SET THE PACE
A NEW METHOD FOR BREAKTHROUGH PROCESS IMPROVEMENT

AUTHORS
Vivek Sen
Jonathan Lee
Melissa Lam
“Our operational processes are like station wagons with flat tires competing in a motor race.”

– Bank Chief Operating Officer
In a world where step-change improvement in efficiency, effectiveness and cycle times is key to winning, financial institutions are being held back by weak operational processes.

Last year, there were 60,000+ CFPB consumer complaints and 20+ regulatory sanctions involving CCAR-regulated banks\(^1\)\(^2\) all related to breakdowns in operational processes.

Despite significant investment and a plethora of re-engineering and automation initiatives, most institutions are seeing marginal gains. Change is being delivered in a series of false starts. As a result, errors reappear. Silos form yet again. Unwanted behaviors return. Costs creep back.

In the world of motorsports, somehow, auto racing teams improve lap times by 1-1.5 seconds per lap, every season. And this happens every year, even in the face of new regulations and safety restrictions.

Expert, multidisciplinary teams pore over race results, diagnosing where and how to improve car and driver performance. Rapid pit crew corrections occur in the heat of the race. Engineers gather feedback from drivers, retreat to design new solutions and rebuild the car. All this activity is underpinned by a consistent, repeatable method that is used to deliver constant and sustainable improvement.

We believe that financial institutions can turn these station wagon operational processes into Ferraris. To do so, they need to adopt a new way of driving continuous change in operations, one that mimics the approach taken by great auto racing teams. **At Oliver Wyman, we call this method Pace.**

With Pace, immature operations are rapidly transformed into a set of well-managed, efficient and effective end-to-end processes. This is achieved by deploying an agile execution approach that emphasizes interdisciplinary teaming, a structured approach to embed automation and forced integration of siloed change initiatives. Financial institutions that have deployed this method have realized immediate gains, and established an operating foundation and culture that has made future change much easier, helping yield those 1-1.5 seconds of improvement every year.
PACE
A NEW PROCESS IMPROVEMENT METHOD

PACE PLAYBOOK

1. **DEEP DIAGNOSTICS**
   Root cause analysis across end-to-end processes resulting in a backlog of solution opportunities

2. **COURSE CORRECTIONS**
   High priority “pit stop” fixes that deliver immediate impact and mitigate critical risks

3. **ENGINEERING EXCELLENCE**
   Modular solutions that encompass people, process and technology to create a step-change in performance

4. **APPLIED ANALYTICS**
   Key metrics and actionable insights on process and workforce performance

THE PROCESSES
THE SYSTEMS
THE PEOPLE
THE ORGANIZATION

PACE CREW
An integrated, multidisciplinary team that works together. Experts, diagnosticians, pit mechanics, solution engineers, and data scientists

PACE COMMAND CENTER
Actionable insights for management on team performance, guiding investment and resourcing decisions
KNOW WHAT IS SLOWING YOU DOWN AND WHY

Many process improvement methods begin with establishing an understanding of the current state. While this is logical, we find that most financial institutions make a few critical mistakes in this foundational step.

Financial institutions tend to be good at identifying what has gone wrong, but not why it has gone wrong. Understanding the why requires going beyond traditional multi-level process mapping.

Deep Diagnostics combines the information that process maps provide with new sources of insight such as customer engagement and co-creation, and analysis of alternative data sources such as customer complaints, operational issues, and audit logs. This creates a more holistic view of root cause and opportunity.

Another common flaw is to jump into examination without a common and customized process taxonomy. While the concept of “end-to-end processes” is well understood, in practice, it is applied sporadically or incompletely. Pace relies on a customized process taxonomy that organizes operational work into no more than 15-20 end-to-end processes, with sub-processes underneath. There are multiple ways to define these “end-to-end” and a careful assessment of the alternatives is important prior to embarking on diagnostic work.

