

## Chapter 4.9

# Operational Process Management in the Financial Services Industry

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### ABSTRACT

The financial services industry faces significant competitive pressures. Economic and political influences, incessant regulation, and fast changing markets make for a highly complex and dynamic environment. Thus, banks and insurance companies are forced to permanently improve their performance – raising process performance represents one of the biggest levers for success. This chapter analyses the challenges of operational process management for banks and insurance companies. The involvement of customers in service processes of financial institutions make these not as easy to manage as production processes. In response to these challenges, cornerstones for a general framework for operational management of service processes will be developed. The aim of this chapter is to present a

framework for structuring service processes which allows combining influences by customers and an operational process management. The concept is based on the modularisation approach and will be demonstrated using a loan process as an example.

### 1 INTRODUCTION

Today, service companies like hotel chains, tour operators, insurance companies, and banks have to deal with tough competition in their respective markets. To survive in this situation the companies' business models, cost reduction initiatives, and efforts for increasing revenues require continuous adjustments. Otherwise, these companies might fall prey to the ongoing consolidation process. Due to its extremely dynamic and complex environment, the financial services industry is particularly affected.

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Therefore, management has to continuously search for new strategic and operational solutions (e.g. Staikouras & Koutsomanoli-Fillipaki, 2006).

Meanwhile, managers of banks and insurance companies are trying to adopt ideas from other industries. Particularly, the manufacturing industry is considered as a best practice example for financial service providers. For instance, loans or insurance contracts should be “produced” as efficiently as cars. Therefore, more and more banks and insurers are relying on this approach to improve the efficiency of their processes.

A close look at the loan business, the cornerstone of traditional banking services, reveals its increasingly competitive nature and the resulting approaches to finding solutions for long-term success in this market. In particular, industry members continuously analyze opportunities for insourcing and outsourcing business processes, implementing such measures if feasible, in order to gain scale advantages and to be in a position to offer lower-cost loans. Industry members aim to reduce loan processing times and the associated costs through the introduction of process management techniques in combination with workflow management systems. These efforts result in an increased level of standardisation and automation. Managers’ desired end-state for loan processing would thus resemble assembly line processing, irrespective of which process steps are performed by each partner in the process chain (e.g. Wigand, Steinfield & Markus, 2005). However, is it really possible to transfer – one to one – the concept of a production management system of a car manufacturer to the processes of service providers?

To manage an “industrialised” service process a business process management system analogous to that of car manufacturer is necessary. Therefore, this chapter’s objective is to review the requirements and constraints and to develop the cornerstones of a *framework for operational process management* that is appropriate for the financial

services industry. The procedure for setting up such a system on management level is shown using an end-to-end loan process as an example.

This chapter is organised as follows: Section 2 discusses the differences between manufacturers’ and service providers’ business processes. On this basis, the authors derive the requirements for a service process management framework (Section 3). Section 4 presents the concept of process modularisation which will be used for constructing the framework. The service process management framework will be demonstrated using as an example the loan process in banks. The following section describes further steps for setting up an operational process management system and shows the potential for further research in this field. Finally, the authors draw conclusions related to this topic in Section 6.

## **2 CHARACTERISTICS OF SERVICE PROCESSES IN THE FINANCIAL SERVICES SECTOR**

The assembly line concept represented the genesis of the idea to regard the activities of an enterprise as processes. Processes are thus viewed as sets of activities with the logical internal relationship that they result in a product or service demanded by a customer (Hammer & Champy, 1993). The process therefore begins and ends with the customer. Processes exist irrespective of the functional structure of the organisation. According to this view, the loan process, for example, encompasses sub-processes such as sales, loan application processing, loan approval/rejection, customer service, risk management, and workout (end-to-end process). In order to continuously enhance process performance, the process has to be viewed and managed in its entirety as an end-to-end process. In doing so, the special characteristics of services and service processes have to be considered.

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