GORILLAS THAT WE MISSED and other process improvement pitfalls – Part I

Models of flexibility: many of the world's strongest brands started off producing something different from the products with which they are synonymous today. The image above shows just some examples of companies that were flexible enough to meet market demand and become leaders in their new fields.

The Industrial Revolution ushered in a new age for production. Processes which had always been slow, heavy-going, and susceptible to all of the hazards of human fallibility were being hurtled toward machination. Add the technology explosion of recent years to this trend and it's no surprise that the potential of automation is stronger than ever...

As a consultancy in today's financial services industry, MBE has witnessed and harnessed the power of automation and process simplification to reduce waste, improve accuracy and unlock value in various transformation projects. But what about the hidden costs of projects perceived to be completed successfully? We have seen that there are often unforeseen (and unwanted) consequences of process improvement measures, which could significantly reduce the ongoing benefits of the project. This is not, however, a reason to dismiss the benefits of these measures. With some awareness, most pitfalls can be spotted and avoided completely or addressed at an early stage, to ensure that the baby is not thrown out with the bathwater.

Our experience of driving transformation projects in numerous departments across the industry has shown that the hidden costs of process improvement mostly emerge in four ways:

- Inhibition of Flexibility
- Human Resource Mismanagement
- Locking in Waste
- Mismanagement of Exceptions

Over the next few weeks, we'll be providing our insights into each of these areas, explaining how we have seen these pitfalls manifest in practice and how we addressed them.

Inhibition of Flexibility: **Not flexible? Not future-proof.**
The only constant is change. Whatever can go wrong, will go wrong. You have to roll with the punches. These may be clichés, but, due to MBE's strong focus on future-

proofing, we are very conscious of how true they are in the financial services industry. A lack of foresight and flexibility during a transformation project can lead to duplication of work and an accumulation of hidden costs.

Catch two birds with one stone

Understandably, large projects can almost totally consume a company's resources. When there is a deadline looming, it is difficult to take a step back and consider the next major hurdle after the project's completion. It is a worthwhile exercise, however, as it may be much more efficient and cost-saving in the long run to develop a project plan which is flexible enough to harness the similarities of multiple future projects and avoid scrambling later.

An example of this is all over the insurance world. Insurance companies have been eating and breathing Solvency II for the better part of several years. The pervasive regulatory regime, which has come into force in 2016, has led to major transformation projects around Europe as insurers try to meet its daunting set of requirements. The 'next big thing' for the industry to unpick and understand is IFRS 4 Phase II, the International Financial Reporting Standard providing guidance for the accounting of insurance contracts, which to date has been very much on the back-burner thanks to the demands of Solvency II. The implementation of this regulation will again present significant demands on insurance companies, yet few fully considered the need to cater for IFRS 4 when designing their Solvency II models and processes. If flexibility is emphasised where it makes sense, regulatory changes may have less of an impact on business operations than they do currently - and any changes introduced could cut costs in the medium to long term as well.

People need to be flexible so that their processes can be too

Actuaries are notoriously attached to their spreadsheets – so much so that they often fail to recognise that their monthly reporting exercises are actually processes and not standalone, absolute and untouchable methodologies. Processes can be improved and aligned with other teams in the department. One of our clients was a finance department consisting of three teams each responsible for reporting on a different valuation basis. Each team believed it necessary to develop and maintain their process individually, but it in reality, each process followed the same steps and used the same model, with only the input assumptions differing. Our approach to this reengineering project was to build flexibility into the department's processes, which allowed each team to follow the same steps, but tweak them to suit their needs. This made workflow and output comparable across teams, and afforded each level of management better insight into the workings of the entire department.

We continue this series next week, by looking at how the involvement of the Human Resources department can make or break a process improvement project...