Finally, most current state exercises yield a roadmap that is a mix of short-term and long-term solutions that impact people, process and technology. At this stage, organizations tend to segment these projects, typically by complexity, or bifurcate between technology and non-technology dependent activities. Instead, Pace teams operate against an integrated “backlog” of activities that is managed and prioritized as a single book of work. Drawing from the philosophy of Agile development, this backlog is routinely reprioritized by the Process Owner, ensuring that all solutions impacting the process, regardless of type, and their dependencies are considered in unison. Rather than run a one-time linear process, at any stage, that backlog can consist of diagnostic, design and execution activities, creating a model for continuous change.
TAKE A QUICK PIT-STOP TO MAKE SURE YOU FINISH THE RACE

A race car traveling at 200 miles an hour covers 300 feet per second. A 6-second pit stop allows competitors to gain a third of a mile on the stopped car. And yet, the pit stop is a vital part of staying ahead – rapid, crucial corrections enable the car and driver to continue performing at their maximum potential.

Operational processes need **Course Corrections** as well. These are immediate, tangible results that can be attained, which are necessary to keep the lights on, reduce risk of operational failure, meet a near-term efficiency goal, or cope with a new source of product or customer complexity.

For example, at a large bank, it took just 1 week to create and deploy a scripted desktop tool to automate data transformations, saving 20 hours of ongoing work per week. At another bank, a manual control failure impacting updates to prices was fixed in a day and prevented millions of customers from being mispriced.

While these **Course Corrections** are seldom a structural solution, they are a vital part of maintaining a resilient and effective process. No pit stop can be executed without the right crew; the ability to make smart tactical changes relies on a highly versatile team that brings together a wide range of skills. Team members need to be able to rapidly script a desktop tool or workflow, possess industry knowledge to design a robust loan closing checklist, or understand risk measurement to implement a process control that complies with a new regulation.
FROM THE DRAWING BOARD TO THE RACETRACK

While pit mechanics keep things running and reduce the chances of failure during a race, it falls to the engineering team to continuously raise and exceed the performance bar. After each race, cars are stripped down and each component is reviewed, modified, or replaced completely. The driver and support team are also scrutinized for opportunities to improve performance.

This modular approach to Engineering Excellence gives teams the flexibility to rapidly and continuously improve. They can keep what works while modifying what doesn’t in everything from the underlying engine and systems, to the way the team organizes itself, to the overall strategy it has chosen to adopt.

Financial institutions can also embrace this modular approach to process improvement. For example, rather than wait for multi-year “big bang” systems upgrades and endure inefficiencies and errors until major conversions occur, Pace encourages organizations to create connective tissue between systems that suffer from poor information exchange. Tools such as workflow managers, decisioning engines, custom process manager dashboards, and control panels can be rapidly prototyped, developed and deployed in 8-12 weeks with minimal disruption to legacy systems. Rather than deploy these piecemeal as is common today, Pace develops and integrates these against a consistent target architecture vision, and with a common, modern technology stack, to avoid creating new technical debt. In concert with development work, Pace teams deploy other “modules” such as upskilling programs, or an organizational structure change to create consistency. Most process improvement techniques tend to look at the problem from a single dimension such as waste, errors, variation, or cost. Instead, Engineering Excellence brings together a series of modular solutions to make the car go faster, and the process perform at a higher level.
The bank’s Head of Pricing Operations was struggling to answer the question, “Have we charged prices to our customers accurately and efficiently based on our pricing strategy and our contracts?”

The process at the time relied on manual intervention and hand-offs between teams, business logic wasn’t documented or well-understood, and data was distributed across multiple excel files and databases. This led to instances of mispriced loans and the need for ad-hoc reviews of thousands of newly originated loans each month.

Oliver Wyman worked closely with Pricing Operations team members to identify and execute eight Course Correction and three Engineering Excellence solutions. A new Pricing Operations Manager was built in a modular fashion, consisting of scripted processes with automated controls, an automated controls engine to identify potential pricing error, and a management dashboard to provide insight on end-to-end process performance.

Because of the tool’s modular architecture, each component can be upgraded or swapped out by the bank as its needs change, teams evolve, and the underlying systems infrastructure improves.

