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SCOTTISH FINANCIAL ENTERPRISE

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## Financial Services in 2009: Reducing Costs and Containing Risks

- “slash and burn” or operational excellence?

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23<sup>rd</sup> April 2009  
Scottish Financial Enterprise Briefing



- The Operational Excellence Board
- What is operational excellence in our industry?
- How does this “sit” with the current baying for blood?
- Can, or even should, we reconcile the potentially conflicting priorities?
- Are any of these issues actually new?
- Questions and comments

How would you define operational excellence in our industry?

*Operational Excellence  
in Financial Services*



# It's about dealing with the **Cost** challenges, AND...



Source: Venturehaus Research 2008

- Economic factors
  - Market write-downs and portfolio impairment
  - Liquidity squeeze and cost of capital
  - Global recession
  - Government intervention
- Commercial trends
  - Centralised operations
  - Growth in shared services and regional call centres
  - Mergers and acquisitions
  - IT & business process outsourcing / off-shoring
- Operational influences
  - E-Commerce and routine administration automation
  - Process and systems integration
  - Widespread rationalisation and realisation of “synergies”
  - Standardise, centralise, streamline... outsource

Constant pressure on cost efficiency as “...all margins trend towards zero”

## ...managing the **Risk** challenges, AND...

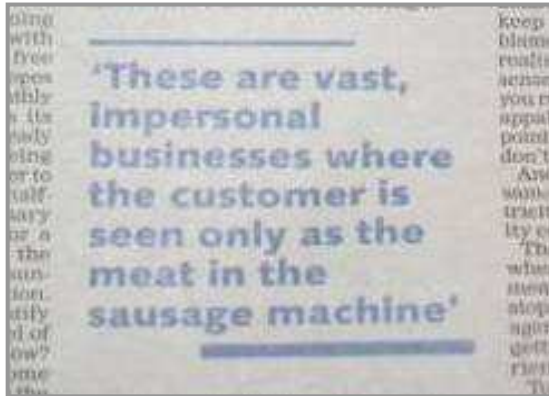


- **Increasing levels of direct and self-regulation**
  - Treating Customers Fairly, Retail Distribution Review
  - Consumer Protection, MIFID
  - Codes of Practice, Selling Practices
  - Charging structures, Fair Market Value
  - Capital adequacy, Solvency requirements
- **Less favourable and more volatile market conditions**
  - Sub-prime crisis, credit crunch, liquidity squeeze
  - Record market movements in commodities and instruments
  - Global recession fears
- **Tighter pressure for compliance**
  - Increasing the risks of regulatory non-compliance for banking service providers
  - Focus on counterparty, operational and financial risk

Source: Venturehaus Research 2008

In this context...thorough and rigorous process management practices matter

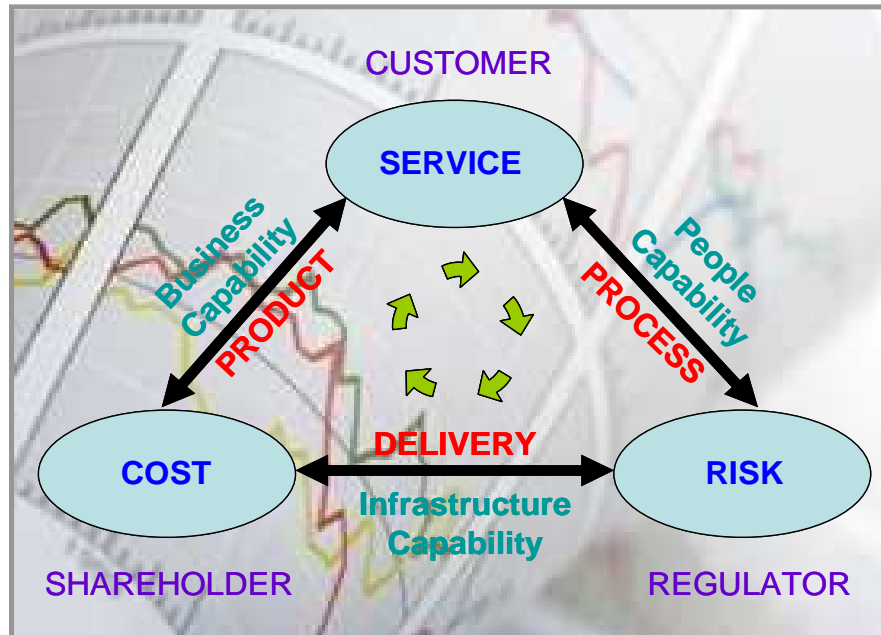
## ...addressing the **Service** challenges...



