill them efficiently and profitably. Because it is through processes – not functional departments – that you fulfill the needs of customers, improvement should focus on processes. The discipline of Business Process Management (BPM) provides the process perspective that banks need in order to achieve the disciplined design and careful execution of their end-to-end business processes.

By focusing your objectives and improvements on processes, especially those that require contributions from multiple functions within the organization, you can quickly identify your key business processes – those activities that are critical for profitably satisfying your customers' needs. Once you have identified your key business processes, the proven methodology of BPM enables you to identify which key process improvements will have the greatest measurable effect on the business and to agree on process performance metrics that directly tie to the organization's objectives.

Leading with BPM is the most efficient and effective way to first identify and prioritize the most significant improvement opportunities, which can then be used to generate well-defined improvement project charters. During the process of creating project charters the appropriate tools and skill-sets to accomplish the project objectives are also chosen. In simple terms, you identify the most valuable potential improvements and select the right tools to facilitate each improvement. Some of the most significant improvements result when you focus on processes as they relate to objectives. You may find that a simple change can accomplish the most significant ROI. In many cases, a more vigorous process improvement approach, such as Six Sigma, may be needed to properly optimize your processes for sustained customer benefit.

The Six Sigma Revolution in Services

Although Six Sigma originated in manufacturing environments, it has more recently swept through services businesses, especially financial services, where performance management has become critical for firms throughout the sector. From retail and commercial banking, to credit cards, mortgage origination and servicing, investment banking, and insurance, customers expect faster, easier service at every channel, every location, and every point of contact. From the back rooms to the front-lines and from the staff areas to the executive suite, enhancing service levels, either internally or externally, has become the central focus today.

Six Sigma first made inroads in banking when the economic boom of the middle to late 1990s strained the capacity of many lending institutions to originate, close, and service loans quickly enough to meet demand. As a result, they began to think about how they might improve the cycle times of all their processes, break bottlenecks, minimize errors, cut costs, increase capacity, and delight customers. They also realized that providing more value per customer transaction, rather than acquiring more transactions, leads to market leadership, and that satisfying existing customers is more important than finding new ones.

Employing the Define, Measure, Analyze, Improve, Control (DMAIC) methodology of Six Sigma, some leading banks – including Bank of America, Citibank, Fifth Third, HSBC, and JP Morgan Chase – have worked hard to become error-free when they handle the customer's money, process payments, send out bills, close a loan, or resolve a problem. For example, one of the world's largest banking and financial services companies faced a rising chorus of complaints in its International Private Banking (IPB) division. A significant number of the bank's most valuable customers, whose relationships extend into many lines of the bank's business, were increasingly dissatisfied with the inefficiencies in the bank's international wire transfer operations. With the help of Six Sigma specialists, the bank's IPB team mapped the bank's inefficient and manual wire transfer process and analyzed it using powerful Six Sigma tools. The team streamlined the international wire transfer process, eliminating the errors, customer callbacks, and transfer delays that irritated customers. By cutting transfer cycle time by 46%, the improvements not only save the bank nearly $1 million annually but, more importantly, help the bank retain its most valuable customers. Such stories of the great benefits being derived from the use of Six Sigma tools are becoming increasingly common in the industry.

Getting Started

Because Business Process Management, Six Sigma, and the analytical tools that underlie these disciplines are rigorous, powerful, and comprehensive, getting started can appear to be a daunting challenge. Fundamentally, there are two ways to address this: either an entirely internally driven effort or an effort undertaken with the assistance of external resources and industry experts. Either approach offers multiple paths forward: enterprise-wide deployment for customer satisfaction; a small isolated problem area for quick resolution to critical issues; or a line of business approach to improving service levels and quality to drive greater profitability.

In banking, where higher fees for services are already in place but exemplary service isn't, the faster route to improvement that the consultative approach offers could be decisive in heading off customer defections sooner, and it mitigates the already limited risks associated with deploying Six Sigma. A proven training curriculum that includes relevant industry case studies, deployment road maps and templates customized for banking, and the use of advanced simulation techniques can streamline the process and reduce time to successfully finishing a project. With the help of such training and industry experts, companies can quickly identify and implement the precise tools they need to design and implement projects that produce improvements that meet and exceed their customers' expectations. At the same time, they can rapidly reduce costs while improving the quality that is crucial to success in today's market.

Notwithstanding the value of using a proven methodology like Six Sigma, the time has come for banks: you must deal with the issues of customer satisfaction now or face serious retention issues that ripple throughout an organization, draining profitability all along the way. The industry has moved well beyond making quick fixes and today the focus falls on creating sustainable customer value. Start now!

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Six Sigma Qualtec is a premier provider of process management and performance improvement consulting, training, and technology solutions that drive breakthrough growth, productivity and value for our clients.

We are unique in our ability to customize the integration of management disciplines to meet the industry-specific requirements of global leaders in financial services, natural resources, manufacturing, process and service industries.

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