The introduction of a new tool and simplified process also unlocked opportunities to improve the organizational model. We consolidated Pricing Operations teams to minimize hand-offs and gain efficiencies, and recommended the bank invest in new talent with stronger analytical skills as transactional work was automated.

By applying the Pace method, the bank realized a 20% reduction in errors, 50% reduction in cycle-time, and 30% reduction in cost, all within a year. All of this was accomplished while avoiding costly re-platforming of underlying systems. The pricing process now has end-to-end accountability: process managers have transparency into activities, and can proactively resolve new problems that occur, minimizing risk of customer harm.

**ENGINEERING AUTOMATION INTO BANK PRICING OPERATIONS**

**BEFORE**

- **End users**
  - NEW PRICES
  - MARKET RATES
  - AD/hoc ERROR ANALYSIS
- **Tools**
  - INDEX RATE CALCULATION
  - RATES FOR PRICING ENGINE
  - UPDATES TO VARIABLE LOANS
- **Legacy systems**
  - PRICING ENGINE
  - BOOKING
  - ACCOUNT SERVICING

- 2+ days of dedicated work to implement new rates
- Ad hoc review of ’000s of new loan prices each month
- 5+ pricing operations teams

**AFTER**

- **End users**
  - MGMT DASHBOARD
  - SCRIPTED PROCESS
  - QA AND EXCEPTION REPORTING ENGINE
- **Tools**
  - LOGIC SCRIPT
  - STANDARD DATA LAYER
- **Legacy systems**
  - PRICING ENGINE
  - BOOKING
  - ACCOUNT SERVICING

- 50% reduction in turnaround time for rate changes
- 20% reduction in pricing errors
- 30% reduction in pricing operations FTE

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FINE TUNE PERFORMANCE WITH DATA DRIVEN INSIGHTS

The team has put in a new engine and signed on a new elite driver. Congratulations, but how do you know that what you have done is enough to hit your target lap time?

An important component of **Pace** is to put in place the conditions for process ownership and ongoing process management. Most financial institutions have invested in continuous improvement teams with marginal gains. Some have experimented with the concept of process ownership, but found it hard to implement. Senior executives often complain that they have shifted from a proliferation of spreadsheets and PDF performance reports, to a proliferation of data clusters and web-based dashboards, without real improvement in day-to-day management and decision making.

**Applied Analytics** seeks to embed continuous improvement at the source, by implementing technology-based management tools, real-time information and performance management mechanisms that allow process owners to do their job.

One example of this is the **Pace Cockpit**, which gives an end-to-end process owner an unmatched level of visibility and control over their process in a single platform. This helps them in numerous ways, including tracking operational activity, indicating where performance is meeting SLAs, identifying where and why breakdowns are occurring, and providing a single source to track initiatives and projects directly impacting the end-to-end process. Process owners have analytics at their fingertips to assess whether things are working. They have prioritized alerts and actions to see areas where issues are occurring. They can interrogate the data to determine what the root causes of underperformance are, with maximum transparency.

All this insight is delivered through an intuitive interface, and real-time tools rather than through scores of governance meetings, planning and coordination sessions. An example of how we customized this to a bank’s highly manual **Know Your Customer** operations is provided on the opposite page.
CASE STUDY
APPLIED ANALYTICS AT A GLOBAL INVESTMENT BANK

A global bank’s Know Your Customer (KYC) function was looking to improve productivity and reduce errors. Like its peers, the execution of KYC reports for customers was a highly manual process that evolved in reaction to increasing regulatory standards and pressure, both in the U.S. and abroad. Due to the complexity of the process and the local idiosyncrasies of a dispersed global function, there was a wide range in performance between teams.

Our crews started by conducting Deep Diagnostics on the root drivers of performance, identifying drivers that were in and out of the control of KYC officers. Rather than apply aggregate measures of productivity, we used this insight to develop a modular portfolio of workflow and Applied Analytics tools to improve accountability and transparency of performance across the process.