- Consumers rate financial service providers lower on service compared to other retail sectors
  - The current market environment exacerbates this further
- Customers are more sophisticated and more demanding
  - Every operational and transactional touch-point influences their service experience
- Customers are increasingly using the internet to
  - Compare speed, accuracy and functionality of service
  - Buy / Invest / Apply / Switch products
- Regulatory change has made it easier to
  - Understand and compare financial services and switch supplier
- Service is now the competitive 'differentiator'
  - Promoted in features and functions, but experienced in actual delivery

Source: Venturehaus Research 2008

Typically with existing processes performing (a lot) below 90% quality



“The eternal triangle”

- exceptional SERVICE
- at optimal COST
- with warrantable RISK

Source: Venturehaus Research 2008

A disciplined focus on constantly achieving the right balance, consistency and leverage across potentially conflicting priorities

An “excellent” institution demonstrates:

- Scalable platform for growth
  - Focuses continuously on creating *operating leverage*
- Culture of genuine customer focus
  - Is driven by a passion for *customer experience*
- Clear market leadership
  - Strives constantly for *competitive differentiation*
- Structure around business-critical processes
  - Manages *across functions*, products, services, functions and empires rather than within them
- Delivery rigorously managed and measured
  - Ensures all processes, and therefore all services, are *predictable, reliable and repeatable*



- **Cost Optimisation**
  - Creation and maintenance of “operating leverage”
- **Service Differentiation**
  - Consistency and predictability of performance
- **Risk Mitigation**
  - Warrantable levels with full transparency
- **Measurement & MI**
  - Relevant and meaningful performance controls
- **Continuous Improvement**
  - Strategic significance with tangible benefits
- **Process Management**
  - End-to-end process ownership with full accountability
- **Capability & Skills**
  - Effective change without extensive external support
- **Strategy & Planning**
  - Constant and equal rigour in the management of cost, the mitigation of risk, and the delivery of service

Reducing cost, containing risk, AND improving service = increasing value

# “Slash and Burn” or Operational Excellence?



Is operational excellence desirable in our industry?

How does this “sit” with the current baying for blood?

Can, or even should, we reconcile the potentially conflicting priorities?

Are any of these issues actually new?

Questions and Comments?

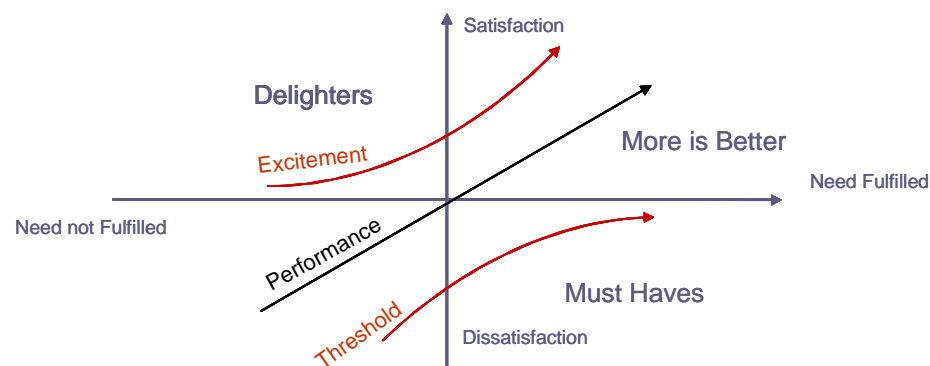
*Appendix*



# Why do we create overly complex services?

Much of the blame can be laid at the door of "customer services", that amorphous tentacular monster that spawns in a global hyperspace disconnected from both banks and their customers. Banks claim to have cut costs by taking operations out of their branches into customer services, but the level of service has been cut even more. Banks are like hospitals. The more you cut nursing staff to save money, the less service you can give patients.

Christopher Johnson, FT 7<sup>th</sup> Nov 2008



The "Kano" Model

- Customers look for
  - Efficient and effective transactions
  - Delivering tangible value
  - From a trusted provider
  
  - Customers want: a Service with a Return from a Brand
  - "It does what it says on the tin"
- Service providers often deliver
  - High complexity with add-on product features
  - "Hidden" and sometimes "high" costs
  - Unpredictable experience through multiple points
  
  - Customers get: a Product at a Price via a Channel
  - "An amorphous tentacular monster"

The customer usually just wants best execution



- **We help financial institutions...**
  - who seek operational excellence in their businesses
  - to achieve higher levels of operating leverage
- **...to deliver results...**
  - through consistently greater performance
  - in the management of service and risk
  - with the same or fewer resources (e.g. capital, cost, labour, ...)
  - and is often referred to as "More for Less"
- **...by supporting them...**
  - in reducing product and service complexity
  - whilst delivering excellence in customer service
  - and improving the client experience
- **...through the use of best practice improvement approaches...**
  - to generate significant productivity and efficiency gains
  - enabling scalable growth and margin enhancement
  - whilst concurrently establishing appropriate controls
  - and managing warrantable levels of risk

Operational Excellence in the management of Cost, Risk, and Service



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Thank you for listening