Using these tools, KYC teams are monitored and evaluated in four areas of performance: productivity, quality, timeliness, and knowledge contribution. Productivity targets are set based on a regression model that determines the “fair” production benchmark for each KYC team adjusting for variables that are generally outside their control. This includes factoring each KYC officer’s ability to directly reach out to existing customers to request key KYC inputs, as opposed to relying on the front office which can delay the process.

Our Pace crew brought together an understanding of the process and a mix of skillsets to deliver a series of tactical process improvements and develop structured performance measures that the end-to-end process owner could use. By increasing transparency and linking incentives to performance, this enabled a productivity improvement of 20%, leading to savings of tens of millions of dollars.

KYC PROCESS PERFORMANCE MANAGEMENT COCKPIT
THE PACE GARAGE
Organizing For Success

THE PACE CREW
AN INTEGRATED MULTIDISCIPLINARY TEAM

Diagnosticians bring end-to-end transparency to a process area via Deep Diagnostics and pinpoint what, where, how, and why it needs to be improved.

Pit Mechanics rapidly deploy Course Corrections, drawing from an extensive solutions repository, focusing on delivering the highest impact in the shortest time frame.

Solution Engineers take a modular and design-led approach to Engineering Excellence, ensuring that business outcomes are met through a marriage of people, process, and technology.

Data Scientists obsess over performance metrics using an Applied Analytics toolkit which delivers insights on demand.

Experts

Industry experts infuse work with industry knowledge and best practices, tailoring each opportunity to the requirements of the business.
A tremendous amount of duplication, inertia and friction from poor knowledge transfer is created in the way process improvement is designed and executed. Pace enforces a radically different – and significantly more efficient – team concept. Within the Pace Garage are multidisciplinary crews, embedded within operational processes. These crews are cross-trained so that even though individuals may major in one area, they are able to communicate with each other effectively and see the problem from each other’s view. Crews work closely with the day-to-day operations process or product owner, as a continuous unit from diagnosis to solution delivery, and shift from one wave of improvements to the next. Within this core team structure, different skill sets can be dialed up or down, sourced internally or externally, while the structure of the crew stays intact.

Crews can be established to support a concentrated process improvement initiative but are much more powerful as an ongoing business-as-usual construct to drive continuous improvement. Creating this team structure is radically different from the way process engineering teams and continuous improvement oversight functions run today. It requires investing in the right skills and a new talent model, but the benefits it yields on the process far outweighs the added investment.
In addition to a new team concept, the **Pace Garage** is also designed to give crews and process owners full transparency on the work at hand, with insights and alerts that ensure the crew stays on track.

The **Pace Command Center** is a platform that helps financial institutions run a scalable and well-managed change program, without significant top-heavy governance and bureaucracy. In a single source, crews can track their activities and outputs. Program owners can see **Deep Diagnostics** findings. A portfolio of **Course Corrections** is made transparent so that crews can learn from approaches being taken by others. **Engineering Excellence** solutions are aggregated, to ensure that dependencies across end-to-end processes are understood, and to enable the organization’s executives to determine where to prioritize resources.

All of this digitizes day-to-day program management, and keeps the focus on the action within the crews, rather than on administration and governance.
THE NEXT 1 – 1.5 SECONDS

“The best Ferrari is a car I have not yet created”
– Enzo Ferrari

The first Scuderia Ferrari appeared on the race track in 1950. It is the oldest surviving and most successful Formula 1 team in history. From day one, Enzo Ferrari challenged the company to constantly search for new ways to improve performance, and keep redefining the bar for excellence. He drove the team to continuously rebuild and improve the cars that they raced, and the teams that they fielded. Enzo made sure that this obsession for continuous change reverberated through the organization.

We believe that financial institutions can do the same. The industry needs to move beyond outdated, ineffective approaches and techniques that are not yielding the right outcomes.

Pace is Oliver Wyman’s approach to achieving breakthrough improvement in a sustainable and scalable way by embedding new capabilities, a new way of working, and a new mindset deep within the operational processes which need it most. It ensures operations run smoothly at their full potential come race day, while unlocking the ability to shave off the next 1-1.5 seconds for future races.